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Overview and Analysis of the Michigan Budget, Fiscal Year 1992–93

by Robert Kleine and Frances Spring

INTRODUCTION

With the enactment of the FY 1992–93 state budget the worst may be over for state finances. The last three budgets have required budgeting and accounting legerdemain of the highest order. For the first time in four years the revenue estimates on which the budget is based appear to be achievable, although some threat still remains from a fragile economy. Another round of fiscal frustration could ensue, however, if the "cut and cap" property tax proposal is approved by the voters in November. More about this later.

The governor recommended and the legislature adopted another relatively tight budget for FY 1992–93. The general fund-general purpose (GF/GP) appropriation of $7,980.8 million (after vetoes of $30 million) is 5.3 percent above projected appropriations for FY 1991–92 (see Exhibit 1). After adjusting for program transfers and other adjustments, however, the increase is only 2.3 percent; of that amount ($279.6 million), 92 percent is allocated to law enforcement (mainly corrections), social services, and education. (See Exhibit 2.) The largest percentage increases are debt service, 52.9 percent; school aid, 22.1 percent; and the Department of Corrections, 9.8 percent. Appropriations for the departments of Education, State, Management and Budget, and Treasury, as well as for community colleges and capital outlay, were reduced. The largest reduction was the $42.1-million (22.6 percent) cut in capital outlay.

Adjusted gross appropriations for FY 1992–93 are $20.22 billion, up only 2.5 percent (adjusted) from FY 1991–92.

EXHIBIT 1

Enacted Executive Budget, General Fund/General Purpose and School Aid Fund Budget Changes, FY 1991–92 to FY 1992–93 (dollars in millions)

Program Category	Dollar Change	Percentage Change	Percent of Total Increase
Law enforcement[a]	$105.9	8.7%	38.0%
Social services	92.9	4.3	33.3
Education	57.7	1.2	20.7
Health[b]	39.8	3.8	14.3
Regulatory[c]	5.5	5.5	2.0
Environmental protection[d]	3.7	3.1	1.3
General government	2.4	0.9	0.9
Capital outlay and debt service	-28.3	-13.5	-10.1
Total	$279.6	5.3%	100.0%

SOURCE: Calculated by Public Sector Consultants, Inc., from data provided by the Senate Fiscal Agency.

[a]Includes corrections, state police, judiciary, attorney general, and military affairs.
[b]Excludes social services (Medicaid).
[c]Includes commerce and labor budgets.
[d]Includes natural resources and agriculture budgets.

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EXHIBIT 2

General Fund/General Purpose Executive Budget Summary, FYs 1990–92, 1991–92, and 1992–93 (dollars in millions)

Department or Program	FY 1990–91 Expenditures	FY 1991–92 Projected Expenditures	FY 1992–93 Appropriations	Dollar Change from FY 1991–92 (Proj. Exp.)	Percentage Change from FY 1991–92	Addendum: FY 1992–93 Vetoes	FY 1992–93 Recommend.
HUMAN SERVICES							
Social Services	$2,390.1	$2,140.8	$2,233.1	$92.3	4.3%	-$2.5	$2,235.5
Mental Health	888.0	910.6	941.4	30.8	3.4	-17.7	959.0
Public Health	147.5	135.4	144.5	9.1	6.7	-0.1	146.0
EDUCATION							
State Universities	1,248.6	1,295.6	1,306.6	11.0	0.8		1,299.0
Operations	1,154.7	1,199.4	1,204.4	5.0	0.4		1,202.7
Financial aid	93.9	96.2	102.2	6.0	6.2		100.9
School Aid	929.7	906.8	1,082.7	182.0	20.1	-6.3	1,032.6
Community Colleges	223.2	241.1	240.0	-1.1	-0.5		238.0
Education	50.3	40.7	39.8	-0.9	-2.2	-0.2	38.9
Retirement	4.0	0.0	0.0				
SAFETY AND DEFENSE							
Corrections	808.1	866.6	951.7	85.1	9.8		937.1
State Police	189.5	191.7	203.1	11.4	5.9	-0.1	203.1
Military Affairs	14.4	26.5	28.0	1.5	5.7	-0.3	27.8
REGULATORY							
Commerce	97.4	57.0	61.6	4.6	8.1		62.1
Labor	42.7	30.0	32.3	2.3	7.7		32.3
NATURAL RESOURCES AND RECREATION							
Natural Resources	107.9	94.4	97.5	3.1	3.3	-2.6	93.1
Agriculture	31.5	26.3	27.0	0.7	2.7	-0.2	27.0
GENERAL GOVERNMENT							
Management and Budget	65.7	49.7	48.7	-1.0	-2.0	-0.3	47.9
Legislature	79.0	88.9	93.2	4.3	4.8		89.7
Judiciary	108.3	114.2	121.3	7.1	6.2		114.7
Treasury	34.8	51.2	50.4	-0.8	-1.6		60.4
Attorney General	22.7	24.0	24.8	0.8	3.3		24.0
State	17.1	19.2	15.1	-4.1	-21.4		15.1
Civil Service	13.0	11.8	12.0	0.2	1.7		12.3
Civil Rights	10.6	11.0	11.2	0.2	1.8		11.1
Executive Office	3.9	4.3	4.5	0.2	4.7		4.3
Library of Michigan	24.6	27.1	28.2	1.1	4.0		27.4
OTHER							
Capital outlay	180.9	185.8	144.5	-41.3	-22.2		147.4
Debt service	24.8	24.6	37.6	13.0	52.8		37.6
TOTAL	$7,754.3	$7,579.0	$7,980.8	$401.8	5.3%	-$30.2	$7,928.0

SOURCE: Calculations by Public Sector Consultants, Inc., from data provided by the Department of Management and Budget and Senate Fiscal Agency.

The budget assumes an estimate for combined GF/GP and school aid fund (SAF) revenues of $9,984 million, a 6.1-percent increase from estimated FY 1991–92 revenue. As this is not enough to cover enacted appropriations, the budget also contains about $285 million in one-time revenue items, including:

- $220 million from moving property tax credits from the revenue to the expenditure side of budget,
- $45.5 million from freezing revenue sharing payments, and
- $19 million in additional federal money for the low-income energy assistance program.

The budget also assumes savings of $54 million in property tax credits due to the 1992 freeze in property tax assessments.

Michigan GF/GP expenditures continue to grow more slowly than in most other states. In FY 1991–92 expenditures among the states nationwide increased 5 percent, while Michigan expenditures declined 2.3 percent, making Michigan one of only 14 states that recorded a drop in expenditures. The FY 1992–93 adjusted increase of 2.3 percent compares with a 3.6-percent average increase for all states, which ranks Michigan 33d among the fifty states (see Exhibit 3).

FY 1992–93 SPENDING POLICY

The following discussion focuses on the GF/GP and SAF portions of the budget, as these are subject to the control of the governor and the legislature (as opposed to programs supported by federal aid or restricted revenue). The GF/GP portion of the budget is only 39.5 percent of total spending, down from 49 percent in FY 1981–82.

One of the more interesting aspects of the FY 1992–93 budget is the decline in state employment. Total appropriated full-time equated (FTE) employees number 64,500, a decline of 4,305 or 6.3 percent below the level appropriated in FY 1991–92. This large decline is due mainly to the elimination of vacant positions from the budget; that is, FTE positions that were funded but unfilled in FY 1991–92 have been eliminated from the FY 1992–93 appropriation. As shown in Exhibit 4, about 77 percent

EXHIBIT 3

General Fund Expenditures by State, Percentage Change, FY 1992 and FY 1993

Region/State	Fiscal 1992	Fiscal 1993
NEW ENGLAND		
Connecticut	5.0%	4.5%
Maine	-4.0	3.0
Massachusetts	-0.4	3.1
New Hampshire	9.4	4.8
Rhode Island	20.8	-18.2
Vermont	2.5	0.2
MIDEAST		
Delaware	2.0	-0.3
Maryland	-1.0	10.2
New Jersey	19.5	4.6
New York	3.2	1.4
Pennsylvania	9.8	4.2
GREAT LAKES		
Illinois	4.3	0.5
Indiana	-0.8	8.1
Michigan	-2.3	2.3
Ohio	4.3	7.2
Wisconsin	3.5	5.1
PLAINS		
Iowa	2.3	4.4
Kansas	0.0	1.2
Minnesota	-5.9	-1.5
Missouri	2.2	3.5
Nebraska	5.1	3.0
North Dakota	12.2	4.3
South Dakota	9.0	4.7
SOUTHEAST		
Alabama	-1.4	3.9
Arkansas	2.6	7.5
Florida	1.7	16.5
Georgia	1.1	9.1
Kentucky	10.2	0.1
Louisiana	-1.2	2.7
Mississippi	-0.9	0.7
North Carolina	4.2	3.6
South Carolina	-2.2	5.9
Tennessee	-0.1	0.8
Virginia	-1.1	0.8
West Virginia	5.1	4.6
SOUTHWEST		
Arizona	5.3	2.7
New Mexico	7.6	1.8
Oklahoma	3.8	4.4
Texas	12.6	5.1
ROCKY MOUNTAIN		
Colorado	4.1	11.0
Idaho	8.7	1.9
Montana	15.6	1.7
Utah	6.3	4.1
Wyoming	-9.5	7.0
FAR WEST		
Alaska	3.3	-4.3
California	8.6	0.2
Hawaii	-1.1	19.0
Nevada	7.9	3.7
Oregon	13.7	8.3
Washington	9.2	0.2
TOTAL	5.0%	3.6%

SOURCE: National Association of State Budget Officers, *Fiscal Survey of the States*, April 1992.

of these eliminated positions are in the departments of Social Services, Corrections, and Mental Health.

The discussion that follows is concerned mainly with changes from the governor's original recommendations and comparisons with FY 1991–92 spending. For a more complete discussion of the recommended programs, see our March 13, 1992, analysis of the governor's budget (*Public Policy Advisor*, "Overview and Analysis of the Governor's Recommended Budget for Michigan, Fiscal Year 1992–93").

EXHIBIT 4

Classified Full-time Equated Positions, FY 1991–92 versus FY 1992–93 Appropriations Summary

Department/Budget Area	FY 1991–92 Year-to-Date Appropriated Positions	FY 1992–93 Enacted Appropriated Positions	Number Change	Percentage Change
Social Services	14,105.4	13,455.0	-650.4	-4.6%
Mental health	8,071.5	6,044.5	-2,027.0	-25.1
Public Health	1,520.4	1,467.9	-52.5	-3.5
Corrections	15,671.9	15,023.6	-648.3	-4.1
SUBTOTAL HUMAN SERVICES	39,369.2	35,991.0	-3,378.2	-8.6
Education	2,244.0	2,240.3	-3.7	-0.2
SUBTOTAL EDUCATION	2,244.0	2,240.3	-3.7	-0.2
Executive	75.0	75.0	0.0	0.0
Judicial	1,790.5	1,807.0	16.5	0.9
Attorney General	520.0	520.0	0.0	0.0
State	2,413.4	2,042.3	-371.1	-15.4
Management and Budget (Operations)	956.0	946.5	-9.5	-1.0
Treasury (Operations)	1,806.0	1,780.5	-25.5	-1.4
Civil Service	358.3	331.3	-27.0	-7.5
Civil Rights	210.0	184.0	-26.0	-12.4
SUBTOTAL GENERAL GOVERNMENT	8,129.2	7,686.6	-442.6	-5.4
Commerce	2,783.0	2,790.0	7.0	0.3
Labor	3,156.1	2,988.2	-167.9	-5.3
SUBTOTAL REGULATORY	5,939.1	5,778.2	-160.9	-2.7
State Police	3,411.5	3,414.0	2.5	0.1
Military Affairs	1,018.0	991.0	-27.0	-2.7
SUBTOTAL SAFETY AND DEFENSE	4,429.5	4,405.0	-24.5	-0.6
Agriculture	597.3	585.3	-12.0	-2.0
Natural Resources (Operations)	3,775.2	3,777.3	2.1	0.1
Natural Resources (Bond Implementation)	115.5	0.0	-115.5	-100.0
Natural Resources (Trust Fund)			0.0	
Transportation	4,206.4	4,036.4	-170.0	-4.0
SUBTOTAL ALL OTHERS	8,694.4	8,399.0	-295.4	-3.4
TOTAL APPROPRIATED POSITIONS	68,805.4	64,500.1	-4,305.3	-6.3

SOURCE: Senate Fiscal Agency, "Preliminary Analysis of FY 1992–93 Enacted Budget," July 23, 1992.

Education

The FY 1992–93 GF/GP appropriation for **school aid** is $1,088.8 million (after vetoes of $6.3 million). This is 3.9 percent below estimated expenditures for FY 1991–92, adjusted for the current year funding delay of $220 million. The enacted membership formula is $96.27 per mill plus $268 per pupil. In addition, districts can receive up to $79 per pupil in incentives for meeting certain quality and efficiency standards. The budget also provides for districts to receive an additional $10 plus $1 per mill per pupil if the state imposes a tax on mail order sales. The overall increase in the membership formula is about 2 percent. A district levying 35 mills will receive a guarantee of $3,716 per pupil, 1.9 percent above the FY 1991–92 guarantee of $3,648 per pupil. For the first time, the membership count is based on the previous year's pupil count, which is lower than the current year, reducing the cost of the formula by an estimated $40 million.

The legislature rejected the governor's controversial recommendation to eliminate the social security categorical payment and shift the funds to the membership formula. The legislature also rejected almost all of the governor's new programs, including $20 million for schools of choice. The legislature restored the categorical recapture for out-of-formula school districts at $77 million (up from $66.3 million in FY 1991–92) and suspended the tax base sharing program until the courts rule on a lawsuit against the plan. Although the social security categorical was restored, state support is $28 million below a fully funded level. School districts will have to make up the difference. The budget includes a new adult education alternative training grant categorical of $25 million (down from the governor's recommendation of $45 million) as well as a revision in the funding formula for adult education.

The total appropriation for school aid is $3,475 million, up 1.6 percent and $5.5 million above the governor's recommendation.

The FY 1992–93 appropriation for **state universities** (operations) is $1,204.4 billion, $1.7 million above the governor's recommendation and only 0.4 percent above the current fiscal year appropriation. Each university received the same increase. The GF/GP appropriation for **financial aid** is $102.2 million, a $6-million increase. The majority of the increase is due to the transfer of the tuition incentive program (TIP)(increased from $3 million to $4.3 million) from the community colleges budget to the higher education budget. The legislature added $0.650 million to both the state competitive scholarships program and the Michigan education opportunity grants.

The FY 1992–93 appropriation for **community colleges** is $240 million, 0.8 percent above the FY 1991–92 appropriation, adjusted for the transfer of TIP funding to the higher education budget, and $2 million above the governor's recommendation for no increase. The Wayne County Community College tax credit was reduced by $2 million (down from the governor's recommendation of $3 million) to allow increases for other community colleges. Each college received roughly the same percentage increase. The FY 1991–92 budget included funds to pay the employer's contribution to the Michigan public employees' retirement system. The governor vetoed this appropriation, however, and the money has not been added to the FY 1992–93 budget. The cost to community colleges is about $12.5 million in FY 1991–92 and $14 million for FY 1992–93.

The **Department of Education** received an FY 1992–93 GF/GP appropriation of $39.8 million, 2.8 percent below projected current fiscal year expenditures, and $0.9 million above the governor's recommendation. The decline is due mainly to a reduction in central administrative staff. However, the gross appropriation for the department—$770.2 million, consisting mainly of federal aid—is up 7 percent from FY 1991–92.

Human Services

The GF/GP appropriation for the **Department of Mental Health** (DMH) is $941.4 million, after vetoes of $17.7 million. This represents a 1.8-percent decrease in funding from the level recommended by the governor and a 3.4-percent increase over the level of funding appropriated last year.

Vetoes to the DMH budget include:

- $25.6 million ($10.8 million GF/GP) for the closure of two adult mental health facilities (Newberry and the Lafayette Clinic);

- $20.9 million ($5.2 million GF/GP) for the closure of two regional centers for the developmentally disabled (Muskegon and Newberry);

- $0.8 million for mental health community services projects; and

- $0.5 million for the protection and advocacy program for children, which the governor contends duplicates already available services.

In his veto message, the governor cited his support for moving DMH clients from institutional settings to community-based environments. The DMH bill, in part, reflects this, as it contains $119.4 million more in gross spending for community mental health programs (line-item) than in FY 1991–92. Overall, the community mental health budget will receive an additional $46.6 million gross/$2.3 million GF/GP over the current fiscal year appropriation. The inpatient care and alternative program (also within community mental health) received $93.9 million less than last year, while spending for institutional services is down $95.7 million GF/GP.

Net of shifts, transfers, and vetoes, the FY 1992–93 appropriation for the **Department of Public Health** (DPH) totals $144.5 million, $1.5 million less than the level recommended by the governor and $9.1 million (6.7 percent) higher than FY 1991–92 spending. Gubernatorial vetoes totaled $725,000, of which $100,000 were GF/GP dollars. Additional federal funding, however, results in gross spending that is $18.9 million above the governor's recommended level and $9.1 million above the FY 1991–92 appropriation.

The cuts in GF/GP spending are spread throughout the department. The legislature did not appropriate $3.4 million for the governor's recommended water system monitoring program (40 FTEs) that would have been paid for with additional fee revenues or $1.4 million for the implementation of nursing home reform (23 FTEs). Another $17.9 million in federal funding was added for child and family services grants, most of which ($16.7 million) is for the women, infants, and children (WIC) food program.

The **Department of Social Services** (DSS) was allocated $2,233.1 million GF/GP, which is net of $2.5 million in gubernatorial vetoes. The appropriation represents a $92.3-million (4.3 percent) rise from the FY 1991–92 level of estimated spending and is $2.4 million less than the level of expenditures recommended by the governor. Vetoes include a $1.1-million cut in state emergency relief funding and a $1-million reduction in adult home help funding for chore services because federal matching dollars are not available for these services. In addition, the governor vetoed boilerplate language that would have expanded Medicaid benefits for qualified Medicare beneficiaries with incomes up to and including 100 percent of the poverty level. Part of the reason cited by the governor for the last veto is that the "expansion is occurring in tandem with dubious cost containment measures in the Medicaid budget, resulting in an insufficient appropriation."

Changes from the FY 1991–92 budget include:

- a $70.1-million gross increase in public assistance payments, primarily for Aid to Families with Dependent Children (AFDC);

- a $44.2-million reduction in funding for the Michigan Opportunity Skills Training (MOST) program, with a majority of the funds ($40.1 million) allocated to the new Education Designed for Gainful Employment (EDGE) program; and

- an additional $67 million for hospital services in the Medicaid budget.

Because of additional federal dollars and child support and other revenues, GF/GP funds appropriated for public assistance declined by $13.2 million.

Safety and Defense

The **Department of Corrections** received an FY 1992–93 GF/GP appropriation of $951.7 million, 9.8 percent above projected FY 1991–92 expenditures and $14.6 million above the governor's recommendation. The budget provides funds to open new prisons in Saginaw and Detroit and recommends no prison closings. Additional funds also are provided for community alternatives to incarceration in state prisons. The appropriation for the Electronic Tether Program is $6.2 million, up about 32 percent from FY 1991–92. The Special Alternative Incarceration Program received an appropriation of $22.5 million, up $7.5 million or 50 percent from the current year appropriation.

Corrections spending continues to eat up a large share of available resources each year. In FY 1979–80 appropriations for corrections were $174.9 million, or 3.6 percent of total GF/GP spending. The 1992–93 appropriation is 11.6 percent of all GF/GP expenditures and is nearly as large as the GF/GP portion of the school aid budget. If the corrections budget had grown at the same rate as the total GF/GP budget, the FY 1992–93 appropriation would be $287 million, $665 million below the actual appropriation.

The FY 1992–93 GF/GP appropriation for the **Department of State Police** is $203.1 million, 5.9 percent above the FY 1991–92 appropriation and unchanged from the governor's recommendation. The major programmatic change is the addition of $2 million to hire 75 civilian dispatchers to free up uniformed officers for patrol duty.

The FY 1992–93 appropriation for the **Department of Military Affairs** is $28 million (after vetoes of $0.3 million), an increase of 5.6 percent. The relatively generous expansion in the budget covers economic increases (inflation) and higher vehicle liability insurance costs.

Regulatory

After two years of downsizing, there were few major changes in the **Department of Commerce** budget. The FY 1992–93 GF/GP appropriation is $61.6 million, an 8.1-percent increase from FY 1991–92, $0.5 million less than recommended by the governor and 40.5 percent below the FY 1989–90 allotment. The FY 1992–93 adjusted gross appropriation of $375.5 million is 17.5 percent above the FY 1989–90 appropriation, however, due to an increase in federal and restricted fund revenue. The governor's recommendations to privatize the Accident Fund and the liquor distribution system, saving about $50 million (gross appropriations), were rejected by the legislature. The major increases in the budget were (1) $0.7 million for tourist promotion, (2) $0.4 million for international services, (3) $0.2 to develop a plan to convert Wurtsmith Air Force Base to civilian use, (4) $0.475 million to property development group in management services, and (5) $0.475 million to Western Michigan University. The last two increases were not recommended by the governor.

The FY 1992–93 appropriation for the **Department of Labor** is $32.3 million, the same level recommended by the governor and 7.6 percent above projected FY 1991–92 expenditures. The FY 1992–93 GF/GP appropriation is about 59 percent below the FY 1989–90 appropriation, due mainly to the sharp cuts in the FY 1990–91 budget. The FY 1992–93 adjusted gross appropriation of $415.6 million is 11.7 percent below the FY 1989–90 appropriation. The rise in the GF/GP budget is mainly for economic increases. The major new money recommended by the governor, $0.8 million for job training, was not approved by the legislature.

Natural Resources and Recreation

Net of $2.6 million in gubernatorial vetoes, the GF/GP appropriation for the **Department of Natural Resources** is $97.5 million, which represents a $3.1-million (3.3 percent) increase over the FY 1991–92 spending level and is $4.4 million (4.7 percent) higher than the level of spending recommended by the governor. Vetoes include the elimination of (1) the Day in the Park program ($0.5 million), (2) all Section 103 grants ($1.6 million), and (3) site development funds for the state park in Marquette ($50,000).

Changes from FY 1992 appropriations include:

- reinstatement of the Michigan Conservation Corp program ($1.2 million GF/GP);
- $3 million in additional park fees, concession revenues, and park improvement fund monies, with a nearly corresponding ($2.5 million) decline in GF/GP funding;
- a $1.7-million gross/$.8-million GF/GP rise in funding for forest resource management;
- $2.6 million in funding for the implementation of the federal Clean Air Act, paid for from the emissions control fund and additional federal monies; and
- a decline in funding for environmental response ($1.5 million gross).

Funding for the **Department of Agriculture** is $27 million GF/GP, a 2.7-percent increase from current year funding and the same level of funding recommended by the governor. Vetoes to the budget total $1.6 gross/$.2 million GF/GP and include elimination of funding for (1) the City of Pontiac Silverdome subsidy ($1.2 million), (2) the newly proposed Project FRESH ($250,000), (3) a grant for an urban area 4-H pilot project through Michigan State University ($80,000), and (4) world trade promotions ($25,000).

Changes from the FY 1991–92 level of appropriations include a $4.4-million decline in revenues allocated for departmental grants (including $2.8 million in horse racing revenues and $0.5 million from the general fund) and a $0.7-million decline in horse racing revenues appropriated to the Office of Racing Commissioner.

General Government

The FY 1992–93 GF/GP appropriation for this category, which includes six departments plus the Executive Office, legislature, judiciary, and the Library of Michigan, is $409.5 million, an increase of only 2 percent above estimated FY 1991–92 expenditures. The major change from the governor's recommendation was a $10-million reduction in the proposed $14.4 million repayment of a loan from the Veterans Trust Fund (Treasury budget) and the reallocation of these monies mainly to the judiciary and legislative budgets.

The FY 1992–93 GF/GP appropriation for the **Department of Management and Budget** (DMB) is $48.7 million, 2 percent below estimated FY 1991–92 expenditures and $0.8 million above the governor's recommendation. The legislature added $0.27 million to the governor's recommendation for nutrition services in the Office of Services to the Aged.

The **Department of Treasury** received an appropriation of $50.4 million (excluding debt service), 1.6 percent below FY 1991–92 projected expenditures and $10 million less than recommended by the governor. As explained above, the legislature reduced the proposed loan repayment to the Veterans Trust Fund and redistributed the monies to other departments. The reduction in the Treasury budget is due to the elimination of $4.2 million for the presidential primary, monies that are not needed on an annual basis. Excluding this reduction, the budget increased 7.3 percent, with much of the rise due to a $2-million addition to the senior citizen cooperative housing tax exemption program.

The FY 1992–93 GF/GP appropriation for the **Department of State** is $15.1 million, $4.2 million (21.5 percent) below FY 1991–92 expenditures. The large decline is due to the transfer of the $2-million grant for the Grand Rapids Museum to the Department of Commerce, completion of the Statewide Voter Registration Project ($0.7 million), and elimination of $1.8 million for one-time funding of historical museum exhibits.

The **judiciary** received a FY 1992–93 GF/GP appropriation of $121.3 million, 6.2 percent above FY 1991–92 expenditures and $6.5 million above the governor's recommendation. These additional funds were allocated mainly to add new judges and for increases in judges' salaries.

The FY 1992–93 GF/GP appropriation for the **legislature** is $93.2 million, 4.8 percent above the FY 1991–92 level and $3.5 million above the governor's recommendation. The bulk of the additional funds ($2.2 million) were allocated for general legislative operations.

There were few changes in the governor's FY 1992–93 recommendations for the **departments of Civil Service** and **Civil Rights, Office of Attorney General, Executive Office,** and **Library of Michigan**. The total appropriation for these five agencies is only $80.7 million, up 3.2 percent from FY 1991–92 expenditures.

Other

The FY 1992–93 GF/GP appropriation for **capital outlay** is $144.5 million, down $42.1 million or 22.6 percent from FY 1991–92 projected expenditures. The reduction mainly stems from a $36.6-million decline in State Building Authority rent due to a restructuring of debt. There is very little money in the budget for new projects.

The **Department of Transportation** appropriation for FY 1992–93 is $1,757.6 million, 7 percent above the FY 1991–92 level. Much of the increase is due to a large jump in federal aid that was made available to Michigan under the new Federal Transportation Act.

In FY 1991–92 at least $150 million will be withdrawn from the **Budget Stabilization Fund**. In addition, pursuant to the budget agreement, an additional $25 million could be withdrawn if needed to balance the budget. (The DMB currently estimates that an additional $17.1 million will be necessary.) These withdrawals will leave a balance of only $23.3 million at the end of FY 1991–92. No withdrawals or pay-ins are expected in FY 1992–93, although the economic stabilization trigger (unemployment rate) would allow an estimated withdrawal of $2.4 million.

There are two important **constitutional restrictions** on the state budget. Article IX, Section 26 of the Michigan Constitution restricts the amount of revenue the state may collect in any fiscal year. The limit for FY 1992–93 is $16.6 billion (9.44 percent of 1991 Michigan personal income). Total state revenue (less federal aid and general obligation debt service is estimated to fall nearly $3 billion below the limit.

Article IX, Section 30 of the state constitution requires that a minimum of 41.6 percent of spending from state sources be allocated to local units of government. The latest estimates indicate that spending on local governments will exceed the requirement by about $188 million in the current fiscal year and $53 million in FY 1992–93.

COMMENT

The FY 1992–93 budget is a hold-the-line budget that includes very few new initiatives. The increase in available resources is barely enough to cover increases in the costs of health care, operating new prisons, and the expansion in social service caseloads. In many programs, inflation increases are not covered.

There are two major factors that will determine the budget outlook for the next several years. The first is the health of the Michigan economy. Our view is that economic growth in the 1990s will be slower than in any decade since the 1930s, mainly because of the huge federal budget deficit and the personal and business debt left over from the 1980s. The economy will not remain in a recession, however, and we expect moderate revenue growth averaging 4.5 to 5.5 percent annually.

The second factor is the governor's "cut and cap" property tax proposal. If the voters approve this proposal in November, a large share of the expected revenue growth will be allocated to property tax relief. As shown in Exhibit 5, more than 90 percent of state revenue growth will be required to pay for cut and cap in FY 1993–94, and about 50 percent of revenue growth will be required in the next four years. Public Sector Consultants believes that the passage of cut and cap will force a tax increase sometime in the next two years. Likely candidates are increases in the cigarette tax and alcoholic beverage taxes, the extension of the sales

EXHIBIT 5

Effect of Cut and Cap Proposal on State Budget, FY 1992–93 to FY 1997–98 (dollars in millions)

Fiscal Year	GF/GP and SAF Revenue	Dollar Increase	Cost of Cut and Cap to State Government	Dollar Increase	Percent of Revenue Growth
1992–93	$9,925	$525	$0	$0	0.0%
1993–94	10,375	450	416	416	92.4
1994–95	10,850	475	652	236	49.7
1995–96	11,350	500	916	264	52.8
1996–97	11,900	550	1,210	294	53.5
1997–98	12,475	575	1,500	290	50.4

SOURCES: Public Sector Consultants, Inc., and Senate Fiscal Agency.
NOTE: The cost of cut and cap assumes no reimbursements to general local governments for the 30 percent property tax cut and no reimbursement to general governments or schools for the 3 percent cap.

tax to mail order sales and selected services, and the elimination of some tax expenditures (such as industrial property tax abatements). We do not expect increases in the income or single business taxes, although this cannot be ruled out if the economy slips into another recession.

One of the arguments used in favor of the cut and cap proposal is that it will generate significant economic growth and help pay for itself as state revenues rise. As much as we would like to believe this, the hard evidence is that it will not happen. This proposal brings no new dollars into the Michigan economy, but instead redistributes dollars from the recipients of state budget dollars to homeowners and Michigan businesses. Lower business taxes could result in some increased economic activity, but we expect it to be relatively minor as state and local taxes are not generally a major factor in business investment decisions.

Property taxes in Michigan are too high and should be reduced. However, total state and local revenues as a percentage of personal income were only 1.1 percent above the national average in FY 1989–90 (latest data available), ranking Michigan 26th among the fifty states. This is a substantial improvement from FY 1985–86, when state and local taxes as a percentage of personal income were 9.4 percent above the national average and Michigan ranked 14th. [See "Michigan Expenditures and Revenues: Comparisons with Other States, FY 1989–90," *Public Policy Advisor* (Lansing, Mich.: Public Sector Consultants, Inc., March 20, 1992).]

These data point to a more responsible position of replacing the lost property tax revenue with a combination of state revenue growth and revenue increases. One approach would be to allocate a reasonable share of revenue growth to property tax relief (25–50 percent, for example) and make up the remainder with revenue increases. The amount of new revenue needed each year would vary depending on the growth in existing revenue; if there were no growth the entire cost for that year would be covered by revenue increases, while in a year with strong revenue growth the need for new taxes would be much less.

Of more immediate concern is balancing the FY 1992–93 budget: The latest projections by the DMB are for a $37-million shortfall. We, however, expect revenue to be about $145 million lower and expenditures to be about $50 million higher than the DMB estimates; Public Sector Consultants therefore projects a shortfall of about $275 million. Assuming this projected deficit is carried into FY 1993–94, we expect a shortfall in that year's budget, including the $416 million estimated cost of cut and cap, of about one billion dollars.

Under the best of circumstances, state government will have to become more efficient and find better ways to deliver state services. The state does not have to deliver all services directly, it must only assure that necessary services are rendered. This opens the door for privatization, contracting, subsidies to the private sector, user charges, joint ventures, and other nontraditional ways of conducting government business. Much of the growth in resources into the next century will be claimed by rising health care costs, retirement costs, inflation, caseload increases, and possibly property tax relief. Without a more efficient delivery of these services there will be little money for other important areas—such as education and infrastructure investment—that are critical for future economic growth.

The following excerpt from *The Economist* magazine (August 15–21, 1992) provides a good description of future choices.

> From now on governments will find public spending even harder to control, let alone reduce. Over the past decade budget cuts have fallen most heavily on investment in infrastructure. Pot-holed roads cannot be ignored much longer. As populations age, spending on health-care and pensions will rise. And then there is the clamour for more spending on education and cleaning up the environment. Unless something changes, public spending will rise remorselessly.
>
> If governments are to keep budget deficits in check they face a difficult choice. They can raise taxes—but that will blunt incentives and brake economic growth. Or they can return to first principles and rethink the role of the state. Discharging the state's existing tasks more efficiently, crucial though that is, will not do. New priorities must be set, with more tasks handed to the private economy. Governments must strive to aim welfare benefits more accurately at those who are really in need. Above all, public subsidies to the comfortable middle classes—starting with the unaffordable commitments to universal state pensions—will need to be pared back ruthlessly.

PUBLIC SECTOR CONSULTANTS publishes **Public Sector Reports** and the **Health Legislation Analysis Service**, which includes the ***Health Policy Bulletin*** and the ***Health Care Legislation Abstracts***; offers strategic and tactical counsel and issue management for retainer clients; undertakes specialized research studies; provides public relations and meeting and conferences planning services; and, through its textbook division, produces research and reference works, including ***Michigan in Brief: An Issues Handbook*** and ***The Michigan Government Directory***.

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