

## Overview and Analysis of the Michigan Budget, Fiscal Year 1993-94

by Robert J. Kleine, Laurie A. Cummings, and Alec R. Rodney

### INTRODUCTION

The adoption of the FY 1993-94 budget could mark the end of the state's brief respite from budget reductions. Overhanging future budgets is the decision to repeal school operating property taxes and create a new system for financing K-12 education. The governor's proposal to replace these revenues would result in the state's bearing most of the burden—88 percent—of funding K-12 education. This larger state role in school finance could result in other state programs being crowded out if the growth of revenues dedicated to funding education cannot keep up with enrollment growth and cost increases; funding for other programs would have to be tapped to make up the difference.

For FY 1993-94, which began on October 1, the legislature appropriated a *general fund/general purpose* (GF/GP) budget of \$7,953.2 million, an increase of only 2.1 percent over projected FY 1992-93 expenditures. (The General Government bill includes language to allow an increase in funds transferred to the University of Michigan Hospital, which results in a \$39 million reduction in GF/GP spending.) The governor originally recommended a budget of \$8,160.6 million but revised that downward to \$7,906.3 million due to

- a \$94 million revenue shortfall because of the repeal of the inheritance tax, partly offset by a \$55 million increase in projected revenues;
- the failure of the legislature to enact the governor's property tax relief program, projected to reduce tax credits by \$87 million; and
- the legislature's failure to enact a proposed change in the state employees' and teachers' retirement systems that would have saved an estimated \$60.8 million.

The overall budget increased only \$162.8 million. As shown in Exhibit 1, the major increases are

for law enforcement (mainly Corrections), Social Services (mainly Medicaid), health (mainly Mental Health), and education (mainly school aid). These increases are financed by a \$259 million reduction in payments to the state and public school employees' retirement systems and by two other small adjustments.

Exhibit 2 shows appropriations and dollar and percentage changes by major program and department. The departments receiving the largest GF/GP increases are Corrections (13.1 percent), Public Health (9.1 percent), and Mental Health (8.6 percent). The large decline in school aid mainly reflects a reduction in payments to the school employees' retirement system.

The budget assumes that combined GF/GP and school aid fund (SAF) revenues in FY 1993-94 will be an estimated \$10,162 million, 4.7 percent above estimated FY 1992-93 revenue. This includes about \$395 million in one-time revenue items, including (1) a \$225.8 million transfer to the general fund from the pre-funded health reserve of the Public School Employees Retirement System (PSERS), (2) a \$64.5 million reduction in state revenue sharing, (3) \$37.5 million from the accrual of delinquent taxes, (4) \$32 million from an increase in the markup on liquor prices (this is a permanent increase but is carried as a one-time item on the FY 1993-94 balance sheet), and (5) a transfer to the SAF of \$25 million in excess lottery revenue. GF/GP revenue will be reduced an estimated \$94 million by the repeal of the state inheritance tax.

Adjusted *gross* appropriations for FY 1993-94 are \$21 billion, up 4.3 percent from \$20.9 billion in FY 1992-93. This increase is considerably larger than that for GF/GP appropriations because of a large jump in federal aid, particularly for the Department of Social Services, which supplants GF/GP expenditures.

**EXHIBIT 1: Executive Budget, General Fund/General Purpose and  
School Aid Fund Budget Changes (Adjusted for Program Transfers), FY 1992-93 to FY 1993-94  
(dollars in millions)**

Program Category	Dollar Change	Percentage Change
Law Enforcement <sup>a</sup>	\$135.7	10.0%
Social Services	136.0	6.5
Health <sup>b</sup>	91.0	8.2
Capital Outlay and Debt Service	9.2	5.0
Environmental Protection <sup>c</sup>	1.1	1.0
Regulatory <sup>d</sup>	0.7	0.8
Education <sup>e</sup>	64.1	2.3
General Government	-13.5	-4.6
Retirement/Other	-258.9	NM
 Total	 \$162.7	 2.1%

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

NM = Not meaningful

<sup>a</sup>Includes Corrections, State Police, Judiciary, Attorney General, and Military Affairs budgets.

<sup>b</sup>Excludes Social Services (Medicaid).

<sup>c</sup>Includes Natural Resources and Agriculture budgets.

<sup>d</sup>Includes Commerce and Labor budgets.

<sup>e</sup>Does not reflect balance sheet reductions for retirement and lottery transfer of \$286.4 million.

### FY 1993-94 SPENDING POLICY

The following discussion focuses primarily 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 current budget is only 36.2 percent of total spending, compared to 49 percent in FY 1981-82.

Exhibit 3 presents data on state government employment by department (the appropriations are for full-time equivalent employees, or FTEs). After declining by about 4,200 workers in FY 1992-93, employment will increase by about 1,800 in FY 1993-94. The bulk of the increase, 1,600 jobs, is in the departments of Corrections and Mental Health. The only other significant increases are in Treasury (64.5 new audit and tax collection positions) and Military Affairs (about 100 new employees at the veterans' facilities). The state's hiring freeze remains in place, and employment in most departments is not only below currently authorized levels but still under FY 1989-90 levels.

Michigan GF/GP expenditures continue to grow more slowly than the national average. In FY 1991-92, expenditures among all states increased 5 per-

cent, while Michigan's declined 2.3 percent. In FY 1992-93 Michigan expenditures grew but at a much slower pace than the national average. Comparing Michigan's FY enacted 1993-94 GF/GP spending increase of 2.1 percent to the average 3 percent growth recommended in governors' budgets across the nation suggests that in this new fiscal year Michigan's spending once again will be below the national average and well below the rate of inflation.

### Education

The FY 1993-94 GF/GP appropriation for **school aid**, after vetoes of \$0.5 million, is \$843.1 million. The increase over last year's spending, after additions of \$258.9 million, is \$57.4 million (5.5 percent). The additions are \$225.8 million from the teachers' retirement system health reserve, \$8.1 million saved in tax base sharing, and a \$25 million lottery deferred transfer. The gross appropriation for K-12 education, after adjustments, is up \$191 million (6.3 percent) from the FY 1992-93 spending level.

A portion of local school employee Social Security costs are shifted to some out-of-formula schools. State payments to districts for their Social Security costs will be made on a sliding scale based on a

**EXHIBIT 2: Executive Budget Summary, 1992-93 and 1993-94 (dollars in millions)**

Category and Department or Program	FY 1992-93 Projected GF/GP Expenditures	FY 1993-94 Revised GF/GP Recommendations	FY 1993-94 GF/GP Appropriations (after Vetoes)	Dollar Change from FY 1992-93 (Proj. Exp.)	Percentage Change from FY 1992-93	FY 1992-93 Projected Gross Approp.	FY 1993-94 Adjusted Gross Approp. (after Vetoes)	Gross Approps. Percentage Change from FY 1992-93	Addendum: FY 1993-94 GF/GP Vetoes
<b>HUMAN SERVICES</b>									
Social Services	\$2,082.4	\$2,177.9	\$2,218.6	\$136.2	6.5%	\$6,504.0	\$7,109.7	9.3%	-\$0.9
Mental Health	911.8	988.9	990.0	78.2	8.6	1,327.0	1,393.6	5.0	-0.5
Public Health	140.3	151.1	153.1	12.8	9.1	473.7	524.2	10.7	
Corrections	978.9	1,119.1	1,107.3	128.4	13.1	1,030.4	1,147.3	11.3	-0.3
<b>EDUCATION</b>									
State Universities	1,312.3	1,314.6	1,314.7	2.4	0.2	1,316.5	1,319.2	0.2	-0.1
Operations	1,209.4	1,209.4	1,209.4	0.0	0.0	1,209.4	1,209.4	0.0	
Financial Aid	102.9	105.2	105.3	2.4	2.3	107.1	109.9	2.6	
School Aid	1,044.1	832.2	843.1	-201.0	-19.3	3,039.1	2,971.2	-2.2	-0.5
Community Colleges	240.0	232.7	240.0	0.0	0.0	240.0	240.0	0.0	
Education	39.8	40.9	40.9	1.1	2.8	774.9	828.0	6.9	
Retirement	0.0	0.0	0.0	0.0	0.0	483.5	589.2	NM	
<b>SAFETY AND DEFENSE</b>									
State Police	203.0	203.9	203.9	0.9	0.4	287.3	302.0	5.1	
Military Affairs	30.8	34.2	34.2	3.4	11.0	67.3	80.0	18.9	
<b>REGULATORY</b>									
Commerce	60.6	58.0	57.4	-3.2	-5.3	383.1	416.1	8.6	
Labor	32.1	36.0	36.0	\$3.9	12.1	430.0	458.4	6.6	
<b>NATURAL RESOURCES AND RECREATION</b>									
Natural Resources	94.9	95.1	95.6	0.7	0.7	325.7	332.8	2.2	-0.1
Agriculture	26.6	27.3	27.0	0.4	1.5	55.2	58.5	6.0	-0.1
<b>GENERAL GOVERNMENT</b>									
Attorney General	25.2	25.8	25.6	0.4	1.6	37.2	38.1	2.4	
Civil Rights	11.0	11.0	11.2	0.2	1.8	12.8	13.0	1.6	
Civil Service	11.0	11.0	10.9	-0.1	-0.9	23.3	23.6	1.3	
Executive Office	4.4	4.4	4.4	0.0	0.0	4.4	4.3	-2.3	
Judiciary	119.7	123.6	122.3	2.6	2.2	181.4	204.8	12.9	
Legislature	91.4	91.4	91.1	-0.3	-0.3	93.6	95.1	1.6	
Library of Michigan	27.2	27.2	26.9	-0.3	-1.1	31.7	31.7	0.0	
Management and									
Budget	47.9	47.2	49.3	1.4	2.9	212.8	197.1	-6.7	
State	14.7	12.7	14.9	0.2	1.4	68.2	69.7	2.2	
Treasury	55.8	46.4	41.2	-14.6	-26.2	202.8	192.5	-5.1	
<b>OTHER</b>									
Capital Outlay	146.9	152.3	152.2	5.3	3.6	265.4	320.1	20.6	
Debt Service	37.6	41.5	41.5	3.9	10.4	38.3	42.2	10.2	
Revenue Sharing	0.0	0.0	0.0	0.0	0.0	1,032.2	1,069.9	3.7	
Transportation	0.0	0.0	0.0	0.0	0.0	1,755.9	1,737.6	3.0	
DNR Bond Implementation	0.0	0.0	0.0	0.0	0.0	215.1	0.0		
<b>TOTAL</b>	<b>\$7,790.4</b>	<b>\$7,906.4</b>	<b>\$7,953.2</b>	<b>\$162.9</b>	<b>2.1%</b>	<b>\$20,913.0</b>	<b>\$21,808.4</b>	<b>4.3%</b>	<b>-\$2.3</b>

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

NM = Not meaningful.

NOTE: School aid and total expenditure numbers for FY 1993-94 reflect balance sheet adjustments of: Public School Employees Retirement System health reserve (\$225.8 million), lottery deferred transfer to School Aid Fund (\$25 million), and tax base sharing escrow (\$8.1 million).

**EXHIBIT 3: Classified Full-Time Equated  
Positions, FY 1991-92 to FY 1993-94**

Category and Department or Program	FY 1991-92 Positions	FY 1992-93 Enacted Appropriated Positions	FY 1993-94 Enacted Appropriated Positions
<b>HUMAN SERVICES</b>			
Social Services	14,105	13,318	13,839
Mental Health	8,071	6,270	6,719
Public Health	1,520	1,474	1,476
Corrections	15,672	15,024	15,942
<b>SUBTOTAL</b>	39,368	36,085	37,976
<b>EDUCATION</b>			
Education	2,244	2,240	2,249
<b>SUBTOTAL</b>	2,244	2,240	2,249
<b>GENERAL GOVERNMENT</b>			
Executive	75	75	75
Judiciary	1,791	1,807	1,840
Attorney General	520	520	520
State	2,413	2,070	2,076
Management and Budget (Operations)	956	947	925
Treasury (Operations)	1,806	1,780	1,838
Civil Service	358	331	324
Civil Rights	210	184	190
<b>SUBTOTAL</b>	8,129	7,714	7,788
<b>REGULATORY</b>			
Commerce	2,783	2,790	2,710
Labor	2,988	2,988	2,950
Michigan Jobs Commission	0	0	135
<b>SUBTOTAL</b>	5,939	5,788	5,795
<b>SAFETY AND DEFENSE</b>			
State Police	3,411	3,414	3,433
Military Affairs	1,018	991	1,103
<b>SUBTOTAL</b>	4,429	4,405	4,536
<b>OTHERS</b>			
Agriculture	597	573	592
Natural Re- sources	3,890	3,777	3,676
Transportation	4,206	4,036	3,832
<b>SUBTOTAL</b>	8,694	8,386	8,100
<b>TOTAL</b>	68,803	64,618	66,443

SOURCES: Senate Fiscal Agency; FY 1993-94 numbers are from enrolled budget bills.

district's average state equalized valuation (SEV) per pupil. The state will pay for 75 percent of the Social Security costs in districts where the average SEV per pupil is less than \$125,000. State payments

drop as SEV per pupil increases, and districts where the average SEV per student is more than \$250,000 per student receive no state payments. Fewer than 10 percent of school districts can expect to lose all of their state Social Security payments.

Despite an attempt by the Senate to convert to a full per pupil *foundation* (basic) grant, the power equalizing school aid formula used in previous years is employed again for FY 1993-94. The appropriated amount is \$400 per pupil plus \$102.50 per mill raised locally (up from \$342 per pupil plus \$96.27 per mill in FY 1992-93), and it will be based on a "blended" pupil count, that is, the average of the 1992-93 and 1993-94 counts. This is a change from last year, when, to hold down state expenditures, the payment was based solely on the previous year's count.

The appropriation for the Public School Employees Retirement Systems, including funds for community college and some university employees, is up 21.7 percent and has increased by 75.1 percent over the past three fiscal years. The substantial rise is due to revisions in the longevity table because of greater life expectancies and to a lower rate of return on unfunded investments.

The 1993-94 GF/GP appropriation for **community colleges** is \$240 million, the same as in 1992-93. State aid is \$233.6 million, with an additional \$3.1 million for job training and \$3.28 million for the At-Risk program. Also stipulated is that colleges buy only American-made goods and services when available, competitively priced, and of a quality comparable with foreign goods. Bay de Noc Community College was awarded funds to build a business/advanced technology facility, and Mid-Michigan Community College will receive \$1,000 for capital improvements.

This budget marks the final phaseout of an annual grant of \$7.3 million for Wayne County Community College (WCCC) that had been provided to help the school make a transition to greater reliance on local millage. The \$7.3 million formerly earmarked for WCCC was re-distributed to all 29 community colleges, giving each a 3.2 percent increase in state aid.

The 1993-94 GF/GP appropriation for **universities** is \$1,314.7 million, 0.2 percent more than FY 1992-93 spending and about equal to the governor's

recommendation. The FY 1993–94 GF/GP appropriation for financial aid is \$105.3 million, 2.3 percent higher than last year's spending; the appropriation for operations is \$1,209.4 million, equal to last year's spending.

The governor vetoed \$58,000 for state membership in the Midwest Higher Education Compact in order to bring higher education spending in line with his target. Although the governor suggested that Michigan institutions of higher education could opt to pay the dues individually so they may take advantage of property insurance savings and other programs available through the compact, the state is obligated by statute to participate in the compact, and funds will have to be found elsewhere to pay the dues.

The **Department of Education** is appropriated \$40.9 million, about 2.8 percent more than its 1992–93 GF/GP disbursements and, after adjusting for a \$300,000 transfer to the SAF, 0.4 percent above the amount recommended by the governor. The adjusted gross appropriation for the department for FY 1993–94 is \$828 million, an increase over last year by about 6.9 percent.

### Human Services

The net GF/GP appropriation, after vetoes and transfers, for the **Department of Social Services** (DSS) totals \$2,179.6 million, which includes \$934 million for Medicaid and is a \$97 million (4.7 percent) increase over projected spending for FY 1992–93. The budget figure excludes \$39 million appropriated in the General Government budget for the University of Michigan Hospital, making the hospital eligible to participate in a Medicaid shared-payments program that will funnel additional federal funds back to the DSS. The governor vetoed \$908,500 in general fund spending for the DSS, resulting mostly in cuts in noncritical Medicaid programs, and in the accompanying message explained that the DSS director plans to use economies and efficiencies to bring department spending in FY 1993–94 down to a previously agreed-on target of \$2,153.9 million.

The rise in GF/GP spending for the DSS can be traced in large part to a \$157 million increase in the Medicaid budget base due to price and utilization increases and to a \$13 million increase in economic

adjustments for department employee retirement, longevity, and insurance.

Significant changes in the FY 1993–94 GF/GP budget include the following:

- Financing changes in the hospital voluntary contribution for Medicaid and the intergovernmental transfer program to county medical care facilities that result in \$61.1 million in GF/GP savings; the change allows the state to make a special \$213 million GF/GP payment to the University of Michigan Hospital that will yield \$276 million in federal matching funds which the hospital will return to the state, thereby increasing state funds with the federal dollars
- \$22.4 million for the Healthy Kids Initiative to increase Medicaid coverage for more than 90,000 Michigan children currently without insurance
- \$5.9 million to fund 474.9 new full-time equivalent positions to staff child and family services, assistance payments, and foster care services
- A \$13.3 million decrease in funding for AFDC and state family assistance caseloads due in part to increased child support collections

The 1993–94 GF/GP appropriation for the **Department of Mental Health** (DMH) totals \$990 million after vetoes of \$0.5 million. This is an \$78.2 million (8.6 percent) increase over last year's spending and \$1.1 million more than the governor's recommendation, due in large part to expanded funding for community demand beds (a program that provides housing and assistance to developmentally disabled young adults who receive no other support from the department).

Community Mental Health GF/GP appropriations are up \$72 million (15 percent) over last year's spending level because of the transfer of responsibilities from state institutions to such community programs as county mental health and community demand beds; the institutional services portion of the budget was cut by \$4.9 million to reflect lower caseloads and costs. Economic increases department-wide amount to \$10.5 million for insurance, food, utilities, and health services. The governor's only veto in the DMH appropriation was for a \$0.5

million certification program duplicated in the Public Health budget.

The **Department of Public Health** (MDPH) received a net GF/GP appropriation of \$153.1 million, \$12.8 million (9.1 percent) over FY 1992–93 spending and \$2 million more than the governor recommended. Increases include a \$2 million transfer from the school aid budget to fund the Michigan Model for Comprehensive School Health Education; a \$6.6 million transfer from Social Services for substance abuse disability assistance; and \$2.9 million for services for crippled children. The elimination of substance abuse prevention education contracts cuts more than \$0.5 million from GF/GP spending.

The gross appropriations for the MDPH include \$3.4 million for a new water system monitoring program, which will be funded by fees charged to public water suppliers. Reductions totaling \$100,000 were made in funds for AIDS care grants and the AIDS media campaign under the Michigan Health Initiative and applied to the formation of a Health Protection Fund, which the governor subsequently vetoed. The governor vetoed five additional programs that had been vetoed in the previous fiscal year, including \$250,000 for the state poison control center. The vetoes to the MDPH budget totaled \$570,000, but none involved GF/GP spending.

The **Department of Corrections** FY 1993–94 GF/GP appropriation is \$1,107.3 million, an increase of 13.1 percent over FY 1992–93. The adjusted gross appropriation is \$1,147.3 million, up 11.3 percent. Although Governor Engler heralded the Corrections budget as one of the most “responsible in many years,” Corrections spending has been growing at an alarming rate—343.6 percent since FY 1982–83, compared to 76.2 percent growth in the total budget. The budget will fully fund all existing prisons, including operating, opening, and expanding facilities. As required by federal decree, the state will pay for expanded services to mentally ill prisoners housed at the new Huron Valley Psychiatric Hospital. The budget also provides for about 100 more probation and parole officers as well as community corrections grants to local governments, which may be used by communities to start and operate alternative detention programs. A state-local partnership to promote nonprison punishment for offenders convicted of nonviolent crimes also is

funded but awaits enabling legislation before operations may begin.

Also new are two actions to raise fees from those in the criminal justice system. One revises probation and parole supervision fees, requiring that parolees and those on probation pay, based on their income, up to \$30 per month. The other imposes a similar supervision fee for juveniles on probation.

The governor vetoed \$310,000 for Corrections road and sewer projects, saying that the department will use existing resources for the projects.

### **Safety and Defense**

The GF/GP 1993–94 appropriation for the **Department of State Police** is \$203.9 million, up about 0.4 percent from 1992–93 spending and equal to the governor’s recommended amount. The adjusted gross appropriation is \$302 million, about 5.1 percent higher than last year’s figure of \$287.3 million. The state police will be able to hire an additional 112 troopers, conduct two trooper training schools, and establish a new radio system for better communications among personnel. The budget also continues funding for 911 through FY 1993–94 but stipulates that this will be the final year for grants for 911 central dispatch systems.

The FY 1993–94 GF/GP appropriation for the **Department of Military Affairs** is \$34.2 million. This amount is 11 percent above FY 1992–93 spending and equal to the figure recommended by the governor. The budget includes state support to strengthen licensing requirements for veterans’ facilities in Grand Rapids and Marquette and also provides funding for grants to veterans’ service organizations.

### **Regulatory**

GF/GP funding for FY 1993–94 for the **Department of Commerce** was cut one percent (\$3.2 million) over the previous year, to \$57.4 million, 1.0 percent under the governor’s recommendation. The adjusted gross appropriation of \$416.1, however, is 8.6 percent higher than FY 1992–93 expenditures.

The governor’s only veto to the overall Commerce budget was \$4.8 million for the Workplace Health and Safety Fund, which promoted job safety. The fund had been financed by a fee paid in lieu of taxes by the Accident Fund of Michigan, slated to be

sold to the private sector in April 1994. A Senate attempt to override the veto failed.

The FY 1993–94 appropriation for the **Department of Labor** is \$36 million, down 7.2 percent from FY 1992–93 spending and about equal to the governor's recommendation. The adjusted gross appropriation for FY 1993–94 is \$200.6 million, close to last year's spending after transfers to the Michigan Jobs Commission.

FY 1993–94 marks the first year of separate funding for the Michigan Jobs Commission, the state's job training and economic development agency. The FY 1993–94 GF/GP appropriation is \$6.2 million, and the adjusted gross appropriation is \$257.8 million. The funds for the commission come from the Labor and Commerce budgets, lowering the available funds in both.

#### Natural Resources and Recreation

The FY 1993–94 GF/GP appropriation for the **Department of Natural Resources** is \$95.6 million, about the same as both the governor's recommendation and last year's expenditures. Gross appropriations are \$332.8 million, up 2.2 percent over FY 1992–93 spending. Changes include

- a 5 percent increase in departmental unclassified salaries;
- \$1 million for state park operations and the Day-in-the-Park program (combined); and
- a \$75,000 increase for local forest recreation.

The budget exceeds the governor's recommendation by \$1.5 million for state parks, \$200,000 for state forest campgrounds, \$75,000 in local recreation grants, and \$939,500 in general economic increases. These actions are offset by a \$2.5 million reduction in property taxes that the DNR must pay local governments on department-owned property (made possible by Senate Bill 1, which eliminated local property taxes that support school operations).

GF/GP appropriations for the **Department of Agriculture** amount to \$27 million, an amount 1.5 percent higher than FY 1992–93 spending and slightly lower than the governor's recommendation of \$27.3 million. Gross appropriations are \$58.5 million, an increase of about 6 percent.

Passage of the Agriculture budget was delayed by disagreement about \$800,000 in funding for the Pontiac Silverdome (this year's subsidy would be used to vie for the 1994 World Cup soccer tournament). In the end, to forestall a repeat of last year's veto of the Silverdome subsidy, it was merged with the line item containing grants to cities that have horse racing tracks (to help them pay for increased law enforcement and other costs they incur). Although the governor did not veto the item, the bill does not require that the money be spent on the Silverdome, and the administration may not spend it for that purpose.

Another controversial item that made it into the bill was \$200,000 to pay for two inspectors to monitor casino gambling operations on Native American reservations. The positions were created in response to a recent compact between the State of Michigan and the seven federally recognized tribes in the state. The tribes agree to reimburse the state up to \$175,000 annually for inspections, bringing the state's cost down to about \$25,000 for two inspectors. Critics maintain, however, that two inspectors are not enough to effectively monitor Michigan's numerous casinos.

Also in the Agriculture budget are increases for food inspection and the state Food Bank to \$7.7 million and \$0.5 million, respectively. New in the department's budget is funding for vapor recovery systems required under the federal Clean Air Act (if a fee bill makes it through the legislature).

#### General Government

The FY 1993–94 GF/GP appropriation for this category, which includes six departments plus the Executive Office, legislature, judicial branch, and Library of Michigan, is \$397.6 million, a decline of 2.6 percent from projected FY 1992–93 expenditures.

The GF/GP appropriation for the **Department of Management and Budget** is \$49.3 million, 2.9 percent above FY 1992–93 expenditures and \$2.1 million more than recommended by the governor. The legislature added \$2.3 million for the Office of Services to the Aging for home-delivered meals and care management programs. The budget was reduced by \$763,000 by transferring to the Department of Corrections the grant for reimbursing counties for the escaped prisoner program. The \$9 million Jus-

tice Assistance Grants program is transferred to the Department of State Police, but this does not affect the GF/GP budget.

The **Department of Treasury** GF/GP appropriation is \$41.2 million (excluding debt service), about 26 percent below FY 1992–93 expenditures and \$5.2 million under the governor's recommendation. Funding for the Senior Citizens Cooperative Housing Tax Exemption program—used to reimburse local governments for this exemption—is reduced by \$4.9 million; the reduction reflects lower property tax rates resulting from the elimination of school taxes. The department's GF/GP appropriation is not comparable to earlier years because \$37 million in delinquent tax collections—previously treated as GF/GP revenue—has been restricted, which means it is removed from the GF/GP portion of the budget. This money will be used in part to hire additional auditors and tax collectors: 64.5 new positions have been funded.

The FY 1993–94 GF/GP appropriation for the **Department of State** is \$14.9 million, 1.4 percent above FY 1992–93 expenditures and \$2.2 million more than recommended by the governor. The governor had recommended that the Auto Emission Inspection program be transferred to the Department of Transportation and funded with a \$3 increase in the inspection fee, but this proposal was rejected by the legislature, resulting in the higher appropriation for the department.

The FY 1993–94 appropriation for the **Judiciary** is \$122.3 million, 2.2 percent above FY 1992–93 spending and \$1.3 million less than recommended by the governor. The judicial branch's overall budget increased, however, by about \$18 million because of an estimated \$19.5 million increase in court fees and fines, the majority of which is allocated for trial court operations in Detroit and—for the first time—23 out-state counties. In addition, \$2.1 million is allocated for a new program, Indigent Civil Legal Assistance grants.

In their GF/GP appropriations for FY 1993–94, there were few changes from the governor's recommendations for the departments of **Civil Service** (appropriated \$10.9 million), **Civil Rights** (\$11.2 million), and **Attorney General** (\$25.6 million), the **Legislature** (\$91.9 million), the **Library of Michi-**

**gan** (\$26.9 million), or the **Executive Office** (\$4.4 million).

#### Other

The FY 1993–94 GF/GP appropriation for **capital outlay** is \$152.2 million, up 3.6 percent from FY 1992–93 spending and at the level recommended by the governor. Again, as in recent years, the budget contains very little money for new projects.

The **Department of Transportation** is supported primarily by restricted funds (primarily the gasoline tax and federal funds), and thus does not receive a GF/GP appropriation. The department's adjusted gross appropriation for FY 1993–94 is \$1,737.6 million, 3 percent below projected spending for FY 1992–93. The budget continues support for the Build Michigan program to improve roads and bridges and provides \$45 million to local communities in matching federal funds to assist with road and street programs. The governor vetoed additional funds for the Blue Water Transportation Commission to enable it to assist in resolving insurance disputes with other transit agencies, stating that such an appropriation "diverts transportation funds away from statewide priorities."

No payment to or withdrawal from the **Budget Stabilization Fund** is expected in FY 1993–94. Under the requirements of Public Act 19 of 1993, any surplus in excess of \$26 million for FY 1992–93 must be transferred to the fund. Although the June revenue estimate (agreed to by the Treasury Department and the two legislative fiscal agencies) projects the transfer to be about \$37 million, resulting in a year-end fund balance of \$58 million, it could be substantially larger because of recent increases in revenue.

There are two important **constitutional restrictions** on the state budget, and at this time it does not appear that there is any danger of breaching either of them. Article IX, Section 26 of the Michigan Constitution limits the revenue the state may collect in any fiscal year to 9.44 percent of Michigan personal income in the calendar year prior to the year in which the fiscal year begins. The limit for FY 1993–94 is \$17.4 billion. Total state revenue (less federal aid and general obligation debt service) is estimated to fall below the limit by about \$4 billion, prior to action by the legislature to replace school property taxes.

Article IX, Section 30 requires that a minimum of 41.6 percent of spending from state resources be allocated to local units of government. The latest estimates indicate that the minimum will be exceeded by about \$100 million for both FY 1992–93 and FY 1993–94.

## COMMENT

The most interesting aspect of the FY 1993–94 budget is that it *isn't* very interesting—there is not much new or unusual in it. In the last year or two

Evidence of this change is shown in Exhibit 4, which presents data on supplementals and overexpenditures in the last decade. Although overexpenditures averaged about \$169 million from FY 1985–86 through FY 1989–90, they were less than \$75 million in FY 1990–91 and FY 1991–92 and are expected to be even lower for FY 1992–93. The Engler administration deserves credit for forcing more discipline into the system by sticking to its budgetary guns and putting pressure on department managers to hold the spending line.

**EXHIBIT 4: General Fund/General Purpose Supplementals and Overexpenditures, FY 1980–FY 1993**  
(dollars in millions)

Fiscal Year	Supplementals <sup>a</sup>	Overexpenditures <sup>b</sup>	Total
1980	\$137.7	\$111.2	\$248.9
1981	21.8	64.7	86.5
1982	355.0	42.6	397.5
1983	292.5	111.5	404.0
1984	150.8	61.8	212.6
1985	130.2	41.7	171.9
1986	83.6	112.0	195.6
1987	162.5	194.1	356.6
1988	63.1	129.9	193.0
1989	261.0	124.4	385.4
1990	33.5	283.9	317.4
1991	48.6	62.6	111.1
1992	45.6	70.6	116.2
1993	-104.1	NA	-104.1
<b>AVERAGE</b>	<b>\$120.1</b>	<b>\$108.5</b>	<b>\$220.9</b>

SOURCE: Michigan Department of Management and Budget.

NA = Not available.

<sup>a</sup>Excludes veto restorations.

<sup>b</sup>Net of lapses.

there has been a change away from business as usual toward a new level of spending discipline. There were no big philosophical arguments involved in putting this budget together—only a few fights over small special projects such as the relatively small subsidy for the Pontiac Silverdome. Of course, the process was made easier by improved revenue growth, eliminating the need for large or painful adjustments and the heated debate they engender. The question is whether this change is permanent. We believe it is: A new way of thinking is required in a world where the resources available for most government programs are limited and shrinking.

The governor's recommendation for a biennial budget was not accepted by the legislature. Although his proposed two-year budget was not *truly* biennial (it simply repeated the same numbers for the second fiscal year), it was a beginning. We continue to support such a reform (see our January 15, 1993, *Public Policy Advisor*, "Biennial Budgeting"), and we urge the governor to propose a real biennial budgeting process in his 1994 budget message.

The state faces several critical budget decisions in the next few years. Future budget stability depends in large part on the ability to control health care costs and on the effect of President Clinton's

health care reform program. Of critical importance are the administrative costs of the state's present health care responsibilities and whether more costs will be shifted to the states under a federal reform plan. A major concern is whether a loophole in federal Medicaid financing law will be closed. As mentioned above, the state has been able to use these laws to generate additional federal income for the state, most recently more than \$400 million in the FY 1993-94 budget to supplant the same amount of GF/GP funding. Any change in these laws could require the state to reduce expenditures by this amount or levy a provider or other tax to replace this money.

Another critical concern is the corrections system, which continues to eat up state resources. In the past decade spending for the Department of Corrections has increased about 344 percent, compared with an overall budget increase of 76 percent. Although during this period the state has built 21 new prisons with 12,500 beds (at a cost of \$1 billion), the prison population has increased by 21,000 inmates, and the prisons are more crowded than ever. Clearly, alternatives to incarceration must be found; otherwise, prisoners will have to be released early or new prisons built, adding more strain to the budget. This occurs at a time when violent crime appears to be exploding, and crime in general is moving to the top of the list of public concerns. One option would be to ask the voters to approve a small increase in the income tax (one percent raises about \$130 million) to finance construction and operation of new prisons. In addition to the drawback that this solution would reduce pressure to find alternatives to prison, history suggests that the Michigan electorate may not be amenable—a similar proposal on the 1980 ballot was defeated by almost two to one. In

the short run the only alternative likely to reduce the growth in the prison population is an early release program. Such a program came under fire in Michigan some years ago when it was used, and similar programs are being severely criticized in some states where they currently are in use.

One way to reduce state expenditures without eliminating services is—as the governor and others have proposed—to turn some activities over to the private sector. The legislature recently approved sale of the Accident Fund to the private sector, and the governor supports privatization of the liquor distribution system. Studies are underway to identify other government services that can be privatized. This is likely to be a slow process, however, and yield very limited savings in the short term. How effective this approach can be in achieving significant savings in the long term is not yet clear.

The major issue facing the legislature in the next few months, of course, will be school finance reform. The governor has presented his plan to the legislature, and the debate has begun. In the short run there is not likely to be a major effect on other budget areas, because the governor has recommended that most of the revenue lost from eliminating school property taxes be raised by other means. However, there could be problems in the future if the revenues earmarked for schools prove insufficient to meet increased costs and enrollments. Unfortunately, this could occur because some of the taxes proposed by the governor are quite volatile, and most are likely to grow more slowly than the economy. The result could be pressure on the remainder of the budget. In combination with rising costs for health care and prisons, this could mean that funds available for other programs—higher education and social services, in particular—could be very limited.