

FY 2011 EXECUTIVE BUDGET

Plan Fails to Restore FY10 Cuts, Chops More from Vital Programs

OVERVIEW

Governor Granholm's final budget recommendation comes at a time when unemployment remains high, personal income and state revenues are plummeting and the state is living with a budget that contains deep cuts, which would have been far worse without federal recovery dollars. Those cuts continue on in the governor's budget for fiscal year 2011. Although the cuts may not look as deep in the proposed budget, they come on the heels of years of slashing away at budgets, essentially shredding the safety net.

Faced with a projected budget gap of \$1.5 billion for fiscal year 2011, the Executive Budget recommendation closes the hole by restructuring the sales and use tax and Michigan Business Tax, using federal funds and reducing the budget through cuts and savings. While the proposed budget addresses the expected shortfall in the School Aid Fund, it does not address the ongoing structural deficit the state faces, in part because much of the revenue from the sales tax restructuring will be used to offset lower business taxes over the next several years.

Under Governor Granholm's proposed budget, the sales and use tax would be reduced from 6 percent to 5.5 percent and would be expanded to include almost all consumer services and some business-to-business taxes, effective December 1, 2010. The projected net revenue increase of \$554 million would be applied to the School Aid Fund, eliminating the shortfall in that budget. The Michigan Business Tax surcharge would be phased out over a two-year period, with a 50 percent reduction beginning on January 1, 2011 (resulting in a \$171 million revenue reduction) and complete elimination on January 1, 2012. The Michigan Business Tax's gross receipts tax rate would be reduced from 0.8 percent to 0.7 percent on January 1, 2012 and would be

further reduced to 0.6 percent on January 1, 2013. These changes would effectively amount to a \$2.6 billion tax cut over the next four years.

Although most of the state's American Recovery and Reinvestment Act (ARRA) money has been used already to fill holes in prior budgets, the Executive Budget proposal does rely on recovery money. The budget assumes that the state will receive an additional \$722 million through an increase in the Federal Medical Assistance Percentage (FMAP) rate. This would constitute three-quarters of assistance; however, only the first quarter is guaranteed. Second- and third-quarter funding is currently pending before Congress. In addition, there is \$184 million of remaining recovery act money for the School Aid Fund for fiscal year 2011.

Budget reductions in the amount of \$566 million are included in the Executive Budget. Almost \$80 million in cuts are proposed for the Department of Community Health and the Department of Human Services combined. The Department of Corrections is slated to be cut \$140 million, in conjunction with reforms reducing the state's prison population. The reductions also include \$133 million, which would be replaced with a 3 percent tax on physician services gross revenues, some of which would be used to match federal Medicaid funding. The proposed budget also relies on changes to state employee retirement and other benefits to produce \$116 million in savings. These cuts come after years of budget cutting, including over \$1 billion in cuts made in the last year alone.

What follows is a more detailed analysis of several key budgets. The League will continue to monitor and provide analysis on these budgets as the Legislature takes action on them in the coming months.

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DEPARTMENT OF HUMAN SERVICES

Governor Granholm's Executive Budget recommendation for the Department of Human Services totals \$7 billion gross, \$959.2 million general fund. This represents 15 percent of the recommended state gross budget and 12 percent of the statewide general fund recommendation. Overall, the executive FY2011 recommendation is a \$1.1 billion gross increase, (18.4%) and a \$106.9 million, (12.5%) general fund increase from FY2010.

Spending in the executive recommendation breaks down in the following manner:

- Food Assistance: 51 percent
- Income Assistance: 14 percent
- Children's Services: 12 percent
- Field Staff and Administration: 10 percent
- Central Administration: 7 percent
- Other Services: 6 percent

Caseload Adjustments

The executive recommendation includes a \$673.5 million (19%) gross and \$51.5 million (37.3%) general fund appropriation increase for public assistance caseloads. It includes:

- A \$630 million gross, all federal, increase for an average projected caseload of 1,029,000 in the Food Assistance Program (FAP).
- A \$56.5 million gross and general fund increase in the Family Independence Program (FIP), the state's cash assistance program. This reflects an estimated caseload increase of 11,000 to 85,000.
- A \$3.4 million gross and general fund increase for State Disability Assistance (SDA) program for a continuation caseload of approximately 11,000. The funding increase is due primarily to higher than projected monthly costs.
- An increase of 8,500 Supplemental Security Income (SSI) cases to a projected caseload of 241,700 cases. While the caseload is projected to increase, the average monthly benefit is projected to be lower, offsetting the caseload increase, and resulting in savings of \$580,000 gross and general fund.
- A decline of 1,100 Child Development and Care cases to a projected caseload of 33,000 cases, resulting in savings of \$15.7 million gross, \$7.7 million general fund.

The Executive Budget includes a \$16.7 million gross (2.6%) reduction and a \$9.1 million (3.7%) general fund increase for child welfare caseload changes. Specific program changes include:

- Foster Care caseloads are projected to decline by 660 cases to approximately 7,420 children in out-of-home care. This results in a savings of \$20.1 million gross.
- The Adoption Subsidy caseload is expected to decline by 250 cases to approximately 28,000 cases, resulting in an estimated savings of \$5.7 million gross, \$1 million general fund.
- The Child Care Fund is projected to increase by \$9.1 million gross, or 4.1 percent, due to projected program and cost increases.

Staffing Changes

The governor's recommendation also includes a net increase of approximately 850 full-time equivalent staff positions (FTEs), for a staffing increase of just over 7 percent. Of these, 495 new positions would be created at a cost of \$15.5 million gross, \$11.8 million general fund for child welfare improvements due to the Children's Right's lawsuit. The recommended staffing increases are: 228 foster care workers, 96 first-line supervisors, 87 child protective services workers, 45 administrative support staff, 25 adoption workers, 10 second-line supervisors, and four technical staff.

The remaining staff, not related to the lawsuit, are recommended to be distributed in the following manner:

- 197 field staff at a full-year cost of \$15.4 million gross, \$9.6 million general fund. The general fund financing is based on freed-up general funds from FIP, which are replaced with assumed one-time Emergency Temporary Assistance for Needy Families (TANF) Contingency Fund dollars. Also financed with the above-mentioned freed-up general fund are the 200 limited-term eligibility staff added in FY2010. These positions were initially funded with one-time federal stimulus funds, which had to be replaced to maintain these staff. \$4.2 million general fund is provided for this purpose.
- Three administrative staff for Weatherization Programs and the Community Services Block Grant using federal funding.
- 175 FTEs for disability determination at a cost of \$21.8 million gross and federal to address the

backlog of individuals waiting for final determination.

- Seven for SSI advocacy, to help State Disability Assistance (SDA) recipients qualify for the federally funded SSI program. These staff are expected to generate \$2 million in SDA program savings as well as \$3.3 million in increased SSI recoveries for prior SDA payments.

The governor has recommended staffing reductions in the food stamp reinvestment line item, as the state is now in compliance with the federal food assistance error rate thresholds. Staff are reduced by 29 FTEs and the remaining 2.8 FTEs are transferred to local office field staffing.

Food Assistance

In addition to the recommended \$630 million gross adjustment to FAP due to projected caseload increases, the governor has recommended an additional \$266.3 million gross using federal Low-Income Home Energy Assistance Program (LIHEAP) funds to increase FAP benefits for those not eligible to claim the standard utility allowance, to recognize increased energy needs. This increase will provide approximately \$88 per month in additional benefits. This increase brings the total recommended increase for FAP to \$896.3 million gross and federal. The total recommendation for FAP is \$3.6 billion gross and federal for FY2011.

It is worth noting that the governor proposed an increase in federal funding for food assistance administration of \$9.4 million. While nearly \$19 million of additional federal funding is recognized, half of it (\$9.4 million) is used to offset general fund.

Emergency TANF Contingency Funding

The executive recommendation assumes \$280.4 million in one-time TANF funds will be available, \$232.6 million of Emergency TANF Contingency funds (ETCF) and estimated carry-forward revenue from prior years. A portion of these funds will be used in FY2010. The remaining funds will be used in FIP and Jobs, Education and Training (JET) Plus and other programs as follows:

- The majority of the ETCF will be used to fund FIP, using \$186.2 million to replace regular TANF carry-forward, which is exhausted, in lieu of adding \$186.2 million in general fund to maintain the program. This results in \$16.6 million general fund being directed to other DHS programs, such as new field staff (discussed above), and

approximately \$170 million general fund savings.

- Funding for the Jobs, Education and Training (JET) Plus program in the amount of \$20 million gross. The governor has requested \$13 million ETCF in FY2010 for the program in a supplemental request and \$20 million ETCF for FY2011.
- A recommended increase of \$5.7 million gross, \$4.1 million general to cover increased rent costs and facility maintenance. The general funds are available through the use of ETCF in the FIP line item.
- General fund savings of \$2.8 million from ETCF used in FIP will also be redirected for increased postage and printing costs related to higher caseloads and the Bridges system, for a total increase of \$4.4 million.

Child Welfare

Along with staffing increases related to the Children's Rights lawsuit, the Executive Budget recommends \$16 million gross, \$4.4 million general fund for additional child welfare improvements. Highlights include the governor's recommendation for \$10.5 million gross for technology upgrades and \$7.2 million gross to extend foster care, adoption, and guardianship benefits to age 20. The governor also recommends an increase of \$5.9 million in one-time federal funds for Strong Families/Safe Children, which would restore funding cut in FY2010.

The Executive Budget also recommends an \$8.4 million gross, \$4.2 million general fund decrease for private child welfare agencies. Gross savings of \$3.9 million would result from not implementing a \$7-a-day increase to private child caring institutions and \$2.5 million gross by eliminating incentive payments to private child-placing agencies to help license relative foster homes. The remaining \$2 million gross savings would be obtained by decreasing the administrative rate for specialized and general independent living.

Additionally, it is recommended that \$4.2 million gross in program savings be obtained through the use of private adoption agencies. Another \$3.6 million gross is projected to be saved by reducing the number of children in residential placement by requesting more in-home mental health waivers.

Funding is also continued for the Zero to Three program at the same level as FY2010. It is recom-

mended however, that the program be restructured to focus on families with high need in urban areas.

Employee-Related Economics

The Executive Recommendation includes \$45.9 million gross, \$15 million general fund for FY2011 employee economic adjustments, including a 3 percent wage increase and adjustments for retirement, insurance and worker's compensation costs. The recommendation includes funds to cover the 3 percent salary increase for non-represented employees that have since been rejected by the Civil Service Commission.

Other budget recommendations include:

Increases:

- Increased federal funding (in addition to staffing mentioned above) for Weatherization programs (\$9 million), the Community Services Block Grant (\$1.4 million), and services to refugees (\$6.5 million).
- Increased funding for the Child Care fund of \$1.2 million gross by offsetting \$7.6 million general fund with federal TANF funds that were removed from the Welfare-to-Work item in the Department of Energy, Labor and Economic Growth's (DELEG) budget.
- Adds \$1 million gross for child advocacy centers. This funding increase recognizes Public Act 544 of 2008 which supports child advocacy centers throughout the state.

Reductions:

- Recognizes approximately \$1.9 million gross in savings from the closures of the Nokomis Challenge Center and the community justice centers.
- Elimination of funding totaling \$1.7 million gross, \$916,500 general fund for the following programs: University of Detroit Mercy Legal Services, Michigan State University Kinship Care, and the Barry County domestic violence shelter. In addition, contracts related to child support automation and volunteer services reimbursement has also been reduced.

DEPARTMENT OF COMMUNITY HEALTH

The governor's FY2011 budget recommends total funding for the Department of Community Health of \$14.3 billion, of which \$2 billion is general fund. This represents 30.8 percent of the total state budget and 25.2 percent of the statewide general

fund recommendation. Medicaid represents over 90 percent of the Department's budget. The FY2011 recommendation reflects a \$1.3 billion gross increase over the current FY2010 funding, but nearly a \$.3 billion general fund reduction.

Looking back, the FY2011 Executive Recommendation reflects a nearly \$3 billion gross increase over the FY2008 recommendation, but a \$1 billion general fund reduction, one-third of the general fund recommended in FY2008. The ongoing gross increases are funded primarily with federal funds (some one-time, federal recovery funds), increased provider taxes, and one-time revenues, which have supplanted or reduced the state's general fund commitment. During this same period, the number of Medicaid eligibles has increased from 1,559,400 in FY2008 to a projected 1,754,000 in FY2011.

The Executive Budget assumes continuation of the very difficult, *harmful* reductions in the FY2010 budget including:

- The elimination of many Medicaid services for adults.
- The 8 percent provider rate reduction.
- Cuts to public health and mental health services.
- Cuts to programs for the aging.
- Cuts to services for children in the Children's Special Health Care Services program, as well as increased parent participation costs.

The FY2011 Executive Budget recommends not only additional cuts to the above areas, but also new program reductions and eliminations.

As constrained as this budget recommendation is, it is predicated on the passage of a 3 percent physician provider tax to generate total revenue of \$300 million. A portion of the revenue (about \$100 million) would be retained by the state to offset general fund; the remainder (about \$200 million) would be used to finance a physician rate increase (over \$700 million in new payments) that would provide a net benefit of over \$400 million to the physician community (\$700 million increased payments less \$300 provider tax). If the physician tax is not passed, the budget includes boilerplate language requiring provider rate cuts sufficient to achieve the budgeted general fund savings. The estimated percentage reduction required would be about 11 percent, and this is on top of the current 8 percent reduction in provider payments. If the department must achieve the \$100 million savings through provider payment

reductions, more than \$300 million in cuts will be required, and the state will lose \$200 million in federal funding (at the regular matching percentage). At the enhanced matching rate, more than \$400 million in program cuts would be required to achieve general fund savings of \$100 million, while losing \$300 million in federal funds.

It is worth noting that in both FY2009 and FY2010, the hospital and nursing home providers voluntarily increased their provider taxes to offset the impact and restore the FY2009 4 percent provider rate cut, and the additional 4 percent cut implemented in FY2010.

Based on anticipated Congressional action, the governor's budget assumes the enhanced Recovery Act federal matching rate for Medicaid will be continued for an additional two quarters in FY2011. The original Recovery Act provisions are scheduled to expire on December 31, 2010, providing only one quarter of enhanced match for FY2011. The House has passed a six-month extension and the President's budget also includes the six-month extension. The estimated benefit to Michigan of the extension is over \$500 million.

Another key revenue source included in the Executive Budget is a federal Medicaid payment of \$160 million for a retroactive adjustment in the state's matching funds calculation from the period impacted by the large, one-time General Motors payment to its pension fund. The Children's Health Insurance Program Reauthorization Act (CHIPRA) legislation, signed into law in February 2009, included language that removed that one-time payment from the state's personal income calculation, a key component of the Federal Medical Assistance Percentage (FMAP) calculation.

With the elimination of the Promise Grants in FY2010, the Merit Award Trust Fund has a significant balance. The governor recommended using \$126.3 million in Trust Fund revenues to offset general fund in Medicaid.

The Executive Budget assumes continued transitions from nursing homes to the Home and Community Based Waiver saving \$19.7 million gross, \$5.3 million general fund from the transition of 300 nursing home residents for the full year.

Other highlights of the Executive Budget recommendation include:

Caseload and Utilization Increases

- The Executive Budget includes increases of \$142 million gross, \$47.8 million general fund to recognize caseload growth and medical care utilization in Medicaid, MICHild, Children's Special Health Care Services, Mental Health/Substance Abuse, the Adult Benefits Waiver, and the Federal Medicare Prescription Program. The monthly average number of persons eligible for Medicaid is projected to be 1,754,000, which may be somewhat optimistic since the number of eligibles reported in the Department of Human Services' Trend Report in January 2010 is 1,829,200.
- Recommended funding for the Women, Infants, and Children (WIC) Food Program is increased by \$21 million to recognize continued increases in program participation.
- Due to the reduction in federal match (from the SCHIP to the regular Medicaid match) with the projected loss of \$41 million in federal revenue, the Adult Benefits Waiver is budgeted at a reduced caseload of 50,900, from its prior level of 62,000. Enrollment in the program is currently closed, and is likely to remain closed for the foreseeable future.

Actuarially Sound Rates for Health Maintenance Organizations/Managed Care Plans

Funding of \$73.7 million gross, \$25.2 million general fund is recommended to meet the federal requirement that rates paid to health maintenance organizations (HMOs)/managed care plans must be actuarially sound. The same federal requirements apply to mental health managed care organizations, and the Executive Budget recommends the addition of \$59.5 million gross, \$20.3 million general fund to meet this requirement.

Federal Medical Assistance Percentage (FMAP)

The regular FMAP will increase from 63.19 percent in FY2010 to 65.79 percent in FY2011, while the SCHIP matching rate will increase from 74.23 percent in FY2010 to 76.05 percent in FY2011, increasing federal revenue and correspondingly reducing the general fund need by \$225 million. With a regular federal match rate of nearly 66 percent, the state would be well served programmatically and economically to take full advantage, and not leave millions of federal funds in Washington. With the

state's SCHIP match exceeding 76 percent, the state can purchase \$1 of children's health care for less than a quarter, and not leave federal funds in Washington.

Reduction Initiatives

The Executive Budget recommends the elimination or reduction of numerous Community Health programs.

Program eliminations include:

- State Disability Assistance (SDA) Substance Abuse Program which provides a room and board payment for SDA recipients in substance abuse residential facilities, saving \$2.2 million gross and general fund.
- Transitional Medical Assistance (TMA) Plus Program which provides a state-funded medical benefit, with sliding scale premiums, to adults in families with incomes up to 185 percent of the federal poverty level who are unable to purchase employer-sponsored health care, and have completed their 12 months of TMA eligibility, saving \$3.7 million gross and general fund.
- Coverage of human growth hormone treatment for non-Medicaid eligible children in the Children's Special Health Care Services program, saving \$2 million gross and general fund.
- Criminal History Check program funding is eliminated saving \$2.1 million gross, \$1.7 million general fund. Responsibility for the cost of background checks for direct care workers at adult foster care facilities and homes for the aged will be transferred to the facilities.

Program restrictions or reductions include:

- A recommended enrollment freeze in the Home and Community-Based Services Habilitation/Supports Waiver for the developmentally disabled (caseload reduction of 300) saving \$8.6 million gross, \$2.3 million general fund.
- Community Mental Health non-Medicaid funding is reduced by \$3.8 million gross and general fund, a 13 percent reduction—this is on top of the \$40 million reduction in FY2010.
- The elimination of the 25 cent per prescription Medicaid pharmacy dispensing fee increase included in the FY2010 budget, saving \$1.3 million gross, \$.5 million general fund.
- Substance abuse funding is reduced by \$1.6 million gross and general fund, a 12 percent

reduction, adding to the \$1.9 million reduction in FY2010.

- Local public health operations funding is reduced by \$2.7 million gross and general fund, adding to the \$.5 million reduction in FY2010. In addition, funding for public health laboratory services is reduced by \$1.3 million resulting in the closure of the Houghton laboratory and elimination of certain testing services.
- Services to the aging program funding is reduced by \$2.4 million gross and general fund, adding to the \$5.1 million reduction in FY2010.
- Multicultural Services funding is reduced by \$1.4 million gross and general fund.

Employee-Related Economics

The Executive Budget includes \$31.9 million gross, \$13.9 million general fund for FY2011 employee economics, including salary and wage increases, health insurance and retirement, and building occupancy cost increases. Those amounts do not reflect the potential savings from the proposed change to retirement and health care benefits, or the Civil Service action to reject the 3 percent pay increase for certain non-represented employees.

Office of Health Services Inspector General

The Executive Budget recommends the creation of a new office to identify and recover Medicaid waste and fraud. In addition to the inspector general, five full-time equivalent staff positions are recommended.

There are numerous other changes included in the budget as well as boilerplate changes not detailed in this document. Additional detail is available from the House Fiscal Agency website:

<http://www.house.mi.gov/hfa>

DEPARTMENT OF EDUCATION

The governor's budget recommends total funding for the Department of Education of \$131.3 million, of which \$20 million is general fund. This recommendation represents a significant increase from the FY2010 appropriation, mostly attributable to the anticipated award of a federal Race to the Top reform grant.

Note: The state was notified in March 2010 that it did not receive a federal Race to the Top grant award. The governor said the state will apply again.

Highlights of the FY2011 Executive Budget recommendation include:

- An increase of 14 staff and \$17 million gross and federal for an anticipated Race to the Top grant award to implement education reform changes including assessments to measure student knowledge growth from grade to grade, correlation of student achievement to individual teachers, creation of an alternative teacher certification process.
- An increase of 13 staff and \$1.7 million gross and general fund to implement additional education reform activities required in the state's education reform package that are not eligible for federal Race to the Top funding. These activities include the functions of the school reform/redesign officer, oversight of the new schools of excellence, and claims processing staff.
- An increase of \$.5 million to recognize the transfer of the educational components of the Office of Drug Control Policy from the Department of Community Health, pursuant to Executive Order 2009-42.
- Funding reductions for the State Library pursuant to Executive Orders 2009-36 and 2009-43, totaling \$1.1 million gross and general fund.
- Funding for local libraries is reduced by \$150,000 gross and general fund, and funding for book distribution centers is eliminated, saving \$200,000 gross and general fund.
- Economic adjustments totaling \$2.5 million gross, \$.4 million general fund are recommended.

SCHOOL AID (K-12) EDUCATION

The governor's FY2011 budget recommends a total of \$12.9 billion for the K-12 School Aid budget, of which \$11 billion are state (school aid) funds, an increase of about \$40 million over the current FY2010 appropriation. This budget is basically a continuation recommendation from FY2010. Schools also receive state general fund and federal funds which total about \$1.9 billion.

A School Aid continuation budget means that the reductions included in the FY2010 budget are retained and continued in FY2011. Among these cuts are:

- The \$165 per pupil reduction.
- The 50 percent reduction (\$7.6 million) in non-school Great Start Readiness program competitive grants.
- The 20 percent reduction (\$16.3 million) in intermediate school district operations.
- The 25 percent reduction (\$1.2 million) in adolescent health center funding.
- The 8 percent reduction (\$2 million) in adult education funding.
- Continued elimination (\$2.1 million) of school aid funding for the 0-3 Secondary Prevention program.
- continued elimination of the discretionary payments (\$51.4 million) to districts with high foundation allowances.

The Executive Budget recommendation for the School Aid Fund is predicated on the passage of a sales tax expansion to most services, but at a lower rate (5.5 percent) than the current sales tax rate of 6 percent. All new revenue from this expansion, estimated at \$554 million, would be earmarked to the School Aid Fund. If this revenue proposal is not enacted, the School Aid Fund recommendation will have to be dramatically reduced, and would result in an estimated additional reduction of \$255 per pupil.

The Executive Budget recommends use of the remaining federal American Recovery and Reinvestment Act (ARRA) funding of \$184.3 million, and replacing with school aid funds the \$266 million in federal ARRA funds built into the FY2010 budget that are no longer available.

The Executive Budget includes major changes in the Michigan Public School Employee Retirement System. Without any change, the retirement rate is projected to increase from 17 percent to 19 percent, an estimated \$150 per pupil. The retirement reforms, if enacted, could reduce that increase substantially. Following are the reforms included in the Executive Budget recommendation:

- Increase the employee contribution rate effective July 1, 2010 by 3 percent, except for those employees hired after July 1, 2008. Their increase would be .9 percent because they already pay a higher contribution rate.
- Eliminate vision and dental benefits for employees who retire after September 1, 2010.

- Increase the retirement benefit multiplier from 1.5 percent to 1.6 percent for employees who retire before September 1, 2010.
- Cap service years at 30, and transfer employees to a defined contribution plan for years in excess of 30, effective September 1, 2010.
- Create a hybrid pension/defined contribution plan for employees hired on or after September 1, 2010.

The Executive Budget continues to call for consolidation plans and efforts to implement more cost-effective methods for providing administrative services and transportation.

Other changes in the School Aid Executive Budget recommendation include:

- A \$1 million reduction in funding for educational services for students in Department of Human Services' juvenile justice facilities due to the closure of facilities and decline in student population.
- Partial restoration of funding for school bus inspections. New funding, \$.5 million, would support staff in Michigan State Police to provide random audits; responsibility for the inspections would be transferred to the local school districts.
- Increased funding of nearly \$5 million, mostly federal, for the Center for Education Performance and Information (CEPI) in anticipated federal grants to support the Race to the Top education reforms.

There are numerous other changes included in the budget as well as boilerplate changes not detailed in this document. Additional detail is available from the House Fiscal Agency website:

<http://www.house.mi.gov/hfa>

COMMUNITY COLLEGES

The Executive Budget recommendation for Community Colleges is a continuation budget from FY2010 with a recommended FY2011 appropriation of \$299.1 million gross, general fund. As enrollment at Michigan's 28 community colleges soars, the executive recommendation maintains Community College Operations funding at the same level as FY2009 and FY2010 of \$292.6 million general fund, gross. Funding for the At-Risk Student Success Program is maintained at FY2010 levels of \$3.2 million general fund, gross.

A 7.5 percent reduction to \$3.3 million for Renaissance Zone reimbursement payments to colleges that lose property tax revenue due to being located in a Renaissance Zones is recommended.

HIGHER EDUCATION

The governor's recommended FY 2011 appropriation for Michigan's 15 public universities totals \$1.6 billion gross, \$1.5 million general fund. This represents a 2.4 percent general fund increase over FY2010, but a 2.1 percent gross decrease. Significant recommendations include:

Financial Aid

After eliminating the Michigan Work Study program, the Part-Time Independent Student Grants, the Education Opportunity Grants, and the Nursing Scholarship in the FY2010 budget for a reduction of \$59.2 million gross and \$55 million general fund, the governor, for FY2011, has recommended an additional 38.9 percent reduction to financial aid programs, including:

- Elimination of the Tuition Grant Program, saving \$31.7 million gross and general fund. This program is a needs-based aid program for students attending any independent college or university in Michigan. The elimination of this program is expected to impact an estimated 15,000 students.
- Restricting the Tuition Incentive Program (TIP) to the cost associated with receiving an associate's degree and limiting reimbursed tuition costs to the average community college tuition rate. Currently, Medicaid-eligible students can qualify for two phases of the program. The first phase provides tuition reimbursement rates based upon the tuition rate of the school attended for an associate's degree. Phase two pays up to \$500 per semester towards the cost of a bachelor's degree, up to \$2,000. The recommended elimination of the second phase of the program and restriction of reimbursed tuition costs to the average cost of an associate's degree at community colleges are expected to reduce program costs by \$1.1 million gross, general fund. In FY2009, a total of 13,957 students received TIP awards. Of that 8.5 percent, or 1,188 were enrolled in the baccalaureate phase of the program
- Reduced funding of \$1.4 million for the combination need/merit-based State Competitive

Scholarship Program is due to a loss of federal funds caused by reduced FY2010 state spending in need-based financial aid programs.

The governor also recommends the restoration of the Michigan Promise Scholarship which was eliminated in the FY2010 budget. The recommendation restructures the program to be an income tax credit for students who attend a Michigan college or university and subsequently obtain employment in Michigan after graduation.

Funding for the King-Chavez-Parks program, Project GEAR-UP, and the Robert C. Byrd Honors Scholarship program are maintained at FY2010 levels.

University Operations

The Executive Budget recommends that funding for University Operations be maintained at the FY2010 level of \$1.5 billion gross. The governor recommended that \$40.5 million in FY2010 Recovery Act funds be replaced with general fund, bringing the FY2011 general fund recommendation to \$1.4 billion.

Cooperative Extension Service

The recommended funding for the Cooperative Extension Service is maintained at the FY2010 level of \$29.5 million gross. The general fund recommendation for the Cooperative Extension Service appropriation would increase by \$11.7 million to \$17.8 million to replace one-time FY2010 Recovery Act funds.

DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH

The governor's FY2011 recommendation for the Department of Energy, Labor, and Economic Growth totals \$1.5 billion gross, \$45.4 million general fund and 4,701 full-time equivalent staff positions (FTEs). This represents a reduction of 38 FTEs, a \$9 million or 17 percent general fund reduction, but a gross increase of \$30.4 million, or 2.3 percent over FY2010. Recommendations of significance include:

Workforce Development Programs

- The Executive Budget recommends elimination of the remaining \$4.5 million of general fund dollars to the No Worker Left Behind (NWLB)

program. The program would continue to receive federal, non-ARRA, funding which has totaled approximately \$120 million over the last three years.

- The Executive Budget also recommends a reduction of \$15.4 million gross and removal of 57 FTEs from the Jobs, Education, and Training (JET) program. This reduction in funding would effectively remove the section of the program DELEG oversees that refers JET participants to the Michigan Rehabilitation Service (MRS) if it is determined that a JET participant needs vocational rehabilitation before being ready for work. Eliminating this funding would eliminate this part of the program.
- Funding for Welfare-to-Work programs decreased by \$10.2 million gross, \$2.6 million general fund. Welfare-to-Work programs are designed to educate and train individuals who are required to work while receiving cash assistance and to ensure they receive adequate training to continue to work once assistance payments have ended.

Other recommendations of note include:

- The remaining \$300,000 in general fund used to fund the Michigan Nursing Corp program would be eliminated. The program would be funded at \$5 million gross through federal Workforce Investment Act funding.
- The Housing Choice Voucher (Section 8) program would have funding increased by \$10.9 million gross to \$166.9 million as program participation has been on the rise.

While there is a gross increase in funding for DELEG, the program reductions come at a time when Michigan should be investing in its workforce programs that help train and retrain its residents as Michigan continues to lead the country in unemployment. As of January 2010, nearly 117,000 people have enrolled in the NWLB program.

In addition, eliminating funding for JET to refer clients to the MRS will leave thousands of Michigan residents who need vocational rehabilitative services without them. In FY2009, MRS received 1,802 applications for new service and 3,721 new consultation requests from the JET program.

DEPARTMENT OF CORRECTIONS

Michigan's focus on increasing public safety by improving prisoner preparation for parole and return home and working cooperatively to expand local sanctions has resulted in a prison population reduction of over 4,000 inmates since 2002. This trend in downsizing the prison population follows a decade in which the prison population in the state of Michigan grew by over 45 percent, while the population of the state grew by 7 percent. As the population grew, so too did the operating costs. The governor's FY 2011 budget recommendation seeks to further reduce the prison population and thus reduce the substantial burden of the corrections system on the state budget.

The Executive Budget recommendation for the Department of Corrections totals nearly \$2 billion. The proposal includes a \$10.3 million increase for prisoner health care costs, \$12.3 million to reinstate the Community Jail Reimbursement Program, \$3.2 million for an addition 40 parole/probation officers,

\$1.2 million in additional funding for community corrections grants, \$29.9 million to operate the Muskegon Correctional Facility in anticipation of a contract to house offenders from the state of Pennsylvania, and \$86.8 million in economic adjustments (increases for salary, insurances, retirement, workers compensation, food and fuel).

In addition, the budget proposal includes \$129 million in net savings that are dependent on passage of proposed legislation to re-establish good time credits and reinstate the Community Residential Program. The combined policy changes would result in a reduction of approximately 7,500 prisoners within four to six months after the enactment date and the closure of four to five prisons, yielding \$187 million in gross savings. However, the changes would require reinvestment of \$58 million to maintain public safety through additional parole and electronic monitoring resources, along with reintegration services to ensure a seamless and successful re-entry of offenders into the community.