Michigan League for Human Services

April 2011

Executive Budget Cuts Will Hurt Families

INTRODUCTION

Gov. Rick Snyder released his first proposed budget in February. The budget covers fiscal year 2012, which begins on Oct. 2011. In addition to the budget, the governor also released a series of proposed tax changes. The budget and tax proposals cut spending by $1.5 billion, reduce business taxes by $1.8 billion and increase taxes on individuals by $1.7 billion.

The deep budget cuts include more than 12,000 fewer families receiving cash assistance through the Family Independence Program, potentially a cut of about 21 percent for colleges and universities, and a 40 percent cut to local government Revenue Sharing. These cuts follow years of disinvestment in services across the board.

The governor's tax proposals include eliminating the Michigan Business Tax and replacing it with a 6 percent corporate tax. Under this change, about 95,000 businesses will not pay state business taxes. Overall, it cuts business taxes by about 86 percent. The business tax cuts are paid for with a 31 percent increase in taxes on individuals. All public and private pensions would be taxed under the governor's proposal. And of particular concern to the Michigan League for Human Services, the Earned Income Tax Credit would be eliminated. This change alone would push 25,000 people in working families, including 14,000 children, into poverty.

Unlike past years when each state department budget had its own budget bill, the governor's proposed budget includes only two bills. One for the newly renamed State Education Funding Act, which includes funding for K-12, community colleges and higher education. And a second bill that includes all other state funding. In addition to this change, the proposed budget combined many line items together, making it much more difficult to get the details of what budget changes were actually being proposed.

What follows is the League's analysis of key parts of the budget, recognizing that in some places there has been difficulty getting the same level of budget details as have been available in the past. The League will continue to monitor and analyze the budget as it moves through the process.

Department of Human Services

Program Reductions:

- **Retroactive 48-month lifetime limit for cash assistance (Family Independence Program)**, reduction of $77.4 million gross, and $65 million General Fund. This is a cut to the FIP line item of 18 percent from the FY 11 appropriation of $428.8 million, representing the largest program decline in the DHS budget. This will eliminate 12,623 FIP cases at a monthly cost per case of $511. The perceived savings will just shift expenses to other human services programs. Without adequate support for families, savings will erode as some children end up in homeless shelters or foster care, at a much higher cost to the state. Furthermore, once funds are removed, it will be nearly impossible to replace them.
- **Child Development and Care subsidy rate** for enrolled providers is reduced from $1.60 to $1.35 an hour, for a cut of $13.9 million, affecting access to care.
- **Local Office Staff** is reduced by 300 FTEs, a cut of $19.5 million gross. This assumes that the

savings will occur by attrition rather than layoffs. This reduction is partially offset by an increase of 50 FTEs for eligibility specialists costing $4.3 million. This annualizes the cost of 100 temporary eligibility staff hired in FY 10 and FY 11 of $1.7 million and an increase for the call center of $850,000. The net reduction of all these changes is $12.8 million gross.

- **Close Shawono Center in Graying** for a reduction of $4.7 million gross. Also, reduces the Maxey Training School at Whitmore Lake by 20 beds for a cut of $900,000. Cuts from the facility closures are offset, in part, with costs of placing youth in private facilities ($2.6 million), for a net budget decrease of $3 million gross. This follows FY 11 cuts of $3.9 for juvenile justice.
- **Jobs, Education and Training (JET) Plus**, elimination of Temporary Assistance to Needy Families funds, cutting $8.5 million gross.
- **Employment and Training Support Services** TANF funds were cut from $8.9 million in FY 11 to $4.1 million in FY 12, cutting $4.8 million gross. This follows reductions of $14.5 million in FY 10 for employment and training.
- **Reduce Family Preservation Programs**, programs designed to strengthen families and prevent child abuse and neglect, for a reduction of $5.1 million.
- **Eliminate Zero to 3 Program** funding, that is aimed at assisting families with young children at risk of abuse or neglect, for a cut of $3.8 million. This follows a fund source shift from stable General Funds to one-time federal funds, which target high need families in urban areas in FY 11.
- **Eliminate Before and After School Grants** serving areas near schools not meeting the federal No Child Left Behind yearly progress requirements, cutting $3 million federal.

Funding Changes:

- **Child Support –** Implements a $25 fee on non-custodial parents to support child support enforcement operations for a General Fund reduction of $3.4 million.
- **FIP Fund Source Shift Emergency –** TANF funds were no longer available in FY 12 for FIP, the state cash assistance program, and had to be replaced to maintain the program. This resulted in a fund source shift of up to a $153.4 million increase to the General Fund and a decrease in federal stimulus and one-time federal Emergency TANF funds. However, not all of the Emergency TANF and carry-forward revenues were replaced, or about $196 million in FY 11. As federal funds were lost, a need arises to replace the financing with scarce General Fund dollars. Given the General Fund deficit, the administration cut cash assistance, instead, by reducing funds for the 48-month time limit.
- **State Match for TANF –** The state Earned Income Tax Credit (EITC) contributed about $218 million to the state match for the TANF block grant in FY 11. The total Maintenance of Effort (MOE) is still being met in FY 12, even with the EITC elimination, but the state is just skimming by with $208,000 over the MOE required of $499.9 million, representing a tiny 0.04 percent in excess MOE. Failure to meet the MOE would result in a double federal penalty. That is, the federal block grant would be reduced in the next year by the under payment and the state must spend added state funds to make up the difference.

  The EITC gave Michigan a buffer against meeting the MOE requirement which is now not available. Most of the MOE loss was made up by a fund source shift in FIP, the state cash assistance program. Major shifts in funding the MOE for FY 12 include: Increase the MOE from FIP from $5 million in FY 11 to $153 million in FY 12. Increase day care or CCDF from $0 in FY 11 to $19.4 million in FY 12. Cut the EITC from $218 million in FY 11 to $0 in FY 12. The funding for tuition scholarship programs, totaling $87.4 million in FY 11, was shifted out of MOE to the TANF block grant at $93.8 million in FY 12.

Department of Community Health

While the recommended funding for the Department of Community Health (DCH) is relatively stable in the FY 12 Executive Recommendation compared with FY 11 that does not ensure stability for the programs funded in the department. Had Community Health's programs been adequately funded in FY 11, the proposed reductions would have been modest. Key programs and services, however, have experienced yearly reductions over the last several years, with major cuts in many during the last four years. Further program reductions impede their ability to succeed in their missions, and are extremely difficult, if not impossible, to restore.

The Executive Budget focuses on health system improvements and integration which will serve those in the DCH system well. The exact steps to achieve these laudable goals, however, are not clear in the face of declining funding. The Executive Budget recognizes the federally mandated increase in physician payment rates in FY 13.

The major issues addressed in the FY 12 Executive Budget include the replacement of one-time federal funding and expiring federal stimulus funding, and replacement of the Health Maintenance Organization use tax with a 1 percent health insurance claims assessment tax.

Highlights of the Executive Recommendations follow:

Program Increases:

- **Medicaid Caseload Increase** of 3 percent is budgeted, requiring the addition of $322 million gross, $132 million General Fund. The budgeted monthly Medicaid recipients for FY 12 of 1,901,100, may be inadequate. An adjustment of $115.5 million gross, $48 million General Fund is required to recognize FY 11 underfunding.

Funding Changes:

- **Changes in Federal Funding –** While the federal matching rate for Medicaid (Federal Medical Assistance Percentage – FMAP) increased from 65.79 percent to 66.14 percent for FY 12, saving $30 million, federal stimulus and one-time federal funds totaling $725 million were no longer available and had to be replaced to maintain the program.
- **One Percent Health Insurance Claims Assessment** will provide nearly $400 million, and is proposed to replace the Medicaid Health Maintenance Organization use tax which is likely to be phased out in the future by the federal government. This assessment will not only replace the lost use tax revenue but will also provide $140 million for state match for the Medicaid program, helping to offset the lost federal funds and creating a stable revenue source. If this alternative tax is not adopted, approximately $1.2 billion in Medicaid program cuts would be required.

Program Reductions:

- **Forty Percent Reduction in Graduate Medical Education (GME) Payments**, cutting $67.3 million gross, $22.8 million General Fund. The reduction’s greatest impact will be on Detroit Medical Center ($23 million) and University of Michigan Hospital ($17 million). The remaining GME pool would be about $100 million, and would be redistributed to provide a 15 percent ($3 million) increase in graduate medical education payments for primary care providers. These payments are made to teaching hospitals in recognition of their higher costs.
- **Non-Medicaid Community Mental Health Funding Reduction** of $8.5 million is in addition to the $5.4 million in FY 11, and $40 million in FY 10. The recommendation for FY 12 is $274 million.
- **Implement Eligibility Restrictions in the Adult Home Help Program**, cutting $17.7 million gross, $6 million General Fund. These restrictions will require more severity in need for daily assistance to qualify for the program. This policy was considered in the past and not pursued due to the negative impact on significant numbers of current recipients, particularly those with mental health conditions.
- **Reductions in the Healthy Michigan Fund Programs**, cutting $1 million. The programs targeted for reduction include Smoking Prevention, $300,000; Pregnancy Prevention, $400,000; and Cancer Prevention, $300,000. These reductions are also on top of $14 million in FY 10. There was only a $39,900 reduction in FY 11. The $1 million savings is redirected to fund the Medicaid program. Healthy Michigan program funding is reduced to $9.9 million.
- **Reduce Funding for Local Health Department Operations** by $1.7 million. This reduction is on top of the $1.5 million in reductions made over the last two fiscal years (FY 10 - $.5M, FY 11 - $1.0M), and reduces operational funding to $37.4 million.

- **Reduce Funding for Substance Abuse Services** by $1.4 million. This reduction is on top of the $3.5 million in reductions made over the last two fiscal years (FY 10 - $1.9M, FY 11 - $1.6M).
- **Reduce Funding for Aging Services** by $2.2 million ($1 million for Community Services; $.8 million for Nutrition Services; $.4 million for Volunteer Programs). These reductions are on top of $7.7 million over the last two fiscal years. (FY 10 - $5.1M, FY 11 - $2.6M)

Program Changes:

- **Mandate Enrollment in Managed Care for Children's Special Health Care Services Participants**, cutting $11 million gross, $3.7 million General Fund.
- **Include Behavior Health Drugs in the Medicaid Preferred Drug List**, cutting $18.7 million gross, $6.3 million General Fund. This proposal requires legislation and has been proposed in prior years (FY 10), but the enabling legislation has not been passed.
- **Integrate Care for Medicare/Medicaid Dual Eligibles**, improving coordination of care, improving quality and cutting $29.6 million gross, $10 million General Fund for second half of FY 12.
- **Require Auto Insurers to Provide Information on Coverage and Benefits for Medicaid Recipients Involved in Auto Accidents**, enabling the Medicaid program to recoup an estimated $15 million gross, $5 million General Fund. This proposal has been made in prior years; however, enabling legislation has not been approved.
- **Pass Additional Legislation to Create a More Robust Estate Recovery Program in Medicaid**, generating $10 million gross, $3.4 million General Fund. Current enabling legislation is considered very weak and not likely to generate significant revenues.

Program Transfers:

- **State Funding Eliminated for Health Facility Licensing and the Background Check Program (for Adult Foster Care and Homes for the Aged)**, cutting $6.7 million. Health facility (hospitals and nursing homes) licensing fees have not been increased in 30 years; this increase will cover the cost of the licensing program. Adult foster care/homes for the aged will be required to assume the cost of obtaining background checks for their employees. These programs are then transferred to the new Department of Licensing and Regulatory Affairs.
- **Transfer Forensic Mental Health Services to the Corrections Budget** to consolidate forensic mental health funding and services in the Corrections Department. Nearly 400 staff and $50.5 million are transferred from DCH to Corrections; DCH will no longer be responsible for providing mental health services to Corrections inmates.

Department of Energy, Labor and Economic Growth (Department of Licensing and Regulatory Affairs)

Overall, the Executive recommendation for the Department of Energy, Labor and Economic Growth totals $1.3 billion gross, $43.5 General Fund.

In addition to the budget recommendation, Governor Snyder recently issued Executive Orders 2011-4 and 2011-5 to reorganize the Department of Energy, Labor and Economic Growth and change the name to the Department of Licensing and Regulatory Affairs. There are significant changes, among them:

Additions:

- The Bureau of Health Professions, the Bureau of Health Systems, and the Controlled Substances Advisory Commission from the Department of Community Health

Transferred

- Disability Concerns Commission to Civil Rights
- Youth Employment Act to Education
- Labor Market Information and Strategies (LMI) to Technology, Management and Budget
- Prevailing Wages, MSHDA, the majority of the Bureau of Workforce Transformation, and the Council for Labor and Economic Growth to the Michigan Strategic Fund/ Michigan Economic Development Corporation. Under this change, the Bureau of Workforce Transformation will be renamed the Workforce Development Agency.

Budget Highlights Include:

- **Michigan Rehabilitation Service –** Reduces funding by $4 million gross to $69.6 million to bring spending in line with available department resources. This reflects the loss of local matching funds and the loss of one-time General Fund support for facilities that provide recreational activities for people with disabilities.
- **Welfare to Work –** Reduces federal funding for the Jobs, Education, and Training (JET) program by $3.8 million to bring funding for the Welfare to Work line item to $93.2 million.
- **Unemployment Insurance Agency –** Reduces funding by $4.5 million gross due to a reduction in available federal funds.
- **Workforce Programs Administration –** Removes just over half a million General Fund dollars due to funding that is no longer available. This reduces support and administration for the No Worker Left Behind program, Trade Adjustment Assistance, and the JET program.
- **Proprietary Schools Regulation –** As complaints about proprietary schools (trade schools) increase, a small increase in funding has been recommended to address these concerns.
- **Michigan Nursing Corps –** Removes the specific line item and its $500,000 in funding and rolls funding for the program into the Workforce Programs Subgrantees line.

Higher Education

The governor's FY 12 budget recommendation for Michigan's 15 public four-year colleges and universities totals $1.4 billion gross, which is 13.7 percent below the FY 11 appropriation. This includes $564 million from the General Fund, which is 63.5 percent below the FY 11 appropriation, $98.3 million in federal funds (2,085 percent increase), and $699.9 million from the state's School Aid Fund (renamed the State Education Funding Act). This is the first time the School Aid Fund has been used to support higher education. It has raised concern in the education community that K-12 schools will now have to compete with four-year institutions and community colleges for funding.

The Executive recommendation includes a proposed 15 percent reduction across the board to university operations, which would actually average over 20 percent for schools that do not keep academic year 2011-2012 tuition increases below 7.1 percent. The governor also proposes a new need-based financial aid program which combines the Tuition Grant Program and State Competitive Scholarships into one program.

University Operations

The general operating budget for the state's public colleges and universities has been reduced by $213.1 million gross, $912.8 General Fund. This is a 15 percent reduction; however, if colleges and universities fail to keep their 2011-2012 academic year tuition increases below 7.1 percent, the cut could be much larger, averaging over 20 percent. For example, if Michigan State University increases tuition more than 7.1 percent, its appropriation will be 21.5 percent less than FY 11. For Central Michigan University, it will be 23.3 percent less.

Need-Based Financial Aid

Funding for the State Competitive Scholarship, at $19.9 million, and the Tuition Grant Program, at $31.7 million, will be combined into the Pathway to Higher Education program for a total of $51.5 million gross. This need-based financial aid program would be available to students enrolled at a private or public college or university who have an Expected Family Contribution of $3,800 or less, which equates to an adjusted gross income of approximately $50,000. Approximately 55,000 students would be eligible for this program with the maximum award being $875. Tuition Incentive Program

The Tuition Incentive Program is recommended to be funded at $43.8 million for FY 12, an increase of $6.4 million gross, but a reduction of $7.3 million General Fund.

Other Aid Programs

Level funding is recommended for the Children of Veterans, Officer Survivor Tuition, King Chavez Parks, Robert C. Byrd, and Project GEAR UP programs.

Community Colleges

The governor's FY 12 budget recommendation for Michigan's 28 community colleges is $295.9 million. While this remains unchanged from FY 11, it is a $3.5 million reduction from FY 10, as a result of the elimination of Renaissance Zone reimbursement payments. Under the governor's proposal, $195.9 million of the funding for community colleges will come from the state's School Aid Fund (renamed the State Education Funding Act), with only $100 million coming from the General Fund. This is significant as funding for community colleges has historically been 100 percent General Fund. There is concern in the education community that this change in the funding source could pit K-12 schools and community colleges against one another if they are competing for the same funds.

Community College Operations

Funding for community college operations continues at the FY 12 level of $292.6 million, $195.9 million of which is from the School Aid Fund and the remaining $96.7 million from the state's General Fund.

At-Risk Student Success Program

The At-Risk Student Success Program, which was created in 1989, allows community colleges to give greater assistance to students who face academic challenges due to limited English, or because they are enrolled in developmental education classes. Funding for this program remains at the FY 04 level of $3.3 million.

Department of Corrections

The Department of Corrections budget has been targeted by the administration for an in-depth review due to increasing health care and personnel costs. Decreases in the prison population, staff, and security have not offset the increased cost of mental health services, and insurance and retirement benefits. The number of inmates has declined by 7,582 since 2007, and staffing has been reduced by over 3,900 employees in the last ten years, yet costs continue to rise.

The Executive Budget recommendation for the Department of Corrections totals $2.01 billion, a 0.2 percent increase from FY 11. The Corrections budget now makes up 23 percent of the state's General Fund and 4 percent of the state's total budget. The General Fund accounts for 95 percent of the Corrections budget, with 98.3 percent of those funds going towards salaries and wages. The Department of Corrections has the state's largest workforce and the greatest reliance on the General Fund for personnel costs.

Program Reductions:

- Over $27 million by closing the Florence Crane Correctional Facility
- $10 million by increasing efficiencies in the delivery of services like food, transportation, and prison-related programming
- Over $13 million by privatizing food service and prison stores
- Over $17 million through early retirement and the consolidation of lieutenant positions

These savings are canceled out by an increase of over $58 million in expenditures for rising insurance and retirement costs.

In response, legislators have raised concerns over the community impact of closing Florence Crane, safety around the loss in staffing, and the savings associated with privatization.

Recommendations to decrease the Corrections budget have included:

- Targeting high-risk populations, particularly male youth, by providing broader employment activities to deter criminal activity
- Expanding the Michigan Prisoner Re-entry Initiative program
- Reforming sentencing guidelines
- Increasing access to remedial courses needed for an early release date
  Consolidating prison facilities

Department of Education

Program Reductions:

- **State Aid to Libraries** was reduced by $2.3 million General Fund to $3.4 million. This was in addition to the elimination of the $1.5 million in the School Aid budget for a total reduction of 52.4 percent from the current year.

- **State Education Reform** decrease of $1.9 million General Fund from the current year of $3.9 million. This includes a $1.4 million reduction to State Reform/Redesign Office, which was intended to propose reforms for the bottom 5 percent of districts, removal of the online testing platform at $500,000 and elimination of basic instructional supplies hotline and appeals process at $76,000.

Funding Changes:

- **Michigan E Library** received $950,000 General Fund in anticipation of the loss of federal funds.
- **Intermediate School District** General Operations were reduced by $3.3 million, or 5 percent, from current levels.

School Aid Fund (K-12)

The Executive Budget, for the first time, funds higher education and community colleges with School Aid funds. This portion of the analysis looks at changes to the K-12 portion of the School Aid Fund. See other sections of this analysis for information on higher education and community colleges funding.

Program Increases:

- **School Bus Inspection** funding was increased by $1.1 million to fund the current law, which requires the Michigan State Police to conduct all safety inspections.

Programs Maintained:

- **Adult education** and career and vocational education are maintained at current levels.

Program Reductions:

- **Per Pupil Foundation Allowance** cut by $300, following a $170 cut in FY 2011, for a total reduction of $470 over the 2 year period. This is a cut of $563.8 million in state funds and $184.3 million in one-time federal stimulus funds for a total decrease in funding of $748 million from the current year for the reduction of $470 per pupil. However, many districts will actually receive a larger cut.
- **Isolated and Rural District Grants** of $2 million were eliminated.
- **Out of Formula District Grants** were eliminated for a cut of $1.8 million as a result of the Michigan Business Tax (MBT) elimination. These grants held out-of-formula districts harmless from local personal property tax exemptions when the MBT was created.
- **Grand Rapids Community College Grant** was eliminated. This $200,000 grant expanded an innovative community college program that focused on educating adults.
- **Department of Human Services Juvenile Detention Facilities** were reduced by $242,500 as a result of decreased costs for educating students housed in DHS juvenile detention facilities because of closures and fewer students.
- **Declining Enrollment Grants** were eliminated for a savings of $20 million.
- **At Risk Grants** were cut by $4.9 million for Dearborn and $243,400 for Baldwin.
- **Bilingual Education Grants** were eliminated--$2.8 million.
- **Special Education Payments** were cut as federal funds decreased by $22.3 million and state payments were cut by $66.1 million, for a total reduction of $88.4 million based on cost estimates.
- **Special Education Hold-Harmless** Payments for Intermediate School Districts were eliminated at the amount of $1.4 million.
- **Middle College Program** was eliminated--$2 million.
- **Precollege Engineering and Science Grants** were eliminated in Detroit, Grand Rapids, Bay-Arenac, Huron and Tuscola ISDs for a reduction of $905,100.
- **Postsecondary Agricultural Education Grants** were eliminated at Saginaw Valley State University, a cut of $300,000.
- **State Aid to Libraries for Michigan Electronic Library Catalog Support** was eliminated, a reduction of $1.5 million. See the Department of Education for related cuts.

- **Positive Behavioral Support Program** funds for the Pontiac school district in the amount of $300,000 were eliminated.

Funding Changes:

- **Tax Changes** that are proposed would reduce the School Aid Fund by a net $597.1 million.
- **Community Colleges received School Aid Funds,** reducing General Fund amount by $195.9 million and increasing by the same amount in the SAF, with no net increase for Community Colleges.
- **Half Day Kindergarten** programs were cut by revising the full day program definition within the Per Pupil Foundation Allowance. School superintendents testified before the House Appropriation School Aid Subcommittee that school district costs would increase in order to continue receiving current funding as they would increase the number of classrooms, offsetting the savings potential. The formula was changed without taking into account that these lower cost part-time kindergarten programs have been used to finance more expensive high school and special education students.
- **Education Jobs Funds (EdJobs)** of $316.3 million in federal funds were eliminated.
- **Center for Educational Performance and Information (CEPI**) included a fund source shift of $8.4 million to the School Aid Fund. In FY 2011 this was added to finance student achievement data. In FY 2012, these funds were shifted to reimburse districts for data collection and reporting. Federal funding of $7.2 million was removed as the state did not receive the Race to the Top award.
- **Michigan Educational Assessment Program (MEAP**) fund shift increasing federal by $5 million and reducing School Aid support.
- **Great Start School Readiness Program (GSRP**) eliminates the option that districts may use their funds for parenting education programs.