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FISCAL YEAR 2008 BUDGET UPDATE
AT LAST, THE BUDGET IS DONE!

A COMBINATION OF TAX INCREASES AND PROGRAM REDUCTIONS ADDRESS
 CURRENT YEAR DEFICIT, BUT MUCH OF MICHIGAN’S ONGOING
 FISCAL CRISIS REMAINS UNRESOLVED

After months of contentious debate and a brief government shutdown, state policymakers approved the last element of the FY2008 budget two months after the beginning of the new fiscal year. In the early morning hours of October 1, just as campers in Michigan’s state parks were being asked to leave in conjunction with a government shutdown, an agreement was adopted that contained a combination of program reductions, governmental reforms and tax increases, including a 6 percent tax on select services that created a firestorm in the business community. It was this issue that dominated the attention of the legislature subsequent to resolving the details of the 17 department budgets on November 1, just as a one month continuation of the prior year’s budget was set to expire.

In keeping with the theme that some deadlines do matter, the legislature reached a compromise on December 1, the day the services tax was scheduled to go into effect, replacing revenues related to the controversial tax with a 21.99

percent surcharge on the recently adopted Michigan Business Tax thru 2017 with a maximum liability per business of \$6 million.

The other major component of the tax package adopted by state policymakers was an increase in the personal income tax rate from 3.9 percent to 4.35 percent effective for the current tax year, to be phased out over five years beginning in FY2011. Together these tax policy changes, intended to resolve approximately \$1.3 billion (75 percent) of the estimated \$1.75 billion current year deficit, represent the first significant increase in state revenues since deficits totaling over \$10 billion and closely correlating with the value of tax reductions implemented during that period, began materializing in FY2001.

The remainder of the projected current year deficit was addressed through a series of program reductions and federal funds increases totaling \$434 million. Of this amount, \$200 million was saved by reducing the 2.5 percent

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inflationary adjustment reflected in the Governor's Executive Budget recommendation for K-12 education, universities and community colleges to 1 percent.

The largest percentage reduction came in the Department of Human Services, which saw a 6 percent (\$80 million GF) reduction relative to continuation funding of existing programs. Of particular note is a 10 percent reduction in the maximum number of reimbursable Day Care hours available to program participants engaged in employment and training activities (\$18 million gross/\$18 million GF), and a 14 percent reduction in funding for the Family Independence cash assistance program (FIP) based on an assumption of declining caseloads (\$64.9 million gross/\$53.2 million GF). Regarding the FIP savings, while significant caseload declines occurred over the summer due in part to program policy changes and in part due to the normal seasonal ebb of public assistance applications, Michigan's rising unemployment rate and the normal increase in FIP cases over the balance of the year suggests that this assumption may prove optimistic. Should this be the case, DHS will be in the unenviable position of seeking supplemental appropriations and/or making additional program cuts late in the fiscal year.

Other significant target reductions to the continuation budget included:

<u>Department</u>	<u>\$ Savings</u>
Corrections	\$55.6 Million
All Other	\$46.1 Million

In addition to revenue increases and spending reductions, changes to teacher health care eligibility rules, including an increase the number of years of service required to qualify for retiree health care benefits, were adopted. Also

approved was a requirement that health care data for some groups currently insured by the Michigan Education Special Services Association (MESSA) be made public, a reform that proponents contend will increase insurance carrier competition and reduce related costs.

Another notable decision was the specification that \$200 million in one-time revenues associated with the phase-in of the recently adopted Michigan Business Tax be deposited in the state's currently depleted Budget Stabilization Fund. While it is hoped that this will be the first step in an effort to replenish Michigan's "rainy day fund," recent history suggests that this reserve may be needed to resolve current year deficits associated with lower than anticipated revenues and higher than budgeted program costs, as has been the case in each of the last several fiscal years.

Regarding out-year deficits, an analysis by the Michigan League for Human Services indicates that state program expenditures, driven primarily by continuing rapid growth in health care and Department of Corrections' costs, will likely continue to outstrip state revenue growth by at least \$500 million per year on average for the foreseeable future. In addition, cyclical cost increases and revenue declines associated with Michigan's current economic difficulties could drive annual deficits significantly higher. In summary, the large deficits of the last eight years can be expected to continue unless and until the state's decision makers act to modernize Michigan's tax code to permit revenues to grow with the economy. Further, sentencing and parole guidelines that have contributed to incarceration rates that exceed the average of the other Great Lakes states by over 40 percent must be reformed.

Department of Human Services

Fiscal Year 2007-2008 Budget Summary

(in millions)

	Original FY2007 Appropriation	FY2007 YTD Adjust- ments	FY2008 Governor's Revised Recom- mendation	FY2008 Senate	FY2008 House	FY2008 ¹ Appropri- ations Act (P.A. 131)	FY2008 % Change From Original FY2007
Gross Appropriations	\$4,468.1	\$ 34.8	\$4,566.9	\$4,504.2	\$4,532.4	\$4,589.4	+ 2.7%
General Fund (GF)	\$1,197.4	\$70.2	\$1,320.3	\$1,252.3	\$1,283.1	\$1,308.4	+ 9.3%
<i>Staff Positions</i>	<i>10,343.4 FTEs</i>					<i>10,580.4 FTEs</i>	

¹The Governor signed the DHS budget bill with vetoes of a proposed Indigent Burial rate increase and a contract with a private agency to undertake the collect child support arrearages

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

Note: The 6 percent (\$80 million) reduction in DHS general fund program support relates to the funding level that would have been necessary to support programs and related caseloads in FY2008 had they remained unchanged from FY2007. That figure; \$1,388.4; is not reflected in the table above.

After lengthy debate regarding the advisability and cost effectiveness of privatizing a portion of the state's juvenile justice, foster care and adoption services, the legislature adopted a series of budget measures that moved Michigan significantly in that direction.

In the juvenile justice arena the decision was made to shift 80 beds from the high security complex at the Maxey Training School to private residential facilities. This action, scheduled for implementation on May 1, 2008, was expected to reduce staffing requirements at Maxey by 131 full time equivalent positions (FTEs) and permit central office Juvenile Justice staffing to be reduced by an additional 10 FTEs at a savings in the first six months of \$4.65 million gross/\$2.03 million general fund (GF). Of this amount, \$2.43 million gross/\$1.52 million GF was added to the Foster Care Payments and Child Care Fund appropriation line-items to cover the estimated \$250 daily cost of placing the affected youth in private settings. While it is anticipated that a portion of the state employees displaced by this decision to privatize services will be placed in vacant positions elsewhere in the state, \$1.4 million was added to the budget to cover one-time separation costs for permanently displaced public employees.

Also added to the budget was \$1.05 million gross/\$.86 million GF to support private adoption agencies in their efforts to place children who have been state wards for at least one year since the termination of

parental rights. The goal of this initiative is to place 65 children at an average cost of \$16,000 per child. Private agencies would also receive \$2.5 million gross/\$2 million GF to recruit and license relative caregivers as foster parents at a cost of \$2,300 per licensure.

A new Subsidized Guardianship Program was established at a cost of \$4.58 million gross/\$4.58 million GF to support caregivers who agree to become legal guardians for those who have been victims of abuse and neglect. This program would transfer the State's legal responsibility for affected children to their guardian, thereby removing them from the foster care system. The legal guardians would, however, receive financial support similar to that provided to current foster families.

A 4 percent rate increase was adopted by the legislature for private residential facilities that serve delinquent and abused/neglected youth (\$4.83 million gross/\$3.04 million GF) and for private adoption agencies for placements and finalizations (\$374,600 gross/\$236,000 GF). A technical problem with the boilerplate language establishing the increase for the latter group resulted in a gubernatorial veto, with the Governor indicating that the 4 percent increase would occur when the language problem was resolved.

Private child-placing agencies were given the option of retaining the existing dual rate reimbursement system for general and specialized foster care administration

or moving to a blended \$25 per day rate for all cases in FY2008. To cover the expected cost of additional days of service and transitions to the blended reimbursement rate, the budget reflects the addition of \$1.04 million gross/\$.63 million GF.

Other major changes to the Department of Human Services budget are summarized as follows:

- Added 171 positions at a cost of \$13.72 million gross/\$10.92 million GF to staff the Governor's proposed Child Welfare Improvements initiative at approximately two-thirds of her recommended level. Included in the appropriations are 138 positions to help address and find long-term placements for foster children and 33 support staff to provide staff training and project management. The Governor's request for 41 positions aimed at licensing relative caregivers as foster parents was replaced with the private agency caregiver licensing contracts referenced above.
- Added 30 positions at a cost of \$13.72 million gross/\$10.93 million GF to expand the Jobs, Education and Training (JET) pilot project intended to increase long-term Family Independence Program (FIP) recipients' work participation rates in an effort to comply with significantly higher federal work requirements. The conference committee assumed offsetting savings in the FIP grant account of \$25.7 million gross/ \$21.0 million GF related to expected increases in employment and earnings and an increase from 30 to 90 days in the length of the initial sanction resulting from noncompliance with JET program rules.
- Reduced the maximum number of reimbursable hours of Day Care per two-week pay period from 100 hours to 90 hours and some other minor Day Care changes resulting in a net savings of \$18 million gross/\$18 million GF.
- Added an additional 150 field staff to help alleviate high worker/caseload ratios and other local office workload pressures at a cost of \$12 million gross/\$5 million GF.
- Added 105 Title IV-E foster care specialist positions at a cost of \$8.55 million gross/\$6.85 million GF to work in local DHS offices to help ensure that all eligible cases are identified for purposes of claiming 58 percent Title IV-E federal match. (Non-IV-E cases' foster care costs are born 50-50 between the state and local counties.) It is anticipated that these efforts to improve federal match will save \$4.72 million GF with an even

greater savings for counties whose fiscal responsibility would be relieved if Title IV-E eligibility is determined.

- Recognized caseload related savings totaling \$62 million gross/\$45.6 million GF related primarily to a forecast decline in the Family Independence Program (FIP) caseload to 76,000 in FY2008. The decline is driven by eligibility policy changes implemented in May 2007 and the statewide roll-out of the Jobs, Education and Training (JET) program.

While the FIP caseload has fallen significantly since implementation of FIP policy changes last spring, the decline assumed in the budget appears optimistic as does the assumed \$409/case/month average monthly payment. If caseloads fail to decline as assumed, the department will need to seek supplemental funding at an estimated cost of \$5 million per 1,000 additional cases or make offsetting spending reductions.

Specific public assistance and related support program caseloads and appropriations include:

<u>Program</u>	<u>Caseload</u>	<u>Funding</u>
FIP (cash assistance)	76,000	\$376.0 million
Day Care Services	57,333	\$409.9 million
Disability Assistance	10,933	\$34.7 million
SSI Supplementation	227,800	\$58.3 million

- Increased funding \$18.0 million gross/\$16.1 million GF to facilitate the expansion of Jobs, Education and Training (JET) pilot projects statewide in an effort to increase the work participation of FIP cash assistance recipients.
- Added \$10 million gross/\$4.67 million GF over prior-year funding to support implementation of the department's "Bridges" computer systems integration project.
- Restored funding proposed by the Governor's Executive Budget for reduction or elimination for Before and After School programs, Teen Parent Counseling, Fatherhood and Marriage Initiatives and Community Action Agencies.

Subsequent to legislative action on the DHS budget, the Governor acted to veto section 613 of the conference report intended to increase the maximum allowable reimbursement for indigent burials from \$680 to \$1,063 and a \$500,000 appropriation intended to support a private contract to assist in the collection of child support arrearages.

Department of Community Health

Fiscal Year 2007-2008 Budget Summary

(in millions)

	Original FY2007 Appropriation	FY2007 YTD Adjust- ments	FY2008 Governor's Revised Recom- mendation	FY2008 House	FY2008 Senate	FY2008 ¹ Appropri- ations Act (P.A. 123)	FY2008 % Change From Original FY2007
Gross Appropriations	\$11,196.2	\$223.2	\$11,969.3	\$11,879.06	\$11,630.3	\$12,048.3	+ 7.6%
General Fund (GF)	\$2,940.1	\$205.2	\$3,164.8	\$3,200.60	\$3,066.1	\$3,125.3	+ 6.3%
Staff Positions	4,664.1 FTEs					4,767.6 FTEs	

¹The Governor signed the DCH budget bill without vetoes.

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

The enacted budget for the Department of Community Health includes total funding of \$12.0 billion, of which \$3.1 billion is general fund (GF). This represents 28 percent of the total state budget and 31.6 percent of the statewide general fund appropriation. Medicaid represents about two-thirds of the Department's budget. While the FY2008 budget represents nearly a \$700 million gross increase over the final FY2007 law, the general fund change is a reduction of about \$20 million. The final general fund change from the revised Executive Budget recommendation is a reduction of nearly \$40 million. **It is worth noting that over the 8 year period from FY2001-FY2008, the gross budget for the Department increased 39.4 percent, while the general fund budget increased only 16.9 percent, only about 2 percent per year. The dramatic increase in total spending is funded by a 49 percent increase in federal funds and dramatic increases in provider taxes. Of great concern, however, is the 25 percent decline in staff during this 8 year period while the program has grown by nearly 40 percent.**

Most notable about the final budget is the absence of major program reductions in eligibility or provider rates. Devastating program reductions were avoided through revenue increases that were adopted by the Legislature, including the increase in the income tax and the 21.99 percent surcharge on the recently adopted Michigan Business Tax. While the reductions included in the final budget are both problematic and not good public policy, they are minor in comparison to what would have been required to balance the budget absent new revenues.

Even though elimination of Medicaid coverage for optional young adults and parent/caretaker relatives was again seriously considered by the Conference Committee, there are no Medicaid eligibility reductions included in the final budget.

Of special note are the savings included in the final budget, \$33.4 million gross/\$14.0 million GF, associated with the citizenship documentation requirement included in the Federal Deficit Reduction Act of 2006. Since Michigan just implemented the federal policy in April 2007, and specific coding was not created to track the denials of applications or case closures, the actual impact is not absolutely measurable. However, it is worth noting that Medicaid caseloads *declined* each month through September following implementation of the policy, after monthly caseload increases over the last 6 years. If experience in Michigan is similar to that of states that have documented the impact, then it is U.S. citizens who are being inappropriately denied service because they are unable to obtain or afford the required documentation (passport, photo I.D., and birth certificate). It is inconceivable that the need for public healthcare coverage is declining in view of Michigan's high unemployment rate and continuing decline in employer-sponsored coverage.

The Conference Committee did include several program initiatives in the final budget for long term care services and supports (detailed below), expansion of Healthy Kids dental in Genesee and Saginaw Counties, and the addition of mental health outpatient teams to provide mental health services to prisoners.

The Conference Committee also restored most of the FY2007 program cuts from the Healthy Michigan Fund, while reflecting savings for enrolling children in foster care into Medicaid managed care.

The Governor continues to work with the federal government to secure approval for her *Michigan First Healthcare Plan*, first introduced in the FY2006 budget. Approval had been anticipated by the end of 2006, with an April 1, 2007 implementation; however, federal approval has not yet been granted. Implementation of the plan is still a high priority for the Governor, and the FY2008 budget continues the \$100 million gross and federal appropriation.

Other highlights of the final FY2008 budget include:

Caseload and Utilization Increases – The Executive budget recommended increases of \$243.1 million gross/\$102 million GF to recognize caseload growth and medical care utilization in Medicaid, MIChild, Children’s Special Health Care Services, Mental Health/Substance Abuse, and the Adult Benefits Waiver. The monthly average number of persons eligible for Medicaid is projected to be 1,581,000. Funding is recommended to maintain the Adult Benefits Waiver at the federally approved caseload of 62,000. It is important to note that enrollment in the program has just reopened, but the duration is expected to be short. The Conference Committee maintained the projected Medicaid caseload, but increased funding by \$253.0 million gross/\$115 million GF to recognize higher projected expenditures.

Actuarially Sound Rates for Health Maintenance Organizations/Managed Care Plans – The Conference Committee adopted the Executive recommended funding of \$87.4 million gross/\$36.6 million GF 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 Conference Committee adopted the Executive recommended addition of \$42.8 million gross/\$15.4 million GF to meet this requirement.

Public Institution Physician Adjustor Payment Increase – The Conference Committee adopted the Executive recommended funding of \$26 million gross/\$0 GF to increase the physician adjustor payments for public institutions that was implemented in FY2006. Physician services at Michigan State University, Wayne State University, University of Michigan and Hurley Hospital will receive the

enhanced payments. The public entities provide the required match.

Criminal History Check Program – The Conference Committee adopted funding of \$4.5 million gross/\$0 GF to continue the criminal history check pilot project funded by the federal government in FY2007. This program provides background checks for direct care workers at nursing homes, adult foster care facilities and other long-term care agencies. The program will be funded with federal Medicaid funds of \$1.1 million and with health system fees of \$3.4 million, assuming changes are made to the Public Health Code.

Long-Term Care Related Changes

- **Minimum Wage Increase** – The Conference Committee concurred with the Executive recommended increase of \$3.6 million gross/\$1.5 million GF to recognize the impact of the minimum wage increase from \$7.15 to \$7.40 for Adult Home Help workers. In addition, the Conference Committee added \$2.4 million gross/\$1.0 million GF to provide funding to ensure that as of April 1, 2008, no Adult Home Help worker is paid less than \$7.50 per hour.
- **MIChoice Waiver Expansion** – The Conference Committee did not concur with the Executive recommended increase of \$20 million for the MIChoice waiver, and included only \$5 million gross/\$2.1 million GF. The Conference Committee also included the federal grant funding for Money Follows the Person.
- The Conference Committee concurred with the Executive Budget recommended increase of \$5.7 million gross/\$2.9 million GF for the Single Point of Entry line item, bringing the total appropriated for the projects to \$14.7 million.
- The Conference Committee restored the FY2007 \$15 reduction in Guardianship fees, returning them to \$60 per month.

Replace Unavailable Trust Funds with General Fund - The Conference Committee concurred with the Executive Budget recommendation to add \$80 million general fund to replace Medicaid Benefits Trust Fund and Merit Award Trust Fund monies that are not available. These funds served as match for the federal Medicaid dollars, so must be replaced to continue \$191 million in Medicaid services.

Federal Medical Assistance Percentage (FMAP) – The Federal Medical Assistance Percentage increased from 56.38 percent in FY2007 to 58.10 percent in

FY2008 increasing federal revenue and correspondingly reducing general fund need by \$155 million.

Cost Saving Initiatives – Several cost-saving policies are included in the final budget. New savings initiatives include:

- Implementation of a Medicaid Estate Recovery program—again—to save \$10 million gross/\$4.2 million GF. Estate recovery is mandated in the Medicaid statute; legislation has been passed to enable development of a program in Michigan—the last state to implement a program.
- As indicated above, the final budget included savings of \$33.4 million gross/\$14 million GF associated with implementation of the citizenship documentation requirement.
- Savings of \$1.7 million gross/\$0.7 million GF are assumed for enrolling all children in foster care in a managed care program by July 1, 2008.
- Implementation of a new disproportionate share hospital payment to be funded with increased provider taxes from which the state will retain \$17.5 million while paying out nearly \$102 million to hospitals.
- Savings for full-year implementation of Plan First! the Department's Family Planning Waiver. Due to delayed approval of the waiver by the federal government, savings assumed in the FY2007 budget did not materialize, but are expected to reduce costs by \$12.6 million gross/\$7.1 million GF in FY2008.
- Implementation of a methodology change for outpatient reimbursement for individuals eligible for both Medicaid and Medicare that will reduce Medicaid obligations to pay Medicare co-pays by \$10 million gross/\$4.2 million GF on a full-year basis.
- Savings are also included for increased third party liability recoveries totaling \$3.7 million gross/\$1.6 million GF.

Public Health Changes – Public health service changes include the following:

- The Conference Committee rejected the Executive Budget recommendation to reduce or eliminate 22 Healthy Michigan Fund prevention programs. Instead, the Conference Committee reduced Family Planning Local Agreements (\$226,500) and Pregnancy Prevention Programs (\$400,000)

and eliminated Newborn Hearing Screening and Treatment (\$250,000) for total savings of about \$.8 million. The Conference Committee redirected the savings to the Medicaid program, but reduced the amount designated for Medicaid long-term care services by \$1.8 million reflecting reduced tobacco tax revenues available to fund programs.

- The Conference Committee supported the addition of \$5 million gross for a federal Medicaid Transformation Grant to support technology projects to automate and integrate vital records into Medicaid and to implement health professionals one-source credentialing.
- The Conference Committee recognized \$15.7 million in additional federal funding available for the Women, Infants, Children (WIC) program.
- The Conference Committee also provided increased funding of \$150,000 each for community health centers and rural health centers, and \$60,000 for tribal elder programs.
- The Conference Committee increased funding for Multicultural Services by \$.6 million gross and general fund to be distributed equally among four organizations.

Mental Health Changes – Mental health service changes include the following:

- The Conference Committee concurred with the Executive Budget recommendation to add \$7.3 million gross/\$3.7 million GF to fully fund the 2 percent wage increase provided to mental health direct care workers in the current year. This wage increase was not adequately funded in the FY2007 budget and was included in the FY2007 supplemental.
- The Conference Committee added one additional mental health outpatient team for a total cost of \$.6 million in addition to concurring with the Executive recommended increase of two teams and \$1.0 million.

Administrative Changes

- The Conference Committee concurred with the Executive Budget recommendation adding \$26.1 million gross/\$9.8 million GF for FY2008 employee economics, including salary and wage increases, health insurance and retirement increases, and building occupancy cost increases.

- The Conference Committee concurred with the Executive Budget recommendation that established budget authority for the Office of Long-Term Care Supports and Services which was created pursuant to Executive Order 2005-14. The Office has a staffing allocation of 18.5, and funding of \$2.7 million.

There are numerous boilerplate sections within the FY2008 Community Health budget that were revised, added, or deleted. Additional information may be accessed through the Budget sections of the House or Senate Fiscal Agency websites at:

www.house.michigan.gov/hfa
www.senate.michigan.gov/sfa

Department of Labor and Economic Growth

Fiscal Year 2007-2008 Budget Summary *(in millions)*

	Original FY2007 Appropriation	FY2007 YTD Adjust- ments	FY2008 Governor's Revised Recom- mendation	FY2008 Senate	FY2008 House	FY2008 Appropri- ations Act (P.A. 118)	FY2008 % Change From Original FY2007
Gross Appropriations	\$1,231.5	\$75.3	\$1,349.6	\$1,294.0	\$1,301.5	\$1,301.2	- 5.7%
General Fund (GF)	\$47.4	- \$1.5	\$98.4	\$46.6	\$49.8	\$46.0	- 3.0%
<i>Staff Positions</i>	<i>4,297 FTEs</i>					<i>4,341 FTEs</i>	

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

The approved Department of Labor and Economic Growth (DLEG) budget for FY2008 reflects a \$69.7 million increase over the FY2007 original appropriation and a general fund reduction of \$1.4 million. Budget reductions resulted from the following:

- The transfer of the Career Education program to the Department of Education, for a gross reduction of \$32.8 million;
- The reduction of Workforce Investment Act (WIA) funds which were not expended in FY 2006-07 by \$4.4 million GF/GP;
- The reduction of the Bureau of Commercial Services, by \$3.0 million gross;
- The reduction in Fire Protection Grants by \$3.7 million GF/GP which was replaced by \$3.2 million from the Fire Protection Fund and \$0.6 million from the Liquor Revolving Fund.

The approved FY2008 DLEG budget includes the Executive-recommended \$13.5 million increase in the Jobs, Education and Training (JET) program. This

increase funds the statewide expansion of the JET program and adds 62.0 FTEs. In addition to the expansion of the program, the Conference Committee adopted the House's recommendation of \$140,000 which allows for a new Welfare-to-Work Pilot Program at Focus: HOPE to help improve job placement of welfare recipients.

The Executive budget included \$77 million for the No Worker Left Behind program, \$40 million GF/GP and \$37 million federal. The Conference Committee concurs with the Executive by redirecting \$37 million in federal Workforce Investment Act funds to No Worker Left Behind, but excludes the \$40 million of GF/GP funds.

The House included \$2.2 million for the Michigan State Housing Development Authority for the Michigan Housing and Community Development Fund. This fund would provide low income housing and revitalize downtowns. The Conference Committee reduced this amount by \$65,000.

Other highlights of the approved budget:

- The Conference Committee approved \$1.5 million GF/GP and gross for the Michigan Nursing Corps Program. This program is designed to recruit 200 displaced workers with bachelor's degrees in science to earn an accelerated one year nursing certification and prepare 500 new nursing faculty.
- The Conference Committee approved funds for a 3.0 percent contractual salary and 7.2 percent benefit and pension increase for employees. There is also a decrease of \$0.5 million due to

decreased occupancy charges for use of state-owned buildings and a \$1.0 million increase for self-insured workers compensation. Funding was obtained from a combination of state, federal, departmental grants, private, and restricted funds.

- The Conference Committee increased the Governor's recommendation by \$0.4 to the Land Bank Fast Track Authority for the maintenance or demolition of tax reverted properties.

K-12 Education (School Aid)

Fiscal Year 2007-2008 Budget Summary (in millions)

	Original FY2007 Appropriation	FY2007 YTD Adjust- ments	FY2008 Governor's Revised Recommendation	FY2008 House	FY2008 Senate	FY2008 ¹ Appropriations Act (P.A. 137)	FY2008 % Change From Original FY2007
Gross Appropriations	\$13,093.7	- \$85.5	\$13,390.5	\$13,311.3	\$12,820.3	\$13,006.0	- 0.7%
General Fund (GF)	\$35.0	\$0.0	\$35.0	\$35.0	\$41.0	\$34.9	- 0.3%

¹Appropriations reflect Governor's veto of \$1.275 million gross and School Aid fund for new transportation grants.

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

The enacted budget for the School Aid Fund (SAF) includes total funding of \$13 billion for K-12 education, of which \$11.5 billion are state (School Aid) funds. This budget represents a total overall funding reduction of \$.9 million from the adjusted FY2007 budget and a state funds reduction of about \$69 million. Most of the reduction in state funds is offset by an increase in federal funds which total \$1.5 billion. In addition to the above funds, schools together with community colleges are projected to receive \$4.5 billion from local property taxes.

The Conference Committee established a new basic foundation allowance of \$8,433, and provided a \$48 per pupil increase to districts at or above \$8,385 for FY2007, a \$96 per pupil increase to districts at \$7,108 (the basic foundation allowance plus equity payment) for FY2007, and an increase between \$48 and \$96 per pupil, on a sliding scale, for districts between the two values. The goal is to catch up all

districts and public school academies to the new basic allowance over time.

With the approval in FY2007 of the revaluing of the Michigan Public School Employee Retirement System assets to their fair market value as of September 30, 2006, the retirement and insurance rate for FY2008 has been reduced to 16.72 percent from the initial FY2007 rate of 17.74 percent.

The Conference Committee did not concur with the Executive recommended initiative to provide funding for school readiness full-day grants at a cost of \$195 million. The Conference Committee did provide \$2.8 million of the Executive recommended \$5.4 million gross and SAF for the current School Readiness programs to increase the per-child funding from \$3,300 to \$3,400. This increase brings total School Readiness program funding to \$94.0 million.

Other highlights of the FY2008 enacted Budget include:

- The Conference Committee maintained declining enrollment grants at the FY2007 \$20 million level. The \$16 million increase to further assist districts with two consecutive years of declining enrollment recommended in the Executive Budget and passed by the House was not approved by the Conference Committee.
- The Conference Committee did concur with elimination of the Middle School Math Initiative, saving \$20 million gross and SAF.
- The Conference Committee did not concur with the Executive Budget recommended funding of \$10 million to provide incentive payments to districts to promote consolidation of district business, administrative, and instructional services with Intermediate School District services.
- The Conference Committee provided a 1.0 percent increase, \$.8 million gross and SAF, for Intermediate School Districts' general operations; the Executive Budget recommended a 2.5 percent increase.
- The Conference Committee did not concur with the Executive Budget recommended \$2 million in increased funding for the Health/Science Middle College Program. This program creates partnerships among school systems, community colleges and hospitals to provide opportunities for high school students to earn college credit and receive on-the-job training in the health sciences field.
- The Conference Committee eliminated funding for the FIRST Robotics grants saving \$150,000 gross and SAF.
- The Conference Committee increased funding for the Michigan Education Assessment Program (MEAP) testing required by the State and Federal governments by \$6.3 million gross, \$5.9 million SAF, but did not include \$4.4 million for end-of-course exams recommended in the Executive Budget and approved by the House and Senate. The Conference Committee also eliminated \$.5 million for on-line MEAP practice testing offered through the Michigan Virtual High School.
- The Conference Committee included \$.75 million gross and SAF increase for Great Start Communities grants to be awarded by the Early Childhood Investment Corporation (ECIC). Total available funding is increased to \$1.75 million.
- The Conference Committee increased funding for 0-3 Secondary Prevention Interagency grants by \$375,000 gross and SAF, bringing the total to \$1.75 million in the School Aid Fund.
- The Conference Committee concurred with the Executive Budget, House and Senate recommendations to increase Special Education funding by \$34.5 million gross and SAF to cover mandated special education program costs and transportation.
- The Conference Committee concurred with the Executive Budget, House and Senate recommendations to increase federal funding, based on estimates of federal funding for No Child Left Behind and Special Education, and for the transfer of \$28.5 million for Career and Technical Education Funding (from the Department of Labor and Economic Growth). The total funding increase is \$68.1 million all federal.
- The Conference Committee added \$1.3 million gross and SAF for transportation grants to districts covering more than 200 square miles. NOTE: This funding was vetoed by the Governor.
- The Conference Committee added \$2.75 million gross and SAF for a number of one-time grants for pilot projects and special subsidies including:
 - ▶ Reinstatement of funding eliminated in FY2007 for the Pontiac Crisis Intervention program – \$300,000.
 - ▶ Demonstration projects in science and math instruction – \$350,000 for Grosse Pointe.
 - ▶ Initiatives to increase opportunities for academically talented students, implement district-wide improvement projects, implement positive behavior support programs – \$150,000 for Harper Woods.
 - ▶ Subsidies for districts with deficits, deficit mills, or millage reductions. Schools meeting the requirements and the subsidies are: Redford Union, \$900,000; Pontiac, \$400,000; Chippewa Valley, \$400,000; and Clintondale, \$250,000.

Department of Education

Fiscal Year 2007-2008 Budget Summary (in millions)

	Original FY2007 Appropriation	FY2007 YTD Adjust- ments	FY2008 Governor's Revised Recommendation	FY2008 House	FY2008 Senate	FY2008 ¹ Appropriations Act (P.A. 119)	FY2008 % Change From Original FY2007
Gross Appropriations	\$90.6	- \$1.2	\$97.5	\$97.8	\$93.3	\$96.5	+ 6.5%
General Fund (GF)	\$6.6	- \$0.4	\$7.3	\$8.2	\$3.7	\$7.1	+ 7.6%
Staff Positions	435.5 FTEs					466.5 FTEs	

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

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

The enacted budget for the Department of Education includes total funding of \$96.5 million, of which \$7.1 million is general fund (GF). This recommendation represents, for the most part, a continuation of the budget enacted for FY2007. The largest dollar change in the budget, totaling just over \$4 million, is the transfer of the Career and Technical Education unit from the Department of Labor and Economic Growth. The budget also reflects the sale of the former site of the School for the Blind in Lansing and eliminates the rental revenue and associated maintenance costs (\$1.8 million gross/\$0 GF).

Highlights of the final FY2008 Budget include:

- The transfer of 25.0 FTEs and \$4.3 million gross/\$.7 million GF from the Department of Labor and Economic Growth for the creation of the Career and Technical Education unit in the Department of Education. This transfer provides the budget authority for Executive Order 2007-4.
- Conference Committee concurred with the Executive Budget recommendation to increase teacher certification fees to generate \$1.7 million in new revenue to fund the upgrade and conversion of the teacher licensing database, and to eliminate a projected shortfall in the funding of the Professional Preparation Services unit. Legislation increasing the fees has been passed by the Legislature and signed by the Governor;

- The Conference Committee concurred with the Executive Budget recommendation to increase funding for the Michigan School for the Deaf and Blind by \$973,400 gross/\$0 GF for additional staff (7 FTEs) and programming due to projected enrollment increases of 15 students. For the period FY2005 – FY2008, enrollment will have increased by 46 percent.
- The Conference Committee continued funding for the Wayne State University Pathways to Teaching Program (\$100,000), and the Central Michigan University Alternative Route to Certification Program (\$100,000). The Executive Budget recommended elimination of funding for both programs.
- The Conference Committee concurred with the Executive recommended economic increases of \$1.7 million gross/\$0.2 million GF to cover employee-related salary and wage increases, retirement and health insurance increases, as well as building occupancy cost increases.

It is worth noting that the Department alerted the Legislature, in testimony before the House Appropriations Subcommittee, that they do not have the funding or staffing resources to carry out all that is required of the Department and, therefore, are unable to meet federal and audit requirements. In the final appropriation for FY2008, the only staffing increase is 7.0 FTEs for the School for the Deaf and Blind.

Higher Education

Fiscal Year 2007-2008 Budget Summary

(in millions)

	Original FY2007 Appropriation	FY2007 YTD Adjust- ments	FY2008 Governor's Revised Recom- mendation	FY2008 House	FY2008 Senate	FY2008 ¹ Appropriations Act (P.A. 136)	FY2008 % Change From Original FY2007
Gross Appropriations	\$1,787.5	(\$164.6)	\$1,883.7	\$1,985.2	N/A	\$1896.4	N/A ²
General Fund (GF)	\$1,624.8	(\$164.6)	\$1,750.5	\$1,853.4	N/A	\$1,761.8	N/A ²

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

²The entire net increase in the Higher Education budget is attributable to FY2007 payments that were re-appropriated for distribution in FY2008.

Source of data: House Fiscal Agency Conference Committee Summary Report

The approved FY2008 budget for Higher Education restored \$138.7 million in payments originally scheduled for distribution to Michigan's universities in FY2007. It also recognized a 1 percent (\$14.1 million gross/\$23.6 million GF) increase in operations funding, well below the 2.5 percent increase recommended by the Executive Budget and the House to cover expected inflationary costs in the new fiscal year. The Conference Committee also approved the continuation of \$25.8 million gross/\$25.9 million GF in Higher Education reductions adopted as part of the deficit reduction package late in FY2007. When funding to replace prior-year delayed payments is removed from FY2008 appropriations, total Higher Education appropriations fell by 1.7 percent relative to the original FY2007 budget, and by approximately 3.2 percent when expected inflationary impacts are considered.

Also of note in the FY2008 Higher Education budget were House and Senate Conference Committee decisions to:

- Reduce Higher Education appropriations by \$24.2 million gross and GF in association with the transition from the Michigan Merit Award Program to the Governor's Promise Grant Program.
- Reduce the Tuition Grant Program for students attending private schools in Michigan by \$2.1 million gross/\$600,000 GF relative to the original FY2007 appropriation for this program. This decision preserved most of a \$58.8 million program recommended for elimination by the Governor.

- Add \$1.4 million gross and GF to reimburse Michigan universities for approximately 40 percent of waived tuition costs for Native American students.
- Add \$169,100 gross and GF to fund a .5 percent increase in the operating costs of the Michigan State Agricultural Experiment Station, and \$145,900 gross and GF to fund a .5 percent increase in appropriations supporting the Cooperative Extension agency. The Executive Budget recommended that funding for the Agricultural Experiment Station remain unchanged and funding for the Cooperative Extension agency be reduced by 7.5 percent from appropriated levels in FY2007.
- Increase funding for the Tuition Incentive Program (TIP) by 50.7 percent (\$7.1 million gross) to reflect expected increases in program costs. While the Conference Committee adopted this Executive Budget recommendation to significantly increase TIP's budget, it used \$9.5 million of restricted Tobacco Settlement proceeds to cover related spending and to reduce the ongoing GF cost of the TIP program by \$2.4 million.
- Increase State Competitive Scholarship funding by \$1.4 million gross/\$1.8 million GF.
- Remove \$5 million in one-time special funding for the Michigan Leadership, Education and Development (MiLEAD) initiative, a program designed to employ at-risk youth in conservation-based

community service work for which they received college credits.

- Appropriate \$3 million in increased federal grant funds for low-income student scholarships.

There are numerous boilerplate sections within the FY2008 Higher Education budget that were revised,

added, or deleted. Additional information may be accessed through the Budget sections of the House or Senate Fiscal Agency websites at:

www.house.michigan.gov/hfa
www.senate.michigan.gov/sfa

Community Colleges

Fiscal Year 2007-2008 Budget Summary *(in millions)*

	Original FY2007 Appropriation	FY2007 YTD Adjust- ments	FY2008 Governor's Revised Recom- mendation	FY2008 House	FY2008 Senate	FY2008 ¹ Appropriations Act (P.A. 120)	FY2008 % Change From Original FY2007
Gross Appropriations	\$289.9	- \$42.0	\$323.1	\$0.003	\$333.8	\$318.9	+ 10.0%
General Fund (GF)	\$289.9	- \$42.0	\$323.1	\$0.003	\$333.8	\$318.9	+ 10.0%

¹The 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

The Conference Committee adopted a final budget for Community Colleges which is 1.3 percent below the revised Executive Budget and 4.5 percent below the House recommendation (the Senate included \$100 placeholders for all line items in the bill).

Overall funding is increased for FY2008 by 10.0 percent to \$318.9 million. This increase however, includes a \$175,000 reduction for reimbursement to colleges with renaissance zones in their districts, reflecting the revised estimates of funding needed for reimbursement. The appropriation also includes \$25.8 million in delayed payments contained in Executive Order 2007-3 and 2007 PA 17 and delayed payments from FY2006-2007. Funding is also

restored for the one-time reduction in retirement savings of \$16.3 million from Executive Order 2007-3.

Funding is continued for the At-Risk Student Success Program and maintains \$225,000 from the FY2006 supplemental for Wayne County Community College. No funding is included for Nursing Program Grants.

There are numerous boilerplate sections within the FY2008 Community College budget that were revised, added, or deleted. Additional information may be accessed through the Budget sections of the House or Senate Fiscal Agency websites at:

www.house.michigan.gov/hfa
www.senate.michigan.gov/sfa

Department of Corrections

Fiscal Year 2007-2008 Budget Summary

(in millions)

	Original FY2007 Appropriation	FY2007 YTD Adjust- ments	FY2008 Governor's Revised Recom- mendation	FY2008 House	FY2008 Senate	FY2008 ¹ Appropriations Act with Veto (P.A. 331)	FY2008 % Change From Original FY2007
Gross Appropriations	\$1,940.4	168.0	\$2,035.6	\$2,115.2	\$2,022.5	\$2,078.3	+ 7.1%
General Fund (GF)	\$1,858.6	\$13.3	\$1,966.0	\$2,032.9	\$1,940.4	\$1,996.1	+ 7.4%
Staff Positions	17,798 FTEs					17,653.4 FTEs	-134.6 FTEs

¹The Governor signed the Corrections budget bill without vetoes.

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

The approved FY2008 budget for the Department of Corrections (DOC) includes an increase of \$124.7 million gross and \$137.5 million in state General Fund (GF), equivalent to an increase of 7.1 percent gross/7.4 percent GF over the original FY2007 DOC appropriation.

The cost of inflation-related economic adjustments for utilities and food as well as staffing related wages, insurance and retirement costs represent the largest change in the budget for FY2008. To cover the cost of these economic adjustments, the Executive Budget recommended and the House and Senate concurred with the addition of \$84.9 million gross/\$82.9 million GF.

Most notable, in terms of Executive Budget policy proposals, was the rejection by the Senate of the Governor's recommendation to parole several thousand aged inmates with significant health issues thus permitting related health care costs to qualify for federal Medicaid match. Also rejected by the Senate was the administration's proposal to amend statutes to reduce some sentencing guidelines for specific non-violent crimes. These guidelines have been identified as contributing to a Michigan incarceration rate (489 prisoners per 100,000 residents) that exceeds the average incarceration rate of the other Great Lakes states (340 per 100,000 residents) by over 43 percent.

In addition to the economic adjustments outlined above, the following Department of Corrections facility, staffing and program budget changes were agreed to by the Legislature and the Governor.

- Closure of the 1,481 bed Southern Michigan Correctional Facility in Jackson effective November 15 resulting in a savings of \$36.6 million gross and GF.
- Closure of the 483 bed Egeler Annex in Jackson effective last July for an annualized FY2008 savings of \$9.3 million gross and GF.
- Closure of the 264 bed Camp Manistique in Munising effective October 20 for a savings of \$4.6 million gross/\$4.5 million GF.
- Opening of approximately 2,000 beds in numerous correctional facilities across Michigan to absorb most of the prisoners being transferred from the three closed facilities referenced above at a cost of \$33.37 million gross and GF.
- In addition to the bed openings cited above, the House and Senate Appropriations Conference Committee approved a policy change that would permit an increase from 7 beds to 8 beds in the eight facilities with open-bay quarters for prisoners. This policy change, which is a continuation

of a trend that has increased the number of prisoners residing in open bays from four to seven in recent years, is expected to increase prison capacity by 688 beds at a cost of \$8.6 million gross and GF.

- An adopted Senate initiative will result in the closure of the Riverside Correctional Facility and the reopening of the Michigan Reformatory in Ionia at a net savings of \$1.79 million gross and GF and a net increase in capacity of 127 beds.
- The Appropriations Conference Committee adopted revisions in prison staffing that are expected to reduce 79 full-time positions at a saving of \$5.9 million in gross and GF.
- The Conference Committee also restored the Public Works Program which assigns prisoners to community projects. This program, which was discontinued late in FY2007 as a cost savings measure, would be reinstated by April 1, 2008 at a daily cost per participating prisoner of \$30 to the benefiting governmental unit, up from a previous rate of \$15 per day. The higher daily rate is expected to reduce gross expenditures by \$1.5 million and save \$2.8 million GF.
- The Executive Budget recommended and the Legislature adopted a 138 FTE increase in the Department of Correction staff to provide security for hospitalized prisoners at cost of \$1.1 million gross and GF. Much of the related cost of this staffing expansion is offset by reducing the hours of overtime for staff currently providing security coverage.
- The Conference Committee rejected an Executive Budget recommendation to increase funding for corrections officer training by \$2.7 million, acting instead to reduce training related authorizations by \$820,000 gross and GF from the levels approved in the prior-year budget.
- The Conference Committee adopted an Executive Budget recommendation to fund an expansion of the Michigan Prisoner Re-entry Initiative (MPRI), a program intended to improve the success of parole and reduce recidivism by providing prisoner assessment, individualized case management

and coordinated community support programs. The addition of \$20.6 million gross and GF is intended to expand Phase I of MPRI state-wide and to fund Phase II and Phase III pilot sites. In addition the Legislature adopted the Executive budget recommendation to add 21 full time positions in Michigan's prisons to coordinate planning and transitional services for paroling prisoners at a cost of \$1.77 million gross and GF.

- The Legislature concurred with revised Executive Budget recommendations to increase prisoner off-site hospital and specialty health care funding by \$23.2 million gross and GF, and to increase prison clinic funding by a net \$11.8 million gross and GF after reflecting \$2 million in savings associated with initiatives undertaken to reduce pharmaceutical costs.
- The Conference Committee added \$1.7 million gross and GF to the DOC budget to fund increased screening of prisoners determined to be at high risk of hepatitis C, and to treat those diagnosed with this disease. An analysis by the Senate Fiscal Agency also indicated that the additional funding was intended to cover HIV testing.
- The Conference Committee approved a total of \$1.24 million gross and GF related to the diagnosis and treatment of mental illness in Michigan's prison population. Of that amount, \$400,000 was added at the behest of the Legislature to conduct an independent study of the prevalence of mental illness and substance abuse problems in this population.
- The final DOC budget also saw the addition of \$4 million to cover the cost of 500 GPS electronic tethers for use in monitoring offenders placed in community settings.

There were numerous boilerplate changes included in the FY2008 Department of Corrections budget. Detailed information regarding these and other budget changes may be accessed from the House or Senate Fiscal Agency websites at:

www.house.michigan.gov/hfa
www.senate.michigan.gov/sfa