

# A First Look at the Governor's Fiscal Year 2014 Budget

## OVERVIEW

On February 7th, Governor Snyder released his budget for fiscal year 2014, which begins October 1st of this year and ends on September 30th of 2014. The governor recommends total funding (from federal, state and other sources) of \$51.6 billion, an increase of 5% over the current-year budget. The governor also recommends placing an additional \$75 million in the state's "rainy day" fund, and creates a new Michigan Health Savings Fund to cover future healthcare costs, beginning with a \$103 million deposit in fiscal year 2014.

In his budget, the governor endorses some very smart investments that will help strengthen the state's efforts to revitalize its economy. First, the governor includes federal funding for an expansion of the state's Medicaid program, giving more than 320,000 uninsured residents access to physical and mental health care coverage and services. Also included are an expansion of the Healthy Kids dental program, and a major expansion of the state's preschool program for low-income children, the Great Start Readiness program, which improves student achievement, reduces dropout rates and, in the long-term, improves success in the workplace.

The governor's support for these important services is a step in the right direction but falls short of meeting the need, and fails to restore many of the deep cuts made in critical programs over the last decade. Most notably, the budget fails to address basic income assistance programs at a time when one-third of working families do not earn enough to meet their basic needs. The best tool for helping the working poor, the Michigan Earned Income Tax Credit, was cut by 70%, and families are beginning to feel the impact of that cut during this tax season.

Over the last several years, lawmakers have approved significant changes in Michigan's tax system that reduce the state's

tax base, and shift responsibility for funding services from businesses to individuals, particularly low- and moderate-income residents. Without significant reform of Michigan's antiquated revenue system to make it more stable and fair, it will be difficult to take programs to scale or to ensure adequate quality or sustainability for public services.

Budget



Briefs

## DEPARTMENT OF COMMUNITY HEALTH

### Medicaid Expansion

- The governor's budget includes 100% federal funds to support the expansion of Medicaid coverage to very low-income parents and childless adults up to 133% of the federal poverty level. With this expansion, program funding increases to \$12.3 billion, and the number of Michigan residents covered will increase from approximately 1.8 million to 2.2 million, with an estimated 320,000 cur-

### Governor's Fiscal Year 2014 Budget

- Expands the Medicaid program to cover more than 320,000 uninsured adults.
- Expands the Healthy Kids Dental program to more than 70,500 children.
- Doubles funding for preschool programs over the next two years.
- Includes new funding to combat high infant mortality rates for African American and American Indian babies.
- Increases K-12 funding slightly without an across-the-board increase in the per-pupil allocation.
- Fails to address basic income assistance programs in the face of program and tax policy decisions that have forced more children into poverty.

rently uninsured adults covered in FY 2014. Medicaid currently covers one out of every five Michigan residents, and with the Medicaid expansion, will cover one in four. The expansion is expected to reduce the number of uninsured adults in Michigan by 46%.

- The influx of federal funds from the Medicaid expansion is expected to result in savings in the state's General Fund of \$206 million. The savings are realized because the state currently spends 100% state General Funds for limited services to this population, and with the expansion, comprehensive services will be covered by Medicaid. The Governor proposes that half of those savings (\$103 million) be deposited in a newly created health care savings fund. The other half will be used to expand the Healthy Kids Dental program and fund other state programs.

### Mental Health Services

- With the expansion of the Medicaid program, the 320,000 newly-eligible individuals will also have access to comprehensive mental health services.
- The governor recommends \$5 million in one-time General Fund dollars for mental health innovations, including: (1) comprehensive home-based mental health services for children to reduce child hospitalizations and strengthen families; (2) a pilot to address the needs of children with complex behavior disorders through a high intensity care management team; and (3) mental health "first aid" training for a range of public and private groups to ensure that they can identify mental health problems and connect people to services, including trainings for law enforcement officers related to the needs of youth with mental health needs.
- The governor's budget proposal includes \$1.6 million in General Funds for a new jail diversion initiative for persons with mental illness or substance abuse diagnoses. Also supported will be services for parolees to help them transition to the community and to reduce recidivism.
- The governor includes \$900,000 (\$90,000 General Fund) for three "health home" demonstration projects for Medicaid recipients with chronic mental health conditions. The health home model coordinates physical and mental health care, including comprehensive case management, family education and service referrals.

### Expansion of Healthy Kids Dental

- The governor recommends \$11.6 million (\$3.9 million in General Funds) to expand the Healthy Kids Dental program to include 70,500 children in three counties: Ingham, Ottawa and Washtenaw. With this expansion,

50% of eligible children will be covered. Major urban counties, including Kent and Wayne, are still not covered. The governor recommends funding for an additional 100,000 children in fiscal year 2015.

### Public Health Services

- The governor's budget includes an additional \$1.5 million in General Fund dollars to expand the Health and Wellness initiative (for total program funding of \$8.7 million, including \$3.5 million in General Fund). Funds would be used for obesity reduction initiatives, cancer screening, diabetes care, and pregnancy prevention/family planning programs.
- The governor includes \$2.5 million in General Funds to implement recommendations in the Infant Mortality Reduction Plan, including regional perinatal care, initiatives to reduce medically unnecessary deliveries before 39 weeks, the promotion of safe sleep practices for infants, and expanded home visiting programs. Michigan ranks 37<sup>th</sup> among the states in infant mortality, with infant death rates for African American and American Indian children that are three times higher than whites.
- The governor recommends \$3 million in General Funds for Health Innovation Grants to develop innovative healthcare delivery models and improve the healthcare system.

## DEPARTMENT OF HUMAN SERVICES

### Family Independence Program

- The governor's budget includes \$239.4 million (\$99.2 General Fund) for the Family Independence Program (FIP), a 6% decrease in funding over the initial appropriation for the current fiscal year. FIP caseloads fell from 79,660 in fiscal year 2011 to an estimated 53,298 in the current fiscal year, largely due to policy changes, including the strict enforcement of lifetime limits on benefits. During that period, funding for the program fell from \$414.8 million to \$255.3 million—a reduction of nearly 36%.
- The governor provides new funding (\$6.2 million, including \$2.2 million General Fund) for the Pathways to Potential program, a new initiative begun this year to place DHS staff in public schools to work with children and their families, and to ensure that they are receiving the services they need and are eligible for. There are currently DHS workers in 21 sites, including schools in Detroit, Flint, Pontiac and Saginaw. The model will be expanded to 135 schools by March of 2013.

- The governor’s budget removes current budget language requiring DHS to notify people eligible for extended FIP benefits (\$10 per month) that those benefits will count against their lifetime limits on assistance.

### Food Assistance

- The governor’s budget recognizes \$2.8 billion in federal funds for the Food Assistance Program (FAP), a nearly 20% decrease over the current year initial appropriation. The FAP provides assistance to one in six Michigan residents. FAP caseloads increased by 135% between fiscal years 2004 and 2011, peaking at 968,000 in 2011. Since then, in part due to state policy changes limiting eligibility, FAP caseloads have begun to drop, with an expected 918,000 cases in the current fiscal year.

### Home Heating Assistance

- The governor includes a total of \$235 million for heating assistance programs, including \$175 million in federal funds for the home heating credit, energy-related crisis payments and weatherization for low-income homeowners.
- The governor recommends the creation of a permanent Low-Income Energy Assistance Fund. This is in response to a new state law (P.A. 615 of 2012) requiring DHS to establish a new consolidated Michigan Energy Assistance program with a simplified, single application. Households with income of less than 150% of poverty are eligible for services.



### Child Welfare Services

- The governor recommends total funding of \$970 million (\$369 million General Fund) for Michigan’s child welfare system, including protective services, foster care, adoption and family preservation/prevention services.
- A total of \$190.8 million (\$78.9 million in General Fund) is provided for foster care payments for 6,600 children in out-of-home care as a result of abuse or neglect—a reduction of 7.3% over the appropriated level for the current fiscal year. In addition, funding for out-of-home care through the county Child Care Fund is expected to decline from \$188.7 million in the current-year budget to \$177.5 million.
- A total of \$217.4 million (\$85.5 million General Fund) is provided for subsidies for 27,000 adopted children with high needs.

- An additional \$28.8 million (\$8.2 million General Fund) is recommended for fiscal year 2014 to support child welfare staffing as required under the settlement agreement resulting from a lawsuit against the state for failure to protect children, as well as additional funding for family preservation programs. Continuation funding is included for a number of current family preservation programs, including Families First (\$17.95 million), Strong Families/Safe Children (\$12.35 million), and the Family Reunification program (\$3.98 million).

## K-12 SCHOOL AID AND DEPARTMENT OF EDUCATION

### Early Childhood Services

- The governor recommends an increase of \$130 million over two years (\$65 million in each fiscal year) for an expansion of Michigan’s state-funded preschool program, the Great Start Readiness program. In fiscal year 2014, funding for the GSRP would increase from \$109.3 to \$174.3 million. Four-year-old children from families under 300% of poverty, or children with significant risk factors, are eligible for the program, which is in most cases a half-day program. With this additional funding, the number of publicly funded preschool slots will increase from an estimated 32,100 in the current fiscal year to 66,000 in fiscal year 2015.

The following are also recommended for the GSRP:

- Budget language authorizing \$8.9 million for a separate competitive GSRP program for private sector community-based organizations is eliminated. Instead, Intermediate School Districts would administer the funds and be required to contract with private providers for at least 20% of their slots.
- GSRP providers would be required to ensure that at least 90% of the children they are serving through the program would be from families with incomes of 300% of poverty or less (up from 75%). A sliding fee scale would be required for families with household incomes over 300% of poverty.
- The funding for a GSRP slot would be raised from \$3,400 to \$3,625—the first increase since the 2007-08 school year, when it was raised by \$100 per pupil. GSRP providers claim that actual per-student costs are conservatively between \$4,200 and \$5,200, forcing districts to either subsidize the program through other funds or quit providing services.

- The governor includes total funding of \$196.8 million (\$40.2 million General Fund) for the Office of Great Start, an office he created in 2011 to coordinate the state's early childhood programs. The Office of Great Start oversees preschool and child care services, as well as preschool special education, and Early On.
- The governor recommends essentially continuation funding (\$156.8 million) for state subsidized child care services. Subsidized child care is available for families receiving FIP, as well as low-income working families with incomes below \$23,880 for a family of three, or approximately 40% of median income. Child care caseloads and spending have fallen dramatically in Michigan as a result of both high unemployment and policy changes, including reductions in already low child care reimbursement rates for some providers and restrictions on the hours of care that can be reimbursed. Between fiscal year 2004 and the current fiscal year, child care caseloads fell by nearly 60%, while child care expenditures dropped from \$490.1 million to \$156.2 million (68%).

### K-12 Education

- The governor recommends a total of \$13.2 billion for K-12 education, including \$11.5 billion in state funds, representing an increase of approximately 2% in state funding. The governor does not recommend an across-the-board increase in the per pupil allotment used by schools for general operations. Funding for public schools has failed to keep pace with inflation over the last decade, with state funding per pupil rising by 10% in the face of 21% increase in the cost of living as measured by the Detroit CPI.

New funding would be allocated based on the following:

- A total of \$24 million for equity payments to further close the foundation allowance funding gap between districts by raising the per pupil payment for the lowest funded districts receiving the minimum grant from \$6,966 to \$7,000 per pupil.
- Other districts would not receive an increase in their per pupil payments, but could qualify for additional funding if they meet performance benchmarks (up to \$100 per pupil) or adopt best practices (\$16 per student) that are established by the Legislature.

### Postsecondary Education

- Last year, the governor's FY 2013 budget increased funding for higher education by 3% over the previous year (\$36.2 million), with the additional funding allocated to universities based on their performance on several

metrics. Comparatively, the governor's FY 2014 budget increases funding to universities by only 2% (\$24.9 million). The increase is again in the form of performance funding.

- Base funding (also called operations funding) for higher education in the FY 2014 budget is \$1.24 billion. This includes \$200 million in School Aid funds.
- The \$24.9 million in performance funding will be allocated among the 15 public universities based on the metrics from last year's adopted budget: undergraduate completions in critical skills (Science Technology Engineering Math and healthcare) areas, research expenditures, six-year graduation rates, total completions, and administrative costs as a percentage of core expenditures. Tuition restraint is also a performance metric, but will be allocated after universities set their tuition rates for the upcoming school year.

### Community Colleges

- The governor's budget adds \$5.8 million to community college operations, a 2% increase, for a total of \$298.2 million. The increase is in the form of performance funding that includes last year's metrics on completions, enrollments, and administrative costs as a percentage of core expenditures. It also includes a new metric on job placement, with an emphasis on veterans.

