

# Healthy Michigan Fund

November 1996

Education finance reform in May 1994 not only changed the financing of public education in Michigan, but it also boosted funding for public health programs. From the public health perspective, the most important changes were the tax increase for cigarette and tobacco products and the distribution of these revenues. Cigarette taxes were increased from 25 cents per pack to 75 cents per pack and a 16% tax was levied on the wholesale price of cigars, non-cigarette smoking products, and smokeless tobacco products. These changes occurred in conjunction with the Constitutional earmarking of 6% of the gross revenue collection from the taxes. This resulted in a first year collection of \$37.2 million for public health related programs.

Table 1 details revenue collections, expenditures, and fund balance since the inception of the Healthy Michigan Fund (HMF). The higher tobacco taxes went into effect May 1, 1994.

<b>Table 1 HEALTHY MICHIGAN FUND Cigarette Tax Revenues</b>						
	<b>FY 1993-94*</b>	<b>FY 1994-95</b>	<b>FY 1995-96</b>		<b>FY 1996-97</b>	
<b>Gross Cigarette Revenue</b>		\$619,400,000	\$589,600,000		\$575,100,000	
<b>Healthy Michigan Fund</b>	12,800,000	37,164,000	35,376,000		34,506,000	
<b>Appropriated</b>	12,800,000	34,100,000	38,200,700		36,047,800	
<b>Expended</b>	4,668,400	30,360,971	34,700,700	est.	36,047,800	
<b>Workproject</b>	0	0	2,475,700		0	

<b>Carryforward</b>	0	8,131,600	14,934,629	13,134,229
<b>Balance</b>	\$8,131,600	\$14,934,629	\$13,134,229	\$11,592,429
<b>Lockbox (Medicaid shortfall)</b>				15,000,000
<b>Adjusted Balance</b>				<b>(\$3,407,571 )</b>
*Note: FY 1993-94 cigarette tax increase went into effect in May of 1994. Source: Consensus Revenue Estimating Conference, May 1996				

When reviewing the table, note that FY 1993-94 numbers reflect only five months of collections and expenditures. FY 1996-97 gross appropriation is \$51.0 million. This includes appropriations of \$36.0 million and a "lock box" supplemental of \$15.0 million. The most significant detail from the table is the projected negative HMF balance of \$3.4 million at the end of FY 1996-97. The implications of this estimated shortfall are explained in this fiscal forum.

Public Act 121 of 1996 created the Healthy Michigan Fund. This Act directed the 6% Constitutional earmark of tobacco revenue into this newly created fund. The legislation stipulates within the Public Health Code that the funds be used to improve the health of the citizens of the state while addressing the needs of vulnerable populations. This is achieved through targeting the following programs within the Department of Community Health: chronic disease prevention, smoking cessation, anti-tobacco activities, maternal and child health initiatives, immunization activities, poison control, and local public health surveillance and evaluation.

Public Act 121 was intended to provide a spending framework for the funds. However, even with this Act, disagreement occurred on how the funds should be allocated. A compromise spending plan was reached by the Administration and the Legislature, which continues to be honored. The spending plan directs part of the monies to public health prevention programs, a portion to child and family services programs, and the remainder to miscellaneous smaller programs in various departments and agencies. This specific compromise was contained in the first HMF appropriation bill passed by the Legislature, Public Act 293 of 1994. Along with the spending compromise was the inclusion of the following guidelines for the department to comply with when allocating the funds:

- All requests for proposals (RFP) will include nongovernmental agencies as well as governmental agencies.

- The Department will not earmark funding for any particular organization, except that line item identified as funding for local health departments.
- None of the HMF can be used for lobbying activities as defined by the law.
- Allocation of prevention funding must serve three counties or two local health departments to ensure regional networks.
- State departments and agencies receiving HMF must report on expenditures to the Legislature.

Chart 1 (*in the printed document*) illustrates the FY 1995-96 allocation of HMF into generic categories including current organizations receiving more than \$0.5 million. The largest portion of the funds, 30.6%, was awarded to public and private agencies, local groups, and coalitions other than local health departments. Local health departments received 21.1% of the funds and state agencies received 13.0%. The Michigan Public Health Institute, which is a collaboration between the Michigan Department of Community Health, Michigan State University, the University of Michigan, and Wayne State University, received 6.7% of the funds for research-related topics. Brogan and Partners Advertising/Public Relations Firm also received 6.7% for media-related activities.

Chart 2 (*in the printed document*) shows the distribution of the HMF to the six state departments and agencies in FY 1996-97. Public Health is appropriated the largest portion at \$30.4 million, or 59.6% Medical Services Administration (Medicaid) is allocated \$15.3 million, or 30.0% of the total.

The HMF appropriation for FY 1996-97 is detailed in Table 2.

<b>Table 2 HEALTHY MICHIGAN FUND APPROPRIATION</b>		
		Enacted
		FY 1996-97
<b>Department of Management and Budget</b>		
	Nutrition Services	\$500,000
	Children Ombudsman	1,000,000
<b>Department of Community Health</b>		
	Mental Health	
	Respite Care	\$3,000,000
	Public Health	

	Health Planning	\$2,000,000
	AIDS/HIV Risk Reduction	1,000,000
	Immunization Local Agreements	1,931,000
	Immunization Program Management	293,300
	Training & Evaluation	243,500
	Michigan Essential Health Care Provider	500,000
	Cancer Prevention & Control Program	5,800,000
	Diabetes Local Agreement	2,000,000
	Employee Wellness Program Grants	1,800,000
	Physical Fitness, Nutrition, & Health	1,250,000
	Smoking Prevention Program	4,880,000
	Violence	2,000,000
	Adolescent Health	850,000
	Dental Programs	150,000
	EPSDT Outreach	1,400,000
	Pregnancy Prevention Program	4,350,000
Medical Services Administration		
	Poison Control	\$300,000
	Lock box - Medicaid shortfall	15,000,000
<b>Department of State Police</b>		
	Tobacco Tax Enforcement	\$600,000
<b>Department of Treasury</b>		
	Tobacco Tax Collection	\$200,000
<b>TOTAL</b>		<b>\$51,047,800</b>

The public health dollars totaling \$30.4 million are allocated to 16 different spending line items which target child and family services and prevention programs. The second largest appropriation is to cover a \$15.0 million projected shortfall. As stated earlier, FY 1996-97 appropriations exceed revenue estimates, leaving a current year spending problem within HMF. Current programs receiving HMF (Table 2), will have to be reduced accordingly. At this time, no determination has been made as to where the reductions will occur.

In conclusion, voter adoption of Proposal A increased appropriations for public health programs. This was attained through the 6% Constitutional earmark of gross tobacco tax collections by limiting expenditure to health departments who could best achieve the goals of the program. Additionally, many of the programs receiving the HMF had not received increases in previous years.

Of concern is the continuing decline in tobacco revenues, as shown in Chart 3 (*in the printed document*). As the HMF revenues have slowed, expenditures have increased, thus depleting the balance in the Fund. Public Act 121 does not require the General Fund to make up the difference. Unless additional HMF revenues become available, spending will have to be curtailed in FY 1996-97 and in future years to meet available revenues.