

fiscal forum

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DISCRETIONARY AND REQUIRED SPENDING IN THE STATE BUDGET

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To what extent are state revenue resources available for discretionary spending as determined by the Legislature? The answer to this question depends upon the definition of mandatory (or required) expenditures, because these spending obligations must be met before monies can be allocated to other priorities of state government.

Generally, mandatory outlays are those required by the State Constitution, by statute, by caseloads, or by generally agreed upon legislative priorities. Even with these requirements, however, the Legislature has the ability to determine how the available dollars are allocated by revising statutes to: 1) modify service levels, 2) change client and service population definitions, 3) participate or not participate in federal programs which may entail certain requirements, and 4) make other adjustments which can affect allocations to essential activities. This **Fiscal Forum** estimates required and discretionary spending based on Fiscal Year (FY) 1997-98 appropriations from state revenues.

Under the Management and Budget Act, state spending encompasses all appropriations from taxes and non-tax revenues paid to the State of Michigan. This definition excludes appropriations made from federal, local, and private sources.

Section 201 of each appropriations act calculates total state spending included in that act and details appropriations from state spending allocated to local units of government pursuant to Article IX of the State Constitution.

In this **Fiscal Forum**, FY 1997-98 year-to-date appropriations were categorized as:

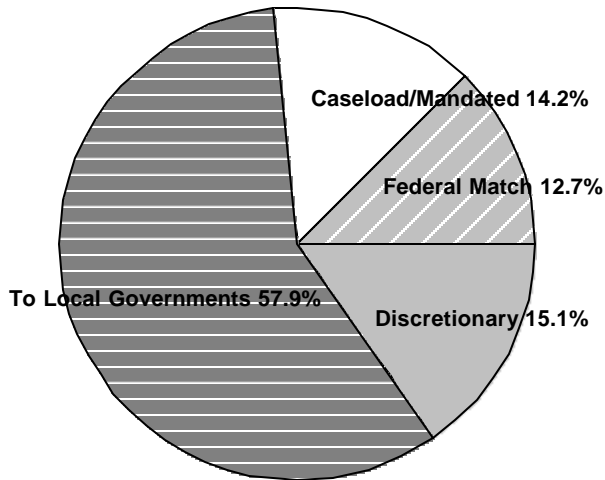
- 9 Statutory payments to local governments,
- 9 Funds needed to match federal monies,
- 9 Caseload- or population-driven appropriations,
- 9 Other required spending, and
- 9 Appropriations which were not required (i.e., discretionary).

Required State Spending

Of the \$22.4 billion in total state spending available shown in the chart on the following page, \$19.1 billion was for required spending:

- 9 Constitutional payments to local governments,
- 9 \$2.9 billion (12.7%) for matching federal funding,

Required and Discretionary State Spendin



Total FY 1997-98 Funds Available: \$22.4 billion

- 9 \$13.0 billion (57.9%) returned to local governments, and
- 9 \$3.2 billion (14.2%) provided to meet caseload demands or required functions of state government.

The balance of state spending, \$3.4 billion (15.1%), was viewed as discretionary.

The following discusses major types of required state spending and notes caveats to keep in mind when evaluating these expenditures. That portion of caseload-related spending which could have been included in more than one of the categories shown in the table has been assigned to a specific category to avoid double counting.

Matching Federal Funds

The almost \$2.9 billion in state funds used to match federal funds included:

- 9 \$2.0 billion for the state's share of Medicaid;
- 9 \$553.1 million for the state's share of child care, adoption subsidy, Family Independence Program, foster care, SSI supplementation and state disability programs;

- 9 \$183.1 million for the state's match for road and bridge construction and public transportation projects; and
- 9 \$44.2 million for the state's match for resource protection projects.

It seems that the amount of state funds required would be dictated by federal monies received. In fact, however, the amount of federal monies received is the result of the amount of state money allocated for programs with federal matching requirements. The amount allocated for those programs is determined by the Legislature.

Local Units of Government

Article IX, Section 30 of the *Constitution of the State of Michigan of 1963* provides that at least 48.97% of state spending from state resources must be paid to all units of local government. The preceding chart and the table on the opposite page show that combined constitutional and statutory spending to local governments for FY 1997-98 totaled almost \$13.0 billion — comprising 57.9% of all spending from state source revenues.

The constitutional portion of that almost \$13.0 billion included \$7.5 billion in guaranteed minimum foundation grants for K-12 education. The State Constitution also mandated:

- 9 general revenue sharing (\$565.5 million),
- 9 resource protection projects (\$17.8 million), and
- 9 crime victims grants (\$3.4 million through Management and Budget).

Statutory funding to local governmental units totaled \$4.9 billion, including:

- 9 \$1.8 billion for school aid,
- 9 \$1.1 billion for transportation grants,
- 9 \$807.9 million for statutory

revenue sharing,
9 \$294.8 million for community colleges and other education grants, and

9 \$93.2 million for a variety of grant programs funded by the Regulatory appropriations act.

**State of Michigan
Required and Discretionary Appropriations from State Source Revenues
FY 1997-98**

(Dollars in Millions)

Department/ Major Budget Area	Total State- Source Revenues	Needed to Match Federal Funds	To Local Units of Government			Caseload or Other			Appropriations	
			Consti- tutional	Statutory	Subtotal	Custodial	Required	Subtotal	Total Required	Estimated Discretionary
Community Colleges	\$275.0	\$0	\$0	\$275.0	\$275.0	\$0	\$0	\$0	\$275.0	\$0
Education	57.0	8.8	0	15.2	15.2	0	0	0	24.0	33.1
Higher Education	1,556.4	0	0	4.6	4.6	0	0	0	4.6	1,551.8
School Aid	<u>9,307.4</u>	<u>0</u>	<u>7,498.2</u>	<u>1,809.2</u>	<u>9,307.4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,307.4</u>	<u>0.0</u>
EDUCATION	\$11,195.9	\$8.8	\$7,498.2	\$2,103.9	\$9,602.2	\$0.0	\$0.0	\$0.0	\$9,611.0	\$1,584.9
Attorney General	34.7	1.1	0.0	0.0	0.0	0.0	0.1	0.1	1.2	33.4
Civil Rights	12.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.1
Civil Service	28.1	0.0	0.0	0.0	0.0	0.0	23.1	23.1	23.1	5.0
Executive Office	4.9	0.0	0.0	0.0	0.0		0.3	0.3	0.3	4.7
Legis Auditor General	11.5	0.0	0.0	0.0	0.0		3.6	3.6	3.6	7.9
Legislature	90.6	0.0	0.0	0.0	0.0		21.7	21.7	21.7	68.9
Library of Michigan	31.5	13.9	0.0	13.8	13.8		0.3	0.3	28.0	3.5
Management & Budget	86.1	0.0	3.4	0.0	3.4		0.0	0.0	3.4	82.7
State	117.0	0.4	0.0	0.1	0.1	0.0	0.1	0.1	0.5	116.5
Treas: Operations	227.3	0.0	0.0	75.7	75.7	0.0	0.0	0.0	75.7	151.6
Treas: Debt/RevShare	<u>1,436.9</u>	<u>0.0</u>	<u>565.5</u>	<u>807.9</u>	<u>1,373.4</u>	<u>0.0</u>	<u>63.1</u>	<u>63.1</u>	<u>1,436.5</u>	<u>0.4</u>
GEN GOVERNMENT	\$2,080.7	\$15.4	\$568.9	\$897.5	\$1,466.4	\$0.0	\$112.4	\$112.4	\$1,594.2	\$486.6
Community Health	2,814.0	2,013.9	0.0	458.3	458.3	22.7	85.7	108.5	2,580.6	233.4
Corrections	1,374.1	0.6	0.0	65.2	65.2	1,040.3	0.0	1,040.3	1,106.1	268.0
FIA	<u>1,226.9</u>	<u>553.1</u>	<u>0.0</u>	<u>84.6</u>	<u>84.6</u>	<u>466.6</u>	<u>122.4</u>	<u>589.0</u>	<u>1,226.7</u>	<u>0.3</u>
HUMAN SERVICES	\$5,415.1	\$2,567.6	\$0.0	\$608.0	\$608.0	\$1,529.5	\$208.2	\$1,737.7	\$4,913.4	\$501.7
CIS	257.8	7.5	0.0	33.5	33.5	0.0	184.9	184.9	225.8	31.9
MJC	<u>118.3</u>	<u>10.9</u>	<u>0.0</u>	<u>59.8</u>	<u>59.8</u>	<u>0.0</u>	<u>13.2</u>	<u>13.2</u>	<u>83.9</u>	<u>34.4</u>
REGULATORY	\$376.1	\$18.4	\$0.0	\$93.2	\$93.2	\$0.0	\$198.1	\$198.1	\$309.7	\$66.4
Agriculture	72.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.7	71.9
DEQ	268.4	32.5	0.0	8.0	8.0	0.0	7.4	7.4	48.0	220.5
DNR	<u>190.3</u>	<u>11.0</u>	<u>17.8</u>	<u>4.5</u>	<u>22.3</u>	<u>0.0</u>	<u>2.2</u>	<u>2.2</u>	<u>35.5</u>	<u>154.7</u>
RESOURCE PROTECT	\$531.2	\$44.2	\$17.8	\$12.5	\$30.3	\$0.0	\$9.6	\$9.6	\$84.2	\$447.1
Military/VetsAffairs	55.3	1.7	0.0	0.1	0.1	0.0	0.0	0.0	1.7	53.5
State Police	<u>292.6</u>	<u>14.1</u>	<u>0.0</u>	<u>12.2</u>	<u>12.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>26.3</u>	<u>266.4</u>
SAFETY & DEFENSE	\$347.9	\$15.8	\$0.0	\$12.2	\$12.2	\$0.0	\$0.0	\$0.0	\$28.0	\$319.9
Capital Outlay	372.6	0.0	0.0	0.0	0.0	0.0	233.9	233.9	233.9	138.7
Judiciary	205.2	0.0	0.0	109.5	109.5	78.0	0.0	74.1	183.5	21.6
Transportation	<u>1,891.1</u>	<u>183.1</u>	<u>0.0</u>	<u>1,066.3</u>	<u>1,066.3</u>	<u>0.0</u>	<u>641.6</u>	<u>641.6</u>	<u>1,891.1</u>	<u>0.0</u>
ALL OTHERS	\$2,468.9	\$183.1	\$0.0	\$1,175.8	\$1,175.8	\$78.0	\$875.5	\$949.6	\$2,308.5	\$160.4
SUBTOTAL	\$22,415.7	\$2,853.3	\$8,084.9	\$4,903.2	\$12,988.2	\$1,607.5	\$1,403.8	\$3,007.4	\$18,848.8	\$3,566.9
Retirement Adjustment							<u>\$175.0</u>	<u>\$175.0</u>	<u>\$175.0</u>	<u>(\$175.0)</u>
GRAND TOTAL										
APPROPRIATIONS	\$22,415.7	\$2,853.3	\$8,084.9	\$4,903.2	\$12,988.2	\$1,607.5	\$1,578.8	\$3,182.4	\$19,023.8	\$3,391.9
<i>Percent of Total State-Source Revenues</i>	100.0%	12.7%	36.1%	21.9%	57.9%	7.2%	7.0%	14.2%	84.9%	15.1%

NOTE: That portion of caseload-related spending which could have been included in more than one of the categories shown in the table has been assigned to a specific category to avoid double counting.

Fiscal Year 1997-98 statutory spending to local governments comprised 57.9% of all spending from state source revenues. Hence, it appears that the Legislature had room to reduce statutory spending to local governments while still meeting the minimum (48.97%) constitutional requirement.

Required Caseload or Custodial

The number of prison inmates was the largest population factor in the caseload/custodial category, driving over \$1.0 billion in annual Corrections funding. The Department of Community Health and the Family Independence Agency accounted for \$22.7 million and \$466.6 million respectively in caseload-sensitive outlays. Finally, the Judiciary's court funding formula, based upon weighted court caseloads, resulted in a \$78.0 million outlay for court services.

It is important to note that the caseload-related spending for Department of Community Health and Family Independence Agency actually was much higher than depicted in this funding category on the table. The remaining caseload-related spending was counted in the table either as federal match requirement or as funding to local units of government.

Other Required

Approximately \$1.4 billion was spent for various statutory requirements including:

- 9 transportation projects (\$641.6 million),
- 9 State Building Authority rent (\$233.9 million),
- 9 occupational and health regulation and workers compensation (\$184.9 million),
- 9 debt service (\$63.1 million),
- 9 legislative and library programs (\$25.6 million),
- 9 civil service operations (\$23.1 million),
- 9 unemployment insurance (\$13.2

million), and other items.

Pension Costs

In addition to the required items detailed in the table, the state's retirement contributions must be considered for all state employees, including those not already funded in the required programs category. An adjustment of \$175.0 million was deducted from "Estimated Optional Expenditures" and was added to "Required Appropriations" for state-mandated pension obligations.

A portion of the \$3.4 billion shown in estimated discretionary appropriations paid for functions which might be considered essential. For example, operation of the Departments of State and Management and Budget were considered discretionary expenditures — even though they are key to running state government. These operations, however, are not specifically required by the Constitution, and their level of support is determined by the Legislature.

Also counted as discretionary was \$1.6 billion for higher education — a long-standing legislative funding priority. If this higher education amount had been viewed as required spending, the discretionary spending level would have been reduced to \$1.8 billion, or 8.2% of total state spending.

The methodology used in this **Fiscal Forum** is one approach that can be used to answer the question: To what extent are state revenue resources available for discretionary purposes?

The level of estimated discretionary spending shown here was calculated based upon the foregoing assumptions. To the extent that such assumptions are based on statute, the Legislature, with the concurrence of the Governor, could change the laws and thus modify the assumptions. If the assumptions were to be altered, the resulting analysis would be different.

