Michigan League FOR Human Services

CELEBRATING 100 YEARS OF RESEARCH AND ADVOCACY

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FY 2013 BUDGET

Missed Opportunities: Modernization of Tax System, Investment in State Future

OVERVIEW

The Fiscal Year 2013 budget, which takes effect on Oct. 1, contains fewer cuts than previous years but fails to fully restore funding for important public structures that could help fuel economic recovery. The budget was passed, along with a proposal that rolls back the income tax from 4.35% to 4.25%, three months earlier than originally planned. On the heels of the $1.7 billion business tax cut, the income tax roll-back further reduces state revenues that could be used to spur economic growth. The Budget Stabilization Fund was increased by $140 million, putting the balance at $505 million, the highest in a decade.

Passage of the budget without revenue enhancements misses an important opportunity to pay for needed investments in education, transportation, health care and other areas that will grow the state economy. Modernizing Michigan's revenue structure would provide the investments needed to keep pace with the demands of rebuilding our middle class and creating economic opportunity for all in Michigan.

What follows are highlights for key state department budgets.

DEPARTMENT OF HUMAN SERVICES

Even as unemployment and underemployment remain high and families seek assistance to achieve economic security, the DHS budget projects declining caseloads for assistance programs.

The FY 13 Human Services budget of $6.6 billion was cut by 2.9% overall. The General Fund portion was cut slightly deeper at 3.5%—$1 billion. Most of the Department's financing comes from federal funds—$5.4 billion, or 82% of the total. The General Fund makes up just 15% of the Department's funding, meaning that these cuts to human services do not save many state dollars, although the cuts can greatly impact vulnerable people in the state.

Program Reductions

The budget's largest cut comes from slashing $152.4 million gross and $29.8 million General Fund from public assistance funding. The General Fund savings is less than 20%, which pales in comparison to the loss of federal funds. These caseload reductions can be attributed to more stringent state policies for families receiving cash and food assistance.

Despite jobless rates in low-income and distressed communities remaining high, the food assistance caseload projection falls nearly 10%, from 1,103,042 cases in FY 12 to 996,958 cases in FY 13, with the average cost per month remaining the same as last year at $271 per month for a cut of $68.4 million gross and federal.

Cash assistance caseloads were cut an additional $85.7 million gross. This is much larger than the typical annual caseload adjustment. FIP cases are estimated to fall from 69,363 in FY 12 to 53,298 in FY 13, down 23% in just one year or 16,065 cases. This FY 13 slash is on top of the FY 12 reduction of $77.4 million gross when 13,000 families were projected to lose their cash assistance due to harsher time limits.

State Disability Assistance, a program that provides financial assistance for the disabled as they wait for assistance from the federal Social Security Income program, was also cut $824,800 General Fund. The caseload is expected to fall from 10,250 cases to 8,777 cases, a reduction of 1,473 cases. The average payment will increase from $227 per month to $257 a month. This follows the FY 12 payment cut of 25%. Revised language that allowed refugees or asylees losing federal disability assistance to be eligible for SDA was removed.

SSI supplementation grant rates were reduced by $750,000 General Fund to the minimum federally required rate, primarily impacting couples.

The 2-1-1 program, the health and human service equivalent of 9-1-1, was cut by $150,000 General Fund.

Adoption subsidies were reduced by $6.6 million gross and $1.4 million General Fund. This reflects a caseload reduction from 27,450 cases to 26,925 cases and a reduction in the average payment from $653 to $549 per month.

The Family Preservation Program was reduced by $238,400 federal. Child welfare one-time needs assessment was eliminated, cutting $4 million General Fund.

Medical psychiatric evaluations were cut by $1.4 million gross and $600,000 General Fund, and the funds were redirected to implement a statewide drug testing contract.

Medical subsidies for adoptive youth were cut by $1 million General Fund.

Three DHS juvenile justice facilities were cut by $2 million gross and $1 million General Fund.

The County Child Care Fund was cut by $20 million gross and $7.5 million General Fund.

Private allocations of $166,000 for the Children's Benefit Fund donations, W. J. Maxey Memorial Fund, and Wayne County gifts and bequests were eliminated.

The budget eliminated $21.9 million federal and the associated positions for the Disability Determination Services because the federal government suspended the reconsideration process for which the funding was intended.

Funding Changes

Current appropriations are reduced $78.8 million gross, $26.6 million General Fund and $16.2 million in TANF funds. In addition, a cut to cash assistance allowed the state to remove General Fund dollars, in this case $10.9 million, and replace it with TANF. The rationale for these cuts was that if the entire appropriation was not spent in the prior year, the unspent funds would not be needed in the next year. However, since access to programs is controlled by the Department, spending does not measure the need of low-income families. Rather, cuts to program funding should be based on a factual analysis of need.

In FY 13 the DHS appropriation bill was restructured so that TANF revenues were separately appropriated from the much larger federal funds funding source. In FY 13, spending for TANF programs must be managed within the smaller TANF funding. This change narrows the flexibility to manage TANF programs compared to the large federal fund category. However, one benefit of the change is that it identifies where the TANF revenue is appropriated, making it more transparent.

In addition, programs benefiting low-income families lost the more stable General Fund monies, which were replaced with TANF. For example, $187,000 of General Fund was removed and replaced with TANF for the multicultural integration line providing economic and social service programs for the Arab and Chaldean communities. In addition, the employee contingency plan that cut employee costs was reduced by $7.8 million General Fund and replaced with TANF. This is an example of where TANF funding, meant for low-income families, has been diverted to other programs, leaving less revenue for core safety net programs.

Program Transfers

The background check program for DHS employees was transferred out of DHS to the Department of Licensing and Regulatory Affairs along with $1 million General Fund. This transfer places the program into a separate department away from DHS which administers the programs for employees in adult foster care and homes for the aged. The separation lessens the administrative control between DHS, representing the clients, and the background check administration.

Program Increases

Adult services workers were increased by 20.5 positions and $1.5 million gross to lower the current caseload of 237 cases per worker. Even with the increase, there will not be enough workers to bring the caseload down to accepted levels, but it will help to speed up the processing of Adult Protective

Services and Adult Community Placements. Added staff provides for more timely processing of Medicaid eligibility determinations. This allows the elderly and disabled the choice of living at home if they are eligible for nursing home placement.

The State Supplementation Program, which provides a small monthly subsidy for those who receive State Security Income, increased by $2.5 million General Fund. Cases increased from 258,500 to 271,800, up 13,300 cases, or nearly 5%. The average payment per month will decline slightly from $19.50 to $19.31 per month.

Heating assistance was increased by $59.9 million gross and $27.7 million General Fund from one-time funding, making it a less secure fund source. However, this increase was offset by nearly 40% as the overall state funding for energy programs fell due to the elimination of the Vulnerable Heat and Warmth Fund in LARA, cutting $23 million gross and $10 million General Fund. Heating assistance is an ongoing and vital program for low-income families. Even though the 2012 Michigan winter was milder than usual, it is sensible to maintain enough funding to pay for a more typical or cooler Michigan winter.

Foster care payments were increased by $3.1 million gross but were cut by $3.4 million General Fund as the cases fell from 7,200 to 6,948. The annual cost fell from $24,378 to $23,737.

Guardianship assistance payments increased by $2.6 million gross and $2.1 million General Fund.

Child welfare staffing was increased by $23.3 million for FY 13. This will cost $49.6 million gross on an annual basis to hire 577 staff in order to meet case-to-staff ratios required under the Children's Rights Settlement Agreement. The additional staff includes 307 for child protective services, 174 for direct care and 96 first-line supervisors.

Foster family rates were increased, by $3 per child per day—$11.3 million gross and $6.3 million General Fund. For the first time since 2004, new rates will be implemented for current foster care, new guardianship assistance and new adoption subsidy cases.

Outpatient mental health services were increased by $4.4 million General Fund. New psychotropic oversight contracts were increased by $1.1 million gross and $559,200 General Fund.

The new Stratified Case Management program was provided with $1.2 million gross. This will help DHS identify client cases that have the most barriers and use the most services in order to coordinate services to help them reach self-sufficiency. This is a step in the right direction, given that many cash assistance clients have multiple barriers to work, keeping their wages too low to live on. The funding level, however, is too low to reach many of the families that could benefit. If adequately funded, this program could be extended to help those that have already reached their time limit.

Volunteer services mileage reimbursements rates were increased by $225,700 gross and $58,700 General Fund so that unpaid helpers will continue to assist others without being overburdened by travel costs.

Language Changes

The Department is now required to notify individuals eligible for the Extended Family Independence Program that the $10 grants they receive for six months when they leave cash assistance will count toward the federal and state lifetime cash assistance limits. While having this information will be helpful to those receiving the extended grant, clients are not allowed to opt out of the $10 grant in order to minimize their time counted toward the time limit.

New language requires DHS to include the welfare fraud hotline phone number on any public advertisement. Another language requirement requires 2-1-1 to refer calls of fraud, waste and abuse to DHS. The advertisement requirement may create the illusion that welfare fraud is a significant issue for the state while data indicates that fraud is not a large problem.

The Department is required to implement an asset test for medical benefits under the Refugee Assistance Program.

Retailers participating in the electronic benefit transfer program cannot charge more than $2.50 in fees for cash back.

Vetoed

The Governor vetoed $1 million for Before- or After-School Programs along with the related language section.

Department of Community Health

The Department of Community Health budget includes $282 million in new federal dollars to improve Medicaid provider payments as required by the Affordable Care Act, but it includes no new funding to prepare for a potential Medicaid expansion under the law in FY 14. The spending bill makes other investments in health, including a childhood obesity campaign and an expansion of public insurance programs to cover autism.

The FY 13 appropriation for the Department of Community Health totals $15 billion gross, $2.8 billion General Fund, representing a gross increase of nearly $800 million compared to the initial FY 12 appropriation, but an increase of just over $300 million when compared to the current FY 12 appropriation (which includes supplemental appropriations through May 2012). The General Fund change represents a small increase, $46 million, from the initial FY 12 appropriation, but a decrease of $54 million from the current appropriation which reflects approved supplemental appropriations.

The following Executive Budget priorities were approved by the Legislature, but some were at a lower level than recommended:

- health promotion with a focus on reducing infant mortality and the Michigan 4 x 4 Plan
- Healthy Kids dental expansion
- coverage of autism spectrum disorders for children eligible for Medicaid and MIChild
- increasing access to care through an increase in primary care physician rates to Medicare levels on January 1, 2013, as required by the Affordable Care Act funded with all federal funds
- increased funding to reduce the MIChoice waiting list and support those transitioned from nursing homes

Several legislative initiatives were included in the final budget:

- other wellness initiatives (targeting childhood obesity)
- maternal and child health investments, including funding to reduce infant mortality through support programs and a 20% increase in Medicaid payment rates for obstetrical services (which are not included in the rate increase for primary care physicians above)
- additional funding for rural and sole community hospitals
- full restoration of vision benefits for adult Medicaid recipients

There were no major base revenue adjustments in the FY 13 budget, a change from the last few years when significant changes in federal funding occurred due to the inclusion or termination of federal stimulus funding, or in FY 12 when the HMO tax was phased out and a general 1% tax on medical claims replaced it.

While the FY 13 budget does include the federally required increase in Medicaid primary care rates to Medicare levels, adding $281.8 million all federal dollars, it is important to note that FY 13 is also the year prior to full implementation of the Affordable Care Act in January 2014, which includes the Medicaid expansion to those with incomes under 133% of the federal poverty level, adding an estimated 400,000–600,000 newly eligible individuals. The U.S. Supreme Court ruling in June, however, made this an option for the states. A decision from Michigan had not been made at the time of this writing. This major expansion, representing a 20-30% increase in Medicaid enrollees, will require significant preparation on the part of the DCH. Other key ACA components that must be addressed, in addition to the Medicaid expansion and the primary care payment increase, include revised eligibility criteria, development of the essential health benefits package for the newly eligible population, evaluation of the potential benefits of a Basic Health Program, to name a few. However, no additional staffing or other resources are included in the FY 13 appropriation to meet these increased demands. Funding is included for mandated federal coding updates ($30 million gross, $3 million General Fund) as well as for incentive payments ($24.7 million all federal) for providers who adopt, implement or update electronic medical record technology.

The FY 13 DCH budget continues the reclassification of previously defined “base program” funding as one-time funding, including a portion of the graduate medical education program for the second year, mental health services for special populations for the second year, health and wellness initiatives (previously Healthy Michigan Fund) for the second year, to name a few. This strategy was used in FY 12 to reduce program cuts through one-time boilerplate appropriations. The one-time appropriation for rural and sole community hospitals was both increased by $6 million and reclassified as ongoing funding. This strategy for budgeting creates confusion for not only the public, but also those charged with administering the programs when funding is volatile from year to year.

A major initiative under development by DCH, under a contract with the federal government, is the integration of the range of services for those who are eligible for both Medicaid and Medicare. These are very fragile individuals and this is an extremely complex initiative. The budget assumes savings ($29.8 million gross, $10 million General Fund) for this effort due to improved coordination of services, reduced fragmentation and simplified administration between the Medicaid and Medicare programs. Six new FTEs are included to implement this initiative. Specific policies and implementation strategies, yet to be defined, will determine its success as well as any potential savings. The budgeted savings, at this time, are speculative and may not be realized depending on the actual implementation date and policies of the initiative.

Highlights of the FY 13 Community Health appropriation follow:

Program Increases

Medicaid Caseload Funding is held constant at the FY 12 initial level, based on the May Revenue Estimating Conference. FY 12 will be revised significantly downward which is troubling in the face of continuing declines in employer-sponsored coverage—1.25 million Michiganders since 2000-2001.

Actuarially Sound Rates for Managed Care Plans for both physical and mental health Medicaid-managed care organizations are funded with the addition of $75.1 million gross, $25.3 million General Fund. The federal government requires that rates paid to Medicaid-managed care organizations must be actuarially sound to ensure provision of services to Medicaid enrollees.

Healthy Kids Dental is expanded with the addition of $16.7 million gross, $5.6 million General Fund. The Conference Committee did not concur with the Executive Budget recommendation to invest $25 million gross, $8.3 million General Fund to a cover a projected 25% of the more than 500,000 children in Medicaid who do not have access to dental coverage through the Delta Dental network. The governor further recommended expansions in each of the following three years to cover all Medicaid children by 2016, providing access to quality oral health services. Tooth decay remains the most prevalent chronic disease in children, five times more common than asthma. Untreated oral health problems result in lost school days and learning, as well as the potential for long-term health consequences.

Dedicated Funding for Autism Spectrum Disorders Treatment for Medicaid- and MIChild-eligible children under age 19 is appropriated for the first time. The Conference Committee increased the ages of children to be covered (from 6 through 18), while reducing the funding to $20.9 million gross, $6.7 million General Fund from the Executive recommended $34.1 million gross, $10.1 million General Fund. Funding for three positions to implement this initiative is included, but their funding comes from other program savings rather than new funding investment. The Conference Committee also included a $500,000 gross and General Fund grant to the Eastern Michigan University Autism Center to increase their clinical and therapeutic program services for autism.

While this is a very important initiative and benefit for children with autism, this policy picks winners and losers. Those with untreated disorders may end up homeless or incarcerated. It would be preferable for Michigan to have mental health parity in which all children receive the mental health services they need to function at their highest levels and not require increasingly costly care and services as they age due to lack of childhood treatment.

MI Choices Waiver Funding is increased to reduce the waiting list of those eligible for waiver services. The additional investment totals $11.8 million gross, $4 million General Fund, a slight increase over the Executive Budget recommendation. Program funding is also increased by $24.6 million to support additional transitions, as well as those who previously transitioned, to the community from nursing homes, for a total increase in funding of $36.4 million.

Maternal and Child Health Investments to improve pregnancy outcomes, reduce infant mortality, provide parent support programs, and improve child health through lead abatement are included in the DCH budget. The Conference Committee added funding for several initiatives to improve maternal and child health. A 20% increase in obstetrical services rates is included at a cost of $11.9 million gross, $4 million General Fund. Also included are $2 million, all federal TANF funds, to establish a two-year initiative to provide enhanced counseling, support and referral services to women during pregnancy and through the first 12 months following birth and $1 million all federal TANF funds, for the Nurse Family Partnership program to establish a new two-year initiative, including strategic planning for a Detroit-based Nurse Family Partnership program as well as enhanced support and education for nurse family partnership teams. While these are important initiatives, it is troubling that the Legislature chose to fund them with federal TANF block grant funds, which are already overcommitted and supporting many nonassistance programs, not the original intent of the program. The Conference Committee included $2 million from the Environmental Response Fund for lead abatement in homes where children who have tested positive for high levels of lead reside. The Conference Committee concurred with the governor and included funding ($4.5 million gross, no General Fund) to serve additional children under the Children with Serious Emotional Disturbance Waiver.

Health and Wellness Initiatives, focused on reductions in adult obesity, infant mortality and smoking, are funded with new state investment, one-time appropriations from FY 12 that are continued as one-time appropriations in FY 13, and new one-time appropriations. The Department plans to pursue additional funding, $16 million, for the *Michigan 4 x 4 Plan* *http://www.michigan.gov/documents/healthymichigan/Michigan_Health_Wellness_4x4_Plan_387870_7.pdf* from federal innovation grants and foundations. This fund was previously called the Healthy Michigan Fund and is renamed Health and Wellness Initiatives. In FY 12, program funding was reduced from $10.9 million for specific programs to a single line item of $5 million. In addition, there was a $3 million one-time appropriation included in boilerplate. The Conference Committee concurred with the Executive Budget recommendation to both continue the $3 million one-time appropriation and to increase it by $2 million. The Conference Committee did specify that of the new $2 million, at least $50,000 be allocated for diabetes services and at least $50,000 for the Nurse Family Partnership program. The Conference Committee also included $1 million gross and General Fund for a pilot before-and after-school healthy exercise program to promote and advance physical health for school children in kindergarten through grade 6 as an initiative to address childhood obesity.

Aging Services Funding is partially restored to provide services based on locally-determined needs. The Executive Budget recommended specific funding for a number of community programs including options counseling for senior community services and placements ($500,000 gross and General Fund), to expand elder abuse prevention programs ($100,000 gross and General Fund), and to provide community support for relatives providing care to family members with dementia ($250,000 gross and General Fund). The Conference Committee added $1.1 million gross and General Fund and specified that spending would be based on locally-determined needs, rather than the programs specified in the Executive Budget. This investment represents a partial restoration of the $2.2 million reduction in FY 12 (see below for details).

Prior Program Reductions Restored in FY 13

Chiropractic Services for Adults are restored with an investment of $900,000 gross, $300,000 General Fund. Chiropractic services, an "optional" Medicaid service, were initially eliminated in July 2009.

Vision Services for Adults are fully restored with an investment of $4.5 million gross, $1.5 million General Fund. Vision services for adults, an "optional" Medicaid service, were initially eliminated in July 2009; a partial restoration was included in the FY 11 budget. This increase fully restores the benefit.

Graduate Medical Education is restored to FY 12 post-supplemental level. The Executive Budget recommended continued significant reductions in the Graduate Medical Education program. The Conference Committee funded the program at nearly the FY 12 level, which included restoration of all but about $6 million of the prior-year reduction. FY 13 funding does include $4.3 million in one-time funding. Funding for this program is appropriated at $162 million, a significant increase over the Executive Recommendation of $136 million. These payments are made to teaching hospitals in recognition of their higher costs for intern and residency programs. This program is critical in view of both the projected shortage of physicians and the major expansion of Medicaid effective January 2014.

Michigan Essential Health Care Provider loan repayment program is partially restored with an investment of $1 million gross, $500,000 General Fund, with boilerplate specifying funds may be used to reduce loans for obstetricians and gynecologists working in underserved areas. FY 13 was scheduled to be the final year of the phaseout of this program prior to this restoration of funding.

Nonemergency Medical Transportation Mileage Rates for Medicaid recipients are increased, with an investment of $2 million gross, $1 million General

Fund. This increase will restore the previously reduced personal and volunteer services mileage rates.

Funding Changes

The Federal Matching Rate for Medicaid (Federal Medical Assistance Percentage – FMAP) is increased from 66.14 % to 66.39 % for FY 13, saving nearly $26 million General Fund. The favorable federal match rate provides economic stimulus for a small General Fund investment. For every state dollar invested, the federal government provides $2, enabling $3 of health care services to be purchased. On the other hand, every state dollar removed from the Medicaid program results in the loss of $3 of health care services.

Program Reductions

Behavioral Health Drugs are included in the Medicaid preferred drug list, saving $18.7 million gross, $6.3 million General Fund. The Executive Budget continued this proposal as it had in prior years (FY 10 and FY 12); however, enabling legislation has not been passed. The Conference Committee restored the funding assuming enabling legislation would not be approved.

Program Savings

Savings are assumed for improved payment processes and fraud detection totaling nearly $43 million gross, $14.5 million General Fund. Initiatives include data matches with other insurers, overpayment reconciliations and other efforts to recover overpayments from providers. Inspector General staffing is increased to expand fraud detection activities. The Conference Committee increased the projected savings by over $10 million more than the governor recommended.

Program Changes Recommended, but Not Implemented in FY 12; Continued in FY 13

Enrollment in managed care for Children's Special Health Care Services participants is mandated, saving $11 million gross, $3.7 million General Fund. Budgetary savings were assumed in FY 12, but the policy was not implemented. The policy and savings are continued in FY 13.

A more robust estate recovery program in Medicaid is recommended to generate $16.6 million gross, $5.6 million General Fund savings. The Executive Budget continued to assume greater savings from the estate recovery program based on passage of legislation to strengthen the program. Stricter legislation to generate more savings was proposed but not passed in FY 12. The Conference Committee did not agree that the legislation could be passed so it eliminated the Executive Budget savings that could be generated from a stronger estate recovery program.

FY 12 Reductions Continued in FY 13

Non-Medicaid Community Mental Health funding was reduced $8.5 million in FY 12 in addition to the $5.4 million in FY 11, and $40 million in FY 10. The FY 13 appropriation is $274 million.

Eligibility restrictions in the Adult Home Help Program will reduce spending by $17.7 million gross, $6 million General Fund. Full-year reductions for this phased-in policy are included in the FY 13 Executive Budget. 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.

Funding for local health department operations was reduced by $1.7 million in FY 12. This reduction is on top of the $1.5 million in reductions made over the last two fiscal years (FY 10 – $500,000, FY 11 – $1 million), and reduces operational funding to $37.4 million.

Funding for substance abuse services was reduced by $1.4 million in FY 12. This reduction is on top of the $3.5 million in reductions made over the last two fiscal years (FY 10 – $1.9 million, FY 11 – $1.6 million).

Funding for Aging Services was reduced by $2.2 million ($1 million for Community Services, $800,000 for Nutrition Services, $400,000 for Volunteer Programs) in FY 12. These reductions are on top of $7.7 million over the last two fiscal years. (FY 10 – $5.1 million, FY 11 – $2.6 million). **Note**: A portion of this reduction is restored in the FY 13 appropriation (see above).

Vetoed

The Conference report included $2 million federal TANF for a parenting support program and $1 million federal TANF for the Nurse Family Partnership. These items were vetoed by the governor. The Conference also included $4.9 million for the Healthy Homes lead abatement program. The line item was vetoed by the governor, resulting in a reduction of $2.9 million to year-to-date funding.

School Aid (K-12) Education

Despite an overall increase in funding, the disinvestment in education, both adult education and K-12, continues in this budget.

The FY 13 appropriation for K-12 education represents an increase over both current-year funding ($200.5 million increase) and over the Executive Budget recommendation ($257 million increase). The increase is primarily General Fund appropriations, $164 million, used to restore a small portion of prior-year foundation allowance reductions, and a $43 million increase in federal funds.

Only districts receiving the minimum foundation allowance will receive a partial restoration of the $470 per pupil reduction from prior years ($170 from FY 11 and $300 from FY 12). Foundation allowances for these districts will increase by $120. Adult education funding remains unchanged over the last four years at $22 million.

In addition, the redirection of the School Aid Fund to higher education is continued with the concurrence of the Conference Committee with the Executive Recommendation of $197.6 million for community colleges and $200.6 million for higher education.

At the same time that the SAF is financing operations in higher education, the General Fund allocation to K-12 programs is also increasing. The FY 13 Executive Budget recommended an increase in General Fund of $81.4 million, to a total of $200 million, representing a $181 million General Fund increase over two years. The Conference Committee further increased the General Fund appropriation by $82.4 million to $282.4 million.

Highlights of the School Aid Fund appropriation follow.

Program Increases or Changes

Best Practices Funding of $80 million and Performance Grants funding of $30 million are approved. The Executive Budget included $190 million, mostly continued "one-time" from FY 12 for best practices grants and performance-based incentives. The Conference Committee approved $80 million for best practices grants, which equates to $52 per pupil to districts that meet seven of eight best practices criteria, and provided $30 million for performance-based grants which will be awarded based on improvements in student exam performance.

Funding for Technology Grants is added by the Conference Committee to promote technology upgrades, including hardware, software and access to online computer adaptive testing. A $50 million appropriation is included for this purpose. District grants cannot exceed $2 million.

Great Start Readiness School-Based and Competitive Grants were maintained at the FY 12 levels of $95.7 million and $8.9 million, respectively in the Executive Budget. The Conference Committee increased funding for the school-based grants by $5 million, bringing them to a total of $100.7 million. This investment in preschool programs is targeted to 4-year-olds who may be at risk of school failure. Several risk factors, including low family income, must be met to qualify.

Early Childhood Funding Block Grant of $10.9 million is created by combining funding from Great Start Collaborative grants ($5.9 million) and Great Parents, Great Start grants ($5 million). ISDs will receive the same amount of funding in FY 13 as in FY 12 from the block grant. However, they must apply to the Office of Great Start for the funds and specify how the funds will be used, as well as convene both a local Great Start collaborative and a Great Start parent coalition with the funds.

One-Time Funding of $10 Million for Consolidation Competitive Grants is approved to assist with the transition costs associated with district or ISD consolidations. While the Conference Committee concurred with the amount of funding recommended in the Executive Budget, it did expand the option for consolidating with local units of government.

Youth Challenge Program increase is approved by the Conference Committee with an investment of $734,000, bringing the total appropriation to $1.5 million. This program focuses on youth at greatest risk and attempts to redirect them toward education or employment. It is a preventive rather than remedial program operated by the National Guard.

ISD Operations funding is increased by $2 million to $64.1 million. The Conference Committee added $2 million for incentive payments for ISDs that meet specific performance criteria.

Training of Principals in effective teacher evaluations with one-time funding of $1.75 million is approved as recommended in the Executive Budget. This training would provide principals with fair and consistent methods for teacher evaluation requirements.

The Office of Great Start within the Department of Education assumed responsibility for the state's Child Development and Care Program and funding, previously in the Department of Human Services, in FY 12. Total funding of $159 million for the program was transferred to the Department of Education through a supplemental request in November 2011. The FY 13 Executive Budget recommendation reduced funding by $3 million associated with a declining child care assistance caseload of 300 cases per month, while maintaining the reduction in base rates, from $1.60 to $1.35, for enrolled child care providers and the limits on the number of hours that can be reimbursed. The Conference Committee concurred with the Executive Budget recommendation.

Michigan Public School Employees' Retirement System one-time funding of $155 million provided in FY 12 is continued in FY 13. The $24 million increase recommended in the FY 13 Executive Budget was not supported by the Conference Committee. Continuation of the one-time funding will reduce school districts', excluding ISDs, retirement obligation by approximately 2%, reducing school contribution rates from 27% to 25% of payroll.

Program Reductions

Per Pupil Funding (Foundation Allowance) reduction of $470 from FY 11 and FY 12 is continued in FY 13 for all districts with foundation allowances above the minimum ($6,846). Districts with minimum foundation allowances will receive a partial restoration, $120 per pupil, of the $470 per pupil reduction. This partial restoration will bring the minimum foundation allowance to $6,966. It is worth noting that over the last 10 years, the minimum foundation allowance has increased from $6,700 to $6,966 in FY 13, an increase of only $266, but $350 lower than the minimum foundation allowance in FY 09, not adjusted for inflation.

Half-Day Kindergarten Foundation Allowance reduction saving $20 million is assumed in the final budget. The Executive Budget assumed savings of $50 million for implementation of the policy requiring school districts to provide full-day kindergarten to receive the full foundation allowance. Half-day programs will receive only one-half of the foundation allowance. The Conference Committee adopted a lower savings for this policy.

Mandated Student Assessment funding is reduced by $8.5 million for a total of $34.9 million.

Programs with Continuation Funding

Adult Education Funding is continued at the $22 million level, unchanged over the last four years, and down from $75 million in FY 03. The continuing lack of investment in adult education impedes the ability of the Office of Adult Education to succeed in its mission: *To ensure that all adult learners obtain the highest quality education, leading to the attainment of a secondary education, literacy, and numeracy skills necessary to succeed in employment and post-secondary education.*

Vocational Education Funding is continued at the FY 12 level of $26.6 million. The Conference Committee did not concur with the House recommendation to increase funding by $30 million.

School Bus Safety Programs (Driver Safety and Inspections) are maintained at $3.3 million. Funding to support transportation in small, isolated districts is maintained at $2 million.

State Aid to Libraries is continued at a funding level of $1.3 million.

Higher Education

An increase of $36 million is divided among public four-year colleges and universities based on performance measures that, unfortunately, do not include the number of low-income students served by the institutions. The increases per institution range from $1.06 million in FY 12 to $1.10 million in FY 13 in General Fund/General Purpose funds. The governor originally proposed awarding the additional funding to each institution on the basis of four performance measures, with $9 million allocated for each measure: 1) undergraduate degree growth, 2) undergraduate degrees in STEM and health fields, 3) number of Pell Grant students and 4) tuition restraint (universities holding resident undergraduate tuition/fee increases at or below 4%). The Conference Committee agreement, however, eliminated the Pell Grant metric, increased the portion of the increase allocated for tuition restraint ($9 million), replaced the undergraduate degree growth metric with a metric recommended by the universities and Business Leaders of Michigan (performance comparisons versus national peers for six-year graduate rate, total degree completions, and institutional support as a percentage of core expenditures) ($18 million), retained the metric for degrees awarded in STEM and health fields ($6 million), and added a metric for research and development expenditures ($3 million).

Several scholarship programs funded entirely from TANF Maintenance of Effort are maintained at flat levels. These include the State Competitive Scholarships ($18.3 million), Tuition Grants ($31.6 million) and the Tuition Incentive Program ($43.8 million). Project GEAR-UP scholarship, with funding from a separate federal stream, is also maintained at a flat level.

Fund Increase

School Aid Fund—The budget adds $446,200 in new funding to help pay for MPSERS costs for the seven universities that participate in MPSERS.

Boilerplate Changes

P-20 Data System Reporting—Sec. 244, which requires universities to comply with requirements of the statewide P-20 education longitudinal data system, is revised to authorize the state budget director to withhold monthly payments for a university not in compliance.

Conditions for Receiving Performance Funding—Sec. 265 includes three requirements to receive performance funding: 1) certification that the university participates in reverse transfer agreements with at least three Michigan community colleges, 2) certification that dual enrollment policies do not prevent use of credits for high school graduation, and 3) participation in the Michigan Transfer Network. A controversial House proposal to require universities to report stem cell research to the Legislature as a condition for receiving performance funding was not included in the final budget, although boilerplate retains the requirement to report to the Department of Community Health without tying it to performance funding. Also not included was a House proposal that would have prohibited performance funding from going to universities that required students to carry health insurance. The Conference Committee agreement instead requires the cost of purchasing mandatory university-provided insurance to be included when evaluating a university's performance for the tuition restraint metric.

COMMUNITY COLLEGES

Despite growth in the overall Community Colleges budget, no community college will see an increase for operations in FY 13 as the additional revenue is targeted to retirement payments. The budget increased from the FY 12 year-to-date total of $283.9 million to $294.1 million for FY 13. All community colleges received an allocation increase, ranging from Southwestern at 3.1% to Kirtland at 4.4%. All additional revenue is designated to be used for Michigan Public School Employees Retirement System payments.

The increase in the overall budget, and in that for each college, comes from the formulas proposed by the Senate and in previous years' budgets, which are based on Performance Indicators Task Force distributions, MPSERS funding, and School Aid Fund shift. The governor's proposal to base increases on the number of degrees awarded in STEM (science, technology, engineering and mathematics) and healthcare fields was rejected.

While the use of performance indicators in determining allocations is a good thing, the League urges the Legislature and community colleges to create benchmarks for developmental education success and the success of adult learners. Many community college students are required to enroll in developmental education classes, and a large number do not persist and graduate due to difficulties with the requirements.

Fund Increases

General Fund—Increased funding by $8.5 million from $88 million in FY 12 to $96.5 million in FY 13. All additional funds are to be used to pay MPSERS costs.

School Aid Fund—Increased funding by $1.7 million, from $195.8 in FY 12 to $197.6 in FY 13. As with increases from the General Fund, all additional funds are to be used to pay MPSERS costs.

Boilerplate Change

P-20 Data System Reporting—Sec. 219 maintains the requirement that community colleges submit data to the P-20 longitudinal data system, but adds language that submissions must be done by June 30 of each year. In addition to retaining language that directs the

Department of Treasury to withhold appropriations if community colleges fail to submit Activities Classification Structure data, Sec. 206 now adds authority to withhold appropriations if P-20 longitudinal data system data is not reported, and gives the state budget director the authority to determine if a community college is in compliance with the provisions of this section.

WORKFORCE DEVELOPMENT (Michigan Strategic Fund)

The largest source of funding for workforce development comes from federal Workforce Investment Act funds to the state. The budget reflects a $50 million decrease from FY 12 in available WIA funds, from $233.3 million to $183.3 million. For the past several years, WIA dollars and other federal dollars have been the sole funders of the No Worker Left Behind program, which is being discontinued. WIA dollars also provide much of the funding for the Michigan Works! Agencies which are the required “one-stop centers” for receiving the funds. The budget also reflects an anticipated $5 million in private foundation grants for these purposes, for a net decrease of $45 million.

The only change to General Fund/General Purpose workforce spending in FY 13 is a line item of $10 million in new funding for the new Talent Fund for Job Training and Skills Development. This fund supports Community Ventures, which brings together employers, job readiness partners and private organizations to assist individuals age 15-29 and ex-offenders with basic workplace training, access to day care, reliable transportation, and necessary education and literacy skills. Community Ventures will focus on the “structurally unemployed” living in “distressed cities.”

The Conference Committee agreement allocated $200,000 to a nonprofit community development program (the Refugee Acculturation and Sustainability Training program) that assists refugees from the Iraq war in preparing for and obtaining employment. It deleted allocations of up to $100,000 each for two community-based workforce training programs.

Boilerplate Changes

Partnership Requirement—Sec. 1061 deletes a requirement that local workforce development boards maintain partnerships with government agencies, public school districts and public colleges in their service area to qualify for funding. The League supported the requirement for such partnerships because it encourages and facilitates the development of career pathways programs that can help adult learners acquire needed skills.

Reporting Requirement—Sec. 1068 deletes the requirement for each Michigan Works! Agency to report detailed funding information. This originally targeted only the No Worker Left Behind program but now applies to all workforce training programs. The League urges not only that Michigan Works! Agency data be reported to the Legislature, but that training, placement and success data be made available online to the public.

DEPARTMENT OF CORRECTIONS

Deep reductions in the Corrections budget reflect controversial decisions to privatize healthcare, replace paid workers with prison labor and end perimeter security patrols.

The Department of Corrections FY 13 budget was reduced by 0.7%. Over 873 staff positions were eliminated, a reduction of 5.6% from FY 12. General Fund dollars make up 97% of the Department’s budget.

Program Reductions

The budget includes a cut of $34.1 million General Fund due to the closing of the Mound Correctional facility in December 2011.

Healthcare costs will be cut an additional $10.1 million General Fund due to the competitive bidding of prisoner healthcare services and mental health services that are now provided by state employees. The private sector will take over the work currently performed by 1,948 state employees. This plan could be used to satisfy the FY 12 contingency savings plan to achieve General Fund cuts in lieu of employee concessions.

Prisoner healthcare was cut by $2.9 million General Fund based on the rationale that the FY 11 spending fell below the appropriation. Spending on prisoner healthcare, however, is not an accurate indicator of healthcare needs because audits show some prisoners are going untreated. Past audits have found problems with the prison medical system for failure of the medical staff to see chronically ill inmates for routine examinations. The appropriation for prisoner clothing is cut $1.1 million General Fund. Clothes will be purchased from outside vendors, rather than making them internally, and the number of items issued will decrease.

New prisoner phone charges in the amount of $5.8 million will be collected to finance special equipment and maintenance for items such as Tasers, ballistic vests and contraband detection equipment. Along with a cut to the regular equipment and maintenance spending, this new revenue was used to offset a cut to the General Fund by $1.5 million. Imposing higher charges on phone calls will hinder the ability of low-income prisoners to maintain contact with family and friends and receive the support required for successful re-entry into the community.

A cut of $2.2 million General Fund comes from substituting trained inmates for custody staff to do direct and continuous observation of prisoners who display a self-injury or suicide risk.

A cut of $15.6 million General Fund was made across 26 facilities, eliminating the 135 staff positions currently charged with driving vehicles to secure the prison perimeter. The safety of neighborhoods near prisons could be compromised without the physical presence of security.

Pay and retirement payments were cut to the 2,400 resident officers – $11.9 million General Fund. There is a $10 million reduction because retired staff will be rehired rather than allowing current staff to receive overtime pay. Prisoners may benefit from less overtime as staff is not as stressed from working too many hours.

Prison facilities and regional administrative offices will be cut by $2.4 million General Fund and 32.8 positions. Field operations for the supervision of parolees and probationers will be cut by 125 positions – $11.3 million General Fund. The overall reduction in corrections staffing will impact the quality and timeliness of services provided to inmates.

Prison facility and regional office staff were cut $7.2 million (97 positions). Cuts include lowering the prison security levels and replacing state employees with prisoners in the prison kitchen. Further reductions of $2.3 million resulted in each of the 26 correctional facility allocations being cut by $80,400 and one position for which the department will identify the specific cut.

Program Increases

The budget includes an additional $5 million toward the payments required by the Neal Settlement Agreement, related to the sexual abuse in prisons by MDOC employees. This amount is added to the FY 12 payments of $15 million. Total payments equal $20 million in FY 13 and FY 14, increasing to $25 million in FY 15 for the final payment.

The prison and re-entry facilities will be increased by $10.8 million overall but cuts were needed to make the increase possible. The Ryan Correctional Facility will be cut by $11.8 million and used as the Detroit Re-Entry Center to house parolees and parole violators. The Tuscola County Re-Entry facility will be closed for a reduction of $3.8 million. Muskegon Correctional Facility will be reopened to maintain prison bed space for an increase of $22.9 million. These changes add 290 beds and 884 re-entry beds to the system. Food service, transportation and healthcare was increased by $3.5 million.

County jails received $4.8 million for public safety. Distressed communities, such as Flint, can use the funds to purchase jail bed space in neighboring counties to address the backlog of active warrants and keep the community a safer place to live.

Staff training funds were increased by $3.5 million General Fund for the training of 350 new correction officers to meet attrition.