Final Minutes

Legislative Commission on Government Efficiency Meeting
9:00 a.m. • Monday, May 19, 2008
Michigan Economic Development Corporation Livonia Office
20255 Victor Parkway, Suite 180 • Livonia, Michigan

Members Present:
James Curran, Chair
Kevin Prokop, Co-Chair
Georgi-Ann Bargamian
Mitch Bean
Fern Griesbach
Charles Moore
Michel Sussman

Members Excused:
Gary Olson

I. Call to Order
The Chair called the meeting to order at 9:00 a.m. and asked the clerk to take the roll. A quorum was present. Ellen Jeffries, Deputy Director of the Senate Fiscal Agency, was present on behalf of Gary Olson.

II. Approval of the April 25, 2008 Meeting Minutes
The minutes of the April 25, 2008 meeting were presented to the members. The Chair asked for a motion to approve the minutes. **Mr. Bean moved, seconded by Mr. Moore, to approve the minutes of the April 25, 2008 Legislative Commission on Government Efficiency meeting as proposed. There was no further discussion and the minutes were unanimously approved.**

III. Presentation by The Center for Michigan
The Chair introduced Mr. Philip Power and called on him to provide some background on The Center for Michigan and an overview of the report he had submitted to the Commission (see attached copy for more details.) Mr. Power noted that on Wednesday The Center will be issuing a report that is the result of two-rounds of community conversations where small groups of 10-20 individuals were brought together to talk about their vision for Michigan. Mr. Power asked the Clerk to send him a roster of the LCGE members so that he can send them a copy of the report. He also distributed a copy of the 2008 Michigan Scorecard Benchmarks for Michigan's Transformation Report and suggested that the members review a report that was issued by a similar commission known as the Blumenthal Commission during the Milliken Administration. The clerk will send a copy of the Blumenthal Report to each of the members. A period for questions and answers followed.

IV. Presentation by the Detroit Regional Chamber of Commerce
Sarah Hubbard, Vice President of Government Relations, appeared on behalf of the Detroit Regional Chamber of Commerce. A written copy of her testimony is attached.

V. Presentation by Detroit Renaissance
The Chair noted that Doug Rothwell, President of Detroit Renaissance, could be not be present at today's meeting, but has submitted written testimony which was accepted and is attached to these minutes.

VI. Public Comment
The Chair asked for public comment. There were none.

VII. Cash Flow Overview
Mr. Bean distributed a handout that provided an overview of the cash flow issue and proceeded with a detailed explanation of the report prepared by the Michigan Department of Treasury. After some discussion, the Chair noted that this potential opportunity for savings will be added to the agenda of a meeting the co-chairs have set up with leadership in the next couple of weeks.

VIII. Discussion of Future Activities
The Chair then provided a recap of the Commission's Phase I efforts and highlighted the upcoming tasks for Phase II. An open discussion to identify and catalog the potential target areas to focus on to achieve long-term financial viability followed. In response to Mr. Moore's question of where the boundary is between focusing in on ways to become more efficient and where that gets into policy changes, the Chair responded that leadership has suggested that the Commission should interpret its mandate broadly and they are open to receiving all thoughts and ideas including those that require a policy change. Ms. Bargamian offered that perhaps the Commission take

a two-prong approach in that there are some structural recommendations that have been identified and could be implemented to achieve immediate savings. The possibility of having one of the firms that look for potential cost-saving measures come in was also discussed. Ms. Bargamian noted that a work group could focus on and gather what efficiencies other states have identified and volunteered to serve on that subgroup. Mr. Sussman cautioned that the Commission should be careful not to just push for compliance, but rather foster real change by unleashing the commitment from people within the system. Ms. Griesbach agreed with the benefits of looking at organization structure and proposed that training the right people within the organization to find opportunities to reallocate resources and to then replicate that methodology so that others within the organization could also look for opportunities for savings would be an effective means of making a real difference. She added that this could be done within state government, but could be taken out into local governments and local school districts as well. The possibility of using the LCSM web page to facilitate feedback from state employees and bringing the departments, especially DMB and DIT, into the discussion was also raised. Mr. Bean offered his and Mr. Olson's assistance in identifying the appropriate people within state government that should be involved.

Other functional areas of focus were identified as follows:

1. Corrections
2. Medicaid, CMS, and Healthcare
3. Revenue Sharing
4. Higher Education
5. K-12 Education
6. Non-Taxation Revenue Sources
7. Employee Benefits/Pensions/Healthcare
8. Structural Efficiencies Within the Departments including Purchasing

The Chair reiterated that the co-chairs will seek feedback from leadership and get back to the group to discuss how we want to divide our efforts, who will take responsibility for spearheading which areas, and what we ought to be thinking about consistently across each of these groups. The issue of the State hiring a consultant was discussed further and the Chair proposed that the details of this process and payment mechanism could be considered by the appropriate subgroup.

IX. Boilerplate Reports

Ms. Jeffries distributed and summarized a list of the reports in boilerplate that the fiscal agencies have submitted as potential areas to eliminate or modify pursuant to the Commission's request.

X. NEXT MEETING DATE

The next Commission meeting is scheduled for **Friday, June 27, 2008**, at **9:00 a.m**.

XI. Adjournment

Having no further business, the meeting was adjourned at 12:10 p.m.

(Approved at the June 27, 2008 LCGE Meeting)

A NEW MODEL MICHIGAN

Eight Ideas to Structurally Change How Michigan Does the Public's Business in These Difficult Economic Times

The Center for Michigan
January 2007

An open letter to Michigan citizens and leaders:

Our once-proud auto manufacturing giants are on their knees. Some 2,100 lucrative high-tech jobs are about to vanish as Pfizer, one of Michigan's shining hopes in a 21st Century knowledge economy, shuts its Ann Arbor campus. While the national economy hums at a decent pace, home foreclosures in Michigan are rising at a rapid rate and economists see little opportunity for near-term recovery in the Great Lakes State.

In our state, the costs of prisons and providing health care for the poor, and pensions and benefits for public sector retirees continue to skyrocket. Yet funds are scarce for higher education, local communities and other investments in Michigan's long-term future. The gap between what the state government collects in taxes and spends on everything from schools to prisons is projected to grow by billions of dollars over the next few years. At the same time, the state's leading business groups are seeking tax reductions to help companies large and small weather the economic storm.
In coming months, the halls of the State Capitol will hum with proposals to raise taxes, other proposals to cut taxes, and still more ideas to change how government does the public's business.

At this moment, our governor and our elected leaders in the state House and Senate, have a choice. They can take half-measures and make short-term fixes to get through this year's financial crunch. Or they can finally solve the state's structural budget deficit. A true solution requires a collective rise above the normal partisan, zero-sum, transactional political environment in Lansing to achieve common ground and fundamental change for the public good. It is an enormously difficult – and crucial – task.

A solution requires fundamental reforms to how the State of Michigan both *collects* and *spends* the funds in the public purse. If state leaders want to consider asking the businesses and citizens of Michigan to pay more (or different) taxes, the first corresponding obligation is sacrifice and big-time structural reform within government itself.

To that end, we submit the following structural reform ideas for public review and comment…

STRUCTURAL CHANGES IN SPENDING:

1. Reduce spending on Corrections.
2. Develop a Michigan Scorecard of performance metrics to help govern allocation of state revenues to schools and local government.
3. Require intensified consolidation and service sharing in schools and local government.
4. Critically examine public sector pay, benefits, and staffing levels and adjust accordingly based on statewide and national benchmarking.

STRUCTURAL CHANGES IN TAXATION:

1. Extend sales tax to services if justified for specific purposes.
2. Graduate the state income tax.
3. Broaden the base and lower the rate of state business taxes.
4. Consider tax increases on beer and soft drinks.

Over the past year, the Center for Michigan has engaged in a series of public convenings to address some of the state's biggest challenges, including in-depth analysis of the state's perilous financial condition**.** Hundreds of leaders in business, government, philanthropy, education, and everyday citizens have contributed to those discussions. The reform ideas presented here are deeply informed by those town hall meetings and the research presented at them**.** We have also consulted often with the Center's Steering Committee of distinguished Michigan citizens and compiled many government-related studies and economic analyses, some of which are noted at the end of this report.

This report offers a detailed explanation of the eight reform ideas. The Center for Michigan certainly doesn't have all the answers. We welcome probing questions, vigorous debate and improvement of these ideas in the halls of government and in local discussions across the state. It's our collective future. Let's face it through engaged citizenship.

Sincerely,

Phil Power	John Bebow
President	Executive Director
The Center for Michigan	The Center for Michigan

STRUCTURAL CHANGES IN SPENDING

REDUCE SPENDING ON CORRECTIONS

The Center for Michigan has held town-hall-style meetings around the state in the past year with hundreds of citizens and leaders. At each, there has been near-unanimous conclusion that we need to reform corrections policies and practices and reduce prison spending. Lansing economist Patrick Anderson put it well in a Detroit Free Press guest column in January: "The system needs to be fixed for both financial and human reasons."

In human terms, our current state spending priorities offer a bleak glimpse at the future. State taxpayers spend three times as much on warehousing individual felons as we do on educating individual college students. The state general fund budget includes $1.9 billion a year to handle some 125,000 prisoners, parolees and probationers. The general fund includes another $1.9 billion on community colleges and universities serving approximately 300,000 students.[i]

One-third of our current state prison population is behind bars for drug convictions or non-violent crimes. Thirty-one percent of them have been held past their earliest possible release date and three-quarters have been denied parole at least once.[ii]

Michigan's incarceration rate is 40 percent higher than neighboring Great Lakes states. Relaxing our incarceration rate to match neighboring states could save $500 million per year.[iii] And there is considerable evidence that prison building booms**,** rigid sentencing rules and "get tough on crime" approaches do not appreciably reduce the overall crime rate.[iv]

The Mackinac Center for Public Policy's long-held position that the state could save large sums by privatizing prisons also deserves serious consideration by elected leaders.

A MICHIGAN SCORECARD: ADOPT PERFORMANCE METRICS

For decades, most state sales tax revenues have flowed to local schools and governments essentially automatically. More than $1 billion in sales tax flows each year to local governments and more than $5 billion flows to local schools. As the state considers changing the current sales tax system, there is also an opportunity to change constitutionally rigid formulas for using portions of sales tax revenue for local schools and local government. Instead of automatic distributions, we should consider requiring that state funds for local schools and government be allocated and distributed based on accountability metrics aimed at ensuring maximum efficiency in delivery of crucial services.

We need a Michigan Scorecard assessing the performance of local schools and governments. It could include such things as overall mission, overall budget, budget per capita, employees per capita, salary and benefits levels (measured statewide), recognition of efficiency initiatives, recognition of intergovernmental cooperation and consolidation initiatives. It could be constructed to enable benchmarking across governmental units in Michigan and between Michigan and other states. A well publicized Michigan Scorecard could be a rallying device for public and political acceptance of a broad-based effort to relate the flow of funds to the efficient provision of services.

Consider, for example, the local efforts surrounding the Kalamazoo Promise. One year after receiving this tremendous philanthropic guarantee of college scholarships for Kalamazoo Schools grads, the community has rallied to create benchmarks to hold the entire community accountable for success in leveraging the Promise into true cultural and economic change. A copy is attached.

The Center for Michigan is in a position to convene willing business, education and local government leaders to draft such metrics, on a statewide scale.

CONSOLIDATION & SERVICE SHARING

Local governments and school districts should be applauded for their many efforts to cut costs and improve efficiency in the past several years of difficult finances. Still, much more could, and should, be done. Consider this note sent to the Center for Michigan in December by a longtime public schools official: "There are 83 counties, 1242 townships, 274 cities of less than 10,000, 259 villages, 553 local school districts, 230 charter schools, and 57 intermediate school districts all looking to continue to be fed by state revenues. Give us a break!"

Home rule is a cherished principle in Michigan, but the state can no longer afford its culture of territorialism and parochialism. We need to continue to reduce duplicated functions and overhead and achieve economies of scale in the management and provision of government services.

At the *school district* level…

Our most recent two state school superintendents, Tom Watkins and Mike Flanagan, have called attention to the inefficiency of our current system. Watkins very bluntly questioned the parochialism: "Are we willing to expend millions of dollars to finance three school districts in St. Clair Shores? Why do five separate school districts and five charter schools carve up the City of Inkster?"

As Gongwer News Service recently noted, some other states are taking significant steps to consolidate schools. Maine's governor proposes consolidating 152 school districts into 26 to help erase a billion dollar budget deficit.

Both Watkins and Flanagan have called for a consolidation of business service functions at the Intermediate School District level.[v] It's time to seriously consider this, and other mechanisms, to improve school system efficiencies. A key to moving from talk to action is full review of such financial incentives as tying sales tax apportionment and per pupil funding to local achievement of consolidation, service sharing, and other efficiency measures.

At the *local government* level…

The governor's own task force on "Local Government Services and Fiscal Stability" (a body of local government officials) in May 2006 took a baby step toward consolidation. The group recognized "intergovernmental cooperation as one of the tools available to cope with fiscal stress" and recommended creation of a "State Commission on Local Government Sustainability and Intergovernmental Cooperation" to review delivery and funding of local services.[vi]

Such a commission could find plenty of room for additional efficiency. In September 2005, the Citizens Research Council of Michigan published a survey of the service-sharing activities of nearly 700 local units of government. The survey showed that while governments were cooperating on some things, such as solid waste collection and 911 systems, many other services were bureaucratic islands within each unit of government. The vast majority of governments are not yet cooperating on such things as accounting, payroll, purchasing, printing, building security, janitorial services, cemetery maintenance, fleet services, permitting and code enforcement, community planning and development, and parking lot/structure management.[vii]

Perhaps more services could be shared -- or governmental entities consolidated -- at the county level. Consolidations raise political hackles very quickly, as shown in December in suburban Detroit. A Farmington Hills study suggested service improvements and cost efficiencies could be achieved through a merger with Farmington. In correspondence with the Center for Michigan, the Farmington mayor flatly rejected the idea.

As with school efficiency, state-driven efforts at local government efficiency would be most effective if they included financial incentives tying revenue to improvements in efficiency.

PUBLIC SECTOR PAY & BENEFITS

Staffing levels, pay, and benefits costs and liabilities (health care, sick pay, workers compensation and pension/retirement) for local government units, state government, schools, community colleges, and public universities should be:

- Fully documented annually in a single public compilation.
- Benchmarked against trends in the private sector and against pay and benefits levels for public employees in other states.
- Weighed and possibly frozen or reduced where appropriate. Such contraction could be influenced by the state budget appropriations process and in the disbursement of state sales taxes.

The past few years of ugly financial circumstances have not been luxurious times for public sector workers. Belt-tightening at the state and local levels has included rounds of lay-offs and buy-outs, pay freezes and cuts, and tightening of benefits. Still, Michigan is headed into much additional turbulence in public sector finance. Specific points of ongoing concern and possible reform:

1. For state workers, benefits account for 35 percent of total compensation costs. This is a higher ratio than state and local governments nationwide and a considerably higher ratio than private industry. Nationwide, benefits account for 32.7 percent of total compensation costs in state and local government and 29.3 percent of total compensation costs in the private sector.[viii] Reducing state worker benefits ratios in Michigan to match the national average for government workers could save $95 million per year. Reducing state worker benefits ratios in Michigan to match the national average for private sector workers could save $230 million per year.

2. Unfunded retiree pension and health care obligations for state and public school employees add up to a combined $35 billion.[ix] Almost half of that is for school retiree health care, which, unlike pension benefits, is not guaranteed in the state Constitution. Is it time to shrink benefits and impose or increase premiums on retirees who receive these benefits? How can we encourage more governmental units and schools to adopt defined contribution pension plans, possibly for newly hired employees, in place of defined benefit plans? Can we still afford, as state law currently allows, for some school employees to receive full health care coverage in retirement after only five years on the job?[x]

3. The total extent of unfunded benefits obligations for local governmental units are not yet known but soon will be through application of new accounting standards. Again, it's an issue of addressing retiree health care standards and pension benefit levels.

4. The management and costs of public school employee benefits deserve ongoing examination, debate, and possible reform. A report for the Michigan Legislative Council claimed potential savings of $281 million a year if such benefits were consolidated.[xi] MESSA has vehemently denied those savings claims and has noted that local school district negotiations have resulted in many examples of benefits savings in recent years.[xii] Ongoing scrutiny is required because cost pressures will most certainly mount. The main considerations should be maximizing tax dollars spent *in the classroom*; providing reasonable health care benefits for educators at the lowest possible price, and at a level that taxpayers can afford.

Finally, one of the most significant acts the Legislature could take to address public sector pay and benefits would be to repeal Public Act 312 and end binding arbitration in local public safety contract negotiations. The original sponsor of this law, former Detroit Mayor Coleman Young, came to view it as one of his worst ideas. Current Detroit Mayor

Kwame Kilpatrick just this month called for Act 312's repeal. Repealing Act 312 and removing the role of outside arbitrators in contract talks could increase local accountability.

Even in this age of government downsizing in Michigan, there is "upward pressure" on pay and benefits for both public safety and general government employees as a result of binding arbitration, a governor-appointed task force concluded last year. Citing recent research, this Task Force on Local Government Services and Fiscal Stability estimated that Michigan's overall local government expenditures are likely 3 percent to 5 percent higher than those in states without binding arbitration.[xiii] Local governments in Michigan spend some $25 billion per year,[xiv] according to the U.S. Census Bureau. Saving just 3 to 5 percent of that translates into $750 million to $1.25 billion per year. Of course, repealing Act 312 and lessening the effects of binding arbitration wouldn't immediately result in savings of that magnitude, but the savings over time could be considerable.

STRUCTURAL CHANGES IN TAXATION

We echo the many calls we've heard from business and community leaders in recent months for state leaders to take steps not only to reform the Single Business Tax, but to use the state's current fiscal crisis as an opportunity to provoke a wholesale review of Michigan's entire tax system.

SALES TAXES

All but 11 states impose sales taxes on more types of services than Michigan. This year, our state will forego some $8.8 billion in revenues by not taxing a wide variety of services. For example, the state Department of Treasury estimates an additional: $1.8 billion by taxing professional, scientific, and technical services; $1.3 billion by taxing construction; $431 million by taxing real estate rental and leasing, and $285 million by taxing arts, entertainment and recreation. [xv]

It is possible to extend a sales tax to many services, while reducing the sales tax rate below the current 6 percent, and still increase overall sales tax revenues. This kind of reform is, of course, littered with political potholes and calls for exemptions. While other states tax more services than Michigan, some have been forced to repeal plans to tax services in embarrassingly quick fashion because of political opposition and logistical complexity. Any such plan in Michigan would have to be very well-conceived and would need voter approval to amend the state constitution. The compromise thinking we've heard most often would be to exempt personal health care and business-to-business transactions from a sales tax on services. Such a plan could raise somewhere between $2 billion and $4 billion, depending on the rate.[xvi]

Extending the sales tax to services while reducing the rate may constitute an important structural change in Michigan's overall tax system. But from a political point of view, changing the tax in this way could quickly be perceived as a tax increase with few obvious and immediate benefits – other than the rather abstract one of more closely aligning our tax system with the increasing service component of our economy. One implication of this observation is that it may be possible to earmark some or all incremental revenue in a new sales tax on services to a particular long-term, future-oriented investment program. There are any number of potential future-oriented needs, including early childhood education, lengthening the school year, college affordability and other efforts to retain and grow talent, or maximizing incentives for entrepreneurialism and economic development.

GRADUATED INCOME TAX

Some Michigan economists have argued in recent years for a graduated state income tax. Michigan has a flat income tax rate of 3.9 percent. Nationwide, 37 out of 43 state income taxes have graduated rates. An increased rate bracket for those at the top of the income scale could raise additional revenue and could result in a somewhat more progressive overall tax system. And, because of a phenomenon known as "tax exporting", those who would experience a higher state income tax rate can deduct many of those state taxes from federal tax returns and thus face relatively little net increase in their individual tax burden. The amounts that could be raised through a graduated income tax would, of course, vary by rate, but could clearly raise significant sums. A true graduated income tax would require voter-approval of a fundamental provision in the State Constitution. A form of graduated income tax could also be achieved legislatively by raising the rate, and graduating the amounts of personal exemption.[xvii]

BUSINESS TAXES

Some 250 people – including all proponents of all of the state's business tax reform proposals – attended the Town Hall Meeting on State Tax Reform in November sponsored by the Center for Michigan and Michigan State University. There remains all manner of debate about the finer points, as evidenced by the State Chamber, the Detroit Regional Chamber, and the Grand Rapids Chamber all offering logistically different plans. The Center for Michigan certainly does not presume to have all the answers. However, we can offer some broad prevailing sentiment gathered in the Center's public convenings, and in correspondence with citizens, business leaders, academics and Center Steering Committee members:

- Broaden the base and lower the rate.
- Replace entirely the revenue from the repealed SBT. When the 250 people at the November Town Hall were given the opportunity to review state finances and weigh in on how to balance the state budget, 14 breakout groups unanimously called for full replacement of the SBT revenue. Tax cut advocates legitimately noted that while the Town Hall was open to the public, attendance skewed somewhat toward an institutional audience that is somewhat more dependent on public revenues than a general business audience.

- The biggest tax problem for many Michigan businesses**,** especially manufacturers**,** is the personal property tax, not the Single Business tax.
- There is a common misperception that the Single Business Tax has been especially onerous on small businesses. Actually, fewer than 500 Michigan businesses pay more than a third of the entire SBT while 86,000 Michigan businesses (almost half of all businesses) pay none.[xviii]

BEVERAGE TAXES

The last time we did anything with Michigan's beer tax, we cut it. That was in 1966. Lyndon Johnson was in the White House, Michigan State had the best football team in the country, and the Beatles were on the top of the charts with hits like "Yellow Submarine" and "We Can Work it Out."

Since 1966, the beer tax has been $6.30 per barrel. $6.30 in 1966 is the equivalent of thirty-nine bucks today. Or, to look at it in reverse, $6.30 today is the equivalent of a dollar in 1966.

Beer taxes raise about $42.5 million for the general fund.[xix] If these taxes were increased to the same level they were when they were lowered in 1966, the beer tax would yield nearly $270 million (a net increase of $225.5 million).

If beer taxes were raised to a quarter per bottle, the revenue yielded would be around $550 million -- a net increase of about $500 million.[xx]

Currently, our beer tax works out to about twenty cents per gallon – about middle of the pack nationally. Alaska and Hawaii tax beer at about five times our rate. Florida, Georgia, and Alabama tax it at more than double our rate.[xxi]

It's hard to imagine a corporate site selection team representative of today's "knowledge economy" turning down Michigan because our beer taxes were too high.

There will be those that complain this is a regressive tax, hitting the same people who get nicked on cigarette taxes. But various groups have called for hikes in alcohol taxes to offset health costs associated with drinking. Alcohol-related health care costs are estimated at $137 per person per year in Michigan, according to a group called the Center for Science in the Public Interest.[xxii] The National Academy of Sciences has also called for hikes in alcohol taxes to curb irresponsible drinking. [xxiii]

A similar argument can be made for a sales tax on soft drinks. In Michigan, canned and bottled soft drinks purchased at grocery stores and other retail locations receive the food exemption from state sales taxes, as a result of a Constitutional amendment adopted in 1974. Subsequent legislation defined soft drinks as "food," thus exempting pop for sales taxes. Extending Michigan's sales tax to soft drinks could raise significant revenue.

As of 2000, 18 states taxed soft drinks and some, including California and Texas, raised in excess of $100 million by extending sales taxes similar to Michigan's 6 percent rate.[xxiv] Just within the city limits of Chicago, a 3 percent gross receipts tax on canned and bottled soft drinks raises in excess of $10 million per year.

ABOUT THE CENTER FOR MICHIGAN

Our vision is to ignite a statewide movement to help improve our economy, improve state politics and provide reasoned hope that things can get better for us and our children. We're trying to develop common ground and seek all kinds of people – Republicans, Democrats, and Independents – to work together.

Respond to this Report:

Website: www.thecenterformichigan.net

Phone: 734.769.4625

General email inquiries: Contact project manager A.J. Jones at ajones@thecenterformichigan.net

Phil Power email: ppower@thecenterformichigan.net.

John Bebow email: jbebow@thecenterformichigan.net.

Organization and Officers

Founded in 2006, The Center is incorporated in Michigan as a non-profit corporation. Its officers are: Philip H. Power, Chairman, President and Director; Kathleen K. Power, Vice President and Director; James S. Hilboldt, Esq., Director, and John Bebow, Executive Director.

For more than 40 years, Phil Power published local newspapers throughout Michigan before completing the sale of his company, Hometown Communications, in 2005. Over decades of public engagement, Mr. Power has served as elected regent of the University of Michigan and an appointee of both Republican and Democratic governors.

Before joining the Center in 2006, John Bebow, was a reporter for the Chicago Tribune, Detroit Free Press, Detroit News, Ann Arbor News, Traverse City Record-Eagle, and editor-in-chief of mlive.com, Michigan's largest online news and information service. He is a native of Mason, Michigan and a graduate of Western Michigan University.

The Center for Michigan has received tax-exempt 501(c)(3) status from the Internal Revenue Service.

Center for Michigan Steering Committee

The Center has been fortunate to attract a group of distinguished Michigan citizens to serve on its Steering Committee. They include:

- Tom Baldini, District Manager, Congressman Bart Stupak; Former Chairman, International Joint Commission
- Richard T. Cole, Chair, Department of Advertising, Public Relations and Retailing, Michigan State University
- Paul Courant, former Provost and Dean of Libraries, University of Michigan
- Paul Dimond, Of Counsel, Miller Canfield
- Elisabeth Gerber, former director, Center for Local, State and Urban Policy, and Professor, Ford School of Public Policy, University of Michigan
- Larry Good, Chairman, Corporation for a Skilled Workforce
- Paul Hillegonds, Senior Vice President, DTE Energy; former President, Detroit Renaissance, and former Speaker, Michigan House of Representatives
- Jack Lessenberry, Professor of Journalism, Wayne State University, and Senior Political Analyst, radio station WUOM
- Mark Murray, President, CEO, Meijer Stores, Inc. and former president of Grand Valley State University.
- Milt Rohwer, President, The Frey Foundation.
- Doug Rothwell, President, Detroit Renaissance, and former CEO, Michigan Economic Development Corporation
- Craig Ruff, Chairman, Public Sector Consultants
- John A. ("Joe") Schwarz, Member of Congress and former Michigan State Senator
- Jan Urban-Lurain, President, Spectra Data and Research, Inc., and Senior Advisor, Corporation for a Skilled Workforce
- Cynthia Wilbanks, Vice President for State Relations, University of Michigan

NOTE: Steering Committee members' titles and organizational affiliations are listed solely for purposes of identification and should not be taken to imply any institutional position whatsoever in the policies or workings of the Center for Michigan.

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[i] Statistics culled from a range of state budget and corrections documents.

[ii] "Michigan Prisoner ReEntry Initiative Monthly Status Report," by the Michigan Department of Corrections. January 2007.

[iii] "State Budget Notes," by Tom Clay, Citizens Research Council of Michigan, March 2006, produced for the Center's March 2006 "Where Do We Go From Here" conference on the state economy.

[iv] See "Despite Fewer Lockups, NYC Has Seen Big Drop in Crime," by Michael Powell, Washington Post. November 2006.

[v] See "A Solution: Efficiency could be the key to survival," by Peggy Walsh-Sarnecki, Detroit Free Press, December 2006 and "Structural Issues Surrounding Michigan School Funding in the 21st Century," a policy memo by Tom Watkins, December 2004.

[vi] "The Task Force on Local Government Services and Fiscal Stability: Final Report to the Governor." May 2006.

[vii] "Catalog of Local Government Services in Michigan," by the Citizens Research Council of Michigan. September 2005.

[viii] State of Michigan ratios determined by Citizens Research Council analysis of state compensation reports as summarized in "Budget Fact Sheets," by the Center for Michigan, presented for use at the "Town Hall Meeting on State Tax Reform." November 2006. National ratios determined by "Employer Costs for Employee Compensation," by U.S. Department of Labor. September 2006.

[ix] "Pension and Retirement Health Care Costs for State Employees and Public School Employees," by Douglas B. Roberts, Michigan State University Institute for Public Policy & Social Research. December 2006.

[x] "Financing Michigan Retired Teacher Pension and Health Care Benefits," by Citizens Research Council of Michigan. September 2004.

[xi] "Report on the Feasibility and Cost-Effectiveness of a Consolidated Statewide Health Benefits System for Michigan Public School Employees," by HayGroup. July 2005.

[xii] MESSA response to HayGroup report.

[xiii] "The Task Force on Local Government Services and Fiscal Stability: Final Report to the Governor." May 2006.

[xiv] "State and Local Government Finances by Level of Government and by State: 2003-04," by U.S. Census Bureau.

[xv] "Executive Budget Appendix on Tax Credits, Deductions, and Exemptions, FY 2007," by Michigan Department of Treasury

[xvi] See "So, About That Sales Tax on Services," presentation by Doug Drake, Public Policy Associates, at "Town Hall Meeting on State Tax Reform," November 2006. Report available online at www.thecenterformichigan.net/Website/Portals/0/DOUG_DRAKE_SALES_TAX_ON_SERVICES.ppt

[xvii] For full analysis of income taxes, graduated rates, and tax exporting, see "Michigan's Economic Future," Chapter 5, by Charles L. Ballard; "Michigan At the Millenium" Chapter 26, by Paul Menchik; and, Michigan Taxes: What Are They? What Should They Be?" presentation by Joel Slemrod at "Where Do We Go From Here? An Agenda-Setting Conference on Economic Issues Facing Michigan, March 2006"

[xviii] "Business Taxes in Michigan," by the Senate Fiscal Agency, for Joint Select Committee on Economic Growth. July 2006.

[xix] "Outline of the Michigan Tax System," by Citizens Research Council of Michigan. February 2006.

[xx] Here's how the beer tax math works.. Here's how the math works: Michigan taxes beer at a rate of $6.30 per barrel. There are roughly 30 gallons in a barrel. That breaks down to about 1.9 cents per 12-ounce serving of beer. Increase that 1.9 cents to 25 cents per bottle and you've instituted an increase of 13.1 times. 13.1 x current revenue ($42.5 million) and you get $558 million.

[xxi] "State Beer Excise Tax Rates," by the Federation of Tax Administrators. January 2006.

[xxii] "Factbook on State Beer Taxes," by the Center for Science in the Public Interest. August 2004.

[xxiii] "Reducing Underage Drinking: A Collective Responsibility," by the National Academy of Sciences. September 2003.

[xxiv] "Small Taxes on Soft Drinks and Snack Foods to Promote Health," by Michael F. Jacobson, PhD, and Kelly D. Brownell, PhD. American Journal of Public Health

Testimony
to
Legislative Commission on Government Efficiency
from
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Mr. Chairman and co-Chairman, members of the Commission, thank you for inviting us to provide comments before the Legislative Commission on Government Efficiency. My name is Sarah Hubbard and I'm the Vice President of Government Relations at the Detroit Regional Chamber. The Chamber represents approximately 23,000 member firms in the ten-county region of southeast Michigan. Our mission is to power the economy of southeast Michigan.

The Detroit Regional Chamber has a long history of legislative engagement on behalf of business taxpayers at the regional, state and federal levels. We generally support lowering the cost of government through reductions in taxes and red-tape at all levels. We've been advocates of Renaissance Zones, the Michigan Economic Growth Authority, elimination of the Single Business Tax, reductions in the Personal Property Tax and numerous other tax reduction initiatives. However, we've also helped maintain critical government services through our past support of issues such as bonds for environmental clean-up, increases in motor fuel user fees, and last year, a modest increase in the personal income tax.

It is my hope that I never have to repeat the frequently bizarre and constantly frustrating budget and tax debates that occurred in 2007. It was from that situation that this Commission was founded and I urge you to take this job seriously and make bold recommendations to the Governor and legislature as soon as possible.

I'd like to illustrate the urgency of the need to act by re-counting some government activities of the past 5 months.

First, in early January, the Senate Fiscal Agency estimated that total revenues for the current Fiscal Year 2008 would be lower than anticipated. This came only 30 days after the current fiscal year budget was enacted.

At that time, SFA estimated U.S. unemployment to rise to 4.9 percent and Michigan unemployment to rise to 8.2 percent in 2008. This level of unemployment would lead to declines in personal income by 1.4 percent.

"… revenue levels will actually be less than the levels the 2007-08 budget is forecast on, the SFA report said. Revenue growth will be due largely to the increase in the income tax and the surcharge added to the Michigan Business Tax, **but the general fund is still anticipated to net $293.7 million less than initially forecast in 2007-08 while the School Aid Fund is anticipated to be $132.7 million less than forecast**." (emphasis added, Gongwer, January 2, 2008)

Just over a week later, the consensus revenue estimating conference met and considered the Senate Fiscal Agency estimates along with those of the House Fiscal Agency and the Michigan Department of Treasury. The conference agreed to a total revenue estimate for the current fiscal year of $20.6 billion, down by $369.9 million from the May, 2007 estimate.

“There are still risks to the forecasts, especially if the national economy does go into recession and economic trends turn worse than anticipated.   Treasurer Bob Kleine said the forecast was developed at a time of greater uncertainty than most both because of the national economic picture and the state having a brand new tax in the Michigan Business Tax.”

“Even with the reductions, the current fiscal year totals are more than $1 billion more than the final revenues for the 2006-07 fiscal year, aided largely by the income tax increase adopted at the start of the fiscal year and the surcharge to the Michigan Business Tax.” (Gongwer, January 11, 2008)

Despite the warnings, Governor Granholm signed a supplemental spending bill on Tuesday, April 29 which appropriated $143.9 million, with $42.3 million in general fund spending.

Now, with that in mind, let me turn to the events of last week. The May, 2008 Consensus Revenue Estimating Conference agreed that the current year budget is as much as $393 million over budget based on administration spending recommendations and actions by the legislature. Additional action by the legislature will be required to bring the current year budget back into balance --- even through they just spent almost $150 million in April!

And of course we can’t completely disregard the impact of the newly minted Film Industry tax credits signed by Governor Granholm on April 15, 2008. The total cost of the credits are dependent on the number awarded by the state and therefore a true estimate is not available. However, it is likely that the cost to the budget will be anywhere from tens-of millions to hundreds of millions.

So, my first recommendation to the Commission is “when you are in a hole, stop digging!” We could all debate the necessity of the supplemental budget – however, it would have been wise to wait just a few weeks more until the May estimating conference was complete to have a more accurate picture of the current fiscal year. Given the volatility of the current economy, this group would be wise to consider the proposal of Sen. Pappageorge, which calls for budgets to be passed at only 96% of estimated revenues.

The Detroit Regional Chamber believes strongly that there are additional savings that can be found in state government but they can not be found only from cutting a few dollars off each department. Merely cutting FTE’s without cutting corresponding programs results in overworked unhappy state employees. Significant savings can only be found through significant changes in governments approach to the most costly government services – health care insurance, pensions, corrections and Medicaid.

In the area of Medicaid reform, last year Mitch Bean, Director of the House Fiscal Agency, and a member of this distinguished panel, in a presentation to the House of Representatives on January 22, 2007 estimated that over $1 Billion could be saved by eliminating “optional” services from Community Health. He included in his list a number of controversial items such as removal of over 300,000 people in optional Medicaid eligibility groups, elimination of optional pharmacy, home health, community based and hospice services; and elimination of CMH non-Medicaid services, multi-cultural services, local public health operations, non-Medicaid healthy Michigan fund, substance abuse services and aging services   The final subset of optional services amounts to $394 Million all by itself. Even if this panel recommended elimination of some fraction of those optional services, the savings could be significant and permanent.

In the area of corrections spending, we believe a combination of reductions in overhead expenditures coupled with thoughtful changes in sentencing policies could result in savings of up to $500 million annually. The Citizens Research Council estimates that Michigan spends approximately $500 million more than surrounding Great Lakes States. Mr. Bean identified nearly $100 Million in “optional” spending in Corrections in the presentation noted earlier.

Finally, significant long term savings can be found at the public school and local government levels through further attention to pension and health insurance reform. While the State of Michigan has made great progress by switching all new employees to 401(k) retirement savings accounts and has asked state employees to contribute to their health insurance benefits, we have not seen the same commitment from public schools and local units of government. All units of government must make the tough decisions already made by the private sector in the area of benefits.

The changes recommended above are highly controversial and have met with great opposition from both sides of the aisle. However, they are the kind of bold changes that must be considered and enacted to bring our spending in to line.

Following my comments, you will consider the recommendations of Detroit Renaissance regarding Michigan's economic competitiveness. We believe their recommendations provide a thoughtful framework which should also be included in your work. Significantly, they call for many of the same government reforms I've mentioned above, including changes to corrections, Medicaid, pension and health care spending.

Again, I appreciate the opportunity to come before you today. Please do not hesitate to contact me if you have any questions.

DETROIT RENAISSANCE

May 16, 2008

James P. Curran	Kevin Prokop
Co-Chair	Co-Chair
Legislative Commission	Legislative Commission
on Government Efficiency	on Government Efficiency
P.O. Box 30036	P.O. Box 30036
Lansing, MI 48909-7536	Lansing, MI 48909-7536

Dear Mr. Curran and Mr. Prokop:

Thank you for the invitation to attend next week's meeting of the recently created Legislative Commission on Government Efficiency. We appreciate you reaching out to our organization for suggestions on ways to improve the state's effectiveness.

Detroit Renaissance believes the top priority of state government in 2008 should be the enactment of serious and meaningful reforms that restructure government spending and make Michigan a more competitive place to do business. We offer the attached recommendations to achieve these results.

We believe these actions will bolster confidence in the state as a place to do business and achieve meaningful results. They are not new ideas, but are based on studies conducted by respected organizations throughout Michigan or reflect modern business practices.

The only way we can move Michigan's economy forward is to improve our state's economic competitiveness. Detroit Renaissance strongly supports the attached principles and any other efforts that achieve structural reform. If you have any questions about the attached principles, please do not hesitate to contact us.

Sincerely,

Doug Rothwell
President

Cc: Detroit Renaissance Board of Directors

Enclosure

Leadership for Greater Detroit's Economic Growth.
600 Renaissance Center Suite 1760 Detroit MI 48243 313.259.5400 Phone 313.567.8355 Fax

Detroit Renaissance's Perspective:
Principles for Addressing Michigan's Economic Competitiveness

Detroit Renaissance believes bi-partisan, strategic efforts are needed to move Michigan forward. We offer the following recommendations to immediately improve the health of our state's economy and improve our overall economic competitiveness. We believe these actions will bolster confidence in the state as a place to do business and achieve meaningful results. These recommendations are offered in a spirit of non-partisanship and were crafted to reflect what we believe is politically possible to achieve in a relatively short period of time.

Detroit Renaissance supports candidates and office holders who support these principles. In addition, policy options such as lengthened term limits and a part-time legislature should be seriously considered to advance these principles. We stand ready to offer our counsel and assistance to help put these principles into action.

SHORT-TERM ACTIONS

We believe the following recommendations can be implemented in the short-term and will provide a basis for additional structural reforms being proposed by Detroit Renaissance:

Recommendation #1: **State budget growth should be flat and no new programs should be added unless corresponding offsets are found and/or revenues increase as a result of real economic growth.** The state budget has continued to grow, while state revenues have declined. Real budget cuts must be made, not reductions of budget increases, to achieve a sustainable financial condition.

Recommendation #2: **Legislative leaders and the Governor should change their revenue forecasting procedures to project revenues over at least a two year period, increase the frequency of reviewing projections and include an external panel of economic experts to affirm the projections to achieve the most accurate and timely identification of upcoming fiscal conditions.**

Recommendation #3: **State government should focus on encouraging and supporting the growth of existing Michigan businesses.** Most future job growth will come from businesses already located in the state or those that will start-up here. Until our overall competitiveness is improved, we advocate going back to basics and doing everything we can to help existing businesses and creating a more entrepreneurial culture. The expansion of economic incentives to in-state firms is a step in this direction.

Additional steps could include expanding Michigan's business retention programs, providing preferential regulatory processing to in-state companies with strong compliance records, adopting the simplest business start-up regulatory process in the nation, and dramatically increasing the level and frequency of communication with business leaders.

Recommendation #4: **State government should invest its limited capital resources in economic stimulus projects that will promote the state's overall competitiveness.** We believe investments should be targeted on the business development infrastructure, such as advanced technologies that benefit multiple business sectors, our public universities, and major economic engines, such as the Detroit Aerotropolis.

OVERALL COMPETITIVENESS

Outlined below is a series of principles we believe state government should adopt to achieve a sustainable fiscal structure. In addition, we offer principles to guide future economic development that builds on Michigan's assets and enables broad-based industry growth.

Principle #1: **Enact meaningful structural reforms to minimize the need for new sources of revenue.** These reforms will create a sustainable state and local financial structure and ensure the competitiveness of Michigan. The reforms should be based on the recommendations of a cross-segment of Michigan leaders selected by the Governor, Senate Majority Leader and Speaker of the House. This group should review all state spending and propose actions that achieve a sustainable budget to meet Michigan's critical future needs. Reforms could include initiatives such as:

1. Bring spending for Michigan's prison population in line with other Great Lakes states.

2. Bring local government and public school employee pensions in line with those of state employees.

3. Bring local government and public school employee health care benefits in line with those of state employees. Bring state employee health care benefits in line with the private sector.

4. Eliminate binding arbitration for municipal police and fire employee contracts.

5. Eliminate barriers to consolidation for municipal governments.

6. Require public schools to provide non-instructional services (i.e. food service, busing, maintenance, etc.) in the most cost-effective manner, including potentially out-sourcing these services. Consolidate purchasing to take advantage of economies of scale.

7. Bring Medicaid spending in line with other states.

Principle #2: **State government must focus on making the total cost of doing business in Michigan competitive with states we most frequently compete with for jobs, including mid-west and southern states.** The total cost of doing business today is not competitive as evidenced by our sluggish economic growth. A competitive labor force, efficient regulatory processes and a competitive tax environment are paramount to improving our cost of doing business. State government can impact these factors by improving the productivity of the labor force through training and education programs focused on real workforce needs, improving the responsiveness of regulatory processes and enacting a tax system that helps Michigan compete on total business costs, not just tax rates.

Principle #3: **Those responsible for administering regulatory programs should help business comply with these standards as part of their responsibility.** Based on recent benchmarking studies, Michigan's business climate is viewed negatively in part due to a lack of "user-friendliness" in the regulatory systems. Even though Michigan's regulatory standards are approximately the same as other states in most areas, business leaders cite poor response times, a non-collaborative relationship and rigid decision-making process as contributing to their negative views. While some improvements have occurred and others are in process, additional efforts should be made to appoint individuals to regulatory compliance positions who have a strong customer service ethic; monitor cycle-times for regulatory decision-making; and establish a strong ombudsman role to trouble-shoot problems.

Principle #4: **State government should more aggressively seek to increase federal resources coming back to Michigan.** An increase in federal resources could help offset the need for state funding of critical needs and would restore more balance to Michigan's status as a "donor state."

Principle #5: **Providing the next generation with a great education that enables them to excel in a rapidly changing economy should be the most important priority of state government.** An outstanding workforce is our state's best way of achieving long-term economic competitiveness. Specifically, we urge higher education funding to be a top priority for any new spending. Higher education institutions should be rewarded for collaboration, economic development efforts, increasing enrollment and cultivating entrepreneurism. Likewise, we expect higher education to aggressively support new business growth collaborations. While we support a strong K-12 education system, we believe K-12 education spending should be more effectively managed through rigorous outcome standards and incentives for consolidation and efficiency.

Principle #6: **State investments should be focused on initiatives that will have the greatest long-term economic impact for the state.** We believe investments in higher education, public infrastructure, transportation and urban redevelopment have the greatest potential for stimulating long-term economic growth.

Legislative Commission on Government Efficiency
Potential Departmental Appropriation Language
Requirements to be Eliminated

Department	Section to be Eliminated	Description	Comment
General Language (General Government)	Sec. 205	Imposes a hiring freeze on State departments and agencies.	The appropriation bill sets a maximum number of positions in each program and there is no sound public policy reason to have any language in an appropriation bill beyond that limit. The elimination of the requirement will streamline the hiring process for State employees.
General Language (General Government)	Sec. 209	Requires State departments to purchase American- made goods or services and gives preferences to Michigan goods and services in the State purchasing process.	The purchasing process of the State is controlled by statutory requirements and this language serves no purpose.
General Language (General Government)	Sec. 210	Requires State departments to take reasonable steps to purchase goods and services from deprived and depressed communities.	As is the case in Sec. 209, this language is inconsistent with statutory requirements.
General Language (General Government)	Sec. 216	Places limits on the ability of State departments to authorize travel outside of the State of Michigan.	This language only provides legislative intent and the level of travel should be determined by the State department.
General Language (General Government)	Sec. 221	The State department shall report to the Legislature no later then April 1, 2008, on each specific policy change made to implement a public act affecting the department and ensure that rules adopted by the department do not have a disproportionate impact on small business.	There is no clear reason for this language and it has resulted in additional work for the State departments in terms of meeting this reporting requirement.
Corrections	Sec. 601	Requires a statewide caseload audit of field agents by February 15.	The report is not utilized by the Legislature and the elimination of the report will save the time in the preparation of the report.
Corrections	Sec. 612(4)	Requires monthly reports on types of new offenses and technical violations for which parolees and probationers are returned or sent to prison, as well as offender date information.	It would be appropriate to shift this report to a quarterly or biannual basis. This would provide the information and be sufficient for oversight.
Education	Sec. 901	Requires the department to notify the Legislature within 10 days of receiving a Federal or private grant.	There is no clear reason for the preparation of this report.
History, Arts, and Libraries	Sec. 406	Annual report to the Legislature when materials are submitted by the Council of the Arts seeking grant applications.	The report serves no purpose. The relevant information as to which groups receive Arts and Cultural grants is already reported.

Legislative Commission on Government Efficiency
Potential Departmental Appropriation Language
Requirements to be Eliminated

Department	Section to be Eliminated	Description	Comment
Human Services	Sec. 214	Requires bi-monthly report detailing costs for each salary and wage item in the budget.	There is no clear reason for the preparation of this report.
Human Services	Sec. 216	Requires report by March 1 on the appropriated FTEs for the coming fiscal year.	There is no clear reason for the preparation of this report.
Human Services	Sec. 274	Requires a report on all Federal grants available greater than $500,000 that the department was eligible to apply for and provides a status of these grants.	There is no clear reason for the preparation of this report.
Labor and Economic Growth	Sec. 335	The Public Service Commission shall report by June 1 of each year on the distribution of funds appropriated for the low-income energy assistance program.	The department routinely announces these grants through press releases. There appears to no reason for this report.
Transportation	Sec. 314	Requires report to the Legislature on the activities of the internal auditor for the department.	There is no clear reason for the preparation of this report.
Transportation	Sec. 714	Requires annual report on cooperative efforts the department has undertaken with local transit agencies.	There is no clear reason for the preparation of this report.
Treasury - Strategic Fund	Sec. 1014(11)	Annual report of the status of the Core Communities Fund.	This information is already provided in the Strategic Fund annual report released by January 15 of each year.

DEPARTMENTAL APPROPRIATION LANGUAGE

GENERAL GOVERNMENT

Sec. 205.

Funds appropriated in part 1 shall not be used for the purchase of foreign goods or services, or both, if competitively priced and of comparable quality American goods or services, or both, are available. Preference should be given to goods or services, or both, manufactured or provided by Michigan businesses, if they are competitively priced and of comparable quality. In addition, preference should be given to goods or services, or both, that are manufactured or provided by Michigan businesses owned and operated by veterans, if they are competitively priced and of comparable quality.

Sec. 209.

The director of each department receiving appropriations in part 1 shall take all reasonable steps to ensure businesses in deprived and depressed communities compete for and perform contracts to provide services or supplies, or both. Each director shall strongly encourage firms with which the department contracts to subcontract with certified businesses in depressed and deprived communities for services, supplies, or both.

Sec. 210.

The director of each department receiving appropriations in part 1 shall take all reasonable steps to ensure businesses in deprived and depressed communities compete for and perform contracts to provide services or supplies, or both. Each director shall strongly encourage firms with which the department contracts to subcontract with certified businesses in depressed and deprived communities for services, supplies, or both.

Sec. 216.

(1) Due to the current budgetary problems in this state, out-of-state travel for the fiscal year ending September 30, 2008 shall be limited to situations in which 1 or more of the following conditions apply:
(a) The travel is required by legal mandate or court order or for law enforcement purposes.
(b) The travel is necessary to protect the health or safety of Michigan citizens or visitors or to assist other states in similar circumstances.
(c) The travel is necessary to produce budgetary savings or to increase state revenues, including protecting existing federal funds or securing additional federal funds.
(d) The travel is necessary to comply with federal requirements.
(e) The travel is necessary to secure specialized training for staff that is not available within this state.
(f) The travel is financed entirely by federal or nonstate funds.
(2) If out-of-state travel is necessary but does not meet 1 or more of the conditions in subsection (1), the state budget director may grant an exception to allow the travel. Any exceptions granted by the state budget director shall be reported on a monthly basis to the senate and house of representatives standing committees on appropriations.
(3) Not later than January 1 of each year, each department shall prepare a travel report listing all travel by classified and unclassified employees outside this state in the immediately preceding fiscal year that was funded in whole or in part with funds appropriated in the department's budget. The report shall be submitted to the senate and house of representatives standing committees on appropriations, the senate and house fiscal agencies, and the state budget director. The report shall include the following information:

(a) The name of each person receiving reimbursement for travel outside this state or whose travel costs were paid by this state.
(b) The destination of each travel occurrence.
(c) The dates of each travel occurrence.
(d) A brief statement of the reason for each travel occurrence.
(e) The transportation and related costs of each travel occurrence, including the proportion funded with state general fund/general purpose revenues, the proportion funded with state restricted revenues, the proportion funded with federal revenues, and the proportion funded with other revenues.
(f) A total of all out-of-state travel funded for the immediately preceding fiscal year.

Sec. 221.
(1) Each department shall report no later than April 1, 2008 on each specific policy change made to implement a public act affecting the department that took effect during the prior calendar year to the house and senate appropriations subcommittees on the budget for the department, the joint committee on administrative rules, and the senate and house fiscal agencies.
(2) Funds appropriated in part 1 shall not be used by a department to adopt a rule that will apply to a small business and that will have a disproportionate economic impact on small businesses because of the size of those businesses if the department fails to reduce the disproportionate economic impact of the rule on small businesses as provided under section 40 of the administrative procedures act of 1969, 1969 PA 306, MCL 24.240.
(3) As used in this section:
(a) “Rule” means that term as defined under section 7 of the administrative procedures act of 1969, 1969 PA 306, MCL 24.207.
(b) “Small business” means that term as defined under section 7a of the administrative procedures act of 1969, 1969 PA 306, MCL 24.207a.

DEPARTMENT OF CORRECTIONS

Sec. 601.
From the funds appropriated in part 1, the department shall conduct a statewide caseload audit of field agents. The audit shall address public protection issues and assess the ability of the field agents to complete their professional duties. The results of the audit shall be submitted to the senate and house appropriations subcommittees on corrections and the senate and house fiscal agencies, and the state budget office by February 15, 2008.

Sec. 612.
(4) The department shall provide monthly reports to the senate and house appropriations subcommittees on corrections, the senate and house fiscal agencies, and the state budget director on the number of all parolees returned to prison and probationers sentenced to prison for either a technical violation or new sentence during the preceding calendar month. The reports shall include the following information each for probationers, parolees after their first
parole, and parolees who have been paroled more than once:
(a) The numbers of parole and probation violators returned to or sent to prison for a new crime with a comparison of original versus new offenses by major offense type: assaultive, nonassaultive, drug, and sex.
(b) The numbers of parole and probation violators returned to or sent to prison for a technical violation and the type of violation, including, but not limited to, zero gun tolerance and substance abuse violations. For parole technical rule violators, the report shall list violations by type, by length of time since release

from prison, by the most recent violation, and by the number of violations occurring since release from prison.
(c) The educational history of those offenders, including how many had a GED or high school diploma prior to incarceration in prison, how many received a GED while in prison, and how many received a vocational certificate while in prison.
(d) The number of offenders who participated in the MPRI versus the number of those who did not.
(e) The unduplicated number of offenders who participated in substance abuse treatment programs, mental health treatment programs, or both, while in prison, itemized by diagnosis.

DEPARTMENT OF EDUCATION
Sec. 901.
Within 10 days of the receipt of a grant appropriated in the federal and private grants line item in part 1, the department shall notify the house and senate chairpersons of the appropriations subcommittees responsible for the department budget, the house and senate fiscal agencies, and the state budget director of the receipt of the grant, including the funding source, purpose, and amount of the grant.

HISTORY, ARTS, AND LIBRARIES
Sec. 406.
(1) The department shall make the following reports:
(a) A report identifying the website location that contains a list of all grant recipients, sorted by county. This report shall be provided to each legislator within 1 business day of the announcement of annual awards by the MCACA.
(b) A report to the senate and house of representatives appropriations subcommittees, the state budget office, and the fiscal agencies, within 30 days after the MCACA announces the annual grant awards, that includes all of the following:
(*i*) A listing of each applicant.
(*ii*) The county of residence of the applicant.
(*iii*) The amount requested.
(*iv*) The amount awarded.
(*v*) The grant category under which an applicant applied.
(*vi*) A summary of projects funded for each recipient.
(*vii*) The expected number of patrons for an applicant during the grant period.
(*viii*) The amount of matching funds proposed by each applicant.
(*ix*) A listing containing the applicant, county of residence of the applicant, and amount awarded for any regranted funds in the preceding fiscal year.
(c) An annual report to the appropriations subcommittees, the state budget office, and the fiscal agencies is due when materials are first distributed by the MCACA seeking grant applications for the subsequent fiscal year. The report shall contain the following:
(*i*) The MCACA guidelines for awarding grants.
(*ii*) A summary of any changes in the program guidelines from the previous fiscal year.
(2) The council shall report to the chairpersons of the senate and house of representatives appropriations subcommittees on history, arts, and libraries by August 1 all unexpended or unencumbered discretionary grant funding that is available. The council shall not redistribute any unexpended or unencumbered grant funds during the fiscal year without a 10-day notice to the chairpersons of the senate and house of representatives appropriations subcommittees
on history, arts, and libraries.

DEPARTMENT OF HUMAN SERVICES

Sec. 214.

(1) The department shall submit a report to the chairpersons of the senate and house appropriations subcommittees on the department budget, the senate and house fiscal agencies and policy offices, and the state budget director on the details of allocations within program budgeting line items and within the salaries and wages line items in all appropriation units. The report shall include a listing, by account, dollar amount, and fund source, of salaries and
wages; longevity and insurance; retirement; contractual services, supplies, and materials; equipment; travel; and grants within each program line item appropriated for the fiscal year ending September 30, 2008. With regard to federal appropriations, for each program line item funded by no more than 3 federal funding sources, the department shall provide estimates of the allocation of the appropriation for each specific federal funding source.

(2) On a bimonthly basis, the department shall report on the number of FTEs in pay status by type of staff.

Sec. 216.

The department, in collaboration with the state budget office, shall submit to the house and senate appropriations subcommittees on the department budget, the house and senate fiscal agencies, and the house and senate policy offices on or before March 1, 2008 a report on appropriated and supportable FTE positions within the executive budget proposal for the fiscal year beginning October 1, 2008. The report shall contain all of the following information for each individual line item contained in the executive budget proposal for the department budget:

(a) The number of FTEs to be funded from the line item.

(b) The amount that is proposed to be allocated to salary and wage costs from the gross appropriation for the line item.

(c) The amount that is proposed to be allocated to salary and wage costs from the gross appropriation for the line item on which was based the increase in the executive budget proposal from the amount appropriated for the line item in the department budget for the fiscal year ending September 30, 2008, if different from the amount in subdivision (b).

(d) The portion of the amount described in subdivision (b) that is proposed to be taken from each funding source identified in the budget.

(e) The gross salary and wage expenditures for the line item during the fiscal year ending September 30, 2007 and the estimated salary and wage expenditures for the line item during the fiscal year ending September 30, 2008.

(f) The estimated number of FTE positions supportable by the amount described in subdivision (b).

Sec. 274.

The department shall report to the house and senate appropriations subcommittees on the department budget, the senate and house fiscal agencies, the senate and house policy offices, and the state budget director as part of the annual budget presentation on each federal grant this state was eligible to apply for, listing both grants applied for and not applied for. This report will cover grants exceeding $500,000.00, related to fatherhood and marriage initiatives, teen pregnancy prevention, kinship care, before- and after-school programs, family preservation and prevention, homeless prevention, and youth in transition.

DEPARTMENT OF LABOR AND ECONOMIC GROWTH

Sec. 335.
The public service commission shall report by June 1 of each year to the subcommittees, the state budget office, and the fiscal agencies on the distribution of funds appropriated in part 1 for the low-income/energy efficiency assistance program.

DEPARTMENT OF TRANSPORTATION

Sec. 314.
The department shall provide a report prepared by the department's internal auditor on the activities of the internal auditor for the previous fiscal year. The report shall be due on February 1 of each year and shall be submitted to the senate and house of representatives appropriations committees, the senate and house fiscal agencies, the director of the state budget office, and the auditor general. This report shall include a list of all of the following:
(a) All work activities conducted by the internal auditor, including a listing of all audits, reviews, and investigations.
(b) The time charged to each work activity, including time charged to each audit, review, or investigation.
(c) A listing of which audits, reviews, and investigations have been completed and which audits, reviews, and investigations have had reports of the results issued.

Sec. 714.
(1) The department, in cooperation with local transit agencies, shall work to ensure that demand-response services are provided throughout Michigan. The department shall continue to work with local units of government to address the unmet transit needs in Michigan.
(2) The department shall report by March 1 of each year on its efforts to implement this section over the past 2 years.

DEPARTMENT OF TREASURY-STRATEGIC FUND

Sec. 1014 (11) - Michigan Core Communities Fund
(11) The fund shall provide an annual report on the status of this fund. The report shall be provided to the subcommittees, the fiscal agencies, and the state budget office by January 31.