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Senate Fiscal Agency

MICHIGAN'S BUDGET AND TOTAL STATE SPENDING: A 10-YEAR HISTORY (FY 1999-2000 - FY 2009-10)

by

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INTRODUCTION

Over the past decade, the State of Michigan has experienced significant declines in personal income and employment. These declines have affected State revenue and, in turn, served as an impetus for change in the spending priorities at the State level.

Michigan's financial status in fiscal year (FY) 2009-10 is vastly different than it was FY 1999-2000. In FY 1999-2000, the Legislature enacted supplemental appropriations, totaling $581.6 million in State spending, through Public Act (PA) 265 of 1999 and PA 291 of 2000. This elevated spending was a reflection of the positive, and even increasing, revenue that the State was experiencing at the time. In fact, despite generous levels of supplemental spending, the State was able to maintain $1.26 billion in a budget stabilization fund during FY 1999-2000. Today, this fund has been all but wiped out and it is clear that the sound fiscal times Michigan once enjoyed have passed.

The State of Michigan continues to experience declining revenue due to both national and statewide recessions. The implications of this decline in revenue for State spending are significant and widespread. Without enacting legislation to increase revenue, the Legislature will have to continue to cut spending throughout departments in order to adhere to the State of Michigan's constitutional requirement for a balanced budget.

A lack of action to increase revenue has led the Legislature to make spending cuts throughout State government in order to deliver a balanced budget in recent times. Spending cuts have not been equal across departments, but have often been necessary to support spending increases in departments with rising costs. Furthermore, spending cuts would have been significantly greater in recent times had it not been for increasing Federal support.

Looking ahead, there can be little doubt that Michigan will continue to face the challenges that accompany declining revenue. Legislators will have to decide, again, either to increase revenue or to continue to cut spending throughout the principal departments of State government. In order to make informed decisions about State spending, it is important to understand the historical context. With the intent of providing that context for future budget decisions, this paper assesses the changes in Michigan's State spending over the past decade.

MICHIGAN'S SPENDING: FY 1999-2000 to FY 2009-10

In order to provide an accurate comparison of Michigan's spending data over the past decade, this paper addresses two principal changes in the budget. First, it addresses the influx of American Reinvestment and Recovery Act (ARRA) funds. Second, it addresses a number of Executive Reorganizations that have been responsible for reshaping State government and the way it is funded. By adjusting the data for these factors, the analysis can compare State spending between FY 1999-2000 and FY 2009-10.

Due to the increase of Federal funding provided to Michigan in recent years, analyzing gross expenditures would misrepresent the priorities of the State Legislature over the past decade. Using data that rely on Gross appropriations would display stable or increased funding for many of Michigan's departments that, absent ARRA funding, would have seen significant budget cuts. In FY 2009-10 alone, ARRA funding supported 13.2% of the General Fund and 4.2% of the School Aid budget.

A more accurate representation of State and legislative priorities is exhibited by the allocation of State Spending from State Resources also referred to as Total State Spending (TSS). State Spending from State Resources consists of State Restricted funds and General fund dollars, which represent the portion of the budget controlled by the State Legislature. For this reason, this paper exclusively uses TSS data over the past decade to assess trends in Michigan's State spending.

Executive Orders over the past decade have affected the way that Michigan's principal departments are fashioned and funded. In addition to limiting the scope of the analysis to TSS, this paper adjusts the data to reflect Executive Orders and program transfers, which have caused a shift in funding from one department to another. The Governor of the State of Michigan has the authority to create, abolish, or transfer departments through powers granted by Article 5, Section 2 of the Michigan Constitution and through the Executive Organization Act of 1965. This paper appropriately adjusts the FY 1999-2000 TSS data to reflect the Executive Orders that have reorganized State government over the past decade.

Table 1

ADJUSTED TOTAL STATE SPENDING
FY 1999-2000

Departments/Budget Areas	FY 1999-2000 (Original)	FY 1999-2000 (Adjusted)	Dollar Change
Agriculture	$100,723,900	$94,133,290	$(6,590,610)
Attorney General	38,937,000	38,937,000	0
Capital Outlay	470,735,400	28,710,500	(442,024,900)
Career Development	121,559,500	0	(121,559,500)
Civil Rights	14,739,300	14,560,730	(178,570)
Civil Service	20,856,400	0	(20,856,400)
Community Colleges	297,228,019	306,026,819	8,798,800
Community Health	3,030,778,900	3,056,109,514	25,330,614
Consumer and Industry Services	276,330,700	0	(276,330,700)
Corrections	1,531,304,200	1,517,992,939	(13,311,261)
Education	67,791,600	65,356,336	(2,435,264)
Energy, Labor, & Economic Growth	0	346,907,317	346,907,317
Executive	5,425,100	5,425,100	0
Family Independence Agency	1,284,921,200	0	(1,284,921,200)
Higher Education	1,782,059,308	1,835,362,108	53,302,800
Human Services	0	1,290,895,274	1,290,895,274
Judiciary	221,757,800	221,757,800	0
Legislative Auditor General	12,816,300	12,816,300	0
Legislature	104,153,500	104,153,500	0
Library of Michigan	34,345,000	0	(34,345,000)
Military and Veterans Affairs	63,659,600	65,915,642	2,256,042
Natural Resources (Environ. Quality)	252,857,100	(540,600)[a)]	(253,397,700)
Natural Resources & Environment	243,912,100	530,834,700	286,922,600
Natural Resources (Trust Fund)	27,328,300	27,328,300	0
School Aid	10,075,829,300	10,132,783,300	56,954,000
State	121,767,500	117,388,700	(4,378,800)
State Police	321,478,000	315,670,109	(5,807,891)
Strategic Fund	164,957,200	0	(164,957,200)
Technology, Mgt., & Budget	123,346,000	473,032,783	349,686,783
Transportation	1,983,965,200	2,013,326,221	29,361,021
Treasury (Debt Service)	93,417,500	70,502,500	(22,915,000)
Treasury (Operations)	270,140,300	287,073,744	16,933,444
Treasury (Revenue Sharing)	1,470,522,000	1,470,522,000	0
Treasury (Strategic Fund)	0	186,661,300	186,661,300
Total	**$24,629,643,227**	**$24,629,643,227**	**$0**

[a)] Negative number reflects veto that is not accounted for in adjustments and transfers.

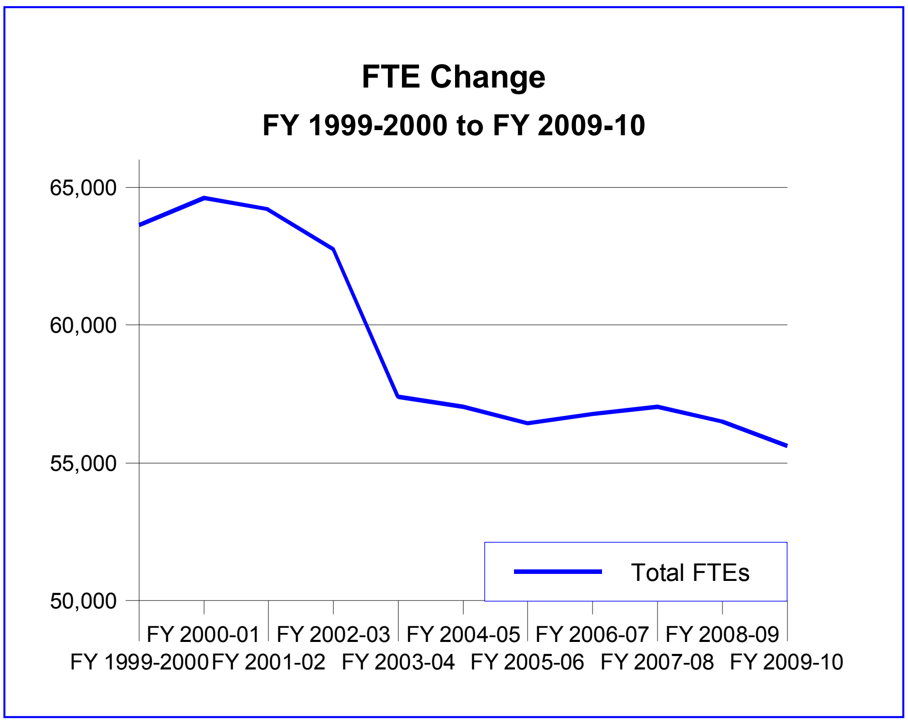
Accounting for the Executive Orders mentioned above, Table 1 effectively reconfigures FY 1999-2000 in the likeness of FY 2009-10, and provides a summary of the adjustments made to TSS data from FY 1999-2000. This reorganization makes it possible to compare enacted appropriations among principal departments over the past decade. Among these adjustments are significant reorganizations such as the merger of the Department of Natural Resources (DNR) and the Department of Environmental Quality (DEQ), the transfer of the Library of Michigan to the Department of Education, the renaming of the Family Independence Agency, and the creation of the Department of Energy, Labor, and Economic Growth from the former Department of Consumer and Industry Services and Department of Career Development.

Key Factors in State Spending

While various factors have driven spending across departments, the cost of State government personnel, or employee economics, has had a measurable effect on spending priorities statewide. Chief among these factors are the rising costs of Civil Service employees, including payroll, health care, and retirement costs. These costs have outpaced other costs and in many cases are a driving force in a department's budget. In fact, many departments have had to reduce the number of full time equated employees (FTEs) in order to cover salary increases negotiated by the Office of the State Employer.

As exhibited by Figure 1, the State of Michigan has seen a steep decline in its personnel over the past 10 years. Table 2 more specifically identifies the changes in FTEs across government departments. In total, the State government workforce has declined by 8,244.2 FTEs, or nearly 13.0%, in 10 years. A portion of this decline in staff can be attributed to the adoption of new technology. However, other reductions in FTEs have been made as a cost-saving measure through early retirement programs, layoffs, and attrition.

Figure 1



Despite the overall decrease in the number of full-time equated employees over the past decade, the total cost of employees has risen significantly. Table 3 provides a summary of total State employee costs in FY 1999-2000 compared with FY 2009-10. The base payroll of State employees has increased by 21.3%. This relatively modest increase in base payroll has been accompanied by large increases in both retirement costs (134.9%) and insurance costs (65.3%). The end result is that in spite of a 13.0% decline in the number of State employees the total costs of the reduced number of employees is up by 37.7% over the past decade. In reviewing this data on a per employee basis the total cost of State employees has increased by 58.2% over the past decade.

Table 2

CHANGE IN FULL-TIME EQUATED EMPLOYEES FY 1999-2000 TO FY 2009-10				
Department/Budget Area	**Adjusted FTEs FY 1999-2000**	**FTEs FY 2009-10**	**FTE Change**	**Percent Change**
Agriculture	579.5	610.5	31.0	5.4%
Attorney General	562.0	537.0	(25.0)	(4.5)
Civil Rights	174.5	125.0	(49.5)	(28.4)
Community Health	6,147.3	4,374.6	(1,772.7)	(29.0)
Corrections	18,873.8	15,746.1	(3,127.7)	(16.6)
Education	424.4	557.5	133.1	31.4
Energy, Labor, & Economic Growth	4,723.9	4,680.5	(43.4)	(0.9)
Executive	75.0	74.2	(0.8)	(1.1)
Higher Education	0.0	1.0	1.0	---
Human Services	13,192.3	10,911.5	(2,280.8)	(17.3)
Judiciary	583.0	491.0	(92.0)	(15.8)
Military & Veterans Affairs	1,058.0	985.0	(73.0)	(6.9)
Natural Resources & Environment	3,740.4	3,701.0	(39.9)	(1.1)
State	1,868.3	1,809.0	(59.3)	(3.2)
State Police	3,370.0	2,866.0	(504.0)	(15.0)
Technology, Management, & Budget	3,165.7	3,029.0	(136.7)	(4.3)
Transportation	3,048.3	3,008.3	(40.0)	(1.3)
Treasury (Operations)	1,773.0	1,703.5	(69.5)	(3.9)
Treasury (Strategic Fund)	250.0	155.0	(95.0)	(38.0)
Total FTEs	**63,609.9**	**55,365.7**	**(8,244.2)**	**(13.0)%**

Table 3

CHANGE IN EMPLOYEE ECONOMICS FY 1999-2000 TO FY 2009-10				
	FY 1999-2000	**FY 2009-10**	**Dollar Change**	**Percent Change**
State Employee Base Payroll	$2,710,704,600	$3,288,000,000	$577,295,400	21.3%
State Employee Retirement Contributions	342,729,800	805,000,000	462,270,200	134.9
State Employee Insurance Costs	407,714,100	674,000,000	266,285,900	65.3
Total State Employee Costs	**$3,461,148,500**	**$4,767,000,000**	**$1,305,851,500**	**37.7%**
Addendum:				
Total Cost Per Employee	$54,412	$86,100	$31,688	58.2%

Spending in FY 1999-2000 Versus FY 2009-10

Over the past decade, TSS in Michigan increased by 3.1%. During the same period, the Detroit Consumer Price Index (CPI) increased by 20.5%. When the Detroit CPI is accounted for, it is clear that this 3.1% increase has not kept pace with inflation and actually represents a decrease in purchasing power of approximately 17.4%. Increasing costs and decreasing purchasing power have forced the Legislature to prioritize spending. As a result, over the past 10 years, some departments have seen an increase in investment by the Legislature while others have experienced a significant disinvestment. In an attempt to fully examine the State's spending priorities, this paper addresses the effect of the State's changing budget on each department.

Table 4 catalogues the changes that have occurred among principal budgets over the past decade. It should be noted that the impact of the Clean Michigan Initiative (CMI), a bond approved by Michigan voters in November 1998, with the express purpose of improving and protecting Michigan's water resources, has been excluded from both FY 1999-2000 and FY 2009-10 data. Clean Michigan Initiative spending has been removed because, like ARRA funding, it is a one-time revenue source that does not represent the Legislature's typical spending authority. In addition, FY 2009-10 data have been adjusted to reflect all supplemental appropriations enacted by the Legislature for FY 2009-10. The analysis provided in this document is based on the adjusted FY 1999-2000 data and the adjusted FY 2009-10 TSS data as displayed in Table 4.

Table 4

CHANGE IN TOTAL STATE SPENDING BY DEPARTMENT
FY 1999-2000 TO FY 2009-10

Departments/Budget Areas	FY 1999-2000 (Adjusted)	FY 2009-10 (Adjusted)	Dollar Change	Percent Change
Agriculture	94,133,290	61,840,706	(32,292,584)	(34.3)%
Attorney General	38,937,000	43,999,300	5,062,300	13.0
Capital Outlay	28,710,500	300	(28,710,200)	(100.0)
Civil Rights	14,560,730	11,631,100	(2,929,630)	(20.1)
Community Colleges	306,026,819	299,360,500	(6,666,319)	(2.2)
Community Health	3,056,109,514	3,878,148,900	822,039,386	26.9
Corrections	1,517,992,939	1,959,696,500	441,703,561	29.1
Education	65,356,336	26,864,200	(38,492,136)	(58.9)
Energy, Labor, & Econ. Growth	346,907,317	453,782,000	106,874,683	30.8
Executive	5,425,100	4,784,700	(640,400)	(11.8)
Higher Education	1,835,362,108	1,538,105,300	(297,256,808)	(16.2)
Human Services	1,290,895,274	1,037,112,400	(253,782,874)	(19.7)
Judiciary	221,757,800	243,090,500	21,332,700	9.6
Legislative Auditor General	12,816,300	12,978,600	162,300	1.3
Legislature	104,153,500	105,874,700	1,721,200	1.7
Military & Veterans Affairs	65,915,642	64,225,700	(1,689,942)	(2.6)
Natural Resources (Envir. Quality)	(540,600)[a]	0	540,600	(100.0)
Natural Resources & Environment	530,834,700	438,157,100	(92,677,600)	(17.0)
Natural Resources (Trust Fund)	27,328,300	35,658,200	8,329,900	30.5
School Aid	10,132,783,300	10,771,811,600	639,028,300	6.3
State	117,388,700	186,567,700	69,179,000	58.9
State Police	315,670,109	398,833,400	83,163,291	26.3
Technology, Mgt., & Budget	473,032,783	364,967,700	(108,065,083)	(22.8)
Transportation	2,013,326,221	1,978,578,800	(34,747,421)	(1.7)
Treasury (Debt Service)	70,502,500	43,278,000	(27,224,500)	(38.6)
Treasury (Operations)	287,073,744	368,357,544	81,283,800	28.3
Treasury (Revenue Sharing)	1,470,522,000	972,657,000	(497,865,000)	(33.9)
Treasury (Strategic Fund)	186,661,300	66,513,700	(120,147,600)	(64.4)
Total	**$24,629,643,227**	**$25,391,294,150**	**$761,650,923**	**3.1%**

[a] Negative number reflects veto that is not accounted for in adjustments and transfers.

As exhibited, the bulk of increases in TSS can be seen in the Natural Resources Trust Fund and the budgets of five departments: Corrections, Community Health, State, State Police, and Energy, Labor, and Economic Growth. There are many explanations for increased expenditures in these departments. The most prevalent causes of increased spending are higher caseloads, costlier caseload demographics, and increased State Restricted revenue sources, which are specifically and exclusively delineated for spending by the departments in question.

The departments or budget areas that have experienced the most significant decreases in enacted appropriations include Civil Rights, Education, Higher Education, Human Services, Natural Resources and Environment, Technology, Management, and Budget, and Treasury (Revenue Sharing and Strategic Fund). Several factors have led to a decline in TSS appropriations in these departments. Among the most prevalent reasons for a decline in spending are reductions in supplemental spending from FY 1999-2000, shifts away from State funding toward Federal funding, reductions in employee costs, and program cuts.

A significant increase in the amount of Federal funding provided to Michigan has made it possible to cut TSS in several budgets while maintaining a relatively stable level of services. In FY 1999-2000, Federal funding accounted for 27.4% of the State budget. In FY 2009-10, however, the percentage of the State budget funded by Federal dollars has increased to nearly 42.0%. Without continual increases in Federal funding, the State of Michigan could not have maintained the services it has provided over the past 10 years.

Agriculture: The Michigan Department of Agriculture (MDA) has experienced a decline in appropriations of 34.3%, or $32.3 million, over the past decade. For the most part, this decline reflects a failure to renew one-time spending appropriations rather than a reduction in annual appropriations.

While this is a significant decline in appropriations, it is important to note that TSS appropriations for the MDA peaked in FY 1999-2000 at approximately $100.0 million. This peak is due, in large part, to supplementary appropriations passed by the Legislature in PA 291 of 2000 to address, among other things, the widespread concern over bovine tuberculosis in Michigan. Specific concerns cited were the threat bovine TB posed to both the white-tailed deer population and Michigan livestock. The amount of supplemental appropriations for the MDA in FY 1999-2000 totaled $24.0 million. Adjusting the data for this funding shows a much less severe decline of approximately $8.0 million, or 8.0%. While this 8.0% reduction in TSS is still significant, it consists of small reductions in several areas including the Upper Peninsula State Fair, environmental technology grants, and economic adjustments. Furthermore, a portion of TSS reductions experienced by the MDA also can be attributed to an increase in Federal appropriations over the past 10 years.

Attorney General: The Department of Attorney General has seen an increase in appropriations of 13.0%, or $5.1 million, over the past decade. This is being driven by an increase in State Restricted dollars, despite an overall decline in General Fund/General Purpose (GF/GP) appropriations for the Attorney General. The bulk of this increase is actually a result of a fund shift from an interdepartmental grant (IDG) to TSS.

Before FY 2008-09, the Attorney General's office used an IDG to fund its information technology services through what is now the Department of Technology, Management, and Budget. In FY 2008-09, funding for this purpose shifted from an IDG to State Restricted funding, resulting in an increase in TSS appropriations of approximately $3.5 million. The remaining $1.5 million increase is attributable to incremental spending increases, including tobacco settlement enforcement and basic economic adjustments, primarily related to employee economics.

Capital Outlay: General Fund Capital Outlay appropriations have declined by $28.7 million, in the past 10 years. This is due in large part to changes in the methods by which the Capital Outlay funds are appropriated.

The State's fiscal situation was particularly sound in FY 1999-2000. Public Act 291 of 2000 enacted $28.0 million of one-time supplementary GF/GP funding for State agency construction projects. The largest part of these funds was devoted to a Public Safety Communication System for the Department of State Police, while a smaller amount contributed to a construction project at Alpena Community College. In other years, Michigan would have bonded for these projects. However, due to a particularly large increase in revenue, the State chose to pay cash for these projects.

Capital Outlay projects are now primarily funded through the State Building Authority due to declining State revenue. Capital Outlay projects did not receive General Fund support in the FY 2009-10 budget, resulting in the $28.0 million, or nearly 100%, decline. In FY 2009-10, the Capital Outlay budget exclusively appropriates $100 line items, which serve as spending authorizations for State Building Authority (SBA) projects for higher education, community colleges, and State agencies. Annual Capital Outlay appropriations for non-SBA projects formerly contained within the Capital Outlay bill have been moved to their respective departmental appropriations bills. This has been reflected in the summary tables within.

Civil Rights: The Department of Civil Rights has experienced a decline of 20.1%, or $2.9 million, since FY 1999-2000. This decline is a result of a reduction in FTEs as well as a shift in funding sources.

The Department has lost approximately 50 FTEs over the past 10 years, which accounts for 30.0% of its staff. This is, in part, attributable to early retirement programs made available to State employees. The Legislature has been able to reduce spending in Civil Rights by reducing the appropriations to account for a significantly smaller workforce.

In addition to workforce reductions, a portion of the TSS reductions has been supplanted by the increase in Federal funding for the Department of Civil Rights, as that funding has risen by $1.1 million in the last 10 years.

Community Colleges: Appropriations for community colleges have declined by 2.2%, or $2.1 million over the past decade. This is despite large increases in student enrollment. The population of fiscal year-equated (FYE) students at community colleges has grown by 50.0% over the last 10 years.

Community colleges are no more immune to rising costs than State government is, and they report that employee-related costs account for 75% to 80% of their operating budgets. As State aid fails to keep up with inflationary costs, it has become a smaller proportion of community college budgets statewide. Ultimately, this has resulted in the need for community colleges to raise revenue through other means, namely tuition or local millages, and explore cost-saving measures, such as more efficient class scheduling methods and staff adjustments.

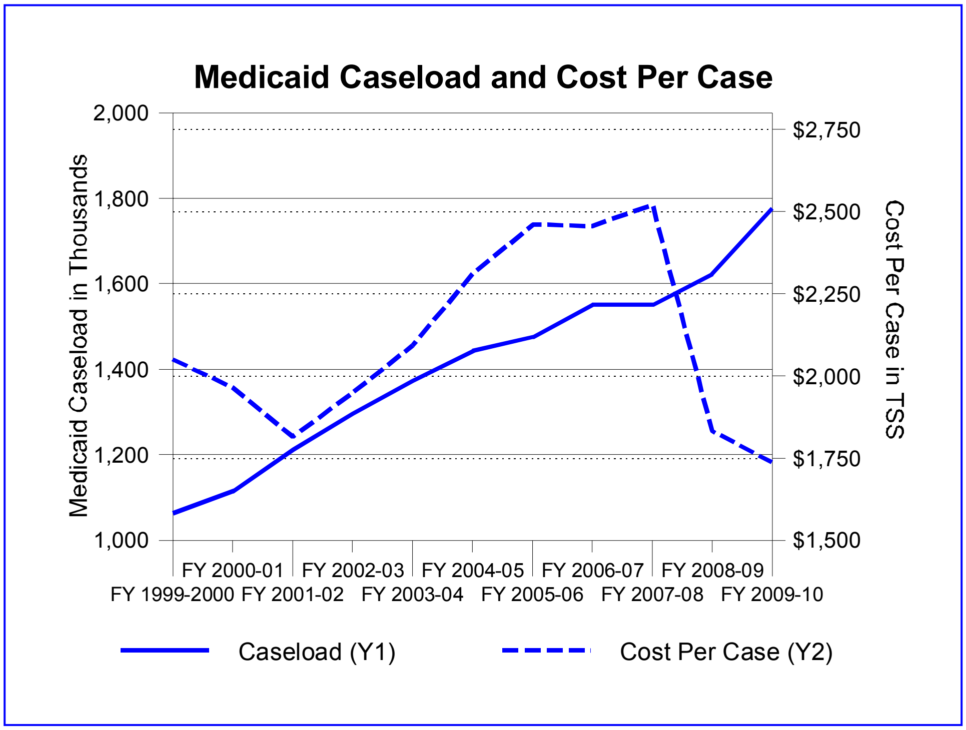
Community Health: The Department of Community Health (DCH) saw an increase in appropriated TSS of 26.9%, or $822.0 million, over the past decade. This increase reflects a growth in Medicaid spending, which has outpaced non-Medicaid DCH cuts.

The primary driver of cost in the DCH budget is an increasing Medicaid caseload. The Medicaid caseload has grown from 1,063,300 in FY 1999-2000 to 1,822,000 in FY 2009-10, an increase of 71.0%, or 758,700 individuals. The bulk of the caseload increase has been among nondisabled adults and children who are, on average, less expensive to insure than other populations. Were the demographic of the caseload to change, however, Medicaid costs could be significantly higher in the future than they are in FY 2009-10.

As exhibited in Figure 2, the Medicaid caseload has continued to grow over the past 10 years. Meanwhile, TSS in cost per case has decreased due to an influx of Federal money.

While spending on Medicaid has grown by nearly 30.0%, non-Medicaid DCH spending has declined by 10.0%. The majority of this decline is a result of significant cuts to Community Mental Health (CMH), which totaled $67.3 million over the past 10 years. Non-Medicaid CMH funding has historically provided mental health services to patients who are not Medicaid eligible and suffer from mental illness or are developmentally disabled. Additionally, Healthy Michigan Fund programming, which previously used money garnered from tobacco taxes for preventative health care, has seen a cut of $29.6 million. Spending on local public health, which consists of funding for local agencies to run programs such as restaurant inspection, has declined $4.9 million. In addition, the funding for both the Community Substance Abuse and Office of Services to the Aging programs has experienced measurable declines in TSS due to a shift toward available Federal funding.

Figure 2



It is important to note that TSS spending in the DCH budget would be significantly greater were it not for two factors: an increase in the base Medicaid match rate, and funding from the American Reinvestment and Recovery Act. In FY 1999-2000, the Federal Medicaid match rate was 55.0%. However, the base Federal match rate has increased to 63.0% in FY 2009-10, which has resulted in savings of $695.0 million in TSS without impairing the present level of Medicaid services. Additionally, ARRA funding is responsible for temporarily raising the Medicaid match rate from 63.0% to 73.0%, which has resulted in further savings in TSS of $895.0 million, again while maintaining the present level of Medicaid services. In total, these two changes in Federal policy have sheltered Michigan from an additional $1.6 billion in TSS spending that otherwise would have been necessary to provide the same level of Medicaid service as is provided today.

The ARRA funding responsible for increasing the match rate to 73.0% will expire during FY 2010-11, leaving the State responsible for finding other sources of revenue to fund a growing Medicaid caseload. While cutting services due to the decline in funding is an option, it is a limited one. The passage of Federal health care legislation was accompanied by maintenance of effort (MOE) requirements that place restrictions on Medicaid cuts. Specifically, the Federal health care legislation prohibits states from eliminating coverage to any population that is currently afforded Medicaid, meaning the loss of Federal funding will inevitably require some form of increased State spending in the future.

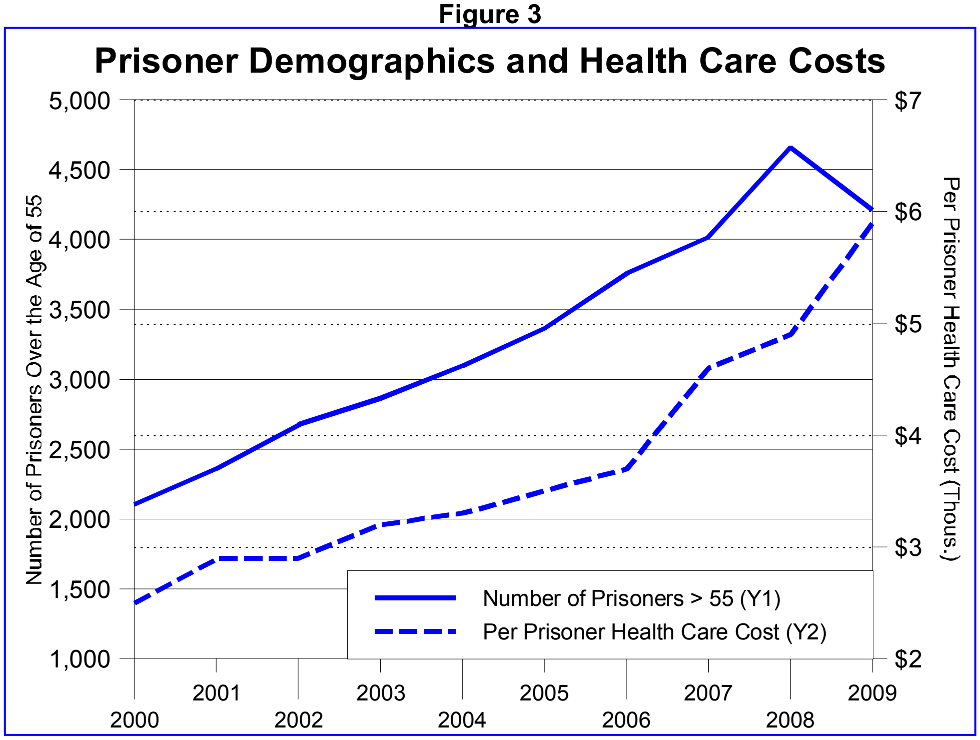
Corrections: Appropriations in the Department of Corrections (DOC) have increased by 29.1%, or $441.7 million, over the past decade. This is due to the rising cost of employee economics, an increase in the number of individuals incarcerated statewide, and growing prisoner health care costs.

The Department of Corrections maintains the largest staff statewide, at 15,746.1 FTE. Rising personnel costs as well as other economic adjustments are responsible for a sizeable increase in departmental spending, equal to $502.6 million over the past 10 years. While the Department has experienced a significant decline its workforce of 16.6%, or 3,127.7 FTE, this has not been sufficient to combat rising costs.

Policy changes and demographics have also contributed to rising costs. Growth in the population has resulted in an increase in spending of $39.3 million[1], although the aging population and associated health care costs are likely more pertinent. The percentage of the prison population consisting of individuals over the age of 55 was 4.4% in FY 1999-2000. In FY 2009-10, the same age group comprises 9.4% of the prison population. Furthermore, the total number of prisoners between the ages of 40 and 55 has increased by 23.0% in the last 10 years, indicating that the growing trend in prisoner demographics is likely to continue.

Spending on prisoner health care has increased by 116% over the past 10 years, costing the State $139.5 million. While the inflationary costs of medical care or medical CPI account for a significant portion of this increase, the aging prison population also has contributed to costs. Figures show that medical inflation was 49.0% over the last decade and is a significant contributor to the rising costs of prisoner health care. However, even when medical CPI is accounted for, prisoner health care costs have increased by 45.0% more than inflation.[2] This additional increase is likely due to the case-mix load identified in Figure 3. With an aging prison population, the incidence of chronic and costly illnesses is greater.

Figure 3



The Department of Corrections has made attempts to reduce spending through camp and facility closures. In the past 10 years, the State has closed six correctional facilities and all 10 of its prison camps. In addition to this, it has consolidated three facilities. These closures are estimated to have saved DOC $226.1 million. Additional savings have been realized through operational efficiencies, such as food supply and transportation spending, and administrative adjustments, such as the consolidation of business functions between facilities. While a reduction in the housed prison population and associated services has brought about savings, spending continues to rise. This is, in part, a result of increased spending for community monitoring.

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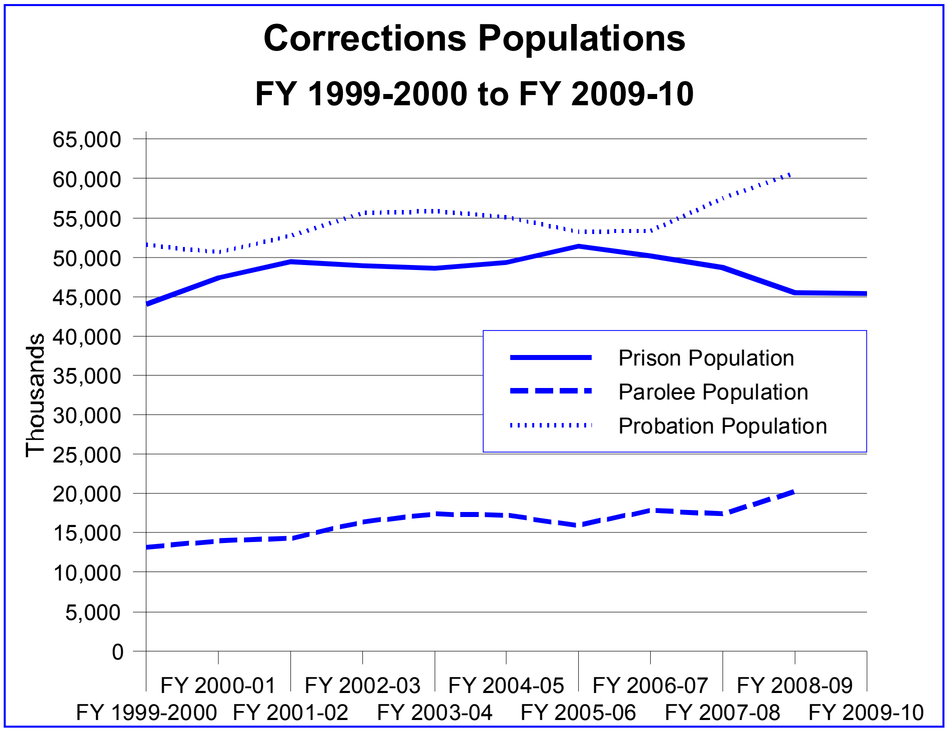
1) Calculations in this section were derived by using prisoner population and expenditure data as presented in the year-to-date FY 2009-10 appropriations. Neither actual year-to-date nor average prison population data were available for FY 2009-10 at the time of publication.

2) Percentage increases do not total 116% as a result of compounding.

The Department of Corrections has been able to reduce the housed prison population by making a concerted effort to release eligible inmates. This has caused an increase in the number of individuals under community surveillance. In FY 1999-2000, the Department was responsible for monitoring a total of 64,804 individuals on parole or probation. In FY 2009-10, the Department's community monitoring responsibilities are considerably greater. It now monitors a total of 81,107 individuals on parole or probation. This is an increase of 25.0%, or 16,303 individuals, from FY 1999-2000 figures. The growth in this population has not been without cost, increasing departmental spending by $42.4 million over the past 10 years. Paroling an increasing number of eligible prisoners has led the Department to increase its investment in equipment for community monitoring, which has negated much of the cost savings that may have otherwise been realized as a result of releasing eligible prisoners.

Figure 4



While the incarcerated population in Michigan has experienced a measurable decline in recent years, populations subject to community monitoring are on the rise (Figure 4).

Education: The Department of Education (DOE) has seen a decline in appropriated TSS of 58.9%, or $38.5 million, over the past decade. The bulk of this reduction is attributable to a two-thirds cut in the appropriation allocated for the Library of Michigan.

The Library of Michigan was an autonomous entity in FY 1999-2000 and was appropriated approximately $35.0 million. Over the past decade, the Library of Michigan was absorbed by the DOE and its appropriation cut by nearly $24.0 million, leaving a total appropriation of $11.0 million in FY 2009-10.

In addition to the significant cuts to the Library of Michigan, the decline in the DOE's appropriations can be attributed to the elimination of TSS for the Student Drivers program, which resulted in a decline of nearly $8.0 million in TSS, and a shift of approximately $4.0 million for the Michigan School for the Blind from TSS to Federal spending.

Energy, Labor, and Economic Growth: The Department of Energy, Labor, and Economic Growth (DELEG) has seen a net increase in appropriations of 30.8%, or $106.9 million, in the last 10 years.

This increase can be largely attributed to the creation of the Low-Income and Energy Efficiency Fund (LIEEF) as well as numerous new occupational regulatory fees.

Public Act 141 of 2000 created LIEEF. The creation of this Fund accounts for an increase in appropriations of $90.0 million to DELEG. The Fund is administered by the Public Service Commission within DELEG. It provides shut-off and other protection pertaining to utility costs for low-income households. Funding originally resulted from securitization savings that exceeded the statutory minimum required for reducing the payments of low-income customers by 5.0%. Beginning in 2004, this mechanism was replaced by Public Service Commission orders that established contributions to the LIEEF as part of the resolution of specific utility rate cases.

DELEG has also seen a $28.6 million increase in spending on occupational regulation. Over the past 10 years, the Legislature has enacted statutes to regulate a growing number of occupations. Enforcement and monitoring of these regulations are paid for by occupational licensing fees. The Department has seen an increase of State Restricted spending as a result of these regulations and fees.

It is also worthwhile to note that DELEG maintains a large staff, totaling 4,680.5 FTEs as of FY 2009-10. Even while maintaining a large staff, DELEG has seen nearly a 1.0% decline over the past decade, equal to 43.4 FTE. This is despite taking on a vast array of new responsibilities within State government. Therefore, the rising costs of employee economics is considered a factor in increasing costs within DELEG, albeit, not a primary factor.

Increased costs beyond the net have been offset by programmatic reductions. Notable cuts include recent reductions in spending for No Worker Left Behind, Michigan Nursing Corps, the Worker's Compensation Agency, Welfare to Work, and the Fire Bureau.

Executive: The Executive Office has seen a decline of 11.8%, or $640,000, over the past 10 years. This decline in TSS is a reflection of economic adjustments made to address budget constraints.

Higher Education: Appropriations for Higher Education in the State of Michigan have seen a 16.2%, or $297.3 million, decline in TSS over the past decade. This decline primarily consists of cuts to student financial aid, but also represents cuts to funding for State university operations.

Nearly $200.0 million in TSS that has been cut from this budget is in financial support for students. Of particular note is the elimination of the Michigan Promise Grant/Merit Award, which accounted for $86.0 million in TSS in FY 1999-2000. While spending on financial aid has seen a significant decline, university enrollment has seen a measurable increase. The number of fiscal year-equated (FYE) students enrolled at State universities has increased by 13.0%. Specifically, 29,257 more FYE students are enrolled in FY 2009-10 than were in FY 1999-2000. The increase in enrollment is notable given the poor state of the economy, rising tuition costs, and Michigan's declining population.

The State of Michigan maintains 15 public universities, which receive annual appropriations from the Higher Education budget. University operations have experienced approximately $70.0 million of TSS reductions, which have forced the colleges to find efficiencies and other sources of revenue. Much like community colleges, Higher Education institutions have sought out methods to generate increased revenue, primarily through raising tuition rates, in an effort to make up for declining State appropriations. Universities also have had to explore cost-saving opportunities, including changes in course scheduling and staff adjustments.

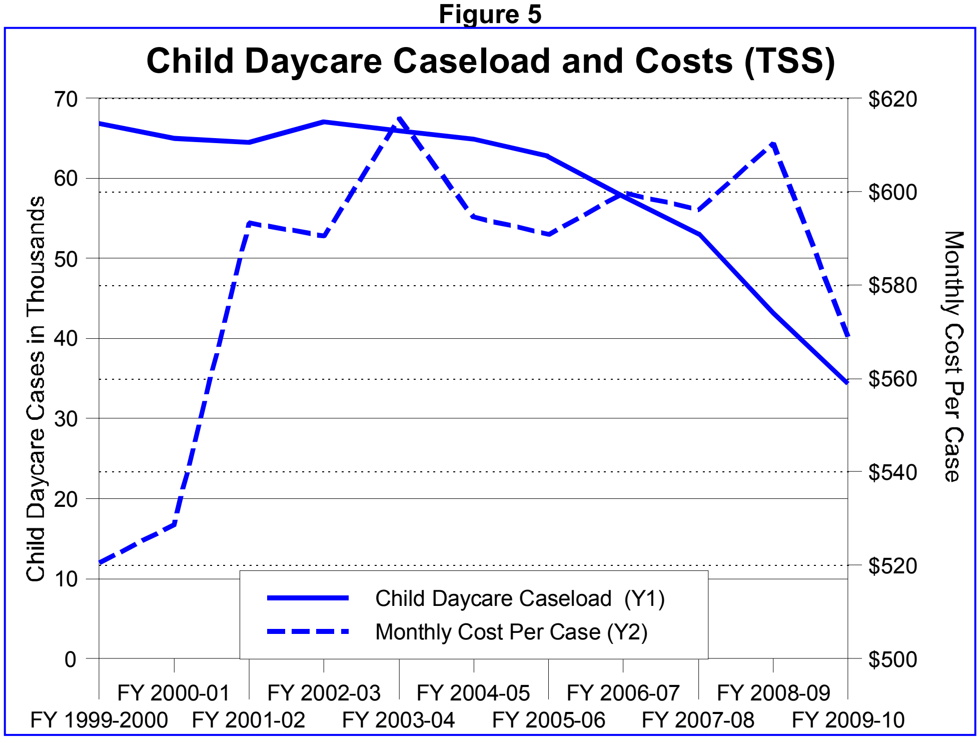
The budget for Higher Education is different than its counterparts due to the autonomy guaranteed to universities under the Michigan Constitution. The Constitution, in effect, prohibits the Legislature from influencing the governing of schools through the appropriations process. Ultimately, the Legislature has very little programmatic impact on this budget and cannot enact changes in order to generate savings they deem appropriate. Instead, they must rely on the institutions themselves to make efficient use of funding.

Human Services: The Department of Human Services (DHS) has experienced a decline in TSS of 19.7%, or $253.8 million, over the last decade. This decline is largely a reflection of the declining children's daycare caseload as well as a fund shift. A measurable portion of spending on the DHS has shifted away from GF/GP support and toward Federal funding. A significant portion of this 19.7% decline represents a shift in funding sources rather than a set of reductions or eliminations of DHS programs.

The children's daycare caseload has experienced significant declines in the past 10 years. The average annual caseload was 66,811 in FY 1999-2000 but declined by 48.0% to 34,952 in FY 2009-10. Despite the poor economy, it is expected that caseloads will continue to decline, in part, due to low birth rates in Michigan. This decline in caseload has allowed the Legislature to cut $88.4 million of General Fund spending that otherwise would have been necessary to fund programs related to the children's daycare caseload.

Costs in the Department of Human Services have, in part, been restrained by the decreasing child daycare caseload. (Figure 5)

Figure 5



In addition, the Legislature has been able to supplant a large portion of TSS with Federal funding in the DHS budget. In FY 2009-10, the DHS budget used $197.0 million of Federal funding that is available through a Temporary Assistance for Needy Families (TANF) block grant. This fund was created by Congress under the 1996 Federal Welfare Reform legislation and made available to states experiencing unusually poor economies. Michigan has been receiving this funding since FY 2007-08 and has become reliant on it to balance the DHS budget. The emergency TANF funds were intended to provide temporary relief to states. However, due to the poor national economy, the original TANF block grant has been all but exhausted. Congress renewed some of this funding in conjunction with the passage of ARRA. However, if Michigan ceased to have access to this funding in the future, it would need to increase TSS in the DHS budget by $197.1 million to provide the same level of services present today.

In addition to using TANF funds, the Legislature was able to shift approximately $45.0 million of cost away from TSS by using ARRA funding in FY 2009-10. The $45.0 million of ARRA funding was allocated to a Child Care Development Block Grant, an increased Medicaid match rate for foster children, and administrative services for the Food Assistance Program. In FY 2010-11, these funds will cease to be available, which will require an increase in TSS if the level of services currently provided by DHS is to be maintained.

Looking ahead, it is important to note that in 2008 the State of Michigan settled a lawsuit with the nonprofit organization "Children's Rights", which has future cost implications. Children's Rights charged the State with failing to meet its obligations to foster children. Specifically, in the settlement, the parties agreed that, among other things, the State had failed to adequately provide access to health care, education, and an adequate caseworker to child ratio. The settlement reached will require the State to fulfill a significant number of requirements and targets over the next several years, including organizational restructuring, caseload reductions, and provision of additional staff. Successfully meeting the terms of the settlement will not only require additional State spending by DHS, but actively limit the programs in the Department that can sustain spending reductions.

Judiciary: The Judicial branch has seen an increase in appropriations of 9.6%, equal to $21.3 million, over the past 10 years. The bulk of this increase, $17.0 million, is a 9.6% result of increases in judges' compensation. An increase in juror compensation accounts for an additional $6.6 million of the total increase.

Increases in excess of the total have been offset by cuts within the Judicial branch, which have been driven by a 15.8% cut in FTEs.

Legislative Auditor General: The Legislative Auditor General has seen a minimal increase of 1.3%, or $162,300, in the past decade. This is attributable to economic adjustments, primarily an increase in costs, and does not represent any significant changes in programming.

Legislature: The Legislature has seen an increase in appropriations of 1.7%, or $1.7 million, in the last decade. This is a relatively insignificant change and can be attributed to economic adjustments, including an increase in salaries, retirement, and insurance costs over the past 10 years.

Military and Veterans Affairs: The Department of Military and Veterans Affairs (DMVA) has seen a 2.6% decline in TSS appropriations over the past 10 years, equal to approximately $1.7 million. While this is a measurable decline, it is important to note that in FY 1999-2000 the Department received supplementary appropriations as well as a contingency fund transfer, totaling $1.7 million. These appropriations were primarily used to fund a Vietnam veterans' memorial as well as a portion of the Grand Rapid's Veterans Home. When adjusted for these one-time supplementary funding sources, appropriations for the DMVA have been relatively flat over the past decade.

Natural Resources and Environment: The Department of Natural Resources and Environment (DNRE) has seen a decline in TSS appropriations of 17.0%, or $92.7 million, over the past 10 years. This is due to a decline in one-time funding as well as reductions in DNRE programming.

In FY 1999-2000, DNRE (at the time, DEQ and DNR) received a total of $79.7 million of TSS in supplemental appropriations from PA 265 of 1999 and PA 291 of 2000. Of the total, $32.3 million was appropriated for DNRE operations and almost all of this funding was allocated to fisheries management programs and local recreation grants. The remaining $47.4 million was supplemental appropriations for DNRE capital outlay projects, namely the waterways boating program, State park remodeling, and land acquisitions. This one-time funding is not present in the FY 2009-10 budget and explains the majority of the $92.7 million decline.

In addition to the absence of one-time funding, the DNRE has experienced a measurable decline in Michigan Underground Storage Tank Financial Assurance (MUSTFA, aka Refined Petroleum Fund) appropriations. These funds are used to remove or clean up leaking or hazardous underground storage tanks. A decline of approximately $26.0 million in MUSTFA spending reflects a decline in available revenue specifically designated for this purpose. This revenue is reliant on a portion of taxes on refined petroleum products within the State. A decline in MUSTFA spending has been cited as the reason why cleanup efforts statewide continue to lag behind demand.

Natural Resources Trust Fund: Expenditures in the Natural Resources Trust Fund (NRTF) have increased by 30.5% or $8.3 million, over the past decade. This reflects an increase in expenditures authorized by the Michigan Natural Resources Trust Fund Board for land acquisition and State property maintenance, driven by an increase in NRTF revenue.

The NRTF receives revenue from royalties paid by users of Michigan's nonrenewable resources, primarily oil and gas. This revenue is protected by the Michigan Constitution and may be used only for NRTF projects. The amount permitted to be spent by the NRTF is equal to the interest on the permanent investment plus one-third of the annual leases and revenue. Expenditures are determined by the Michigan Natural Resources Trust Fund Board, which meets annually to approve local and State government applications and award grants for recreation and land development projects. The $8.3 million increase in expenditures represents an increase in spending, primarily as it pertains to land acquisition.

The NRTF is funded through user fees paid by the consumers of Michigan's nonrenewable natural resources and its prospects in the near future remain positive. The NRTF continues to acquire new land and explore this land for mineral resources that can be used to generate more revenue in an effort to maintain adequate funding.

School Aid: The School Aid budget has seen an increase in TSS appropriations of 6.3%, or $639.0 million, over the last decade. While this appears to be a significant increase, the large majority of the change in School Aid appropriations reflects a shift away from local funding toward TSS. The remaining increase in funding represents a net increase in categorical funding for School Aid programs.

Of the $639.0 million increase in appropriations that School Aid has experienced over the past 10 years, $447.0 million represents a shift away from local funding and toward TSS. This shift occurred in FY 2008-09 and was the result of changes in the taxation of businesses. Specifically, industrial and commercial personal property owners were relieved of paying a portion of local school operating taxes, and the State made up the lost revenue through increased State spending. Therefore, while State spending to schools increased by $447.0 million due to these changes, schools lost the equivalent amount in local revenue.

This $447.0 million shift in funding from local revenue to TSS is of particular note when examining the growth in the K-12 foundation allowance over the past decade. Without adjusting for the shift in funding, it appears that the State funding of the foundation allowance, which funds schools on a per-pupil basis, has grown by $472.7 million. However, when the shift is accounted for, it is clear that real growth in the foundation allowance is equal only to $25.7 million over 10 years.

The $25.7 million growth in per-pupil funding is due to statutory increases in the minimum foundation allowance over the past 10 years. In FY 1999-2000, the minimum foundation allowance was $5,700. However, in FY 2009-10, the effective minimum foundation allowance is $7,162. A great deal of the increase in per-pupil funding has been made possible by higher local revenue supporting school operations and a measurable decline in K-12 enrollments. Over the past decade, the number of K-12 students enrolled has experienced a decline of 6.0%, or 100,840.

In addition to the $25.7 million increase in the foundation allowance, the School Aid budget has experienced a net increase in categorical spending, which accounts for the remaining increase of $165.6 million in TSS. Categorical spending refers to programs supported by School Aid, which is not related to per-pupil spending. This increase represents a number of funding changes in categorical spending that include both large increases and decreases. Categorical spending units that have seen a significant increase include special education, at-risk, renaissance zone reimbursement, school bond payments, intermediate school district (ISD) grants for children ages 0-5, school readiness programs, cash flow borrowing costs, and declining enrollment grants. Meanwhile, several units of categorical spending have seen a significant decrease in investment; these include the teacher technology initiative, adult education, hold harmless payments, and the Detroit Public Schools grant, among others.

Additionally, it is important to recognize the prevalence of ARRA funding in the School Aid budget in recent years. In FY 2009-10 alone, School Aid used $450.0 million in ARRA funding. The FY 2010-11 budget further assumes that $184.0 million of ARRA funding will be appropriated. However, in FY 2011-12, ARRA funding will no longer be available. Currently, ARRA funds are being used to supplant TSS and prevent deep cuts in the School Aid budget. When this funding source is eliminated, either new revenue will have to be generated or spending further cut. Were the full amount of eliminated ARRA funding cut from the foundation allowance, school districts would experience a $282-per-pupil cut. This is particularly significant because districts experienced a $154-per-pupil cut in FY 2009-10, meaning school districts could potentially experience a total cut of $436 per pupil in a three-year period.

State: The Department of State has experienced an increase in TSS appropriations of 58.9%, or $69.1 million, over the past decade. This increase is almost wholly attributable to the Transportation Administration Collection Fund (TACF), which consists of State Restricted revenue.

Public Act 152 of 2003 created the TACF, in part, to fund the Department of State's operations. Funding is provided through both fees and a GF/GP appropriation. The FY 2009-10 budget includes $111.9 million in TACF funding. Of this amount, $40.0 million reflects funding that was shifted to an IDG in FY 2001-02 and reinstated to TSS via the TACF in FY 2003-04. Therefore, appropriations for TACF represent a real increase in TSS of $71.9 million. This increase in TACF appropriations is used to fund a number of programs and services administered by the Department of State. Funds are primarily used to support the Secretary of State's vehicle registration services, branch operations, and other transportation-related programs.

State Police: The Department of State Police has seen an increase in TSS appropriations of 26.3%, or $83.1 million, over the past 10 years. This increase reflects the increasing costs of a staff-heavy department as well as the costs associated with technology updates.

The Department of State Police maintains one of the larger workforces within the State and has experienced increased costs associated with employee economics, despite a decline in FTEs. In FY 1999-2000, the Department of State Police maintained a workforce of 3,370 FTEs. In FY 2009-10, that number has declined by 15.0%, or 504 FTEs, for a total of 2,866 FTEs. In spite of the reduction in FTEs, the Department spends approximately $41.0 million more in FY 2009-10 on At-Post Troopers alone than it did in FY 1999-2000. Costs for support staff and other FTE categories have increased as well.

In addition to staff costs, increased spending in the Department of State Police has been driven by new technology. Investments in information technology and Forensic Science Laboratory operations account for an increase in spending of $36.1 million.

Finally, other additional increases in spending are a result of the increased cost of building rent, fleet rental, and workers' compensation.

Technology, Management, and Budget: The Department of Technology, Management, and Budget (DTMB) has seen a decline in TSS appropriations of 22.8%, or $108.1 million, over the last 10 years.

This decline is significant but primarily reflects a decrease in one-time supplementary spending, rather than a reduction in annual spending authority.

In FY 1999-2000, the DTMB received $105.0 million in supplementary spending. Public Act 291 of 2000 included $37.1 million in supplemental appropriations for the DTMB. Of the $37.1 million, $11.0 million was allocated for arts and cultural grants, while $23.0 million was allocated for e-Michigan, an initiative to develop a State government website. Supplemental capital outlay expenditures for the DTMB were included in both PA 265 of 1999 and PA 291 of 2000, totaling $52.1 million. The bulk of the $52.1 million was allocated to major special maintenance and remodeling projects for State department buildings. The majority of these supplementary funds were appropriated to the Detroit Institute of Arts, the Grand Rapids Convention Center, the Detroit Zoo, the Kalamazoo Aviation History Museum, and the Public Broadcasting Radio and Television Conversion. Supplemental expenditures in the DTMB for FY 1999-2000 totaled nearly $90.0 million and are no longer maintained, either because they were intended as one-time projects or due to lack of funding availability.

The remaining decline in appropriations is a result of a decline in the appropriation awarded to the State Building Authority (SBA). The SBA was created by PA 183 of 1964 and is intended to furnish, renovate, construct, and equip State property. In FY 1999-2000, the SBA was appropriated $250.9 million. However, in FY 2009-10, the SBA receives $235.4 million. This has resulted in an additional $15.5 million decline in the DTMB budget over the past 10 years.

Transportation: The Michigan Department of Transportation (MDOT) has seen a decline in TSS appropriations of 1.7%, or $34.7 million, in the last 10 years. While this is a measurable decline, it represents the elimination of one-time supplementary spending in the FY 1999-2000 budget rather than a decline in annual appropriations.

In FY 1999-2000, MDOT received approximately $35.0 million of TSS in supplemental appropriations. Of that amount, just over $30.0 million was allocated for improvement of Michigan's local airports. Other funds were invested in bus capital, department buildings and upgrades, environmental pollution control measures, and energy savings and modifications programs. In FY 2009-10, the appropriation for capital outlay is significantly reduced, totaling $2.3 million. Fiscal year 1999-2000 saw a particularly large investment in capital outlay. The Department has not maintained this level of spending in capital outlay, which explains the bulk of the 1.7% decline.

The remaining $7.0 million in cuts consist of shifts away from TSS, better leveraging of Federal transportation dollars and ARRA funding, and an actual decline in TSS spending due to decreased availability of gas tax revenue.

Treasury-Debt Service: The Department of Treasury maintains a Debt Service unit, which is responsible for Michigan's general obligation (G.O.) bonds. Debt service payments have declined by 38.6%, or $27.2 million, in the last 10 years.

This decline is a result of the Department's refinancing and restructuring of several of the G.O. bonds in the preceding years. In some cases, the restructuring of bonds pushed debt service costs into future fiscal years. This refinancing led to significant declines in payments toward the Quality of Life Bond, and to a lesser degree the Water Pollution Control and Interest Redemption Bond, totaling nearly $30.0 million. This decline was offset somewhat by a new payment toward the Great Lakes Water Quality Bond equal to approximately $2.6 million.

Treasury-Operations: The Department of Treasury Operations has seen an increase in TSS appropriations of 28.3%, equal to $81.3 million. This increase is primarily a result of an increase in appropriations for grants and tax programs.

Treasury Operations has experienced the most significant increases due to new grants, namely from the Convention Facility Fund and the Commercial Mobile Radio Service Payments. The Convention Facility Fund distributed $25.0 million in FY 2009-10 alone for the Cobo Center in Detroit. Meanwhile, the Commercial Mobile Radio Service Payments account for $27.0 million and are used for payments to providers and charge-backs to local units of government for the provision of 911 telephone service.

In addition to a significant increase in grant spending, the Department of Treasury has increased spending on tax programs. Specifically, it has dedicated more money to collections, processing, and implementation programs for the new Michigan Business Tax. Other less notable increases in spending can be attributed to the increased costs of operations in both the Lottery and casino games programs.

Treasury-Revenue Sharing: Revenue sharing, maintained by the Department of Treasury, has declined by 33.9%, or $497.9 million. This decline reflects a fund shift due to a change in the way that revenue sharing is financed as well as an actual decline in statutory payments to local units of government.

In FY 2004-05, Michigan ceased statutory revenue sharing payments to counties and accelerated the collection of county taxes from winter to summer. The resulting windfall of revenue was deposited into an account, which the State maintained and allowed counties to draw annual payments from. Withdrawals were calculated based on a county's annual revenue share, taking into account inflation. This process resulted in a funding shift, and created a decline in TSS equal to approximately $190.0 million.

The remaining decline, equal to $310.0 million, is an actual decline in statutory revenue sharing payments to cities, villages, and townships (CVTs). Due to a decline in available revenue, the Legislature has cut revenue sharing payments to CVTs. Constitutional revenue sharing payments cannot be cut. This means that CVTs that receive a greater proportion of their revenue sharing in statutory, rather than constitutional, payments have experienced a greater decline in State financing over the past decade. In fact, in FY 2009-10, 1,207 municipalities will see no statutory revenue payment at all.

Treasury-Strategic Fund: The Strategic Fund, maintained by the Department of Treasury, has seen a decline of 64.4%, or $120.1 million, in the past 10 years. Of this decline, $100.0 million can be attributed to the elimination of two funds.

In FY 1999-2000, the Strategic Fund received a one-time supplementary appropriation equal to $50.0 million to create the Michigan Core Communities Fund. This Fund was established to assist local communities with land acquisition and economic development projects, but was no longer funded after FY 1999-20. Additionally, in FY 1999-2000, $50.0 million was appropriated for the Health and Aging Research and Development Initiative and funded by the State's tobacco settlement. This funding has since been redirected and the program eliminated.

Several other funding cuts have contributed to this decline. However, the impact of the cuts has been less severe than it otherwise would be because the reductions have been offset by new spending in the 21st Century Jobs Program. Approximately $54.0 million has been cut in Job Creation Services, Economic Development Job Training Grants, and the Council for the Arts. Meanwhile, $36.5 million of increased spending has been used to create or support the Michigan Promotion Program, the Business Incubator Program, and the 21st Century Jobs Fund. In total, these changes have led to a net decline of approximately $18.0 million.

CONCLUSION

State spending in Michigan has increased by a total of 3.0% in the past 10 years. However, this increase does not truly reflect a growth in State government. In most cases, the increase has failed to keep pace with increasing operations costs and has resulted in very little or no programmatic growth. Where significant increases in TSS have occurred, they have been offset elsewhere.

The principal causes of increased spending are related to employee economics and caseload adjustments, with the most obvious cases being the Department of Corrections and the Department of Community Health. Unless changes to current policy are made, it is unlikely that significant spending reductions will be realized in these budgets. In fact, spending in these areas is likely to increase. Furthermore, making comprehensive changes to current policy may prove difficult due to maintenance of effort (MOE) requirements and recent legal settlements.

A decline in State spending is primarily a result of FTE reductions and a shifting of costs from TSS to Federal spending. Some programmatic reductions have been seen, such as the elimination of the Michigan Merit Award, the two-thirds reduction in appropriations for the Library of Michigan, and the elimination of Teacher Technology Grants, to name a few. The State, however, has avoided many other programmatic reductions thus far by relying on increased Federal funds.

Looking ahead, the elimination of Federal ARRA funding in FY 2011-12 likely will necessitate further spending reductions. Reducing expenditures in conjunction with the elimination of ARRA funding will be challenging due to ongoing Federal requirements, legal issues, and other ongoing spending requirements. Meanwhile, any increase in TSS will merely supplant funding for programs that are currently relying on ARRA dollars, and will be unable to support any new services or programs for the State of Michigan.

To a large extent, the past 10 years of spending in Michigan have been characterized by one-time solutions to long-term problems. The State now has exhausted many of these options, as well as the Budget Stabilization Fund and several avenues of Federal funding. Continuing to change payment schedules, adopt new tax or revenue sharing formulas, or cut employee economic costs through early retirement programs is unlikely to be enough to fix Michigan's structural deficit. In the coming years, Michigan will have to embrace comprehensive structural changes in both revenue and expenditures if it hopes to continue providing the services that the residents of the State have come to expect and meet the constitutional requirement of a balanced budget.