

**Summary: Executive Budget Recommendation  
for Fiscal Years 2014-15 and 2015-16  
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS**



**Analyst: Paul Holland**

|                   | FY 2013-14<br>Year-to-Date<br>as of 2/5/14 | FY 2014-15<br>Executive | Difference: FY 2014-15<br>Vs. FY 2013-14 |            | FY 2015-16<br>Executive | Difference: FY 2015-16<br>Vs. FY 2014-15 |              |
|-------------------|--|-------------------------|--|------------|-------------------------|--|--------------|
|                   |  |                         | Amount                                   | %          |                         | Amount                                   | %            |
| <b>IDG/IDT</b>    | \$14,228,200                               | \$14,509,800            | \$281,600                                | 2.0        | \$14,509,800            | \$0                                      | 0.0          |
| <b>Federal</b>    | 195,559,900                                | 199,124,800             | 3,564,900                                | 1.8        | 199,124,800             | 0  | 0.0          |
| <b>Local</b>      | 656,500                                    | 656,500                 | 0  | 0.0        | 656,500                 | 0  | 0.0          |
| <b>Private</b>    | 2,011,800                                  | 2,311,800               | 300,000                                  | 14.9       | 2,311,800               | 0  | 0.0          |
| <b>Restricted</b> | 265,457,400                                | 290,224,100             | 24,766,700                               | 9.3        | 267,824,100             | (22,400,000)                             | (7.7)        |
| <b>GF/GP</b>      | 25,004,900                                 | 25,033,800              | 28,900                                   | 0.1        | 25,033,800              | 0  | 0.0          |
| <b>Gross</b>      | <b>\$502,918,700</b>                       | <b>\$531,860,800</b>    | <b>\$28,942,100</b>                      | <b>5.8</b> | <b>\$509,460,800</b>    | <b>(\$22,400,000)</b>                    | <b>(4.2)</b> |
| <b>FTEs</b>       | 2,970.5                                    | 2,978.5                 | 8.0                                      | 0.3        | 2,977.5                 | (1.0)                                    | (0.0)        |

Notes: (1) FY 2013-14 year-to-date figures include mid-year budget adjustments through February 5, 2014. (2) Appropriation figures for all years include all proposed appropriation amounts, including amounts designated as "one-time." (3) FY 2015-16 figures are projected budget amounts only and would not be legally binding appropriations.

**Overview**

The Department of Licensing and Regulatory Affairs (LARA) is primarily responsible for business regulatory and employment services programs and is organized according to its four principal functions: 1) Licensing and Regulation, which implements and enforces statutory laws and administrative rules pertaining to commercial and occupational, construction and fire safety, healthcare provider and facility, public utility, and liquor regulation; 2) Employment Security and Workplace Safety, which administers unemployment insurance, workers' compensation insurance, occupational safety and health standards, labor and wage laws, and vocational rehabilitation services for the blind; 3) the Michigan Administrative Hearing System (MAHS), a quasi-judicial agency which centralizes and conducts administrative hearings for agencies throughout state government; and 4) the Office of Regulatory Reinvention (ORR), which oversees administrative rule-making and evaluates the state's regulatory infrastructure. The agencies within LARA are primarily supported by various federal grants and revenue generated through numerous fees collected from regulated entities.

| <b>Major Budget Changes From FY 2013-14 YTD Appropriations</b>  |              | FY 2013-14 YTD<br>(as of 2/5/14) | Executive Changes           |                             |
|---|--------------|----------------------------------|-----------------------------|-----------------------------|
|   |              |                                  | FY 2013-14 to<br>FY 2014-15 | FY 2014-15 to<br>FY 2015-16 |
| <b>1. Customer Service at the UIA (One-Time)</b>  | <b>Gross</b> | <b>N/A</b>                       | <b>\$18,000,000</b>         | <b>(\$18,000,000)</b>       |
| Includes one-time spending authorization to maintain customer services at the Unemployment Insurance Agency (UIA), supported with revenue from the Penalty and Interest Account of the Contingent Fund (Fund) in which penalties, damages, and interest collected from employers and claimants are deposited. The UIA anticipates that process improvement efforts will enable it to operate within existing federal grant funding by the end of FY 2014-15. In August of 2012, due to the decline in the state's Insured Unemployment Rate during 2012, the federal government reduced the amount of administration grants to the UIA by \$37.2 million, resulting in 402 FTEs being laid-off. In response, the Legislature approved a contingency transfer authorizing \$5.0 million from the Fund to support the maintenance of UIA operations during FY 2012-13. LARA anticipates a similar transfer request for FY 2013-14 dependent upon the level of quarterly supplemental federal grants allocated to the UIA during the year. | Restricted   | N/A                              | 18,000,000                  | (18,000,000)                |

| <b>Major Budget Changes From FY 2013-14 YTD Appropriations</b>  |  | <b>Executive Changes</b>                 |                                     |                                     |                      |
|---|--|--|-------------------------------------|-------------------------------------|----------------------|
|   |  | <b>FY 2013-14 YTD<br/>(as of 2/5/14)</b> | <b>FY 2013-14 to<br/>FY 2014-15</b> | <b>FY 2014-15 to<br/>FY 2015-16</b> |                      |
| <b>2. Unemployment Insurance Mobile Application (One-Time)</b>  |  | <b>Gross</b>                             | <b>N/A</b>                          | <b>\$2,400,000</b>                  | <b>(\$2,400,000)</b> |
| Includes one-time spending authorization to develop a mobile device application which will facilitate the remote filing of unemployment insurance claims, supported with revenue from the Penalty and Interest Account of the Contingent Fund.  |  | Restricted                               | N/A                                 | 2,400,000                           | (2,400,000)          |
| <b>3. Operations and IT Upgrades for BCC</b>  |  | FTE                                      | 104.7                               | 0.0                                 | 0.0                  |
| Increases spending authorization for the Bureau of Construction Code (BCC), supported with revenue from the Construction Code Fund, subsequent to a \$5.8 million decrease in spending authorization in the FY 2013-14 appropriation; approximately \$350,000 to maintain current operations which includes expanded permitting activities as part of the effort to remediate blight in Detroit, and approximately \$650,000 to fund the replacement of the BCC's online permitting/licensing system. |  | <b>Gross</b>                             | <b>\$8,933,700</b>                  | <b>\$1,066,300</b>                  | <b>\$0</b>           |
|   |  | Restricted                               | 8,933,700                           | 1,066,300                           | 0                    |
| <b>4. Elevator Inspectors and Elevator Portion of IT Upgrades</b>   |  | FTE                                      | 30.0                                | 2.0                                 | 0.0                  |
| Increases spending authorization and staff, supported with revenue from the Elevator Safety Fund, to hire an additional two elevator inspectors to address elevator inspection backlog resulting in approximately 30% of annual elevator inspections overdue in FY 2012-13 (approximately \$224,000) and fund the Elevator Division's portion of the replacement of the BCC's online permitting/licensing system (approximately \$476,000).   |  | <b>Gross</b>                             | <b>\$3,645,700</b>                  | <b>\$700,000</b>                    | <b>\$0</b>           |
|   |  | Restricted                               | 3,645,700                           | 700,000                             | 0                    |
| <b>5. Long-Term Care Facility Survey and Certification</b>  |  | FTE                                      | 211.4                               | 0.0                                 | 0.0                  |
| Increases spending authorization, supported with federal Title XIX reimbursements, for the Bureau of Health Care Services (BHCS) to perform surveys (i.e. inspections) of long-term care facilities (e.g. nursing homes) in order to issue certifications required for eligibility to provide medical and custodial care of Medicaid-enrollees.   |  | <b>Gross</b>                             | <b>\$27,825,600</b>                 | <b>\$700,000</b>                    | <b>\$0</b>           |
|   |  | Federal                                  | 18,519,900                          | 700,000                             | 0                    |
|   |  | Private                                  | 200,000                             | 0                                   | 0                    |
|   |  | Restricted                               | 3,300,200                           | 0                                   | 0                    |
|   |  | GF/GP                                    | 5,805,500                           | \$0                                 | \$0                  |
| <b>6. Property Management for UIA Grand Rapids Facility</b>   |  | <b>Gross</b>                             | <b>\$10,007,300</b>                 | <b>\$1,275,000</b>                  | <b>\$0</b>           |
| Increases spending authorization, supported with federal unemployment insurance administration grants, for DTMB property management charges for the "One Division" facility in Grand Rapids, resultant from a FY 2013-14 reduction for UIA property management which was not realized.  |  | Federal                                  | 4,328,200                           | 1,275,000                           | 0                    |
|   |  | Restricted                               | 5,374,900                           | 0                                   | 0                    |
|   |  | GF/GP                                    | \$304,200                           | \$0                                 | \$0                  |
| <b>7. Reinventing Performance in Michigan</b>   |  | FTE                                      | 87.0                                | 0.0                                 | 0.0                  |
| Increases GF/GP spending authorization to offset expenditures made within the Office of Financial and Administrative Services Team since FY 2011-12 for the Reinventing Performance in Michigan (RPM) initiative; statewide regulatory process improvement efforts designed to improve customer satisfaction, shorten customer response time, reduce redundant forms, and ensure customer-facing materials are utilized.  |  | <b>Gross</b>                             | <b>\$8,725,000</b>                  | <b>\$700,000</b>                    | <b>\$0</b>           |
|   |  | Federal                                  | 1,659,000                           | 0                                   | 0                    |
|   |  | Restricted                               | 7,066,000                           | 0                                   | 0                    |
|   |  | GF/GP                                    | \$0                                 | \$700,000                           | \$0                  |
| <b>8. Registration Fees for Long-Term Care Training Event</b>   |  | <b>Gross</b>                             | <b>\$200,000</b>                    | <b>\$300,000</b>                    | <b>\$0</b>           |
| Increases spending authorization enabling LARA to expend registration fees collected from attendees of the LARA-sponsored biennial "Joint Provided and Surveyor Training" events for long-term care staff and regulators pursuant to the Public Health Code.  |  | Private                                  | 200,000                             | 300,000                             | 0                    |
| <b>9. Accounting Services Provided to DIFS</b>  |  | FTE                                      | 87.0                                | 0.0                                 | 0.0                  |
| Increases spending authorization, supported with an IDG from the Department of Insurance and Financial Services (DIFS), for accounting services provided to DIFS by the Financial and Administrative Services Team within LARA.   |  | <b>Gross</b>                             | <b>\$8,725,000</b>                  | <b>\$150,000</b>                    | <b>\$0</b>           |
|   |  | IDG/IDT                                  | 0                                   | 150,000                             | 0                    |
|   |  | Federal                                  | 1,659,000                           | 0                                   | 0                    |
|   |  | Restricted                               | 7,066,000                           | 0                                   | 0                    |
|   |  | GF/GP                                    | \$0                                 | \$0                                 | \$0                  |

| <b>Major Budget Changes From FY 2013-14 YTD Appropriations</b>   |              | <b>FY 2013-14 YTD<br/>(as of 2/5/14)</b> | <b>Executive Changes</b>            |                                     |
|--|--------------|--|-------------------------------------|-------------------------------------|
|  |              |  | <b>FY 2013-14 to<br/>FY 2014-15</b> | <b>FY 2014-15 to<br/>FY 2015-16</b> |
| <b>10. Compensation Supplement Fund</b>  | <b>Gross</b> | <b>\$820,000</b>                         | <b>\$1,000,000</b>                  | <b>\$0</b>                          |
| Increases in GF/GP spending authorization for the Compensation Supplement Fund to support reimbursements to self-insured entities that no longer receive a MBT tax credit which was repealed by 2011 PA 39. Equivalent FY 2012-13 supplemental appropriation was enacted by 2013 PA 102 and equivalent supplemental request for FY 2013-14 has been issued by SBO.   | Restricted   | 820,000                                  | 0                                   | 0                                   |
|  | GF/GP        | \$0                                      | \$1,000,000                         | \$0                                 |
| <b>11. DEQ Administrative Hearing Caseload</b>   | FTE          | 209.0                                    | 0.0                                 | 0.0                                 |
| Decreases spending authorization, supported with an IDG from the Department of Environmental Quality (DEQ), to more accurately reflect anticipated administrative hearing caseload from DEQ for the Michigan Administrative Hearing System (MAHS).   | <b>Gross</b> | <b>\$38,803,900</b>                      | <b>(\$236,300)</b>                  | <b>\$0</b>                          |
|  | IDG/IDT      | 14,128,200                               | (236,300)                           | 0                                   |
|  | Federal      | 9,154,300                                | 0                                   | 0                                   |
|  | Restricted   | 12,508,700                               | 0                                   | 0                                   |
|  | GF/GP        | \$1,012,700                              | \$0                                 | \$0                                 |
| <b>12. Medicaid Administrative Hearing Caseload</b>  | FTE          | 209.0                                    | 6.0                                 | 0.0                                 |
| Increases spending authorization and staff, supported by 50/50 state/federal match, for the Michigan Administrative Hearing System (MAHS) to support an anticipated escalation in administrative hearings engender by an estimated 35% increase in the Medicaid caseload under the Healthy Michigan Plan (i.e. Medicaid Expansion/Reform). To illustrate context, during FY 2012-13, MAHS opened 23,539, heard 6,213, and closed 24,031 administrative hearings pertaining to Medicaid eligibility and benefits. | <b>Gross</b> | <b>\$38,803,900</b>                      | <b>\$900,000</b>                    | <b>\$0</b>                          |
|  | IDG/IDT      | 14,128,200                               | 0                                   | 0                                   |
|  | Federal      | 9,154,300                                | 450,000                             | 0                                   |
|  | Restricted   | 12,508,700                               | 0                                   | 0                                   |
|  | GF/GP        | \$1,012,700                              | \$450,000                           | \$0                                 |
| <b>13. LCC IT Upgrades (One-Time)</b>  | <b>Gross</b> | <b>\$2,000,000</b>                       | <b>\$0</b>                          | <b>(\$2,000,000)</b>                |
| Transfers spending authorization for replacement of the Liquor Control Commission's (LCC) COBOL-based information technology system, supported with revenue from state wholesale liquor sales, from ongoing baseline to a one-time appropriation, eliminating funding in subsequent fiscal years.  | Restricted   | 2,000,000                                | 0                                   | (2,000,000)                         |
| <b>14. FY 2013-14 One-Time Appropriation</b>   | <b>Gross</b> | <b>\$2,140,300</b>                       | <b>(\$2,140,300)</b>                | <b>\$0</b>                          |
| Eliminates one-time GF/GP spending authorization for upgrades to the information technology system utilized by nursing home surveyors within the Bureau of Health Care Services (BHCS).  | GF/GP        | \$2,140,300                              | (\$2,140,300)                       | \$0                                 |
| <b>15. Fund Shifts</b>   | <b>Gross</b> | <b>\$2,100,700</b>                       | <b>\$0</b>                          | <b>\$0</b>                          |
| Incorporates numerous fund shifts within various line items between fund sources that net out to zero gross, though they may alter the types of fund sources, but which reflect changes in the availability and allocation of funds or reflect allocations to more accurately reflect program administration.  | Federal      | 555,000                                  | (293,000)                           | 0                                   |
|  | Restricted   | 1,545,700                                | 293,000                             | 0                                   |
| <b>16. Economic Adjustments</b>  | <b>Gross</b> | <b>N/A</b>                               | <b>\$4,127,400</b>                  | <b>\$0</b>                          |
| Increases and decreases spending authorization, resulting in a net increase, for negotiated salary and wage increases, insurance rates, actuarially-required retirement benefit rates, other postemployment benefits prefunding, workers' compensation costs, building occupancy costs and rent, and other incidental economic adjustments.  | IDG/IDT      | N/A                                      | 367,900                             | 0                                   |
|  | Federal      | N/A                                      | 1,432,900                           | 0                                   |
|  | Restricted   | N/A                                      | 2,307,400                           | 0                                   |
|  | GF/GP        | N/A                                      | \$19,200                            | \$0                                 |

**Major Boilerplate Changes From FY 2013-14**

**Sec. 211. LCC IT Work Project – REVISED**

Designates the appropriation for LCC IT upgrades as a work project, stipulates that the appropriation remain available and shall not lapse, and anticipates future appropriations until the project is completed. Executive eliminates language pertaining to additional appropriations and anticipated completion date.

## **Major Boilerplate Changes From FY 2013-14**

### **Sec. 212. Records Retention – DELETED**

Requires LARA to retain all records in accordance with state and federal guidelines.

### **Sec. 215. Communication with the Legislature – DELETED**

Prohibits LARA from taking disciplinary action against an employee for communicating with a member of the Legislature or its staff.

### **Sec. 219. Office-Space Utilization Report – DELETED**

Requires LARA to submit a report pertaining to the amount of office space paid for during the previous year, the amount actually utilized during the previous year, and the estimated amount that will be utilized during the current and subsequent years.

### **Sec. 225. Private Grant Funded Project Notice – DELETED**

Requires LARA to provide notice to the Legislature within ten days of receipt of grants under the private grant programs line item.

### **Sec. 232. Televisions and Radio Productions – DELETED**

Prohibits LARA from developing or producing television or radio productions.

### **Sec. 235. Annual Legacy Costs – NEW**

Identifies annual pension-related and retiree health care legacy costs for DIFS as pursuant to boilerplate Section 1202 of 2013 PA 59.

### **Sec. 238. Require RFIs and RFQs Prior to Issuing RFPs – DELETED**

Prohibits LARA from issuing requests for proposals (RFP) for contracts in excess of \$50,000,000 without first considering issuing requests for information (RFI) or requests for qualifications (RFQ) and requires that LARA notify DTMB of the evaluation process used to determine that a RFI or RFQ was not necessary.

### **Sec. 240. Filled FTE Report – DELETED**

Stipulates that the Legislature intends that LARA does not use FTE positions as spending placeholders and requires LARA to provide a report specifying the quarterly number of filled FTE positions by line item during the preceding fiscal year.

### **Sec. 250. OPEB Prefunding – DELETED**

Stipulates that the Legislature intends that LARA continues the prefunding of other postemployment benefits (OPEB) pursuant to 2011 PA 264.

### **Sec. 305. Fireworks Safety Grants – DELETED**

Stipulates that the Legislature intends that LARA expends \$1.0 million in fireworks safety grants to local units of government, requires local units of government to submit a report to LARA indicating the annual costs of inspections and enforcement activities associated with the Fireworks Safety Act of 2011, and requires LARA to submit a report providing information pertaining to the amounts of fireworks safety grants awarded to local units of government.

### **Sec. 332. UI Computer System Report – DELETED**

Requires quarterly reports on the status of the UIA's integrated IT system re-write project until project completion.

### **Sec. 333. UI Internet Claims Report – DELETED**

Requires LARA to submit quarterly reports pertaining to the percentage of claimants using the internet MARVIN system, or any application developed for that purpose, to certify and receive UI benefits and implement improvement to the system to reach a goal of 80.0% of claimants certifying on systems that reduces staff face time and MARVIN telephone system usage.

### **Sec. 341. Administrative Rules Restriction – DELETED**

Prohibits LARA from promulgating administrative rules that are more stringent than applicable federal standards unless specifically authorized by statute. In a signing letter dated June 13, 2013, the Governor asserts that this boilerplate section is unenforceable.

### **Sec. 368. Regulatory Statistical Report – DELETED**

Requires LARA to submit an annual report including statistical information pertaining to revenues, expenditures, application determinations, timeliness, examinations, complaints, investigations, and enforcement actions for each regulatory product administered by regulatory agencies within LARA.

### **Sec. 390. Tax Tribunal Caseload Report – DELETED**

Requires the Michigan Tax Tribunal to submit a report containing specified information pertaining to the caseload, timeliness, dispositions, and backlog of Tax Tribunal cases.

### **Sec. 611. Vocational Rehabilitation Matching Funds – DELETED**

Requires the Bureau of Services for Blind People to work collaboratively with service organizations and governments to identify match dollars and maximize federal vocational rehabilitation funds.

### **Sec. 714. Nursing Facility Complaint Investigations Report – DELETED**

Requires LARA to report the timeliness of nursing facility complaint investigations, the number of allegations that are substantiated on an annual basis, the most frequently cited complaint deficiencies for the prior three years, the causes of the changes in the number of citations, and whether education and training are need; also requires LARA to make every effort to contact complainants during the investigations.

**Major Boilerplate Changes From FY 2013-14**

**Sec. 726. Medical Marihuana Program Report and Fees – REVISED**

Requires LARA to submit a report pertaining to the revenue, expenditures, application determinations, and timeliness of the Medical Marihuana Program and other specified information and permits LARA to raise application and renewal fees if revenue is insufficient to offset expenses of the Program. Executive eliminates reporting requirements.

**Sec. 728. Medical Marihuana Registry Cards Report and Grants to County Law Enforcement – REVISED**

Requires LARA to submit a report pertaining to the number of medical marihuana registry identification cards issued or renewed in each county. Stipulates that LARA award Medical Marihuana Operation and Oversight Grants to county law enforcement departments. Requires reports submitted by both county law enforcement departments and LARA pertaining to the amounts, recipients, and uses of the grants. Permits county law enforcement departments to distribute discretionary grants to municipal law enforcement agencies. Executive includes new subsection further delineating the granting process and alters grant application and reporting dates.

**Sec. 731. Bureau of Health Care Services Regulatory Costs and Fee Reports – REVISED**

Requires the Bureau of Health Care Services (BHCS) to submit to the Legislature an updated report pertaining to the costs to regulate each of the several types of health facilities and a proposed fee schedule to offset BHCS' regulatory costs, including recommended statutory and rule changes. Executive eliminates regulatory cost reporting requirement.

**Sec. 732. Support for BHCS Inspection of FSOFs – DELETED**

Requires that the Bureau of Health Care Services (BHCS) expend at least \$530,000 of the amount appropriated in Part 1 for the inspection of Freestanding Surgical Outpatient Facilities (FSOFs).

**Sec. 801. Nursing Home Survey IT System Project – DELETED**

Stipulates that the appropriation for nursing home survey IT system is for costs associated with complying with 2012 PA 322 and is one-time, sufficient to cover expenditures, and that no future appropriations are anticipated.

**Supplemental Recommendations for FY 2013-14 Appropriations**

**FY 2013-14  
Recommendation**

**1. Compensation Supplement Fund**

Increase in spending authorization for the Compensation Supplement Fund to support reimbursements to self-insured entities that no longer receive a MBT tax credit which was repealed by 2011 PA 39. Equivalent FY 2012-13 supplemental appropriation was enacted by 2013 PA 102 and equivalent spending authorization request is included in the FY 2014-15 Executive Recommendation.

**Gross \$1,000,000**  
GF/GP \$1,000,000

**2. Delphi Corporation Workers' Compensation Claims**

Increase in spending authorization for the Insurance Funds Administration to assist in providing sufficient resources within the Self-Insurers Security Fund to cover the workers' compensation claims of former employees of Delphi Corporation which was reorganized under bankruptcy protection from 2005 to 2009.

**Gross \$8,000,000**  
GF/GP \$8,000,000