Fiscal Year 2018 Executive Recommendation
Issue Papers
February 8, 2017

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STATE BUDGET OFFICE

EDUCATION OMNIBUS BUDGET
EXECUTIVE BUDGET
FISCAL YEARS 2018 AND 2019

Presented February 8, 2017

The Executive Budget for fiscal year 2018 again contains one budget bill for all government agencies and one for education. The education omnibus budget bill supports the state's education system at all levels from preschool to higher education. The Executive Budget for education totals $16.3 billion - $14.3 billion for public schools, $398 million for community colleges and over $1.6 billion for higher education.

Highlights of the Education Omnibus Budget Bill

- The Governor's education omnibus budget demonstrates his commitment to ensuring our students are equipped with skills needed to succeed by making significant investments for fiscal year 2018. This is the 7th year in a row of increased investment in education. The education omnibus represents **an increase in state funds of $279 million, or 2%, from fiscal year 2017 enacted levels**.

- Major investments in the education omnibus include a **$150 million increase in At-Risk** funding for K-12 schools, an increase in **the foundation allowance of between $50 and $100 per pupil** at a cost of $128 million, an increase in **higher education** of $36.6 million for university operations and $11 million for student financial aid programs.

FY2018 Education Omnibus Budget
Executive Recommendation
Summary of Appropriations (in thousands)

Revenue Sources	K-12 School Aid	Community Colleges	Higher Education	Total
School Aid Fund	$ 12,288,145.2	$ 395,142.6	$ 235,643.5	$ 12,918,931.3
General Fund	$ 215,000.0	$ 3,025.0	$ 1,289,954.5	$ 1,507,979.5
Other State Restricted	$ 72,000.1	$ -	$ 100.0	$ 72,100.1
Federal Funds	$ 1,726,943.5	$ -	$ 111,526.4	$ 1,838,469.9
Total State Dollars	$ 12,575,145.3	$ 398,167.6	$ 1,525,698.0	$ 14,499,010.9
Total Appropriations	$ 14,302,088.8	$ 398,167.6	$ 1,637,224.4	$ 16,337,480.8

Michigan Public School Employees' Retirement System (MPSERS)

The education omnibus includes a **total of $1.2 billion** in state payments for MPSERS retirement obligations across all budgets, which is a **net increase of $26.7 million** from fiscal year 2017 levels.

- The budget continues the state payments over and above the cap for unfunded accrued liabilities (UAL) for participating entities, which is established in statute. Due to better than anticipated health care experience and more positive investment returns in recent years, the baseline costs are $126.3 million less than fiscal year 2017 levels.

- The Governor's budget also recommends funding to lower the assumed rate of investment return (AROR) for the state's retirement systems from 8% to 7.5% over 2 years for MPSERS (other retirements systems are lowered in one year). This more conservative assumption is advised by the system's actuaries, is more in line with the industry standard, and will help to ensure that available pension trust funds will be sufficient to pay the benefits that have been earned.

- Lowering the AROR requires a $100 million investment in fiscal year 2018 to cover the increased costs for the UAL. The Governor's budget also includes an additional $53 million to pay the anticipated increase in normal cost contributions, which would otherwise be paid by districts and other employees, in order to hold them harmless from these changes.

Michigan Public School Employees' Retirement System (MPSERS)
FY 2018 Executive Recommendation
Summary of State Payments by Budget (in thousands)

	K-12 Districts	Libraries	Community Colleges	Universities	MPSERS Totals
FY2017					
UAL Cap Subsidy - Existing	$ 982,200	$ 600	$ 73,200	$ 5,890	$ 1,061,890
MPSERS Offset - Existing	$ 100,000	$ -	$ 1,734	$ -	$ 101,734
Totals for FY2017	**$ 1,082,200**	**$ 600**	**$ 74,934**	**$ 5,890**	**$ 1,163,624**
FY2018					
UAL Cap Subsidy - Existing	$ 869,300	$ 600	$ 64,100	$ 1,594	$ 935,594
MPSERS Offset - Existing	$ 100,000	$ -	$ 1,734	$ -	$ 101,734
AROR - UAL - New	$ 90,830	$ 54	$ 6,705	$ 2,411	$ 100,000
AROR - Normal Cost - New	$ 48,940	$ 29	$ 3,612	$ 419	$ 53,000
Totals for FY2018	**$ 1,109,070**	**$ 683**	**$ 76,151**	**$ 4,424**	**$ 1,190,328**
Annual Change	**$ 26,870**	**$ 83**	**$ 1,217**	**$ (1,466)**	**$ 26,704**

STATE BUDGET OFFICE

SCHOOL AID HIGHLIGHTS
EXECUTIVE BUDGET
FISCAL YEARS 2018 AND 2019

FEBRUARY 8, 2017

FY2018 K-12 School Aid Executive Budget

	FY 2017 School Aid			FY 2018 School Aid				
(In thousands)	Current Law PA 249 of 2016	Revised	Difference from Current Law	Executive Budget	Difference from FY17 Current Law		Difference From FY17 Revised	
School Aid Fund	12,052,309.3	12,036,809.3	(15,500.0)	12,288,145.2	235,835.9		$ 251,335.9	
General Fund	218,900.0	218,900.0	0.0	215,000.0	(3,900.0)		(3,900.0)	
DPS Trust Fund/Other SR	72,000.1	72,000.1	0.0	72,000.1	0.0		0.0	
Total State Funds	**$ 12,343,209.4**	**$ 12,327,709.4**	$ (15,500.0)	**$ 12,575,145.3**	$ 231,935.9	1.9%	$ 247,435.9	2.0%
Federal Funds	1,818,632.7	1,730,732.7	(87,900.0)	1,726,943.5	(91,689.2)		(3,789.2)	
Gross Appropriations	**$ 14,161,842.1**	**$ 14,058,442.1**	$ (103,400.0)	**$ 14,302,088.8**	$ 140,246.7	1.0%	$ 243,646.7	1.7%
Local Revenue	3,479,628.1	3,479,628.1	0.0	3,570,502.9	90,874.8		90,874.8	
Total Funding	**$ 17,641,470.2**	**$ 17,538,070.2**	$ (103,400.0)	**$ 17,872,591.7**	$ 231,121.5	1.3%	$ 334,521.5	1.9%

Consensus Pupil Estimates:

FY2017 – 1,490,700
FY2018 – 1,486,500, a decrease of 4,200 pupils from FY2017
FY2019 – 1,482,000, a decrease of 4,500 from FY2018

School Operations Funding

- The FY2018 budget provides for a **$50 to $100 per-pupil foundation allowance increase distributed through the 2x formula,** at a cost of $128 million. Total foundation allowance funding exceeds $9 billion. The minimum foundation allowance will increase to $7,611 per pupil; the basic foundation allowance will increase to $8,279 per pupil.

Per-Pupil Foundation Allowances		
	Minimum	**Basic/Maximum**
FY2017	$7,511	$8,229
Increase	$ 100	$ 50
FY2018 Foundation	**$7,611**	**$8,279**

- Funding for academically **At-Risk Children** is increased **by $150 million to a total of $529 million**, a 40% increase. Program eligibility is expanded to all districts and to all economically disadvantaged children, not just those who are free-lunch income eligible. These expansions will allow 131,000 more children to receive services. The amount available per at-risk pupil is increased from the current average of $673 to $778, an increase of over $100 per pupil.

  Districts must continue implementing multi-tiered systems of support (MTSS) that provide students of differing academic needs with varying levels of intervention, using data to inform instructional needs. Districts will have 3 years to improve 3rd grade English Language Arts (ELA) proficiency and 8th grade mathematics proficiency for economically-disadvantaged children and English language learners. In addition, districts must address chronic absenteeism issues and provide at-risk high school students with CTE programming, dual enrollment, advanced placement and/or international baccalaureate coursework. If districts fail to make progress in achieving these metrics, the state superintendent is authorized to partner with the district, intermediate district, community organizations, and others to make recommendations for operational changes. In addition, the budget includes $535 million federal funds to support at-risk students.

- State funding for **MPSERS** retirement contributions totals $1.1 billion, including $960.8 million for the amount above the statutory cap of 20.96% of payroll. In FY2018, the governor is proposing a 2-year phase-in to reduce the assumed rate of return on investments from 8% to 7.5%. Funding is included to pay for both the increase in UAL costs as well as the anticipated increase in normal costs, which would otherwise be paid by districts. With baseline savings for FY2018 due to better-than-anticipated health care experience and positive investment experience over the last few recent years, the net increase for MPSERS is $27 million. The budget maintains the MPSERS offset payment at $100 million.

- In recognition of the **higher instructional costs of educating high school pupils**, the executive budget includes $22 million for additional per-pupil payments to districts with students in grades 9 to 12. Districts will receive up to $50 per high school pupil enrolled and attending in the district.

- To provide greater budget stability in districts with significant **declining enrollment**, the budget includes $7 million for districts that have experienced enrollment declines of more than 5% in the last two years. Eligible districts will receive a payment of 1/3 of the foundation allowance multiplied by the difference between a two-year average membership blend and the district's actual membership blend. A district is eligible for this payment for two years.

- The recommendation also recognizes the varying costs of educating students based on type of education setting. For cyber schools that operate **virtual programs**, with minimal facilities costs when compared to their brick and mortar counterparts, the state per-pupil foundation allowance payments are reduced by 20%, which is estimated to save $16 million.

- The state's cost of education programs operated by public schools for nonpublic and home-schooled students has risen to approximately $115 million, more than double the amount spent five years ago. Funds for programs that serve nonpublic and home-school pupils are limited to $60 million under this recommendation, with the remainder of the funds being reprioritized throughout the budget. For pupils enrolled in these program, payments are made from a new categorical (Sec. 23f), rather than through the foundation allowance.

Improving Early Learning and Literacy

- The budget includes $257.3 million for the **Great Start Readiness Program (GSRP)**. Of that amount, $243.9 million will provide over 63,000 half-day preschool opportunities to 4-year-olds across the state. The governor's budget includes changes to the formula that target available additional dollars to those ISDs serving the smallest proportion of their eligible 4-year-old population, as recommended by MDE in collaboration with a stakeholder workgroup.

- The budget includes $26.9 million for **early literacy** efforts to increase reading proficiency by the end of a child's third grade year. Multi-tiered systems of supports provides for regular diagnostic screenings of students, and targeted interventions for students identified as falling behind. The executive budget maintains funding for professional development and additional instruction time and doubles funding for ISD-based literacy coaches to a total of $6 million.

Investing in College and Career Readiness Programs

- The budget recommends an increase of $16.8 million, to $20 million, for career and technical education **equipment upgrades** and $9 million for **CTE early/middle college programs** that are aligned with the ten prosperity regions. These programs are intended to provide students with the opportunity to earn an associate's degree, technical certification, transferable college credit, or participation in a registered apprenticeship while taking high school courses. Funding for other **vocational education** programs remains at $45.8 million.

- The FY2018 budget continues to recommend $2.5 million for **First Robotics** programs, as well as $250,000 to pay for testing costs associated with **Advanced Placement and International Baccalaureate tests** for low-income pupils. The budget also maintains $1.75 million for incentives to districts that support **dual enrollment**.

- A total of $8.8 million supports the state's **science, technology, engineering, and mathematics (STEM) initiatives**. From this amount, nearly $2.75 million is recommended to support restructured regional STEM Centers, $3 million is recommended for delivering STEM-related opportunities to pupils statewide, and $500,000 is recommended for a new program to improve computer science skills in students statewide.

- The budget continues to recommend $3 million for the **Michigan College Access Network** to improve college access for low-income and first-generation students.

Assessments and Accountability

- The FY2018 budget continues $40 million ($33.7 million in state and $6.3 million in federal) for costs associated with **student assessments** required under state and federal law. Beginning in 2018-2019, MDE will pilot benchmark assessments that augment the existing assessment framework.

- A total of $7 million is included in the FY2018 budget (2nd of 2 years) for the costs associated with **local district educator evaluation systems**. Funds are recommended to be used for professional development and training activities.

- The FY2018 budget includes a total of $40.2 million to districts for **state data collection and reporting costs**. The recommendation maintains $38 million for data collection, and includes an additional $2.2 million to continue the work of **the Michigan Data Hub Network**. The regional data hubs are designed to improve the efficiency of local data collection and provide actionable data to districts through common reports and dashboards. **Center for Educational Performance and Information** (CEPI) funding totals $16.2 million, an increase of $4 million to convert from a work project-based budget to fully operational on an annual basis.

- The budget includes $3 million to support **Partnership Models** for interventions in districts identified as needing additional academic supports. With this new program, the department will assign partnership liaisons to eligible districts to develop an intervention plan and coordinate public, private, and non-profit resources to improve student achievement. The budget also maintains $5 million in funding for the School Reform Office's efforts to intervene in eligible chronically low-performing schools by providing **additional resources needed to improve student achievement** for 3 years.

Student Support Services

- The FY2018 budget provides over $1.4 billion for **special education services**: $963 million in state funds and $431 million in federal funds. Based upon the work of the Special Education Task Force, the budget also provides $1.6 million to assist ISDs with implementing the **Michigan Integrated Behavioral and Learning Support** (MiBLSi), a nationally-recognized evidence-based and data-driven academic and behavioral intervention model.

- Funding for **adolescent teen health centers** is continued at 5.6 million and **hearing and vision screenings** is maintained at $5.2 million.

- Funding for **school lunch and breakfast programs** is $550.2 million: $27 million in state funds and $523.2 million in federal funds.

- Funding is maintained for **adult education programs**, administered by the Talent Investment Agency (TIA), at $25 million.

- The budget maintains $7.4 million for the **Michigan Virtual University** to research and support best practices in virtual coursework.

- **School transportation safety programs** are funded at $3.3 million: $1.7 million for school bus inspections provided by Michigan State Police and $1.6 million for school bus driver safety training. Funding to support **transportation costs in small, isolated districts** is maintained at $5 million.

- Education programs in **juvenile justice facilities** are included at $1.3 million. Educational programs that serve **wards of the court** are supported with $8 million. Funding for the **Youth ChalleNGe Program** is maintained at $1.5 million.

Health and Safety Supports

- A total of $8.7 million is included to continue **early education programs** for children in Flint, including resources to identify and provide services to children impacted by elevated levels of lead. Recommendations include $3 million for expanded GSRP services, $2.6 million to support school nurses and social workers, $2.5 million to allow Genesee ISD to serve Flint children attending school elsewhere, and $605,000 for nutrition programs.

- The budget includes $4.5 million for reimbursements to districts and nonpublic schools of up to $950 per school building for costs associated with **voluntary testing of water**. This program is transferred from the MDE budget.

Debt Service and Other Required Payments

- **School Bond Loan Fund Debt Service** is funded at $125.5 million.
- **Renaissance Zone** reimbursements are recommended at $18 million.
- **School Aid Fund Borrowing Costs** are increased to a total of $6.5 million.
- **PILT Payments** are maintained $4.4 million.
- Funding for **Promise Zones** is increased to $1.5 million.

MPSERS Contribution Rates

The FY2018 MPSERS retirement contribution rates for districts are slightly higher than the FY2017 rates, with an increase of 0.62% in the pension and health normal cost. This increase is attributable to the proposed 2-year phase-in of the lowered assumed rate of investment return (AROR) from 8% to 7.5%. Under the FY2018 Executive Recommendation, districts are being held harmless from the increased cost as the state is reimbursing districts for the expected increase in the normal cost contribution rate resulting from this change.

Rates are detailed below:

MPSERS Retirement Rates for FY2018							
	Basic MIP w/Prem Subsidy	**Pension Plus w/Prem Subsidy**	**Pension Plus PHF**	**Pension Plus to DC w/PHF**	**Basic/MIP To DC w/ Prem Subsidy**	**Basic/MIP To DC w/PHF**	**Basic/ MIP w/PHF**
Total Rate	**36.88%**	**35.60%**	**35.35%**	**32.28%**	**32.53%**	**32.28%**	**36.63%**
Employer Rate:							
Pension Normal Cost	4.35%	3.07%	3.07%	0.00%	0.00%	0.00%	4.35%
Pension UAL	14.78%	14.78%	14.78%	14.78%	14.78%	14.78%	14.78%
Retirement Incentive (10-yr. payback)	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Pension Total Rate	**20.49%**	**19.21%**	**19.21%**	**16.14%**	**16.14%**	**16.14%**	**20.49%**
Health Normal Cost	0.25%	0.25%	0.00%	0.00%	0.25%	0.00%	0.00%
Health UAL	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%
Retiree Health Total Rate	**5.07%**	**5.07%**	**4.82%**	**4.82%**	**5.07%**	**4.82%**	**4.82%**
Employer Capped Rate	**25.56%**	**24.28%**	**24.03%**	**20.96%**	**21.21%**	**20.96%**	**25.31%**
Stabilization Rate	**11.32%**	**11.32%**	**11.32%**	**11.32%**	**11.32%**	**11.32%**	**11.32%**

FY17 Employer Capped Rate	**24.94%**	**24.31%**	**24.09%**	**20.96%**	**21.18%**	**20.96%**	**24.72%**

FY2017, FY2018, and FY2019 STATE SCHOOL AID APPROPRIATIONS
Executive Budget Recommendation - February 8, 2017

		FY 2017			FY 2018		FY 2019	
Sec.	APPROPRIATIONS (In thousands):	Current Law PA 249 of '16 6/24/16	Revised Rec	Difference	Executive Budget	Difference From FY17 Current Law	Executive Budget	Difference From FY18 Exec Rec
11j	School Bond Loan Redemption Fund	126,500.0	126,500.0	0.0	125,500.0	(1,000.0)	125,500.0	0.0
11m	School Aid Fund Borrowing Costs	3,000.0	5,500.0	2,500.0	6,500.0	3,500.0	7,500.0	1,000.0
11s	Flint Declaration of Emergency	10,142.6	10,142.6	0.0	8,730.1	(1,412.5)	0.0	(8,730.1)
20f	Categorical Offset Payments	18,000.0	18,000.0	0.0	18,000.0	0.0	18,000.0	0.0
20g	District Dissolution Transition Costs	1,860.0	1,860.0	0.0	0.0	(1,860.0)	0.0	0.0
21	State School Reform/Redesign	5,000.0	5,000.0	0.0	5,000.0	0.0	5,000.0	0.0
21g	Competency Based Funding Pilot	500.0	500.0	0.0	0.0	(500.0)	0.0	0.0
21h	Partnership Model Districts - *NEW*	0.0	0.0	0.0	3,000.0	3,000.0	3,000.0	0.0
22a	Proposal A Obligation Payment	5,205,000.0	5,199,000.0	(6,000.0)	5,107,000.0	(98,000.0)	5,030,000.0	(77,000.0)
22b	Discretionary Payment	3,900,000.0	3,916,000.0	16,000.0	3,950,000.0	50,000.0	3,947,000.0	(3,000.0)
22d	Isolated District Funding	5,000.0	5,000.0	0.0	5,000.0	0.0	5,000.0	0.0
22g	Consolidation Innovation Grants	3,000.0	3,000.0	0.0	0.0	(3,000.0)	0.0	0.0
22m	Technology Regional Data Hubs - *NEW*	0.0	0.0	0.0	2,200.0	2,200.0	2,200.0	0.0
22n	High School Per-Pupil Bonus - *NEW*	0.0	0.0	0.0	22,000.0	22,000.0	22,000.0	0.0
23f	Shared Time Pupils	0.0	0.0	0.0	60,000.0	60,000.0	60,000.0	0.0
24	Court-Placed Children	8,000.0	8,000.0	0.0	8,000.0	0.0	8,000.0	0.0
24a	Juvenile Detention Facility Programs	1,328.1	1,328.1	0.0	1,339.0	10.9	1,339.0	0.0
24c	ChalleNGe Program	1,632.4	1,632.4	0.0	1,528.4	(104.0)	1,528.4	0.0
25f	Strict Discipline Academies Pupil Transfers	750.0	750.0	0.0	0.0	(750.0)	0.0	0.0
25g	Dropout Recovery Program Pupil Transfers	750.0	750.0	0.0	0.0	(750.0)	0.0	0.0
26a	Renaissance Zone Reimbursement	20,000.0	18,000.0	(2,000.0)	18,000.0	(2,000.0)	18,000.0	0.0
26b	PILT Reimbursement	4,405.1	4,405.1	0.0	4,405.1	0.0	4,405.1	0.0
26c	Promise Zone Payments	1,000.0	1,000.0	0.0	1,500.0	500.0	2,500.0	1,000.0
29	Declining Enrollment Supports - *NEW*	0.0	0.0	0.0	7,000.0	7,000.0	0.0	(7,000.0)
31a	At-Risk Programs	378,988.2	378,988.2	0.0	528,988.2	150,000.0	528,988.2	0.0
31a	Adolescent Teen Health Centers	5,557.3	5,557.3	0.0	5,557.3	0.0	5,557.3	0.0
31a	Vision/Hearing Screening	5,150.0	5,150.0	0.0	5,150.0	0.0	5,150.0	0.0
31b	Balanced Calendar/Year-Round School Programs	1,500.0	1,500.0	0.0	3,000.0	1,500.0	0.0	(3,000.0)
31c	Gang Prevention and Intervention Programs	3,000.0	3,000.0	0.0	0.0	(3,000.0)	0.0	0.0
31d	School Lunch - State	22,495.1	22,495.1	0.0	22,495.1	0.0	22,495.1	0.0
31d	School Lunch - Federal	513,200.0	513,200.0	0.0	523,200.0	10,000.0	523,200.0	0.0
31f	School Breakfast	2,500.0	4,500.0	2,000.0	4,500.0	2,000.0	4,500.0	0.0
31h	Cooperative Education Grant	300.0	300.0	0.0	0.0	(300.0)	0.0	0.0
31j	Local Produce in School Meals	250.0	250.0	0.0	0.0	(250.0)	0.0	0.0
32d	Great Start Readiness	243,900.0	243,900.0	0.0	243,900.0	0.0	243,900.0	0.0
32p	Great Start Early Childhood Block Grants	13,400.0	13,400.0	0.0	13,400.0	0.0	13,400.0	0.0
32q	Early Learning Cooperative	175.0	175.0	0.0	0.0	(175.0)	0.0	0.0
35	Early Literacy Implementation	1,000.0	1,000.0	0.0	1,000.0	0.0	1,000.0	0.0
35a(3)	Early Literacy Professional Development	950.0	950.0	0.0	950.0	0.0	950.0	0.0
35a(4)	Early Literacy Diagnostic Tools	1,450.0	1,450.0	0.0	1,450.0	0.0	1,450.0	0.0
35a(5)	Early Literacy Teacher Coaches	3,000.0	3,000.0	0.0	6,000.0	3,000.0	6,000.0	0.0
35a(6)	Early Literacy Targeted Instruction	17,500.0	17,500.0	0.0	17,500.0	0.0	17,500.0	0.0
35a(7)	Michigan Reading Corp	1,000.0	1,000.0	0.0	0.0	(1,000.0)	0.0	0.0
39a1	Federal NCLB/ESSA Grant Funds	821,939.9	744,039.9	(77,900.0)	731,600.0	(90,339.9)	731,600.0	0.0
39a2	Other Federal Funding	30,800.0	30,800.0	0.0	30,000.0	(800.0)	30,000.0	0.0
41	Bilingual Education	1,200.0	1,200.0	0.0	1,200.0	0.0	1,200.0	0.0
51c	Special Education Headlee	644,500.0	626,900.0	(17,600.0)	640,400.0	(4,100.0)	652,900.0	12,500.0
51a2	Special Education Foundations & Sped	271,600.0	261,400.0	(10,200.0)	266,000.0	(5,600.0)	270,500.0	4,500.0
51a3	Special Ed Hold Harmless Pmt. To ISD's	1,100.0	1,000.0	(100.0)	1,000.0	(100.0)	1,000.0	0.0
51a11	Special Ed Non Sec 52 to ISD's	3,700.0	3,600.0	(100.0)	3,600.0	(100.0)	3,600.0	0.0

Sec.	APPROPRIATIONS (In thousands):	Current Law PA 249 of '16 6/24/16	Revised Rec	Difference	Executive Budget	Difference From FY17 Current Law	Executive Budget	Difference From FY18 Exec Rec
51a6	Special Ed Rule Change	2,200.0	2,200.0	0.0	2,200.0	0.0	2,200.0	0.0
53a	Court Placed Special Ed FTE	10,500.0	10,500.0	0.0	10,500.0	0.0	10,500.0	0.0
54	MI School for Deaf and Blind	1,688.0	1,688.0	0.0	1,688.0	0.0	1,688.0	0.0
54b	Integrated Behavior and Learning Support (MiBLSI)	1,125.0	1,125.0	0.0	1,600.0	475.0	1,600.0	0.0
55	Conductive Learning Center Study	150.0	150.0	0.0	0.0	(150.0)	0.0	0.0
56	Special Ed Millage Equalization	37,758.1	37,758.1	0.0	37,758.1	0.0	37,758.1	0.0
51a	Special Education - Federal IDEA	370,000.0	370,000.0	0.0	370,000.0	0.0	370,000.0	0.0
51d	Special Education - Other Federal	71,000.0	61,000.0	(10,000.0)	61,000.0	(10,000.0)	61,000.0	0.0
61a	Vocational Education	36,611.3	36,611.3	0.0	36,611.3	0.0	36,611.3	0.0
61a(4)	Restaurant & Culinary Arts Training Program	79.0	79.0	0.0	0.0	(79.0)	0.0	0.0
61b	CTE Middle College Program	9,000.0	9,000.0	0.0	9,000.0	0.0	9,000.0	0.0
61c	CTE Equipment Upgrades	3,200.0	3,200.0	0.0	20,000.0	16,800.0	0.0	(20,000.0)
62	ISD Vocational Ed Millage Reimbursement	9,190.0	9,190.0	0.0	9,190.0	0.0	9,190.0	0.0
63	Van Buren ISD/Local Health Department Partnership	250.0	250.0	0.0	0.0	(250.0)	0.0	0.0
64b	Dual Enrollment Incentive Payments	1,750.0	1,750.0	0.0	1,750.0	0.0	1,750.0	0.0
65	Detroit Pre-College K-12 Engineering Program	340.0	340.0	0.0	0.0	(340.0)	0.0	0.0
67	Michigan College Access Network (MCAN)	3,000.0	3,000.0	0.0	3,000.0	0.0	3,000.0	0.0
67	College and Career Readiness Tools	50.0	50.0	0.0	0.0	(50.0)	0.0	0.0
74	Bus Driver Safety	1,625.0	1,625.0	0.0	1,625.0	0.0	1,625.0	0.0
74	School Bus Inspection Program	1,695.6	1,695.6	0.0	1,705.3	9.7	1,705.3	0.0
78	Statewide School Drinking Water Quality Program	0.0	0.0	0.0	4,500.0	4,500.0	0.0	(4,500.0)
81	ISD General Operations	67,108.0	67,108.0	0.0	67,108.0	0.0	67,108.0	0.0
94	Advanced Placement (AP) Incentive Program	250.0	250.0	0.0	250.0	0.0	250.0	0.0
94a	CEPI - State	12,173.2	12,173.2	0.0	16,216.0	4,042.8	16,216.0	0.0
94a	CEPI - Federal	193.5	193.5	0.0	193.5	0.0	193.5	0.0
95a	Educator Evaluations	0.0	0.0	0.0	7,000.0	7,000.0	0.0	(7,000.0)
98	Michigan Virtual University	7,387.5	7,387.5	0.0	7,387.5	0.0	7,387.5	0.0
99h	First Robotics	2,500.0	2,500.0	0.0	2,500.0	0.0	2,500.0	0.0
99k	Cybersecurity Competitions - *NEW*	0.0	0.0	0.0	500.0	500.0	0.0	(500.0)
99s(3)	MiSTEM Council	1,050.0	1,050.0	0.0	3,050.0	2,000.0	3,050.0	0.0
99s(4)	Math/Science Centers - State	2,750.0	2,750.0	0.0	2,750.0	0.0	2,750.0	0.0
99s(4)	Math/Science Centers - Federal	5,249.3	5,249.3	0.0	4,700.0	(549.3)	4,700.0	0.0
99s(6)	Science Olympiad	250.0	250.0	0.0	0.0	(250.0)	0.0	0.0
99s(7)	Van Andel Education Institute	250.0	250.0	0.0	0.0	(250.0)	0.0	0.0
99t	Online Algebra Tool	1,500.0	1,500.0	0.0	0.0	(1,500.0)	0.0	0.0
102d	Reimbursement of Financial Analytical Tools	1,500.0	1,500.0	0.0	0.0	(1,500.0)	0.0	0.0
104	Student Assessments - State	33,894.4	33,894.4	0.0	33,709.4	(185.0)	33,709.4	0.0
104	Student Assessments - Federal	6,250.0	6,250.0	0.0	6,250.0	0.0	6,250.0	0.0
104d	Computer Adaptive Tests	4,000.0	4,000.0	0.0	0.0	(4,000.0)	0.0	0.0
107	Adult Education	25,000.0	25,000.0	0.0	25,000.0	0.0	25,000.0	0.0
147a	MPSERS Cost Offset	100,000.0	100,000.0	0.0	100,000.0	0.0	100,000.0	0.0
147a(2)	MPSERS Normal Cost Offset - *NEW*	0.0	0.0	0.0	48,969.0	48,969.0	97,937.0	48,968.0
147c	MPSERS UAAL Rate Stabilization Payment	982,800.0	982,800.0	0.0	960,784.0	(22,016.0)	1,023,688.0	62,904.0
152a	Data Collection and Reporting Costs	38,000.5	38,000.5	0.0	38,000.5	0.0	38,000.5	0.0
152b	Nonpublic School Reimbursement	2,500.0	2,500.0	0.0	0.0	(2,500.0)	0.0	0.0
	TOTAL SCHOOL AID APPROPRIATIONS	**$ 14,161,842.10**	**$ 14,058,442.10**	**$ (103,400.00)**	**$ 14,302,088.80**	**$ 140,246.70**	**$ 14,302,230.70**	**$ 141.90**

REVENUES:							
School Aid Fund	12,052,309.3	12,036,809.3	(15,500.0)	12,288,145.2	235,835.9	12,358,287.2	70,142.0
General Fund	218,900.0	218,900.0	0.0	215,000.0	(3,900.0)	145,000.0	(70,000.0)
Community District Trust Fund/Other SR Funds	72,000.1	72,000.1	0.0	72,000.1	0.0	72,000.0	(0.1)
Federal Funds	1,818,632.7	1,730,732.7	(87,900.0)	1,726,943.5	(91,689.2)	1,726,943.5	0.0
TOTAL APPROPRIATED REVENUES	**$ 14,161,842.10**	**$ 14,058,442.10**	**$ (103,400.00)**	**$ 14,302,088.80**	**$ 140,246.70**	**$ 14,302,230.70**	**$ 141.90**

STATE BUDGET OFFICE
February 8, 2017
Community Colleges
FY 2018 Executive Budget Highlights

Overview: The governor's proposed budget is a continuation of the fiscal year 2017 level of operations funding at $315.9 million, all School Aid Fund. Since fiscal year 2011, combined operations and retirement funding for community colleges has increased by nearly 33 percent, or $96.2 million. This compares to an expected increase in inflation of just 9.7 percent over the same time period. Total recommended funding for community colleges is $398.2 million, of which $3 million is general fund.

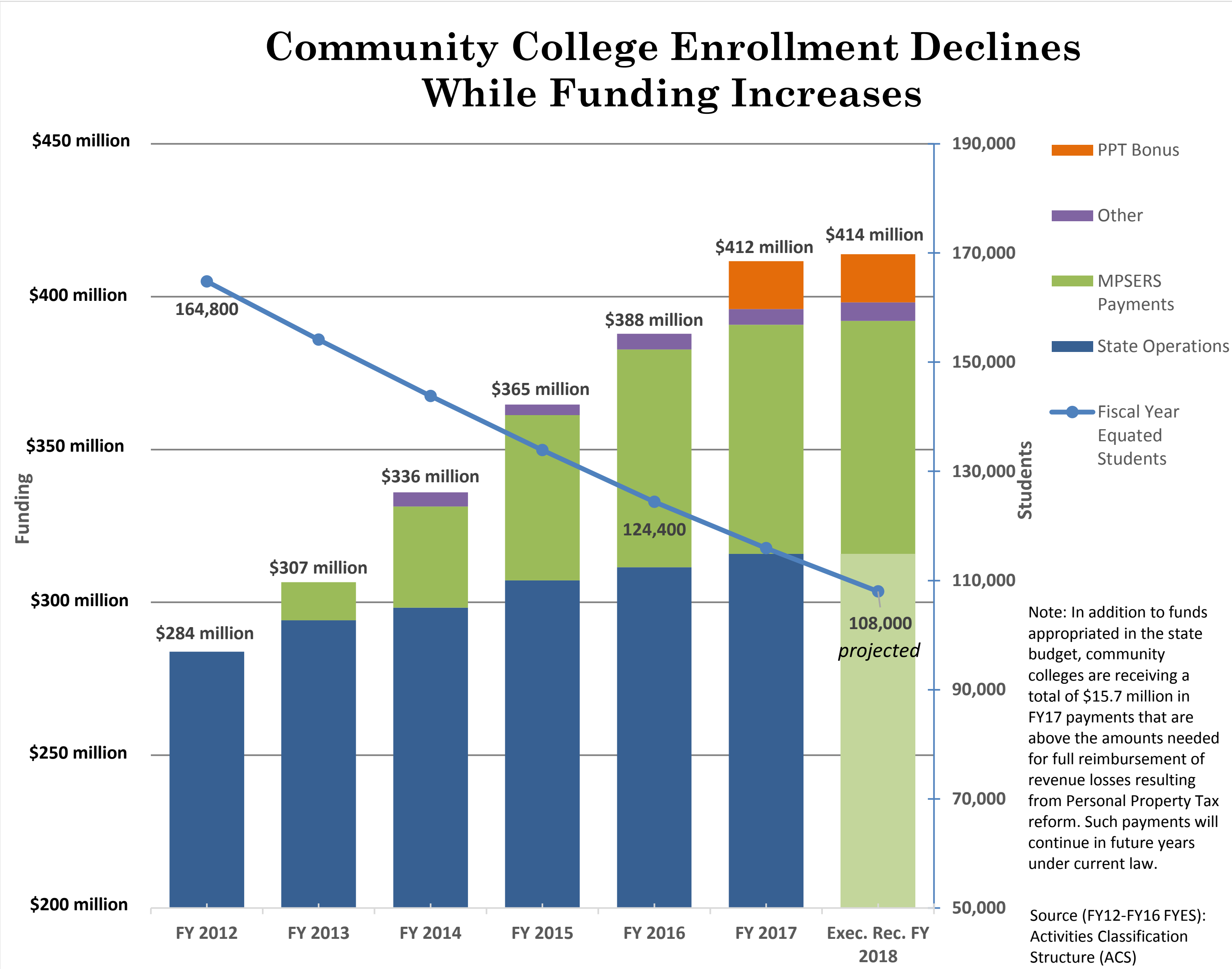
Retirement Reform Payments: The governor's budget continues to cap the amount of unfunded accrued liability contributions paid by community colleges to the Michigan Public School Employees Retirement System (MPSERS), with the state making payments for amounts over the cap of 20.96 percent. For fiscal year 2018, the budget assumes a two-year phase-in to lower the assumed investment rate from 8 percent to 7.5 percent, based on long-term market analysis and industry standards. The community college budget includes a total of $76.2 million for community college retirement obligations.

Personal Property Tax Reform Bonus Payments: In addition to the funds appropriated through the state budget, 25 out of 28 community colleges are receiving a total of $15.7 million in fiscal year 2017 payments through the Local Community Stabilization Authority that are above and beyond the amounts needed for full reimbursement of revenue losses resulting from Personal Property Tax reform approved by the state's voters in 2014. Such payments will continue in future years under current law.

Michigan Transfer Network Enhancement: A one-time investment of $1 million is recommended to support the renovation of the Michigan Transfer Network website. The funding will be used to enhance the website, making it easier for students to transfer credits among Michigan postsecondary institutions. Among other improvements, the enhanced site will allow students to access more information about which credits will transfer and apply toward a bachelor's degree at another college or university.

Independent Part-Time Student Grants: Funding for a pilot of the Independent Part-Time Student Grants program is recommended at $2 million, representing the first time since fiscal year 2009 that the program has been funded. This program targets part-time adult students at community colleges who have completed at least 15 credit hours of postsecondary coursework and are near completion of a degree or other credential. The pilot will measure student success outcomes at each participating community college.

State Building Authority Rent: Included in the bill is a schedule of estimated payments the state makes to support debt service for recently constructed community college building projects. This $30.9 million in general fund, although appropriated in the DTMB budget, represents additional state support for community colleges.



STATE BUDGET OFFICE
February 8, 2017
Higher Education
FY 2018 Executive Budget Highlights

Overview: The governor proposes investing an additional $36.6 million, or 2.5 percent, in public university operations. This increase brings total operating funds for universities to nearly $1.5 billion and exceeds the aggregate fiscal year 2011 funding level by $16.6 million. Total recommended funding for higher education is over $1.6 billion.

Operations: A total of $35 million for performance-based funding is proposed, furthering the governor's efforts to have 60 percent of citizens hold a high-quality degree or other credential by 2025.

Existing performance-based metrics are continued in the Executive Budget, providing stability to universities, and allowing for long-range institutional planning. One-half of the increase is distributed across-the-board and half through the current performance formula. The metrics are as follows:

- The two-year average number of undergraduate degree and certificate completions in critical skills areas. Critical skills areas are science, technology, engineering, mathematics, and health.
- Research and development expenditures for those universities that are ranked as research universities under the most recent Carnegie Classifications.
- Several metrics that are scored by comparison with national Carnegie Classification peers, and then weighted by undergraduate fiscal year equated students (FYES). Scoring is done using the enacted fiscal year 2017 values (3 points for top 20 percentile performance, and 2 points for performance above the national median or improved performance).
    - Six-year graduation rate.
    - Total degree completions.
    - Institutional support costs as a percentage of total core expenditures.
    - The percentage of students receiving a Pell Grant.

The prerequisites for performance funding are similar to those enacted in fiscal year 2017 and include the following requirements:

- Universities must limit tuition and fee increases to 3.8 percent or $475 per student, whichever is greater, in order to receive new performance funding provided in this recommendation. The cap of 3.8 percent is double the expected level of inflation and the dollar amount is equivalent to the average per-student tuition increase at 3.8 percent.

- Universities must actively participate in the Michigan Transfer Network and provide timely updates to the network, which informs students how their credits will transfer in and out to other Michigan postsecondary education institutions.

- Universities must participate in reverse transfer agreements with at least 3 community colleges.
- Universities will not consider whether dual enrollment credits were utilized for high school graduation when deciding to award university credit for those classes.

Michigan State University AgBioResearch and Extension also receive a combined 2.5 percent increase, or $1.6 million. This brings total funding for these programs to $63.5 million. One-time funding of $3.7 million is also included within the governor's budget to support investments in animal agriculture and agriculture workforce development. The initiatives are a partnership between Michigan State University, the Michigan agriculture industry, and the Department of Agriculture and Rural Development. The additional investment in workforce development initiatives will support food processing, education, and agriculture technology. Funding for animal agriculture will address problems limiting growth and sustainability within the industry, such as infectious disease and food safety.

Student Financial Aid: A total of $11 million in new funding is provided to increase the Michigan Competitive Scholarship and the Michigan Tuition Grant, which are Michigan's primary broad-based financial aid programs. This brings total funding for the programs to $64.4 million, an increase of 21 percent. The additional investment of $11 million in the governor's budget will increase the maximum per-student annual awards to $1,000 for the Michigan Competitive Scholarship (MCS) and $2,000 for the Michigan Tuition Grant (MTG). The awards are projected to support a combined 46,000 students in fiscal year 2018.

For the Tuition Incentive Program (TIP), a program designed to encourage both high school and postsecondary degree completion among Michigan's very low-income students, the budget includes a total of $58.3 million, an increase of $5.3 million. The program is projected to support 18,500 students in fiscal year 2018. Beginning in fiscal year 2019, the governor recommends capping TIP reimbursements at public universities to double the average community college in-district tuition rate in an effort to reduce the disparities of award amounts across colleges and universities statewide.

MPSERS Reform: The governor's budget continues to recommend state funding for the amount of unfunded accrued liability contributions paid by the seven member universities of the Michigan Public School Employees Retirement System (MPSERS) over a cap of 25.73 percent of payroll. For fiscal year 2018, the budget also assumes a two-year phase-in to lower the assumed investment rate from 8 percent to 7.5 percent, based on long-term market analysis and industry standards. The higher education budget includes a total of $4.4 million for university retirement obligations.

State Building Authority Rent: The state supports debt service for recently constructed university building projects. This $145 million in general fund, although appropriated in the DTMB budget, represents additional state support for higher education.

STATE BUDGET OFFICE
FY2018 Executive Budget Recommendation

SCHOOL AID BUDGET
INCREASE FUNDING FOR ACADEMICALLY AT-RISK STUDENTS BY $150 M TO $529 MILLION

Increased Funding: The Executive Budget Recommendation increases targeted funding for academically at-risk students by $150 million to $529 million, a 40 percent increase.

Eligibility for receiving funds is expanded in two ways:

- All districts and public school academies are now eligible to receive funding for their at-risk students. Allocations to districts are based on 11.5% of the statewide average foundation allowance, rather than 11.5% of each district's foundation allowance to improve equity among districts.

- The definition of an at-risk student is expanded to include all children who are economically disadvantaged, not just those income-eligible for free lunch (130% or below of the federal poverty level). Economically disadvantaged is defined as those who are income-eligible for free and reduced lunch (185% or below of the federal poverty level), those who live in families receiving food assistance through the federal Supplemental Nutrition Assistance Program (SNAP) or cash assistance through the federal Temporary Assistance for Needy Families (TANF) program, or children who are homeless, migrant, or are in foster care.

An estimated 131,000 additional children, a 24% increase, will be eligible to receive at-risk services if they are in danger of falling behind academically. Per at-risk pupil funding will increase to $778, compared to the current average of $673, an increase of $105 per at-risk pupil. The total number of children potentially eligible for direct services is nearly 680,000.

Services will continue to be provided using a multi-tiered system of supports (MTSS) framework. Under MTSS, educators use academic and behavioral data to deliver instruction with increasing levels of intervention based on identified student needs. MTSS implementation is expanded to grade 8.

Increased Accountability: This proposal includes more specific metrics to measure improvement in at-risk student academic performance:

- **Address chronic absenteeism issues**. Ensure that at-risk children are attending school regularly by comparing the rates of chronic absenteeism for economically disadvantaged children and English language learners (ELL) in the district to the rate for those children that are not economically disadvantaged.
- **Improve 3rd Grade English Language Arts (ELA) proficiency**: Ensure that the proportion of economically disadvantaged and ELL children in the bottom 30% of a district's performance on 3rd grade ELA tests is not more than the proportion of non-economically disadvantaged pupils in the bottom 30%. This metric encourages districts to better target funds to closing measures whether districts are closing achievement gaps and better targets funds.
- **Improve 8th Grade Mathematics proficiency:** Similar to the above metric, districts would need to ensure that the proportion of economically disadvantaged and ELL children in the bottom 30% of a district's performance on 8th grade mathematics tests is not more than the proportion of non-economically disadvantaged pupils. Eighth grade is the gatekeeper grade for math skills, the same as 3rd grade reading

is for reading skills. A focus on math skills is consistent with Michigan's emphasis on preparing students for high-demand, high-paying careers in the science, technology, engineering and math (STEM) fields.

- **Expanded High School Opportunities:** This metric would encourage districts to enroll at-risk students in grades 9 to 12 in career and technical education coursework, advanced placement or International Baccalaureate programs, or equivalent dual enrollment courses with a postsecondary institution.

The Executive Recommendation expands allowable uses of funds to professional development related to implementing MTSS with fidelity and improvement in student achievement on the more specific metrics.

Beginning in 2020-2021, if a district or public school academy has not achieved the metrics or made significant progress, the State Superintendent is authorized to assign a team of persons with expertise in comprehensive school aid district reform to partner with the district, the intermediate district, community organizations, local employers, and others to conduct a review of:

- The district's implementation and utilization of its multi-tiered system of supports (MTSS)
- The district's leadership and educator capacity to improve student outcomes
- The district's classroom, instructional and operational practices to ensure alignment with best practices and state curriculum standards.
- The district's use of financial resources to ensure that they are effectively targeted to improving academic achievement for at-risk pupils.

Background Information: The Augenblick, Palaich and Associates (APA) Michigan Education Finance Study (June 2016) contained a regression analysis that indicated there was a more significant impact on math and reading proficiency from targeting funds to economically disadvantaged students and English language learners than providing an increase in general operations funding. Similarly, the National Council of State Legislatures' (NCSL) study, *No Time to Lose*, (August 2016) indicates that top-performing countries provide extra support to struggling students. Marc Tucker, with the National Center on Education and the Economy, notes in his review of the reasons for Massachusetts's success that there are more resources for disadvantaged students who need them the most, so that all students can reach high standards.

STATE BUDGET OFFICE
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION
FEBRUARY 8, 2017

School Aid / Education
Partnership Model

Overview:

The fiscal year 2018 budget recommendation includes $3.6 million to support partnerships between the Department of Education (MDE) and education stakeholders to assist districts struggling with poor student academic performance. The proposal provides for $3 million in the School Aid budget and a corresponding $640,000 in the MDE budget to coordinate the program (4 FTEs).

A district is eligible to be assigned to a partnership by the Superintendent of Public Instruction if it has at least one school receiving an F, or comparable grade, in a state accountability system and that school is not under the oversight of the School Reform Office.

Other partners may include intermediate school districts, community members, education organizations and higher education institutions, as applicable. These partners will perform a comprehensive evaluation including reviews of how the district uses data to inform instruction, classroom practices and curriculum, and leadership/educator capacity to improve student achievement. The district, along with its partners, will be responsible for developing an intervention plan based on that review, with measurable benchmarks for determining improvement.

Upon approval of the intervention plan by the State Superintendent, the department will assign a team of persons with expertise in comprehensive school reform to partner with the district to determine whether existing resources are being used as efficiently and effectively as possible to improve student achievement.

The State Superintendent must approve how funds from this appropriation will be expended. Potentially allowable expenditures may be for professional development for teachers and school leadership, increased instructional time, teacher mentoring, and other expenditures that directly impact student achievement but cannot be paid for from existing district financial resources.

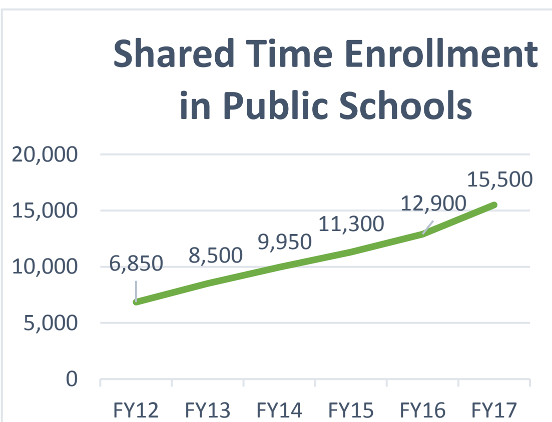
STATE BUDGET OFFICE
February 8, 2017
FY2018 School Aid Executive Recommendation
Shared Time Program Overview

Proposal Information

Shared time instruction allows a nonpublic student to enroll in "non-essential" elective courses at a public school and be considered a *part-time pupil* in the public school for state aid purposes. These part-time pupils are combined to create a full-time equivalent (FTE) number of pupils on which districts receive state payments. Shared time enrollment has doubled since 2012, as legislation has expanded the options for districts in the past several years, and as districts have increased their course offerings for nonpublic pupils. At a cost of about $7,500 per FTE in foundation allowance dollars, shared time instruction will cost the state over $115 million or the equivalent of nearly $80 per public school student in fiscal year 2017.

For fiscal year 2018, the Executive Recommendation caps the amount for these programs at $60 million. Since shared time reimbursements are only paid for non-core, non-essential, elective courses, money invested in shared time is not being used to improve student academic outcomes in core subject areas. The governor recommends the savings from the cap be reinvested in the state education system to improve student outcomes in these core subject areas.

Background Information



Total Participation
The participation in shared time instruction has increased in recent years. In fiscal year 2012, about 6,850 FTEs were reimbursed under this program. In fiscal year 2017, the number has increased to 15,500 FTE. On a headcount basis, over 100,000 non-public school students enrolled part-time in a public school.

Key Observations:
A large portion of the shared time FTEs are attributable to a small number of districts. Over 50% of the 15,500 FTEs in fiscal year 2017 are from ten school districts. In total, about 300 districts receive reimbursements for shared time students. Only 30% of the shared time students are being served at a public school site. The remaining 70% (11,000 FTE) are being served in a nonpublic school both in and outside of the district's boundaries.

Top 10 Shared Time Districts by FTE

District	FY17 FTE
Brighton Area Schools	*1,753*
Berkley School District	*1,325*
Grand Rapids Public Schools	*879*
Clarkston Community School District	*875*
Redford Union Schools, District No. 1	*651*
Madison Academy	*552*
South Redford School District	*441*
Carrollton Public Schools	*433*
Avondale School District	*432*
Traverse City Area Public Schools	*425*
Total	**7,766**

Also, new for fiscal year 2017, kindergarten programs are eligible for purposes of shared time. Up until this year, shared time had been precluded to pupils in grades 1-12. There were 7,000 students reported in the Fall 2016 as kindergarten shared time (1,100 FTE). When looking at just the ten districts identified above, they account for 3,100 of the 7,000. On average, for these districts, 45% of their kindergarten enrollment is attributable to shared time program offerings.

Services Issues

STATE BUDGET OFFICE
February 8, 2017

Department of Education

Child Development and Care Program Improvements

OVERVIEW

The fiscal year 2018 Executive Budget includes investments totaling $29.4 million in the Child Development and Care (CDC) Program. This program provides subsidized childcare services for low-income families. Fiscal year 2018 recommendations include:

- $27.2 million ($18.8 million federal and $8.4 million general fund) to increase the reimbursement rate for childcare providers delivering services through the CDC program.
- $2.2 million (federal) to improve provider monitoring and background checks to ensure that children are receiving care in safe, high-quality environments.
- The increased general fund investment will allow Michigan to fully match available federal dollars.

In addition, the governor is recommending supplemental funding in fiscal year 2017 totaling $15.4 million to implement the provider rate increase, background checks, and other program improvements beginning in July.

BACKGROUND INFORMATION

Increasing the Provider Reimbursement Rate ($27.2 million)

The federal government recommends that states set childcare provider reimbursement rates at or above the 75th percentile of the market rate for child care in the state to ensure access to providers. Michigan's hourly provider rate considers provider type, the age of the child, and the provider's quality rating as determined by the state's Quality Rating and Improvement System (QRIS). Based on these factors, there are a total of 54 reimbursement rate schedules. Under the current rates, 14 of these 54 schedules are at or above the federally recommended 75th percentile market rate. Under the Executive Recommendation's $27.2 million investment, 43 schedules will be at or above 90% of the federally recommended rate.

Provider Monitoring and Background Checks ($2.2 million)

Federal funding for the state's childcare program is provided through the federal Child Care and Development Block Grant. This grant has recently been revised to require additional monitoring of certain providers and background checks for all new and existing childcare employees.

License Exempt Monitoring: Under these new regulations, the state will start monitoring "license exempt providers" – providers offering care in their own home to a related child or providers unrelated to the child but offering care in the child's own home. The Executive Budget includes $1.4 million for the Department of Education (MDE) to implement recommendations of a stakeholder workgroup to make sure these providers are offering care that meets health and safety requirements.

Background Checks: The new regulations also require that all employees with unsupervised access to children undergo a background check and fingerprinting process. Under the Executive Recommendation, MDE will partner with the Department of Licensing and Regulatory Affairs (LARA) to implement these requirements. The governor recommends $5.5 million in fiscal year 2017 supplemental funding for fingerprinting and background checks on the estimated 85,000 people employed in childcare settings. In addition, the governor recommends $1.6 million in fiscal year 2017 and $800,000 in fiscal year 2018 for staff in LARA to review these background checks and notify providers of any employee ineligible to work in childcare settings.

STATE BUDGET OFFICE
February 8, 2017

Direct Care Wage Increase
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Background:

Direct Care workers are tasked with delivering many of the basic behavioral health services and supports provided to people served through Michigan's community mental health system. Approximately 90,000 Michigan residents with developmental disabilities, mental illness, or a serious emotional disturbance receive one or more direct care services each year. These services include: licensed residential treatment, community living supports, skill-building, vocational services, respite care, and health services. Direct care workers are typically employed by non-profit or private sector service providers under contract with the local community mental health authority (CMH) or directly by a beneficiary acting as their own employer in conjunction with the CMH. Services are delivered in residential, vocational, and educational settings.

High turnover of direct care staff, driven in recent years by an increase in Michigan's minimum wage and a more robust labor market, is negatively impacting the quality of direct care services. Budget boilerplate included in the FY 2016 appropriation act (PA 84 of 2015) directed the Department of Health and Human Services (DHHS) to analyze the recruitment and retention of direct care workers and consider solutions to these challenges.

In the resulting report released in September 2016, the DHHS found that challenges in attracting and retaining direct care workers result from uncompetitive pay compared to entry-level wages in other sectors. The average starting wage in 2015 for a direct care worker was $8.69 per hour, while experienced workers earned an average of $9.62 per hour. Furthermore, since 2015, the state's minimum hourly wage has risen from $8.15 to its current level of $8.90 and will rise again to $9.25 in 2018. Statewide, the annual turnover rate for direct care workers was estimated to be 37% in 2015.

FY 2018 Executive Proposal:

The FY 2018 Executive Recommendation provides $45 million gross ($14.2 million general fund) to support a wage increase for direct care workers in Michigan's Pre-Paid Inpatient Health Plan (PIHP) system. The investment will raise the rates paid to PIHPs who, in turn, would be required to direct these new funds to direct care wages. The DHHS estimates this investment would be sufficient to raise the average starting wage $0.50 per hour.

Prior appropriations have funded wage increases for direct care workers. The two most recent are:

- P.A. 330 of 2006 funded a 2% wage increase for direct care workers
- P.A. 246 of 2008 boilerplate included a 1% wage increase

Investment in direct care wages is necessary to ensure the availability of quality behavioral health services and supports. The recommended funding increase will accomplish this by attracting and retaining more skilled and experienced individuals to the direct care workforce, reducing turnover rates among direct care workers, and expanding the availability of direct care services. The increase in services provided can be tracked using annual CMH expense reports.

STATE BUDGET OFFICE
February 8, 2017

Agriculture and Rural Development
Double Up Food Bucks

Background

Double Up Food Bucks is a statewide incentive program run by Fair Food Network in partnership with the Department of Health and Human Services that provides Michigan's low-income residents who receive Supplemental Nutritional Assistance Program (SNAP) benefits with a dollar-to-dollar match to buy fresh fruits and vegetables. Recipients have the ability to earn up to a total of $20 per day in double up food bucks if they spend $20 in SNAP dollars at a participating grocery store or farmer's market. All of the money redeemed from this program goes directly to the local farmers who supply the produce to the various participating sites. The program currently benefits more than 300,000 of Michigan's low income residents and 1,000 local farmers.

In response to the Flint water crisis, the Double Up Food Bucks program played an instrumental role in providing low-income residents with the nutrition needed to mitigate the effects of lead exposure. The Flint expansion increased the number of "Double Up" sites available, expanded the ways in which residents could earn "Double Up" credits, and extended the seasonal program to year-round. To date, Flint expansion efforts have been supported by supplemental appropriations of $380,000 in both fiscal years 2016 and 2017.

Fiscal Year 2018 Executive Recommendation

The governor's fiscal year 2018 Executive Recommendation includes a total of $1.1 million in one-time general fund to support Double Up Food Bucks expansion efforts. The governor proposes $380,000 to continue support of the Double Up Food Bucks expansion in Flint by providing match money for the 5,000 Flint residents who receive SNAP benefits when they buy fresh fruits and vegetables.

In addition, the Executive Recommendation includes $750,000 to enhance the program in targeted areas throughout the state, including Grand Rapids, Muskegon, Kalamazoo, Battle Creek, Southeast Michigan, and the Greater Grand Traverse area. The enhancement will model current Flint expansion operations by allowing SNAP recipients to earn "Double Up" credits through the purchase of milk, and by extending the program from seasonal to year-round. These funds, along with a $750,000 fiscal year 2017 supplemental for the same purpose, will match a three-year federal USDA Food Insecurity Nutrition Incentives Grant to support technology, outreach, and communications of year-round nutritional incentives for SNAP recipients in the targeted areas.

STATE BUDGET OFFICE
February 8, 2017

Foster Parent and Youth Support Expansion
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Overview: The Department of Health and Human Services is responsible for administering the state's foster care system, which serves approximately 13,000 Michigan children each day. In 2006, the advocacy organization Children's Rights filed a class action lawsuit in federal court against the State of Michigan claiming that the system was failing children. A settlement agreement was first approved by the court in 2008 and has since been re-negotiated. In 2016, the court approved an Implementation, Sustainability, and Exit Plan (ISEP) which sets parameters on ending Michigan's court oversight.

To better position the state to exit current federal court oversight of Michigan's foster care system, the governor proposes to implement Regional Resource Teams with the primary mission of recruiting and retaining qualified foster parents for children in the system. In addition, the governor proposes to expand the Michigan Youth Opportunities Initiative (MYOI), a program which provides enhanced services to youth aging out of the foster care system. The budget includes $3.6 M Gross ($2.8 M General Fund) to cover these investments.

Federal Oversight of Michigan's Foster Care System: One goal established in the ISEP is to "…maintain a sufficient number and array of homes capable of serving the needs of the foster care population". This unmet need for children's foster homes is underscored by the fact that Michigan has experienced an annual net loss in non-relative foster homes in each of the past three years, including a 30 percent loss in FY 2015. Feedback from the foster parents of those homes indicates that 60 percent of exiting foster parents felt inadequately supported during their time as foster parents.

Furthermore, the most recent federal Child and Family Services Review (CFSR) found Michigan is not meeting the federal outcome standards related to children's safety. The national standard for maltreatment in care is 8.5 substantiated or indicated reports of maltreatment per 100,000 days of care, but Michigan's most recently published score was 13.56 reports. Additionally, 12.4 percent of Michigan foster children experienced a recurrence of maltreatment while in care – exceeding the national standard of 9.1 percent.

Regional Resource Teams: An effective foster care system relies on qualified, well-prepared foster families to ensure the care and safety of children within the system. However, data suggests that DHHS is struggling to retain high-quality foster parents. When children are not able to be placed in a stable foster home, that often results in poor outcomes for their care or in delayed reunification efforts with their birth parents. Currently, licensing staff are assigned the tasks of recruiting, developing, and supporting foster families in addition to their duties of licensing families and enforcing state law and licensing rules. These competing duties have resulted in an inadequate focus on the recruitment, development, and retention of foster families.

To address these issues, DHHS proposes the implementation of contracted Regional Resource Teams at each of its five Business Service Centers (BSCs). Licensing staff will continue to share responsibility for development and support, but recruitment duties would shift entirely to the new resource teams.

Michigan Youth Opportunities Initiative (MYOI): Preparing older foster youth for adulthood is another obligation of Michigan's foster care program. Federal and state laws require DHHS to provide independent living services to help foster youth age 14 and older prepare for functional independence and transition to self-sufficiency. In 64 of Michigan's 83 counties, DHHS accomplishes that goal through the MYOI, which is an enhanced program with the goal of ensuring that such children have successful outcomes in housing, education, employment, community engagement, and health. The program provides specialized staff to work with youth to provide enhanced support that goes beyond the legal minimums resulting in better outcomes for foster youth and society. DHHS is proposing to expand the MYOI program to the remaining 19 Michigan counties by adding 10 full-time MYOI coordinators to ensure that all children in Michigan's foster care system have the opportunity to benefit from these services.

Expected Performance Outcomes:

Outcome 1: 20 percent increase in prospective foster parent inquiries per year

Outcome 2: 15 percent increase in licensure of non-relative foster homes per year

Outcome 3: 15 percent increase in the retention of non-relative foster homes

Outcome 4: 10 percent decrease in the number of older youth who are placed in a non-family-like setting

Outcome 5: For youth aging out of foster care, improved outcomes in their financial capabilities, housing, employment, health, and permanent relationships

STATE BUDGET OFFICE
February 8, 2017

Improved Services to Michigan's Homeless: Emergency Shelter Program Per Diem Increase
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Overview:

The Fiscal Year 2018 Executive Recommendation includes an investment of $3.7 million General Fund to increase the per diem rate provided to emergency shelters. This increase from $12 to $16 per night for each client served will give shelters additional capacity to begin assisting clients in navigating the complex process of applying for permanent, stable housing and other social services. This is a vital task that shelters are unable to adequately perform at current payment rates, which typically cover only the cost of overnight lodging and two basic meals.

Background:

The estimated number of "literally homeless" persons – those whose primary residence is a public or private place not meant for human habitation – in Michigan was 69,000 in 2015. A subset of around 10,000 are "chronically homeless" – those who have been continually homeless for at least one year (or four or more times in the past three years). Among these individuals, over 70% have mental health problems. Nearly 40% have substance use disorders and a third of the chronically homeless have physical disabilities.

The Department of Health and Human Services (DHHS) is the largest funder of emergency shelters in Michigan through its Emergency Shelter Program (ESP). The ESP is operated statewide with service areas organized following the State of Michigan Prosperity Region structure. The Salvation Army Eastern Michigan Division, headquartered in Southfield, contracts with DHHS to administer the program. The contract funds are allocated to 106 participating shelters to provide emergency overnight lodging at a current per diem rate of $12 per bed night. The current per diem rate has been in place since 2003 and the expectations are minimal: a place to sleep between 6:00 pm and 7:00 am and two basic meals.

Even with this increase from $12 to $16, Michigan's program will still rank significantly below other comparable programs across the country. A DHHS review of governmental units showed shelter per diem rates ranging from $25 - $102 per bed night. For example, Massachusetts has a variable shelter rate of $25 to $72 per day. New York City per diem rates vary from $78 to $102. One New Jersey county used rates ranging from $25 to $69 per day. Nationally, the United States Department of Veterans Affairs funds its per diem shelter programs at rates as high as $40 per bed night.

The proposed increase will allow the Salvation Army Eastern Michigan District to provide important additional case management services. Additional services will include completing a MI Bridges application for health coverage and other social services, providing assistance with identification documents, and completing both a housing assessment and a housing stabilization plan.

These new services align with the recommendations of the Michigan Interagency Council on Homelessness, which recently released a 2017-19 Action Plan that emphasized the importance of retooling the homeless crisis system. One of their key objectives is to move people out of emergency shelters to more stable housing at a faster rate and with proper supports in place. This "Housing First" approach recognizes that the first and primary need for a homeless individual or household is to obtain stable housing.

STATE BUDGET OFFICE
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Improved Services to Vulnerable Adults: Adult Services Staffing/Caseworker Relief
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Overview:

The Fiscal Year 2018 Executive Recommendation includes an investment of $11.1 million Gross ($8.0 million general fund) to hire 95 additional Adult Services Workers. This investment aims to address rising caseloads in adult services programs (including adult protective services, independent living services, and adult community placement) and respond to recent audit findings that indicate staff are not meeting standards of promptness for cases involving reported abuse, neglect, and exploitation. Providing caseworker relief by means of caseload reduction to a manageable level will provide for improved client services and faster response time, thereby reducing the risk of the abuse and exploitation of our elderly and disabled citizens.

Background:

A 2014 audit of Michigan's Adult Protective Services (APS) conducted by the Michigan Office of the Auditor General found that the Department of Health and Human Services' efforts in investigating referrals of adult abuse, neglect, and exploitation were not effective. A key measure of effectiveness involved the standard of promptness with which certain case management milestones should be reached: investigations of referrals should commence within 24 hours, and face-to-face contact with the client should be established within 72 hours. In 2014, the non-compliance rates for these standards were 19% and 30%, respectively. A follow up report issued in September 2016 found that though considerable improvement had been made, non-compliance rates remained troublesome at 6% and 12%, respectively.

The proposed staffing increase will help improve compliance rates while recognizing continuing caseload increases in these areas. Between 2002 and 2015, the APS caseload rose from 12,456 to 40,302 clients, while adult services staff fell from 540 to 463 FTEs. The APS caseload doubled between 2011 and 2015 alone, and will likely continue to grow as Michigan's population over age 65 expands. The 95 FTE new positions included in the budget will bring adult services caseload-to-staff ratios down to 200:1. DHHS also continues to pursue other solutions, including innovative IT systems, cross-training field staff, policy simplification, and the mobile adult protective services worker initiative that will promote efficiencies in responding to caseload demands.

Long-term outcomes achieved by lower caseload ratios will include increased compliance with audit findings, better services for clients, decreased turnover rate among Adult Services Workers, and improved response time for case referrals for vulnerable adults.

Adult maltreatment is a growing societal problem. The most recent data available on the prevalence of adult maltreatment suggests that at least 10% of older Americans – approximately 5 million persons – experienced emotional, physical, or sexual abuse, financial exploitation and neglect each year, and many of them experience it in multiple forms. The Administration for Community Living reports that adults with disabilities are 4 to 10 times more likely to become a victim of maltreatment than persons without disabilities.

STATE BUDGET OFFICE
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Integrated Service Delivery: IT Infrastructure Modernization Phase 2
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Background

The Integrated Service Delivery (ISD) initiative, started in FY 2017, aims to transform Michigan's current siloed system of public assistance programs into an integrated framework geared towards citizen success. To achieve this, the ISD Initiative is upgrading DHHS's information technology (IT) infrastructure to integrate and enhance the delivery of beneficiary services such as:

- Food Assistance
- Child Day Care
- Cash Assistance: State Emergency Relief and Family Independence Program
- Medicaid and Healthy Michigan Plan

The FY 2017 budget included funding and 15 FTEs to support the first phase of ISD's long-term mission. The $6.3 million Gross ($630,800 GF) in ongoing funding and $36.9 million Gross ($3.7 million GF) in one-time funding appropriated by the Legislature for ISD currently supports the following:

- **Integrated Service Delivery Portal:** A new user-friendly interface that consolidates enrollment information for caseworkers and beneficiaries. The portal would be merged with the existing Bridges eligibility and enrollment system to include an assessment tool to quickly match beneficiaries to needed DHHS services and connect beneficiaries to other available services provided by social service organizations. Additionally, the portal will provide a success plan component that can be tailored to individual client needs and goals. This ISD component is planned to be launched statewide during FY 2017.

- **Call Center Modernization & Universal Caseload Management:** The initiative will provide customers a single point of contact for DHHS services and better manage client calls to local DHHS county offices through modernized call center technology. This technology will enable information sharing to address multiple client issues with one phone call by leveraging an automated self-service system to free up case worker time. This, in turn, allows DHHS caseworkers to shift to a subject matter approach—universal caseload management (UCL)—to resolve beneficiary questions and perform other administrative tasks. Currently, an assigned caseworker is a beneficiary's single point of contact. UCL allows caseworkers with expertise in specific DHHS programs and tasks to assist enrollees regardless of location, allowing tasks to be effectively distributed across local offices. As a result, beneficiaries will be served more efficiently, time spent by caseworkers processing case file changes will be reduced, and caseworkers will have more time to directly engage and monitor the success of their clients.

Proposal

The FY 2018 Executive Recommendation provides $45.0 million Gross ($3.5 million GF) in ongoing funds to implement Phase 2 of the ISD initiative. This proposed funding further integrates DHHS's service delivery by:

- Increasing the number of DHHS programs included in the ISD portal and expanding the functionalities offered by the portal.
- Enhancing data sharing between legacy systems administered pre-merger by the former departments of Community Health and Human Services and addressing current technical deficits in those systems.
- Expanding call center modernization and universal caseload management efforts from the current pilot project to statewide implementation.

- Ensuring that these IT enhancements are developed with beneficiary needs at the forefront and are fully incorporated into DHHS's service delivery system by adding needed IT staff and public assistance subject matter experts to the ISD initiative (47 FTEs).

Implementation of this investment will improve DHHS customer services and caseworker efficiency, link beneficiaries to additional community resources, and create the foundation needed to shift Michigan's public assistance services from reactive programs to coordinated strategies that maintain and improve the health and financial stability of Michigan citizens.

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Statewide Broker Expansion Pilot of Non-Emergency Medical Transportation (NEMT)
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Background

The Federal government requires Medicaid programs to ensure that enrollees have transportation to necessary health care appointments. In Michigan, this non-emergency medical transportation benefit (NEMT) is structured and administered in an inconsistent manner. As detailed in Table 1 below, NEMT services for Medicaid enrollees served through contracted health plans have their benefit managed by a contracted broker. For fee-for-service (FFS) enrollees a broker is used only in Wayne, Macomb and Oakland County; FFS enrollees in all other Michigan counties have their NEMT administered through their local DHHS office.

TABLE 1	
Model	**Description**
Fee-For-Service: Michigan Counties Except Wayne, Oakland & Macomb	**Local Office Administration:** DHHS, through its local offices, coordinates necessary NEMT and establishes reimbursement rates for meals, lodging and transportation mileage for transportation providers.
Fee-for-Service: Wayne, Oakland & Macomb Counties	**Brokerage Contract:** A pilot program was started in FY2011 and is now administered through a full-risk managed care contract with a private broker (LogistiCare). DHHS pays a capitated rate of $1.95 per member per month (PMPM) for needed NEMT for FFS Medicaid enrollees in these counties.
Managed Care: Statewide	**Medicaid Managed Care Organizations (MCO):** Contracted MCOs are required to provide NEMT to their enrollees. The MCO capitation rate provides $1.50 per member per month (PMPM) to cover the cost of this service.

The effect of this inconsistent structure in administering the NEMT benefit is decreased access to needed medical services by FFS beneficiaries outside of Southeast Michigan. DHHS also recognizes that the current service delivery structure of NEMT for FFS enrollees outside of Southeast Michigan poses a risk for fraud and abuse and is vulnerable to adverse audit findings.

Summary of FY 2018 Proposal:

The Fiscal Year 2018 Executive recommendations provides $12 million gross ($3.4 million general fund) in ongoing funding to invest in the implementation of an expansion of broker contracts for Medicaid FFS in additional Michigan counties. This represents a first step in the state multi-year approach to phase-in NEMT broker contracts statewide. The investment will improve the administration and service delivery of the NEMT services and improve Michigan's compliance with federal regulations by:

- Increasing beneficiaries access to NEMT services, reducing missed appointments and complaint rates
- Providing a single point of contact for beneficiaries, making it easier to receive services
- Reducing demands on caseworkers related to NEMT issues
- Monitoring and evaluating NEMT utilization and performance more effectively

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Pathways to Potential Expansion
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Overview:

The Fiscal Year 2018 Executive Recommendation includes an investment of $5.6 million Gross/$3.3 million General Fund to expand its Pathways to Potential program, which places Success Coaches in Michigan schools to reduce chronic absenteeism, connect families to available community resources, and build school-community partnerships. The investment will allow for an additional 51 FTE positions (48 Success Coaches and 3 central office staff) to be placed during Fiscal Year 2018.

Background:

In July of 2012, the Department of Health and Human Services (DHHS) implemented the Pathways to Potential business model in Detroit, Pontiac, Flint, and Saginaw - Michigan's highest crime rate cities - to combat truancy as part of an effort to reduce crime. The model has since expanded and exists today to assist vulnerable, disadvantaged, and low-income Michigan citizens in finding a pathway that will help them perform to their fullest potential. It currently reaches 246 schools in 32 different counties.

At each school, a Pathways "Success Coach" aims to remove barriers to attendance early on before they result in truancy and negatively impact learning. In this effort, staff focus on five outcome areas: health, safety, self-sufficiency, education, and chronic absenteeism. Data in the table below display the yearly statewide decline in chronic absenteeism achieved by participating schools. DHHS also cites evaluations focused on sites with longer-term participation in the program that have shown higher standardized reading and math scores, improved youth behavior, and greater parental involvement.

Reduction in Chronic Absenteeism in Pathways Schools, 2012 - 2015		
School Year	Number of Pathways Schools	Reduction in Chronic Absenteeism
2012-2013	21	-9.0%
2013-2014	169	-33.9%
2014-2015	219	-37.2%

For many Success Coaches, caseloads have grown. The ideal number of cases per Success Coach is 150, but in some counties, Success Coaches have an average of 400 to 500 cases. These large caseloads undermine the Success Coaches' effectiveness. In the past, DHHS has transferred caseworkers from county offices to Pathways sites to attempt to address growing caseloads, but department resources for this purpose are more limited given county office demands. DHHS is still finalizing implementation plans, but estimates that 21 of the 48 new Success Coaches will serve existing sites to address these caseload issues, while the remaining 27 new Success Coaches will be placed at new sites.

The selection of new sites is to be determined. DHHS has a waitlist of 22 schools that have requested to participate in the Pathways to Potential Program. In addition, Governor Snyder is recommending that DHHS prioritize placement of Success Coaches in Priority Schools and schools in Rising Tide communities. Priority schools are those that are currently or were recently on the list of the lowest-achieving 5% of all public schools in the state, based on Michigan's top-to-bottom ranking of all public schools. Rising Tide communities are the ten, primarily rural, at-risk communities that have been targeted for programming designed to maximize economic development and business attraction.

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Private Agency Foster Care Rates
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Overview: The State of Michigan partners with private child welfare organizations in ensuring the safety and care of children in the foster care system. Child placing agencies are responsible for directly supervising foster care cases, while child caring institutions provide full-time residential care for youth in need of more intensive support. The governor proposes changes to the per diem administrative rates paid to these child welfare agencies based on an independent, third-party cost analysis of their costs in providing appropriate services. The cost for this proposal in FY 2018 is estimated to be $14.2 M Gross ($6.8 M General Fund). Additionally, the governor proposes a return to the long-standing 50/50 cost sharing model between the state and the responsible counties in paying for these administrative rates. The State Budget Office estimates this policy change to result in a General Fund savings of $8 M. When combined, the implementation of the recommended rates and reinstatement of the cost sharing model are estimated to result in a net General Fund savings of $1.2 M.

Foster Care Rates: The Department of Health and Human Services (DHHS) recently received the results of a year-long cost analysis of foster care rates conducted by Public Consulting Group (PCG). During the analysis, PCG engaged DHHS, private providers, and other stakeholders in assessing the agencies' cost of care. The analysis centered on FY 2015 cost report data and involved an in-depth and detailed analysis based on staffing requirements and operating costs. The proposed rates will result in better outcomes for children by allowing organizations to provide more effective case management and care and to be properly staffed to transition children into safe, permanent placements more quickly.

The following requested rate changes are the result of that analysis and include the merging of the rates for General Foster Care, Independent Living, and Trial Reunification:

Type of Rate	Current Daily Rate	Proposed Rate	% Increase
General Foster Care	$45	$46.20	2.7%
Independent Living	$28		65.0%
Trial Reunification	$37		24.9%
Treatment Foster Care	$87.74	$102.35	16.7%
Independent Living Plus Program – Host Home	$72	$88.58	23.0%
Independent Living Plus Program – Staff-Supported	$144	$187.72	30.4%
Shelter Care (Minimum/Average/Maximum)	$234.16 / $324.88 / $416.72	$359.13	53.4% / 10.5% / (13.8%)
General Residential Foster Care (Minimum/Maximum)	$195.96 / $292.71	$208.96 / $329.86 (tiered based on staffing levels)	n/a

Hold Harmless Provisions: "Hold harmless" provisions that have been added to state statute by the legislature in recent years depart from the traditional 50/50 state-county cost sharing model for certain payments to private child welfare organizations, mandating instead that the state take on responsibility for 100 percent of these payments.

Michigan's Social Welfare Act establishes the cost sharing model for funding specified foster care cases, which equally splits the costs of care between the state and the responsible county. In each fiscal year since FY 2014, however, the legislature has amended the Act by including a "hold harmless" provision that requires the state to fund 100 percent of new administrative rate increases provided to child welfare agencies. Each amendment has included a one-year sunset provision. During that time, three rate increases have occurred:

- The FY 2014 budget increased the General Foster Care Administrative rate from $37 to $40.
- The FY 2015 budget increased the rates paid to residential child caring institutions, for which the "hold harmless" provisions also applied.
- The FY 2017 budget further increased the General Foster Care Administrative rate to $45.

The state is currently funding 100 percent of these increases. Since October 1, 2013, the state has also been required to fund 100 percent of the entire administrative rate for all new Child Care Fund cases referred to private child placing agencies. Failure to eliminate these provisions will lead to continued state cost increases over time. Since in the long run all foster care cases will have been established since October 2013, the state would eventually take on 100 percent of the costs of payments to child placing agencies if the provisions remain unchanged. In FY 2016, the various "hold harmless" provisions cost the state an additional $8.0 million that would otherwise have been paid by counties as part of the traditional cost-sharing model. All of these "hold harmless" provisions are scheduled to sunset in the Social Welfare Act on September 30, 2017.

Personal Property Tax Reform Bonus Payments to Counties: The proposed restoration of the 50/50 cost sharing model would mean that Michigan counties would face increased costs in FY 2018 as they again cover 50% of the costs of applicable administrative payments to child welfare organizations. Estimates suggest that counties would take on an extra $8.0 million in costs that they currently save because of the existing hold harmless provisions. The relevant 50 percent cost share for counties of the proposed rate increases is around $2.1 million. It should be noted, however, that total payments of $37.1 million will be received by 69 out of Michigan's 83 counties during fiscal year 2017 through the Local Community Stabilization Authority that are above and beyond the amounts needed for full reimbursement of revenue losses that resulted from Personal Property Tax reform approved by the state's voters in 2014. Such payments will continue in future years under current law. Collectively, these bonus payments exceed the added costs of this proposal.

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February 8, 2017

Psychiatric Hospital Service Improvements
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

The FY 2018 Executive Recommendation includes $7.2 million gross ($4.9 million general fund) and 72.0 full-time equated (FTE) positions to increase staffing levels at state-operated psychiatric hospitals and centers. This investment focuses on increasing the number of acute psychiatric care staff, which will improve the quality of care provided and the safety of both patients and staff.

FY 2018 EXECUTIVE RECOMMENDATION STATE PSYCHIATRIC HOSPITAL STAFF INCREASE			
HOSPITAL	**FTE**	**GROSS**	**GF**
Caro Center	13.0	$1,292,000	$1,292,000
Kalamazoo Psychiatric Hospital	16.0	$1,568,500	$1,568,500
Reuther Psychiatric Hospital	19.0	$2,003,800	$2,003,800
Hawthorn Center	24.0	$2,308,900	$0
TOTAL	**72.0**	**$7,173,200**	**$4,864,300**

Additional care staff are needed to keep staff-to-patient ratios at a level deemed acceptable by the Centers for Medicare & Medicaid (CMS) and the Joint Commission. Maintaining an acceptable ratio is important to retaining CMS accreditation at each hospital, which allows the State to draw down Federal Medicaid dollars for patient treatment. The four facilities combined will receive $34.6 million in direct federal Medicaid reimbursement in FY 2017 for services provided to patients. An additional $81.5 million in general fund savings is derived through Medicaid special financing that is distributed through the state's hospitals and centers. The recommended staff increase addresses the need to maintain an acceptable ratio and ensures Medicaid funds continue to flow to Michigan's psychiatric facilities.

The need for additional resident care staff is being driven by several factors related to rising patient acuity and continual workforce shortages. DHHS has reported an increase in the number of behavioral issues resulting in injury to either patients or staff in the past year. These issues stem from the increasingly more significant physical and behavioral health challenges inherent in the state hospital patient population. Additional staff are needed to address this rising level of acuity and resulting behavioral challenge.

DHHS has also reported the state's psychiatric hospitals are consistently short of resident care workers. The hospitals currently require mandatory overtime to keep staff-to-patient ratios as high as possible. This work environment may hinder the State's ability to attract and retain a high-quality workforce at its facilities. The recommended investment would reduce the hospitals' reliance on overtime.

Increase Family Independence Program Clothing Allowance by $60 per Child:

The Executive Recommendation includes an investment of $2.7 million in federal Temporary Assistance to Needy Families (TANF) funding to facilitate a $60 increase in the Clothing Allowance provided in September of each year to families receiving Family Independence Program (FIP) cash assistance payments. The payment was originally instituted to assist these families with purchases of new school clothing and other school-related purchases for children, although families are able to use this funding for other needs as well.

Prior to FY 2017, the clothing allowance was restricted to the 20,000 children who resided in homes of adults who do not otherwise qualify for assistance. In FY 2017, the Governor proposed that the allowance be expanded to all 45,000 children eligible for the Family Independence Program, and that it be raised from $140 to $200 a child. The Legislature approved only the eligibility expansion component of the proposal for FY 2017. The Governor is renewing his proposal for the $60 allowance increase for FY 2018.

The clothing allowance increases the purchasing power of low-income families to provide basic needs for their children. It is an important supplemental support for these children, particularly given that the Family Independence grant level is fixed without a built-in inflationary adjustment. The allowance may also have an impact on educational outcomes; the Michigan School-Justice Partnership identifies the lack of appropriate clothing for the weather as one of the top ten reasons for missing school.

Increase Food Assistance Benefits through “Heat and Eat”:

In 2010, Michigan joined a number of other states in employing a strategy authorized in federal law to maximize federal Supplemental Nutrition Assistance Program (SNAP) benefits available to eligible Michigan recipients. Michigan implemented a policy – widely known as the “Heat and Eat” program – through which the state provided $1 in annual Low-Income Home Energy Assistance Program (LIHEAP) benefits to certain Michigan households that also received SNAP benefits. The $1 in energy assistance triggered an extra $75 per month on average in the SNAP food benefits for around 160,000 SNAP-eligible households.

In May 2014, changes in the federal Farm Bill restricted the ability of states to employ the Heat and Eat strategy. Changes curtailed the use of the policy by requiring a minimum provision of over $20 per year in LIHEAP assistance in order to trigger eligibility for the extra SNAP food benefits. Michigan was one of only four states to end their Heat and Eat program due to the increased cost of maintaining it. Other states continued their programs by making additional investments of LIHEAP funding, or by investing other state funds to offset the LIHEAP investment.

The FY 2017 House-passed DHHS budget had proposed an additional investment to restore Heat and Eat, but the additional funding was not included in the final enrolled budget bill. This December, however, a FY 2017 supplemental appropriations bill allocated $6.8 million in general fund to restore the Heat and Eat program.

The FY 2018 Executive Recommendation maintains this investment of general fund into crisis energy assistance, which will allow LIHEAP dollars to be redirected to restore the Heat and Eat policy. This will maintain the extra $75 per month of SNAP food benefits for an estimated 338,000 SNAP-eligible households.

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Senior Services: Addressing Waiting Lists for Home Delivered Meals and In-Home Services
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Overview:

The Fiscal Year 2018 Executive Recommendation includes an investment of $3.6 million general fund to address persistent waiting lists for in-home service programming and home delivered meals for senior citizens.

Background:

In FY 2015, the enacted budget included $5.0 million general fund requested by the executive branch to address waiting lists for various senior citizen programs administered by the then Office of Services to the Aging (now the DHHS Aging and Adult Services Agency). Specifically, $3.2 million was added for in-home service programming (homemaker, chore, personal care, home health aide, and case management) and $1.8 million for home delivered meals.

These FY 2015 investments yielded positive results for at-risk Michigan seniors. The unduplicated count of seniors served by these programs grew by 10.5% from FY 2014 to FY 2015. The number of home delivered meals and in-home service hours increased by 8% and 21%, respectively, over the same period.

It is important to note that, despite these investments, the demand for services continues to grow and waiting lists have tended to persist. This is driven by both the growth in Michigan's frail elderly population and the 'woodwork' effect – as public awareness of new funding for senior services increases, more individuals in need tend to seek out services designed to help them remain in their own homes.

			Cost of Eliminating Waiting List as of 9/30/16		
Waiting List as of 9/30/16			Avg. Cost Per Client		GF in thousands
Home Delivered Meals	2,124	x	$711.00	=	$1,510.2
In-Home Services	4,767	x	$955.20	=	$4,553.4
	6,891				**$6,063.6**

DHHS estimates that the cost to eliminate the waiting list - 6,891 individuals as of September 30, 2016 – would be $6.1 million. A $2.5 million investment for in-home services was included in the FY 2017 enacted budget. The FY 2018 Executive Recommendation proposes to add an additional $3.6 million to address that point-in-time waiting list. The $3.6 million includes $1.5 million for home delivered meals and $2.1 million for in-home community services.

Other Issues

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CAPITAL OUTLAY: Department of Health and Human Services – Caro Center Replacement – New State Psychiatric Hospital

Proposed Project:

The Governor's Executive Budget proposes to construct a new 250,000 square foot, 200-bed replacement facility for the Caro Center. The estimated project cost is $115 million, to be financed by the State Building Authority.

This proposal stems from work that the Department of Health and Human Services (DHHS) has undertaken to perform a comprehensive evaluation of the state's five psychiatric facilities and the needs for a new state psychiatric hospital.

This proposed replacement project represents a 50-bed increase in capacity compared to the current Caro Center. Due to a 30 percent increase in the number of individuals adjudicated as Incompetent to Stand Trial and Not Guilty by Reason of Insanity in the last five years, coupled with the challenges of placing individuals in community (non-state) hospitals, DHHS does not anticipate a decrease in the need for state hospital beds. In fact, the waiting list for admittance into the state hospital system is nearly 200 individuals and this level of demand for the state beds has existed for over three years with no easing anticipated. It is not the intention of DHHS to bring all 200 beds online at the onset, but rather to have the space and capacity to ramp up services on an as needed basis. This capacity expansion is estimated to require an additional 130 staff (on top of the existing 340 at the current Caro Center) with an estimated cost of $15 to $18 million per year to cover both staffing and operational needs.

Infrastructure deterioration at the current Caro facility has created an increasingly hazardous environment for patients and staff. DHHS, with the assistance of the Department of Technology, Management and Budget, has instituted immediate measures to stabilize the existing hospital during the period it will continue to operate, while moving forward with a long-term solution to replace the facility. Maintaining an appropriate physical infrastructure is key to retaining accreditation from the Joint Commission and Centers for Medicare and Medicaid and the Caro Center's disproportionate share hospital federal funding.

Project Planning Elements:

A total of $500,000 general fund for preliminary planning was appropriated by the Legislature for Caro Center modernization in Article II of PA 268 of 2016. The Executive Budget revises the original planning authorization contained in Public Act 268 of 2016 relative to the Caro Center. This proposed change seeks to amend the scope of the Caro Center project from one of modernization to a project predicated on replacement of the facility. It is intended that the existing funding will be utilized to procure the professional architecture and engineering services to develop the necessary programming and design documents required under this revised capital outlay planning authorization.

Key elements that will be included in the planning process for a Caro Center replacement and the overall project development include, but are not limited to, the following:

- **Design/Construction Timeline:** It is currently estimated that design and construction of this important project would take 2-3 years before the new facility would be operational.

- **Facility Model and Siting:** The new state psychiatric hospital will be based on the community-based design model utilized for the Center for Forensic Psychiatry. The location and siting of the replacement facility will be determined during the planning process.

- **Current Caro Buildings and Property:** Once a new state psychiatric hospital has been constructed and opened, the current Caro Center facilities will be vacated, and the overall status of the property will be evaluated.

Background:

Caro opened in 1914 and currently serves approximately 150 adult patients. Caro occupies over 650 acres and has 38 buildings, the newest of which is over 60 years old. The oldest building was built in the early 1900's while the newest non-residential buildings were constructed in the 1950's. There has been no major remodeling at the facility since 1979. Eighteen of the buildings are uninhabitable and two buildings have closed since September 2015 due to facility conditions. The patients' living quarters, among other facilities, are not compliant with the Americans with Disabilities Act requirements. Caro's Joint Commission and Centers for Medicare and Medicaid accreditation that allows for the receipt of federal funding is predicated, in part, on having facilities in good physical condition.

DHHS recognizes that the state hospital system is the safety net for Michigan citizens in need of inpatient psychiatric services. Michigan is one of many states facing issues such as: old outdated state hospitals, increased demand for state beds, patients with high acuity needs and behaviors, increases in forensic-related patients, and difficulty placing individuals who may be termed as "state patients" within the private hospital space.

While community-based services are the preferred treatment model, when these individuals need inpatient psychiatric treatment, even for a short period, there are usually no options available except for the state hospital system. Furthermore, if they do get admitted to a private, community psychiatric unit, these admissions are viewed as "short term" and the private hospitals desire to move these patients into a longer-term environment, i.e., the state hospital system.

Many of the individuals served in the state hospital system have no other place to receive inpatient psychiatric services. Most have very little or no income, and the state system is the system of last resort for these individuals. The state hospital system will continue to be an integral part of the continuum of care for these vulnerable individuals.

State Hospital System:

The state hospital system has five psychiatric hospitals that serve different regions of the state, as well as different populations. Admissions to each of these facilities, except for the Center for Forensic Psychiatry that receives admissions exclusively from the judicial system, is through the 46 Community Mental Health Services Programs throughout the state.

In total, the state system has 754 beds across the five hospitals. While the three regional hospitals are meant to serve specific sections of the state, due to the large waiting list, it has become necessary for all of the regional facilities to accept and admit patients from all 83 counties.

- **Current Caro Center** (Caro): This regional hospital serves all the Upper Peninsula and the east side of the Lower Peninsula, including Oakland and Macomb counties.
    - 150 bed capacity.
    - Serves adults (male and female) ages 18+. Length of stay varies between 2 months to several years.

- **Kalamazoo Psychiatric Hospital** (Kalamazoo): This regional hospital serves the west side of the Lower Peninsula over to Monroe county.
    - 150 bed capacity.
    - Serves adults (male and female) ages 18+. Length of stay varies between 2 months and several years.
- **Walter Reuther Psychiatric Hospital** (Westland): This regional hospital serves Wayne, Washtenaw, and Livingston counties.
    - 180 bed capacity.
    - Serves adults (male and female) ages 18+. Length of stay varies between 2 months and several years.

- **Center for Forensic Psychiatry** (Saline): Serves individuals from all 83 counties who are referred through the judicial system and found to be Incompetent to Stand Trail and Not Guilty by Reason of Insanity.
    - 210 bed capacity.
    - Serves adults (male and female) ages 18+. If admission of a minor is necessary, a case-by-case determination is made as to whether this individual is admitted to the Center for Forensic Psychiatry or Hawthorn Center.

- **Hawthorn Center** (Northville): Serves children and adolescents (male and female) ages 5-17 from all 83 counties.
    - 55 bed capacity.
    - Due to the increase in admissions for children and adolescents on the Autism spectrum, the length of stay has increased, but can vary from 3-6 months to 1-2 years.

STATE BUDGET OFFICE
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CAPITAL OUTLAY: Department of Technology, Management and Budget – Secretary of State Building Addition

Proposed Project:

The Governor's Executive Budget proposes a 90,000 square foot addition to the Secretary of State Building at the Secondary Complex in Dimondale, Michigan. The total estimated project cost is $34.1 million, to be financed through the State Building Authority. The recommended planning authorization will allow the Department of Technology, Management and Budget (DTMB) to engage professional design services for the project in anticipation of a future construction authorization. Existing resources have been identified to support the planning effort. Both the planning authorization and subsequent construction authorization require legislative approval.

The proposed 90,000 square foot addition will tie into the current central structure with some renovation and replicate the space currently occupied by the Department of State, with the intent that the existing occupied areas will be razed upon transition to the new space. Demolition costs are not included in the project scope and are estimated at approximately $1.2 million.

Background:

The Secretary of State Building is located at the northeast corner of Billwood Highway and Crowner Road at the Secondary Complex in Dimondale, Michigan. The building was constructed in 1968 (current southwest wing), with additions (north wing, southeast wing, 3-story central tower, and loading dock) added in 1969. The building is currently occupied by over 400 employees in DTMB's information technology Lake Superior Hosting Center and Department of State offices responsible for central collection and processing of branch office data and information.

The portion of the building that houses the DTMB hosting center has already been upgraded to protect and support the state's information technology assets and is not part of the intended project scope. The portion, however, occupied by the Department of State (north and southwest wings) has not been similarly upgraded. The Secretary of State Building was designed as a "temporary facility" (an industry standard life cycle of 25 years is used to define the term) which incorporated building materials and features with low initial cost and minimal longevity. The building is now 48 years old, 23 years beyond its original intended design life. Due to the temporary nature of its construction, the building envelope and all major systems in the portion occupied by the Department of State are failing. Through the years, there have been minor renovations, retrofits, and upgrades. However, most of the investments into the building over its lifecycle have been in response to emergency situations caused by water intrusion and failing outdated equipment.

Renovations to the existing space were considered. However, it was determined renovation would not yield substantial cost savings over new construction and savings would be further reduced by expenses needed to temporarily utilize swing space for the occupants during the renovation period.

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Energy Package

Issue:

As part of an energy package (Public Acts 341 and 342 of 2016) signed into law by Governor Snyder in December of 2016, the fiscal year 2018 and 2019 Executive Recommendation includes $3.5 million in restricted funds for the departments of Licensing and Regulatory Affairs, Environmental Quality, and the Attorney General. These appropriations will ensure that state agencies have the resources they need to implement energy reforms for consumers and businesses, while also protecting the environment.

FY18-19 Energy Package Recommendation

Agency Budget	Responsibility	FY 2018	FY 2019	Fund
LARA - Public Service Commission (13.0 FTEs)	Support and implementation of Public Act 341 and 342 provisions	$2,148,500	$2,148,500	Public Utility Assessments
LARA - Michigan Agency for Energy (2.0 FTEs)		$307,500	$307,500	Public Utility Assessments
LARA - Michigan Administrative Hearing System (4.0 FTEs)	Support for integrated resource plans and cases	$654,500	$654,500	Public Utility Assessments
Environmental Quality (1.0 FTE)	Interagency liaison with an emphasis on environmental issues	$150,000	$150,000	Public Utility Assessments
Attorney General	Support for rate, integrated resource plan, certificate of necessity, and fuel cost recovery cases	$219,200	$219,200	Utility Consumer Representation Fund
Total:		**$3,479,700**	**$3,479,700**	

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Summary of Statewide Information Technology Investments

The Fiscal Year 2018 Executive Budget includes a total of $84.4 million ($37.6 million general fund) for information technology projects in three agencies. Projects funded in specific agency budgets include the following:

Agency	Project Title	Ongoing GF/GP	Ongoing Gross	One-time GF/GP	One-time Gross
DHHS	**Integrated Service Delivery - Phase II** *Phase II continues implementation of system integrations across health and human service programs to improve client experiences and shift Michigan's public assistance programs to an integrated framework geared towards citizen success (27.0 FTE).*	$3,514,500	$45,089,800	$0	$0
DTMB	**Cyber Security Protections (Enterprise)** *Supports centralized coordination for enterprise cybersecurity activities ensuring the confidentiality, integrity, and availability of State of Michigan information technology assets (12.0 FTE).*	$3,044,600	$3,044,600	$4,000,000	$4,000,000
DTMB	**Citizen Centric Government (Enterprise)** *Supports the reinvention of how citizens interact with State of Michigan programs and services through the use of individualized portals, key high-value program integrations, and mobile platforms.*	$1,000,000	$1,000,000	$5,534,300	$5,534,300
DTMB	**Michigan.gov Content Management System (Enterprise)** *Replaces the current Michigan.gov content management system supporting 130 existing Michigan.gov websites, modernizing the legacy environment.*	$0	$0	$9,050,000	$9,050,000
DTMB	**Mobile Center for Excellence (Enterprise)** *Provides operational funding for the Mobile Center of Excellence (MCOE) that is central to delivering a customer-centric experience for citizens through mobile applications with State of Michigan programs anytime and anywhere.*	$1,587,000	$1,587,000	$0	$0
DTMB	**School Reform Office Performance Information System Upgrades** *Provides an information technology solution for the collection of Priority School District student data every 6-8 weeks that allows the School Reform Office and Priority School District Superintendents to review and analyze data in real time.*	$0	$0	$353,000	$353,000
Treasury	**Legacy Tax System Contractual Support** *Provides one-time support to continue contractual services through FY 2018 for legacy tax systems, as the agency transitions to more self-sufficient operations.*	$0	$0	$2,000,000	$2,000,000
Treasury	**City Income Tax Administration** *Supports the current corporate/flow-through tax implementation and addition of a new city in fiscal year 2018 (20.0 FTE).*	$0	$3,782,100	$0	$1,500,000
	Total	$9,146,100	$54,503,500	$20,937,300	$22,437,300

In addition, the Fiscal Year 2018 Executive Budget Recommendation includes $7.5 million of one-time funding in the Department of Technology, Management and Budget for the Information Technology Investment Fund (ITIF):

Agency	Project Title	GF/GP	Gross	GF/GP	Gross
DTMB	**Information Technology Investment Fund**	$0	$0	$7,500,000	$7,500,000
	Total	$0	$0	$7,500,000	$7,500,000

Note: Several of the projects include both ongoing and one-time components. The agency budgets reflect the one-time components in specific one-time appropriation units.

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Medical Marihuana Regulatory and Licensing Framework

Issue:

Public Act 281 of 2016 created the Medical Marihuana Facilities Licensing Act by establishing a regulatory and licensing framework for the purchasing and selling of Medical Marihuana in the state. The Executive Recommendation for fiscal years 2018 and 2019 includes appropriations totaling $36.5 million and $58 million, respectively, in various state agencies to reflect revenue that will be collected from a 3 percent excise tax on provisioning center sales, as well as regulatory and enforcement costs across state agencies to implement, administer, and enforce the act. Appropriations are prorated in fiscal year 2018 reflecting an effective date of December 15, 2017, when the Medical Marihuana Licensing Board and the Department of Licensing and Regulatory Affairs can begin accepting applications for licenses.

Medical Marihuana Excise Fund Recommendation:

- Medical Marihuana Excise Fund: Includes revenue from a 3 percent excise tax on provisioning center sales, and all other charges associated with Public Act 281 of 2016 (not including revenue from the application fees, the regulatory assessment, and any local licensing fees).

Estimated Revenue Impact of Provisioning Center Sales for Medical Marihuana (Excise Tax)

	Impacted Fund/Entity	PA 281	Agency Budget	FY18	FY19
Excise Tax (3%)	Municipalities	25%	Treasury	$1,650,000	$4,537,500
	Counties	30%	Treasury	$1,980,000	$5,445,000
	County Sheriffs	5%	Treasury	$330,000	$907,500
	Michigan Commission on Local Law Enforcement Standards	5%	State Police	$330,000	$907,500
	State Police	5%	State Police	$330,000	$907,500
	First Responder Presumed Coverage Fund	30%	Licensing & Regulatory Affairs	$1,980,000	$5,445,000
	Total:	**100%**		**$6,600,000**	**$18,150,000**

- Key Highlights of the Excise Tax Distribution:
    - The majority of the excise tax revenue generated (60 percent) will go to support local units of government and by statute is distributed in proportion to the number of marihuana facilities in a municipality or county.

- The remaining revenue of the excise tax revenue generated (40 percent) will be allocated to the Michigan Commission on Local Law Enforcement Standards for local law enforcement training, the Department of State Police for enforcement activities, and the Department of Licensing and Regulatory Affairs for the First Responder Presumed Coverage Fund to support cancer claims of eligible firefighters.

Marihuana Regulatory Fund Recommendation:

- Marihuana Regulatory Fund: includes revenue from the application fees of licensees and an annual regulatory assessment collected from licensed growers, processors, provisioning centers, and secure transporters.

Executive Budget Recommendations for Regulation and Enforcement

Agency Budget	Responsibility	FY 2018	FY 2019
Licensing & Regulatory Affairs	Medical Marihuana Facilities, Licensing, and Tracking Program (108.0 FTEs)	$18,651,600	$24,868,700
State Police	Investigation and Inspection Activities (48.0 FTEs)	$8,775,700	$11,699,900
Attorney General	Investigation and Enforcement Activities (4.0 FTEs)	$375,000	$500,000
Health & Human Services	Substance Use Disorder (SUD) Prevention and Treatment Services	$1,423,900	$1,898,400
Treasury	Tax Processing, Compliance, and Collections (6.0 FTEs)	$675,000	$900,000
	Total:	**$29,901,200**	**$39,867,000**

Sales Tax Impact:

Estimated Revenue Impact of Provisioning Center Sales for Medical Marihuana (Sales Tax)

	Impacted Fund/Entity	PA 281	Agency Budget	FY18	FY19
Sales Tax (6%)	School Aid Fund	N/A	-	$9,680,000	$26,620,000
	GF/GP and Other	N/A	-	$2,200,000	$6,050,000
	Constitutional Revenue Sharing	N/A	-	$1,320,000	$3,630,000
	Total:			**$13,200,000**	**$36,300,000**

- The School Aid Fund, the state general fund, and local governments will benefit from the sales tax revenue that will be generated from provisioning center sales.

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Judiciary
Pretrial Risk Assessment

Background

Michigan statutes and court rulings require that defendants receive a pretrial release on personal recognizance, or on an unsecured appearance bond, unless the defendant is determined to be a flight risk, or they pose a risk to the public. In practice, most courts in Michigan rely on the issuance of monetary bonds, in which a specified bail amount is set for the defendant. If the bond is paid, the defendant may be released to await trial. If the defendant cannot afford to cover the monetary bond, they may be remanded to jail until their hearing.

Depending on the length of the jailing, the defendant may experience costly disruptions in their lives, including loss of employment, being delinquent on payments, and absence from family and friends. A 2013 study funded by the Arnold Foundation also found that low-risk defendants held two to three days were almost 51 percent more likely to reoffend within two years after their case was completed than those held no more than 24 hours.

The study also found that factors such as prior convictions, misdemeanors, felonies, and failures to appear were the strongest indicators of a defendant's flight risk, all of which can be determined without the use of an interview. According to that same report, a study of extensive data from Kentucky found that an accurate, non-interview based assessment can be developed to differentiate the risk between defendants and determine who can be released on personal recognizance.

Fiscal Year 2018 Executive Recommendation

In an effort to reduce costs to state and local government and improve overall public safety, the Executive Recommendation invests $605,700 general fund for the purpose of developing a pretrial risk assessment tool. The funding will aid in the development of a non-interview based pretrial risk assessment by expanding the existing Judicial Data Warehouse, along with the Law Enforcement Information Network, to objectively assess a defendant's criminal history and make a better determination of whether or not they can be safely released before their trial. The governor's recommendation includes two full-time positions to develop and maintain the tool, train court staff, monitor and audit the data, and assist in evaluating and validating the process.

STATE BUDGET OFFICE
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION
FEBRUARY 8, 2017

State of Michigan Defined Benefit Retirement and Retiree Healthcare Plans
Assumed Rate of Return on Investments

Overview:

The Michigan Office of Retirement Systems (ORS) administers defined benefit (DB) retirement programs and related retiree healthcare plans for Michigan's state employees, public school employees (MPSERS), judges, State Police enlisted officers, and National Guard members.

Defined benefit retirement systems are built on employers and employees making contributions to the system as employees accrue years of service. Those contributions are then invested on a long-term basis. The combination of the original contributions and investment earnings are then utilized to make benefit payments when an employee retires.

A number of actuarial assumptions are utilized to determine annual required contribution amounts, including an assumption regarding the long-term rate of investment return. The current long-term assumed rate of investment return for the state's retirement systems is 8%, except that the assumption is set at 7% for the recently created public school and state police hybrid plans, which cover new employees in those categories.

Based on the advice of the state's Bureau of Investments and the retirement systems' actuary, the governor is recommending that the assumed rate of return on investments (AROR) be reduced from 8.0% to 7.5% for the state's DB pension and retiree health care plans. This change will be adopted by the retirement systems' boards and the director of the Department of Technology, Management and Budget.

System	Return Assumption
Indiana Teachers	6.75%
Illinois Teachers	7.00%
Wisconsin State	7.20%
Pennsylvania Teachers	7.25%
Ohio Teachers	7.75%
Minnesota Teachers	8.40%
***Average**	**7.39%**
****Median**	**7.23%**

This change in the investment return assumption is more in line with the industry standards based on expectations of the long-term markets. Assumed rates of return that are set too high understate retirement liabilities and undercharge for current payments at the expense of future payments. If no action is taken within the next two years, it is likely the actuary will issue a qualified valuation, which may also impact the state's credit ratings.

Benefits of lowering the assumed rate of return:

- Reduces the risk of future Unfunded Actuarial Accrued Liability (UAL) growth.
- Increases sustainability of the funds.
- Increases stability of contribution rates.
- Moves the legacy DB plans and retiree healthcare plans toward the best practice utilized by the public school and State Police hybrid plans.
- Improves the state's ability to make benefit payments and meet our promises.

Budgetary impacts of lowering the assumed rate of return:

- Because investment income plays a large role in determining the required contributions for the retirement systems, a reduction in the assumed rate of return requires a corresponding increase in employer contributions. Additional contributions now, however, will reduce the risk of even larger contribution increases in later years.

- The increased contributions are needed to pay toward both the unfunded accrued actuarial liability (UAL) legacy costs and the normal costs, which are the annual payments into the retirement system for the calculated costs of future benefits of current employees when they retire based on accruing additional service time each year.

- It is important to note that in general there is a three-year lag between the date of an actuarial valuation and the budget year that it affects. For example, fiscal year 2015 valuations for pension and retiree health (OPEB) were used in developing the fiscal year 2018 budget. Since the 2015 valuation is complete, a budgetary adjustment was made to account for the increased level of required contributions that would have been calculated assuming a lower rate of return. The lower assumed rate of return will be used by the actuary to complete the 2016 valuation later this year, directly impacting fiscal year 2019 budgetary requirements.

Executive Budget Proposal:

The fiscal year 2018 budget includes $153 million in the Education Omnibus and $93.9 million ($50.8 million general fund) in the General Omnibus, for a total of $246.9 million, to recognize the costs of lowering the assumed rate of return. The budget effectively assumes that the rate is reduced over 2 years for MPSERS and immediately in fiscal year 2018 for all other systems

For the Michigan Public School Employees' Retirement System (MPSERS), the fiscal year 2018 budget includes $100 million for increased UAL costs, which must be paid by the state, as a statutory cap limits districts' and other employers' UAL obligations to 20.96% of payroll (25.73% for universities). The governor's budget also includes an additional $53 million to pay for the anticipated increase in normal cost contributions, which would otherwise be paid by employers. Thus, districts, colleges, libraries, and universities are held harmless from this change.

For state employees, the costs resulting from the lowered assumed rate of return have been built into defined calculations applied to all appropriation line items containing employee compensation costs.

Even with this significant investment, the net year-over-year cost increase in state-level costs for all retirement systems is under $10 million. This is due to baseline savings resulting from better-than-anticipated health care experience, positive investment return experience in recent years, and the completion of paying off the costs of the most recent state employee early retirement incentive over a 5-year period.

Additional Contributions at 7.5%
(in thousands)

System	FY 2018	FY 2019
Public Schools (MPSERS)	$153,000.0	$306,000.0
State Employees (SERS)	$83,650.8	$83,650.8
State Police	$8,987.4	$8,987.4
Judges	$1,033.9	$1,033.9
Military	$224.6	$224.6
Total Additional Costs	**$246,896.7**	**$399,896.7**

Baseline Savings	
MPSERS	($126,300.0)
SERS	($111,000.0)
Total Savings	**($237,300.0)**

Net FY18 Increased Cost	**$9,596.7**

STATE BUDGET OFFICE
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Vapor Intrusion Program
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

Background:

Vapor intrusion occurs when chemical vapors, such as from industrial solvents and dry cleaning fluids, migrate from contaminated soil and/or groundwater into the basements or foundations of buildings. These chemical vapors pose an imminent threat to human health. For example, health effects from inhalation of common chlorinated solvents even at low concentrations may include cardiac malformations in unborn children, cancer, and neurological effects such as color blindness and loss of visual acuity. Presence of these chemical vapors has resulted in recent evacuations of homes and businesses. This state-wide issue not only impacts public health but also affects the ability to sell and develop impacted properties. The Department of Environmental Quality (DEQ) estimates there could be up to 4,000 vapor intrusion sites state-wide requiring further evaluation.

Vapor intrusion incidents across the state have required response actions from the DEQ. For example, contamination at a former dry cleaning facility forced the temporary evacuation of residential buildings in Grand Rapids in 2016. In Detroit, a redeveloped manufacturing site being used as an office building and day care center was found to be contaminated with toxic vapor, requiring the closure of the building in late 2016. The DEQ has spent hundreds of thousands of dollars responding to vapor intrusion sites such as these.

PA 340 of 2016, a FY 2017 supplemental appropriation act, provided $2.7 million general fund (GF) and 12.5 full-time equated (FTE) positions to the DEQ and the Department of Health and Human Services (DHHS) to expand the two departments' capacity to address threats to environmental security and public health stemming from vapor intrusion. This partial-year funding allowed each department to establish vapor intrusion programs to immediately begin mitigation and response efforts.

FY 2018 Executive Proposal:

For FY 2018, the Governor's Executive Recommendation includes $4.9 million gross ($4.7 million GF) and 23.0 FTEs to fund vapor intrusion mitigation and response efforts within the DEQ and the DHHS. This level of funding represents the annualized cost of the programs authorized by the FY 2017 supplemental appropriation.

FY 2018 EXECUTIVE RECOMMENDATION VAPOR INTRUSION RESPONSE INVESTMENTS			
AGENCY	**FTE**	**GF**	**GROSS**
DEQ	8.0	$2,565,500	$2,688,300
DHHS	15.0	$2,183,800	$2,183,800
TOTAL	**23.0**	**$4,749,300**	**$4,872,100**

The investment will ensure a consistent and collaborative response to vapor intrusion state-wide. Funding will allow the state to identify and prioritize sites of concern, assess and address the acute public health risks from previously identified sites, and add staffing resources to provide technical assistance and oversee cleanups implemented by liable parties.

With the recommended funds, the DEQ will provide an immediate response to homes, schools, and businesses that are identified as being at risk from vapor intrusion. The DEQ estimates that up to 200 sites a year could be initially evaluated, 120 sites could be further investigated, and 24 sites could be mitigated so that they could be safely inhabited.

Within the DHHS, the investment would fund a vapor intrusion response unit made up of unit managers, toxicologists, epidemiologists, and health educators. The unit would provide centralized technical assistance to local health departments and the DEQ on vapor intrusion mitigation projects as well as outreach to educate the public on the health aspects of vapor intrusion. Funds would support analysis of environmental data, toxicology exposure estimates, follow-up exams for affected residents, and temporary housing when evacuations are necessary to limit exposure.

Wetland Mitigation Banking Program

Proposal
The Fiscal Year 2018 Executive Recommendation includes $3.85 million one-time general fund to support the initial development, design, engineering, and construction of mitigation banks which will be used by the Michigan Municipal Wetland Alliance (MMWA), agricultural producers, and blueberry farmers. In addition, approximately $400,000 federal is included to develop and administer the wetland mitigation banking program.

To assist the needs of municipalities, the Quality of Life (QOL) Group has partnered with the Michigan Municipal Wetland Alliance (MMWA), whose members include the Michigan Association of County Drain Commissioners, County Road Association of Michigan, Michigan Association of Counties, Michigan Townships Association, and Michigan Municipal League, to sponsor wetland mitigation bank sites on DNR-managed public lands.

The combined $4.25 million in start-up funding will be used to begin the construction of bank credits on DNR-managed public lands, which will then be sold to municipalities, agricultural producers, and blueberry farmers. Proceeds from these credit sales will be re-invested in additional wetland mitigation banks to provide an affordable mechanism for municipalities, agricultural producers, and blueberry farmers to achieve compliance with state and federal environmental laws.

Wetland mitigation banking on public lands will provide an affordable alternative for municipalities and agricultural producers in Michigan in need of wetland mitigation. The result of these newly developed mitigation banks on DNR-managed public lands will allow municipalities and agricultural producers to have access to mitigation credits and will make compliance more attainable. In addition, critical wildlife habitat will be constructed on DNR-managed public lands, providing increased recreational opportunities for outdoor enthusiasts.

Background
Wetland mitigation banking is the restoration, creation, or enhancement of wetlands for the purpose of compensating for unavoidable impacts to wetlands at another location. Producers can buy credits from wetland mitigation banks to compensate for the impact of lost wetlands. When a mitigation bank is established, the landowner (in the proposed case, DNR) retains ownership and use of the property, while a conservation easement protects the wetlands from degrading activities. The size and scope of the wetland restoration, creation, or enhancement activities determine the quantity of credits available for sale. The price of credits is negotiated. Bank sponsors develop mitigation banks. A bank sponsor (in this case the MMWA in partnership with the QOL Group) is any individual or entity that develops wetlands for use in wetland mitigation banking. The sponsor is responsible for the cost of wetland development, as well as long-term maintenance to ensure that the wetland continues to function as designed in the future. As the credits are sold, they are subtracted from the bank until all of the available credits are purchased. At that time, the mitigation bank closes and no additional credits can be sold from that bank.

Currently, there are 19 approved wetland mitigation banks in Michigan. Within these 19 banks, there are approximately 80 credits available for sale at an average cost of $80,000 per credit. Unfortunately, these limited credits are only available in a small percentage of the state. Based on a preliminary inquiry, the need for hundreds of mitigation credits for both municipal projects and agricultural compliance is imminent. This program is focused on providing affordable mitigation credits for Michigan's municipalities and agricultural community.

Municipalities are required to provide wetland mitigation for public projects related to county drain, road, sewer and water, or other public works affecting regulated wetlands in Michigan. In addition, many agricultural producers are faced with expensive and difficult compliance issues related to Wetland

Conservation Provisions within the 1985 U.S. Farm Bill and subsequent amendments. These producers are no longer eligible for Farm Bill program benefits until the identified wetland loss has been mitigated or restored. Further, these producers are required to pay back any benefits received after the violation, retroactively. Some specialized agricultural producers, such as blueberry farmers, are also in need of more extensive wetland mitigation or restoration credits in order to expand production.

Because of the competitive demand for wetland bank credits from privately-owned mitigation banks, the cost per acre to purchase credits by municipalities can add significant costs to public projects. These additional costs are passed on to Michigan residents. The Michigan agricultural community faces a similar challenge in finding affordable mitigation credits to offset their wetland impact. Finding and developing affordable mitigation bank credits for these users presents unique challenges in a limited and competitive mitigation credit market, which this proposal would address.