

Governor Granholm Issues FY2009 Executive Budget Proposal: Program, Infrastructure and Financing Changes Recommended

Budget summary below; more detailed analysis expected in late March.

OVERVIEW

On February 7, state Budget Director Bob Emerson presented Governor Granholm's FY2009 Executive Budget recommendation to a joint session of the House and Senate Appropriations committees. In a significant change from recent budget proposals, the governor's recommendation contains no major revenue increases. It does, however, reflect nearly \$200 million in savings from state employee concessions, including no cost-of-living salary adjustments and increased health care premiums, deductibles and co-pays.

The Executive Budget recommendation totals \$44.83 billion, a 2.9 percent (\$1.25 billion) increase over current fiscal year appropriations. While reflecting a slight decrease in General Fund spending (\$7 million), the proposal recommends a 4.9 percent (\$636 million) increase in the K-12 education budget.

Also in the Executive Budget and in the recently released multi-year Capital Outlay budget proposal is the recommended sale of more than \$1 billion in bonds to fund a series of infrastructure projects. These projects include:

University Building Projects.....	\$772 million
Community College Projects.....	\$211 million
State Agency Building Projects.....	\$100 million
Campus Building Energy Projects.....	\$42 million
Road and Bridge Projects.....	\$150 million
Tourism and Business Promotion.....	\$60 million
Airport Improvement Projects.....	\$183 million

The Executive Budget also proposes restructuring some existing debt to reduce interest payments and to extend debt repayment periods.

Department of Human Services

Of particular note in the Department of Human Services budget are recommendations to increase public assistance grants, day care spending and the child clothing allowance.

The Executive Budget recommends increasing the Family Independence Program public assistance grant by 2 percent, equivalent to \$3 per person per month at a cost of \$12 million. If this recommendation is adopted, it would represent the first inflationary adjustment to the public assistance grant in 19 years, a period that saw the purchasing power of the grant decline dramatically. This recommendation would also increase the grant for an estimated 11,500 disabled adults by \$5 per month.

Day care spending in the Executive Budget recommendations would increase by \$10 million to support higher reimbursement rates. (Details of this and other recommendations will be reflected in a more in-depth analysis of the Executive Budget scheduled for release in March).

The governor also recommends the children's clothing allowance be restored to the FY1999 level of \$75 per child per year, an increase from the \$43 per child distributed by the Department of Human Services in FY2007.

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Department of Community Health

The FY2009 Executive Budget recommendation for the Department of Community Health is primarily a continuation budget. There are no major reduction initiatives (including no reductions to the Healthy Michigan Fund) and no major initiatives funded with new monies. The department's recommendation, \$12.5 billion gross and \$3.1 billion General Fund, represents nearly 28 percent of the total state budget, and nearly 32 percent of the statewide General Fund recommendation. The General Fund recommendation is actually a \$40 million reduction from current law.

The FY2009 budget continues to rely on provider-financing strategies as an alternative to state funds investment. A key highlight of the budget is the increase of \$177 million in federal funds as the result of Michigan's higher federal matching rate (60.27 percent in FY2009), reducing General Fund need by a like amount.

Key program changes for FY2009 include expansions in community-based long term care services funded by proposed reductions in nursing home utilization and revised payment methodology.

The Executive Budget also recommends a reduction of \$5 million in Disproportionate Share Hospital payments as well as a reduction in General Fund mental health spending of \$7.3 million to be offset by the creation of a mental health managed care risk pool.

The Executive Budget also recommends changes in the hospital and nursing home provider taxes to provide an increased benefit to the state. The Adult Benefits Waiver, scheduled to expire in January 2009, is assumed to continue and that renewal of the waiver will be granted by the federal government.

Department of Labor & Economic Growth

The Executive Budget recommends an overall increase of 4.7 percent over FY2008 and a 105 percent increase in General Fund spending for a total recommendation of \$1.4 billion.

As in the FY2008 Executive Budget recommendation, the governor is requesting \$40 million for the

No Worker Left Behind program. Also, \$8.5 million is requested for the Michigan Nursing Corp program, which would bring total funding for the program to \$10 million. The governor's proposal also calls for \$2.9 million gross funding for the regulation of the mortgage industry and just under \$1 million for the regulation of payday lending.

K-12 Education

The significant increase in proposed K-12 funding is intended to support a recommendation to reduce the per-pupil spending disparity among schools by increasing the minimum foundation grant by \$216 to \$7,420 while increasing the grant for schools with basic foundation allowance at or above \$8,433 by \$108. The governor also recommends adding \$32 million to the K-12 budget in support of her Great Start early childhood education initiatives.

Another noteworthy recommendation that would impact large schools failing to meet adequate yearly progress benchmarks for two consecutive years is a proposal to create a new 21st Century Schools Fund. With the goal of improving these schools' lagging performance, this infrastructure fund would distribute planning and facilities grants of up to \$32 million annually over 20 years to assist high schools with over 800 students to disaggregate into schools with no more than 450 students.

Higher Education

The Executive Budget recommends a 3 percent increase for university operations, with Michigan State University, the University of Michigan, and Wayne State University funding in a separate appropriations bill.

The recommendation appears to reduce gross funding to universities by 5.1 percent. This is due, however, to a \$138.7 million payment made to universities in FY2008 to repay the delayed August 2007 monthly payment. After adjusting for this, the FY2008 to FY2009 recommendation would be a 3.3 percent General Fund increase and a 2.4 percent gross increase.

Department of Corrections

The Executive Budget recommends a reduction of \$51.3 million in Department of Corrections spending through efficiencies and policy changes intended to reduce prisoner populations and costs. While no specific corrections policy and operational changes are reflected in the Executive Budget, proposals related to parole system reforms, alternatives to the incarceration of mentally ill felons, health care cost savings and facilities consolidation options are expected to be considered in discussions between the administration and the Legislature.

Additionally, recommendations from a study by the Council of State Governments regarding successful cost containment practices implemented in other states may play a role in budget deliberations.

Based on initial media coverage, negotiations over the Department of Corrections budget may prove very contentious since Michigan's incarceration rate and cost per inmate are significantly higher than the average of the other Great Lakes states.

SUMMARY

In summary, while the governor's FY2009 budget proposal assumes a balanced budget can be achieved without major program reductions or tax increases, the lagging economy and the potential for higher-than-forecasted demand for public assistance and other government services suggest that state revenues and expenditures may result in significant revisions to the plan prior to its passage and again during Fiscal Year 2009.