

# Issue Paper

PAPERS EXAMINING CRITICAL ISSUES  
FACING THE MICHIGAN LEGISLATURE



**Senate Fiscal Agency**

## THE MICHIGAN ECONOMY AND STATE BUDGET FY 1994-95 TO FY 2003-04 TEN YEARS OF SIGNIFICANT CHANGES

by

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## **ACKNOWLEDGMENTS**

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## INTRODUCTION

Over the past 10 years, the State of Michigan budget has undergone significant changes. The combination of major changes in the performance of the Michigan economy coupled with significant changes in State tax policy resulted in two distinct phases of the State budget over the period fiscal year (FY) 1994-95 through FY 2003-04. The first six years of this period were marked by a growing State economy, surging tax collections, and robust growth in State appropriations. The last four years of this period were marked by a slumping State economy, falling tax collections, and restraint in the growth of State appropriations. This Senate Fiscal Agency (SFA) issue paper will examine the State budget over the past 10 years, focusing on the changes in the Michigan economy, a changing State revenue picture, and changes in State appropriations over this period.

## MICHIGAN'S ECONOMY OVER THE PAST 10 YEARS

The performance of the Michigan economy over the 10 years of 1995 through 2004 can easily be grouped into two distinct phases. During calendar year (CY) 1995 through CY 2000, the State's economy exhibited steady and stable growth measured by both the number of the State's citizens employed and the income generated in the State. The CY 2001 through CY 2004 period presents a very contrasting picture of the State's economy. The number of people employed in the State declined in each of these years and the level of income generated in the State was stagnant.

Table 1 provides a summary of Michigan wage and salary employment for the period CY 1995 through CY 2004. Wage and salary employment in the State during CY 1995 averaged 4.27 million workers and the number of workers employed steadily increased until CY 2000, when 4.67 million workers were employed. During the next four years the State saw a steady decline in the number of workers employed. Michigan lost 2.5% of its employment base in CY 2001, and experienced an additional 1.7% employment decline in 2002, an additional 1.5% employment decline in 2003, and another 0.4% employment decline in 2004. In total over this four-year period, Michigan lost 6.1% of the wage and salary jobs that existed in the State during CY 2000.

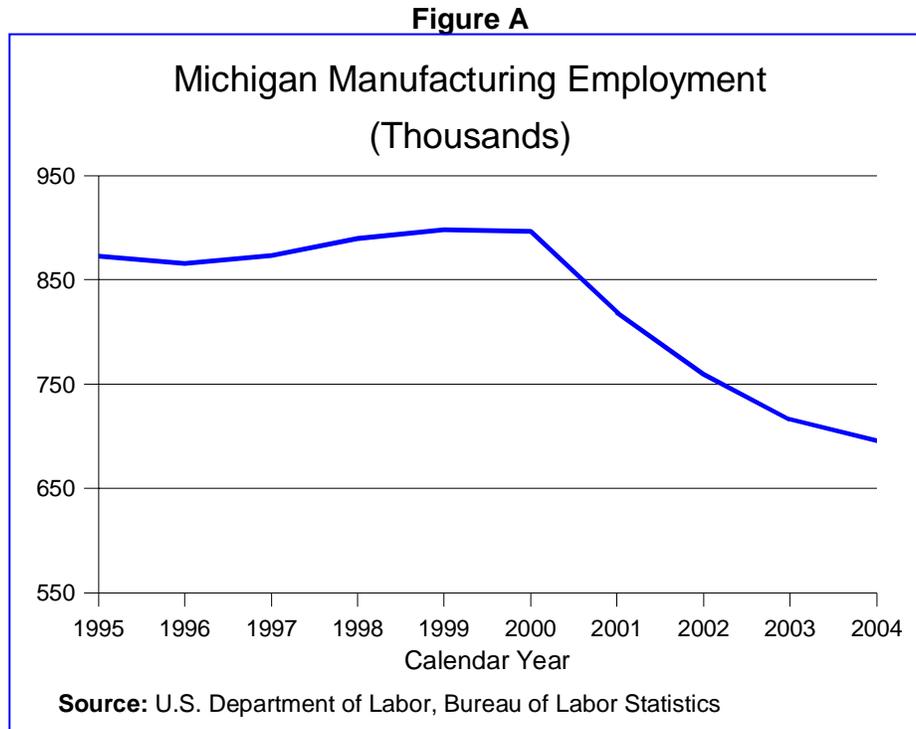
**Table 1**

<b>MICHIGAN WAGE AND SALARY EMPLOYMENT (In Thousands)</b>		
<b>Calendar Year</b>	<b>Michigan Wage and Salary Employment</b>	<b>Percent Change</b>
1995	4,274	3.1%
1996	4,361	2.0
1997	4,448	2.0
1998	4,510	1.4
1999	4,582	1.6
2000	4,674	2.0
2001	4,556	(2.5)
2002	4,478	(1.7)
2003	4,410	(1.5)
2004	4,391	(0.4)

**Source:** U.S. Department of Labor, Bureau of Labor Statistics

One of the major causes for this steep decline in State employment during the CY 2001 through CY 2004 period is the problems that the manufacturing sector of the State's economy has faced in recent

years. At the beginning of this 10-year period, CY 1995, 20.4% of the State's total employment base was in the manufacturing sector; by CY 2000 this percentage had dropped to 19.2%, and by CY 2004 only 15.8% of Michigan's employment base was in the manufacturing sector. Michigan lost 20.2% of its manufacturing jobs over this period. [Figure A](#) provides a graphical summary of the number of manufacturing jobs in the State over the 10-year period.



A significant cause of the decline in manufacturing jobs over the 10-year period can be traced to challenges facing the domestic auto industry. Michigan has a long history of heavy reliance on motor vehicle manufacturing to drive the State's economy. During the 10-year period, Michigan suffered a decline in the number of motor vehicles manufactured within the State. [Table 2](#) provides a summary of motor vehicle production in Michigan during the 10-year period. During CY 1994, Michigan's auto industry produced and assembled 3.4 million autos and trucks within the State. By CY 2004 this production number had declined to 2.6 million or a 24% decline over the 10-year period. This decline can be mostly attributed to the drop in market share of the United States auto industry represented by the companies that produce cars and trucks in Michigan. Michigan's lost share of motor vehicle production has been picked up by increased foreign imports and the increased level of motor vehicle production in other states.

The changes in the level of wage and salary employment over this 10-year period affected the overall level of income generated in the State over the same time. [Table 3](#) provides a summary of Michigan personal income for the period CY 1995 through CY 2004. The table presents Michigan's income data both in nominal terms and adjusted for inflation (real personal income). The growth in personal income over the 10-year period follows the changes in employment. Total personal income increased by an average of 5.1% for the first six years of the period, but total personal income growth averaged only 2.4% over the last four years of the period. Real personal income increased by an average of 2.3% for the first six years of the period, but real personal income increased by an average of only 0.1% over the last four years of the period. This change in personal income growth had a direct impact on the level of State revenue collections over the 10-year period.

**Table 2**

<b>MICHIGAN PRODUCTION OF MOTOR VEHICLES (In Thousands)</b>	
<b>Calendar Year</b>	<b>Motor Vehicle Production</b>
1994	3,410,303
1995	3,084,498
1996	2,899,082
1997	2,996,426
1998	2,783,328
1999	3,107,798
2000	3,068,925
2001	2,672,516
2002	2,881,911
2003	2,782,034
2004	2,596,288

**Source:** Michigan Department of Treasury

**Table 3**

<b>MICHIGAN PERSONAL INCOME (Dollars in Millions)</b>				
<b>Calendar Year</b>	<b>Total Personal Income</b>	<b>Percent Change</b>	<b>Real Personal Income<sup>1)</sup></b>	<b>Percent Change</b>
1995	\$227,465.9	4.4%	\$153,072.6	1.2%
1996	237,193.0	4.3	155,536.4	1.6
1997	248,821.3	4.9	159,194.7	2.4
1998	265,097.8	6.5	165,893.5	4.2
1999	278,061.7	4.9	169,653.3	2.3
2000	294,226.7	5.8	173,278.4	2.1
2001	299,284.3	1.7	171,608.0	(1.0)
2002	302,018.6	0.9	168,819.8	(1.6)
2003	314,459.6	4.1	172,306.6	2.1
2004	322,950.0	2.7	173,816.0	0.9

<sup>1)</sup> Deflated using the Detroit Consumer Price Index.

**Source:** U.S. Department of Commerce, Bureau of Economic Analysis

## **MICHIGAN'S REVENUE COLLECTIONS OVER THE PAST 10 YEARS**

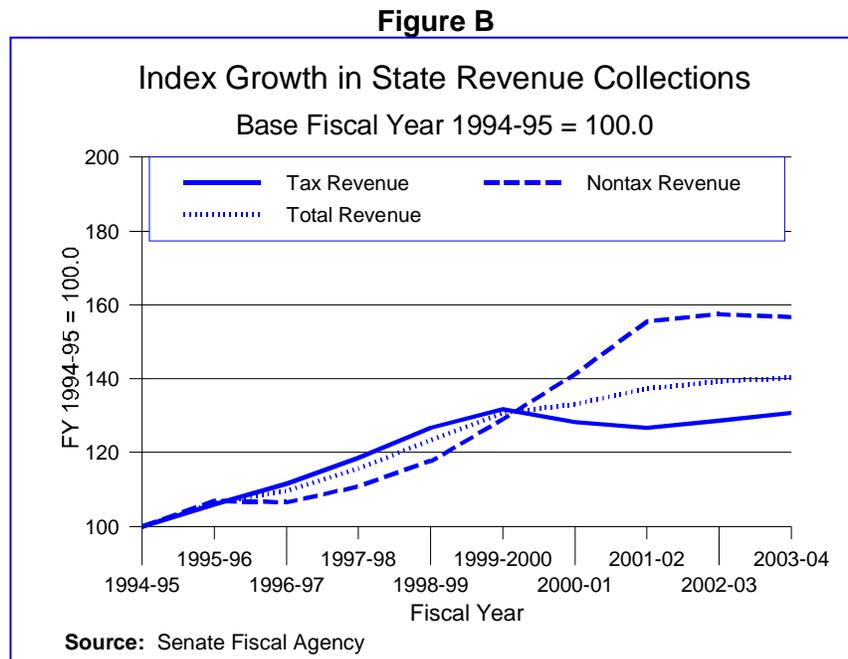
The amount of State revenue collected over the past 10 years was influenced by two major factors. These factors are the performance of the State's economy over the 10-year period and the significant changes that occurred in the rate and the base of several major State taxes over this period. As was the case in the performance of the State's economy, State revenue collections over the FY 1994-95 through FY 2003-04 fell into two distinct phases. State revenue exhibited vigorous growth during the first six years of the 10-year period, but the growth in overall State revenue slowed significantly during the final four years of the 10-year period.

Table 4 provides a summary of total State revenue collections for the period FY 1994-95 through FY 2003-04. State revenue includes all State revenue from taxes, fees, permits and other sources, and a significant amount of Federal funds received by the State to support a variety of programs. Table 4 further breaks down State revenue collections between tax and nontax revenue. Figure B provides a summary of the growth in State tax revenue, nontax revenue, and total State revenue for the 10-year period. The figure uses FY 1994-95 as the base fiscal year and indexes the growth to that fiscal year.

**Table 4**

<b>STATE REVENUE COLLECTIONS BY FISCAL YEAR</b> (Millions of Dollars)			
Fiscal Year	Tax Revenue	Nontax Revenue	Total Revenue
1994-95	\$ 17,067.9	\$ 9,995.0	\$ 27,062.9
1995-96	18,085.6	10,683.7	28,769.3
1996-97	19,022.5	10,657.0	29,679.5
1997-98	20,232.7	11,068.3	31,301.0
1998-99	21,613.9	11,775.5	33,389.4
1999-2000	22,477.1	12,902.0	35,379.1
2000-01	21,902.2	14,124.4	36,026.6
2001-02	21,602.8	15,557.2	37,160.0
2002-03	21,949.9	15,743.3	37,693.2
2003-04	22,320.1	15,647.4	37,967.5

**Source:** State of Michigan Comprehensive Annual Financial Reports



Total State revenue increased from \$27.1 billion in FY 1994-95 to \$38.0 billion in FY 2003-04 or an increase of 40.2%. Tax revenue increased from \$17.1 billion in FY 1994-95 to \$22.3 billion in FY 2003-04 or an increase of 30.8%. Nontax revenue increased from \$10.0 billion in FY 1994-95 to \$15.6 billion in FY 2003-04 or an increase of 56.6%. The larger increase in nontax revenue was fueled by increases in Federal revenue over the 10-year period. Federal revenue increased from \$6.4 billion in FY 1994-95 to \$11.6 billion in FY 2003-04 or an increase of 79.7%.

Over this 10-year period, sources of State revenue exhibited significantly different levels of growth. Table 5 provides a summary of the growth in major State revenue sources over the period FY 1994-95 through FY 2003-04. Tax revenue increased by 30.8%, but the range of growth varied among the different taxes. Sales and use tax revenue increased by 33.7% and income tax revenue increased by 20.2%. Collections from the single business tax actually declined by 13.6% over the time period as the combination of rate reductions and State economic problems heavily influenced this tax. Major growth in tax revenue occurred in the State education property tax, 57.9%, and the tobacco products taxes, 60.3%. The State education property tax grew as a result of a robust housing market in the State and the tobacco tax increase can be attributed to increases in tax rates. The growth in nontax revenue over the 10-year period is almost entirely attributable to a 79.7% growth in Federal revenue received and appropriated in the State budget. This growth in Federal revenue helped partially offset some of the pressures facing the overall State budget in the second half of this 10-year period.

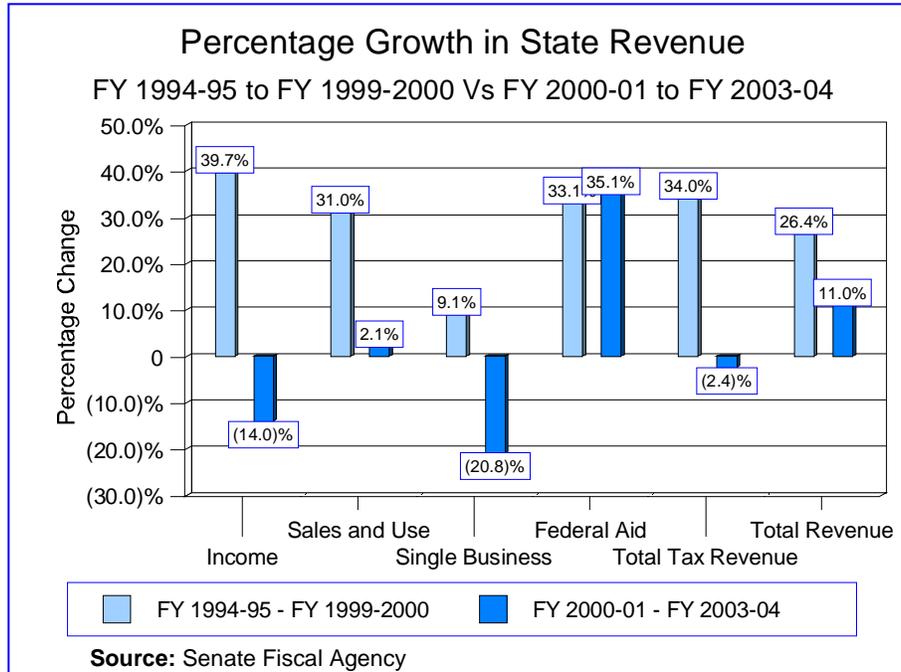
**Table 5**

<b>TOTAL STATE REVENUE BY MAJOR SOURCE</b>				
<b>(Millions of Dollars)</b>				
	<b>FY 1994-95</b>	<b>FY 2003-04</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
<u>Taxes:</u>				
Personal Income	\$5,473.1	\$6,576.1	\$1,103.0	20.2%
Sales and Use	5,827.1	7,790.0	1,962.9	33.7
Single Business	2,130.4	1,841.0	(289.4)	(13.6)
State Education Property	1155.6	1,824.5	668.9	57.9
Tobacco Products	619.4	992.8	373.4	60.3
All Other Taxes	1,862.3	3,295.7	1,433.4	77.0
Subtotal Taxes	\$17,067.9	\$22,320.1	\$5,252.2	30.8%
<u>Nontax Revenue:</u>				
Federal Aid	6,442.0	11,579.4	5,137.4	79.7
Lottery Proceeds	554.2	658.1	103.9	18.7
All Other Nontax	2,998.8	3,409.9	411.1	13.7
Subtotal Nontax	\$ 9,995.0	\$15,647.4	\$ 5,652.4	56.6%
<b>Total Revenue</b>	<b>\$27,062.9</b>	<b>\$37,967.5</b>	<b>\$10,904.6</b>	<b>40.3%</b>

**Source:** Senate Fiscal Agency

As previously stated, the growth in State revenue over the 10-year period falls into two distinct phases. These phases are FY 1994-95 through FY 1999-2000 and FY 2000-01 through FY 2003-04. Figure C illustrates how the growth in State revenue over the 10-year period fell into the two distinct phases. Total State revenue increased by 26.4% in the first phase and increased by 11.0% in the second. State tax revenue increased by 34.0% in the first phase and declined by 2.4% in the second. The largest source of State nontax revenue, Federal aid, increased consistently throughout the 10-year period. Federal aid increased by 33.1% in the first phase and increased by 35.1% in the second. The State's major taxes exhibited major revenue swings between the two distinct phases. Income tax revenue increased by 39.7% during the first phase, but declined by 14.0% during the second. Collections from the sales and use taxes increased by 31.0% in the first phase, but the rate of growth slowed to 2.1% in the second. Single business tax revenue increased by 9.1% in the first phase, but declined by 20.8% in the second.

**Figure C**



Significant changes in the rate and base of major State taxes heavily influenced the amount of State revenue collected over this 10-year period. Major rate and base changes occurred in the income tax, single business tax, tobacco taxes, estate tax, and intangibles tax. The following information provides a summary of these tax rate and base changes and also discusses the revenue impact of these changes on the State budget.

The largest change in tax rates over the 10-year period has occurred in the State income tax. At the beginning of the 10-year period, the rate of the State income tax stood at 4.4% of taxable income; by FY 2003-04, this tax rate had declined to 3.9% of taxable income. These income tax rate reductions occurred over a four-and-one-half-year period. Effective January 1, 2000, the rate of the State income tax declined from 4.4% to 4.2%. This rate held constant for two years and then the rate declined from 4.2% to 4.1% on January 1, 2002. The income tax rate declined from 4.1% to 4.0% on January 1, 2003, and declined to its current level of 3.9% on July 1, 2004. In FY 2003-04, a 0.1 percentage point decline in the tax rate reduced revenue about \$167.0 million on a full-year basis. Therefore, the overall reduction in the income tax rate, including the partial year impact of reducing the rate from 4.0% to 3.9% on July 1, 2004, reduced income tax revenue about \$710.0 million in FY 2003-04.

The rate of the single business tax also has been significantly reduced over the 10-year period. At the beginning of the 10-year period, the rate of the single business tax stood at 2.3% of taxable income; by FY 2003-04, this tax rate had declined to 1.9% of taxable income. In 1999, legislation was enacted to phase-out the rate of the single business tax each year, beginning on January 1, 1999. The legislation called for a 0.1% reduction in the 2.3% tax rate each January 1 for the next 23 years. If this rate reduction plan had been adhered to, the effective tax rate of the single business tax would have reached zero on January 1, 2022. The rate of the single business tax declined from 2.3% to 2.2% on January 1, 1999, from 2.2% to 2.1% on January 1, 2000, from 2.1% to 2.0% on January 1, 2001, and from 2.0% to 1.9% on January 1, 2002. During 2002, the deteriorating condition of the State budget resulted in a suspension of the scheduled single business tax rate reductions. Each 0.1% of the single business tax rate reduction decreases the net yield of the single business tax by approximately \$104.0 million based on FY 2003-04 collection rates. Therefore, the cumulative impact of reducing the rate of the single business tax from 2.3% to 1.9% on FY 2003-04 State revenue was approximately \$415.0 million.

The State's taxes on tobacco products include the tax on cigarettes and the tax on other tobacco products and both of these taxes were increased at two different times over the 10-year period. The cigarette tax was increased from \$0.75 per pack to \$1.25 per pack on August 1, 2002, and then increased again to \$2.00 per pack on July 1, 2004. The tax on other tobacco products was increased from 16.0% of the wholesale price to 20.0% on August 1, 2002, and to 32.0% on July 1, 2004. The overall increase in the taxes on cigarettes and other tobacco products generated about \$400.0 million in additional tobacco tax revenue in FY 2003-04.

On October 1, 1993, Michigan eliminated its inheritance tax and replaced it with an estate tax. The estate tax amounted to the maximum credit allowed under the Federal estate tax for State death taxes. This change resulted in no additional State tax liability for Michigan taxpayers. When the Federal government passed the Economic Growth and Tax Relief Reconciliation Act of 2001, which phased in the repeal of the Federal estate tax and also phased in at an even faster rate the repeal of the State death tax credit. As a result, the repeal of Michigan's estate tax began to be phased out in 2002 and was totally repealed on January 1, 2005. This phased repeal of Michigan's estate tax reduced revenue an estimated \$157.0 million in FY 2003-04.

The State intangibles tax was a tax on intangible property like stocks, bonds, mortgages, mutual and money market funds, land contracts, accounts receivable, and cash on hand. The tax was phased out over four years beginning in 1994 and was repealed on January 1, 1998. The elimination of the State intangibles tax had the effect of reducing FY 2003-04 revenue by approximately \$200.0 million.

These changes in the income, single business, tobacco, estate, and inheritance taxes represent only the major tax policy changes that have occurred during the 10-year period. Numerous other tax policy changes have had an impact on the level of State revenue collected. The net impact on the FY 2003-04 State budget from the income, single business, estate, inheritance and intangibles tax reductions offset by the increase in tobacco taxes is a net revenue decline of approximately \$1,082.0 million.

## **MICHIGAN'S APPROPRIATIONS OVER THE PAST 10 YEARS**

State spending, as measured by adjusted gross appropriations, has grown at a rate equal to the overall growth of the State's economy over the 10-year period. Adjusted gross appropriations are defined as the total level of State appropriations supported by all State revenue, including the appropriation of Federal funds. While overall appropriations have grown at a rate consistent with State economic growth, individual programs within the State budget have seen considerably different levels of growth. This section of the paper examines growth in State appropriations from FY 1994-95 through FY 2003-04.

Any analysis that compares the growth in State appropriations over a significant time period is made difficult by the fact that the organizational structure of State government has changed considerably over the years. Some State departments that existed in FY 1994-95 no longer existed in FY 2003-04 and functions performed by a particular department in FY 1994-95 are performed by a different department in FY 2003-04. In order to overcome this structural issue, this analysis groups State spending by program areas and then analyzes the changes in spending over the 10-year period. Table 6 provides a summary of how the State departments are grouped together by program area.

Table 7 provides a summary of the actual level of adjusted gross appropriations for each of the program areas for each of the fiscal years in the 10-year period. Adjusted gross appropriations totaled \$27.5 billion in FY 1994-95 and increased to \$39.1 billion in FY 2003-04. In FY 2003-04, the largest appropriation by program area was human services support at \$14.1 billion, followed by K-12 education at \$12.5 billion. These two program areas accounted for 68.1% of the total level of adjusted gross appropriations in FY 2003-04.

**Table 6**

<b>SUMMARY OF DEPARTMENTAL BUDGET AREAS INCLUDED IN PROGRAM AREAS</b>	
<b>Program Area</b>	<b>Budget Areas Included</b>
Higher Education	Universities, Community Colleges, Grants and Financial Aid
K-12 Education	K-12 School Aid, Department of Education
Human Services Support	Community Health, Social Services, Public Health, Mental Health, Family Independence Agency
Public Safety	Military and Veterans Affairs, State Police, Judiciary, Attorney General
Corrections	Corrections
Agriculture and Natural Resources	Agriculture, Natural Resources, Environmental Quality, Environmental Bond, Natural Resources Trust Fund
General Government Operations	Civil Rights, Civil Service, Executive, History, Arts, and Libraries, Legislature, Library of Michigan, Management and Budget, State, Treasury, Treasury Debt Service
Economic Development and Regulatory	Career Development, Commerce, Consumer and Industry Services, Labor and Economic Growth, Michigan Jobs Commission, Strategic Fund Agency
Capital Outlay	Capital Outlay
Transportation	Transportation
Revenue Sharing	Treasury-Revenue Sharing

**Table 7**

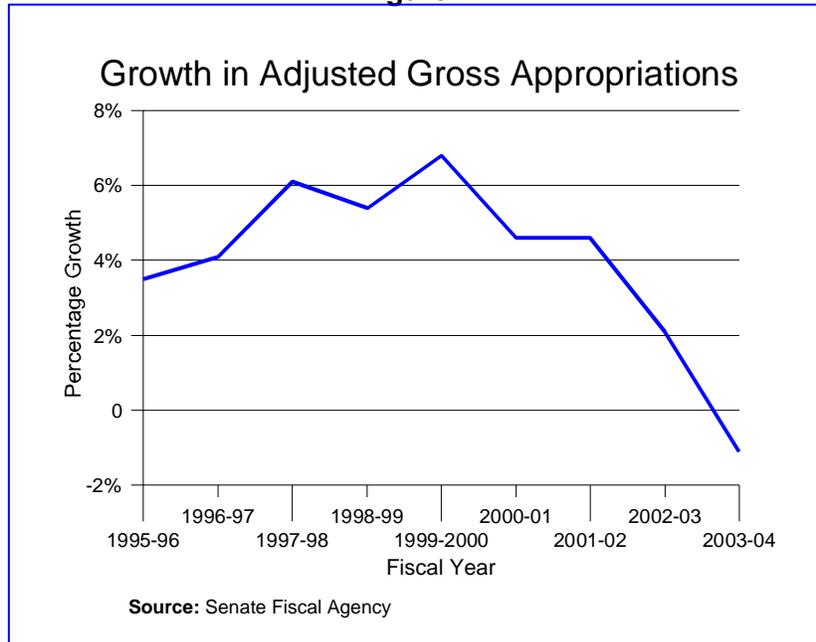
<b>ADJUSTED GROSS APPROPRIATIONS BY MAJOR PROGRAM AREA</b>					
	<b>FY 1994-95</b>	<b>FY 1995-96</b>	<b>FY 1996-97</b>	<b>FY 1997-98</b>	<b>FY 1998-99</b>
	<b>Year-To-Date</b>	<b>Year-To-Date</b>	<b>Year-To-Date</b>	<b>Year-To-Date</b>	<b>Year-To-Date</b>
Higher Education	\$1,634,630,035	\$1,682,046,887	\$1,762,123,916	\$1,836,509,391	\$1,886,252,000
K-12 Education	8,773,101,900	9,100,511,200	9,431,402,000	10,237,797,200	10,498,969,600
Human Services Support	9,433,321,500	9,498,989,600	9,986,827,828	10,367,897,781	10,943,722,341
Public Safety	658,951,900	702,968,600	685,257,615	663,968,900	698,569,900
Corrections	1,214,430,900	1,308,462,100	1,343,983,333	1,383,227,600	1,443,603,200
Ag. & Natural Resources	860,859,600	821,851,421	773,691,496	709,403,350	888,051,908
General Gov't Operations	659,413,000	866,461,700	789,952,400	730,947,678	796,249,090
Econ. Dev't. & Regulatory	965,126,400	1,081,311,900	1,012,191,025	1,012,438,800	1,068,557,400
Capital Outlay	330,257,000	315,222,300	368,397,900	545,400,200	778,789,500
Transportation	1,823,443,100	1,872,577,100	2,186,852,900	2,629,196,000	2,770,965,300
Revenue Sharing	1,170,000,000	1,243,451,000	1,315,784,700	1,356,000,000	1,386,600,000
<b>Total Appropriations</b>	<b>\$27,523,535,335</b>	<b>\$28,493,853,808</b>	<b>\$29,656,465,113</b>	<b>\$31,472,786,900</b>	<b>\$33,160,330,239</b>

<b>ADJUSTED GROSS APPROPRIATIONS BY MAJOR PROGRAM AREA</b>					
	<b>FY 1999-2000</b>	<b>FY 2000-01</b>	<b>FY 2001-02</b>	<b>FY 2002-03</b>	<b>FY 2003-04</b>
	<b>Year-To-Date</b>	<b>Year-To-Date</b>	<b>Year-To-Date</b>	<b>Year-To-Date</b>	<b>Year-To-Date</b>
Higher Education	\$2,083,187,327	\$2,235,562,627	\$2,265,991,185	\$2,155,787,529	\$1,930,491,800
K-12 Education	11,081,895,000	11,821,761,900	12,450,696,500	12,770,230,816	12,532,400,200
Human Services Support	12,024,505,441	12,292,038,341	13,129,508,141	14,062,137,953	14,123,518,541
Public Safety	734,611,000	799,740,314	796,747,600	856,587,139	855,834,229
Corrections	1,558,085,200	1,699,566,400	1,682,050,600	1,683,738,331	1,702,576,281
Ag. & Natural Resources	898,327,299	932,341,800	858,318,030	782,539,108	838,051,321
General Gov't Operations	860,706,670	890,476,600	873,541,469	873,052,701	875,530,703
Econ. Dev't. & Regulatory	1,269,768,600	1,244,522,000	1,499,880,800	1,202,063,464	1,197,637,101
Capital Outlay	574,694,200	455,771,100	575,934,900	602,185,900	533,864,200
Transportation	2,861,447,200	3,026,013,725	3,101,366,500	3,113,421,400	3,219,150,500
Revenue Sharing	1,470,522,000	1,655,000,200	1,517,303,000	1,451,378,000	1,306,257,900
<b>Total Appropriations</b>	<b>\$35,417,749,937</b>	<b>\$37,052,795,007</b>	<b>\$38,751,338,725</b>	<b>\$39,553,122,341</b>	<b>\$39,115,312,776</b>

**Source:** Senate Fiscal Agency

Figure D provides a summary of the overall growth in adjusted gross appropriations by fiscal year. The rate of annual appropriation growth ranged from a high of 6.8% in FY 1999-2000 to a low of 1.1% in FY 2003-04. The impact of the slowdown of the Michigan economy and the resulting reduction in the rate of State revenue growth had an impact on the level of appropriation growth in FY 2002-03 and FY 2003-04. Figure E provides a comparison of the growth in adjusted gross appropriations compared with the growth in the Michigan economy, as measured by Michigan personal income, and the growth of inflation, as measured by the Detroit Consumer Price Index. Over the FY 1994-95 through FY 2003-04 period, adjusted gross appropriations increased by 42.1% while Michigan personal income increased by 42.0% and the Detroit Consumer Price Index increased by 24.8%.

**Figure D**



**Figure E**

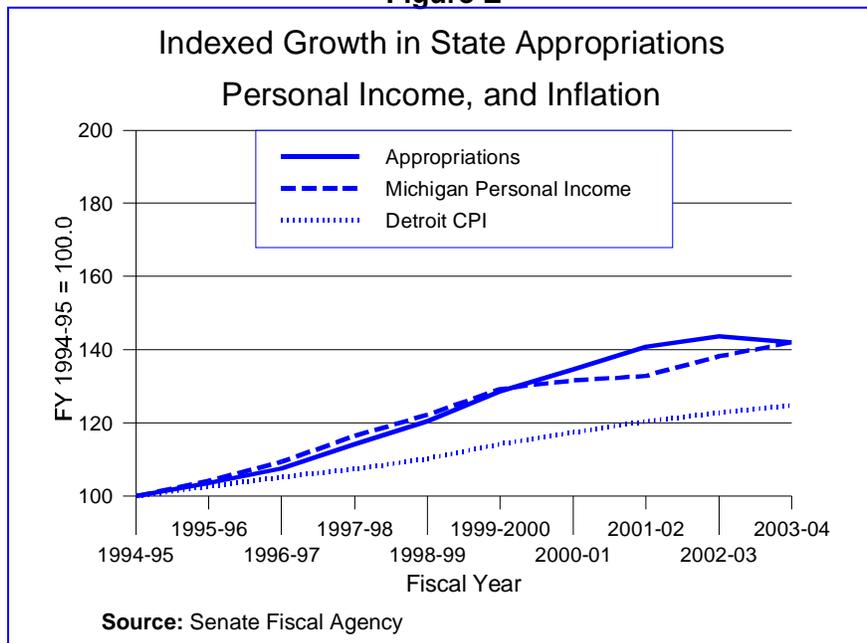


Table 8 provides a comparison of adjusted gross appropriations by program area in FY 1994-95 with Adjusted Gross appropriations by program area in FY 2003-04. While overall Adjusted Gross appropriations increased by 42.1% over the 10-year period, the rate of growth by program area varied considerably. The range of appropriation change during this 10-year period is a high of a 76.5% increase in appropriations for the transportation area to a low of a 2.6% decrease in appropriations in the agriculture and natural resources area.

**Table 8**

<b>GROWTH IN ADJUSTED GROSS APPROPRIATIONS BY MAJOR PROGRAM AREAS (Actual Dollars)</b>				
<b>Program Area</b>	<b>FY 1994-95 Year-To-Date</b>	<b>FY 2003-04 Year-To-Date</b>	<b>Dollar Difference</b>	<b>Percent Change</b>
Higher Education	\$1,634,630,035	\$1,930,491,800	\$295,861,765	18.1%
K-12 Education	8,773,101,900	12,532,400,200	3,759,298,300	42.9
Human Service Support	9,433,321,500	14,123,518,541	4,690,197,041	49.7
Public Safety	658,951,900	855,834,229	196,882,329	29.9
Corrections	1,214,430,900	1,702,576,281	488,145,381	40.2
Agriculture and Natural Resources	860,859,600	838,051,321	(22,808,279)	(2.6)
General Government Operations	659,413,000	875,530,703	216,117,703	32.8
Economic Development and Regulatory	965,126,400	1,197,637,101	232,510,701	24.1
Capital Outlay	330,257,000	533,864,200	203,607,200	61.7
Transportation	1,823,443,100	3,219,150,500	1,395,707,400	76.5
Revenue Sharing	1,170,000,000	1,306,257,900	136,257,900	11.6
<b>Total Appropriations</b>	<b>\$27,523,535,335</b>	<b>\$39,115,312,776</b>	<b>\$11,591,777,441</b>	<b>42.1%</b>

**Source:** Senate Fiscal Agency

The growth in the largest appropriation program areas of K-12 education and human services support was relatively similar to the overall appropriation growth. Appropriations for K-12 education increased by 42.9% and appropriations for human services programs increased by 49.7%. Large program areas that had significantly less growth than the overall budget included higher education programs, up 18.1%, and revenue sharing programs, up 11.6%. These two budget programs were significantly affected by appropriation reductions in the last several years of the 10-year period that were necessary to ensure a balanced State budget. The growth in the transportation area can largely be explained by the growth in Federal funds appropriated in this program area. From FY 1994-95 through FY 2003-04, the amount of transportation appropriations supported by Federal funds increased by 170.0%. Federal funds in FY 2003-04 supported 32.7% of the total transportation appropriations, up from 21.3% in FY 1994-95. The decline in appropriations in the agriculture and natural resources program area can be explained by the fact that in FY 2003-04 there were no appropriations made for environmental bond cleanup programs. These appropriations equaled \$175.0 million in FY 1994-95. Excluding the issue of environmental bond proceeds, the appropriations for agriculture and natural resources programs increased by 22.2% over the 10-year period.

## **CONCLUSION**

During the 10-year period of FY 1994-95 through FY 2003-04, the State's economy, revenue structure, and State appropriations experienced very significant changes. The first half of this 10-year period was characterized by strong economic and State revenue growth. The later years of the period were characterized by a slumping State economy and revenue collections being affected by the combination of economic problems and significant State tax reductions. In terms of State appropriations, the growth in appropriations was relatively consistent over the 10-year period. The reductions in State revenue over the last few years of the 10-year period were partially offset by increases in Federal funds that stabilized the overall level of State appropriations.