

February 16, 2010

Governor Granholm Releases FY 2011 Budget

On Thursday, February 11, 2010, Governor Granholm released her proposed state budget for the upcoming fiscal year (FY 2011), which begins on October 1st of this year and ends on September 30th of 2011. The Governor's budget addresses a projected deficit of \$1.5 billion as a result of declining revenues and additional spending pressures. Since 2002, state revenues adjusted for inflation have fallen 41 percent, and are now at 1965 levels—a 46 year low.

The current fiscal year budget (FY 2010) included major cuts in services for children and families that will be continued into FY 2011. Facing a deficit of over \$2.8 billion, the Michigan Legislature cut more than \$1.2 billion this year and allocated over \$1.5 billion in federal stimulus dollars. Those federal dollars are now largely depleted, and state revenues have not increased to fill the budget holes that will be left behind. The Governor's budget proposal does assume, however, that Michigan will benefit from an extension of the temporary increase in the federal match the state can receive for Medicaid expenditures, providing the state \$709.4 million in fiscal relief.

In her budget message, the Governor proposed to address the FY 2011 budget deficit through a combination of budget cuts, and tax and governmental reforms. The Governor reinforced her support for 29 governmental reforms that she outlined last month, including changes in retirement and health care benefits for teachers and state employees, both positive and negative incentives for public school and state employees to retire, and limits on the number of new hires permitted.

The Governor's budget is also predicated on needed reforms to the state's tax structure. Michigan is entering its tenth consecutive year of budget deficits, in part because it's tax system is outdated, relying on revenues generated by a manufacturing economy, rather than the more stable sector of Michigan's current economy, which is services. The Governor proposes to modernize Michigan's tax system by lowering the state's existing sales and use taxes from 6 to 5.5 percent, while expanding the tax to consumer services. Money raised by the new tax on services would be earmarked to the School Aid Fund to support public schools and related programs. The State Budget Director projects that failure to adopt the tax change would lead to another cut in the per pupil allotment of \$255 in FY 2011.

The Governor also proposes to require a two-year sunset for all tax expenditures. Over the last several decades, Michigan lawmakers have adopted a growing number of tax expenditures or tax breaks, based on a range of policy goals. While many of these goals were laudable, they came at a cost to the state coffers, and are not routinely reviewed to determine their current effectiveness. In FY 1998, tax revenues collected in Michigan exceeded the foregone revenues related to tax expenditures by \$6.8 billion. A decade later, revenues collected were \$6.3 billion lower than tax expenditures.

The Governor's proposed budget for FY 2011, the last in her tenure as Michigan's Governor, includes the following provisions affecting children and families.

Department of Human Services (DHS): The Governor's budget includes a total of \$7 billion for the DHS, of which \$959,205 is state general fund. Of total funding, \$3.6 billion (51%) is federally funded food assistance for low income families.

Among the cuts in the current fiscal year that will continue into fiscal year 2011 are:

- \$113 million in child care subsidies for low-income working parents, including reductions in reimbursements for many relatives and aides providing child care services.
- Deep cuts in family preservation and support programs including a reduction of \$3 million for community child protection/permanency programs, and elimination of the family group decision-making, teen parent counseling, and marriage and fatherhood programs.
- Elimination of before- and after-school programs and funding for the Michigan After-School Partnership.
- Elimination of funding for the Communities in Schools program.

Included in the Governor's budget for FY 2011 are the following:

Child welfare:

- Increased funding (\$39 million) for child welfare improvements required to comply with a settlement resulting from a lawsuit against the state for weaknesses in its protective services and foster care systems. These funds will be used to hire additional protective services and contract monitoring staff; implement a federally required children's services automation system; and extend foster care, subsidized guardianship and adoption assistance benefits to age 20.
- Relatively flat funding for adoptions subsidies (\$230.8 million), while funding for adoption support services is increased from \$16.4 million to \$19.8 million.
- Increased funding for the Child Care Fund from \$209.5 million to \$226.9 million.
- Decreased funding for Youth in Transition programs from \$18.1 million to \$16.4 million. Budget language is removed specifying the range of supportive services necessary for youths transitioning from foster care.
- Continuation funding for the Families First program (\$18.5 million).
- Increased funding for the Strong Families/Safe Children program from \$10.7 million to \$16.6 million, with new funding to be used for a pilot project for intensive family services in five urban counties. Budget language is removed permitting the community collaboratives to use the funding for prevention programs that meet standards agreed upon by the collaboratives and county department offices.
- Continuation funding for the 0 to 3 Secondary Prevention program (Early Childhood Grants) at \$3.8 million. Reflecting a shift of administration of the program to the DHS this year, budget language is removed requiring that the funds be awarded through a joint request for proposal process established by the Children's Trust Fund and the state human services directors. Also removed is language specifying that funds must be used only for secondary prevention initiatives where neglect or abuse have not been substantiated. Language is also removed requiring applicants to demonstrate that the planned services are endorsed by local community collaboratives, and are part of local Great Start Collaborative strategic plans.
- Continuation funding for the Family Reunification program at \$4 million.

- Slightly increased funding for the subsidized guardianship program to \$4.8 million. Budget language is removed specifying how the guardianship funds must be dispersed.
- Budget language is retained requiring the DHS to report its progress on recommendations to reduce the disproportionate representation of African American and other children of color.

Child care assistance:

- Decreased funding for child care subsidies from \$238.8 million in the current year budget to \$223 million in FY 2011.
- Continued funding for child care quality enhancements through the Early Childhood Investment Corporation at \$14.6 million.
- Budget language is retained establishing a basic training requirement for all child care aides and relatives.
- Budget language is removed specifying child care provider reimbursement rates for licensed and unlicensed child care providers.

Income assistance:

- Increased funding for the Family Independence Program (FIP) from \$379 million in the current year budget to \$441 million in 2011, reflecting increasing caseloads.
- Increased funding for food assistance from \$2.7 billion to \$3.6 billion, reflecting increasing unemployment and poverty.
- Continuation funding for low-income energy assistance for poor children (\$116.5 million).
- Continuation funding for local DHS emergency assistance at \$21.6 million.

K-12 School Aid and the Department of Education: The Governor's budget includes a total of \$12.9 billion for School Aid, which represents \$11 billion from the School Aid Fund, just over \$30 million from the state general fund, and assumes another \$184 million in federal dollars.

Following significant reductions in the FY 2010 budget in per pupil grants to all local school districts, reductions for Intermediate School Districts, and cuts in programs improving school readiness, adolescent health, and high school completion, the Governor recommends few cuts in K-12 programs for FY2011, with the vast majority remaining at FY2010 levels. Those few experiencing increases are supported through expected federal funding. Maintenance of current state spending is made possible by earmarking expected revenue resulting from the proposed change in the Michigan sales tax discussed above.

Among the cuts in the current fiscal year that will continue into fiscal year 2011 are:

- At least \$165 per pupil cuts to local school districts and a 20 percent cut to Intermediate School Districts.
- Elimination of the School Aid contribution to the 0 to 3 Secondary Prevention program (Early Childhood Grants).
- Great Start Readiness Program competitive funding cut in half, and a reduction in Early Childhood Investment Corporation grants.
- A 25 percent cut to adolescent health centers.
- Elimination of the 21st Century School Fund, an 8 percent cut to adult education, and Youth Challenge Grants cut in half.

Included in the Governor's budget for FY 2011 are the following:

Per pupil expenditures/Local district administration:

- No additional cuts to the State Aid payment for schools beyond the \$165 per pupil reduction in FY 2010.
- Continuation funding for declining enrollment districts of \$20 million.
- Budget language is included requiring school service consolidation.

Early childhood education:

Great Start Readiness Program (GSRP):

- Continuation funding for the School Aid GSRP (\$88.1 million), as well as the GSRP competitive program (\$7.6 million).
- Budget language is removed allowing local districts to redirect GSRP funding to other budget priorities. An estimated 10 percent of funds have already been redirected this year to fill holes created by cuts in the K-12 per pupil allotment.
- Budget language defining required risk factors for GSRP eligibility is modified to reflect new GSRP participant eligibility and prioritization guidelines, recently adopted by the State Board of Education.
- Budget language is removed allowing districts to provide preschool and parenting education programs similar to those provided under the old ASAP-PIE program.
- Budget language is modified to require that more than 75 percent (up from 50%) of the children participating in a GSRP program are from families with incomes of 300 percent of poverty or less.
- Budget language is modified relating to provider training, including a requirement that districts that cannot comply fully with training requirements can employ teachers with incomplete training if there is a compliance plan that is completed within 2 years (rather than 4 years) of the date of employment. Compliance plans approved prior to 2010-2011 would remain in effect.
- Budget language is inserted encouraging districts to establish sliding fee scales for tuition for the GSRP for children that do not meet program eligibility requirements.

Great Parents/Great Start:

- Continuation funding for the Great Parents/Great Start program at \$5 million.

Great Start Collaboratives:

- Continuation funding for local Great Start Collaboratives through the ECIC at \$6 million.

Programs to improve academic achievement and reduce dropout rates:

Programs and initiatives receiving continuation funding:

- The At Risk Program at \$317.7 million. These are flexible dollars available to districts for a range of academic and supportive services,
- Youth Challenge Grants at \$624,300. These grants help to fund the Michigan Youth ChalleNGe Academy run through the Department of Military Affairs.
- Career and Technical Education at \$26.6 million.
- Middle colleges at \$2 million. Budget language is retained focusing those programs on health and sciences or other fields.
- Slightly decreased funding for pre-college engineering and science programs to \$905,000 from \$980,000, which includes \$680 to continue two currently operating through the DELEG and \$225 for alternative energy programs.

- Adult education at \$22 million. Budget language is included requiring that the funds not be redirected to other programs.
- The Michigan Virtual University for development, implementation, and operation of the Michigan virtual high school and to provide professional development opportunities for educators at \$4.4 million.
- Math and science centers at \$7.8 million.

Program expansions based on expected federal resources:

- Drug and violence prevention programs from \$8 million to \$10.8 million.
- Extended learning programs through the 21st Century Learning Grants from \$35.7 million to \$40.5 million. Federal funding for this program has been proposed with changes in priority funding, which could alter the impact in Michigan.
- Rural and low-income schools improvement programs from \$898,000 to \$1.7 million.
- Migrant children programs from \$7.8 to \$8.8 million.

Child and adolescent health:

- Continuation funding for child and adolescent health programs (\$3.6 million) and for hearing and vision screenings (\$5.15 million).

Improving data systems:

- Funding of \$11 million is transferred to the Department of Technology, Management and Budget to operate the Center for Educational Performance and Information (CEPI). Of which \$8.4 million would go to local school districts, \$1.3 million to post-secondary institutions and \$850,000 to form an ISD partnership to institute Michigan's longitudinal data system.
- Budget language is included requiring CEPI to develop a longitudinal data system that includes individual student-level data from preschool through post-secondary education and into the workforce, suggests certain uses of the data and mandates the development of a research agenda.

The Governor's proposal for the Department of Education (MDE) reflects an increase of nearly 16 percent over FY2010 appropriations from \$113 to \$131 million. Most of the increase results from an assumption of increased federal funding from \$76 to \$94 million, and the vast majority of the increase reflects additional staff to implement reforms, including a newly formed Office of Educational Improvement and Innovation. Implementation includes several components from recent federal requirements and recently passed Michigan legislation for MDE to adhere to:

- Support for a new school reform/redesign officer.
- Continued coordination of charter schools, including oversight of the new Schools of Excellence.
- Support for new data systems.
- Support for new teacher and administrative certification programming.

Department of Community Health (DCH): The Governor's budget includes a total of \$14.4 billion for the DCH, an overall 10.1 percent increase from the current year budget of \$13.1 million. In this budget is \$2 billion of state general fund, which is a decrease of 12.5 percent from the current fiscal year. Of total funding, 91 percent is Medicaid spending.

Among the cuts in the current fiscal year that will continue into fiscal year 2011 are:

- Elimination of funding for the 0 to 3 Secondary Prevention program (early childhood collaborative grants).
- Elimination of funding for prenatal care outreach and service delivery support (\$3.24 million), which includes targeted funding for communities with high infant mortality rates.
- Elimination of funding for the Nurse Family Partnership program (\$811,000).
- Deep cuts to Medicaid provider reimbursement rates of 8 percent, increasing barriers to access for low-income people.

Included in the Governor's budget for FY 2011 are:

Medicaid:

- Increased funding for Medicaid services reflecting increased caseload and utilization (\$137.2 million).
- Budget language is retained requiring timely access to Early Periodic Screening, Diagnosis, and Treatment (EPSDT) and to the Maternal Infant Health Program (MIHP).
- Budget language is inserted that implements a physician quality assurance program (QAAP), and further asserts that if a physician QAAP is not implemented or does not achieve sufficient revenue, then provider rates for Medicaid reimbursement are subject to be cut to achieve savings.

MiChild:

- Increased funding for MiChild from \$50 million to \$53 million to cover increased caseload and utilization.
- Budget language is retained requiring DCH to continue a comprehensive approach to the marketing and outreach of MiChild.

Public health programs for children and families:

- Decreased funding for local public health operations from \$40 million to \$37 million.
- Decreased funding for the childhood lead program from \$1.76 million to \$1.59 million.
- Increased funding for the lead abatement program from \$2.19 million to \$2.44 million.
- Slightly increased funding for asthma prevention and control from \$843,500 to \$857,100.
- Continuation funding for local maternal and child health (MCH) services at \$7 million.
- Continuation funding for maternal and child health medical services at \$20.2 million.
- Continuation funding for the sudden infant death syndrome program at \$321,300.
- Slightly increased funding for newborn screening follow-up and treatment from \$4.69 million to \$4.74 million.
- Continuation funding for family planning local agreements at \$9 million.
- Slightly decreased funding for the pregnancy prevention program by \$40,000 to \$1.7 million.
- Increased funding for the Plan First family planning waiver from \$8.78 million to \$11.27 million.
- Decreased funding for violence prevention programs, which includes child abuse prevention and family violence prevention programs, from \$1.89 million to \$1.67 million.
- Slightly decreased funding for the foster grandparent volunteer program from \$2.4 million to \$2.2 million.

Children's Special Health Care Services:

- Increased funding for the Children's Special Health Care Services (CSHCS) from \$231.4 million to \$236.1 million.

Mental health services:

- Elimination of funding for the Child Care Enhancement Program (CCEP) (formerly known as the Child Care Expulsion Program) (\$1 million).
- Decreased funding for mental health multicultural services from \$6.82 million to \$5.46 million.
- Continuation funding for the children with serious emotional disturbances waiver program at \$7.18 million.
- Increased funding of \$60 million to increase provider payment rates.
- Continuation funding for mental health protection and advocacy services at \$194,400, which is 75 percent lower than the FY 2009 budget.
- Increased funding for mental health family support subsidies from \$18.6 million to \$19.47 million.

Women, Infant and Children Nutrition program (WIC):

- Increased funding for the Women, Infant and Children Nutrition program (WIC) from \$236.5 million to \$253.8 million to cover both an increase in need and rising food costs.

The Budget Watch Project is generously funded by the Detroit-based Skillman Foundation. For more information about the state budget or the Budget Watch project of Michigan's children, visit Michigan's Children's website at www.michiganschildren.org.