

## **Making Michigan Government More Efficient, Responsive and Cost Effective in the 21st Century**

Since taking office in 2003, Governor Jennifer M. Granholm has worked to reduce the size and cost of government while making it work better for Michigan citizens. Thanks to her efforts, Michigan citizens have benefited from increased service at a lower price. But more can be done. The governor is proposing four critical additional steps the state should take. These reforms will save state and local governments over \$450 million more next year. The governor's proposal includes:

### **Attacking the State's Structural Deficit**

The massive restructuring of the auto industry, which began in 2001, has dramatically and permanently changed the economic landscape in Michigan. The resulting impact is a state budget with a structural deficit.

During her tenure, the governor has aggressively attacked this structural deficit. She has issued 47 executive directives limiting state spending, saved more than \$1.5 billion by requiring renegotiation and competitive bidding of contracts and other cost-saving measures, and reduced energy usage in state facilities by 23 percent. The governor has eliminated five state departments and nearly 300 obsolete boards and commissions. State government has 10,900 fewer employees than when the decade began; the smallest size it's been since the early 1970s.

State employees have done their part, too. They've agreed to more than \$650 million in concessions over the past seven years, including unpaid furlough days, banked leave time, and paying a larger portion of their health-care costs.

The governor is proposing to further address the structural deficit by:

***Providing Retirement Incentives.*** With state revenue at historic lows, Michigan must continue to reduce the size of our public workforce through retirement incentives for approximately 7,000 eligible state employees and 39,000 eligible public school employees. In some instances, state employees who elect to retire would be allowed to continue to work up to 20 hours a week for up to three years. (See Appendix 1 for a more detailed overview of the proposed changes.)

***Increasing Employee Participation in New State Health Plan.*** Beginning as early as April 2010, new state employees will receive benefits under a new state health plan that is commensurate with health plans in the private sector pursuant to new agreements with state employee unions or state civil service rules. Employees under this plan will contribute 20 percent of premium costs. The new health-care plan would allow state government to reduce its cost by more than 21 percent per person but still provide important health-care coverage for employees and their families.

***Eliminating Lifetime Health Care for Elected Officials.*** In 1992, voters approved term limits for state legislators, but while their length of service was limited, their benefits were

not. In an age of term limits and structural deficits, lifetime health-care benefits for future legislators should be eliminated.

***Smarter Sentencing Policies.*** Michigan's sentencing policies for criminal offenders have contributed to an expansion of government spending. Modifying prison policies to ensure that Michigan prisoners are serving time comparable to prisoners convicted of similar crimes in other states will go a long way to help reduce Michigan's structural deficit.

***Ending Prescription Drug Immunity.*** While other states have successfully recovered hundreds of millions of dollars from drug companies for Medicaid costs resulting from injuries to their Medicaid patients, a 1995 Michigan law completely shields pharmaceutical companies from product liability. No other state in the country provides this protection for pharmaceutical companies who produce products that injure citizens. As a result, Michigan, unlike other states, cannot seek Medicaid reimbursement when drugs purchased with Medicaid dollars cause injury or damage to Medicaid patients.

***Establishing a Medicaid Inspector General.*** The Granholm administration has worked hard to contain the cost of Medicaid while protecting the critical health-care services it provides for Michigan's seniors, children and vulnerable citizens. These efforts have resulted in hundreds of millions of dollars in savings through improved security measures. A dedicated, independent Office of Health Services Inspector General will provide needed support to further reduce waste, fraud and abuse.

### **Strengthening Local Government and Schools**

Governor Granholm has repeatedly shown that creating efficiencies in government can both improve service and reduce costs. In 2007, Granholm signed a series of changes to school administrative procedures into law, including allowing districts to bid health care, requiring additional employee contributions to retirement, and changes to the retiree health-care system. Much more can be done to reduce duplication of services in Michigan's 83 counties, 533 cities and villages, 1,242 townships, and 773 school districts. The governor is proposing:

***Required Competitive Bidding.*** Just as state government now requires competitive bidding for the purchase of all goods and services by state government – a requirement that has saved millions of dollars each year - local governments and school districts should be mandated to competitively bid all contracts exceeding \$50,000.

***Shared Services in Education.*** Using existing authority, Michigan's public universities can reduce costs by establishing statewide contracting and procurement consortiums to consolidate buying and purchasing of goods and services, voluntarily pool for health care, and share information technology services. In addition, school districts throughout Michigan should be required to identify non-academic functions, such as transportation or accounting, which can be shared with neighboring districts or at the intermediate school district level and submit the service-sharing plan to the Michigan Department of Education for review and approval.

***Removing Barriers to Consolidation.*** Binding arbitration for public employees as provided under Public Act 312 should be preserved. However, improvements to the process can provide a resolution in a more timely manner for the benefit of everyone involved, while

reducing costs. Improving the process for arbitration under PA 312 and for governments to work together under the Urban Cooperation Act will ensure that consolidation and cooperation can occur efficiently and cost-effectively while still respecting collective bargaining.

***Access to State Health-Care Plan.*** Public employers like local governments, schools and universities and their employees should be given the option of participating in the state of Michigan's new, cost-effective health-care plan.

***Streamlined Elections.*** Modern technology should be used to streamline and reduce the cost of elections by enacting simple reforms including: no-reason absentee voting; elections-by-mail for some local, school and special elections; and instant run-off voting for local nonpartisan elections.

### **Enhancing Accountability in Government**

Governor Granholm set the tone from her first day in office by establishing a code of ethical conduct for all appointees and employees of her administration in Executive Directive 2003-1. Since then, the governor has fought for an open, responsive government. To further advance these goals, the governor is proposing:

***Financial Disclosure for All Elected Officials.*** Citizens deserve to know if the men and women they are electing to office are personally benefiting from the decisions they will be making. State elected officials and candidates should be required to submit financial disclosure statements annually, as is required in 47 other states.

***Closing the Lobbyist Revolving Door.*** Michigan needs to eliminate the specter of personal gain among those who are serving in government by closing the lobbyist revolving door that allows lobbyists to freely enter state service and state officials to leave state government and become registered lobbyists without any limitations on the timing of such changes.

***Banning Honoraria Payments.*** State elected officials have chosen to represent citizens, and they receive a salary for that service. All elected state officials should be prohibited from accepting an honorarium for any aspect of their work or position.

***Raising Ethics Standards.*** More stringent ethics standards and conflict of interest regulations, including contracting and gift restrictions, should be imposed for all elected and appointed officials and employees in the executive branch, including state contract managers. These regulations should prohibit soliciting or delivering political contributions in government buildings.

***Preserving the Integrity of Elections.*** With special-interest spending in elections now unregulated, we must preserve the integrity of elections in Michigan by requiring real-time disclosure of all corporate contributions for political activity; mandating shareholder approval of corporate political expenditures; prohibiting any corporation with a foreign parent or shareholders, income from a foreign country or non-resident officers from spending money to

influence Michigan elections; and requiring complete disclaimers on advertising to identify any corporation funding a political advertisement.

### **Modernizing the State's Budgeting Process**

The last decade, unquestionably, has posed the most difficult budget challenges this state has ever faced. The governor and the Legislature have faced budget deficits in each of the last nine years. As a result, they have had to make difficult choices to reduce and eliminate important programs and services. During that time, Michigan is the only state in the country whose general fund shrunk in real dollars. When adjusted for inflation, Michigan revenues are at a 45-year low.

Michigan's ongoing economic struggles have shined a light on a budget process that is broken. In two of the last three years, the Legislature has failed to pass a budget by the September 30 deadline. To ensure that the state's priorities are protected, Governor Granholm proposes the following, some of which will require voter approval:

***Two-Year Budgets.*** A longer-range spending forecast and spending plan will benefit all who rely on the state budget to support their services and programs. A constitutional amendment is needed to put in place a two-year state budget cycle beginning October 1, 2011, with a June 30 deadline for passage of all related legislation needed to support or implement the enacted budget.

***Review Tax Expenditures.*** When the Legislature exempts the collection of a tax to help grow the state's economy and create jobs, it gives up revenue that would otherwise support state programs. Today, these tax expenditures cost the state more than \$36 billion in revenue. The governor supports protecting the state's long-term job creation incentives and a biennial review of tax expenditures to reauthorize or repeal them to make certain that we are getting the economic benefits that we expected.

***Biennial Budget Presentations.*** The biennial budget presentation would be expanded to include long-range (10 year) revenue and budget forecasts; projections for transportation-related revenues; and expenditures on major items, including Medicaid, Department of Human Services programs, Department of Corrections' prisoner projections, and continued inclusion of pupil counts from the Department of Education.

***An Additional Revenue Estimating Conference.*** Revenue estimating conferences would be held in January, May and September with a new statutory deadline of December 31 for final reporting on previous fiscal year spending. While representatives from the Michigan Department of Treasury and the House and Senate fiscal agencies would remain the conferees, they would be required to seek advice from non-governmental economists and revenue forecasters.

***Pay-As-You-Go Budgeting.*** Lawmakers would be required to follow a pay-as-you-go policy when approving budget and tax expenditures. Any decision to increase a budget or tax expenditure should require a corresponding action to decrease expenditures or adjust revenues elsewhere.

***Disclosure of Full Cost of Legislation.*** An analysis by a legislative fiscal agency would be required to identify the estimated financial and compliance costs of legislation before it is approved by state lawmakers, including costs to those impacted by the policy. A similar analysis by the State Office of Administrative Hearing and Rules would be required to identify the estimated cost of promulgating rules to implement proposed legislation.

***Auditing State Contracts Annually.*** Each year, the state spends more than \$23 billion with vendors. An annual review of all contracts to identify excess spending, overcharges and inefficiencies will ensure that the state is getting the most for its money.

***Tying Legislative Pay to Budget Performance.*** To further ensure compliance with a new budget deadline, the salaries of the governor and House and Senate members would be docked a day's pay for each day the budget isn't completed after July 1.

## **Appendix 1**

### **Retirement Incentives for State Government and Public School Employees**

The administration has unveiled a retirement incentive plan to reduce the size of the public workforce by offering both positive and negative incentives to approximately 7,000 state employees and 39,000 public school employees eligible for retirement. The retirement incentive plan will require legislative approval in time for state employees to submit their retirement application between April 15 and May 15, 2010.

***State Employee Retirement System.*** State employees who are members of the defined benefit (DB) plan will experience the following changes effective October 1, 2010:

- To ensure that the State Employees Retirement System (SERS) is financially sound, a 3 percent employee contribution will be reinstated.
- Earned service credit capped at 30 years. Employees continuing in state service beyond 30 years will be moved to a defined contribution (DC) plan for any additional years of service accrued after September 30, 2010, excluding what is purchased by the employee.
- Elimination of state-subsidized retiree vision and dental coverage as part of the state employee health plan for state employees retiring with an effective date after September 30, 2010. Retirees will be able to purchase this coverage for a monthly fee through the plan.
- Increased retirement multiplier of 1.6 percent for eligible employees who retire with an effective date between July 1 and October 1, 2010. Details on eligibility will be included in the fiscal year 2011 executive budget recommendation.

- Phased retirement option for retiring employees age 60 or older. Phased-in retirement will be allowed for up to three years, enabling them to collect their DB plan retirement with a workload of no more than 20 hours per week for a previously full-time employee. This option is available to the employee at management discretion.

***Michigan Public School Employees Retirement System.*** Public school employees who are members of the Michigan Public School Employees Retirement System (MPERS) will be subject to the following changes effective October 1, 2010.

- To ensure MPERS is financially sound, employee contributions to the plan will increase by 3 percent for all employees except those in the MIP Plus program, whose contribution was increased in 2008. MIP Plus members' contribution will increase by 0.9 percent.
- Elimination of subsidized retiree vision and dental coverage for school employees retiring with an effective date after October 1, 2010. Retirees will be able to purchase this coverage for a monthly fee through the plan.
- The retirement multiplier will be increased from 1.5 percent to 1.6 percent for employees who retire with an effective date between July 1 and September 1, 2010, which will be paid by the applicable school districts.
- A new, more cost-effective retirement plan for new employees hired on or after October 1, 2010 will be created. New employees will participate in both a base defined benefit plan and a defined contribution plan.
- Phased-in retirement will be allowed for up to three years for retiring employees, age 60 or older. They will be able to collect their DB plan retirement with a workload of no more than 20 hours per week for a previously full-time employee. This option is available to the employee at the discretion of the school districts.

A limited number of state employees will be hired to replace those who choose to retire under this plan. The replacement of public school employees will be at the discretion of the local district.

The retirement incentive plan will be outlined in greater detail when the executive budget recommendation for fiscal year 2011 is presented to the House and Senate Appropriations Committees on February 11, 2010. At that time, the Office of Retirement Services will post additional information about the retirement incentive plan on its web site at [www.michigan.gov/ors](http://www.michigan.gov/ors)

## **Appendix 2**

### **Implementation of Proposed Changes**

## Recommendation

### Implementation

- Proposal 1. End Lifetime Health Care for Legislators.** [HB 4194](#) (Slavens). Amend the Legislative Retirement System Act to end the provision of free lifetime health care benefits to legislators with 6 years of service at age 55 for all legislators first elected after December 31, 2006. See also [HB 4580 of 2007](#) (Dean). Passed House 107-2 on 05/23/2007.
- Proposal 2. State Employee Retirement Savings.** Amend the State Employees' Retirement Act to assure adequate funding for defined benefit retirement system, encourage retirement of eligible state employees with retirement benefit changes by October 1, 2010, restrict replacement hires, and authorize phased retirement allowing eligible employees to retire but continue working up to 20 hours per week for up to 3 years. See FY 2010-2011 Executive Budget presentation on 02/11/2010 for details
- Proposal 3. Lower-Cost Health Care for New State Employees.** Negotiate and/or implement a lower-cost health care plan for new state employees, reducing state costs by 21%. See FY 2010-2011 Executive Budget presentation on 02/11/2010, [ratified agreement with SEIU Local 517M](#), and tentative agreement with [Michigan Corrections Organization](#).
- Proposal 4. Reduce Prison Expenditures.** Modify prison policies to bring prisoner time served and Corrections costs in line with other Midwestern states. [SB 826](#) (Cropsey) [SB 827](#) (Cropsey) [HB 4130](#) (Smith). Passed House 106-0 on 09/16/2009. [HB 4497](#) (Cushingberry) [HB 4498](#) (Cushingberry) [HB 4499](#) (Cushingberry) [HB 4509](#) (Meadows). Passed House 88-21 on 03/26/2009. [HB 4510](#) (R. Jones). Passed House 87-22 on 03/26/2009. [HB 4316](#) (L. Brown). Passed House 61-48 on 03/26/2009. [HB 4317](#). (Kennedy). Passed House 56-53 on 03/26/2009. [HB 4318](#) (Slavens). Passed House 61-48 on 03/26/2009.
- Proposal 5. Recover Additional Medicaid Dollars.** Join 49 other states to end immunity for prescription drug manufacturers who produce harmful products that injure patients to enable the recovery of state Medicaid expenditures when Medicaid recipients recover damages from prescription drug manufacturers resulting from harmful prescription drugs.
- Proposal 6. Medicaid Inspector General.** Establish an independent Office of Health Services Inspector General within the Department of Community See FY 2010-2011 Executive Budget presentation on 02/11/2010.

Health to identify Medicaid waste and fraud and recover Medicaid dollars for taxpayers.

**1g. Executive Branch Streamlining. Further reduce the Future executive orders.**

**Proposal 7. Require Local Competitive Bidding.**

Amend the Revised School Code and local government statutes to mandate competitive bidding for local government and school contracts exceeding \$50,000 as mandated for state contracts.

**Draft legislation pending at Legislative Service Bureau.**

**Proposal 8. School Employee Retirement Savings.**

Amend the Public School Employees Retirement Act to assure adequate funding for defined benefit retirement system for school employees, encourage retirement of eligible school employees with retirement benefit changes by October 1, 2010.

**See FY 2010-2011 Executive Budget presentation on 02/11/2010.**

**Proposal 9. Lower-Cost Retirement Plan for New Teachers.** Establish a new lower-cost hybrid defined benefit/defined contribution retirement system for new school employees.

**See FY 2010-2011 Executive Budget presentation on 02/11/2010.**

**Proposal 10. School Service Sharing and Consolidation.**

Amend the State School Aid Act to require all public schools to develop and submit an administrative service sharing and consolidation plan to the Department of Education for review and approval.

**Draft legislation pending at Legislative Service Bureau.**

**Proposal 11. Expanded Participation in State Health Plan.** Allow local governments, schools, and their employees to voluntarily purchase health care benefits through the state health care plan.

**See [Civil Service Commission Rule 5-11.1\(e\)\(2\)](#) and future executive directive.**

**Proposal 12. Arbitration Efficiency.**

Amend Public Act 312 of 1969 to streamline the arbitration process for police officers and firefighters for greater efficiency and cost savings.

**Draft legislation pending at Legislative Service Bureau.**

**Proposal 13. Intergovernmental Cooperation and Consolidation.**

Amend the Urban Cooperation Act and other intergovernmental cooperation laws to clarify that nothing in the laws require government employers to pay employees the highest wages and benefits paid prior to a government consolidation. Amend the Michigan Election Law and laws relating to counties to allow elimination of county road commissions and enable multi-county election of drain commissioners.

**Draft legislation pending at Legislative Service Bureau.**

**Proposal 14. Reducing School and Local Election Costs.**

Amend the Michigan Election Law to streamline and reduce elections costs by: (i) authorizing no-excuse absentee voting; (ii) enabling on-line voter registration; (iii) requiring local, school, and special elections not held in August or November to be conducted by mail only; and (iv) authorizing instant run-off voting for nonpartisan local elections.

[HB 4367](#) (Stanley). Passed House 79-30 on 04/30/2009.

[HB 4539](#) (Liss). Passed House 68-36 on 12/17/2009.

[HB 4540](#) (Liss). Passed House 68-36 on 12/17/2009.

And draft legislation pending at Legislative Service Bureau.

**Proposal 15. Financial Disclosure.**

Mandate financial disclosure for state elected officials and candidates as in 47 other states.

[HB 4381](#) (Ebli). Passed House 81-28 on 03/25/2009.

**Proposal 16. Honoraria Ban.**

Extend ban on honoraria to include all elected officials. Currently ban applies only to legislators.

Draft legislation pending at Legislative Service Bureau (see [04824'05](#) and [04825'06](#))

**Proposal 17. Political Contribution-Free Zones.**

Prohibit the solicitation or receipt of political contributions in government buildings.

Draft legislation pending at Legislative Service Bureau (see [04829'05](#) and [04827'05](#)).

**Proposal 18. Legislative Ethics.**

Enhance ethics & conflict of interest requirements for legislators.

Draft legislation pending at Legislative Service Bureau (see [04822'05](#))

**Proposal 19. Executive Branch Ethics.**

Enhance ethics and conflict of interest requirements for executive branch officials, including state contract managers.

Draft legislation pending at Legislative Service Bureau (see [04826'05](#) and )

**Proposal 20. Restricting Corporate Campaign Influence.**

Amend the Michigan Campaign Finance Act to regulate unrestricted political advocacy by corporations, including instant reporting requirements, restrictions on activity funded by foreign nationals or foreign entities, shareholder approval of corporate expenditure, and disclaimers on political advertisements funded by corporations.

Draft legislation pending at Legislative Service Bureau.

**Proposal 21. 2-year Budget.**

Amend the Michigan Constitution to require a 2-year budget cycle for state government.

[HJR SS](#) (Dillon).

**Proposal 22. Complete Budget by July 1.**

Amend the Michigan Constitution to require completion by July 1 of legislative action on the state budget and all

[HJR LL](#) (DeShazor).

implementing legislation or dock the pay of governor, lieutenant governor, and legislators when not complete by July 1 deadline.

**Proposal 23. Tax Expenditure Review.**

Amend the Michigan Constitution and Management and Budget Act to require review and reauthorization of tax expenditures in second year of each two-year budget cycle, while allowing job providers that rely on long-term tax credits for job attraction on Michigan to continue to rely on those economic development credits.

See FY 2010-2011 Executive Budget presentation on 02/11/2010.

**Proposal 24. Pay-As-You-Go Budgeting.**

Amend the Michigan Constitution and Management and Budget Act to institute pay-as-you-go requirements for new budget and tax expenditures.

See FY 2010-2011 Executive Budget presentation on 02/11/2010.

**Proposal 25. Fiscal Impact Notes.**

Amend the Michigan Constitution, Legislative Council Act, and Management and Budget Act to require presentation of fiscal notes estimating financial and compliance costs of legislation by a legislative fiscal agency before approval by a legislative chamber. Require similar fiscal impact notes as part of administrative rule promulgation process.

See FY 2010-2011 Executive Budget presentation on 02/11/2010.

**Proposal 26. Audit of State Contracts.**

Require an annual audit of state contractual expenditures to identify excess spending, overuse, overcharges, and inefficiencies.

See [Executive Directive 2009-3](#) and future executive directive.

**Proposal 27. Enhance Revenue/Expenditure Projections.**

Amend the Management and Budget Act to require three consensus revenue-estimating conferences per year in January, May, and September, mandating consultation with non-governmental economists/forecasters. Conference would adopt revenue projections for 2-year budget cycle, transportation-related revenues, and expenditure estimates for major spending areas including Medicaid caseloads/spending, human services caseloads/spending, prisoner populations, and school pupil counts. Include 10-year projection in each 2-year budget proposal.

See FY 2010-2011 Executive Budget presentation on 02/11/2010.

**Proposal 28. Timely Book Closing.**

Amend the Management and Budget Act to require the closing of books for a fiscal period by December 31 to provide final revenue and expenditure numbers for

See FY 2010-2011 Executive Budget presentation on 02/11/2010.

consensus revenue conference and executive budget presentation.