

DATE: February 11, 2014
TO: Interested Parties
FROM: Ben Gielczyk, Senior Fiscal Analyst, and Jim Stansell, Senior Economist
RE: Proposed Executive Recommended Economic Vitality Incentive Program Changes for FY 2014-15

This memorandum and accompanying attachment provide a summary of the proposed changes to the Economic Vitality Incentive Program (EVIP) in the FY 2014-15 Executive Recommendation.¹

The EVIP under the FY 2014-15 Executive Recommendation includes two main payment components. In addition to continuing the payment component in the current year budget, which will be referred to as Ongoing EVIP, there is a second payment component that distributes a one-time appropriation on an adjusted per capita basis, which will be referred to as Supplemental EVIP. The two components are explained below and highlighted in the attached chart.

Ongoing EVIP

The Executive Recommendation proposes funding Ongoing EVIP at \$243.0 million, which represents a \$7.2 million or 3.1% increase from FY 2013-14. The same 486 cities, villages, and townships (CVTs) that have been eligible since FY 2010-11 would be eligible in FY 2014-15. Each eligible unit would be eligible to receive an amount 3.1% greater than what they were eligible to receive in FY 2013-14.

The only major proposed change for FY 2014-15 is that, to qualify for its maximum eligible payment, a CVT would have the option of certifying under the three existing current year categories (Alternative One) or certifying by October 1, 2014 that it has met all of the following four standards (Alternative Two):

- An unrestricted general fund balance equal to or greater than 6.0% of General Fund budgeted expenditures;
- Defined benefit (DB) contributions equal to or greater than the annual required contribution amounts determined by the actuarial valuation used for the most recent audited financial report, or the CVT does not offer a DB plan;
- Other post-employment benefit contributions equal to or greater than the annual required contribution amounts determined by the actuarial valuation used for the most recent audited financial report, or the CVT does not offer an OPEB plan; and
- The CVT's most current general obligation debt bond or credit rating, as assigned by at least two credit rating agencies, is no less than Aa3 (Moody's), AA- (Fitch), or AA- (S&P), or the CVT does not have outstanding general obligation debt.

Supplemental EVIP

The Executive Recommendation included an additional \$28.8 million to support a one-time Supplemental EVIP. Of that amount, \$28.5 million would support payments to CVTs, while \$300,000 would support Department of Treasury program administration.

¹ For a more detailed history of the EVIP, see http://www.house.mi.gov/hfa/PDF/GeneralGovernment/EVIP_Memo.pdf

The Supplemental EVIP would be distributed on an adjusted population per capita basis to the 486 CVTs that are currently eligible for EVIP. If a CVT's adjusted population per capita share is less than \$5,000, it would receive \$0 and the amount it would have received would be redistributed to the remaining units. Under the Supplemental EVIP, it is estimated that as many as 25.0% of the 486 eligible CVTs may not qualify for funding.

To determine a CVT's adjusted population, there are four criteria that, if met, would each adjust the population of the CVT upward by 10%, with a maximum adjustment of 40%. The four criteria are as follows:

- CVT has certified that the four standards in Alternative Two under Ongoing EVIP above are met;
- CVT has a population of 5,000 or more and is in the highest 25.0% of Michigan communities based on violent crime rates;
- CVT has a population of 20,000 or more and is in the highest 25.0% of Michigan communities based on jobless rate; and/or
- CVT has a deficit elimination plan approved by the Department of Treasury.

The following table compares FY 2013-14 EVIP to the FY 2014-15 Executive Recommendation:

	FY 2013-14	Proposed FY2014-15	Difference FY 2014-15 vs. FY 2013-14	
			Amount	%
Ongoing EVIP	\$235,840,000	\$243,040,000	\$7,200,000	3.1%
Supplemental EVIP		28,800,000	28,800,000	--
TOTAL	\$235,840,000	\$271,840,000	\$36,000,000	15.3%

Attachment

ECONOMIC VITALITY INCENTIVE PROGRAM (EVIP) EXECUTIVE RECOMMENDATION FY 2014-15

