State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2014

The School Aid Budget for Fiscal Year 2014-15
By Kathryn Summers, Associate Director

On June 11, 2014, the Legislature adopted a conference report for House Bill (HB) 5314, the Education omnibus budget bill for fiscal year (FY) 2014-15; the bill then was ordered enrolled and sent to the Governor, who signed it into law on June 24, 2014. The budget provides continued funding for the statutory rate cap on retirement costs pertaining to unfunded accrued liabilities, along with a sizeable allocation to reduce the funding gap between the minimum- and higher-funded school districts. This article will provide a summary of the major items included in the School Aid portion of Public Act 196 of 2014.

Overall Appropriations History

Table 1 shows the changes over time in overall appropriations for School Aid. For FY 2014-15, gross (total) appropriations are increasing $548.0 million above FY 2013-14 spending levels. Of this increase, $375.9 million is related to additional spending on the Michigan Public School Employees' Retirement System (MPSERS), and the remaining changes in the budget are tied to increases in per-pupil foundation allowances and equity payments, categorical changes, and technical cost adjustments, discussed below.

Table 1

School Aid Funding History

Fiscal Year	Full-Time Equated Positions (FTEs)	Interdepart. Grants Received (IDGs)	Federal Funds	Local and Private Funds	State Restricted	General Fund	Gross
FY 2000-01	N/A	$0	$160,000,000	$0	$10,346,671,500	$385,613,500	$10,892,285,000
FY 2001-02	N/A	0	209,584,700	0	11,022,148,200	198,413,500	11,430,146,400
FY 2002-03	N/A	0	1,219,825,200	700,000	11,085,138,100	249,413,500	12,555,076,800
FY 2003-04	N/A	0	1,316,681,900	0	10,730,437,100	377,850,000	12,424,969,000
FY 2004-05	N/A	0	1,353,540,100	0	10,948,322,200	165,200,000	12,467,062,300
FY 2005-06	N/A	0	1,392,587,300	0	11,245,313,200	62,714,000	12,700,614,500
FY 2006-07	N/A	0	1,411,236,900	0	11,561,963,200	35,000,000	13,008,200,100
FY 2007-08	N/A	0	1,476,003,900	0	11,386,866,600	34,909,600	12,897,780,100
FY 2008-09[a)]	N/A	0	2,162,008,600	0	11,019,798,200	78,000,000	13,259,806,800
FY 2009-10[b)]	N/A	0	2,062,382,800	0	10,644,891,500	30,206,200	12,737,480,500
FY 2010-11[c)]	N/A	0	2,178,333,300	0	10,784,760,500	18,642,400	12,981,736,200
FY 2011-12[d)]	N/A	0	1,658,031,800	0	11,010,210,400	78,642,400	12,746,884,600
FY 2012-13	N/A	0	1,701,041,400	0	10,928,614,200	282,400,000	12,912,055,600
FY 2013-14	N/A	0	1,816,158,800	0	11,356,232,300	149,900,000	13,322,291,100
FY 2014-15	N/A	0	1,808,162,700	0	11,947,262,900	114,900,000	13,870,325,600

[a)] Includes $600.0 million in Federal American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization funds.
[b)] Includes $450.0 million in Federal ARRA State Fiscal Stabilization funds.
[c)] Includes $184.3 million in Federal ARRA State Fiscal Stabilization funds and $316.3 million in Federal Education Jobs funds.
[d)] Includes one-time funding of $455,500,000 Gross and State Restricted.

Per-Pupil Funding: Total Appropriations Related to Per-Pupil Funding - $9.0 Billion

The enacted budget for School Aid contains several pieces related to per-pupil funding, including building the FY 2013-14 equity payment into the base, and then providing all districts with a $50 increase to their foundation allowances for FY 2014-15 (costing $74.0 million). The combination of these two measures brings the minimum foundation allowance up from $7,026 in FY 2013-14 to $7,126 for FY 2014-15. An additional item in the School Aid budget, at a cost of $103.0 million, is an equity payment for FY 2014-15, whereby any district with a foundation allowance below $7,251 will get an increase in funding so that the district receives $7,251 per pupil, or, an increase of up to $125 on top of the $50 provided across the board.

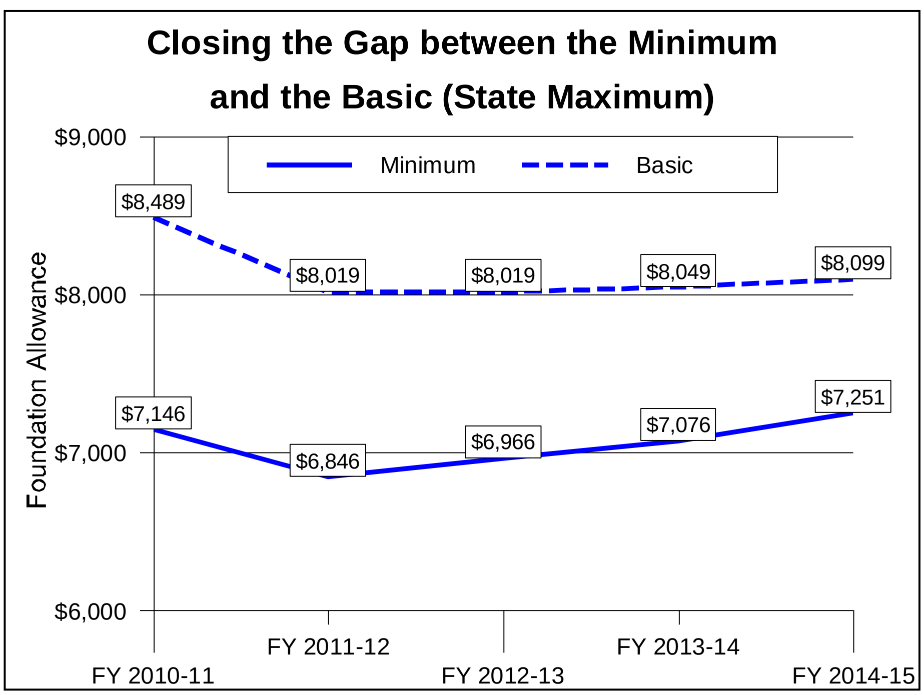
Table 2 illustrates the minimum and the "basic" foundation allowance, which is the point also called the State maximum: it is the target level to which the lower-funded districts are to be raised over time. Any districts with foundation allowances above that point levy local mills for the portion of their foundation allowance that exceeds the basic/State maximum.

Table 2

Minimum (with Equity) and Basic Increases			
Per-Pupil Funding	**FY 2013-14**	**FY 2014-15**	**Change**
Statutory Minimum	$7,026	$7,126	$100
Equity	50	125	75
Total Real Minimum	$7,076	$7,251	$175
Basic..	$8,049	$8,099	$50

If the FY 2014-15 equity payment (of up to $125) is built into base funding heading into FY 2015-16, the gap between the minimum and the basic will decrease from $973 to $848, and the gap between the minimum and the maximum (which includes locally levied hold harmless millage) will decline from $4,858 to $4,733. Figure 1 charts the closing of the gap between the minimum foundation allowance and the basic (State maximum) over the past five years.

Figure 1

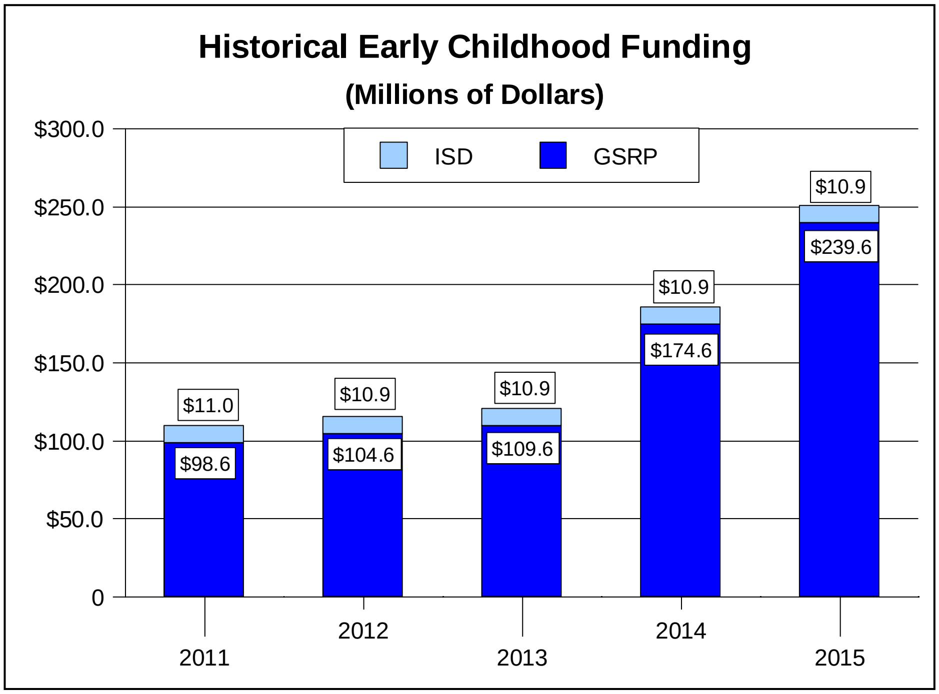


Early Childhood Funding: Total Appropriations Related to Early Childhood - $250.5 Million

As in FY 2013-14, the enacted budget again includes a $65.0 million increase in Great Start Readiness Program (GSRP) funding, with $40.0 million immediately available and the remaining

$25.0 million available upon transfer by the Legislature. The per-slot grant amount remains constant at $3,625 per half-day placement, and a new earmark of $10.0 million out of the total funding (which now stands at $239.6 million) was included to reimburse for transportation costs of at-risk four-year-olds enrolled in the GSRP. Historical funding of early childhood, which also includes $10.9 million in block grants for intermediate school districts' early childhood programs, is shown in Figure 2, with growth of $130.0 million over the past two years for the GSRP.

Figure 2



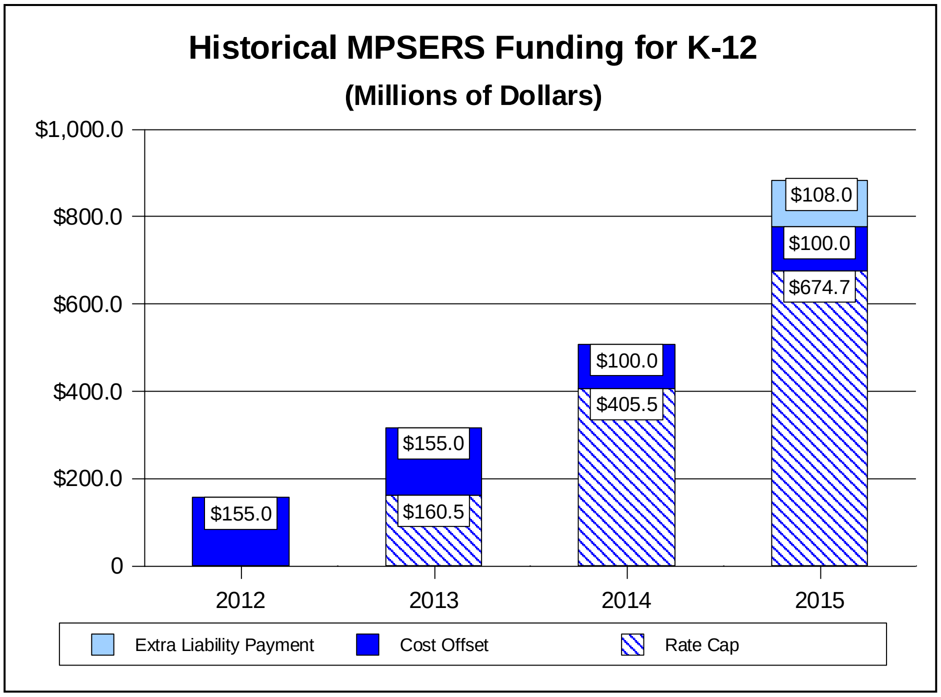
Michigan Public School Employees' Retirement System: Total Appropriations Related to MPSERS - $882.7 Million

The enacted budget includes the required increase in funding necessary to maintain the statutory cap on the amount schools pay toward the unfunded accrued liabilities in the Michigan Public School Employees' Retirement System. The required increase for FY 2014-15 for schools was $267.9 million; the required increase for community colleges was appropriated in the Community Colleges budget, and the required increase for libraries was appropriated in the Department of Education budget.

In addition, MPSERS "cost offset" grants, which provide funding to districts in a manner that reflects their proportion of payroll out of the total MPSERS payroll, were retained at $100.0 million. Although MPSERS "cost offset" grants provide an average benefit of $66 per pupil, the actual value depends, again, on each district's payroll as a share of total statewide MPSERS payroll.

Finally, a new "extra mortgage" payment toward MPSERS' liabilities was included in the budget for FY 2014-15. The new payment of $108.0 million is a direct deposit into the MPSERS' assets or portfolio, to pay down a small portion of the overall unfunded accrued liabilities. Currently, the unfunded accrued liabilities of the MPSERS pension plan stand at $25.8 billion; this "extra mortgage" payment will decrease that figure by $0.1 billion, to $25.7 billion, all else being equal. Figure 3 shows historical funding related to MPSERS.

Figure 3



Other Major Funding Items Continued into FY 2014-15

The budget includes required funding for special education, with appropriations totaling $939.0 million from State sources. Best practice grants again were funded, but with a slight reduction to $75.0 million (down from $80.0 million). The per-pupil best practices grant amount was reduced from $52 to $50, and eligibility criteria were changed, making it impossible to predict which districts will qualify for the best practice grants by the deadline of June 1, 2015. Pupil performance grants were fully funded at $51.1 million, with no legislative change in the eligibility criteria, although some districts will see differences in their funding based on their pupil performance. Technology readiness grants were funded at $41.5 million, down from the $45.0 million set aside for this purpose in FY 2013-14. At Risk remains funded at $309.0 million.

Other Major Funding Items New or Increased in FY 2014-15

The budget includes $14.8 million for new teacher evaluations, to be spent only upon enactment of House Bills 5223 and 5224[1], and includes a $14.7 million increase in assessment funding over FY 2013-14, to a total of $41.4 million from State sources. Operational funding for intermediate school districts (ISDs) was increased $3.0 million, to $67.1 million total. New items funded in the budget

[1] House Bills 5223 (H-4) and 5224 (H-4), as passed by the House, would amend the Revised School Code to modify requirements for teacher and administrator performance evaluations.

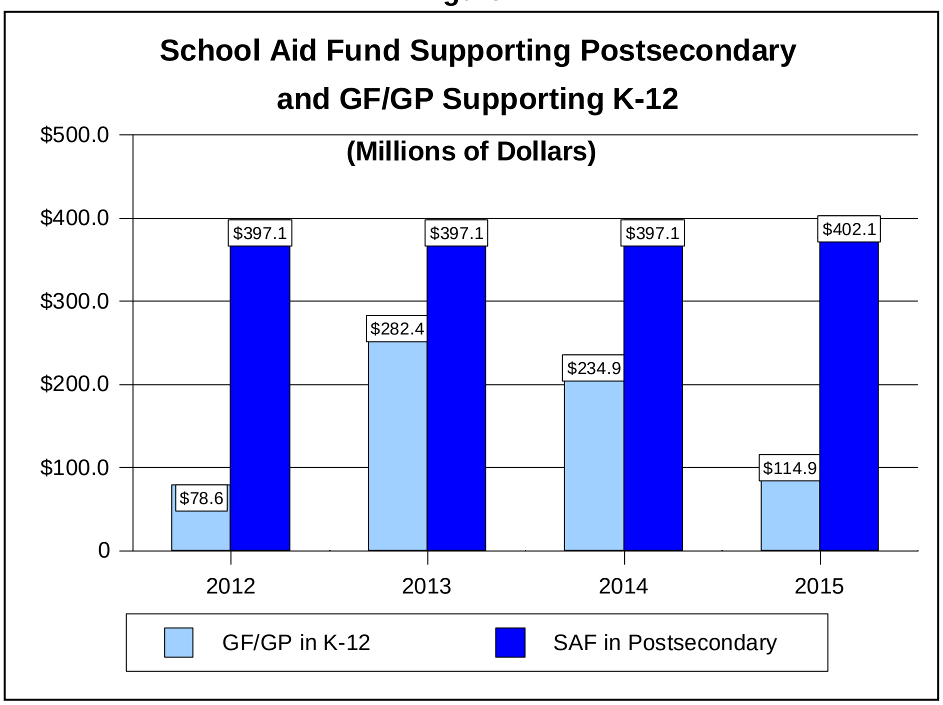
include $4.0 million for a distressed districts' emergency fund, $3.0 million for grants to convert school buses from diesel to natural gas, $1.2 million for nutrition education, and $1.8 million to rewrite teacher certification tests.

Fund Shifts

In FY 2009-10, a fund shift of $208.4 million was made between the State's General Fund/General Purpose (GF/GP) budget and the School Aid Fund (SAF) to ensure that the GF/GP budget closed the fiscal year with a positive year-end balance. This fund shift, characterized as one-time, was done in the Community Colleges budget; the GF/GP revenue supporting the appropriations was reduced and replaced with SAF revenue.

Beginning in FY 2011-12, a change occurred in the funding of both the Community Colleges and Higher Education budgets. The Governor proposed, and the Legislature adopted, partial support of the ongoing budgets using SAF revenue. For the first three budget years, the total from the SAF used in the two budgets was $397.1 million, and for FY 2014-15, the total is $402.1 million. At the same time, GF/GP support in the K-12 budget first increased, but then decreased, as shown in Figure 4.

Figure 4



Whether an Increase is a Decrease

Recently, there has been some discussion as to whether the $50 across-the-board increase provided in the foundation allowance results in more cuts to some districts. There are at least two methodologies behind this line of thinking, one that has to do with increases in retirement costs not covered by the rate cap, and the other related to comparing the final budget with the earlier budget proposals recommended by the Governor, House, and Senate. Both are discussed here.

First, the cost for MPSERS is levied as a percentage of payroll, and that percentage is made up of both a "normal" cost component and the capped component for the unfunded accrued liability (UAL). While the State makes an appropriation for any UAL payment required above the cap, there can be variations in the "normal" cost portion of the rate, and that is occurring for FY 2014-15: the normal cost is increasing by 0.99% applied to payroll for employees in the basic or member investment plans. (The normal cost increase for members in the hybrid plan is 0.14% of payroll.)

These changes, which were first published in the February 2013 Governor's budget recommendation, translate to increased costs at the local level during FY 2014-15. If those increased retirement costs at the local level exceed, on a per-pupil basis, the $50 provided for a district with a foundation allowance above $7,251, then conceivably the district may have retirement expenses growing at a rate faster than the growth provided in the foundation allowance.

The other possible line of thinking in which the minimum $50 increase, enacted in the final version of the budget, could be considered a decrease involves comparing the earlier versions of the School Aid budget. The Governor's recommended budget provided a minimum increase of $83; the House-passed budget provided a minimum increase of $72; and, the Senate-passed budget provided a minimum net increase of $75 in operational funding. Therefore, the enacted $50 increase for districts above $7,251 in per-pupil funding is lower than any of the previous proposals.

However, as discussed earlier, the final K-12 budget provides more for districts at the lowest end of the foundation allowance scale, namely a further $125 in an equity payment, bringing the total increase to $175 per pupil for districts at the minimum. This is a much higher total increase compared with both the Governor's budget, which provided at most $111, and the budget that passed the House, which provided at most $128 per pupil.

Conclusion

In summary, the FY 2014-15 School Aid budget contains $548.0 million in increased appropriations over FY 2013-14 levels. The major items contributing to that increased spending level include MPSERS, per-pupil operational funding, and early childhood. Many other specific categorical funding items also were continued for FY 2014-15, including special education, At Risk, best practices, pupil performance, and technology grants. A list of each district's estimated FY 2014-15 per-pupil foundation allowance and equity payment may be found at: http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCk12_EquityList.pdf.

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Fiscal Year 2014-15 Higher Education Budget and Performance Funding
By Bill Bowerman, Associate Director

Introduction

The fiscal year (FY) 2014-15 Higher Education budget represents the third year in recent times that Michigan has used performance measures to allocate funding increases to Michigan public universities. Part of Michigan's performance funding model is based on a performance tracking model developed for the Business Leaders for Michigan by the Anderson Economic Group, in consultation with the Presidents Council, State Universities of Michigan. The actual metrics used were selected through the legislative process. This article provides an overview of FY 2014-15 performance funding for Michigan's public universities.[1]

Background

While the FY 2011-12 Higher Education budget included a 15.0% across-the-board reduction to university operations, it also included a statement of intent that in subsequent budget years State aid for public university operations would be allocated to each university based on performance funding. The performance funding would be designed to "incent universities to provide, in a cost-effective and timely manner, postsecondary opportunities for students that are both accessible and affordable and that result in a highly skilled workforce."[2]

Michigan's current version of performance funding originated in FY 2012-13. The FY 2012-13 budget process began with the Governor recommending that increases in funding for public universities be allocated based on four equally weighted factors: three-year average growth in the number of undergraduate completions, three-year average number of undergraduate completions in critical skills areas, three-year average number of undergraduates receiving a Pell grant, and compliance with tuition restraint. At about the same time, the Business Leaders for Michigan announced their recommendation that the State increase funding for Higher Education by $1.0 billion over the next 10 years, along with their recommendation for performance funding metrics based on a comparison of Michigan universities with their Carnegie peers[3]. The Senate version of the FY 2012-13 budget proposed to distribute half of the funding increase in an across-the-board manner, one-quarter based on tuition restraint, and one-quarter based on eight metrics (graduation rate, retention rate, degrees and completions, advanced degrees, administrative costs, research and development, average cost of attendance, and Pell students) scored based on how each university performed relative to its Carnegie classification peers. The House version of the budget distributed funding increases based on undergraduate degrees/certificates, weighted for program length and critical skills areas (double weight). The Higher Education Conference Committee maintained the distribution for tuition restraint, included distributions for critical skills as well as research and development, and for 50.0% of the funding increase included in the Senate version of scoring for three metrics based on Carnegie classifications. The metrics used based on Carnegie peers included six-year graduation rates, total degree completions, and institutional support as a percentage of core expenditures (administrative costs).

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[1] Appendix 1 describes formula data sources and terms used in the article.
[2] Section 266 of Public Act 62 of 2011.
[3] The Carnegie Commission on Higher Education classification of colleges and universities is widely used in the study of higher education as a way to control for institutional differences.

Modifications have been made to the formula since FY 2012-13. In FY 2012-13, tuition restraint was based on a separate allocation of funding. Subsequently, tuition restraint has been a prerequisite for receiving any funding increase. Beginning in FY 2013-14, distributions based on Carnegie classifications have been weighted by undergraduate fiscal year equated students (FYES)[4]. Scoring for metrics using Carnegie classifications also changed in FY 2013-14. Modifications for FY 2014-15 include distributing half of the funding increase across-the-board, and adding a metric for the number of students receiving a Pell grant. Table 1 (attached) shows the impact that formula adjustments have had on each university over the three years that Michigan has used performance funding. The columns for each fiscal year represent the increase over the previous year's funding, the percentage change to the previous year, and the institution's increase as a percentage of total performance funding available in that year (e.g., in FY 2014-15 each university's share of the $74.6 million increase). Table 1 lists performance funding distributions to each university from FY 2012-13 through FY 2014-15. As seen in Table 1, weighting by FYES and making tuition restraint a prerequisite instead of a separate allocation of funds had a measurable impact on several institutions.

Details on prerequisites and formulas used for performance funding over the last three fiscal years are contained in the Senate Fiscal Agency's analyses of House Bill 5372 of 2011-2012, and House Bills 4220 and 5314 of 2013-2014. The analyses are available on the Michigan legislative website.[5]

Michigan's FY 2014-15 Performance Funding Allocations

Pursuant to Section 265a of the State School Aid Act, a university must comply with tuition restraint in order to qualify for performance funding.[6] For FY 2014-15, tuition restraint is set at 3.2%. A university also must certify by August 31, 2014, that it complied with all of the following requirements:

- The university participates in reverse transfer agreements with at least three Michigan community colleges or has made a good-faith effort to enter into reverse transfer agreements (under which students enrolled in a four-year institution transfer credits to a community college for the purpose of attaining a degree, diploma, or certificate from the community college).
- The university does not and will not consider whether dual enrollment credits earned by an incoming student were used toward his or her high school graduation requirements when determining whether the student may use those credits toward completion of a university degree or certificate program.
- The university participates in the Michigan Transfer Network created as part of the Michigan Association of Collegiate Registrars and Admissions Officers transfer agreement (which provides for the transferability of up to 30 semester credits from community colleges to baccalaureate colleges and universities to meet general education requirements at the participating institutions).

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[4] FYES for undergraduates is calculated by dividing the previous year's student credit hours by 30.

[5] FY 2012-13: http://www.legislature.mi.gov/documents/2011-2012/billanalysis/Senate/pdf/2011-SFA-5372-N.pdf; FY 2013-14: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/Senate/pdf/2013-SFA-4228-N.pdf; FY 2014-15: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/Senate/pdf/2013-SFA-5314-R.pdf

[6] Appendix 2 contains the language of Section 265a (MCL 388.1865a) as amended by Public Act 196 of 2014.

Table 2 provides a summary of FY 2014-15 funding increase distributions.

Table 2

Higher Education Appropriation
FY 2014-15 Performance Funding Formula

	Amount (millions)	Percent
Proportional to FY 2011-12 State Appropriations	$37.3	50.0%
Critical Skills	8.3	11.1
Research & Development	4.1	5.6
Metrics scored based on Carnegie classifications and weighted by undergraduate FYES (includes six-year graduation rate, total degrees, administrative expenses, and Pell grants)	24.9	33.3
Total	**$74.6**	**100.0%**

The components of the FY 2014-15 performance funding formula are described below.

Funding Proportional to FY 2010-11. The FY 2011-12 budget made a $213.1 million (15.0%) across-the-board reduction in State funding to university operations. The budgets for FY 2012-13 and FY 2013-14 included increases of $36.2 million (3.0%) and $21.9 million (1.8%), respectively, for university operations. The increases in FY 2012-13 and FY 2013-14 were allocated entirely based on performance funding measures. The FY 2014-15 enacted budget includes a $74.6 million (5.9%) increase for university operations. Due to the size of the increase, and the fact that the FY 2011-12 reductions were applied across-the-board, the FY 2014-15 formula allocates $37.3 million (50.0% of the funding increase for university operations) proportional to FY 2010-11 State appropriations for university operations.

Critical Skills. Allocations under this part of the formula include total undergraduate degrees and certificates in Science, Technology, Engineering, and Mathematics (STEM), health, and skilled trades. Calculations are based on a two-year average, with completions weighted based on the length of time it normally takes to complete the degree or certificate. Data for this metric come from FY 2011-12 and FY 2012-13 reports submitted by universities to the Higher Education Institutional Data Inventory (HEIDI). The FY 2014-15 formula allocates $8.3 million (11.1%) of the funding increase based on this metric.

Research and Development Expenditures. This part of the formula is based on research and development expenditures for universities with Carnegie classifications of research universities very high research (Michigan State, U of M-Ann Arbor, Wayne State), research universities high research (Michigan Tech and Western), and research universities doctoral research (Central and Oakland). The distribution of performance funding is based on the amount of expenditures on research and development. In FY 2011-12, a total of $1,287,877,920 was reported to the Integrated Postsecondary Education Data System (IPEDS) by the above seven universities as research and development expenditures. The FY 2014-15 performance funding allotted under this portion of the formula is $4.1 million ($5.6% of the funding increase), resulting in an allocation of $0.0032 for each dollar spent for research and development.

Metrics Scored Based on National Carnegie Peers. Michigan public universities are grouped into one of the following six Carnegie classifications:

- Very High Research Universities: Michigan State, University of Michigan Ann-Arbor, and Wayne State University.
- High Research Universities: Michigan Technological University and Western Michigan University.
- Doctoral Research Universities: Central Michigan University and Oakland University.
- Master's Colleges and Universities (Larger): Eastern Michigan University, Ferris State University, Grand Valley State University, Saginaw Valley State University, University of Michigan-Dearborn, and University of Michigan-Flint.
- Master's Colleges and Universities (Medium): Northern Michigan University.
- Baccalaureate Colleges (Diverse): Lake Superior State University.

A complete listing of classifications can be found on the Carnegie Foundation for the Advancement of Teaching website: http://www.carnegiefoundation.org/

For the metrics of six-year graduation rates, total degrees, institutional support as a percentage of expenditures, and students receiving Pell grants, scoring is based on how each university compares in that category with national Carnegie peers. A university receives points based on the following scale:

Top 20% nationally = 3
Above national median = 2
Improving over three years = 2

The scores for these four metrics are added and then weighted based on the number of undergraduate FY 2012-13 FYES. The total amount allocated for metrics based on Carnegie peer comparisons is $24.9 million (33.3%) of the funding increase. The four metrics are described below.

Six-Year Graduation Rate. This metric represents the percentage of undergraduate students who enrolled six years earlier and completed a degree in six years or less. For the FY 2014-15 appropriation, the data used were based on FY 2010-11, which included students who first enrolled in academic year 2004-2005.

Total Degrees. This metric includes the number of undergraduate and graduate degrees awarded in FY 2010-11 in all program areas.

Institutional Support as a Percentage of Core Expenditures. This metric measures administrative costs as a percentage of core expenditures. Core expenditures include instruction, research, academic support, scholarships, student services, public service, maintenance and operation of facilities, administrative costs, and other expenditures. Universities are scored based on lower administrative costs as a percentage of core expenditures.

Pell Grants. Added in FY 2014-15, this metric is a measure of how accessible an institution is for low-income students. A Pell grant is Federal funding awarded to students with limited financial resources.

Table 3 (attached) provides details regarding the FY 2014-15 allocation of funding based on the performance funding criteria as described above.

Conclusion

The goals of Michigan's performance funding model include increasing the overall number of college graduates, increasing the number of degrees granted in critical skill areas, promoting research and development, and controlling the cost of a college education. Fiscal year 2014-15 will be the third year in which funding increases have been allocated based on performance funding. On a statewide basis, State appropriations in FY 2012-13 accounted for 21.6% of university general fund revenue, tuition and fees accounted for 70.7%, and other fund sources provided the balance of university general fund revenue (7.7%). Whether performance funding has a long-term impact on higher education will be determined to a large degree by the funding the State invests in higher education in the future.

Table 1

State Funding Increases for University Operations
FY 2012-13 through FY 2014-15

	FY 2012-13			**FY 2013-14**			**FY 2014-15**		
	Performance Funding	**Percent Increase**	**Percent of Performance Funds**	**Performance Funding**	**Percent Increase**	**Percent of Performance Funds**	**Performance Funding**	**Percent Increase**	**Percent of Performance Funds**
Central	$3,243,400	4.8%	9.0%	2,187,800	3.1%	10.0%	5,574,900	7.6%	7.5%
Eastern	1,847,600	2.9%	5.1%	808,700	1.2%	3.7%	4,495,700	6.7%	6.0%
Ferris	2,926,400	7.1%	8.1%	1,385,800	3.1%	6.3%	3,450,500	7.6%	4.6%
Grand Valley	2,758,600	5.2%	7.6%	2,387,500	4.3%	10.9%	5,312,500	9.2%	7.1%
Lake Superior	1,256,600	11.7%	3.5%	184,900	1.5%	0.8%	551,500	4.5%	0.7%
Michigan State	3,916,200	1.6%	10.8%	4,560,800	1.9%	20.9%	14,831,300	5.9%	19.9%
Michigan Tech	1,845,500	4.5%	5.1%	894,700	2.1%	4.1%	2,449,300	5.6%	3.3%
Northern	2,489,200	6.5%	6.9%	884,800	2.2%	4.0%	2,535,800	6.1%	3.4%
Oakland	1,819,100	4.2%	5.0%	687,500	1.5%	3.1%	2,712,500	5.9%	3.6%
Saginaw Valley	2,095,200	8.9%	5.8%	334,300	1.3%	1.5%	1,619,200	6.2%	2.2%
UM-Ann Arbor	5,353,400	2.0%	14.8%	5,076,000	1.9%	23.2%	15,941,400	5.7%	21.4%
UM-Dearborn	1,221,000	5.8%	3.4%	273,100	1.2%	1.2%	1,178,900	5.2%	1.6%
UM-Flint	1,764,200	9.9%	4.9%	411,600	2.1%	1.9%	1,399,500	7.0%	1.9%
Wayne State	1,361,400	0.8%	3.8%	0	0.0%	0.0%	7,121,500	3.9%	9.5%
Western	2,319,200	2.5%	6.4%	1,791,500	1.9%	8.2%	5,463,000	5.6%	7.3%
Total	**$36,217,000**	**3.0%**	**100.0%**	**$21,869,000**	**1.8%**	**100.0%**	**$74,637,500**	**5.9%**	**100.0%**

Notes: In FY 2013-14 Wayne State University did not comply with tuition restraint and its performance funding was redistributed to other institutions pursuant to Section 265a of the State School Aid Act. Amounts listed for FY 2014-15 assume that all universities comply with the prerequisites for performance funding.

Table 3: FY 2014-15 University Performance Funding

		Funding Proportional to FY11		Funding Proportional to Share of Total				Scored vs. National Carnegie Peers											
Funding per unit:		$0.0263	per dollar	$556.56	per completion	$ 0.0032	per dollar	$13.63 per weighted point											
% of formula:		50.0%		11.1%		5.6%		33.3%											
	FY14 Current Law	FY11 State Approp.	Performance Funding	Critical Skills Undergrad Awards	Performance Funding	Research & Development Expenditures	Performance Funding	6-year Grad Rate	Total Degrees	Institut. Support as % of Expends.	Students Receiving a Pell Grant	Total Points	Total FY 2012-13 Undergrad FYES	FYES-Weighted Score	Performance Funding	**Total Performance Funding**	**FY 2014-15 Enacted**	% Change from FY14	% of Total Perf. Funding
Michigan State	$249,597,800	$283,685,200	$7,453,666	2,718	$1,512,787	$318,951,530	$1,026,915	2	3	2	3	10	35,494	354,940	$4,838,050	**$14,831,300**	**$264,429,100**	5.9%	19.9%
UM-Ann Arbor	$279,232,700	316,254,500	$8,309,406	2,743	$1,526,631	$714,903,000	$2,301,744	3	3	2	2	10	27,905	279,050	$3,803,622	**$15,941,400**	**$295,174,100**	5.7%	21.4%
Wayne State	$183,398,300	214,171,400	$5,627,231	661	$367,605	$153,453,343	$494,067	0	0	0	3	3	15,470	46,410	$632,597	**$7,121,500**	**$190,519,800**	3.9%	9.5%
Michigan Tech	$43,473,800	47,924,200	$1,259,181	927	$515,753	$56,380,000	$181,524	3	0	2	2	7	5,165	36,155	$492,815	**$2,449,300**	**$45,923,100**	5.6%	3.3%
Western	$97,279,000	109,615,100	$2,880,074	1,069	$594,958	$23,042,963	$74,190	2	2	2	2	8	17,550	140,400	$1,913,738	**$5,463,000**	**$102,742,000**	5.6%	7.3%
Central	$73,540,100	80,132,000	$2,105,422	693	$385,414	$9,894,583	$31,857	3	3	3	3	12	18,660	223,920	$3,052,167	**$5,574,900**	**$79,115,000**	7.6%	7.5%
Oakland	$45,651,600	50,761,300	$1,333,724	1,023	$569,356	$11,252,501	$36,229	0	2	0	2	4	14,182	56,728	$773,237	**$2,712,500**	**$48,364,100**	5.9%	3.6%
Eastern	$67,275,400	76,026,200	$1,997,545	664	$369,553			2	3	2	3	10	15,616	156,160	$2,128,556	**$4,495,700**	**$71,771,100**	6.7%	6.0%
Ferris	$45,636,500	48,619,200	$1,277,442	1,241	$690,720			2	3	2	3	10	10,875	108,750	$1,482,329	**$3,450,500**	**$49,087,000**	7.6%	4.6%
Grand Valley	$57,823,500	61,976,400	$1,628,394	1,299	$722,722			3	3	2	3	11	19,751	217,261	$2,961,401	**$5,312,500**	**$63,136,000**	9.2%	7.1%
Saginaw Valley	$25,991,000	27,720,700	$728,346	394	$219,004			2	2	0	2	6	8,215	49,290	$671,853	**$1,619,200**	**$27,610,200**	6.2%	2.2%
UM-Dearborn	$22,510,400	24,726,200	$649,667	374	$207,873			2	0	0	2	4	5,894	23,576	$321,355	**$1,178,900**	**$23,689,300**	5.2%	1.6%
UM-Flint	$19,938,200	20,898,000	$549,083	437	$242,936			2	2	2	2	8	5,571	44,568	$607,489	**$1,399,500**	**$21,337,700**	7.0%	1.9%
Northern	$41,741,400	45,140,300	$1,186,036	488	$271,425			2	3	2	3	10	7,911	79,110	$1,078,318	**$2,535,800**	**$44,277,200**	6.1%	3.4%
Lake Superior	$12,231,000	12,694,200	$333,533	173	$96,319			0	2	0	2	4	2,231	8,924	$121,640	**$551,500**	**$12,782,500**	4.5%	0.7%
TOTAL:	$1,265,320,700	$1,420,344,900	$37,318,750	14,901	$8,293,056	$1,287,877,920	$4,146,528	28	31	21	37	117	210,490	1,825,242	$24,879,167	**$74,637,500**	**$1,339,958,200**	5.9%	100.0%

Scoring
3 = Top 20% nationally
2 = Above the national median
2 = Improving over 3 years

Notes:
1. Spreadsheet developed and designed by the State Budget Office, DTMB.
2. The Business Leaders for Michigan (BLM)& Anderson Economic Group (AEG) is the source of all Carnegie-scored data. Methodology also provided by BLM/AEG. All data are from FY11, with growth compared to FY08, except Pell Grants, which compares FY11 to FY09.
3. Funding proportional to FY11 provides an across the board increase.
4. Data for critical skills awards are from HEIDI. Average of FY12 and FY13 reported data. Methodology from FY14 enacted formula.
5. Data for research & development expenditures are from IPEDS from FY12. Methodology provided by BLM/AEG.
6. Institutional support as a percentage of core expenditures measures administrative spending. A lower percentage yields a better score.

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Appendix 1

FORMULA DATA SOURCES AND TERMS USED

Integrated Postsecondary Education Data System (IPEDS)

IPEDS is a primary source for data on colleges, universities, and technical and vocational postsecondary institutions in the United States. Annual surveys are conducted by the U.S. Department of Education's National Center for Education Statistics. IPEDS collects information from colleges, universities, and technical and vocational institutions that participate in the Federal student financial aid programs. Institutions that participate in Federal student aid programs are required by the Higher Education Act of 1965 to report data on enrollments, program completions, graduation rates, faculty and staff, finances, institutional prices, and student financial aid.

Higher Education Institutional Data Inventory (HEIDI)

HEIDI is used by Michigan public universities to report financial and student information to the State of Michigan. Section 299 of the Management and Budget Act (1984 PA 431) requires the Office of the State Budget Director to establish, maintain, and coordinate the HEIDI database. Data for the Critical Skills metric are generated from HEIDI.

Business Leaders for Michigan (BLM)

Business Leaders for Michigan serves as a business roundtable for the State of Michigan. Business Leaders for Michigan is composed of the chairpersons, chief executive officers, or most-senior executives of the State's largest job providers and universities. Business Leaders for Michigan has advocated for increased State financial support for higher education as part of its plan to make Michigan a top-10 state for jobs and personal income.

Presidents Council, State Universities of Michigan

The Presidents Council, State Universities of Michigan serves as a forum for the presidents and chancellors of Michigan's 15 public universities. The Michigan Council of State College Presidents was formally established in 1952. The Presidents Council provides analysis of higher educational policy issues, serves as an information source for its member institutions, and advocates for higher education issues before the State Legislature.

Appendix 2

BOILERPLATE LANGUAGE

Section 265a (MCL 188.1865a) as Amended by Public Act 196 of 2014

Sec. 265a. (1) Appropriations to public universities in section 236 for fiscal year 2014-2015 for performance funding shall be paid only to a public university that complies with section 265 and certifies to the state budget director, the house and senate appropriations subcommittees on higher education, and the house and senate fiscal agencies by August 31, 2014 that it complies with all of the following requirements:
(a) The university participates in reverse transfer agreements described in section 286 with at least 3 Michigan community colleges or has made a good-faith effort to enter into reverse transfer agreements.
(b) The university does not and will not consider whether dual enrollment credits earned by an incoming student were utilized towards his or her high school graduation requirements when making a determination as to whether those credits may be used by the student toward completion of a university degree or certificate program.
(c) The university participates in the Michigan transfer network created as part of the Michigan association of collegiate registrars and admissions officers transfer agreement.

(2) Any performance funding amounts under section 236 that are not paid to a public university because it did not comply with 1 or more requirements under subsection (1) are unappropriated and reappropriated for performance funding to those public universities that meet the requirements under subsection (1), distributed in proportion to their performance funding appropriation amounts under section 236.

(3) The state budget director shall report to the house and senate appropriations subcommittees on higher education and the house and senate fiscal agencies by September 17, 2014, regarding any performance funding amounts that are not paid to a public university because it did not comply with 1 or more requirements under subsection (1) and any reappropriation of funds under subsection (2).

(4) Performance funding amounts described in section 236 are distributed based on the following formula:
(a) Proportional to each university's share of total operations funding appropriated in fiscal year 2010-2011, 50.0%.
(b) Based on weighted undergraduate completions in critical skills areas, 11.1%.
(c) Based on research and development expenditures, for universities classified in Carnegie classifications as doctoral/research universities, research universities (high research activity), or research universities (very high research activity) only, 5.6%.
(d) Based on 6-year graduation rate, total degree completions, and institutional support as a percentage of core expenditures, and students receiving pell grants, scored against national Carnegie Classification Peers and weighted by total undergraduate fiscal year equated students, 33.3%.

(5) For purposes of determining the score of a university under subsection 4) (d)**,** each university is assigned 1 of the following scores:
(a) A university classified as in the top 20%, a score of 3.
(b) A university classified as above national median, a score of 2.
(c) A university classified as improving, a score of 2. It is the intent of the legislature that, beginning in the 2015-2016 state fiscal year, a university classified as improving is assigned a score of 1.
(d) A university that is not included in subdivision (a), (b), or (c), a score of 0.

(6) For purposes of this section, "Carnegie Classification" shall mean the basic classification of the university according to the most recent version of the Carnegie Classification of institutions of higher education, published by the Carnegie foundation for the advancement of teaching.

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2014

Community Mental Health non-Medicaid Services Funding Adjustments
By Steve Angelotti, Associate Director

Summary

Due to the implementation of Medicaid expansion, the Community Mental Health (CMH) non-Medicaid line item in the budget for the Michigan Department of Community Health has been reduced significantly in fiscal year (FY) 2013-14, from the original appropriation of $283.7 million to $194.7 million plus a $12.0 million reserve (total appropriation of $206.7 million), a net reduction of $77.0 million. This reduction was made because many of the low-income uninsured people served by and services provided by the Community Mental Health Services Programs (CMHSPs or CMHs) became eligible for Medicaid reimbursement due to the expansion, which took effect on April 1, 2014.

For FY 2014-15, there is a larger reduction in CMH non-Medicaid funding as Medicaid expansion will be in effect for the entire fiscal year, not just the latter six months of the year. The CMH non-Medicaid services line in the enacted FY 2014-15 budget is $97.1 million, a reduction of $186.6 million from the pre-expansion funding level.

There has been a dispute between the CMHs, as represented by the Michigan Association of Community Mental Health Boards (the "CMH Association"), and the Snyder Administration as to how much funding is necessary to maintain the pre-expansion level of services to those individuals not eligible for expansion and those services not covered by Medicaid. The CMHs have stated that they believe $141.1 million ($140.0 million plus $1.1 million in State facility transfer adjustments) is needed for services full-year, reflecting a $142.6 million General Fund/General Purpose (GF/GP) reduction. As noted, the FY 2014-15 budget includes $97.1 million in funding for the CMH non-Medicaid services line.

Based on that estimate the CMH Association has argued that an appropriate savings estimate for the latter half of FY 2013-14 would be roughly half of the $142.6 million figure, or $72.0 million GF/GP. That estimate would justify a reduction in the FY 2013-14 non-Medicaid line from $283.7 million to $211.7 million, compared with the $206.7 million provided by the Legislature.

As such, in FY 2014-15 there is a gap of $44.0 million GF/GP ($97.1 million vs. $141.1 million) between the enacted FY 2014-15 CMH non-Medicaid line item and what the CMH Association believes is necessary. In FY 2013-14, the gap is much smaller, $5.0 million ($206.7 million vs. $211.7 million).

Over the last two months, there have been a number of communications to legislators and news reports stating that CMHs have had to cut back programming and have eliminated contracts due to inadequate resources in FY 2013-14.

Given that the gap between the amount requested by the CMHs for FY 2013-14 and the amount appropriated is $5.0 million out of $211.7 million, the Senate Fiscal Agency can find no evidence that these reported FY 2013-14 reductions are based on a lack of sufficient CMH non-Medicaid funding.

The difference between the CMH's estimate and the funding provided by the Legislature is less than 3.0% of the total funding. It is unclear how one can argue, even assuming that the CMHs' full-year estimate that $140.0 million is needed is correct, that the State has not provided the CMHs with just about every dollar the CMH Association requested for FY 2013-14.

The State has implemented rebasing for pre-expansion Medicaid behavioral health services provided by Pre-paid Inpatient Health Plans (PIHPs) and that has adjusted funding up and down for various PIHPs. Those funding changes are completely unrelated to the adjustments made to CMH non-Medicaid services due to expansion of Medicaid. It is possible that some PIHPs have reduced contracts for pre-expansion Medicaid services and that those reductions are being blamed on the Medicaid expansion adjustments, but that blame is misplaced.

It is also important to note that funding has been advanced to CMHs to help with cash flow issues related to retroactive Medicaid eligibility, that there have been meetings between the Department of Community Health (DCH) and the CMHs to help address concerns going back several months, and that the CMHs, collectively, have a fund balance of over $143.9 million to help address cash flow issues.

That being said, the gap between the FY 2014-15 appropriation and the CMH estimate, $44.0 million, is quite significant and there is no question that there will have to be discussions as to what is an appropriate amount of funding. Unlike the case in FY 2013-14, there is plenty of time for these discussions to take place and, at some point this fall, there should be clearer indications as to the GF/GP savings achieved from the transfer of populations and services to Medicaid expansion.

Introduction and Background

Over the past several months, there have been a number of concerns expressed about Community Mental Health funding, in particular CMH non-Medicaid funding, subsequent to the implementation of Public Act 107 of 2013, commonly known as "Medicaid expansion" or the Healthy Michigan Plan.

The CMH system provides behavioral health services to low-income people throughout the State. Most of the low-income people covered are eligible for Medicaid and receive their services via a managed care model through PIHPs. Pre-paid Inpatient Health Plans are groups of CMHs. There are numerous low-income people who were not eligible for Medicaid prior to the implementation of expansion and many who still are not eligible. There are also services for which Medicaid does not provide reimbursement. Funding for those people and services is provided through the CMH non-Medicaid services line item.

In the original FY 2013-14 DCH budget, $2,152.9 million was appropriated to the PIHPs for Medicaid mental health services and $283.7 million (all GF/GP funding) was appropriated to the CMHs for CMH non-Medicaid services.

Medicaid Expansion

The implementation of Medicaid expansion has changed the dynamic significantly. Medicaid expansion provides Medicaid coverage to otherwise-uninsured adults with incomes under 138% of the Federal poverty level, which is just over $16,000 for a single adult. It should be noted that children under 138% of poverty are already categorically eligible for "regular" Medicaid, so the expansion of Medicaid applies only to adults.

Furthermore, the Federal government, through the end of calendar year 2016, will pay 100% of service costs for the expansion population. After that point, the rate will drop to 95% and, by calendar year 2020, to 90%. This means that during FY 2013-14, FY 2014-15, and FY 2015-16, the State will not incur any costs for services to the expansion population.

A significant number of the low-income adults who receive services paid for from the CMH non-Medicaid line are now eligible for expansion Medicaid. The costs for the Medicaid-covered CMH services they receive are reimbursed with Medicaid dollars rather than CMH non-Medicaid dollars. In effect, a substantial portion of the services paid from the $283.7 million GF/GP CMH non-Medicaid line is now paid with Medicaid expansion dollars.

Medicaid Eligibility, Retroactivity, and Cash Flow

The reimbursement process is not as simple as switching funding streams from CMH non-Medicaid to the new "Healthy Michigan Plan - Behavioral Health" line item. Those eligible must enroll in the program.

Individuals who apply for Medicaid and are deemed eligible, are eligible retroactive to the date they applied. While the eligibility determination process may take time, the cost of services provided to such an individual is fully reimbursed from the date of application. For example, if a person shows up at a CMHSP on July 24, 2014, and it works with the person to apply for Medicaid on that date and the person is deemed eligible on August 3, 2014, the CMHSP will be fully reimbursed for costs incurred from July 24 onward.

Therefore, if an uninsured person shows up at a hospital, a CMHSP, or another health facility seeking medical services, whether the person seeks treatment for physical or behavioral health issues, it is very much in the interest of the provider to determine whether the person may be Medicaid-eligible – either for "regular" Medicaid or for expansion Medicaid.

This means that it is very important for a health provider to have a person apply for Medicaid immediately, especially if the person is facing an emergency situation, needs hospitalization, or has a potentially costly pharmaceutical issue. Only by taking that step can the provider be assured that it will be fully reimbursed if and when the person is deemed eligible for Medicaid.

The situation for hospitals and other physical health providers is a bit different from the situation faced by CMHs. A hospital does not have public funding available to directly cover services to a low-income uninsured person who shows up at the emergency department. Therefore, a hospital's only way to cover the costs of services is for the person to apply for

Medicaid. While retroactive reimbursement is not immediate, the hospital will eventually receive payment for the services.

Unlike hospitals, CMHs do have a pool of public non-Medicaid funds to provide services to these potentially Medicaid-eligible individuals. However, the CMHs are much better off, in spite of that pool, if a person applies for Medicaid on the day he or she seeks services. That way, while the CMHs must use their own resources to provide services until a person is deemed Medicaid-eligible, they will be reimbursed for those costs. Every day that a CMHSP delays in having a person apply is one more day when it has to use its own non-Medicaid resources without subsequent reimbursement. Therefore, it is just as important for CMHs to have a likely Medicaid-eligible client apply for Medicaid immediately as it is for hospitals.

The issue for CMHs during the application determination process is not reimbursement for services for those eligible for Medicaid expansion; it is cash flow. In other words, as numerous regular clients who became eligible for Medicaid on April 1, 2014, showed up in early April and applied for expansion Medicaid, the CMHs had to use their own resources to provide services until those people were deemed eligible. At that point, the State reimbursed the CMHs for the cost of those services retroactive to the date of application. However, that delay in reimbursement, especially at the start of expansion when hundreds of thousands applied and were added to the program, is a legitimate concern for CMHs. This cash flow issue is *not* a funding issue, but rather a timing issue, and the State addressed it by advancing CMH non-Medicaid and Healthy Michigan Plan dollars to the CMHs.

Assumed Savings

Governor Snyder, in proposing Medicaid expansion in his FY 2013-14 budget, released in February 2013, assumed large savings in the CMH non-Medicaid line. In a full-year situation, he assumed $203.9 million GF/GP savings in the CMH non-Medicaid line. Because his proposal assumed implementation of expansion on January 1, 2014, that is, three months into FY 2013-14, the Governor's savings assumption for FY 2013-14 in the CMH non-Medicaid line was $152.9 million GF/GP.

In effect, the Snyder Administration was predicting that about 72% of the spending and services provided in the CMH non-Medicaid line would be shifted over to expansion Medicaid. This would leave 28% of the funding to cover services that are not Medicaid reimbursed (like jail diversion), costs related to those spending down to be eligible for Medicaid, and individuals who receive services but are still not Medicaid-eligible even with expansion.

The Administration based its estimate on an examination of payments for CMH non-Medicaid services, the services provided (that is, whether they were services eligible for Medicaid reimbursement), and the likely eligibility status of those who received the services.

While at the time there were some concerns expressed about the magnitude of the projected savings, it appeared to be a good faith effort to get at a reasonable number.

Medicaid expansion was not included in the original FY 2013-14 DCH budget, but, in late August and early September 2013, House Bill 4714 was passed and signed into law by Governor Snyder as Public Act 107 of 2013. Not only did that Act expand the Medicaid program, it also contained appropriation adjustments for FY 2013-14 to reflect expansion of the program effective January 1, 2014.

Public Act 107 included a $152.9 million GF/GP reduction in the CMH non-Medicaid line to reflect the original nine months of CMH non-Medicaid savings assumed by Governor Snyder in his original FY 2013-14 budget. This reduced the CMH non-Medicaid line from $283.7 million to $130.8 million upon the effective date of the Act.

The legislation, however, after being passed by the Senate, did not receive immediate effect, so the program was not slated to be implemented until April 1, 2014, three months later than originally expected. Therefore, the savings were overestimated. Instead of nine months of savings totaling $152.9 million GF/GP, April 1 implementation meant six months of savings, projected by the Administration at $101.9 million GF/GP.

Because of this concern, Governor Snyder proposed a supplemental appropriation on October 15, 2013 (in supplemental letter 2014-1) to restore $51.0 million to the CMH non-Medicaid line. Thus, the Governor proposed total FY 2013-14 CMH non-Medicaid funding of $130.8 million plus $51.0 million, which, due to rounding, equaled proposed funding of $181.7 million.

CMH Concerns

In fall 2013, after the release of the supplemental letter, the CMH Association expressed concern that the Governor's proposed funding would not be adequate to cover CMH needs. It was at this point that the CMH Association estimated that, if the Governor's $51.0 million funding proposal were enacted, there would still be a shortfall of $30.0 million over the latter six months of FY 2013-14. This $30.0 million half-year shortfall estimate was based on the CMH Association's estimate of a $60.0 million full-year shortfall. Therefore, the CMHs asked the Legislature to provide $30.0 million more than the $51.0 million the Governor proposed in the FY 2013-14 supplemental, or $81.0 million. The CMH Association's proposal would have led to total FY 2013-14 CMH non-Medicaid funding of $211.7 million.

Discussions between the Snyder Administration and the CMHs

In December 2013 there was a meeting at the Capitol involving representatives of the State Budget Office, the DCH, the CMHs, and the Legislature. It was clear that there was still a large difference between the Administration and the CMHs on how much funding was needed to maintain the current level of programming.

The Administration noted that it was re-examining the basis of its original estimate that $80.0 million in full-year funding was adequate. The CMH Association reiterated its belief that the Administration had underestimated full-year need by $60.0 million and that, in the latter half of FY 2013-14, an additional $30.0 million would be necessary to maintain CMH programming.

Therefore, the CMHs again asked that the Governor's proposed FY 2013-14 supplemental for CMH non-Medicaid be increased from $51.0 million to $81.0 million.

Revised Administration Estimate

With the release of the FY 2014-15 DCH budget, the Snyder Administration revised its full-year estimate of how much CMH funding was necessary, increasing it by $16.0 million. In concert with that, the Administration increased its estimate of how much was needed in the FY 2013-14 supplemental by $8.0 million. Representatives of the Administration stated that they had looked at some of the concerns raised by the CMH Association and agreed that the Administration's original number had been too low to reflect actual funding need.

This adjustment reduced the "gap" between the Administration and CMH Association estimates to $44.0 million full year (FY 2014-15) and $22.0 million half year (FY 2013-14).

Adjustments in Senate Bill 608, the FY 2013-14 Supplemental

Because of the failure of the immediate effect vote on House Bill 4714, the funding for CMH non-Medicaid services would have run out in mid-March 2014. Thus, there was considerable pressure on the Legislature beginning in early February to enact a supplemental appropriation for the CMH non-Medicaid line. As noted above, the Governor's Recommendation of $51.0 million had been adjusted upward to $59.0 million, while the CMH Association estimated that $81.0 million was necessary to avoid cuts by CMHs.

As the proposed legislation was a Senate bill, there were discussions between the CMH Association and key Senators on how much to put into the bill. Senators proposed putting in $25.0 million above what the Governor originally recommended, or $76.0 million. This would be $5.0 million less than what the CMH Association proposed, but the CMH Association was supportive and stated its belief that the funding addressed the CMHs' concerns for FY 2013-14. Representatives of the CMH Association noted that they were still very concerned about the FY 2014-15 funding level, but felt that there was adequate time to address that as the FY 2014-15 budget moved forward.

The $25.0 million increase over the Governor's original proposal of $51.0 million, for a total of $76.0 million for the CMH non-Medicaid services line, was included in the Senate-passed version of Senate Bill 608.

The House of Representatives also included $25.0 million, but split the funding between $8.0 million directly allocated to the CMHs and $17.0 million in a CMH non-Medicaid contingent reserve, with a process set up to allocate the $17.0 million through the transfer process.

The final version of the supplemental bill, signed by Governor Snyder on March 14, 2014, as Public Act 34 of 2014, included $64.0 million directly allocated to the CMHs (the original $51.0 million plus $13.0 million) and $12.0 million in the contingent reserve. Boilerplate language gives the State Budget Director the authority to release funding from the reserve to the CMHs following documentation by the DCH that the funds are necessary to maintain direct services to clients. The first release of these funds, $4.0 million, was announced on June 13, 2014.

The end result is that there was a total of $76.0 million added to the CMH non-Medicaid services line item in FY 2013-14, $51.0 million based on the original Executive supplemental request, $13.0 million in direct funding to CMHs, and $12.0 million in a contingent reserve. This compares to the CMH Association's request for $81.0 million in additional funding.

Implementation of the Healthy Michigan Plan

Enrollment in the Healthy Michigan Plan started on April 1, 2014. The first group to be enrolled was the approximately 65,000 individuals enrolled in the Medicaid Adult Benefits Waiver program, a limited coverage program funded with regular Medicaid dollars. Enrollment has increased rapidly since then and is now at approximately 300,000 individuals.

The implementation led to three key changes in financing for CMHs. First, there was a large reduction in funding for the CMH non-Medicaid line, from about $23.5 million per month to an average of about $11.0 million per month if all the money in the contingent reserve is distributed. Second, funding for behavioral health services for the Adult Benefits Waiver population, which averaged about $2.7 million per month, would be rolled into the Healthy Michigan Plan. Finally, there would be new funding to the PIHPs reflecting their prospective capitation costs and retroactive payments for enrollees in the Healthy Michigan Plan.

Cash Flow Issues

As noted above, a person who applies for Medicaid is eligible retroactive to the date of application. Therefore, if a regular high-cost behavioral health client shows up at a CMHSP for services and appears to be eligible for Medicaid expansion, it remains very much in the interest of the CMHSP to have that client apply. If that is done and the person is deemed eligible, then the CMHSP's costs for Medicaid-eligible services to that client will be covered with Healthy Michigan Plan dollars rather than other CMH resources, retroactive to the date of application.

While the retroactive eligibility does provide assurance that CMHs will eventually be reimbursed for services, there is still a cash flow issue.

There were many meetings between the Administration and the CMHs leading up to and through the implementation of the Healthy Michigan Plan. The Administration decided to advance CMH non-Medicaid dollars to help cushion the cash flow issue for CMHs. Furthermore, the Administration also advanced Healthy Michigan dollars for those who enrolled in early April.

As noted in the May 2, 2014, edition of "Friday Facts" from the CMH Association to its members, "[T]he Department of Community Health advised PIHPs they would be receiving an electronic funds transfer payment on April 30 for new Healthy Michigan members who have enrolled in the first three weeks of April. These payments brought the total state General Fund and Healthy Michigan payments in April to PIHPs and CMHs to a statewide total of $26.9M and exceeds the March state General Fund and Adult Benefits Waiver payment total of $26.6M."

In other words, the cash flow problems and overall funding problems were addressed in April by the advancement of funding to the CMHs and PIHPs. This was the result of a collaboration between the DCH and the CMHs to try to help ensure a smooth rollout of the Healthy Michigan Plan. As noted by the CMH Association, "Healthy Michigan enrollment has been very successful in the first month, due in part to the efforts of CMHs, their provider organizations, and other healthcare partners in enrolling eligible persons who are in service or presented themselves for physical healthcare services during this month."

Reserve Funding

While an overall increase in funding flowed to CMHs in April (and, according to the Administration, in May), not every CMHSP or PIHP received more funding than in March. This was largely due to the varying rate of enrollment in the Healthy Michigan Plan. While there is no requirement that funding increase for all CMHs and PIHPs from the first day, it should be noted that, if there are cash flow problems, the CMHs and PIHPs generally have considerable financial reserves, with an aggregate CMHSP fund balance of over $143.9 million and an aggregate PIHP restricted risk reserve of over $137.4 million. Even in the case of cash flow issues, the CMHs and PIHPs do have resources to address problems as they arise.

The Picture for FY 2013-14

Needless to say, these advanced payments and reserves described above will not be sufficient to address any long-term funding shortfalls caused by insufficient appropriations. However, potential shortfalls are an issue for FY 2014-15, not FY 2013-14.

There appears to be scant evidence that the implementation of the Healthy Michigan Plan will cause any meaningful funding shortfalls for CMHs in FY 2013-14 and certainly not any funding shortfalls that would justify cuts to subcontractors. The following factors support this statement:

- The CMH Association asked for a CMH non-Medicaid supplemental of $81.0 million and the Legislature, combining direct funding and the contingent reserve, provided $76.0 million. Total funding, $206.7 million, is 97.6% of the total funding sought by the CMH Association, $211.7 million. The latter figure is at the high end of the range of estimates of the amount necessary to continue non-Medicaid services at the level in place prior to implementation of the Healthy Michigan Plan.
- Low-income individuals with behavioral health needs who show up at CMHs or hospitals should be and appear to have been signed up for the Healthy Michigan Plan. Eligibility is retroactive to date of enrollment, so Medicaid-covered costs for these individuals will be reimbursed fully.

- The retroactive nature of the enrollment process means that CMHs and PIHPs could face cash flow problems, but the State advanced funding in April and May to help address those issues. The result was, as the CMH Association has noted, an increase in total funding from pre-expansion levels.
- To the extent individual CMHs and PIHPs face cash flow issues, they have considerable financial reserves to help them get through the transition.

The Picture for FY 2014-15

At this point, the outlook for FY 2014-15 is considerably different than the situation in FY 2013-14. The enacted FY 2014-15 budget included $97.1 million for CMH non-Medicaid services. The CMH Association has argued that the funding need is $141.1 million (including $1.1 million in State facility adjustments on top of the original CMH Association request for $140.0 million). The difference between the appropriation and what the CMHs argue is needed is $44.0 million.

Since FY 2014-15 situation is time. FY 2014-15 does not begin until October 1, 2014, however, there are over two months during which progress can be made toward identifying what costs are still being paid with non-Medicaid funds. By October 1, the Healthy Michigan Plan will have been in place for six months and chronic behavioral health patients who are eligible should have been signed up, so it should be clearer which individuals and which non-Medicaid reimbursed programs still have to be funded with CMH non-Medicaid dollars.

Therefore, while one cannot determine at this point just what is the appropriate level of funding for FY 2014-15, the size of the gap between the appropriation and what one of the prime actors believes is needed means that discussions must continue. It also will be important for members of the Legislature to be part of these discussions, so that the Legislature is fully informed before taking any actions to adjust funding.

Rebasing of Medicaid Pre-Paid Inpatient Health Plan Rates

There is an issue, completely unrelated to the implementation of the Healthy Michigan Plan and adjustments to CMH non-Medicaid funding, that has affected public behavioral health funding. At the start of FY 2013-14, the DCH began to rebase behavioral health payment rates for "regular" Medicaid, that is, funding to the PIHPs for the pre-expansion Medicaid population. The rebasing has changed the allocation of funding among the PIHPs to "reduc[e] disparities within the [PIHPs]". Some PIHPs, in particular Detroit-Wayne, Macomb, and Oakland, have seen their funding reduced below what it would have been had the previous funding methodology been retained. Other PIHPs have seen increases in funding.

It certainly is possible that these changes have led PIHPs to end or reduce some contracts for services to pre-expansion Medicaid clients. The PIHP rebasing, however, is tied to pre-expansion Medicaid funding and the pre-expansion Medicaid population. The PIHP rebasing is not related at all to the implementation of Medicaid expansion or the various adjustments to the CMH non-Medicaid line. Any rebasing-related contractual changes cannot be attributed to the CMH non-Medicaid line or Medicaid expansion.

Conclusion

There are legitimate reasons to be concerned whether FY 2014-15 funding for CMH non-Medicaid services will be sufficient to maintain services at the same level as in prior years. Discussions based on updated information, as the Healthy Michigan Plan is implemented, will be crucial to help provide an estimate of what is needed to maintain the prior-year service level in FY 2014-15. The Legislature will have a key role in both the discussion and the implementation of any changes.

The FY 2013-14 situation is different. There does not appear to be any basis to tie the implementation of the Healthy Michigan Plan to reported FY 2013-14 reductions by CMHs and PIHPs in contracts and services. The total funding for CMH non-Medicaid services provided by the Legislature is very similar to what was requested by the CMH Association, the DCH has taken steps to advance funding to avoid cash flow problems, and CMHs and PIHPs have considerable financial reserves.

The Senate Fiscal Agency will continue to monitor any discussions and proposed adjustments to mental health funding.

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2014

Postsecondary Enrollment Options
By Cory Savino, Fiscal Analyst

Introduction

Nearly 20 years ago, the Postsecondary Enrollment Options Act[1] was enacted in Michigan, and the Career and Technical Preparation Act was enacted approximately 14 years ago. These Acts allows schools and colleges to enter into agreements that provide qualified students with the option to take college-level courses while still in high school. The students then can gain both high school and college credit upon successful completion of the courses. Schools cover the registration fees, tuition, and other costs associated with the courses. Section 21b[2] of the State School Aid Act directs schools to cover the costs for the students' postsecondary courses with general school funds. Districts are not required to pay for transportation, activity fees, or parking under Section 21b. Students who fail or do not complete a course can be required to pay the costs of the course. Different delivery models[3] have been developed over the years to operate under the Postsecondary Enrollment Options Act. These are: dual enrollment, enhanced dual enrollment, concurrent enrollment, articulated credit, advanced placement, and fifth-year high schools. This article will provide background on postsecondary enrollment, as well as describe each of the different delivery options. Appendix A provides a brief description of each postsecondary options.

Background

The Michigan Department of Education (MDE) is required annually to report to the Legislature on the information collected by the Center for Educational Performance and Information (CEPI) under the Postsecondary Enrollment Options Act. Since the different delivery models are not defined in the Act, all of the information that is collected under the law is aggregated as "Dual Enrollment". Table 1 shows the summarized data on dual enrollment between the 2001-2002 and 2012-2013 school years.

Over the past 12 years, there has been a significant increase in the number of students who are taking dual enrollment courses. It is important to note that Table 1 does not include students who are taking courses and are being charged by the school for the tuition fee. A growing number of districts have postsecondary agreements in which the parents pay at least a portion of the school's fee. The table also does not include the growing number of students taking articulated credit or Advanced Placement (AP) courses, for which the district is not charged any tuition from a postsecondary institution. This means that the number of students who are enrolled in a course that awards both high school and college credit is greater than what is reported in this table.

Policy enacted by legislation has increased postsecondary education options for high school students. One of the major changes in policy was the introduction of the Michigan Merit Exam (MME)[4]. The MME was the result of Public Acts 592-596 of 2004[5]. These measures removed the

[1] Public Act 160 of 1996, MCL 388.511-388.524; Public Act 158 of 2000, MCL 388.1901-388.1913
[2] MCL 388.1621b
[3] "Earning College Credit in High School" from April 2, 2013. Provided by the Michigan Department of Education
[4] "The New Michigan Merit Exam" from March 3, 2008. Provided by the Michigan Department of Education. http://www.michigan.gov/documents/mde/MME_article_3.15.07__190607_7.pdf

Michigan Education Assessment Program (MEAP) for high school students and replaced it with the MME. The legislation also changed the qualifying standards for taking postsecondary courses[6] and provided each student with a free American College Testing (ACT) college entrance exam. The combination of changes made to the qualifications for taking postsecondary courses and the increased number of students taking the ACT, resulted in a 63.7% increase in the number of eligible students and a 17.2% increase in the number of participating students from the time before the legislation was enacted to full implementation.

Table 1

Dual Enrollment

School Year	Eligible Students	Number of Participating Students	Percentage of Participating Students	Enrollment Fees Paid by Schools	Paid Courses	Percentage of Incomplete Courses
2001-02	87,149	8,526	9.78%	$5,010,651	13,952	2.85%
2002-03	87,886	9,002	10.24%	$4,639,027	13,888	4.17%
2003-04	105,059	8,841	8.42%	$5,524,999	14,946	3.91%
2004-05	117,159	9,343	7.97%	$5,579,153	16,516	3.05%
2005-06	149,910	10,540	7.03%	$6,136,677	17,352	2.64%
2006-07	180,244	11,320	6.28%	$6,707,166	19,292	3.86%
2007-08	191,809	11,058	5.77%	$7,955,233	21,197	4.59%
2008-09	194,373	13,218	6.80%	$9,084,183	23,115	3.74%
2009-10	194,357	12,992	6.68%	$10,558,451	27,382	4.40%
2010-11	188,705	13,451	7.13%	$12,329,583	50,888	2.61%
2011-12	190,766	15,513	8.13%	$14,930,187	42,343	3.51%
2012-13	323,095	19,838	6.14%	$16,150,101	72,718	1.61%

Source: "2012-2013 Dual Enrollment Report to the Legislature" provided by the Michigan Department of Education; does not include Articulated credit, AP courses, and independently funded courses.

Another change in policy occurred through the enactment of Public Acts 131-134 of 2012. This legislation allows all high school students to be eligible to take postsecondary courses if they qualify and requires schools to provide qualifying students with information on postsecondary options. Students qualify to take postsecondary courses if they are in the 9th grade and meet the qualifying score on any of the assessment options that the MDE has approved. This resulted in an increase of 69.4% of eligible students and 27.9% of participating students from the 2011-2012 to the 2012-2013 school years. Even with the placement of a cap on the number of postsecondary courses that a student can take, there was a 71.7% increase in the number of courses being taken over the same time period. This increased the average number of courses being taken per participating student, from 2.7 to 3.6 courses per student. It is noteworthy that the percentage of incomplete courses

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[5] All Public Acts cited in this article may be found through the Michigan Legislature's website: http://www.legislature.mi.gov/

[6] Public Act 594 of 2004 directed the State Superintendent to select assessments that can be taken and the qualifying scores for each exam that allows eligibility to take postsecondary enrollment. This increased the assessment options that a student could take in order to qualify for postsecondary enrollment. The list of exams and their qualifying scores can be found on the Michigan Department of Education Website at http://www.michigan.gov/mde

decreased during this period, from 3.51% to 1.61%. The large increase in the number of students taking postsecondary courses also may have contributed to a decrease in the average per-course cost, which went from $352.60 per course in the 2011-2012 school year, to $222.09 per course in the 2012-2013 school year.

The Legislature also has used the budget for School Aid to further promote postsecondary courses. The fiscal year (FY) 2011-12 School Aid budget included schools' offering postsecondary options as one of the qualifications a district could use to receive a best practices grant (Section 22f). This was the first time the budget was used to encourage schools to offer postsecondary courses. In the FY 2014-15 budget for School Aid, Section 64b includes $1.8 million to reimburse schools that fully pay for dual or concurrent enrollment. A school can receive up to $60 per three-credit course that a student successfully passes. This new grant may result in a continued increase in the number of postsecondary courses being taken and a decrease in the rate of incomplete courses.

In the FY 2011-12 School Aid budget, Section 210 created a committee with the goal of improving the transferability of core college courses across the State. The FY 2013-14 School Aid budget updated this section to include legislative intent language that directed the participants to provide a report to the Legislature on the progress made toward implementing the recommendations from the committee. With the increased transferability of college credit, students who desire to go to other postsecondary institutions in Michigan might be more encouraged to participate in dual enrollment, because they will be more likely to be able to transfer the credit to the postsecondary institution of their choice. This may also continue to increase the number of postsecondary courses being taken.

Since the Postsecondary Enrollment Options Act does not define a delivery method that a school must use in order to offer postsecondary credit, schools and colleges have been free to develop different delivery options that vary greatly across the State. The various approaches are described below.

Dual Enrollment

Dual enrollment was the earliest developed delivery model that offers postsecondary courses to high school students and is the most common in Michigan. Students are required to take at least one high school course while taking a course at a postsecondary institution, which cannot already be offered at the high school. High school students must have a qualifying score on the ACT, ACT Plan, ACT Explore, Compass, MME, SAT, or PSAT in order to be eligible to participate in dual enrollment. A school also may determine eligibility if it is in the best interest of the student. Courses can be taken at the campus of the partnering college or online. When a student passes the college course, he or she receives high school credit, college credit, or both.

Benefits: Students are able to gain experience taking college courses, which helps prepare them for college after graduating from high school. Students have the ability to enter college with college credit, which results in savings to the students and their families.

Drawbacks: Schools are not required to provide transportation, which therefore needs to be provided by the student or parent. Online courses allow students to avoid the transportation issue, but might not provide students with the "true" postsecondary experience. College credit might not transfer to all colleges in or outside of Michigan. Schools do not provide additional support for students when they take postsecondary courses, so it is entirely up to the students to seek additional resources.

Enhanced Dual Enrollment

Some schools have formalized a system that provides students with additional support while they take postsecondary courses. The requirements for enhanced dual enrollment are the same as for traditional dual enrollment.

Benefits: Schools provide additional resources for students who may have difficulty with their first experience with postsecondary content and course load, especially if they are the first generation in their family to take postsecondary courses. This option may decrease the rate of incomplete courses by providing the additional assistance to students.

Drawbacks: This system places additional costs on the school in order to provide the enhanced services. These costs may be reduced if schools are able to receive reimbursement grants under Section 64b of the budget for School Aid, which requires a student to pass the course in order for the school to receive up to $60 per successfully completed three-credit course.

Concurrent Enrollment (Direct Credit)

This delivery model allows students to receive high school and college credit for courses taken at their high school. Organizations use either "concurrent enrollment" or "direct credit" interchangeably to define these types of courses. The classes are taught either by a high school teacher who is an adjunct faculty member for the partnering institution and whose salary is paid by the high school or college, or by a professor from the postsecondary institution. If the instructor is a high school teacher, he or she must meet qualifications set by the postsecondary institution in order to be allowed to teach the course. These qualifications could be a master's degree in the subject area being taught as well as professional development prior to and during the time the course is being taught. Because dual and concurrent enrollment are not defined in the Postsecondary Enrollment Options Act, all schools report the two models as the same expense, so it is difficult to determine how many concurrent enrollment courses are being taught in the State.

Benefits: The concurrent enrollment model removes the travel burden that is on students who take postsecondary courses. This model also may allow schools that are not located near a campus to offer postsecondary enrollment. There can be some savings to schools and postsecondary institutions with the model, though these savings would be minimal. For some students, remaining in the high school environment can make the transition to college easier. Students who struggle with the material might be able to receive assistance from a high school teacher to whom they might not have access in the traditional dual enrollment.

Drawbacks: These courses do not have a mix of college and high school students, which can limit the "true" postsecondary experience for high school students and create a false sense of expectations. Concurrent enrollment courses also might end up being more costly to schools, which may be able to offer limited options only. Traditional dual enrollment has college students in a class with only a few high school students, which offsets the cost. Concurrent enrollment, however, involves only high school students, so college students do not offset the cost, especially if only a limited number of high school students are enrolled in the course. This means that high schools might be more likely to offer only a small selection of courses to ensure that each course has a high enrollment. In addition, transferability of credits might be restricted because different postsecondary institutions might have different qualifications for the high school teacher who teaches these courses, and some institutions may not accept credit from courses taught by teachers approved by an institution that has a different set of criteria.

Articulated Credit

These courses are typically taught in a career and technical educational program operated by a K-12 district or an intermediate school district. The programs enter into agreements with postsecondary institutions in the technical preparation field where the students can receive either postsecondary credit or course waivers if they pass the program or course. These programs vary with the qualifications that students must meet in order to enroll. Some postsecondary institutions give credit to students once they pay a fee when they register and enroll for class, or the courses are simply waived. This model is relatively new and agreements have been made with only a few postsecondary institutions. Ferris State University is the first institution to offer a statewide articulated agreement with approved career and technical education programs. Funds are provided from the school's general fund, Section 61a of the State School Aid Act, Federal Perkins funds, and, in some cases, vocational education millage dollars.

Benefits: Students can enter a postsecondary institution with a substantial number of introductory courses waived or credits earned, which results in savings for the students and their families. This model can be most beneficial to high students who already know the specific field of work that they want to go into, and can allow them to enter the field at a faster pace.

Drawbacks: Transferability can be very limited in this model, which may reduce the appeal for students to enroll in these programs.

Advanced Placement

These courses are not designed as college courses but are classes that prepare students to take the AP exam, which allows students to earn college credit. These courses are designed by the College Board and can offer college credit if students earn a high-enough score on the AP exam that is taken in May; this is unlike other postsecondary options that allow students to earn credit if they can pass the class. Different institutions have different scores that allow a student to qualify for credit. The scores on the exam are on a 0 to 5 scale. Teachers may be trained by the College Board. Schools set various requirements on how students can take AP courses. Students also have an online option. A unique feature of this model is that students do not have to take an AP course in order to take the AP exam in May. Students pay for the exam but can have part or all of the costs covered if the students qualify for free or reduced-price lunch. The FY 2014-15 budget for School Aid includes Section 94, appropriating $250,000 that can be used to ensure that students who qualify for free or reduced-price lunch only have to pay $5 for the exam.

Benefits: The AP model has the lowest additional costs to the district compared with the other models, which require higher registration, tuition, and material costs for courses taken in conjunction with a postsecondary institution. Since the College Board is nationally recognized, this model has the highest transferability of college credit across the State and country, which is dependent on the student's exam score. Teachers are able to provide assistance to students who may initially struggle with the advanced material and course load.

Drawbacks: This model might not give students sufficient college experience. The earning of college credit is entirely dependent on one exam score, which might exclude students who do not test well but are capable of handling the advanced material and course load.

Fifth-Year High Schools (Early/Middle College Programs/Schools)

These are schools or programs that have an additional year built into the curriculum, which allows students to receive college credit and earn up to an associate's degree with their high school diploma. These credits or the degree then can be transferred to other postsecondary institutions. Students apply to these schools and programs in order to enroll. Students can begin taking postsecondary courses in the 9th grade and are allowed to take additional postsecondary courses beyond the year limit that is in the Postsecondary Enrollment Options Act. Students must still take at least one high school course while attending these schools. The graduation rate and pupil count[7] are modified for the schools in order to take into account the additional year that is built into the curriculum. These schools and programs generally partner with one institution to design the program and provide the postsecondary portion of the curriculum. The schools and programs report each postsecondary course taken to CEPI, which includes the data in the annual "dual enrollment" report to the Legislature. Traditionally, these programs have been in underserved and disadvantaged communities.

Benefits: By acquiring an associate's degree, students have a greater transferability than they do when trying to transfer individual credits to other postsecondary institutions. The participating schools and programs provide intense support to students while they are taking their postsecondary classes, which increases graduation and completion of courses. This model has the highest savings for the students, because the students enter postsecondary institutions with the most credits, which are paid for by the schools. This option may increase the rate of college completion beyond an associate's degree, because of the high amount of postsecondary exposure in these schools and programs.

Drawbacks: These programs require more funds from the high school than the other models due to the number of postsecondary courses taken by students that are paid for by the school and the support provided. The costs vary depending on the agreements made between the high school and the postsecondary institution.

Conclusion

Since the enactment of the Postsecondary Enrollment Options Act, there has been a significant increase in the amount and variety of postsecondary options in the State. Schools and postsecondary institutions continue to have the flexibility to design methods for delivering these options to high school students. With each option having its own benefits and drawbacks, schools are free to choose the model that best fits their needs. Current trends indicate a continuation of that growth, but that might alter if changes are made to the Postsecondary Enrollment Options Act or the budget for School Aid.

[7] See R 388.151-388.155 from the Department of Licensing and Regulatory Affairs: http://www7.dleg.state.mi.us/orr/Files/AdminCode/576_10458_AdminCode.pdf.

Appendix A

Postsecondary Options				
Name	**Description**	**Location**	**Instructor**	**Costs**
Dual Enrollment	College-level courses that allow students to earn high school and college credits if they pass the course.	College campus or online	College faculty	Funded by the high school general fund to the partnering college.
Enhanced Dual Enrollment	College-level courses that allow students to earn high school and college credits, with additional student support from the high school.	College campus, online, and high school	College faculty with high school support	Funded by the high school general fund to the partnering college and to provide teacher support.
Concurrent Enrollment	College-level courses taught at the high school that allow a student to earn college credit.	High school	College faculty or high school teacher	Funded by the high school general fund to the partnering college and to the high school teacher if they teach the course.
Articulated Credit	Courses typically taught in career and technology program that allow a student to earn college credit.	High school, career center, college campus, online	High school teacher, college faculty, or career center teacher	Funded by the high school general fund, Section 61a funds, Federal Perkins funds, and, in some cases, vocational education millage dollars to the career and technology programs.
Advanced Placement	High school courses that prepare students for the Advanced Placement exam.	High school or online	High school teacher	Funded by the high school general fund for the teacher and textbooks.
Five-Year High School	High school programs that have an extra year and have a combination of college and high school courses so that a student can earn both a high school diploma and associates degree upon completion.	High school, college campus, and online	High school teacher and college faculty	Funded by the high school general fund for operations and for payments to the partnering college.

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State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2014

Overview of the Medicaid Adult Home Help Program
By Ellyn Ackerman, Fiscal Analyst

The Medicaid Home Help Program (HHP), also known as "Adult Home Help", allows individuals of all ages to live independently by providing a range of in-home support services that are eligible for Medicaid funding. The legal authority for this program stems from the Social Welfare Act, MCL Section 400.6 and 400.10[1]; Title XIX of the Social Security Act[2]; Michigan Administrative Rules 400.1101-400.1107[3]; and the fiscal year (FY) 2013-14 appropriations act, Public Act 59 of 2013, Articles IV and X. After a recent audit of the HHP found that the efforts and policies of the departments responsible for it were not effective,[4] the HHP has moved to the forefront of legislative interest. Considering the small sample size used in the analysis of the program, the implications of the audit findings remain to be seen[5].

This article provides background and an overview of the Medicaid Home Help Program.

Background

The Department of Community Health (DCH) supervises the overall administration of HHP, while the Department of Human Services (DHS) oversees day-to-day operations. To qualify for the program, in conjunction with being an active Medicaid recipient, an individual must obtain a certificate of medical need from a Medicaid-enrolled medical professional and be evaluated as having a functional need of 3 or greater for a minimum of one activity of daily living (ADL) by a DHS adult services worker (ASW). The functional need assessment is a five-point scale with 1 being the least severe and 5 being the most severe level of need. Individuals receiving HHP services have all decision-making authority when it comes to recruiting, hiring, training, and supervising their HHP service providers. The only restriction on who may be chosen as a provider is that the person may not be the beneficiary's spouse, the parent of a minor child who is the beneficiary, or the minor child of a parent who is the beneficiary.

For individual providers, the DCH must act as the filing agent for all Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax Act (FUTA) taxes on the beneficiary's behalf. Additionally, the DCH must respond to the Unemployment Insurance Agency's requests for information and send W-2 forms to all individual providers. When

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1 All State Public Acts cited in this article may be found through the Michigan Legislature's website: http://www.legislature.mi.gov/

2 Title XIX of the Social Security Act can be found at the USA Social Security Administration website: http://www.ssa.gov/OP_Home/ssact/title19/1900.htm

3 The Michigan Administrative Rules can be found on the Department of Licensing and Regulatory Affairs website: http://www7.dleg.state.mi.us/orr/AdminCode.aspx?AdminCode=Number&Admin_Num=40000001&RngHigh=40900006

4 The full performance audit of the Medicaid Home Help Program can be found at http://audgen.michigan.gov/finalpdfs/13_14/r391070813.pdf

5 For a more extensive discussion of the audit findings, please see the memo titled "Medicaid Home Help Program" at http://www.senate.michigan.gov/sfa/Publications/Memos/MedicaidHomeHealthProgramAudit.pdf

dealing with an HHP agency, the DCH must only send 1099 forms to agency providers. In order for a provider to receive payments, the DCH requires the provider to keep a log of services provided to the client, signed by the beneficiary and submitted quarterly. Agencies may choose to submit service logs monthly or quarterly. The ASW must perform six-month reviews and annual redeterminations of a beneficiary's eligibility as well as make contact with service providers.

Who the Program Covers

The Home Help Program covers individuals who meet four eligibility criteria:

1. Medicaid Eligibility
2. Certification of Medical Need
3. Need for Service
4. Appropriate Level of Care (LOC) Status

The first criterion, Medicaid eligibility, can be met in two ways. The applicant must either fulfill all requirements for Medicaid eligibility or meet the deductible obligation for Medical Assistance (MA). It is possible for an applicant to become eligible for MA through the Medicaid personal care option, if the cost of personal care services is greater than his or her MA excess income amount. In this case, the applicant will have a deductible amount equal to his or her income in excess of MA limits. The total monthly payment will be reduced by the deductible amount and the applicant will be responsible for paying the provider that MA deductible amount.

Second, an applicant must obtain certification of medical need from a Medicaid enrolled physician, nurse practitioner, occupational therapist, or physical therapist. This certification must be renewed annually for continued enrollment in the program.

After the first two criteria are met, the applicant will be assessed by an ASW to determine his or her need for services. For services to be approved, the applicant must demonstrate a functional need of 3 or higher on at least one ADL using the five-point scale discussed in the following section. It is the client's choice which ADLs and instrumental activities of daily living (IADLs) will be assessed by the ASW.

Finally, the ASW will evaluate an applicant's LOC status by verifying that HHP services are not duplicating those provided by another program such as PACE (Program of All-Inclusive Care for the Elderly), the MI Choice Waiver Program, or the Community Mental Health Service Program[6].

[6] A more in-depth discussion of LOCs can be found in the Adult Services Manual (ASM) 125. All ASM sections cited in this article may be found at www.mfia.state.mi.us/olmweb/ex/Mobile/ASM/ASM%20Mobile.pdf .

The Home Help Program is the largest Medicaid long-term care program in Michigan, with over 40% of clients falling between the ages of 40 and 65[7]. Table 1 shows the number of clients served by the HHP since FY 2002-03 both as an average monthly total and as an unduplicated annual caseload.

Table 1

Clients Served by the Adult Home Help Program

Fiscal Year	Average Monthly Caseload	Unduplicated Annual Caseload
FY 2002-03	44,273	53,553
FY 2003-04	45,401	55,187
FY 2004-05	45,904	55,524
FY 2005-06	46,404	56,210
FY 2006-07	48,352	58,073
FY 2007-08	50,757	59,993
FY 2008-09	52,472	62,248
FY 2009-10	54,451	64,048
FY 2010-11	57,525	66,687
FY 2011-12	56,411	67,593
FY 2012-13	57,087	67,421

Source: Michigan Department of Human Services Information Packet, June 2013, and Michigan Department of Human Services Program Descriptions FY 2015, January 2014, provided by the Department of Human Services.

The average monthly caseload in FY 2011-12 and FY 2012-13 stems from the policy change on October 1, 2011, requiring a client to have an assessed functional need of 3 or higher for at least one ADL. As the population of Michigan continues to age, it is not unlikely that the HHP caseloads will continue to increase.

What the Program Covers

The Adult HHP allows Medicaid beneficiaries to receive in-home services related to ADLs and IADLs. Additionally, beneficiaries who are evaluated with more severe conditions are eligible for complex care services. Although most clients receive services in their homes, approved hours may be used in the workplace as well. It is up to the client to determine where services will be provided. Services cover a variety of areas but are divided into three main groups. Activities of daily living are essential tasks that must be performed daily concerning personal hygiene and movement, while instrumental activities of daily living are tasks done around the home. Complex care services are considered to be expanded home help services and must be authorized by the DCH or its designee, and are for clients who experience severe functional limitations. Complex care services are generally more costly

[7] Department of Human Services Program Descriptions FY 2015, p. 87. January 2014. Provided by the Department of Human Services.

than the others as they require the service provider to exhibit special techniques or knowledge. Table 2 lists examples of services that would fall into each of the three groups.

Table 2

Adult Home Help Program Services		
ADLs	**IADLs**	**Complex Care Services**
Eating	Medication	Colostomy Care
Toileting	Meal Preparation	Suctioning
Bathing	Shopping	Range of Motion
Grooming	Laundry	Wound Care
Dressing	Light Housework	Catheters
Transferring		Dialysis (In-Home)
Mobility		Injections

Source: Adult Services Policy Manual, February 3, 2014, provided by the Department of Human Services.

As of October 1, 2011, clients must be assessed as having a functional need of 3 or higher on a five-point scale for at least one ADL in order to receive services. Activities of daily living and IADLs are assessed using the following five-point scale[8]:

1. Performs the activity safely and with no human assistance (Independent).
2. Performs the activity with verbal assistance such as reminding, guiding, or encouraging (Verbal Assistance).
3. Performs the activity with some direct physical assistance and/or assistive technology (Some Human Assistance).
4. Performs the activity with a great deal of human assistance and/or assistive technology (Much Human Assistance).
5. Does not perform the activity even with human assistance and/or assistive technology (Dependent).

Individuals who use assistive equipment, such as a transfer bench or shower grab bar, but would be ranked at a functional need level of 3 or higher without the use of that equipment, are eligible to receive in home services through the HHP.

In addition to the payment services detailed above, the HHP also provides four nonpayment services that are available to all Michigan residents, without taking into account Medicaid eligibility. Two of the services, money management and housing, will result in referral to the Social Security Administration and for Section 8 Housing, respectively. Also provided is protection for adults who need a conservator or guardian. This does not apply to those who are in immediate need of protective intervention by Adult Protective Services. Finally, all information regarding the HHP is provided at no cost as are requests for referrals to the program.

[8] The assessment scale can be found in ASM 120 and 121.

Home Help Service Providers

The HHP clients have the authority to hire, train, and supervise their service providers and can choose either an individual provider or an agency. A client may not hire his or her spouse, a parent if the client is under 18, or his or her minor child, or the client's Fiscal Intermediary[9]. To be considered an agency provider by the State, an agency must be a Medicaid-enrolled home health agency or provide a Federal Tax Identification number. If the agency provides the Federal Tax Identification number, it also must employ or subcontract with a minimum of two individuals, not including the owner, who will be providing home help services. Agencies that employ their service providers are responsible for documenting that FICA taxes and State Unemployment Insurance (SUI) are paid for all of their employees. Agencies that subcontract with service providers are not required to pay FICA taxes or SUI. Rather, they are required to submit a 1099 form to the IRS stating the subcontractor's wages for the year.

Apart from providing the home help services, every provider is tasked with keeping a provider log. These logs must indicate what services were provided on which days of the month and for how long. Additionally, these logs must be signed by both the client and the provider as verification. Individual providers are required to submit their logs quarterly, while agency providers may choose to submit either monthly invoices or the quarterly individual provider logs. For individual providers, the log must be submitted within 10 business days after the last service date on the log, while invoices may be submitted up to 365 days after the last service date.

Pay Rates and Historical Spending

Although payment varies by county, individual providers receive anywhere from $8 per hour to $11 per hour while the agency provider rate ranges from $13 per hour to $15 per hour[10]. There is a monthly payment limit of less than $500 unless a client's assessment shows that the person's needs cannot be met within this limit. In that case, the client becomes eligible for Expanded Home Help Services, upon approval by the local agency. If a client's cost of care is $1,300 per month or greater, approval must be gained from the DCH through a written request by the ASW. The average cost of care per month for home help services per client in FY 2012-13 was $402. In comparison, the average cost was $4,213 when a client was placed into a nursing home[11].

For each ADL assessed at a rank of 3 or higher, the reasonable time schedule (RTS) must be used as a guide to allocate time for each service. The assessed time does not have to be

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9 ASM 135 defines a Fiscal Intermediary as "a service provider that assists the client in meeting their goals of community participation and integration, independence or productivity, while controlling the client's individual budget and choosing staff who will provide the services and supports identified in the individual plan of service."

10 For a breakdown of payment rates by county, please see ASM 138.

11 Department of Human Services Program Descriptions FY 2015, p. 87. January 2014. Provided by the Department of Human Services.

the full amount suggested by the RTS, but rather should reflect the actual time needed to perform the task. If assessed time is greater than that found in the RTS, a rationale must be provided. For IADLs, the maximum hourly limits per month are five hours for shopping, six hours for housework, seven hours for laundry, and 25 hours for meal preparation. If the client resides in a home with other adults, assessed hours must be prorated by one half unless it can be shown that the IADLs for the client are separate from others in the home or another adult is unavailable to provide the services.

To reflect the estimated cost from the increase in the State minimum wage in Public Act 138 of 2014, the FY 2013-14 Department of Community Health budget[12] allocated $1,738,400 General Fund/General Purpose ($5,044,700 Gross) to the HHP for the minimum wage increase. This brought the full appropriation for the Adult Home Help Services line item to $302,440,800 Gross for FY 2014-15.

Historical spending for this program, as well as total Medicaid spending, can be found in Table 3.

Table 3

Historical Home Help Program and Medicaid Expenditures						
	Home Help Program Expenditures		Medicaid Expenditures (Gross)		% of Total Medicaid (Gross)	
Fiscal Year	**Gross**	**GF/GP**	**Base[1]**	**Statewide[2]**	**Base[1]**	**Statewide[2]**
FY 2002-03	$166,413,600	$74,187,200	$6,116,904,100	$8,453,600,000	2.7%	2.0%
FY 203-004	187,769,200	82,825,000	6,435,559,500	8,622,341,000	2.9%	2.2%
FY 2004-05	177,500,600	76,840,000	6,859,534,200	9,076,600,000	2.6%	2.0%
FY 2005-06	181,873,600	78,951,300	6,728,287,000	8,849,900,000	2.7%	2.1%
FY 2006-07	214,501,900	93,565,700	7,219,780,200	9,639,500,000	3.0%	2.2%
FY 2007-08	226,323,400	94,829,500	7,529,571,800	10,925,400,000	3.0%	2.1%
FY 2008-09	258,811,200	102,825,700	7,822,789,100	10,876,200,000	3.3%	2.4%
FY 2009-10	275,035,600	101,240,600	8,233,934,700	12,047,300,000	3.3%	2.3%
FY 2010-11	289,450,100	99,020,900	8,533,897,700	12,591,000,000	3.4%	2.3%
FY 2011-12	296,350,700	100,344,300	8,417,639,500	12,923,000,000	3.5%	2.3%
FY 2012-13	311,294,900	104,626,200	8,866,125,700	12,990,200,000	3.5%	2.4%

1) Expenditures are only related to direct services. They do not include special payments.
2) Expenditures from DHS, the Department of Licensing and Regulatory Affairs, and other agencies are included.

Source: Data provided by the State Budget Office

Role of DCH and DHS

Upon the issuance of Executive Order 97-5, the policy and financial management functions for the HHP were transferred from the DHS to the DCH. Thus, DCH acts as the filing agent

12 Public Act 252 of 2014, Article IV

for all individual providers employed by HHP clients. As the filing agent, the DCH is required to pay the employer's portion of FUTA taxes and withholds the employee's share of FICA taxes for individual providers. Additionally, the DCH must respond to all requests from the Unemployment Insurance Agency (UIA) regarding an individual provider's unemployment insurance benefit. For all payments made to unemployed providers, the DCH is required to reimburse the UIA. Finally, the DCH is tasked with providing W-2s, indicating an individual provider's wages for the preceding calendar year. For agency providers, the DCH is only required to send out 1099 forms annually.

In addition to the Department's role as filing agent, the DCH's Office of Inspector General (OIG) investigates any cases of suspected provider fraud. In the case of computer or mechanical process errors, or nonwillful client or provider overpayment, the case is referred to the DCH's Medicaid Collections Unit for recoupment of payments. In accordance with Adult Services Manual (ASM) 165, any overpayment that exceeds $500 and appears to be done with full knowledge of the client must be referred to the DHS OIG[13].

The Department of Human Services remains responsible for the day-to-day delivery of in-home services as well as determining eligibility, assessing personal care needs, and processing provider payments. After a client has been approved for services, an ASW will be assigned as that client's caseworker. It is the responsibility of the ASW to perform six-month reviews as well as annual redeterminations of needs. For the six-month review, the ASW must meet face-to-face with the client, as well as meet face-to-face or over the phone with the service provider. If the meeting with the provider is over the phone, the next six-month review must be face-to-face. During the review, the ASW will verify the client's Medicaid eligibility, assess the client's satisfaction with services delivered, reevaluate the level of care, review the current functional need assessment, and follow up with the client's significant other if applicable. The annual redetermination follows the same format as the six-month review, but also requires the client to provide a new certification of need to his or her ASW. Finally, it is the responsibility of the ASW to ensure that providers are not being paid for periods when their clients are either hospitalized or in a nursing care facility. Services may be performed on the day of discharge, but payments may not be made for the day of admission or subsequent days spent in a hospital or nursing care facility.

Conclusion

As the State's largest Medicaid long-term care program, the HHP has served an average of approximately 60,000 clients annually. Coupled with the division of responsibilities between the Department of Community Health and the Department of Human Services and the fact that service providers are not considered State employees, the size of the program creates unique challenges in oversight and regulation. Regardless, with the expansion of the Medicaid program and the overall aging of Michigan's population, it is likely that the program will continue to increase in the next decade.

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[13] For a full discussion of the overpayment and recoupment process, please see ASM 165.

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2014

Legislation Related to the Detroit Bankruptcy
By Elizabeth Pratt, Fiscal Analyst

Legislation was enacted recently to provide for a State financial contribution of $194.8 million from the State's Budget Stabilization Fund (BSF) to the Detroit retirement systems to assist in the resolution of the City of Detroit bankruptcy case[1] and mitigate pension reductions to retirees. The 10-bill package also created the Michigan Settlement Administration Authority (MSAA) to facilitate the transfer of the State's financial contribution and verify that the required conditions are met, and established the Michigan Financial Review Commission (MFRC) to provide continued financial oversight to the City of Detroit. In addition, the package requires the deposit of $17.5 million annually from fiscal year (FY) 2014-15 through FY 2034-35 from tobacco settlement revenue received by the State to the BSF, an amount that will total $367.5 million. These provisions, new operating requirements for the City of Detroit and the Detroit pension systems, and implementing appropriations, are included in Public Acts 181 to 190 of 2014, which were signed by the Governor on June 16, 2014, and took effect immediately.[2] (Please see the Appendix for a brief summary of each bill in the package.) Many of the provisions in the enacted legislation parallel requirements in the plan of adjustment that will be considered by the bankruptcy court and claimants.

State Contribution

The State's direct financial contribution to the resolution of the bankruptcy case and related litigation is the use of $194.8 million from the State's Budget Stabilization Fund (or "rainy day fund") for a contribution to the Detroit retirement systems. The State contribution was calculated as the net present value of monthly payments that over 20 years total $350.0 million using a discount rate of 6.75%. The contribution, which is to be made directly into the City's pension funds, may only be used to fund payments to holders of pension claims. Public Act 188 transferred $194.8 million in FY 2013-14 from the BSF to the new Settlement Administration Fund. Public Act 187 appropriated $194.8 million from the Settlement Administration Fund in FY 2013-14 to the Detroit retirement systems (the general retirement system and the police and fire retirement system); however, the board of the newly created MSAA is responsible for determining if the requirements are met for the disbursal of the funds to the Detroit retirement systems. For the payment to occur, the MSAA must determine that the plan of adjustment has been approved by the bankruptcy court and the terms and conditions of the State Contribution Agreement have been satisfied. (The State Contribution Agreement is an agreement of the MSAA, the Detroit general retirement system, the Detroit police and fire retirement system, and the City of Detroit, which is part of the plan of adjustment. The plan of adjustment is the plan for adjustment of the city's debts, which a debtor is required to file with the court in a municipal bankruptcy case.)

These broad criteria encompass numerous other actions specified in the State Contribution Agreement that must occur to trigger disbursal of the State funds. Probably the most prominent is that the Detroit retirees had to vote to accept the bankruptcy plan of adjustment for the State contribution to be effective. For Detroit retirees, the plan of adjustment includes reductions to pension benefits and a release from further legal action against the State. This had to be approved

[1] United States Bankruptcy Court for the Eastern District of Michigan, Southern Division, In Re City of Detroit, Michigan, case no. 13-53846.

[2] A detailed description of this legislation can be found in the Senate Fiscal Agency's summaries of House Bills 5566-5570, 5573-5576, and 5600. The summaries describe the bills as they were passed by the House of Representatives, which are the same as the enacted versions. The summaries are available on the Michigan Legislature's website: www.legislature.mi.gov

by a majority of the retiree voters in each retirement system who represented at least two-thirds of the retiree financial claims. Retiree voting concluded on July 11, 2014, and the results were reported on July 21, 2014, indicating the necessary level of approval. If the retirees had disapproved the plan of adjustment, the State contribution could not be made.

Among the other requirements in the State Contribution Agreement are:

- Cessation of litigation by partners to the agreement (including the City of Detroit) against the State, and release of potential claims by retirees against the State and State entities, related to the Local Financial Stability and Choice Act, Public Act 436 of 2012 (which provides for local emergency managers in some situations) or the enforcement of Article IX, Section 24 of the Michigan Constitution as it relates to Detroit[3].
- Approval of the settlement regarding the Detroit Institute of Arts (DIA), to ensure sufficient funding to the pension funds, namely:
  - Commitments from a group of major foundations to donate at least $366.0 million over 20 years to the pensions systems.[4]
  - Commitment from the Detroit Institute of Arts to raise at least $100.0 million or the net present value of that amount for the pension funds.[5]
  - Approval of the retirees and the court.
- Changes in the governance of the Detroit retirement systems.
- Implementation of an income stabilization program for retirees, which will provide supplemental pension payments to eligible retirees to maintain certain minimum levels of income.

In addition, the contribution agreement may be amended by agreement and signature of all of the parties, and the confirmation order approving the plan of adjustment must be final by December 31, 2014, with an effective date not later than April 1, 2015. All of the required conditions must be met by April 1, 2015.

The State contribution will reduce the balance in the BSF from an estimated $585.6 million to $390.8 million at the close of FY 2013-14. Pursuant to Public Act 186, the BSF will receive deposits from tobacco settlement revenue of $17.5 million per year over 21 years from FY 2014-15 through FY 2034-35, a total of $367.5 million, which approximates the value of the State's $194.8 million contribution now, compounded with interest over the next 21 years.

Michigan Settlement Administration Authority

Public Act 187 created the MSAA to facilitate the transfer of funds to the retirement systems. The Settlement Administration Fund will receive the $194.8 million transferred from the BSF and the MSAA will determine if the requirements are satisfied for the payment of $194.8 million from the Settlement Administration Fund to the Detroit retirement systems. The Authority is governed by the

[3] Article IX, Section 24 of the Michigan Constitution of 1963 reads as follows: Sec. 24. The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby. Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities.

[4] These parties conditioned their financial commitments on the transfer of the assets of the DIA to the nonprofit DIA Corp, to be held within the Detroit city limits in perpetual charitable trust, to benefit residents of the city, counties, and State.

[5] Ibid.

Michigan Settlement Authority Board, a three-member board consisting of the State Treasurer, the State Budget Director, and a member with expertise in bankruptcy law appointed by the Governor with the advice and consent of the Senate. The payment to the retirement systems requires that the Authority board determines that the plan of adjustment has been approved by the bankruptcy court and the terms and conditions of the contribution agreement have been met. If the board determines that one or both of the criteria (and the underlying requirements) are not met by May 1, 2015, the money will be returned to the BSF. The Authority will dissolve effective May 2, 2015. Public Act 187 also exempts the State, State-related entities, State officials, agents, the Authority board, and advisors from any liability related to certifications or determinations concerning the plan of adjustment or the contribution agreement.

Michigan Financial Review Commission

Public Act 181 created the MFRC to monitor the finances of a qualified city, which is a city with a population of more than 600,000 that is subject to a plan of adjustment approved by a bankruptcy court. The Commission will have nine members, consisting of the State Treasurer, the mayor or chief executive officer of Detroit, the president or chairperson of the Detroit City Council, and the Director of the Department of Technology, Management, and Budget (each of whom is authorized to appoint a designee), as well as five members appointed by the Governor, of which one member is appointed from nominations provided by the Senate Majority Leader and one member is appointed from nominations provided by the Speaker of the House of Representatives. Appointees must meet qualifications in terms of financial and legal expertise and residency.

The Commission will review and approve four-year financial plans submitted by the City of Detroit, and may require changes to those plans. Collective bargaining agreements, budgets, consensus revenue estimates, and debt issuance requests also will be subject to review and approval by the Commission. The Commission is authorized to review and approve certain contracts: those with a value over $750,000 or a higher amount determined by the Commission, contracts with one vendor that over a 12-month period total more than $750,000 or the higher amount determined by the Commission, and those with a term of more than two years. In addition, the Commission will approve the appointment of the city's chief financial officer. The Commission is required to submit a written report on June 1 and December 1 annually and certify by October 1 annually that Detroit is in substantial compliance with the plan of adjustment and other requirements.

The Commission will provide detailed financial supervision for three years, after which it will have to waive some of the supervision requirements if certain conditions of financial stability (including deficit-free budgets and compliance with required accounting and budget procedures), transparency, and retirement plan operations are met by the City and certified by the Commission. The Commission will be dissolved if the financial supervision requirements are waived for 10 immediately preceding fiscal years and the plan of adjustment has expired.

City of Detroit Operations

Public Act 182 requires Detroit to employ a chief financial officer (CFO) who is appointed by the mayor subject to approval by the Financial Review Commission. The Act specifies experience requirements for the CFO, who must have a background in finance, government restructuring, labor relations, employee benefits, and local government. The CFO is responsible for financial and budgetary activities, participation in the required consensus revenue estimating process, and compliance with State law and the Michigan Financial Review Commission Act (Public Act 181).

Public Act 182 also requires the city to have a financial plan that covers the current fiscal year and the next three fiscal years. The financial plan must have a general reserve fund of at least 5.0% of the projected spending for each fiscal year. The Act authorizes the mayor, with approval of the city council, to reduce spending during a year by executive order reduction if spending exceeds revenue. Transparency requirements include a requirement to post all contracts to which the city is a party on the city website within 30 days of award.

Public Act 184 limits the options available to Detroit under the Publicly Funded Health Insurance Contribution Act, Public Act 152 of 2011. In general, that Act limits the contributions of a local unit of government for employee medical benefits to 80% of the cost of the medical benefits plan or a capped amount set annually by the State. A local government has an alternative to opt out of these limitations annually by a two-thirds vote of its governing body. Under Public Act 184, this "opt out" is no longer allowed for the City of Detroit.

Public Act 189 requires an arbitration panel to consider information filed by the Financial Review Commission related to a labor dispute involving the Detroit police or fire department.

Retirement System Operations

Public Act 183 places limitations on the Detroit public retirement systems. Except as otherwise provided in a plan of adjustment, for years of service accrued beginning in 2015 and thereafter, pension benefits will be calculated using base pay only, and additional benefit payments based on the rate of investment return are prohibited. The Act also limits retirement plans that will be offered to employees first hired after July 1, 2023. At that time, the city is required to offer retirement plans that cost not more than 7.0% of the employee's base pay or the retirement plan provided in the plan of adjustment. Contributions for retirement health care are limited to the greater of 2.0% of the base pay or the percentage contribution made by the State of Michigan under the State Employees' Retirement Act for retiree tax-deferred accounts (currently up to 2.0%), except as provided in a plan of adjustment. Annually, the city must submit certification of compliance with these provisions to the Financial Review Commission, beginning not later than January 1, 2024.

Public Act 185 establishes requirements and limitations for a "large sponsored system", which is a public employee retirement system created by a city that has more than 600,000 in population or has discharged in bankruptcy at least $1.0 billion in pension liabilities, or both. The Act requires, subject to the plan of adjustment, each large sponsored system to establish an investment committee to make recommendations to the governing board of the retirement system in many areas, including investment goals, performance standards, selection and evaluation of investment services, asset allocation, audits, and other activities. If the investment committee and board disagree, the investment committee may make certain decisions. The Act also adds limitations on out-of-State travel and additional reporting requirements, including itemized reports of travel paid by the pension fund in part with public funds. In addition, the Act requires a large sponsored system to submit its annual report to the Financial Review Commission.

Appropriations

The package of enacted legislation included implementing appropriations in FY 2013-14 and FY 2014-15, which are summarized in Table 1. In addition to the appropriations, Public Act 186 amended the Michigan Trust Fund Act to require that $17.5 million from the State's tobacco settlement revenue be deposited into the BSF each year from FY 2014-15 through FY 2034-35.

Table 1

Appropriations in the Detroit Package, Public Acts 181, 182, & 187 of 2014				
House Bill	**Public Act**	**Fiscal Year**	**Amount**	**Purpose**
5566	181	FY 2013-14	$900,000	Appropriated from General Fund/General Purpose (GF/GP) revenue to the Department of Treasury for the cost of the MFRC.
5575	187	FY 2013-14	$194,800,000	Appropriated from the Settlement Administration Fund to the City of Detroit retirement systems if conditions are met for the transfer. (Public Act 188 transferred $194.8 million from the BSF to the Settlement Administration Fund.)
5567	182	FY 2014-15	$100,000	Appropriated from GF/GP revenue to the Department of Treasury for Detroit compliance requirements

Conclusion

The Legislature authorized a State contribution of $194.8 million from the Budget Stabilization Fund to assist in the resolution of the Detroit bankruptcy case. If necessary terms and conditions are satisfied, the State funds will be deposited into the Detroit general retirement system and the Detroit police and fire retirement system to reduce the cuts to pensions that will occur due to the bankruptcy. The State's contribution is contingent on approval of the plan by Detroit retirees (which has now occurred), the related contribution by major foundations of $366.0 million to the retirement systems, approval of the plan of adjustment by the bankruptcy court, and that court's issuance of the final order in the bankruptcy case. These actions will trigger the release of the State funds to the Detroit general retirement system and the police and fire retirement system. If the plan of adjustment is not approved or the terms and conditions in the State Contribution Agreement are not satisfied, the MSAA will return the $194.8 million State contribution to the BSF.

Assuming that the plan of adjustment is approved, the expenditure of these State funds will reduce the amount available in the BSF for unexpected State needs. The use of tobacco settlement revenue to repay the BSF over 21 years will constrain the amount of tobacco settlement revenue available for other State budget priorities. The State's contribution to the retirement systems will make possible other outside contributions that, if the plan of adjustment is approved, will ameliorate the negative impacts of the bankruptcy on Detroit retirees. The plan also will release the State from potential claims against the State, including Detroit-related litigation involving Article IX, Section 24 of the Michigan Constitution or challenges under the Local Financial Stability and Choice Act.

Appendix

Bills in the Detroit Package, Public Acts 181 to 190 of 2014			
House Bill	**Public Act**	**Act Amended or Created**	**Subject in Brief**
5566	181	Michigan Financial Review Commission Act (new)	Creates the MFRC; appropriates $900,000 in FY 2013-14 to the Department of Treasury; requires semi-annual report.
5567	182	Home Rule City Act	Requires Detroit to have a chief financial officer; sets planning and compliance requirements; appropriates $100,000 in FY 2014-15 to the Department of Treasury.
5568	183	Home Rule City Act	Provides for limitations to Detroit pension systems.
5569	184	Publicly Funded Health Insurance Contribution Act	Prohibits Detroit from exempting itself from the Act.
5570	185	Public Employee Retirement System Investment Act	Sets requirements for a newly defined "large sponsored system"; requires investment committee, limits out-of-State travel.
5573	186	Michigan Trust Fund Act	Requires the deposit of $17.5 million annually from tobacco settlement revenue to the BSF from FY 2014-15 through FY 2034-35.
5574	188	Management and Budget Act	Transfers $194.8 million in FY 2013-14 from the BSF to the Settlement Administration Fund.
5575	187	Michigan Settlement Administration Authority Act (new)	Creates the MSAA; appropriates $194.8 million in FY 2013-14 from the Settlement Administration Fund to City of Detroit retirement systems; requires the Authority to determine if the conditions for the transfer are met.
5576	189	Public Act 312 of 1969	Requires an arbitration panel to consider information submitted by the Financial Review Commission.
5600	190	Public Act 566 of 1978	Allows the Detroit mayor, CEO, or city council member to serve on the MFRC.

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