Fiscal Year 2020 Executive Recommendation
Issue Papers
March 5, 2019

FY 2020 Executive Budget Recommendation
Department of Transportation
Fixing Michigan Roads Plan
March 5, 2019

WHY ARE MICHIGAN ROADS SO BAD?

After nearly 40 years of disinvestment, Michigan's roads are rated as being among the worst in the nation.[1] Only 33% of the state trunkline system roads, (which carry the heaviest traffic load and encompass all Interstates, freeways, and M-routes) are currently in good condition. Pavement conditions on local roads are even worse, with only 18% ranked in good condition.

	Good	Fair	Poor
State Trunklines	33%	45%	22%
Local Roads	18%	34%	48%

Source: Michigan Transportation Asset Management Council Pavement Comparison Dashboard, 2019

These advanced levels of deterioration have resulted primarily from inadequate revenues that have not kept pace with rising costs and financing plans that promoted short-term condition gains without sustainable long-term revenues.

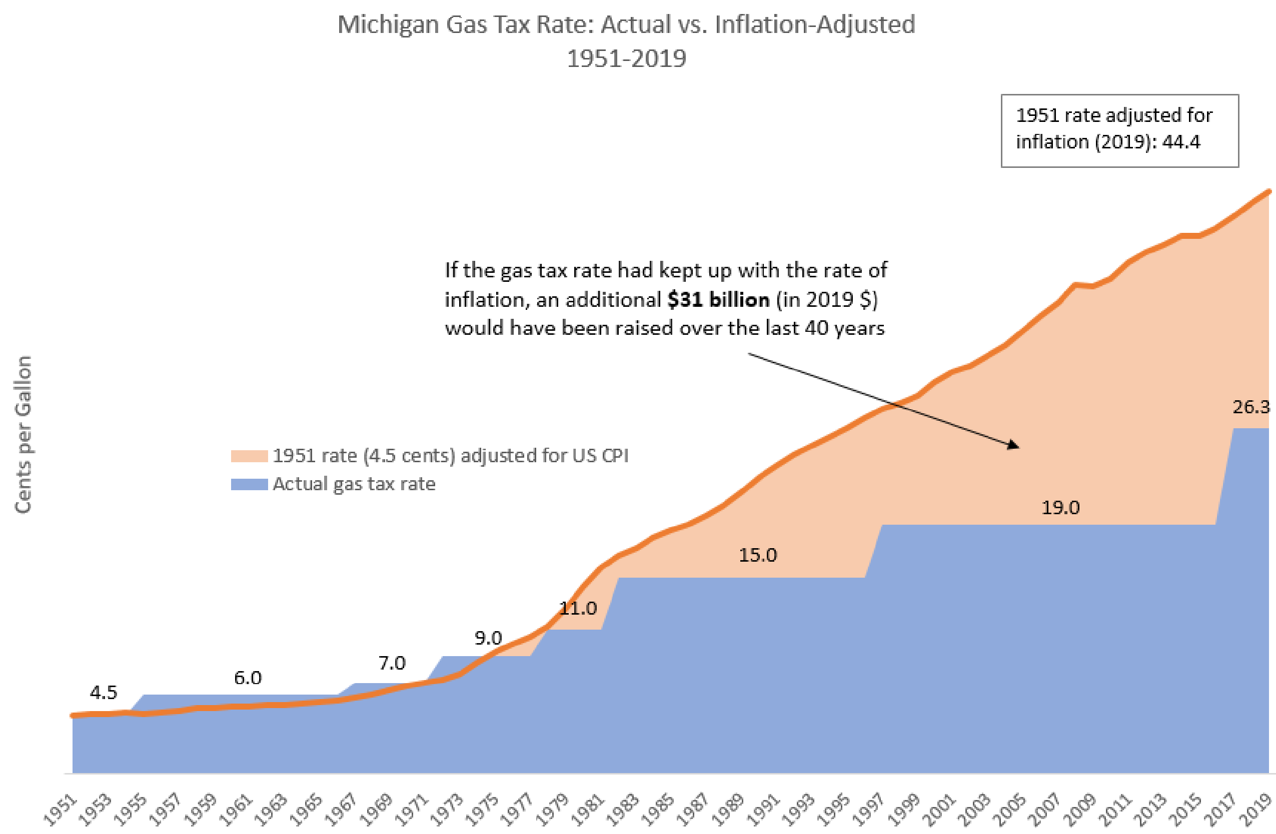
Actual Transportation Revenues vs. Inflationary Need – Erosion of the Road Dollar

- The state's primary fund for supporting roads and bridges is the Michigan Transportation Fund (MTF), funded principally by motor fuel and vehicle registration tax revenues.
- In fiscal year 1998, the MTF collected $1.8 billion in revenue. Taking into account the escalating cost of road construction materials and other inflationary pressures, $4.5 billion would be needed in fiscal year 2019 just to maintain the program levels of 20 years ago – 54% higher than projected baseline MTF collections for the current fiscal year.
- In fiscal year 2019, MTF revenues only have 65% of the purchasing power that they did 20 years ago as the costs to construct and repair our roads have escalated over time.

Motor Fuel Taxes Holding Flat – Four Decades of Disinvestment

- While vehicle registration taxes are based on the value of a vehicle and tend to increase over time, Michigan motor fuel taxes were historically based on a flat cents-per-gallon rate that was not indexed for inflation. That changed in 2015; however, it does not take effect until 2022.
- Michigan's gasoline tax was increased only once between 1982 and 2015 . Spread over 33 years, the increase of 4-cents per gallon in 1997 amounts to less than 1 percent of revenue growth per year.
- Any increase to motor fuel taxes (inflationary or otherwise) requires an act of the legislature.

[1] In 2018, the American Society of Civil Engineers gave Michigan a "D+" for the state of our infrastructure and a "D-" for the condition of our roads. Michigan is tied with New York as having the worst roads of every state included in ASCE's rankings.



Bonding Without Sustainable Revenues

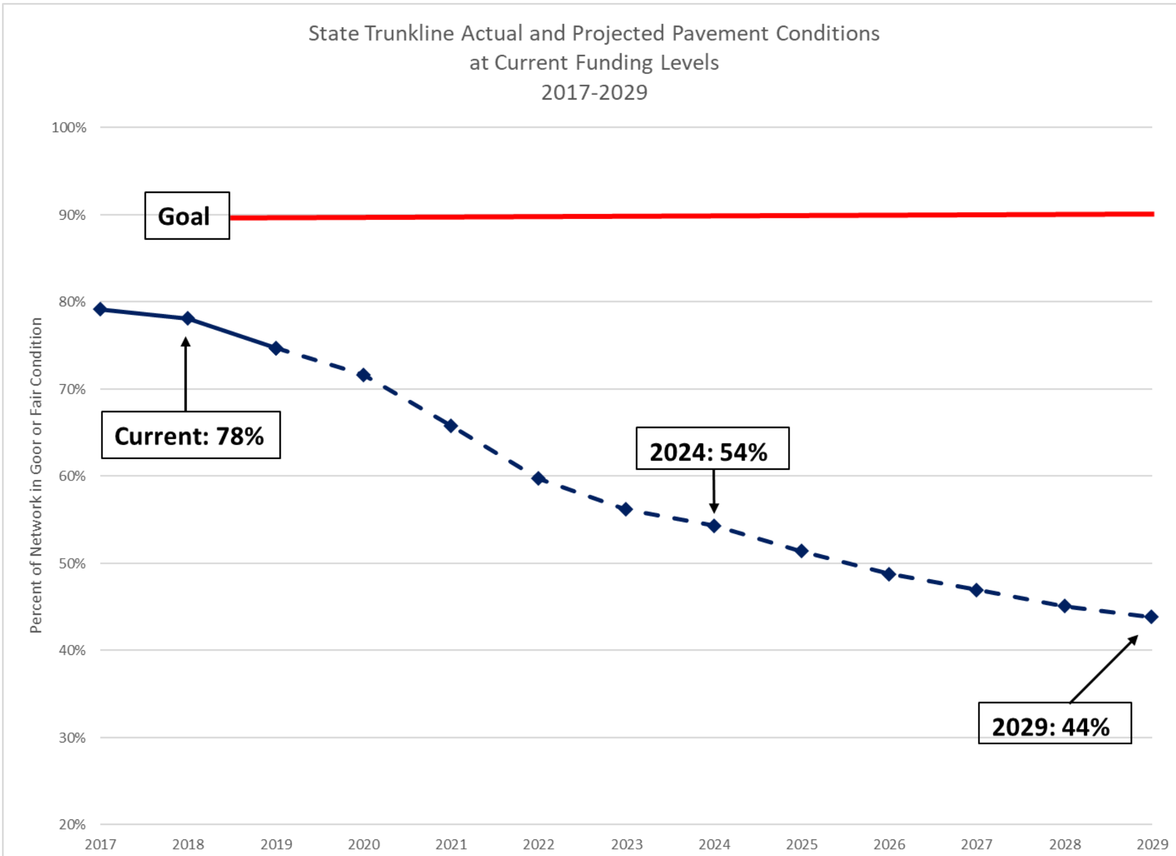
- As Michigan's transportation revenue base eroded and road conditions declined, the state used bonding as means to preserve pavement conditions.
- By fiscal year 2009, the state had accumulated $2.3 billion in bonded debt.
- Today, MDOT has $1.2 billion in outstanding debt, requiring $196.6 million in annual debt service payments – funds that are not available to be spent on current road and bridge construction needs.

2015 Revenue Package

- In 2015, a $1.2 billion transportation revenue plan was enacted that did not take effect until 2017 and was intended to phase in over five years.
- One-half of the 2015 plan relied on motor fuel and registration tax increases; the other half on a diversion of Individual Income Tax (i.e., general fund) revenue.
- The amount of funding in the plan was based on the need at the time for state roads only. However, funding was distributed via the existing Public Act 51 formula that sends less than 40% of funds to state roads.

THE COST OF INACTION

Since 2015, road conditions have continued to deteriorate at an accelerating rate. Michigan's state and local road agencies have tried to do more with less, but they are caught in a losing battle. The prolonged deterioration of the transportation network is evident in the falling condition indexes, as Michigan motorists know from experience. As shown below, MDOT roads are currently at 78% good or fair condition but are forecasted to drop to 54% by 2024 unless more dollars are invested. Over just the next five years, the percentage of state roads in poor condition is projected to double, from 22% to 44%. The 2015 package only slowed the rate of decline.



<u>"Hidden" Auto Repair Tax</u>

As pavement conditions worsen, Michigan residents are already paying a "hidden tax" of higher auto repair bills for flat tires, bent rims, etc. The transportation advocacy group TRIP reports this currently totals $4 billion per year – averaging $562 per motorist statewide,[2] and $865 for people in Metro Detroit.[3] This does not factor in loss of time and productivity, and the general inconvenience of motorists having to deal with those repairs.

THE FIXING MICHIGAN ROADS PLAN

The three tenets of the Fixing Michigan Roads Plan:

1) **Create a sustainable long-term solution to improve state road condition to 90% good or fair in ten years by targeting investments to the most highly-traveled roads.**
2) **Replace diversions from the General Fund with Constitutionally-protected revenues, freeing up existing state funds for needed investments in education.**
3) **Provide tax offset to mitigate the impact for low income families.**

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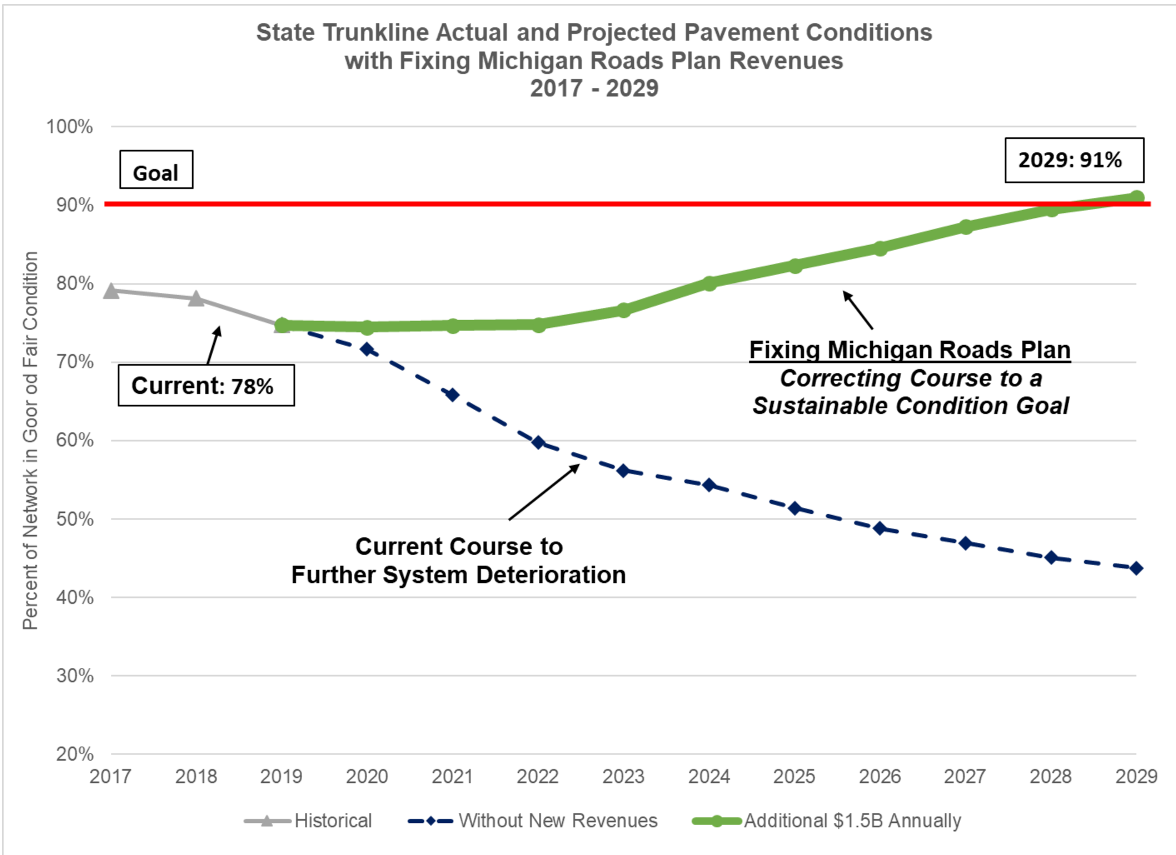
[2] TRIP fact sheet, September 2018

[3] Crain's Detroit Business, February 2018

The Fixing Michigan Roads Plan provides a permanent long-term solution to our decades-in-the-making transportation crisis that will restore conditions to over 90% good or fair by 2029 through a sustainable 10-year plan that focuses resources on the most highly-traveled roads.

This plan is based on an asset management model that optimizes investments to forecast its annual need. The model uses account condition, the type of “fix” needed, project cost estimates, and the desired goal in order to develop its optimum investment strategy.

As illustrated below, the Fixing Michigan Roads Plan will restore all Interstates, freeways, and M-roads to over 90-percent good or fair condition by 2029.



Other key objectives of the Fixing Michigan Roads Plan include:

- Maintain all current PA 51 distributions to local road agencies and provide additional resources for local communities to help them fix their most highly-traveled roads and critical bridge needs.
- Provide support for rural economic development.
- Provide support for innovative options for transit, rail, and mobility programs.
- Ensure that state transportation revenues are constitutionally-protected.

FIXING MICHIGAN ROADS PLAN REVENUES

Revenue for the Fixing Michigan Roads Plan comes from three 15-cent increases to motor fuel taxes phased in over 12 months:

Fixing Michigan Roads Plan Revenues (in millions)			
	FY 2020		FY 2021
	10/1/19	4/1/20	10/1/20
Incremental Fuel Tax Increase (Cents-Per-Gallon)	**$0.15**	**$0.15**	**$0.15**
Cumulative Fuel Tax Increase (Cents Per Gallon)		**$0.30**	**$0.45**
Gasoline Tax		$1,060.2	$2,098.8
Diesel Tax		$201.0	$399.6
Alternative Fuels Tax		$2.5	$5.6
TOTAL New Revenue		**$1,263.7**	**$2,504.0**
End Diversions from General Fund (to MTF Roads-Only Formula)		*($325.0)*	*($325.0)*
DNR Recreation Improvement Fund (Constitutional Dedication)[4]		*($21.2)*	*($42.0)*
TOTAL New Revenues for Transportation		**$917.5**	**$2,137.0**

Among the revenue-generating components of the plan, major provisions include:

Increased Motor Fuel Tax

- Increases gasoline and diesel taxes from 26.3 cents per gallon to 71.3 cents per gallon over 12 months, with three 15-cent increases scheduled for October 1, 2019, April 1, 2020, and October 1, 2020.
- Existing statutory language that provides for inflationary indexing beginning in fiscal year 2022 would be retained and would apply to all new and existing motor fuel taxes.

Direct New Revenue to Fixing Michigan Roads Fund

- Upon full implementation in fiscal year 2021, the new revenues will be deposited into a new Fixing Michigan Roads Fund.
- This plan will provide over $2.1 billion in new revenue for transportation when adjusted for constitutional and statutory deductions.
- All existing state and local transportation distributions would be protected at their current levels. The first $325 million of new revenue is directed to the Michigan Transportation Fund to replace the statutory Individual Income Tax earmark at the original level prescribed for fiscal year 2020 under the 2015 roads package.

[4] The state Constitution requires that 2% of the gasoline tax be directed to the Recreation Improvement Fund (RIF). Of the dollars flowing to the RIF, 80% are deposited to the Michigan State Waterways Fund and 14% to the Snowmobile Fund, with the balance remaining in the RIF.

Ends General Fund Diversion to Transportation

- Eliminates the statutory earmark of Individual Income Tax (General Fund) revenue to the MTF that was included in the 2015 revenue package.

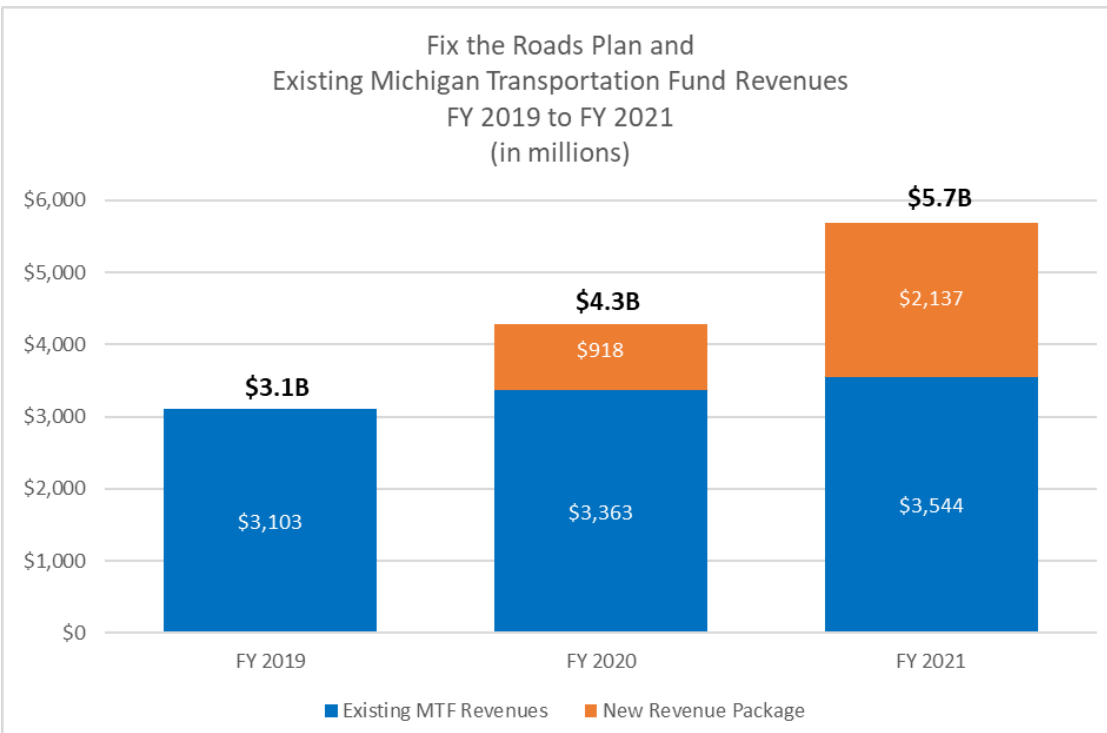
- Restores the General Fund back to the Higher Education budget, ending a significant redirection of School Aid fund revenue.

- Return $500 million in School Aid Fund revenue to schools for new education investments, including funding for pre-school, the per-pupil foundation allowance, special education, at-risk, and career and technical education.

Earned Income Tax Credit

- Increases the Earned Income Tax Credit (EITC) from 6% to 12% over two years (4% in FY 2020, and an additional 2% in FY 2021) to mitigate the impact of the motor fuel increase on low income families.

As indicated below, when combined with baseline Michigan Transportation Fund Revenues, a total of $5.7 billion of state revenues will be dedicated to state and local transportation programs when the plan is fully implemented in fiscal year 2021 – an 83-percent increase over the current fiscal year.



FIXING MICHIGAN ROADS PLAN DISTRIBUTION

The Fixing Michigan Roads Plan includes a new distribution formula that directs the additional funds to the most highly-traveled roads. In order to accomplish this objective, the plan utilizes federally defined National Functional Classifications (NFCs) that categorize each road by its intended purpose and traffic that it carries. Road dollars are distributed to MDOT and local road agencies based on their share of lane miles in each NFC. This contrasts with the current distribution method that was developed in the 1950s prior to the build-out of the Interstate Highway System and has, in part, also contributed to the deterioration of our most highly-traveled roadways to their current condition status.

Fixing Michigan Roads Plan Distribution (in millions)		
	FY 2020	**FY 2021**
Interstates and Other Freeways (47%)	$431.2	$1,004.4
Principal Arterials (30%)	$275.3	$641.1
Minor Arterials (7%)	$64.2	$149.6
Major Collectors (7%)	$64.2	$149.6
Local Bridges (4%)	$36.7	$85.5
Multi-Modal Innovation Projects (3%)	$27.6	$64.1
Local Rural Economic Corridors (2%)	$18.3	$42.7
TOTAL New Transportation Distribution	**$917.5**	**$2,137.0**

Fixing Michigan Roads distribution criteria are defined as follows:

47% Interstates and Other Freeways
Includes all of Michigan's Interstate freeways, as well as other limited access freeways (both U.S. and M-routes). All freeways are under the jurisdiction of MDOT.

30% Principal Arterials
This category reflects the state's most highly-traveled non-freeway routes. Many these routes are under MDOT's jurisdiction, however some highly-traveled local roads (especially within major urban areas) are also eligible for funding under this category.

7% Minor Arterials
This category also includes highly-traveled roads, but they generally carry less traffic than freeways and provide connectivity to the higher arterial system. Most of these roads are locally-owned.

7% Major Collectors
This category represents roads with the next highest level of traffic and are almost completely under local jurisdiction. Major collectors provide connectivity to neighborhood streets and the local street network.

4% Local Bridges
This allocation supports the reconstruction of locally-owned bridges, which can otherwise impose significant financing burdens on small local communities.

3% Multi-Modal Innovation Projects
This transportation funding plan also supports innovative projects in public transit, rail, and mobility services:

- **Transit and Mobility**
  The largest share of Multi-modal Innovation funding is dedicated to projects focused on increased service efficiency, capital improvements, and technology or service models that support greater mobility for seniors or people with disabilities.

- **Rail and Port Development**
  New investments will be made in Michigan's rail and port infrastructure, improving passenger and freight access to rail service, capital improvements, and resources targeted at developing marine freight capabilities.

2% Local Rural Economic Corridors
Recognizing that the NFC-based distribution may not recognize uniquely significant roads in rural areas (e.g., roads servicing major agricultural or manufacturing facilities), funds will be distributed to existing Rural Task Forces to aid in economic development. These task forces spearhead projects in the 78 out of the state's 83 counties that have a population of less than 400,000 residents.

STATE AND LOCAL DISTRIBUTION

While the statutory distribution of new revenues will be according to the traffic load-based formula described above, the financial distribution to MDOT and local road agencies is projected to be as follows:

Fixing Michigan Roads Plan - State and Local Distribution* (in millions)		
	FY 2020	**FY 2021**
State-Owned Roads (70%)		
State Road Projects	$645.6	$1,503.7
TOTAL State-Owned Roads	**$645.6**	**$1,503.7**
Local Road Agencies (27%)		
Local Road Projects	$189.3	$441.0
Local Bridges	$36.7	$85.5
Local Rural Economic Corridors	$18.3	$42.7
TOTAL Local Road Agencies	**$244.3**	**$569.2**
Multi-Modal Innovation Projects (3% - State and Local)		
Transit and Mobility	$16.6	$38.5
Rail and Port Investments	$11.0	$25.6
TOTAL Multi-Modal Innovation Projects	**$27.6**	**$64.1**
TOTAL Distribution of New Transportation Revenues	**$917.5**	**$2,137.0**

**Percentages are based upon full implementation in FY 2021*

When fully phased-in, the Fixing Michigan Roads distribution formula will direct $1.5 billion (70%) to state roads, $569 million (27%) to local roads, and $64 million to multi-modal transit, rail, and mobility projects. In combination with existing funds, overall transportation funding provides 55% to state roads and 45% to local roads. This ratio balances critical needs at the local level with the fact that the large majority of highly-traveled lane miles are maintained by the state.

TRANSPARENCY AND ACCOUNTABILITY

To ensure full transparency and promote the optimal use of taxpayer resources, the Fixing Michigan Roads Plan also includes several significant accountability measures:

Priority Project List
MDOT and local road agencies will develop Five-Year Plans that target the investment of these funds using sound asset management principles.

Transparency/Central Website
The public will be able to find and track the progress of each state and local project on an easily accessible website.

Fixing Michigan Roads Review Committee
An independent Fixing Michigan Roads Review Committee will review progress at the midpoint of the ten-year plan, and take the following actions:

- Assess whether the plan is improving overall system condition.
- Evaluate revenues to determine if the plan is appropriately funded.
- Review whether the new formula is directing the dollars effectively.
- Evaluate and recommend potential alternatives to the motor fuel tax as a user-fee proxy, given the increasing number of electric and alternative fuel vehicles.

FY 2020 Executive Budget Recommendation

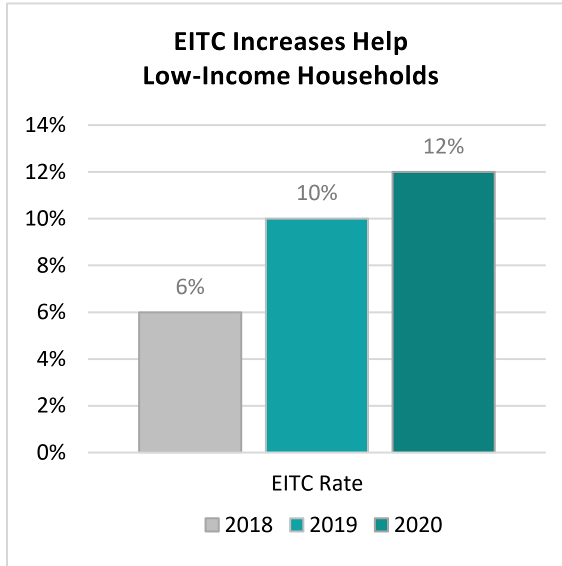
Department of Treasury

Increasing Michigan Earned Income Tax Credit

March 5, 2019

Summary

The governor recommends doubling the Michigan Earned Income Tax Credit (EITC) over two years to help offset the impact of a higher gasoline tax on Michigan's low-income working families.



Taxpayer impact

The proposal will increase the Michigan EITC to 10 percent of the federal EITC for tax year 2019 and 12 percent for tax year 2020, doubling it from the current rate of 6 percent. The costs of the increased credit are recognized in fiscal years 2020 and 2021.

The maximum Michigan EITC would rise to $583 for 2019, up from $343 for 2018, for families with two children. The average EITC recipient household received a credit of $150 for tax year 2017. The average credit will increase by $100 to $250 for tax year 2019 to help offset the higher fuel tax necessary to fix Michigan's roads. The EITC is larger for families with more children. As a result, larger families will receive greater benefits from increasing the credit, offsetting the cost of shuttling children to school and other activities.

Background

The Earned Income Tax Credit is a powerful anti-poverty tool that benefits approximately 750,000 Michigan households each year. The EITC encourages and rewards work, helps low-income families meet basic needs, and supports self-sufficiency. The Michigan EITC is a piggy-back credit, equal to 6 percent of the federal EITC in 2019. The Michigan EITC was reduced from 20 percent of the federal credit beginning for 2012, to help pay for the business tax cuts enacted in 2011.

Increase in EITC for Tax Year 2019	Number of Households
$50 or less	271,900
$51 - $100	108,000
$101 - $200	251,400
More than $200	117,400
Total	**748,700**

Budget Impact

The expanded EITC will reduce revenues by approximately $76 million in FY 2020, and $114 million in FY 2021. The timing of the phased-in increase is designed to follow the incremental gas tax increases recommended to fix Michigan's roads.

FY 2020 Executive Budget Recommendation

Department of Treasury

Repeal Retirement Tax

March 5, 2019

Summary

The Governor recommends repealing the expanded taxation of retirement and pension benefits imposed on Michigan retirees in 2012.

Taxpayer impact

The proposed deduction would take effect for tax year 2020. More than 400,000 Michigan households would each save $800 on average under the repeal. An estimated 600,000 senior households would pay no state income tax.

Background

In 2012, Michigan retirees born after 1945 began to face increased taxation on their retirement benefits. The tax increase paid for reduced business taxes, in part, by increasing individual taxes on retirement income. In some cases, taxpayers had retired expecting Michigan's longstanding deductions for retirement benefits would remain in place. Many even took early retirement buyouts and established financial plans expecting these benefits. After separating from their jobs, these taxpayers received the news in 2011 that their pensions and other retirement income would be subject to tax.

The Governor's proposal would restore the deduction for retirement benefits for Michigan residents born after 1945. To prevent any tax increase from the proposed change, taxpayers age 67 and older would have the option to either deduct retirement benefits or claim the deduction against all income currently available.

Budget Impact

Restoring the deduction for Tax Year 2020 would reduce state revenue by $259 million in FY 2020 and $355 million in FY 2021. This revenue reduction is offset by the proposed business pass-through entity tax, which will create tax parity with traditional corporations and generate $203 million in FY 2020 and $280 million in FY 2021.

FY 2020 Executive Budget Recommendation

Department of Treasury

Pass-Through Tax Parity

March 5, 2019

Summary

This recommendation increases the tax on certain business income earned in Michigan and provides a revenue source to support repeal of the tax on retirement benefits. Currently, certain business income from partnerships, LLCs, and S-Corporations is taxed at a lower rate than traditional corporations. This proposal will apply rate parity to these pass-through entities by taxing their business income at the same 6-percent rate that applies to corporate income tax filers.

Background

Before 2011 tax changes, business income from partnerships, LLCs, and all corporations were taxed at the same rate. In 2011, the law was changed and only income earned by traditional corporations in Michigan is now subject to an income tax at 6 percent. Income earned by partnerships, LLCs, and S-Corporations, many of which operate in a similar manner to traditional corporations, passes through to the owners for tax purposes and is taxed at the individual rate of 4.25 percent. This proposal will create a new 6 percent income tax on partnerships, LLCs, and S-Corporations, the same as the corporate income tax rate. The proposal includes an individual income tax credit for owners of these businesses to avoid double taxation and effectively create a 1.75 percent increase in the state tax rate on this income.

The 2011 changes resulted in a business tax cut of more than $1.5 billion, paid for by a tax increase of more than $1.5 billion to individual taxpayers, which included the increased taxation of retirement and pension benefits. The Governor’s proposal reverses part of the business tax cut and provides a tax cut to retirees.

Tax Offsets

While the vast amount of pass-through income is reported on high-income tax returns, this proposal adds protection for small businesses with a $50,000 deduction. Pass-through entities with less than $50,000 in income will not pay any additional tax. Individual owners of pass-through entities will claim a credit on their individual income tax return to avoid double taxation on their share of the business income. Proprietors, who report business income on federal Schedule C or F, are not subject to the new tax.

While this tax will raise an estimated $280 million by FY 2021, the cost to Michigan business owners will be much less because the entity tax will be deductible for federal tax purposes, providing Michigan business owners with new federal tax deductions. These deductions will reduce the combined net federal and state cost of this tax to $100 million or less. This will allow for repeal of the retirement tax at a greatly reduced cost and keep more tax dollars in Michigan.

Budget Impact

The revenue impact from the Pass-Through Tax in FY 2020 will be approximately $203 million, rising to $280 million in FY 2021. These additional revenues will offset most of the cost of repealing the retirement tax.

FY 2019 Supplemental Recommendation

Department of Environmental Quality

Drinking Water Protection and Innovation

March 5, 2019

Background

Approximately 7.6 million Michigan residents (75% of population) rely on nearly 1,400 community water systems. The remainder utilize private wells for their drinking water. Michigan's drinking water systems were built during the turn of the last century and often utilize outdated approaches to treatment.

As a result of decades of deferred maintenance, annual infrastructure needs for water systems statewide are estimated to be hundreds of millions of dollars. Furthermore, a lack of data on the conditions of water systems presents risks to system reliability and public health, and present significant challenges for older communities which have experienced population loss. Municipalities also face difficulties in meeting increased costs of updated environmental regulations, as well as the challenge of inflexible rate structures.

Finally, emerging contaminants, such as PFAS, within our drinking water systems are presenting new risks to public health. Effective technology is needed to remove these and other chemicals from drinking water systems, even as research continues to be conducted to establish the full scope and health impacts of contaminants.

Funding Summary

To lay the groundwork for a long-term solution to these issues, the fiscal year 2019 supplemental recommendation includes an investment of $120 million general fund to support progress in ensuring safe, clean, affordable drinking water in Michigan. This statewide initiative will fund water infrastructure improvements, support technology for water systems to address PFAS and emerging contaminants, and support research and innovation in water solutions.

The $120 million investment will be targeted to the following efforts:

- **Lead and Copper Rule Implementation ($37.5 million)**
    - Implement requirements of Michigan's revised Lead and Copper Rule
    - Lead service line replacement; at or near 10 ppb
    - Support 35 Local Drinking Water Advisory Councils

- **PFAS and Emerging Contaminants ($30 million)**
    - Abate, cleanup, and support utility investment in technology
    - Research and solution development
    - Research treatment development of emerging contaminants (e.g., short chain PFAS)
    - Analytical technique development
    - Health risk studies to establish drinking water standard

- **Drinking Water Revolving Fund (DWRF) Loan Forgiveness ($40 million)**
    - Utilize existing program to increase participation through grant process

- **Affordability and Planning ($7.5 million)**
    - Water rate design around affordability and sustainable rates, identifying best practices, and evaluation of effectiveness of approaches
    - Integrated asset management

    - Watershed planning
    - Resiliency planning for water utilities

- **Research and Innovation ($5 million)**
    - Water Resource Foundation and other philanthropic organizations
    - Research universities
    - Optimizing corrosion control treatment
    - Optimize water distribution systems - re-engineering / water flow enhancement
    - Enhance data building and analysis capacity of municipal water systems (i.e., Big Data)

The Department of Environmental Quality will oversee the initiative through the establishment of grant processes and flexible administration of its DWRF program. Local grant recipients will be strongly encouraged to seek innovative approaches and partnerships with nonprofits, research universities, and other governmental entities to identify and implement industry best practices.

FY 2020 Executive Budget Recommendation

School Aid

Hydration Stations

March 5, 2019

Summary

The Governor is proposing an investment of $60 million in one-time School Aid Fund resources for a statewide initiative to replace drinking fountains in school buildings with hydration stations to provide clean, filtered drinking water to Michigan school children. Hydration stations are combination water fountains/bottle filling stations that filter out contaminants, leading to improved water quality and also reducing the use of plastic water bottles. These stations have been utilized in Detroit and other school districts, enabling schools to provide safe drinking water without requiring cost prohibitive replacement of plumbing and water infrastructure.

The statewide target under this proposal is to provide at least 1 hydration station per every 100 pupils per school building, based on standards included in the Michigan Plumbing Code. The funds can be used for the following:

- The purchase and installation of new hydration stations.
- The removal or closure of existing fixtures incapable of filtering water.
- Any environmental abatement costs that could arise due to the installation (disposal of hazardous materials, air quality issues related to mold, etc.).

The program will be jointly administered by the departments of Education and Environmental Quality.

Background

Estimates indicate that there are approximately 3,300 public school buildings statewide that could be served by this initiative. About 600 of these buildings were built prior to 1950 and, therefore, have a higher probability of lead in water delivery systems. Approximately 68% of school buildings statewide were built prior to 1985 and may contain lead solder in copper piping systems. Through the mid-1990s, many fixtures still utilized lead-containing brass or galvanized pipe fittings.

Fiscal Year 2020 Executive Budget Highlights

School Aid

March 5, 2019

Fiscal Year 2020 K-12 School Aid Executive Budget

(In Thousands)	FY2019 School Aid: Current Law PA 586 of 2018	FY2019 School Aid: Revised	FY2019 School Aid: Difference from Current Law	FY2020 School Aid: Executive Budget	FY2020 School Aid: Difference from FY19 Current Law	%
School Aid Fund	$12,876,825.2	$12,919,425.2	$42,600.0	$13,504,660.3	$627,835.1	4.9%
General Fund	$87,920.0	$87,920.0	$0.0	$45,000.0	($42,920.0)	(48.8%)
Other State Restricted	$133,900.1	$102,000.1	($31,900.0)	$72,000.1	($61,900.0)	(46.2%)
Total State Funds	**$13,098,645.3**	**$13,109,345.3**	**$10,700.0**	**$13,621,660.4**	**$523,015.1**	**4.0%**
Federal Funds	$1,745,943.5	$1,745,943.5	$0.0	$1,749,578.5	$3,635.0	0.2%
Gross Appropriations	**$14,844,588.8**	**$14,855,288.8**	**$10,700.0**	**$15,371,238.9**	**$526,650.1**	**3.5%**
Est. Local Revenue	$3,694,792.0	$3,694,792.0	$0.0	$3,816,720.2	$121,928.2	3.3%
Total Funding	**$18,539,380.8**	**$18,550,080.8**	**$10,700.0**	**$19,187,959.1**	**$648,578.3**	**3.5%**

Consensus Pupil Estimates

Fiscal Year 2019 – 1,470,400

Fiscal Year 2020 – 1,460,200, a decrease of 10,200 pupils (0.7%) from fiscal year 2019

Fiscal Year 2021 – 1,452,000, a decrease of 8,200 (0.6%) from fiscal year 2020

Weighted Funding Model

The Executive Budget Recommendation includes $507 million to increase operational funding for schools and to implement a new **weighted school funding model.** This new model includes a base per-pupil foundation payment that builds off the existing foundation allowance plus additional funding for students with more costly educational needs.

As part of the Governor's plan for Michigan's education system, $500.1 million School Aid Fund dollars that were previously included in the Higher Education budget have been moved back to supporting pupils in the K-12 system. Returning these School Aid Fund dollars back to the classroom makes implementing the weighted funding model possible. The investment includes the following components:

- $235 million to increase the per-pupil foundation allowance by **$120 to $180 per-pupil, distributed through a 1.5x formula** at a cost of $235 million. Total state funding for the foundation allowance exceeds $9.4 billion. The minimum foundation allowance will increase to $8,051 per pupil, an increase of 2.3%; the basic foundation allowance will increase to $8,529 per pupil, an increase of 1.4%. This reduces the gap between the minimum and maximum foundation allowance to $478.

Per-Pupil Foundation Allowances	Minimum	Maximum
FY2019 Foundation	$7,871	$8,409
Exec. Rec. Increase	*$ 180*	*$ 120*
FY2020 Foundation	**$8,051**	**$8,529**

- The budget includes an increase of $120 million to support the wide variety of needs for **special education students,** which can range from academic supports to one-on-one specialists. The state currently reimburses districts for 28% of special education costs. The Executive Budget **increases this reimbursement by an estimated 4 percentage points.** In total, the budget includes $1.2 billion state dollars and $431 million federal dollars to support special education.

- Funding for **academically at-risk, economically disadvantaged** students is increased by $102 million to a total of $619 million and distributed through the new formula. The funding provides an **estimated weight of 11% of the minimum foundation allowance, or $894 for each eligible pupil.** In addition, the budget includes $535 million federal funds to support academically at-risk students.

- In recognition of the higher costs of offering **Career and Technical Education** (CTE) programs, the Executive Budget includes an **estimated weight of 6% of the minimum foundation allowance, or $487 per pupil** for students participating in CTE programming, at a cost increase of $50 million. The existing $5 million CTE incentive payment is rolled into this new weighted funding model. In total, the Governor's budget includes $109 million for CTE and vocational education programs.

	Base Foundation Per Pupil		Additional Weighted Foundation Payment Per Pupil		
	Minimum	Maximum	Special Education*	Economically Disadvantaged	Career and Technical Education (CTE)
Current Law	$ 7,871	$ 8,409	$4,875	$720	$50
Exec. Rec. Increase	$ 180	$ 120	$2,571	$174	$437
Est. FY20 Total Per Pupil	**$ 8,051**	**$ 8,529**	**$7,446**	**$894**	**$487**
Additional Weight on Minimum Foundation			**92.0%**	**11.0%**	**6.0%**
Statewide Target Weight	**$9,590**		70% weight, 115% weight, or full reimbursement, based on student need	**35.0%**	**10.0%**

** Note: Special education figures are based on statewide estimated equivalent. Actual payments will be reimbursed on cost.*

Other School Operating Funding

- State funding for **MPSERS** retirement contributions exceeds $1.3 billion, including $1.0 billion for state contributions above the statutory cap on unfunded liability costs for local districts of 20.96% of payroll. Funding is included at $214.6 million to pay for increases in normal costs as a result of adopting more conservative assumed rates of investment return, costs that would otherwise be paid by districts. Total state funding for MPSERS is increased by $87.1 million. The budget maintains the MPSERS offset payment at $100 million, which has been included in the budget since FY2012. The budget also deposits $40 million into the MPSERS Retirement Obligation Reform Reserve Fund in anticipation of future cost increases related to the retirement experience study.

- In recognition of the **higher instructional costs of educating high school pupils**, the Executive Budget maintains $11 million for additional per-pupil payments to districts with students in grades 9 to 12. Districts will receive $25 per high school pupil enrolled in the district.

- Funding for **intermediate school districts** is increased by 3.5%, to a total of $70.8 million.

- The recommendation recognizes the varying costs of educating students based on the type of education setting. The budget reflects a reduced funding level of approximately $22 million (20% of the foundation allowance) for the state's **cyber schools**, which have lower facility, maintenance, and transportation costs compared to brick-and-mortar schools.

Improving Early Learning and Literacy

- The budget increases funding for **Great Start Readiness Program (GSRP)** by $85 million, to a total of $328.9 million. This increase raises the family income eligibility threshold from 250% to 300% of the federal poverty level ($77,250 for a family of four) and increases the allocation for a full-time preschooler by $1,250, to a total of $8,500. This investment will allow an additional 5,000 children to be served through the program.

- The budget includes an additional $24.5 million (total funding of $31.5 million) to **triple the number of state-funded literacy coaches**, from 93 coaches to 279 coaches. These coaches will work with teachers across the state to improve early literacy instruction. In addition, funding is maintained for the **Michigan Reading Corps** at $3 million, and for **literacy essentials training** at $1 million, which will include work to improve adult literacy.

- Funding of $19.9 is maintained for other **early literacy grants** to districts used to increase reading proficiency by the end of a child's third grade year through the implementation of multi-tiered systems of supports, regular diagnostic screenings of students, and targeted interventions for students identified as falling behind.

Investing in College and Career Readiness Programs

- A total of $8.2 million is maintained in the budget to support the state's **MiSTEM Network,** which will be rebranded as MiSTEAM to include a focus on "arts" and be rebranded as the **MiSTEAM Network.** From this amount, nearly $5.1 million is recommended to support the MiSTEAM Network Regions and administrative activities, and $3.1 million is recommended for delivering scalable STEAM-related opportunities to pupils statewide.

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

- The fiscal year 2020 budget recommends $3 million for **First Robotics** programs, as well as $1 million to pay for costs associated with **Advanced Placement and International Baccalaureate tests** for low-income pupils. Funding of $1.75 million for **Dual Enrollment Incentive Payments** is eliminated.

Assessments and Accountability

- The FY2020 budget includes $37.3 million ($31.0 million in state and $6.3 million in federal) for costs associated with **student assessments** required under state and federal law, including $2.5 million for a tool to gauge the readiness of students entering kindergarten.

- The FY2020 budget maintains a total of $40.2 million for **state data collection and reporting costs**. This amount includes $38 million in grants to districts for data collection and $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 $16.6 million.

- The budget maintains $7 million to support **Partnership Models** for interventions in districts identified as needing additional academic supports. With this program, the department will continue to work with eligible districts to develop intervention plans and coordinate public, private, and non-profit resources to improve student achievement

Student Support Services

- The budget maintains $5 million for state Early On programming to provide early identification and interventions for developmental delays in children.
- The budget also maintains $1.6 million for continued implementation of 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 $6.1 million and funding for **hearing and vision screenings** is maintained at $5.2 million.
- Funding for **school breakfast and lunch programs** is $564.8 million: $27.6 million in state funds and $537.2 million in federal funds. $575,000 is maintained for programs to support the inclusion of **locally grown produce** in student meals.
- Funding of at $30.5 million is maintained for **adult education programs**, administered by the Talent Investment Agency (TIA).
- 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 $3.7 million: $1.7 million for school bus inspections provided by Michigan State Police and $2 million for school bus driver safety training. Funding to support **transportation costs in small, isolated districts** is maintained at $6 million.
- Education programs in **juvenile justice facilities** are included at $1.3 million. Educational programs that serve **wards of the court** are supported with $7.1 million. Funding for the **Youth ChalleNGe Program** has been moved from the School Aid budget to the Department of Military and Veterans Affairs budget. Funding for **strict discipline academy and dropout recovery** pupil transfer programs are eliminated.

Health and Safety Supports

- A total of $8.1 million is included to continue **early interventions, school-level supports, and nutrition programs** for children in Flint.
- The Executive Budget maintains $23.3 million to support **student mental and behavioral health.**
- The Governor is recommending $61.5 million in a fiscal year 2019 supplemental to replace school drinking fountains with **hydration stations** capable of filtering contaminants from drinking water.

Debt Service and Other Required Payments

- **School Bond Loan Fund Debt Service** is funded at $125.5 million.
- **Renaissance Zone** reimbursements are recommended at $15.3 million.
- **School Aid Fund Borrowing Costs** are increased to a total of $56 million.
- **Payments in Lieu of Taxes** are maintained at $4.4 million.
- **Promise Zone** funding is increased to $8.4 million.

MPSERS Contribution Rates

The FY2020 MPSERS retirement contribution rates are detailed below:

MPSERS Retirement Rates for FY2020								
	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**	**Pension Plus 2 with PHF**
Total Rate	**39.91%**	**36.96%**	**36.44%**	**33.37%**	**33.89%**	**33.37%**	**39.39%**	**39.57%**
Employer Rate:								
Pension Normal Cost	6.02%	3.07%	3.07%	0.00%	0.00%	0.00%	6.02%	6.20%
Pension UAL	12.03%	12.03%	12.03%	12.03%	12.03%	12.03%	12.03%	12.03%
Retirement Incentive (10-yr. payback)	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Pension Total Rate	**19.41%**	**16.46%**	**16.46%**	**13.39%**	**13.39%**	**13.39%**	**19.41%**	**19.59%**
Health Normal Cost	0.52%	0.52%	0.00%	0.00%	0.52%	0.00%	0.00%	0.00%
Health UAL	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%
Retiree Health Total Rate	**8.09%**	**8.09%**	**7.57%**	**7.57%**	**8.09%**	**7.57%**	**7.57%**	**7.57%**
Employer Capped Rate	**27.50%**	**24.55%**	**24.03%**	**20.96%**	**21.48%**	**20.96%**	**26.98%**	**27.16%**
Stabilization Rate (State Funded)	**12.41%**	**12.41%**	**12.41%**	**12.41%**	**12.41%**	**12.41%**	**12.41%**	**12.41%**

FY2019 Employer Capped Rate	**26.18%**	**24.39%**	**24.03%**	**20.96%**	**21.32%**	**20.96%**	**25.82%**	**27.16%**

Acronyms Used Above:

- *MPSERS – Michigan Public School Employees Retirement System*
- *MIP – Member Investment Plan*
- *PHF – Personal Healthcare Fund*
- *DC – Defined Contribution*
- *UAL – Unfunded accrued liability*

FY2019, FY2020, and FY2021 STATE SCHOOL AID APPROPRIATIONS
Executive Budget Recommendation - March 5, 2019

		FY 2019			FY 2020		FY 2021	
Sec.	**APPROPRIATIONS (In thousands):**	**FY 2019 Current Law PA 586 of 2018**	**FY 2019 Revised Exec. Budget**	**Difference**	**FY 2020 Executive Recommendation**	**Difference from Current Law**	**FY 2021 Executive Recommendation**	**Difference from Current Law**
11j	School Bond Loan Redemption Fund	125,500.0	125,500.0	-	125,500.0	-	125,500.0	-
11m	School Aid Fund Borrowing Costs	24,000.0	43,000.0	19,000.0	56,000.0	32,000.0	66,000.0	42,000.0
11s	Flint Declaration of Emergency	3,230.1	3,230.1	-	8,075.1	4,845.0	8,075.0	4,844.9
20f	Categorical Offset Payments	18,000.0	18,000.0	-	18,000.0	-	18,000.0	-
21h	Partnership Model Districts	7,000.0	7,000.0	-	7,000.0	-	7,000.0	-
22a	Proposal A Obligation Payment	5,107,000.0	5,049,000.0	(58,000.0)	4,953,000.0	(154,000.0)	4,860,000.0	(247,000.0)
22b	Discretionary Payment	4,324,000.0	4,295,000.0	(29,000.0)	4,473,000.0	149,000.0	4,446,000.0	122,000.0
22d	Isolated District Funding	6,000.0	6,000.0	-	6,000.0	-	6,000.0	-
22m	Technology Regional Data Hubs	2,200.0	2,200.0	-	2,200.0	-	2,200.0	-
22n	High School Per-Pupil Bonus	11,000.0	11,000.0	-	11,000.0	-	11,000.0	-
24	Court-Placed Children	7,150.0	7,150.0	-	7,150.0	-	7,150.0	-
24a	Juvenile Detention Facility Programs	1,355.7	1,355.7	-	1,355.7	-	1,355.7	-
24c	ChalleNGe Program	1,625.4	1,625.4	-	-	(1,625.4)	-	(1,625.4)
25f	Strict Discipline Academies Pupil Transfers	1,600.0	1,600.0	-	-	(1,600.0)	-	(1,600.0)
25g	Dropout Recovery Program Pupil Transfers	750.0	750.0	-	-	(750.0)	-	(750.0)
25h	Dropout Prevention Program	100.0	100.0	-	-	(100.0)	-	(100.0)
26a	Renaissance Zone Reimbursement	15,000.0	13,800.0	(1,200.0)	15,300.0	300.0	18,400.0	3,400.0
26b	PILT Reimbursement	4,405.1	4,405.1	-	4,405.1	-	4,405.1	-
26c	Promise Zone Payments	3,000.0	3,400.0	400.0	8,400.0	5,400.0	8,400.0	5,400.0
28(3)	Weighted Per Pupil Allocations - Special Education	-	-	-	120,000.0	120,000.0	120,000.0	120,000.0
28(4)	Weighted Per Pupil Allocations - Econ. Disadv.	-	-	-	619,000.0	619,000.0	619,000.0	619,000.0
28(5)	Weighted Per Pupil Allocations - CTE	-	-	-	55,000.0	55,000.0	55,000.0	55,000.0
31a	At-Risk Programs	517,000.0	517,000.0	-	-	(517,000.0)	-	(517,000.0)
31a	Adolescent Teen Health Centers	6,057.3	6,057.3	-	6,057.3	-	6,057.3	-
31a	Vision/Hearing Screening	5,150.0	5,150.0	-	5,150.0	-	5,150.0	-
31b	Balanced Calendar/Year-Round School Programs	750.0	750.0	-	-	(750.0)	-	(750.0)
31d	School Lunch - State	23,144.0	23,144.0	-	23,144.0	-	23,144.0	-
31d	School Lunch - Federal	523,200.0	523,200.0	-	537,200.0	14,000.0	537,200.0	14,000.0
31f	School Breakfast	4,500.0	4,500.0	-	4,500.0	-	4,500.0	-
31j	Local Produce in School Meals	575.0	575.0	-	575.0	-	575.0	-
31n	Mental Health Grants and Admin	31,300.0	31,300.0	-	23,300.0	(8,000.0)	23,300.0	(8,000.0)
31p	Hydration Stations	-	61,500.0	61,500.0	-	-	-	-
32d	Great Start Readiness	244,900.0	244,900.0	-	328,900.0	84,000.0	328,900.0	84,000.0
32p	Great Start Early Childhood Block Grants	13,400.0	13,400.0	-	13,400.0	-	13,400.0	-
32q	Early Learning Cooperative	175.0	175.0	-	-	(175.0)	-	(175.0)
35a	Early Literacy Teacher Coaches	7,000.0	7,000.0	-	31,500.0	24,500.0	31,500.0	24,500.0
35a	Early Literacy District Grants	19,900.0	19,900.0	-	19,900.0	-	19,900.0	-
35a	Michigan Reading Corp	3,000.0	3,000.0	-	3,000.0	-	3,000.0	-
35a	Summer Reading Project	500.0	500.0	-	-	(500.0)	-	(500.0)
35a	Literacy Essentials	1,000.0	1,000.0	-	1,000.0	-	1,000.0	-
35b	Dyslexia Center	250.0	250.0	-	-	(250.0)	-	(250.0)
39a1	Federal NCLB/ESSA Grant Funds	730,600.0	730,600.0	-	725,600.0	(5,000.0)	725,600.0	(5,000.0)
39a2	Other Federal Funding	51,200.0	51,200.0	-	49,100.0	(2,100.0)	49,100.0	(2,100.0)
41	Bilingual Education	6,000.0	6,000.0	-	6,000.0	-	6,000.0	-
51a	Special Education - Federal IDEA	370,000.0	370,000.0	-	370,000.0	-	370,000.0	-
51a1	Special Education Department Monitoring	500.0	500.0	-	500.0	-	500.0	-
51a2	Special Education Foundations & Sped	273,100.0	286,800.0	13,700.0	297,800.0	24,700.0	309,200.0	36,100.0
51a3	Special Ed Hold Harmless Pmt. To ISDs	1,300.0	1,200.0	(100.0)	1,000.0	(300.0)	1,000.0	(300.0)
51a6	Special Ed Rule Change	2,200.0	2,200.0	-	2,200.0	-	2,200.0	-
51a11	Special Ed Non Sec 52 to ISDs	3,400.0	2,900.0	(500.0)	2,800.0	(600.0)	2,800.0	(600.0)
51c	Special Education Headlee	651,000.0	663,500.0	12,500.0	689,500.0	38,500.0	716,000.0	65,000.0
53a	Court Placed Special Ed FTE	10,500.0	10,500.0	-	10,500.0	-	10,500.0	-
54	MI School for Deaf and Blind	1,688.0	1,688.0	-	1,688.0	-	1,688.0	-
54b	Integrated Behavior and Learning Support (MiBLSI)	1,600.0	1,600.0	-	1,600.0	-	1,600.0	-
54d	Early On	5,000.0	5,000.0	-	5,000.0	-	5,000.0	-
51d	Special Education - Other Federal	61,000.0	61,000.0	-	61,000.0	-	61,000.0	-
55	Conductive Learning Center Study	250.0	250.0	-	-	(250.0)	-	(250.0)
56	Special Ed Millage Equalization	40,008.1	40,008.1	-	40,008.1	-	40,008.1	-
61a	Vocational Education	37,711.3	37,711.3	-	36,611.3	(1,100.0)	36,611.3	(1,100.0)
61b	CTE Middle College Program	8,000.0	8,000.0	-	8,000.0	-	8,000.0	-
61c	CTE Equipment Upgrades	2,500.0	2,500.0	-	-	(2,500.0)	-	(2,500.0)
61d	CTE Incentive Payment	5,000.0	5,000.0	-	-	(5,000.0)	-	(5,000.0)
61f	Pipeline to Promise	200.0	200.0	-	-	(200.0)	-	(200.0)
61g	High Demand Jobs	50.0	50.0	-	-	(50.0)	-	(50.0)
61h	Virtual Reality Skilled Trades	1,200.0	1,200.0	-	-	(1,200.0)	-	(1,200.0)
62	ISD Vocational Ed Millage Reimbursement	9,190.0	9,190.0	-	9,190.0	-	9,190.0	-
64b	Dual Enrollment Incentive Payments	1,750.0	1,750.0	-	-	(1,750.0)	-	(1,750.0)
64d	IT Certifications	2,300.0	2,300.0	-	-	(2,300.0)	-	(2,300.0)
65	Detroit Pre-College K-12 Engineering Program	400.0	400.0	-	-	(400.0)	-	(400.0)
67	Michigan College Access Network (MCAN)	3,000.0	3,000.0	-	3,000.0	-	3,000.0	-
74	Bus Driver Safety	2,025.0	2,025.0	-	2,025.0	-	2,025.0	-
74(4)	School Bus Inspection Program	1,729.9	1,729.9	-	1,747.9	18.0	1,735.1	5.2
74a	Bus Driver Safety Grants	810.0	810.0	-	-	(810.0)	-	(810.0)
81	ISD General Operations	68,453.0	68,453.0	-	70,849.0	2,396.0	70,849.0	2,396.0
94	Advanced Placement (AP) Incentive Program	1,000.0	1,000.0	-	1,000.0	-	1,000.0	-
94a	CEPI - State	16,356.7	16,356.7	-	16,457.2	100.5	16,371.1	14.4
94a	CEPI - Federal	193.5	193.5	-	193.5	-	193.5	-
95b	Statewide Value-Added Evaluation Tool	2,500.0	2,500.0	-	-	(2,500.0)	-	(2,500.0)
98	Michigan Virtual University	7,387.5	7,387.5	-	7,387.5	-	7,387.5	-
99h	First Robotics	4,800.0	4,800.0	-	3,000.0	(1,800.0)	3,000.0	(1,800.0)
99s	STEM Executive Director	300.0	300.0	-	300.0	-	300.0	-
99s	MiSTEM Council	3,050.0	3,050.0	-	3,050.0	-	3,050.0	-
99s	MiSTEM Network Regions - Federal	3,500.0	3,500.0	-	235.0	(3,265.0)	235.0	(3,265.0)
99s	MiSTEM Network Regions	4,584.3	4,584.3	-	4,584.3	-	4,584.3	-

Sec.	APPROPRIATIONS (In thousands):	FY 2019 Current Law PA 586 of 2018	FY 2019 Revised Exec. Budget	Difference	FY 2020 Executive Recommendation	Difference from Current Law	FY 2021 Executive Recommendation	Difference from Current Law
99t	Online Algebra Tool	$ 1,500.0	$ 1,500.0	$ -	$ -	$ (1,500.0)	$ -	$ (1,500.0)
99u	Online Mathematics Tool - Imagine Math	$ 1,500.0	$ 1,500.0	$ -	$ -	$ (1,500.0)	$ -	$ (1,500.0)
99u	Spanish Literacy Software	$ 500.0	$ 500.0	$ -	$ -	$ (500.0)	$ -	$ (500.0)
99u	Imagine Literacy	$ 1,000.0	$ 1,000.0	$ -	$ -	$ (1,000.0)	$ -	$ (1,000.0)
99v	K-14 Transition Supports	$ 25.0	$ 25.0	$ -	$ -	$ (25.0)	$ -	$ (25.0)
99w	Fitness Foundation	$ 500.0	$ 500.0	$ -	$ -	$ (500.0)	$ -	$ (500.0)
99x	Teach for America	$ 300.0	$ 300.0	$ -	$ -	$ (300.0)	$ -	$ (300.0)
99y	STEM Entrepreneurship Program	$ 60.0	$ 60.0	$ -	$ -	$ (60.0)	$ -	$ (60.0)
102d	Reimbursement of Financial Analytical Tools	$ 1,500.0	$ 1,500.0	$ -	$ -	$ (1,500.0)	$ -	$ (1,500.0)
104	Student Assessments - State	$ 32,509.4	$ 32,509.4	$ -	$ 31,009.4	$ (1,500.0)	$ 31,009.4	$ (1,500.0)
104	Student Assessments - Federal	$ 6,250.0	$ 6,250.0	$ -	$ 6,250.0	$ -	$ 6,250.0	$ -
104d	Computer Adaptive Tests	$ 9,200.0	$ 9,200.0	$ -	$ -	$ (9,200.0)	$ -	$ (9,200.0)
104f	Digital Assessment Preparation	$ 500.0	$ 500.0	$ -	$ -	$ (500.0)	$ -	$ (500.0)
107	Adult Education	$ 30,500.0	$ 30,500.0	$ -	$ 30,500.0	$ -	$ 30,500.0	$ -
147a	MPSERS Cost Offset	$ 100,000.0	$ 100,000.0	$ -	$ 100,000.0	$ -	$ 100,000.0	$ -
147a(2)	MPSERS Normal Cost Offset	$ 88,139.0	$ 88,139.0	$ -	$ 172,069.0	$ 83,930.0	$ 182,884.0	$ 94,745.0
147c	MPSERS UAAL Rate Stabilization Payment	$ 1,032,700.0	$ 1,032,700.0	$ -	$ 1,030,900.0	$ (1,800.0)	$ 1,198,300.0	$ 165,600.0
147e	MPSERS Transition Costs	$ 37,600.0	$ 30,000.0	$ (7,600.0)	$ 42,571.0	$ 4,971.0	$ 57,673.0	$ 20,073.0
152a	Data Collection and Reporting Costs	$ 38,000.5	$ 38,000.5	$ -	$ 38,000.5	$ -	$ 38,000.5	$ -
152b	Nonpublic School Reimbursement	$ 250.0	$ 250.0	$ -	$ -	$ (250.0)	$ -	$ (250.0)
	TOTAL SCHOOL AID APPROPRIATIONS	**$ 14,844,588.8**	**$ 14,855,288.8**	**$ 10,700.0**	**$ 15,371,238.9**	**$ 526,650.1**	**$ 15,495,456.9**	**$ 650,868.1**

REVENUES:	FY 2019 Current Law PA 586 of 2018	FY 2019 Revised Exec. Budget	Difference	FY 2020 Executive Recommendation	Difference from Current Law	FY 2021 Executive Recommendation	Difference from Current Law
School Aid Fund	$ 12,876,825.2	$ 12,919,425.2	$ 42,600.0	$ 13,504,660.3	$ 627,835.1	$ 13,628,878.4	$ 752,053.2
General Fund	$ 87,920.0	$ 87,920.0	$ -	$ 45,000.0	$ (42,920.0)	$ 45,000.0	$ (42,920.0)
Community District Trust Fund/Other SR Funds	$ 72,000.1	$ 72,000.1	$ -	$ 72,000.1	$ -	$ 72,000.0	$ (0.1)
Mental Health and Support Services Fund	$ 30,000.0	$ 30,000.0	$ -	$ -	$ (30,000.0)	$ -	$ (30,000.0)
MPSERS Retirement Obligation Reform Fund	$ 31,900.0	$ -	$ (31,900.0)	$ -	$ (31,900.0)	$ -	$ (31,900.0)
Federal Funds	$ 1,745,943.5	$ 1,745,943.5	$ -	$ 1,749,578.5	$ 3,635.0	$ 1,749,578.5	$ 3,635.0
TOTAL APPROPRIATED REVENUES	**$ 14,844,588.8**	**$ 14,855,288.8**	**$ 10,700.0**	**$ 15,371,238.9**	**$ 526,650.1**	**$ 15,495,456.9**	**$ 650,868.1**

FY 2020 Executive Budget Recommendation

School Aid

Weighted Funding Model

March 5, 2019

Summary

The Executive Budget Recommendation includes $507 million to increase operational funding for schools and by implementing a new, restructured weighted school funding model. This model includes a base per-pupil foundation payment that build off the existing foundation allowance plus additional funding for students with more costly educational needs. The investment in the new weighted funding model consists of the following components:

- **$235 million** to increase the **foundation allowance** to $8,051 per pupil for districts at the minimum (a $180 per pupil increase) and to increase the foundation allowance to $8,529 per pupil for districts at the maximum (a $120 per pupil increase). This reduces the gap between the highest and lowest funded districts to $478 per pupil, representing an 80 percent reduction in the gap since the implementation of Proposal A.
- **$120 million** to increase state reimbursement for **special education** services by 4 percentage points.
- **$102 million** to increase state support for **economically disadvantaged, academically at-risk students.** Total state funding is recommended at $619 million, which will provide an estimated $894 per eligible pupil.
- **$50 million** to provide additional **Career and Technical Education** opportunities for students, which will provide an estimated $487 per eligible pupil.

Background

The investments included in the Executive Budget are the first step in implementing a weighted per-pupil funding system. Based on recommendations of the Michigan School Finance Research Collaborative (SFRC), the state should set a goal of eventually providing a base per-pupil foundation amount of $9,590 for all pupils, with additional percentage weights for students who require higher cost services, including special education pupils, economically disadvantaged pupils, and career and technical education pupils.

Special Education

Special education pupils have a wide variety of needs, ranging from academic supports to one-on-one specialists. The SFRC report recommends providing additional weights of 70%, 150%, or providing full cost reimbursement for special education students, based on the level of student need.

The state currently reimburses districts for 28% of special education costs. The Executive Budget increases this reimbursement by an estimated 4 percentage points, at a cost of $120 million. On a statewide basis, the appropriations included in the Executive Budget for special education cost reimbursements will provide an estimated effective weight on the base foundation paid for special education students of 92%. These payments are distributed to districts and intermediate school districts on a cost reimbursement basis, so there will be variation in this effective weight across districts.

Districts are required by law to provide special education services, meaning that costs not covered from dedicated revenue sources must be paid from the district's general operating budget. By increasing the reimbursement level, districts will be able to provide additional intervention and support staff for special education students, while also freeing up school operating dollars to improve education for all students. In total, the budget includes $1.2 billion state dollars and $431 million federal dollars to support special education.

Economically Disadvantaged Students
Economically disadvantaged (low-income) pupils tend to have lower academic success rates and higher dropout rates. Additional interventions and resources are often needed to ensure these students reach their academic potential. The SFRC report recommends providing an additional weight of 35% for these students.

The state currently provides $517 million through the existing “At-Risk” categorical, which provides about $746 per economically disadvantaged pupil. The Executive Budget rolls this funding and an additional $102 million into the new weighted funding formula, which provides an estimated weight of 11% of the minimum foundation allowance, or $894 for each eligible pupil. Districts capable of generating higher levels of local revenue, referred to as hold harmless districts, would receive 50% of this amount (up from 30%), or $447 per eligible pupil.

These funds will allow schools to provide additional instructional supports like tutoring services and non-instructional services like counseling and behavioral health services, all of which will help economically disadvantaged pupils overcome the obstacles to achieving academic success.

Career and Technical Education Students
Career and Technical Education (CTE) programs narrow the statewide skills gap, increase the number of people able to meet specific needs of employers statewide, and prepare students to graduate high school ready for a career. These programs often come with higher costs for material, equipment, and staff. In recognition of these costs, and to incentivize expansion of CTE programs, the SFRC recommends providing an additional weight of 10% for students participating in CTE programming.

The state currently has a $5 million CTE incentive payment to pay districts up to $50 per CTE student. The Governor’s Budget takes this existing categorical plus an additional $50 million and distributes funding through the weighted funding formula. The increase will provide an estimated 6% weight per CTE student, or about $487 per eligible pupil.

The budget maintains existing funding for other CTE and vocational education programs. In total, the Governor’s budget includes $109 million for CTE and vocational education programs.

Summary of the Weighted Funding Formula

	Base Foundation Per Pupil		Additional Weighted Foundation Payment Per Pupil		
	Minimum	Maximum	Special Education*	Economically Disadvantaged	Career and Technical Education (CTE)
Current Law	$ 7,871	$ 8,409	$4,875	$720	$50
Exec. Rec. Increase	$ 180	$ 120	$2,571	$174	$437
Est. FY20 Total Per Pupil	**$ 8,051**	**$ 8,529**	**$7,446**	**$894**	**$487**
Additional Weight on Minimum Foundation			**92.0%**	**11.0%**	**6.0%**
Statewide Target Weight	**$9,590**		70% weight, 115% weight, or full reimbursement, based on student need	**35.0%**	**10.0%**

** Note: Special education figures are based on statewide estimated equivalent. Actual payments will be reimbursed on cost.*

FY 2020 Executive Budget Recommendation

School Aid

Expanding Michigan's Preschool Program

March 5, 2019

Summary

The Executive Budget includes an investment of $85 million in Michigan's state-funded preschool program, the Great Start Readiness Program (GSRP). This 35% increase brings total funding for GSRP to $328.9 million. High-quality preschool programs have a positive impact on a child's emotional and behavioral development, as well as increasing the likelihood that the child enters kindergarten ready to learn.

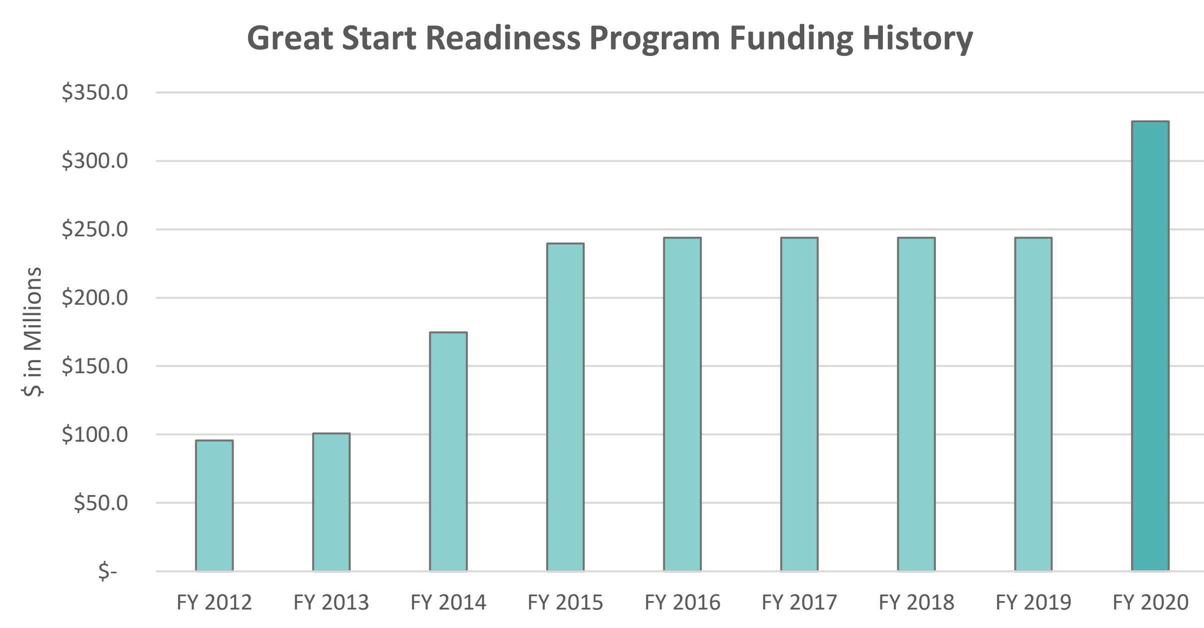
The investment includes $35 million to increase the income eligibility threshold for families from 250% of the federal poverty level to 300% of the federal poverty level, which allows an additional 5,100 children to be served by the program. In addition, the recommendation increases the per-child funding for a full-day preschool student from $7,250 to $8,500 per year, providing additional resources to support and build students' educational foundation. This rate hasn't been increased since 2014.

Expanding the number of children served and increasing the amount paid per child are the first steps the Governor is taking towards universal preschool in Michigan.

Background

The GSRP program has been in existence since 1986 and serves 4-year-old children. Under this program, over 37,000 Michigan children are served in either half-day or full-day programs. To be eligible under current law, children must reside in a household with an income of 250% or less of the federal poverty level, which equates to $64,375 for a family of four. The recommended expansion included in the Governor's Budget raises the eligibility to 300% of the federal poverty level, which equates to $77,250 for a family of four.

Below is a funding history of Michigan's preschool program. This is the first significant investment made in the program since fiscal year 2015.



FY 2020 Executive Budget Recommendation

Department of Education

Expanding Michigan's Child Care Program

March 5, 2019

Summary

The fiscal year 2020 Executive Budget Recommendation will expand Michigan's child care program with two investments effective January 1, 2020:

- A $13.6 million investment will increase the number of children eligible for the program by increasing the income eligibility threshold from 130% of the federal poverty level to 140% of the federal poverty level.
- Additionally, a $16.4 million investment will increase rates paid to child care providers to better retain and incentivize providers to join the program, and to increase the quality of care Michigan's children receive in the program.

Background

Income Eligibility Threshold – In 2016, Michigan had the second lowest income eligibility threshold in the country, severely limiting access to subsidized child care for low-income families. Only Puerto Rico had a lower income threshold.[1] Currently, the income eligibility threshold is 130% of the federal poverty level for Michigan's child care program, or $27,014 for a family of three. The 2020 Executive Recommendation includes $13.6 million in federal funds to expand eligibility up to 140% of the federal poverty level, or $29,092 for a family of three. This is estimated to serve an additional 2,000 Michigan families annually.

Provider Rates – A recent study by Public Sector Consultants found that from 2010 to 2017, Michigan lost 34% of group home providers and 39% of family home providers.[2] The recommended provider rate increase serves three main purposes: it halts the decline in child care provider participation, it incentivizes additional providers to join the program, and it increases the quality of care Michigan's children and families receive.

These investments strategically utilize a funding increase from the federal government in 2018 of $63 million. Below is a summary of the amount of the federal award increase that occurred in 2018 and how the state has invested those funds, including the proposed investments in the fiscal year 2020 Executive Recommendation.

Child Care Federal Award	
2017	$164,899,841
2018	$227,783,401
Increase	**$62,883,560**

Michigan Federal Child Care Investments Since 2018	
2019 Biweekly Payment Structure	$15,000,000
2019 TEACH Scholarship Increase	$2,500,000
2019 Caseload Increase	$24,603,900
2020 Income Eligibility Threshold Increase	$13,600,000
2020 Provider Rate Increase	$16,400,000
State Investment	**$72,103,900**

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[1] Victoria Tran, S. M. (2018, January). *Child Care Subsidies under the CCDF Program: An Overview of Policy Differences across States and Territories as of October 1, 2016.* Retrieved from Administration for Children and Families: https://www.acf.hhs.gov/sites/default/files/opre/ccdfdatabase2016policysummary_b508.pdf

[2] Public Sector Consultants. (December, 14 2018). Changes in Michigan's Child Care Landscape Chanes in Licensed Providers from 2010 to 2017.

FY 2020 Executive Budget Highlights

Higher Education

March 5, 2019

Overview

The Governor's fiscal year 2020 budget recommends an additional $45.6 million for university operations, a 3.0 percent increase over fiscal year 2019 -- the largest year-over-year increase since fiscal year 2015. Total recommended funding for higher education, including financial aid programs and retirement cost reimbursement, is over $1.7 billion.

Operations

An increase of $43.7 million for university operations funding is recommended for fiscal year 2020. The additional funding is distributed equally across-the-board with all 15 public universities receiving a 3.0 percent increase over the previous fiscal year.

To receive the funding increase, universities must satisfy the following requirements:

- Universities must limit tuition and fee increases to 3.2 percent, or $427 per student, whichever is greater, in order to receive any increased funding provided in this recommendation. The cap is lowered from previous years due to the higher level of state funding increase, to 3.2 percent which is equal to the level of inflation plus one percentage point.
- 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 must 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 each receive a 3.0 percent increase, or $1.9 million. This brings total funding for these programs to $66.4 million.

Student Financial Aid

The Governor's budget recommendation includes a fiscal year 2019 supplemental of $110 million to establish the Michigan Reconnect Program. This program will provide tuition-free educational opportunities for non-traditional students ages 25 and older and already in the work-force who seek to earn an industry certificate or associate degree. All remaining funds at the end of fiscal year 2019 will be carried forward and used to support the program through fiscal year 2021.

Funding for two of the state's existing major financial aid programs – the Tuition Grant Program, and State Competitive Scholarship – is maintained from FY 2019 levels. In an effort to contain increasing costs of the Tuition Incentive Program, the Governor's budget does implement a tuition cap of 3 times the in-district per-credit community college tuition rate. The budget assumes savings of $4.5 million associated with implementing the cap.

MPSERS Reform

The Governor’s budget continues to cap the amount of unfunded accrued liability contributions paid by the seven-member universities of the Michigan Public School Employees Retirement System (MPSERS), with the state making payments for amounts over the statutory cap of 25.73 percent, costs that universities would otherwise have to pay. For fiscal year 2020, the budget reflects lowering the assumed rate of investment return for the system to 7.05 percent, based on long-term market analysis and industry standards. The higher education budget includes a total of $6.3 million for university retirement obligations.

University Operations Funding Distribution Options (3%)

			Across-the-Board		
	FY 2011	FY 2019	Increase	FY 2020 Total	% Change from FY19
Michigan State	$283,685,200	$286,274,200	$8,588,200	$294,862,400	3.0%
UM-Ann Arbor	$316,254,500	$320,782,400	$9,623,400	$330,405,800	3.0%
Wayne State	$214,171,400	$202,363,200	$6,070,900	$208,434,100	3.0%
Central	$80,132,000	$87,415,000	$2,622,500	$90,037,500	3.0%
Michigan Tech	$47,924,200	$49,949,600	$1,498,500	$51,448,100	3.0%
Western	$109,615,100	$111,151,000	$3,334,500	$114,485,500	3.0%
Eastern	$76,026,200	$76,979,300	$2,309,400	$79,288,700	3.0%
Oakland	$50,761,300	$52,819,200	$1,584,600	$54,403,800	3.0%
Grand Valley	$61,976,400	$72,056,600	$2,161,700	$74,218,300	3.0%
Saginaw Valley	$27,720,700	$30,528,000	$915,800	$31,443,800	3.0%
UM-Dearborn	$24,726,200	$26,071,800	$782,200	$26,854,000	3.0%
UM-Flint	$20,898,000	$23,585,400	$707,600	$24,293,000	3.0%
Ferris	$48,619,200	$54,950,700	$1,648,500	$56,599,200	3.0%
Northern	$45,140,300	$47,998,400	$1,440,000	$49,438,400	3.0%
Lake Superior	$12,694,200	$13,987,000	$419,600	$14,406,600	3.0%
SUBTOTAL:	**$1,420,344,900**	**$1,456,911,800**	**$43,707,400**	**$1,500,619,200**	**3.0%**
MSU AgBioResearch	$33,243,100	$34,591,400	$1,037,700	$35,629,100	3.0%
MSU Extension	$28,672,600	$29,837,700	$895,100	$30,732,800	3.0%
Grand Total	$1,482,260,600	$1,521,340,900	$45,640,200	$1,566,981,100	3.0%

FY 2020 Executive Budget Highlights

Community Colleges

March 5, 2019

SBO State Budget Office

Overview

The Governor's proposed budget includes $9.7 million for community colleges operations, a 3 percent increase over fiscal year 2019. This compares to an expected increase in inflation of 2.2 percent over the same period and is the largest percentage increase in community college funding since fiscal year 2015. Total fiscal year 2020 recommended funding for community colleges, including both operating funding and retirement cost reimbursement, is $421.2 million.

Performance Funding Formula

The $9.7 million operations increase is allocated among the 28 community colleges using the existing performance funding formula. This formula allocation is as follows:

- 30 percent across-the-board proportional to the previous year's base funding.
- 30 percent based on contact hours weighted to recognize high-cost areas of instruction.
- 30 percent based on three performance metrics (10 percent for number of degree and certificate completions, 10 percent for completion rate, and 10 percent for completion improvement).
- 5 percent based on administrative costs.
- 5 percent based on local strategic value qualifications.

Tuition Restraint

In addition to the Governor's new financial aid initiatives to make college more affordable to students, the Governor's budget recommends a tuition restraint provision in the community college budget to limit annual tuition and fees increases in fiscal year 2020 to the greater of the level of inflation plus one percentage point (3.2 percent), or $128. This is consistent with the recommended tuition restraint level for public universities.

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 statutory cap of 20.96 percent. For fiscal year 2020, the budget reflects lowering the assumed rate of investment return for the system to 7.05 percent, based on long-term market analysis and industry standards. The community colleges budget includes a total of $87 million for community college retirement obligations.

Renaissance Zone Tax Reimbursements

The Governor's proposed budget also continues funding of $2.2 million for Renaissance Zone Tax Reimbursements. These reimbursements hold community college districts harmless from the impact of property tax exemptions in designated state Renaissance Zones.

FY 2020 Executive Recommendation

New Money:		$9,667,500	30%		10%		10%		10%		30%		5%		5%		100%		
			$2,900,250		$966,750		$966,750		$966,750		$2,900,250		$483,375		$483,375		$9,667,500		
	FY 18 FYES	**FY 2018-19 Base**	**Sustainability**	**% Change**	**Performance-Improvement**	**% Change**	**Performance-Completion Number**	**% Change**	**Performance-Completion Rate**	**% Change**	**Contact Hours**	**% Change**	**Administrative**	**% Change**	**Local Strategic Value**	**% Change**	**Total**	**% Change**	**FY 2019-20 Appropriation**
Alpena	1,002	5,707,600	51,368	0.9%	15,063	0.3%	11,001	0.2%	30,070	0.5%	24,511	0.4%	17,960	0.3%	8,561	0.1%	158,500	2.8%	$5,866,100
Bay de Noc	1,070	5,624,800	50,623	0.9%	16,638	0.3%	12,659	0.2%	13,499	0.2%	27,333	0.5%	15,927	0.3%	8,437	0.1%	145,100	2.6%	5,769,900
Delta	5,740	15,104,300	135,938	0.9%	36,250	0.2%	49,314	0.3%	36,250	0.2%	123,502	0.8%	20,958	0.1%	22,656	0.1%	424,900	2.8%	15,529,200
Glen Oaks	734	2,620,000	23,580	0.9%	13,529	0.5%	4,981	0.2%	21,784	0.8%	18,929	0.7%	2,548	0.1%	3,930	0.1%	89,400	3.4%	2,709,400
Gogebic	765	4,844,300	43,599	0.9%	11,626	0.2%	6,067	0.1%	28,929	0.6%	19,759	0.4%	11,192	0.2%	7,266	0.1%	128,400	2.7%	4,972,700
Grand Rapids	11,367	18,709,300	168,383	0.9%	44,902	0.2%	57,965	0.3%	44,902	0.2%	249,391	1.3%	20,792	0.1%	28,064	0.1%	614,400	3.3%	19,323,700
Henry Ford	8,906	22,463,600	202,172	0.9%	53,912	0.2%	45,709	0.2%	71,394	0.3%	208,588	0.9%	18,771	0.1%	33,695	0.1%	634,200	2.8%	23,097,800
Jackson	3,159	12,698,200	114,283	0.9%	35,284	0.3%	23,969	0.2%	30,476	0.2%	72,100	0.6%	19,874	0.2%	19,047	0.1%	315,000	2.5%	13,013,200
Kalamazoo Valley	5,140	13,046,600	117,419	0.9%	31,312	0.2%	33,603	0.3%	31,312	0.2%	125,223	1.0%	21,053	0.2%	19,570	0.1%	379,500	2.9%	13,426,100
Kellogg	2,827	10,214,400	91,929	0.9%	24,514	0.2%	28,997	0.3%	24,514	0.2%	73,125	0.7%	21,717	0.2%	15,322	0.1%	280,100	2.7%	10,494,500
Kirtland	908	3,321,600	29,894	0.9%	28,247	0.9%	9,971	0.3%	7,972	0.2%	27,832	0.8%	17,929	0.5%	4,982	0.1%	126,800	3.8%	3,448,400
Lake Michigan	1,970	5,672,100	51,049	0.9%	13,613	0.2%	13,024	0.2%	13,613	0.2%	54,320	1.0%	11,209	0.2%	8,508	0.1%	165,300	2.9%	5,837,400
Lansing	8,639	32,725,800	294,531	0.9%	84,781	0.3%	87,009	0.3%	78,542	0.2%	214,895	0.7%	19,324	0.1%	49,089	0.1%	828,200	2.5%	33,554,000
Macomb	13,920	34,124,000	307,115	0.9%	81,897	0.2%	85,408	0.3%	97,880	0.3%	335,239	1.0%	21,462	0.1%	51,186	0.1%	980,200	2.9%	35,104,200
Mid-Michigan	2,448	5,112,400	46,011	0.9%	12,270	0.2%	21,853	0.4%	12,270	0.2%	57,365	1.1%	14,581	0.3%	7,669	0.1%	172,000	3.4%	5,284,400
Monroe County	1,780	4,708,600	42,377	0.9%	23,514	0.5%	13,417	0.3%	11,301	0.2%	47,658	1.0%	20,194	0.4%	7,063	0.1%	165,500	3.5%	4,874,100
Montcalm	947	3,542,900	31,886	0.9%	20,133	0.6%	11,001	0.3%	8,503	0.2%	25,932	0.7%	17,366	0.5%	5,314	0.1%	120,200	3.4%	3,663,100
Mott	4,746	16,381,600	147,434	0.9%	39,316	0.2%	56,907	0.3%	54,715	0.3%	133,007	0.8%	19,112	0.1%	24,572	0.1%	475,100	2.9%	16,856,700
Muskegon	2,814	9,264,700	83,382	0.9%	22,235	0.2%	16,329	0.2%	22,235	0.2%	63,203	0.7%	21,695	0.2%	13,897	0.1%	243,000	2.6%	9,507,700
North Central	1,333	3,402,600	30,623	0.9%	8,166	0.2%	10,252	0.3%	23,705	0.7%	32,779	1.0%	18,706	0.5%	5,104	0.1%	129,300	3.8%	3,531,900
Northwestern	2,503	9,625,400	86,628	0.9%	36,113	0.4%	23,763	0.2%	23,101	0.2%	62,484	0.6%	16,672	0.2%	14,438	0.1%	263,200	2.7%	9,888,600
Oakland	11,254	22,093,000	198,836	0.9%	99,123	0.4%	91,803	0.4%	53,023	0.2%	255,201	1.2%	20,101	0.1%	33,139	0.1%	751,200	3.4%	22,844,200
Schoolcraft	7,318	13,112,900	118,016	0.9%	62,691	0.5%	49,857	0.4%	48,387	0.4%	166,525	1.3%	21,324	0.2%	19,669	0.1%	486,500	3.7%	13,599,400
Southwestern	1,550	6,946,900	62,522	0.9%	21,390	0.3%	18,351	0.3%	31,925	0.5%	36,145	0.5%	10,426	0.2%	10,420	0.1%	191,200	2.8%	7,138,100
St. Clair	2,420	7,358,700	66,228	0.9%	19,993	0.3%	20,317	0.3%	33,600	0.5%	61,279	0.8%	17,784	0.2%	11,038	0.1%	230,200	3.1%	7,588,900
Washtenaw	7,948	13,764,000	123,876	0.9%	33,034	0.2%	89,630	0.7%	49,095	0.4%	194,027	1.4%	20,298	0.1%	20,646	0.1%	530,600	3.9%	14,294,600
Wayne County	6,843	17,487,200	157,384	0.9%	71,025	0.4%	67,459	0.4%	57,578	0.3%	160,287	0.9%	17,174	0.1%	26,231	0.1%	557,100	3.2%	18,044,300
West Shore	673	2,573,400	23,161	0.9%	6,176	0.2%	6,133	0.2%	6,176	0.2%	29,612	1.2%	7,227	0.3%	3,860	0.1%	82,400	3.2%	2,655,800
0	**120,724**	**322,250,900**	**2,900,250**	**0.9%**	**966,750**	**0.3%**	**966,750**	**0.3%**	**966,750**	**0.3%**	**2,900,250**	**0.9%**	**483,375**	**0.1%**	**483,375**	**0.1%**	**9,667,500**	**3.0%**	**$331,918,400**

NOTE: This has been updated as of 3-11-2019 due to the discovery of a minor technical issue in the funding formula.

FY 2020 Executive Budget Recommendation

Higher Education

Michigan Scholarship Proposal

March 5, 2019

Issue

The vast majority of today's jobs require some form of postsecondary education, whether it's a college degree or a skills certification. However, as of 2016, only 44 percent of Michigan's workforce held such credentials. The Governor has established a goal of increasing this number to 60 percent by 2030.

Proposal

The Governor is recommending a two-year, tuition-free plan to ensure every Michigander has a real path to get the skills or education they need to land a good paying job. Under this plan, Michiganders will have the opportunity to improve their skills at any point in their life with two years of tuition-free postsecondary education or skills training. The program consists of 3 components:

1) **Michigan Reconnect Grant Program** – tuition-free training for non-traditional students who are at least 25 years old to receive a credential, certificate, or an associate degree. (Summer 2019)
2) **Michigan Opportunity Initiative** - 2 years tuition-free at a community college. (Fall 2020)
3) **Michigan Opportunity Initiative** – 2 years of tuition assistance at a 4-year public or not-for-profit college. (Fall 2020)

Michigan Reconnect Grant Program

The Michigan Reconnect Program will provide credential and degree opportunities for non-traditional students. This program targets students over the age of 25 who have a high school diploma but no further education. This program is modeled after the Tennessee Reconnect program. Eligibility criteria include:

- Age 25 or older
- High school graduate or equivalent, without associate or bachelor's degree
- Michigan resident for at least 1 year
- Eligible programs would be offered at community colleges, technical programs, and community-based organizations (as determined by the Department of Talent and Economic Development)
- Eligible for funding for up to 2 years
- Considered last dollar, covering remaining tuition after all other financial aid, such as federal Pell Grants.

Michigan Reconnect Cost Estimates

The Michigan Reconnect grant program is expected to cost $50 million annually and will serve an estimated 51,100 students. A total of $110 million is being recommend for this program in an FY 2019 supplemental request. Of this amount, $60 million in unspent funds designated for the Marshall Plan will be repurposed for this program, and $50 million in general fund will be deposited into the Talent Investment Fund in FY 2019 to cover the remaining amount. This is projected to cover the costs of the program through FY 2021.

Michigan Opportunity Initiative

The Michigan Opportunity Initiative will provide graduating high school students with two years of tuition-free postsecondary education at a community college or tuition assistance for the first two years at a public or private not-for-profit four-year institution. This program will be available to students beginning Fall 2020.

FY 2020 Executive Budget Recommendation

Department of Health and Human Services

Foster Care Visitation and Licensure Enhancements

March 5, 2019

Summary

The Executive Budget includes two new investments aimed at protecting children within Michigan's child welfare system and ensuring that they have the opportunity to live in safe, permanent homes:

- $5.9 million general fund is recommended to expand the Foster Care Supportive Visitation program and to provide new Parent-Child Visit Assistance services with the goal of promoting the safe and timely reunification of children with their parents.
- Another $1.8 million general fund supports new, one-time incentive payments of $1,000 for relative caregivers who become licensed as foster parents within 180 days of a relative child's initial placement.

Background

Achieving permanency for foster children, either through reuniting them with their parents or finding them a permanent adoptive placement, is a key goal of the child welfare system. Currently, Michigan falls below the national standard in achieving permanency for children within twelve months of their entering foster care. Further, meeting this standard is a requirement of the Implementation, Sustainability, and Exit Plan (ISEP) federal court settlement agreement. For children in foster care whose goal is reunification with their parents, ensuring that they have regular visits with their parents is critical for maintaining their bonds with them. Frequent, planned, purposeful, and progressive parent-child visitation increases the likelihood of successful reunification, reduces the time to reunification, maintains and promotes healthy attachment, and reduces the traumatic effect of the separation for both the child and the parent(s).

Funding Recommendations

The Executive Recommendation provides $5.9 million for a two-part investment to support Michigan's most vulnerable children. The first would expand and enhance the Foster Care Supportive Visitation program, which is based on the nationally and federally recognized Nurturing Parenting Programs curriculum. The program is designed to serve children who are in foster care placements due to abuse or neglect and whose goal is reunification with their parents, which represents about 56 percent of all children in foster care in Michigan. Currently, this program serves approximately 500 parents across 70 of Michigan's 83 counties. The new investment will allow the program to be expanded to all counties, triple the number of parents receiving evidence-based parenting skill development, and move closer to the goal of having no families on a wait list.

The second part of this family reunification investment would implement new Parent-Child Visit Assistance services through local contracts to overcome barriers that prevent parent-child visits from occurring as necessary. These services would provide transportation and observation services locally to ensure that parent-child visits are facilitated at a frequency that promotes continued and strengthened parent-child relationships in more cases.

Michigan is also facing unique challenges in the licensure of relative foster parents. Although all foster parents are required to meet the same safety requirements, foster parents who are related to their foster children are not required to be licensed. State and federal exceptions exist for this circumstance because, when removing a child from their home is necessary, keeping them with their relatives is usually less traumatic and helps them to maintain their family bonds. At the same time, licensure entails a more comprehensive assessment of the placement and affords additional supports and tools to the relative. Furthermore, ISEP commitments require the state to license 85 percent of relative caregivers. In order to encourage relative caregivers to become licensed, the Executive Budget includes $1.8 million in general fund for providing one-time, $1,000 incentive payments to unlicensed relatives who become licensed within 180 days of initial placement.

FY 2020 Executive Budget Recommendation

Department of Health and Human Services

Child Support Pass-Through to FIP Recipients

March 5, 2019

SBO State Budget Office

Summary

Under current policy, the Department of Health and Human Services (DHHS) retains all child support that would otherwise be paid to Family Independence Program (FIP) recipients. A share of these collections must be paid to the federal government and the remainder are retained to offset FIP program costs. However, federal law permits states to pass through up to $200 of child support to FIP families with two or more children and up to $100 of child support to FIP families with one child. In these instances, the federal government waives its share of child support collections.

The Executive Recommendation redirects $946,000 of Temporary Assistance for Needy Families (TANF) caseload savings to provide the maximum federally allowable child support pass-through to FIP recipients. This will substantially increase household income for the most economically vulnerable families with children in the state. Due to the waived federal share, the $946,000 investment will result in an estimated $2.6 million being distributed to 2,300 eligible FIP families.

Background

FIP is Michigan's cash assistance program for low-income families with children. In fiscal year 2018, the program provided an average monthly benefit of $363 to about 18,000 families. Parents participating in FIP are generally subject to work requirements and a lifetime limit of 48 months on benefits. Michigan's FIP caseload has declined by 85 percent over the last twenty years and is projected to continue to fall, resulting in $6.6 million in additional TANF savings for fiscal year 2020. Funding the recommended child support pass-through requires less than 15 percent of these savings.

According to the National Conference of State Legislatures, twenty-seven states and territories had child support pass-through policies as of 2017.[1] In 2013, the Center for Policy Research summarized findings from the Urban Institute, the Institute for Research on Poverty, and other research organizations on the benefits of child support pass-through policies.[2] Benefits in various states included reduced percentage of child maltreatment cases, reduced reliance on public assistance, and positive effects on child outcomes including cognitive development and educational attainment.

Additionally, child support pass-through policies increased the number of families actually receiving child support payments and the amount of child support paid. This is likely because a non-custodial parent is motivated by knowing that payments will flow directly to his or her child.

Michigan's experience further supports this research finding. The state provided a child support pass-through of $50 until fiscal year 2012, when it was eliminated due to budget constraints. DHHS reports that child support collections per FIP case declined approximately 30 percent after the pass-through ended. Child support collections are likely to increase in response to the pass-through, and this may offset the cost of the investment over time. Reinstating the pass-through will improve the performance of the child support program and improve the lives of Michigan's children and families.

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[1] http://www.ncsl.org/research/human-services/state-policy-pass-through-disregard-child-support.aspx

[2] http://centerforpolicyresearch.org/wp-content/uploads/Co-Passthrough-Sept-2013-final-report.pdf

FY 2020 Executive Budget Recommendation

Department of Health and Human Services

Center for Forensic Psychiatry

March 5, 2019

Summary

The FY 2020 Executive budget provides $2.2 million general fund to support the Center for Forensic Psychiatry (CFP) in conducting required forensic evaluations and restoration treatment in a timely manner for adults deemed incompetent to stand trial (IST).

Background

Under federal and state law, all individuals facing criminal charges must be able to understand and participate in the legal proceedings. When a defendant's mental competency is in doubt, Michigan law requires the court to order an evaluation conducted by a specially trained forensic psychologist or psychiatrist. The goal of the evaluation is to determine whether the defendant is competent to stand trial or requires services to be restored to competency.

<u>Process for Competency Evaluation</u>

Under Michigan law, the Center for Forensic Psychiatry (CFP) is responsible for conducting competency evaluations. CFP conducts approximately 2,000 competency evaluations per year and is often required to submit an evaluation report within 60 days of the Court Order to assist in the expedition of legal proceedings. In Michigan, defendants are determined to have mental deficits that impair their competency to stand trial in 22% percent of all cases[1].

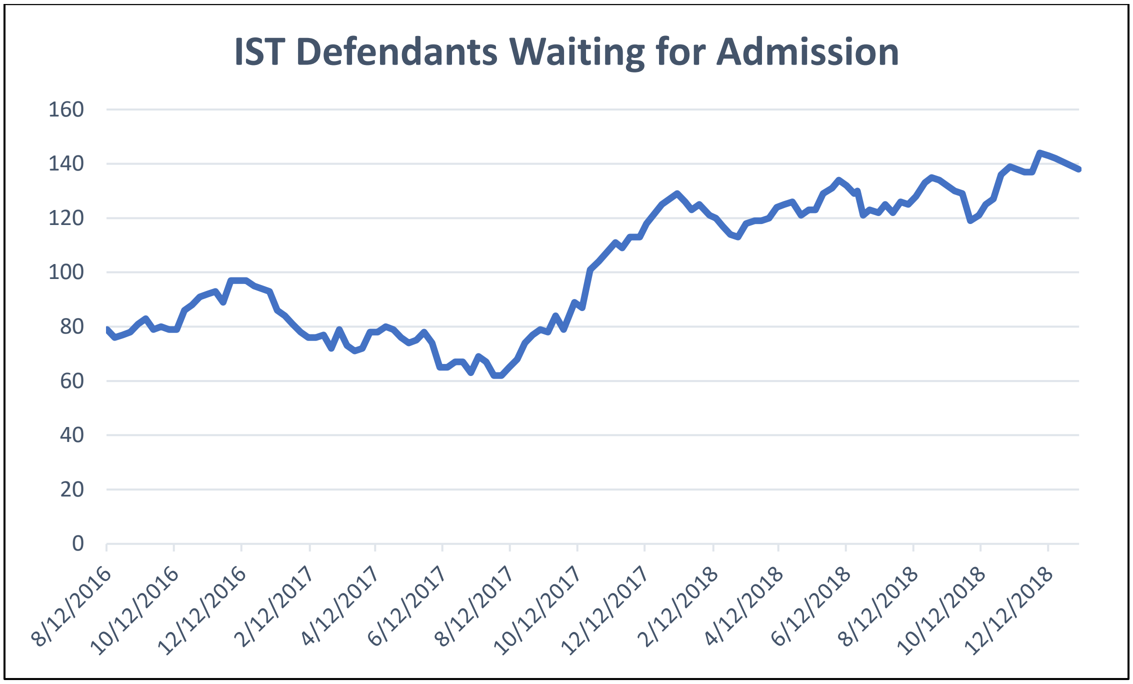
If a defendant is deemed incompetent to stand trial, the court orders restoration services based on the clinical needs of the defendant. Restoration services generally include a mental health assessment, treatment, and sufficient education on the legal process to enable defendants to participate in the trials against them.

<u>Demand for Forensic Evaluation and Restoration Services</u>

Shortages in clinical personnel in the state hospital system have made it difficult for the Department of Health and Human Services to complete forensic evaluations and provide restoration services ordered by the courts in a timely manner. This has resulted in a growing number of IST defendants waiting in jails for a state hospital bed to become available for forensic evaluation and restoration treatment.

The chart below details the growing number of defendants awaiting forensic evaluation or restoration services. Between August 2016 and December 2018, the wait list has grown by 75% from 79 persons to 138.

[1] Department of Health and Human Services: Patient Data Review of 2017-2018.



<u>Demand for Forensic Evaluation Data and Waitlist Coordination</u>
Currently, the state does not have a system in place that tracks the length of time that each of its IST patients have been in treatment or examines the effectiveness of services and treatment to patients. There is a need to establish a data collection system that combines forensic evaluation and restoration service information to track outcomes for interventions and develop quality metrics for improving evaluations and services.

In addition, due to the increasing number of courts orders, better coordination is needed in evaluating the needs of individuals on the IST waitlist and between various stakeholders involved in the competency system. The objective of this coordination is to help expedite case processing, entry into appropriate diversion programs, and the completion of forensic evaluations to stand trial.

<u>Proposal Summary:</u>
To address the issues highlighted above, the FY 2020 Executive budget provides $2.2 million general fund to support 12 additional staff to provide clinical services and other evaluative tasks necessary to reduce the wait list for IST defendants.

The proposed staffing plan includes:

- 7 forensic psychologists to conduct court-ordered forensic evaluation services
- 1 forensic data director to establish the data needed to track outcomes on forensic processes
- 2 ISTs coordinators to support the monitoring of waitlists and to track and prioritize level of care needs
- 2 support staff to carry out administrative tasks supporting these new efforts

This investment will support a multi-pronged approach to address the delays and challenges in the competency system.

FY 2020 Executive Budget Recommendation

Department of Agriculture and Rural Development

Double Up Food Bucks

March 5, 2019

SBO State Budget Office

Background

Since 2016, the State of Michigan has supported Fair Food Network's Double Up Food Bucks program that increases the purchasing power of residents who receive Supplemental Nutritional Assistance Program benefits, by providing a dollar-for-dollar match up to $20 per day to buy fresh fruits and vegetables. There are currently more than 250 participating grocery stores and farmer's markets in 65 counties that combine to provide benefits to over 85,000 low-income households. This program benefits low-income families, farmers, and food retailers across Michigan.

Building on a federal initiative, the state first appropriated funding for Double Up Food Bucks in fiscal year 2016 and has provided over $2.9 million in support for the program to date. The state investment, together with private funds, has increased the number of counties with Double Up Food Bucks sites from 51 to 65.

Fiscal Year 2020 Executive Recommendation

The Governor's fiscal year 2020 recommendation includes $4.0 million with a goal of expanding the program to all 83 counties by 2022. In additional to statewide expansion, the Governor's recommended budget will further expand access to the program by increasing the number of participating retailers in counties in which the program currently operates to improve access for eligible residents and households.