

IN THIS ISSUE:

State Budget Summary	1	Department of Education	11
Department of Human Services	2	Higher Education	11
Department of Community Health	5	Community Colleges	12
Department of Labor & Economic Growth	8	Department of Corrections.....	12
K-12 Education (School Aid)	9		

FISCAL YEAR 2008-2009 EXECUTIVE BUDGET PROPOSAL AND LEGISLATIVE ACTION TO DATE

K-12, Infrastructure and Financing Proposals are the Focus of Governor's Plan

As noted in a brief summary of the Executive Budget released by the Michigan League for Human Services in February, much of the focus of Governor's FY2009 budget proposal was on K-12 Education. The Governor's Executive Budget included recommendations to increase per pupil foundation grants by up to three percent and to undertake a twenty year plan to transform under-performing public schools with over 800 students, into improving performance schools of no more than 450 students through investments in planning and infrastructure.

The Executive Budget also focused on a series of infrastructure projects related to universities and community colleges, roads and bridges, airports, state agency buildings and business promotion valued at over \$1 billion, to be paid for primarily with the proceeds from bond sales.

Additionally the Governor recommended a package of debt restructuring to take advantage of declining interest rates, while constraining staff related costs through negotiated employee salary and health care concessions valued at nearly \$200 million.

For its part, the Legislature appears in no mood to revisit last year's contentious budget debates, which saw deliberations over multi-billion budget and

financing issues drag well into the current fiscal year without resolution.

With relative minor fiscal issues for FY2009 identified to date, and the expressed desire to complete work on the state's 19 department budgets by the 4th of July summer recess, the Legislature appears to be making significant progress in moving bills through the respective appropriations committees in time to adjourn for the campaign season leading up to the fall elections.

There are potential glitches in this otherwise optimistic outlook. The likelihood exists that the May Consensus Revenue Estimating Conference will acknowledge revenues several hundred million dollars below the level anticipated when the Executive Budget was drafted. In apparent anticipation of that eventuality, actions-to-date by several appropriations subcommittees indicate that they will recommend appropriations at or below the Governor's recommendations.

In addition, the Executive Budget does not address the potential impact of revised rules and regulations issued over the last year by the Centers for Medicare and Medicaid. Most of the regulations are currently under moratorium. If these regulations are implemented (some retroactively), their financial impacts

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will devastate the Michigan Medicaid program. Efforts are underway by numerous groups, including the League, the National Conference of State Legislatures, the National Governor's Association, and the National Association of State Medicaid Directors to stop implementation of these arbitrary regulations.

Further, the Legislature continues work on the FY2009 budget, it is also considering a series of property tax bills that proponents claim will help alleviate the negative impact the sub-prime mortgage crisis is having on Michigan's housing market. These measures would potentially delay automatic property tax increases for residents attempting to buy or sell a home and eliminate property tax increases for households experiencing a decline in the value of their property.

While the House and Senate fiscal agencies have not completed a comprehensive review of these

proposals, a preliminary analysis suggests that adoption of some or all of these proposals would likely reduce state revenues by several hundred million dollars in FY2009. These potential revenue losses, together with recently acknowledged reductions in anticipated state revenues, suggest that FY2009 budget targets will likely be reduced following the May Consensus Revenue Conference. If target reductions prove necessary, the Legislature may revisit many of the tentative budget decisions outlined in the discussion above. The Michigan League for Human Services will continue to monitor the budget decision-making process and issue periodic updates as additional information becomes available.

The following discussion and analysis reflects actions to date in response to the administration's major human services budget recommendations for FY2009.

Department of Human Services (DHS)

The Governor's Executive Budget recommended Department of Human Services (DHS) funding of \$4.65 billion, a 1.8 percent (\$81.3 million) increase over adjusted FY2008 DHS funding. The administration's proposal also recommended a 5.2 percent (\$68.1 million) General Fund increase and a net staffing reduction of 137 positions due to a base adjustment that recognized the FY2008 DHS appropriation was insufficient to fund many of the recognized positions.

Per recently negotiated collective bargaining agreements, the administration's budget recommendation reflected no cost-of-living salary adjustment for FY2009 and assumes savings related to increased state employee health care premiums, deductibles and co-pays. The total savings assumed relative to state employee salary and fringe benefit concessions and adjustments totaled approximately \$200 million.

The following reflects Executive Budget and House Appropriation Committee recommendations for the Department of Human Services budget. Note that the House Appropriations Committee's recommendations could be amended on the floor of the

House and that to date no action has been taken by the Senate on the DHS budget.

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

The Executive Budget recommended several FIP policy and utilization adjustments, including the first general cost-of-living grant increase since 1990, a nineteen year period over which the cash assistance grant lost over one-third of its purchasing power. This recommendation, projected to cost \$7.48 million Gross/\$7.48 million GF, would increase the grant for a family of three with no other income from \$489 per to \$498 month (2 percent). This recommendation was adopted by the DHS House Appropriations Committee.

Also included in the Executive Budget was a recommendation to restore the annual children's clothing allowance to \$75, up from the \$43 per child distributed by the department in FY2007 at a cost of \$3.92 million Gross/\$3.92 GF. The House Appropriations Committee adopted a proposal to increase the clothing allowance to \$100 at an additional cost of \$3 million Gross and GF.

The administration recommended increasing the budgeted FIP caseload by 1.3 percent (1,000 cases) to 77,000 and increasing the budgeted average monthly cost per case to \$420 due in part to lower than anticipated earned income, at a cost of \$16.3 million Gross/\$16.3 million GF. The House Appropriations Committee, noting that the FIP caseload had declined in February to less than 74,000 cases, recommended reducing the funded caseload for FY2009 to 73,700 at an average monthly cost per case to \$408, resulting in a savings of \$31.18 million Gross/\$29.73 million GF.

The Michigan League for Human Services notes, regarding what appears to be an unexpected FIP caseload decline, that DHS recently choose to institute an optional policy requiring public assistance applicants to provide a range of documents related to citizenship, many of which may be available to caseworkers over the internet, before their application for assistance is considered complete. This new requirement, which is mandatory for Medicaid applicants, appears to have sharply reduced Medicaid case openings as well. In March the Michigan League for Human Services brought this apparent impact to the attention of the DHS director and requested that the policy and its implementation process be reviewed to assure that households entitled to Medicaid and public assistance benefits are not denied critical benefits to which they are entitled.

The administration also proposed a policy change that would permit the state to retain a portion of retroactive federal lump-sum Supplemental Support Income (SSI) payments to reimburse the state for FIP grant payments made to a household during the period that their SSI claim was being processed. The resulting state GF savings from this proposed policy change is estimated to total \$4.33 million. The House Appropriations Committee concurred with this recommendation.

The Executive Budget recognized a savings of \$5.3 million Gross/\$5.3 million GF related to new federal funding available to match state expenditures associated with an optional \$50 per month pass-through of child support collections to families on public assistance. (While states are permitted to withhold child support payments as reimbursement for public assistance payments up to the value of those payments, Michigan has adopted the option of passing the first \$50 of child support collections on to the family.) The House Appropriations Committee concurred with this recommendation.

State Disability Assistance (SDA)

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

Day Care Provider Rate and Caseload Changes

The Executive Budget recommended the addition of \$20 million Gross/\$20 million General Fund to support \$18.3 million in unspecified day care provider rate increases and \$1.7 million in Day Care program administration costs. The DHS House Appropriations Committee recommended that the day care provider rate increase be limited to \$15 million and that it be distributed as an across-the-board increase for all provider categories. The committee did not adopt the Executive Budget recommendation to add \$1.7 million to cover increased day care administration costs.

In addition to the general across-the-board increase noted above, the House Appropriations Committee approved \$5.6 million Gross/\$5.6 million GF to fund a 4 percent rate increase for day care centers, group homes and family homes that are licensed or registered with DHS.

The DHS Appropriations Committee also approved a decrease in the budgeted Day Care program caseload and average monthly payment from 56,000 to 52,000 and from \$584 to \$570 respectively, resulting in a projected savings of \$30.8 million Gross/\$30.8 million General Fund.

Bureau of Children and Adult Licensing Staff

The Executive Budget recommended the adoption of two positions in the Bureau of Children and Adult Licensing to handle regional background checks at a cost of \$182,800 Gross and General Fund. The House Appropriations Subcommittee concurred with this recommendation but added an additional 12 licensing staff at a cost of \$1.26 million Gross/\$1.05 million General Fund.

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

The Executive Budget recommended and the House Appropriations Subcommittee concurred with the recommendation to redirect \$1.36 million in federal funds from the JET program to support an additional

63 Family Independence Program caseworkers and 20 related supervisory and administrative support staff.

Redirect Funding Related to Juvenile Justice Staffing to Support the Expansion of DHS Field Office and Program Staff

The House Appropriations Subcommittee adopted recommendations to reduce Juvenile Justice facilities staff by a total of 60 positions at a savings of \$6.2 million Gross/\$4.12 million General Fund and to redirect most of the resulting savings to line-items in DHS and program field staff.

Specifically the House Appropriations Subcommittee recommended the addition of \$5.42 million Gross/\$3.73 million General Fund to support the addition of 64 new DHS field staff, 5 new Foster Care and Adoption Contract monitoring staff and 3 new staff to oversee the interstate placement of children.

Indigent Burial Services Reimbursement

The House Appropriations Committee adopted a recommendation to reverse the 25 percent Indigent Burial reimbursement rate reduction instituted in FY2008 as part of the deficit reduction package. This recommendation, if included in the finalized FY2009 budget, would return the burial reimbursement rate to \$909 at a total annual cost of \$1.36 million Gross/\$1.36 million General Fund.

Bridges Toward Responsible Adulthood

The House Appropriations Committee approved the establishment of a new \$1 million Gross/\$200,000 General Fund program intended to assist older youth transitioning out of the child welfare system.

Other House Appropriations Budget Initiatives

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

- Restore \$200,000 in federal TANF funding for the MSU Kinship Care Resource Center.

- Increase funding for the Michigan 2-1-1 Program by \$100,000 General Fund.
- Increase funding for the MiCAFE senior food program by \$30,000 General Fund.
- Fund facility improvements at the Maxey Training School to facilitate the housing of youth offenders at a cost of \$2 million General Fund.
- Fund property development efforts at the Adrian Training School at a cost of \$1 million General Fund.

Other Issues and Concerns

Since March 2002, when an early retirement program for state employees was announced, onboard staffing at the DHS declined by nearly 30 percent, from over 14,000 to approximately 10,000 full-time employees. The loss of many of the department's most experienced staff, together with a significant increase in most DHS program caseloads, resulted in a dramatic increase in caseload/worker ratios.

A newly released audit covering the four-year period subsequent to early retirement implementation indicates that inadequate staffing over this period resulted in delayed program eligibility determinations and increased error rates. The Michigan Auditor General's March 7th report indicated that a seriously restricted budget, together with an over-worked and inadequately trained staff, resulted in millions of dollars in misspent funds, potential federal sanctions, and lost incentives related to high error rates and delayed processing.

While the Legislature approved a significant increase in children's services staffing in the FY2008 budget, and the House Appropriations Committee approved an increase of approximately 125 field staff for FY2009 as outlined above, no action to replace a significant portion of the approximately 4,000 experienced staff lost in association with the 2002 early retirement appears eminent. Given this reality, it is difficult to imagine that the error rate, delayed processing, misspent funds, and federal sanction issues highlighted in the Auditor General's report will be addressed in the foreseeable future.

Department of Community Health (DCH)

The Governor's budget recommended total funding for the Department of Community Health of \$12.5 billion, of which \$3.1 billion is general fund. This represents 27.8 percent of the total state budget and 31.5 percent of the statewide general fund recommendation, slightly less than the current year at 31.7 percent. Medicaid health and long term care services represent about 68 percent of the Department's budget, with Medicaid-funded mental health services totaling an additional 20 percent. While the FY2009 recommendation represents a gross increase of more than \$400 million over the current FY2008 law, the FY2009 general fund recommendation is a reduction of nearly \$40 million.

The good news in the FY2009 state budget is that the starting point was not a billion dollar revenue shortfall. The bad news, however, is that the state does not have sufficient state revenue to fund critical programs and services on an ongoing basis, and so continues to rely on special financing mechanisms in Medicaid as an alternative to state general fund. At the same time the state is expanding Medicaid provider taxes, the federal government is working to close those opportunities and shift costs back to the states.

Medicaid-eligible populations and services are preserved in the Executive Budget recommendation. The continued inclusion of the Adult Benefits Waiver (scheduled to expire on January 31, 2009) assumes the waiver will be renewed by the federal government, but under the current administration, that approval is anything but certain. The Executive Budget recommendation for this program, which provides very low-income childless adults with limited outpatient coverage, is \$137 million of which nearly \$112 million is federal revenue.

The budget does recognize caseload growth and utilization increases, although the caseload growth is likely dampened by the impact of the new federally mandated citizenship and identity documentation requirements that are resulting in U.S. low-income citizens being inappropriately denied Medicaid eligibility in Michigan and around the country due to the high cost of securing the documents.

The Governor continues to work with the federal government to secure approval for her *Michigan*

First Healthcare Plan first introduced in the FY2007 budget. Approval had been anticipated by the end of 2006, with an April 1, 2007 implementation, however federal approval has still not been granted. Implementation of the plan is still a high priority for the Governor, and the FY2009 budget continues the \$100 million gross and federal recommendation. The new health care initiative, if approved, will provide affordable insurance coverage to families and individuals without employer-based health care coverage who have incomes below 200 percent of the poverty level. The program will be financed with federal funds secured through a federal Medicaid waiver. There are no other initiatives included in the Executive Budget to reduce the number of uninsured.

The Executive Budget recommendation includes several expansions in community-based long term care services funded by proposed reductions in nursing home utilization and changes in the payment methodology. Specific proposals are detailed below.

The Executive Budget also recommended new investments in public health services after several years of little investment and yearly proposals to reduce or eliminate Healthy Michigan Fund programs. The FY2009 Executive Budget included no reductions in Healthy Michigan Fund programs.

The Senate has completed action on the Department of Community Health budget, adopting few of the Governor's key initiatives and inserting several priorities of their own. Key policy changes included elimination of Medicaid coverage for federally-defined optional 19 and 20 year olds, a reduction of \$10.8 million in Healthy Michigan Fund funding, and a Medicaid physician rate increase for primary care services. Senate action on individual Executive Budget recommendations is annotated below and a summary of Senate initiatives follows the Executive Budget recommendations.

Other highlights of the Executive Budget recommendation include:

Caseload and Utilization Increases

The Executive budget included a reduction of \$53.3 million gross, \$26.4 million general fund to reflect lower than projected costs and caseload for FY2008, and an increases of \$211.3 million gross, \$77.0

million general fund to recognize FY2009 projected caseload growth and medical care utilization in Medicaid, Children's Special Health Care Services, Mental Health/Substance Abuse, and the Adult Benefits Waiver. The net change is an increase of \$163.9 million gross, \$59.4 million general fund. The projected monthly average number of persons eligible for Medicaid is 1,583,087. Funding is recommended to maintain the Adult Benefits Waiver at the federally approved caseload of 62,000 and assumes federal approval of renewal of the waiver. The Senate concurred with these adjustments.

Actuarially Sound Rates for Health Maintenance Organizations/Managed Care Plans

Funding of \$175.4 million gross, \$66.5 million general fund is recommended to meet the federal requirement that rates paid to health maintenance organizations (HMOs)/managed care plans, including mental health managed care organizations, must be actuarially sound. The Senate concurred with these adjustments.

Expand Community-Based Long Term Care Services

The Executive Budget recommended the expansion of several community-based long term care services to address demand and reduce waiting lists. The proposed expansions would be funded by reductions in nursing home admissions and changes in the payment methodology. The expansions include:

- Two new Program of All-Inclusive Care for the Elderly (PACE) programs, one in Calhoun and one in Muskegon County – \$5.4 million gross, \$2.1 million general fund,
- Development of affordable assisted living models through working with MSHDA – \$2.6 million gross, \$1.0 million general fund,
- Development of specialized residential settings under the Home and Community Based Waiver (HCBW) – \$14.0 million gross, \$5.6 million general fund,
- Additional Home and Community Based Waiver slots to reduce the waiting list – \$10.0 million gross, \$5.6 million general fund.

The Senate provided \$1.0 million gross to fund the above initiatives which total \$32.4 million.

Public Institution Physician Adjustor Payment Increase

Funding of \$42.7 million gross, \$0 general fund is recommended to increase the physician adjustor

payments for public institutions. These payments are made through the Health Maintenance Organizations (HMOs). Physician services at Michigan State University, Wayne State University, University of Michigan and Hurley Hospital will receive the enhanced payments. The public entities provide the required match. This program was implemented late in FY2007, and funding for FY2008 is included in the FY2008 supplemental request. Because payments are processed through the HMOs, the resulting benefit from the provider tax provides a \$1.4 million general fund savings. The Senate concurred with these adjustments.

Annualize Minimum Wage Increase

The Executive Budget recommended an increase of \$10.9 million gross, \$4.3 million general fund to annualize the impact of the wage increase and guarantee to Adult Home Help workers of no less than \$7.50 per hour. The Senate concurred with these adjustments.

Annualize Cost of Healthy Kids Dental Expansion

The Executive Budget recommended the addition of \$7.9 million gross, \$3.1 million general fund to recognize the full-year cost of expanding the Healthy Kids Dental program to Genesee and Saginaw Counties. This expansion, to be implemented in July 2008, is expected to serve 78,800 children. The Senate concurred with these adjustments.

Increase School Based Services Funding

The Executive Budget recommended an increase of \$5.8 million federal funds to go to schools based on increasing caseload/utilization. Because the state only passes through a portion of the federal funds to the schools and retains the balance, the state will benefit \$3.8 million. The Senate concurred with these adjustments.

Replace Unavailable Trust Funds with General Fund

The Executive Budget recommended the addition of \$55.9 million general fund to replace other funding that is not available, including Medicaid Benefits Trust Fund (\$10.6 million) and Merit Award Trust Fund (\$45.3 million). The Senate concurred with these adjustments.

Federal Medical Assistance Percentage (FMAP)

The Federal Medical Assistance Percentage will increase from 58.10 percent in FY2008 to 60.27 percent in FY2009 increasing federal revenue and correspondingly reducing general fund need by

\$176.9 million. The Senate concurred with these adjustments.

Cost Saving Initiatives

Several cost-saving policies are recommended in the Executive Budget. Savings initiatives include:

- Elimination of the \$5 million Disproportionate Share Hospital payment pool added in FY2005. *The Senate rejected this proposal.*
- Additional pharmacy rebate savings of \$8.2 million gross, \$3.2 million general fund due to the change (under the Deficit Reduction Act) in product price calculations. The Senate adopted this proposal.
- A revised state benefit calculation from the provider taxes from hospitals and nursing homes. The revised state benefit would be based on 14.4 percent of the total federal gain, providing savings from hospitals of \$25.4 million and savings from nursing homes of \$10.8 million. This recommendation requires legislative changes. The Senate adopted this proposal.
- A limitation in the growth of the variable cost component for nursing homes. Reducing the growth in the variable cost component from 4.9 percent to 2.5 percent is expected to save \$31.3 million gross, \$12.4 million general fund. The Senate rejected this proposal.
- A reduction in nursing home admissions saving \$32.4 million gross, \$12.9 million general fund. These nursing home related savings are expected to fund the long term care community based services expansions described above. The Senate concurred with this proposal, but included only \$1.0 million of the savings to finance long term care initiatives, the remaining savings were used for other priorities.

Public Health Changes

As indicated above, the Executive Budget recommended numerous public health service changes and initiatives including:

- Public Health Physician Practice Project, \$600,000 gross, \$300,000 general fund, is a partnership with Michigan State University and University of Michigan to recruit and train potential qualified medical directors for the local health departments. One third of the current directors are nearing retirement. The Senate adopted this proposal.

- Infectious disease initiatives totaling \$1.3 million gross and general fund to address the emergence of drug-resistant staph infections and to expand testing and treatment in Wayne County for Gonorrhea and Chlamydia. Senate rejected these proposals.
- Funding to continue the Criminal Background Check program, developed and implemented under a federal grant, to provide background checks for direct care workers in long-term care settings, is recommended to continue using Health System fees for adult foster care and homes for the aged only. The federal grant that supported development and implementation of the program has been exhausted. A statutory change is needed to require long term care facilities and agencies to cover the cost starting in FY2009.

The Senate added \$1.0 million gross and general fund to continue state payments for the cost of background checks for new employees. It is worth noting that NO funding has been included in either the Community Health or Human Services budgets to assist applicants/recipients with the cost of securing newly required documentation for eligibility determination.

- Administrative investments totaling \$2.4 million gross to add staff to address the backlog of complaints of abuse or neglect in nursing homes, and to upgrade the customer service phone system for health professionals' licensing.

The Senate concurred with the addition of staff and funding to reduce the backlog of nursing home complaints, but added only \$.5 million (of the Executive recommended \$2.0 million) for the new phone system.

Mental Health Changes

- The Executive Budget recommended funding of \$1.0 million from the Department of Corrections for two additional mental health outpatient teams to serve the increased demand. The Executive Budget also included \$1.2 million from the Department of Corrections to support a new Residential Treatment Program. The Senate concurred with these proposals.
- The Executive Budget recommended \$2.3 million gross and general fund to support a mental health court pilot program in five areas of the state. The Judiciary budget also includes \$1.1

million for this pilot program. The Senate rejected this proposal.

- The Executive Budget recommended the use of \$7.3 million per year for two years to create a centralized statewide mental health managed care risk pool. Funding for the pool would be drawn from the Internal Service Fund (ISF) with current balances of \$73 million. Mental Health general fund allocations would be reduced by \$7.3 million. This proposal requires changes to the Mental Health Code. The Senate rejected this proposal.

Employee-Related Economics

The Executive Budget includes \$4.2 million gross, \$1.6 million general fund for FY2009 employee economics, including salary and wage increases, health insurance and retirement, as negotiated by the State Employer. It is important to note that State Employees will not only receive no general salary increase in FY2009, but will also be required to pay more of their health care costs through increases in premiums and cost sharing. The Senate concurred with these adjustments.

New proposals included in the Senate-passed Community Health budget included:

- Elimination of Medicaid coverage for federally-defined optional 19 and 20 year olds, saving \$36.4 million gross, \$14.5 million general fund, and increasing the number of uninsured by more than 18,000.

- Healthy Michigan Fund programming reduced by \$10.8 million.
- Medicaid physician rates for primary care services increased by a total of \$17.6 million gross, \$7.0 million general fund.
- Medicaid pharmacy dispensing fee increased by \$.75 to \$3.25 at a cost of \$3.8 million gross, \$1.5 million general fund.
- Creation of a \$2.5 million gross, \$1.0 million general fund trust fund to support health care benefits for Adult Home Help workers.
- Addition of \$10.1 million gross, \$4.0 million general fund to provide a 2 percent salary increase for mental health direct care workers.
- Expansion of Healthy Kids dental to Montcalm County effective 7/1/08 at a cost of \$.25 million gross, \$.1 million general fund.
- A \$1.0 million gross and general fund increase for local public health operations.
- Increases in funding for numerous programs including the Chaldean Cultural Center (\$.35 million), the Jewish Federation (\$.36 million), childhood vaccinations for the uninsured (\$.1 million), traumatic brain injury programming (\$.3 million), Aging Care Management (\$.7 million), Early Childhood Collaboration (\$.5 million), and Alzheimer's programming (\$.1 million).

Department of Labor and Economic Growth (DLEG)

The Governor's FY2009 recommendation for the Department of Labor and Economic Growth totals \$1.4 billion gross, \$94.4 million GF/GP. This represents a gross increase of 4.7 percent and a GF/GP increase of 105 percent over FY2008.

As in the FY2008 Executive Budget recommendation, the Governor is requesting \$40 million GF/GP for the No Worker Left Behind (NWLB) program. Currently, NWLB is being funded through the use of federal Workforce Investment Act (WIA) funds. The House concurred with the Governor's recommendation.

The Executive recommendation also added \$8.5 million to the Michigan Nursing Corp program for a total of \$10.0 million GF/GP. The program is designed to prepare new nursing faculty and for displaced workers with Bachelor of Science to earn an accelerated, one-year certification in nursing. The House concurred.

With regard to the Jobs, Education, and Training (JET) program, the Governor recommended eliminating 36.0 positions with a gross savings of \$4.5 million. This recommendation reflects the lower than anticipated referrals to Michigan Rehabilitation Services as well as the overall needs of the program.

In addition, the Governor recommended eliminating \$140,000 gross funding for Focus: HOPE's pilot study regarding job placement and retention among welfare recipients. The Governor also recommended the addition of 7.0 FTEs and \$640,000 gross to support the increased number of administrative hearings concerning the Department of Human Services' benefits, such as adoption subsidies, food assistance, and Medicaid eligibility. The House concurred with the Governor's recommendations.

The House also concurred with the Executive recommendation to add \$4.7 million gross and 53.0 FTEs to the Office of Financial and Insurance Regulation for regulation relating to the mortgage industry, banking, securities and credit unions, and payday lending. The Governor recommended the distribution of staff and funding in the following manner:

- Mortgage Industry Regulation: 34.0 FTEs, \$2,859,200 gross
- Payday Lending Regulation: 8.0 FTEs, \$955,300 gross
- Securities Industry Regulation: 4.0 FTEs, \$310,000 gross

- Banking and Credit Union Regulation: 4.0 FTEs, \$327,600 gross
- Insurance Industry Regulation: 3.0 FTEs, \$224,000 gross

The Governor also recommended a \$5.0 million gross increase for the Michigan State Housing Development Authority (MSHDA) for payments on behalf of low-income tenants in the housing choice voucher program. The House concurred with the Executive recommendation.

The Governor also recommended and the House concurred, a 1 percent gross, wage increase and adjustments for retirement and insurance, totaling \$1.9 million.

Compared to the Executive recommendation, the House recommendation is \$500,000 GF/GP higher due to an increase of \$500,000 for the Centers for Independent Living, which the Governor held at FY2008 funding levels. The House also increased funding for Fire Protection Grants by \$1.0 million, which the Governor also maintained at FY2008 funding levels.

K-12 School Aid Budget

The Governor's FY2009 budget recommended a total of \$13.5 billion for the K-12 School Aid budget, of which \$11.9 billion are state (school aid) funds, a gross increase of nearly \$509 million over the initial FY2008 appropriation. Schools also receive state general fund and federal funds which total nearly \$1.6 billion, and are expected to receive nearly \$4.1 billion from local property taxes. The general fund recommendation was increased from \$34.9 million to \$43 million, while anticipated federal funds increased by \$82.7 million.

The Executive Budget recommended a Basic Foundation Allowance of \$8,541, an increase of \$108 per pupil. The minimum foundation allowance is increased by \$216 per student to \$7,420. Districts between the foundation allowances cited above would receive an increase ranging from \$108 and \$216 per pupil with higher amounts going to districts with lower foundation allowances. In addition, the Governor recommended a reduction of 7.5 percent of the per pupil increase for each high school

grade not offered by a local district. The Executive Budget also maintains several programs at their current levels of funding including At Risk (\$310 million), declining enrollment grants (\$20 million), and Adult Education funding (\$24 million).

The Senate did not concur with the Governor's proposed Foundation Allowance increase and instead passed a smaller increase, ranging from \$71 to \$142 per pupil, establishing the Basic Foundation Allowance at \$8,504. The Senate also did not include the Executive recommended reduction for high school grades not offered in districts. The Senate reduced the declining enrollment grants by \$5 million to \$15 million and concurred with the Executive Recommendation on At Risk and Adult Education funding.

With required payments from the Durant lawsuit ending in FY2008, the Executive Budget recommended the redirection of those funds, \$32 million per year, to a new initiative, 21st Century Schools Fund, to replace large high schools with high

dropout rates and low academic achievements with smaller high schools with no more than 450 students. The proposed funding would provide start up grants (up to \$2 million) and facility grants (up to \$8 million) to districts that apply and include at least one high school not making adequate yearly progress for at least two years.

The Senate did not concur with creation of a 21st Century Schools Fund to plan and build smaller high schools, and redirected the former Durant Settlement spending to per pupil grants of about \$20 to allow districts to pay down existing debt, perform needed building repairs, or pay into a sinking fund.

The Executive Budget again recommended substantial increases, totaling \$31.5 million, in early childhood program investments including:

- an increase of \$24 million over the initial FY2008 appropriation for additional slots in the School Readiness Program (renamed Great Start Readiness Program), bringing the total funding to \$117.9 million and total slots to 34,573,
- an increase of \$5 million for increased Early Childhood Investment Corporation competitive grants to intermediate school districts to assess local early childhood needs and available resources, and
- funding of \$2.5 million for new Great Start innovative grants to intermediate school districts to identify evidence-based practices and experiences that promote school readiness in children ages 0–5.

The Senate included only \$4.7 million of the \$24 million recommended by the Governor for the School Readiness program. The name change is not concurred in, nor is the recommended funding for other early childhood initiatives.

Other highlights of the FY2009 Executive Budget recommendation:

- Provided a 1.2 percent increase, \$.97 million gross and SAF, for Intermediate School Districts (ISD) general operations, as well as \$1.9 million for collaboration with the Department of Education to strengthen curriculum and instruction in high schools not achieving adequate yearly progress. The Senate provided a 1.1 percent increase for ISD general operations.
- Provided an increase of \$4.3 million gross and general fund for the Center for Educational Performance and Information (CEPI) to fund

several technology initiatives including linking the K-12 database to postsecondary institutions. The Senate provided a \$2.3 million increase for the Center.

- Provided an increase of \$2.0 million for Adolescent Health Centers. The Senate provided a \$1.0 million increase for Adolescent Health Centers.
- Provided \$1.0 million for competitive grants to districts that provide opportunities for students to participate in FIRST Robotics competitions. The Senate rejected this recommendation.
- Provided a \$.7 million increase, to \$1.0 million total, for Advanced and Accelerated programs, with available grants to Intermediate School Districts increasing from \$5,000 to \$17,500. The Senate increased overall funding by \$65,000 to \$350,000, and increased grants from \$5,000 to \$6,100.
- Reduced the retirement rate from 16.72 percent to 16.54 percent. The Senate concurred with this recommendation.
- Recommended a \$5.5 million increase for assessment and related testing required by the State and Federal governments. The Senate included an increase of \$3.5 million for assessment testing.

The Senate included the following initiatives in their School Aid recommendation:

- Increased state funding by \$1.0 million for Math and Science Centers to a total of \$4.5 million in state funds and \$5.2 million of federal funds,
- Increased funding by \$.4 million to \$1.1 million for pre-college engineering and science grants, with programs in Grand Rapids and the Detroit area receiving \$500,000 each, and Kalamazoo receiving \$100,000,
- Increased funding of \$250,000 each for International Baccalaureate and Center for Advanced Studies and the Arts,
- Funding of \$100 each for a program (English Language Arts) for K-3 students not reading at grade level, and for grants to districts for the Communities in Schools program,
- A \$100 placeholder for new programs to increase agri-science and Future Farmers of America programs.

Department of Education (DOE)

The Governor's budget recommended total funding for the Department of Education of \$94.7 million, of which \$8.1 million is general fund. This recommendation represents new investments in the Department in part due to audit recommendations and in part to avoid contracted testing cost increases by adding staff positions to perform the work.

It is worth noting that during testimony on the FY2008 budget, the Department alerted the House Appropriations Subcommittee that they did not have the staff or funding to perform all expected functions, including federal and audit requirements. No additional staff were added for these purposes in FY2008. While 29 staff were added for new positions/functions, the overall Department staffing level increased by only 19.5 due to reductions associated with the transfer of Human Resources functions to the Department of Civil Service with other administrative reductions totaling 9.5 FTEs.

The Senate did not concur with the Governor's proposed 21st Century Schools Fund in the School Aid budget and eliminated the 3 positions recommended to administer the fund in this budget. The Senate added \$.3 million gross and general fund for a performance audit of the Detroit Public Schools. The Senate concurred with the Executive proposals (except the 21st Century School Fund staff) included below.

Highlights of the FY2009 Executive Budget recommendation include:

- An increase in staffing (9 FTEs) and funding of \$1.2 million gross, \$1.1 million general fund, to

provide oversight of numerous programs to comply with audit recommendations and to administer the new 21st Century Schools Fund Administration (the proposed initiative to replace large and impersonal high schools with high drop-out rates and low academic achievements with smaller, more personal high schools).

- An increase of \$480,000 gross, \$0 general fund for additional staff (6 FTEs) and programming at the Michigan School for the Deaf and Blind due to projected enrollment increases.
- An increase in staffing (14 FTEs) and funding of \$1.8 million gross, all federal funds to enable the Department to assume educational assessment functions currently contracted out. This Department investment is to avoid significant projected contract cost increases.
- Economic increases of \$137,000 gross, \$15,600 general fund are recommended to cover employee-related salary and wage increases, retirement and health insurance increases, as negotiated by the State Employer. It is important to note that State Employees will not only receive no general salary increase in FY2009, but will also be required to pay more of their health care costs through increases in premiums and cost sharing.
- Program reductions include:
 - ▶ Elimination of funding for the Data Articulation Study – \$3.95 million, all federal;
 - ▶ Elimination of funding for the Longitudinal Data System – \$.5 million, all federal.

Higher Education

The FY2009 Executive Budget recommendation totals \$1.8 billion for Higher Education. The Governor recommended a 3 percent GF/GP funding increase for university operations for a total increase of \$43.5 million. Increases for individual universities range from 2.3 percent to 6.2 percent with funding determined by a formula based on participation, research/commercialization, and degree comple-

tion. Michigan State University, the University of Michigan-Ann Arbor, and Wayne State University have a separate budget bill and have separate funding formulas.

From the adjusted base that reflects the removal of the one-time delayed payment to universities from August 2007 of \$138.7 million, the Executive

Budget's gross recommendation represents a 2.4 percent gross increase and a 3.3 percent GF/GP increase and recommends \$5,906 per student.

The Executive Budget for Higher Education maintains the Tuition Grant Program at the FY2007-08 level of \$56.7 million GF/GP and includes a 19.4 percent GF/GP increase (\$4.1 million) for the Tuition Incentive Program to reflect the projected increase in the costs of the program. The Governor's recommendation included a 91.3 percent gross (\$54.8 million) decrease for the Michigan Merit Award Program while the Michigan Promise Grant Program had a gross increase of 108 percent (\$47.0 million)

for an overall gross decrease of \$7.8 million. This reflects the transition from the Merit Award Program to the Michigan Promise program.

The Executive recommendation included language that urges state universities to hold their FY2008-09 tuition/fee increases for resident undergraduates to 2.3 percent. The Governor's recommendation also includes a 3.0 percent GF/GP increase for the Agricultural Experiment Station and the Cooperative Extension Services totaling \$1.9 million.

The Senate concurred with the Governor's gross and GF/GP recommendation.

Community Colleges

The FY2009 Executive Budget recommendation for Community Colleges totals \$302.2 million, including an overall funding increase of \$8.6 million, 3.0 percent GF/GP for community college operations. The increase was calculated using the Performance Indicators Task Force formula which has allocated funding increases between 2.4 to 3.9 percent, based on a performance formula.

When compared to the FY2008 appropriation, the GF/GP recommendation appears to be reduced by 5.2 percent; however this is due to the removal of the

one-time delayed payment to community colleges from August, 2007 in the amount of \$25.8 million.

The Governor's budget also includes an additional \$455,000 statutorily-required increase for Renaissance Zone reimbursement.

The Senate concurred with the Governor's total gross recommendation, but reduced Renaissance Zone funding by \$100 and included a \$100 placeholder for nursing programs.

Department of Corrections

For the first time since FY1995 the Executive Budget recommended a slight decrease in the Department of Corrections appropriation related to policy reforms and operational efficiencies intended to save an estimated \$50 million. The projected savings, which more than offsets the cost of several prisoner health care and bed capacity initiatives, is expected to reduce total department spending by .3 percent (\$3.9 million) and state General Fund authorizations by .2 percent (\$5.7 million). The administration also recommended reducing DOC staffing by .8 percent (138 positions) related to the closure of the Southern Michigan Correctional Facility as well as the proposed consolidation of certain prison operations and centralization of prison store operations.

The following reflects specific Executive Budget recommendations for the Department of Corrections budget and the actions taken by the Senate Appropriations committee in response to those recommendations. Note that the committee's recommendations could be amended on the floor of the Senate and that no action to date has been taken on the Department of Corrections budget by the House Appropriations Committee.

Health Care

The Senate Appropriations Committee concurred with the Executive Budget recommendation to add \$14.9 million to the budget to fund Hepatitis C testing and treatment for Michigan's inmate population.

The Appropriations Committee also concurred with Executive Budget recommendations to:

- Add \$4.8 million for residential treatment and social skills program units at the Gus Harrison facility as well as two outpatient mental health treatment teams.
- Add \$2.93 million for additional medical services providers and licensed practical nurses including the cost of signing and retention bonuses.
- The Executive Budget and the Senate Appropriations Committee assumed that \$4 million of the \$22.6 million in health care cost increases itemized above would be offset by negotiated reductions in health care contract costs.

Corrections Savings

The Executive Budget recommended a total of \$29.2 million in cost savings related to unspecified facility reconfigurations and operational efficiencies. The Senate Appropriations Committee increased targeted operational savings to \$36.94 million including:

- \$5.87 million related to privatizing prison stores
- \$6.96 million related to prison regionalization
- \$3.11 million related to extending custody supervisor shifts to 12 hours
- \$10.2 million related to operating efficiencies
- \$7.8 million related to prisoner level classification revisions and facility repurposing
- \$3 million in reduced overtime through the creation of secure units in three hospitals

Bed Space Expansion, Prisoner Population Reduction and Local Reinvestment

The Executive Budget recommendation to add an additional bed to seven-bunk open bays at seven facilities at a cost of \$5.7 million, as well as a 240 bed unit at the Macomb Correctional Facility at a cost of \$5.1 million was not adopted by the Senate Appropriations Committee.

The Senate Appropriations Committee also did not concur with the administration's recommendation to implement policy changes that would serve to reduce the Michigan prison population sufficiently to save \$29.7 million or to reinvest \$9.6 million in resulting savings in local corrections facilities and programs.

GPS Tethers

The Senate Appropriation Committee concurred with the Executive Budget recommendation for an additional 500 GPS tethers at a cost of \$3.3 million.

Corrections Officer Training

The Executive Budget recommended adding \$4 million to the Corrections Officer Training line-item to fund the training of 851 corrections officers at a cost of \$18,250 per graduate. The Senate reduced the recommended increase to \$1.26 million, sufficient to fund the training of approximately 700 corrections officers.

Scott Correctional Facility Closure

The Senate Appropriations Committee recommended the closure of this facility and the transfer of prisoners to the Huron Valley Complex at a savings of \$13.16 million.

Central Office Reductions

The Senate Appropriations Committee recommended a 22 percent reduction in the Lansing area central office operations at a savings of \$10.49 million.

Economic Adjustments

The Senate Appropriations Committee concurred with the Governor's recommended salary, fringe benefit, building occupancy, insurance and worker's compensation adjustments at a cost of \$7.84 million.

Other Senate Spending Initiatives

In addition to the positions outlined above in response to Executive Budget recommendations, the Senate Appropriations Committee approved the following DOC spending initiatives:

- \$1.1 million expansion of substance abuse treatment programs
- \$1.1 million expansion of community corrections comprehensive planning and services
- \$.72 million funding increase for residential beds
- \$.98 million Judiciary grant to fund an intensive probation pilot program
- \$.5 million for a legislative corrections ombudsman program

A number of additional technical and fund source adjustments adopted by the Senate Appropriations

Committee resulted in a recommendation \$7.84 million below the Executive Budget proposal. The General Fund component of the Executive and Senate recommendations was, however, identical at \$1.978 billion

SUMMARY AND OBSERVATIONS

While action-to-date on the FY2009 Department of Corrections budget suggests that funding will be marginally below current year appropriations, proposals to modify sentencing and parole guidelines to reduce or reverse the upward trend in Michigan’s prison population do not appear to have sufficient legislative support to secure adoption. While the dramatic growth in Michigan’s prison population over the last two decades has slowed in recent years, it is anticipated that it will continue to grow, resulting in added pressure on the state’s prison facilities and fiscal outlook. As the following table illustrates, Michigan’s incarceration rate as a percentage of the population, and its costs per inmate, are significantly above average for the Great Lakes region.

Since 1990, in response to dramatic growth in Michigan’s prison population, Department of Corrections staffing increased by over 20 percent even as overall state staffing declined by a similar percentage. The corresponding significant increase in Corrections spending, both in absolute dollars and

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

as a share of total General Fund spending, suggests that this component of the state budget will play an important role in determining whether Michigan is successful in stabilizing its precarious fiscal condition without major additional cuts to its safety net programs.