Michigan League for Human Services

April 2012

Executive Budget FY 2013: Second Verse Same as the First

Overview

Gov. Snyder's second Executive Budget recommendation is primarily a continuation budget from Fiscal Year 2012, but it does contain some small increases in funding for important public structures and programs. The state ended FY 11 with an approximate $700 million surplus between the School Aid Fund and the General Fund. The Executive Budget recommends appropriating $130 million into the Budget Stabilization Fund rather than using it to help families still struggling to recover from the economic downturn.

Highlights in the budget include additional funding for Healthy Kids Dental, infant mortality prevention, a new workforce development initiative and performance-based funding for colleges and universities that includes a metric for low-income students. While there are small increases in the budget recommendation and there are not the massive cuts recommended last year, a relatively flat budget means that the cuts to programs and public structures over the last several years remain.

The Department of Human Services budget reduces funding for cash assistance by an estimated $23 million and projects the closure of more than 7,000 additional cases. Food assistance funding is reduced by more than $68 million, anticipating that there will be 106,000 fewer cases in the next fiscal year. Arguably the state is slowly rebounding from its long economic recession, but there are many families struggling to achieve economic security. It is imperative that the state provide the necessary supports to help families get back on their feet.

Following is a more detailed analysis of key budget recommendations. The League will continue to analyze budget decisions leading to a final budget for the next fiscal year.

Department of Human Services

Appropriations for the Department of Human Services as a whole declined by 2.5 percent gross and General Fund in the recommended budget, without including one-time funding. While a few increases are recommended, it is an overstatement to say that these increases protect the safety net. The five program enhancements, outside the child welfare consent decree, average less than $2 million each. These increases pale in comparison to the $195 million recommended for promoting businesses through economic gardening in FY 13.

Program Reductions

Cash assistance is reduced by an estimated 7,130 cases and $22.6 million gross in the Executive Budget. This is a 6.6 percent cut to the Family Independence Program line. It follows the $77.4 million cut in FY 12, which budgeted for reduced cases as lifetime limits were utilized. While described as a caseload reduction, it is not routine. The $22.6 million cut is significant.

In addition, policies were changed by the Department that increased the number of cases that were closed. These policy changes by the Department were made without public discussion. The Department policy counts the $10 Extended FIP payment the same as a $500 grant when counting months toward the lifetime limit.

The FY 12 Executive Budget recommended ending 12,600 cases based on a new 48-month time limit. Many of those cases, however, were closed based on a 60-month limit. Without legislative oversight, the 60-month policy ended state payments for cases that

DHS had previously decided were in hardship due to work barriers. Closing these cases as budget reductions was not necessary to balance the budget as a state budget surplus and Rainy Day Fund monies were available to support these families.

The Executive Budget cuts Food Assistance by nearly $68.4 million, a fall of 106,000 cases to 996,958 cases in FY 13. Recent policy changes impacting food assistance for college students and changes in asset limits have pushed the caseload lower. The Department instituted a new asset test for Food Assistance beginning on October 1, 2012. This runs counter to the nationwide trend of eliminating asset tests. Thirty-seven states do not have an asset test for Food Assistance.

The State Disability Assistance Program for low-income people with disabilities waiting for federal approval of disability benefits is reduced by $2.4 million, down 900 cases to 9,350 in FY 13. The recommendation includes a reduction of $20 in the average payment for FY 13. This follows the FY 12 payment cut of 25 percent for an average payment of $200.

Child welfare caseloads are reduced by $32.5 million, including foster care ($8.6 million), adoption subsidies ($2 million) and county child care ($23.9 million). Guardianship assistance payments are increased by $2 million. The one-time child welfare needs assessment is ended, removing $4 million.

Program Transfer

The FY 13 DHS budget is based on the inclusion of the FY 12 DHS supplemental that transferred appropriations to the Department of Education, Office of Great Start. Executive Order 2011-8 implemented the transfer of primary responsibility for the state's child development and care program, which provides state support for low-income and other qualifying families needing child care. According to the House Fiscal Agency, a total of $206.2 million will be transferred to the Department of Education from the Department of Human Services. This includes $11.8 million from the Temporary Assistance for Needy Families program.

Program Increases

Child welfare enhancements are increased by $5.7 million gross and $4 million General Fund with one-time funds. As ordered under the Children's Rights Initiative settlement agreement, the rate increase for foster and adoptive parents is increased by $3 per day. The $11.3 million increase is funded with one-time funds.

An increase of $2 million is recommended for supported visits for family reunification. A new youth opportunity initiative is created by adding $1.9 million. Adult services staff is increased by $2.9 million to reduce the caseload per worker. 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. Funds are increased by $1.2 million for case management for those on cash assistance with barriers to employment.

Department of Community Health

The FY 13 Executive Recommendation for the Department of Community Health is primarily a continuation budget from the FY 12 appropriation with a few notable exceptions. The Executive Budget for the Department of Community Health totals $15.1 billion gross, $2.8 billion General Fund. A continuation budget means that prior reductions (detailed below) in needed health care services for low-income individuals and families are not restored and remain unavailable.

The Department's identified key issues include reducing obesity (*Michigan 4x4 Plan*), infant mortality and smoking. The exact steps to achieve these laudable goals, however, are not clear with minor investments of new funding, including $2.25 million for wellness initiatives, $1.25 million of which is one-time funding, and $900,000, mostly one-time funding, to implement the infant mortality plan. One-time funding of $900,000 from FY 12 is recommended as continued one-time funding in FY 13 for pregnancy prevention.

There are major funded initiatives recommended in the FY 13 Executive Budget that will provide great benefits to families, particularly children, and the elderly and those with disabilities. These initiatives include: funding to expand Healthy Kids Dental to cover an estimated 180,000 new children, funding to cover treatment of autism spectrum disorders for an estimated 2,000 children under age 6 who are eligible for Medicaid and MIChild, funding to reduce the MI Choice waiver waiting list by providing an additional 100 slots, and restoration of chiropractic services for adults.

Another major initiative under way is the integration of the spectrum 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 Executive 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. Specific policies and implementation strategies will determine its success. Six new FTEs are recommended to implement this initiative.

In addition, the Executive Budget recommends the appropriation of $281 million all federal funds to increase primary care physician rates to Medicare levels on January 1, 2013, as required by the Affordable Care Act.

It is important to note that FY 13 is the year prior to full implementation of the ACA in January 2014, which includes the major expansion of the Medicaid program to those with incomes under 133 percent of the federal poverty level, adding an estimated 400,000–600,000 newly eligible individuals. This major expansion, representing a 20-30 percent increase in Medicaid enrollees, will require significant preparation on the part of the DCH. In her presentation, Director Dazzo noted key ACA components that must be addressed, including the Medicaid expansion, as well as the primary care payment increase, revised eligibility criteria and evaluation of the potential benefit of the Basic Health Program. However, no additional staffing or other resources are recommended in the Executive Budget to meet these increased demands.

The FY 13 Executive Budget continues the reclassification of previously defined "base program" costs as one-time funding and recommends the elimination of some but not all one-time appropriations. This strategy was used in FY 12 to reduce program cuts through one-time boilerplate appropriations. Some one-time appropriations from FY 12 are recommended for continuation as one-time appropriations in FY 13 (Healthy Michigan Fund, $3 million). Some are recommended to continue and again become part of the "base program," while some are recommended for elimination ($17 million for graduate medical education, $29.5 million to support rural hospitals, $3 million for mental health services for special populations and $300,000 for island health clinics). There are new "one-time" appropriations recommended in FY 13 including funding for: state employee one-time lump-sum payments ($4.3 million gross, $2.6 million General Fund), the Medicaid payment processing system, CHAMPS ($40 million gross, $4 million General Fund), state laboratory equipment and supplies ($200,000 gross and General Fund), elder abuse prevention and training initiatives ($250,000 gross and General Fund), and health and wellness initiatives described below ($5 million gross and General Fund). 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.

Highlights of the Executive Recommendation follow:

Program Increases

Medicaid caseload increase of 2.4 percent is budgeted, requiring the addition of $263 million gross, $93 million General Fund. This modest adjustment follows a revised lower caseload estimate for FY 12, saving $148 million gross, $47.5 million General Fund. The FY 12 downward revision 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 $75.2 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 to a cover a projected 25 percent of the more than 500,000 children in Medicaid who do not have access to dental coverage through the Delta Dental network with an investment of $25 million gross, $8.3 million General Fund. Expansions are planned 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 of $34 million gross, $10 million General Fund for Autism Spectrum Disorders treatment for Medicaid- and MIChild-eligible children under age 6 is recommended for the first time. An estimated 2,000 children under age 6 will benefit from this treatment. 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 slots are increased by about 100 to reduce the waiting list of those eligible for waiver services. The additional slots are funded from a combination of new General Fund investment and some savings from individuals transitioning back to the community from nursing homes.

Nonemergency Medical Transportation rates for Medicaid recipients are increased, with an investment of $1.9 million gross, $900,000 General Fund.

Health and Wellness Initiatives, focused on reductions in obesity, infant mortality and smoking, are funded with new state investment, one-time appropriations from FY 12 that are recommended to be continued as one-time appropriations in FY 13. The Department plans to pursue additional funding, $16 million, for the *Michigan 4 X 4 Plan* 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 table below provides historic funding of programs and recommended funding for new initiatives.

Aging Services funding of $900,000 is restored to provide 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

Healthy Michigan Fund FY 2011 – FY 2013 Recommendation

	FY 2011	FY 2012 Base	FY 2012 One-Time	FY 2013 Executive Base	FY 2013 Executive Ongoing Base	FY 2013 Executive One-Time	Total FY 2013 Health and Wellness Recommendation
Healthy Michigan Fund Programs							
Cancer Prevention and Control	$ 826,200	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Cardiovascular Health	898,200	0	0	0	0	0	0
Diabetes Local Agreements	805,200	0	0	0	0	0	0
Immunization Local Agreements	1,750,000	0	0	0	0	0	0
Immunization Program Management	354,900	0	0	0	0	0	0
Maternity Outpatient Medical Services	1,575,500	0	0	0	0	0	0
Minority Health (health disparities)	500,000	0	0	0	0	0	0
Pregnancy Prevention Programs	1,105,200	0	0	0	0	0	0
School Health Services (Michigan Model)	400,000	0	0	0	0	0	0
Smoking Prevention Program	2,598,400	0	0	0	0	0	0
Training and Evaluation	100,000	0	0	0	0	0	0
Subtotal Healthy Michigan Fund	$10,913,600	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Healthy Michigan Fund Roll-up:							
• Michigan Care Improvement Registry	$ 0	$2,098,800		$2,098,800			$ 2,098,800
• Cancer	0		900,000			900,000	900,000
• Obesity (cardiovascular disease, diabetes, school health, health disparities)	0	670,000	1,200,000	670,000		1,200,000	1,870,000
• 4x4 Wellness	0				1,000,000	1,250,000	2,250,000
• Infant Mortality (includes health disparities, pregnancy prevention, smoking prevention)	0	2,080,000	900,000	2,080,000		900,000	2,980,000
• Maternal and Infant Health	0				146,600	750,000	896,600
• Local Health Department Accreditation	0	151,200		151,200			151,200
Subtotal Health and Wellness Initiatives	$ 0	$5,000,000	$3,000,000	$5,000,000	$1,146,600	$5,000,000	$11,146,600

Source: Senate Fiscal Agency and Executive Budget documents *Prepared by Michigan League for Human Services.*

community support for relatives providing care to family members with dementia ($250,000 gross and General Fund). This recommendation 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.

Funding Changes

Increase the federal matching rate for Medicaid (Federal Medical Assistance Percentage – FMAP) from 66.14 percent to 66.39 percent 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

Increased reduction in Graduate Medical Education payments by $17.1 million: The $32 million reduction from FY 12 is continued, while the one-time appropriation of $17.1 million to offset a portion of the FY 12 reduction is not continued. The total reduction in Graduate Medical Education over the two years will total nearly $50 million. Funding for this program is recommended at $136 million in the Executive Recommendation. These payments are made to teaching hospitals in recognition of their higher costs for intern and residency programs. This disinvestment in medical education is of great concern due to both the projected shortage of physicians and the major expansion of Medicaid effective January 2014.

Program Savings:

Savings are assumed for improved payment processes and fraud detection totaling nearly $33 million gross, $11 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.

Program Changes Not Implemented in FY 12; Continued in FY 13

Mandate enrollment in managed care for children's Special Health Care Services participants, saving $11 million gross, $3.7 million General Fund.

Include behavioral health drugs in the Medicaid preferred drug list, saving $18.7 million gross, $6.3 million General Fund. This proposal requires legislation and has been proposed in prior years (FY 10 and FY 12), but the enabling legislation has not been passed.

Implement a more robust estate recovery program in Medicaid generating $16.6 million gross, $5.6 million General Fund. Current enabling legislation is considered very weak and not likely to generate significant revenues. Stricter legislation to generate more savings was proposed but not passed in FY 12.

FY 12 Reductions Not Restored in FY 13

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 13 is $274 million.

Implement eligibility restrictions in the Adult Home Help Program, saving $17.7 million gross, $6 million General Fund on an annualized basis. Full-year savings 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.

Reduce funding for local health department operation 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 – $500,000, FY 11 – $1 M), 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 – $1.9 M, FY 11 – $1.6 M).

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

Workforce Development (Michigan Strategic Fund)

Prior to the reorganization of several state agencies, the funding for workforce development and training had been in the budget for the Department of Energy, Labor and Economic Growth. That department was eliminated and workforce functions are now the responsibility of the Workforce Development Agency, which is part of the Michigan Strategic Fund that is overseen by the Department of Treasury. The House and Senate Appropriations Subcommittees on General Government are responsible for workforce appropriations as part of the Department of Treasury budget.

The largest source of funding for workforce development is from the federal Workforce Investment Act funds to the state. The Executive 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 Executive Recommendation includes a line item of \$15 million in new funding for the Talent Fund for Job Training and Skills Development. In his special message to the Legislature on public safety, the governor described the new program, called Community Ventures, as "bringing together employers, job readiness partners and private funders in a comprehensive and measurable program to assist young people aged 15-29 and ex-offenders" by addressing such employment challenges as basic workplace training, access to child care, reliable transportation, necessary education and literacy skills. This would focus on the "structurally unemployed" living in "distressed cities." This \$15 million allocation is the only change to General Fund/General Purpose workforce spending in FY 12.

Boilerplate changes include deleting a requirement that local workforce development boards maintain partnerships with governmental agencies, schools and colleges within their service delivery areas. This was one of the specific recommendations of the Adult Learning Work Group on which the League served. Also deleted is a requirement for the Michigan Economic Development Corporation to submit a report on the status of the No Worker Left Behind program.

School Aid (K-12) Education

The FY 13 Executive Budget recommendation for K12 education is primarily a continuation budget with a few notable changes. Comparisons between the originally enacted funding for FY 12 for K-12 programs and the FY 13 Executive Budget would indicate an increase of nearly \$30 million; however, when the Executive Budget is compared with the originally enacted funding plus the recently passed supplemental, the result is a reduction of about \$57 million in FY 13.

The disinvestment in K-12 education, a \$470 per pupil reduction in the foundation allowance approved in FY 11 and FY 12, is continued in the FY 13 Executive Budget recommendation. In addition, the redirection of School Aid Funds to higher education is continued with the 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 recommends 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 Executive Budget recommends elimination of some one-time appropriations from FY 12, while others are reclassified as ongoing funding, and others are recommended as continued one-time funding in FY 13. Additional funding is made available to districts through "incentives," including best practice grants and innovation grants, some of which are included as one-time funding.

The chart on the following page displays current-year funding and recommended funding for FY 13 for selected program areas by classification.

Changes in One-Time Funding and Other Programmatic Funding Changes Governor's Recommended State Spending for K-12 (Dollars in Millions)							
	FY 12 One-Time	FY 12 Ongoing	FY 12 Total	FY 13 One-Time	FY 13 Ongoing	FY 13 Total	Change from FY 12 to FY 13
One-Time and Conversion to Ongoing							
MPSERS Payments to Districts	$155.0	$0.0	$155.0	$0.0	$179.0	$179.0	$24.0
Best Practices	154.0	0.0	154.0	140.0	50.0	190.0	36.0
MPSERS Reforms	133.0	0.0	133.0	0.0	0.0	0.0	(133.0)
Class-Size Reduction Grants	13.5	0.0	13.5	0.0	0.0	0.0	(13.5)
Consolidation Innovation Grants	0.0	0.0	0.0	10.0	0.0	10.0	10.0
Subtotal of One-Time/Ongoing Changes	**$455.5**	**$0.0**	**$455.5**	**$150.0**	**$229.0**	**$379.0**	**($76.5)**
Other Programmatic Changes Proposed for FY 2012-13							
Reimbursement for Data Collection/Reporting Costs	$0.0	$34.1	34.1	$0.0	$38.0	$38.0	$3.9
Kindergarten Funding – ½ Foundation for ½ Day	0.0	0.0	0.0	0.0	(50.0)	(50.0)	(50.0)
Principal Educator Evaluation Training	0.0	0.0	0.0	1.75	0.0	1.75	1.75
Source: Senate Fiscal Agency						*Prepared by Michigan League for Human Services.*	

Highlights of the School Aid Fund Executive Recommendation follow.

Program Increases or Changes

Michigan Public School Employees' Retirement System one-time funding of $155 million provided in FY 12 is reclassified to ongoing funding and increased to $179 million in the FY 13 Executive Budget. This funding would reduce school districts' retirement obligation by approximately 2 percent, reducing school contribution rates from 27 to 25 percent of payroll.

Best practices one-time funding of $154 million in FY 12 is continued in the FY 13 Executive Recommendation and increased by $36 million to $190 million, with $140 million classified as one time, while only $50 million is classified as ongoing funding. The funding would be provided as "incentive payments" for meeting very specific criteria. While implementing best practices are key for improving programs, funding improvements through incentives may not benefit high-performing districts and may not address the needs of low-performing districts.

One-time funding of $10 million for consolidation competitive grants is recommended to assist with the transition costs associated with district or Intermediate School District consolidations.

One-time funding of $1.75 million for training of principals in effective teacher evaluations is recommended. This training would provide principals with fair and consistent methods for teacher evaluation requirements.

Program Reductions

Per pupil funding (Foundation Allowance) reduction of $470 in FY 12 is continued in the FY 13 Executive Budget. This reduction combined the $170 per pupil cut for FY 11 with the $300 per pupil reduction in FY 12. It is worth noting that over the last 10 years, the minimum foundation allowance has increased from $6,700 to the recommended $6,846 in FY 13 for an increase of $146.

Half-day kindergarten funding reduction is reflected in the Executive Budget. Savings of $50 million are assumed for implementation of the policy that specifies that in order to receive the full foundation allowance, kindergarten programs must be full day. Half-day programs would receive only one-half of the foundation allowance. It is not clear if these savings will be realized based on the testimony of school administrators last year when the policy was debated and adopted.

Funding for mandated student assessments is reduced by $8.5 million for a recommended total of $34.9 million.

Programs with Recommended Continuation Funding

Great Start Readiness school-based and competitive grants are maintained at the FY 12 levels of $95.7 million and $8.9 million, respectively. This investment in preschool programs is targeted for 4-year-olds who may be at risk of school failure. Several risk factors, including low family income, must be met to qualify.

Funding is expected to provide 30,000 slots at the per-child allotment of $3,400.

Great Start Collaborative grants through the Early Childhood Investment Corporation are also continued at the FY 12 level of $5.9 million.

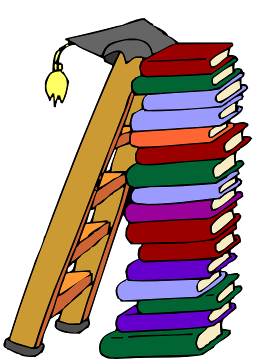
The Office of Great Start within the Department of Education assumed responsibility for the state's Child Development and Care Program and funding, previously in the Department of Human Services, in FY 12. Total funding of $159 million for the program was transferred to the Department of Education through a supplemental request in November 2011. The FY 13 Executive Budget recommendation reduces funding by $3 million associated with declining child care assistance caseload of 300 cases per month and maintains 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.

Adult education funding is recommended to continue 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 Department of Career Development 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 postsecondary education.*

Intermediate School District operations funding is continued at $62.1 million; however, 5 percent of that amount is recommended as a set-aside to be "earned back" through implementation of "best practices" in a number of areas.

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

University Operations

The Higher Education budget is for four-year public universities. The largest part of the Higher Education budget is for university operations. The FY 13 Executive Budget is the first year in which part of the university operations allocation will be in the form of performance funding. The 3 percent ($36.2 million) increase over last year for university operations funding will be divided equally among four metrics (approximately $9,054,000 each metric) by which each university's portion of the new funding will be calculated. The metrics are:

- The three-year average growth in the number of undergraduate completions ($17,192 per additional average degree).
- The three-year average number of undergraduate completions in critical skills areas, currently defined as science, technology, engineering, mathematics and health care ($685 per average degree).
- The three-year average number of undergraduates receiving a Pell Grant ($155 per student). Wayne State and Michigan State Universities will receive the largest allocations under this metric with $1.19 million and $1.13 million, respectively.
- Compliance with tuition restraint. Universities that raise tuition more than 4 percent over FY 12 will not receive any incentive funding under this metric. For those that increase it less than 4 percent, the difference between their increase and the cap, and the proportion of that difference in relation to other universities and the available money for this metric, will be used to calculate the amount given to each university.

This is a positive change because it will encourage universities to keep tuition rates down and to recruit low-income students eligible for Pell Grants. However, it is hoped that future performance metrics will address the persistence and success of low-income students, including low-income nontraditional students who are becoming a larger part of Michigan's college student population.

Need-Based Financial Aid

The Tuition Incentive Program (which pays associate's degree tuition costs for Medicaid-eligible students) is recommended to receive $42.8 million, which is $1 million less than in FY 12 due to lower program cost growth. The Tuition Grants (which provide need-based awards to students at independent colleges) is recommended to receive $31.7 million, also $1 million less than in FY 12 due to declining eligibility. The State Competitive Scholarship, which provides merit and need-based awards to students at public and independent colleges, is recommended to be increased by $2 million to $20.3 million. All three of these programs are funded entirely by federal Temporary Assistance for Needy Families dollars.

Other Aid Programs

Level funding is maintained for the federally funded Project GEAR-UP scholarships and the General Fund-funded King-Chavez-Parks Grants. The Children of Veterans Tuition Grant Program will receive an additional $100,000 in General Fund appropriations to replace declining income tax checkoff contributions for the program. The Robert C. Byrd Scholarship has been removed due to elimination of federal funding.

Community Colleges

College Operations

As with the Higher Education budget, the FY 13 Executive Budget is the first year in which part of the operations allocation will be in the form of performance funding. The total amount proposed for operations is $292,396,900, and the performance portion comprises the entire amount of the 3 percent ($8.5 million) increase over FY 12 funding. Unlike with the Higher Education budget, however, the administration has proposed only one metric: three-year average completions in critical skills areas, defined as scientific, technological, engineering, mathematical and health-related fields.

Under the performance funding, the largest increase by far is for Washtenaw Community College at 8.4 percent; the other community colleges receive increases ranging from 1.3 to 5.4 percent. Because community colleges are in the best position to serve low-income students and low-skill adult learners, the League questions why this budget, unlike that for Higher Education, does not include metrics aimed at helping these populations. It is hoped that through the budget process, some changes will be made to broaden the scope of community college performance funding to encourage emphasis on, for example, the number of students requiring developmental (remedial) education who graduate with a credential or transfer to a four-year university.

Boilerplate Changes

There were a number of boilerplate changes recommended in the Executive Budget.

Reporting to P-20 system: Current law directs the Department of Treasury to withhold appropriations if colleges fail to submit Activities Classification Structure data (data showing how much money each college spent on its various programs and how many students were served). The Executive recommendation adds authority to withhold appropriations if P-20 longitudinal data system data is not reported. The League is a supporter of the concept and implementation of a P-20 data system in order to track the effectiveness of postsecondary programs that help low-skilled workers, including public assistance recipients and those who have gone through the adult education system. As such, the League welcomes this modification.

Deletion of remedial education assessment cut score panel: At the current time, the 28 community colleges vary in the way they deliver developmental (remedial) education. Cut scores, the scores on placement tests that are used to determine whether a student will be required to participate in and/or complete developmental education, is one of many points of variance among the colleges. At this time there has been no decision to require any level or form of conformity among colleges with regard to cut scores—a very complex topic that deserves continued discussion.

Department of Corrections

While the prison population dropped nearly 11 percent over the last decade, the Department received a 24 percent increase in General Fund appropriations in the same time period. Reductions in the state prison population resulted in the closure of nine prisons, with three of the prison closures occurring last year.

The substantial increase in the Corrections budget can be attributed to increasing employee retirement costs and an aging prison population. The administration is taking steps to address increasing retirement health care costs by implementing a pre-pay system over the next 25 years to reduce long-term liability, accounting for a supplemental increase of $78 million in the FY 13 budget, in addition to the existing pay-as-you-go system for current retirees.

However, the increasing costs related to an aging prison population have yet to be addressed. As of 2009, 42 percent of the state's prison population was over 40 years old, and 17.3 percent over 50 years old. There is also concern about the number of prisoners with severe mental illness being housed at a costly rate of $290 per day or over $105,000 per year per prisoner. The Department indicated that this segment of the prison population drives up the average cost per prisoner, around $35,000, leading to an overall inflated rate.

Arguments around Michigan's high-cost rate per prisoner in comparison to other states in the Midwest were deemed inaccurate by the Department of Corrections. Michigan's rate encompasses all costs, including health care and mental health services, unlike other states where differences lie in what is included in the per-prisoner rate. Yet the costly issue of housing prisoners suffering from mental illness still needs to be addressed and is recognized by the Department and the Legislature as an area needing further discussion.

Competitive bidding has also been used as a process to find savings within the Department. The bidding process includes public and private organizations offering to replace services previously provided by state employees at a reduced rate. Some argue that the savings accrued through privatization are not offset by the higher risk of mismanagement and deregulation sometimes experienced through the outsourcing of public services.

The largest potential savings to the Corrections budget is in providing the future workforce with opportunities for success from the beginning. It only costs $3,400 per student for quality early education and preschool that could provide Michigan's children a great start, providing pathways to success and away from prison.

The Executive Budget recommendation for the Department of Corrections totals $2.06 billion, a 2.5 percent increase from FY 12. The Corrections budget currently makes up 21.7 percent of the state's General Fund, and 96.8 percent of the Corrections budget relies on the General Fund.

Department Budget Reductions

- $32.5 million by closing Mound Correctional Facility.
- $10 million by eliminating 115 parole and probation positions.
- $9.8 million from competitive bidding of health care and mental health services.
- $1.3 million from competitive bidding for operating the Woodland Center Correctional Facility that houses prisoners with severe mental illness.

Department Funding Increases

- $4.5 million for a Public Safety Initiative to free up space in crowded jails in high crime areas by leasing beds from neighboring counties.
- $8.9 million in increased costs for additional beds and maintenance in response to prison closures.
- $5 million increase in settlement costs from a lawsuit filed by female inmates alleging sexual harassment within the Department of Corrections in the 1990s which totaled $20 million.
- $4.5 million for employee training for an additional 200 corrections officers.
- $10.4 million to offset unrealized savings in the Cost-Effective Housing Initiative from the FY 12 budget.

Recommendations to Decrease the Corrections Budget

- Reforming Michigan Prisoner Re-Entry program to include improved evaluation metrics and by assessing risk and need upon entering the corrections system.
- Providing more and increased access to vocational and remedial educational opportunities for prisoners.
- Increasing parole and probation supervision upon release.
- Increasing use of Electric Monitoring System for parolees.
- Evolving the role of correction officers.
- Converting closed prisons into mental health facilities to house prisoners suffering from severe mental illness.