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## Summary

While increases in estimated revenues agreed to at the recent Consensus Revenue Estimating Conference are a positive development for the revenue side of the state's budget outlook, the General Fund (GF) budget faces a "perfect storm" on the expenditure side, with a large number of baseline cost increases hitting the budget for FY 2021 all at once. Baseline cost increases are those needed simply to continue providing the current level of state services, as opposed to an investment that would expand services.

Some of these increases in baseline costs are normal inflationary cost increases, some are the results of past decisions by state policy makers, some are the result of policy changes at the federal level, and some of them are just unavoidable increases that happen to be hitting the balance sheet this year. Additionally, legal obligations tied to actions that occurred under the last administration, as well as past audit findings the federal government is enforcing more aggressively, are starting to come due.

## GF Revenue

The good news is that GF revenue estimates were revised upwards from last May's estimates at the January revenue estimating conference: by \$256m for FY 2019, by \$235m for FY 2020, and by \$274m for FY 2021. The increases for FYs 2019 and 2020 create significant one-time resources. Only the FY 2021 increase improves the structural GF budget outlook (base ongoing GF expenditures as compared to GF revenues for that year).

Even with these increases, estimated FY 2021 GF revenue of \$11.0 billion remains barely higher than the FY 2000 level of \$10.7 billion, as revenue has been diverted for roads and other purposes in recent years.

## FY 2021 GF Baseline Cost Increases

- Almost \$50 million for changes in federal Medicaid match rates. This is due to a decline from a nearly 100% federal funding level for the Children's Health Insurance Program down to 75%, as well as the final increment of the state portion of Healthy Michigan Program costs going up to 10%. Net savings to the state from enactment of the Healthy Michigan Plan remain well in the black.
- About \$185 million for increased Medicaid costs. After several years of these costs coming in \$100m to \$200m GF below the consensus estimates agreed to by the State Budget Office and legislative fiscal agencies, costs came in about \$60 million GF higher in FY 2019. This is a relatively small amount in the scheme of the \$26 billion DHHS budget, but it represents a significant cost pressure for the GF budget as those higher costs are carried forward and regular growth due to health care inflation and other factors is added to the budget.
- About \$55 million for Human Services program cost increases, mostly for foster care caseload costs and compliance with new federal requirements for residential foster care facilities.
- About \$65 million in GF needed to backfill declining revenues in restricted funds used to offset GF costs in the DHHS budget. The largest factor in this decline is lower cigarette sales expected as a result of the federal change in the legal age to purchase tobacco products from 18 to 21.
- \$36.5 million for the full-year costs of reimbursing local court systems for the costs of compliance with the first four indigent defense standards approved under the statutory process created by the Legislature in 2013. This brings the total annual costs for those four standards to \$117 million. An additional four standards are pending final approval and will create additional costs not yet built into the budget.

- About \$60 million per year beginning in FY 2020 to purchase tax vouchers issued by the state to the Venture Michigan Fund, which was created in 2003 with the goal of fostering and growing the venture capital industry in Michigan. While the state will receive any proceeds from the fund in 2030, these vouchers are coming due based on the cash flow of the fund. These costs are currently reflected as negative GF revenue adjustments, but the state saves money by purchasing the vouchers directly.
- \$109 million for state employee compensation-related costs. The bulk of this increase is tied to changes in retirement system assumptions – particularly actuarial analysis indicating retirees are living longer than previously assumed – rather than increases in actual state employee compensation.
- The Executive Budget will include \$65 million for a number of smaller GF baseline cost increases across the budget -- for example, annualizing the costs of the next State Police trooper school and normal inflationary increases in health care costs in the corrections system. Additionally, about \$40 million is needed to bring key economic development programs back up to historical baseline levels and restore unsustainable fund shifts made in the FY 2020 budget.

### **Other Pending GF Costs and Risks**

- The balance sheet reserves about \$60 million per year beginning in FY 2020 to pay a total of \$195 million to the federal government for disallowances of state Medicaid claims at state psychiatric hospitals. These claims date back to 2001 and have been long since been corrected, but the federal government has now decided to enforce past findings by the Auditor General. The state is appealing the disallowances but will likely need to begin making the payments in FY 2020 while the appeal continues.
- The balance sheet also needs to reserve about \$20 million per year for FYs 2020 and 2021 for smaller audit findings the federal government is enforcing. DHHS is working to address these findings going forward.
- Additionally, the state faces the costs of legal judgments or settlements that could very well run into the hundreds of millions of dollars. A settlement for the juvenile prisoner sex abuse lawsuit was recently announced. Other major pending lawsuits include Flint water-related lawsuits, the unemployment insurance lawsuit, and the lawsuit related to school employee retirement system charges. The balance sheet reserves a limited amount of funding for potential costs tied to these lawsuits. GF funds are also included to begin the process of replacing the state's child welfare IT system, as required under a federal legal settlement.
- Additional state costs not yet built into the budget are expected from enacted Raise the Age legislation and proposed criminal expungement legislation. Along with indigent defense standards, these are important, bipartisan policy changes, but they put additional pressure on the state's General Fund despite the lack of long-term revenue growth.

### **Budget Approach**

The combination of all these cost increases mean the state's General Fund budget needs to increase by over \$600 million from the current FY 2020 level just to keep current service levels going – more than double the upward revision in GF revenue for FY 2021. The Executive Budget Recommendation for FY 2021 addresses these costs in a balanced and prudent manner. Over \$150m in GF funds are reprioritized for core priorities. New GF investments that create ongoing commitments are limited to critical needs, while available one-time funds are targeted for initiatives that will have long-term benefits for the health and safety of Michigan's residents.

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### **Background Information**

The Conservation Reserve Enhancement Program (CREP) is administered by the United States Department of Agriculture and Farmland Service Agency, which provides matching funding to address concerns specific to water quality and wildlife habitat. Farmers participating in the program are paid the full cost to implement conservation practices as well as contractual payments for abstaining from planting crops on the affected portions of their land. This reduces the transport of phosphorus, nitrates, and pesticides into the soil, ground water, and surface water, thereby improving stream habitats, reducing flood peaks, and restoring critical habitats for game and nongame wildlife species.

Michigan's original 15-year program began in 2000 with a goal to enroll 80,000 acres in conservation efforts in Saginaw Bay, River Raisin (Southeast Michigan), Lake Macatawa (Holland), and Western Lake Erie Basin (WLEB) Watersheds. Farmers and landowners enrolled 76,219 acres in the program and brought over \$180 million in federal funding to Michigan during those years.

The program was suspended in 2016 due to a lack of state matching funds, and the state is currently down to 29,600 acres enrolled in the program as most enrollment contracts have expired and no new acres have been enrolled. Many of the original enrollees have returned their land to crop production, which is negating some of the gains that have been made to date. At least 12,000 acres in the WLEB alone have been brought back into production since 2016.

### **Fiscal Year 2021 Executive Recommendation**

The Governor's fiscal year 2021 recommendation includes \$10 million general fund to reestablish the program. This one-time funding request will be used to leverage \$250 million in federal USDA funding allowing Michigan to provide \$260 million to Michigan agriculture producers to implement conservation practices to reduce run off from agricultural fields or filter nutrients before they enter a water source feeding into the WLEB. The program will be a partnership between the State of Michigan, the federal government, non-governmental organizations, local conservation districts, and farmers to implement best management practices that are protective of water quality. Specific goals are to reduce algal blooms in the WLEB, as well as to reduce nonpoint source pollution from crop production in the Saginaw Bay, River Raisin, and Lake Macatawa watersheds.

## Summary

The FY 2021 Executive Budget provides **\$37.5 million gross, \$17.6 million general fund** to enhance Michigan’s maternal and child health services by increasing health coverage and access and expanding Michigan’s home visiting programs. Funding will:

- Extend the Medicaid eligibility period for new mothers
- Increase access to behavioral and reproductive health services for expecting and new mothers
- Create 1,000 new home visiting slots targeted to at-risk families

These initiatives will provide needed tools across the state to reduce infant mortality rates, keep families together, and provide women—whether considering, expecting, or caring for a new child—vital health care coverage and access.

## Background

### Extending Michigan’s Postpartum Medicaid Coverage

Expanding comprehensive health coverage for expecting and new mothers improves maternal and family health and well-being.<sup>1</sup> While the Healthy Michigan Plan has helped lower the rate of uninsured new mothers from 14.3% to 4.7%,<sup>2</sup> a critical gap remains. Medicaid eligibility is limited to 60 days for mothers who fall within 139% and 195% of the Federal Poverty Level (FPL) (\$30,190 to \$42,354 for a family of three).

With 12% of pregnancy-related deaths occurring between 43 days and 1 year after delivery, filling this coverage gap can improve Michigan’s maternal health outcomes. Expanding maternal health coverage has been linked to reduced infant mortality rates, particularly among African American infants.<sup>3</sup> Currently, Michigan’s African American infant mortality rate is more than double the state average for the population as a whole.<sup>4</sup>

Finally, postpartum depression is a significant risk to new mothers and, by connection, to their babies as well. To address this, this proposal expands home visiting mental health consultation services and the Michigan Child Collaborative Care (MC3) program by enrolling more providers for the period immediately before and after birth. The MC3 program allows primary care doctors to more quickly connect expecting and new mothers to needed psychiatric and other behavioral health services.<sup>5</sup>

### Restoring Michigan’s Medicaid Family Planning Benefit

Similarly, family planning services are a vital service for women before and immediately after birth.<sup>6</sup> Family planning services encourage healthy birth spacing to improve birth outcomes—for both the mother and baby—and prevent unintended pregnancies. Extending reproductive health care services has been linked to improved maternal health and reduced infant mortality.

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<sup>1</sup> Home Visiting: Improving Outcomes for Children, National Conference of State Legislatures, <https://www.ncsl.org/research/human-services/home-visiting-improving-outcomes-for-children635399078.aspx>

<sup>2</sup> Health Affairs, Despite Progress Under The ACA, Many New Mothers Lack Insurance Coverage, <https://www.healthaffairs.org/doi/10.1377/hblog20180917.317923/full/>

<sup>3</sup> Medicaid Expansion and Infant Mortality in the United States, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5844390/>

<sup>4</sup> Summary of 2018 Infant Death Statistics, <https://www.mdch.state.mi.us/osr/InDxMain/InfSum05.asp>

<sup>5</sup> Michigan Child Collaborative Care Program (MC3), University of Michigan, <https://mc3.depressioncenter.org/>

<sup>6</sup> Improving Access to Maternal Health Care in Rural Communities, <https://www.cms.gov/About-CMS/Agency-Information/OMH/equity-initiatives/rural-health/09032019-Maternal-Health-Care-in-Rural-Communities.pdf>

The Governor’s proposal will expand family planning services by restoring and expanding a limited Medicaid family planning benefit to individuals up to 200% FPL. Filling this coverage gap will help thousands of Michiganders. From 2006 until HMP’s implementation in 2014, Michigan offered family planning services for individuals at or below 185% FPL. In 2013, this benefit helped over 50,000 individuals. Restoring Michigan’s Medicaid family planning benefit—and ensuring providers have the necessary outreach and training—will help thousands of Michigan families enjoy the health benefits associated with meaningful family planning access.

Increasing Home Visiting Services

But health coverage is only one component of helping Michigan’s families. Michigan’s home visiting programs have been shown to achieve a wide variety of positive outcomes: decreased likelihood of child maltreatment, reductions in reported intimate partner violence, reduced low-birthweight deliveries and pre-term births, and fostering positive parenting practices.<sup>7</sup> Recent federal changes to the Family First Prevention Services Act now allow states to support some home visiting efforts aimed at keeping children in their homes and out of the child welfare system with federal Title IV-E child welfare funds.

Expanding four of Michigan’s home visiting programs will provide valuable services to at-risk families in Michigan and leverage federal funding. First, for families found to pose a low-to-moderate risk of future harm to a child, DHHS can create new home visiting slots in the following programs: Parents as Teachers, Healthy Families America, and Nurse-Family Partnership. By directing at-risk families to these proven programs, DHHS can improve family outcomes while leveraging available federal IV-E matching funds. Second, DHHS can help at-risk mothers by piloting an expanded home visiting program within Michigan’s already effective Medicaid Maternal Infant Health Program (MIHP).<sup>8</sup>

**Funding Recommendations**

The table below summarizes the FY 2021 Executive Budget’s maternal and child health funding proposal:

Proposed Investments	Gross	GF
Expand Postpartum Medicaid Eligibility from 60 Days to 12 Months. Restore Medicaid Family Planning Benefit, expand eligibility to 200% FPL.	\$24,564,900	\$7,636,800
Expand Michigan’s MC3 program to ensure more new mothers are connected faster to needed behavioral health services.	\$750,000	\$750,000
Implement a Maternal Infant Health Program (MIHP) pilot with 25 MIHP agencies permitting high risk mothers to receive increased home visits.	\$2,593,900	\$2,593,900
Provide 1,000 new home visiting slots to Michigan families in Wayne, Kent, Kalamazoo, and Saginaw counties.	\$6,000,000	\$3,000,000
Enhance family health by ensuring new home visiting enrollees receive mental health consultation services.	\$500,000	\$500,000
Establish an Integrated Home Visiting System to support adequate referral, monitoring, and program evaluation to maximize family outcomes.	\$2,110,800	\$2,110,800
Improved access to contraceptive services, including long-acting reversible contraceptives.	\$1,000,000	\$1,000,000
<b>Total Costs</b>	<b>\$37,519,600</b>	<b>\$17,591,500</b>

<sup>7</sup> 2018 Michigan Home Visiting Report, [https://www.michigan.gov/documents/homevisiting/PA\\_291\\_2018\\_670610\\_7.pdf](https://www.michigan.gov/documents/homevisiting/PA_291_2018_670610_7.pdf)

<sup>8</sup> 2015 Michigan MIHP Evaluation, [https://www.michigan.gov/documents/mihip/2014\\_Annual\\_Report\\_-\\_MIHP\\_Quasi-Exp\\_Eval\\_-\\_MSU\\_Meghea\\_et\\_al\\_-\\_Final\\_489445\\_7.pdf](https://www.michigan.gov/documents/mihip/2014_Annual_Report_-_MIHP_Quasi-Exp_Eval_-_MSU_Meghea_et_al_-_Final_489445_7.pdf)

## Summary

Consistent with recent changes in federal law, the Executive Budget draws on newly available federal Title IV-E dollars to fund programs designed to (a) allow children to remain safely in their own homes and avoid a placement into foster care; and (b) for those who do need to enter the foster care system, to keep children in foster family homes and reduce the need for stays within residential foster care facilities (congregate care). These programs will help the state make progress toward exiting federal court oversight of child welfare programs under the 2008 *Children's Rights* lawsuit settlement agreement by improving outcomes for children.

From a budget perspective, an investment of \$8.6 million gross (\$5.4 million general fund) will be more than offset by savings due to fewer children entering foster care and congregate care, resulting in a net gross savings of \$2.7 million and a net general fund cost of \$63,400 for FY 2021.

## Background

The federal Family First Prevention Services Act (FFPSA), enacted in February 2018, significantly altered the federal child welfare financing landscape by allowing, for the first time, federal Title IV-E dollars to be used for foster care prevention programs rather than exclusively for children already in foster care. To be able to draw IV-E dollars for prevention programming, states must use the funding toward evidence-based programs approved by the Title IV-E Prevention Services Clearinghouse. New spending in approved programs is eligible for a federal reimbursement of 50 percent if states maintain current spending levels from state resources on prevention programs.

## Proposal

The Executive Budget invests \$8.6 million gross (\$5.4 million general fund) in programs designed to keep families intact and prevent children from entering foster care, as well as a pilot program designed to prevent children from being placed into congregate care. Upon federal approval of Michigan's Prevention Plan, foster care prevention programs will include programs designed for substance abuse treatment, mental health services, and parenting skills support. The Michigan Department of Health and Human Services (MDHHS) estimates that 2,250 families with children at risk of removal from their homes will be served at an average cost of \$4,695 per family. This compares to the average cost of a foster care episode for child aged 0 to 12, which is around \$26,180. Potential services include the following:

**Sobriety Treatment and Recovery Teams (START)** – A Child Protective Services intervention program that pairs social workers with family mentors to work with families on substance abuse treatment, peer support, and child welfare services. The program has been shown to improve outcomes for both parents and children affected by child maltreatment and parental substance use disorders. Studies of the START program implemented in Kentucky found that children in families served by START were half as likely to be removed from their homes when compared with children in a matched control group.

**SafeCare** – Approximately 4 to 6 months in length, SafeCare focuses on assessment, training, and reassessment of parenting skills using modules designed to address parent-child interaction, home safety, child health, and family engagement.

**Multisystemic Therapy** – This program involves intensive, in-home interventions conducted by certified therapists that occur weekly or even daily with the goal of promoting healthier social behavior and reducing criminal activity, mental health symptoms, and illicit substance use in youth of ages 12 to 17.

**Functional Family Therapy** - A short-term prevention program for at-risk youth and their families that aims to address risk and protective factors that impact the adaptive development of youth of ages 11 to 18 who have been referred for behavioral or emotional problems. This program is organized in five phases and focuses on developing a positive relationship between the therapist/program and the family, increasing hope for change, decreasing blame and conflict, identifying specific needs and characteristics of the family, supporting individual skill-building of youth and family, and generalizing changes to a broader context. This program could assist children who are at risk of developing serious emotional disturbances.

**Parent-Child Interactional Therapy (PCIT)** – This program utilizes trained therapists to coach parents of children age two to seven in behavior management and relationship skills aimed at decreasing externalized behavior concerns and improving the quality of parent-child relationships. This program also could assist children who are at risk of developing serious emotional disturbances.

The congregate care pilot will utilize Trauma-Focused Cognitive Behavioral Therapy (TF-CBT), which is an evidence-based program that was successfully piloted in Colorado and has since been expanded. Evidence shows that, when children must be placed into foster care, family-like settings are best for their well-being. Compared to their peers placed with families, [according to Casey Family Programs](#), children placed in congregate care tend to experience worse outcomes, including a higher risk for physical abuse, a lower likelihood of being placed with their siblings, a lower likelihood of being placed in/near their home community, and a lower likelihood of graduating high school.

The TF-CBT program includes an evidence-based intervention involving a treatment component for parents/caregivers, which has demonstrated significantly better outcomes for children and parents compared with other models. The pilot program in Colorado demonstrated an 89% improvement in child well-being as measured through a standardized assessment tool, and a decrease in behaviors associated with trauma.

MDHHS plans to implement these programs under the FFPSA on April 1, 2021. The following table provides a breakout of the costs and associated savings in years 1 and 2 of the investment:

	FY 2021 (April - September)		FY 2022 (full year)	
	Gross	GF	Gross	GF
Evidence-based Prevention Programming	\$5,722,000	\$2,861,000	\$10,563,800	\$5,281,900
Congregate Care Pilot	\$1,448,600	\$1,448,600	\$2,354,400	\$2,354,400
Community Analysts/Liaisons (10 FTEs)	\$1,432,500	\$1,048,900	\$1,432,500	\$1,048,900
<i>Savings: Reduced Foster Care Utilization</i>	<i>(\$8,972,500)</i>	<i>(\$4,158,000)</i>	<i>(\$16,564,600)</i>	<i>(\$7,676,200)</i>
<i>Savings: Reduced Congregate Care Utilization</i>	<i>(\$2,332,900)</i>	<i>(\$1,137,000)</i>	<i>(\$4,307,000)</i>	<i>(\$2,099,100)</i>
<b>TOTAL NET COST</b>	<b>(\$2,702,300)</b>	<b>\$63,500</b>	<b>(\$6,520,900)</b>	<b>(\$1,090,100)</b>



## Summary

The FY 2021 Executive Recommendation enhances Michigan’s long-term care services and supports by establishing a statewide long-term care services and supports (LTSS) options counseling program. An investment of \$20.3 million (\$8.5 million general fund) will create a network of counseling providers to help individuals and their families navigate Michigan’s robust but complicated array of LTSS services. These counseling services will be conflict-free: counseling providers will not be permitted to also provide Michigan LTSS services. This counseling provides vital, unbiased support to individuals and families facing consequential health care choices, while maximizing individual choice and control in the delivery of LTSS.

## Background

Roughly half of people who reach age 65 will need some level of assistance with tasks of daily living as they age.<sup>1</sup> Faced with this growing demand, while still providing LTSS services to other vulnerable populations, Michigan has expanded both its Program for All-inclusive Care for the Elderly (PACE) and its MI Choice LTSS programs. Michigan also launched MI Health Link in 2015, an integrated Medicare and Medicaid dual eligible program. But as Michigan’s LTSS options have grown, so too has the need to help Michigan residents and their families make informed decisions about what type of LTSS services best suits their needs.

The support available to Michigan families regarding their choices for in-home or residential long-term care varies throughout the state. While Michigan has made great strides working with stakeholders to expand access to home- and community-based services, Michigan does not currently have an integrated, centralized statewide LTSS intake and referral network to educate and guide individuals and families through the process of obtaining the LTSS services. For some Michigan families facing the sudden need to find an appropriate long-term care setting for a loved one, LTSS options counseling effectively consists of being handed some provider brochures.

Without a thorough understanding of all available services, individuals can select care that is more intensive than they need and desire. This not only increases state health care costs, but also risks Michigan residents not taking advantage of services that can safely keep them in their homes. Michigan still relies heavily on facility-based LTSS: Michigan ranks 40<sup>th</sup> nationally in the percent of state LTSS spending supporting home- and community-based services.<sup>2</sup> Offering LTSS counseling has been shown to increase use of home- and community-based care,<sup>3</sup> which can provide needed LTSS services at a lower cost than facility-based nursing home LTSS.<sup>4</sup>

## Proposal

The Department of Health and Human Services will create an integrated, statewide network of independent options counseling centers to provide conflict-free services to individuals and families requiring LTSS. These services will ultimately be provided by community-based organizations.

These providers will serve as the central source of reliable and objective information about all available programs and services. Person-centered guidance will consider the individuals’ specific needs and goals in

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<sup>1</sup> Long-Term Services and Supports: Case Studies from Four States, National Conference of State Legislatures, [https://www.ncsl.org/Portals/1/HTML\\_LargeReports/long\\_term\\_report18.htm](https://www.ncsl.org/Portals/1/HTML_LargeReports/long_term_report18.htm)

<sup>2</sup> 2017 AARP Long-Term Services & Supports State Scorecard, <http://longtermscorecard.org/databystate/state?state=MI>

<sup>3</sup> Home and Community Based Services Report to the Indiana General Assembly, Indiana Family & Social Services Administration, 2017, pages 55-56, [https://www.in.gov/fssa/files/HCBS%20Report%20\(HEA%201493\)%20FINAL.pdf](https://www.in.gov/fssa/files/HCBS%20Report%20(HEA%201493)%20FINAL.pdf)

<sup>4</sup> Health Care Expenditures After Initiating Long-term Services and Supports in the Community Versus in a Nursing Home, <https://camri.ucsf.edu/sites/camri.ucsf.edu/files/LTSS%20entry%20Medical%20Care.pdf>

evaluating options for housing, personal care, and home help care. Services will be made available to individuals with or without Medicaid coverage. Community agencies will receive support for outreach activities and materials at the local level, while the department will coordinate statewide efforts, including a statewide hotline and service promotion campaign.

Additionally, this funding supports necessary upgrades to existing eligibility and payment systems. These upgrades are vital to effectively implementing this program, as they will allow the counseling agencies to assist in Medicaid applications and level-of-care determinations, ensure beneficiaries are properly placed on program wait lists, and enable the department to collect information on beneficiary needs.

**Funding Recommendations**

The table below summarizes the FY 2021 Executive Budget’s LTSS counseling proposal:

Proposed Investments	Gross	GF
Medicaid LTSS Options Counseling Services	\$11,000,000	\$4,250,000
LTSS Options Counseling Services for Non-Medicaid Enrollees	\$1,500,000	\$1,500,000
Outreach Activities – Connecting with seniors at community events, hosting informational seminars, developing and distributing multilingual, culturally sensitive informational materials.	\$2,000,000	\$1,000,000
Statewide Call Center – Toll free hotline to connect individuals to counseling options centers in their area.	\$500,000	\$250,000
Implementation Costs – Staffing (4 FTEs) and administrative needs to operationalize LTSS Options Counseling.	\$1,250,000	\$500,000
Technology Needs – Investments in eligibility and payment systems to create effective data sharing between options counselors and other providers.	\$4,000,000	\$1,000,000
<b>Total Costs</b>	<b>\$20,250,000</b>	<b>\$8,500,000</b>

## Summary

The Executive Budget recommends **\$11.6 million gross, \$7.1 million general fund** to incorporate social determinants of health into state and local public health strategies. Social determinants of health (SDoH) are those non-medical factors such as education and food security that are key drivers of our health status.

- On the local level, funds will support Michigan’s five Community Health Innovation Regions (CHIRs)<sup>1</sup> and expand the CHIRs model to additional communities.
- On the state level, funds will support needed data investments and a statewide screening and referral tool that incorporates individual health-related social needs to improve DHHS services and programs.

## Background

### Social Determinants of Health

Social determinants of health are the conditions in which people are born, grow, live, work, and age. These include non-medical factors such as education, economic status, housing stability, food security, and employment. For instance, children born to low-income parents are more likely to live in substandard housing and environments that pose barriers to health and safety.<sup>2</sup>

In addition, lack of reliable transportation can affect a person’s access to health care services, resulting in missed or delayed medical appointments. A recent study found that the health disparities resulting from SDoH cost Michigan \$1.2 billion in excess medical costs and \$1.9 billion in untapped productivity.<sup>3</sup> Overall, SDoH conditions have been shown to determine 60% to 80% of health outcomes nationally.<sup>4</sup>

### SDoH Screening, Referral, and Data Infrastructure

Currently, Michigan does not have a standardized system in place that effectively screens people for health-related social needs, makes referrals to available state and community-based resources, and facilitates beneficiary follow-up. In addition to better addressing the needs of Michigan’s residents, a statewide screening and referral tool would also help DHHS better understand the key unmet needs of Michigan’s residents. This information, in turn, can better align state services to best address those unmet needs.

But before a statewide screening and referral tool can be created, DHHS data sharing investments are needed to better link DHHS programs, frontline service providers, and other health and human services entities to facilitate cross-enrollment, targeted and individualized case management, and data driven design of programs and interventions. Specific activities will include integrating new datasets into the DHHS data warehouse, expanding

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<sup>1</sup> Going forward, the CHIRs will be renamed Health and Opportunity Partnerships.

<sup>2</sup> Beyond Health Care: The Role of Social Determinants in promoting Health and Health Equity, <https://www.kff.org/disparities-policy/issue-brief/beyond-health-care-the-role-of-social-determinants-in-promoting-health-and-health-equity/>

<sup>3</sup> The Business Case for Racial Equity Michigan. W.K. Kellogg Foundation, <https://www.wkcf.org/resource-directory/resource/2018/08/business-case-for-racial-equity-for-michigan>

<sup>4</sup> Going Beyond Clinical Walls: Solving Complex Problems, [https://www.icsi.org/wp-content/uploads/2019/08/1.SolvingComplexProblems\\_BeyondClinicalWalls.pdf](https://www.icsi.org/wp-content/uploads/2019/08/1.SolvingComplexProblems_BeyondClinicalWalls.pdf)

the number of datasets used in CareConnect360, and creating SDoH MiHIN use cases that can integrate SDoH data collected through a new, statewide SDoH screening and referral tool.

Building Local Community Health Capacity

Community-based organizations often face inadequate resources, operational limitations, and capacity challenges to address social determinants of health and improve outcomes.<sup>5</sup> Michigan residents who are served by DHHS and community organizations can experience a lack of coordination in their care. This can lead to confusion and frustration, missed appointments, and wasted resources.

Michigan has already worked to address these challenges by funding five Community Health Innovation Regions (CHIRs) pilots since February 2015. The 5 CHIRs are located in Genesee County, Jackson County, Livingston and Washtenaw Counties, Muskegon County, and Northern Michigan. Through the CHIR model, local communities have been able to collaborate with various stakeholders and partners from public, private, and non-profit organizations to identify and address social determinants of health, facilitate system changes, and prioritize resources to meet the needs of individuals in their regions. Each CHIR works to align and address community health priorities across health and community organizations.

CHIRs were chiefly supported through federal grant funding that ended in January 2020. While the FY 2020 budget supports CHIRs with \$3.0 million in one-time general fund, additional funding is needed to sustain and expand Michigan’s CHIRs. During the pilot period, CHIRs have been able to reduce unnecessary emergency department utilization by patients involved in the pilot, develop clinical-community linkages between medical care providers and community service organizations, and establish data sharing protocols to share health data to more effectively meet patient needs.<sup>6</sup>

**Funding Detail**

<b>Proposed Investments</b>	<b>FTEs</b>	<b>Gross</b>	<b>GF</b>
SDoH Screening and Referral Tool	1.0	\$6,200,000	\$3,100,000
SDoH Technological Infrastructure Enhancements	1.0	\$1,500,000	\$750,000
CHIR/Health and Opportunity Partnership Funding and Expansion to Additional Communities	2.0	\$3,950,000	\$3,250,000
<b>Total Costs</b>	<b>4.0</b>	<b>\$11,650,000</b>	<b>\$7,100,000</b>

<sup>5</sup> A National Imperative: Joining Forces to Strengthen Human Services in America, The Kresge Foundation, <https://www.alliance1.org/web/resources/pubs/national-imperative-joining-forces-strengthen-human-services-america.aspx>

<sup>6</sup> Muskegon CHIR, Innovative Approaches to Health: Year 2 Highlights, [https://www.michigan.gov/documents/mdhhs/MUCHIR\\_Bright\\_Spots\\_final\\_641387\\_7.pdf](https://www.michigan.gov/documents/mdhhs/MUCHIR_Bright_Spots_final_641387_7.pdf)

## Summary

The FY 2021 Executive Budget provides **\$10.0 million in one-time general fund** resources to establish a Lead Poisoning Prevention Fund. The fund will help Michigan homeowners and landlords to secure access to low interest loans to remediate lead in their properties, which will enhance Michigan's ability to address and eliminate the health risks associated with lead exposure.

## Background

Lead is a highly toxic metal which was commonly used in household paint, gasoline, and plumbing pipes. Lead poisoning occurs when an individual inhales or swallows a substance with lead such as dust, water, or food. Lead poisoning is a major public health concern, particularly with children. Children's growing bodies absorb more lead than adults' bodies do, and their developing brains and nervous systems are more sensitive to the damaging effects of lead. Exposure to high levels of lead can result in brain damage and even death. Levels of lead in the body have been shown to negatively affect IQ, ability to pay attention, and academic achievement.

In recent years, state-led poisoning prevention efforts have significantly reduced the number of children under age 6 with elevated blood lead levels (EBLL).<sup>1</sup> Efforts have included: prohibiting lead in toys and children's jewelry,<sup>2</sup> expanding lead testing for children enrolled in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and increased funding for local health departments.<sup>3</sup> The federal Centers for Disease Control and Prevention (CDC) estimate that between 2012 and 2016, the number of Michigan children with blood levels greater than or equal to 5 ug/dL (micrograms per deciliter) and 10 ug/dL decreased by more than 50%.<sup>4</sup> But Michigan's rates of child EBLL still rank higher than Minnesota, Illinois, and Indiana. And the age of Michigan housing and limited lead remediation resources continue to make lead poisoning a major state public health concern.

## Proposal: Lead Poisoning Prevention Fund

The Executive Budget recommends establishing the Lead Poisoning Prevention Fund, modeled after the Michigan Saves program, to enhance Michigan's residential lead remediation efforts.

Established in 2009 with a grant of \$8 million, Michigan Saves acts as a loan loss reserve fund, providing residential and commercial homeowners access to affordable financing for energy-focused building and equipment improvements. Since that time, it has supported the financing of over \$170 million in energy efficiency projects. Michigan Saves also works with industry and community partners to offer homeowners and businesses a statewide network of authorized, professional contractors with experience in energy efficiency and renewal energy system.

The Lead Poisoning Prevention Fund will operate in a similar fashion. Like Michigan Saves, funding will be bid out to a qualified third-party administrator. This public-private fund will then assist low-to-moderate income

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<sup>1</sup> Childhood Lead Poisoning Prevention in Michigan, Fiscal Year 2017, Report to the Legislature, [https://www.michigan.gov/documents/lead/FY\\_2017\\_CLPPP\\_LEGISLATIVE\\_REPORT\\_November\\_2018\\_647060\\_7.pdf](https://www.michigan.gov/documents/lead/FY_2017_CLPPP_LEGISLATIVE_REPORT_November_2018_647060_7.pdf)

<sup>2</sup> National Conference of State Legislatures, State Lead Poisoning Prevention Statutes, <https://www.cdc.gov/nceh/lead/docs/policy/Stlaw10.pdf>

<sup>3</sup> Children With Elevated Blood Lead Levels 2007 Report, Michigan Department of Community Health, [https://www.michigan.gov/documents/mdch/1129\\_02\\_01\\_07\\_186280\\_7.pdf](https://www.michigan.gov/documents/mdch/1129_02_01_07_186280_7.pdf)

<sup>4</sup> CDC National Childhood Blood Lead Surveillance Data, <https://www.cdc.gov/nceh/lead/data/national.htm>

Michigan landlords and homeowners secure advantageous financing towards projects that reduce or eliminate residential lead hazards.

The Get the Lead Out Loan Program<sup>5</sup> in Massachusetts employs a similar model targeting low-to-moderate income homeowners and landlords. That program has assisted 4,399 residential units to receive loan remediation services.

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<sup>5</sup> National Center for Healthy Housing, Massachusetts Get the Lead out Loan Program, [https://nchh.org/resource-library/case-study\\_sustainable-financing-mechanisms\\_ma-gtlo.pdf](https://nchh.org/resource-library/case-study_sustainable-financing-mechanisms_ma-gtlo.pdf)

## Issue

Public Act 93 of 2013 created the Michigan Indigent Defense Commission (MIDC) to set minimum standards for the appropriate provision of indigent defense services in the state. The minimum standards are binding directives on local systems to meet the Constitutional requirements for the effective assistance of counsel. The state's 134 local indigent defense systems must comply with the minimum standards that are established by the MIDC and approved by the Department of Licensing and Regulatory Affairs (LARA). The MIDC annually approves compliance plans and cost analyses for local indigent defense systems, and the State of Michigan is primarily responsible for the increased costs of compliance with the standards established, subject to appropriation.

The first four minimum standards received final approval by LARA in May 2017. These standards set directives around: 1) the education and training of defense counsel; 2) initial review with a client before court proceedings; 3) investigation and experts; and 4) providing counsel at first appearance and other critical stages of criminal proceedings. The next set of standards, standards #5-8, have been approved by the MIDC and are pending review by LARA.

## Funding Minimum Standards #1-4 (Fiscal Year 2019 – Fiscal Year 2021)

- *Fiscal Year 2019* - In Fiscal Year 2019, \$86.9 million was appropriated for local systems to comply with standards #1-4. As the first year of implementation, many indigent defense systems standing up their compliance efforts incurred only partial-year costs. As a result, there is approximately \$43 million in unexpended balances from fiscal year 2019 available to support the compliance costs in fiscal year 2020. Pursuant to MCL 780.993, these unexpended balances carry forward and reduce the subsequent year's grant by the amount of the unexpended funds.
- *Fiscal Year 2020* - As of December 2019, the estimated cost of fiscal year 2020 compliance plans (not all of which are yet approved by the MIDC) totals \$117.5 million. Given the availability of prior year unexpended balances, no additional funding is necessary in fiscal year 2020 as the total grant costs will be fully supported by the combination of unexpended balances and the \$81 million appropriation included in Public Act 60 of 2019.
- *Fiscal Year 2021* – A \$36.5 million budget adjustment is included in the fiscal year 2021 Executive Recommendation to provide a total of \$117.5 million for indigent defense systems' compliance with minimum standards #1-4. This funding level is based off fiscal year 2020 grant costs, as the MIDC will begin compliance planning for fiscal year 2021 after the release of the Executive Budget. It is not anticipated that there will be any carryforward of unexpended balances into fiscal year 2021 as most systems will be fully implemented in fiscal year 2020.

As the MIDC begins their review and approval of fiscal year 2021 compliance plans and cost analyses later this spring, approvals will be monitored to determine whether additional resources beyond those recommended in the Executive Budget will be needed for fiscal year 2021.

To best serve veterans in Michigan, the Department of Military and Veterans Affairs has worked for the last five years to improve and expand its network of veteran homes. This effort has included the construction of two new homes located in Grand Rapids in Kent County and Chesterfield Township in Macomb County, which are anticipated to open in fiscal year 2021. The new homes will modernize the state’s approach to long-term care for veterans and align with industry standards for long-term care. The Executive Budget includes two funding adjustments in anticipation of the new homes opening in fiscal year 2021:

- \$7.6 million ongoing general fund is invested to fund operations at the new homes
- \$13.2 million general fund is provided as one-time funding to support transitional needs at the existing facility in Grand Rapids. The homes are designed to be eligible for Centers for Medicare and Medicaid Services (CMS) certification, which will ensure a high standard of care and leverage available federal resources through the Medicaid program while beginning to reduce the reliance on state general fund revenue. Both new homes will have capacity to provide skilled nursing care to 128 residents with a myriad of medical needs including chronic mental and physical conditions.

The new homes follow a “small house” model, which provides a less institutional, more homelike environment than Michigan’s existing multi-story “medical” model facilities. This involves providing all members with private rooms in individual “households” of 16 members. As a result, members will have greater access to both indoor and outdoor wheelchair-accessible community spaces.

The veteran homes system also includes the D.J. Jacobetti Home for Veterans in Marquette. This 284-bed facility includes a CMS certified memory care unit for individuals suffering from Alzheimer’s disease or other dementia. All three facilities will provide veteran-specific services that are not available in most long-term care homes, such as special military and veteran-focused community events and picnics. The veterans enjoy a sense of community among their peers who have served our country.

The new and continued investment in Michigan’s veteran homes included in the Governor’s budget will serve to ensure high-quality care for veterans for generations to come.



Rendering of the new Grand Rapids home



Rendering of the new Chesterfield Township home



**State Police**

**Law Enforcement Training for Behavioral Health Crisis Interventions and Crime Victim Interactions**

February 6, 2020

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**Background**

In April 2019, Governor Whitmer appointed a bipartisan Michigan Joint Task Force on Jail and Pretrial Incarceration to evaluate justice systems in the state and develop recommendations to expand alternatives to jail, safely reduce admission and length of stay, provide services and support to crime victims, and improve the efficiency and effectiveness of Michigan justice systems. The Task Force recently released its report with 18 recommendations to safely reduce county jail populations while protecting and supporting crime victims.<sup>1</sup>

**Behavioral Health Crisis and Domestic Violence Response Training**

One of the key recommendations of the task force is to appropriately deflect and divert individuals with behavioral health needs away from the criminal justice system. In Michigan, jail populations have tripled over the last 35 years, and it is estimated that a quarter of individuals entering jail have a serious mental illness. The Task Force recommends development of statewide standards for behavioral health crisis intervention training which will help protect public safety officers through safer interactions and direct individuals to appropriate behavioral health services. Funding is included in the Governor’s budget recommendation to develop standards and deliver training to law enforcement, dispatch, and jail officers across the state.

The Task Force also highlighted the need to better support crime victims interacting with the criminal justice system. The Governor’s budget proposes funding for the development of specialized training including the use of best practices for responding to calls related to domestic violence.

In total, \$7.2 million is included in the State Police budget designated to the Michigan Commission on Law Enforcement Standards, in support of the development and delivery of training to law enforcement and first responders across the state. This amount is estimated to cover the first 50 percent of those costs.

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<sup>1</sup> <https://courts.michigan.gov/News-Events/Documents/final/Jails%20Task%20Force%20Final%20Report%20and%20Recommendations.pdf>



The Fiscal Year 2021 Executive Budget recommends continuation of \$35 million general fund for the Information Technology Investment Fund (ITIF) in the Department of Technology, Management and Budget (DTMB). Created in Fiscal Year 2013, the ITIF supports information technology projects that modernize legacy information technology systems and use technology to advance transformative change in service delivery to residents and businesses across the state.

Four projects have been selected to receive a total of \$32.4 million in ITIF funding in Fiscal Year 2021:

Department	Project Title / Description	Amount
Environment, Great Lakes, and Energy	<b>Drinking Water Replacement (Year 2 of 2)</b> <i>Provides support to complete a project initiated with \$6 million in FY 2019 ITIF funding to retire and consolidate 17 legacy IT systems used by 95,000 regulated entities, such as public water supplies, certified operations and septage haulers, into an integrated solution for programs providing regulatory oversight of drinking water.</i>	\$9,000,000
Licensing and Regulatory Affairs	<b>Michigan Liquor Control Commission (MLCC) - Sales, Inventory and Purchasing System Replacement (Year 1 of 2)</b> <i>Replaces a legacy mainframe IT platform that is over 40 years old and written in COBOL programming language with a new modern application that will serve MLCC's 13,000 retail licensees, 514 spirit vendors, and 128 spirits distillers. The MLCC is responsible for over \$1.4 billion in spirit sales annually. The total cost of the project is \$6.8 million and is expected to be supported over two years.</i>	\$5,843,900
Treasury	<b>Individual Income Tax &amp; Garnishment and Levies System Replacement (Year 2 of 2)</b> <i>Replace and consolidate the Individual Income Tax (IIT) System and Garnishment and Levies (GAL) systems that are over 30 years old and written in COBOL programming language. The IIT system generates \$9.4 billion in net revenue annually for the state and audits 5.3 million taxpayer returns, while the GAL system maintains over 1.6 million garnishments for greater than \$9 billion in total liabilities. A total of \$25 million from the ITIF is allocated to support this project, including \$22.5 million in FY 2020.</i>	\$2,508,600
Treasury	<b>Collections IT Systems - STAR and MARCS Replacement</b> <i>Replace and consolidate the STAR and MARCS collections systems that process over 520,000 business and individual tax and non-tax assessments valued at \$3.8 billion annually. Mainframe costs and legacy application software necessitate the replacement. Significant development savings are anticipated in pursuing a commercial off-the-shelf (COTS) solution that integrates all four primary revenue systems: IIT, GAL, STAR and MARCS.</i>	\$15,000,000
<b>TOTAL</b>		<b>\$32,352,500</b> *

\* Net allocation after deducting (\$2 million) for a multi-year cyber security protection project and (\$647,500) for quality assurance.

## Issue

The increasingly perilous landscape of threats to information technology systems has led to the need for significant investments in cyber security across the nation. While Michigan’s current cyber security posture is robust, the evolving nature of the cyber threat dictates the state must continue to invest aggressively in tooling, intelligence, and other resources that represent the latest best practices in deterring, detecting, and responding to advanced persistent threats from hostile nation states and others.

## Proposal

Invest \$20 million one-time general fund in a range of tools and preparedness capabilities that will enhance Michigan’s cyber security posture toward advanced persistent threats. Examples of the types of tools/measures these funds will support include:

- Threat modeling and readiness assessments
- Vulnerability assessments and testing
- Emergency response training
- Enhanced cloud security
- Expanded analytical tools and capabilities
- Expanded risk mitigation

## Background

Several countries with hostile intentions towards the United States (U.S.) have advanced cyber warfare capabilities and a proven willingness to use them to target U.S. companies, critical infrastructure, and government entities. These threat actors, who possess unlimited resources, are referred to as Advanced Persistent Threats (APTs) by the national security community. APTs use all known means to gain initial access into target systems, build a toehold, and then expand their footprint in search of data that could achieve one of many political or financial objectives. If undetected, they will remain in the system, looking and learning, often creating an alternative “backdoor” means of access that allows them to leave and return later.

Federal, state, and local governments with high-value assets that hold personally identifiable information are often targeted by APTs. Much like criminal enterprises, APTs are often interested in gathering personal information for either fraud or extortion, such as social security numbers, private health information, or criminal records. Beyond the compromise of private data, government agencies at all levels are attractive targets for the purpose of sowing discord and undermining public confidence. Such threats have been known to come in the form of denial-of-service or ransomware attacks perpetuated to render government systems or services inaccessible or result in data loss.

U.S. governments and businesses are estimated to have spent over \$15 billion on cyber security in 2019, with 60 million U.S. residents estimated to be impacted by identity loss. The average cost of a data breach to a U.S. company is \$7.9 million. The State of Michigan alone blocks on average over 2 million malicious attacks per day on its systems. Local governments in Michigan are also not immune to the threat. For instance, Beaumont Hospital and Richmond Community Schools were reported to be recent victims of identity theft and ransomware attacks. This investment will also assist in the training of the Michigan Cyber Civilian Corps (MiC3) personnel who assist Michigan-based businesses and local governments in detecting and responding to such events.

### **Proposal**

The Department of Technology, Management and Budget (DTMB) will administer a Green Revolving Fund (GRF) to provide up-front financing for energy efficiency and renewable energy projects at state facilities. Repayments would be tied to energy project cost savings generated from the implementation of energy efficiency and renewable energy projects. This revolving fund approach will allow for the re-investment of resources in new projects on a continuous basis establishing a long-term program focused on reducing the state's carbon footprint.

The GRF will be capitalized with an initial one-time investment of \$5 million general fund.

### **Background**

A GRF is an investment tool that can serve as a self-regenerating source of capital for energy efficiency and renewable energy projects, as well as, a means to track and report energy cost savings and CO<sub>2</sub> emission reductions from those projects. A GRF is a proven, cost-effective way to achieve long-term facility energy efficiency and CO<sub>2</sub> emissions objectives. The DTMB GRF is modeled after similar programs implemented at higher education institutions and other large-scale facility operations.

Agencies with state-owned facilities would be eligible to participate in the GRF call for projects, which would be integrated into the state's annual budget development process. DTMB's current Facilities Sustainability Workgroup (comprised of various agency representatives) would provide oversight and direction for the program with DTMB's Building Operations Division lending administrative support.

Because repayments are tied to energy savings and generation, tracking and reporting of energy cost and CO<sub>2</sub> emission savings are an important feature of the GRF. Data collection and reporting would include per-project and overall energy savings, and estimated reductions in CO<sub>2</sub> emissions. DTMB will manage such data collection and reporting.

The initial call for projects and prioritization process will focus on projects with a proven return on investment and short payback period. It is important that the GRF has a sustainable cash flow and growth plan in order to stem inflationary pressures that would potentially erode purchasing power over time and to expand upon the number and size of projects the fund can support. Project payback terms will be balanced against other mission critical needs.

Implementation of the GRF will demonstrate the state's commitment to sustainability and will help catalyze a cultural shift among employees, business partners and the public on reducing the state's carbon footprint.

## Proposal

Provide state employees with up to 12 weeks of paid parental leave for a qualifying birth or adoption of a child beginning on October 1, 2020. The Department of Technology, Management and Budget (DTMB) budget includes \$10 million general fund to offset the cost of the paid leave for departments disproportionately impacted.

## Key Provisions

- Eligible state employees include those with status during the current employment period who are in satisfactory standing.
- Covers medical leave for the eligible birth parent beginning with the date of birth, as well as bonding time for each eligible parent upon the qualifying birth or adoption of a child, beginning on October 1, 2020. If both parents are eligible state employees, each may utilize up to 12 weeks.
- Runs concurrently with any other available unpaid leave (Family Medical Leave Act, medical leave of absence, maternity/paternity/parental).
- Replaces any other available paid leave due to a qualifying birth or adoption of a child, including sick leave.
- Eligible employees will accrue annual and sick leave during the leave period.
- Paid parental leave is to be one continuous leave completed by an eligible employee within the first 12 months after a qualifying birth or adoption.
- For less than full-time eligible employees, paid parental leave will be pro-rated based on the average hours in pay status during the six bi-weekly pay periods immediately preceding the paid parental leave. Paid parental leave will end for an eligible limited-term and eligible seasonal employee as of the date the limited term appointment expiration or seasonal layoff, as applicable. Non-career employees are not eligible for paid parental leave.
- Implementation of this new policy will require amendment of collective bargaining agreements and Civil Service rules and adoption by the Civil Service Commission.

## Background

The federal government and large private companies are among a range of employers recently adopting voluntary paid parental leave policies for their workers in order to retain talent and support strong families. The United States is the only industrialized country in the world that does not federally mandate paid parental leave.<sup>1</sup> The federal Family and Medical Leave Act of 1993 (FMLA) provides eligible workers with an entitlement to *unpaid* leave for a limited set of family caregiving needs, however, there is no federal law that requires public or private sector employers to provide *paid* leave of any type.<sup>2</sup> The adoption of the federal government paid parental leave policy for federal employees reflects the growing public support for such policies and sets the standard for other public and private sector employers to offer a similar benefit to their workers.

The State of Michigan employs 47,300 workers across a variety of disciplines at job sites across the state. The Civil Service Commission reports that state employees have approximately 1,200-1,300 newborn children per year, and account for approximately 20 adoptions of minor children. Costs related to the policy are anticipated to vary on a case-by-case basis depending on whether the job duties of the employee require a form of backfill to cover those duties while the employee is out on leave. Effects on departments will also vary depending on the demographic composition of their workforce and the types of jobs impacted by the leave benefit within their agency. Those budgetary effects will be reviewed by the State Budget Office and the recommended funding will be allocated to prevent any reduction in critical services resulting from the new policy.

<sup>1</sup> "Paid Parental Leave for Fed Workers Could Spur Wider Changes," Hope Yen, Associated Press. December 16, 2019.

<sup>2</sup> "Paid Family Leave in the United States," Congressional Research Service. May 29, 2019.

## Summary

The Executive Budget Recommendation includes appropriations in the budget for the Department of Technology, Management and Budget of \$19.1 million and \$56.3 million general fund for fiscal years 2020 and 2021, respectively, to purchase tax vouchers related to the Venture Michigan Fund. These appropriations do not create any net cost to the state general fund, and actually save the general fund money, as slightly larger negative revenue adjustments related to the tax vouchers are currently included in the consensus revenue estimates for those years. Those negative revenue adjustments would be avoided through the purchase of the vouchers.

## Background

The Venture Michigan Fund was created by legislation in 2003, later amended in 2005 and 2007, with the goal of fostering and growing the venture capital industry in Michigan.<sup>1</sup> Tax vouchers were issued by the state to the Venture Michigan Fund, which used the vouchers as collateral and bonded to generate investment capital. Statute capped the total value of tax vouchers that could be claimed at \$600 million.

In 2006, \$200 million in tax vouchers were collateralized to provide investment capital for VMF I. In 2010, \$250 million in tax vouchers were collateralized to provide investment capital for VMF II. As described below, these vouchers can then be claimed if the Venture Michigan Fund does not have sufficient cash to make bond payments.

Fund managers have invested a total of \$265 million into 56 Michigan early stage companies. One of the key goals of the program was to help build an early stage venture capital industry in Michigan and leverage additional investments to these companies. In total, over \$1.7 billion has been invested in these Michigan companies by managers from outside the VMF program. These 56 Michigan early stage companies directly employ approximately 1,760 Michigan residents.

Following 2015 amendments to the governing statute, the fund will expire on January 1, 2030 (originally slated for 2054) and any money in the fund will be distributed to the state's General Fund (first \$140 million) and the 21<sup>st</sup> Century Jobs Trust Fund (remainder).

## Options for Tax Vouchers

If the Venture Michigan Fund has insufficient cash to make bond payments to the lender, the tax vouchers that were used as collateral will be paid to the lender in the amount of the payment due. If the lender does not have a Michigan tax liability, the tax vouchers could be sold to businesses who can then use them as a tax payment, creating a reduction in revenue. Alternatively, the state can purchase the tax vouchers directly, as it did in 2015.

Having the state appropriate the funds and directly buy the vouchers from VMF avoids two potentially costly liabilities and creates an opportunity to free up reserve cash, which would reduce future voucher use.

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<sup>1</sup> See the Michigan Early State Venture Investment Act of 2003:  
[http://www.legislature.mi.gov/\(S\(ujv0grg5ygp4xei05h43aks\)\)/documents/mcl/pdf/mcl-Act-296-of-2003.pdf](http://www.legislature.mi.gov/(S(ujv0grg5ygp4xei05h43aks))/documents/mcl/pdf/mcl-Act-296-of-2003.pdf)  
This Senate Fiscal Agency paper provides additional background on the fund:  
<https://www.senate.michigan.gov/sfa/Publications/Notes/2015Notes/NotesWin15dz.pdf>

First, the bond agreement guarantees that the lender would receive 100% of the value of the tax voucher. However, the lender is not a Michigan taxpayer and would likely be required to sell the voucher to an entity that could use it as a tax payment. There are brokers and markets for assignable tax credits, which generally trade for 90 cents on the dollar.

Second, if the state pays the lender with a tax voucher instead of cash, they begin to accrue interest on the voucher immediately upon transfer. This interest would accrue until the voucher is redeemed and the VMF structure would incur liabilities, which would require more tax voucher usage.

### **Executive Recommendation**

The January consensus revenue estimates include negative General Fund adjustments in the following amounts for the default option of tax vouchers being claimed as a tax payment:

- (\$22.9 million) in FY 2020
- (\$67.6 million) in FY 2021
- (\$75.0 million) in FY 2022

These revenue losses are expected to continue through fiscal year 2024. The amounts reflect a conservative assumption that the lending institution would need to sell vouchers at a discount and the Venture Michigan Fund would need to issue additional vouchers to make the full amount of the bond payment.

The Executive Budget recommends that \$19.1 million be appropriated for fiscal year 2020 to purchase the vouchers directly, saving \$3.8 million that will eventually be returned to the state. Since there is already a \$22.9 million adjustment in the January CREC estimates, an appropriation would free up \$3.8 million general fund in the fiscal year 2020 budget. The same supplemental budget structure utilized in 2015 can be used in this instance.

For fiscal year 2021, an appropriation of \$56.3 million is recommended in the DTMB budget, which would free up \$11.3 million general fund for that year. The administration will continue to recommend such appropriations for fiscal year 2022 and beyond.

From a timing perspective, the fiscal year 2020 appropriation needs to be enacted and available prior to March 1 in order for the voucher purchase to occur and the associated financial losses to be avoided. The fiscal year 2021 appropriation can be enacted in conjunction with the full fiscal year 2021 state budget.

### **Issue**

Michigan is currently experiencing the effects of record high water levels on the Great Lakes that are eroding beaches and coastlines, imperiling homes, flooding roads, and impacting the delicate balance between our prized freshwater resources and the way of life in our local communities. Severe weather events and flash flooding have also overwhelmed local sewer systems, and damaged homes and agricultural lands. The reality of these events cannot be ignored, and Michigan and its local communities must be prepared for and take action to address both immediate and future impacts of these conditions.

### **Proposal**

Invest a total of \$40 million (one-time general fund) in a Local Climate Resilient Infrastructure Grant program in the Department of Treasury. A total of \$10 million will be designated for local government planning activities, and \$30 million will support infrastructure grants to address specific project needs.

Planning efforts will focus on the development of the following:

- Local climate action plans.
- Resiliency plans for communities impacted by high water levels and coastal erosion.
- Resiliency plans for communities with undersized infrastructure such as culverts or sanitary storm sewers.
- Zoning/planning ordinances for communities to prevent climate impacts and adopt climate mitigation tools.

Infrastructure grants will focus on the following:

- Eligible projects include, but are not limited to, those that address flooding, coastline erosion, transportation networks, urban heat, and storm water management.

Eligible participants for this competitive grant program include regional councils of government and individual local units of government. Either type of entity may act as a primary project sponsor and fiduciary for a grant that includes partnerships or consortiums with other public or non-profit organizations. Planning grants will be no more than \$200,000 per award, and infrastructure grants will be no more than \$2.5 million per award. A 20 percent local match is required for both planning and infrastructure grants.

The Department of Treasury -- in partnership with the departments of Agriculture and Rural Development; Environment, Great Lakes and Energy; Natural Resources; and Transportation -- will develop the grant program, including selection criteria, timelines, and reporting and any other requirements. The application and grant program information will be published in an accessible location on the departmental internet sites.