



## STATE BUDGET OFFICE

### EDUCATION OMNIBUS BUDGET EXECUTIVE BUDGET FISCAL YEARS 2018 AND 2019

Presented February 8, 2017

The Executive Budget for fiscal year 2018 again contains one budget bill for all government agencies and one for education. The education omnibus budget bill supports the state's education system at all levels from preschool to higher education. The Executive Budget for education totals \$16.3 billion - \$14.3 billion for public schools, \$398 million for community colleges and over \$1.6 billion for higher education.

#### Highlights of the Education Omnibus Budget Bill

- The Governor's education omnibus budget demonstrates his commitment to ensuring our students are equipped with skills needed to succeed by making significant investments for fiscal year 2018. This is the 7<sup>th</sup> year in a row of increased investment in education. The education omnibus represents **an increase in state funds of \$279 million, or 2%, from fiscal year 2017 enacted levels.**
- Major investments in the education omnibus include a **\$150 million increase in At-Risk** funding for K-12 schools, an increase in **the foundation allowance of between \$50 and \$100 per pupil** at a cost of \$128 million, an increase in **higher education** of \$36.6 million for university operations and \$11 million for student financial aid programs.

FY2018 Education Omnibus Budget				
<i>Executive Recommendation</i>				
Summary of Appropriations (in thousands)				
Revenue Sources	K-12 School Aid	Community Colleges	Higher Education	Total
School Aid Fund	\$ 12,288,145.2	\$ 395,142.6	\$ 235,643.5	\$ 12,918,931.3
General Fund	\$ 215,000.0	\$ 3,025.0	\$ 1,289,954.5	\$ 1,507,979.5
Other State Restricted	\$ 72,000.1	\$ -	\$ 100.0	\$ 72,100.1
Federal Funds	\$ 1,726,943.5	\$ -	\$ 111,526.4	\$ 1,838,469.9
<b>Total State Dollars</b>	<b>\$ 12,575,145.3</b>	<b>\$ 398,167.6</b>	<b>\$ 1,525,698.0</b>	<b>\$ 14,499,010.9</b>
<b>Total Appropriations</b>	<b>\$ 14,302,088.8</b>	<b>\$ 398,167.6</b>	<b>\$ 1,637,224.4</b>	<b>\$ 16,337,480.8</b>

## Michigan Public School Employees' Retirement System (MPERS)

The education omnibus includes a **total of \$1.2 billion** in state payments for MPERS retirement obligations across all budgets, which is a **net increase of \$26.7 million** from fiscal year 2017 levels.

- The budget continues the state payments over and above the cap for unfunded accrued liabilities (UAL) for participating entities, which is established in statute. Due to better than anticipated health care experience and more positive investment returns in recent years, the baseline costs are \$126.3 million less than fiscal year 2017 levels.
- The Governor's budget also recommends funding to lower the assumed rate of investment return (AROR) for the state's retirement systems from 8% to 7.5% over 2 years for MPERS (other retirements systems are lowered in one year). This more conservative assumption is advised by the system's actuaries, is more in line with the industry standard, and will help to ensure that available pension trust funds will be sufficient to pay the benefits that have been earned.
- Lowering the AROR requires a \$100 million investment in fiscal year 2018 to cover the increased costs for the UAL. The Governor's budget also includes an additional \$53 million to pay the anticipated increase in normal cost contributions, which would otherwise be paid by districts and other employees, in order to hold them harmless from these changes.

Michigan Public School Employees' Retirement System (MPERS)					
FY 2018 Executive Recommendation					
Summary of State Payments by Budget (in thousands)					
	K-12 Districts	Libraries	Community Colleges	Universities	MPERS Totals
<b>FY2017</b>					
UAL Cap Subsidy - Existing	\$ 982,200	\$ 600	\$ 73,200	\$ 5,890	\$ 1,061,890
MPERS Offset - Existing	\$ 100,000	\$ -	\$ 1,734	\$ -	\$ 101,734
<b>Totals for FY2017</b>	<b>\$ 1,082,200</b>	<b>\$ 600</b>	<b>\$ 74,934</b>	<b>\$ 5,890</b>	<b>\$ 1,163,624</b>
<b>FY2018</b>					
UAL Cap Subsidy - Existing	\$ 869,300	\$ 600	\$ 64,100	\$ 1,594	\$ 935,594
MPERS Offset - Existing	\$ 100,000	\$ -	\$ 1,734	\$ -	\$ 101,734
AROR - UAL - New	\$ 90,830	\$ 54	\$ 6,705	\$ 2,411	\$ 100,000
AROR - Normal Cost - New	\$ 48,940	\$ 29	\$ 3,612	\$ 419	\$ 53,000
<b>Totals for FY2018</b>	<b>\$ 1,109,070</b>	<b>\$ 683</b>	<b>\$ 76,151</b>	<b>\$ 4,424</b>	<b>\$ 1,190,328</b>
<b>Annual Change</b>	<b>\$ 26,870</b>	<b>\$ 83</b>	<b>\$ 1,217</b>	<b>\$ (1,466)</b>	<b>\$ 26,704</b>



STATE BUDGET OFFICE

SCHOOL AID HIGHLIGHTS  
EXECUTIVE BUDGET  
FISCAL YEARS 2018 AND 2019

FEBRUARY 8, 2017

**FY2018 K-12 School Aid Executive Budget**

(In thousands)	FY 2017 School Aid			FY 2018 School Aid				
	Current Law PA 249 of 2016	Revised	Difference from Current Law	Executive Budget	Difference from FY17 Current Law		Difference From FY17 Revised	
<i>School Aid Fund</i>	12,052,309.3	12,036,809.3	(15,500.0)	12,288,145.2	235,835.9		\$ 251,335.9	
<i>General Fund</i>	218,900.0	218,900.0	0.0	215,000.0	(3,900.0)		(3,900.0)	
<i>DPS Trust Fund/Other SR</i>	72,000.1	72,000.1	0.0	72,000.1	0.0		0.0	
<b>Total State Funds</b>	<b>\$ 12,343,209.4</b>	<b>\$ 12,327,709.4</b>	<b>\$ (15,500.0)</b>	<b>\$ 12,575,145.3</b>	<b>\$ 231,935.9</b>	<b>1.9%</b>	<b>\$ 247,435.9</b>	<b>2.0%</b>
<i>Federal Funds</i>	1,818,632.7	1,730,732.7	(87,900.0)	1,726,943.5	(91,689.2)		(3,789.2)	
<b>Gross Appropriations</b>	<b>\$ 14,161,842.1</b>	<b>\$ 14,058,442.1</b>	<b>\$ (103,400.0)</b>	<b>\$ 14,302,088.8</b>	<b>\$ 140,246.7</b>	<b>1.0%</b>	<b>\$ 243,646.7</b>	<b>1.7%</b>
<i>Local Revenue</i>	3,479,628.1	3,479,628.1	0.0	3,570,502.9	90,874.8		90,874.8	
<b>Total Funding</b>	<b>\$ 17,641,470.2</b>	<b>\$ 17,538,070.2</b>	<b>\$ (103,400.0)</b>	<b>\$ 17,872,591.7</b>	<b>\$ 231,121.5</b>	<b>1.3%</b>	<b>\$ 334,521.5</b>	<b>1.9%</b>

**Consensus Pupil Estimates:**

FY2017 – 1,490,700

FY2018 – 1,486,500, a decrease of 4,200 pupils from FY2017

FY2019 – 1,482,000, a decrease of 4,500 from FY2018

**School Operations Funding**

- The FY2018 budget provides for a **\$50 to \$100 per-pupil foundation allowance increase distributed through the 2x formula**, at a cost of \$128 million. Total foundation allowance funding exceeds \$9 billion. The minimum foundation allowance will increase to \$7,611 per pupil; the basic foundation allowance will increase to \$8,279 per pupil.

Per-Pupil Foundation Allowances		
	Minimum	Basic/Maximum
<b>FY2017</b>	\$7,511	\$8,229
<b>Increase</b>	<u>\$ 100</u>	<u>\$ 50</u>
<b>FY2018 Foundation</b>	<b>\$7,611</b>	<b>\$8,279</b>

- Funding for academically **At-Risk Children** is increased by **\$150 million to a total of \$529 million**, a 40% increase. Program eligibility is expanded to all districts and to all economically disadvantaged children, not just those who are free-lunch income eligible. These expansions will allow 131,000 more children to receive services. The amount available per at-risk pupil is increased from the current average of \$673 to \$778, an increase of over \$100 per pupil.

Districts must continue implementing multi-tiered systems of support (MTSS) that provide students of differing academic needs with varying levels of intervention, using data to inform instructional needs. Districts will have 3 years to improve 3<sup>rd</sup> grade English Language Arts (ELA) proficiency and 8<sup>th</sup> grade mathematics proficiency for economically-disadvantaged

children and English language learners. In addition, districts must address chronic absenteeism issues and provide at-risk high school students with CTE programming, dual enrollment, advanced placement and/or international baccalaureate coursework. If districts fail to make progress in achieving these metrics, the state superintendent is authorized to partner with the district, intermediate district, community organizations, and others to make recommendations for operational changes. In addition, the budget includes \$535 million federal funds to support at-risk students.

- State funding for **MPSERS** retirement contributions totals \$1.1 billion, including \$960.8 million for the amount above the statutory cap of 20.96% of payroll. In FY2018, the governor is proposing a 2-year phase-in to reduce the assumed rate of return on investments from 8% to 7.5%. Funding is included to pay for both the increase in UAL costs as well as the anticipated increase in normal costs, which would otherwise be paid by districts. With baseline savings for FY2018 due to better-than-anticipated health care experience and positive investment experience over the last few recent years, the net increase for MPSERS is \$27 million. The budget maintains the MPSERS offset payment at \$100 million.
- In recognition of the **higher instructional costs of educating high school pupils**, the executive budget includes \$22 million for additional per-pupil payments to districts with students in grades 9 to 12. Districts will receive up to \$50 per high school pupil enrolled and attending in the district.
- To provide greater budget stability in districts with significant **declining enrollment**, the budget includes \$7 million for districts that have experienced enrollment declines of more than 5% in the last two years. Eligible districts will receive a payment of 1/3 of the foundation allowance multiplied by the difference between a two-year average membership blend and the district's actual membership blend. A district is eligible for this payment for two years.
- The recommendation also recognizes the varying costs of educating students based on type of education setting. For cyber schools that operate **virtual programs**, with minimal facilities costs when compared to their brick and mortar counterparts, the state per-pupil foundation allowance payments are reduced by 20%, which is estimated to save \$16 million.
- The state's cost of education programs operated by public schools for nonpublic and home-schooled students has risen to approximately \$115 million, more than double the amount spent five years ago. Funds for programs that serve nonpublic and home-school pupils are limited to \$60 million under this recommendation, with the remainder of the funds being reprioritized throughout the budget. For pupils enrolled in these program, payments are made from a new categorical (Sec. 23f), rather than through the foundation allowance.

### **Improving Early Learning and Literacy**

- The budget includes \$257.3 million for the **Great Start Readiness Program (GSRP)**. Of that amount, \$243.9 million will provide over 63,000 half-day preschool opportunities to 4-year-olds across the state. The governor's budget includes changes to the formula that target available additional dollars to those ISDs serving the smallest proportion of their eligible 4-year-old population, as recommended by MDE in collaboration with a stakeholder workgroup.
- The budget includes \$26.9 million for **early literacy** efforts to increase reading proficiency by the end of a child's third grade year. Multi-tiered systems of supports provides for regular diagnostic screenings of students, and targeted interventions for students identified as falling

behind. The executive budget maintains funding for professional development and additional instruction time and doubles funding for ISD-based literacy coaches to a total of \$6 million.

## Investing in College and Career Readiness Programs

- The budget recommends an increase of \$16.8 million, to \$20 million, for career and technical education **equipment upgrades** and \$9 million for **CTE early/middle college programs** that are aligned with the ten prosperity regions. These programs are intended to provide students with the opportunity to earn an associate's degree, technical certification, transferable college credit, or participation in a registered apprenticeship while taking high school courses. Funding for other **vocational education** programs remains at \$45.8 million.
- The FY2018 budget continues to recommend \$2.5 million for **First Robotics** programs, as well as \$250,000 to pay for testing costs associated with **Advanced Placement and International Baccalaureate tests** for low-income pupils. The budget also maintains \$1.75 million for incentives to districts that support **dual enrollment**.
- A total of \$8.8 million supports the state's **science, technology, engineering, and mathematics (STEM) initiatives**. From this amount, nearly \$2.75 million is recommended to support restructured regional STEM Centers, \$3 million is recommended for delivering STEM-related opportunities to pupils statewide, and \$500,000 is recommended for a new program to improve computer science skills in students statewide.
- The budget continues to recommend \$3 million for the **Michigan College Access Network** to improve college access for low-income and first-generation students.

## Assessments and Accountability

- The FY2018 budget continues \$40 million (\$33.7 million in state and \$6.3 million in federal) for costs associated with **student assessments** required under state and federal law. Beginning in 2018-2019, MDE will pilot benchmark assessments that augment the existing assessment framework.
- A total of \$7 million is included in the FY2018 budget (2<sup>nd</sup> of 2 years) for the costs associated with **local district educator evaluation systems**. Funds are recommended to be used for professional development and training activities.
- The FY2018 budget includes a total of \$40.2 million to districts for **state data collection and reporting costs**. The recommendation maintains \$38 million for data collection, and includes an additional \$2.2 million to continue the work of **the Michigan Data Hub Network**. The regional data hubs are designed to improve the efficiency of local data collection and provide actionable data to districts through common reports and dashboards. **Center for Educational Performance and Information (CEPI)** funding totals \$16.2 million, an increase of \$4 million to convert from a work project-based budget to fully operational on an annual basis.
- The budget includes \$3 million to support **Partnership Models** for interventions in districts identified as needing additional academic supports. With this new program, the department will assign partnership liaisons to eligible districts to develop an intervention plan and coordinate public, private, and non-profit resources to improve student achievement. The budget also maintains \$5 million in funding for the School Reform Office's efforts to intervene in eligible chronically low-performing schools by providing **additional resources needed to improve student achievement** for 3 years.

## Student Support Services

- The FY2018 budget provides over \$1.4 billion for **special education services**: \$963 million in state funds and \$431 million in federal funds. Based upon the work of the Special Education Task Force, the budget also provides \$1.6 million to assist ISDs with implementing the **Michigan Integrated Behavioral and Learning Support (MiBLSi)**, a nationally-recognized evidence-based and data-driven academic and behavioral intervention model.
- Funding for **adolescent teen health centers** is continued at \$5.6 million and **hearing and vision screenings** is maintained at \$5.2 million.
- Funding for **school lunch and breakfast programs** is \$550.2 million: \$27 million in state funds and \$523.2 million in federal funds.
- Funding is maintained for **adult education programs**, administered by the Talent Investment Agency (TIA), at \$25 million.
- The budget maintains \$7.4 million for the **Michigan Virtual University** to research and support best practices in virtual coursework.
- **School transportation safety programs** are funded at \$3.3 million: \$1.7 million for school bus inspections provided by Michigan State Police and \$1.6 million for school bus driver safety training. Funding to support **transportation costs in small, isolated districts** is maintained at \$5 million.
- Education programs in **juvenile justice facilities** are included at \$1.3 million. Educational programs that serve **wards of the court** are supported with \$8 million. Funding for the **Youth ChalleNGe Program** is maintained at \$1.5 million.

## Health and Safety Supports

- A total of \$8.7 million is included to continue **early education programs** for children in Flint, including resources to identify and provide services to children impacted by elevated levels of lead. Recommendations include \$3 million for expanded GSRP services, \$2.6 million to support school nurses and social workers, \$2.5 million to allow Genesee ISD to serve Flint children attending school elsewhere, and \$605,000 for nutrition programs.
- The budget includes \$4.5 million for reimbursements to districts and nonpublic schools of up to \$950 per school building for costs associated with **voluntary testing of water**. This program is transferred from the MDE budget.

## Debt Service and Other Required Payments

- **School Bond Loan Fund Debt Service** is funded at \$125.5 million.
- **Renaissance Zone** reimbursements are recommended at \$18 million.
- **School Aid Fund Borrowing Costs** are increased to a total of \$6.5 million.
- **PILT Payments** are maintained \$4.4 million.
- Funding for **Promise Zones** is increased to \$1.5 million.

## MPERS Contribution Rates

The FY2018 MPERS retirement contribution rates for districts are slightly higher than the FY2017 rates, with an increase of 0.62% in the pension and health normal cost. This increase is attributable to the proposed 2-year phase-in of the lowered assumed rate of investment return (AROR) from 8% to 7.5%. Under the FY2018 Executive Recommendation, districts are being held harmless from the increased cost as the state is reimbursing districts for the expected increase in the normal cost contribution rate resulting from this change.

Rates are detailed below:

<b>MPERS Retirement Rates for FY2018</b>							
	<b>Basic MIP w/Prem Subsidy</b>	<b>Pension Plus w/Prem Subsidy</b>	<b>Pension Plus PHF</b>	<b>Pension Plus to DC w/PHF</b>	<b>Basic/MIP To DC w/ Prem Subsidy</b>	<b>Basic/MIP To DC w/PHF</b>	<b>Basic/ MIP w/PHF</b>
<b>Total Rate</b>	<b>36.88%</b>	<b>35.60%</b>	<b>35.35%</b>	<b>32.28%</b>	<b>32.53%</b>	<b>32.28%</b>	<b>36.63%</b>
<b>Employer Rate:</b>							
<i>Pension Normal Cost</i>	4.35%	3.07%	3.07%	0.00%	0.00%	0.00%	4.35%
<i>Pension UAL</i>	14.78%	14.78%	14.78%	14.78%	14.78%	14.78%	14.78%
<i>Retirement Incentive (10-yr. payback)</i>	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
<b>Pension Total Rate</b>	<b>20.49%</b>	<b>19.21%</b>	<b>19.21%</b>	<b>16.14%</b>	<b>16.14%</b>	<b>16.14%</b>	<b>20.49%</b>
<b>Health Normal Cost</b>							
<i>Health Normal Cost</i>	0.25%	0.25%	0.00%	0.00%	0.25%	0.00%	0.00%
<i>Health UAL</i>	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%
<b>Retiree Health Total Rate</b>	<b>5.07%</b>	<b>5.07%</b>	<b>4.82%</b>	<b>4.82%</b>	<b>5.07%</b>	<b>4.82%</b>	<b>4.82%</b>
<b>Employer Capped Rate</b>							
<b>Employer Capped Rate</b>	<b>25.56%</b>	<b>24.28%</b>	<b>24.03%</b>	<b>20.96%</b>	<b>21.21%</b>	<b>20.96%</b>	<b>25.31%</b>
<b>Stabilization Rate</b>							
<b>Stabilization Rate</b>	<b>11.32%</b>	<b>11.32%</b>	<b>11.32%</b>	<b>11.32%</b>	<b>11.32%</b>	<b>11.32%</b>	<b>11.32%</b>
<b>FY17 Employer Capped Rate</b>							
<b>FY17 Employer Capped Rate</b>	<b>24.94%</b>	<b>24.31%</b>	<b>24.09%</b>	<b>20.96%</b>	<b>21.18%</b>	<b>20.96%</b>	<b>24.72%</b>



## FY2017, FY2018, and FY2019 STATE SCHOOL AID APPROPRIATIONS

### Executive Budget Recommendation - February 8, 2017

Sec.	APPROPRIATIONS (in thousands):	FY 2017			FY 2018		FY 2019	
		Current Law PA 249 of '16 6/24/16	Revised Rec	Difference	Executive Budget	Difference From FY17 Current Law	Executive Budget	Difference From FY18 Exec Rec
11j	School Bond Loan Redemption Fund	126,500.0	126,500.0	0.0	125,500.0	(1,000.0)	125,500.0	0.0
11m	School Aid Fund Borrowing Costs	3,000.0	5,500.0	2,500.0	6,500.0	3,500.0	7,500.0	1,000.0
11s	Flint Declaration of Emergency	10,142.6	10,142.6	0.0	8,730.1	(1,412.5)	0.0	(8,730.1)
20f	Categorical Offset Payments	18,000.0	18,000.0	0.0	18,000.0	0.0	18,000.0	0.0
20g	District Dissolution Transition Costs	1,860.0	1,860.0	0.0	0.0	(1,860.0)	0.0	0.0
21	State School Reform/Redesign	5,000.0	5,000.0	0.0	5,000.0	0.0	5,000.0	0.0
21g	Competency Based Funding Pilot	500.0	500.0	0.0	0.0	(500.0)	0.0	0.0
21h	Partnership Model Districts - NEW	0.0	0.0	0.0	3,000.0	3,000.0	3,000.0	0.0
22a	Proposal A Obligation Payment	5,205,000.0	5,199,000.0	(6,000.0)	5,107,000.0	(98,000.0)	5,030,000.0	(77,000.0)
22b	Discretionary Payment	3,900,000.0	3,916,000.0	16,000.0	3,950,000.0	50,000.0	3,947,000.0	(3,000.0)
22d	Isolated District Funding	5,000.0	5,000.0	0.0	5,000.0	0.0	5,000.0	0.0
22g	Consolidation Innovation Grants	3,000.0	3,000.0	0.0	0.0	(3,000.0)	0.0	0.0
22m	Technology Regional Data Hubs - NEW	0.0	0.0	0.0	2,200.0	2,200.0	2,200.0	0.0
22n	High School Per-Pupil Bonus - NEW	0.0	0.0	0.0	22,000.0	22,000.0	22,000.0	0.0
23f	Shared Time Pupils	0.0	0.0	0.0	60,000.0	60,000.0	60,000.0	0.0
24	Court-Placed Children	8,000.0	8,000.0	0.0	8,000.0	0.0	8,000.0	0.0
24a	Juvenile Detention Facility Programs	1,328.1	1,328.1	0.0	1,339.0	10.9	1,339.0	0.0
24c	ChalleNGe Program	1,632.4	1,632.4	0.0	1,528.4	(104.0)	1,528.4	0.0
25f	Strict Discipline Academies Pupil Transfers	750.0	750.0	0.0	0.0	(750.0)	0.0	0.0
25g	Dropout Recovery Program Pupil Transfers	750.0	750.0	0.0	0.0	(750.0)	0.0	0.0
26a	Renaissance Zone Reimbursement	20,000.0	18,000.0	(2,000.0)	18,000.0	(2,000.0)	18,000.0	0.0
26b	PILT Reimbursement	4,405.1	4,405.1	0.0	4,405.1	0.0	4,405.1	0.0
26c	Promise Zone Payments	1,000.0	1,000.0	0.0	1,500.0	500.0	2,500.0	1,000.0
29	Declining Enrollment Supports - NEW	0.0	0.0	0.0	7,000.0	7,000.0	0.0	(7,000.0)
31a	At-Risk Programs	378,988.2	378,988.2	0.0	528,988.2	150,000.0	528,988.2	0.0
31a	Adolescent Teen Health Centers	5,557.3	5,557.3	0.0	5,557.3	0.0	5,557.3	0.0
31a	Vision/Hearing Screening	5,150.0	5,150.0	0.0	5,150.0	0.0	5,150.0	0.0
31b	Balanced Calendar/Year-Round School Programs	1,500.0	1,500.0	0.0	3,000.0	1,500.0	0.0	(3,000.0)
31c	Gang Prevention and Intervention Programs	3,000.0	3,000.0	0.0	0.0	(3,000.0)	0.0	0.0
31d	School Lunch - State	22,495.1	22,495.1	0.0	22,495.1	0.0	22,495.1	0.0
31d	School Lunch - Federal	513,200.0	513,200.0	0.0	523,200.0	10,000.0	523,200.0	0.0
31f	School Breakfast	2,500.0	4,500.0	2,000.0	4,500.0	2,000.0	4,500.0	0.0
31h	Cooperative Education Grant	300.0	300.0	0.0	0.0	(300.0)	0.0	0.0
31j	Local Produce in School Meals	250.0	250.0	0.0	0.0	(250.0)	0.0	0.0
32d	Great Start Readiness	243,900.0	243,900.0	0.0	243,900.0	0.0	243,900.0	0.0
32p	Great Start Early Childhood Block Grants	13,400.0	13,400.0	0.0	13,400.0	0.0	13,400.0	0.0
32q	Early Learning Cooperative	175.0	175.0	0.0	0.0	(175.0)	0.0	0.0
35	Early Literacy Implementation	1,000.0	1,000.0	0.0	1,000.0	0.0	1,000.0	0.0
35a(3)	Early Literacy Professional Development	950.0	950.0	0.0	950.0	0.0	950.0	0.0
35a(4)	Early Literacy Diagnostic Tools	1,450.0	1,450.0	0.0	1,450.0	0.0	1,450.0	0.0
35a(5)	Early Literacy Teacher Coaches	3,000.0	3,000.0	0.0	6,000.0	3,000.0	6,000.0	0.0
35a(6)	Early Literacy Targeted Instruction	17,500.0	17,500.0	0.0	17,500.0	0.0	17,500.0	0.0
35a(7)	Michigan Reading Corp	1,000.0	1,000.0	0.0	0.0	(1,000.0)	0.0	0.0
39a1	Federal NCLB/ESSA Grant Funds	821,939.9	744,039.9	(77,900.0)	731,600.0	(90,339.9)	731,600.0	0.0
39a2	Other Federal Funding	30,800.0	30,800.0	0.0	30,000.0	(800.0)	30,000.0	0.0
41	Bilingual Education	1,200.0	1,200.0	0.0	1,200.0	0.0	1,200.0	0.0
51c	Special Education Headlee	644,500.0	626,900.0	(17,600.0)	640,400.0	(4,100.0)	652,900.0	12,500.0
51a2	Special Education Foundations & Sped	271,600.0	261,400.0	(10,200.0)	266,000.0	(5,600.0)	270,500.0	4,500.0
51a3	Special Ed Hold Harmless Pmt. To ISD's	1,100.0	1,000.0	(100.0)	1,000.0	(100.0)	1,000.0	0.0
51a11	Special Ed Non Sec 52 to ISD's	3,700.0	3,600.0	(100.0)	3,600.0	(100.0)	3,600.0	0.0

Sec.	APPROPRIATIONS (In thousands):	Current Law PA 249 of '16 6/24/16	Revised Rec	Difference	Executive Budget	Difference From FY17 Current Law	Executive Budget	Difference From FY18 Exec Rec
51a6	Special Ed Rule Change	2,200.0	2,200.0	0.0	2,200.0	0.0	2,200.0	0.0
53a	Court Placed Special Ed FTE	10,500.0	10,500.0	0.0	10,500.0	0.0	10,500.0	0.0
54	MI School for Deaf and Blind	1,688.0	1,688.0	0.0	1,688.0	0.0	1,688.0	0.0
54b	Integrated Behavior and Learning Support (MiBLSI)	1,125.0	1,125.0	0.0	1,600.0	475.0	1,600.0	0.0
55	Conductive Learning Center Study	150.0	150.0	0.0	0.0	(150.0)	0.0	0.0
56	Special Ed Millage Equalization	37,758.1	37,758.1	0.0	37,758.1	0.0	37,758.1	0.0
51a	Special Education - Federal IDEA	370,000.0	370,000.0	0.0	370,000.0	0.0	370,000.0	0.0
51d	Special Education - Other Federal	71,000.0	61,000.0	(10,000.0)	61,000.0	(10,000.0)	61,000.0	0.0
61a	Vocational Education	36,611.3	36,611.3	0.0	36,611.3	0.0	36,611.3	0.0
61a(4)	Restaurant & Culinary Arts Training Program	79.0	79.0	0.0	0.0	(79.0)	0.0	0.0
61b	CTE Middle College Program	9,000.0	9,000.0	0.0	9,000.0	0.0	9,000.0	0.0
61c	CTE Equipment Upgrades	3,200.0	3,200.0	0.0	20,000.0	16,800.0	0.0	(20,000.0)
62	ISD Vocational Ed Millage Reimbursement	9,190.0	9,190.0	0.0	9,190.0	0.0	9,190.0	0.0
63	Van Buren ISD/Local Health Department Partnership	250.0	250.0	0.0	0.0	(250.0)	0.0	0.0
64b	Dual Enrollment Incentive Payments	1,750.0	1,750.0	0.0	1,750.0	0.0	1,750.0	0.0
65	Detroit Pre-College K-12 Engineering Program	340.0	340.0	0.0	0.0	(340.0)	0.0	0.0
67	Michigan College Access Network (MCAN)	3,000.0	3,000.0	0.0	3,000.0	0.0	3,000.0	0.0
67	College and Career Readiness Tools	50.0	50.0	0.0	0.0	(50.0)	0.0	0.0
74	Bus Driver Safety	1,625.0	1,625.0	0.0	1,625.0	0.0	1,625.0	0.0
74	School Bus Inspection Program	1,695.6	1,695.6	0.0	1,705.3	9.7	1,705.3	0.0
78	Statewide School Drinking Water Quality Program	0.0	0.0	0.0	4,500.0	4,500.0	0.0	(4,500.0)
81	ISD General Operations	67,108.0	67,108.0	0.0	67,108.0	0.0	67,108.0	0.0
94	Advanced Placement (AP) Incentive Program	250.0	250.0	0.0	250.0	0.0	250.0	0.0
94a	CEPI - State	12,173.2	12,173.2	0.0	16,216.0	4,042.8	16,216.0	0.0
94a	CEPI - Federal	193.5	193.5	0.0	193.5	0.0	193.5	0.0
95a	Educator Evaluations	0.0	0.0	0.0	7,000.0	7,000.0	0.0	(7,000.0)
98	Michigan Virtual University	7,387.5	7,387.5	0.0	7,387.5	0.0	7,387.5	0.0
99h	First Robotics	2,500.0	2,500.0	0.0	2,500.0	0.0	2,500.0	0.0
99k	Cybersecurity Competitions - NEW	0.0	0.0	0.0	500.0	500.0	0.0	(500.0)
99s(3)	MiSTEM Council	1,050.0	1,050.0	0.0	3,050.0	2,000.0	3,050.0	0.0
99s(4)	Math/Science Centers - State	2,750.0	2,750.0	0.0	2,750.0	0.0	2,750.0	0.0
99s(4)	Math/Science Centers - Federal	5,249.3	5,249.3	0.0	4,700.0	(549.3)	4,700.0	0.0
99s(6)	Science Olympiad	250.0	250.0	0.0	0.0	(250.0)	0.0	0.0
99s(7)	Van Andel Education Institute	250.0	250.0	0.0	0.0	(250.0)	0.0	0.0
99t	Online Algebra Tool	1,500.0	1,500.0	0.0	0.0	(1,500.0)	0.0	0.0
102d	Reimbursement of Financial Analytical Tools	1,500.0	1,500.0	0.0	0.0	(1,500.0)	0.0	0.0
104	Student Assessments - State	33,894.4	33,894.4	0.0	33,709.4	(185.0)	33,709.4	0.0
104	Student Assessments - Federal	6,250.0	6,250.0	0.0	6,250.0	0.0	6,250.0	0.0
104d	Computer Adaptive Tests	4,000.0	4,000.0	0.0	0.0	(4,000.0)	0.0	0.0
107	Adult Education	25,000.0	25,000.0	0.0	25,000.0	0.0	25,000.0	0.0
147a	MPSERS Cost Offset	100,000.0	100,000.0	0.0	100,000.0	0.0	100,000.0	0.0
147a(2)	MPSERS Normal Cost Offset - NEW	0.0	0.0	0.0	48,969.0	48,969.0	97,937.0	48,968.0
147c	MPSERS UAAL Rate Stabilization Payment	982,800.0	982,800.0	0.0	960,784.0	(22,016.0)	1,023,688.0	62,904.0
152a	Data Collection and Reporting Costs	38,000.5	38,000.5	0.0	38,000.5	0.0	38,000.5	0.0
152b	Nonpublic School Reimbursement	2,500.0	2,500.0	0.0	0.0	(2,500.0)	0.0	0.0
<b>TOTAL SCHOOL AID APPROPRIATIONS</b>		<b>\$ 14,161,842.10</b>	<b>\$ 14,058,442.10</b>	<b>\$ (103,400.00)</b>	<b>\$ 14,302,088.80</b>	<b>\$ 140,246.70</b>	<b>\$ 14,302,230.70</b>	<b>\$ 141.90</b>
<b>REVENUES:</b>								
School Aid Fund		12,052,309.3	12,036,809.3	(15,500.0)	12,288,145.2	235,835.9	12,358,287.2	70,142.0
General Fund		218,900.0	218,900.0	0.0	215,000.0	(3,900.0)	145,000.0	(70,000.0)
Community District Trust Fund/Other SR Funds		72,000.1	72,000.1	0.0	72,000.1	0.0	72,000.0	(0.1)
Federal Funds		1,818,632.7	1,730,732.7	(87,900.0)	1,726,943.5	(91,689.2)	1,726,943.5	0.0
<b>TOTAL APPROPRIATED REVENUES</b>		<b>\$ 14,161,842.10</b>	<b>\$ 14,058,442.10</b>	<b>\$ (103,400.00)</b>	<b>\$ 14,302,088.80</b>	<b>\$ 140,246.70</b>	<b>\$ 14,302,230.70</b>	<b>\$ 141.90</b>



STATE BUDGET OFFICE

February 8, 2017

School Aid Executive Budget  
Fiscal Years 2017, 2018 and FY2019  
Balance Sheet  
(in millions)

	FY2017	FY2018	FY2019
January 2017 Consensus Revenue Estimate	\$ 12,457.0	\$ 12,783.1	\$ 13,131.5
HMO Use Tax (PA 161/162 of 2014)	\$ 52.6	\$ -	\$ -
Subtotal, Revised School Aid Fund	\$ 12,509.6	\$ 12,783.1	\$ 13,131.5
General Fund	\$ 218.9	\$ 215.0	\$ 145.0
Community District Trust Fund	\$ 72.0	\$ 72.0	\$ 72.0
Federal Funds	\$ 1,730.7	\$ 1,726.9	\$ 1,726.9
<b>Total Resources Available - Ongoing</b>	<b>\$ 14,531.2</b>	<b>\$ 14,797.0</b>	<b>\$ 15,075.4</b>
<b>School Aid Ongoing Costs</b>			
Current Law Budget	\$ 14,119.8		
Pending Supplemental (2017-2)	\$ (103.4)		
Executive Recommendation		\$ 14,202.4	\$ 14,204.3
<b>Community Colleges Ongoing Costs</b>			
Current Law Budget	\$ 260.4		
Executive Recommendation		\$ 391.5	\$ 396.2
<b>Universities Ongoing Costs</b>			
Current Law Budget	\$ 237.1		
Executive Recommendation		\$ 235.2	\$ 237.7
<b>Total Expenditures - Ongoing</b>	<b>\$ 14,513.9</b>	<b>\$ 14,829.1</b>	<b>\$ 14,838.2</b>
<b>Ongoing Revenue Balance</b>	<b>\$ 17.3</b>	<b>\$ (32.1)</b>	<b>\$ 237.2</b>
<b>Beginning Balance - One-Time</b>	<b>\$ 168.2</b>	<b>\$ 143.4</b>	<b>\$ 7.6</b>
<b>One-Time School Aid Budget Investments</b>			
Current Law Budget - School Aid	\$ 42.0		
Executive Recommendation - School Aid		\$ 99.7	\$ 97.9
Executive Recommendation - Community Colleges		\$ 3.6	\$ 7.2
Executive Recommendation - Universities		\$ 0.4	\$ 0.8
<b>Total Expenditures - One-Time</b>	<b>\$ 42.0</b>	<b>\$ 103.7</b>	<b>\$ 106.0</b>
<b>One-Time Revenue Balance</b>	<b>\$ 126.1</b>	<b>\$ 39.7</b>	<b>\$ (98.4)</b>
<b>Estimated CAFR Balance</b>	<b>\$ 143.4</b>	<b>\$ 7.6</b>	<b>\$ 138.8</b>

**FLINT EDUCATION-RELATED SUMMARY**

**FY2016 to FY2018**

*Revised February 6, 2017*

School Aid/Department of Education	FY16 Enacted	FY17 Enacted	FY17 Water Emergency Reserve Fund	FY18 Executive Request
<b>1) Flint Community Schools</b>	\$ 320,000	\$ 1,292,500	\$ 1,292,500	\$ 2,625,000
<i>School Nurses (FY16 in MDE PA 3/268; FY17 &amp; FY18 in School Aid, Sec 11s)</i>	\$ 320,000	\$ 317,500	\$ 317,500	\$ 645,000
<i>School Social Workers (FY17 &amp; FY18 in School Aid, Sec 11s)</i>	\$ -	\$ 975,000	\$ 975,000	\$ 1,980,000
<b>2) Genesee ISD (FY16 in MDE PA 3/268; FY17 &amp; FY18 in School Aid, Sec 11s)</b>	\$ 2,365,000	\$ 1,195,000	\$ 1,195,000	\$ 2,500,000
<i>Early On/Service Coordinators/ Psychologist/Wraparound Coordinator/Communication Resources</i>	\$ 2,225,000	\$ 367,500	\$ 367,500	\$ 800,000
<i>Health Professionals/Speech &amp; Language Pathologist</i>	\$ -	\$ 170,000	\$ 170,000	\$ 350,000
<i>Literacy Coach</i>	\$ -	\$ 275,000	\$ 275,000	\$ 570,000
<i>Nutrition for K-5 (Fresh Fruit/Vegetables)</i>	\$ 140,000	\$ 382,500	\$ 382,500	\$ 780,000
<b>3) Early On Type Intervention Services (FY 16 in School Aid, Sec 11o; FY17 school aid sec 11s)</b>	\$ 8,300,000	\$ 6,155,000	\$ 6,155,000	\$ -
<b>4) Great Start Readiness Program (FY16 in School Aid, Sec 11o; FY17 &amp; FY18 in school aid, Sec 11s)</b>	\$ 900,000	\$ 1,500,000	\$ 1,500,000	\$ 3,000,000
<i>Genesee ISD summer GSRP</i>	\$ 650,000	\$ -	\$ -	\$ -
<i>Flint summer GSRP-like program with postsecondary</i>	\$ 250,000	\$ -	\$ -	\$ -
<b>5) Child Care Services - CCDF (FY16 includes sum sufficient for Partnership as allowable use)</b>	\$ 8,000,000	\$ 8,000,000	\$ -	\$ -
<b>Child Care Services - CCDF Work Project</b>	\$ 8,000,000	\$ -	\$ -	\$ -
<b>Communication to Child Care Providers - CCDF</b>	\$ 100,000	\$ 50,000	\$ -	\$ -
<b>6) Nutrition Programs (in MDE PA 3/268, FY18 in school aid sec 11s)</b>	\$ 9,500,000	\$ -	\$ -	\$ 605,000
<i>Summer Food Service Program - Extra serving of produce at each meal</i>	\$ 80,000	\$ -	\$ -	\$ 80,000
<i>Childcare centers and homes - 1 produce serving at breakfast &amp; 2 at lunch</i>	\$ 150,000	\$ -	\$ -	\$ 150,000
<i>Summer Electronic Benefit Transfer - \$60 card (\$3.5 M TANF)</i>	\$ 4,330,000	\$ -	\$ -	\$ -
<i>Summer Food Service Program - Adult meals</i>	\$ 1,440,000	\$ -	\$ -	\$ 375,000
<i>Fresh Produce Deliveries</i>	\$ 3,500,000	\$ -	\$ -	\$ -
<b>7) Flint Emergency Reserve Fund</b>	\$ -	\$ 200	\$ -	\$ 100
<i>MDE placeholder for transferring (PA 268 of 2016)</i>	\$ -	\$ 100	\$ -	\$ -
<i>School aid placeholder for transferring (Sec 11s)</i>	\$ -	\$ 100	\$ -	\$ 100
<b>School Aid/Department of Education Total</b>	\$ 37,485,000	\$ 18,192,700	\$ 10,142,500	\$ 8,730,100
<i>Funded From:</i>				
<i>General Fund</i>	\$ 17,885,000	\$ 10,142,500	\$ 10,142,500	\$ 8,730,000
<i>School Aid Fund</i>	\$ -	\$ -	\$ -	\$ -
<i>Federal CCDF</i>	\$ 16,100,000	\$ 8,050,000	\$ -	\$ -
<i>Federal TANF</i>	\$ 3,500,000	\$ -	\$ -	\$ -
<i>Flint Emergency Reserve Fund</i>	\$ -	\$ 200	\$ -	\$ 100
<b>Total Funding</b>	\$ 37,485,000	\$ 18,192,700	\$ 10,142,500	\$ 8,730,100

*FY16 appropriations can be carried forward to offset annualization costs.*

*FY17 recommendations are based on half-year funding.*



## STATE BUDGET OFFICE FY2018 Executive Budget Recommendation

### SCHOOL AID BUDGET INCREASE FUNDING FOR ACADEMICALLY AT-RISK STUDENTS BY \$150 M TO \$529 MILLION

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**Increased Funding:** The Executive Budget Recommendation increases targeted funding for academically at-risk students by \$150 million to \$529 million, a 40 percent increase.

Eligibility for receiving funds is expanded in two ways:

- All districts and public school academies are now eligible to receive funding for their at-risk students. Allocations to districts are based on 11.5% of the statewide average foundation allowance, rather than 11.5% of each district's foundation allowance to improve equity among districts.
- The definition of an at-risk student is expanded to include all children who are economically disadvantaged, not just those income-eligible for free lunch (130% or below of the federal poverty level). Economically disadvantaged is defined as those who are income-eligible for free and reduced lunch (185% or below of the federal poverty level), those who live in families receiving food assistance through the federal Supplemental Nutrition Assistance Program (SNAP) or cash assistance through the federal Temporary Assistance for Needy Families (TANF) program, or children who are homeless, migrant, or are in foster care.

An estimated 131,000 additional children, a 24% increase, will be eligible to receive at-risk services if they are in danger of falling behind academically. Per at-risk pupil funding will increase to \$778, compared to the current average of \$673, an increase of \$105 per at-risk pupil. The total number of children potentially eligible for direct services is nearly 680,000.

Services will continue to be provided using a multi-tiered system of supports (MTSS) framework. Under MTSS, educators use academic and behavioral data to deliver instruction with increasing levels of intervention based on identified student needs. MTSS implementation is expanded to grade 8.

**Increased Accountability:** This proposal includes more specific metrics to measure improvement in at-risk student academic performance:

- **Address chronic absenteeism issues.** Ensure that at-risk children are attending school regularly by comparing the rates of chronic absenteeism for economically disadvantaged children and English language learners (ELL) in the district to the rate for those children that are not economically disadvantaged.
- **Improve 3<sup>rd</sup> Grade English Language Arts (ELA) proficiency:** Ensure that the proportion of economically disadvantaged and ELL children in the bottom 30% of a district's performance on 3<sup>rd</sup> grade ELA tests is not more than the proportion of non-economically disadvantaged pupils in the bottom 30%. This metric encourages districts to better target funds to closing measures whether districts are closing achievement gaps and better targets funds.
- **Improve 8<sup>th</sup> Grade Mathematics proficiency:** Similar to the above metric, districts would need to ensure that the proportion of economically disadvantaged and ELL children in the bottom 30% of a district's performance on 8th grade mathematics tests is not more than the proportion of non-economically disadvantaged pupils. Eighth grade is the gatekeeper grade for math skills, the same as 3<sup>rd</sup> grade reading

is for reading skills. A focus on math skills is consistent with Michigan’s emphasis on preparing students for high-demand, high-paying careers in the science, technology, engineering and math (STEM) fields.

- **Expanded High School Opportunities:** This metric would encourage districts to enroll at-risk students in grades 9 to 12 in career and technical education coursework, advanced placement or International Baccalaureate programs, or equivalent dual enrollment courses with a postsecondary institution.

The Executive Recommendation expands allowable uses of funds to professional development related to implementing MTSS with fidelity and improvement in student achievement on the more specific metrics.

Beginning in 2020-2021, if a district or public school academy has not achieved the metrics or made significant progress, the State Superintendent is authorized to assign a team of persons with expertise in comprehensive school aid district reform to partner with the district, the intermediate district, community organizations, local employers, and others to conduct a review of:

- The district’s implementation and utilization of its multi-tiered system of supports (MTSS)
- The district’s leadership and educator capacity to improve student outcomes
- The district’s classroom, instructional and operational practices to ensure alignment with best practices and state curriculum standards.
- The district’s use of financial resources to ensure that they are effectively targeted to improving academic achievement for at-risk pupils.

**Background Information:** The Augenblick, Palaich and Associates (APA) Michigan Education Finance Study (June 2016) contained a regression analysis that indicated there was a more significant impact on math and reading proficiency from targeting funds to economically disadvantaged students and English language learners than providing an increase in general operations funding. Similarly, the National Council of State Legislatures’ (NCSL) study, *No Time to Lose*, (August 2016) indicates that top-performing countries provide extra support to struggling students. Marc Tucker, with the National Center on Education and the Economy, notes in his review of the reasons for Massachusetts’s success that there are more resources for disadvantaged students who need them the most, so that all students can reach high standards.



**STATE BUDGET OFFICE  
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION  
FEBRUARY 8, 2017**

**School Aid / Education  
Partnership Model**

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**Overview:**

The fiscal year 2018 budget recommendation includes \$3.6 million to support partnerships between the Department of Education (MDE) and education stakeholders to assist districts struggling with poor student academic performance. The proposal provides for \$3 million in the School Aid budget and a corresponding \$640,000 in the MDE budget to coordinate the program (4 FTEs).

A district is eligible to be assigned to a partnership by the Superintendent of Public Instruction if it has at least one school receiving an F, or comparable grade, in a state accountability system and that school is not under the oversight of the School Reform Office.

Other partners may include intermediate school districts, community members, education organizations and higher education institutions, as applicable. These partners will perform a comprehensive evaluation including reviews of how the district uses data to inform instruction, classroom practices and curriculum, and leadership/educator capacity to improve student achievement. The district, along with its partners, will be responsible for developing an intervention plan based on that review, with measurable benchmarks for determining improvement.

Upon approval of the intervention plan by the State Superintendent, the department will assign a team of persons with expertise in comprehensive school reform to partner with the district to determine whether existing resources are being used as efficiently and effectively as possible to improve student achievement.

The State Superintendent must approve how funds from this appropriation will be expended. Potentially allowable expenditures may be for professional development for teachers and school leadership, increased instructional time, teacher mentoring, and other expenditures that directly impact student achievement but cannot be paid for from existing district financial resources.



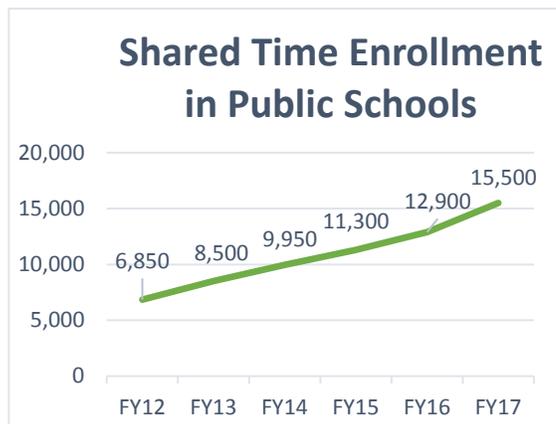
**STATE BUDGET OFFICE**  
**February 8, 2017**  
**FY2018 School Aid Executive Recommendation**  
**Shared Time Program Overview – Revised**

**Proposal Information**

Shared time instruction allows a nonpublic student to enroll in “non-essential” elective courses at a public school and be considered a *part-time pupil* in the public school for state aid purposes. These part-time pupils are combined to create a full-time equivalent (FTE) number of pupils on which districts receive state payments. Shared time enrollment has doubled since 2012, as legislation has expanded the options for districts in the past several years, and as districts have increased their course offerings for nonpublic pupils. At a cost of about \$7,500 per FTE in foundation allowance dollars, shared time instruction will cost the state over \$115 million or the equivalent of nearly \$80 per public school student in fiscal year 2017.

For fiscal year 2018, the Executive Recommendation caps the amount for these programs at \$60 million. Since shared time reimbursements are only paid for non-core, non-essential, elective courses, money invested in shared time is not being used to improve student academic outcomes in core subject areas. The governor recommends the savings from the cap be reinvested in the state education system to improve student outcomes in these core subject areas.

**Background Information**



*Total Participation*

The participation in shared time instruction has increased in recent years. In fiscal year 2012, about 6,850 FTEs were reimbursed under this program. In fiscal year 2017, the number has increased to 15,500 FTE. On a headcount basis, over 100,000 non-public school students enrolled part-time in a public school.

*Key Observations:*

A large portion of the shared time FTEs are attributable to a small number of districts. Over 50% of the 15,500 FTEs in fiscal year 2017 are from ten school districts. In total, about 300 districts receive reimbursements for shared time students. Only 30% of the shared time students are being served at a public school site. The remaining 70% (11,000 FTE) are being served in a nonpublic school both in and outside of the district’s boundaries.

Also, new for fiscal year 2017, kindergarten programs are eligible for purposes of shared time. Up until this year, shared time had been precluded to pupils in grades 1-12. There were 7,000 students reported in the Fall 2016 as kindergarten shared time (1,100 FTE). When looking at just the ten districts identified above, they account for 3,100 of the 7,000. On average, for these districts, 45% of their kindergarten enrollment is attributable to shared time program offerings.

<b><u>Top 10 Shared Time Districts by FTE</u></b>		
<b>District</b>	<b>FY17 FTE</b>	
Brighton Area Schools	1,753	23%
Berkley School District	1,325	23%
Grand Rapids Public Schools	879	5%
Clarkston Community School District	875	10%
Oxford Community Schools	651	11%
Berrien Springs Public Schools	552	14%
Redford Union Schools, District No. 1	441	14%
Carrollton Public Schools	433	19%
Gull Lake Community Schools	432	12%
Madison District Public Schools	425	25%
<b>Total</b>	<b>7,766</b>	



**STATE BUDGET OFFICE  
FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION  
FEBRUARY 8, 2017**

**State of Michigan Defined Benefit Retirement and Retiree Healthcare Plans  
Assumed Rate of Return on Investments**

**Overview:**

The Michigan Office of Retirement Systems (ORS) administers defined benefit (DB) retirement programs and related retiree healthcare plans for Michigan's state employees, public school employees (MPSERS), judges, State Police enlisted officers, and National Guard members.

Defined benefit retirement systems are built on employers and employees making contributions to the system as employees accrue years of service. Those contributions are then invested on a long-term basis. The combination of the original contributions and investment earnings are then utilized to make benefit payments when an employee retires.

A number of actuarial assumptions are utilized to determine annual required contribution amounts, including an assumption regarding the long-term rate of investment return. The current long-term assumed rate of investment return for the state's retirement systems is 8%, except that the assumption is set at 7% for the recently created public school and state police hybrid plans, which cover new employees in those categories.

Based on the advice of the state's Bureau of Investments and the retirement systems' actuary, the governor is recommending that the assumed rate of return on investments (AROR) be reduced from 8.0% to 7.5% for the state's DB pension and retiree health care plans. This change will be adopted by the retirement systems' boards and the director of the Department of Technology, Management and Budget.

This change in the investment return assumption is more in line with the industry standards based on expectations of the long-term markets. Assumed rates of return that are set too high understate retirement liabilities and undercharge for current payments at the expense of future payments. If no action is taken within the next two years, it is likely the actuary will issue a qualified valuation, which may also impact the state's credit ratings.

System	Return Assumption
Indiana Teachers	6.75%
Illinois Teachers	7.00%
Wisconsin State	7.20%
Pennsylvania Teachers	7.25%
Ohio Teachers	7.75%
Minnesota Teachers	8.40%
<b>*Average</b>	<b>7.39%</b>
<b>**Median</b>	<b>7.23%</b>

**Benefits of lowering the assumed rate of return:**

- Reduces the risk of future Unfunded Actuarial Accrued Liability (UAL) growth.
- Increases sustainability of the funds.
- Increases stability of contribution rates.
- Moves the legacy DB plans and retiree healthcare plans toward the best practice utilized by the public school and State Police hybrid plans.
- Improves the state's ability to make benefit payments and meet our promises.

**Budgetary impacts of lowering the assumed rate of return:**

- Because investment income plays a large role in determining the required contributions for the retirement systems, a reduction in the assumed rate of return requires a corresponding increase in employer contributions. Additional contributions now, however, will reduce the risk of even larger contribution increases in later years.

- The increased contributions are needed to pay toward both the unfunded accrued actuarial liability (UAL) legacy costs and the normal costs, which are the annual payments into the retirement system for the calculated costs of future benefits of current employees when they retire based on accruing additional service time each year.
- It is important to note that in general there is a three-year lag between the date of an actuarial valuation and the budget year that it affects. For example, fiscal year 2015 valuations for pension and retiree health (OPEB) were used in developing the fiscal year 2018 budget. Since the 2015 valuation is complete, a budgetary adjustment was made to account for the increased level of required contributions that would have been calculated assuming a lower rate of return. The lower assumed rate of return will be used by the actuary to complete the 2016 valuation later this year, directly impacting fiscal year 2019 budgetary requirements.

**Executive Budget Proposal:**

**The fiscal year 2018 budget includes \$153 million in the Education Omnibus and \$93.9 million (\$50.8 million general fund) in the General Omnibus, for a total of \$246.9 million, to recognize the costs of lowering the assumed rate of return.** The budget effectively assumes that the rate is reduced over 2 years for MPSERS and immediately in fiscal year 2018 for all other systems

For the Michigan Public School Employees’ Retirement System (MPSERS), the fiscal year 2018 budget includes \$100 million for increased UAL costs, which must be paid by the state, as a statutory cap limits districts’ and other employers’ UAL obligations to 20.96% of payroll (25.73% for universities). The governor’s budget also includes an additional \$53 million to pay for the anticipated increase in normal cost contributions, which would otherwise be paid by employers. Thus, districts, colleges, libraries, and universities are held harmless from this change.

For state employees, the costs resulting from the lowered assumed rate of return have been built into defined calculations applied to all appropriation line items containing employee compensation costs.

**Even with this significant investment, the net year-over-year cost increase in state-level costs for all retirement systems is under \$10 million.** This is due to baseline savings resulting from better-than-anticipated health care experience, positive investment return experience in recent years, and the completion of paying off the costs of the most recent state employee early retirement incentive over a 5-year period.

**Additional Contributions at 7.5%  
(in thousands)**

System	FY 2018	FY 2019
Public Schools (MPSERS)	\$153,000.0	\$306,000.0
State Employees (SERS)	\$83,650.8	\$83,650.8
State Police	\$8,987.4	\$8,987.4
Judges	\$1,033.9	\$1,033.9
Military	\$224.6	\$224.6
<b>Total Additional Costs</b>	<b>\$246,896.7</b>	<b>\$399,896.7</b>

Baseline Savings	
MPSERS	(\$126,300.0)
SERS	(\$111,000.0)
<b>Total Savings</b>	<b>(\$237,300.0)</b>

<b>Net FY18 Increased Cost</b>	<b>\$9,596.7</b>
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