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Client Alert

What are the State of Michigan's General Fund Priorities?

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The State of Michigan is faced with its largest surplus in recent memory, and the question around Lansing isn't about restoring service cuts that were necessitated by the recent economic downturn, but rather how to best devise a tax cut. Apparently, either a governmental budget surplus is a grotesque disease the likes of which we haven't seen since the bubonic plague, or all spending priorities for the State have been satisfied so that the money is not necessary to address needed governmental services. Or, more likely, it is an election year so we need not ask such difficult questions because everyone wants to run on a tax-cut platform.

You must really pause and ask yourself what are the spending priorities in Lansing. The Governor has been pushing for an investment in road infrastructure for well over a year, with no success in the legislature. Also, there can be no denying that local governments and public education in the state are clamoring for a need for more money. And, in the case of both primary education and local government, there are numerous examples of communities in a state of serious financial emergency, as declared by the Governor.

In light of those declarations of financial emergency, it is insightful to look at the State's funding priorities to see if there is a way to predict the future of funding for local governments.

Specifically, I was interested to look at how the State views funding for local government as compared to other funding priorities, including public universities. Beginning with the FY 13 budget, the State of Michigan proposed replacing statutory revenue sharing for counties with a new incentive based program for counties, funded initially at $125.6 million in sales tax revenue. There are a total of 83 counties in Michigan to compete for that pool of $125.6 million. The state also advertised that it established an additional $25 million pot of money for cities, villages, townships and counties to compete for reimbursement of expenses associated with new programs to consolidate services. That is also funded from sales tax revenue.[1]

Total recommended funding in the State's FY 14 budget is just over $1.1 billion for the State's 15 public universities.[2] That is roughly equivalent to the total revenue sharing funding proposed for all cities (276), villages (257), townships (1,240), and counties (83) in FY 2014 of $1.1 billion.[3] In other words, the 1,956 municipal governments[4] in Michigan which serve almost ten million residents are receiving a roughly equal share of the State's budget as the State's 15 public universities, with a combined enrollment of 303,554.[5]

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[1] http://www.michigan.gov/documents/budget/EB1_376247_7.pdf, Page A-9.
[2] http://www.michigan.gov/documents/budget/EB1_376247_7.pdf, Page B-29.
[3] http://www.michigan.gov/documents/budget/EB1_376247_7.pdf, Page B-51.
[4] http://en.wikipedia.org/wiki/List_of_cities,_villages,_and_townships_in_Michigan.
[5] http://en.wikipedia.org/wiki/List_of_colleges_and_universities_in_Michigan.

From a population served perspective, this comparison becomes even more ludicrous when you consider that the cities, villages, townships, and counties are actually agents of the State, providing countless state mandated programs to residents on a daily basis. It is even more compelling when you consider that the State has statutorily and constitutionally limited the ability of municipal governments to generate their own revenue. Additionally, there is constitutionally-required revenue sharing for cities that was voter approved when the state sales tax was increased. That portion makes up about 65% ($730 million) of the total authorized revenue sharing budgeted for FY 2014, meaning that the state had no discretion on whether to appropriate those funds.

Further, the State has begun to condition statutory revenue sharing to municipalities on the basis of how those governments measure up to the state's view of best practices, while not providing the same restrictions on public universities. Instead, for higher education, the State has established a performance funding incentive program of roughly $36 million to be distributed to universities who meet certain benchmarks related to graduation rates, the number of Pell grants, and tuition increase restraint.

Comparing State funding for the three University of Michigan campuses to Wayne County's receipt of state revenues tells a more complicated story. The State appropriated $320 million to U of M in FY 2007/08 representing 7% of the University's total annual budget[6]. That funding level has remained relatively flat over the past several years. According to the State's Executive Budget summary for FY 2014, the State appropriated a total of $312.6 million to the three U of M campuses[7].

Of Wayne County's $2.15 billion annual budget, State grants and contracts account for $886.74 million or 41.2%. However, a simple look at the numbers doesn't tell the complete story, as the vast majority of those funds are targeted to specific programs and services. As a creature of the State, Wayne County acts on the state's behalf in delivering services to the residents of the region. The State grants include programming for mental health, public health, road improvement and maintenance, law enforcement training, judicial salary supplements, election reimbursements, state funding for juvenile delinquency and abuse and neglect programs, and state revenue sharing. Health and Human Services, alone, receives over 73% of the state contracts, and the vast majority of that money will no longer even pass through Wayne County as a result of recent state legislation which established the Detroit Wayne Mental Health Authority as a separate legal entity. State revenue sharing represents less than 5% of the total state grants and contracts line item, at merely $38.57 million while state equity funding (to partially offset the cost of operating the district court) adds an additional $15.06 million for FY 2013/14.[8]

Comparing the two budgets, then, you can see that General Fund/General Purpose state dollars to University of Michigan account for about 7% of the University's $4.5 billion annual budget while revenue sharing and state equity, combined, account for just over $53 million to Wayne County, or 2.5% of the County's $2.15 billion annual budget. To put it in perspective, the combined $53 million that Wayne County receives from revenue sharing and state equity funding is about $3 million less than the operational and performance support that the State provides to Grand Valley State University ($56.67 million) with enrollment of less than 25,000 students.[9]

This comparison is not intended to advocate one way or another as to the proper split in funding among municipalities and public universities. Rather, public universities were used simply as a comparison for a funding priority at the state that receives relatively equal treatment to state revenue sharing. However, given the comparison used within this report, it is hard to ignore that the state funding per enrollee at public universities is $3,623 as compared to state revenue sharing to municipalities per resident at $1.12.

Nevertheless, as the State of Michigan debates its current good fortunes surrounding the budget surplus, these are considerations that should be taken into account.

[6] http://www.vpcomm.umich.edu/budget/understanding.html .
[7] http://www.michigan.gov/documents/budget/EB1_376247_7.pdf, Page B-27.
[8] http://www.waynecounty.com/mb/1246.htm, Page 3-11.
[9] http://www.michigan.gov/documents/budget/EB1_376247_7.pdf, Page B-27.