



PUBLIC POLICY ADVISOR

Analysis of Michigan Budget Appropriations, Fiscal Year 1989-90

INTRODUCTION

Three key factors shaped the FY 1989-90 state budget. First, the administration's revenue estimates for fiscal years 1988-89 and 1989-90 were revised upward sharply. In its latest financial report to the legislature (September 7, 1989), the Department of Management and Budget (DMB) estimated general fund/general purpose (GF/GP) revenue and school aid fund (SAF) revenues at \$9.18 billion, \$240 million more than estimated in the executive budget for FY 1989-90 released in February. These additional revenues allowed the legislature to add supplemental appropriations of \$261 million to the FY 1988-89 budget. (See Exhibit 1.) The DMB also estimates a year-end balance (as of September 30, 1989) of \$94 million. The GF/GP and SAF revenue estimates for FY 1989-90 have been increased to \$9.45 billion, \$229 million above the original budget estimate.

Second, the legislature devoted much of its time during the last session to debating school finance reform. At one point, when negotiations had broken down, the Senate added \$267 million to the school aid appropriation. In the end, the legislature added \$60 million to school aid and allowed the schools to keep \$50 million in higher than estimated property tax revenues.

Third, the likelihood of an Engler versus Blanchard gubernatorial race increased partisan fighting over the budget and likely affected the allocation of funds—toward education and away from human services.

The following analysis describes the budget of each department and major budget category and discusses significant changes to the governor's recommendations. A commentary on the economic forecast and the outlook for the FY 1989-90 and 1990-91 budgets follows the analysis.

OVERVIEW

The FY 1989-90 GF/GP budget is \$7.29 billion, 4.6 percent above projected spending for FY 1988-89 (including supplementals of \$261.2 million). The legislature added \$305.5 million to the governor's original recommendation of \$6.99 billion, 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 local revenue. Normally, this would have reduced the GF/GP grant by about \$50 million, but the legislature allowed the school districts to keep this money.

Seven departments and three other spending categories received above-average increases. The largest increases above projected FY 1988-89 spending 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); Department of Agriculture, 11.3 percent; Department of State Police, 9.3 percent; and Department of Corrections, 8.1 percent. (Refer to Exhibit 1.)

The appropriation for the Department of Social Services is 0.6 percent below projected 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 \$261.2 million. The Department of Social Services received the largest share, \$155.8 million. Other large supplementals were \$26.9 million for capital outlay [to replace Budget Stabilization Fund (BSF) monies] and \$24.1 million for the Department of Mental Health.

The GF/GP budget has increased 31.4 percent over the last five years (FY 1984-85 to FY 1989-90), considerably above the rate of inflation (21.8 percent). (See Exhibit 2.) Most budget categories have increased faster than the total budget, as the overall growth rate was held down by a 10 percent increase in social services spending, which accounts for about 31 percent of the GF/GP budget, and a large decline in debt service requirements. The fastest growing budgets have been the Department of Corrections, which increased 118.3 percent over the five-year period, and capital outlay, which rose 117.2 percent.

As indicated in Exhibit 3, Michigan's FY 1989-90 growth in GF/GP appropriations is among the lowest in the nation, ranking 38th out of the 48 states for which data are available.

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 Expend- itures	Appro- priations	Supple- mentals	Projected Expend- itures	Recom- mendations	Appro- priations	Dollar Change from FY 1988-89	Percentage Change from FY 1988-89
Education								
State universities	\$1,109.0	\$1,136.6	\$6.2	\$1,142.9	\$1,148.6	\$1,195.5	\$52.6	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	91.0	87.5	88.9	-2.1	-2.2
School aid	603.6	503.8	0.0 ^a	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	0.0	12.5	12.5	—
Library of Michigan	22.8	25.5	0.0	25.5	25.8	26.7	1.2	4.7
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
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	0.0	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
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
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	0.0	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
Civil Service	10.3	13.3	0.0	13.3	15.8	14.6	1.3	9.8
Civil Rights	10.8	10.9	0.0	10.9	10.6	11.0	0.1	0.9
Executive Office	3.8	4.0	0.0	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	0.0	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%

^a Revenues were \$42.6 million above estimates, and expenditures were \$27.2 million higher, resulting in a \$15.4 million reduction in spending.

FY 1989-90 SPENDING POLICY

Attention generally is focused on the GF/GP portion of the budget, as it can be controlled by the governor and the legislature. However, the GF/GP budget is only about 41 percent of the total. The remainder is federal aid, restricted revenues (such as fuel and weight taxes), which may be used only for designated purposes or programs, and private and local revenue. Changes in these revenue sources can increase or reduce the required GF/GP appropriation. For example, a reduction in federal funding will require an in-

crease in GF/GP funding (or a tax increase or reduction in the program). An increase in restricted revenue can be used to replace GF/GP funding, thereby reducing the budget. Therefore, the GF/GP appropriation can change without affecting program support. To provide a better understanding of the state budget, the following sections discuss the funding sources for each department (or program) and the functions of each area, as well as the changes in the FY 1989-90 GF/GP budget. (The funding sources for each area are summarized in Exhibit 4.)

Education

The budget for **school aid** consists of restricted revenue (75 percent), mainly from the sales, cigarette and liquor taxes, and the lottery, federal aid (2 percent), and a grant from the general fund (23 percent). The general fund grant makes up the difference between restricted funds and the amount the governor and the legislature agree to spend on K-12 education. About 60 percent of the budget is allocated in membership aid to help equalize resources among districts, 30 percent goes for categorical aid for such areas as special education, transportation, and Social Security payments for school employees, and about 10 percent is allocated to pay retirement benefits for school employees.

The FY 1989-90 GF/GP appropriation for school aid is \$600 million, about \$60 million above the governor's recommendation and \$96.2 million above projected expenditures for FY 1988-89. In fact, the appropriation is about \$110 million above the governor's recommendation, as property values rose approximately 8 percent compared with a budget estimate of 6.5 percent. This will generate more local revenue and normally would have reduced the general fund grant by about \$50 million, but the legislature and governor allowed the districts to keep this additional money.

The gross school aid appropriation for FY 1989-90 is \$2,925 million, 7.2 percent above the FY 1988-89 level. Included in this amount is \$343.5 million for the Public School Employee's Retirement System, of which \$12.5 million is GF/GP money.

The membership formula was increased from the governor's recommended \$300 plus \$83 per mill per pupil to \$310 plus \$83.61 per mill per pupil, adding about \$50 million to the recommendation. Other major changes from the governor's recommendations were

- the proposal to freeze Social Security and school employee retirement at the FY 1988-89 level was rejected, which added \$97.3 million to the budget;
- the recommendation to reduce transportation funding for wealthy out-of-formula school districts by \$14.5 million was rejected;

EXHIBIT 2

Growth in Selected Budget Categories, FY 1984-85 to FY 1989-90 (in descending order)

GF/GP Category	Percentage Change in Appropriations, FY 1985-FY 1990
Corrections	118.3%
Capital outlay	117.2
Department of Education/Library of Michigan	59.6
State universities—financial aid	52.7
Executive, judiciary, and legislative	49.6
Mental Health	44.4
Commerce, Labor, and Licensing and Regulation	43.5
School aid	40.8
State universities—operations	39.9
Community colleges	33.4
GF/GP Expenditures	31.4
State Police and Military Affairs	23.8
Public Health	20.2
Natural Resources and Agriculture	14.8
Social Services	10.0
General government	5.3
Debt service	-69.3
Other Categories	
Total school aid	56.5
General revenue sharing	35.2
School employees retirement	31.3
Total State Budget	29.3
Transportation	23.0
State-local price deflator (U.S.)	21.8

SOURCE: Calculated by Public Sector Consultants from data in State of Michigan Executive Budget, selected issues.

NOTE: General government increase adjusted for transfer of State Budget Authority rent from DMB budget to capital outlay budget.

EXHIBIT 3

**Percentage Growth in State General Fund Appropriations,
FY 1990 Increase over FY 1989**

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Nebraska	18.7%	18	Arizona	8.7%	34	Wisconsin	5.5%
2	Georgia	17.1	19	Pennsylvania	8.7	35	Kentucky	5.2
3	West Virginia	14.3	20	Florida	8.5	36	Iowa	5.2
4	Connecticut	12.9	21	North Dakota	8.3	37	North Carolina	4.9
5	Washington	12.4		NAT'L. AVG.	7.2	38	MICHIGAN	4.9^a
6	Montana	11.9	22	Missouri	7.1	39	New York	4.3
7	Texas	11.3	23	Oklahoma	6.4	40	Vermont	3.4
8	Kansas	11.3	24	South Dakota	6.4	41	New Mexico	2.1
9	Minnesota	11.2	25	Colorado	6.3	42	Arkansas	2.1
10	Maryland	11.0	26	Oregon	6.3	43	New Jersey	0.6
11	Indiana	10.4	27	South Carolina	6.2	44	Wyoming	0.0
12	Illinois	9.8	28	Idaho	6.1	45	Utah	-0.5
13	New Hampshire	9.6	29	Tennessee	5.8	46	Alabama	-0.6
14	Maine	9.6	30	Mississippi	5.8	47	Massachusetts	-2.0
15	Virginia	9.3	31	Rhode Island	5.6	48	Alaska	-4.3
16	California	9.0	32	Ohio	5.6	49	Hawaii	NA
17	Delaware	8.8	33	Nevada	5.5	50	Louisiana	NA

SOURCE: State Policy Research, Inc., *State Policy Reports*, vol. 7, issue 16, Alexandria, Va., August 1989.

^aThe actual increase was 4.6 percent.

- \$14.5 million was added for a new low-income categorical for out-of-formula school districts with local resources of less than \$3,000 per pupil, which increased the total appropriation to \$17 million;
- the recommendation for the Early Childhood Development program was reduced by \$8.8 million but still exceeded the FY 1988-89 level by about \$6 million;
- the deduction from categorical payments to out-of-formula districts was increased by \$9 million; and
- the governor's recommendation for the new MEAP achievement incentive program was reduced from \$15 million to \$5 million.

The budget for **state universities** consists almost entirely of GF/GP money except for about \$4.5 million in federal aid (for financial aid—from the Higher Education Act of 1965). About 87 percent of the budget goes to the 15 state universities for operations. The remainder goes for grants and financial aid (about 8 percent), state and regional programs (3 percent), and the Research Excellence Fund (2 percent). About 80 percent of the financial aid goes to private colleges.

The FY 1989-90 appropriation for state universities' operations is \$1.106 billion, 5.2 percent more than for FY

1988-89 and \$45.5 million more than recommended by the governor. This budget marks the first move away from the longstanding tradition of across-the-board allocations to all universities. By establishing a \$3,300 per student appropriation floor, the legislature generally has agreed to let the dollars follow the students. This change in thinking accounts for the wide range in percentage increases, 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 (7.1 percent) universities. Michigan State University received a 4.7 percent increase, and the University of Michigan (along with several other universities) received the smallest increase, 4.5 percent.

The legislature made several other significant changes in the budget, including:

- Research Excellence Fund monies were kept in the higher education budget (rather than transferred to the Department of Management and Budget) and were increased by \$1.5 million.
- The student equity plan was allocated \$8.6 million. Under this plan, the minimum level of funding per full-time undergraduate student is \$1,485, the minimum per full-time graduate student is \$1,900, the minimum

EXHIBIT 4

Revenue Sources by Program Category, FY 1989-90

Department or Category	Gross Appropriation	Federal Revenues	Restricted Revenues	Local and Private	GF/GP	Local Aid
Education						
State universities—operations	\$1,106,470	\$0	\$0	\$0	\$1,106,470	\$0
Financial aid	93,498	4,450	0	0	89,048	0
School aid	2,581,453	51,000	1,930,452	0	600,000	2,140,453
Community colleges	212,491	0	0	0	212,491	212,491
Education	582,070	510,293	11,767	7,250	52,760	26,503
Retirement	343,499	12,550	318,447	0	12,503	330,949
Library of Michigan	31,850	4,452	80	600	26,719	18,170
Human Services						
Social Services	4,736,251	2,189,307	28,866	232,801	2,285,276	153,375
Mental Health	1,243,692	276,375	47,914	41,264	878,139	816,287
Public Health	362,075	184,862	33,482	8,908	134,822	48,949
Regulatory						
Commerce	315,374	77,723	125,591	700	107,361	72,375
Labor	412,996	303,081	26,433	2,422	81,060	22,646
Licensing and Regulation	26,165	0	14,038	32	12,096	0
Natural Resources and Recreation						
Natural Resources	272,918	56,611	100,672	559	115,077	30,190
Agriculture	60,399	1,495	26,124	1,305	31,475	6,089
Safety and Defense						
Corrections	712,787	1,070	24,021	3,017	684,679	24,916
State Police	234,518	18,091	20,629	12,391	183,408	11,982
Military Affairs	24,761	11,864	393	20	12,484	68
General Government						
Management and Budget	1,246,204	45,632	1,127,067	225	73,280	1,085,473
Legislature	83,584	0	1,370	0	82,214	0
Judiciary	153,384	15,370	16,482	11,230	110,301	63,268
Treasury	118,695	1,000	73,386	1,563	42,745	32,472
Attorney General	32,254	3,959	4,548	0	23,748	174
State	68,092	1,604	46,032	2,974	17,482	72
Civil Service	25,881	978	10,248	91	14,563	0
Civil Rights	12,605	1,623	0	0	10,983	0
Executive Office	4,176	0	0	0	4,176	0
Other						
Transportation	1,585,000	266,460	1,314,540	4,000	0	1,085,473
Capital outlay	467,473	63,644	137,884	6,462	259,483	13,363
Debt service	31,594	0	0	2,968	28,627	0
TOTAL	\$17,182,209	\$4,103,494	\$5,440,466	\$340,782	\$7,293,469	\$5,812,562

SOURCE: Executive budget bills, FY 1989-90.

level of financial aid per student is \$150, and the minimum level for academic support/student services per student is \$425.

Seven universities that have maintained low tuitions were given \$4.8 million, with most of the money going to Wayne State University.

The appropriation for **financial aid** is \$88.9 million, \$1.4 million more than recommended by the governor but \$2.1 million less than the projected spending level for FY 1988–89 (which includes a supplemental appropriation of \$6 million).

The **community college** budget is one of the easier to understand. There is no federal aid or restricted revenue involved. The entire appropriation is GF/GP money. About 98 percent or \$207.8 million of the FY 1989–90 budget was allocated to the 29 community colleges for operations. In addition, \$2.5 million was allocated to the Job Training and Retraining Investment Fund and \$2.15 million to the new At Risk Student Success program.

The FY 1989–90 community college appropriation of \$212.5 million is \$5 million above the governor's original recommendation and 3.5 percent above projected expenditures for FY 1988–89. The increase in operating funds for the 29 community colleges ranges from 4.2 percent to 7.6 percent. Lansing (7.63 percent) and Bay de Noc (7.59 percent) received the largest increases. The increases are determined in part by a formula that takes into account a number of factors, such as tuition rates, local millage support, enrollment, and credit hours. Community colleges also received a \$4 million supplemental appropriation for FY 1988–89.

The **Department of Education** budget consists mainly of federal aid, \$510.3 million out of a total budget of \$582.1 million. The majority of this aid is directed to local school districts for such programs as special education, vocational education, and the school lunch program. The department also receives about \$12 million in restricted revenue, largely from driver license fees to support the driver education program. From state funds the department allocates \$26.5 million to local school districts for programs such as driver education and early childhood development. The remainder of the GF/GP budget goes mainly for program administration for K-12 and higher education, testing and evaluation, vocational and technical education programs, information services, and support for the Michigan schools for the blind and deaf.

The FY 1989–90 GF/GP appropriation for the department is \$52.8 million, 20.3 percent more than projected FY 1988–89 expenditures and unchanged from the governor's recommendation. The large increase results from a \$3.7 million

increase in early childhood development grants and \$3 million to support a bond issue that will be used to place computers in classrooms.

Human Services

The programs that are administered by the **Department of Social Services (DSS)** include those for the provision of economic, social, and medical assistance to people who cannot afford it and to children committed as state wards.

The FY 1989-90 gross appropriation (adjusted for interdepartmental revenues and transfers) amounts to \$4.73 billion, of which \$2.19 billion (46.2 percent) is from federal sources, \$2.28 billion (48.2 percent) is in the form of GF/GP funds, \$164 million (3.5 percent) is from private sources, \$66.8 million (1.4 percent) is from localities, and \$28.9 million (0.6 percent) is from state restricted funds (refer to Exhibit 4). The GF/GP appropriation represents a 0.6 percent decline from FY 1989 (including supplementals) and is \$96.2 million above the governor's original recommendation; approximately half of these funds were allocated to the Medicaid budget, with most of the remainder to be used for increased caseload and base adjustments throughout the DSS budget. A supplemental appropriation during the current fiscal year is inevitable due to the underfunding of the budget.

Two components of the DSS budget—aid to families with dependent children (AFDC) and medical services (Medicaid)—together account for over half of both the department's gross and GF/GP appropriations. The appropriations to AFDC (\$1.27 billion gross, \$533 million GF/GP) and to Medicaid (\$1.71 billion gross, \$759.9 million GF/GP) together account for 63 percent of the entire DSS gross appropriation and 56.7 percent of the department's GF/GP monies. GF/GP appropriations to the Medicaid budget are 9 percent below the level received in FY 1988–89.

Within the Medicaid budget, reimbursement to providers was reduced to 75 cents on the dollar (from the FY 1988–89 level of 79 cents on the dollar). Nursing homes received a 4 percent economic increase for the full fiscal year while all other providers and recipients received a six-month inflationary increase of 2 percent. Three items were approved by the legislature but vetoed by the governor: \$2.3 million for energy related home heating repairs within the low-income energy assistance program, \$1 million for senior citizens' programs, and almost \$.5 million from the director's discretionary fund.

The **Department of Mental Health (DMH)** is charged with providing basic care and therapy to the state's mentally ill and developmentally disabled citizens. Appropriations

within the DMH include those for mental health institutions, hospitals, and centers, as well as for community-based care and assistance to families caring for developmentally disabled or autistic children at home.

For FY 1989–90, the DMH received a gross appropriation of \$1.24 billion. GF/GP funds amounting to \$878.1 million account for 70.6 percent of the department's gross appropriation, and federal funds of \$276.4 million account for 22.2 percent. The department also receives small amounts of restricted (3.8 percent) and local and private (3.4 percent) funds. The DMH received a GF/GP appropriation increase of 5.6 percent from the previous year (when supplementals are included) and is \$10 million more than the governor's original recommendation. The additional funds (after revenue adjustments were made) were primarily for economic increases and for training within special projects.

The DMH budget for FY 1989–90 includes an appropriation of \$868.4 million for community health care programs (of which \$791.9 million is GF/GP) and \$248.1 million for community residential services (of which \$11.7 million is GF/GP). A total appropriation of \$324.2 million (all GF/GP funds) was made for the various facilities operated by the department: \$179.1 million to state psychiatric hospitals for mentally ill adults, \$37.9 million for state psychiatric hospitals for mentally ill children, \$30.3 million for special facilities for the mentally ill, and \$76.9 million for centers for the developmentally disabled.

It is the responsibility of the **Department of Public Health** (DPH) to oversee the general health and well-being of the state's residents. Included among the many programs that are operated and/or supervised by the department are those for worker health promotion and worksite risk reduction, school health education, supplemental food programs for women, infants, and children (WIC), and various AIDS programs, including those for prevention, education, and counseling.

The gross appropriation to the DPH for FY 1989–90 is \$362.1 million—\$184.9 million (51.1 percent) in federal funds, \$134.8 million (37.2 percent) in GF/GP monies, \$33.5 million (9.2 percent) in state restricted funds, \$8.4 million (2.5 percent) from private and local sources. The GF/GP appropriation is \$7.8 million higher than the amount originally recommended by the governor, of which \$1.9 million will be used for community service grants to localities to initiate programs for pregnancy prevention and for chemically dependent women and children. (The latter program will focus on reducing the incidence of babies who are born addicted to chemical substances, especially crack cocaine.) Other additions to the governor's recommendations include \$1 million added funding to both laboratory services (due to a decline

in estimated fee revenue collected by the department) and to health care resource development and regulation (primarily to fund the cost of 20 additional full-time equated positions). The budget also includes funding shifts from GF/GP to federal dollars of approximately \$3.2 million; when these shifts are taken into account, this fiscal year's GF/GP appropriation increased 2.7 percent over the previous year.

The largest single departmental appropriation within the DPH (\$130.9 million—\$30 million GF/GP) is for community service grants to localities (which covers primary health costs to underserved areas) for such items as local agreements and food costs associated with the WIC program, state and local cost-sharing agreements, and early and periodic screening, diagnosis, and treatment. The Office of Substance Abuse Services, an independent entity within the DPH, received a gross appropriation of \$57.8 million (\$26.7 million GF/GP), of which \$44.1 million is to be used for community prevention, education, and treatment programs and grants. Crippled children's services received a gross appropriation of \$44.1 million (\$18.4 million GF/GP), of which \$33.2 million is to be used for the medical care and treatment of handicapped children.

Regulatory

The **Department of Commerce** oversees a number of economic development programs such as the Michigan Strategic Fund, Manufacturing Services, Tourist Business Development, community growth alliances, and foreign trade development. The department's business regulation responsibilities are carried out by the Corporation and Securities division, Financial Institutions Bureau, and Public Service Commission. The Liquor Control Commission and Michigan State Housing Development Authority (MSHDA) also are housed in the department.

The department's \$315.4 million budget consists of about \$78 million in federal aid, \$126 million in restricted revenue, a small amount of private revenue, and a GF/GP appropriation of \$107.4 million. The federal aid comes mainly from a community development block (CDB) grant (\$35.4 million) to the Strategic Fund, which is passed through to small cities, and from the U.S. Department of Housing and Urban Development to the MSHDA for low-income housing assistance and a CDB grant (\$41 million) to cities. The restricted revenue comes mainly from the state profit on the sale of liquor, public utility assessment fees, MSHDA fees and charges, and a number of regulatory fees on business firms.

The budget allocates \$72.4 million in aid to local units, the major share (\$44 million) of which goes to the Michigan equity program (provided to communities for promoting the arts, maintaining public cultural facilities and providing police protection at special events).

The FY 1989-90 GF/GP appropriation of \$107.4 million is 4.5 percent above the projected FY 1988-89 level and \$4.5 million above the governor's recommendation. The legislature added money for the Grand Rapids public museum, \$2.5 million; the low-to-moderate-income housing program, \$2.65 million; and the homeless program, \$1 million. The Rural Business Partnership was cut by \$2.2 million.

The **Department of Labor** promulgates, reviews, and enforces rules and standards in the areas of safety, wages, licenses, fees, and conditions of employment. The department is responsible for job training, statewide construction code enforcement, annual boiler and elevator inspections, house weatherization, and programs for the handicapped. The Michigan Employment Security Commission is housed in the department.

The largest share of the department's budget comes from federal aid, \$303 million or about 73 percent. The budget also includes about \$26 million in restricted revenue, a small amount of private and local revenue, and \$81.1 million from a GF/GP appropriation. About 50 percent of the federal aid is from the job training partnership act (\$151 million) and is used mainly for adult and youth job training, the summer youth employment program, and retraining dislocated workers. About 40 percent of the federal aid goes to the Michigan Employment Service Commission for unemployment insurance costs and for administering the employment service. Much of the restricted revenue comes from fees and charges related to safety regulations and workers' compensation.

The FY 1989-90 GF/GP appropriation of \$81.1 million is only 1.5 percent above the FY 1988-89 level and \$1.9 million more than recommended by the governor. The legislature increased funding for the workers' compensation appeal board by \$3.4 million and reduced funding for the Youth Corps by \$2.7 million.

The funds for the **Department of Licensing and Regulation** come from restricted revenues, \$14.1 million, and a GF/GP appropriation of \$12.1 million. The department receives no federal aid. The restricted revenue comes from licensing fees on the professions regulated by the department (nurses, barbers, and real estate brokers, for example). In addition to regulating 41 occupational groups and programs, the department houses the Insurance Bureau.

The FY 1989-90 appropriation of \$12.1 million is \$0.3 million above the governor's recommendation and 6.2 percent below the previous year's level. The decline is due mainly to an increase in restricted funding.

Natural Resources and Recreation

The **Department of Natural Resources (DNR)** manages the state's wildlife, fisheries, forests and state parks, including resource preservation law enforcement and to provide outdoor recreation, marinas, and public access sites on lakes and rivers. Major department responsibilities are protecting air and water quality and waste management. The department also manages the state fair and the Mackinac Island State Park, regulates the oil and gas industry, and provides about \$30.2 million in grants, the majority of which go to local governments as payments in lieu of taxes for state lands and as environmental grants to local governments.

The DNR budget is financed by \$56.6 million in federal aid, \$100.7 million in restricted revenue, a small amount of private and local funds, and a \$115.1 million GF/GP appropriation. The majority of the federal aid comes from the Environmental Protection Agency (EPA) to finance environmental protection efforts, such as the Superfund Cleanup Program. The restricted revenues come mainly from hunting and fishing license, state park admission, boating registration, forest management, and oil and gas privilege fees.

The FY 1989-90 GF/GP appropriation of \$115.1 million is \$4 million more than the governor recommended but 0.4 percent below projected spending for FY 1988-89 (includes a supplemental of \$4.8 million, mainly for fisheries management and recreation improvement fund grants). The governor recommended a \$2.7 million water quality fee not approved by the legislature that required a like increase in GF/GP revenue (the governor revised his original recommendation to reflect this). The legislature added \$2 million to the state parks budget, restoring previous cuts. It also approved an increase in state park admission fees from \$10 to \$20 over a five-year period, with funds to be used mainly for urban recreation and state park development.

Funding for the **Department of Agriculture** comes mainly from restricted revenue, \$26.1 million, and a GF/GP appropriation of \$31.5 million. (The total budget is \$60.4 million.) The restricted revenue is largely from horse race betting, \$20.6 million. The budget is used mainly for pesticide and plant management, animal health and welfare, food and consumer promotion, soil conservation districts, and promotion of export marketing of Michigan products. The department also houses the Office of the Racing Commissioner and provides \$6.1 million in grants to local jurisdictions, including grants to cities with racetracks and \$800,000 to support the Pontiac Silverdome.

The FY 1989-90 GF/GP appropriation of \$31.5 million is 11.3 percent above projected spending for FY 1988-89 and \$2.6 million more than recommended by the governor. The legislature added about \$0.5 million to the World Trade

Services budget and about \$.65 million to replace a recommended increase in food handler licensing fees that was not approved.

Safety and Defense

Funding for the **Department of Military Affairs** comes from \$11.9 million in federal funds from the Department of Defense for training the National Guard, a small amount of restricted revenue from rental of the armories, and a GF/GP appropriation of \$12.5 million. The budget, totaling \$2.85 million, goes for maintaining and training the National Guard, including training sites and armories, and for grants to veterans service organizations. The FY 1989-90 GF/GP budget was almost unchanged from the previous fiscal year.

As shown in Exhibit 4 almost 80 percent of the **Department of State Police** budget is funded from a GF/GP appropriation of \$183.4 million. The federal aid received by the department is used largely for highway safety planning, motor carrier safety, emergency services, and narcotics control. The nearly \$21 million in restricted revenue comes mainly from the highway safety fund, fees on underground storage tanks (a new program), and motor carrier fees. The private revenue comes mainly from auto theft prevention fees paid by insurance companies. The budget finances more than 1,600 state troopers whose responsibilities cover the full range of police and public safety activities. The department is responsible for highway safety planning, managing the criminal justice data center, the state emergency services program, and the inspection and regulation of motor carriers. The department also houses the State Fire Marshal and provides about \$12 million in local grants, largely to county sheriffs's departments for secondary road patrol.

The FY 1989-90 appropriation is 9.3 percent above projected spending for FY 1988-89 and \$5.7 million more than recommended by the governor. The legislature added about \$7 million (\$2.5 million GF/GP) to the state Fire Marshal for administering the underground storage tank program, with most of the money coming from a new restricted fee.

The **Department of Corrections** is financed almost entirely with a GF/GP appropriation (96 percent). The department's restricted revenue (\$24 million) comes mainly from prison industries and a new fee to be paid by parolees that is expected to raise \$10 million. The budget finances the operation of 30 correctional institutions, 14 correctional camps, community residential programs, and probation and parole functions. The department also operates prison industries, which include 26 plants and 10 service programs that provide products (such as office furniture) to government agencies and nonprofit organizations. (This program

is financed entirely with restricted revenues from the sale of the products and services.)

The FY 1989-90 appropriation is 8.1 percent above the projected spending level for FY 1988-89 (includes a supplemental appropriation of \$18.5 million) and \$16.8 million more than recommended by the governor. The additional monies are mainly to cover the costs associated with the opening of new prison facilities.

General Government

The budget of the **Department of Management and Budget (DMB)** looks much larger than it is because \$1.021 billion in general revenue sharing grants are included. This accounts for most of the \$1.127 billion in restricted revenue received by the department, which comes mainly from the sales, income, and single business taxes. The department also receives about \$45 million in federal aid, which goes mainly to finance Community and Nutrition Services. The operational responsibilities of the department include most of the administrative and housekeeping functions of state government, including purchasing, accounting, property management, and preparation of the state budget. The department also houses the State Lottery, Office of Services to the Aging, Community and Nutrition Services, Low Level Radioactive Waste Authority, and Bureau of Special Boards and Commissions, which includes, for example, the Women's Commission and the State Council for the Arts. In addition to revenue sharing grants, the department provides about \$83 million in grants to local governments and nonprofit organizations. The largest grants come from the Health and Safety Fund, which is financed by cigarette tax revenue, and go mainly to local health departments.

The FY 1989-90 GF/GP appropriation of \$73.3 million is 20.9 percent below the FY 1988-89 level and \$25.1 million less than recommended by the governor. The sharp decline from the previous year is due mainly to the transfer of several grant programs to other departments. The budget is less than recommended by the governor because the legislature did not approve the transfer of the Research Excellence Fund (\$26 million) from the higher education budget to the DMB budget.

The **judiciary** budget is financed from a GF/GP grant of \$110.3 million and other revenue of about \$43 million (refer to Exhibit 4). The restricted revenue comes mainly from court fees and fines and is used to finance trial court operations. The budget finances the Michigan court system, including the supreme court; court of appeals; circuit, recorders, and district courts; and the public defender's office. The supreme court accounts for about 16 percent of the total. The budget also provides approximately \$63 million in grants to local governments for court operations.

The FY 1989-90 budget is 4.5 percent higher than the previous year's and \$2.7 million more than recommended by the governor. About one-half of the money added by the legislature went for salaries for trial court judges.

The budget for the **legislature** is financed almost entirely by a GF/GP appropriation of \$82.2 million. The budget finances the operations of the legislature, including the fiscal agencies (about 77 percent of total), the Legislative Council, which includes the Legislative Service Bureau, and the auditor general's office (\$10 million).

The FY 1989-90 budget was almost unchanged from projected spending for FY 1988-89 (includes a supplemental of \$4.1 million) but is \$4.3 million higher than recommended by the governor.

The **Department of Treasury** budget is financed almost evenly between restricted revenue and a GF/GP appropriation (refer to Exhibit 4). The restricted revenue comes mainly from delinquent tax collections and the hotel and motel tax, which is distributed to cities and counties for convention facilities development. Included in the budget is \$31.6 million for debt service, which is shown separately in Exhibit 4. The budget finances the state's tax collection and enforcement functions. The department also handles the investment of all state funds, supervises the general property tax law (responsibilities of the Tax Tribunal and the State Tax Commission), and provides audit and financial oversight of local governments.

The FY 1989-90 appropriation of \$42.7 million (excluding debt service) is 21.4 percent below projected spending for FY 1988-89 and nearly unchanged from the governor's recommendation. The large decline from the previous year is due mainly to a shift in support for collection enforcement from GF/GP money to restricted funds (delinquent taxes).

About 75 percent of the budget of the **attorney general** is from a GF/GP appropriation, and the remainder is from federal and restricted revenue. A large share of the federal aid is used for Medicaid fraud control. The attorney general provides legal services to the three branches of government and prosecutes and enforces the state's criminal and tax laws.

The FY 1989-90 appropriation of \$23.7 million is 3 percent above the previous year and slightly above the governor's recommendation.

The **Department of State** receives the majority of its \$68.1 million budget (75 percent) from restricted revenues. The GF/GP appropriation is only \$17.5 million. Restricted revenues come mainly from motor vehicle license fees and charges for information provided by the department. Most of the functions are supported with restricted revenues; the History Division receives about 25 percent of the GF/GP

money, as well as private gifts of about \$3 million. The budget is used for motor vehicle registration, driver licensing and improvement, regulation of car repair facilities and dealerships, supervision of elections and voter registration, and operation of the state historical museum and state archives.

The **Department of Civil Service** received a GF/GP appropriation of \$14.6 million in FY 1989-90 plus \$10.2 million in restricted revenue and a small amount of federal aid. The restricted revenue comes from one percent of state payroll as provided for by the state constitution. The department is responsible for the recruitment, testing, and training of state personnel and provides health screening for state employees.

The department received a 9.8 percent increase in the FY 1989-90 budget, \$1.2 million less than recommended by the governor. The reduction was due mainly to a \$1 million increase in restricted funding for administrative functions.

The **Department of Civil Rights** is funded by an \$11 million GF/GF appropriation and \$1.6 million in federal aid. The budget is used to prevent discrimination in employment, public accommodations, public service, education, and housing. The FY 1989-90 appropriation is almost unchanged from FY 1988-89 and is \$0.4 million above the governor's recommendation.

The **Executive Office** budget is the smallest of the departments and is funded entirely by GF/GP money. The budget funds the offices of the governor and lieutenant governor. The FY 1989-90 appropriation of \$4.2 million is 5 percent above the previous fiscal year and \$0.2 million more than recommended by the governor.

Other

About 55 percent of the **capital outlay** budget comes from a GF/GP appropriation and the remainder from restricted, federal, and local funds (refer to Exhibit 4). Capital outlay funds go for planning and construction of state agency, university, and community college facilities and for payment of State Building Authority (SBA) rent (\$150 million). The SBA issues bonds to construct state-owned facilities, and the occupants are charged rent, which is used to pay the principal and interest on the bonds. The capital outlay budget appropriates the funds used by the state agencies, colleges, and universities to make these rental payments.

The legislature added \$39.2 million to the governor's GF/GP capital outlay recommendation, raising the appropriation to \$259.5 million, 30.1 percent above projected expenditures for FY 1988-89 (includes a supplemental of \$26.9 million). Most of this addition (\$28 million) was 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 rate did not reach this level. The legislature also added about \$11 million for community college, state agency, and university projects, about half of which went to community colleges.

The budget of the **Department of Transportation** consists entirely of restricted revenue (82.9 percent of total), federal aid (16.85 percent) and a small amount of local revenue. The department receives no GF/GP money. The majority of the restricted revenue comes from taxes on motor fuel and motor vehicle registration fees. About 96 percent of the federal aid comes from the U.S. Department of Transportation for highway research, planning, and construction. The department is responsible for constructing and maintaining Michigan's highways and bridges and providing grants to local governments for maintenance and improvement of local roads. It also provides support for air, water, and rail transportation, intercity passenger and freight service, and urban mass transit, including rail and bus. The department administers the \$53 million Economic Development Fund, which is used for local infrastructure related to economic development, and provides \$702.3 million in grants to local governments, largely for road maintenance and mass transit operating assistance.

The formula for the **Budget Stabilization Fund (BSF)** (which is tied to increases in Michigan personal income adjusted for inflation) indicates that an optional pay-in of about \$70 million could be made for FY 1988–89. This was not recommended by the governor, however, and a pay-in is not likely. Public Sector Consultants' forecast of personal income and inflation indicates that no pay-in will be required, as real personal income will not in FY 1989–90 exceed the 2 percent trigger. An agreement was reached during budget negotiations to cover the increased school aid costs of mileage increases in Detroit and Lansing by withdrawing funds from the BSF. This is expected to total about \$69 million in FY 1989–90. The BSF is expected to have a balance of about \$375 million at the end of FY 1989–90. As shown in Exhibit 5, Michigan has the second largest rainy day fund (as a percent of state spending) among the states.

Article IX, Section 26 of the state constitution restricts the amount of revenue the state may collect in any fiscal year. The limit for FY 1989–90 (9.49 percent of 1988 Michigan personal income) is almost \$14.5 billion. Total state revenue (less federal aid and general obligation debt plus specified tax credits) is projected to fall more than \$1.5 billion below the limit.

Article IX, Section 30 of the constitution requires that 41.6 percent spending from state resources go to local units of

government. FY 1989–90 spending on local governments will exceed this requirement by an estimated \$182 million. However, the court of appeals (*County of Oakland v. Michigan Department of Mental Health*) has ruled that payments to county mental health boards cannot be counted as payments to local governments. This would reduce local spending by about \$440 million a year. The state is appealing this decision.

COMMENT

The FY 1989–90 budget is based on projections of continued modest economic growth. The U.S. gross national product (GNP) is forecast to increase 2.2 percent in 1990, and passenger car sales are expected to increase 2 percent to 10.3 million units. In Michigan, personal income is forecast to increase 4.3 percent, wage and salary employment to rise 1.3 percent, and the unemployment rate to average 8.3 percent in 1990. These DMB estimates were presented in the executive budget released in February and are likely to be revised slightly when the FY 1990–91 budget is released. The Senate Fiscal Agency (SFA) is forecasting slightly weaker growth nationally but stronger growth in Michigan. The SFA is estimating a 2.1 percent increase in U.S. GNP in 1990 and auto sales of 9.7 million units. Michigan personal income is forecast to increase 5.5 percent and the unemployment rate to average 7.4 percent.

Public Sector Consultants is forecasting a GNP increase of 2 percent in 1990 and auto sales of about 9.6 million units. Michigan personal income is projected to increase 5 percent and the unemployment rate to average 7.8 percent. The economy showed signs of slowing in the spring and early summer, but recent economic indicators, particularly inflation, interest rates, and employment, have been more encouraging. At this point the chances of a recession in 1990 appear very slim.

Based on this assessment, the revenue forecast on which the budget is based appears sound and, if anything, may be about one percent (or \$75 million) too low. On the expenditure side, as usual, there is likely to be a need for at least a \$100 million increase in spending for social services, mental health, and corrections. If the economy slows more than expected a small shortfall could develop, but overall the budget appears to be on solid ground.

The outlook for FY 1990–91 is not as rosy. If the economic expansion extends through the current fiscal year it will reach 95 months, approaching the post-World War II record of 106 months. No solid economic evidence exists that points to an end to the recovery, but the longer it continues the more likely it is that some outside economic shock or policy mistake will tip the economy into a recession. There is no reason to believe that economic growth will be

EXHIBIT 5

Rainy Day Funds Projected at End FY 1990
(\$ millions)

Rank	State	Pct. Spending	Amount	Rank	State	Pct. Spending	Amount
1	Indiana	6.7%	\$285	20	Connecticut	1.2%	\$77
2	MICHIGAN	6.1	445	21	Mississippi	1.1	20
3	Delaware	5.3	62	22	Pennsylvania	1.0	124
4	Oklahoma	5.3	136	23	Wisconsin	1.0	58
5	New Hampshire	4.5	28	24	Maine	0.3	4
6	Minnesota	4.0	264	25	Alabama	0.2	8
7	Ohio	3.8	357	26	Kentucky	0.1	2
8	Utah	3.4	51	27	Virginia	0.0	1
9	Nebraska	3.3	40	28	Alaska	0.0	0
10	Tennessee	3.0	110	29	Colorado	0.0	0
11	California	2.9	1,143	30	Idaho	0.0	0
12	South Carolina	2.8	94	31	Iowa	0.0	0
13	Georgia	2.6	195	32	Massachusetts	0.0	0
14	New Mexico	2.6	82	33	Missouri	0.0	0
15	Rhode Island	2.5	37	34	New Jersey	0.0	0
16	Vermont	2.5	15	35	New York	0.0	0
17	Maryland	1.8	108	36	North Dakota	0.0	0
18	Washington	1.5	60	37	Texas	0.0	0
19	Florida	1.4	146	38	Wyoming	0.0	0

SOURCE: State Policy Research, Inc., *State Policy Reports*, vol. 7, issue 6, Alexandria, Va., August 1989.

faster in FY 1990-91 than in FY 1989-90. It is more likely that growth will be slower, and the odds that a recession will occur are increasing.

A reasonable expectation for state revenue growth in FY 1990-91 is 3 to 5 percent. This is not enough to accommodate all the spending pressures, which include the following:

- Federal mandates are increasing, particularly for mental health, and federal Medicaid matching rates will decline due to higher per capita personal income relative to U.S. per capita income.
- Additional funds will be needed for corrections, as the costs of new prison openings are not fully reflected in the FY 1989-90 budget.
- The passage of the Detroit millage will increase school aid costs. (This is expected to be funded from the BSF.)
- If proposals A and B fail, the governor and the legislature will be under pressure to increase spending on K-12 education.

- The social services budget is underfunded in the current year, which puts upward pressure on the budget for FY 1989-90.
- Health insurance costs are increasing sharply, raising retirement and other fringe benefit costs.
- The current budget is partially financed with a carryover surplus of \$94 million, which uses up the first \$94 million of revenue in FY 1990-91.

It is clear that the state is attempting to do too much with the current revenue base. A good case could be made for a tax increase, but there is almost no political support for higher taxes; if either proposal A or B pass, raising the sales tax, there will be even less support. In our analysis of the budget issued last September we commented that budget officials and lawmakers have begun to understand that Michigan cannot maintain Cadillac services with a Chevrolet budget. That assessment may have been premature.