



Michigan COMMENTARY

FY 1989-90 State Appropriations

by Robert Kleine, Senior Economist

After an all-night session, the legislature adopted the FY 1989-90 budget on July 28. This was one of the more difficult budget processes in recent memory, as there were numerous conflicts between the governor and legislature and between the House and Senate. The contention was somewhat unusual since the debate centered mostly on how much money to add to the budget, rather than on where to cut. The process was complicated by a large supplemental bill for the FY 1988-89 budget, which also caused heated controversy.

OVERVIEW

The FY 1989-90 general fund/general purpose (GF/GP) budget is \$7,293.5 million, 4.6 percent above projected spending for FY 1988-89 (including supplementals). The legislature added \$305.5 million to the governor's original recommendation of \$6,988.1 million, mainly in the following areas: social services, \$100 million; school aid, \$59.6 million; higher education, \$46.9 million; capital outlay, \$39.2 million; and corrections, \$16.8 million. The school aid increase was larger than it appears, as property values rose more than projected and thus will generate more revenue; this normally would have reduced the GF grant by about \$50 million, but the legislature allowed the school districts to keep this money.

Categories receiving the largest increases above projected FY 1988-89 levels are: capital outlay, 30.1 percent; Department of Education, 20.3 percent; school aid, 19.1 percent (the total appropriation for K-12 education is up 7.2 percent); agriculture, 11.3 percent; and corrections, 10.8 percent. (See Exhibit 1.)

The appropriation for the Department of Social Services is 0.6 percent below FY 1988-89 expenditures. The large reductions in the budgets for the departments of Treasury and Management and Budget are due mainly to financing shifts and program transfers.

The supplemental appropriation for FY 1988-89 totals \$261 million. The Department of Social Services received the lion's share, \$155.8 million. Other large supplementals were \$26.9 million for capital outlay (to replace budget stabilization fund monies) and \$24.1 million for the Department of Mental Health.

Following are highlights of appropriations for major program areas.

School Aid

The membership formula was increased from \$300 plus \$83 per mill per pupil to \$310 plus \$83.61, adding about \$50 million to the governor's recommendation. School districts also received about \$50 million in additional revenue due to property values (SEV) being higher than expected, which was not offset by a reduction in state aid payments, as normally occurs.

EXHIBIT 1

General Fund-General Purpose Budget Summary,
 FYs 1987-88, 1988-89, and 1989-90
 (\$ millions)

Department or Program	FY 1988-89			FY 1989-90			Dollar Change from FY 1988-89	Percentage Change from FY 1988-89
	FY 1987-88 Expenditures	Appropriations	Supplementals	Projected Expenditures	Recom- mendations	Appropriations		
HUMAN SERVICES								
Social Services	\$2,148.6	\$2,144.2	\$155.8	\$2,300.0	\$2,185.3	\$2,285.3	-\$14.7	-0.6%
Mental Health	804.8	807.6	24.1	831.7	868.1	878.1	46.4	5.6
Public Health	137.7	129.1	4.8	133.9	127.0	134.8	0.9	0.7
Education								
State Universities	1,109.0	1,136.6	6.2	1,148.6	1,142.8	1,195.5	52.7	4.6
-Operations	1,023.7	1,051.7	0.2	1,051.9	1,061.1	1,106.6	54.7	5.2
-Financial Aid	85.3	84.9	6.0	90.9	87.5	88.9	-2.0	-2.2
School Aid	603.6	503.8		503.8	540.4	600.0	96.2	19.1
Community Colleges	198.1	201.4	4.0	205.4	207.5	212.5	7.1	3.5
Education	38.3	42.7	1.2	43.9	52.8	52.8	8.9	20.3
Retirement	0.0	0.0		0.0	0.0	12.5	12.5	—
Library of Michigan	22.8	25.5		25.5	25.8	26.7	1.2	4.7
SAFETY AND DEFENSE								
Corrections	558.1	614.7	18.5	633.2	667.9	684.7	51.5	8.1
State Police	158.2	167.4	0.4	167.8	177.7	183.4	15.6	9.3
Military Affairs	11.7	12.2	0.2	12.4	13.4	12.5	0.1	0.8
REGULATORY								
Commerce	111.0	103.4	-0.6	102.8	102.9	107.4	4.6	4.5
Labor	70.2	79.7	0.2	79.9	79.2	81.1	1.2	1.5
Licensing and Regulation	13.1	12.9		12.9	11.8	12.1	-0.8	-6.2
NATURAL RESOURCES AND RECREATION								
Natural Resources	103.7	110.8	4.8	115.6	111.1	115.1	-0.5	-0.4
Agriculture	26.9	28.2	0.1	28.3	28.9	31.5	3.2	11.3
GENERAL GOVERNMENT								
Management and Budget	158.0	90.0	2.7	92.7	98.4	73.3	-19.4	-20.9
Legislature	72.8	77.8	4.1	81.9	77.9	82.2	0.3	0.4
Judiciary	97.6	102.3	3.2	105.5	107.6	110.3	4.8	4.5
Treasury	55.4	51.2	3.1	54.3	43.0	42.7	-11.6	-21.4
Attorney General	20.8	23.0		23.0	23.3	23.7	0.7	3.0
State	13.3	17.0	1.5	18.5	16.2	17.5	-1.0	-5.4

EXHIBIT 1

General Fund-General Purpose Budget Summary,
 FYs 1987-88, 1988-89, and 1989-90
 (\$ millions)

Department or Program	FY 1988-89				FY 1989-90			
	FY 1987-88 Expenditures	Appropriations	Supplementals	Projected Expenditures	Recom- mendations	Appropriations	Dollar Change from FY 1988-89	Percentage Change from FY 1988-89
Civil Service	10.3	13.3		13.3	15.8	14.6	1.3	9.8
Civil Rights	10.8	10.9		10.9	10.6	11.0	0.1	0.9
Executive Office	3.8	4.0		4.0	4.0	4.2	0.2	5.0
OTHER								
Capital Outlay	71.0	172.6	26.9	199.5	220.3	259.5	60.0	30.1
Debt Service	47.5	28.5		28.5	22.6	28.6	0.1	0.4
TOTAL	\$6,677.1	\$6,710.8	\$261.2	\$6,972.0	\$6,988.1	\$7,293.6	\$321.6	4.6%



The other major changes from the governor's recommendations are summarized below.

- The governor's proposal to freeze Social Security and school employment retirement at the FY 1988-89 level was not adopted, adding \$97.3 million to the budget.
- The new Michigan Educational Assessment Program was cut by \$10 million.
- The revenue deduction for out-of-formula school districts was increased by \$9.4 million.
- The addition of \$2.5 million was made for a dropout pilot program.
- For intermediate school district membership, \$4.7 million was added.
- The governor recommended withdrawing \$14.5 million in transportation funding from wealthy out-of-formula districts; the legislature restored this money.
- The Early Childhood Development Program recommendation was reduced by \$8.8 million but still exceeded the FY 1988-89 level by about \$6 million.
- An addition of \$14.5 million was made to the governor's recommendation for a new low-income categorical for out-of-formula districts with local resources of less than \$3,000 per pupil.
- The governor recommended \$5 million for a new Schools of Tomorrow fund; the legislature reduced funding by \$3 million.

The legislature increased the gross appropriation from the governor's \$2,821.4 million to \$2,895.9 million and the GF/GP contribution from \$540.4 million (\$490 million if higher SEV is used) to \$600 million. The gross appropriation is 7.2 percent above the estimated FY 1988-89 level.

Social Services

The GF/GP appropriation for FY 1989-90 is \$2.28 billion, \$100 million above the original recommendation. With an approved supplemental appropriation of \$155.7 million, spending in FY 1988-89 will total about \$2.3 billion. Thus, next year's budget is 0.6 percent less than the current level.

The most significant changes are detailed below.

- When the supplemental appropriation is included, gross Medicaid reimbursement for hospitals declined 0.2 percent but increased for physicians (0.2 percent), pharmaceuticals (7.7 percent), nursing homes (8.9 percent), and home health services (16.8 percent); nevertheless, total Medicaid GF/GP expenditures declined 2.5 percent.
- Providers and recipients will receive economic increases of 2 percent for six months (\$16.2 million). The only exception is nursing homes, which will receive a full-year increase of 4 percent, half of which must be devoted to higher wages for employees engaged in patient care.
- To improve access to health care, the committee also appropriated \$2.3 million for higher reimbursement to certain physicians, dentists, and home health care workers.

- An appropriation of \$500,000 was made to the AIDS Consortium of Southeast Michigan.
- The Medicaid program was cut by \$20.5 million. Only two of the cost-containment measures proposed by the governor were reinstated: The nursing home plant cost "grandfather" clause was eliminated, and controls were increased on utilization of inpatient psychiatric care (\$2.3 million GF/GP; \$5 million gross). The latter is of major concern to hospitals. Once again this year, the pharmacy line escaped cuts.
- As a compromise between the Senate, which kept the governor's Job Start program, and the House, which rejected it, the committee instituted the program as a pilot in six counties.

The budget is estimated to be underfunded by at least \$50 million. A supplemental is inevitable.

Health

Mental health received \$878.1 million for FY 1989-90 year and a supplemental of \$24.1 million for this fiscal year. The FY 1989-90 appropriation is \$43.7 million (5.2 percent) above projected spending for the current fiscal year and \$10 million higher than originally recommended by the governor.

The Department of Public Health budget of \$134.8 million is only 0.1 percent above the projected spending level for this fiscal year but \$7.8 million above the governor's recommendation. The budget includes approximately \$3.2 million in funding shifts; when these are taken into account, the FY 1989-90 GF/GP appropriation increased 2.7 percent over last year.

Corrections

Corrections received \$684.7 million, an increase of 11.4 percent over the current fiscal year and \$16.8 million above the governor's original recommendation. The increase will add 1,024 employees to manage a projected average prison population of 33,811, which is 5,152 more inmates.

The budget provides financial incentives to local communities to house prisoners, which would ease overcrowding in state facilities. Program initiatives in the budget include the Prisoner Rehabilitation Education Program at a cost of \$3 million, which allows inmates to continue postsecondary education. The electronic tether program will be expanded to include about 1,000 offenders, an 11 percent increase.

Conference committee chair Rep. Carolyn Cheeks Kilpatrick (D-Detroit) estimates that the budget is underfunded by about \$30 million.

Higher Education

The total GF appropriation is \$1,195.5 million (including grants and financial aid), 5.2 percent more than the current fiscal year and 4.1 percent more than recommended by the governor. This budget marks the first step away from the longstanding tradition of across-the-board allocations to all universities. By establishing a \$3,300 per student appropriation floor, the committee has agreed to let the dollars, for the most part, follow the students. This shift in thinking accounts for the wide range in percentage increases per institution, from 4.5 percent to 8.9 percent. The largest increases went to Saginaw Valley (8.9 percent), Central Michigan (8.1 percent), and Grand Valley (7.2 percent). Michigan State University received 4.7

percent more, and the University of Michigan (along with several other universities) received the smallest increase, 4.5 percent.

Significant changes are highlighted below.

- Research Excellence Fund monies were kept in the higher education budget and were increased by \$1.5 million.
- An allocation of \$250,000 was made to establish a Teaching Excellence Fund to recognize outstanding instructional performance by the state's university faculty.
- An appropriation of \$250,000 was made to establish a Race Relations Institute at Wayne State University. Western Michigan University will assist in the project.
- An allocation of \$3.8 million was made for new facility openings.
- Seven institutions that have maintained low levels of tuition were allocated \$4 million.
- The five major research universities were allocated \$3 million according to the 1985 Investment Needs Model. This is \$1 million more than last year and \$16 million less than recommended by the Senate.
- The Student Equity Plan was allocated \$8.6 million. Under the plan, the minimum level of funding per undergraduate FYES is \$1,485, the minimum level per graduate FYES is \$1,900, the minimum level of financial aid per student is \$150, and the minimum level for academic support/student services per student is \$425.

Community Colleges

Community colleges received \$212.5 million, 5.5 percent (\$11.1 million) above current year spending and \$5 million above the governor's original recommendation. The range for each college is from 4.2 percent to 7.6 percent. Lansing Community College received the highest increase (7.63 percent). Bay de Noc Community College also received a large increase (7.59 percent). The legislature also added \$2.15 million for a new at-risk student success program. Community colleges received a \$4 million supplemental appropriation for FY 1988-89.

Capital Outlay

The legislature added \$39.2 million to the governor's GF/GP capital outlay recommendation. The bulk (\$28 million) was appropriated for prison construction to replace recommended Budget Stabilization Fund monies, which were expected to be triggered by a rise in the unemployment rate to above 8 percent.

The legislature also added about \$11 million for community college, higher education, and state agency projects, about half of which went to community colleges.

COMMENT

A budget is always a political document, but that is especially true of the FY 1989-90 budget. This was not surprising in a year in which Governor James Blanchard is likely to begin his reelection campaign and Senate Majority Leader John Engler is expected to challenge him for the job. Senator Engler was most

concerned about providing more money for higher education and keeping spending for social services under control; the governor was concerned about funding for a number of new programs, while keeping a reasonable cap on overall spending. The final result had some positive aspects, such as relatively generous increases for universities, community colleges, and K-12 education, which will take pressure off tuition and local property taxes. Political influence on appropriations for higher education has been reduced somewhat by the new reliance on need-based formulas. The budget also includes money for creative new programs in the areas of education, social services, and economic development, among others.

What is most disappointing is the evident lack of interest by the administration in presenting a realistic budget plan to the legislature. Although creative thinking and good planning are evident in many areas of the budget, political advantage appears to take precedent over good budget policy. Since the governor took office, his original budget recommendations have been woefully underfunded, particularly for social services, mental health, and corrections. A FY 1988-89 budget that requires a supplemental of \$261 million, 3.7 percent of the recommended appropriation, is not a paragon of good planning. There can be honest misestimates, but this pattern has continued year after year. For the most part, this is done intentionally for political reasons and is not due to a lack of skill on the part of the budget office. The result is the same, however: a missed opportunity to craft the allocation of limited resources in the most efficient manner and an annual debate over how much money social services and corrections really need.

The same result occurs when budgets are based on very conservative revenue estimates, and large amounts are added by the legislature rather than built into the original plan; as noted, the legislature added \$305.5 million to the FY 1989-90 budget. The legislature and its staff do a good job of putting together the budget, but generally they use an incremental approach rather than build from the ground floor—as the governor has the opportunity to do. A good example is spending on corrections, which is growing by leaps and bounds but with little evident thought to long-range planning.

Estimating revenues and expenditures is a difficult job under the best of circumstances, but the task is impossible when politics preclude a commitment to good estimating. We would like to see the role of politics reduced in the estimating process and the commitment to long-range planning increased in the budget process. One result would be to decrease the distrust between the governor and the legislature and minimize the partisanship that was so evident in the recent debates. There always will be differences over program priorities, but agreement on numbers should be reached early in the process, and changes in estimates should be openly discussed.

Public Sector Consultants will publish a detailed analysis of the FY 1989-90 state budget in September.

PUBLIC SECTOR CONSULTANTS publishes **PUBLIC SECTOR REPORTS**, the **BILL ANALYSIS SERVICE** for HEALTH, the *Health Policy Bulletin*, and the *Health Care Legislation Abstracts*; provides public relations services; offers strategic and tactical counsel and issue management for retainer clients; undertakes specialized research studies; and, through its textbook division, produces research and reference works, including *Michigan in Brief: An Issues Handbook* and *The Michigan Government Directory*.

Principal Consultants

Gerald A. Faverman, Ph.D., *Chairman and Senior Consultant for Public Policy*
Craig Ruff, M.P.P., *President and Senior Consultant for Public Policy*
William R. Rustem, M.S., *Vice President and Senior Consultant for Environmental Policy and Economic Development*
Robert J. Kleine, M.B.A., *Senior Economist and Editor of PUBLIC SECTOR REPORTS*
Christine F. Fedewa, *Director of Operations and Senior Consultant for Public Policy*
Michael French Smith, Ph.D., *Director of Research and Senior Consultant for Marketing and Economic Development*
Donald A. Wheeler, M.A., FACHE, *Director of the Health Care Division and Senior Consultant for Health Policy*
William E. Cooper, Ph.D., *Senior Consultant for Environmental Science*
David Kimball, *Senior Consultant for Public Relations*
Peter Pratt, Ph.D., *Senior Consultant for Health Policy and Editor of BILL ANALYSIS SERVICE for HEALTH*
Gerrit Van Coevering, *Senior Consultant for Taxation and Revenue Policy*
Keith Wilson, *Senior Consultant for Waterways Development*
Wilma L. Harrison, *Senior Editor and Research Associate*
Frances L. Faverman, *Editor of the Health Policy Bulletin and Consultant for Health Policy*
Kimberly S. Garner, *Consultant for Public Relations*
Linda Headley, *Consultant for Education and Environmental Policy*
Carla Kocher, *Consultant for Education*
Frances Spring, *Economist*
Diane Drago, *Conference Coordinator*
Harriett Posner, *Editor and Graphic Designer*
Elizabeth Johnston, *Editor and Community Service Projects Coordinator*

Affiliated Consultants

Thomas J. Anderson	Robert J. Griffore, Ph.D.	John R. O'Neal, M.Ed.
Charles G. Atkins, Ph.D.	Gene W. Heck, Ph.D.	Edward F. Otto, M.B.A.
Richard B. Baldwin, D.O.	Hal W. Hepler, Ph.D.	John R. Peckham, D.O.
Alan I. Baum, M.P.P.	Thomas J. Herrmann, M.D.	John Porter, Ph.D.
Sister Mary Janice Belen	R. Ann Herzberg, J.D.	Patrick Rusz, Ph.D.
Rosemary E. Bell, R.N., M.S.N.	Rodney T. Houlihan, Ph.D.	The Honorable William A. Ryan
Kenneth Coffelt, M.S.	Mary Jim Josephs, Ph.D.	Kenneth J. Shouldice, Ph.D.
Clark E. DeHaven, M.A.	Rick Kamel	Bradley F. Smith, Ph.D.
The Honorable Michael Dively	Judith Lanier, Ph.D.	Robert D. Sparks, M.D.
Richard D. Estell, M.A.	Agnes Mansour, Ph.D.	John D. Sutton, Ph.D.
Bev Farrar	Francis J. McCarthy, M.B.A.	Thomas M. Trousdell
Thomas M. Freeman, Ph.D.	M. Luke Miller, M.B.A.	James C. Walters, Ed.D.
Deborah George, M.A.	Carol T. Mowbray, Ph.D.	Patricia Widmayer, Ph.D.
Samuel Goldman, Ph.D.	David G. Noyes, C.P.B.C.	Greta A. Zalman, J.D.
Mark Grebner, J.D.	Timothy A. O'Brien, J.D.	