

## PUBLIC POLICY ADVISOR

### Analysis of Michigan Budget Appropriations Fiscal Year 1987-88

#### INTRODUCTION

On December 31, 1986, Public Sector Consultants published a *Commentary* that raised the question—Is the party over? That question was answered in the affirmative on July 22, 1987, as Governor Blanchard announced vetoes and partial reductions totaling about \$160 million for the fiscal years 1986-87 and 1987-88 budgets, as well as \$45 million in departmental reductions in FY 1987-88 and a delay in the income tax rollback. These actions were made necessary by a significant weakening in state revenue growth that had not been foreseen by the administration earlier in the year. Unfortunately, the governor's July 22 actions will not be enough to produce a balanced budget in FY 1987-88. Further actions, including executive order budget cuts, are expected to be announced this fall. The outlook is for continued weak revenue growth in 1988 and 1989 and very constrained budgets in FY 1988-89 and FY 1989-90. The following analysis outlines the actions taken by the legislature and governor. A commentary on the implications of these actions for state services and the outlook for future budgets follows the analysis.

#### ANALYSIS

The fiscal year (FY) 1987-88 state budget approved by the legislature and the governor in July set general fund-general purpose (GF-GP) spending at \$6,470.4 million, 1.9 percent above the projected spending level for FY 1986-87.<sup>1</sup> The legislature added \$128.6 million to the governor's original budget recommendation of \$6,456.9 million.<sup>2</sup> The major areas of increase were \$32.6 million in school aid, \$23.9 million in social

<sup>1</sup>The legislature did not give final approval to the budget for the Department of Corrections. The governor's revised recommendation of \$561.3 million is used in this analysis.

<sup>2</sup>The governor increased his original recommendation to \$6,521.5. The major additions were \$27 million in school aid, \$24.3 million in corrections, \$7 million in social services, and \$4.6 million in the Department of Management and Budget. The recommended school aid appropriation was increased \$75 million to offset a projected decline in lottery revenue. However, this was partially offset by a \$48 million reduction in payments to the school employees pension fund due to revaluation.

services, and \$15 million in higher education. However, on July 22, the governor announced the following actions to balance the FY 1986-87 and FY 1987-88 budgets:

- Vetoes and partial reductions totaling \$132.1 million from FY 1987-88 supplemental appropriations<sup>3</sup>
- Vetoes and partial reductions totaling \$27.8 million from FY 1986-87 supplemental appropriations
- Proposed departmental reductions of \$45 million in FY 1987-88
- Delay until 1987 of the proposed income tax rollback

The vetoes (and partial reductions) announced by Governor Blanchard are the largest in memory. The major items are

- colleges and universities—lump-sum maintenance, \$20.1 million;
- school aid—\$20 million; the governor vetoed most categoricals and asked the legislature to restore all but \$20 million;
- capital outlay (other than colleges, universities, and community colleges)—\$17.8 million;
- Department of Management and Budget—revenue sharing, \$10.8 million (does not affect GF-GP spending but will increase GF-GP revenue);
- social services—Medicaid, \$7.4 million;
- commerce—resource recovery, \$4 million; and
- community colleges—lump-sum maintenance, \$3.7 million.

The current proposed budget after vetoes (but before partial reductions)<sup>4</sup> is \$6,496.5 million, 2.2 percent above the projected FY 1986-87 spending level.

<sup>3</sup>The governor actually submitted vetoes totaling \$790.1 million and requested that \$701.1 million be restored.

<sup>4</sup>The governor recommended partial reductions of \$43 million, the largest of which are \$11.3 million in social services, \$10.8 million in revenue sharing, \$7.3 million in commerce, \$5 million in labor, and \$5 million in mental health.

**EXHIBIT 1**  
**General Fund-General Purpose Budget Summary,**  
**Fiscal Years 1986-87 and 1987-88**  
**(millions of dollars)**

Department or Program	Projected FY 1986-87 Expenditures <sup>a</sup>	FY 1987-88		Increase/Decrease Over FY 1986-87	Percentage Change
		Revised Executive Recommendation	FY 1987-88 Legislative Appropriation <sup>a</sup>		
Human Services					
Social Services	\$2,004.9	\$2,010.0	\$2,015.6	\$10.7	0.5%
Mental Health	715.0	762.2	770.3	55.3	7.7
Public Health	130.5	141.0	140.3	9.8	7.6
Education					
State Colleges and Universities	1,043.5	1,100.0	1,115.0	71.6	6.9
— Operations	901.4	1,017.6	1,032.6	63.3	7.0
— Financial Aid	76.9	82.4	82.4	-2.7	5.1
School Aid	574.4	601.4	590.0	15.6	5.8
Community Colleges Education	186.7	196.1	198.1	11.4	6.1
Library of Michigan	37.9	37.4	39.4	1.5	5.9
Library of Michigan	20.7	21.4	23.1	2.4	11.6
Safety and Defense					
Corrections	482.9	561.3	561.3 <sup>b</sup>	78.4	16.2
State Police	163.3	161.6	161.3	-2.0	-1.2
Military Affairs	11.8	12.4	12.5	0.7	5.9
Regulatory					
Commerce	110.6	97.6	92.4	-13.2	-11.9
Labor	100.1	88.2	85.3	-14.8	-14.8
Licensing and Regulation	15.3	16.1	14.1	-1.2	-7.8
Natural Resources and Recreation					
Natural Resources	118.8	123.1	120.0	2.0	1.7
Agriculture	26.7	28.0	29.5	2.8	10.5
General Government					
Management and Budget	160.1	153.6	149.4	-10.7	-6.7
Legislature	68.9	71.6	76.3	7.4	10.7
Judiciary	92.5	99.5	100.7	8.2	8.9
Treasury	60.4	56.9	56.7	-3.7	-6.1
Attorney General	21.3	23.0	22.9	1.6	7.5
State	15.5	15.4	13.5	-2.0	-12.9
Civil Service	10.9	11.8	11.8	0.9	8.3
Civil Rights	10.4	11.2	11.3	0.9	8.7
Executive Office	3.9	4.0	4.1	0.2	5.1
Other					
Capital Outlay	124.0	84.1	43.5	-80.5	-64.9
Debt Service	45.0	32.6	32.6	-12.4	-27.6
<b>TOTAL</b>	<b>\$6,356.0</b>	<b>\$6,521.5</b>	<b>\$6,496.5</b>	<b>\$140.5</b>	<b>2.2%</b>

<sup>a</sup>Reflects vetoes and restorations, but not partial reductions.

<sup>b</sup>Appropriation is still pending; governor's revised recommendation is used.

Some of the actions have not been formally transmitted to the legislature and could change. The legislature, which will act on these vetoes and reductions when it returns for the fall session, can allow the governor's actions to stand or can override them by a two-thirds vote of both houses. Some of the governor's proposed reductions will have to be formalized in an executive order, which requires only the approval of the appropriations committees.

As presented in Exhibit 1, the largest increases in the FY 1987-88 budget (after vetoes) are in corrections, student financial aid (higher education), natural resources, and the legislature. There will be reductions from the FY 1986-87 budget in six departments. (Some of these reductions are one-time adjustments rather than actual program cuts.) The GF-GP school aid appropriation is 2.3 percent above projected expenditures for FY 1986-87; total state school aid spending is up an estimated 4.9 percent or 5.3 percent per pupil.

As was the case in FY 1986-87, increases in several areas of the budget are possible because of reductions in capital outlay and debt service—\$80.5 million and \$12.7 million, respectively. Exhibit 2 shows the changes in the state budget between FY 1982-83 and FY 1987-88. As can be seen, the emphasis has shifted toward corrections, education, and health and away from social services, debt service, and capital outlay.

This is the second constrained state budget in a row, and the next two budgets are also expected to be tight. This constraint has been made necessary by the rollback of the income tax rate to 4.6 percent and a sharp slowdown in revenue growth, particularly for single business and sales and use taxes and lottery receipts.

## ECONOMIC ENVIRONMENT

The budget as recommended by the governor was based on an assumption that economic growth in

1988 would be slightly stronger than in 1987. Michigan personal income was projected to increase 4.5 percent in FY 1987-88 compared to 3.2 percent in FY 1986-87, largely due to higher inflation, and the unemployment rate was expected to stabilize at 8.5 to 9.0 percent.

The executive budget forecast was issued in January and has not been revised, but economic indicators in recent months lead one to conclude that the Michigan economy is likely to be weaker than expected in 1988. The University of Michigan Research Seminar in Quantitative Economics (RSQE) is forecasting only a 2.7 percent increase in Michigan personal income in 1988 (compared with an estimated 3 percent in 1987), a 0.7 percent decline in employment from the 1987 level, and an increase in the unemployment rate from an estimated 8.7 percent in 1987 to 10 percent in 1988.

Public Sector Consultants' economic forecast is a little less pessimistic, but we do expect slowing economic growth in 1988 and a possible recession in 1989. Slow growth would produce sharply lower revenues in FY 1987-88 than currently projected by the Department of Management and Budget (DMB). In addition, the Michigan Court of Appeals has ruled the insurance premiums tax unconstitutional. The tax is estimated to generate more than \$150 million in FY 1987-88. While there are actions available to limit the revenue loss, the ruling creates additional uncertainty for the FY 1987-88 budget as well as future budgets.

## 1987-88 SPENDING POLICY

This analysis is mainly concerned with the GF-GP budget, which is that portion of the state budget that is not constitutionally or statutorily mandated for use on designated programs. The school aid fund is also included because shortfalls in restricted revenues must be made up by increases in the GF-GP grant to the school aid fund. Exhibit 1 details projected FY 1986-

**EXHIBIT 2**  
**Change in General Fund-General Purpose**  
**Expenditures by Major Category, FY 1983 to FY 1988**

Category	Percentage Change FY 1983-FY 1988	Percent of Dollar Increase in GF-GP Budget	Percent of Total GF-GP Budget, FY 1988
Education	47.5%	40.7%	30.3%
Corrections	142.9	21.2	8.6
Health	43.2	17.7	14.0
Social Services	3.7	4.6	31.0
Capital Outlay	71.3	1.2	0.7
Debt Service	-71.0	-5.1	0.5
Other	46.5	19.7	14.9
<b>TOTAL GF-GP</b>	<b>31.5%</b>	<b>100.0%</b>	<b>100.0%</b>

SOURCE: Calculated by Public Sector Consultants from information provided by the Senate Fiscal Agency and the Department of Management and Budget.

87 expenditures, FY 1987-88 revised executive budget recommendations, and FY 1987-88 legislative appropriations after vetoes but before the partial reductions recommended by the governor.

Following is a review of the key sections of the state budget.

## Education

The FY 1987-88 appropriation for **state colleges and universities** of \$1,115 million is \$71.6 million, or 6.9 percent, above the FY 1986-87 level. General operating funds for the fifteen colleges and universities were increased an average of 6.3 percent. There were no direct vetoes in higher education, but the governor has recommended a partial reduction of \$1.4 million in financial aid, which would result in an education budget that is \$13.6 million higher than his original recommendation. Although this was the only change proposed in the higher education bill on July 22, vetoes in the capital outlay budget also affect colleges and universities, which lose \$20.1 million in lump-sum maintenance funds. Maintenance expenditures are difficult to avoid, making the effect of the capital outlay veto similar to a veto of state college and university operating funds.

The legislature also transferred \$5 million to higher education from the regulatory budget. This money—a one-time appropriation that will not become part of the base—is to be allocated to colleges and universities having student head-count increases from fall 1984 through fall 1986. All institutions benefit from the additional funding except for Lake Superior State College, Michigan Technological University, Northern Michigan University, and Wayne State University. These four institutions, however, did receive some additional general funds—a total of \$667,000 that came out of \$1 million the Senate had intended for a graduate work-study program.

The legislature approved a **K-12 school aid** budget of \$610 million for FY 1987-88. However, the governor vetoed 20 categorical grants and recommended that funds for 18 of these be reappropriated at a combined spending level of \$20 million less than the appropriation approved by the legislature. After these reductions, the school aid appropriation of \$590 million is only 2.3 percent higher than the current year.<sup>5</sup> (If the vetoes are overridden, the increase will be 5.8 percent, or \$32.6 million above the governor's revised recommendation.)

The FY 1987-88 school aid formula provides \$350 per pupil plus \$75.10 for each levied operating mill. This is slightly higher than the governor's recommendation of \$345 per pupil plus \$75.10 per mill. The budget also allocates \$10 million to preschool programs

for the educationally disadvantaged. Preschool funds will be allocated based on the percentage of district pupils eligible for the free lunch program. This, it is argued, will effectively distribute preschool funds to low-income districts.

The **community colleges** appropriation of \$198 million is 6.1 percent higher than the current year and \$2 million more than recommended by the governor. The budget allocates \$500,000 more than recommended by the governor to the Job Training and Retraining Investment Fund, for a total of \$4.5 million and sets the minimum grant level for the fund at \$60,000 rather than his recommended \$50,000. The community college bill was not directly affected by the governor's vetoes, but vetoes in the capital outlay budget cost community colleges \$3.7 million in lump-sum maintenance funding that will have to be made up out of operating funds.

## Human Services

The legislature added \$27.4 million to the governor's revised recommendation for human service programs: \$16.9 million in social services, \$10 million in mental health, and \$384,000 in public health.

The governor vetoed \$416 million of the \$2.03 billion budget for the **Department of Social Services** and proposed a restoration of \$405 million, resulting in a net veto of \$11.3 million. With this reduction, the social services budget is only 0.3 percent higher than the current fiscal year. The budget includes Aid to Families with Dependent Children (AFDC) and General Assistance (GA) increases of \$4 per recipient per month. The legislature also included a 3 percent increase for Medicaid providers to account for inflation. The governor has recommended a reduction in the increase for hospitals from 3 percent to .75 percent (included in partial reductions).

The FY 1987-88 appropriation of \$141.3 million for the **Department of Public Health** was, before vetoes, \$384,000 higher than recommended by the governor and 7.6 percent above current-year appropriations. The governor vetoed \$1.1 million in the public health budget, including \$100,000 earmarked for establishing an Alzheimer's disease program. The budget still includes \$10 million to combat the state's high rate of infant mortality and \$350,000 for the Vietnam veteran's Agent Orange program and a statewide missing children program.

Before the governor's vetoes, the FY 1987-88 **mental health** appropriation of \$772 million was \$57.2 million above current-year funding and \$10 million higher than recommended by the governor. The governor's vetoes of \$1.9 million in the mental health budget included a reduction of \$901,500 in the special project categories of training for Alzheimer's disease patients, mental health services to the homeless, and respite and day care services. The governor proposed

<sup>5</sup>If a reduction of \$55.2 million in the estimate for lottery revenue is reflected, the school aid grant is \$645.2 million.

additional reductions of \$5 million in various mental health programs to be made after the beginning of the fiscal year.

### Regulatory

This category includes the departments of **Commerce, Labor, and Licensing and Regulation**. The FY 1987-88 appropriation for these three departments totals \$196.8 million, 13 percent below the projected FY 1986-87 spending level. The legislature appropriated about \$3 million less than recommended by the governor for the **Department of Labor** and \$1.9 million less for the **Department of Licensing and Regulation**. The governor also vetoed two grants totaling \$350,000 in the **commerce** budget. The sharp decline in this category is due mainly to several one-time appropriations in FY 1986-87 for the departments of Labor and Commerce, such as a \$7 million one-time job training grant in the Department of Labor. There will be further reductions for commerce and labor if the governor's recommended \$7.3 million and \$5 million partial reductions are adopted by the legislature.

### Natural Resources and Recreation

The appropriation for the **Department of Natural Resources** is only 1.9 percent above the projected spending level of FY 1986-87. The legislature added \$4 million to the governor's revised recommendation (\$8.3 million above his original recommendation), but the governor vetoed \$6.3 million in spending programs. The vetoes were largely in tourism development, land resource, and forest improvement district grants. The legislature did not approve the governor's recommendation to use \$9.7 million in unredeemed bottle deposit money to fund programs to clean up the environment, protect against future contamination, rebuild parks and campgrounds, and improve wildlife/recreation opportunities.

The appropriation for the **Department of Agriculture** is 10.5 percent above the projected spending level for FY 1986-87. The legislature added nearly \$3 million to the governor's revised recommendation, but the governor vetoed about one-half that amount, approximately \$1 million of which was for the agricultural experiment station and cooperative extension service.

### Safety and Defense

As was the case last year, the legislature made few changes in the governor's recommendations for the departments of **Corrections, State Police, and Military Affairs**. The governor increased his original recommendation for **corrections** by \$24.3 million, largely to cover the cost of additional beds. (The governor added \$52 million to his recommendations for FY 1986-87.) The recommended spending level for corrections is 16.3 percent above the projected FY 1986-87 spending level, the largest increase in the

budget, but the legislature has not given final approval. The recommended FY 1987-88 spending level is about 114 percent above the FY 1983-84 level.

The approved budget for the **Department of State Police** is 1.7 percent below the projected spending level for FY 1986-87. The decline is the result of nonrecurring supplementals in FY 1986-87 for early retirement payments and flood assistance. Excluding these costs, the state police budget will increase about 2.7 percent.

### General Government and Other

The remaining areas of the budget account for less than 10 percent of total GF-GP spending and generally comprise monies for accounting, tax collection, building maintenance, debt service, capital outlay, and the judicial and legislative branches of government.

The FY 1986-87 legislative appropriation for **general government** (excluding capital outlay and debt service) is 0.7 percent above the projected spending level for FY 1986-87. The legislature added about \$5 million to the governor's recommendation—most of the increase was in their own appropriation (\$4.7 million). The governor vetoed \$850,000 in the **Department of State** budget, largely for new historical grants, and \$915,000 for the **Department of Management and Budget**.

The FY 1987-88 appropriation for **capital outlay** is \$43.5 million after vetoes, \$80.5 million below the projected spending level for FY 1986-87 and \$39.4 million less than the executive recommendation; the governor vetoed about \$41 million in spending.<sup>6</sup>

The appropriation for **debt service** is \$12.4 million below the projected expenditure for FY 1986-87 and unchanged from the governor's recommendation.

The budget includes no major new initiatives for **local government** aid. The governor's FY 1987-88 executive budget projected only a 3.8 percent increase in general revenue-sharing grants to locals, but even this number may be too high given recent weakness in revenue collections. (The governor has recommended a \$10.8 million reduction in revenue sharing.) Article IX, Section 30, of the Michigan Constitution requires that 41.6 percent of state spending be allocated to local governments. This requirement will be exceeded by more than \$300 million in the FY 1987-88 budget.

The formula for the Budget Stabilization Fund (BSF) indicates no transfer into or out of the fund in FY 1987-88. Based on current economic forecasts, the formula

<sup>6</sup>The largest items were \$20.1 million in lump-sum maintenance for colleges and universities, \$8.3 million for urban, waterfront, and recreation projects, \$4 million for remodeling and addition projects for state agencies, and \$3.7 million for lump-sum maintenance for community colleges.

is expected to trigger a transfer of more than \$200 million out of the BSF in FY 1988-89.

The constitutional revenue limit for FY 1987-88 is an estimated \$12.850 billion. Revenues subject to the limit are expected to total about \$11 billion. This is a substantial change from FY 1984-85 when state revenues came very close to exceeding the limit (or did exceed the limit according to some observers). The gap between the limit and state revenues has widened because Michigan personal income increased 23.7 percent between 1983 and 1986 (the base year for FY 1987-88 calculations) and state revenues (less federal aid) increased an estimated 3.8 percent between FY 1984-85 and FY 1987-88; the slow growth was due, in large part, to the rollback of the income tax rate.

## COMMENT

For the first time since he took office, Governor Blanchard is faced with having to make sharp cuts in the state budget. In July he announced vetoes and partial reductions totaling \$160 million for FY 1986-87 and FY 1987-88, a delay of the income tax rollback until October 1, 1987, and a directive to department heads to reduce spending by \$45 million in FY 1987-88. Now everyone is waiting for the other shoe to drop.

Current projections by the DMB and the Senate Fiscal Agency (SFA) indicate a balanced budget for both FY 1986-87 and FY 1987-88. The SFA is projecting a year-end surplus of \$96.6 million for FY 1986-87 and \$117.2 million for FY 1987-88. (The SFA is crediting \$110 million in federal tax reform revenue to FY 1986-87 as a result of the delay in the state income tax reduction. This revenue will be reflected in lower refunds next spring, but under accrual accounting it can be credited to the current fiscal year.)

The SFA and DMB revenue projections for FY 1987-88 have not been revised since last spring and are likely to be revised downward in light of revenue shortfalls in the current fiscal year and indications that the Michigan economy may be weaker than expected in 1988. The University of Michigan (RSQE) is forecasting a near recession next year, with the unemployment rate increasing to more than 10 percent by the fourth quarter. Its forecast for GF-GP revenue is about \$250 million lower than that of the SFA and DMB. This may be a little pessimistic. Our view is that GF-GP revenue will fall \$175-200 million short of the DMB estimate. In addition, there will be a shortfall of about \$140-150 million in school aid fund revenue. (The University of Michigan does not forecast the school aid fund.) The total revenue shortfall will be about \$300-350 million.

Current expenditure estimates assume that the governor's vetoes will not be overridden by the legislature. The year-end balance estimates made by the SFA and DMB also assume no additional spending needs, al-

though the House Fiscal Agency has estimated the FY 1987-88 budget is underfunded by about \$190 million (as of April 28, 1987).<sup>7</sup> The final piece of the puzzle is the size of the surplus as of September 30, 1987. Earlier, Public Sector Consultants projected a deficit of about \$50 million for FY 1986-87, but this did not include the revenue from the delay of the income tax reduction. Assuming this revenue is credited to the current fiscal year, we estimate a surplus of \$50-75 million.

There are obviously a lot of variables in the equation, making broad projections necessary. Our best estimate is that additional reductions or fiscal adjustments of \$250-300 million will be required to balance the FY 1987-88 budget. This projected shortfall could be covered by fiscal adjustments such as the revaluation of the school and state employees pension funds, which is being used to offset \$143 million of the shortfall for FY 1986-87 and FY 1987-88, a further delay in the income tax reduction (each month delay would increase revenue by \$12-14 million), executive order budget cuts, or withdrawals from the Budget Stabilization Fund (BSF). The current BSF balance is about \$400 million.

Current economic projections by the University of Michigan indicate that real Michigan personal income less transfer payments will increase about 0.6 percent in 1987 and decline 3.5 percent in 1988, allowing no BSF transfers to the general fund in FY 1987-88 and about \$230 million in FY 1988-89. The legislature could still transfer money from the BSF to the general fund in FY 1987-88 by changing the law or by making an emergency appropriation by a two-thirds vote of both houses. The most likely outcome is a further delay in the income tax rollback combined with executive order budget cuts. No one can be certain where these cuts will be made, but it may be instructive to look back at the cuts made during the Milliken administration.<sup>8</sup>

Six executive order cuts from 1981, 1982, and 1983 are summarized in Exhibit 3. As can be seen, few areas of the budget escaped the knife. Exhibit 4 compares the cuts by major area with their relative importance in the budget. For example, social services expenditures were 37.4 percent of GF-GP expenditures (plus revenue sharing and less debt service) in FY 1981-82 and absorbed 30 percent of the budget cuts. The overrepresentation of school aid and higher education is a little misleading, as some of these cuts represented delays in payments rather than actual reductions. If these earlier experiences are any indication, any executive order budget cuts are likely to affect almost all areas of the budget equally.

<sup>7</sup>These additions could be partially offset by the \$45 million in departmental reductions announced by the governor.

<sup>8</sup>Executive Order 1983.5 occurred during the Blanchard administration but affected the last budget fully controlled by the Milliken administration.

**EXHIBIT 3**  
**Executive Order Budget Reductions, 1981-83**  
 (dollar amounts in thousands)

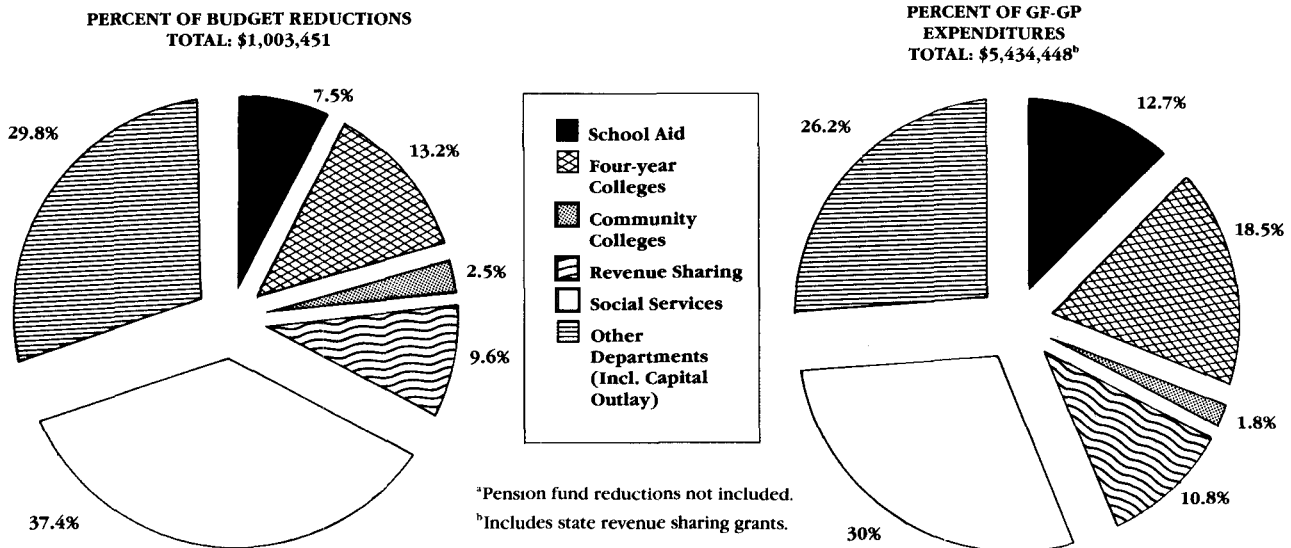
Category	Executive Order Number					
	1981-8 (FY 1980-81)	1981-9 (FY 1981-82)	1982-4 (FY 1981-82)	1982-6 (FY 1981-82)	1982-13 (FY 1981-82)	1983-5 (FY 1982-83)
School Aid	\$ 6,599	\$ 15,300		\$ 8,400	\$ 72,300	\$ 25,000
Four-year Colleges	17,817	22,415	\$ 80,000 <sup>b</sup>	5,800	32,000	27,500
Community Colleges	3,672	3,873	—	1,500	7,000	2,000
Revenue Sharing	27,000	18,012	—	9,675	38,700	15,000
State Departments and Other	46,758	210,400	126,265	24,625	—	131,140
—Social Services	21,400	152,000 <sup>a</sup>	48,300	10,000	—	69,500
—Public Health	4,000	5,000	6,300	2,500	—	6,500
—State Police	3,000	4,500	15,500	—	—	—
—Labor	—	10,000	—	—	—	6,000
—Mental Health	—	9,000	24,200	3,000	—	17,900
—Corrections	—	—	7,700	—	—	5,200
—Treasury	—	—	6,600	—	—	—
—Grants and Transfers	4,225	—	—	—	—	—
Capital Outlay	—	—	—	—	—	25,000
State and Public School Employees Retirement	—	—	101,680	—	—	—
<b>TOTAL</b>	<b>\$101,846</b>	<b>\$270,000</b>	<b>\$307,945</b>	<b>\$50,000</b>	<b>\$150,000</b>	<b>\$225,640</b>

NOTE: Only the largest reductions were listed for each executive order. A blank for a category does not mean that department or program was unaffected.

<sup>a</sup>A large share of the reductions were made by reducing the standard of need for AFDC and GA and tightening eligibility requirements.

<sup>b</sup>These reductions were largely restored in the following fiscal year.

**EXHIBIT 4**  
**Distribution of Executive Order Budget Reductions<sup>a</sup>**



In January, the governor will submit his FY 1988-89 budget to the legislature. Public Sector Consultants expects that the budget will be very constrained, increasing less than 2 percent; in real terms the budget will decline. This budget will be even tighter than the last two as there is little room left to finance program

increases with reductions in capital outlay and debt service as was done in FY 1986-87 and FY 1987-88. Despite the constraint, the risks continue to be on the downside, as some economic forecasters are projecting recession-like conditions in Michigan in 1988.

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