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**FISCAL YEAR 2008-2009 BUDGET UPDATE:
LEGISLATURE COMPLETES DELIBERATIONS AS ELECTIONS LOOM**

A Combination of Assumed Caseload Declines and Program Reductions Address Forecast Deficit, But Michigan’s Ongoing Fiscal Crisis Remains Unresolved

In late July, as extended summer deliberations came to a close and lawmakers prepared to turn their attention to the November elections, House and Senate Appropriations Conference Committees completed work on the FY2008-2009 state budget, except for the Department of Transportation. As of mid-August, that budget had still not been resolved. Responding to the findings of the May Consensus Revenue Estimating Conference, the appropriations committees used \$217 million in General Fund and School Aid Fund (SAF) carry-over balances from FY2008 to partially offset a \$533 million decline in projected revenues. The balance was addressed through a series of reductions to the Governor’s Executive Budget recommendations ranging from .01 percent for the Department of Agriculture to 54.7 percent for the operating budget of Department of Natural Resources.

Of particular note was a savings of approximately \$137 million in the K-12 Education budget related to a 53 percent reduction in the Governor’s Small High Schools initiative and a 48 percent reduction in the recommended Foundation Grant increase to no more than \$112 per pupil.

In the Department of Human Services the Governor’s Executive Budget recommendation was reduced by \$92 million general fund (6.7 percent), including

\$51.4 million associated with lower than originally forecast public assistance, day care and foster care caseloads and average monthly payments. An additional \$10 million general fund was secured by replacing half of the Governor’s recommended \$20 million increase for Day Care provider reimbursement and administrative support increases with anticipated federal funds. The Conference Committee also identified federal funds available on a one-time basis to offset \$11.4 million in general funds for the \$45 increase in the Children’s Clothing Allowance and a \$1 per family member increase in the monthly Family Independence Program (FIP) cash assistance grant. (As discussed below, the FIP grant is actually expected to grow by \$3/person/month as authorized by boilerplate section 296 of Public Act 248 assuming that anticipated additional federal funds materialize.)

Most of the remaining shortfall was addressed through the following reductions:

- \$30 million general fund from the Department of Labor and Economic Growth related to a \$5 million reduction in the Governor’s recommended \$8.5 million increase in the Michigan Nursing Corp Program and use of \$25 million in available federal funds to offset general fund support for the *No Worker Left Behind* program.

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- \$12.8 million general fund from the Department of Natural Resources resulting from the identification of non-general fund replacement revenue.
- \$8.1 million general fund related to a 50 percent reduction in the Governor's proposed increase in statutory revenue sharing payments distributed in support of local government spending.

While the decisions reflected in the FY2009 budget were intended to close identified revenue shortfalls, it should be noted that a significant budget deficit appears likely to re-emerge as adjustments to the Michigan Business Tax currently under consideration by the Legislature are finalized and the cost of adverse court decisions related to unfunded K-12

mandates and child welfare issues are recognized. Additionally, declining revenues related to a faltering economy, together with an ongoing structural deficit estimated by the Michigan League for Human Services at \$500 million annually over the next decade, suggest that Michigan's budget crisis will continue unabated for the foreseeable future. Unfortunately this grim picture will become significantly bleaker if action is not taken to replace or make permanent nearly \$1.5 billion in temporary revenue increases adopted in FY2008 to help resolve that year's budget deficit.

The following pages contain a summary of the major FY2009 budget decisions for departments dealing primarily with health and human services issues.

Department of Human Services

Fiscal Year 2008-2009 Budget Summary (in millions)

	Original FY2008 Appropriation	FY2008 YTD Adjust- ments	FY2009 Governor's Recom- mendation	FY2009 House	FY2009 Senate	FY2009 ¹ Appropri- ations Act with Vetoes (P.A. 248)	FY2009 % Change From Original FY2008
Gross Appropriation	\$4,589.4	\$22.5	\$4,658.7	\$4,619.8	\$4,642.2	\$4,573.8	- 0.3%
General Fund	\$1,308.4	\$6.6	\$1,376.6	\$1,330.2	\$1,354.0	\$1,284.5	- 1.8%
Staff Positions	10,580.4 FTEs					10,401.8 FTEs	- 1.7%

¹The Governor signed P.A. 248, the DHS appropriations act for FY2009, with four line-item vetoes totaling \$4.37 million gross, \$790,000 general fund.

Source of data: House and Senate Fiscal Agencies' Conference Committee Summaries

As the chart above illustrates, the approved Department of Human Services (DHS) budget for FY2009 represents a .3 percent gross (\$14.6 million), 1.8 percent general fund (\$23.9 million) decrease in appropriated funding relative to the original DHS budget for FY2008. Public Act 248 of 2008 also reflects a 1.7 percent (179 position) reduction in appropriated DHS staff, an adjustment that primarily reflects the fact that funding in the FY2008 budget base was insufficient to support the appropriated staffing levels.

The following discussion outlines the major components of the FY2009 DHS budget agreement as adopted by the Appropriation Conference Committee

and signed, with four relatively minor line-item vetoes totaling \$1.37 million, by the Governor.

Family Independence Program (FIP) Grant Increase, Caseload Adjustment and Other Policy Changes

The DHS Appropriations Conference Committee adopted the first general cost-of-living grant increase for Michigan's cash assistance program since 1990, a nineteen year period over which the grant lost nearly 40 percent of its purchasing power due to inflation. The increase, equivalent to \$1 per household member per month, was funded with recently identified federal Temporary Assistance to Needy Families (TANF) funds at a cost of \$2.5 million. Per boilerplate Section 296

an additional \$2 per household member will be added to the monthly grant assuming the anticipated TANF revenues materialize. While the grant increase is clearly good news for FIP households, it should be noted that it equates to less than the anticipated 2.5 percent inflation rate for FY2009. Also of concern is the one-time nature of the TANF federal revenues used to fund the grant increase. There are no assurances that the federal or equivalent general fund revenues necessary to maintain the increase will materialize in FY2010 and future years.

In addition to the grant increase, the Conference Committee approved a new \$50 incentive payment to FIP families who are able to meet federal work participation requirements for three consecutive months at a projected cost of \$1.78 million gross and general fund. Families would be eligible for up to four incentive payments per year.

The Conference Committee also approved a \$45 increase in the children's clothing allowance, an annual per child payment made prior to the beginning of the school year, to \$88 in FY2009 at a cost of \$5.58 million. As was the case with the FIP grant adjustment, this increase is to be funded with one-time federal TANF funds expected to be carried forward from FY2008.

Lastly, as noted in the introduction above, a significant portion of the \$92 million in general fund savings identified in the DHS budget for purposes of closing the forecast FY2009 budget deficit came from recognizing lower than previously estimated caseloads. In the case of FIP the funded average monthly caseload was decreased from 76,000 in FY2008 to 70,500 for FY2009, resulting in an estimated annual savings of approximately \$27 million.

While these budgeted decreases are consistent with recent trends, they are in sharp contrast to other trends in Michigan's deteriorating economy. Unemployment, for example, reached a 16-year high of 8.5 percent in May even as the FIP cash assistance caseload declined to a point 13 percent below its level one year earlier. This countercyclical trend, which the recently completed budget assumes will continue through FY2009, also runs counter to typical public assistance program participation trends during an economic downturn. In the federal Food Stamp program, for example, the number of participating Michigan households grew by over 40,000 in each of the last two years.

The Michigan League for Human Services notes, regarding what appears to be an unexpected counter-

cyclical FIP caseload decline, that DHS chose to institute an optional federal policy requiring public assistance applicants to provide a range of documents to prove citizenship and identity, some of which may be available to caseworkers over the Internet, before their applications for assistance are considered complete. This new requirement, which is mandatory for Medicaid applicants, appears to have sharply reduced Medicaid case openings. A review of this new policy is needed to assure that households entitled to Medicaid and public assistance benefits are not denied critical benefits to which they are entitled.

State Disability Assistance (SDA)

The House and Senate Appropriations Committees concurred with an Executive Budget recommendation to increase the maximum grant for disabled adults by \$5 per person per month. This 2 percent increase would raise the maximum grant from \$264 to \$269 per month. The last SDA cost-of-living adjustment was implemented in FY2000.

Day Care Provider Rate Changes

The Appropriation Conference Committee adopted the Executive Budget recommendation to add \$10 million gross, \$10 million general fund to support \$8.3 million in day care provider rate increases (approximately 2.5 percent) and \$1.7 million for Day Care program administration costs—increases that were actually instituted in FY2008 via a supplemental appropriation. The Conference Committee added an additional \$10 million through boilerplate Section 296 of P.A. 248 for provider rate increases in FY2009 contingent upon receipt of anticipated federal TANF dollars. Assuming those federal funds are secured, DHS has the discretion to determine adjustments to provider reimbursement rates.

Redirect Funding from the Jobs Education and Training (JET) Program to Support Field Staff

The Appropriations Conference Committee adopted the Executive Budget recommendation to redirect \$7.3 million from the JET Program to support an additional 63 Family Independence Program caseworkers and 20 related supervisory and administrative support staff.

Reduce Juvenile Justice Staffing and Redirect a Portion of the Resulting Savings to Support Adoption, Foster Care and Licensing Staff

The Appropriation Conference Committee adopted a House recommendation to reduce Juvenile Justice facilities staff by a total of 60 positions at a savings of

\$6.2 million gross, \$4.12 million general fund, but rejected the House recommendation to appropriate most of the resulting savings in support of additional field staff. The Conference Committee did approve the addition of 7 Bureau of Children and Adult Licensing positions as well as the House recommendation to fund 5 new Foster Care and Adoption Contract monitoring staff and 3 new positions to oversee the interstate placement of children at a cost of \$1.78 million general fund.

Indigent Burial Services Reimbursement

The House and Senate Appropriations Committees adopted a recommendation to reverse the 25 percent Indigent Burial reimbursement rate reduction instituted in FY2008 as part of the deficit reduction package. This recommendation restores the burial reimbursement rate to the \$909 in place in FY2007 at a total annual cost of \$1.36 million gross, \$1.36 million general fund.

Bridges Toward Responsible Adulthood

The Conference Committee concurred with a House Appropriations Committee recommendation to establish a new \$1 million gross, \$200,000 general fund program intended to assist older youth transitioning out of the child welfare system.

Other Legislative Budget Initiatives

The House and Senate also approved the inclusion of the following program funding increases not reflected in the Governor's Executive Budget recommendation:

- Restore \$200,000 in federal TANF funding for the MSU Kinship Care Resource Center.
- Increase funding for the Michigan 2-1-1 Program by \$100,000 general fund.
- Increase funding for the MiCAFE senior food program by \$30,000 general fund.
- Fund a Sanilac County pilot program to coordinate a comprehensive system of care and referral for area families and children at a cost of \$120,000 general fund.
- Fund property development efforts at the Adrian Training School at a cost of .51 million general fund.
- Fund the Youthville Detroit demonstration project at a cost of \$100,000 general fund.

Other Issues and Concerns

An audit covering the four-year period subsequent to implementation of an Early Retirement program in 2002 that resulted in approximately 3,000 experienced DHS staff leaving the department, indicates that inadequate staffing over this period resulted in delayed program eligibility determinations and increased error rates. The Michigan Auditor General's March 7th report indicated that a seriously restricted budget, together with an overworked and inadequately trained staff, resulted in millions of dollars in misspent funds, potential federal sanctions, and lost incentives related to high error rates and delayed processing.

A subsequent audit, released just as the Legislature was completing its work on the FY2009 budget, found that DHS had issued at least \$147 million in child care reimbursements to ineligible caregivers based on a self-reporting system instituted, according to DHS management, because the department lacked the staff to perform verification audits of provider child care billings subsequent to the 2002 Early Retirement staffing drain.

While the Legislature has approved some targeted staffing increases as noted above, and added \$2.4 million (less than 2 percent of the identified child care billing losses) to establish a child care billing reconciliation unit to address some of the concerns raised in recent audits, budgeted DHS staffing will decline by an additional 1.7 percent in FY2009. Assuming that all of the appropriated positions are filled, DHS will be approximately 20 percent (2,500 full-time positions) below the department's staffing levels in FY2002. Given the dramatic loss of experienced staff in 2002 and the significant increase in caseload/worker ratios as Michigan's economy continues to struggle, it is difficult to imagine that the error rates, delayed processing, misspent funds, and federal sanction issues highlighted in recent Auditor General reports won't continue to plague state policymakers, DHS management and the low income households and children the department is tasked to serve.

There were numerous additions and changes in the Department of Human Services boilerplate. Specific references and language can be reviewed at the House Fiscal Agency (www.house.michigan.gov/hfa) or Senate Fiscal Agency (www.senate.michigan.gov/sfa) websites.

Department of Community Health

Fiscal Year 2008-2009 Budget Summary

(in millions)

	Original FY2008 Appropriation	FY2008 YTD Adjust- ments	FY2009 Governor's Revised Recom- mendation	FY2009 Senate	FY2009 House	FY2009 ¹ Appropri- ations Act (P.A. 246)	FY2009 % Change From Original FY2008
Gross Appropriation	\$12,048.3	\$135.7	\$12,455.6	\$12,482.9	\$12,438.7	\$12,533.1	+ 4.0%
General Fund	\$3,125.3	\$36.1	\$3,086.1	\$3,082.2	\$3,101.8	\$3,095.5	- 1.0%
Staff Positions	4,767.6 FTEs					4,608.7 FTEs	

¹The Governor signed the DCH budget bill without vetoes.

Source of data: House and Senate Fiscal Agencies' Conference Committee Summaries

The enacted budget for the Department of Community Health includes total funding of \$12.5 billion, of which \$3.1 billion is general fund. Medicaid health and long-term care services represent about 68 percent of the Department's budget, with Medicaid-funded mental health services totaling an additional 20 percent. While the FY2009 appropriation represents a gross increase of \$349 million over the current FY2008 law, the FY2009 general fund appropriation is a *reduction* of nearly \$66 million.

The good news for the FY2009 state budget process is that the starting point was not a billion dollar revenue shortfall. The bad news, however, is that the state does not have sufficient state revenue to fund critical programs and services on an ongoing basis, and so continues to rely on special financing mechanisms in Medicaid as an alternative to state general fund investment. At the same time the state is expanding Medicaid provider taxes, the federal government is proposing changes to end those funding opportunities and shift costs back to the states. The final Community Health budget does exclude several initiatives that were included in both the Senate and House-passed bills due to the lowered revenue projections from the May 2008 Consensus Revenue Estimating Conference.

Medicaid eligible populations and services are preserved in the enacted budget as the Conference Committee did not concur with the Senate recommendation to eliminate Medicaid coverage for federally-defined optional 19 and 20 year olds. The continued inclusion of the Adult Benefits Waiver

(scheduled to expire on January 31, 2009) assumes the waiver will be renewed by the federal government, but under the current administration, that approval is anything but certain. The appropriation for this program, which provides very low-income childless adults with limited outpatient coverage, is \$137 million of which nearly \$112 million is federal revenue.

The budget recognizes caseload growth and utilization increases, although caseload growth is likely dampened by the impact of the federally mandated citizenship and identity documentation requirements that are resulting in low-income U.S. citizens being inappropriately denied Medicaid eligibility in Michigan and around the country due to the high cost of securing the required documents. Declines in the Family Independence Program participation have also contributed to the slower rate of growth in persons eligible for Medicaid.

The Conference Committee included expansions in community-based long-term care services funded by projected reductions in nursing home utilization. Specific proposals are detailed below. The Conference Committee did not support the creation of a trust fund to support health care benefits for Adult Home Help workers, which was included in both the Senate and House-passed bills.

While the Executive Budget recommendation included new investments in public health services after several years of little investment, the Conference Committee adopted only a portion of the recommendations. The Conference Committee did adopt

the FY2009 Executive Budget recommendation for Healthy Michigan Fund programs, and included no reductions; the Senate included a reduction of \$10.8 million in their recommendation. The Conference Committee included no increase for local public health operations even though both the Senate and the House provided increases, \$1.0 million and \$2.0 million respectively, in their bills.

The Conference Committee included several program increases in the final budget including an increase in Medicaid physician rates for certain primary care codes (\$5.3 million gross, \$2.1 million general fund), a \$.25 increase in the pharmacy dispensing fee effective April 1, 2009 (\$.6 million gross, \$.25 million general fund), a 1 percent salary increase effective February 1, 2009 for mental health direct care workers (\$6.0 million gross, \$2.7 million general fund); an \$8 per month increase in the personal care services allowance bringing the total to \$192.38 per month, (\$1.3 million gross, \$.5 million general fund); and an increase of \$1.1 million gross and general fund for multicultural services.

Other highlights of the final FY2009 budget include:

Caseload and Utilization Increases

The Conference Committee adopted the May 2008 consensus caseload and base funding agreement, adding \$147.5 million gross, \$57.1 million general fund. This represents a reduction of nearly \$64 million gross and \$20 million general fund from the Executive-recommended adjustments. Projected caseload growth and medical care utilization is included for Medicaid, Children's Special Health Care Services, Mental Health/Substance Abuse, and the Adult Benefits Waiver. Funding is recommended to maintain the Adult Benefits Waiver at the federally approved caseload of 62,000 and assumes federal approval of renewal of the waiver.

Actuarially Sound Rates for Health Maintenance Organizations/Managed Care Plans

The Conference Committee included funding of \$143.5 million gross, \$55.5 million general fund to meet the federal requirement that rates paid to health maintenance organizations (HMOs)/managed care plans, including mental health managed care organizations, must be actuarially sound. This is a reduction of about \$30 million gross from the Executive recommendation and is based on more current information.

Expand Community-Based Long-Term Care Services

The Conference Committee included all of the Executive Budget recommended expansions of community-based long-term care services to address demand and reduce waiting lists, but at lower amounts than were recommended in the Executive Budget. The expansions are funded by anticipated reductions in nursing home admissions and include:

- Expansion of Program of All-Inclusive Care for the Elderly (PACE), in Calhoun and Muskegon Counties – \$4.0 million gross, \$1.6 million general fund.
- Development of affordable assisted living models through working with MSHDA – \$1.3 million gross, \$.5 million general fund.
- Development of specialized residential settings under the Home and Community Based Waiver (HCBW) – \$7.1 million gross, \$2.8 million general fund. This reflects the Conference Committee decision, there was a technical error that omitted the federal match in the budget.
- Additional Home and Community Based Waiver slots to reduce the waiting list – \$10.0 million gross, \$4.0 million general fund.

Public Institution Physician Adjustor Payment Increase

The Conference Committee continued funding of \$42.7 million gross, \$0 general fund for the physician adjustor payments for public institutions. These payments are made through the Health Maintenance Organizations (HMOs). Physician services at Michigan State University, Wayne State University, University of Michigan and Hurley Hospital receive the enhanced payments. The public entities provide the required match. This program was implemented late in FY2007, and funding for FY2008 was included in the FY2008 supplemental. Because payments are processed through the HMOs, the resulting benefit to the state from the provider tax is a \$1.4 million general fund savings.

Annualize Minimum Wage Increase for Home Help Workers

The Conference Committee concurred with the recommended increase of \$10.9 million gross, \$4.3 million general fund to annualize the impact of the minimum wage increase, including a guarantee to Adult Home Help workers of no less than \$7.50 per hour.

Annualize Cost of Healthy Kids Dental Expansion

The Conference Committee concurred with the recommended addition of \$7.9 million gross, \$3.1 million general fund to recognize the full-year cost of expanding the Healthy Kids Dental program to Genesee and Saginaw Counties. This expansion, implemented in July 2008, is expected to serve 78,800 children. While both the Senate and House proposed additional expansions, no further expansions of Healthy Kids dental were included in the Conference agreement.

Increase School Based Services Funding

The Conference Committee concurred with the Executive Budget recommended increase of \$5.8 million in federal funds for Medicaid-eligible services provided in schools based on increasing caseload/utilization. Because the state only passes through a portion of the federal funds to the schools and retains the balance, the benefit to the state will be \$3.8 million.

Replace Unavailable Trust Funds with General Fund

The Conference Committee, based on more up-to-date shortfalls in the Medicaid Benefits Trust Fund (\$18.6 million) and Merit Award Trust Fund (\$83.1 million), added \$101.7 million general fund to replace trust funds that are not available. This is an increase of nearly \$46 million over the Executive Budget recommendation.

Federal Medical Assistance Percentage (FMAP)

The Conference Committee concurred with the Executive recommended impact of the Federal Medical Assistance Percentage increase from 58.10 percent in FY2008 to 60.27 percent in FY2009, which increases federal revenue and correspondingly reduces general fund need by \$176.9 million.

Cost Saving Initiatives

- The Conference Committee did not concur with the Executive recommended elimination of the \$5 million Disproportionate Share Hospital payment pool added in FY2005, and restored funding.
- The Conference Committee did concur with the additional pharmacy rebate savings of \$8.2 million gross, \$3.2 million general fund due to the change (under the Deficit Reduction Act) in product price calculations.
- The Conference Committee did not concur with the Executive Budget recommendation to establish a

specific percentage (14.4%) of the federal revenue gain from the provider taxes from hospitals and nursing homes. The revised state benefit would have increased savings from hospitals and nursing homes by \$25.4 million and \$10.8 million, respectively. The Conference Committee designated a total savings amount from each provider of \$117.5 million from hospitals and \$53.9 million, representing an increase of \$18.7 million from hospitals and \$14.0 million from nursing homes.

- The Conference Committee did not concur with limiting the growth of the variable cost component for nursing homes. Reducing the growth in the variable cost component from 4.9 percent to 2.5 percent was expected to save \$31.3 million gross, \$12.4 million general fund. The Conference Committee achieved \$5.4 million of savings through increased retention from the nursing home provider tax.
- The Conference Committee concurred with the projected reduction in nursing home admissions saving \$32.4 million gross, \$12.9 million general fund. A portion of these nursing home related savings, \$15.7 million gross, \$9.0 million general fund, are reinvested to fund the long-term care community based services expansions described above.

Public Health Changes

As indicated above, the Conference Committee adopted several public health service changes and initiatives included in the Executive Budget or recommended by the House or Senate as follows:

- The Conference Committee adopted the Public Health Physician Practice Project, \$600,000 gross, \$300,000 general fund, a partnership with Michigan State University and University of Michigan to recruit and train potential qualified medical directors for the local health departments. One-third of the current directors are nearing retirement.
- The Conference Committee provided \$1.1 million gross and general fund for infectious disease initiatives to address the emergence of drug-resistant staph infections (\$300,000) and to expand testing and treatment (\$.75 million gross and general fund) for Gonorrhea and Chlamydia in high-incidence areas.
- The Conference Committee concurred with continuing the Criminal Background Check program, developed and implemented under a federal grant, to provide background checks for direct care

workers in long-term care settings, using Health System fees for adult foster care and homes for the aged only. The federal grant that supported development and implementation of the program has been exhausted. A statutory change is needed to require long-term care facilities and agencies to cover the cost starting in FY2009.

- The Conference Committee provided Administrative investments totaling \$1.8 million gross, \$.1 million general fund to add staff to address the backlog of complaints of abuse or neglect in nursing homes (\$.4 million gross, \$.1 million general fund), and to upgrade the customer service phone system (\$1.4 million gross, \$0 general fund) for health professionals' licensing to accommodate the 400-500 calls daily.

Mental Health Changes

- The Conference Committee concurred with the recommended addition of \$1.0 million from the Department of Corrections for two additional mental health outpatient teams to serve the increased demand, as well as the addition of \$1.2 million from the Department of Corrections to support a new Residential Treatment Program.
- The Conference Committee added half of the funding (\$1.1 million gross and general fund) recommended in the Executive Budget to support mental health court pilot programs. The Judiciary budget also includes \$.55 million gross and general fund for these pilot programs.
- The Conference Committee did not concur with the Executive Budget proposed creation of a centralized statewide mental health managed care risk pool. Funding for the pool would have been drawn from the Internal Service Fund (ISF) with current balances of \$73 million.

Employee-Related Economics

The Conference Committee concurred with the Executive recommended addition of \$4.2 million gross, \$1.6 million general fund to annualize FY2008 employee salary and wage increases, as well as health insurance and retirement, and other administrative costs for FY2009. It is important to

note that State Employees will not only receive no general salary increase in FY2009, but will also be required to pay more of their health care costs through increases in premiums and cost sharing.

Initiatives Included by the Conference Committee:

- Medicaid physician rates for primary care services increased by a total of \$5.3 million gross, \$2.1 million general fund.
- Medicaid pharmacy dispensing fee increase of \$.25 to \$2.75, effective April 1, 2009, at a cost of \$.6 million gross, \$.25 million general fund.
- Addition of \$6.0 million gross, \$2.7 million general fund to provide a 1 percent salary increase for mental health direct care workers effective February 1, 2009.
- Personal Care services increase of \$8 per month, bringing the total to \$192.38 at a cost of \$1.3 million gross, \$.5 million general fund.
- Increased funding for numerous multicultural programs including the Chaldean Cultural Center (\$.35 million), the Jewish Federation (\$.38 million), ACCESS (\$.3 million), and the Arab/Chaldean Council (\$30,000).
- Increased funding for senior citizen programs including care management (\$.6 million gross and general fund) and Senior Olympics (\$.1 million gross and general fund).
- Implementation of an Ambulance Quality Assurance Assessment Program (provider tax) resulting in net general fund savings of \$.65 million. Legislation will be required to implement this provider tax.
- Mandatory enrollment of pregnant women in managed care will increase the managed care provider tax base by an estimated \$288 million resulting in a \$10 million general fund benefit to the state.

There were numerous additions and changes in the Department of Community Health boilerplate. Specific references and language can be reviewed at the House Fiscal Agency (www.house.michigan.gov/hfa) or Senate Fiscal Agency (www.senate.michigan.gov/sfa) websites.

Department of Labor and Economic Growth

Fiscal Year 2008-2009 Budget Summary

(in millions)

	Original FY2008 Appropriation	FY2008 YTD Adjust- ments	FY2009 Governor's Recom- mendation	FY2009 Senate	FY2008 House	FY2009 ¹ Appropri- ations Act (P.A. 251)	FY2009 % Change From Original FY2008
Gross Appropriation	\$1,301.2	\$10.3	\$1,362.9	\$1,359.7	\$1,364.4	\$1,387.4	+ 6.6%
General Fund	\$46.0	\$0.0	\$103.7	\$45.9	\$94.9	\$73.6	+ 59.9%
Staff Positions	4,341 FTEs					4,358.5 FTEs	

¹The Governor signed the DLEG appropriation with a boilerplate subsection veto.

Source of data, except the appropriations act figures: House and Senate Fiscal Agencies' Conference Committee Summaries

The enacted budget for the Department of Labor and Economic Growth (DELG) totals \$1.4 billion, which is an \$86.2 million increase over the FY2008 original appropriation. Of the gross appropriation, \$73.6 million is general fund, which is a \$27.6 million increase over the FY2008 appropriation. The Governor signed the DLEG budget with vetoes. Of particular note is the veto of \$2.0 million of \$30.0 million TANF Contingency Funds. \$2.0 million of these funds were allocated to the Michigan Housing and Community Development; the Governor vetoed this subsection of boilerplate leaving all \$30.0 million allocated to the Jobs, Education, and Training Program.

The FY2009 DLEG budget includes a \$65.4 million gross, \$15.0 million general fund increase for the *No Worker Left Behind* program (NWLB). The Executive recommended \$40.0 million general fund and the Revised Executive recommended that federal Workforce Investment Act (WIA) funds be increased by \$44.0 million. The House concurred with the original Executive recommendation whereas the Senate included the WIA increase only. The Executive, House, and Senate increased federal Trade Adjustment Assistance (TAA) for the program by \$6.4 million. The Conference Committee concurred with additional WIA and TAA funding and allocated an additional \$15.0 million general fund to NWLB. General fund allocations are as follows:

- \$2.5 million to \$5.0 million for adult education;
- \$2.5 million to \$5.0 million for community college capacity building and;
- remaining funds for worker training.

The Conference Committee concurred with the Executive and the House in reducing funding by \$4.5 million gross and eliminating 36.0 positions from the Jobs, Education, and Training (JET) program. The reduction reflects the lower than anticipated referrals to Michigan Rehabilitation Service, and to accurately reflect personnel and program needs. The Conference Committee also concurred with the Executive recommendation adding 7.0 FTEs and \$640,000 gross to the State Office of Administrative Hearings and Rules to handle the increase in volume of administrative hearings regarding Department of Human Services (DHS) benefits. The Conference Committee also added an additional \$50,000 gross for teacher tenure hearings.

Additionally, the Conference Committee concurred with the Executive in eliminating \$140,000 gross for Focus: HOPE for a pilot study examining ways to improve job placement and retention of cash assistance recipients. However, the Conference Committee added new boilerplate for the FOCUS: HOPE Career Preparation Pilot Program in Genesee and Wayne counties. The Conference Committee also included intent language for the department to work with Career Alliance (the Genesee, Shiawassee Michigan Works! Agency) and any other Michigan Works! agencies for the pilot program.

The Conference Committee also concurred with the Senate by allocating \$200,000 of grant funding to a program of an employer that:

- focuses on retaining low-wage workers receiving public assistance;
- exceed or meet an 80 percent retention rate;

- includes more than one employer;
- includes an employer-sited DHS caseworker;
- the employer pays 50 percent and receives federal TANF for 50 percent for the costs of the onsite DHS caseworker;
- provides skills training and life-skills towards advancing employees to middle skill jobs;
- has a regional impact across more than three counties, and;
- includes strategic partnerships with community colleges, counties and other nonprofits.

The Executive and the House added \$8.5 million general fund for the Michigan Nursing Corps program. The Senate reduced funding by \$1.0 million from the FY2008 appropriation of \$1.5 million. The Conference Committee provided an increase of \$3.5 million general fund, bringing total funding to \$5.0 million.

Additional items of interest within the DLEG budget include:

- The Conference Committee concurred with the Revised Executive and the Senate by adding 50 FTEs and \$5.4 million gross to the Office of Financial and Insurance Regulation. The new positions and funding

will allow for improving regulation or maintaining statutorily-required regulatory activities relating to payday and mortgage lending, banking and credit unions, securities, and insurance.

- The Conference Committee concurred with the Governor in adding \$5.0 million gross to the Michigan State Housing Development Authority (MSHDA) for payments on behalf of low-income tenants in the housing choice voucher program.
- The House recommended a \$500,000 general fund increase to the Centers for Independent Living, which provide supportive services for individuals with disabilities. The Senate reduced this increase to \$163,300. The Conference Committee concurred with the House, however, but uses other fund sources for a total increase of \$500,000 gross.
- The Governor recommended, and the Conference Committee concurred with, additional funding to annualize wage increases and adjustments for retirement and insurance, totaling \$2.0 million gross.

There were numerous additions and changes in the Department of Labor and Economic Growth boilerplate. Specific references and language can be reviewed at the House Fiscal Agency (www.house.michigan.gov/hfa) or Senate Fiscal Agency (www.senate.michigan.gov/sfa) websites.

K-12 Education (School Aid)

Fiscal Year 2008-2009 Budget Summary

(in millions)

	Original FY2008 Appropriation	FY2008 YTD Adjust- ments	FY2009 Governor's Revised Recommendation	FY2009 Senate	FY2009 House	FY2009 ¹ Appropriations Act (P.A. 268)	FY2009 % Change From Original FY2008
Gross Appropriation	\$13,006.0	- \$108.2	\$13,515.2	\$13,381.8	\$13,415.4	\$13,378.9	+ 2.9%
General Fund	\$34.9	\$0.0	\$43.0	\$43.0	\$43.0	\$40.8	+ 16.9%

¹The Governor signed the School Aid bill without vetoes.

Source of data: House and Senate Fiscal Agencies' Conference Committee Summaries.

The FY2009 enacted budget for K-12 School Aid includes \$13.4 billion, of which \$11.8 billion are state (school aid) funds, a gross increase of just over \$409 million over the initial FY2008 appropriation. Schools also receive state general fund and federal funds which total just over \$1.6 billion, and are expected to receive nearly \$4.1 billion from local property taxes.

The general fund appropriation was increased from \$35 million to \$41 million, while anticipated federal funds increased by \$86 million.

The Conference Committee established a Basic Foundation Allowance of \$8,489, an increase of \$56 per pupil, or about half of the Executive recommended

increase. The minimum foundation allowance is increased by \$112 per student to \$7,316. Districts between the foundation allowances cited above would receive an increase ranging from \$56 to \$112 per pupil with higher amounts going to districts with lower foundation allowances. The adopted foundation allowance increases were lower than those recommended by the Governor or approved by the Senate due to the reduced revenue forecast at the May Consensus Revenue Estimating Conference.

Several programs are maintained at their FY2008 levels of funding including: At Risk (\$310 million), declining enrollment grants (\$20 million), and Adult Education funding (\$24 million).

With required payments from the Durant lawsuit ending in FY2008, the Executive Budget recommended the redirection of those funds, \$32 million per year, to a new initiative, 21st Century Schools Fund, to replace large high schools with high dropout rates and low academic achievements with smaller high schools with no more than 450 students. The proposed funding would provide start up grants (up to \$2 million) and facility grants (up to \$8 million) to districts that apply and include at least one high school not making adequate yearly progress for at least two years. The Conference Committee did not concur with creation of a 21st Century Schools Fund to plan and build smaller high schools, and instead included \$15.0 million for new grants of up to \$3 million over 4 years for planning and implementation of newly constructed or reconfigured schools designed to reduce dropout rates. To qualify, districts must have graduation rates of less than 70 percent and must not have more than 110 students per grade in the new or newly configured school. Specific results must be achieved, including an 80 percent graduation rate by the third graduating class and 80 percent of graduates enrolling in post-secondary education within 6 months of graduation, or 50 percent of the grant award must be returned to the state.

The Executive Budget again recommended substantial increases, totaling \$31.5 million, in early childhood program investments, however, the Conference Committee approved only \$10 million, including:

- an increase of \$5 million, rather than the Executive recommended \$24 million for additional slots in the School Readiness Program, bringing the total funding to \$103.6 million, and adding nearly 1,500 slots;
- an increase of \$5 million for increased Early Childhood Investment Corporation competitive grants to

intermediate school districts to assess local early childhood needs and available resources, as recommended by the Governor.

Funding of \$2.5 million for new Great Start innovative grants to intermediate school districts to identify evidence-based practices and experiences that promote school readiness in children ages 0–5 was not included by the Conference Committee.

Other highlights of the FY2009 enacted School Aid Budget:

- The Conference Committee provided a 1.0 percent increase, \$.8 million gross and SAF, for Intermediate School Districts (ISD) general operations, but did not include the Executive recommended \$1.9 million for collaboration with the Department of Education to strengthen curriculum and instruction in high schools not achieving adequate yearly progress;
- The Conference Committee provided an increase of \$2.5 million general fund, but reduced federal funding by \$.75 million for a net increase of \$1.75 million for the Center for Educational Performance and Information (CEPI) to fund several technology initiatives including linking the K-12 database to postsecondary institutions;
- The Conference Committee concurred with the Senate and provided an increase of \$1.0 million for Adolescent Health Centers. The Executive Budget and House-passed budgets included a \$2 million increase;
- The Conference Committee concurred with reducing the retirement rate from 16.72 percent to 16.54 percent of payroll;
- The Conference Committee provided a net increase of \$2.6 million, including a reduction of state funds of nearly \$.5 million for assessment and related testing required by the State and Federal governments;
- The Conference Committee concurred with the Executive and the House in increasing funding for Math and Science Centers by \$.8 million all federal. The Senate recommended a state funding increase of \$1.0 million;
- The Conference Committee did not concur with the House or Senate recommended increases for pre-college engineering and science grants, and maintained grants for Detroit and Grand Rapids at their current levels. The Conference Committee did

provide a \$.3 million increase to fund new programs in Kalamazoo, Huron, Tuscola, and Bay-Arenac ISDs at \$75,000 each;

- The Conference Committee concurred with \$.7 million of the House recommended \$3.7 million for Math Remediation grants. These grants would fund 8th grade math remediation programs provided through Math/Science Centers and the Michigan Virtual University;
- The Conference Committee retained funding for the Pontiac Crisis Intervention Center (\$.3 million) and did not concur with the Executive and Senate recommended elimination of all of the one-time grants included in the FY2008 appropriation. The Conference Committee increased the grants to Grosse Pointe (from \$.3 million to \$1.1 million) for math and science demonstration projects, and to Harper Woods (from \$.15 million to \$.45 million) for several initiatives. The Conference Committee also retained subsidies for all districts, except Pontiac, with deficits, deficit mills, or millage reductions Continued funding includes Redford Union (\$.45 million), Chippewa Valley (\$.15 million), and Clintondale (\$.25 million);

- The Conference Committee concurred with the Executive recommended increase of \$1.3 million to compensate districts for reduced local revenue from school operating taxes due to property tax exemptions provided in the Michigan Business Tax;
- The Conference Committee rejected the Executive recommended \$1.0 million for competitive grants to districts that provide opportunities for students to participate in FIRST Robotics competitions;
- The Conference Committee rejected the proposed \$.7 million increase, to \$1.0 million total, for Advanced and Accelerated programs, and maintained the current level of funding, \$285,000.

Several program expansions or initiatives were included in the Senate and/or House-passed budgets that were not included in the final Conference Report.

There were numerous additions and changes in the School Aid Act boilerplate. Specific references and language can be reviewed at the House Fiscal Agency (www.house.michigan.gov/hfa) or Senate Fiscal Agency (www.senate.michigan.gov/sfa) websites.

Department of Education

Fiscal Year 2008-2009 Budget Summary

(in millions)

	Original FY2008 Appropriation	FY2008 YTD Adjust- ments	FY2009 Governor's Revised Recommendation	FY2009 Senate	FY2009 House	FY2009 ¹ Appropriations Act (P.A. 212)	FY2009 % Change From Original FY2008
Gross Appropriation	\$96.5	\$3.4	\$95.7	\$94.5	\$95.7	\$95.1	- 1.5%
General Fund	\$7.1	\$0.0	\$8.1	\$7.9	\$8.1	\$7.6	+ 7.0%
Staff Positions	466.5 FTEs					488.5 FTEs	

¹The Governor signed the Department of Education bill with no vetoes.

Source of data, except the appropriations act figures: House and Senate Fiscal Agencies' Conference Committee Summaries

The enacted budget for the Department of Education includes total funding of \$95.1 million, of which \$7.6 million is general fund. This budget represents new investments in the Department in part due to audit recommendations and in part to avoid contracted testing cost increases by adding staff positions to perform the work.

The Conference Committee did not concur with the Governor's proposed 21st Century Schools Fund in the

School Aid budget and eliminated the 3 positions recommended to administer the fund in this budget.

The Conference Committee did concur with the revised Executive Budget recommendation to add 5 FTEs and \$.9 million gross and federal to administer a new federal grant of \$17.5 million (included in the School Aid budget) for school improvement.

Highlights of the Conference agreement for the FY2009 Department of Education budget include:

- An increase in staffing (6 FTEs) and funding of \$.5 million gross, \$.5 million general fund, to provide oversight of numerous programs to comply with audit recommendations. Programs include: High Priority Schools, Michigan School Readiness program, At-Risk programs, and Special Education programs.
- An increase of \$480,000 gross, \$0 general fund for additional staff (6 FTEs) and programming at the Michigan School for the Deaf and Blind due to projected enrollment increases of 10 percent.
- An increase in staffing, 14 FTEs, and funding of \$1.5 million gross, all federal funds to enable the Department to assume educational assessment functions currently contracted out. This investment in Department staffing is to avoid significant projected contract cost increases.
- An increase in staffing (1 FTE) and funding of \$100,000 for oversight of the English Language Proficiency Assessment program.
- An increase of \$300,000 to fund a best practices study for assessing students with disabilities.
- An increase in staffing (.5 FTE) and funding of \$48,300 to eliminate the backlog in teacher tenure cases.

- Economic increases of \$137,000 gross, \$15,600 general fund to cover employee-related salary and wage increases, retirement and health insurance increases, as negotiated by the State Employer. It is important to note that State Employees will not only receive no general salary increase in FY2009, but will also be required to pay more of their health care costs through increases in premiums and cost sharing.
- Program reductions included in the Conference Report include:
 - ▶ Elimination of funding for the Data Articulation Study – \$3.95 million, all federal;
 - ▶ Elimination of funding for the Longitudinal Data System – \$.5 million, all federal;
 - ▶ Consolidation of human resources functions in the Department of Civil service saving \$.6 million and 5 FTEs in the Department of Education.

There were numerous additions and changes in the Department of Education. Specific references and language can be reviewed at the House Fiscal Agency (www.house.michigan.gov/hfa) or Senate Fiscal Agency (www.senate.michigan.gov/sfa) websites.

Higher Education

Fiscal Year 2008-2009 Budget Summary

(in millions)

	Original FY2008 Appropriation*	FY2008 YTD Adjust- ments	FY2009 Governor's Recom- mendation	FY2009 Senate	FY2009 House	FY2009 ¹ Appropriations Act (P.A. 213)	FY2009 % Change From Original FY2008*
Gross Appropriation	\$1,896.4	- \$9.5	\$1,799.4	\$1,799.4	\$1,799.4	\$1,769.1	- 6.7%
General Fund	\$1,761.8	0.0	\$1,675.9	\$1,675.9	\$1,675.9	\$1,645.6	- 6.6%

*This amount includes the FY 2007-08 one-time general fund delayed payment of \$138.7 million. With this payment removed, the original FY2008 gross appropriation is \$1,757.6 and the general fund appropriation is \$1,623.0. Using these figures, the FY2009 gross change from FY2008 is an increase of 0.7 percent and a general fund increase of 1.4 percent.

¹The Governor signed the Higher Education bill without vetoes.

Source of data: House and Senate Fiscal Agencies' Conference Committee Summaries

The approved FY2009 budget for Higher Education totals \$1.77 billion gross, which is 1.7 percent below the Executive, House, and Senate recommendation of

\$1.80 billion. The general fund appropriation of \$1.65 billion is also 1.8 percent below the recommendations of the Executive, House, and Senate.

Gross funding for FY2009 appears to have decreased from the FY2008 original appropriation by 6.7 percent and by 6.6 percent general fund. This is due to the removal of the one-time FY2008 delayed payment from FY2007 totaling \$138.7 million general fund and gross included in PA 17 of 2007 and Executive Order 2007-3. When this one-time payment is removed from the original FY2008 appropriation, the comparison with the FY2009 appropriation is a gross increase of 0.7 percent and a general fund increase of 1.4 percent.

The Conference Committee provided a 1.0 percent across the board increase of \$14.5 million gross and general fund, over FY2008 for university operations. This is lower than the 3.0 increase recommended by the governor based on an incentive formula that would have provided increases ranging from 2.3 percent to 6.2 percent, with the three research universities using a separate formula. This is also lower than the Senate recommendation of a 3.0 percent across the board increase and the House recommendation of a 2.7 across the board increase.

The Conference Committee concurred with the Executive, House, and Senate by increasing funds for the Tuition Incentive Program (TIP) by \$4.1 million gross and general fund, to a total of \$25.2 million. This is to allow for the anticipated 19.4 percent growth in program costs. The TIP program provides financial aid to students who have, or had, Medicaid coverage for 24 months within a consecutive 36-month period.

The Executive Budget recommended and the Senate, House, and Conference Committee concurred on a net reduction of \$7.8 million gross for the Michigan Merit Award Program and the Michigan Promise Grant Program. The Merit Award Program was reduced by \$54.8 million gross, as the program phases out, for a total FY2009 appropriation of \$5.2 million gross for high school graduates from prior classes. The

Michigan Promise received increased funding \$47.0 million gross for a FY2009 appropriation of \$90.5 million gross, and replaces the Merit Award Program.

The Conference Committee retained funding at FY2008 levels for the following financial aid programs:

- Michigan Tuition Grant (\$56.7 million gross);
- Adult Part-Time Grant (\$2.7 million gross);
- Michigan Educational Opportunity Grant (\$2.1 million gross);
- Children of Veterans Grant (\$1.0 million gross);
- Michigan Work Study Program (\$7.3 million gross);
- Michigan Competitive Scholarship (\$35.5 million gross), and
- Nursing Scholarship Program (\$4.3 million gross).

The Conference Committee also provided a 1.0 percent gross and general fund increase of \$633,200 over FY2008 to the Agricultural Experiment Station and the Cooperative Extension Service. The Agricultural Experiment Station will receive \$340,000 with the remaining \$293,200 allocated to the Cooperative Extension Service. This is lower than the Executive and Senate recommendation of 3.0 percent and the House recommendation of 2.7 percent.

There are also numerous boilerplate sections within the FY2009 Higher Education budget that were revised, added, or deleted. Additional information may be accessed through the budget sections of the House Fiscal Agency (www.house.michigan.gov/hfa) or Senate Fiscal Agency (www.senate.michigan.gov/sfa) websites.

Community Colleges

Fiscal Year 2008-2009 Budget Summary

(in millions)

	Original FY2008 Appropriation*	FY2008 YTD Adjust- ments	FY2009 Governor's Recom- mendation	FY2009 Senate	FY2009 House	FY2009 ¹ Appropri- ations Act (P.A. 255)	FY2009 % Change From Original FY2008*
Gross Appropriation	\$318.9	\$0.0	\$302.2	\$302.2	\$310.6	\$299.4	- 6.1%
General Fund	\$318.9	\$0.0	\$302.2	\$302.2	\$310.6	\$299.4	- 6.1%

*This amount includes the FY 2007-08 one-time delayed payment of \$25.8 million. With this payment removed, the original FY2008 appropriation is \$293.6 and the FY2009 change from FY2008 is an increase of 2.1 percent.

¹The Governor signed the Community College bill without vetoes.

Source of data, except the appropriations act figures: House and Senate Fiscal Agencies' Conference Committee Summaries

The 2008-2009 enacted budget for Community Colleges totals \$299.4 million gross, which is 1 percent below the Executive Budget and House recommendation of \$302.2 million and 3.6 percent below the Senate recommendation of \$310.6 million.

Overall funding for FY2009 appears to have decreased from the FY2008 original appropriation by 6.1 percent. However, FY2008 included a one-time delayed payment from FY2007 totaling \$25.8 million to community colleges included in Executive Order 2007-3 and PA 17 of 2007. When this amount is removed from the original FY2008 appropriation, the comparison with the FY2009 appropriation is an increase of 2.1 percent.

The Executive Budget, the House, and Senate recommended a 3 percent overall increase totaling \$8.6 million general fund for community college operations, with each community college receiving increases ranging from 2.4 to 3.9 percent. The percentage was calculated using the 2006 Performance Indicator Task Force Formula. The components of this formula are:

- 50.0 percent distribution proportionate to current funding;

- 17.5 percent based on student contact hours;
- 15.0 percent based on strategic value and;
- 17.5 percent based on weighted degrees formula.

The Conference Committee however, provided a 2 percent increase totaling \$5.7 million, with each college receiving an increase ranging from 1.6 percent to 2.6 percent.

The Conference Committee concurred with the Executive Recommendation, adding \$455,000 for statutorily-required increases for Renaissance Zone reimbursement.

The Conference Committee maintained funding at FY2008 levels of \$3.3 million for the At-Risk Student Program, and allocated no funding for nursing programs for which the House recommended \$7.0 million. However, the FY2009 Labor and Economic Growth budget includes a \$3.5 million general fund increase for the Michigan Nursing Corps, bringing total funding for nursing to \$5.0 million general fund.

Department of Corrections

Fiscal Year 2008-2009 Budget Summary

(in millions)

	Original FY2008 Appropriation	FY2008 YTD Adjust- ments	FY2009 Governor's Recom- mendation	FY2009 Senate	FY2009 House	FY2009 ¹ Appropri- ations Act with Veto (P.A. 245)	FY2009 % Change From Original FY2008
Gross Appropriation	\$2,078.3	\$0.0	\$2,079.7	\$2,054.2	\$2,044.7	\$2,039.6	- 1.9%
General Fund	\$1,996.1	\$0.0	\$1,978.3	\$1,978.3	\$1,978.3	\$1,974.5	- 1.1%
Staff Positions	17,653.4 FTEs					17,103.0 FTEs	- 550.4 FTEs

¹Noting that it was unconstitutional to have administrative staff reporting to the Judiciary, the Governor vetoed a line-item totaling \$980,000 intended to fund the Intensive Probation Pilot Project.

Source of data: House and Senate Fiscal Agencies' Conference Committee Summaries

The FY2009 Department of Corrections (DOC) budget, as approved by the Legislature with a subsequent line-item veto of a probation pilot project by the Governor, reflects a \$38.7 million gross, \$21.6 million general fund reduction from prior-year funding. The net savings resulting from the budget decisions outlined below represent the first DOC appropriation reduction since FY1995. While the final budget closely resembled the Governor's Executive Budget proposal in terms of dollars, it gave little attention to the Governor's recommendation that policies be implemented with the goal of reducing Michigan's prison population. Of particular note were savings associated with decisions to:

- Reduce total prison staff by 295.3 positions related to changes in required staffing ratios, resulting in a savings of \$30.6 million gross and general fund.
- Privatize prison stores and centralize DOC warehouse operations at a savings of \$5.87 million gross, \$1.21 million general fund related to reduced facilities costs and a 90-position reduction in department staff. Centralizing operations also contributed to an assumed \$3.2 million gross and general fund savings related to increased bulk commodity purchases and other efficiencies.
- Recognize business office and maintenance efficiencies resulting in a reduction of 72 positions at an assumed savings of \$6.06 million gross and general fund.

- Recognize a central office staffing reduction of five positions and other efficiencies resulting in assumed savings of \$800,000 gross and general fund.
- Close the Scott Correctional Facility effective May 1, 2009 and convert the Huron Valley Correctional Facility to a women's facility to house displaced inmates from Scott, resulting in a net reduction of 10 DOC staff and a net savings of \$13.2 million gross and general fund.
- Reflect the full-year savings associated with having closed the Southern Michigan Correctional Facility during FY2008. The additional FY2009 savings associated with this decision was \$3.1 million gross and general fund.

Prisoner Health Care Budget Changes

The Legislature adopted a series of Executive Budget recommendations related to prisoner health care including decisions to:

- Add \$14.86 million gross and general fund to the budget to fund Hepatitis C testing and treatment for Michigan's inmate population. This amount was in addition to \$1.7 million placed in the budget in FY2008 to begin funding this initiative and it is anticipated that an additional \$4 to \$5 million will be added in FY2010 to bring funding to the level need to support this program on an ongoing basis.

- Hire an additional 20.5 nurses and fund nurse recruiting and retention efforts at a total cost of \$2.45 million gross and general fund.
- Increase funding for Department of Community Health provided mental health services, including two additional mental health outpatient teams as well as new residential and developmentally disabled treatment program units at the Gus Harrison Correctional Facility, at a total cost of \$4.8 million gross and general fund.
- Expand inmate related hospital and specialty service contracts with Correctional Medical Services, Inc. at an anticipated savings of \$5 million gross and general fund.

Other Adjustments and Funding Changes

The FY2009 DOC budget reflects a series of additional adjustments including:

- Full-year funding for 1,000 Global Positioning Units (GPS), up from 500 in FY2008, at a cost of \$3.6 million gross and general fund.
- Transfer of 136 human resources positions and \$13.39 million gross, \$13.22 million general fund in related funding to the Department of Management and Budget in conjunction with a consolidation of personnel functions within the DMB.

- Various economic adjustments totaling \$7.83 million gross, \$7.65 million general fund.
- Computer hardware replacement and service fee increases totaling \$2 million gross and general fund.
- A \$1.87 million gross and general fund increase in the New Officer Training appropriation intended to fund a 16-week course for 750 corrections officer recruits at an average cost of \$18,250 per graduate.

There were numerous boilerplate changes included in the FY2009 Department of Corrections budget. Detailed information regarding these and other budget changes may be accessed from the House Fiscal Agency (www.house.michigan.gov/hfa) or Senate Fiscal Agency (www.senate.michigan.gov/sfa) websites.

SUMMARY AND OBSERVATIONS

While the adopted FY2009 budget for the Department of Corrections is marginally below current year appropriations, proposals to modify sentencing, parole and probation guidelines to reduce or reverse the upward trend in Michigan's prison population do not appear to have sufficient legislative support to secure adoption. While the dramatic growth in Michigan's prison population over the last two decades has slowed in recent years, it is anticipated that it will continue to grow, resulting in added pressure on the state's prison facilities and fiscal outlook.

Since 1990, in response to dramatic growth in Michigan's prison population, Department of Corrections staffing increased by over 20 percent even as overall state staffing declined by a similar percentage. The corresponding significant increase in Corrections spending, both in absolute dollars and as a share of total General Fund spending, suggests that this component of the state budget will play an important role in determining whether Michigan is successful in stabilizing its precarious fiscal condition without major additional cuts to its safety net programs.

The table, which illustrates that Michigan's incarceration rate and costs per inmate are significantly above the average for the Great Lakes region, suggests that the adoption of policies intended to bring Michigan's Corrections statistics in line with the surrounding states may offer the state some significant and much needed fiscal relief.

CORRECTIONS DATA COMPARISONS FOR GREAT LAKES STATES		
	Prison Incarceration Rate/100,000 (2005)	Cost Per Inmate (2005)
Michigan	489	\$28,743
Illinois	351	\$21,622
Ohio	400	\$23,011
Wisconsin	380	\$28,932
Indiana	388	\$21,531
Pennsylvania	340	\$31,029
Minnesota	180	\$29,260
Great Lakes Average	361	\$28,552
Great Lakes - Michigan	340	\$25,898
Michigan Rates Above Average of Other States	+43.9%	+11%
<i>Data Sources:</i> American Correctional Association U.S. Department of Justice State Government websites JFA Institute: Public Safety, Public Spending: Forecasting America's Prison Population 2007-2011		

FISCAL YEAR 2008-2009 BUDGET UPDATE:

Final Notes

As noted in the introduction, an analysis by the Michigan League for Human Services indicates that state program expenditures, driven primarily by continuing rapid growth in health care and Department of Corrections' costs, will likely continue to outstrip state revenue growth by at least \$500 million per year on average for the foreseeable future. In addition, cyclical cost increases and revenue declines associated with Michigan's current economic difficulties could drive annual deficits significantly higher. In summary, the large deficits of the last eight years

can be expected to continue unless and until state decision makers act to modernize Michigan's tax code to permit revenues to grow with the economy. Further, sentencing, parole and probation guidelines that have contributed to incarceration rates that exceed the average of the other Great Lakes states by over 40 percent will likely have to be reformed before Michigan can hope to see Corrections costs as a share of the state's budget begin to stabilize. Without these actions it is difficult to see an end to Michigan's ongoing fiscal crisis.

Michigan League for Human Services

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