

FY 2010 EXECUTIVE BUDGET

Federal Stimulus Money Could Help Neutralize Proposed Cuts

This report is a brief overview of Governor Granholm's Executive Budget proposal, which was presented in February. Since then, House and Senate Appropriations Committees have been working on their own budget recommendations. Later in April, the League anticipates doing overviews of those budget recommendations. The League also continues to monitor federal stimulus money coming into Michigan, which will affect some budgets.

OVERVIEW

On February 12, state Budget Director Bob Emerson presented Governor Granholm's FY2010 Executive Budget recommendation to a joint session of the House and Senate Appropriations committees. The proposed budget was finalized just weeks after the January Consensus Revenue Conference identified a projected FY2010 funding gap of \$1.4 billion related primarily to declining revenues. It outlined \$670 million in General and School Aid Fund spending reductions and \$230 million in revenue enhancements linked to specific fee increases, tax loophole closings and tax enforcement actions.

The Executive Budget recommendation did not, however, reflect federal fiscal relief recently approved as a part of The American Recovery and Reinvestment Act (ARRA). The ARRA, which is intended to assist states in preserving health care, education and other human services and employment and training programs, will increase federal funding available to Michigan through the 1st quarter of FY2011 by an estimated \$3.87 billion. For this reason it appears likely that a significant portion of the program reductions and revenue enhancements contained in the Governor's Executive Budget recommendation may not be reflected in the adopted FY2010 budget.

DEPARTMENT OF HUMAN SERVICES

The Governor's budget for the Department of Human Services recommends a combination of

program reductions and fund source adjustments that would require a \$194 million (15.9 percent) reduction in state support for programs administered by the Department of Human Services (DHS).

While approximately \$232 million in emergency contingency funds from the recently enacted federal stimulus package could mitigate or eliminate the need for many of the recommended reductions reflected in the Governor's Executive Budget for DHS, Michigan may not qualify for much of the assistance intended to help states weather the current economic downturn.

Despite Michigan's prolonged economic difficulties and a high unemployment rate, it appears that recently established or modified program policies, together with rapidly rising DHS caseload/worker ratios (See the March 6th publication by the Center on Civil Justice entitled *Funding is Needed for Additional DHS Assistance Payment Workers* at www.cci-mi.org), have resulted in a cash assistance caseload decline in FY2008 in excess of 15 percent (See the February 2009 Michigan League for Human Services publication entitled *Walking a Tightrope Without a Net: Help Eludes Many Victims of the Current Recession* at www.milhs.org). As a result of this precipitous decline in the number of families qualifying for assistance in the face of the worst economic downturn in three-quarters of a century, Michigan may be one of the few states unable to claim its share of the \$5 billion in federal stimulus funding approved specifically to assist low-income households during this time of increased need.

Michigan League for Human Services

1115 SOUTH PENNSYLVANIA AVENUE • SUITE 202 • LANSING, MICHIGAN 48912

517.487.5436/PHONE • 517.371.4546/FAX • WWW.MILHS.ORG

A UNITED WAY AGENCY

Included in the Executive Budget at a savings of \$29.8 million General Fund is a recommendation to eliminate the \$14 per month state supplemental payment to approximately 177,000 Michigan residents determined eligible for Aged, Blind and Disabled benefits by the Social Security Administration. (As a note, this recommendation, which would reverse a decision made in the 1990s to continue state supplemental payments to individuals who, despite their disability, reside in an independent living setting rather than an institution, may require a federal waiver to relieve the state of what at the time appeared to be an irrevocable commitment.)

Also reflected in the Governor's Executive Budget are savings related to projected Day Care program cost savings resulting from increased billing and provider audits (\$10 million), elimination of before-and after-school programs (\$5 million) and a reduction in employment support services (\$3 million). The administration is also expecting a significant savings associated with the closing of the Adrian Training School and relocating youth in the Maxey Training School to a more efficient facility on the Maxey campus (\$10 million). A number of pilot and non-statewide programs were also recommended for elimination.

A notable increase in the proposed DHS budget relates to spending in support of court-mandated improvements in the child welfare system. The Governor's Executive Budget reflects funding to expand child protective services as well as foster care program and licensing staff. It also recommends additional funding in support of expanded private agency staffing intended to increase the capacity of private agencies to manage adoptive placements.

DEPARTMENT OF COMMUNITY HEALTH

The FY2010 Executive Budget recommendation for the Department of Community Health is primarily a continuation budget. The ARRA, which had not yet been finalized when the Executive Budget was released, was expected to include (and did) maintenance of effort provisions for states to qualify for the enhanced federal matching funds for Medicaid. Due to the anticipated eligibility restrictions in the ARRA, there were no Medicaid eligibility reductions recommended in the Executive Budget. There were, however, numerous "small," when compared with the overall size of the budget, reductions recommended, many of which are penny-wise and pound-foolish. While the program or funding reductions

may achieve short-term savings, their long-term impacts are likely to be costly and in some cases devastating to those who lose services. Revised recommendations, including additional funding from the ARRA, are expected by late March. Hopefully, the ARRA funding will afford the opportunity to reconsider many of the cuts included in the Executive Budget recommendation, while policymakers are given the time to thoughtfully address the Department's budget as well as the state's structural deficit, which requires a comprehensive and permanent reform of Michigan's revenue structure to enable the investment in and continuation of critical public services for Michigan residents.

The Department's recommendation, \$13.0 billion gross, \$2.8 billion general fund, represents nearly 30 percent of the total state budget, and just over 31 percent of the statewide general fund recommendation. The general fund recommendation is actually a \$256 million reduction from current law, reflecting the overall decline in state revenues. The FY2010 budget continues to rely on provider-financing strategies as an alternative to state funds investment.

The largest change in the budget is the increase of \$693 million in federal funds as the result of Michigan's higher federal matching rate (63.19 percent in FY2010), plus a portion (\$484 million) of the federal stimulus funding, reducing general fund need by a like amount. The Executive Budget recognizes projected increases in caseload and utilization for Medicaid, Mental Health Services for Medicaid recipients, Children's Special Health Care Services, MICHild, and the Adult Benefits Waiver. With passage and signing of the State Children's Health Insurance Program (SCHIP) reauthorization act, the Adult Benefits Waiver is allowed to continue through the first quarter (12/31/09) of FY2010. The Department will then be required to apply for a Medicaid waiver to cover this population as the SCHIP legislation prohibits coverage of childless adults after 12/31/09. The Executive Budget also recognizes increases to meet the actuarially sound rate mandate for managed care organizations, both physical and mental health organizations.

The budget also recognizes the impact of replacing the managed care provider tax with a use tax that is not subject to federal provider tax limits. The budget provides funding (\$15.3 million gross, \$6.2 million general fund) for 900 nursing home transitions to community-based services financed with a portion of

the assumed nursing home savings (\$33.5 million gross, \$12.3 million general fund) from reduced nursing home utilization. The Executive Budget also replaces unavailable trust fund (Medicaid Benefits and Merit Award) revenue with general fund totaling \$61.3 million, and recommends changes in the hospital and nursing home provider taxes to provide increased benefit to the state. The Executive Budget assumes passage of a federal law that will allow states to receive pharmaceutical rebates on drugs prescribed for Medicaid recipients by managed care organizations. This proposal has been included in prior years, but the necessary federal legislation has not been passed. The budget also assumes savings for implementation of a preferred provider list for behavioral health drugs (current Medicaid recipients would be exempted) totaling \$18.7 million gross, \$6.9 million general fund.

A small expansion is recommended in the Children's Special Health Care Services for a Medicaid expansion that will provide more comprehensive services to about 4,000 children in families with incomes between 200 and 300 percent of the federal poverty level. This expansion is possible with the inclusion of no new state funds because of the increase in federal Medicaid funds.

As noted above, there are numerous non-Medicaid program and funding reductions recommended in the Executive Budget. One of the most controversial is the closure of the Mt. Pleasant facility for the developmentally disabled by October 2009, and the transfer of the current residents to community placements, the Caro Center, or the Kalamazoo Psychiatric Hospital. Funding for non-Medicaid mental health services is reduced by \$7.6 million general fund, while funding for substance abuse services is reduced by \$.9 million, and funding is eliminated for multi-cultural services, mental health initiatives for older persons, mental health court pilot projects, and respite services. The Executive Budget also recommends the elimination of funding for: Senior Olympics, Indian Tribal Elders Funding, community services for the elderly, AIDS and tobacco risk reduction, the Michigan Essential Health Provider Program, Family Nurse Partnership program, the O-3 Secondary Prevention Program, poison control program, obesity programs, several chronic disease programs, and the Chlamydia and Gnorria programs (added in FY2009) to address that crisis. Funding reductions are also recommended for family planning and pregnancy prevention, and laboratory services.

Administrative changes include the elimination of the Office of Long Term Care Supports and Services and the Office of Drug Control Policy. The functions of these two offices are not eliminated, but will be reintegrated into the Department's structure. Increases to cover the cost of economics for staff are also included; however, the Executive Budget also includes savings from "unspecified concessions" from State employees.

DEPARTMENT OF EDUCATION

The FY2010 Executive Budget recommendation for the Department of Education would have been a continuation budget if the libraries component of the Department of the History, Arts, and Libraries had not been transferred to the Department of Education. The Executive Budget recommended the transfer of the libraries' functions as a component of the elimination of the Department of the History, Arts, and Libraries. This adjustment increased funding in the Department by \$24.8 million gross, \$18.8 million general fund and added 72 staff positions, bringing the Department's total recommended funding to \$120 million gross, \$26.4 million general fund. Staff positions were also recommended to support the 21st Century Schools Program (3 FTEs) and to provide assistance to districts in deficit (1 FTE).

K-12 EDUCATION

The FY2010 Executive Budget for K-12 Education recommends a significant gross reduction, \$415 million, compared with the current law due to projected revenue declines in the School Aid Fund. To achieve the lower level of spending required by the lower revenues, the Governor recommended a \$59 per pupil reduction in the basic foundation allowance. Subsequent to release of the Executive Budget, the ARRA was signed into law and includes a provision that requires funding for K-12 school districts that is distributed through a state formula to be at least at the level provided in FY2009 for the state to be eligible for federal stimulus funds. It is likely that reduction will be restored. Revised recommendations, including additional funding from the ARRA, are expected by late March.

The Executive Budget also recommends reductions in Intermediate School District (ISD) operating funding (\$16.3 million), as well as the elimination of pilot programs and programs which serve single school districts or communities/regions, saving \$50 million.

Examples of program eliminations include: pre-college engineering program, math remediation grants, bilingual education state grants, and transportation grants for small districts. The Executive Budget also recommends the elimination of the \$5 million for the Great Parents, Great Start Intermediate School District funding as well as \$2.1 million for the 0 - 3 Secondary Prevention Program. Adult education funding is reduced by \$4 million, and the funding distribution is changed from a formula to a competitive grants process.

Special education payments are increased by \$40.9 million to reflect the projected number of special education students. Another recommended increase is the district retirement contribution rate for public school employees from 16.54 percent to 16.94 percent.

COMMUNITY COLLEGES

The FY2010 Executive Budget recommendation for Community Colleges holds funding flat at the FY2009 level of \$299.4 million gross. It is recommended that community college operations receive \$292.6 million. \$3.5 million is recommended to reimburse colleges that are impacted by the loss of property tax revenue due to the establishment of Renaissance Zones. The At-Risk Student Success Program maintains funding of \$3.3 million, which has remained flat since FY2008.

The recommendation also includes boilerplate language stating the intent that community colleges receiving federal stimulus dollars not raise tuition or fees for Michigan residents for the 2008-2009 and 2009-2010 academic years.

HIGHER EDUCATION

Overall, the Executive Budget for Higher Education recommends a 6.1 percent general fund reduction and a decrease of 2.3 percent gross over FY2009. The Higher Education Executive recommendation totals \$1.5 billion general fund and \$1.7 billion gross, including the elimination of \$100 million general fund funding. The Governor's recommendation reduces university operations by 3.0 percent across the board and combines two line items for the Michigan State University Cooperative Extension and Agricultural Experiment Station. This consolidation reduces combined funding for both programs by \$32 million general fund, gross.

Of particular note in the Higher Education budget is the recommendation to consolidate funding for Tuition Grants, State Competitive Scholarships, Michigan Education Opportunity Grants, Michigan Work-Study, Adult Part-Time Independent Grants, and the Nursing Scholarship Program into the College Access Grant Program. This program would be need-based and would reduce total funding for need-based aid by \$18.8 million general fund, gross. The Executive Budget also recommends removing all funding for the long-standing King-Chavez-Parks program and a 79 percent increase over FY2009 to the Michigan Promise Grant program (\$59.5 million).

It is expected, however, that many of these eliminations and cuts will be restored with federal stimulus dollars. The Governor's recommendation also includes boilerplate language stating that any universities receiving stimulus money will not increase tuition or fees for Michigan residents for the 2008-2009 and 2009-2010 academic years.

DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH

The FY2010 Executive Budget recommendation for the Department of Energy, Labor and Economic Growth appropriates \$1.4 billion gross, \$74.1 general fund. This represents a 3.9 percent gross and 0.8 percent general fund increase over the original FY2009 appropriation.

The Governor recommends adding 300 FTEs and \$22.6 million gross, federal to the Unemployment Insurance Agency for additional staff and postage costs shifted from the U.S. Department of Labor to the states. The Executive Budget also recommends reducing funding for the Jobs, Education, and Training (JET) program by \$3.0 million gross based on anticipated program savings expected through increased efficiencies in program administration.

DEPARTMENT OF CORRECTIONS

The Executive Budget recommends a reduction of \$120 million in Department of Corrections spending primarily related to the closure of several facilities and the elimination of nearly 4,000 prison beds. The Governor's proposal recommends closing the Deerfield and Scott Correctional facilities and Camp Branch in 2009 and additional facilities in 2010 as several initiatives intended to reduce Michigan's

prison population are implemented. Of particular note in this regard is a recommendation to deploy and monitor 2,800 additional Global Positioning System (GPS) tether units together with the additional parole staff needed to oversee expanded use of this technology in an effort to reduce prison housing costs.

Also included in the Department of Corrections Executive Budget recommendation is a proposal to

significantly expand the community based Michigan Prisoner ReEntry Initiative (MPRI) to provide substance abuse, mental health, employment and other specialized services to prisoners in an effort to improve their prospects for a safe and successful reentry into the community upon release from prison.

mar/LB/2009-#2 March-Budget