State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2015

An Overview of Michigan's Early Childhood Education Programs

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Introduction

Michigan has multiple early childhood education programs that support low-income children. In recent years, these programs have grown in scope, accountability, and quality standards. The Child Development and Care Program, Great Start Readiness Program (GSRP), and Head Start make up the three early childhood education programs that are discussed in this article. Governor Snyder consolidated these programs into the Office of Great Start, within the Michigan Department of Education, in June 2011, under Executive Order 2011-8. This article will provide an overview of the history, funding structure, and accountability for each program.

Child Development and Care Program

History and Description

The Federal Child Care and Development Block Grant was authorized in 1996 under the Personal Responsibility and Work Opportunity Reconciliation Act[1] and reauthorized in November 2014. The program is housed in the Administration for Children and Families of the U.S. Department of Health and Human Services and provides block grants to states that meet various requirements. These requirements include: establishing a lead agency in the state to administer the program, meeting matching and maintenance of effort (MOE) requirements, using the funds to help families with income levels below 85% of the state median income level, establishing health and safety standards, establishing reimbursement rates, using 4% of the funds to improve child care quality, and ensuring that children in the program have access to child care that is comparable to what children who are not in the program receive[2]. The Administration for Children and Families also provides a number of recommendations for the states, but these are not requirements. States must submit plans every three years on how funds will be used, specifically on how accessibility and quality will be improved.

In Michigan, the Child Development and Care Program was originally created in what was previously the Department of Human Services. In 2011, most of the program was moved to the Michigan Department of Education (MDE) under Executive Order 2011-8. The MDE operates policy and programming, with the Department of Human Services (now part of the Michigan Department of Health and Human Services) continuing to determine child eligibility. The Department of Licensing and Regulatory Affairs also provides licensing to ensure that child care providers meet health and safety standards as well as report caseloads and costs. Michigan established the income eligibility limit at 39% of the State median income or below 121% of the Federal poverty rate ($23,880 for a family of three). There are a number of other ways for children to be eligible for the program, including foster care and protective services, but the majority of participants in the program are families meeting the income eligibility criterion. In addition, a parent must be performing an approved activity, such as working, attending class, or receiving counseling and/or rehabilitation. The State reimburses parents or guardians based on the number of hours that the child is in child care, up to 90 hours for two weeks, and the star-rating of the program. The program's funding level is based on caseloads and the cost per case, which are estimated at the May Consensus Revenue Estimating Conference. Funding for

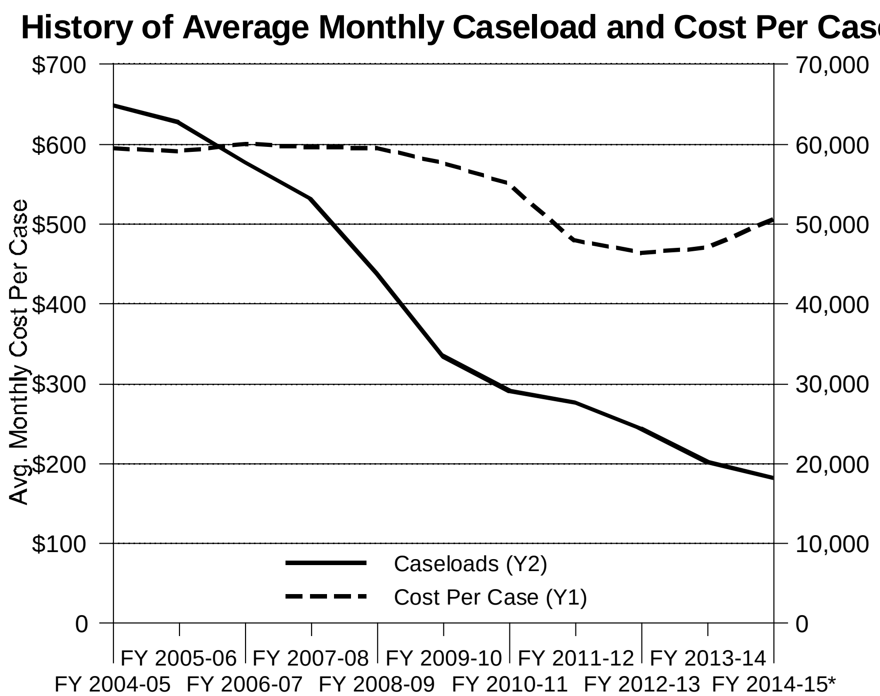
[1] See "Highlights of The Personal Responsibility and Work Opportunity Reconciliation Act of 1996", U.S. Department of Health and Human Services.

[2] See "Policy Interpretation Questions about the Use of CCDF for Program Integrity Efforts", June 27, 2012, U.S. Department of Health and Human Services, Office of Child Care.

the entire program in fiscal year (FY) 2014-15 is $137.5 million[3], which includes both the public assistance and external support, including child care licensure. The program assistance total is $119.7 million, with Federal funds making up $83.1 million and the General Fund making up $36.6 million. Matching and MOE requirements for the State equal $50.6 million, $12.8 million of which is supported by funds in the GSRP within the School Aid budget. The administration of the program is combined with the Great Start operations line item. Of the total line item, $18.4 million Gross, $18.2 million Federal, and $0.2 million General Fund/General Purpose (GP/GP) is used for administration and operations of the Child Development and Care Program.

Figure 1 shows the trend for the average monthly caseload and cost per case for each year from FY 2004-05 through FY 2014-15 (estimated). The trend shows a 71.9% drop in caseloads over the past 10 years while the cost per case has remained relatively stable. There are multiple variables that may contribute to the decline in caseloads, including declining birth rates, fewer children living in families below 39% of the State median income, attendance reporting changes, reimbursement rates that are not sufficient to cover child care costs, or one parent no longer working enough to require child care. A combination of these variables and others that are currently unknown may explain the dramatic decline in the number of children who are in the Child Development and Care Program.

Figure 1



* FY 2014-15 is an estimate based on the May 2014 Consensus Revenue Estimating Conference.

Source: Actual average caseloads and cost provided by the Michigan Department of Health and Human Services, and projections from the May 2014 Consensus Revenue Estimating Conference

[3] This is the year-to-date number for the FY 2014-15 budget, which includes initial appropriations (PA 252 of 2014), Executive Order 2015-5, and PA 6 of 2015, which cut General Fund/General Purpose funding by $2.4 million and increased Federal funds by $11.8 million.

Oversight

In 2011, Michigan launched the Great Start to Quality system, which was intended to increase child care quality not just for programs that support children in the Child Development and Care Program, but for all licensed and registered child care programs, including the Great Start Readiness Program and Head Start. It created a five-star system to identify the quality of the licensed and registered child care programs. Great Start to Quality is voluntary; however, programs that care for children who participate in the Child Development and Care Program must be approved by the Department of Education before care can be reimbursed. The Department has an agreement with the Early Childhood Investment Corporation (ECIC) to implement the Great Start to Quality, which has 10 regional resource centers that provide assistance with all levels of the rating system. The ECIC also contracts with HighScope Educational Resource Foundation to conduct the Program Quality Assessments for programs eligible for a four- or five-star rating.

The categories that make up the rating are: staff qualification and professional development, family and community partnerships, administration and management, environment, and curriculum and instruction. For a program to get a star rating, it must first complete a self-assessment, which is then validated by the ECIC. Programs that choose not to complete validation receive an empty star. In June 2013, Great Start to Quality launched a revised rating system. There are currently 2,296 programs that have a rating and 7,100 programs that have an empty star rating. A rating is valid for two years, after which the program is re-rated. Beginning in FY 2013-14, the Child Development and Care Program began reimbursing programs based on the star rating in order to give them an incentive to achieve the higher ratings and allow children access to higher-quality programs.

The Department of Licensing and Regulatory Affairs (LARA) also provides oversight. The Department provides the licenses and registration for child care providers. The licensing process is focused on health and safety and a provider must meet minimum requirements in order to be licensed. (The Great Start to Quality, on the other hand, focuses on the quality of the program and is more in-depth.) The current ratio of LARA's licensing inspectors and programs is 1 to 150, while the current national average is 1 to 98. The licensing process is supported by Federal funds and licensing fees.

FY 2014-15 Supplemental and FY 2015-16 Budget

House Bill (HB) 4112 (Public Act 6 of 2015) made supplemental appropriations for FY 2014-15. As requested by the Governor, HB 4112 included $11.8 million in supplemental Federal funds to support expansion of the Child Care and Development Program for the remaining six months of FY 2014-15. There were three areas of program expansions. The first was to increase the "exit threshold" for a subsidy to 250% of poverty, which cost $764,000 for six months. This means that the entry threshold for eligibility is 121% of the poverty level and the exit is 250% of the poverty level, which is still below 85% of median State income. This is intended to prevent a "drop off" in child care for families whose income increases above 121% and who otherwise would lose all child care benefits and risk being unable to find child care due to its costs. The second program expansion was to create a 12-month period of child care, which cost $7,973,700 for six months. This is intended to further reduce the risk of drop off, by allowing children to remain in the program for 12 months without being removed from it due to changes in income eligibility or approved activity. The final program expansion increased the star-based reimbursement rate for providers, which cost $3,068,000 for six months. Table 1 shows how the hourly reimbursement rate changed. This is intended to give further incentives to higher-rated providers.

Table 1

Recommended Tiered Reimbursement Rates per Hour (prior rates in parentheses)				
	Child Care Centers		**Family & Group Child Care Homes**	
	Birth to Age 2½	**Over Age 2½**	**Birth to Age 2½**	**Over Age 2½**
Base Rate (Empty Star and 1 Star)	$3.75 ($3.75)	$2.50 ($2.50)	$2.90 ($2.90)	$2.40 ($2.40)
2 Star Rate	$4.00 ($3.75)	$2.75 ($2.50)	$3.15 ($2.90)	$2.65 ($2.40)
3 Star Rate	$4.25 ($4.00)	$3.00 ($2.75)	$3.40 ($3.15)	$2.90 ($2.65)
4 Star Rate	$4.50 ($4.25)	$3.25 ($3.00)	$3.65 ($3.40)	$3.15 ($2.90)
5 Star Rate	$4.75 ($4.50)	$3.50 ($3.25)	$3.90 ($3.65)	$3.40 ($3.15)

Source: State Budget Office

For FY 2015-16, the budget keeps the half-year expansion under HB 4112 for the full fiscal year, which will cost an additional $11.8 million in Federal funds. The budget also includes a Federal increase of $9.1 million for external support, which will increase the number of licensing inspectors in the Department of Licensing and Regulatory Affairs. This increase will lower the inspector to provider ratio from 1 to 150 to the national average of 1 to 98.

The program expansion could cause a number of outcomes for the Child Development and Care Program. It could reduce the decrease or even increase the program's caseloads by increasing the exit threshold and providing 12 months of eligibility. The expansion also could raise the cost per case by allowing increased reimbursement for higher-rated programs. The higher reimbursement rate then could increase the number of five-star-rated providers and the number of providers in the Great Start to Quality system. At this time, it is not anticipated that the State will need to provide additional funds to support matching or MOE requirements. However, if caseloads were to increase greatly, it could be necessary for the State to support the additional Federal funds.

Great Start Readiness Program

History and Description

The GSRP first began in 1985 to provide preschool for "at risk" four-year-old children. This program is funded in the School Aid budget and is overseen by the Office of Great Start in the MDE. The GSRP is unique because the intermediate school districts (ISDs) oversee the various providers and determine child eligibility while the Department determines the grant amount and audits the ISDs to ensure that they are following statute and policy. The Department gives money to ISDs based on the need in the intermediate districts and the amount of funds available; then, the ISDs make payments to the individual program providers. Many ISDs, schools, and academies have GSRPs on-site.

Section 32d of Public Act (PA) 196 of 2014[4], the FY 2014-15 School Aid budget, required that ISDs take reasonable steps to allocate a minimum of 30% of their slots to community-based organizations, to allow other private program providers to compete locally within an ISD for funding grants from the GSRP. Previously, Section 32l (which was repealed in 2013) allowed private program providers to participate in the grant program run by the Department. Providers are paid based on the number of "slots" they have in the program. One "slot" is equal to a half day of instruction, so if a student were eligible for a full day of instruction, he or she would fill two "slots". Children's eligibility is largely determined by family income. Currently, the cap for income eligibility is 250% of the poverty level.

[4] MCL 388.1632d

Statute requires programs to ensure that 90% of slots are filled by a child at or below 250% of poverty before accepting children with family income between 250% and 300% of poverty. Children between 250% and 300% of poverty may be accepted only if all eligible children under 250% are being served. Up to 10% of slots may be used for children over income eligibility guidelines; however, they must have other risk factors to qualify.

Over the past few years, the Governor has recommended increases to the program with approval from the Legislature. Currently, the program is funded at $239.6 million, of which $300,000 is dedicated to ongoing program evaluation and $10.0 million is dedicated for transportation. This equates to more than 63,000 half-day slots that are available to be filled, at $3,625 per slot. In addition to supporting the program, the funds are used for matching and meeting MOE requirements for Federal funds in the Child Development and Care Program ($14.0 million)[5] and Federal Temporary Assistance for Needy Families (TANF) funds ($208.3 million)[6].

Oversight

In 1994, the GSRP began a longitudinal study conducted by HighScope Educational Research Foundation to look at the impact of the program, by tracking student outcomes. This study followed students who were in the program in order to measure differences between them and students who were not in the program but had similar family backgrounds. HighScope measured both academic and social outcomes through high school graduation plus two years. The study concluded in 2011 with a formal report issued in 2012[7]. A new longitudinal study began in 2011 and the first results will soon be available for review. The ongoing evaluation uses $300,000 annually.

In addition to the State-level evaluation, the ISDs oversee the program providers using the same star ratings as used for other child care programs. In order to receive funds to fill slots, GSRPs must have at least a three-star rating and meet all the GSRP rules and policies. Unlike other child care providers, the ECIC does not do the auditing and support of the program's providers. The ISDs use the three-star rating requirement in addition to: information from development screening, ongoing observational assessments, program quality evaluations, insight from staff and parents on providers, whether there is an efficient use of resources, and responses to the needs of children. These factors are intended to provide local data that can be used to continuously improve program performance.

Each ISD is required to have at least one early childhood coordinator/specialist in order to provide monitoring, professional development, and support to the various program providers within the ISD. The ISD is responsible for monitoring its providers for compliance with policies and guidelines for fiscal and programmatic issues. The MDE monitors ISDs for their administration and implementation of the program. An MDE auditor, GSRP consultant, or combined team will conduct on-site monitoring visits to the ISD to ensure compliance with State policies and program requirements as they relate to fiscal and programmatic management of the grant.

[5] According to the Department of Education listing of Federal matching and MOE requirements for all Federal funds received by the Department.

[6] According to the Department of Health and Human Services listing of line-item amounts that are used to support TANF matching and MOE requirements.

[7] "Michigan Great Start Readiness Program Evaluation 2012: High School Graduation and Grade Retention Findings" at HighScope.

FY 2015-16 Budget

Most of the FY 2015-16 budget maintains existing law with one change. The change concerns how much of the funding can be used for administration at either the ISD or the provider level. Currently, administration costs are capped at 7%, but if an ISD subcontracts, then the cap is 2% for the ISD and 5% for the subrecipient provider. The budget has ISDs and subrecipients capped at 4% if subcontracting.

Head Start

History and Description

President Lyndon B. Johnson initially created Head Start as an eight-week pilot project for low-income youths in 1965. It is currently administered by the U.S. Department of Health and Human Services and has expanded to allow full-day, full-year programming and home-based and child care options. In 1995, the Clinton Administration awarded the first Early Head Start grants, which provide for services to pregnant women, infants, and children up to age three, while Head Start serves children ages three to kindergarten-entry. Head Start and Early Head Start provide education, health, and social services to low-income children from birth to five years old. The American Reinvestment and Recovery Act included increases to the number of slots in the program.

Head Start and Early Head Start are different from the Child Development and Care Program, because the administration and oversight of the Head Start programs go from the Federal level to the agency level, with very little involvement of the State. In 2007, the Head Start Act was reauthorized to include initiatives to increase quality; these include increased qualifications for Head Start teachers, increased monitoring, inclusion of a five-year competitive grant system for increased accountability, and regional and state coordination that provides training and technical support. Through a process called Designation Renewal, grantees must demonstrate high service quality, as well as compliance with programmatic and financial standards. Failure to meet Office of Head Start standards results in a competitive application process in which grantees must reapply for their funding. This competition allows other programs in the community also to apply for Head Start funding. Grantees also can go through recompetition if they fall in the bottom 10% in any of the three evaluation domains during their Office of Head Start monitoring visit. The three domains are emotional support, instructional support, and classroom organization. Since the grantees in the bottom 10% are subject to the competitive process, they are removed when the Office of Head Start establishes the minimum requirements in the three domains, which results in higher standards.

The Federal program appropriated $7.57 billion in FY 2012-13[8] in both grants and quality services and served 932,164 children in the same year. In Michigan, Early Head Start programs received over $57,674,645 and Head Start programs received $211,889,900 from the Federal government. The Head Start Collaboration Office, in the Office of Great Start in the MDE, is funded at a level of $307,700. In the Collaboration Office, one staff member facilitates partnerships between Head Start agencies and other State entities that provide services to benefit low-income children and their families, such as health and education.

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[8] According to the United States Department of Health and Human Services, Office of Head Start.

Oversight

Programs in Michigan are administered by the Office of Head Start regional office, which is located in Chicago, and are subject to a monitoring system that is aligned with a comprehensive, five-year oversight plan. Many providers voluntarily participate in Great Start to Quality and must do so if the Head Start program wishes to partner with the GSRP, which requires a minimum of three stars. Head Start partners with the GSRP as a direct operator of GSRP programming and through blended agreements. In blended classrooms, one GSRP half-day slot and one Head Start half-day slot are combined to allow for a full-day of instruction. These partnerships allow more at-risk four-year-olds to attend a full day of preschool. In these blended settings, the program requirements for both Head Start and the GSRP must be followed, which can maximize program quality.

Conclusion

Michigan has a number of early childhood education programs that serve low-income children. The Child Development and Care Program, the Great Start Readiness Program, and Head Start differ in how they are administered and structured. Since these programs were reorganized within the same office and the Great Start to Quality system was launched, the programs' interactions with each other and the general child care system have increased. All of these programs have recently changed in order to try to increase quality and reduce education gaps in schools. The Child Development and Care Program worked with the Great Start to Quality system to create a five-star rating that is used to calculate reimbursement rates, which gives programs an incentive to improve quality and accept children who are in the Child Development and Care Program. The GSRP has increased quality goals and ISD oversight, and tracks children who participate in the program in order to further improve it. Head Start has increased the Federal standards and oversight, and opened up the Federal grants to a competitive process in order to increase quality. The goal of more oversight, increased quality standards, and competition is to have low-income children ready for school and reduce the achievement gap. Table 2 summarizes the FY 2015-16 State appropriations for the early childhood education programs that serve low-income children.

Table 2

FY 2015-16 State Appropriations for Early Childhood Programs that Serve Low-Income Children

Program	Gross	Federal	Private	State Restricted	GF/GP
Child Dev'l and Care (Admin.)	$18,367,700	$12,949,500	$0	$0	$5,418,200
Child Development and Care	151,096,500	120,615,800	0	0	30,480,700
Great Start Readiness (Admin.)	4,440,900	2,732,200	250,000	64,100	1,394,600
Great Start Readiness Grants	239,575,000	0	0	239,275,000	300,000
Head Start Collaboration Office	307,400	245,800	0	0	61,600
Total	**$413,787,500**	**$136,543,300**	**$250,000**	**$239,339,100**	**$37,655,100**

Note: Initial appropriations for FY 2015-16, PA 84 of 2015.

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2015

Tuition Restraint: FY 2011-12 through FY 2015-16
By Bill Bowerman, Associate Director

Introduction

The fiscal year (FY) 2015-16 Higher Education budget is the fifth consecutive budget under the current administration in which tuition restraint has been a condition for receiving a portion of State appropriations for university operations. All of the Michigan public university governing boards have met and set tuition and fees for the 2015-2016 academic year. The following provides a preliminary analysis of FY 2015-16 compliance with tuition restraint, and a summary of tuition restraint over recent years.

FY 2015-16

Pursuant to Section 265 and Section 265a of the State School Aid Act (Appendix A), FY 2015-16 performance funding will not be paid to universities that increase tuition and fees for resident undergraduate students more than 3.2%. There are three other prerequisites to qualifying for performance funding:

- 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 making a determination as to whether those credits may be used by the student 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).

The State Budget Director has the sole authority to determine whether a public university has met the tuition restraint requirement and other performance funding prerequisites. By September 30, 2015, the State Budget Director is required to report to the House and Senate Appropriations Subcommittees on Higher Education and the House and Senate Fiscal Agencies regarding any performance funding amounts that are not paid to a public university because it did not comply with one or more requirements under Section 265a. Funds forfeited because of noncompliance are redistributed to universities that have met all of the prerequisites of performance funding.

Table 1 provides a preliminary analysis of tuition and fee increases for FY 2015-16 based on decisions made by university governing boards. As noted above, actual compliance with tuition restraint will be determined by the State Budget Director after universities submit standard reporting forms certifying that they complied with all prerequisites for performance funding, including tuition restraint.

As shown in Table 1, Eastern Michigan University and Oakland University will exceed the tuition restraint cap and will not receive performance funding from the State in FY 2015-16. Pursuant to Section 265a of the State School Aid Act, performance funding appropriated originally to Eastern and Oakland will be redistributed to universities that comply with all of the performance funding prerequisites. Redistributions are proportionate to initial performance funding allocations. Table 2 provides an estimate of the resulting redistribution.

Table 1

FY 2015-16 Resident Undergraduate Tuition/Fee Rate Increases											
	FY 2014-15 Rates					FY 2015-16 Rates					
University	**Fresh**	**Soph.**	**Junior**	**Senior**	**Average**	**Fresh**	**Soph.**	**Junior**	**Senior**	**Average**	**% Change Avg Rate**
Central	$11,550	$11,550	$11,550	$11,550	$11,550	$11,850	$11,850	$11,850	$11,850	$11,850	2.60%
Eastern[1]	9,973	9,663	10,939	10,939	10,378	10,767	10,417	11,804	11,804	11,198	7.89
Ferris	11,190	11,190	11,430	11,430	11,310	11,460	11,460	11,760	11,760	11,610	2.65
Grand Valley	10,752	10,752	11,304	11,304	11,028	11,078	11,078	11,648	11,648	11,363	3.04
Lake Superior	10,498	10,248	10,248	10,248	10,311	10,767	10,517	10,517	10,517	10,580	2.61
Michigan State	13,200	13,200	14,708	14,708	13,954	13,560	13,560	15,105	15,105	14,333	2.71
Michigan Tech	14,040	14,040	15,840	15,840	14,940	14,286	14,286	16,520	16,520	15,403	3.10
Northern	9,559	9,324	9,324	9,324	9,383	9,860	9,620	9,620	9,620	9,680	3.17
Oakland	10,613	10,613	12,308	12,308	11,460	11,513	11,513	13,350	13,350	12,431	8.48
Saginaw Valley	8,691	8,691	8,691	8,691	8,691	8,969	8,969	8,969	8,969	8,969	3.19
UM-Ann Arbor[2]	13,486	13,486	15,186	15,186	14,336	13,856	13,856	15,602	15,602	14,729	2.74
UM-Dearborn[3]	11,200	11,200	11,470	11,470	11,335	11,562	11,562	11,832	11,832	11,697	3.19
UM-Flint	10,138	10,138	10,270	10,270	10,204	10,458	10,458	10,596	10,596	10,527	3.17
Wayne State[4]	11,698	11,448	13,251	13,251	12,412	12,064	11,814	13,676	13,676	12,807	3.19
Western	10,985	10,685	11,711	11,711	11,273	11,329	11,029	12,087	12,087	11,633	3.19
Unweighted Avg.	**$11,171**	**$11,082**	**$11,882**	**$11,882**	**$11,504**	**$11,559**	**$11,466**	**$12,329**	**$12,329**	**$11,921**	**3.62**

General Note: Per HEIDI reporting requirements and consistent with Sec. 265 of the State School Aid Act, rates are reported based on four class levels. Rates are based on 30 credit hours (15 in Fall and 15 in Winter/Spring), and exclude fees not paid by a majority of students in a given class (most course fees), as well as refundable fees.

University Specific Notes:

1) Eastern: FY 2014-15 rates are adjusted based on FY 2015-16 total charges paid by all incoming freshman and the fees charged for most upper division students.
2) UM-Ann Arbor: Rates are for College of Literature, Science, and Arts.
3) UM - Dearborn: Rates are for College of Arts, Sciences, and Letters.
4) Wayne State: Rates include $250 matriculation fee applied to costs for new undergraduate freshman and transfer students beginning in FY 2014-15.

Source: HEIDI data base and university websites

Table 2

FY 2015-16 University Operations Appropriations						
University	**FY 2014-15 Year-to-Date Appropriation**	**Indian Tuition Waiver Distribution[1)]**	**Initial Performance Funding Distribution**	**Performance Funding Redistribution**	**FY 2015-16 Year-To-Date**	**Percent Change to FY 2014-15**
Central	$79,115,000	$49,800	$1,739,600	$222,700	$81,127,100	2.5%
Eastern	71,771,100	11,400	1,052,800	(1,052,800)	71,782,500	0.0
Ferris	49,087,000	32,100	1,108,700	142,000	50,369,800	2.6
Grand Valley	63,136,000	20,500	1,878,700	240,500	65,275,700	3.4
Lake Superior	12,782,500	215,000	186,100	23,800	13,207,400	3.3
Michigan State	264,429,100	8,800	3,841,000	491,800	268,770,700	1.6
Michigan Tech	45,923,100	14,900	724,000	92,700	46,754,700	1.8
Northern	44,277,200	61,100	682,100	87,300	45,107,700	1.9
Oakland	48,364,100	7,800	1,228,400	(1,228,400)	48,371,900	0.0
Saginaw Valley	27,610,200	11,400	496,100	63,500	28,181,200	2.1
UM-Ann Arbor	295,174,100	4,400	4,252,100	544,400	299,975,000	1.6
UM-Dearborn	23,689,300	11,700	294,400	37,700	24,033,100	1.5
UM-Flint	21,337,700	21,900	404,100	51,700	21,815,400	2.2
Wayne State	190,519,800	10,100	816,800	104,600	191,451,300	0.5
Western	102,742,000	19,100	1,394,500	178,500	104,334,100	1.5
Total	**$1,339,958,200**	**$500,000**	**$20,099,400**	**$0**	**$1,360,557,600**	**1.5%**

1) FY 2014-15 separate appropriation for Indian Tuition Waiver is rolled into university operation appropriations in FY 2015-16.

Source: SFA estimate based on FY 2015-16 Higher Education appropriation and Section 265a

Eastern Michigan University forfeited $1,052,800 in State funding by increasing tuition and fee rates on resident undergraduate students by 7.9%. However, by exceeding the 3.2% tuition restraint cap, Eastern generated an estimated $10.0 million in tuition revenue from all student credit hours. Oakland University forfeited $1,228,400 in State funding by increasing tuition and fees by 8.48%. Oakland estimates that the difference between the 3.2% cap and the 8.48% increase in resident undergraduate tuition rates, and new differential tuition rates, will generate an additional $12.0 million for the university.

Tuition Restraint FY 2011-12 through FY 2014-15

FY 2011-12. The FY 2011-12 Higher Education appropriation included a $213.1 million (15.0%) across-the-board reduction to university operations. In order to limit the extent to which this reduction caused large increases in tuition and fees, the budget withheld an additional $83.0 million in State funding, conditioning that amount on universities' keeping resident undergraduate tuition and fee increases below 7.1%. Amounts withheld from each university were calculated using the average increase in tuition for that institution over a five-year period and multiplying that percentage by the Governor's proposed level of FY 2011-12 funding (FY 2010-11 year-to-date appropriation less 15.0%). While there was an issue regarding how tuition increases were calculated, the State Budget Director determined that all Michigan public universities complied with tuition restraint in FY 2011-12. (For a detailed explanation of FY 2011-12 tuition restraint, see: The Impact of Tuition Restraint on 2011-12 University Tuition and Fee Increases, by Bill Bowerman, Senate Fiscal Agency *State Notes*, Summer 2011.)

FY 2012-13. The FY 2012-13 budget included a $36.2 million (3.0%) increase for university operations. Of that amount, $9,054,200 (25.0% of the FY 2012-13 funding increase for university operations) was allocated to universities based on resident undergraduate tuition and fee increases being kept at or below 4.0%. The amount each university received was based on the level of tuition increases for all 15 public universities. That formula resulted in each university receiving $84,600 for each 10th of a percent that its tuition and fee increase was below 4.1%. All universities complied with tuition restraint in FY 2012-13. (For a detailed explanation of FY 2012-13 tuition restraint, see: Michigan Public Universities FY 2012-13 Performance Funding/Tuition Restraint, by Bill Bowerman, Senate Fiscal Agency *State Notes*, Fall 2012.)

FY 2013-14. The FY 2013-14 budget included a $21.9 million (1.8%) increase for university operations. However, unlike the FY 2012-13 budget, instead of tying a specific portion of the overall funding increase to tuition restraint, the FY 2013-14 budget conditioned all performance funding ($21.9 million) on compliance with tuition restraint. Tuition restraint for FY 2013-14 limited resident undergraduate tuition/fee increases to not greater than 3.75%. Measured as a percentage increase for institutions, FY 2013-14 performance funding ranged from a 0.3% increase for Wayne State University to a 4.2% increase for Grand Valley State University. Wayne State University decided to forgo performance funding in FY 2013-14 and instead increased resident undergraduate tuition and fees by 8.9%, almost 2.4 times the tuition restraint cap. At that time, exceeding the 3.75% tuition restraint limit was estimated to generate an additional $8.7 million for Wayne State University, compared to the $534,700 it would have received in performance funding from the State. (For a detailed explanation of FY 2013-14 performance funding and tuition restraint, see: FY 2013-14 Higher Education Appropriations and Tuition Restraint, by Bill Bowerman, Senate Fiscal Agency *State Notes*, Fall 2013.)

FY 2014-15. The FY 2014-15 enacted budget included 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 performance formula allocated $37.3 million (50.0% of the funding increase for university operations) proportional to FY 2010-11 State appropriations for university operations. The balance of the increase was distributed based on performance funding metrics. Tuition restraint for resident undergraduate fee increases was set at 3.2%. All Michigan public universities complied with tuition restraint and received their respective share of performance funding. (For a detailed explanation of FY 2014-15 performance funding and tuition restraint, see: Fiscal Year 2014-15 Higher Education Budget and Performance Funding, by Bill Bowerman, Senate Fiscal Agency *State Notes*, Summer 2014.)

Impact of Tuition Restraint FY 2011-12 through FY 2015-16

State appropriations as a share of university general fund revenue have been declining for several decades. In FY 1977-78, State appropriations accounted for 65.3% of university general fund revenue on a statewide basis. By FY 1992-93, State aid accounted for 51.7% of university general fund revenue, and in FY 2001-02 State appropriations for Higher Education accounted for 41.9% of university general fund revenue. As of FY 2013-14, State appropriations decreased to 21.3% of university general fund revenue.[1] Table 3 shows estimated FY 2015-16 revenue sources for university general fund revenue.[2]

Table 3

FY 2015-16 University General Fund Revenue (Dollars in Millions)

University	State Aid	Tuition	Other	Total	State %
Central	$81.1	$276.9	$15.2	$373.2	21.7%
Eastern	71.8	229.2	9.8	310.8	23.1
Ferris	50.4	157.5	3.1	211.0	23.9
Grand Valley	65.3	294.7	3.6	363.6	18.0
Lake Superior	13.2	24.2	1.4	38.8	34.1
Michigan State	268.8	842.7	100.3	1211.8	22.2
Michigan Tech	46.8	123.8	13.3	183.9	25.4
Northern	45.1	79.0	1.6	125.8	35.9
Oakland	48.4	247.6	2.2	298.2	16.2
Saginaw Valley	28.2	88.4	3.7	120.3	23.4
UM-Ann Arbor	300.0	1,308.8	215.8	1824.6	16.4
UM-Dearborn	24.0	107.3	1.9	133.2	18.0
UM-Flint	21.8	91.6	0.8	114.2	19.1
Wayne State	191.5	365.9	44.9	602.2	31.8
Western	104.3	274.1	9.7	388.2	26.9
Total	**$1,360.5**	**$4,511.7**	**$427.3**	**$6,299.6**	**21.6%**

Source: Budget Transparency sections of university webpages

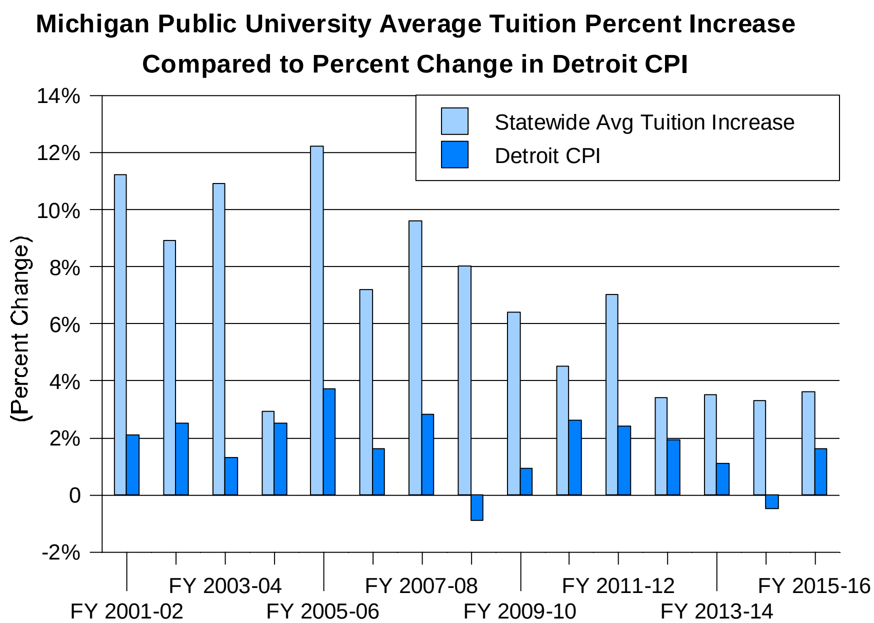
State funding as a share of university general fund revenue in FY 2015-16 ranges from 16.2% at Oakland to 35.9% at Northern. Fiscal year 2015-16 State aid is projected to represent 21.6% of university general fund revenue. For 10 universities, State funding accounts for less than 25.0% of their general fund revenue. Viewed from another perspective, today a 1.0% increase in State aid generates approximately $13.6 million, while a 1.0% increase in tuition and fees generates $45.1 million.

As shown in Figure 1, while tuition restraint appears to have had an impact on the increases in tuition rates compared to previous years, tuition increases in recent years have continued to exceed inflation.

[1] Source: Higher Education Institutional Data Inventory (HEIDI).

[2] Source: Budget transparency sections of University websites and State appropriations.

Figure 1



Source: HEIDI and university websites

Conclusion

Fiscal year 2015-16 is the fifth consecutive year in which tuition restraint has been included in the Higher Education budget. The amount of State funding tied to tuition restraint compliance, and the tuition restraint limit, has varied over the last five years. Over that time period, three universities have not complied with tuition restraint (Wayne State University in FY 2013-14, and Eastern Michigan University and Oakland University in FY 2015-16). While seven universities are now above FY 2010-11 State appropriation levels (amounts prior to the FY 2011-12 15% reduction), overall State funding for university operations is still $59.8 million (4.2%) below FY 2010-11 levels. Compared to FY 2001-02, State aid is $254.9 million (15.8%) below FY 2001-02 appropriation levels, unadjusted for inflation. (Please see Appendix B for a history of State funding for universities.)

As limited growth in State revenue and competing demands for State services and infrastructure continue to have an impact on funding for Higher Education, economic realities will force universities to decide between tuition restraint incentives and the potential of receiving larger sums from tuition/fee increases. Increasing the penalty for exceeding tuition restraint is ultimately limited by the fact that State funding represents less than 25.0% of university general fund revenue for a majority of the public universities. There are also constitutional issues regarding tuition restraint. The actual ability of the State to constrain public university tuition and fee increases in the future will depend upon the level of State funding for Higher Education.

Appendix A

Sec. 265. (1) Payments under section 265a for performance funding shall only be made to a public university that certifies to the state budget director by August 31, 2015 that its board did not adopt an increase in tuition and fee rates for resident undergraduate students after September 1, 2014 for the 2014-2015 academic year and that its board will not adopt an increase in tuition and fee rates for resident undergraduate students for the 2015-2016 academic year that is greater than 3.2%. As used in this subsection:

(a) "Fee" means any board-authorized fee that will be paid by more than 1/2 of all resident undergraduate students at least once during their enrollment at a public university. A university increasing a fee that applies to a specific subset of students or courses shall provide sufficient information to prove that the increase applied to that subset will not cause the increase in the average amount of board-authorized total tuition and fees paid by resident undergraduate students in the 2015-2016 academic year to exceed the limit established in this subsection.

(b) "Tuition and fee rate" means the average of full-time rates for all undergraduate classes, based on an average of the rates authorized by the university board and actually charged to students, deducting any uniformly rebated or refunded amounts, for the 2 semesters with the highest levels of full-time equated resident undergraduate enrollment during the academic year.

(c) For purposes of subdivision (a), for a public university that compels resident undergraduate students to be covered by health insurance as a condition to enroll at the university, "fee" includes the annual amount a student is charged for coverage by the university-affiliated group health insurance policy if he or she does not provide proof that he or she is otherwise covered by health insurance. This subdivision does not apply to limited subsets of resident undergraduate students to be covered by health insurance for specific reasons other than general enrollment at the university.

(2) The state budget director shall implement uniform reporting requirements to ensure that a public university receiving a payment under section 265a for performance funding has satisfied the tuition restraint requirements of this section. The state budget director shall have the sole authority to determine if a public university has met the requirements of this section. Information reported by a public university to the state budget director under this subsection shall also be reported to the house and senate appropriations subcommittees on higher education and the house and senate fiscal agencies.

Sec. 265a. (1) Appropriations to public universities in section 236 for fiscal year 2015-2016 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, 2015 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 30, 2015, 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) Based on weighted undergraduate completions in critical skills areas, 22.2%.

(b) 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, 11.1%.

(c) Based on 6-year graduation rate, total degree completions, and institutional support as a percentage of core expenditures, and the percentage of students receiving Pell grants, scored against national Carnegie classification peers and weighted by total undergraduate fiscal year equated students, 66.7%.

(5) For purposes of determining the score of a university under subsection (4)(c), 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 2016-2017 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 Teachi

Appendix B

State Appropriations for Higher Education

Universities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Central	$90,003,800	$88,353,522	$79,910,900	$79,910,900	$80,061,900	$80,994,600	$81,941,100	$82,760,500
Eastern	87,637,200	84,993,688	77,295,800	77,295,800	76,140,600	76,955,400	77,774,100	78,551,800
Ferris	55,520,300	53,937,221	48,968,800	48,968,800	48,634,700	49,201,300	49,730,800	50,228,100
Grand Valley	60,095,400	57,992,024	57,904,100	57,904,100	61,129,900	62,603,400	63,387,500	64,021,400
Lake Superior	14,268,700	14,047,630	12,392,400	12,685,000	12,506,300	12,675,900	12,981,900	13,111,700
Michigan State	325,982,300	315,469,556	287,516,000	287,516,000	283,730,300	287,127,000	290,139,800	293,041,200
Michigan Tech	55,241,600	53,667,742	48,723,000	48,723,000	48,018,800	48,501,100	49,028,200	49,518,500
Northern	52,012,900	50,545,612	45,173,100	45,775,200	45,051,600	45,593,100	46,171,500	46,633,200
Oakland	52,384,700	50,551,147	48,106,100	48,106,100	50,685,700	51,378,000	51,932,900	52,452,200
Saginaw Valley	27,393,300	26,434,503	26,140,200	26,140,200	27,499,800	28,052,100	28,356,200	28,639,800
U of M-Ann Arbor	363,562,700	351,809,191	320,662,000	320,662,000	316,368,500	320,156,000	323,439,900	326,674,300
U of M-Dearborn	27,993,300	27,319,061	24,690,000	24,690,000	24,739,200	25,027,400	25,295,000	25,548,000
U of M-Flint	24,068,100	23,523,479	21,228,000	21,228,000	20,903,100	21,151,100	21,379,900	21,593,700
Wayne State	253,644,700	245,520,223	223,714,300	218,108,400	214,666,300	216,822,300	219,046,500	221,237,000
Western	125,677,200	121,778,193	110,847,100	110,847,100	109,695,200	110,973,200	112,122,000	113,243,200
University Operations	**$1,615,486,200**	**$1,565,942,792**	**$1,433,271,800**	**$1,428,560,600**	**$1,419,831,900**	**$1,437,211,900**	**$1,452,727,300**	**$1,467,254,600**

Universities	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY '15-16 Change to FY 01-02	FY '15-16 % Change to FY 01-02
Central	$82,436,000	$80,132,000	$68,108,900	$71,352,300	$73,540,100	$79,115,000	$81,127,100	($8,876,700)	(9.9%)
Eastern	78,212,100	76,026,200	64,619,100	66,466,700	67,275,400	71,771,100	71,782,500	(15,854,700)	(18.1)
Ferris	50,017,100	48,619,200	41,324,300	44,250,700	45,636,500	49,087,000	50,369,800	(5,150,500)	(9.3)
Grand Valley	63,758,300	61,976,400	52,677,400	55,436,000	57,823,500	63,136,000	65,275,700	5,180,300	8.6
Lake Superior	13,059,200	12,694,200	10,789,500	12,046,100	12,231,000	12,782,500	13,207,400	(1,061,300)	(7.4)
Michigan State	291,841,700	283,685,200	241,120,800	245,037,000	249,597,800	264,429,100	268,770,700	(57,211,600)	(17.6)
Michigan Tech	49,302,100	47,924,200	40,733,600	42,579,100	43,473,800	45,923,100	46,754,700	(8,486,900)	(15.4)
Northern	46,438,200	45,140,300	38,367,400	40,856,600	41,741,400	44,277,200	45,107,700	(6,905,200)	(13.3)
Oakland	52,220,800	50,761,300	43,145,000	44,964,100	45,651,600	48,364,100	48,371,900	(4,012,800)	(7.7)
Saginaw Valley	28,517,700	27,720,700	23,561,500	25,656,700	25,991,000	27,610,200	28,181,200	787,900	2.9
U of M-Ann Arbor	325,347,400	316,254,500	268,803,300	274,156,700	279,232,700	295,174,100	299,975,000	(63,587,700)	(17.5)
U of M-Dearborn	25,437,100	24,726,200	21,016,300	22,237,300	22,510,400	23,689,300	24,033,100	(3,960,200)	(14.1)
U of M-Flint	21,498,900	20,898,000	17,762,400	19,526,600	19,938,200	21,337,700	21,815,400	(2,252,700)	(9.4)
Wayne State	220,329,200	214,171,400	182,036,900	183,398,300	183,398,300	190,519,800	191,451,300	(62,193,400)	(24.5)
Western	112,766,800	109,615,100	93,168,300	95,487,500	97,279,000	102,742,000	104,334,100	(21,343,100)	(17.0)
University Operations	**$1,461,182,600**	**$1,420,344,900**	**$1,207,234,700**	**$1,243,451,700**	**$1,265,320,700**	**$1,339,958,200**	**$1,360,557,600**	**(254,928,600)**	**(15.8%)**

Notes: Amounts listed do not reflect FY 2003-04, FY 2004-05, FY 2006-07 and FY 2007-08 delayed payments and FY 2006-07 MPSERS adjustment. FY 2015-16 includes estimates based on redistribution of EMU and OU performance funding. Final determination of performance funding is made by the State Budget Directors.

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2015

History of At Risk Funding in Michigan

Kathryn Summers, Associate Director

Section 31a of the State School Aid Act, MCL 388.1631a, provides supplemental funding to schools for educational programs and support of students at risk of educational failure. The section first came into existence in Public Act 336 of 1993, and was amended by Public Act 283 of 1994 as part of the legislation that implemented the first year of Proposal A, the voter-approved ballot proposal that capped local school taxes and shifted school operational funding primarily from property taxes to a series of State taxes. However, a similar appropriation previously was in existence for many years under Section 31, called compensatory education. This article will provide a review of historical funding levels since the implementation of Proposal A, formulaic shortfalls, and recent legislative changes in the allowable uses of the funds.

Historical Funding

Table 1 tracks the appropriations in Section 31a, since the first year of Proposal A implementation in fiscal year (FY) 1994-95. As shown in the table, At Risk funding in FY 1994-95 was $230.0 million. Funding remained at $230.0 million for three years, before growing by roughly 9% to $250.0 million in FY 1997-98, then moderately increasing the next two years, and receiving a 12% increase in FY 2000-01, a 3% increase in FY 2001-02, a cut in FY 2002-03 with mid-year proration of overall school funding, restoration of the funding cut in FY 2003-04, and then generally no increases from that point on until the recently enacted budget for FY 2015-16, which includes a 23% increase in funding, to $389.7 million.

Table 1

Historical At Risk Funding

Fiscal Year	Standard Programming	Earmarked	Total	Percent Change
1994-95	$230,000,000	$0	$230,000,000	n/a
1995-96	230,000,000	0	230,000,000	0.0%
1996-97	230,000,000	0	230,000,000	0.0
1997-98	250,000,000	0	250,000,000	8.7
1998-99	260,000,000	0	260,000,000	4.0
1999-2000	270,920,000	0	270,920,000	4.2
2000-01	304,000,000	0	304,000,000	12.2
2001-02	311,800,000	2,400,000	314,200,000	3.4
2002-03	298,596,834	3,600,766	302,197,600	(3.8)
2003-04	310,457,000	3,743,000	314,200,000	4.0
2004-05	310,457,000	3,743,000	314,200,000	0.0
2005-06	310,457,000	3,743,000	314,200,000	0.0
2006-07	310,457,000	8,893,000	319,350,000	1.6
2007-08	310,457,700	8,893,000	319,350,000	0.0
2008-09	310,457,700	9,893,000	320,350,000	0.3
2009-10	308,988,200	8,707,300	317,695,500	(0.8)
2010-11	308,988,200	8,707,300	317,695,500	0.0
2011-12	308,988,200	8,707,300	317,695,500	0.0
2012-13	308,988,200	8,707,300	317,695,500	0.0
2013-14	308,988,200	8,707,300	317,695,500	0.0
2014-15	308,988,200	8,707,300	317,695,500	0.0
2015-16	378,988,200	10,707,300	389,695,500	22.7

Source: Annual budget bills

Table 1 also indicates how much of the appropriation is for "standard" programming (funds to support at-risk students), and how much is "earmarked" for other purposes. In FY 2001-02, Child and Adolescent Health Center funding, previously included in the Department of Community Health (DCH) budget, was transferred to the School Aid budget. In FY 2007-08, Vision and Hearing Screening was transferred into the K-12 budget from the DCH. The most recent increase, for FY 2015-16, totaled $72.0 million, but $2.0 million of the increase was earmarked for Child and Adolescent Health Centers, with the other $70.0 million provided for "standard" programming.

Formulaic Shortfalls

Funding for the At Risk program is paid to districts according to a formula in statute. School districts (including public school academies) with combined State and local per-pupil operational funding less than or equal to the basic foundation allowance ($8,169 for FY 2015-16) are eligible, and the payment to eligible districts, if or when the program is fully funded, will be equal to 11.5% of a district's foundation allowance (capped at the basic foundation allowance) multiplied by the number of pupils in the district eligible for free breakfast, lunch, or milk in the prior fiscal year. In this manner, supplemental funding in addition to the foundation allowance is provided to each district, based on the district's foundation allowance and number of eligible pupils.

Table 2

Per-Pupil At Risk Proration and Estimated Shortfall

Fiscal Year	Per-Pupil Proration (rounded to two decimal points)	Estimated Total Shortfall
1994-95	$21.00[a)]	$7,927,230
1995-96	26.52	10,183,640
1996-97	56.87	22,091,548
1997-98	56.96	23,213,475
1998-99	42.49	17,344,901
1999-2000	51.70	21,517,135
2000-01	1.46	605,932
2001-02	0.00	---
2002-03	72.65	42,685,559
2003-04	100.35	44,030,365
2004-05	129.91	59,500,414
2005-06	173.89	82,886,533
2006-07	206.24	99,597,862
2007-08	241.56	121,147,927
2008-09	254.44	127,859,806
2009-10	289.44	154,777,509
2010-11	358.62	216,812,035
2011-12	295.19	175,303,554
2012-13	319.19	196,441,662
2013-14	311.84	186,818,400
2014-15	317.68	189,321,475
2015-16[a)]	225.00	134,000,000

a) Estimated

Source: MDE historical figures and SFA estimates for FY 2015-16 (and FY 1994-95 per-pupil)

Language in Section 31a allows the Department of Education to prorate payments on an equal per-pupil dollar amount basis if the appropriated funding is insufficient to fully fund the formula. Table 2 shows the per-pupil proration amounts, as well as the estimated total shortfalls between the appropriations and the calculated formula amounts. As shown, the shortfall grew from roughly $8.0 million in FY 1994-95 to $21.5 million in FY 1999-2000, before being essentially eliminated for two years. Then, the shortfall resumed a growth pattern in succeeding years, reaching a peak of $216.8 million in FY 2010-11, as more students became eligible for free lunch and foundation allowances grew, but appropriations for At Risk remained relatively flat through FY 2014-15. Again, there was a significant increase for FY 2015-16, which will reduce the total formulaic shortfall to an estimated $134.0 million.

Recent Legislative Changes in Allowable Uses

While a number of budget years saw minor changes in the allowable uses of At Risk funds, such as which districts could qualify or which pupils could be served with the funds, the past two budget cycles (for FYs 2014-15 and 2015-16) have seen the most dramatic changes. Before FY 2014-15, in general, funding provided to a district based on the formula outlined above could be spent to provide instructional programs and direct noninstructional services, including, but not limited to, medical, mental health, or counseling services, for at-risk pupils. (Detroit Public Schools and other districts with at least 50% of pupils meeting income eligibility criteria also could use up to 20% of funds for school security.) The instructional or direct noninstructional services could be conducted before or after regular school hours or during extra school days added to the school year. Districts that receive At Risk funds and that operate a school breakfast program are required to use up to $10 per pupil for costs associated with operation of the school breakfast program.

While much of the above language was retained for FY 2014-15, the priority of the funding in the section became more focused, with inclusion of language stating that At Risk payments are "…for the purposes of ensuring that pupils are proficient in reading by the end of grade 3 and that high school graduates are career and college ready…".[1] All other carve-outs in allowable uses for the program (early intervening, class size reduction, adult high school completion, and others) were removed, leaving it up to districts to determine if their spending plan would result in growth for benchmarks in 3rd grade reading and career and college readiness.

To add "teeth" to the change focusing on 3rd grade reading and career- and college-ready high school graduates, language was added to allow districts three years to implement the changes. If, after three years, a district is not able to demonstrate to the satisfaction of the Department that at least 50% of at-risk pupils are reading at grade level by the end of 3rd grade, and demonstrate improvement over three consecutive years in the percentage of at-risk pupils who are career- and college-ready, then the district will be required to spend a certain portion of its At Risk funds on the area or areas in which it did not meet the prescribed benchmarks.

The amount that will be required to be spent is equal to the percentage shortfall compared with the benchmark, for both the 3rd grade reading benchmark and career/college readiness, with 50% of the At Risk funds essentially "allocated" for 3rd grade reading initiatives and the other 50% essentially "allocated" for improving career- and college-readiness. To illustrate, if a district, after three years, has 40% of its 3rd grade pupils not reading at grade level by the end of 3rd grade, then it must spend 40% multiplied by one-half of its At Risk allocation on efforts to improve 3rd grade reading levels (which equates to 20% of its total At Risk allocation). Similarly, the calculation is in effect for the high school benchmarks. For example, if a district, after three years, does not have three consecutive years' improvement in the percentage of at-risk pupils who are career- and college-ready, and 60% of its Grade 11 pupils are not career- and college-ready as measured by scores on the Michigan Merit Exam, then the district must spend 60% of one-half of its At Risk grant on this programming (which equates to 30% of its total At Risk allocation). Therefore, to the extent a district meets the benchmarks, it will retain flexibility in determining how to spend its At Risk funds, and to the extent it falls short, the district will be required to spend proportionately in the deficient areas.

[1] House Bill 5314, Public Act 196 of 2014, Section 31a.

Turning to FY 2015-16, most notable are the changes in a requirement that districts implement a specific learning model for early grades in order to obtain any At Risk funds, and changes in the definition of which pupils qualify for services. The first change requires any district receiving At Risk funds to implement, for at least children in kindergarten through 3rd grade, a "multi-tiered system of supports [MTSS] that is an evidence-based model that uses data-driven problem solving to integrate academic and behavioral instruction and that uses intervention delivered to all pupils in varying intensities based on pupil needs".[2] The language goes on to indicate the essential elements of an MTSS model, including effective instruction for all learners, early intervention, multi-tiered model of instruction and intervention, monitoring of pupil progress to inform instruction, and the use of data to make instructional decisions. Again, the MTSS must be implemented for at least grades K to 3, in order for a district to receive any At Risk funds for any grades.

The other notable change in the FY 2015-16 budget significantly adjusted the definition of an "at-risk" pupil for whom a district can provide services using the funds allocated under the section. In previous years, "at-risk pupil" included a pupil to whom any of the following applied: victim of child abuse or neglect; pregnant teenager or teenage parent; family history of school failure, incarceration, or substance abuse; did not achieve proficiency on the Michigan Merit Exam; K-3 pupil at risk of not meeting the district's core academic objectives in English language arts or math; enrolled in a priority or priority-success school; did not achieve a proficiency score on two or more State-administered assessments; for a pupil in grades not assessed by the State, did not achieve a satisfactory score on two or more end-of-semester or -course exams aligned with State standards; eligible for free breakfast, lunch, or milk; absent more than 10% of enrolled days or 10 school days; homeless; migrant; English language learner; an immigrant who has immigrated in the preceding three years; or, did not complete high school in four years and is still continuing in school.

The definition of "at-risk pupil" enacted for FY 2015-16 retains these factors and broadens eligibility to include a student not achieving proficiency on English language arts, math, science, or social studies content area assessment for the State summative test, in any grade, or at risk of not meeting the district's core academic objectives in English language arts or math, in any grade. The result of these changes means that lack of proficiency on a State exam, or lack of meeting a district's own core academic objectives, as measured by local assessments, will qualify a student for at risk services. In addition, students eligible for reduced-price, as well as free, breakfast, lunch, or milk, are now included in the definition of "at-risk pupil".

Conclusion

The At Risk program in the K-12 budget has been in place (in its current form) since the implementation of Proposal A. Funding began at $230.0 million, grew somewhat for the first few years, remained relatively flat for several years, and recently saw a significant increase that will reduce per-pupil proration by nearly 30% in FY 2015-16. Proration remains, with an estimated shortfall of $134.0 million, or an estimated $225 per pupil, based on the formula that specifies supplemental funding of 11.5% applied to a district's foundation allowance for each pupil eligible for free lunch, breakfast, or milk.

Due to the broadened definition of "at-risk pupil", districts should see increased flexibility in using their At Risk grants, with additional flexibility provided by the continuation of FY 2014-15 changes that focus spending on 3rd grade reading and college- and career-readiness, but do not prescribe how to achieve those functions. Districts are allowed to determine what programs to operate and for which grades to provide the programs, as long as results in 3rd grade reading and college- and career-readiness are positive after the next three years. To the extent that districts do not meet those benchmarks, they will be required to allocate certain percentages of their total At Risk funding to meet the benchmarks.

[2] House Bill 4115, Public Act 85 of 2015, Section 31a.

The Department of Talent and Economic Development Overview
By Cory Savino, Fiscal Analyst

The Department of Talent and Economic Development (TED) was created by Governor Rick Snyder with Executive Order (E.O.) 2014-12, which took effect on March 15, 2015. The E.O. brought together the Michigan Strategic Fund (MSF), workforce development programs, the Unemployment Insurance Agency (UIA), the Land Bank Fast Track Authority, and the Michigan State Housing Development Authority (MSHDA), and created the Talent Investment Agency (TIA), in one department. Also, the Michigan Economic Development Corporation (MEDC), a public corporate body, is an autonomous non-State government organization that falls under the umbrella of the new department.

This article will discuss the background of the various units within the Department of Talent and Economic Development, how it is organized, and the appropriations for fiscal year (FY) 2015-16.

Background

The various units within TED have been transferred through different departments over many years and different administrations. All of the units were in the former Department of Labor and Economic Growth (DLEG) before 2005 and the Michigan Jobs Commission in the 1990s. In addition, DLEG (which was later renamed the Department of Energy, Labor, and Economic Growth) housed the units that would become the Department of Insurance and Financial Services and the Department of Licensing and Regulatory Affairs (LARA). Public Act 270 of 1989 created the Michigan Strategic Fund as a public entity with prescribed statutory powers.

Public Act 225 of 2005 moved the Michigan Strategic Fund (MSF) to the Department of Treasury as an autonomous entity. The agency remained in the Department of Treasury, and was included in the Department's budget, until E.O. 2014-12 took effect. The Michigan Strategic Fund budget has more than doubled over the past 10 years as new programs have been introduced or expanded. The FY 2004-05 budget appropriated $118.1 million to the MSF and the FY 2015-16 budget appropriated $300.8 million. The largest increase is due to the 21st Century Jobs Trust Fund, which was created in statute and receives $75.0 million annually (through FY 2018-19) in tobacco settlement funds that go toward various economic development programs. Another change was the Business and Community Incentive Program's conversion from tax credits to cash incentives. The amount of General Fund support for the MSF budget also has increased from $54.1 million in FY 2004-05 to $171.3 million in FY 2015-16.

The various workforce development programs were moved into one agency in the MSF budget in accordance with E.O. 2011-4 when the Department of Energy, Labor, and Economic Growth was renamed and the Department of Licensing and Regulatory Affairs was created. Executive Order 2014-12 moved the workforce development agency into the Talent Investment Agency (TIA), which was created in TED. The UIA (which administers the various unemployment benefit programs), was moved to LARA by E.O. 2011-4 and into the TIA under E.O. 2014-12. This is intended to further coordinate the unemployed with work force development, skilled training, and economic development.

The Michigan State Housing Development Authority was created by Public Act 346 of 1966 as a public corporate body with powers and duties prescribed in statute. The Land Bank Fast Track Authority was created in Public Act 258 of 2003 as a public corporate body with prescribed statutory powers and duties. In 2010, the Michigan State Housing Development Authority and Land Bank Fast Track Authority were transferred from DLEG to the Department of Treasury by E.O. 2010-2. The next year, E.O. 2011-4 transferred authority over MSHDA and the Land Bank Authority to the MSF. The Land Bank Authority was transferred from the MSF to MSHDA by E.O. 2013-8. Finally, E.O. 2014-12 transferred authority and funding for MSHDA and the Land Bank Authority to TED, where they are each independent entities.

Organization

The Department of Talent and Economic Development has six unclassified positions that oversee the Department and its units. In addition to the Director of the Department, there are three deputy directors who manage policy and legislative affairs, finance and operations, and communications. The remaining two unclassified positions are the Director of the Talent Investment Agency and the Director of the Michigan State Housing Development Authority. The position of President of the MSF and CEO of the MEDC is not an unclassified position and has been funded in a variety of ways in the past, from MEDC corporate revenue, State appropriations, or a combination of both. Currently, Steve Arwood is both the Director of TED and the President of the MSF and CEO of the MEDC. His position is funded based on the amount of time spent in the various roles. This means that it is funded by State appropriations when he serves as Director of TED and by corporate revenue when he serves as CEO of the MEDC.

After the Executive Direction unit, which oversees the entire Department, TED is divided into three major areas: the Michigan Strategic Fund, the Talent Investment Agency, and the Michigan State Housing Development Authority. The Department also includes the Land Bank Fast Track Authority, which is the smallest of the units. Table 1 shows the units within the Department and the programs within each unit.

Table 1

DEPARTMENT OF TALENT AND ECONOMIC DEVELOPMENT		
MSF/MEDC	**TIA**	**MSHDA**
Business Attraction Community Revitalization Film Office/Incentive Pure Michigan Entrepreneurship Eco-System Community Ventures Community Development Block Grants Arts and Cultural Programs Bond Payments: • Skilled Trades Equipment • FRIB	Workforce Development Administration and Program Unemployment Insurance Agency (UIA) Skilled Trades Training Program	Payments on Behalf of Tenants Housing and Rental Assistance Lighthouse Preservation Program Land Bank Fast Track Authority

The MSF unit provides much of the funding to the various economic development programs that the MSF and MEDC operate. These include the Business Attraction and Community Revitalization Program, Entrepreneurship programs, Pure Michigan, the Film Incentive Program (which may issue no new incentives after July 10, 2015, the effective date of Public Act 117 of 2015), the Federal Community Development Block Grants, Community Ventures, and Arts and Cultural Grants. This unit previously existed in the Treasury Department as an autonomous entity as well as administrator of the programs. The two most recent budget line items that were added are the bond payments for the Facility for the Rare Isotope Beams (FRIB) and for the Community College Skilled Trades Equipment Program. These are two bonds that were authorized by the MSF and are overseen by the MSF. The major program funding source to the MSF unit is State Restricted funds from the 21st Century Jobs Trust Fund, which receives a portion of the tobacco settlement revenue; the unit also receives Federal funds and General Fund/General Purpose (GF/GP) support. The MSF board approves various economic development projects for the programs while the MEDC provides administration of the programs.

The Talent Investment Agency provides funding to the various workforce development programs and the Unemployment Insurance Agency. Before the creation of TED, the workforce development programs were administered by the Michigan Works! Agency and other parties within the Treasury Department while the UIA was administered within LARA. The workforce development programs consist of multiple Federal programs that are administered by the State, including GEAR-UP, Carl Perkins Grants, Adult Education, Postsecondary Education, Pure Michigan Talent Connect, Trade Adjustment Assistance, Partnership Accountability Training Hope (PATH), Workforce Innovation and Opportunity (WIOA), Veteran Job Assistance, Migrant and Seasonal Workers, Skilled Trades Training, and Foreign Labor Certification Programs. The workforce development programs are primarily funded with Federal funds and some GF/GP and State Restricted funds. The UIA provides the administration for the Unemployment Insurance Trust Fund, Tax Office, Business and Financial Services, Program and Policy Administration, Trust Fund Accounting, Office of Appeals, and Unemployment Insurance Analysis and Reporting. The UIA is funded with a combination of Federal and State Restricted and UIA Penalty and Interest funds. The Skilled Trades Training Program, which aligns community college courses with businesses in the community, is funded with GF/GP and UIA Penalty and Interest funds.

The Michigan State Housing Development Authority has two major programs. The first is Payments on Behalf of Tenants, which administers the Federal Section 8 Housing Program and provides rental subsidies for eligible households with low income, and is completely funded by Federal funds. The second major program is Housing and Rental Assistance, which supports the administration for MSHDA, and administers the sale of tax-exempt bonds and notes, grant funding to nonprofit organizations for rehabilitation, the State Historic Preservation programs, the Federal Neighborhood Stabilization Program, homeownership counseling, and foreclosure prevention assistance. This program is funded with State Restricted MSHDA Fees and Charges funds. The MSHDA unit also oversees the Lighthouse Preservation Program, which directs revenue received from lighthouse preservation license plates to local preservation groups.

The Land Bank Fast Track Authority works with Good Neighbor programs to convert tax-reverted property to productive use. This program is mostly funded with a Federal grant and GF/GP support.

Appropriations and Funding History

In addition to the programs and units that have been moved around the State departments and their budgets, the funding levels of those units have changed. Over the past five budget years, Gross appropriations to the units that now make up the Department of Talent and Economic Development have fluctuated between $1.18 billion and $1.29 billion. The data in Figures 1 and 2 illustrate the funding and appropriations history for those units and the current funding for the Department. In order to get an accurate comparison with previous years, the budget tracking follows the current department structure and ignores the previous arrangements. This allows for an "apples to apples" comparison of the funding and appropriations history. As Figure 1 shows, the GF/GP funding has fluctuated the most, from $141.4 million to $296.4 million, while Federal funds have declined consistently over the past five years. This is due to Federal budget decisions and declines in the caseloads for both workforce development and unemployment insurance. Figure 2 shows that the MSF unit had the greatest variability, the TIA declined overall, and MSHDA remained consistent throughout the past five years. Total appropriations peaked in FY 2013-14 before declining to the previous year's level. Federal funds declined as a portion of the budget, from 75.7% in FY 2011-12 to 66.3% in FY 2015-16. Meanwhile, State Restricted funds and GF/GP funding have increased, from 23.8% in FY 2011-12 to 32.9% in FY 2015-16.

Figure 1

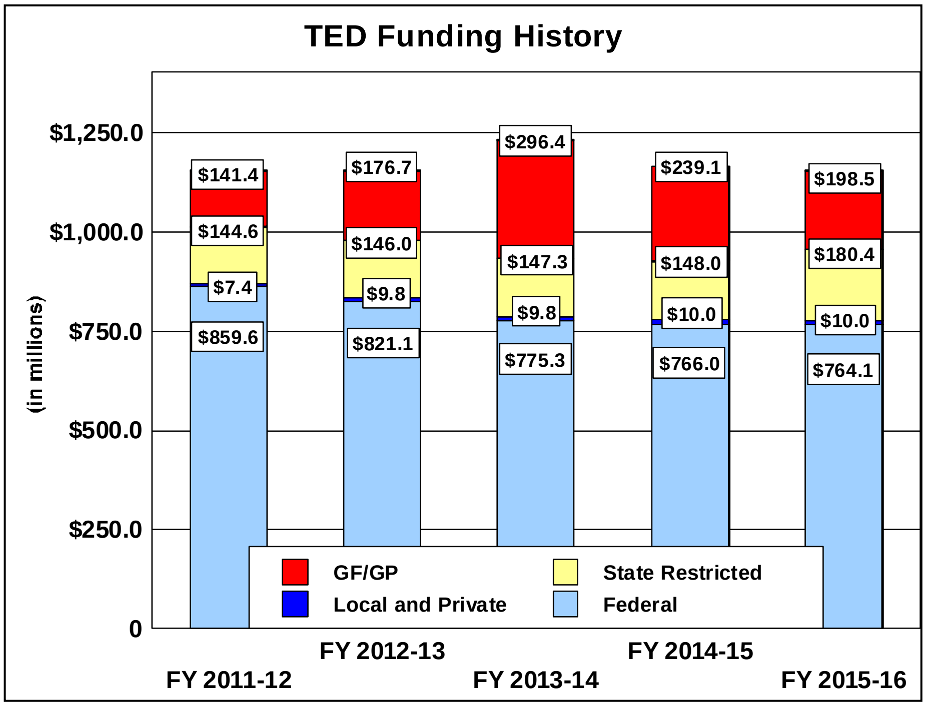
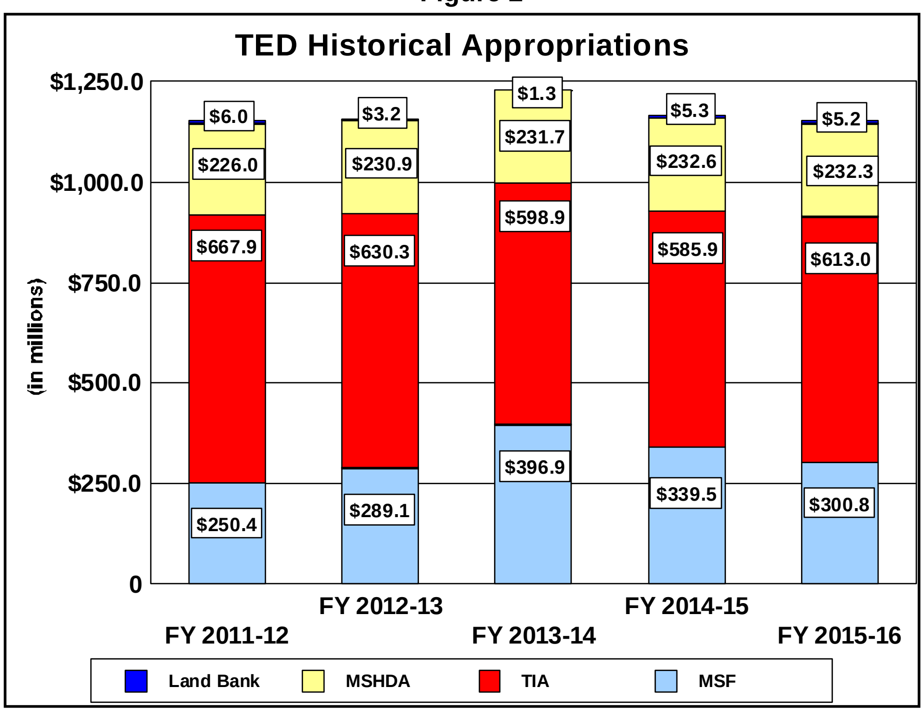


Figure 2



The MSF and the TIA (i.e., the programs that comprise the TIA) have experienced funding changes throughout the past five years. Figures 3 and 4 show the funding history for these agencies. Figure 3 shows that the MSF budget has fluctuated more than $100.0 million over the past five years, starting at $250.4 million in FY 2011-12, increasing to almost $396.9 million in FY 2013-14, and then decreasing to $300.8 million in FY 2015-16. The Federal grants and State Restricted, 21st Century Jobs Trust Fund, remained constant over the past five years; however, the GF/GP funding has changed significantly. The GF/GP portion is determined by the amount of general revenue received as well as the priorities of the Legislature and Governor, which explain the considerable changes in the funding levels. The TIA, as shown in Figure 4, has experienced a decline in Federal funds, due to a decline in caseload amounts in workforce development programs and unemployment insurance, which determine the Federal appropriation levels. The recent increase in State Restricted funds comes from the use of unemployment insurance Penalty and Interest funds to expand the Skilled Trades Training Program.

Figures 5 and 6 show the appropriations history of MSHDA and the Land Bank Authority. The MSHDA appropriations have remained the most consistent over the past five years. This is largely due to the fact that only Federal and State Restricted funds support the unit, which means the appropriations process has very little impact on the funding levels of this unit. The only changes have been due to economic adjustments. The Land Bank Authority has been moved around the State budget the most often, and based on percentage, has had the most dramatic funding shift. The budget uses GF/GP funding to replace a State Restricted funding source: the Land Bank Fast Track Fund. The Restricted Fund was intended to raise revenue from the sale or lease of land after it had been put into productive use, but this source of income has not provided sufficient funding to the Authority.

Figure 3

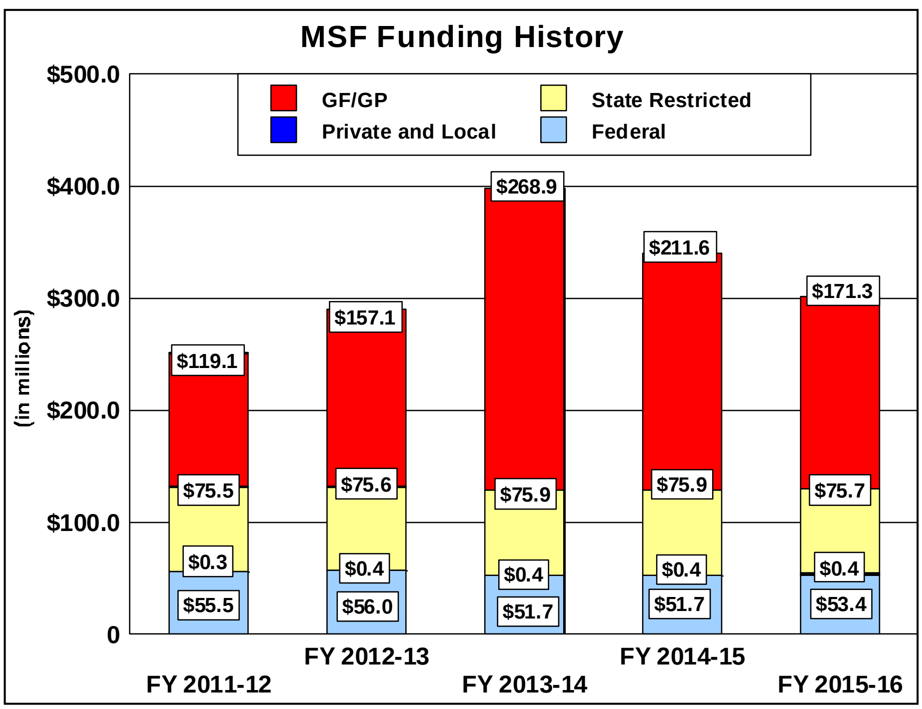


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Figure 4

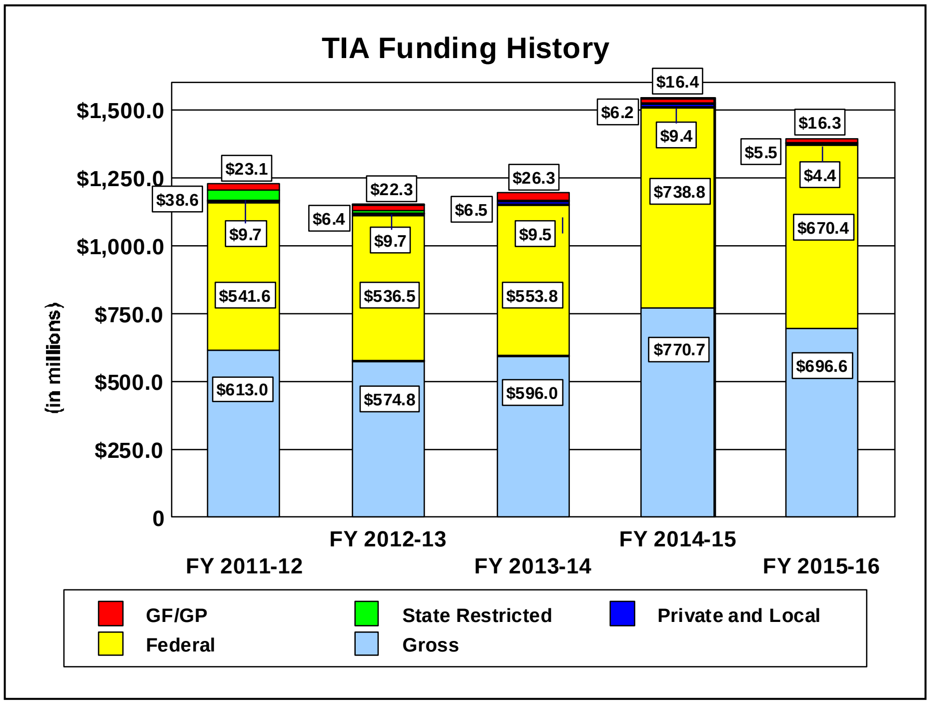


Figure 5

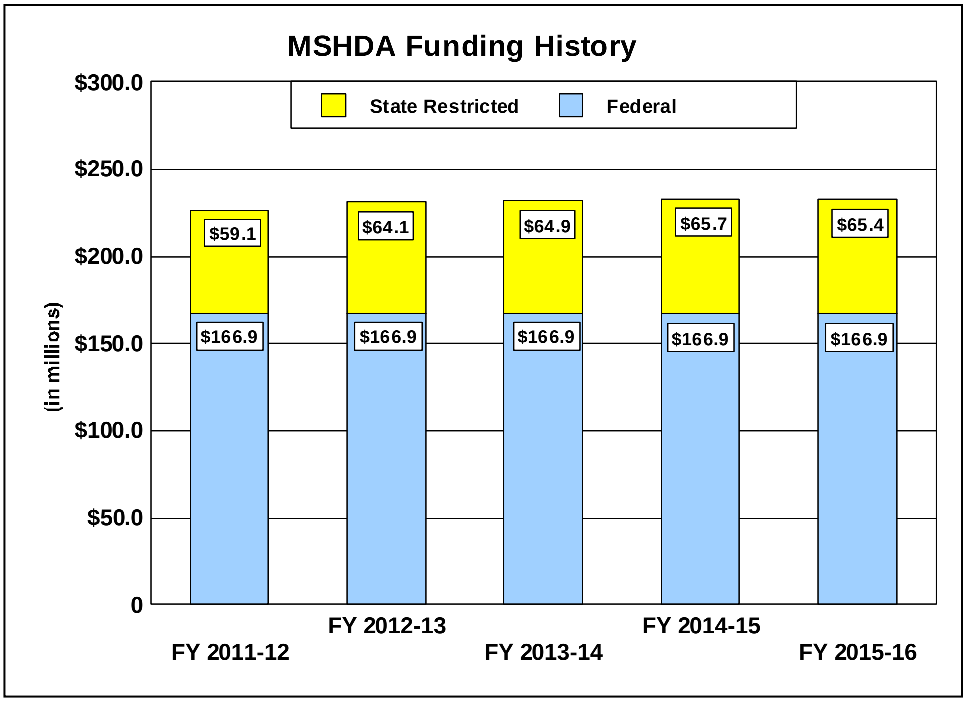
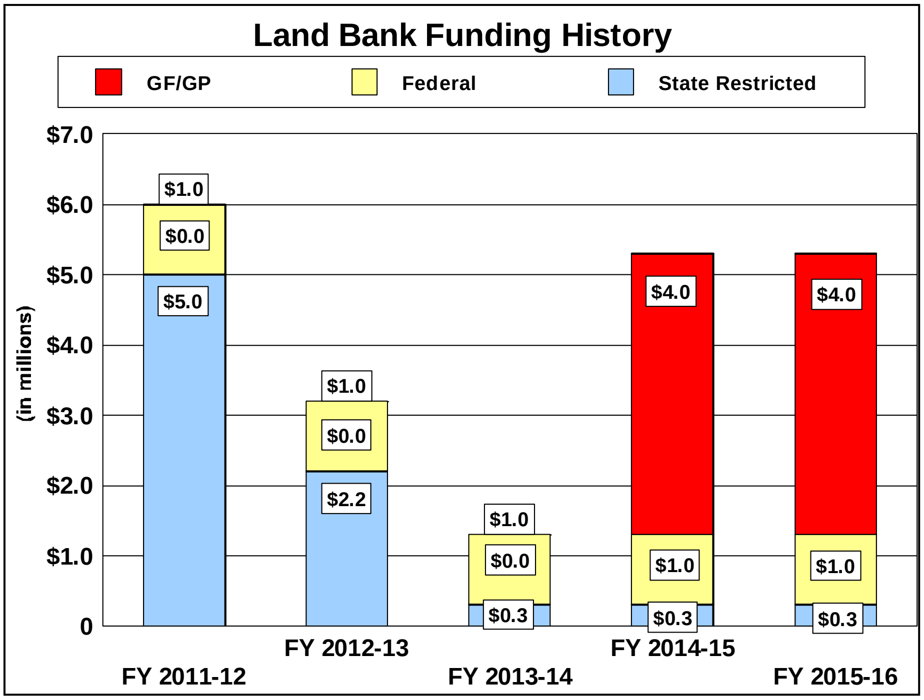


Figure 6



Conclusion

The programs and units within TED have a long history of changes with appropriation levels, organization, and placement in the State budget. These units were previously in the former Department of Labor and Economic Growth in 2005, then later in Treasury, and the Department of Licensing and Regulatory Affairs. The appropriations history shows that the Department of Talent and Economic Development has a larger portion of State Restricted and GF/GP funds than its components had in the past, while Federal funds have decreased. The Department is divided into the Michigan Strategic Fund, the Talent Investment Agency, the Michigan State Housing Development Authority, and the Land Bank Fast Track Authority. At this time, it is unclear whether there will be any additional units, programs, or funding level changes to the Department in the future years.