



FY 2012 BUDGET

Quick Draw Budget Misses Mark

OVERVIEW

The fiscal year 2012 budget was adopted in record time this year, but the impact of the cuts contained in it will be felt for a long time to come. As the Legislature was passing budget bills, it was also passing sweeping tax changes. In the end, spending was cut by \$1.5 billion. Business taxes were reduced by \$1.6 billion and taxes on individuals were increased by \$1.4 billion when fully implemented in FY 13.

The deep budget cuts include eliminating cash assistance for more than 12,000 families with nearly 30,000 children. In addition, 124,000 low-income children will no longer receive a back-to-school clothing allowance. This is on top of a 70 percent reduction in the Earned Income Tax Credit, which helps working low-income families.

At a time when the importance of education and a well-educated workforce is being emphasized, significant cuts were made to education in this budget. In total, the K-12 per-pupil foundation allowance was cut by \$470 per student. Community colleges were cut by 4 percent and 4-year colleges and universities were cut by 15 percent. Michigan now ranks 10th lowest in the nation in taxpayer support for higher education.

These cuts, and others outlined in this analysis, come after a decade of budget cuts in Michigan. They also come at a time when the state is slowly emerging from a deep recession. Cutting education, reducing public assistance funds that will be spent quickly in local communities and reducing funding for local governments all run counter to the goal of creating more jobs in Michigan.

What follows is the League's analysis of key parts of the budget. The League will be tracking the impact of this budget, particularly the cuts to public assistance, after it is implemented on October 1.

DEPARTMENT OF HUMAN SERVICES

The Department of Human Services budget was passed with significant cuts to the cash assistance program—the Family Independence Program. It is expected that these funding reductions will occur through tougher enforcement of the state's 48-month limit on cash assistance.

PROGRAM REDUCTIONS:

Family Independence Program — While the FIP line item represented only 6.1 percent, or \$428.8 million, out of the DHS total appropriation of \$7,057.3 million for FY 11, it contributed a disproportionate share toward the DHS cuts in FY 12. FIP was reduced by more than \$100 million, or 44 percent, of the total DHS cuts of \$229.8 million.

FIP Time Limit — Reduced the FIP line by \$77.4 million gross and \$65 million General Fund by implementing a retroactive 48-month lifetime limit for cash assistance. This is a cut to the FIP line item of 18 percent from the FY 11 appropriation of \$428.8 million. This is estimated to eliminate 12,600 FIP cases, or 15 percent of the caseload. The cost reduction will occur because exemptions that had stopped the clock in the past when recipients were not able to work are being eliminated. The cost reduction may be more perceived than real as expenses are likely to be shifted to other human services programs. Without adequate support for families, savings will erode as some children end up

in homeless shelters or foster care, at a much higher cost to the state.

FIP Sanctions – Cut of \$7.5 million for implementing longer FIP sanctions.

FIP Clothing Allowance – Cut of \$9.9 million by ending the \$79 per child clothing allowance to purchase school clothes for 124,000 low-income children.

FIP Income – Cut by \$1.2 million by counting adoption subsidies as family income for grant calculation.

FIP and Child Development and Care – Cut of \$4.3 million for cost avoidance from the front end eligibility program as the Office of Inspector General staff reviews applications to identify ineligible clients before an application for assistance is approved. In addition, a \$1.3 million net cut is included for public assistance from OIG enhancements.

Jobs, Education and Training (JET) Plus – Eliminated \$8.5 million in TANF funds.

Employment and Training – Cut of \$4.8 million. This is a continuation of cuts for employment and training support services of \$8.9 million in FY 11 and \$5 million in FY 10. These TANF funds were redirected to the FIP grant with about \$4.3 million for each year of FY 12 and FY 13.

Child Welfare Services – Cut guardianship funding by \$1 million and eliminated the partial tuition reimbursement for a cut of \$998,600.

Child Welfare Cases – Reduced by \$51.3 million total. Foster care cases were funded at an average of 7,200, down \$29.6 million, and adoption subsidy payments were funded at an average of 27,450 cases, down \$9.3 million. The child care fund was cut \$12.6 million.

State Disability Assistance – Cut \$4.7 million for new cases by reducing the monthly cash assistance by 25 percent for low-income people with disabilities to \$200 while they wait for federal approval of SSI benefits.

Burial Expenses – Ends state funding that helped low-income families with funeral expenses. The state will now pay only when the remains have not been claimed, cutting \$3.2 million.

Child Development and Care Subsidy – Cut \$13.9 million in TANF by reducing the rate for enrolled providers from \$1.60 to \$1.35 an hour. The enrolled providers remain eligible for \$1.85 per child per

hour if they complete additional training annually. Cut \$10 million by reducing the maximum amount of hours per case which may be reimbursed. Another \$5 million was cut by preventing fraud.

Local Office Staff – Reduced by 300 full-time equivalents (FTEs), a cut of \$19.5 million, to be saved through attrition. This reduction is partially offset by an increase of 50 FTEs for Medicaid eligibility specialists in nursing homes, hospitals and mental health facilities, costing \$4.3 million. This annualizes the cost of 100 temporary eligibility staff hired in FY 10 and FY 11 of \$1.7 million and an increase for medical/psychiatric child welfare evaluations for \$2.6 million.

Juvenile Justice Facility – Reduced Maxey Facility by \$1.6 million, Bay Pines by \$905,800 and Shawono by \$503,500, with added program costs of \$200,000 to fund re-entry, for a net savings of \$2.8 million gross. This follows FY 11 cuts of \$3.9 million for juvenile justice.

Zero to 3 Program – Eliminated \$3.8 million for a program targeting high-need families in urban areas after the governor failed to provide replacement funds. This follows a fund source shift in FY 11 from more stable General Funds to less stable one-time federal stimulus funds. The program was aimed at assisting families with young children who are at-risk of abuse or neglect. While the benefits of investing in early childhood programs have been well documented, reductions to these programs continue.

Before and After School – Eliminated \$3 million in federal by eliminating grants serving areas near schools not meeting the federal No Child Left Behind yearly progress requirements.

Domestic Violence – Eliminated \$2 million for a new program starting in FY 11 that provided transitional housing for domestic violence victims due to the loss of one-time federal stimulus funds that were not replaced with state funds. In addition, \$250,000 was reduced for domestic violence prevention administration.

Other – Eliminated \$300,000 for the Conductive Learning Center, \$200,000 for the Michigan Home Based Child Care Council, \$200,000 for University of Detroit Mercy Legal Services, \$100,000 for Youthville Detroit, \$2.8 million for Child Protection and Permanency, and \$1.9 million for Early Childhood Investment Corporation. Reduced Strong Families/Safe Children by \$1.5 million, Children's Trust Fund grants by \$1 million, and Families First by \$500,000.

VETOED:

Special Needs Adoption Subsidy — Vetoed an increase of \$4.25 million for higher adoption subsidy for special needs children that would have paid for a second needs assessment and technology upgrades. Although the subsidy was being funded from private sources, it was vetoed because it could become a General Fund obligation in the future.

Juvenile Justice — Vetoed a mental health study for juvenile justice facilities as the contract was with a specific vendor.

FUNDING CHANGES:

Earned Income Tax Credit — The EITC will continue to help Michigan meet the FY 12 Maintenance of Effort, a form of state match, but at a lower amount given that the credit was diminished from 20 percent to 6 percent of the federal credit. The EITC contributed about \$218 million to the TANF MOE in FY 11. A portion of the MOE loss from the lower EITC was made up by a fund source shift in FIP, the state cash assistance program.

TANF Fund Source Shift — Transferred \$63.7 million in GF-GP and \$30.1 million Merit Award Trust Funds from Higher Education to FIP and transferred out \$93.8 million in TANF from DHS to Higher Education to fund financial aid programs. This adjustment was needed to help meet the TANF MOE. However, the impact of the new GF-GP to shore up the MOE was minimized as \$38.8 million in GF-GP was transferred out and replaced by TANF carry forward funds. Stable GF-GP financing was substituted with TANF carry forward funds, a one-time fund source. FIP is a core safety net program that should have stable funding. Yet, this adjustment creates a need for replacement funding next year when financing is scarce. These two fund source shifts resulted in a net increase of \$25 million GF-GP for FIP.

FIP Child Support Payments — Shifted the fund source of \$1.7 million from the GF-GP to restricted funds. This ended the policy of passing through the first \$50 in child support to FIP recipients, which was intended to encourage noncustodial parents to make payments.

Child Support Incentive Payments — Replaced \$17.5 million in General Funds to offset the possible shortfall to the state and counties for the reinstated federal prohibition from using child support incentives to draw down federal IV-D funds that were temporarily lifted by federal stimulus funding.

Other Federal Stimulus Changes — Removed \$11.7 million in stimulus funds no longer available, and \$9.5 million in food assistance administration that is replaced, in part, with \$4 million federal and \$4 million GF-GP. The Transitional Supportive Housing funds of \$2 million were not replaced.

FIP General Fund to TANF Shift — In both FY 12 and FY 13, \$4.3 million in General Fund was removed from the cash assistance line and replaced with half of the \$8.5 million in FY 11 federal TANF funds allocated to Jet Plus. This funding was available because the program was not implemented, resulting in the loss of job training. This fund shift is a less stable source as the remaining FY 11 funding will end after FY 13.

PROGRAM INCREASES:

Public Assistance Cases — Increased caseload funding by \$9.3 million. The budget includes an adjustment for the cost of providing for projected cases, assuming that current policies continue. FIP trends indicated a very slight increase in cases, to a total of 81,763, and a slight decrease in the average payment, which netted a \$2.1 million increase on a \$428.8 million base, up 0.4 percent. Next, adjustments are made for each policy change to FIP, such as the cut of \$77.4 million for the 48-month limit. State Disability Assistance declined \$2.1 million for an average caseload of 10,250. SSI Supplementation increased \$2.4 million to fund 258,500 cases. Child Development and Care increased by \$6.8 million to fund 28,136 cases. Caseload estimates were agreed to at the Consensus Revenue Forecasting Conference in May.

FIP Earned Income Disregard — Increased \$10 million to fund a raise in the earned income disregard for FIP case closure. The disregard increased from the first \$200 + 20% to \$200 + 50%. However, this new policy has a negative impact, as FIP clients will now receive a smaller grant in exchange for using up the same month of benefit, limited to 48 months.

Child Welfare Staff — Increased by \$29.7 million gross to annualize the FY 11 funding of 335 FTEs. Also, funding was increased for the FY 11 shift to private agency administration by \$30.1 million gross. These adjustments were needed to meet the direct foster care staff caseload to worker ratio of no more than 15:1 by October 1, 2011, that was mandated by the Children's Rights settlement agreement.

Child Welfare Private Agency Administrative Rates

Increased by \$7.8 million for private adoption rate increase.

Adult Foster Care and Homes for the Aged

— Increased by \$1 million for staff background checks. These programs are administered in DHS but the background check increase is appropriated in the Department of Licensing and Regulatory Affairs budget.

Federal Funds — Increased by \$8.7 million, including \$3.7 million for Refugee Assistance, \$3 million for Michigan Community Services Commission, \$750,000 for Community Services Block Grant, \$632,400 for the Bureau of Child and Adult Licensing, \$250,000 for Weatherization, and \$380,000 for CSBG and Weatherization resulting from an offsetting cut of 3 FTEs from the Bureau of Community Action and Economic Opportunity.

DEPARTMENT OF COMMUNITY HEALTH

While the final FY 12 appropriation for the Department of Community Health is relatively stable compared with the FY 11 appropriations and considerably higher than either of the budgets passed by the House or the Senate, it does not ensure stability for the programs funded in the department. Had Community Health's programs been adequately funded in FY 11, the proposed reductions would have been modest. Key programs and services, however, have experienced reductions over the last several years, with major cuts in most of the last four years. Further program reductions impede their ability to succeed in their missions and are extremely difficult, if not impossible, to restore.

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

PROGRAM INCREASES:

Medicaid Caseload/Cost Increases are budgeted to recognize increasing caseloads and costs for Medicaid-related programs in the department, requiring the addition of \$672 million gross, \$215 million General Fund. This amount represents an increase of \$219 million gross, \$55 million General Fund over the Executive Budget-recommended adjust-

ment and is based on the May Revenue Consensus Estimate. It is worth noting that underfunding for the current fiscal year of \$198 million gross, \$99 million General Fund was recognized at the May Revenue Consensus Estimating Conference.

Increase Payments to Capitated Managed Care Providers to ensure actuarial soundness, requiring the addition of \$75 million gross, \$25.4 million General Fund. This adjustment assumes increases of 1.68 percent for Health Plans and 1.17 percent for Prepaid Inpatient Health Plans. No increase was recommended in the Executive Budget.

Healthy Kids Dental is expanded to Mason, Muskegon, Newaygo and Oceana counties with the addition of \$4.4 million gross, \$1.5 million General Fund. This expansion will bring the total number of covered counties to 65.

Nursing Family Partnership Funding of \$3.8 million gross, \$1.5 million General Fund is included in the budget after two successive years of vetoed funding.

FUNDING CHANGES:

Changes in Federal Funding — While the federal matching rate for Medicaid (Federal Medical Assistance Percentage - FMAP) increased from 65.79 percent to 66.14 percent for FY 12, federal stimulus and one-time federal funds were no longer available and had to be replaced to maintain the program requiring the addition of \$715.3 million General Fund.

1 Percent Health Insurance Claims Assessment will provide nearly \$400 million, and is proposed to replace the Medicaid Health Maintenance Organization use tax, which is likely to be phased out in the future by the federal government. This assessment will not only replace the lost use tax revenue but will also provide \$140 million for state match for the Medicaid program, helping to offset the lost federal funds and creating a stable revenue source. As noted above, while the budget is predicated on revenue from this tax, the legislation has not been enacted as of this writing. Should the federal government rule the HMO use tax illegal and the claims tax legislation not pass, program reductions of \$1.2 billion would be required.

PROGRAM REDUCTIONS:

Graduate Medical Education Payments Are Reduced 20 Percent, cutting \$31.8 million gross, \$10.8 million General Fund. This is approximately

one-half of the recommended reduction included in the Executive Budget. This amount was then offset by a one-time boilerplate appropriation of \$17.1 million gross, \$5.8 million General Fund, resulting in a final cut of about 10 percent for FY 12. These payments are made to teaching hospitals in recognition of their higher costs.

Non-Medicaid Community Mental Health Funding Reduction of \$8.5 million is in addition to the \$5.4 million in FY 11, and \$40 million in FY 10. The reduction is expected to be divided between administrative reductions (\$3.4 million) and service reductions to non-Medicaid clients (\$5.1 million). The service reductions represent the cost of treating about 1,000 childless adults with serious mental illness. The appropriation for FY 12 is \$274 million.

Implement Eligibility Restrictions in the Adult Home Help Program cutting \$17.7 million gross, \$6 million General Fund. These restrictions will require more severity in need for daily assistance to qualify for the program. This policy was considered in the past and not pursued due to the negative impact on significant numbers of current recipients, particularly those with mental health conditions.

Healthy Michigan Fund Programs were rolled into a single line item and reduced by \$5.9 million, leaving \$5 million. Programs included in the \$5 million are not specified and are at the discretion of the department director. The \$5.9 million in savings are redirected to the Medicaid program to serve as match and reduce General Fund need by a corresponding amount. A one-time boilerplate appropriation of \$3 million is included, with \$900,000 being earmarked for cancer prevention and control programming. Boilerplate, earmarking funding for the Michigan Care Improvement Registry, was deleted.

Local Health Department Operations are reduced by \$1.7 million. This reduction is on top of the \$1.5 million in reductions made over the last two fiscal years (FY 10 - \$.5M, FY 11 - \$1.0M), and reduces operational funding to \$37.4 million.

Reduce Funding for Substance Abuse Services by \$1.7 million. This reduction is on top of the \$3.5 million in reductions made over the last two fiscal years (FY 10 - \$1.9M, FY 11 - \$1.6M). The reductions since FY 09 have resulted in the loss of capacity to treat 1,200 people. Included in the FY 12 reduction are administrative and one-time funding cuts of \$1.2 million; \$200,000 cut to the State Disability Assistance Program Substance Abuse funding, resulting in the loss of residential treatment for about 400

recipients; \$200,000 cut to the Salvation Army Harbor Light Program and Odyssey House, with the balance in unspecified cuts.

Reduce Funding for Aging Services by \$100,000 for the Tribal Elders program. The Conference Committee maintained funding for community services programs, home-delivered and congregate meals, as well as the senior volunteer programs, all recommended for reduction by the governor. Aging services funding has been reduced \$7.7 million over the last two fiscal years (FY 10 - \$5.1M, FY 11 - \$2.6M).

Mental Health Services to Special Populations and Groups are reduced by 15 percent, \$1 million gross and General Fund. This reduction impacts numerous ethnic groups as well as Vietnam Veterans programs. A one-time boilerplate appropriation of \$3 million is included for FY 12.

Reduce Funding for Children's Home Care Waiver by \$2.1 million gross, \$.7 million General Fund. This reduction is expected to be achieved by administrative cost reductions and service cost reductions.

PROGRAM CHANGES:

Mandate Enrollment in Managed Care for Children's Special Health Care Services Medicaid Participants, for a reduction of \$11 million gross, \$3.7 million General Fund.

Behavior Health Drugs are included in the Medicaid Preferred Drug List, reduced \$18.7 million gross, \$6.3 million General Fund. This proposal requires legislation and has been proposed in prior years (FY 10), but the enabling legislation has not been passed. Legislation to include behavior health drugs on the Medicaid preferred drug list has not been enacted as of this writing.

Assume Transition of Medicaid Nursing Home Patients to the Home and Community Based Waiver (MIChoice), for a reduction of \$35.3 million gross, \$7.5 million General Fund. No mention is made of allocating additional waiver slots.

Integrate Care for Medicare/Medicaid Dual Eligibles, improving coordination of care, while increasing quality. Reduction of \$29.8 million gross, \$10 million General Fund, for half of FY 12 are assumed in the budget. While the Department of Community Health has received federal funding to develop a model for service delivery, the development is only in the early stages, so budgetary savings for the program in FY 12 may be a little premature.

Require Auto Insurers to Provide Information on Coverage and Benefits for Medicaid Recipients Involved in Auto Accidents, enabling the Medicaid program to recoup an estimated \$22 million gross, \$7.5 million General Fund. The governor on Aug. 24 signed SB 441 and SB 442 into law to allow the funds to be collected.

Pass Additional Legislation to Create a More Robust Estate Recovery Program in Medicaid, generating \$16.6 million gross, \$5.6 million General Fund in recoveries. Current enabling legislation is considered very weak and not likely to generate significant revenues. The additional legislation required to strengthen the program has not been enacted. Michigan is the only state without a federally approved estate recovery program, even though savings have been taken in the budget for many years; the FY 10 budget assumed recoveries of \$30 million gross, \$8 million General Fund.

PROGRAM TRANSFERS:

Health Facility Licensing and the Background Check Program (for Adult Foster Care and Homes for the Aged) are transferred to the new Department of Licensing and Regulatory Affairs.

The Executive Budget recommended elimination of state funding for these programs. The Conference Committee restored state funding for both programs in the new Department.

Executive Order 2011-4 transfers responsibility for most health regulatory functions to the new Department of Licensing and Regulatory Affairs. The Executive Order transfers nearly 390 staff positions and \$50.5 million from Community Health to Licensing and Regulatory Affairs.

Transfer Forensic Mental Health Services to the Corrections Budget to consolidate forensic mental health funding and services in the Corrections Department. Nearly 400 staff and \$50.5 million are transferred from DCH to Corrections; DCH will no longer be responsible for providing mental health services to Corrections inmates.

HIGHER EDUCATION

The Higher Education budget was reduced from the FY 11 year-to-date total of \$1,578.3 million to \$1,362.3 million, a drop of \$216.0 million or 13.7 percent.

FUND SHIFT

General Fund – Reduction of General Fund by \$479.6 million, from \$1,578.3 million to \$1,063.7 million, partly offset with \$200.2 million from the School Aid Fund. The School Aid Act title has been changed to the State Education Funding Act to incorporate the change.

Maintenance of Effort – Shifts General Fund to federal Temporary Assistance for Needy Families for several college financial aid programs. This General Fund revenue will help the state meet the federal TANF maintenance-of-effort requirement, which is like a state match. When the state reduced the Earned Income Tax Credit from 20 percent to 6 percent of the federal credit, the contribution to the MOE was also reduced.

- This fund source shifts \$18.4 million for the State Competitive Scholarship Program, the major state financial aid program that is available to those enrolled at public and private colleges or universities and requires a qualifying American College Testing score and proof of financial need.
- Shifts \$31.7 million for the Tuition Grant Program, for those in need and is limited to students at independent colleges and universities.
- Shifts \$7.3 million for the Tuition Incentive Program, paying for associate's degree tuition and fee costs for Medicaid eligible middle and high school students that earn their high school degree and enter college. Offsetting adjustments are shown in the DHS budget analysis.

Children of Veterans and Officer's Survivor Tuition Programs – Shifts \$100,000 from restricted financing to the General Fund to offset collections from the state income tax form check-off box for the Children of Veterans Tuition Program as collections were lower than appropriated.

BUDGET REDUCTIONS

University Operations – Reduced by \$213.1 million for a 15 percent across-the-board reduction, and sets aside \$83 million for a tuition restraint incentive that is based on 5.1 percent to 9.8 percent of university appropriations and is paid only if the university limits its FY 12 resident undergraduate tuition/fee rate increase to below the prior five-year state average of 7.1 percent.

Agricultural Experiment Station and Cooperative Extension Service – Cut \$9.3 million with a 15 percent across-the-board cut in the General Fund and combines the two line items into a new \$52.6 million line item titled Agricultural Experiment and Cooperative Extension Activities.

BUDGET INCREASES

Tuition Incentive Program – Increased by \$6.4 million, or 17.1 percent, to finance an estimated increase in program participation and costs.

COMMUNITY COLLEGES

The Community College budget was reduced from the FY 11 year-to-date total of \$295.9 million to \$283.9 million, a drop of \$12 million or 4.1 percent.

FUND SHIFT

General Fund – Reduced Community College funding from \$295.9 million in FY 11 General Funds to \$88 million in FY 12, partly offset with new funding of \$195.9 million from the School Aid Fund. As a result, community colleges now receive most of their state aid through the School Aid Fund.

BUDGET REDUCTIONS

Operations – A cut of \$12 million, with half allocated to an across-the-board reduction of \$6 million and half from the 2006 performance indicator funding formula of \$6 million.

At-Risk Student Success – Eliminates the \$3.3 million for the developmental education services line item. These funds were then redistributed to community colleges based on data available from February, 2011 and the funding was rolled into each community college line item so that the At-Risk funds are available for Community College operations rather than appropriated for at-risk students only.

MICHIGAN STRATEGIC FUND

Gov. Snyder issued Executive Order 2011-4 moving the majority of the Bureau of Workforce Transformation to the Michigan Strategic Fund/ Michigan Economic Development Corporation. This transferred \$511.2 million from the former Department of Energy, Labor and Economic Growth for workforce programs, adult education, and Bureau of Energy Systems.

21st Century Jobs Trust Fund – Program and fund changes were made to the FY 11 year-to-date allocation of \$75 million in restricted funds: Pure Michigan for \$25 million, Innovation and Entrepreneurship for \$25 million, and Business Attraction and Economic Gardening for \$25 million. An added \$25 million in General Fund was appropriated beyond the 21st Century Jobs Trust Fund. Section 1201 (1) includes an additional \$50 million for Business Attraction and Economic Gardening from one-time appropriations, a less stable fund source.

Michigan Promotion Program – Eliminated the \$5.4 million line item and used that General Fund for the Pure Michigan and the 21st Century Jobs Trust Fund.

Jet Plus – The elimination of Jobs, Education and Training Plus for \$8.5 million in TANF funds, as noted under the Department of Human Services in this analysis.

BOILERPLATE CHANGES

JET – New Sec. 1060 creates program guidelines for JET administration on work participation requirements for welfare recipients based on federal and state laws, including the State Social Welfare Act, 1939 PA 280. The Social Welfare Act has been amended with a more stringent 48-month time limit for FIP recipients.

Workforce Development Boards – New Sec. 1061 requires workforce development boards to maintain partnerships with governmental agencies, schools and colleges located in their areas.

Disabled Veterans Outreach – New Sec. 1062 spells out staffing levels for disabled veterans outreach program that assists veterans with Michigan Works! Employment Centers, making placement of veterans and disabled veterans a priority.

Workforce Training – New Sec. 1063 appropriates the unexpended funds from previous years provided by the Workforce Investment Act and Trade Adjustment Assistance funds and requires report to the Legislature.

Workforce Training Funds – New Sec. 1064 allocates \$100,000 to existing employee-led public/private workforce development program that meets specific standards. A current workforce development program operated with both local businesses and educational institutions meeting selected conditions is allocated \$100,000.

Workforce Funds for Libraries — New Sec. 1065 provides that funds distributed to local Michigan Works! Agencies may be used to fund services provided at local libraries that serve as access points, service centers or local partners serving high demand or underserved areas.

No Worker Left Behind — New Sec. 1068 requires MEDC to report on the status of the program.

21st Century Jobs Funds — New Sec. 1021 reauthorizes a work project available through September 30, 2016 not to exceed \$5.5 million from unexpended funds.

DEPARTMENT OF CORRECTIONS

The Department of Corrections budget was targeted by the administration for an in-depth review, due to increasing health care and personnel costs. Decreases in the prison population and staff have not offset the increased cost of mental health services and insurance and retirement benefits. The number of inmates has declined by 7,582 since 2007, staffing has been reduced by over 3,900 employees in the last 10 years, and FTEs have been reduced by 2 percent in the last year, yet costs continue to rise.

The Executive Budget recommendation for the Department of Corrections totaled \$2.01 billion, a 0.2 percent increase from FY 11. The enacted Corrections budget totals \$1.94 billion, a 3.8 percent decrease from the Executive Budget recommendation, and a decrease of 3.5 percent from the current year Corrections budget. The FY 12 Corrections budget is 96.8 percent General Fund dollars, a 2 percent increase from FY 11. There were two major changes from the Executive Budget to the enacted budget. They were an additional facility closure and the reduction in prisoner education programming, mental health services and support.

PROGRAM REDUCTIONS:

- More than \$56 million in cuts by closing the Florence Crane and Muskegon Correctional facilities.
- More than \$16 million in cuts by privatizing food services and increasing efficiencies of prison services including transportation, laundry services, and clothing.
- More than \$17 million in cuts by eliminating 81 FTE positions and early retirement incentives.

- More than \$3 million in cuts by reducing Prisoner Education Programs.
- More than \$5 million in cuts by reducing mental health services and support.
- Close to \$145 million in cuts from the closure of Mound prison resulting in the potential loss of up to 2,000 jobs.
- Over \$50 million in cuts by privatizing all health care and mental health services in the prison system.

PROGRAMS MAINTAINED:

- Retention of \$10 million for Public Works programs.

ADDED:

- Funding for the Michigan Prisoner Re-entry Initiative increased by \$200,000.

SCHOOL AID (K-12) EDUCATION

The School Aid Fund experienced sizable reductions in FY 12, down \$475.1 million, or 3.6 percent, from FY 11 year to date. Factors contributing to the reductions include the ending of \$500 million in federal stimulus funds, and the redirection of SAF revenues to universities in the amount of \$200 million and to community colleges in the amount of \$195.9 million, leaving less funding to offset the loss of federal funding. The remaining funds from the FY 11 SAF were used to fund the FY 12 SAF budget, included as one-time-only funds. The General Fund was increased by \$100 million, up from \$18.6 million in FY 11.

PROGRAM REDUCTIONS:

Categoricals — Cut by \$29.6 million, including declining enrollment grants, bilingual education, middle college grants, precollege engineering grants, agriculture education at Saginaw Valley State University, and Pontiac's crisis intervention. In addition, operational funding for intermediate school districts was reduced by \$3.3 million.

Per Pupil Funding — The foundation allowance was cut by \$470 per pupil or \$452.5 million. This combined the \$170 per pupil cut for FY 11 with an added \$300 per pupil in FY 12. In addition, the foundation allowance for specific districts was reduced by 50 percent, or \$24 million, for Wayne-Westland, Gibraltar, Huron and Garden City districts with one-time only funds, a less stable fund source.

Half-Day Kindergarten — The full-day rate was unchanged in FY 12 but was reduced to a half day in FY 13, for a cut of \$175 million based on the Senate recommendation. School administrators testified that this savings is not likely to materialize because schools will offer full day kindergarten to avoid a cut. The average per student rate structure, set by Proposal A back in 1994, did not adjust for variations in costs for different types of students. Beginning in FY 13, the definition of a kindergarten pupil has been revised to equal the number of instructional hours as pupils in grades 1-12. Thus, half-day kindergarten programs would not get the full foundation allowance. According to testimony, the payment for kindergarten students also helped to offset the higher cost of educating high school and special needs students which was not fully funded.

Taxable Values and Pupil Memberships — Cut of \$73 million.

Juvenile Detention — Cut \$242,500 as there are fewer pupils to educate at DHS due to facility closures.

Declining Enrollment — Cut \$20 million for grants for districts which have experienced two consecutive years of falling enrollment, based on a three-year average membership.

At-Risk Grants — Eliminated exceptions that provided \$4.9 million for Dearborn and \$243,400 for Baldwin but continued the total grant funding by redistributing funds to all other qualifying districts.

Bilingual Education Grants — Removed \$2.8 million in grants for educating students with limited English speaking skills.

Special Education — Removed an estimated \$22.3 million in federal funds and the required state payments of \$66.1 million based on cost estimates.

Special Education Hold-Harmless — Cut \$400,000 to Intermediate School Districts getting hold-harmless payments that guarantee funds will not fall below 1996-97 levels.

Fifth Year of High School — Eliminated \$2 million for the middle college program offered in conjunction with a career college or university program.

Special Education — Cut \$15 million for state allocations to employee retirement and social security costs for ISDs.

Precollege and Engineering and Science Grants — Eliminated \$905,100 in grants for Detroit, Grand Rapids, Bay-Arenac, Huron and Tuscola.

Postsecondary Agriculture Education Grants — Eliminated \$300,000 in grants for Saginaw Valley State University.

State Aid to Libraries — Reduced by \$195,700 for Michigan Electronic Library Catalog.

Positive Behavioral Support — Eliminated \$300,000 for this Pontiac school program.

FUNDING CHANGES:

Center for Educational Performance and Information — Shifted \$8.4 million in SAF to districts for data collection and reporting. In FY 11 these funds were appropriated to support efforts by districts to link individual teachers to student achievement data. Removed \$7.2 million federal for the Federal Race to the Top award that Michigan did not receive.

Michigan Educational Assessment Program — Shifts Federal Title VI funds back to MEAP, allowing for a reduction in the SAF.

One-Time Appropriations — The FY 12 budget appropriates \$455.5 million from one-time funds, indicating a less stable, short-term funding source. While some school district appropriations support ongoing costs, the appropriation is labeled “non-reoccurring” as they are financed from a one-time fund source from the FY 11 surplus. Selected programs include \$154 million for a financial “Best Practices categorical” to pay \$100 per pupil to districts, \$155 million to offset a part of the school employee retirement costs, \$133 million for school employee retirement reform, and \$13.5 million to fund class size reduction grants at 68.5 percent of the FY 11 amount with one-time funding.

Payment in Lieu of Taxes — Cut \$510,000 to reflect lower property values.

Out of Formula District Grants — Cut \$1.1 million. These districts received funds to hold them harmless from local personal property tax exemptions provided by the Michigan Business Tax. As a consequence of eliminating the tax, this hold harmless policy was not continued. The adverse impact includes the cut, designating that funds only go to districts with fewer than 500 students and shifting the grant fund source to one-time only in FY 12.

PROGRAM INCREASES:

Great Start Programs — Adds \$6 million to Great Start School Readiness Preschool Program, which included a fund source shift of \$8.9 million out of the General Fund into the SAF. Maintain funding for Great Parents Great Start Program for parents of children 0 to 5 and cut \$100,000 to Early Childhood Investment Corporation Great Start Collaboratives. For FY 13, includes intent language to transfer funding from all three Great Start programs to an Early Childhood Block Grant.

School Bus Inspections — Increased by \$1.1 million to continue the Michigan State Police school bus inspections.

No items were vetoed in the School Aid budget.

DEPARTMENT OF EDUCATION

The Department of Education budget was reduced by 7.2 percent from \$126.4 million to \$117.3 million in FY 12.

BUDGET REDUCTIONS

Education Reform — Eliminate state education reforms enacted in FY 10. This included removing \$500,000 for online testing platform, \$76,000 in basic instructional supplies hotline, \$115,000 for a part of the State Reform/Redesign Office and \$5 million federal for a database linking teachers with student achievement data that would have supported these reforms.

State Aid to Libraries — Cut by \$304,300 GF/GP to \$5.4 million. When the School Aid Fund of \$1.3 million for this is added in, the total is \$6.7 million, a reduction of \$500,000 from FY 11.

BUDGET INCREASES

Scholarships for the Blind — Increased \$110,000 from private donations.

Michigan eLibrary — Increased by \$950,000 General Fund to replace anticipated cuts in federal funds.