Michigan League for Human Services

October 2005

After Prolonged Debate, FY2006 Budget Adopted With Few Significant Cuts to Human Services Programs. Michigan s'Ongoing Structural Deficit, However, Remains Unresolved.

On September 9th, just three weeks prior to the start of the new fiscal year, the Governor and Legislative leadership reached a target agreement for the FY2006 budget that resolved an estimated $770 million shortfall by recognizing over $430 million in additional revenues and approximately $340 million in program reductions. The final agreement was in significant contrast to the appropriations bills approved by the House and Senate, which relied primarily on cuts to human services programs rather than additional revenues to close the projected funding gap. The most significant of the reductions not ultimately adopted by the Department of Human Services Conference Committee were House recommendations to reduce the public assistance cash grant by $50 (approximately 11 percent) and to institute a 48 month time limit on the receipt of cash assistance. In the Department of Community Health Conference Committee, conferees rejected proposals by both the House and Senate Appropriations Committees to institute a $5 per person monthly premium for Medicaid health care coverage. While the removal of these changes from the final budget was encouraging, it should be noted that legislative leadership has expressed its intent to review Public deficit that has plagued Michigan's budget for six consecutive years has been resolved. For FY2007, the MLHS estimates a general fund shortfall of at least $325 million related primarily to the one-time nature of a portion of newly assumed revenues and the continued rapid growth of health care costs. Similarly, K-12 Education costs are projected to exceed supporting state revenues by at least $200 million due primarily to the growth of staff and retiree health care costs. It should be noted that, to the extent state revenues are adversely affected by a slowdown in the economy, the outcome of the Single Business Tax reform debate, a decrease in federal funding for state operated programs or the institution of a spending Act 280 (the Social Welfare Act) over the next few weeks, and that some of these proposals may be revisited in that context. In the meantime, the Department of Human Services Conference Committee approved Boilerplate Section 679, which directs the department to implement pilot projects in at least four shelter areas of the state by January 1, 2006 for the purpose of developing recommendations for reducing the number of recipients receiving cash assistance for more than 48 months. The pilot is also intended to reflect any changes to the Social Welfare Act regarding deferrals from work requirements and sanctions for noncompliance enacted in conjunction with the legislature's upcoming review.

An initial review of the FY2006 budget suggests that while a portion of the assumed additional revenue is unlikely to materialize, much of the seemingly chronic under-funding of Medicaid appears to have been addressed through a 16.6 percent increase in general fund support for DCH—about half related to caseload and utilization increases and half related to the replacement of special federal funds and the redirection of Tobacco Tax revenue to the general fund. This does not imply, however, that the structural limitation proposal such as TABOR (the inflation plus population growth limit instituted in Colorado), the structural deficit for FY2007 could be significantly worse. For a detailed discussion of the likely magnitude of Michigan's structural deficit over the next decade, its causes, and its long-term implications, see the League publication: Michigan's Ongoing Fiscal Crisis, available at www.Milhs.org.

The following tables and narrative summarize the highlights of changes to the budgets of those departments focusing primarily on the delivery of human services. They reflect the enrolled budget bills approved by the appropriations Conference Commit-

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tees, adjusted for vetoes by the Governor. In total, the approved FY2006 budget reflects a 4.1 percent ($354.2 million) general fund increase over the prior year appropriation base. It does not, however, reflect funding for the negotiated 1.5 percent salary and wage cost-of-living adjustment intended to be addressed at least in part by the continuation of the hiring freeze instituted in FY2004.

Department of Human Services

Fiscal Year 2005-2006 Budget Summary

(in millions)

	Original FY2005 Appropriation	FY2005 YTD Adjust-ments	FY2006 Governor's Recom-mendation	FY2006 House	FY2006 Senate	FY2006[1] Appropri-ations Act (P.A. 147)	FY2006 % Change From Original FY2005
Gross Appropriations	$4,291.5	$137.4	$4,429.0	$4,249.9	$4,374.5	$4,428.0	+ 3.2%
General Fund	$1,109.7	($3.1)	$1,106.6	$1,028.4	$1,076.3	$1,081.3	- 2.6%
Staff Positions	*10,302 FTEs*					*10,286 FTEs*	

[1]The Governor signed the DHS budget bill after vetoing $50,000 for the Muskegon and Kent County food stamp error rate project.

Source of data except appropriations act figures: House and Senate Fiscal Agency Conference Committee Summary Reports.

Family Independence Program (FIP) — Rejecting House recommendations to reduce the public assistance grant by $50 per month (approximately 11 percent) and to limit eligibility to 48 months, the Conference Committee recognized an average monthly FIP caseload of 78,000 at an assumed average monthly cost per case of $419. While the budgeted caseload represents a 1,000 case increase over FY2005, it is 500 cases below the Executive Budget recommendation of 78,500.

As has been noted in previous budget summaries, the FIP cash grant has received no adjustments in recognition of inflation since 1993 for those households with a work participation requirement, and only minor adjustments for those who are excluded from work participation. As a consequence, FIP households have seen the purchasing power of their grants decline by over one-third since 1993. This erosion of the FIP grant occurred during a period when inflation adjusted household income in Michigan rose on average by approximately 25 percent. While federal initiatives such as the Earned Income Tax Credit have, in recent years, offset a portion of inflation-related losses for low-income households with earned income who filed a claim, they did nothing to offset losses due to inflation for FIP households without earnings.

The Conference Committee added $317,500 to fund an increase in the annual child clothing allowance. While it is up to the department to determine the actual clothing allowance prior to its August issuance, it is anticipated that it will increase from $45 in FY2005 to $47.50 in FY2006.

Food Assistance Program — The FY2006 budget reflects the administration's recommendation to add $119.3 million to the original FY2005 budget base for this federally funded program line-item in recognition of continuing rapid caseload growth. The approved FY2006 budget recognizes an average monthly caseload of 526,800, an increase of 13,700 cases over the FY2005 appropriation, at an average monthly cost of $192.79 per household. The nearly 11 percent increase in the Food Assistance Program line-item appropriation accounts for over 85 percent of the growth in the Department of Human Services budget from FY2005 to FY2006.

Emergency Services — The Conference Committee adopted the Executive Budget recommendation to continue funding for local office emergency services, homeless shelter contracts and multicultural assimilation at the levels appropriated in FY2005, and to reduce the indigent burial rate by 4 percent for a savings of $246,200.

Day Care —The Conference Committee did not adopt a proposed 30-Day Wait Period subsequent to public assistance eligibility determination for Day Care benefits to begin. The Conference Committee did, however, reflect annualized savings of $11 million related to a FY2005 decision (Executive Order 2005-3) to end retroactive coverage for Child Day Care applicants effective April 18, 2005. The budget agreement also included a $9.5 million reduction related to a lower average monthly Day Care caseload of 69,500 and increased error and fraud detection efforts, an increase of $6.1 million in federal funding for quality incentive programs, and the restoration of $3.3 million for Before and After School Programs.

State Disability Assistance (SDA) —The Conference Committee adopted an average monthly SDA caseload of 12,100, a 5 percent (700 case) increase over FY2005. The Conference Committee also chose to assume the state would recoup $4.83 million in SDA grant payments from recipients subsequently found eligible for retroactive SSI benefits per repay agreements signed at eligibility determination. Of this amount, the Conference Committee appropriated $833,300 to fund 10 additional positions to serve as SSI advocates for this population, and used the assumed $4 million balance to replace a portion of the general fund supporting this line-item. The assumed first year savings, equivalent to the annual average cost of approximately 1,600 cases, appears optimistic.

Low-Income Home Energy Assistance Program (LIHEAP) and Weatherization Assistance —The Conference Committee adopted the Executive Budget recommendation to continue the federally funded LIHEAP line-item at the $116.5 million appropriated in FY2005 in support of the Home Heating Credit and energy-related crisis intervention payments. Given the Public Service Commission's estimate that the cost of natural gas in Michigan could increase by approximately 46 percent over prior-year costs due to the impacts of hurricanes in the Gulf of Mexico, it is anticipated that an authorization adjustment for this line-item will be approved subsequent to the adoption of a supplemental to the federal LIHEAP budget. In that regard, the Washington D.C. based Center on Budget and Policy Priorities has estimated that the $2.2 billion FY2006 federal LIHEAP appropriation may need to be increased by as much as $3 billion to meet the energy needs of low income households over the course of the next year. The chairman of the State LIHEAP Director's Association came to a similar conclusion, indicating in a recent statement that the national need had been estimated at $5.1 billion, a 131 percent increase over current authorizations due to expected increases in fuel costs and in the number of households that would qualify for assistance.

The Conference Committee also adopted the Executive Budget recommendation to increase the Weatherization Assistance line-item by $2.749 million to $18.67 million for use in upgrading home energy efficiency, and moved this line-item to the Community Action and Economic Opportunity Appropriation Unit.

Foster Care and Adoption Subsidy —In addition to the $12.8 million ($5 million general fund) savings recommended by the Executive Budget related to the expansion of the Family-to-Family Foster Care Pilot intended to place youth with a stable family in their own community rather than in an institution, the Conference Committee reduced FY2005 base funding for the Wayne and Out-state Foster Care line-items by $6.53 million in association with a projected average monthly caseload decrease of 600. The Conference Committee also adopted a specialized foster care rate increase at a cost of $1.25 million.

In the Adoption Subsidy line-item the Conference Committee added $7.1 million associated with an average monthly caseload increase of 600 and other base adjustments, but rejected an Executive Budget recommendation to eliminate post-adoption services funding.

Juvenile Justice Facilities and Field Staff — The overall budget for Juvenile Justice was reduced by over 14 percent ($9.25 million Gross/$4.36 million general fund) relative to adjusted FY2005 appropriations. Of particular note is a reduction in funding of about 10 percent for the state's juvenile justice facilities and field staff. Also of note is the addition of boilerplate sections 720–723 that specify that funding for public and private providers of juvenile justice services in "High Security," "Medium Security" and "Low Security" facilities be allocated based on specified results.

Information Technology –The Conference Committee adopted several reductions to the funding supporting DHS-related information technology activities. A net budget reduction of $12.9 million Gross/$6.63 million was taken in relation to IT contract, overhead, and Child Support Distribution Computer Systems cost reductions. An additional $8.5 million in related savings was redirected to Caseworker Relief and Integration Delivery projects intended to re-engineer and integrate eligibility and case management systems and replace obsolete equipment.

Other Budget Decisions —In addition to the appropriations decisions outlined above, the Conference Committee approved the following significant funding adjustments:

Fatherhood Initiative (TANF Funds)	+ $300,000
Marriage Initiative (TANF Funds)	+ $250,000
Earned Income Tax Credit Outreach (TANF)	+ $250,000
Housing and Comm. Dev. Fund (TANF)	–$2,000,000

Selected Department of Human Services Boilerplate

The following boilerplate sections were added or modified in the final action on the FY2006 Department of Human Services budget: Sections 207, 262, 270, 273, 279, 280, 421, 513, 533, 550, 551, 669, 679, 720-723, 901-905. These changes and additions can be viewed on the House and Senate Fiscal Agency websites at www.house.michigan.gov/hfa and www.senate.michigan.gov/sfa, respectively, under the FY2006 DHS Conference Report Summary. Additionally, boilerplate Section 423(3), which would have allocated $50,000 for food stamp error rate reduction pilot projects in Kent and Muskegon counties, was vetoed by the Governor.

The following new boilerplate sections are of particular note:

Long-term FIP (cash assistance) Recipients Pilot Project —Section 679 requires the DHS to implement a pilot project by January 1, 2006 serving 4 to 6 of the Department's regional shelter areas and aimed at long-term recipients within the Family Independence Program (FIP). Language specifies the pilot program is not to weaken either work participation requirements or sanctions for noncompliance. The pilot shall include recommendations to reduce the number of recipients having received cash assistance for more than 48 months. The pilot is also to include any legislative changes enacted to the Social Welfare Act regarding deferrals from work requirements and sanctions for noncompliance. A report on the policies established through the pilot program is required by June 1, 2006.

Health Insurance Information for Child Support Database —Section 903 requires DHS to work with the Department of Community Health to facilitate contracts with local Friends of the Court to update and maintain the statewide child support database with health insurance information in cases where courts have ordered one party to maintain health insurance coverage for a minor child; the program is to be funded from costs avoided by changing insurance coverage from state programs to private insurance.

Zone Office Consolidation Plan —Section 262 requires DHS to develop a plan by January 1, 2006 to consolidate Zone Offices in a manner intended to save $2.6 million, $1.8 million of which was redirected to local offices to fund additional frontline workers.

Department Results Plan —Section 270 requires DHS to develop a plan to provide client-centered results-oriented programs and services, including detailed information on average cost per recipient, performance indicators, desired outcomes and monitored results, and innovations that may include savings and administrative cost reductions. The plan is to be presented to appropriations subcommittees annually.

Performance Based Contracting — Section 279 requires that all human services contracts entered into or renewed by the Department after October 1, 2005 be performance-based contracts that employ a results-oriented process based on measurable performance indicators and desired outcomes.

Child Placement in Out-of-State Facilities —Section 513 revises language that places restrictions on out-of-state child placements. It allows an out-of-state placement in instances where there is no appropriate in-state placement for the child within 100 miles of the child's home, while there is an out-of-state placement within 100 miles.

Juvenile Justice Programs —Sections 720 through 723 specify that appropriated funds be distributed to public and private providers of juvenile justice services based on their ability to demonstrate results in specific areas listed in boilerplate, including recidivism rates, high school/GED completion rates, and average stays and costs within the program. The language also requires private provider participation in the development of a methodology for measuring goals and performance standards.

Michigan Child Support Enforcement System (MiCSES) Improvement Funding —Section 902 appropriates $17.8 million in funding for Michigan child support enforcement system (MICSES) improvements and fixes. It assumes $6.1 million in state restricted funds for this purpose arising from a new child support arrearage settlement and amnesty program.

Appropriation for Legal Support Contracts —Section 905 provides for a $1 million appropriation to restore legal support contract payments to county friends-of-the-court and county prosecutors.

Other Department of Human Services Issues and Concerns

DHS boilerplate Section 205 specifies that the classified civil service hiring freeze instituted in FY2004 will continue in the new fiscal year with exception authority to fill critical vacancies delegated to the State Budget Director. Given this ongoing hiring freeze, the budget's recognition of continuing caseload growth, and the decision not to include funding for the negotiated 1.5 percent economic adjustment to staff salaries and wages—which may necessitate the institution of staff furlough days for the third consecutive year, it appears likely the caseload to worker ratios for DHS field staff will continue to rise. This increasing burden may, in turn, have adverse effects in terms of timely and accurate application processing and effective case management. To provide some perspective on this issue, it should be noted that appropriated staffing for DHS has declined by 24 percent from 13, 505 to 10,286 positions since FY2002, while the number of Michigan citizens qualifying for Public Assistance benefits over this period has increased by over 54 percent from 703,000 to 1.08 million.

Department of Community Health

Fiscal Year 2005-2006 Budget Summary

(in millions)

	Original FY2005 Appropriation	FY2005 YTD Adjustments	FY 2006 Governor's Revised Recommendation	FY2006 House	FY2006 Senate	FY2006[1] Appropriations Act (P.A. 154)	FY2006 % Change From Original FY2005
Gross Appropriations	$10,173.2	$310.7	$10,240.9	$9,879.1	$10,011.6	$10,326.2	+ 1.5%
General Fund	$2,557.9	$30.9	$2,920.6	$2,842.6	$2,866.3	$2,951.9	+ 15.4%
Staff Positions	*5,118.6 FTEs*					*4,674.6 FTEs*	

[1]The Governor signed the DCH budget bill without vetoes.

Source of data: House and Senate Fiscal Agencies' Conference Committee Summaries, State Budget Office document.

The approved FY2006 budget for the Department of Community Health reflects a gross increase of $153 million from the FY2005 initial appropriation, and a general fund increase of $394 million.

The policies and funding agreed to by the Conference Committee were significantly different from the proposals approved by the House and Senate respectively. Both the House and the Senate approved the imposition of $5 monthly premiums on targeted Medicaid recipients; the Conference Committee report included no premiums for Medicaid recipients and no increase (as was proposed by the House) in the MiChild premium. The Conference Committee, while not imposing premiums on Medicaid recipients, did impose new copayments on hospital and physician services.

The Conference Committee concurred with the eligibility and service limitations (detailed below) included in the Governor's recommended Modernizing Michigan Medicaid Waiver submitted to the federal government, with the exception of the elimination of chiropractic services. Funding is restored for that service. The Conference Committee did not concur with the House recommendations to eliminate Medicaid coverage for caretaker relatives and optional adults aged 19 and 20. The Conference Committee did, however, add boilerplate imposing asset requirements for caretaker relatives and 19 and 20 year olds, as well as boilerplate prohibiting Medicaid coverage for 19 and 20 year olds if a parent or legal guardian has access to health care coverage for the optional young adult.

The Conference Committee also did not concur with the Executive Budget recommendation to eliminate Children's Special Health Care Services coverage for adults over age 21, with other insurance, who have cystic fibrosis or hemophilia.

The budget appears to fund reasonable caseload assumptions, however, numerous cost containment initiatives are included whose savings levels may not be achievable. The provider rate reductions of 4 percent implemented under Executive Order 2005-7 are continued in FY2006, with the provision that 1 percent will be restored, except to HMO's, if federal approval is secured to implement a hospital case rate for caretaker relatives.

The Conference Committee restored funding for adult dental services which had been eliminated in FY2003. The Conference Committee also restored half of the recommended reduction in funding for local public health vision and hearing screening.

Noticeably absent from the final bill is the additional revenue that would have been generated by the Physician Provider Tax. The Executive Budget recommended an assessment on all physicians to generate revenue that could be used as match to draw down federal dollars, estimated at $248 million, and pay higher rates to Medicaid participating physicians. Rather than significant increases in Medicaid payments, the physician community will see their Medicaid rates reduced by at least 3 percent, and currently 4 percent, and $2 copays have been imposed on nonexempt Medicaid recipients for physician services, which may translate to a further reduction in payments.

Other highlights of the FY2006 Community Health budget follow.

FY2006 Caseload/Utilization/Inflation Increases — The Executive Budget recommended increases of $334.6 million gross, $145.3 million general fund to cover caseload and utilization increases in Medicaid, mental health and substance abuse, Children's Special Health Care Services and MIChild. The Conference Committee, based on more recent information, added an additional $137.0 million gross, $48.7 million general fund to cover caseload and utilization increases.

Third-Share Plan Increases —The Executive Budget recommended a $10 million gross increase in disproportionate share payments to finance the State's third share of premium costs. The House and Senate concurred with this recommendation. Third-share plan increases would help low-income working families pay for their health care coverage. Under third-share plans, the employee pays one-third of his/her insurance premium; the employer pays one-third of the premium; and the state pays the final third of the premium.

Implement Medicaid Family Planning Waiver -- The Executive Budget recommended this waiver to expand family planning services to women with incomes of up to 185 percent of poverty. Savings will be generated by a reduction in the number of unintended Medicaid-paid births. The waiver is also intended to reduce the infant mortality rate. The House and Senate concurred with this proposal.

Increase Parent Pay Agreements for Children's Special Health Care —The Executive Budget recommended an increase in parent pay agreements for Children's Special Health Care Services families with incomes over 250 percent of the poverty level. The increased parent payments would save $1.8 million general fund. The House and Senate concurred with this proposal.

Reduce Provider Payment Rates by 4 percent —The Executive Budget continued the 4 percent provider rate reduction implemented in FY2005 by Executive Order. Physicians were not included in this reduction in the FY2006 Executive Budget due to the Executive proposed physician provider tax. Both the House and the Senate rejected the physician provider tax, and continued the 4 percent rate reduction for physicians in FY2006. The Conference Committee restored partial funding for 1 percent of the 4 percent provider rate reductions contingent on federal approval to implement the hospital case rate for caretaker relatives.

Eliminate the Elder Prescription Insurance Coverage (EPIC) Program and Fund Medicare Part D State Maintenance of Effort -- The EPIC program is eliminated due to implementation of the Medicare Part D benefit on January 1, 2006. The funding, $13.5 million tobacco tax funding, is retained and replaces general fund in the pharmacy line. Funding, based on FY2004 expenditure levels of $175 million, is also retained to pay the "claw back" provision of Part D, the federally mandated state maintenance of effort obligation. The federal share of pharmacy spending for dual eligibles is eliminated.

Estate Recovery Program for Long Term Care Costs The Executive Budget recommended savings of $10 million gross, $4.3 million general fund associated with implementation of an Estate Recovery Program for Long Term Care Costs. The House and Senate concurred. This program would reimburse the state for a portion of long term care costs from the estates of deceased Medicaid nursing home recipients. While this program and its corresponding savings have been included in numerous budgets over the years, legislation has never been passed to implement the program.

Restrict Annuities and Trusts for Medicaid Long Term Care —The Executive Budget recommended revisions in Medicaid policy to restrict annuities and trusts for Medicaid long term care eligibility. The House and Senate concurred with the policy changes. Savings, $18.4 million gross, $8.0 million general fund, would be achieved by reducing the number of recipients or the length of time recipients qualify for Medicaid-funded long term care services.

Federal Waivers to Modify Medicaid Policies and Achieve Savings —The Executive Budget proposed submittal of federal waivers to modify Medicaid policies and achieve savings. The waiver component is part of the plan titled Modernizing Michigan Medicaid and includes the following policy changes which were concurred in by the Conference Committee. It is important to note that these policy changes cannot be implemented without federal approval of the waiver, which to date has not occurred.

- Eliminate three month retroactive eligibility prior to date of application, saving $28.3 million gross, $12.3 million general fund:

  Federal regulations require Medicaid to provide retroactive eligibility three months prior to date of application for Medicaid beneficiaries who have medical expenses and who would have met eligibility criteria during those three months.

- Freeze enrollment of nonmandatory eligible persons under age 21, saving $5.0 million gross, $2.2 million general fund:

  This group is an optional population. The population will be capped at its level on October 1, 2005. The Conference Committee did not concur with the House proposal to eliminate coverage for this group. They restored funding, but included savings from an asset test is to be implemented (Sec 1731) and coverage being denied if a parent or legal guardian has access to health care coverage for the optional young adult.

- Limit benefits for nonmandatory adults, saving $6.4 million gross, $2.8 million general fund:

  Benefit reductions apply to optional persons under age 21 and caretaker-relative eligibles and include: a 20-day annual inpatient hospitalization limit; a 4-script per month limit on prescription drug coverage; a $10 co-pay on all emergency room visits; and the elimination of hearing, vision, speech pathology, and occupational and physical therapy services.

Mental Health Provider Assessment —The Executive Budget recommended implementation of a Mental Health provider assessment. The House and Senate concurred with this recommendation and the Conference Committee, based on higher caseload estimates, increased the amount to be collected and paid to the providers.

The 6 percent provider tax, assessed on specialty prepaid health plans, began August 1, 2005 as part of the FY2005 budget agreement. For FY2006, the increased payments are expected to total $131.7 million, while the general fund savings are expected to total $39.5 million, an increase of $4.5 million over the Executive recommendation based on higher projected caseloads.

Reduced State Support for Local Public Health Department Vision and Hearing Screening Services — The Executive Budget recommended elimination of the funding for hearing and vision screening for preschool school aged children. Children with Medicaid and MIChild coverage would not be affected. The Conference Committee restored one-half of the funding for hearing and vision screening and specified in Sec 905 that the funds be targeted to preschool and early elementary school aged children.

Eliminate State Support for Senior Citizen Centers Staffing and Equipment — The Executive Budget recommended the elimination of state support for senior citizen centers staffing and equipment. The House and Senate concurred with this reduction. The reduction will affect about 118 centers.

Reduce Community Services Program —The Executive Budget included a reduction of $0.3 million gross and general fund in the Community Services Program in care management assessments (by nurses and social workers), chore, homemaking, outreach and other services. The Conference Committee concurred with the House recommended reduction of $0.2 million in community services, and restored $0.1 million.

Reduce Administrative Funding for Home and Community Based Services Program (MIChoice) -- Both the House and the Senate recommended reductions in the Home and Community Based Services Program (MIChoice). The Conference Committee restored the funding, but reduced administrative rates by $2/day to increase the number of slots available. With the additional slots, the budget assumes 200 people can be transitioned from nursing homes to the waiver and save $3.0 million gross, $1.3 million general fund.

FY2006 Economics —The Executive Budget included funding for employee-related economics totaling $30.3 million gross, $12.6 million general fund. The Conference Committee adopted the recommendation; however, it is important to note that this amount restores savings from FY2005 and funds retirement and insurance costs for FY2006 only. No funding is included to cover salary and wage increases for FY2006.

Medical Services Audit Savings of $7.6 million gross, $3.8 Million General Fund —The House and Senate recommended reductions in the Medical Services Administration line item associated with overpayments identified in an Auditor General Performance Audit. The House and Senate added boilerplate that provides spending authorization for the Department should the funds be recovered.

20 Percent Increase in Obstetrical Rates — The Conference Committee concurred with the House recommendation to increase obstetrical services payment rates by 20 percent, adding $6.9 million gross, $4.2 million general fund.

Increase Ambulance Mileage Rates — The Conference Committee concurred with the House recommendation to increase ambulance payment rates from $3.70 to $4.25 per statute mile.

Eliminate or Freeze Coverage for Caretaker Relatives The Conference Committee did not concur with the House proposal to eliminate coverage for caretaker relatives and restored funding with the addition of an asset test (Sec 1731) for eligibility determination.

Reduce Medicaid Eligibility Error Rates -- The House and Senate both included savings associated with reducing Medicaid eligibility errors, however, neither the House nor the Senate recommended increased funding for staff to enable the Department of Human Services to attain even the lower level of savings, $2.3 million gross, $1.0 million general fund, recommended by the Senate. The Conference Committee concurred with the savings in the House-passed budget, $21.1 million gross, $9.1 million general fund, and the Department of Human Services (DHS) Conference Committee added field staff to enable compliance. Forty-four positions were added in DHS to implement eligibility policy changes.

Establish New Copayments to Save $5.4 Million Gross, $2.4 Million General Fund – Both the House- and the Senate-passed budgets included expansions of copayments and deductibles in different amounts and for different populations. The Conference Committee included new copayments for recipients not exempt by federal or state law as follows: physician visits – $2, hospital emergency room visits – $3, outpatient hospital visits – $1, and the first day of inpatient hospital stays –$50.

Restore Adult Dental —The Conference Committee added $11.1 million gross, $4.8 million general fund to fully restore adult dental services.

Forensic Mental Health Services —The Conference Committee concurred in the reduction of staff and funding due to a change in responsibility for mentally ill prisoners at Huron Valley Center. Funding will be retained by the Department of Corrections to provide non-clinical services; the Department of Community Health retains funding for mental health clinical services.

General Fund Savings From Increased Provider Tax Revenue ($18 Million From Nursing Homes, $5.4 Million From HMOs) — The Conference Committee increased the nursing home provider tax from 5.1 percent to 6.0 percent, generating state savings while providing state match for higher payments. The additional HMO revenue is based on higher projected caseloads.

Savings from Various Payment Improvement or Recovery Methods — The Conference Committee included savings from various payment improvement or recovery methods, including contract for information technology to achieve savings, group insurance savings, improved pharmaceutical fraud recoveries, reduced provider mispayments from a contract with a consulting firm.

Nursing Home Changes to Achieve Savings — The Conference Committee included savings from recouping escrow balances from lawsuit settlements ($6.9 million gross, $3.0 million general fund), and from nursing home capital refinancing ($4.6 million gross, $2.0 million general fund).

Savings from Waiver Approval and Implementation of a Hospital Case Rate for Caretaker Relatives — The Conference Committee included $28.8 million gross, $12.5 million general fund savings associated with the establishment of a hospital case rate for caretaker relatives. This policy requires federal approval through a waiver.

Psychotropic Drug Utilization Savings — The Conference Committee included savings of $9.2 million gross, $4.0 million general fund from reduced psychotropic drug utilization due to a new program that evaluates physician prescribing practices.

Recognize Savings from Implementation of Medicaid Hospital Observation Rate — The Conference Committee included savings of $4.7 million gross, $2.1 million general fund associated with implementation of a hospital observation rate for non-managed care Medicaid recipients.

Healthy Michigan Fund Revisions — Healthy Michigan Fund revenues allocated to Medicaid are increased by $4.2 million, to total $17.1 million. Offsetting program reductions are made in 13 of the 29 programs. The largest reductions are in Smoking Prevention ($1 million), Cardiovascular Health ($0.9 million), and Cancer Prevention and Control ($0.6 million).

Department of Labor and Economic Growth

Fiscal Year 2005-2006 Budget Summary

(in millions)

	Original FY2005 Appropriation	FY2005 YTD Adjustments	FY2006 Governor's Recommendation	FY2006 Senate	FY2006 House	FY2006[1] Appropriations Act (P.A. 156)	FY2006 % Change From Original FY2005
Gross Appropriations	$1,241.9	$ 0.0	$1,485.9	$1,389.8	$1,271.7	$1,273.3	+ 2.5%
General Fund	$ 84.5	$ 9.2	$ 73.8	$ 87.8	$ 71.0	$ 70.4	- 16.7%
Staff Positions	*4,307 FTEs*					*4,410 FTEs*	

[1]The Governor signed the DLEG budget bill without vetoes.

Source of data except appropriation act figures: House and Senate Fiscal Agency Conference Committee Summary Reports.

The approved FY2006 budget for the Department of Labor and Economic Growth (DLEG) reflects a gross increase of $31.4 million over the initial FY2005 appropriation, but a general fund reduction of $14.1 million from the initial FY2005 appropriation. Highlights of the final DLEG budget follow.

- The Legislature did not support the Governor's recommendation to issue $2 billion in general obligation bonds over the next ten years to support development and commercialization of new economic sectors in the fields of life sciences, advanced automotive manufacturing, materials and alternative energy, and homeland security and defense to diversify Michigan's economic base. As an alternative, the Legislature is developing a package of bills for the sale of bonds to be secured with approximately 25 percent of the expected proceeds from tobacco settlement funding. It is projected that Michigan would realize about $1.6 billion in revenues from this sale to be used to support targeted business expansion. As of this writing, the House and Senate had passed separate packages of bills which will have to be reconciled in Conference.

- The Conference Committee concurred with the reduction of $30 million gross, $20 million general fund for the Technology Tri-Corridor, which eliminated the program.

- The Conference Committee adopted the Executive recommended increase of $16.3 million in federal funds to expand several grant programs, including $10 million for low income housing subsidies, $3.0 million for adult basic education, $2.2 million to increase Regional Skills Alliance (MiRSA), $105,000 for career planning for high school students, and $1.0 million to reduce energy costs and development alternatives.

- The $25.7 million gross, $1.7 million general fund recommended to cover employee economics was approved. The economic increases included in the budget restore funding for employee-related salary concessions included in the FY2005 appropriation, and provide funding for economic increases for retirement and insurance for FY2006. No funding is included for the FY2006 salary and wage increase. The Conference Committee also included a reduction of $0.4 million gross and general fund related to contract and other administrative savings.

- The Conference Committee supported an increase of $10 million gross, $0 general fund in the Low Income and Energy Efficiency Fund, bringing the total to $55 million.

- The Conference Committee did not support an increase in local Fire Protection grants or Liquor Law Enforcement grants, retaining them at their FY2005 levels. The Conference Committee also did not support the $1.8 million fee increase to support Fire Service Programs, rather the Conference Committee approved an $0.8 million transfer from State Police from Homeland Security funds.

- The Conference Committee supported the $1.0 million gross and general fund reduction recommended for the Michigan Virtual University, as support for the program is transferred to the School Aid Fund.

- The Conference Committee concurred with the $5.0 million reduction in the Community Development Block Grant to align the state appropriation with the federal grant.

- The Conference Committee concurred with the addition of $1.0 million of available Temporary Assistance for Needy Families (TANF) funding to replace Reed Act funds in the Welfare to Work line.

- The Conference Committee reduced spending authority in the Michigan Economic Development Corporation by $3.0 million gross and general fund. $2.5 million is from Job Creation Services and $0.5 million is from Strategic Fund Administration.

- The Conference Committee recognized the budget impact of Executive Order 2005-1 which transferred the Office of Administrative Hearings and Rules to DLEG, and PA 241 of 2004, which created the Michigan Child Protection Registry and transferred $9.7 million gross, $0 GF and 87.0 FTEs to DLEG.

K-12 Education (School Aid)

Fiscal Year 2005-2006 Budget Summary
(in millions)

	Original FY2005 Appropriation	FY2005 YTD Adjust-ments	FY2006 Governor's Recom-mendation	FY2006 House	FY2006 Senate	FY2006[1] Appropri-ations Act (P.A. 155)	FY2006 % Change From Original FY2005
Gross Appropriations	$12,527.4	($60.3)	$12,808.8	$12,783.2	$12,736.6	$12,757.4	+ 1.8%
General Fund	$ 165.2	$ 0.0	$ 20.2	$ 96.4	$ 70.4	$ 62.7	- 62.0%

[1]The Governor signed the School Aid budget bill without vetoes.

Source of data except appropriations act figures: House and Senate Fiscal Agency Conference Summary Reports.

The approved School Aid budget for FY2006 totals $12.8 billion gross, $11.4 billion state funds, for an increase of $230 million over the initial FY2005 appropriation. General fund support to the School Aid Fund is reduced by over $100 million. In addition to the state funding, schools are expected to receive about $3.4 billion from local property taxes.

- For the first time in 3 years, an increase in the minimum foundation allowance of $175 per pupil, to raise the grant from $6,700 per pupil to $6,875, was approved. The additional $50 per pupil grant for students in grades 9–12, proposed by the Governor, was not adopted by the Conference Committee. The Conference Committee also eliminated the $15 million foundation allowance adjustment for Detroit Public Schools.
- The Conference Committee approved a one-time grant of $7.0 million gross and school aid funds to Detroit Public Schools to assist in the transition from a Reform Board to an elected school board.
- The final budget also reflects a significant reduction in the general fund contribution to the School Aid Fund from $165.2 million to $62.7 million. None of the Executive-proposed tax policy changes to increase revenue to the School Aid Fund by nearly $48 million was adopted by the Conference Committee.
- The Freedom to Learn Program (laptop computers for 6th grade students), recommended for elimination by the Governor, is retained by the Conference Committee, but with reduced funding. The reductions total $15.3 million gross, $3.5 million general fund, leaving about $6 million in total ($5.5 million federal funds) for the program.
- The Conference Committee approved the transfer of the School Readiness competitive grants, $12.25 million, from the Department of Education to School Aid. General fund savings were reflected in the Department of Education budget.
- Restructuring of School Bond Loan Fund program, included as part of the FY2005 budget solution, is approved to relieve School Aid Fund of debt service payments in FY2006. General fund savings associated with this change total $41.1 million.
- The retirement rate for FY2006 is 16.34 percent, or 1.47 percent higher than FY2005. The rate for the health care component is unchanged from FY2005 at 6.55 percent due to changes in health plan coverage, including increases in deductibles and pharmacy co-pays. The pension fund is again being subsidized by one-time funding of $50 million which helped to constrain the increase in the pension fund component.
- Special education funding is increased by $75.5 million, $16.0 million of federal funds, and $59.5 million school aid funds.
- A new program, Engineering Michigan's Future, is included by the Conference Committee to improve pupil performance on the math component of the

Michigan Education Assessment Program and to assist districts meet the federal average yearly progress requirements in math. The funding is appropriated to ISDs on an estimated $10 per pupil basis for students in grades 6 –8. The funding totals $3.85 million gross and school aid.

- Adult Education funding is increased by $1.0 million gross and school aid to $21.0 million.
- Great Parents, Great Start Program funding is continued at $3.3 million.
- At Risk funding is maintained at the $314.2 million level.
- Michigan Virtual High School funding is increased by $2 million gross, $1 million general fund to $5 million gross, $1.75 million general fund to expand the distance learning opportunities for high school students.
- The Center for Educational Performance and Information funding is increased by $2.0 million gross, $0.5 million general fund for operations and for the development and implementation of a new tracking system for students from pre-K to age 20.
- Federal Medicare Part D prescription drug subsidies to offset a portion of the increase in retiree health care costs are included. The amount of savings assumed for the public school and state retirement systems is $53.5 million.
- Renaissance Zone statutory reimbursements are increased by $8.8 million to $45 million.

Other Issues and Concerns

With one-time funding again being used to shore up the pension fund, it raises the question of how large the increase will be in the pension fund component in FY2007.

Department of Education

Fiscal Year 2005-2006 Budget Summary

(in millions)

	Original FY2005 Appropriation	FY2005 YTD Adjust-ments	FY2006 Governor's Recom-mendation	FY2006 House	FY2006 Senate	FY2006[1] Appropri-ations Act (P.A. 154)	FY2006 % Change From Original FY2005
Gross Appropriations	$ 113.5	$2.5	$ 125.1	$ 113.8	$ 117.0	$ 117.5	+ 3.5%
General Fund	$ 26.4	($0.3)	$ 28.1	$ 16.5	$ 15.8	$ 16.1	- 39.0%
Staff Positions	*413.0 FTEs*					*423.5 FTEs*	

[1]Appropriations reflect Governor's vetoes.

Source of data except appropriations act figures: House and Senate Fiscal Agency Conference Summary Reports.

The approved budget for FY2006 for the Department of Education (DOE) totals $117.5 million gross, $16.1 million general fund. The general fund is allotted primarily to the School Breakfast Program ($9.6 million), and administration ($6.2 million). The most significant funding change for the Department is the transfer of the School Readiness competitive grants to the school aid act, with corresponding general fund savings in the DOE budget. The Conference Committee also included $2.6 million of Merit Award Trust Funds to fund the replacement of the current high school Michigan Education Assessment Program exam with a college entrance exam as required in 2004 PA 596.

Other highlights of the FY2006 budget include:

- An increase of $1.6 million gross and general fund in the School Breakfast Program to reflect both an increase in the cost and an increase in the number of breakfasts served. The projected number of meals is more than 1.1 million.

- The addition of $1.0 million in a grant from the National Governor's Association to update high school grade level expectations. The addition of $3.0 million in anticipated federal funds to support an enhanced student data system.

- Elimination of the National Board Certification Grants, $100,000 gross, $0 general fund which funded one-half of the cost for teachers to become certified by the National Board for Professional Teaching Standards. Reduction of one-half of the funding ($75,000) for the Alternative Route to Certification Program which helps teachers in rural areas become certified in math and science. The addition of $100,000 gross and general fund to provide professional development or enhanced curricula in middle school mathematics was added by the Conference Committee.

- The addition of $350,000 gross and general fund for a State Board study of best practices in education.

- The Conference Committee added $3.4 million in federal Individuals with Disabilities in Education Act (IDEA) funding to support alternative assessments for students with disabilities.

- The Conference Committee approved $2.9 million gross, $0.3 million general fund in economic increases for the Department.

Higher Education

Fiscal Year 2005-2006 Budget Summary

(in millions)

	Original FY2005 Appropriation	FY2005 YTD Adjust-ments	FY2006 Governor's Recom-mendation	FY2006 House	FY2006 Senate	FY2006[1] Appropri-ations Act (P.A. 154)	FY2006 % Change From Original FY2005
Gross Appropriations	$1,690.2	(35.2)	$1,642.8	$1,715.4	$1,706.9	$1,733.9	+ 2.6%
General Fund	$1,622.1	(56.8)	$1,492.8	$1,545.4	$1,556.9	$1,576.9	- 2.8%

[1]The Governor signed the Higher Education budget bill without vetoes.

Source of data except appropriations act figures: House and Senate Fiscal Agency Conference Committee Summary Reports.

The approved Higher Education budget for FY2006 (P.A. 154 of 2005) reflected a $45.2 million (2.8 percent) general fund decrease from the original FY2005 budget base, but an $84.1 million (5.7 percent) increase to the proposed Executive Budget, supported primarily with higher state revenues than were anticipated when the Governor's proposal was developed in January.

University Operations — Of particular note was a decision by the Conference Committee to add $16.35 million for operations costs to be allocated based on the following three formulas:

1. $2.5 million in across-the-board increases to all 15 of Michigan's public universities.
2. $6.9 million distributed between Grand Valley, Oakland and Saginaw Valley to establish a minimum per student funding floor of $3,650.
3. $6.95 million for 13 universities to reflect a new funding model intended to distribute a portion of total funding based on enrollment, degree types and research orientation.

In addition, the Higher Education Conference Committee took the following actions:

Michigan State University Agriculture Experiment Station and Cooperative Extension — Rejected the Executive Budget recommendation to reduce funding for the MSU Agricultural Experimentation Station by

10 percent ($3.3 million) and the Cooperative Extension by 23.4 percent ($6.7 million).

State Competitive Scholarships — Adopted the Executive Budget recommendation to decrease funding for the State Competition Scholarship program by $1 million in recognition of lost federal funds. In addition, the Conference Committee replaced $3 million in general fund support for this program with available Michigan Higher Education Assistance Authority (MHGAA) funding.

Tuition Grants — Replaced the Executive Budget recommendation to eliminate $61.77 million general fund in support of the Tuition Grants program with a decision to reduce funding by $3 million (4.9 percent) and to offset an additional $4 million general fund with $4 million in restricted funds carried forward from FY2005.

Michigan Merit Award Program —Adopted the Executive Budget recommendation to restore funding for this program in recognition of annualized costs after having reduced authorizations in FY2004 and FY2005 in recognition of program changes that permitted one-time savings. In addition, the Conference Committee added funding for the Middle School Awards component of this program but concurred with the Executive Budget recommendation not to fund out-of-state merit awards.

Tuition Incentive Program (TIP) — Approved the Executive Budget recommendation to increase funding for the TIP program by 17 percent to reflect increased costs but replaces $5.4 million (45 percent) of restricted Merit Scholarship funding with general fund appropriations.

Community Colleges

Fiscal Year 2005-2006 Budget Summary

(in millions)

	Original FY2005 Appropriation	FY2005 YTD Adjust-ments	FY2006 Governor's Recom-mendation	FY2006 House	FY2006 Senate	FY2006[1] Appropri-ations Act (P.A. 154)	FY2006 % Change From Original FY2005
Gross Appropriations	$ 285.7	($4.9)	$ 281.3	$ 281.3	$ 260.5	$ 281.3	- 1.5%
General Fund	$ 285.7	($4.9)	$ 281.2	$ 281.3	$ 260.5	$ 281.3	- 1.5%

[1]The Governor signed the Community College budget bill without vetoes.

Source of data except the appropriations act figures: House and Senate Fiscal Agency Conference Committee Summary Reports.

Community College Budget Decisions

After having absorbed a 3.8 percent ($11.3 million) reduction in total state funding for Community Colleges in FY2005 related to Executive Order 2005-7, the Conference Committee adopted the Executive Budget recommendation to continue funding for operations at the adjusted FY2005 level of $275.1 million, and to increase reimbursement to colleges with renaissance zones in their districts by 20.8 percent at a general fund cost of $0.5 million.

Also of note was the removal of the tuition restraint boilerplate included in the Community College budget in recent years.

In discussion subsequent to completion of the FY2006 budget, a plan has been outlined that would add up to $11.3 million to the Higher Education budget and $2.2 million to the Community College budget through a supplemental appropriation if sufficient year-end FY2005 balances materialize.

Boilerplate

Numerous Higher Education and Community College policy directives (boilerplate) were added, revised, or deleted in the final version of the FY2006 budget. These changes can be reviewed by going to the State Budget section of either the House or Senate Fiscal Agency websites at www.house.michigan.gov/hfa or www.senate.michigan.gov/sfa.

Other Issues and Concerns

Since the mid-1970s, the percentage of state-funded public college and university operating costs has fallen from approximately 75 percent to 40 percent. This trend is likely to continue and, given the declining value of discretionary appropriations that can be cut to resolve Michigan's ongoing structural deficit, may accelerate. To illustrate this point, state funding for higher education fell by 2.8 percent from FY2005 to FY2006, while tuitions in Michigan rose an average of 12 percent, the third highest increase in the United States. Given current trends, it is entirely possible that at least some of Michigan's public colleges and universities will be forced to privatize within the next decade, and that virtually all will rely more heavily upon tuition and fees to cover rising costs. It is difficult to imagine, given this erosion of public support, that Michigan will be able to maintain its current college graduation rates, much less double those rates as recommended by the Governor.

Department of Corrections

Fiscal Year 2005-2006 Budget Summary
(in millions)

	Adjusted FY2005 Appropriation	FY2006 Governor's Recom-mendation	FY2006 House	FY2006 Senate	FY2006[1] Appropria-tions Act With Veto (P.A. 154)	FY2006 % Change From Original FY2005
Gross Appropriations	$1,767.2	$1,883.6	$1,826.7	$1,854.4	$1,860.1	+ 5.3%
General Fund	$1,689.2	$1,805.3	$1,748.5	$1,776.1	$1,780.7	+ 5.4%
Staff Positions	*17,796.8 FTEs*				*17,521.8 FTEs*	

[1]The Governor signed the Corrections budget bill with a veto of the $18.8 million appropriation for the Baldwin Correctional Facility and $0.5 million for a proposed evaluation of prison facilities.

Source of data except appropriations act figures: House and Senate Fiscal Agency Conference Committee Summary Reports

Driven primarily by economic adjustments for employee-related insurances and retirement as well as building occupancy cost increases ($53.4 million), the Conference Committee approved a 5.3 percent increase in the Department of Correction's FY2006 budget. The overall increase also reflects funding for prior year salary and wage adjustments and one-time employee concessions ($46.3 million), but does not reflect funding for the negotiated 1.5 percent salary and wage adjustment for FY2006. Other major increases include $18.3 million to fund 1,352 new beds in Level 1 and 2 prisons, and $8.0 million for prisoner reintegration programs.

Baldwin Youth Correctional Facility —One of the most contentious issues of the entire FY2006 budget development process related to the $18.84 million contract for the private for-profit Baldwin Correctional Facility in Lake County. After months of debate, the appropriations Conference Committee approved continuation funding for what was reported to be the largest employer in a county already plagued with high unemployment and heavy reliance on state public assistance programs. The budget for this contract was, however, vetoed by the Governor, who cited higher than average costs at Baldwin and available capacity elsewhere in the corrections system as justification for this action. Subsequent to the veto it was reported that the owners of the Baldwin facility were seeking compensation for a breach of contract, but typically in such contracts there is a clause permitting the state to void an agreement if notice is given within the timeframes specified.

Other significant actions taken included:

		Savings/Costs in Millions
1.	Reduction of $1 million for Hepatitis C vaccinations and treatment and $0.3 million for other vaccination programs including Hepatitis B vaccinations for new corrections officers.	($1.3)
2.	Recognition of negotiated savings for contracts and insurance and retirement rates.	($19.1)
3.	Creation of a new $17.84 million Supplementary Operations line-item relying primarily on funds transferred from other operations areas plus $4 million in new jail capacity grants.	$4.0
5.	Recognition of additional federal funds to support substance abuse testing and treatment.	$0.57
6.	Increased the per diem for residential services beds from $43 to $47.50 per day.	$1.6
7.	Other Changes	($1.79)

Various other adjustments to the Department of Corrections budget are detailed in the summary of the Conference Report prepared by the House and Senate Fiscal Agencies and are available for review at www.house.michigan.gov/hfa and www.senate.michigan.gov/sfa, respectively.