



A First Look at the Governor's 2017-2018 Budget: Smart Investments for Families Amidst Revenue Threats

Investments in healthcare, child care and education—all needed to make Michigan a leading state and spur economic growth—are at the center of Gov. Rick Snyder's proposed 2018 state budget. These investments, while an important step forward, come on the heels of years of inadequate support for state services and infrastructure and could be threatened by any legislative attempts to further reduce state revenues.

The governor's budget, which was presented to legislative leaders on February 8th, includes funding for many of the state services that the League supports, including the continuation of the Healthy Michigan Plan; an expansion of access to high-quality child care; increased funding for high-poverty schools and higher education; a boost in the annual school clothing allowance for families living in poverty and receiving income assistance; and expanded food assistance benefits for families with low incomes, seniors and persons with disabilities.

At the same time, leaders in the Michigan Legislature are moving to lower or phase out the state's income tax—the source of \$7 of every \$10 in the state's \$10 billion General Fund, and one-fifth of state funding for schools.

Eliminating the state income tax entirely would create a \$9 billion hole in Michigan's budget and result in deep cuts to public schools, colleges and universities, public safety and public health. Even a 0.1 percentage point reduction in the state income tax would reduce state revenues by up to \$250 million.

A rollback of the state's income tax would be a foolhardy move that could derail the state's recovery and long-term economic vitality. We commend the governor for recognizing that threat in his budget. However, even without another tax cut, projected state revenues will likely fall short of what is needed to rebuild the state's infrastructure after years of neglect, or create lasting opportunities for children who have been left behind in the recent economic recovery. Michigan needs tax reforms that help families with low wages get a toehold in the

Highlights of Governor's 2018 State Budget

-  Funding to continue the successful Healthy Michigan Plan that covers 600,000+ Michiganders with low incomes.
-  Increased funding for schools with high numbers of children at risk of educational failure through the At-Risk School Aid program.
-  New state funds to draw down all federal child care funds the state is entitled to and expand access to high-quality child care through rate increases for child care providers.
-  Funding to ensure that seniors and persons with disabilities have access to adequate food through the "Heat and Eat" program.
-  An expansion of funds for back-to-school clothing for children who live in deep poverty.
-  Increased funding for grant scholarships to the state's colleges and universities for those who couldn't otherwise afford to attend and restoration of financial aid for older students.
-  Continued reductions in the number of children receiving basic income assistance due to stringent eligibility policies.
-  No new funding for adult education.

economy, like the Earned Income Tax Credit, and that adequately fund basic public services like good roads and schools, clean air and water, and adequate police and fire protection.

TOTAL FUNDING FOR 2018

The governor recommends a total state budget of \$56.3 billion, an increase of 2.5%. State General Fund spending—the portion over which the Legislature has the most control—would increase by less than 2% to \$10.1 billion.

At \$10.3 billion, General Fund tax revenues are expected to climb back to 2008 levels next year, after dipping to a low of \$7.7 billion during the Great Recession. However, the state’s purchasing power has dropped dramatically. When adjusted for inflation, ongoing General Fund revenues in the current year are **lower than they were 50 years ago in the 1967-1968 budget** when the state adopted the then-new personal and corporate income taxes.¹

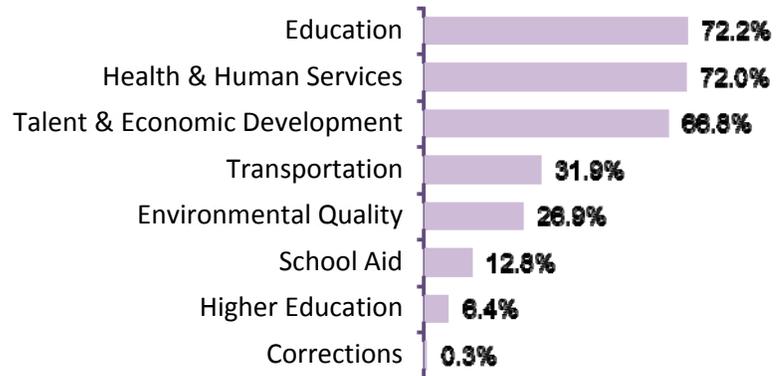
Federal dollars currently account for \$4 of every \$10 spent by the state, and the reliance on federal funds exceeds 70% in the Departments of Health and Human Services and Education. Uncertainties about federal spending under a new president and Congress make it even more critical that state leaders address the adequacy of Michigan’s tax system and resist risky efforts to further reduce state taxes.

HEALTH

Healthy Michigan Plan: Uncertainty runs rampant for the Department of Health and Human Services as the new president and Congress debate the fate of the Affordable Care Act and Medicaid financing. However, the governor has proposed continuing the Healthy Michigan Plan, which has extended health coverage to over 600,000 individuals through a provision in the Affordable Care Act. The state is responsible for paying a share of the costs to maintain the program totaling \$200.4 million in matching funds. The governor has recommended \$4.1 billion in total funding to continue supporting the program.

Continuation of the Affordable Care Act and the Healthy Michigan Plan are critical for all Michiganians and the state’s economy. Michigan’s uninsured rate dropped by 45% under the Affordable Care Act, and one study shows that the state’s Medicaid expansion has resulted in more than 30,000 new jobs every year.

Percent of Budget From Federal Sources (2017)



Source: House Fiscal Agency (February 2017)

Many of the state’s residents have benefited:

- Persons with pre-existing conditions like cancer, diabetes and asthma can no longer be denied coverage.
- More than 70,000 young people who have not made the transition to jobs with insurance have been able to stay on their parents’ insurance until the age of 26.
- Senior citizens and persons with disabilities are finding some relief from the high cost of prescription drugs.
- Mental health parity provided coverage to those suffering from mental illness and substance use disorders.

For more on the reasons the Affordable Care Act is good for Michigan, see the League’s recent fact sheet.

Direct Care Worker Wages: The budget recommendation includes funding that would support wage increases for direct care workers who provide services through the state’s community mental health system. The \$0.50 per hour increase is seen as an attempt to reduce the high rate of turnover for these individuals who provide support for some of our most vulnerable residents.

Non-Emergency Medical Transportation: Transportation to and from medical appointments can often be a challenge. The governor has requested an additional \$12 million to expand the non-emergency medical transportation benefit into additional counties. Currently, services are provided only in Oakland, Wayne and Macomb counties.

Flint Water Crisis: As the Flint water crisis continues, the governor has recommended \$13.4 million to support distribution of healthy food, breastfeeding support, school-based child and adolescent centers, lead abatement, the establishment of primary care medical homes, and additional water filters and water filter cartridges.

Mental and Physical Health Integration: A proposal from last year's budget to consolidate both mental and physical health resulted in a work group to look at this proposal. While the work group's final report is not due until March, the governor's budget encourages continued conversations on how to coordinate services while maintaining the core values adopted by the work group.

HUMAN SERVICES

Food Assistance: The governor takes the important step of continuing to fund the "Heat and Eat" program that increases food assistance benefits for approximately 338,000 Michigan families. The expansion was first approved for this year with bipartisan support. For 2018, the governor provides \$6.8 million to leverage federal funds, resulting in more than \$300 million in food purchasing power for eligible families.

Income Assistance/Basic Needs:

- **Fewer children and families are receiving the help they need.** Despite continuing high poverty rates—especially for children—the number of families eligible for basic income assistance through the state's Family Independence Program (FIP) has fallen dramatically and is below the levels experienced during the Kennedy administration. The number of persons living in households receiving FIP fell nearly 30% in just the last few years, falling from 71,156 in 2015 (average monthly for budget year) to 50,865 in December of 2016. More than 3 of every 4 persons receiving FIP are children who are living in very deep poverty.

Among the reasons for the decline in FIP cases are state policies that limit eligibility, such as stringent lifetime limits and aggressive sanction policies—including a policy that can deny assistance to an entire family for the truancy of a single child. Funding for FIP continues to fall as caseloads decline. The initial appropriation for the program for the current budget year (2016-2017) was \$97.7 million; the governor's 2018 budget includes only \$78.7 million—a reduction of nearly 20%.

- **Children's clothing allowance is increased.** The governor increases the clothing allowance for children receiving FIP from \$140 per child to \$200, with the total cost of the allowance rising from \$6.3 million to \$9 million. The governor initially proposed this \$60 per-child increase for the current budget year, but it was not adopted by the Legislature.
- **Pathways to Potential program is expanded:** The governor includes \$5.6 million (\$3.3 million in state general funds) to expand the Pathways to Potential program that places Department of Health and Human Services staff in schools to help connect families to needed community services, build school-community partnerships, lower the number of children who repeat grades or drop out, and reduce truancy. New funds in 2018 would be used to lower caseloads in some areas as well as expand into new schools. The governor recommends that priority for expansion be given to "priority schools" that rank among the lowest 5% in the state in achievement and "rising tide" schools—in 10 largely rural communities that have been targeted for economic development.
- **Increased payments to emergency homeless shelters:** The governor increases the daily rate provided to emergency homeless shelters from \$12 per night to \$16 per client, at a total cost of \$3.7 million. Even with this increase, Michigan's per diem payment falls below comparable programs across the country. The governor's office estimates that approximately 69,000 people were homeless in Michigan in 2015, of which 10,000 were chronically homeless. Among the chronically homeless, over 70% have mental health problems, 40% have substance use disorders and one-third have physical disabilities.

Child Abuse and Neglect:

- **Expansion of the Michigan Youth Opportunities Initiative:** The governor includes \$1.2 million to expand the Michigan Youth Opportunities Initiative to all Michigan counties (currently in 64 of Michigan's 83 counties). The goal is to help young people who are in or have recently exited foster care (between the ages of 14 and 21) make a successful transition to independent living through housing, education, employment and community engagement. Youth are trained in leadership and advocacy and helped to build assets through

individual development accounts, which are matched dollar for dollar up to \$1,000 per year.

- **Foster home recruitment:** The governor includes \$2.3 million (\$1.7 million in state general funds) to establish regional teams to recruit, train and support foster families.

Adult Services:

- **Increasing the number of adult services workers:** The governor recommends \$11.3 million (\$8.1 million in state general funds) to increase the number of workers who can assist elderly adults and persons with disabilities, including those providing adult protective services, independent living services and adult community placement services. A 2014 audit found that Michigan was unable to respond quickly to reports of abuse, neglect or exploitation of adults—in large part because of growing referrals and staff reductions. Between 2002 and 2015, the number of adults needing protection from the state more than tripled, while the number of staff fell by 14%.
- **More funding to reduce waiting lists for home-delivered meals and in-home services:** Despite funding increases in 2015 and the current budget year, as of September 2016, about 6,900 seniors and persons with disabilities were on waiting lists for home-delivered meals or other home services, such as chore services, personal care and home health assistance. As Michigan's population ages, the need for services is expected to continue to increase. For 2018, the governor includes \$3.6 million in additional funding, including \$1.5 million for home-delivered meals and \$2.1 million for in-home services.

CHILD CARE AND EARLY EDUCATION

Child Care:

- **Rate increase for child care providers:** The governor includes \$6.8 million in the current budget year (2017), along with \$27.2 million in the 2018 budget year, to increase rates paid to child care providers by approximately 20%, effective July of this year. This increase would bring Michigan closer to the federally recommended payment level of the 75th percentile of market rate.

Child care providers are among the lowest-paid workers in Michigan and, nationwide, wages are so low that nearly half of child care providers qualify for some form of public assistance. Adequate rates

can increase the supply of high-quality child care that parents need to work.

- **Funds to increase oversight of child care providers:** The governor also includes funding to comply with changes in federal law that require annual on-site visits to child care providers receiving a state subsidy who are not licensed by the state (potentially including relatives, neighbors and friends), as well as expanded fingerprinting and background checks.

With the total of \$8.4 million in additional state funds, Michigan will have enough state match in 2018 to draw down all the federal child care funds to which it is entitled—something the state failed to do in recent years. These additional funds will help Michigan further improve its child care system. At the top of the list of needed changes is the state's restrictive income eligibility level, which at 125% of the federal poverty level (\$25,525 maximum for a family of 3), is one of the most restrictive in the country.

Great Start Readiness Preschool (GSRP) Program: The governor recommends level funding for the Great Start Readiness program (\$243.6 million), which provides a high-quality preschool education for 4-year-olds from families with low wages. Currently the program is available to children from families with incomes below 250% of poverty, but districts can expand to children with incomes of up to 300% of poverty if they can demonstrate that all children under 250% of poverty have been served. The governor removes budget language permitting districts to receive GSRP payments for children whose families earn between 251% and 300% of poverty, but retains language allowing districts to charge tuition to continue to provide services in that income range.

Intermediate School District Early Childhood Grants: The governor recommends level funding for early childhood programs through Intermediate School Districts (\$13.4 million). Funds are to serve children from birth through age 8, and must be used in part to convene local Great Start Collaboratives and Parent Coalitions to coordinate early childhood services.

K-12 SCHOOLS/EDUCATION

Per-Pupil Spending: Two of every \$3 in the School Aid budget are used to support per-pupil payments, which are the primary source of funding for school operations. For 2018, the governor recommends an additional \$128 million to raise per-pupil spending by between \$50 and \$100, with districts receiving the lowest payments per pupil receiving the largest increases. The goal is to further

reduce the gap in state funding between the lowest-funded districts and the highest. With this increase, the minimum foundation allowance will increase to \$7,611 per pupil, while the maximum will rise to \$8,279, and the “equity gap” between the lowest- and highest-funded districts will fall to \$668—down from \$2,300 when Proposal A was first implemented.²

The governor also recommends some adjustments to the foundation allowance to recognize varying costs, including: (1) an additional \$50 per pupil for high school students to recognize costs associated with the high school curricula (total of \$22 million); and (2) a reduction of 20% in per-pupil payments to virtual-based schools that have little or no facility costs.

Declining Student Enrollment: Since Proposal A, the reliance on a per-pupil payment to determine school funding has meant that schools that experience rapidly declining enrollments have trouble—at least in the short term—making the cuts needed to adjust to large funding losses. For 2018, the number of pupils statewide is expected to decline again, and the governor includes \$7 million in new funding for districts with enrollment declines of more than 5% in the last two years.

Funding for Students Academically at Risk:

- **Expanded funding for the School Aid At-Risk program:** The governor recommends an additional \$150 million for the School Aid At-Risk program—an increase of nearly 40%. The governor expands eligibility for At-Risk funds to all school districts and redefines student eligibility, goals and outcomes for the program.

The goals are to ensure: (1) that children are proficient in English language arts by the end of third grade and in mathematics by the end of 8th grade; (2) that students are attending school regularly; and (3) that high school graduates are career- and college-ready. The governor proposes that students would be eligible for the At-Risk program if they can receive *either* free- and reduced-price school meals; are in households receiving food or income assistance; or are homeless, migrants, in foster care or English language learners.

The expansion of income eligibility from *free* school meals (130% of poverty—current policy) to *reduced-price* school meals (185% of poverty) means that children living in families with incomes of up to approximately \$37,800 (for a family of 3) would be considered eligible for purposes of At-Risk

funding. The governor estimates that another 131,000 children could be served with these changes.

- **Funding for a new initiative to support high-poverty schools:** Finally, the governor proposes \$3.6 million to support partnerships between the Michigan Department of Education and communities to assist high-poverty districts with low achievement. The goal is to address many of the barriers to children’s learning, including health, safety and nutrition, as well as the needs of their parents for the education and training required to provide for their children.

Reading by Third Grade: The governor provides a small increase in funding for interventions to improve reading by third grade. With total funding of \$26.9 million proposed, the governor doubles funding for early literacy coaches at Intermediate School Districts from \$3 million to \$6 million. The largest component of the initiative—funding for additional instructional time for children who are behind in reading—is retained at \$17.5 million.

New Michigan law that allows for grade retention if children are not reading proficiently by third grade describes the reading assistance programs that schools must put in place to ensure student progress, including professional development by skilled early literacy coaches. With the stakes for children rising, funding for early literacy programs becomes even more critical.

Flint Crisis and Lead Poisoning Prevention:

- **Ongoing funding for Flint:** The governor recommends a total of \$8.73 million in the K-12 school budget to address the ongoing emergency related to lead exposure in Flint, including: (1) \$2.6 million for school nurses and social workers; (2) \$2.5 million for early childhood services, including early intervention; (3) \$3 million to enroll children in the Great Start Readiness preschool program regardless of family income; and (4) \$605,000 for nutritional services.
- **Continued funding for voluntary water testing in schools statewide:** The governor also includes \$4.5 million to pay for voluntary testing of water by school districts and nonpublic schools statewide.

Adult Education: The governor recommends flat funding of \$25 million for adult education programs. This is a 70% reduction from budget years 1997 through 2001, when adult education was funded at \$80 million, and a 78% reduction when accounting for inflation.

POSTSECONDARY EDUCATION

Financial Aid: The governor recommends \$5.3 million in new funding for the Tuition Incentive Program, which serves students from households that are eligible for Medicaid, bringing the total funding for the program to \$58.3 million. This is expected to support 18,500 students in the upcoming school year. The governor recommends a combined increase of \$11 million for the two other grant programs, the Michigan Tuition Grant (which helps students attend private not-for-profit institutions) and the Michigan Competitive Scholarship, both of which are means-tested based on the amount a family needs to meet tuition levels rather than household income.

Currently there is no state financial aid for students who have been out of high school more than 10 years, but the governor's budget provides \$2 million for the Part-Time Independent Student Grant, which helps this population and has not been funded since 2009.

Tuition Restraint: Tuition restraint is a cap on the amount a university may increase tuition costs in order to receive full funding from the state. The governor recommends lowering the cap from 4.2% to 3.8% or \$475 per student, whichever is greater. The percentage amount is higher than the tuition restraint cap of 3.2% in the 2015 and 2016 budget years.

CORRECTIONS

Prison Population and Costs: After peaking in 2006, the prisoner population has declined and flattened, as have prison-related costs. The Department of Corrections budget is almost entirely funded with state general funds, and total spending is expected to remain at approximately \$2 billion in 2018. Approximately \$1.6 billion, or almost 80%, of the current budget for the Department of Corrections is used for custody, housing, healthcare, treatment programs and academic/vocational programs for prisoners.

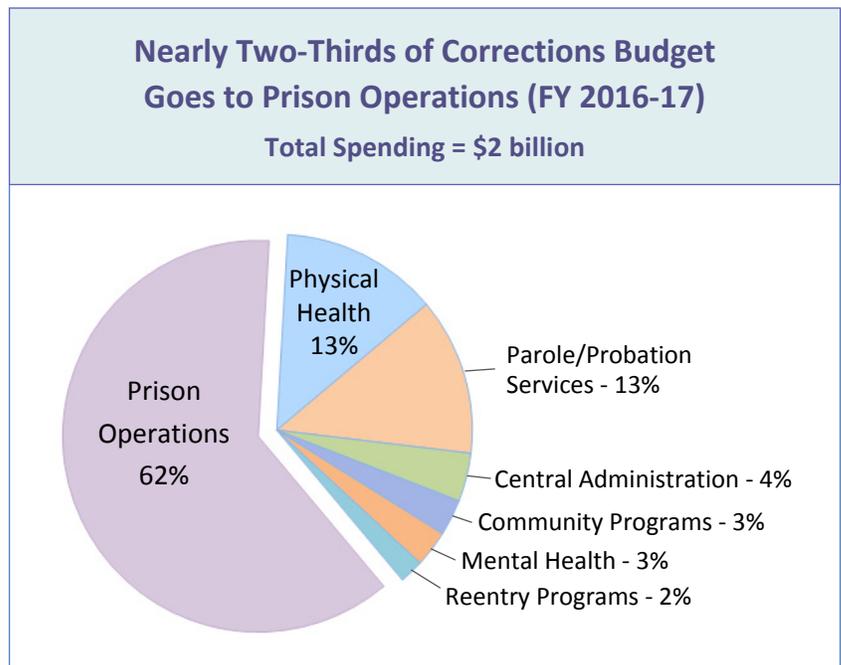
Residential Alternative to Prison Program: The governor includes \$1.5 million to expand the current Wayne Residential Alternative to Prison program to 13 counties on the west side of the state. The program provides

sentencing options for probation violators who might otherwise be sentenced to prison.

Vocational Training for Prisoners: The governor maintains \$2 million in state funding for the Vocational Village program for 200 prisoners in Jackson. The program trains prisoners in the skilled trades.

Goodwill Flip the Script: The governor eliminates funding for the Flip the Script program operated by Goodwill Industries in Wayne County. The program has been funded since the 2015 budget year, and provides education, job training and mentoring to 16- to 39-year-olds who have entered the criminal justice system—with the goal of keeping them out of the prison system.

Prisoner Healthcare and Mental Health Services: Between the 2002 and 2016 budget years, corrections spending overall increased at an average annual rate of 1%, while prisoner health and mental health services grew by nearly 3%.³ The governor has requested additional funding in the current budget year (\$13.9 million) to expand drug treatment of prisoners with hepatitis C—with funding transferred from the Department of Health and Human Services. In addition, for 2018, the governor's budget includes \$2.3 million for cancer treatment costs, reflecting the fact that the number of inmates treated for cancer increased by 48% from 2015 to 2016, and that growth is expected to continue.



Source: Corrections Budget Briefing, House Fiscal Agency (January 2017)

ENDNOTES

1. E. Jeffries, *State Budget Overview*, Senate Fiscal Agency (October 1, 2016).
2. Excludes the 37 "hold harmless" districts whose revenue per pupil exceeds the basic/maximum foundation allowance.
3. R. Risko, Budget Briefing: Corrections, House Fiscal Agency (January 2017).