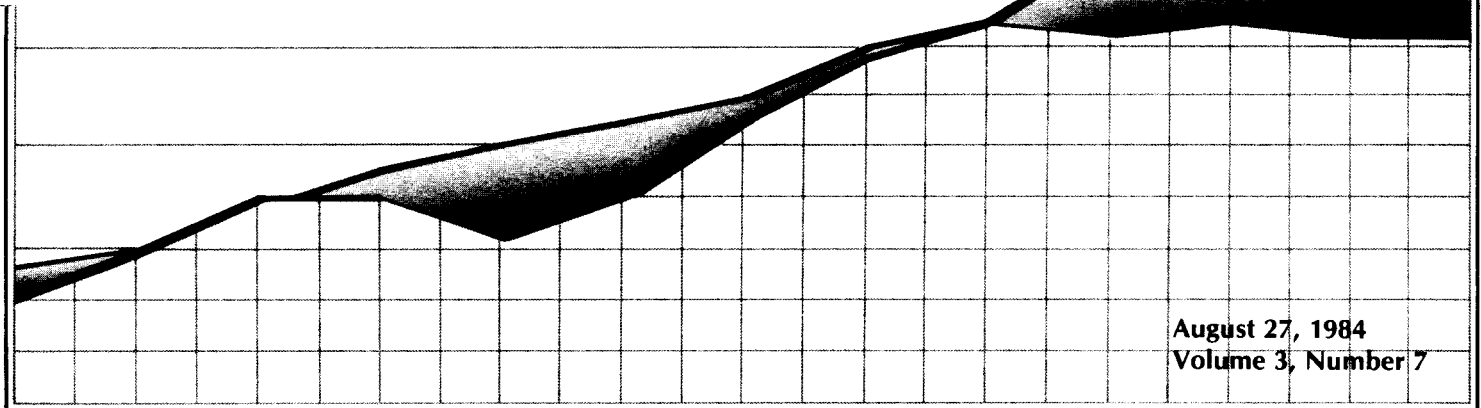


# FISCAL AWARENESS SERVICE

AN INDEPENDENT FISCAL ANALYSIS OF STATE SPENDING



DR. GERALD FAVERMAN, Chairman

GERRIT VAN COEVERING, Senior Consultant

CHERYL PARISH, Editor

## MICHIGAN BUDGET APPROPRIATIONS AND POLICY, FISCAL YEAR 1984-85

For the second consecutive fiscal year the Michigan legislature has approved a general fund-general purpose (GF-GP) budget which is virtually unchanged from the governor's original budget request. The state budget enacted by the legislature last month sets general fund-general purpose spending for fiscal year 1984-85 at \$5,436.6 million compared to the governor's original budget request of \$5,383.6 million.

Program spending established in the budget continues a pattern of deliberate fiscal restraint, with overall GF-GP appropriations running only 1.6% higher than the initial appropriations for fiscal year 1983-84. The 1984-85 budget is actually 0.3% below the anticipated, postsupplemental GF-GP appropriation level for the current 1983-84 fiscal year. The budget approved by the legislature diverges from that proposed by the governor in two important ways. First, it increases GF-GP spending by \$53 million, and second, it incorporates a state income tax reduction which is approximately \$46 million greater than the tax cut recommended by the governor.

### Local Spending Requirements

Article IX, Section 30 of the Michigan Constitution (the so-called Headlee Amendment) requires that 41.6% of all state spending from state funds be returned to local units of government. If this requirement is not met during a particular year, the state has one year following discovery of the shortfall to

correct the payment deficiency. Actual state spending to local government units fell \$115 million short of the required level in fiscal year 1982-83. Slightly more than half of this shortfall was directly attributable to state budget problems, with the remainder incurred because state funds were not released to

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several community mental health facilities which refused to sign service contracts with the state.

During the final days of debate on the 1984-85 budget the legislature passed a bill crediting \$56.5 million in state payments for local mental health services as local spending in counties that refused to sign a service contract with the state. This reduced the local shortfall to \$58.5 million, an amount set aside in the 1983-84 fiscal year and scheduled for payment in the 1984-85 fiscal year. While this \$58.5 million was reflected in the governor's request, it was not specifically dedicated for individual programs or for particular units of government.

In formulating next year's budget, the legislature allocated \$44.5 million of this \$58.5 million local government payment for use in school aid programs; \$4 million was allocated for a new outstate cities equity program; and \$10 million was used this year to fund the Michigan Youth Corps.

## Income Tax Rollback

Due to the strength of the economy and larger-than-projected increases in sales and single business tax revenues, in his most recent budget message the governor proposed accelerating the date of the next downward revision in the state income tax rate. Instead of dropping from 6.1% to 5.35% on January 1, 1985, the governor proposed that the rate be reduced to 5.35% on October 1, 1984, the first day of the 1984-85 fiscal year. This early tax reduction would have cost Michigan government approximately \$138 million in income tax revenues.

The tax reduction approved during the legislative budget debate provides for the state income tax rate to decline to 5.35% on September 1, 1984, one month earlier than the governor proposed. It entails an additional \$46 million income tax revenue reduction. This loss of revenue would be accommodated by taking a maximum of \$46 million from the special account created to correct Michigan's

unorthodox accounting practices (SAFRA) and transferring this amount into the state's countercyclical Budget Stabilization Fund (BSF). Since the contributions to the BSF are made from the state's general fund, this maneuver would have the same effect as injecting \$46 million into the general fund to offset the loss due to the extra month incorporated into the early income tax reduction. Authorization for this transfer (Senate Bill 39) is still pending.

## 1984-85 Spending Policy

The general fund-general purpose budget is that portion of the total state budget which is not constitutionally or statutorily mandated for use on specifically designated programs. As such, it represents discretionary spending and provides insight into government's spending priorities. The enacted 1984-85 fiscal year budget concentrates most of the funding increases on three areas: human services, education, and environmental protection. The following table details anticipated 1983-84 GF-GP expenditures, 1984-85 executive spending recommendations, and 1984-85 legislative appropriations. It also shows the dollar amount and percentage increase or decrease in program funding for 1984-85 compared with 1983-84.

## Human Services

At \$2.1 billion, the appropriation for the Department of Social Services (DSS) accounts for almost 40% of state general fund spending. While it is by far the largest single appropriation within the GF-GP budget, within the total state budget it ranks second after education and represents approximately 33% of total state spending. Several changes were incorporated into the FY 1984-85 DSS budget. Although there was legislative discussion of eliminating general assistance payments to single, able-bodied unemployed adults for six months of the year, the general assistance grant program remained intact. Instead, the legislature expanded workfare programs and day-care allowances to assist in job

## General Fund-General Purpose Budget Summary, Fiscal Years 1983-84 and 1984-85

Department or Program	Projected FY 1983-84 Expenditures	FY 1984-85 Executive Recommendation	FY 1984-85 Legislative Appropriation	Increase/Decrease Over FY 1983-84	% Change
Social Services	\$2,136,256,000	\$2,016,019,245	\$2,075,918,801	-\$60,337,199	- 2.8
Mental Health	596,317,000	585,574,937	593,575,800	- 2,741,200	- 0.5
Public Health	100,961,800	106,752,600	109,051,300	8,089,500	8.0
Corrections	264,749,200	290,581,100	290,583,700	25,834,500	9.8
Education	27,363,950	30,659,250	30,672,775	3,308,825	12.1
School Aid	462,135,900	489,987,000	460,187,000	- 1,948,900	- 0.4
Community Colleges	144,508,800	159,307,300	159,307,300	14,798,500	10.2
State Colleges and Universities	761,241,400	834,555,700	846,555,600	85,314,200	11.2
Library of Michigan	17,761,000	18,026,800	18,026,800	265,800	1.5
Executive Office	2,922,700	3,110,540	3,188,400	265,700	9.1
Legislature	54,164,800	57,281,900	57,423,800	3,259,000	6.0
Judiciary	66,422,251	67,687,000	67,782,500	1,360,249	2.0
Attorney General	16,162,300	18,691,800	18,343,500	2,181,200	13.5
State Management and Budget	11,480,400	10,381,700	10,242,800	- 1,237,600	- 10.8
Treasury	87,604,100	96,147,100	98,623,700	11,019,600	12.6
Civil Rights	52,553,700	56,167,100	56,298,300	- 3,744,600	- 7.1
Civil Service	8,585,200	9,646,900	9,592,000	1,006,800	11.7
Commerce	8,504,300	9,771,700	9,784,500	1,280,200	15.1
Labor	64,576,500	72,280,700	72,279,500	7,703,000	11.9
Licensing & Regulation	67,754,900	30,132,300	30,168,300	- 37,586,600	- 55.5
State Police	13,656,300	14,154,600	14,170,500	514,200	3.8
Military Affairs	133,896,300	143,267,200	143,281,800	9,385,500	7.0
Agriculture	9,906,200	10,675,800	10,638,000	731,800	7.4
Natural Resources	21,999,800	22,830,750	24,330,700	2,330,900	10.6
Transportation	74,780,300	84,360,700	85,028,700	10,248,400	13.7
Capital Outlay	9,200,000	-0-	-0-	- 9,200,000	-
Debt Service	60,401,800	53,978,000	53,978,000	- 6,423,800	- 10.6
Section 30	117,482,800	91,530,500	87,530,500	- 29,952,300	- 25.5
	58,500,000	-0-	-0-	- 58,500,000	-
<b>TOTAL GF-GP</b>	<b>\$5,451,849,701</b>	<b>\$5,383,560,222</b>	<b>\$5,436,564,576</b>	<b>-\$15,285,125</b>	<b>- 0.3</b>

placement and reduce dependency on welfare grants. It funded a new welfare error reduction project (\$7.2 million, 78% of which is GF-GP) and reduced state employee costs by capturing funds for 4 unfilled staff positions. More funding was provided for recipient shelter needs and for reimbursement to Medicaid care

providers such as physicians and pharmacists.

GF-GP funding for mental health will decline by approximately \$2.7 million compared to FY 1983-84. Part of the reduction can be traced to the closing of the Plymouth Center and to continued

declines in resident populations at the state's remaining 25 mental health facilities. However, this funding reduction should be more than offset by increases in reimbursement revenues from private insurance carriers, federal sources, and by permitting the Department of Mental Health to keep all the payments made by insurers and other third-party payment sources. Consequently, total funding for mental health will increase by \$80.5 million even as GF-GP funding declines by \$2.7 million.

In FY 1984-85, GF-GP spending for public health will increase by 8.8%. Approximately half of the increase will be used to help defray higher operating costs. The other half of the increase will be used for health education programs in schools, prenatal care for low-income women, more food for low-income women and children, and medical care and treatment of handicapped children.

Spending for corrections will increase by \$25.8 million compared to FY 1983-84. The increased spending is to comply with a \$30 million consent agreement made with the U.S. Justice Department to upgrade Michigan prison facilities and to reduce overcrowding.

## Education

This section of the budget consistently received the largest year-to-year increases in funding. While GF-GP support for school aid will decline by almost \$2 million, funding from all sources will increase 12.3%. This additional funding will be provided from higher sales tax revenues and lottery receipts; \$44.5 million will come from dollars set aside for restoring Headlee Amendment revenue shortfalls. This substantial increase in school aid funding should help reduce some of the pressure to raise property tax rates and millages to pay for school programs.

Similar increases were provided for community colleges and for state colleges and universities. Community colleges will receive 10.2% more funds than in FY

1983-84, also relieving pressure on local property tax levies. State colleges and universities would receive an 11.2% increase to help contain increases in student tuition rates, with \$10 million of the increase allocated for program revisions, and \$4 million for student grants and scholarships. To date, 13 of the 15 state colleges and universities have agreed to freeze resident tuition rates. The appropriation does not include funding for the governor's proposed \$2.5 million Michigan Merit Scholarship Fund.

## Agriculture and Environment

Both of these programs will receive substantial increases in general fund budget dollars during the 1984-85 fiscal year. The Department of Agriculture will receive an increase of \$2.3 million (10.6%); its budget also includes \$2 million to continue condemnation and replacement of PCB-contaminated grain silos. The Department of Natural Resources will receive the largest percentage increase in funding (13.7%) of any department of government. An additional \$15.8 million will be used for toxic waste cleanup, groundwater protection, and as a state match for EPA Superfund dollars. This increase will be partially offset by reductions in other programs, for a net GF-GP increase of \$10.2 million.

## Regulatory

This portion of the budget, which includes funding for the departments of commerce, labor, and licensing and regulation, was one of the most controversial of the entire budget process. The discussion centered on the Detroit equity package and an outstate equity package. Both programs were funded in the appropriation for the Department of Commerce. The 1984-85 general fund budget grants the City of Detroit \$32 million to support the Detroit Institute of Arts, Detroit Historical Museum, Detroit Zoo, Detroit Police Department, and urban cultural development in Detroit. The new outstate equity package uses \$4 million of the

\$58.5 million Headlee section repayment to fund cultural institutions, historical projects, libraries, zoos, and convention centers in major Michigan cities. The \$4 million will be distributed using a formula which considers population and degree of poverty.

The Department of Labor's appropriation would be reduced to less than half of its 1983-84 appropriation. Most of this reduction stems from the elimination of the Workers' Compensation Benefit Adjustment Fund; the fund is no longer needed because recent revisions to the workers' compensation law accomplished the same purpose by expanding business tax credits.

There were no substantive program changes in the 1984-85 appropriation for the Department of Licensing and Regulation. The department will, however, retain more of the fees it receives through its occupational licensing operations.

## General Government

With the exception of the departments of state, transportation, and state police, few of the remaining departments and programs receiving general fund appropriations provide direct services to the public. They exist to serve the executive, judicial, and legislative branches of government, to compile information, process tax payments, etc. However, one program in particular provides a reasonably good gauge as to the health of state government, and that is debt service. Michigan's reduced debt and improved credit rating will save government and taxpayers almost \$30 million in interest charges during the 1984-85 fiscal year.

## FAS Comment

We concur with the budget's implicit assumption of continued economic growth in fiscal year 1984-85. A growing economy will provide more jobs, ease pressure on welfare caseloads, and

provide a higher revenue base for the state. However, with the reduction in the personal income tax rate, overall tax receipts will increase only slightly from the 1983-84 level. The restrained growth in state spending is consequently appropriate for the level of general fund revenue that can reasonably be expected in 1984-85.

We are concerned about the creation of the outstate equity program. If past history serves as any indication, this modest \$4 million program has all the makings for a major spending drain on government resources as additional cities lobby for inclusion in the program and those already in the program fight for a larger share.

The legislature's human service policy continues to display the traditional political schizophrenia. There is general agreement that the state must provide support services for the truly needy, but almost by definition anyone receiving assistance is perceived as a social parasite unworthy of support. This is perhaps best illustrated by the expanded workfare registration provisions. Existing workfare programs are already overcrowded. The registration requirement promises no new hope for productive employment nor an escape from the welfare trap, but serves mostly as an additional indignity visited upon welfare recipients.

We applaud the increased commitment to education. Labor studies have consistently shown that skills and education are crucial to full employment and economic growth. We also concur with the efforts to protect Michigan's environment and abundant natural resources.

We disagree with the handling of the income tax reduction. State government has struggled for two years now to undo the damage generated by an unwillingness or inability to keep spending in line with revenue. The decision to accelerate the phaseout of the temporary income tax increase before it has totally accomplished the purpose for which it was created and to cover the revenue loss by a transfer from the State Accounting and Financial Responsibility Account (SAFRA) looks

distressingly similar to the accounting shifts and techniques which caused the state's fiscal crisis just three short years ago. If this procedure is embraced when the legislature returns this fall, the state will essentially create another accounting impropriety to be covered by extending the projected expiration date of SAFRA.

To paraphrase a quote ascribed to Thomas Jefferson, eternal vigilance is the price of fiscal stability. The state will never achieve full fiscal health until its leaders conquer their natural inclination to try to be all things to all people and resolve to make the hard choices required to maintain a truly balanced budget.

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