

Fiscal Years 2013 and 2014 Issue Papers

February 9, 2012

ISSUE	PAGE
Autism – Coverage of Treatment for Autism Spectrum Disorders through Medicaid and MIChild Programs	1
Capital Outlay Process Reforms	2
Community Colleges – FY 2013 Executive Budget Highlights	4
Education Budgets – Best Practices Overview	8
Education Omnibus Budget	10
Health and Wellness Initiatives	11
Healthy Kids Dental Program	13
Higher Education – FY 2013 Executive Budget Highlights	14
Home Heating Assistance	22
Human Services Child Welfare Improvements	23
Local Government – Incentive Funding for Best Practices	25
Medicaid Physician Primary Care Rates	28
Quality of Life Investments	29
School Aid Highlights	30
Seniors and Community Placement	35
Tobacco Tax Enforcement	36



STATE BUDGET OFFICE
February 17, 2012

Coverage of Treatment for Autism Spectrum Disorders through Medicaid and MICHild programs

Proposal:

The fiscal year 2013 Executive Recommendation includes \$34.1 million gross, \$10.1 million general fund for the coverage of treatment for Autism Spectrum Disorders (ASDs).

Background Information:

ASDs are a set of neurological developmental disabilities that are manifested through significant social, communication, and behavioral delays. Some evidence shows that if treatment begins at an early age, it can result in significant improvements in many areas.

Based on the severity of a child's diagnosis, treatments range from the more expensive Applied Behavioral Analysis (ABA) to less extensive play therapies. Providing coverage through Medicaid and MICHild will allow parents to access services of varying intensity and expenses based on a child's need. As part of a nationwide recognition that these treatments are effective, many states now require coverage of ASD treatments.

The cost estimates in the fiscal year 2013 Executive Budget reflect an estimate of 2,000 children who are under six years of age, eligible for Medicaid and MICHild, and who would qualify for some type of ASD treatment. While treatments may continue through age 18, the majority of expenses are incurred during a child's early development years.



STATE BUDGET OFFICE
February 9, 2012

Capital Outlay Process Reforms

Proposal:

Governor Snyder's Fiscal Year 2013 Executive Budget Recommendation includes capital outlay process reforms to make future spending decisions more transparent and merit-based. The reforms will assist in strategically aligning capital investments with statewide economic development goals, while streamlining the legislative approval process and updating antiquated statutory requirements.

Highlights of Reforms:

- Three separate legislative authorizations (planning, construction and State Building Authority lease) are consolidated into a legislative appropriation that authorizes construction and the State Building Authority lease, allowing projects to be fully approved by the legislature in a single action.
- In the future, institutions will submit professionally-developed schematic plans as the basis for their capital outlay request, providing decision-makers with more fully-developed information regarding their intended projects.
- To inform decision-making, the State Budget Office recommends criteria and a scoring grid upon which capital outlay requests will be evaluated. The Senate Fiscal Agency, House Fiscal Agency and State Budget Office will jointly score the requests, providing a non-binding, but objective evaluation of each project. The results of the evaluation will be published on the State Budget Office website.
- The scoring criteria will recognize the merits of projects that support statewide economic development goals, focus on core academic and critical skills programs, re-invest or adaptively re-use existing facilities, demonstrate efficient utilization of existing facilities, and support sustainable design.
- The reforms establish in statute long-standing boilerplate language that provides for various state oversight responsibilities for capital projects self-managed by higher education institutions.
- The reforms clarify the awarding of contracts by requiring in statute that construction bids be awarded to the lowest responsive, responsible bidder.
- The recommended statutory amendments also streamline the project authorization, transfer and carry forward requirements for capital projects.

CAPITAL PROJECT REQUEST EVALUATIONS

Scoring Grid / Point Allocations

	1 pt	2 pt	3pt	4pt	5pt
1. Talent / economic development impact					
2. Core academic / research focus					
3. Advancement of STEM, high-demand programs					
4. Re-invest or adaptively re-purpose core campus facilities					
5. Life / safety deficiencies					
6. Utilization of existing facilities					
7. Sustainable design					
8. Institutional support					
9. Single facility request (new or renovation) [DTMB only]					
10. Experience-based compliance [DTMB only]					

1. Talent / economic development impact
2. Core academic / research focus
3. Advancement of STEM, high-demand programs
4. Re-invest or adaptively re-purpose core campus facilities
5. Life / safety deficiencies
6. Utilization of existing facilities
7. Sustainable design
8. Institutional support
9. Single facility request (new or renovation) [DTMB only]
10. Experience-based compliance [DTMB only]

Maximum Points Available

$36 \times 3 = 108 + 2 = 110$ points



STATE BUDGET OFFICE
February 9, 2012

Community Colleges
FY 2013 Executive Budget Highlights

Overview: State appropriations for community colleges receive a 3 percent increase, allocated via a formula that rewards successful outcomes. The growing cost of MPERS retiree health care is also recognized and partially funded.

Formula Funding: Performance-based funding rewards community colleges for successful student completions in critical skills areas (currently defined as science, technology, engineering, mathematics, and health fields). Colleges are allocated funding of \$601 for each associate degree or certificate awarded in critical skills areas, averaged over the previous three years. The total increase in funding is over \$8.5 million in general fund.

For fiscal year 2014, the performance funding is expected to be recalculated and redistributed according to that year's most recent data. Additionally, in fiscal year 2014, the formula will expand beyond completions to also recognize community colleges that successfully transfer their students to four-year colleges and universities.

MPERS Retiree Health Care: Community colleges are members of the Michigan Public School Employees' Retirement System (MPERS). The Governor proposes aiding community colleges by funding a cost increase for health care for retirees of community colleges in the MPERS system. This increase totals \$1.7 million in School Aid Fund.

FY 2013 Community College Critical Skills Area (CSA) Funding Metric Summary

	FY12 Current Law	Metric		Executive Recommendation Change from FY12 Current Law
		3-year Avg. Number of Total CSA Completions, 2009-11	Allocating Funding of \$601.37 Per Completion	
Alpena	\$4,984,300	280.0	\$168,400	\$5,152,700 3.4%
Bay de Noc	\$5,040,200	232.7	\$139,900	\$5,180,100 2.8%
Delta	\$13,336,200	969.7	\$583,100	\$13,919,300 4.4%
Glen Oaks	\$2,320,900	121.0	\$72,800	\$2,393,700 3.1%
Gogebic	\$4,140,500	172.0	\$103,400	\$4,243,900 2.5%
Grand Rapids	\$16,649,700	554.3	\$333,400	\$16,983,100 2.0%
Henry Ford	\$20,145,000	715.3	\$430,200	\$20,575,200 2.1%
Jackson	\$11,219,700	551.3	\$331,600	\$11,551,300 3.0%
Kalamazoo Valley	\$11,522,700	664.0	\$399,300	\$11,922,000 3.5%
Kellogg	\$9,047,900	464.3	\$279,200	\$9,327,100 3.1%
Kirtland	\$2,872,900	258.3	\$155,400	\$3,028,300 5.4%
Lake Michigan	\$4,937,700	166.7	\$100,200	\$5,037,900 2.0%
Lansing	\$28,651,900	1,529.7	\$919,800	\$29,571,700 3.2%
Macomb	\$30,490,300	1,153.7	\$693,800	\$31,184,100 2.3%
Mid Michigan	\$4,266,800	315.7	\$189,800	\$4,456,600 4.4%
Monroe County	\$4,094,000	197.0	\$118,500	\$4,212,500 2.9%
Montcalm	\$2,946,800	171.7	\$103,200	\$3,050,000 3.5%
Mott	\$14,526,400	692.3	\$416,300	\$14,942,700 2.9%
Muskegon	\$8,256,700	258.0	\$155,200	\$8,411,900 1.9%
North Central	\$2,886,500	127.3	\$76,600	\$2,963,100 2.7%
Northwestern	\$8,430,300	186.3	\$112,100	\$8,542,400 1.3%
Oakland	\$19,455,900	796.3	\$478,900	\$19,934,800 2.5%
Schoolcraft	\$11,477,300	930.3	\$559,500	\$12,036,800 4.9%
Southwestern	\$6,143,700	150.3	\$90,400	\$6,234,100 1.5%
St Clair County	\$6,534,100	319.7	\$192,200	\$6,726,300 2.9%
Washtenaw	\$11,827,300	1,647.7	\$990,900	\$12,818,200 8.4%
Wayne County	\$15,425,900	461.3	\$277,400	\$15,703,300 1.8%
West Shore	\$2,248,900	74.7	\$44,900	\$2,293,800 2.0%
	\$283,880,500	14,161.7	\$8,516,400	\$292,396,900 3.0%

Community Colleges Funding Metric: Three-Year Average Number of Completions in Critical Skills Areas (CSA), 2009-11

This chart presents a metric by which to allocate new funding to community colleges. Funding is awarded based on a community college's three-year average number of completions in critical skills areas (currently encompassing STEM and health fields). Awards include all associate's degrees and certificates.*

	FY09			FY10			FY11			3-year Avg. Number of Total CSA Completions, 2009-11	Allocating Funding of \$601.37 Per Completion
	CSA Awards	Total FY09 Awards	CSA %	CSA Awards	Total FY10 Awards	CSA %	CSA Awards	Total FY11 Awards	CSA %		
Alpena	235	404	58.2%	296	497	59.6%	309	459	67.3%	280	\$168,400
Bay de Noc	191	422	45.3%	252	505	49.9%	255	499	51.1%	233	\$139,900
Delta	1,033	2,473	41.8%	951	2,455	38.7%	925	2,741	33.7%	970	\$583,100
Glen Oaks	142	268	53.0%	112	240	46.7%	109	241	45.2%	121	\$72,800
Gogebic	177	293	60.4%	154	255	60.4%	185	284	65.1%	172	\$103,400
Grand Rapids	473	1,603	29.5%	589	1,816	32.4%	601	2,000	30.1%	554	\$333,400
Henry Ford	687	1,519	45.2%	776	1,726	45.0%	683	1,694	40.3%	715	\$430,200
Jackson	488	868	56.2%	561	968	58.0%	605	1,077	56.2%	551	\$331,600
Kalamazoo Valley	671	1,275	52.6%	705	1,342	52.5%	616	1,299	47.4%	664	\$399,300
Kellogg	369	952	38.8%	500	1,118	44.7%	524	1,039	50.4%	464	\$279,200
Kirtland	228	343	66.5%	255	376	67.8%	292	437	66.8%	258	\$155,400
Lake Michigan	149	329	45.3%	155	390	39.7%	196	419	46.8%	167	\$100,200
Lansing	1,495	2,719	55.0%	1,438	2,784	51.7%	1,656	3,224	51.4%	1,530	\$919,800
Macomb	977	3,202	30.5%	1,110	3,402	32.6%	1,374	3,800	36.2%	1,154	\$693,800
Mid Michigan	241	420	57.4%	306	526	58.2%	400	685	58.4%	316	\$189,800
Monroe County	183	532	34.4%	204	544	37.5%	204	596	34.2%	197	\$118,500
Montcalm	188	389	48.3%	143	375	38.1%	184	378	48.7%	172	\$103,200
Mott	540	1,557	34.7%	769	1,830	42.0%	768	1,825	42.1%	692	\$416,300
Muskegon	231	494	46.8%	256	539	47.5%	287	586	49.0%	258	\$155,200
North Central	90	284	31.7%	124	346	35.8%	168	440	38.2%	127	\$76,600
Northwestern	140	475	29.5%	189	618	30.6%	230	705	32.6%	186	\$112,100
Oakland	634	2,030	31.2%	830	2,533	32.8%	925	2,668	34.7%	796	\$478,900
Schoolcraft	1,030	1,956	52.7%	787	1,735	45.4%	974	1,956	49.8%	930	\$559,500
Southwestern	115	240	47.9%	174	332	52.4%	162	330	49.1%	150	\$90,400
St Clair County	285	650	43.8%	332	718	46.2%	342	778	44.0%	320	\$192,200
Washtenaw	1,570	2,417	65.0%	1,556	3,192	48.7%	1,817	3,564	51.0%	1,648	\$990,900
Wayne County	424	1,272	33.3%	503	1,402	35.9%	457	1,522	30.0%	461	\$277,400
West Shore	69	194	35.6%	71	214	33.2%	84	230	36.5%	75	\$44,900
										14,162	\$8,516,400

* Certificates are categorized by IPEDS based on time to completion: under 1 year, between 1 and 2 years, and over 2 years but below a bachelor's degree.

Source: IPEDS

2013 Executive Recommendation - February 9, 2012

2013 Executive Recommendation – CIP Codes Classified as Critical Skills Areas

CIP is the United States Department of Education's educational program classification system. The following CIP 2010 programs and their related numerical codes form the basis for those degrees currently classified as Critical Skills Areas. Bolded and asterisked programs are classified as Critical Skills Areas, currently defined as Science, Technology, Engineering, Mathematics, or Health fields.

***01.00 Agriculture, Agriculture Operations, and Related Sciences**

***03.00 Natural Resources and Conservation**

***04.00 Architecture and Related Services**

05.00 Area, Ethnic, Cultural, Gender, and Group Studies

09.00 Communication, Journalism, and Related Program

***10.00 Communications Technologies/Technicians and Support Services**

***11.00 Computer and Information Sciences and Support Services**

12.00 Personal and Culinary Services

13.00 Education

***14.00 Engineering**

***15.00 Engineering Technologies and Engineering-Related Fields**

16.00 Foreign Languages, Literatures, and Linguistics

19.00 Family and Consumer Sciences/Human Sciences

22.00 Legal Professions and Studies

23.00 English Language & Literature/Letters

24.00 Liberal Arts & Sciences, General Studies and Humanities

25.00 Library Science

***26.00 Biological and Biomedical Sciences**

***27.00 Mathematics and Statistics**

28.00 Military Science, Leadership, and Operational Art

***29.00 Military Technologies and Applied Sciences**

30.00 Multi/Interdisciplinary Studies

31.00 Parks, Recreation, Leisure, & Fitness Studies

32.00 Basic Skills and Developmental/Remedial Education

33.00 Citizenship Activities

34.00 Health-Related Knowledge and Skills

35.00 Interpersonal and Social Skills

36.00 Leisure and Recreational Activities

37.00 Personal Awareness and Self-Improvement

38.00 Philosophy and Religious Studies

39.00 Theology and Religious Vocations

***40.00 Physical Sciences**

***41.00 Science Technologies/Technicians**

42.00 Psychology

43.00 Homeland Security, Law Enforcement, Firefighting and Related Protective Services

44.00 Public Administration and Social Service Professions

45.00 Social Sciences

***46.00 Construction Trades**

***47.00 Mechanic & Repair Technologies/Technicians**

***48.00 Precision Production**

***49.00 Transportation & Materials Moving**

50.00 Visual and Performing Arts

***51.00 Health Professions and Related Programs Sciences**

52.00 Business, Management, Marketing, and Related Support Services

53.00 High School/Secondary Diplomas and Certificates

54.00 History

60.00 Residency Programs



STATE BUDGET OFFICE
February 9, 2012

Education Budgets
Best Practices Overview

School Aid: The Executive Budget recommends funding for districts based on best practices and academic achievement, best practices funding for intermediate districts, and competitive grants to reimburse districts or intermediate districts for consolidation costs.

1. A total of \$190 million is available for **incentive payments to districts** that meet separate performance-based funding and best practices criteria. This proposal will replace the one-time \$154 million best practices funding from fiscal year 2012.
 - **Performance-based funding (\$70 million):** Incentive payments will be made to districts based on the following three criteria:
 - Student proficiency growth in mathematics for grades 3-8
 - Student proficiency growth in reading for grades 3-8
 - Student proficiency growth over a 4-year period in all tested subject areas for high school students
 - **Best practices (\$120 million):** Districts will receive additional funding by meeting at least 5 of the following 6 best practices criteria:
 - The district participates in schools of choice programs
 - The district monitors student academic growth in each subject area at least twice during the school year
 - The district offers dual enrollment, Advanced Placement courses, participates in a middle college, or offers other postsecondary learning opportunities
 - The district offers online instruction or blended learning opportunities
 - The district is the policy holder for health care services benefits
 - The district provides a dashboard to parents and community members
2. An amount equal to 5% of an **intermediate school district's (ISD)** existing state funding will go towards incentive payments for best practices. To receive best practices funding, ISDs must satisfy at least 4 of the following:
 - Adopts a plan to consolidate noninstructional services to reduce operating costs
 - Obtains competitive bids on noninstructional services with a value of at least \$50,000

- Develops a technology plan that integrates technology into the classroom and prepares teachers to use digital technologies as part of an instructional program.
 - Provides to parents and community members a dashboard or report card demonstrating consolidation efforts, teachers trained to use technology, and special education funding and academic goals for individualized programs.
 - Working in consortium with other ISDs, the ISD agrees to develop standard information management system specifications for districts.
3. An amount not to exceed \$10 million for **competitive assistance grants** to districts and intermediate districts to reimburse the transition costs associated with the consolidation of operations or services between two or more districts or the consolidation of districts or intermediate districts.

Community Colleges: Performance-based funding rewards community colleges for successful student completions in critical skills areas (science, technology, engineering, mathematics, and health). Colleges are allocated funding of \$601 for each associate degree or certificate awarded in critical skills areas, averaged over the previous three years. The total increase in funding is \$8,516,400 (3% increase).

Higher Education: A total of \$36,217,000 (3% increase) is available for performance-based funding. To be eligible for new performance-based funding, public universities must participate in the Michigan Transfer Network, a set of agreements and tools to aid in student transfers among Michigan institutions. Eligible public universities will be rewarded with funding based on four factors:

- The three year average growth in the number of undergraduate completions.
- The three year average number of undergraduate completions in critical skills areas.
- The three year average number of undergraduates receiving a Pell Grant.
- Compliance with tuition restraint, with the cap set at 4%. Eligible universities that enact a smaller increase will receive a larger payment.

Additionally, **private colleges and universities** will be asked to comply with best practices to remain eligible to receive Tuition Grant funding:

- Reporting P-20 longitudinal data to the Center for Educational Performance and Information.
- Reporting the number of students that received a Tuition Grant and completed a program.
- Reporting the number of students that received a Tuition Grant and required remedial education.
- Reporting the number of students that received a Pell Grant and completed a program.



STATE BUDGET OFFICE

EDUCATION OMNIBUS BUDGET EXECUTIVE BUDGET FISCAL YEAR 2013 AND 2014

Presented February 9, 2012

For the 2nd straight year, the Governor proposes one budget for all other areas of government and one for education. The Education Omnibus supports the state's education system at all levels from preschool to higher education. The Executive Budget for education totals \$14.4 billion - \$12.7 billion in funding for public schools, \$294.1 million for community colleges, and \$1.4 billion for higher education.

Highlights of the Education Omnibus Budget Bill

- Ongoing funding for school aid is up by \$306.9 million in 2013, ongoing funding for community colleges is increased by \$10.3 million, and ongoing funding for higher education is increased by \$37.7 million.
- Best practices funding has remained a priority in education as the Executive Budget includes best practices and performance-based funding for districts, best practices for intermediate school districts, competitive assistance grants for consolidation efforts for districts and intermediates school districts, performance-based funding for community colleges and universities, and best practices for private colleges and universities.
- The \$155 million one-time funding in the fiscal year 2012 School Aid budget for the Michigan Public School Employees' Retirement System (MPERS) retirement costs has been built into the base with ongoing funding. In addition, the Executive Budget proposes an increase in the MPERS payments to districts, community colleges, and universities to help defray the increased retiree healthcare costs.

FY2013 Education Omnibus Budget Summary of Appropriations (in millions)

Revenue Sources	K-12 School Aid	Community Colleges	Higher Education	Total
School Aid Fund Revenue	10,786.0	197.6	200.4	11,184.0
General Fund	200.0	96.5	1,102.4	1,398.9
Other State Restricted	0.0	0.0	0.1	0.1
Federal Funds	<u>1,701.0</u>	<u>0.0</u>	<u>97.1</u>	<u>1,798.1</u>
Total Appropriations	\$12,687.0	\$294.1	\$1,400.0	\$14,381.1



STATE BUDGET OFFICE
February 9, 2012

Health and Wellness Initiatives

Proposal:

The fiscal year 2013 Executive Recommendation includes \$6 million general fund to expand the Department of Community Health's efforts in the area of health promotion, with a strong focus on the problems of obesity and infant mortality. In FY 2013, \$5 million of this new funding is one-time; ongoing base funding is \$1 million.

Background Information:

Governor Snyder's September 2011 Health and Wellness Message stressed the importance of building a healthier Michigan. Obesity is a significant contributor to diabetes, heart disease and other medical conditions. In Michigan, nearly \$3 billion in annual medical costs are attributed to obesity.

The fiscal year 2013 proposal provides additional funding to support the Governor's objectives in the areas of obesity prevention and infant mortality. The Department currently has base funding of \$5 million in state restricted Healthy Michigan Funds. These funds are used for a variety of public health initiatives, including smoking prevention, cardiovascular health and the Michigan Care Improvement Registry (MCIR).

The Michigan 4 x 4 Plan, with its focus on healthy behaviors and key health measures, will be used to engage local coalitions throughout the state. Communities, employers, providers, non-profit agencies and residents are developing innovative programs to promote health and wellness. These community-based collaborations will be the key to making Michigan a leader in the national wellness movement.

Although infant mortality rates have been decreasing nationwide, the rates in Michigan have increased over the last three years. The Department of Community Health will work with stakeholders to develop targeted community-based approaches that address the problem of infant mortality and teenage pregnancy.

The Department will also seek federal innovation grants and private foundation support to assist in these health and wellness activities.

A fiscal year 2013 spending plan is attached.

MICHIGAN DEPARTMENT OF COMMUNITY HEALTH
 FY 13 Health and Wellness Initiatives Spending Plan

Program Area:	FY 12 Current Law	FY 12 one time GF boilerplate Appropriation (not in Part 1)
Michigan Care Improvement Registry (MCIR)	\$2,098,800	
Cancer		\$900,000
Obesity		
Cardiovascular Disease	\$670,000	
Diabetes		\$600,000
School Health		\$350,000
Health Disparities		\$250,000
4 X 4 Wellness		
Infant Mortality		
Health Disparities	\$250,000	
Pregnancy Prevention		\$900,000
Smoking Prevention	\$1,830,000	
Maternal and Infant Health		
Local Health Dept. Accreditation	\$151,200	
Totals	\$5,000,000	\$3,000,000

Healthy Michigan Fund 5,000,000 0 0
 General Fund 0 3,000,000

EXECUTIVE BUDGET FY 13 base appropriation	EXECUTIVE BUDGET FY 13 on-going appropriation	EXECUTIVE BUDGET FY 13 one-time GF boilerplate appropriation (not in Part 1)	EXECUTIVE BUDGET FY 13 Health and Wellness Initiatives Total
\$2,098,800			\$2,098,800
		\$900,000	\$900,000
			\$4,120,000
\$670,000			\$670,000
		\$600,000	\$600,000
		\$350,000	\$350,000
		\$250,000	\$250,000
	\$1,000,000	\$1,250,000	\$2,250,000
			\$3,876,600
\$250,000			\$250,000
\$1,830,000		\$900,000	\$900,000
	\$146,600	\$750,000	\$1,830,000
			\$896,600
\$151,200			\$151,200
\$5,000,000	\$1,146,600	\$5,000,000	\$11,146,600

5,000,000 146,600 0 5,146,600
 0 1,000,000 5,000,000 6,000,000



STATE BUDGET OFFICE
February 9, 2012

Expansion of Healthy Kids Dental Program

Proposal:

The fiscal year 2013 Executive Recommendation provides funds for a phased-in statewide expansion of the Healthy Kids Dental Program. The Executive Recommendation expands the program by 25 percent in fiscal year 2013 and another 25 percent in fiscal year 2014 at a cost of \$25 million gross (\$8.4 general fund) each year. The intent is to provide coverage for all Medicaid children by 2016.

Background Information:

Currently, Healthy Kids Dental is available in 65 of Michigan's 83 counties. The Department of Community Health contracts with Delta Dental to administer the program, which in turn provides access to dentists in the Delta Dental service network. The program currently serves approximately 350,000 children. With the 25 percent phase-in, roughly 180,000 additional children will be enrolled each year.

Children in the Healthy Kids Dental program have significantly better access to dentists and dental services than those who are served in the Medicaid fee for service program. Evidence indicates that access to quality oral health services leads to better overall health.



STATE BUDGET OFFICE
February 9, 2012

Higher Education
FY 2013 Executive Budget Highlights

Overview: State appropriations for state universities receive a 3 percent increase, allocated via a formula that rewards successful outcomes and tuition and fees restraint. For student financial aid, changes are made to reflect growth rates, and best practices are recommended for private institutions participating in state financial aid programs. In addition, the growing cost of MPERS retiree health care is recognized for member universities, and a state commitment to the Facility for Rare Isotope Beams at Michigan State University is also funded.

Funding Formula: A total of \$36.2 million in general fund for new performance-based funding is proposed. To be eligible for this funding, public universities must participate in the Michigan Transfer Network, a set of agreements and tools to aid in student transfers among Michigan institutions. Eligible public universities will be rewarded with funding based on four equally-weighted factors:

- The three year average growth in the number of undergraduate completions. Universities will receive \$17,192 for each additional average degree.
- The three year average number of undergraduate completions in critical skills areas (currently defined as science, technology, engineering, mathematics, and health fields). Universities will receive \$685 per average degree in these fields.
- The three year average number of undergraduates receiving a Pell Grant. Universities will receive \$155 for each such student.
- Compliance with tuition restraint, with the cap set at 4 percent. Eligible universities that enact a smaller increase will receive a larger payment. Allocations will not be known until all universities submit their academic year 2012-13 tuition and fees rates later this year.

For fiscal year 2014, the performance funding is expected to be recalculated and redistributed according to that year's most recent data. Additionally, in fiscal year 2014, the formula will reward universities not for the number of Pell Grant recipients, but for the number of Pell Grant recipients who graduate.

Private Best Practices: For greater transparency, private colleges and universities will be asked to comply with best practices to remain eligible to receive Tuition Grant funding:

- Reporting P-20 longitudinal data to the Center for Educational Performance and Information.
- Reporting the number of students that received a Tuition Grant and completed a program.
- Reporting the number of students that received a Tuition Grant and required remedial education.

- Reporting the number of students that received a Pell Grant and completed a program.

Student Financial Aid Growth: A total of \$98.2 million is recommended for student financial aid. This is a reduction of \$1.3 million from fiscal year 2012 levels, attributable to the elimination of the federal LEAP program (\$1.5 million) and Robert C. Byrd Scholarship program (\$1.5 million), and the receipt of a new \$1.7 million GEAR-UP College Day award.

One million dollars from the Michigan Tuition Grant program and one million dollars from the Tuition Incentive Program are transferred to the State Competitive Scholarships program to reflect changes in growth rates, all in federal funds. This is not projected to lower the Tuition Grant award amount (\$1,512), nor deny any qualified students from receiving a Tuition Grant or a Tuition Incentive Program award.

MPSERS Retiree Health Care: Seven universities are participants in the Michigan Public School Employees' Retirement System (MPERS). The Governor proposes aiding these universities by funding a cost increase for retiree health care. This increase totals \$446,200 in School Aid Fund.

Facility for Rare Isotope Beams: The Governor recommends funding of \$2.3 million, all general fund, for the community cost share of the Facility for Rare Isotope Beams at Michigan State University.

Michigan College Access Network: The Department of Education budget contains a recommendation for an additional \$2 million to support the college access efforts of the Michigan College Access Network. This work was previously supported by a federal College Access Challenge Grant.

**Summary of Proposed Metrics
FY 2013 University Funding Formula**

3% Increase From FY 2012 in Operations Funding

	Metric 1		Metric 2		Metric 3		Metric 4		FY 2013 Executive Recommendation*		
	3-year Avg. Growth in Annual Degree Completions, FY09-11	25% Funding of \$17,191.61 Per Completion	3-year Avg. Number of Critical Skills Area Degree Completions, FY09-11	25% Funding of \$684.97 Per Completion	3-year Avg. Number of Grant Students, FY08-10	25% Funding of \$154.61 Per Student	25% Tuition Restraint - To Be Allocated Based on Increase From FY12	Grand Total for FY 2013, Incl. Metrics 1-3, Excl. Metric 4	Formula Subtotal	Percentage Change From FY12	
Central	78.0	\$1,340,946	620.0	\$424,681	5,214.0	\$806,137		\$70,680,700	\$2,571,800	3.8%	
Eastern	11.7	\$200,569	597.7	\$409,384	5,752.3	\$889,368		\$66,118,400	\$1,499,300	2.3%	
Ferris	69.3	\$1,191,952	1,070.7	\$733,375	4,249.0	\$656,938		\$43,906,600	\$2,582,300	6.2%	
Grand Valley	145.0	\$2,492,783	1,065.0	\$729,493	5,005.0	\$773,823		\$56,673,500	\$3,996,100	7.6%	
Lake Superior	0.0	\$0	165.3	\$113,248	866.3	\$133,944		\$11,036,700	\$247,200	2.3%	
Michigan State	25.7	\$441,251	2,511.0	\$1,719,960	7,351.0	\$1,136,538		\$244,418,600	\$3,297,800	1.4%	
Michigan Tech	0.0	\$0	893.2	\$611,792	1,233.3	\$190,686		\$41,536,100	\$802,500	2.0%	
Northern	33.7	\$578,784	406.7	\$278,554	2,813.0	\$434,918	\$9,054,250	\$39,659,700	\$1,292,300	3.4%	
Oakland	34.7	\$595,976	789.0	\$540,441	2,996.0	\$463,212		\$44,744,600	\$1,599,600	3.7%	
Saginaw Valley	29.3	\$504,287	329.0	\$225,355	2,531.3	\$391,369		\$24,682,500	\$1,121,000	4.8%	
UM-Ann Arbor	98.3	\$1,690,508	2,438.3	\$1,670,185	3,437.3	\$531,446		\$272,695,500	\$3,892,200	1.4%	
UM-Dearborn	0.0	\$0	333.7	\$228,552	2,218.3	\$342,977		\$21,587,800	\$571,500	2.7%	
UM-Flint	1.0	\$17,192	321.3	\$220,104	2,142.0	\$331,175		\$18,330,900	\$568,500	3.2%	
Wayne State	0.0	\$0	708.0	\$484,959	7,744.7	\$1,197,403		\$183,719,300	\$1,682,400	0.9%	
Western	0.0	\$0	969.7	\$664,193	5,006.3	\$774,029		\$94,606,500	\$1,438,200	1.5%	
	526.7	\$9,054,248	13,218.5	\$9,054,276	58,560.0	\$9,053,962		\$1,234,397,400	\$27,162,700		

* These amounts do not include the 25% of the formula set aside for the tuition restraint incentive, which will be allocated separately once universities have finalized their FY13 tuition actions.

Metric 1: Growth In Undergraduate Degree Completions (Three Year Average of FY09-FY11 Yearly Change in Number of Degrees)

	FY 2008		FY 2009		FY 2010		FY 2011		3-year Average Change in Degrees, FY09-FY11	Replacing Negatives With Zero	Funding at \$17,191.61 per Completion
	Degrees	Degrees	Degrees	Change From Previous Year	Degrees	Change From Previous Year	Degrees	Change From Previous Year			
Central	3,483	3,571	88	2.5%	3,702	131	3.7%	3,717	15	0.4%	\$1,340,946
Eastern	2,963	2,944	(19)	-0.6%	3,001	57	1.9%	2,998	(3)	-0.1%	\$200,569
Ferris	2,750	2,762	12	0.4%	2,810	48	1.7%	2,958	148	5.3%	\$1,191,952
Grand Valley	3,623	3,710	87	2.4%	3,928	218	5.9%	4,058	130	3.3%	\$2,492,783
Lake Superior	565	514	(51)	-9.0%	491	(23)	-4.5%	564	73	14.9%	\$0
Michigan State	7,941	7,793	(148)	-1.9%	8,223	430	5.5%	8,018	(205)	-2.5%	\$441,251
Michigan Tech	1,166	1,096	(70)	-6.0%	1,155	59	5.4%	1,029	(126)	-10.9%	\$0
Northern	1,330	1,349	19	1.4%	1,381	32	2.4%	1,431	50	3.6%	\$578,784
Oakland	2,241	2,226	(15)	-0.7%	2,378	152	6.8%	2,345	(33)	-1.4%	\$595,976
Saginaw Valley	1,159	1,120	(39)	-3.4%	1,137	17	1.5%	1,247	110	9.7%	\$504,287
UM-Ann Arbor	6,258	6,473	215	3.4%	6,457	(16)	-0.2%	6,553	96	1.5%	\$1,690,508
UM-Dearborn	1,147	1,139	(8)	-0.7%	1,156	17	1.5%	1,137	(19)	-1.6%	\$0
UM-Flint	915	903	(12)	-1.3%	965	62	6.9%	918	(47)	-4.9%	\$17,192
Wayne State	2,781	2,635	(146)	-5.2%	2,489	(146)	-5.5%	2,642	153	6.1%	\$0
Western	4,046	3,969	(77)	-1.9%	3,820	(149)	-3.8%	3,835	15	0.4%	\$0
	42,368	42,204			43,093			43,450			\$9,054,248
									361	527	

Associate and Bachelor's degrees are included. No certificates are included.

Source: HEIDI/IPEDS (adjusted CMU data from HEIDI)

2013 Executive Recommendation - February 9, 2012

Metric 2: Average Number of Undergraduate Degree Completions in Critical Skills Areas, 2009-11

	FY 2009			FY 2010			FY 2011			3-year Average Number of Total Critical Skill Area Completions, 2009-11	Funding at \$684.97 per Completion
	0.5 Associate	1.0 Bachelor's		0.5 Associate	1.0 Bachelor's		0.5 Associate	1.0 Bachelor's			
		Total	Total		Total	Total		Total	Total		
Central	0	567	567	0	622	622	0	671	671	620.0	\$424,681
Eastern	0	565	565	0	566	566	0	662	662	597.7	\$409,384
Ferris	306	725	1,031	282	758	1,040	265	877	1,142	1,070.7	\$733,375
Grand Valley	0	994	994	0	1,094	1,094	0	1,107	1,107	1,065.0	\$729,493
Lake Superior	15	152	167	18	127	145	16	169	185	165.3	\$113,248
Michigan State	0	2,334	2,334	0	2,632	2,632	0	2,567	2,567	2,511.0	\$1,719,960
Michigan Tech	11	866	877	2	953	955	1	847	848	893.2	\$611,792
Northern	37	342	379	47	351	398	61	383	444	406.7	\$278,554
Oakland	0	674	674	0	798	798	0	895	895	789.0	\$540,441
Saginaw Valley	0	302	302	0	319	319	0	366	366	329.0	\$225,355
UM-Ann Arbor	0	2,247	2,247	0	2,481	2,481	0	2,587	2,587	2,438.3	\$1,670,185
UM-Dearborn	0	352	352	0	317	317	0	332	332	333.7	\$228,552
UM-Flint	0	301	301	0	326	326	0	337	337	321.3	\$220,104
Wayne State	0	761	761	0	671	671	0	692	692	708.0	\$484,959
Western	0	954	954	0	972	972	0	983	983	969.7	\$664,193
										13,218.5	\$9,054,276

Currently, Critical Skills Areas (CSA) are those areas identified as a STEM or health field. Degrees are sorted by US Dept. of Education Classification of Instructional Programs (CIP Code).

Associate degrees have been weighted as 0.5 of a bachelor's degree (i.e., MTU actually produced 22 associate degrees in CSA in FY09.) Source for degrees granted: IPEDS via HEIDI

2013 Executive Recommendation - February 9, 2012

Metric 3: 3-year Average Number of All Undergraduate Students Receiving Pell Grants, FY08-10

	FY 2008	FY 2009	FY 2010	3-year Average Number of Pell Students	Funding at \$154.61 per student
Central	4,842	4,583	6,217	5,214.0	\$806,137
Eastern	5,573	5,072	6,612	5,752.3	\$889,368
Ferris	4,455	3,610	4,682	4,249.0	\$656,938
Grand Valley	4,367	4,556	6,092	5,005.0	\$773,823
Lake Superior	831	849	919	866.3	\$133,944
Michigan State	6,793	6,837	8,423	7,351.0	\$1,136,538
Michigan Tech	1,123	1,150	1,427	1,233.3	\$190,686
Northern	2,860	2,508	3,071	2,813.0	\$434,918
Oakland	2,893	2,520	3,575	2,996.0	\$463,212
Saginaw Valley	2,260	2,274	3,060	2,531.3	\$391,369
UM-Ann Arbor	3,302	3,078	3,932	3,437.3	\$531,446
UM-Dearborn	2,006	2,149	2,500	2,218.3	\$342,977
UM-Flint	2,118	1,650	2,658	2,142.0	\$331,175
Wayne State	7,058	7,145	9,031	7,744.7	\$1,197,403
Western	4,331	4,598	6,090	5,006.3	\$774,029
	54,812	52,579	68,289	58,560.0	\$9,053,962

Source: IPEDS

2013 Executive Recommendation - February 9, 2012

Metric 4: Tuition Restraint Based on Percentage Increase in Resident Undergraduate Tuition

Tuition Restraint Calculation, Based on Distance From FY 2012 Cap of 7.1%						
	FY 2012 Amount	FY 2012 % Inc.	FY 2012 Diff. From 7.2%*	Eliminating Universities Above 7.1%	Percent of Total Funding	Allocation
Central	\$10,740	6.7%	0.5%	0.5%	5.3%	\$482,693
Eastern	8,705	3.6%	3.6%	3.6%	38.4%	\$3,475,847
Ferris	10,440	5.1%	2.1%	2.1%	22.3%	\$2,018,473
Grand Valley	9,958	6.9%	0.3%	0.3%	3.1%	\$280,380
Lake Superior	9,395	6.8%	0.4%	0.4%	4.1%	\$369,787
Michigan State	12,769	9.4%	-2.2%	0.0%	0.0%	\$0
Michigan Tech	13,911	6.9%	0.3%	0.3%	2.7%	\$248,138
Northern	8,470	9.6%	-2.4%	0.0%	0.0%	\$0
Oakland	10,399	7.0%	0.2%	0.2%	2.0%	\$176,653
Saginaw Valley	7,815	6.9%	0.3%	0.3%	2.8%	\$256,604
UM-Ann Arbor	13,437	6.7%	0.5%	0.5%	5.1%	\$462,205
UM-Dearborn	10,236	6.9%	0.3%	0.3%	3.3%	\$299,020
UM-Flint	9,242	6.8%	0.4%	0.4%	4.7%	\$421,762
Wayne State	10,578	8.7%	-1.5%	0.0%	0.0%	\$0
Western	10,140	6.6%	0.6%	0.6%	6.2%	\$562,689
	\$10,416	104.9%		9.3%	100.0%	\$9,054,250

* The difference is capped at 7.2%, rather than the FY 2012 cap of 7.1%, to ensure that funding flows to all universities that held tuition increases at or below the cap of 7.1%.

Source: HEIDI data

Definition/Notes:

- 1) Rates are for resident undergraduates, based on a full-time course load of 30 credit hours per year.
- 2) Fees not paid by a majority of students (such as course fees) are not included.
- 3) Tuition amounts are based on fall and winter semesters only. A tuition action taken in the summer semester, therefore, will not appear in the data until the following fall semester.
- 4) Tuition amounts are based on actual charges and are net of rebates.

2013 Executive Recommendation – CIP Codes Classified as Critical Skills Areas

CIP is the United States Department of Education's educational program classification system. The following CIP 2010 programs and their related numerical codes form the basis for those degrees currently classified as Critical Skills Areas. Bolded and asterisked programs are classified as Critical Skills Areas, currently defined as Science, Technology, Engineering, Mathematics, or Health fields.

- *01.00 Agriculture, Agriculture Operations, and Related Sciences**
- *03.00 Natural Resources and Conservation**
- *04.00 Architecture and Related Services**
- 05.00 Area, Ethnic, Cultural, Gender, and Group Studies
- 09.00 Communication, Journalism, and Related Program
- *10.00 Communications Technologies/Technicians and Support Services**
- *11.00 Computer and Information Sciences and Support Services**
- 12.00 Personal and Culinary Services
- 13.00 Education
- *14.00 Engineering**
- *15.00 Engineering Technologies and Engineering-Related Fields**
- 16.00 Foreign Languages, Literatures, and Linguistics
- 19.00 Family and Consumer Sciences/Human Sciences
- 22.00 Legal Professions and Studies
- 23.00 English Language & Literature/Letters
- 24.00 Liberal Arts & Sciences, General Studies and Humanities
- 25.00 Library Science
- *26.00 Biological and Biomedical Sciences**
- *27.00 Mathematics and Statistics**
- 28.00 Military Science, Leadership, and Operational Art
- *29.00 Military Technologies and Applied Sciences**
- 30.00 Multi/Interdisciplinary Studies
- 31.00 Parks, Recreation, Leisure, & Fitness Studies
- 32.00 Basic Skills and Developmental/Remedial Education
- 33.00 Citizenship Activities
- 34.00 Health-Related Knowledge and Skills
- 35.00 Interpersonal and Social Skills
- 36.00 Leisure and Recreational Activities
- 37.00 Personal Awareness and Self-Improvement
- 38.00 Philosophy and Religious Studies
- 39.00 Theology and Religious Vocations
- *40.00 Physical Sciences**
- *41.00 Science Technologies/Technicians**
- 42.00 Psychology
- 43.00 Homeland Security, Law Enforcement, Firefighting and Related Protective Services
- 44.00 Public Administration and Social Service Professions
- 45.00 Social Sciences
- *46.00 Construction Trades**
- *47.00 Mechanic & Repair Technologies/Technicians**
- *48.00 Precision Production**
- *49.00 Transportation & Materials Moving**
- 50.00 Visual and Performing Arts
- *51.00 Health Professions and Related Programs Sciences**
- 52.00 Business, Management, Marketing, and Related Support Services
- 53.00 High School/Secondary Diplomas and Certificates
- 54.00 History
- 60.00 Residency Programs



STATE BUDGET OFFICE

February 9, 2012

Home Heating Assistance for the Vulnerable Program

Proposal:

The Executive Budget Recommendation establishes the Home Heating Assistance for the Vulnerable (HHAV) program within the Public Service Commission (PSC) as a permanent source of funding for home heating assistance for the poor. Under a funding structure based on the rates of both state-regulated and non-regulated electric and natural gas utilities, the HHAV will provide \$60 million in annual home-heating assistance to ensure that vulnerable households across Michigan have heat during the cold weather months.

Background Information:

From fiscal year 2001 through fiscal year 2011, the Low-Income Energy Efficiency Fund (LIEEF) program supported three functions: 1) emergency energy shutoff protection for low-income customers; 2) energy conservation and efficiency projects for low-income customers; and 3) energy efficiency programs benefitting all customer groups. Although the LIEEF was initially funded through utility securitization savings, PSC Orders ultimately instituted program funding through utility rates paid by customers of Detroit Edison Company, Consumers Energy, and Michigan Consolidated Gas Company. As of fiscal year 2011, the LIEEF collected nearly \$90 million in annual revenue.

In July 2011, the Michigan Court of Appeals ruled that the administration of the LIEEF fell outside the statutory powers of the PSC, thereby precluding the PSC from providing LIEEF assistance. In response to this ruling, the legislature enacted a one-time supplemental appropriation of \$10 million general fund and \$48 million in new Vulnerable Household Warmth Funds. Separate legislation authorized the PSC to collect revenues from utility rates for the remainder of fiscal year 2012. This action preserved utility shutoff protection for vulnerable households during the 2011-2012 home-heating season only.

Long-Term Solution for Home Heating Assistance:

Without a permanent source of state funding for home heating assistance, thousands of Michigan families will be shut off from their household heat source during the winter. The \$60 million proposed for the HHAV program targets home heating assistance—funds will not be used to support the two energy efficiency components of the former LIEEF. The PSC will administer the program and competitively award funds to organizations that are best able to provide home heating assistance to vulnerable families across the state.



STATE BUDGET OFFICE
February 9, 2012

Human Services
Child Welfare Improvements

Proposal:

Child welfare improvements continue to be a priority for fiscal year 2013. The Executive Recommendation invests over \$942 million gross (\$359 million general fund) in Michigan's child welfare system. These funds support programs that provide supervision and care for children, while working to support their families, or when necessary, find other permanent placements.

Recommendation Highlights

The Executive Recommendation for child welfare improvements includes the following initiatives:

Foster Care Payment Daily Rate Increase: This proposal increases the rate paid to foster parents and adoptive parents by \$3 per day (\$11.3 million gross, \$6.3 million general fund). These funds provide basic living expenses for children in foster care and children who have been adopted, and encourage and support permanent placements. The last daily rate increase occurred in 2003. Consequentially, the current rate is below the USDA Midwest Area standards for costs associated with raising a child. The proposed rate increase will equate to \$19.83 per day for children ages 0-12; \$24.78 per day for children ages 13-17; and \$21.27 for children with independent living status.

Mobile Worker Initiative: This proposal provides smart phones and laptops for child welfare, licensing and Inspector General staff to support working from remote locations and from home, maximizing the time for direct interaction with clients. Smart phones also provide a safety feature using push-button distress calls and a GPS locator. This initiative is funded using \$935,000 in administrative savings.

Statewide Automated Child Welfare Information System (SACWIS): This proposal adds \$9.1 million gross (\$4.6 million general fund) for SACWIS project development in the Department of Technology, Management, and Budget recommendation (DTMB). The addition builds on \$14 million gross (\$7 million general fund) already allocated for this project, and will fully fund its completion. The SACWIS project is part of the Children's Rights Initiative settlement agreement.

Michigan Youth Opportunity Initiative: This proposal combines staff and programs to focus resources on transitioning youth from the child welfare system to adult independence and employment. The initiative is supported with redirected funds totaling \$1.9 million gross (\$878,000 general fund).

Other Child Welfare Improvements: In addition to sustained investments from fiscal year 2012 the Executive Recommendation includes \$2.5 million gross (TANF) to support parent partners and supported visitation programs. These programs support family reunification by providing peer mentors to birthparents and home-based parent education.

Background Information:

In July 2008, the state reached an agreement with the Children's Rights Initiative, settling a federal lawsuit over Michigan's child welfare system. The terms of the agreement included a variety of measures to improve outcomes for vulnerable children. With the addition new funding in 2013, that state has invested \$283 million gross (\$191 million general fund) over the past 6 years toward improvements in the child welfare system.

Children's Rights Settlement Funding History -- New Funding Annually
(amounts in thousands)

	2008 Funding	2009 Funding	2010 Funding	2011 Funding	FY2012 Funding	TOTAL NEW FUNDING TO DATE (2008-2012)	FY2013 Executive Recommendation	GRAND TOTAL NEW FUNDING (2008-2013)
1 New Staffing --FTEs	\$22,277.8 276.0	\$25,086.0 377.0	\$25,267.7 152.0	\$47,838.6 684.0	\$29,723.6 0.0	\$150,193.7 1,489.0	\$0.0 0.0	\$150,193.7 \$1,489.0
2 Private Agency Rates	\$4,837.0	\$6,233.6	\$24,042.2	\$7,693.5	\$32,878.7	\$75,685.0	\$0.0	\$75,685.0
3 Caseload Adjustments	\$12,807.0	\$0.0	\$0.0	\$0.0	\$0.0	\$12,807.0	\$0.0	\$12,807.0
4 Information Technology System	\$0.0	\$0.0	\$0.0	\$10,454.0	\$3,577.5	\$14,031.5	\$9105.3*	#VALUE!
5 Monitoring and Settlement Costs	\$0.0	\$8,002.0	(\$1,776.2)	(\$3,700.0)	\$4,000.0	\$6,525.8	\$0.0	\$6,525.8
6 Specialized Mental Health Services	\$0.0	\$0.0	\$1,769.0	\$0.0	\$0.0	\$1,769.0	\$0.0	\$1,769.0
7 New Prevention Programming	\$0.0	\$0.0	\$0.0	\$5,912.4	\$0.0	\$5,912.4	\$0.0	\$5,912.4
8 Expansion in Program Eligibility	\$0.0	\$0.0	\$0.0	\$7,175.7	\$0.0	\$7,175.7	\$0.0	\$7,175.7
GROSS FUNDING	\$39,921.8	\$39,321.6	\$49,302.7	\$75,374.2	\$70,179.8	\$274,100.1	\$0.0	#VALUE!
Federal	\$8,782.7	\$7,833.4	\$19,822.6	\$26,375.1	\$20,477.6	\$83,291.4	\$4,552.7	\$87,844.1
Local	\$0.0	\$0.0	\$3,654.3	\$757.1	\$0.0	\$4,411.4		\$4,411.4
General Fund	\$31,139.1	\$31,488.2	\$25,825.8	\$48,242.0	\$49,702.2	\$186,397.3	\$4,552.6	\$190,949.9

*Funding requested in the Department of Technology, Management, and Budget (DTMB) recommendation.



**STATE BUDGET OFFICE
FEBRUARY 9, 2012**

**Local Government
Incentive Funding for Best Practices**

Proposal

The fiscal year 2013 Executive Budget proposes to strengthen requirements for cities, villages, and townships receiving payments under the Economic Vitality Incentive Program. A similar incentive-based program for counties is recommended to begin in fiscal year 2013, replacing statutory revenue sharing. Additionally, all local units may participate in the Competitive Grant Assistance program. The recommended budget includes a four-fold increase in grant funding to address the influx of requests for help with transition costs associated with mergers, inter-local agreements and other cooperative efforts.

Background

The Governor's March 2011 special message: *Community Development and Local Government Reforms* outlined a series of ideas for transforming government, including replacing former statutory revenue sharing with a new Economic Vitality Incentive Program. In the current year, 486 cities, villages, and townships are eligible to receive financial incentives if they meet specific standards and adopt best practices in one or more of three categories: accountability and transparency, consolidation of services, and employee compensation. For fiscal year 2013, an eligible city, village, or township may again qualify for payments provided it meets the fiscal year 2013 requirements for one or more of the three categories.

For fiscal year 2013, the recommended County Incentive Program replaces statutory revenue sharing. An estimated 61 of Michigan's 83 counties will be eligible to receive financial incentives if they meet specific standards and adopt best practices in one or more of three categories: accountability and transparency, consolidation of services, and employee compensation.

To qualify for a fiscal year 2013 payment for a specific category, an eligible local unit must meet the requirements for that category. The three categories and the requirements are:

Accountability and Transparency

- a citizen's guide of the most recent finances, including recognition of the unfunded liabilities
- a performance dashboard

Local Government Incentive Funding for Best Practices

- a projected budget report, including a minimum 3 years of revenues and expenditures, detailed listing of debt service requirements, and explanation of assumptions used for the projections
- all documents must be available for public viewing and/or posted on a publicly accessible Internet site
- all documents, along with Treasury's certification form, must be submitted to the Department of Treasury
- to receive full funding, the required documentation must be received by October 1, 2012

Consolidation of Services

- for local units that submitted a 2012 consolidation plan, an update on the status of proposals contained in the 2012 consolidation plan, including whether the plan has been fully implemented; a listing of barriers experienced in implementing the plan, and a timeline of steps to accomplish the proposed consolidation plan
- for local units submitting consolidation plans for the first time, a listing of any previous services consolidated with an estimated cost savings amount for each consolidation
- one or more new proposals to increase the existing level of cooperation, collaboration and consolidation either within the jurisdiction or with other jurisdictions, including estimated savings and an implementation timeline
- all documents must be available for public viewing and/or posted on a publicly accessible Internet site
- all documents, along with Treasury's certification form, must be submitted to the Department of Treasury
- to receive full funding, the required documentation must be received by January 1, 2013

Employee Compensation

- for local units that submitted a 2012 employee compensation plan, an updated employee compensation plan, including a report on implementing the previous year's plan and describing barriers in implementing the plan
- for local units submitting an employee compensation plan for the first time, a description of how the local unit will implement the conditions outlined in this category
- a listing of all contracts or employment agreements; contract expiration dates, and dates the contracts were or will be entered into
- contracts and employment agreements entered into after September 30, 2012, must include retirement plans for new hires that cap annual employer contributions; and, for all employees, use maximum multipliers, final average compensation, and hours of accrued leave for pension calculations that are consistent with EVIP specifications
- all documents must be available for public viewing and/or posted on a publicly accessible Internet site

Local Government
Incentive Funding for Best Practices

- all documents, along with Treasury's certification form, must be submitted to the Department of Treasury
- to receive full funding, the required documentation must be received by May 1, 2013

Health Care Benefits (PA 152 of 2011 requirements)

The fiscal year 2013 budget recommendation also requires each city, village, township, and county that is eligible to receive incentive funding for best practices, to certify to the Department of Treasury its compliance with the Publicly Funded Health Insurance Contribution Act (2011 PA 152) or to certify that it does not offer health care benefits to its employees or its public officials. A summary of the conditions are:

- employer contributions are capped at specified dollar amounts, or not more than 80 percent of the total annual costs of all employee medical plans it offers or contributes to
- employer contribution requirements apply to any extension or renewal of collective bargaining agreement or other contract
- certifications must be received by the Department of Treasury by April 1, 2013
- failure to submit the required certification will result in a 10 percent reduction to all payments issued under the incentive funding for best practices

Competitive Grant Assistance Program

Cities, villages, townships, and counties may apply for financial assistance to offset the costs associated with mergers, inter-local agreements, and cooperative efforts. For fiscal year 2012, requests for assistance far exceeded the available funding of \$5 million. For fiscal year 2013, the Governor's proposal includes an increase of \$20 million to support local communities in their consolidation efforts. Deadlines for submission of applications will be determined by the Department of Treasury.



STATE BUDGET OFFICE
February 9, 2012

Increase Medicaid Physician Primary Care Rates

Proposal:

In compliance with a requirement in the Affordable Care Act of 2010, the fiscal year 2013 Executive Recommendation includes \$281.8 million to increase Medicaid primary care physician reimbursement rates up to 100 percent of Medicare levels. The increase is scheduled to begin on January 1, 2013 through December 31, 2014 and is targeted toward primary care, family doctors, and pediatricians. Nurse practitioners, physician assistants and OB/GYNs are excluded from the rate increase. New federal funds are available to finance the enhancement and no additional state funding is proposed.

Background Information:

Currently, Michigan's Medicaid primary care reimbursement rates are significantly lower than Medicare levels. Medicaid only pays 55 percent of Medicare payment levels. This is exceptionally low considering that Medicare only pays 85 percent of physician costs.

As fewer primary care physicians participate in Medicaid due to its reimbursement levels, it becomes difficult for beneficiaries to access routine and preventive care. This reimbursement increase allows Michigan to maintain and expand its primary care network for Medicaid beneficiaries. By promoting physician participation in the Medicaid program, this policy increases access to primary care services and potentially reduces utilization of more costly emergency medical services.



STATE BUDGET OFFICE

February 9, 2012

Quality of Life Investments

Proposal

The Governor's fiscal year 2013 budget reflects an investment of \$20 million in combined restricted and general fund support for the departments of Environmental Quality, Natural Resources, and Agriculture & Rural Development. This investment strengthens the Michigan Agriculture Environmental Assurance Program, focuses on environmentally safe wastewater disposal methods, provides much needed investment in large sewer system improvement projects, and promotes sound conservation and sustainable forest management practices.

- Provides funding to administer a new state loan program intended to provide \$250 million in grants and loans to local governments designed to stimulate critical investment in large sewer improvement projects
- Provides \$10 million of restricted refined petroleum fund for environmental contamination cleanup work at leaking underground storage tank sites
- Includes \$5 million general fund for use as state match to obtain federal grant dollars for the drinking water revolving fund program
- Provides \$2.35 million of general fund support for the repair and removal of problem dams throughout the state, 74 percent of which are privately owned
- Adds \$1.0 million general fund to reach the goal of 5,000 MAEAP (Michigan Agriculture Environmental Assurance Program) farm verifications by 2015
- Includes an additional \$400,000 in general fund support to improve migrant labor housing inspections
- Includes \$500,000 general fund to provide private landowners with assistance in developing sustainable forestry management plans

Background

A key component of the Governor's goal to protect our environment was outlined in his Special Message on Infrastructure. Protecting our natural resources and ensuring a clean environment for future generations remain cornerstones of the Governor's vision for Michigan and are reflected in his budget priorities for fiscal year 2013.



STATE BUDGET OFFICE

SCHOOL AID HIGHLIGHTS
EXECUTIVE BUDGET
FISCAL YEARS 2013 AND 2014

FEBRUARY 9, 2012

FY2013 K-12 School Aid Executive Budget

K-12 Funding (in millions)	<u>FY2013</u>	<u>FY2014</u>
School Aid Fund Revenue	\$ 10,786.0	\$ 10,884.0
General Fund	\$ 200.0	\$ 18.6
Federal Funds	<u>\$ 1,701.0</u>	<u>\$ 1,701.0</u>
Total Appropriations	\$ 12,687.0	\$ 12,603.6
Local Revenue	<u>\$ 3,390.0</u>	<u>\$ 3,410.0</u>
Total State/Local/Federal	\$ 16,077.0	\$ 16,013.6

Consensus Pupils:

- FY2012 – 1,552,800
- FY2013 – 1,542,900, a decrease of 9,900 pupils from FY2012
- FY2014 – 1,536,000, a decrease of 6,900 from FY2013

Basic Operations

- Total funding for the **per-pupil foundation allowance** is \$8.7 billion. Foundation allowances for each district are protected at the same level as FY2012.

Per-Pupil Foundation Allowance History			
	<u>Minimum</u>	<u>Basic</u>	<u>Maximum</u>
FY2012	\$6,846	\$8,019	\$8,019
FY2013	\$6,846	\$8,019	\$8,019
FY2014	\$6,846	\$8,019	\$8,019

- Consistent with current law, beginning in FY2013, **kindergarten FTE** will be determined as other grade-level FTE are calculated – 1,098 hours generate a full FTE. Savings of \$50 million are built into foundation allowance cost estimates from this change.
- The FY2013 budget recognizes the **Education Achievement System**, a statewide school district created to help transform Michigan’s lowest performing schools. The Education Achievement System will receive a per pupil foundation allowance equal to the foundation allowance of the district in which an achievement school is located, as well as other state categorical and federal funds to which other districts are entitled.
- Funding of \$190 million (\$140 million is one-time) is provided for incentive payments to districts that meet separate **performance-based funding** and **best practices** criteria.

Under the **performance-based funding** component (\$70 million), qualifying districts may receive funding for meeting certain academic achievement thresholds determined by the department that are based on growth in individual student scores. The amount of the incentive payment would be determined based on three criteria:

- Proficiency growth in mathematics for grades 3 to 8.
- Proficiency growth in reading for grades 3 to 8.
- Proficiency growth over a 4-year period in all subject areas for high school students (mathematics, reading, science, social studies and writing).

Funds remaining after performance-based payments are calculated will be distributed to districts that meet **best practices** (\$120 million), where districts will be required to meet 5 of the following 6 criteria in order to be eligible for best practices funding:

1. Districts participate in schools of choice programs.
 2. Districts monitor student growth at least twice annually and report the results to parents.
 3. Districts offer dual enrollment and other opportunities for postsecondary coursework.
 4. Districts offer online learning opportunities.
 5. Districts are the policy holder for health care services benefits.
 6. Districts provide a dashboard to parents and members of the community.
- A total of \$10 million in one-time **competitive assistance grants** is available to help defray the transition costs associated with the consolidation of operations or services between two or more districts or the consolidation of districts or intermediate districts.
 - **ISD Operations** funding remains at \$62.1 million; however, 5% (\$3.1 million) of each ISDs allocation is tied to meeting 4 of 5 best practices criteria.
 1. ISD enters into agreement with the department to develop a service consolidation plan.
 2. ISDs work in a consortium to develop system requirements and detailed specifications for end-to-end IT solutions that could be leveraged statewide for student management systems for general and special education and business services.
 3. ISD agrees to develop a plan in FY2013 to be implemented by constituent districts in FY2014 to integrate technology into the classroom and prepare teachers to use digital technology.
 4. ISDs obtain competitive bids on the provision of pupil transportation, food service, custodial or other noninstructional services provided to constituent districts of at least \$50,000.
 5. ISDs create and host a “citizens” dashboard.

MPERS Retirement Rates for FY2012, FY2013 and FY2014

	FY 2012		FY 2013		FY 2014 (Prelim.)	
	Employed Prior to 7/1/2010	Employed After 7/1/2010	Employed Prior to 7/1/2010	Employed After 7/1/2010	Employed Prior to 7/1/2010	Employed After 7/1/2010
Pension Normal Cost	3.74%	2.24%	3.47%	2.24%	3.94%	2.67%
Pension Unfunded Accrued Liability (UAL)	12.49%	12.49%	12.49%	12.49%	15.86%	15.86%
Retirement Incentive (5-yr. payback)			2.66%	2.66%	2.66%	2.66%
Pension Total Rate	15.96%	14.73%	18.62%	17.39%	22.46%	21.19%
Retiree Health (Cash Basis)	5.50%	5.50%	5.75%	5.75%	5.75%	5.75%
Surcharge due to Injunction	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Health Total Rate	8.50%	8.50%	8.75%	8.75%	8.75%	8.75%
Total Rate	24.46%	23.23%	27.37%	26.14%	31.21%	29.94%
Rate Increase			2.91%	2.91%	3.84%	3.80%

- The FY2013 budget builds the FY2012 one-time funding of \$155 million for the Michigan Public School Employees' Retirement System (MPERS) retirement costs into the base as an ongoing payment. An additional \$24 million will be used to help defray the estimated increased cost of retiree health care of 0.25% in FY2013. Both of these payments will be made in a separate categorical to help districts meet their retirement obligations, with districts receiving an average of \$100 per pupil. The rate increase attributable to the 2010 early retirement incentive is 2.66% in FY2013. Based on payroll data, districts saved an estimated average of \$330 per pupil in FY2011 due to early retirement; however, because districts were impacted differently, the savings varied by district.

Other Innovations

- The role of the Michigan Virtual University is redefined with the creation of the Center for Online Learning, Research, and Innovation, which will serve as a statewide leader in online learning. In FY2013, MVU will conduct a pilot program for online learning, where funding will be based on student performance rather than on instructional seat time. Funding remains at FY2012 level of \$4.4 million; however, \$2.7 million in federal funds are replaced with state funds.
- The FY2013 budget includes new funding of \$1.75 million for statewide **training programs for building principals on conducting educator evaluations** in a fair and consistent manner.

Other Education Instructional Programs

- The FY2013 budget provides for \$1.4 billion for **special education services**: \$990.3 million in state funds (an increase of \$12.8 million from FY2012 enacted levels) and \$439.0 million in federal funds).
- The Executive Budget for the Department of Education includes \$209.2 million (\$41.2 million general fund) for early childhood programs within the **Michigan Office of Great Start**. Total funding for Great Start programs in School Aid is maintained at the current year level of \$115.5 million.

- The funding for **Great Start Readiness** programs is maintained at \$104.3 million (School-based: \$95.4 M; Competitive: \$8.9 M), sufficient to fund over 30,000 slots at the **per-child allotment of \$3,400**. Funding for the longitudinal study is maintained at \$300,000.
 - The FY2013 budget continues funding for **Great Start local collaboratives** at \$5.9 million for the creation and continuance of local Great Start collaborations.
 - The FY2013 budget maintains funding of \$5.0 million for the **Great Parents, Great Start ISD Program**, intended to provide children 0-5 and their families with early learning opportunities.
- A total of \$35.6 million for **career and vocational education** programs (\$26.6 million) and vocational education millage subsidy payments (\$9 million) is maintained.
 - Funding to support **adult education** programs is maintained at \$22.0 million.
 - Education programs in **juvenile justice facilities** are increased by \$938,300 from FY2012 enacted levels to \$2.1 million. Educational programs that serve **wards of the court** are supported with \$8.0 million. Funding for the **Youth ChalleNGe Program** is increased to \$765,600, a \$23,300 increase, for OPEB adjustments.

Student Support Services

- The FY2013 budget maintains \$309.0 million in funding for **at-risk** programs. Funding for **adolescent teen health centers** is continued at \$3.6 million. Funding for **hearing and vision screenings** is maintained at \$5.2 million. An additional \$812 million in federal funds are also available to assist schools in need of support services to improve student achievement and meet federal education standards.
- Funding for **school lunch and breakfast programs** is maintained at \$434.6 million: \$32.1 million in state funds and \$402.5 million in federal funds .
- A total of \$7.8 million (\$2.6 million state funds and \$5.2 million federal) supports the state's **math and science centers**.
- **School transportation safety programs** are funded at \$3.2 million: \$1.6 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 \$2.0 million.
- **State aid to libraries** is maintained at \$1.3 million.

Assessment and Accountability

- The FY2013 budget provides funding to districts of \$38.0 million for **state data collection and reporting costs**, an increase of \$3.9 million.
- The FY2013 budget provides \$34.9 million (\$26.7 million in state and \$8.2 million in federal) for costs associated with **student assessments** required under state and federal law, a decrease of \$8.5 million in state funds.
- **Center for Educational Performance and Information (CEPI)** funding totals \$9.2 million general fund. \$2.7 million in federal funds is replaced with state funds.

Debt Service and Other Required Payments

- **School Bond Loan Fund Debt Service** is increased by \$26.8 million to \$120.4 million.
- **Debt Service on Non-Durant District Bonds** is maintained at \$39.0 million.
- **Renaissance Zone** reimbursements are maintained at \$26.3 million.
- **School Aid Fund Borrowing Costs** are reduced by \$10.0 million from the FY2012 enacted levels, to \$10.0 million.
- **PILT Payments** are reduced by \$1 million from FY2012 enacted levels to \$1.8 million.

FY2012 Supplemental of \$80.9 Million

- The FY2012 supplemental contained in the Governor's Executive Recommendation requests additional spending authority of \$76.2 million in School Aid Fund and \$4.7 million federal.
- The supplemental includes cost adjustments totaling \$63.3 million due to changes in pupil counts, taxable values, special education costs, school aid borrowing costs, PILT reimbursements and OPEB related adjustments. Additional federal spending authority is also increased to accommodate \$4.7 million for federal Education Jobs funds that were redistributed to the state subsequent to the initial award received in 2010 and appropriated in FY11.
- The FY2012 supplemental also contains \$12.5 million in one-time spending for kindergarten status assessments and a quality rating system for early childhood providers.



STATE BUDGET OFFICE
February 9, 2012

Seniors and Community Placement

Proposal:

The fiscal year 2013 Executive Recommendation includes \$11 million gross (\$3.7 million general fund) to reduce the number of individuals waiting to be enrolled in the MIChoice Home and Community Based Waiver program and an additional \$3 million (\$1 million general fund) to finance the cost of individuals transitioning from nursing homes. This budget also recognizes the value of the Program of All Inclusive Care for the Elderly and funds the current expansion of the program into Berrien County.

The recommendation also includes \$850,000 general fund in the Office of Services to the Aging to support community living and elder abuse prevention programs. An additional \$250,000 in one-time general fund is included as a boilerplate appropriation for elder abuse prevention, reporting and training initiatives.

To help address growing service demands as Michigan's population ages, \$2.9 million (\$900,000 general fund) is recommended to support additional Adult Services staff in the Department of Human Services fiscal year 2013 Executive Recommendation. Adult Services programs assist the elderly and the disabled to live in the least restrictive setting, free from abuse and exploitation.

Background Information:

The MIChoice Home and Community Based Waiver program is an attractive option for individuals who are eligible for nursing home placement but prefer to live at home. The program currently has up to 8,000 people waiting for an opportunity to enroll. The fiscal year 2013 Executive Recommendation recognizes this great need and identifies additional funding for the waiver program to increase the number of persons who can be served by the program.

Consistent with existing policy, the fiscal year 2013 Executive Recommendation also supports continued transitions of nursing home residents to the MIChoice Home and Community Based Waiver Program.

For the Office of Services to the Aging, \$500,000 general fund is recommended to support increased access to information counseling through Community Living Programs. Aging and Disability Resource Centers are expanded from the current 19 counties to approximately 35 counties.

Also recommended is \$250,000 general fund to provide support in community settings for family caregivers who assist elders with Alzheimer's and dementia. The recommendation supports initiatives aimed at preventing the physical and financial abuse of Michigan senior citizens with \$100,000 general fund (plus additional one-time funding of \$250,000).



STATE BUDGET OFFICE
February 9, 2012

Tobacco Tax Enforcement

Proposal:

To enhance the level of enforcement of the Michigan Tobacco Products Tax Act, through a more aggressive coordinated multi-agency approach which will increase tobacco tax prosecutions, assessments, and overall revenue collections. Specifically, the fiscal year 2013 Executive Recommendation provides \$2.2 million in general fund support to address cigarette tax evasion via enhanced regional law enforcement teams in the Department of State Police, increased investigations and prosecutions through the Attorney General, and increased statewide tobacco tax collections in the Department of Treasury.

Strengthened enforcement of the Michigan Tobacco Products Tax Act will also improve the state's compliance with the provisions of P.A. 244 of 1999, which requires tobacco manufacturers who have not joined the national Master Settlement Agreement to contribute to qualified escrow funds if they sell cigarettes in this state.

Specific fiscal year 2013 recommended budgetary adjustments include: Attorney General \$500,000 and 5.0 FTE positions; State Police \$200,000 and 1.0 FTE position, and Treasury \$1,500,000 and 13.0 FTE positions.

Background:

Michigan law requires that each pack of cigarettes has a heat applied tax stamp affixed. The Department of Treasury is required by statute to pay for the stamps and to pay 1.5 percent collection allowance to licensed stampers based on the total amount of tax due on cigarette sales. Michigan pays \$400,000 annually for the purchase of heat applied stamps.

Although cigarettes account for most of Michigan's tobacco tax revenue, a growing percentage of that revenue is from sales of *other* tobacco products. Individual packages of other tobacco products are not stamped, making it difficult to monitor and track their sales in, and into, Michigan. Further, the tax rate on other tobacco products is 32 percent of the wholesale price, inadvertently, creating an enticement to manipulate the wholesale price in an effort to circumvent remittance of the proper level of tax.

The Department of Treasury believes there exist many tax evasion schemes including: underreporting tobacco purchases and sales; falsely reporting that tobacco was exported and not subject to tax; claiming an inappropriately low wholesale price; internet purchase of untaxed cigarettes; non-tribal members purchasing untaxed cigarettes; and adjusting invoices to falsely inflate the amount of shipping and handling charges, thereby, falsifying the true wholesale price of tobacco.

An enhanced coordinated effort is needed to conduct statutorily authorized administrative inspections, seize tobacco contraband and witness the destruction of the product, review monthly tax filings for 600 different license entities, train State Police troopers and prosecute those involved in these activities.

Indirectly related to this issue, is pending legislation Senate Bills 768 and 769. Senate bill 768 prohibits possession of automated sales suppression devices that falsify the records of electronic cash registers and other point-of-sale systems. Senate Bill 769 adds the selling or possession of automated sales suppression devices, zappers or phantom-ware to the criminal code. It is believed that tobacco product sales are adversely impacted by these devices.