

DEVELOPMENT OF THE STATE BUDGET

Creating the state budget is one of the most important activities performed by the legislative and executive branches of Michigan government each year. The state budget is a complete financial plan and encompasses all revenues and expenditures, both operating and capital outlay, of the General Fund, special revenue funds, and federal funds for the twelve-month period extending from October 1 of one year to September 30 of the next. The fiscal year is defined by Act 431 of 1984, as amended. Pursuant to article IX, section 17, of the state constitution, "No money shall be paid out of the state treasury except in pursuance of appropriations made by law."

Constitutional Provisions Relating to the State Budget

The state constitution contains several provisions which govern the development of the state budget. Article V, section 18, of the Constitution of the State of Michigan of 1963 provides that:

The governor shall submit to the legislature at a time fixed by law, a budget for the ensuing fiscal period setting forth in detail, for all operating funds, the proposed expenditures and estimated revenue of the state. Proposed expenditures from any fund shall not exceed the estimated revenue thereof.

The amount of any surplus or deficit in any fund for the last preceding fiscal year must also be included in the succeeding fiscal year's budget.

At the same time the budget is submitted, the governor submits to the legislature **general appropriation bills** embodying the proposed expenditures. The budget bills are to contain the individual line item accounts, including the number of full-time equated (FTE) positions to be funded. The governor also submits any necessary legislation to provide new or additional revenues to meet proposed expenditures (an appropriation bill, when enacted, provides the legal authorization to make specified expenditures for specified purposes). Like all other bills, appropriation bills need to be introduced by a member or members of the house of representatives or senate before they can be considered by the legislature. Any bill requiring an appropriation to carry out its purpose is considered to be an appropriation bill.

Once the appropriation bills have been introduced into the legislature, the constitution permits the governor to submit amendments to the appropriation bills during consideration of the bills by either house. In practice, however, amendments are offered by members of the house or senate rather than by the governor.

The governor is also required to submit bills to meet deficiencies in current appropriations. The governor may use any number of procedures to fulfill these constitutional requirements, such as asking a legislator to offer amendments to a bill already introduced or to introduce a new bill, or sending letters to the appropriations committees recommending supplemental appropriations or making changes in revenue estimates.

The state keeps track of revenues and expenditures for particular phases of governmental activity through a number of different funds. By statute, the **General Fund** covers all state appropriation, expenditure, and receipt transactions, except those where special constitutional or statutory requirements demand separate fund accounts. Most of the traditional state services are included in this fund. The General Fund is the predominant element in the annual budget review and enactment from the viewpoints of both appropriations and taxes. This is evidenced by the frequent identification of the "General Fund" with the State of Michigan as a whole. The General Fund is financed by what are defined as general purpose and restricted revenues. General purpose revenues (GF-GP) are not restricted to a particular use. Restricted revenues are those resources which, by constitution, statute, contract or agreement, are reserved to specific purposes. Expenditures of restricted revenues are limited by the amount of revenue realized and amount appropriated. In addition to the General Fund, **special revenue funds** are used to finance particular activities from the receipts of specific taxes or other revenue. Such funds are created by the state constitution or by statute to provide certain activities with definite and continuing revenues. Other types of funds include revolving funds, bond funds, bond and interest redemption funds, and trust and agency funds.

As specified in article IV, section 31, of the Constitution of the State of Michigan of 1963:

The general appropriation bills for the succeeding fiscal period covering items set forth in the budget must be passed or rejected in either house of the legislature before that house passes any appropriation bill for items not in the budget except bills supplementing appropriations for the current fiscal year's operations.

A key element of the process of developing the state's budget is establishing revenue estimates for each of the state funds in sufficient detail to provide meaningful comparisons and summary totals (estimated balances) for each state fund. These total estimates may not be less than the total of all appropriations made from each fund in the general appropriations bills passed. An attorney general opinion clarified this provision by stating that estimated fund balance plus revenue must cover the total appropriated from each fund.

Section 6 and sections 25 through 34 of article IX of the Constitution of the State of Michigan of 1963 limit state expenditures, specify the proportion of the total state spending which must be paid to local governments each year, and require the state to fund new or expanded programs mandated of local government by state government. One executive budget bill and one enacted budget bill must contain an itemized statement of state spending to be paid to units of local government, total state spending from sources of financing, and the state-local proportion derived from that data.

The 1978 amendments to the state constitution (known as the “**Headlee amendment**”) guarantee that local units will receive a proportion of state expenditures not less than they received in fiscal year 1979, which is 48.97% of state revenues. The state is also required to fully fund the cost of any new programs or expanded services mandated of local governments by the state. Legislation enacted to implement the 1978 constitutional amendments excludes from such mandated costs local government employee wage or benefit increases, expenses associated with federally mandated programs, and requirements that do not exclusively apply to local units of government. An example of the latter would be higher water pollution standards which apply to businesses as well as local governments.

Section 26 of article IX, as approved by the voters in 1978, provides that total state revenues (excluding federal funds) which may be expended in any year:

... shall be equal to the product of the ratio of Total State Revenues in fiscal year 1978-1979 divided by the Personal Income of Michigan in calendar year 1977 multiplied by the Personal Income of Michigan in either the prior calendar year or the average of Personal Income of Michigan in the previous three calendar years, whichever is greater.

This ratio cannot be changed without a vote of the people. If total state revenues in a fiscal year exceed the constitutional limit by 1%, refunds are to be made on a prorated basis to citizens who pay the Michigan income tax or single business tax.

A counter-cyclical budget and economic stabilization fund, commonly referred to as the **Budget Stabilization Fund (BSF)**, was created in 1977 to assist in stabilizing revenue and employment during periods of economic recession. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Also, any time Michigan's seasonally adjusted unemployment rate exceeds 8% in a given quarter, the legislature may appropriate money from the BSF for projects that are designed to create job opportunities.

Development of the Executive Budget

Initial development of each new fiscal year's budget begins approximately 13 to 14 months prior to the beginning of the new fiscal year, when the individual departments submit management plans to the Department of Management and Budget. Briefings and hearings for the purpose of reviewing requests and preparing budget statements that constitute the state budget are held between department officials, the Office of the Budget in the Department of Management and Budget, and the governor approximately 10 to 11 months before the new fiscal year begins. Final decisions on executive budget recommendations are made based upon revenue estimates provided by the January consensus **revenue estimating conference**. These recommendations and revenue estimates are incorporated in the governor's presentation of the budget to the legislature.

The January consensus revenue estimating conference first convened in 1992, pursuant to 1991 PA 72. This conference was created to develop more accurate revenue forecasts, which are used, along with various targets suggested by the governor for the overall budget, to develop the coming year's budget. The revenue estimating conference also establishes an official economic forecast of major variables of the national and state economies. The principal participants in the conference are the Director of the Department of Management and Budget, the Director of the Senate Fiscal Agency, and the Director of the House Fiscal Agency — or their respective designees. The State Treasurer is the designee of the Director of the Department of Management and Budget.

Act No. 431 of 1984, the Management and Budget Act, requires the budget to be submitted within 30 days after the legislature convenes in regular session on the second Wednesday in January, except in a year in which a newly elected governor is inaugurated into office, when 60 days shall be allowed.

After the **governor submits the proposed budget** and accompanying explanations, recommendations, and legislation, the appropriation bills, which are introduced by a member or members of the legislature, are referred to the appropriations committees for hearings and analysis. Legislative passage of the budget bills is usually accomplished prior to the beginning of the new fiscal year. Generally, the governor submits the complete budget in February, the appropriation bills are considered and passed in April by the first house, in early June by the second house, and conference reports or final action is completed around July 4.

The Appropriations Committees

Each house of the legislature has an appropriations committee to review appropriation measures. In 2003-2004, the Senate Appropriations Committee consists of 16 members while the House Appropriations Committee has 29 members. These are the largest standing committees in either house. Both houses' appropriations committees have established subcommittees which generally correspond to the subject matter of the major appropriation bills.

A **Joint Capital Outlay Subcommittee**, consisting of 16 members, 8 from each house's appropriations committee, has also been established. The subcommittee selects its own chair, but in practice alternates the chair between the house and senate every two years. The Capital Outlay Subcommittee is responsible for the review, evaluation, and development of all capital outlay (land acquisition, building and construction, addition, and renovation) projects involving state agencies and public universities and community colleges.

Enactment of Appropriations Legislation

By custom, all the appropriation bills are introduced in both houses simultaneously and are divided between the houses for consideration. The bills usually receive more detailed hearings in the house of origin. Generally, all the **appropriation bills are introduced** by each appropriations committee chair or the ranking member of the governor's party, but traditionally only half of the bills move in each house initially. Currently, the practice is to alternate the house of origin each year. This practice allows both appropriations committees to work simultaneously on the appropriation bills.

The appropriations committees conduct a series of **hearings** on the appropriations legislation. First, the Department of Management and Budget presents an overview of the governor's proposed budget to the committees. House Fiscal Agency and Senate Fiscal Agency staffs provide more detailed briefings to their appropriations committees after the presentation by the Department of Management and Budget. The fiscal agencies also prepare detailed reviews and analyses of the governor's proposals, which are made available to all members of the house and senate. Subsequently, the subcommittees in each house receive more detailed information from department officials regarding the executive budget, hold public hearings, and report their recommendations to the full committees.

In the full house and senate committee meetings, the general format involves having the agency heads in attendance when their agency's appropriations are considered to provide any necessary explanation and clarification. The legislative fiscal analyst who works with the particular bill being considered is also present. The analyst may prepare a report or series of reports on the bill. The chair of the subcommittee that considered the bill offers the **committee amendments or substitutes to the governor's recommendations**. The committee members are then free to ask questions about the bill. If the bill is approved by the full committee, the bill is reported to the floor without changes or with amendments or as a substitute.

Prior to floor consideration, the appropriations bills may be discussed in caucus by both parties. In addition to developing a party position, the caucus provides individual legislators with an opportunity to become better informed on the budget or particular items.

The legislative procedure for consideration of the appropriation bills is basically the same as for other bills except that appropriation measures receive priority on the legislative calendars. In many instances, members who are going to offer amendments will propose the changes to the appropriations committees before floor debate. **Floor consideration** varies considerably depending on the particular subject matter, issues, and other factors. There may be minimal debate or it may

take a whole day or more for a given bill. Fiscal analysts prepare “floor sheets” summarizing the appropriation bill, the difference in funding from the prior year, the governor’s recommendation or the other house’s recommendation, new, expanded or eliminated programs, and total FTEs (full time equated positions) authorized.

Differences between the 2 houses are resolved by a **conference committee** procedure. The committee consists of 6 members, 3 from each house. Traditionally, when differences on any of the appropriation bills necessitate a conference committee, the conferees are usually members of their respective house’s appropriations subcommittees. Rule 8 of the Joint Rules of the Senate and the House of Representatives provides:

The conference committee shall not consider any matters other than matters of difference between the two houses. Adoption of a substitute by either house shall not open identical provisions contained in the other house passed version of the bill as a matter of difference. Nor shall the adoption of a substitute by either house open provisions not contained in either house version of the bill as a matter of difference. When the conferees arrive at an agreement on the matters of difference that affects other parts of the bill, the conferees may also recommend amendments to conform with the agreement. The conferees may also recommend amendments to the other parts of the bill which will be limited to necessary data revisions, adjusting totals, cross references, misspelling and punctuation corrections, conflict amendment for bills enacted into law, additional anticipated federal or other flow through funding, and corrections to any errors in the bill or the title.

The conference committee may reach a compromise and submit a report to both houses of the legislature. If the **conference committee report** is approved by both houses, the bill is enrolled and printed (final copy of a bill in the form as passed by both houses) and presented to the governor. If the conference committee does not reach a compromise, or if the legislature does not accept the conference report, a second conference committee may be appointed.

The same procedures related to approval of other legislation by the governor also apply to appropriation bills, except that the governor has line item veto authority and may disapprove any distinct item or items appropriating money in any appropriation bill. The part or parts approved become law, and the item or items disapproved are void unless the legislature repasses the bill or disapproved item(s) by a 2/3 vote of the members elected to and serving in each house. An appropriation line item vetoed by the governor and not subsequently overridden by the legislature may not be funded unless another appropriation for that line item is approved.

ENACTMENT AND VETO OF APPROPRIATION BILLS, 1982-2002*

Year	Enrolled Appropriations Bills Presented to Governor	Enrolled Appropriations Bills Containing Items Vetoed by Governor
1982	24	13
1983	25	3
1984	23	6
1985	18	5
1986	23	8
1987	23	13
1988	25	4
1989	24	6
1990	26	10
1991	29	16
1992	25	12
1993	22	13
1994	20	7
1995	23	14
1996	22	13
1997	25	8
1998	23	6
1999	22	9
2000	21	12
2001	21	10
2002	24	16

* Includes bills amending the State School Aid Act of 1979.

Budget Revisions

Since state departmental budgets are planned well over a year in advance, there may be a need to adjust appropriations during the fiscal year.

As provided in the state constitution, no appropriation is a mandate to spend. The governor, by executive order and with the approval of the appropriations committees, must **reduce expenditures authorized by appropriation acts** whenever it appears that actual revenues for a fiscal period will fall below the revenue estimates on which the appropriations for that period were based. By statute, any recommendation for the reduction of expenditures must be approved or disapproved by both of the appropriations committees within 10 days after the recommendation is made. A reduction cannot be made without approval from both committees. Not later than 30 days after a proposed order is disapproved, the governor may submit alternate recommendations for expenditure reductions to the committees for their approval or disapproval. The governor may not reduce expenditures of the legislative or judicial branches or expenditures from funds constitutionally dedicated for specific purposes.

The legislature may reduce line item appropriations in supplemental appropriation bills.

Expenditure increases for a new program or for the expansion of an existing program cannot be made until the availability of money has been determined and the program has been approved and money appropriated by the legislature.

Each department may request **allotment revisions**, legislative or administrative transfers, or supplemental appropriations. The Department of Management and Budget must approve revisions to allotments. Transfer of funds within a department are submitted by the Department of Management and Budget to the house and senate appropriations committees for approval. The legislature and governor act on **supplemental appropriation bills** in a manner similar to original appropriations.

Another method for revising an enacted budget — one that does not contemplate involvement by the legislature — is suggested by a 1921 Michigan statute that provides the **State Administrative Board** has the power to “inter-transfer funds within the appropriation for [a] particular department, board, commission, officer or institution.” Invoking this law in a special meeting on May 9, 1991, the board, which consists of the governor, the lieutenant governor, the secretary of state, the attorney general, the superintendent of public instruction, and the state treasurer, adopted 11 resolutions authorizing the transfer of funds from one purpose or program to another within several departments of state government. This action was challenged in a lawsuit filed by the speaker of the house of representatives, the chair of the house appropriations committee, the minority leader of the senate, and the vice-chair of the senate appropriations committee on the grounds that it exceeded the board’s statutory authority and violated the state constitution. On July 9, 1991, the Michigan Court of Appeals held that the State Administrative Board was without authority to inter-transfer funds within state departments. The court concluded that the legislature had intended the Management and Budget Act to occupy the whole field of the budget process and to provide the exclusive means of transferring appropriations within any department. On appeal, the Michigan Supreme Court reversed with regard to this issue, holding, in effect, that the State Administrative Board has authority to transfer appropriated funds from one program to another within a department of state government under Sec. 3 of Act 2 of 1921. *House Speaker v State Administrative Board*, 441 Mich 547 (1993).