

Section IV. Major Policy Changes

This section describes major policy changes impacting General Fund appropriations and revenue, which are summarized in **Table 4.1** and **Table 4.2**, respectively. Major policy changes impacting the Special Transportation Fund are described in **Section VI. Out Year Projections**.

GENERAL FUND APPROPRIATIONS SUMMARY

Adjustments to appropriations include an increase of \$124.4 million in current services updates and -\$108 million in net policy changes in FY 24, as well as an increase of \$630.3 million in current services updates and \$86.4 million in net policy changes in FY 25. The most significant funding increases are associated with: (1) supporting a bonus for state contracted providers of direct health and human services for clients beginning in FY 24, (2) supporting a provider bonus for DDS contracted providers beginning in FY 24, (3) reducing the number of individuals on DDS's residential waiting list beginning in FY 24, (4) ECS and choice programs beginning in FY 25, (5) increasing support of special education beginning in FY 24, and (6) supporting rate increases for Care4Kids and School Readiness programs beginning in FY 24. (Specific policies are discussed following **Table 4.1**).

Table 4.1 Summary of General Fund Adjustments by Subcommittee
In Millions of Dollars

Description	FY 24			FY 25		
	Current Services	Policy Revisions	Total	Current Services	Policy Revisions	Total
Non-Fixed Costs						
Conservation and Development	13.4	36.5	49.9	14.4	34.4	48.7
Element. & Secondary Ed.	66.2	25.8	92.0	131.2	202.9	334.1
General Government A	2.1	3.2	5.3	2.4	3.2	5.6
General Government B	(422.2)	(286.3)	(708.5)	(281.3)	(233.2)	(514.5)
Health	95.4	838.8	934.2	111.2	854.6	965.8
Higher Education	84.1	0.3	84.3	95.2	17.8	113.0
Human Services	57.1	6.4	63.6	63.0	10.0	73.1
Judicial and Corrections	78.1	7.5	85.6	88.8	27.9	116.6
Legislative	6.2	5.8	12.0	11.5	6.8	18.3
Regulation and Protection	17.5	3.3	20.7	23.8	3.0	26.9
Lapses	86.5	(80.0)	6.5	86.5	(129.0)	(42.5)
Non-Fixed Costs Subtotal	84.3	561.4	645.7	346.6	798.5	1,145.0
Fixed Costs						
Element. & Secondary Ed.	(21.4)	15.7	(5.7)	(14.4)	54.8	40.4
General Government B	(226.0)	131.9	(94.1)	(97.3)	33.3	(64.0)
Health	3.0	5.2	8.1	3.1	5.2	8.2
Human Services	284.5	(822.1)	(537.6)	392.5	(805.4)	(412.9)
Fixed Costs Subtotal	40.1	(669.4)	(629.2)	283.8	(712.1)	(428.3)
TOTAL	124.4	(108.0)	16.4	630.3	86.4	716.7

Major Appropriations Policy Changes

Reflect Impact of Revised Pension Fund Deposits

The budget reduces funding by \$76,019,360 in the General Fund and \$13,464,080 in the Special Transportation Fund in FY 25 to reflect reduction of the unfunded accrued liability resulting from additional deposits.

Increase the Tiered PILOT Funding Percentages

The budget increases the Tiered PILOT funding percentages by three percentage points each beginning in FY 24. Funding of approximately \$19 million is provided in both FY 24 and FY 25 for the tier increases.

Provide Funding for Private Provider Bonus

The budget provides funding of \$53.3 million in both FY 24 and FY 25 to support a bonus for state contracted providers of direct health and human services for clients of ten state agencies.

Consolidate Funding for Residential Services

The budget transfers funding of \$782.3 million in FY 24 and \$784.6 million in FY 25 in the Community Residential Services account from DSS to DDS. This consolidates all the funding supporting DDS consumers under the agency again.

Provide Funding for Private Provider Bonus

The budget provides funding of \$50 million in both FY 24 and FY 25 to support a provider bonus for DDS contracted providers.

Provide Funding to Reduce DDS Residential Waiting List

The budget provides funding of \$4.1 million in FY 24 and \$16 million in FY 25 to reduce the number of individuals on the department's residential waiting list, giving priority to individuals who have caregivers aged 65 and older.

Increase Eligibility for HUSKY Programs

The budget provides funding of \$11.5 million in FY 25 to support (1) increasing income eligibility for the HUSKY C program, effective 10/1/24, and (2) increasing eligibility for HUSKY Health for children, regardless of immigration status, from age 12 to age 15, effective 7/1/24.

Increase Various Medicaid Rates

The budget provides total funding of \$1.6 million in FY 24 and approximately \$14.7 million in FY 25 associated with increasing Medicaid rates for various services including adult complex care nursing, adult day, delivered meals, and methadone maintenance. This includes \$7 million in FY 25 to be applied based on the outcome of the Medicaid rate study supported by ARPA funding of \$1 million in FY 24 and \$2 million in FY 25.

Expand Support for Temporary Family Assistance (TFA)

The budget provides total funding of \$3.4 million in FY 24 and \$8.6 million in FY 25 to increase the time limit, earned income disregard, and asset limit under TFA.

Rebase Rates for Residential Care Homes (RCHs) and Intermediate Care Facilities (ICFs)

The budget provides funding of \$7.1 million in FY 24 and \$7.3 million in FY 25 to rebase Medicaid rates for RCHs and ICFs. Funding for ICFs also includes a 2 percent adjustment factor and a hold harmless.

Increase Funding for ECS and Choice Programs

The budget provides funding of \$150 million in FY 25 for ECS and choice programs. Of this amount, approximately \$68.5 million is to speed up the phase in of ECS funding to underfunded municipalities and \$81.5 million is to increase per student grant funding for operators of charter schools, magnet schools, and vocational agriculture programs, and for Open Choice receiving districts.

Adjust ECS Phase-In Schedule

The budget provides funding of \$6.6 million in FY 24 and \$13.2 million in FY 25 to maintain funding for overfunded municipalities at FY 23 levels through the biennium. Scheduled decreases in funding to overfunded municipalities will resume in FY 26 and continue until FY 32, when full funding is achieved. Underfunded municipalities will receive their fully funded amounts beginning in FY 26.

Increase Support for Special Education

The budget provides annual funding of \$25.4 million as follows: (1) \$25 million in both FY 24 and FY 25 for Excess Cost; and (2) \$430,000 in both FY 24 and FY 25 for four positions related to PA 23-137. These positions are intended to fulfill agency responsibilities established by PA 23-137 regarding special education transition and mediation.

Provide Funding for Care4Kids Rate Increases

The budget provides funding of \$14.2 million in FY 24 and \$53.3 million in FY 25 to support a 10% and 5% annual rate increase for licensed and unlicensed Care4Kids providers, respectively.

Provide Funding for School Readiness and Child Day Care Contract Rate Increases

The budget provides funding of approximately \$15.5 million in FY 25 to support increasing the Pre-K rate from \$8,924 to \$10,500 per child per year.

GENERAL FUND REVENUE SUMMARY

A summary of major revenue policies is listed below. For a comprehensive listing of policies, please see the revenue budget sheets in **Part III. Revenue**.

Table 4.2 Summary of Major Policy Changes to General Fund Revenues
In Millions of Dollars

Major Policies	FY 24	FY 25	FY 26	FY 27	FY 28
Personal Income Tax					
Reduce marginal tax rates	(166.8)	(370.4)	(384.8)	(402.3)	(417.9)
Eliminate benefits cliff	(21.1)	(45.3)	(51.8)	(55.9)	(57.4)
Increase EITC	(44.6)	(44.6)	(44.6)	(44.6)	(44.6)
All other income	16.2	35.7	36.7	40.4	41.6
Subtotal Personal Income Tax	(216.3)	(424.6)	(444.5)	(462.4)	(478.3)
Transfer funding to MRSF	(115.8)	(104.9)	(93.7)	(93.7)	(93.7)
All other policies	46.6	209.3	91.4	65.2	69.6
TOTAL	(285.5)	(320.2)	(446.8)	(490.9)	(502.4)

Personal Income Tax Cuts

PA 23-204, the FY 24 and FY 25 Budget, lowers state income tax liabilities by reducing the lowest two marginal income tax rates, eliminating the pension & annuities/Individual Retirement Account (IRA) exemption “cliff,” and increasing the rate of the earned income tax credit (EITC).

Reduce Marginal Tax Rates

The budget lowers the 3% marginal rate to 2% and the 5% rate to 4.5% starting January 1, 2024, with a “recapture” provision limiting the benefit of these rate reductions to single/separate, joint, and head of household filers with taxable income below \$150,000, \$300,000, and \$240,000, respectively.

Eliminate Pension & Annuity and IRA “Benefits Cliff”

The budget establishes a phase-out to the pension & annuity and IRA exemptions which eliminates the “benefits cliff” that affected single, separate, and head of household filers with federal adjusted gross income (AGI) of \$75,000 or greater and joint filers with federal AGI of \$100,000 or greater. Beginning January 1, 2024, the policy will benefit single, separate, and head of household filers with federal AGI below \$100,000 and joint filers with federal AGI below \$150,000.

Increase Earned Income Tax Credit

The state EITC was permanently increased from 30.5% to 40% of the federal EITC effective with the 2023 tax year.

Transfer Funding to the Municipal Revenue Sharing Fund

The budget transfers funds totaling \$115.8 million in FY 24 and \$104.9 million in FY 25 from the General Fund to the Municipal Revenue Sharing Fund (MRSF) to support various municipal grant programs. The budget also permanently redirects the 0.5 percentage point sales tax diversion from the Municipal Revenue Sharing Account to MRSF. For further details on MRSF see **Part V. Municipal Aid**.