

November 2, 2009

Update on the Fiscal Year 2010 Budget: Services for Children and Families *November 2, 2009 Update*

What is the status of the current Michigan budget?

In the early morning hours of October 1st—the first day of the new fiscal year—the Michigan Legislature approved a continuation budget for fiscal year 2010 after failing to come to an agreement on some of the major cuts proposed to balance a \$2.8 billion budget deficit. Coming into the final negotiations, the Governor had proposed to address the deficit with \$684 million in new revenues, \$862 million in spending cuts, and the appropriation of federal stimulus dollars from the American Reinvestment and Recovery Act (ARRA). The House of Representatives adopted a budget target that included over \$525 million in state general fund cuts, with the remaining shortfall handled through the use of federal stimulus dollars. The Michigan Senate passed budget bills that cut more than \$1.2 billion in programs and services, including the elimination of funding for the state's preschool program for at-risk four-year-olds, cuts in child abuse and neglect prevention programs, cuts in K-12 per pupil allotments, elimination of state funding for adolescent health centers, deep cuts in payments to Medicaid providers, and cuts in welfare programs.

Following negotiations between the leaders of the Michigan House of Representatives and the Michigan Senate, conference committees were appointed to work out final budget proposals, with the goal of reaching the \$1.2 billion target for cuts established in the Senate. Joint House/Senate conference committees were able to approve budget compromises, but the deep cuts contained in the conference committee reports generated public concern and held up final approval of some of the budget bills.

Although a second continuation budget was voted on to continue payments for K-12 education, agreement was not reached and the K-12 School Aid budget was sent to a second conference committee. Early on the morning of October 9th, a compromise on the K-12 budget was approved by the Legislature.

On October 30th—just short of another possible government shutdown—the Governor signed the final budgets into law, including the budgets for the Departments of Human Services (DHS) and Community Health (DCH).

What does this mean for children and families in Michigan?

The continuation budget gave the Governor and the Michigan Legislature a 30-day window to finalize all state budgets, and there was some hope that the impact of the deep cuts in budgets could be softened with new revenues. During October, a number of revenue bills were forwarded, but none drew bipartisan support. Throughout the month, the Governor continued to press for the additional revenues needed to fund her priorities, including health care services for the poor, education, and public safety.

Below are the highlights of the final budget provisions affecting children and families.

Department of Human Services (DHS)*

Child care:

- Assumes a large decrease in average monthly child care cases, from 48,500 in the Governor's initial budget recommendation to 36,000 in the final budget.
- Retains current policy of reimbursing up to a maximum of 90 hours of subsidized child care every two weeks. The Senate had reduced the number of reimbursable child care hours available through the subsidy from 90 hours to 75 hours.
- Changes child care reimbursement rates by eliminating the use of shelter areas and basing reimbursements on the provider type and the age of the child, providing rate increases to most child care centers and family and groups homes, and establishing a two-tier system of reimbursements for unregulated child care aides and relatives, with lower payments provided to those who have not completed training requirements (\$1.60 per hour for those who do not complete 10 hours of annual training and \$1.85 per hour for those who have). The Senate had reduced the rate paid to unlicensed relative care providers to equal that of child care aides.
- Continues to appropriate Child Care Development Fund quality funding to the Early Childhood Investment Corporation (ECIC) (\$14.6 million), a reduction of \$200,000. The Governor had recommended a \$200,000 cut in state general funds for the ECIC. The Senate proposed to remove the funding to the ECIC, the majority of which is funding for child care quality improvements.

Foster care payments:

- Reduces overall funding for foster care payments in anticipation of a decrease in total foster care cases for a savings of \$23 million.
- Provides a \$10 per day increase in administrative rates paid to private child placing agencies, and a \$7 per day increase for residential facilities. Also, increases were made for private adoption services and independent living to meet lawsuit settlement agreement caseload requirements (total increase of \$29.3 million).
- Increases the state match for foster care services for children not eligible for Title IV-E funding from 50 percent to 75 percent. ***Vetoed by the Governor, so the state match remains at 50 percent.***
- Establishes a new public foster care per diem by requiring the DHS to establish a \$40 administrative rate for foster care and independent living services delivered by the Department and establishing a 75 percent State, 25 percent local split for children placed who are not eligible for Title IV-E funding. ***Vetoed by the Governor.***
- Increases funding for private adoption agencies as part of privatizing adoption services (increase of \$7.2 million). ***Vetoed by the Governor.***
- Creates a new in-home care incentive for local governments with a higher state reimbursement rate (\$5 million in federal funding). ***Vetoed by the Governor.***
- Increases the number of child welfare staff in order to reduce caseloads and meet the lawsuit settlement requirements, but not at the level proposed by the Governor. The conference committee included a total of 544 new protective services and foster care staff, down from the Governor's recommendation of 850. The total increased cost to the State is \$58 million.

Family Independence Program (FIP) income assistance:

- Rejects the Senate proposal to reduce welfare grants by \$10 per person per month.
- Includes a cut in the annual children's clothing allowance for FIP families from \$88 to \$43, but creates a new one-time supplement for children of FIP recipients to offset the loss.

Child abuse and neglect prevention: Cuts in child abuse and neglect prevention programs were approved, but many were not as deep as those contained in the Governor’s budget recommendation or the Senate-passed DHS budget. Included were:

- Restores funding for the DHS contribution to the 0 to 3 Secondary Prevention program (\$4 million). The Governor had proposed to eliminate all funding for the program, and the Senate had cut funding by \$1 million). ***The Governor preserved the funding in the DHS budget for the 0 to 3 Secondary Prevention program, but vetoed funding for the program in the DCH and K-12/School Aid budgets.***
- Reduces funding by \$3 million for community child protection/permanency programs—down from the \$4 million cut recommended by the Governor, and the \$8 million approved by the Senate.
- Cuts the Strong Families/Safe Children program by \$2.25 million—down from the \$4 million reduction recommended by the Senate.
- Cuts the Family Group Decision-making program slightly (\$154,700), a program that was slated for elimination by the Governor and the Senate. ***Vetoed by the Governor.***
- Cuts \$816,800 (21%) from the Teen Parent Counseling program, a program that had been recommended for elimination in the Governor’s budget. ***Vetoed by the Governor.***
- Continues funding for the Family Reunification program, which had been cut by \$500,000 in the Senate-passed budget.
- Cuts funding by 15 percent for the marriage and fatherhood initiatives. Both initiatives had been eliminated in the Governor’s proposed budget. ***Vetoed by the Governor.***
- Eliminates the Bridges to Responsible Adulthood program (\$1 million) for youths exiting the state foster care system.

Before and after school programs:

- Cuts before- and after-school program grants by \$2 million—a program that was eliminated in the Governor’s proposed budget (total funding of \$5 million). ***Vetoed by the Governor.***
- Includes funding for the Michigan After-School Partnership (\$25,000), which was eliminated in the Governor’s budget. ***Vetoed by the Governor.***

Juvenile justice:

- Closes the Nokomis Challenge Center and remaining community juvenile justice centers effective January 1, 2010. ***The Governor’s veto letter expresses her concern about the lack of funding to maintain operations at the Nokomis Challenge Center and community juvenile justice centers, as well as the fact that no funding was included in the budget to provide alternative placements for the youths under the care of the state.***

Other programs and grants:

- Restores funding for Communities in Schools (\$200,000), Boys and Girls Club grants (\$250,000) and the Michigan Kinship Care center (\$200,000). ***The Governor vetoed funding for Communities in Schools (\$200,000).***
- Eliminates funding for grants to Youth Commonwealth (\$126,500), YouthVille (\$100,000), and Black Child and Family Institute (\$100,000).

*Comparisons are to the Governor’s bill and the Senate bill as the House passed a “zero budget” for the DHS.

K-12 Education

Per pupil expenditures:

- Reduces per pupil funding for schools by \$165, down from the \$218 contained in the first conference committee agreement, for a total cut of \$263 million, giving school districts flexibility

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to absorb the per pupil cuts by reducing or eliminating other funded programs (with certain exceptions). The Governor had recommended a cut in the School Aid per pupil payment of \$59. The Senate budget included a cut of \$110 per pupil, and the House fully funded the per pupil payment with federal stimulus dollars. ***The Governor vetoed \$51.5 million for section 20j schools (39 districts with traditionally higher per pupil expenditures), which amounts to an additional \$120 cut to the per pupil foundation grant. On October 22nd, the State Budget Director issued a proration letter cutting an additional \$127 per pupil for all districts, based on the most recent revenue projections. Once a proration letter is issued, per-pupil reductions take effect within 30 calendar days unless the Legislature takes alternative action to eliminate the estimated funding shortfall. Without legislative action, the per pupil reduction will take effect on November 21, 2009.***

- Continues funding for grants to districts with declining enrollment (\$20 million). The Governor and the House had continued funding for the grants, while the Senate-passed budget eliminated it.

Intermediate School District operations:

- Reduces funding for Intermediate School Districts (ISDs) by \$16.3 million or 20 percent, down from the \$36.3 million (44.4%) cut in the first conference committee report. The Governor had recommended a 20 percent cut in funding for ISD operations, while the Senate proposed to cut by 5 percent. The House-passed budget maintained current year funding of \$81.7 million.

Early childhood education:

- Provides continuation funding for school district grants for the Great Start Readiness (GSRP) preschool program (\$88.4 million). The Governor and the House had recommended continuation funding, while the Senate budget eliminated all funding for the GSRP.
- Cuts in half the GSRP competitive program (from \$15.2 million to \$7.6 million). The Governor and the House had recommended continuation funding, while the Senate budget eliminated all funding.
- Reduces the School Aid contribution to the 0 to 3 Secondary Prevention program (also known as Early Childhood Grants) by 25 percent (from \$2.13 million to \$1.6 million). The Governor and the Senate had recommended that funding for the grants be eliminated, while the House had provided for continuation funding. ***The Governor vetoed this funding but retained funding for the 0 to 3 Secondary Prevention program in the DHS budget (\$4 million).***
- Retains current year funding for the Great Parents/Great Start program (\$5 million). The Governor and the Senate proposed to eliminate all funding for the program, while the House had provided for continuation funding.
- Reduces funding for Early Childhood Investment Corporation (ECIC) grants by \$750,000 or 11 percent to a total of \$6 million. The Governor and the House had maintained full funding.

Adolescent health centers:

- Reduces funding for adolescent health centers by 25 percent from \$4.74 million to \$3.6 million. The Governor and the House had recommended continuation funding of \$4.74 million, while the Senate budget eliminated state funding.

Dropout prevention and recovery:

- Eliminates funding for the 21st Century Schools Fund (\$8 million). The Governor and the House retained funding for the initiative that was to help high schools with low academic achievement, although the Governor cut funding from \$15 million to \$8 million in her May Executive Order. The Senate eliminated funding.
- Maintains current year funding for bilingual education state grants (\$2.8 million). The Governor and the Senate had recommended elimination of the program, while the House maintained current year funding of \$2.8 million.

- Eliminates funding for math remediation grants (\$725,000). The Governor and the Senate recommended that state funding for after-school and summer math remediation pilot programs be ended. The House had maintained current year funding.
- Maintains current year funding for health/science middle college grants (\$2 million). The Governor and the House had recommended continuation funding for the grants, while the Senate had recommended elimination.
- Reduces funding for adult education by 8 percent, from \$24 million to \$22 million. The Governor had recommended a cut of 16.7 percent for adult education (from \$24 million to \$20 million). The Senate reduced adult education funding by 10 percent to \$21.6 million, while the House-passed budget included total funding of \$23.7 million.
- Cuts funding for Youth Challenge Grants by 50 percent (from \$1.28 million to \$624,300).

School safety:

- Eliminates state funding for school bus inspections (\$1.4 million). The Governor and House had recommended continuation funding, while the Senate had eliminated all state funding.

Department of Community Health

Medicaid:

- Increases funding in Medicaid services to cover caseload, utilization, and inflation changes.
- Includes the annualization of the 4 percent Medicaid provider rate reduction from the May 2009 Executive Order plus an additional 4 percent cut for a total rate reduction of 8 percent. The budget does include language that would restore the rate reductions—and other reductions made to the DCH FY 2009-2010 budget—if new revenue to match federal funds is generated.

Healthy Kids Dental programs:

- Rejects the expansion of the Healthy Kids Dental program that was approved by both the House and Senate.

MIChild:

- Increases funding for MIChild to cover routine caseload, utilization, and inflation changes, but does not reflect changes in eligibility related to the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA).

Public health programs for families and children:

- Reduces funding to local public health departments by \$535,600 from total funding of \$40.62 million. The Governor recommended continuation funding for local public health operations while both the House and Senate increased funding.
- Retains funding for the 0-3 Secondary Prevention program (\$524,000). The Governor proposed to eliminate funding for the program, while the House and Senate both recommended continuation funding. ***The Governor vetoed this funding but retained funding for the 0 to 3 Secondary Prevention program in the DHS budget (\$4 million).***
- Funds the Nurse Family Partnership program (NFP) with \$811,000 in state funding with a 1:1 federal match, bringing total funding to \$1.62 million. The Governor recommended elimination of all funding for the NFP, while the House and Senate both provided continuation funding. ***The Governor vetoed funding for the Nurse Family Partnership program and notes that she is supportive of restoring federal funds if the local entities provide the required matching funds.***
- Reduces the Healthy Michigan Fund (HMF) from \$25.1 million to \$11 million, but does not establish spending priorities under a single appropriation item as was proposed by the Senate. Funding for 16 of 27 projects is eliminated, including: family planning local agreements, infant

mortality initiatives, lead poisoning prevention (childhood lead program), and local Maternal and Child Health (MCH). Included were the following HMF changes:

- Elimination of \$900,000 in HMF dollars for local infant mortality initiatives. The Governor and the House had recommended continuation funding for the program.
- Elimination of \$700,000 in HMF dollars for physical fitness, nutrition, and health (\$700,000). The Governor had recommended that funding for the program be ended while the House proposed continued funding.
- A funding reduction for the Michigan Model school health curriculum from \$500,000 to \$400,000. The Governor and the House proposed continuation funding for the Michigan Model, while the Senate recommended elimination.
- Continued funding for poison control by replacing HMF dollars with GF for total funding of \$1.1 million.

Community mental health services:

- Continues the May 2009 Executive Order cut in funding for mental health services for persons not eligible for Medicaid, for a total cut of \$40 million. The House had proposed to increase funding by 2 percent (\$6.5 million), while the Senate had recommended an additional nearly \$28 million cut.
- Eliminates funding for respite care services for children with serious emotional disturbances and their families (\$1 million), as proposed by the Senate and Governor. The House had proposed continued funding.
- Retains funding (\$6.8 million) for multicultural primary care services. The Governor and the Senate had proposed to eliminate the funding. The House had recommended continued funding.

Children's Special Health Care Services:

- Increases fees for families utilizing Children's Special Health Care Services (CSHCS) from \$12 to \$15 per month, and assumes a state savings of \$1.5 million. The Governor proposed this increase to save \$1.1 million and the House concurred. The Senate had recommended doubling the fee increase from \$3 to \$6 to save \$2.2 million.
- Expands Medicaid health coverage under the CSHCS program to cover approximately 4,000 more children. The Governor made this proposal and the House and Senate concurred.

Women, Infant and Children Nutrition program (WIC):

- Projects an increase in funding for WIC of \$34.6 million to cover an increase in need and a rise in food costs. Total funding for FY 2010 is \$236.5 million.

Protection and advocacy services:

- Reduces funding for protection and advocacy services for persons with mental illness and developmental disabilities by approximately 75 percent based on the Senate proposal (from \$777,400 to \$194,400). The Governor had proposed a 50 percent reduction in protection and advocacy services.

What are the options for solving Michigan's budget crisis?

Now that the final fiscal year 2010 budget is complete, lawmakers will begin work on the fiscal year 2011 budget where there is an even larger shortfall expected and federal stimulus dollars will be nearly depleted. Experts agree that with Michigan's current tax structure, state tax revenues will not increase sufficiently by fiscal year 2011 to make up for the loss of the temporary federal stimulus dollars. Unless Michigan takes action to change its tax structure, the State will face a funding "cliff" by fiscal year 2011 at the latest. According to research by the Citizens Research Council of Michigan, during national

recessions, Michigan tax revenues continue their decline for two or more years before beginning a very modest and gradual ascent.

Michigan, like many other states, must balance its budget each year, and is legally prohibited from running a deficit budget. Therefore, Michigan can: (1) further cut programs and services; (2) restructure its tax system to reflect the current economy; or (3) adopt some combination of cuts and tax changes.

In the context of more than eight years of budget cuts affecting vulnerable children and families, as well as one-time measures to balance the state budget, Michigan's Children believes that children can ill-afford efforts by state leaders to continue to cut their way out of Michigan's fiscal problems. Michigan's Children has joined forces with a range of other organizations to help promote alternatives to help address Michigan's structural budget deficit and ensure that Michigan builds a stable and fair tax system that generates sufficient revenue to protect children and invest in the next generation of Michigan workers.

For more information on Michigan's budget crisis and alternatives to further budget cuts, visit Michigan's Children's website at www.michiganschildren.org, and sign up for our e-bulletin!