

February 24, 2011

## **Governor Snyder Releases Fiscal Year 2012 Budget: A Summary of Provisions Affecting Children and Youths**

On Thursday, February 17, 2011, Governor Snyder released his proposed state budget for fiscal year 2012, which begins on October 1<sup>st</sup> of this year and ends on September 30<sup>th</sup> of 2012. The House and Senate appropriations subcommittees have already begun to meet to review the Governor's proposal and discuss their own recommendations for the budget.

The Governor's budget addresses a projected deficit of \$1.3 billion through tax and budget reforms, as well as deep budget cuts. The Governor also presented indicators against which he will be assessing the success of public programs.

Proposed tax reforms include significant changes in the way businesses pay taxes, and the elimination of several tax deductions utilized by families with children, including the Earned Income Tax Credit – a credit available to low-income working families to help support their employment.

The Governor's proposed budget follows a decade of disinvestment in programs for children and families throughout the public sector, mitigated temporarily in the last several fiscal years by an influx of federal economic stimulus dollars for health care and education. Proposals for fiscal year 2012 include the following spending provisions affecting children, youth and families.

### **EDUCATION**

#### **Overview of the Education Omnibus Budget Bill**

The Governor's proposed budget for fiscal year 2012 combines funding for local and intermediate school districts, community colleges and higher education into an omnibus education budget bill which would ultimately be known as the State Education Funding Act. The Governor's budget includes a total of \$13.8 billion for the State Education Funding Act, including \$11 billion in revenues from the School Aid Fund, \$1.1 billion in state general funds, and \$1.75 billion in federal funding.

Traditionally, revenues from the School Aid Fund have been reserved for programs administered by local and intermediate school districts. Of the total \$13.8 billion proposed by the Governor for the State Education Funding Act, \$12.2 billion would be appropriated for K-12 education, down from \$12.9 billion in fiscal year 2011; \$296 million would fund community colleges, including \$196 million in School Aid revenues; and \$1.4 billion would be available for higher education, with \$700 million coming from the School Aid Fund.

In the budget proposal, the Governor presented indicators against which he will be assessing the success of public education programs. The “dashboard” outcome measures include reading at grade level by 3rd grade, college readiness, and high school dropout rates. Transitional performance measures include district participation in the Superintendent’s Dropout Challenge and the seat time waiver program; completion rates for on-line courses; adequate yearly progress; the availability of training and technical assistance for school districts; the number of partners assisting low-performing schools; and measures of post-secondary remediation, retention and degrees awarded.

### **The Governor’s FY 2012 Budget Recommendation**

Included in the Governor’s budget for fiscal year 2012 are the following:

*A deep cut in K-12 per pupil foundation grants.* The Governor proposes a total per pupil cut of \$470 in fiscal year 2012, a reduction of approximately 5 percent. To offset the per pupil cut, the Governor recommends that districts seek economies of scale for non-instructional services and explore cost-cutting measures in employee compensation. The Governor recommends setting aside \$300 million in foundation allowance discretionary funds for an incentive fund for districts that are adopting cost-saving measures.

In addition to per-pupil allocation cuts, the Executive Budget eliminates \$20 million in grants to school districts with declining enrollments, as well supplemental funding for rural and geographically isolated districts (\$9.4 million).

*Cuts in funding for Intermediate School District (ISD) operations and special grants to districts.* The Governor proposes to cut ISD operations by \$3.3 million or 5 percent, with total funding falling from \$65.4 million to \$62.1.

*Continuation funding for early childhood education.* The Governor provided continuation funding for the following early education programs:

- *Great Start Readiness Program (GSRP):* Funding for the School Aid GSRP would continue at \$88.1 million, with \$7.6 million for the GSRP competitive program (\$7.6 million).
- *Great Parents/Great Start:* Funding for the Great Parents/Great Start program is continued at \$5 million.
- *Great Start Collaboratives:* Continuation funding for local Great Start Collaboratives through the ECIC at \$6 million.

*Cuts in programs to improve academic achievement and reduce dropout rates.* The Governor’s budget reduces or eliminates funding for a range of programs that are intended to improve achievement or prevent youths from dropping out of school. Included in the cuts were the following programs:

- *Middle College Program:* Funding for the Middle College program (\$2 million) is eliminated.
- *Bilingual Education:* Funding for bilingual education is eliminated (\$2.8 million.)
- *Precollege Engineering Programs:* Funding is eliminated (\$905,100.)

- *Positive Behavior Support Program*: State funding is eliminated (\$300,000.)
- *Class Size Reduction Grants*: A total of \$19.7 million in funding to reduce class sizes is eliminated.
- *Educational services for juvenile justice facilities*: Funding for educational costs in Juvenile Justice facilities is reduced by 27% to \$1.1 million.

*Continuation funding for a range of programs designed to improve achievement and career opportunities.*

- *Career and technical education*: The Governor included continuation funding (\$26.6 million) for career and technical education.
- *Adult education*: Funding in the Executive Budget is continued at \$22 million.
- *Michigan Virtual University*: The Governor maintains funding at \$4.4 million, to be used for the development and operation of the Michigan virtual high school, as well as for professional development opportunities for educators.
- *Math and science centers*: The Governor recommends continuation funding of \$7.8 million for math and science centers.

*Continuation funding for the At Risk Program.* The Governor includes continuation funding (\$309 million) for services for at-risk students. At Risk program dollars are available to districts through an allocation formula, and can be used for a range of academic and supportive services.

*Continuation funding for child and adolescent health programs.* The Governor's budget includes continuation funding for child and adolescent health programs (\$3.6 million), as well as hearing and vision screenings (\$5.2 million).

*Changes in programs designed to increase college access.* The Governor proposes the following related to college access:

- *Continuation funding for community colleges*: The Governor included continuation funding (\$296 million) for the state's community colleges.
- *A deep reduction in funding for state universities*: The Governor recommends a 15 percent reduction for state Universities.
- *Increased funding for the Tuition Incentive Program (TIP)*: The Governor included an additional \$6.4 million (total recommendation of \$43.8 million), for TIP scholarships for low-income students who have received Medicaid for 24 out of 36 months.
- *Pathway to Higher Education program*: The Governor merges the Michigan Competitive Scholarship and the Tuition Grants programs into a single Pathway to Higher Education program, and maintains flat funding.

*Funding to improve educational data systems.*

- *Data collection and reporting*: The Governor provides continuation funding to local districts (\$34 million) for data collection and reporting.
- *Reduced funding for data collection and analysis resulting from Michigan's failure to receive federal Race to the Top funding.* The Governor recommends a decrease of \$7.2 million for the Center for Educational Performance and Information (CEPI), reflecting Michigan's unsuccessful bid for Federal Race to The Top funding.

## **Overview of the Department of Education Executive Budget:**

The Governor's proposal maintained funding for the Michigan Department of Education separate from the State Education Funding Act. The Governor recommends a total of \$113.9 million for the MDE, down more than 10 percent from current year funding levels. Savings are realized primarily through a 10 percent reduction in library services, a 35 percent reduction in funding for student data collection and savings through eliminating some MDE education reform functions. Changes to the Department's education reform directions would need to be made in statute, as they were enacted through legislation passed late in 2009.

## **HEALTH**

### **Overview of the Department of Community Health Executive Budget:**

The Michigan Department of Community Health (DCH) budget is the now the largest state budget, with a total appropriation of over \$14 billion in the current fiscal year. Two of every three dollars spent in the DCH budget are from federal sources--primarily federal Medicaid funds. Less than 20 percent of DCH funding (19.3 percent) is state funding. Total funding for the DCH budget has grown by over 54 percent since fiscal year 2002, from \$9.2 billion to \$14.1 billion.

### **The Governor's FY 2012 DCH Budget Recommendation:**

The Governor recommends a total of \$13.97 billion for the DCH in fiscal year 2012, down approximately 1 percent from current year funding. State general funds for the DCH would increase by over 11 percent from \$2.4 billion to \$2.7 billion. Over 72 percent of DCH funding (\$10.1 billion) is for health care services, including Medicaid and services for children with special health care needs. Approximately 20 percent (\$2.7 billion) supports mental health and substance abuse services. Less than 3 percent (\$393 million) is for public health and supportive services for families, children and senior citizens.

The Governor's DCH budget assumes that the Legislature will approve a new health care insurance claims assessment of one percent applied to all health insurers in the state. The assessment would replace the existing use tax on Medicaid health maintenance organizations and community mental health pre-paid inpatient health plans, and would generate nearly \$400 million in revenue. If the insurance claims assessment is not approved, deep cuts in Medicaid provider payments are projected.

The Governor has restructured the DCH budget, reducing and consolidating many budget line items, and eliminating most of the budget "boilerplate," or language describing how funds are to be expended. As a result, it is difficult to quickly compare the Governor's fiscal year 2012 budget recommendation to prior fiscal years. The fiscal year 2012 Executive Budget for the DCH is focused on specific data indicators or metrics. Included are "dashboard" outcome measures related to obesity and infant mortality; as well as transitional performance measures connected to access to public mental health services, teen births, breastfeeding among WIC

participants, cigarette smoking by high school students, and the percentage of Michigan children 19 to 35 months of age who receive all recommended vaccines.

Among the highlights affecting children and youths in the Governor's proposed fiscal year 2012 budget are the following:

Medicaid eligibility and provider reimbursement rates are maintained, without further reductions.

- *No further cuts in Medicaid eligibility or provider payments:* The Governor's budget does not change Medicaid eligibility or call for further cuts in payments to Medicaid providers. Between 1999 and 2005, physician reimbursement rates for Medicaid remained flat. In 2005, rates were cut by 4 percent in the face of rising health care cost. In 2010, payments to Medicaid providers were cut by up to 8 percent. As a consequence of lagging reimbursements rates, the number of physicians participating in the Medicaid programs has dropped and access has been limited in many areas of the state.
- *The budget assumes continued growth in Medicaid caseloads, costs and utilization.* In fiscal year 2009, approximately 1 million children, or 45 percent of all children in the state were enrolled at some time in the state's Medicaid or MICHild programs. In September of 2010, more than half (57%) of all Medicaid enrollees in the state were children, and Medicaid caseloads for children in Michigan are growing faster than the national average. Also growing is the reliance on Medicaid for costs related to pregnancy and delivery, with the percent of total Michigan births covered by Medicaid rising from 35 percent in 2003 to 51 percent in 2010. The Governor is projecting a 3 percent growth in the number of individuals eligible for Medicaid in fiscal year 2012, as well as a 3 percent increase in inflationary costs and health care utilization for most programs.

Funding for graduate medical education is cut. The Governor recommends a 40 percent cut in funding for graduate medical education for a savings of \$67.3 million total, including \$22.8 million in state funds. This cut will affect access to pediatric services in Michigan.

Funding for the MICHild program is slightly reduced. The Governor projects that the cost of MICHild services will fall slightly from the \$52.7 million appropriated in the current fiscal year to \$51.8 million in fiscal year 2012.

Funding for mental health services for persons eligible for Medicaid continues to grow, but services will be more scarce for adults and children who are not Medicaid-eligible. The

Governor provides a total of \$2.7 billion for mental health and substance abuse services.

Included in the Governor's recommendation are the following:

- *An increase in costs related to Medicaid mental health services:* The Governor increases funding for mental health services for Medicaid-eligible individuals from \$2.019 billion in the current year appropriation to \$2.055 billion in fiscal year 2012. Between fiscal

year 2001 and January of 2010, funding for Medicaid mental health services increased by 69 percent.

- *A reduction in non-Medicaid community mental health services;* The Governor further reduces funding for community mental health services for low-income families not eligible for Medicaid, cutting total funding by \$8.5 million or 3 percent. Funding for non-Medicaid community mental health services was cut by \$10 million in 2009, an additional \$40 million in 2010, and \$5.4 million in the current fiscal year.
- *Slightly increased funding is projected for the children with serious emotional disturbance waiver.* The waiver, which provides services for children up to age 20 with serious emotional disturbances, is administered by Community Mental Health Services Programs in partnerships with other community agencies. MDCH partners with the Department of Human Services to serve children in foster care in eight counties. Funding for the waiver is expected to increase from \$7.2 million to \$8.2 million.

Funding is cut for prevention and health promotion programs supported by the Healthy Michigan Fund. The Governor's budget includes a 10 percent reduction in the Healthy Michigan Fund, with cuts anticipated in the following programs related to children and youths:

- Smoking prevention programs are reduced from \$4.64 million to \$4.37 million.
- Pregnancy prevention programs are cut from \$1.71 million to \$1.33 million.

Continuation or slightly increased funding is provided for several prevention and maternal and child health programs. Under the Governor's budget, the following maternal and child health programs would be funded at the same level as the current fiscal year or slightly changed:

- *Family planning and local agreements:* Funding is continued at the current year level of \$9.1 million.
- *Local maternal and child health services:* Funding is continued at \$7.02 million.
- *Prenatal care outreach and service delivery support:* Funding is cut from \$50,100 to \$42,500.
- *School health and education programs:* Funding for health education programs is continued at \$405,300.
- *Minority health grants and contracts:* Funding will continue at \$1.1 million.
- *Immunization program:* Funding is increased slightly to \$15.87 million.
- *Childhood lead program and lead abatement:* Funding for the lead program increases slightly to \$1.6 million, while lead abatement rises from \$2.44 million to \$2.65 million.
- *Newborn screening follow-up and treatment services:* Funding is increased from \$4.73 million to \$5.34 million.
- *Women, Infants and Children Nutrition program (WIC):* Funding for WIC payments is expected to increase slightly from \$253.8 million to \$254.2 million.

Funding for local health department operations is reduced. The Governor recommends a 5 percent cut in state funds (\$1.7 million) for local health department operations. Funding for local public health operations fell from \$40.8 million in 2003 to \$39.1 million in 2011. Funding was reduced by \$1 million in the current year budget.

Costs are cut through a switch to managed care for services for children with special health care needs. The Governor proposes to save \$3.7 million in state funds by requiring Medicaid-eligible children in the state's Children's Special Health Care Services program (CSHCS) to be enrolled in managed care. Overall funding for CSHCS medical care and services is expected to rise from \$241.4 million to \$282 million.

## HUMAN SERVICES

### **Overview of the Department of Human Services Executive Budget:**

The Michigan Department of Human Services (DHS) budget has a total appropriation of \$6.9 billion in the current fiscal year. More than 85 percent of the dollars spent through the DHS budget are from federal sources; only 13 percent is state funding. Total funding for the DHS budget has grown 73 percent since fiscal year 2002, from \$4.0 billion to \$6.9 billion, with the growth driven by large increases in demand for the federally-funded food assistance program.

### **The Governor's FY 2012 DHS Budget Recommendation:**

The Governor recommends a total of \$6.9 billion for the DHS in fiscal year 2012, of which \$1.1 billion is state funding. The Governor's budget reflects a slight reduction in total spending over the current year (-0.8%), but an increase in state funds of nearly 19 percent—largely due to the loss of federal stimulus dollars. Approximately 65 percent of total DHS funding (\$4.5 billion) is for public assistance, including the federal food assistance program and the Family Independence Program (FIP). Approximately 15 percent (\$1 billion) supports child welfare services. Only 5 percent (\$369 million) is for adult and family services.

The Governor also restructured the DHS budget, reducing and consolidating many budget line items, and eliminating most of the budget “boilerplate,” or language describing how funds are to be expended. While the budget bill includes a “schedule of programs” with some limited program information, that language is not binding, and it is assumed that if the budget was approved as written, the DHS would have significant authority to decide which programs to fund and at what levels—without additional legislative approval.

While the services provided by the DHS affect many of the Governor's “dashboard” outcome measures, including infant mortality, obesity, 3<sup>rd</sup> grade reading levels and college readiness, a special focus of the DHS's mission is on reducing the number of children in poverty. Transitional performance measures for the DHS include Family Independence program (FIP) cases closed due to earned income, the percent of children leaving the foster care system for permanent placements, the percent of children adopted within 24 months of their latest removal from home, and metrics related to fraud and administrative efficiencies.

Among the highlights affecting children and youths in the Governor's proposed fiscal year 2012 DHS budget are the following:

Reductions in funding for the Family Independence Program (FIP) through more aggressive implementation of lifetime limits on public assistance. The Governor's budget includes savings of \$77.4 million (\$65 million in state funds) as a result of a 48 month lifetime limit for FIP benefits. Under federal law, the limit for federal reimbursement for TANF recipients is 60 months, with state flexibility to exempt up to 20 percent of its caseload due to hardship, including high unemployment rates. In 2007, Michigan law was changed to establish a 48 month lifetime limit (with a potential 12 month extension), with a range of exceptions, including deferral from work requirements, domestic violence victims, and counties with exceptionally high unemployment rates. Although details are not yet available, the DHS Director has stated that an estimated 12,600 FIP cases (15%) will be affected, and that exceptions will be available for persons who are incapacitated or in cases of hardship. Cuts of this magnitude would presumably be related to a change in the exceptions or more aggressive implementation of the current 48 month lifetime limit for FIP.

Reductions in funding for child care subsidies for low-income families.

- *Caseload reductions:* The Governor's budget assumes that 27,000 low-income families will receive a child care subsidy in order to work or participate in training programs next year, from a peak of over 67,000 in fiscal year 2003. The Governor's recommendation is to cut total subsidy funding by 5.6 percent, with all of the reduction coming in unlicensed care--where funding will fall from \$81.4 million in the current year budget to \$62.6 million in fiscal year 2012, a cut of 23 percent. Funding for licensed child care would increase slightly from \$100.7 million to \$109.2 million. If the Governor's recommendation is adopted, total funding for child care subsidies will have fallen from \$499 million in 2003 to only \$172 million in 2012.
- *Reductions in payments to unlicensed relatives and aide caregivers:* The Governor recommends a cut in rates paid to relatives of aides, for a savings of \$13.9 million. Unlicensed providers currently receive either \$1.60 or \$1.85 per hour, depending on the age of the children they care for. A flat rate of \$1.35 per hour is recommended. This year, relatives and aides were required to complete six hours of basic health and safety training as a condition of continued payment. Providers that complete 10 hours of additional "Tier 2" training are eligible for incentive payments of between 25 to 35 cents per hour.

Continuation funding for child care quality initiatives. The Governor includes continuation funding of \$14.6 million for child care quality improvements through the Early Childhood Investment Corporation.

Continued investments in the state's child system to meet requirements of the lawsuit settlement agreement.

- *Child welfare improvement funding:* The Governor recommends an additional \$69.3 million (\$49.7 million in state funds) for child welfare improvements, including an added 500 child welfare workers needed to reduce caseloads, technology improvements, and the continued expansion of foster care eligibility to age 21.
- *Foster care payments and caseloads:* The Governor recommends a total of \$206.8 million for foster care payments for a projected 7,200 children. The number of children in the state's foster care system fell from 12,262 in fiscal year 2002 to an expected 7,312 in the current fiscal year.
- *Adoption support services:* The Governor's budget reduces funding for adoption support services from \$33.6 million that is appropriated in the current year budget to \$28.6 million.
- *Youth in transition:* Funding for youth in transition programs would be reduced from \$14.2 million in the current year budget to \$11.4 million in fiscal year 2012.
- *Guardianship assistance program:* Funding for the program would be reduced by \$1 million under the Governor's budget, from \$3.2 million to \$2.2 million.

Continued reductions in child abuse and neglect prevention programs. The Governor's budget removed line items for specific child abuse and neglect programs. According to the House Fiscal Agency, among the assumptions within that line item are the following cuts:

- *Families First:* The Families First program, which is funded at \$18.5 million in the current fiscal year, would be cut by \$500,000.
- *Strong Families/Safe Children:* The Strong Families/Safe Children program, which is funded at \$16.6 million, would be cut by \$1.5 million.
- *Child Protection and Permanency:* The Child Protection and Permanency program, which is currently funded at approximately \$19 million, would be reduced by \$2.8 million.
- *O to 3 Prevention:* The 0 to 3 Prevention program, which is currently funded at \$3.8 million, would be eliminated.

Reductions in residential facilities for juvenile offenders. The Governor reduces funding for juvenile justice services by closing the Shawano Center, which currently houses 27 juveniles, and by reducing the number of beds at Maxey Training School from 80 to 60.