CRC MEMORANDUM

No. 1092 A publication of the Citizens Research Council of Michigan August 2009

Late Budgets in Michigan: Causes, Effects, and Implications

In Brief

The State of Michigan's next fiscal year begins in a matter of weeks, on October 1, 2009, and a final budget is not in place. The State's two major funds, General Fund and School Aid Fund, face a combined estimated deficit totaling $2.7 billion before the application of the one-time federal recovery funding designed to help with balancing the budget. Factoring in the use of these non-recurring resources, both the General and School Aid Fund budgets are estimated to be in deficit, requiring reductions in planned spending or increases in revenues.

Historically, Michigan budget writers completed their work sometime in July, a full two months before the start of the next fiscal year. For three of the last five years, however, adoption of the State's final spending plan has not occurred until late September, just days before the beginning of the fiscal year. There is very little question that the fiscal challenges facing Michigan budget writers over the past several years are chiefly to blame for the tardiness in adopting final budget agreements in these years. Although policymakers have established a September 1 deadline for passage of the final fiscal year 2010 budget, any holdup in the final negotiations will push budget adoption to late September again this year.

Michigan's rigid constitutional balanced budget requirements and its constitutional prohibition against State spending without an appropriation will require a government shutdown in the absence of final budget agreement by October 1, 2009. Michigan experienced such a scenario in 2007, when a stalemate over the Fiscal Year (FY) 2008 budget pushed negotiations into the early hours of new fiscal year before a spending plan was passed, directly causing disruption to State government services and programs.

In addition, a great number of organizations outside of State government, including local governments, school districts, and hospitals were impacted by the lateness of State budget finality in 2007. The abandonment of the traditional July deadline for budget completion causes these organizations, many of which have a July – June fiscal year, to postpone critical financial decisions until they are more certain of the upcoming support they can expect from the State of Michigan.

Some observers of the Fiscal Year 2008 budget suggest that a new "deadline" is needed to ensure timely budget passage, a date sometime before the end of the current fiscal year. Experiences from other states with similar deadlines, however, suggest that the ultimate deadline will always remain the start of the next fiscal year. This would be the case if Michigan adopted such a deadline because of the State's constitutional prohibition regarding any State spending in the absence of an appropriation. Michigan's struggles with adopting a timely budget are more the result of the political realities in which the budget process operates, rather than the process itself.

CITIZENS RESEARCH COUNCIL OF MICHIGAN

MAIN OFFICE 38777 West Six Mile Road, Suite 208 • Livonia, MI 48152-3974 • 734-542-8001 • Fax 734-542-8004

LANSING OFFICE 124 West Allegan, Suite 620 • Lansing, MI 48933-1738 • 517-485-9444 • Fax 517-485-0423

CRCMICH.ORG

Introduction

After the State of Michigan switched its fiscal year to correspond to that of the Federal Government in 1976, the month of July became the unofficial target for the Michigan Legislature to complete its work on the budget and forward the various appropriations bills to the Governor for review and signature. However, in recent years the traditional July deadline for legislative budget deliberations has been abandoned and final legislative action and gubernatorial approval of the budget has occurred much closer to the beginning of the fiscal year, October 1. The reasons for delays vary year-to-year; however, there is little doubt that a major cause in recent years has been the extreme fiscal challenges facing policy makers charged with crafting the annual State spending plan.

A number of states with July 1 fiscal years recently began their 2010 fiscal years without final budgets in place, in large measure due to the havoc caused to state finances by the national recession. Prior to the recent business cycle downturn in late 2007, Michigan lawmakers failed to enact a timely Fiscal Year (FY) 2008 budget in the early fall of 2007. In fact, the FY2008 budget was not passed until hours after the start of the fiscal year. The Michigan Legislature has set a September 1 deadline for completion of its work on the FY2010 budget. Many of the same fiscal conditions facing Michigan lawmakers in 2007 are present today, most notably an estimated $2.8 billion difference between estimated available revenue and projected spending in the State's two major funds, without the use of one-time federal assistance. Budget negotiations between legislative leaders and the executive branch are on-going, but any major hold-up in the discussions over a final solution will cause them to miss their self-imposed September 1 deadline with the possibility of pushing budget enactment to late-September, once again.

Over the years, fiscal challenges, more than any other reason, are generally responsible for late budget passage. While, the reason(s) for missing the traditional July deadline can change, the effects and implications of tardy budget passage from one year to the next are the same.

The lateness of the FY2008 State budget and the resultant negative consequences, both real and perceived, have given rise to calls for changes to Michigan's budget development processes. The working assumption is that modifying the process in some way will result in a budget that is consistently and predictably delivered to the governor in a timely fashion. Proponents of such change further emphasize the importance of providing organizations outside of State government with notice of what funding levels can be expected from the State closer to the beginning of their next fiscal year (July 1), as opposed to October 1.

Constitutional Provisions Regarding Budget Adoption

The Michigan Legislature's failure to come to an agreement on the final FY2008 appropriations in a timely fashion and the resultant four-hour government shutdown shed light on the significance of the constitutional provisions regarding the legislature's "power of the purse" and the State's balanced budget requirement. Specifically, Article IX, Section 17 of the 1963 Michigan Constitution prohibits the State from spending money unless there is an appropriation made by the Legislature, a provision common in other states. This "power to appropriate" is the foundation upon which the State's annual budget rests. Without enacted appropriations, the three branches of Michigan State government lack the requisite spending authority to pay for expenses incurred, a position that existed at the beginning of FY2008.[1] For four hours on October 1, 2007, government services

[1] While the Michigan Legislature, from time to time, authorizes multi-year appropriations, the authority for nearly all planned spending for a given fiscal year is encompassed in one of the many budget bills passed by the Legislature and signed by the Governor each year. A further distinction is that this provision does not prevent State government from incurring costs, only making payments for such costs in the absence of an appropriation. Costs for goods and services can be incurred until contracts are cancelled.

Table 1
States with Full-Time or Near Full-Time Legislatures and Other Great Lakes States: Legislative Sessions, Budget Cycles, and Fiscal Years

State	Type of Legislature	Governor Submits Budget to Legislature	Weeks for Legislature to Consider Budget	2007 Session Ended	Legislature Must Pass Balanced Budget	Fiscal Year Begins
Alaska	F	December	Varies	May 16	X	July
California	F	January 10	20[1]	Sep 12	X	July
Florida	F	January	13 or 17	May 4	X	July
Illinois	F	February	16 – 18	2	X	July
Indiana	P	January	16	April 29		July
Massachusetts	F	January	26	[2]	X	July
Minnesota	H	4 Tues of Jan	15 – 16	May 21	X	July
New Jersey	F	January	20	2	X	July
New York	F	January	10	[2]	X	April
Ohio	F	February[3]	8 – 10	[2]	X	July
Pennsylvania	F	February[3]	18	[2]		July
Wisconsin	F	January	22	[2]	X	July
Michigan	**F**	**February[3]**	**33**	**[2]**	**X**	**October**

Legend
F – full time
P – part time
H – hybrid

[1] must pass budget by June 15

[2] meets throughout year

[3] delayed when new governor inaugurated

Source: National Conference of State Legislatures; National Association of State Budget Officers

were effectively "shut down" in order to comply with this constitutional provision.[2]

According to the National Conference of State Legislatures (NCSL), 23 other states also must shut down in the absence of an enacted budget.[3] To avoid the disruptions that accompany a complete government shut down, several states have "contingency" plans in the event a budget is not enacted on time. Of these, 11 use continuing resolutions or temporary appropriation bills to finance government services. In at least 12 states, the NCSL reports, authorization is provided to maintain government operations in the absence of a budget. Other states do not have a provision one way or the other and it is unknown what would happen because budgets in those states have been passed in a timely manner in the past.

2 Michigan's FY2008 budget impasse and government shutdown was initially resolved via a "continuation budget", which provided sufficient spending authority for State programs and services for the month of October based, in most cases, on a fraction (1/12th) of the FY2007 appropriation levels. Enactment of full-year appropriation bills followed later in October and early November.

3 National Conference of State Legislatures, August 2004.

Michigan's Constitution does not provide any exceptions to the "power to appropriate" requirement. Section 17 does not differentiate among purposes for which State spending is intended. The prohibition applies as much to principal and interest payments on State-issued debt as it does to payments to vendors and State employees. In advance of the October 1, 2007, deadline, there were reports that State government would continue, uninterrupted, certain "essential" or "critical" services; however, neither the Michigan Constitution nor state statute defines such services or authorizes spending from the Michigan Treasury. Any such spending would violate Section 17.

In the context of discussing the timely passage of the State budget, Michigan's balanced budget requirement must also be taken into consideration.[4] The duty to pass a balanced budget (Article IV, Section 31) can make the timely enactment of a budget more difficult as the legislature is effectively prevented from enacting a spending plan with the "promise" to find the means to support it at a later date. This balanced budget provision is very common among states, as 41 state legislatures are required to adopt balanced spending plans. Thirty-four states include this provision in their state constitution, and the others in state law.[5]

Whereas some states have the ability to issue debt to finance projected operational spending (i.e., deficit spending), Michigan's Constitution prevents the Legislature from using this technique to meet its balanced budget requirement. Article IX, Section 14 does allow limited short-term borrowing to meet fluctuating cash flow needs throughout a fiscal year; however, this is allowed only after the beginning of the new fiscal year and the Constitution demands full repayment by the year's end. The strict timeframe effectively prevents the State from using deficit financing for Michigan government operations. For the past six fiscal years, Michigan issued short-term notes early in the fiscal year to ensure adequate cash resources to meet monthly cash demands.

The requirement that the Governor and Legislature maintain a balanced budget is one aspect of Michigan's budget process working in favor of timely budget passage. To the extent that actions to maintain balance in the current year have prospective fiscal effects, either in terms of on-going spending reductions or revenue increases or some combination thereof, the task of crafting future balanced budgets may be made easier and thus facilitate timely budget approval. Mid-year budget modifications that more closely align on-going revenues with spending will make it easier, and presumably take less time, to develop balanced budgets in the ensuing years. In recent years, however, mid-year budget corrections have avoided structural changes and have relied almost exclusively on non-recurring measures to achieve balance. Such methods have had the effect of "compounding" the structural budget problem and adding to the amount of time needed by the legislature to meets its constitutional responsibilities to pass balanced budgets by the October 1 deadline.

4 Actually, Michigan's balanced budget provision is multi-pronged, requiring the Governor to propose, the Legislature to pass, and the Legislature and the Governor to jointly maintain a balanced budget.

5 National Association of State Budget Officers, *Budget Processes in the States*, 2008.

Time to Consider the Budget

The amount of time available for a state legislature to craft a budget is contingent on a number of factors, including: 1) when the legislative session begins and ends; 2) when a governor is required to submit a budget; and, 3) when the state's fiscal year begins. Compared to other states with full-time legislatures, Michigan budget writers are afforded more time to complete the appropriations process and send a final budget to the Governor for approval.

Article V, Section 18 of the Michigan Constitution grants the Legislature the authority to statutorily set the date by which the Governor must submit a budget for the next fiscal year. Under current law, the Michigan Legislature receives the Governor's proposed spending plan for the next fiscal year sometime in early- to mid-February.[6] Every state except Colorado (November 1), requires the governor to submit a budget recommendation for the next fiscal year to the legislature in December, January, or February. In addition to Michigan, 12 other states require gubernatorial budget submission in February. Given that Michigan's fiscal year begins October 1 as opposed to July 1, it is not surprising that the Governor is allowed to submit a budget recommendation relatively later than most other states. All but four states have a fiscal year that commences on July 1.

Following submission of the Governor's budget in February, the Michigan Legislature has nearly 33 weeks to adopt a balanced budget in each year except a gubernatorial inauguration year when it has 29 weeks. Michigan law does not limit the time that the Legislature can meet, thus allowing budget deliberations to last until the beginning of the ensuing fiscal year.[7] The combination of Michigan's extended legislative session and the October 1 fiscal year start date provides the Legislature with additional time to consider the budget, relative to other states.

Compared to the six full-time legislatures listed in **Table 1** that do not have a limit on their session and have a July 1 fiscal year start, the Michigan Legislature has an additional three months (July 1 to October 1) in which to develop and pass a budget. The legislatures in these six states have, on average, 19 weeks to pass the budget. Of these states, the legislature in Pennsylvania is not required to submit a balanced budget for gubernatorial signature, although the governor is required to sign a balanced budget. Michigan lawmakers have 40 percent longer (14 weeks more), on average, than their counterparts to craft a balanced budget.

6 The Management and Budget Act (Public Act 431 of 1984) stipulates that in years other than a year in which a new governor is inaugurated, the governor has up to 30 days after the beginning of the legislative session (second Wednesday of January) to transmit a budget recommendation to the legislature. In other years, the governor has up to 60 days following the session start date.

7 For a full discussion of legislative sessions refer to CRC Notes 2007-03.

Michigan's History with Late Budgets

In Michigan, the traditional informal target date for budget completion has been the early part of July. Recently, however, budget adoption has stretched beyond this deadline. The majority of the appropriations bills that make up the budget were signed by the Governor on the following dates:

FY2005 budget - September 28, 2004,

FY2006 budget - September 28 and 30, 2005,

FY2007 budget - August 10, 2006,

FY2008 budget - October 1, 2007,

FY2009 budget – July 17, 2008 (Note: This budget benefited from the general tax increases enacted as part of the FY2008 budget.)

During three of the previous five years, budget enactment occurred less than three days in advance of the October 1 fiscal year start date. Prior to this, one has to go back to 1993 (FY1994 budget) to find a year in which a majority of the appropriations bills were signed in late September.

The delay in adopting the FY2008 budget can be attributed to the following: 1) The debate surrounding the replacement of the State's primary business tax and associated revenues; 2) The sheer size of the budget deficit (i.e., difference between on-going revenues and expenditures) that faced elected officials, finally pegged at $1.8 billion in September; 3) The debate over what role spending reductions and/or tax increases would play in the final budget solution; and 4) The acknowledgement of the structural imbalance between revenues and expenditures in the budget and the paucity of one-time or stop-gap measures available to address the deficit. Budget watchers also might include in the aforementioned list, the roles that term limits, narrow majorities in both chambers, and split party control played in the budget debate of late 2007.

Michigan's experience with late budgets (i.e., when a majority of the appropriations bills are signed into law after the beginning of the fiscal year) is limited. The last time prior to the FY2008 budget that nearly the entire State budget was enacted after the October 1 deadline was in 1991. Gubernatorial approval of the FY1992 budget did not occur until October 11, 1991. In that year, the State operated for nearly 11 days of the fiscal year without the legal authority to spend money from the Treasury. Of particular note regarding the FY1992 budget was the fact that this was the first budget signed by Governor Engler after he assumed office in January of 1991. The State also faced difficult fiscal conditions at that time, making the task of balancing the budget more difficult.

As a result, the Legislature did not send the budget to the Governor until September 28, two days prior to the start of the fiscal year. Despite encouragement from legislative leaders to sign the budget before October 1, the Governor indicated that he intended to take the full two weeks allowed under the Michigan Constitution (Article IV, Section 33) in order to review the appropriations bills before signing them into law. Between 1991 and 2007, only on very rare occasions have one or two of the appropriations bills for a given fiscal year been signed on or after October 1.

Whereas Michigan's history with late budgets has been spotty, other states, most notably New York and California, have made it a habit of failing to enact a budget by the beginning of their fiscal year. New York had a 20-year period, from 1985 to 2004, when its legislature did not adopt a budget before the start of the fiscal year. Instead it relied on "interim" budgets to satisfy required payments until a comprehensive budget was adopted. Recently, a number of other states began their 2010 fiscal years (July 1) without a final budget in place, primarily as a result of adverse fiscal conditions stemming from the national economic downturn.

Late budgets are often portrayed as a product of some inherent aspect of the budget process itself, such as the amount of time for deliberation, a requirement for a supermajority vote to pass the budget, or the use of delay in negotiating the budget. In New York for example, the legislature has only about 10 weeks to enact a budget in advance of the April 1 fiscal year start date. California requires a two-thirds majority to pass its budget. As evidenced by many states' experience earlier this decade, late budgets also result from extreme fiscal conditions, such as slow growth in state tax revenues without corresponding spending slowdowns. For the most part, late budgets in Michigan have occurred during periods of fiscal challenge.

Effects of Late Budgets: State Government and Others

One of the principal functions of the annual State budget is distributing State and federal resources to entities outside of State government for the purchase of goods or delivery of services. Over 80 percent of Michigan's total State budget is spent outside of State government, by hospitals, local governments, and colleges and universities, among many others. Therefore, late budgets affect governments at all levels, as well as a host of private and non-profit organizations throughout Michigan, and not merely State agencies headquartered in Lansing.

Public Budgets and Revenue Uncertainty. Organizations of all colors, whether private, public, or nonprofit, must contend with budget uncertainty and the potential of "not making budget". The prospects of budget imbalance, as well as the size of the corresponding deficit, generally are greater in times of economic uncertainty and turbulence, such as during a recession. Private and public budgets are often constructed months in advance of a fiscal period and can carry with them considerable uncertainty. Whereas all types of organizations face the potential of budget deficits, the level of uncertainty can differ depending on whether it is a private or public organization.

For public organizations, such as state and local governments, budget deficits are often the result of actual revenue collections falling short of projected collections. One major source of public revenue, taxes, will fall short of projections when the underlying economic activity upon which a tax is based slows down. Similarly, private organizations, such as business firms, will experience revenue shortfalls if sales fall below expected levels due to economic conditions affecting their customers. In a sense, private and public organizations are very similar in this regard and face many of the same budget challenges during times of economic slowdown, such as what is now occurring.

Whereas private and public organizations face similar revenue challenges, achieving budget balance in the public sector may be more difficult given the fact that demand for the services do not decline commensurately. In the private sector, a revenue shortfall occurs because a decline in demand, which in turn allows a firm to ratchet back production, in effect cutting some spending. Public organizations, on the other hand, are often faced with a fixed demand for services, regardless of what is occurring to the underlying method of financing those services. In some cases, such as public income, health care, and food assistance services, demand increases when economic activity, and there fore taxes, decline.

State Government. While the most visible effect of State government's nearly eight-month-long protracted FY2008 budget debate was the temporary suspension of certain State services, numerous entities outside of State government were affected in very meaningful ways, long before the early morning hours of October 1.

Financial costs to State government associated with the late FY2008 budget and subsequent shutdown included spending on contingency plans by departments in advance of a potential October 1 shutdown, the added costs of "closing" and then "reopening" certain services (e.g., state parks, rest areas), and any foregone revenues resulting from citizens' decisions not to purchase licenses or permits in anticipation of the shutdown.

Some costs to State government resulting from the tardiness of the budget are not quantifiable, such as citizens' confidence in the governor and the legislature to solve the State's financial problems. In other cases, where costs are quantifiable, they may not be known for some time. For example, it will cost the State more money to borrow short- and long-term as a result of downgrades to the State's credit rating. The already-damaged reputation of Michigan's creditworthiness with prospective lenders suffered further in 2007 as budget deliberations extended well beyond the traditional July deadline. Various rating agencies cited Michigan's budget crisis and lack of a foreseeable budget solution as one of the primary reasons for downgrading Michigan's credit rating in 2007. Such a downgrade will not be immediately reversed and may burden the State for the next several years, adding to the annual debt service costs associated with all types of borrowing.

Uncertainty over the FY2008 budget contributed to the State's two-month delay in issuing short-term debt on the open market for cash flow purposes.

Other Organizations. The lateness of the FY2008 State budget impaired the ability of all organizations that receive State funds to plan for and manage their upcoming fiscal affairs in an efficient and effective manner. An entity with a fiscal year beginning on July 1 is severely disadvantaged when a significant portion of its budget is unknown until October 1.

Outside of State government, effects of the prolonged debate over the current-year spending plan were felt weeks, and in some cases even months, before the actual shutdown occurred. While State agencies and programs were forced to wait beyond the "last minute" to learn of the level of resources available to them, many entities that receive funding via the State budget enacted spending plans and began their fiscal years three months prior to the enactment of the State budget. Local school districts, community colleges, and universities began new academic years (late August or early September) without any clear indication of the level of State support that would be forthcoming.

Local school boards are required by The Uniform Budgeting and Accounting Act (Public Act 2 of 1968) to hold a public hearing and approve a budget prior to the commencement of their fiscal year on July 1. Most of the budget preparation work is done in May, prior to board approval in June, and well before passage of the State budget on October 1. Given the practical and legal constraints of this very tight timeline under the traditional July 1 State budget deadline, passage of a late State budget can make accurate planning for the next fiscal year even more difficult than usual. **Table 2** illustrates the varying degrees to which some entities outside of State government depend on State assistance.

In addition to the financial planning problems created, the uncertainty caused by the delay in passing the State budget can impose on local districts unnecessary financial costs. Staffing and personnel decisions may be delayed until funding levels are known. Staffing decisions for the upcoming year can result in higher unemployment costs if personnel are laid-off because there is no clear indication whether State funding for special programs will be available the next year. Also, programs for the next academic year may be included in local school budgets at levels different than those allowed by final State budget numbers, possibly requiring program cuts after final passage of the State budget. Further, State budget uncertainty can increase a local district's borrowing costs if its creditworthiness suffers.

In the case of institutions of higher education, tuition rates and other fees have to be set in advance of the upcoming academic year without full knowledge of the level of State support. Enrollment levels at schools can be adversely affected by sharp increases in upcoming tuition, compounding the negative effects of decreased State assistance. Delay in passing the State budget has resulted in a number of institutions increasing tuition and fees as a hedge against flat or reduced State support.

Table 2
Major State Aid Programs

Program	Percent of Total Revenue from State Aid in Aggregate (FY06)	Amount of State Aid in FY08 (millions)
Local K-12 Schools	74	$11,528
Universities[1]	34	$1,623
Community Colleges	22	$293
Local Road Agencies	57	$1,004
Unrestricted Revenue Sharing to Cities, Villages, Townships[2]	NA	$399

[1] Net of delayed payments from FY07.

[2] Includes statutory payments only.

Sources: Michigan Department of Education; Higher Education Data Inventory; Michigan Department of Transportation

Would an Earlier "Deadline" Matter?

Michigan's delay in passing the FY2008 budget has prompted calls for changes to the budget process itself. One proposed change involves the establishment of a new budget "deadline", i.e. some point prior to the end of the current fiscal year. It is argued that such a deadline will ensure timely budget passage, in that it provides the Governor with sufficient time for review and approval and provides outside entities with earlier notification of expected State support.

Michigan has a full-time legislature, a characteristic shared by only three other states (California, New York, and Pennsylvania), while another seven states have nearly full-time legislatures (see **Table 1** on page 3). Of these eleven states, 10 effectively have until the beginning of the next state fiscal year to enact a budget. Only California has a deadline separate from the start of its fiscal year in which to complete budget action. In two cases, (Alaska and Florida), the regular legislative session ends sooner than the beginning of the ensuing fiscal year; however, the legislatures in these states can carry budget debate into a special session, thus extending the deadline until the start of the fiscal year.

Article 4, Section 12 of the California State Constitution gives the legislature from January 10, the deadline for the governor to submit a budget proposal, until June 15 to pass a budget for the ensuing fiscal year that begins on July 1, about 20 weeks. Despite the constitutional requirement to pass the budget two weeks prior to the start of the fiscal year, lawmakers in California routinely miss the deadline. Most recently, agreement on the FY2008 spending plan did not come until 7 weeks into the fiscal year. Similar to Michigan, California has a constitutional prohibition regarding spending without an appropriation; however, continuing appropriations for certain items, court rulings regarding employee compensation, and past precedent ensure the continuous operation of California State government. The lack of appropriation authority in Michigan means there is no legal authority to spend, regardless of the purpose.

California is second only to New York in the number of late budgets in recent years. New York's April to March fiscal year contributes directly to its chronic tardiness. California's Constitution requires an affirmative vote of two-thirds of the members in each legislative chamber to approve the budget, a requirement it shares with two other states (Arkansas and Rhode Island). Further, California's Legislature does not have to pass and the governor does not have to sign a budget where estimated revenues are at least equal to estimated expenditures, a characteristic shared by two other states (New York and Pennsylvania) with full-time legislatures (see **Table 1** on page 3).

While some followers of Michigan's recent budget debate suggest the State would benefit from creation of a new constitutional deadline, nothing currently prevents State policymakers from establishing such a deadline through State statute, legislative rules, or agreement on the part of leadership. In fact, legislation passed by the Michigan Senate in 2008 contemplated a process by which legislative and executive branch leadership would have to agree to individual department "budget targets" by May 30 (following May revenue conference) of each year. It was believed that placing this informal and traditional process in State statute with a firm "deadline" would facilitate timely budget passage.

It is unclear whether a constitutional provision would carry any more weight than a similar provision established via law, rule, or agreement. Until recently, the Michigan Legislature has been able to ensure passage by July/August by way of legislative leadership agreement nearly every year. Regardless of the provision's foundations, the disincentives or consequences, if any, that would be associated with the legislature's failure to meet an earlier deadline are questionable. Proponents of a separate budget deadline suggest as a penalty for failing to adopt a timely budget the loss of legislative compensation. It is unclear what motivation, if any, such a penalty would generate. A potential government shutdown and the resultant public displeasure is probably a stronger motivator when it comes to completing work on the budget and most likely more persuasive than the threat of a loss of legislative compensation.

Conclusion

Observers of Michigan's 2007 budget stalemate suggest that the process itself might bear some of the responsibility. Specifically, it has been argued that the legislature would have been more likely to enact a timely budget and avoid a partial government shutdown had there been some sort of deadline for fcenactment of the budget in advance of the start of the fiscal year. Unfortunately, other states' experiences with such provisions do not show much promise for timely adoption of the budget. Furthermore, even with a new deadline (e.g., constitutional, statutory, or otherwise), Michigan's current constitutional prohibition against spending without an appropriation would ensure that the "real" budget deadline would remain the beginning of the fiscal year.

Most organizations that rely on State government appropriations have a July 1 to June 30 fiscal period. Realigning Michigan's fiscal year would provide these entities with a higher degree of certainty with respect to the level of upcoming State support and thereby facilitate more accurate fiscal planning. However, such a modification would pose a number of significant and immediate fiscal obstacles to State finances. Of particular note, the State's already-fragile cash flow position would be unable to accommodate the transition given the current schedule of tax receipts and spending.

While some reforms might focus on changing the process to ensure timely budget passage, few reforms, if any, can effectively address the political realities surrounding the budget process. When political control is divided between the two chambers, or the governor is from a different party than the legislature, consensus on State spending policy will almost always be more difficult to achieve and thus take longer. Such delays certainly will be exacerbated during times of fiscal challenge. Further adding to the delays will be the level of legislative experience in dealing with very complex public spending issues during austere times.