

Final Minutes

Legislative Commission on Government Efficiency Meeting

9:00 a.m. • Friday, June 27, 2008
Room 405 – State Capitol Building
100 N. Capitol Avenue • Lansing, Michigan

Members Present:

James Curran, Chair
Kevin Prokop, Co-Chair
Georgi-Ann Bargamian
Fern Griesbach
Michel Sussman

Members Excused:

Mitch Bean
Gary Olson
Charles Moore

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. The Chair asked that the record show that Mr. Bean, Mr. Olson, and Mr. Moore are excused from today's meeting.

II. Approval of the May 19, 2008 Meeting Minutes

The minutes of the May 19, 2008 meeting were presented to the members. The Chair asked for a motion to approve the minutes. **Mr. Prokop moved, seconded by Mr. Sussman, to approve the minutes of the May 19, 2008 Legislative Commission on Government Efficiency meeting as proposed. There was no further discussion and the minutes were unanimously approved.**

III. Public Comment

The Chair asked for public comment. There were none.

IV. Workgroup on Plan Development

The Chair noted that the Senate Majority Leader Conference Room has been reserved so that the Commission members can review some material put together listing some of the recommendations from the groups the Commission has heard from, the budget projections received from the various proposals, and a summary of the CRC report. The Chair asked the clerk to provide each member with a hard copy of the full CRC report. He reported that he and Mr. Prokop have put together a spreadsheet of some of the issues that have been identified and some of the ideas that might be used by the workgroups. He continued by stating that he hopes by the end of the day to have an agreement on the workgroups, a broad outline of how we are going to go at those workgroups, and to identify a lead and a backup person from the Commission for each of the issues.

In response to an inquiry made by Ms. Bargamian, Mr. Prokop provided a summary of the meeting he and Mr. Curran had with the Senate Majority Leader and the Speaker of the House. He relayed that leadership is very supportive of what the Commission is doing and noted that they would like to become more actively engaged in this next phase by helping to identify resources to assist each workgroup.

The Commission members then moved to the Senate Majority Leader Conference Room and determined the following:

- The following workgroups and assignments were determined:

<u>Workgroup</u>	<u>Leader</u>	<u>Backup</u>
Corrections	Mr. Prokop	Mr. Curran
Medicaid/Community Health	New member	Mr. Olson
Local Government Efficiency/Revenue Sharing	Mr. Curran	Mr. Griesbach
Personnel Practices/Employee Benefits	Ms. Griesbach	Ms. Bargamian
Education K-12	Mr. Bean	Mr. Moore
Higher Education	Mr. Olson	Mr. Sussman
Efficiencies within Departments	Mr. Sussman	Mr. Bean
Purchasing/Strategic Sourcing	Mr. Moore	Mr. Prokop
Information Technology	Ms. Bargamian	New member
Other Potential Proposals	All	

- Questions that should be considered by each workgroup to insure consistency:
 1. What are the best practices?
 2. What are other states doing?
 3. What is the overall target savings?
 4. What outside groups can work with?
 5. Which department to coordinate with?
 6. What other activity has been done by other groups?
 7. Develop a work plan.
 8. What investment is needed to accomplish goal?
- A target of \$1.5 billion was set with a stretch target of \$3.0 billion.
- A request for staff assistance from the following agencies for each workgroup will be made:
 1. House Fiscal Agency
 2. Senate Fiscal Agency
 3. Legislative Service Bureau
 4. Legislative Auditor General
 5. Executive Branch/Department Representative
- A list of staff assigned to each workgroup will be sent to each group leader when identified.

V. Next Meeting Date

The next Commission meeting is scheduled for **Friday, July 25, 2008, at 9:00 a.m.**

VI. Adjournment

Having no further business, the meeting was adjourned at 11:25 a.m.

(Approved by the Commission at the July 25, 2008 meeting.)

Summary of Spending Pressures

From Citizens Research Council of Michigan Report *Michigan's Fiscal Future, May 2008:*

Table VI-1

Summary of K-12 Education Structural Deficit: FY09 to FY17
(Dollars in Billions)

	FY09	FY17	Dollar Change	Percent Change	Annual Growth
Revenue	\$18.1	\$23.0	\$4.9	27.1%	3.0%
Spending Pressures	\$18.4	\$26.6	\$8.2	44.4%	4.7%
Structural Deficit	\$0.3	\$3.6			1.7%

Table VI-2

Summary of General Fund Structural Deficit: FY09 to FY17
(Dollars in Billions)

	FY09	FY17	Dollar Change	Percent Change	Annual Growth
Revenue	\$10.0	\$11.1	\$1.1	11.5%	1.4%
Spending Pressures	\$10.1	\$17.1	\$7.0	69.3%	6.8%
Structural Deficit	\$0.1	\$6.0			5.4%

From House and Senate Fiscal Agencies Report *Five Year Michigan State Budget Projections, March 2008*

Table 1

Five Fiscal Year Revenue and Appropriation Summary (millions of dollars)						
	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
General Fund/General Purpose						
Revenue	\$9,803.9	\$9,720.6	\$9,848.7	\$10,113.1	\$10,189.8	\$10,273.2
Appropriations	9,710.6	9,794.8	10,212.1	10,575.1	10,953.4	11,412.5
Revenue Less Appropriations	\$ 93.3	\$ (74.2)	\$ (363.4)	\$ (462.0)	\$ (763.6)	\$ (1,139.3)
School Aid Fund						
Revenue	\$11,318.0	\$11,770.2	\$12,120.3	\$12,494.0	\$12,887.2	\$13,290.0
Appropriations	11,413.0	11,816.4	12,066.2	12,266.9	12,503.1	12,769.0
Revenue Less Appropriations	\$ (95.0)	\$ (46.2)	\$ 54.1	\$ 227.1	\$ 384.1	\$ 521.0
Transportation Fund						
Revenue	\$1,931.7	\$1,929.4	\$1,935.4	\$1,941.7	\$1,948.2	\$1,955.0
Appropriations	2,116.6	2,066.5	2,101.6	2,110.2	2,105.7	2,115.1
Revenue Less Appropriations	\$ (184.9)	\$ (137.1)	\$ (166.2)	\$ (168.5)	\$ (157.5)	\$ (160.1)

In terms of the GF/GP budget, the projected growth in GF/GP revenue is less than the projected growth in GF/GP appropriations leading to total revenue exceeding appropriations for each fiscal year during the FY 2008-09 through FY 2012-12 period. The level of GF/GP revenue growth is affected by the phase-in of the earned income tax credit under the individual income tax and the scheduled reduction in the rate of the State individual income tax which occurs over the five-fiscal year period. Under current law, the rate of the income tax is reduced from 4.35% to 4.25% on October 1, 2011, and from 4.25% to 4.15% on October 1, 2012.

From Mitch Bean, Director of House Fiscal Agency, February 2008:

Table 6
HFA Estimated FY 2009-10 Spending Pressures
(Millions of Dollars)

Preliminary FMAP rate savings	(\$150.0)
Increased Medicaid costs: caseload, actuarial soundness	\$150.0
Federal law change that impacts state use of provider tax	\$100.0
Increased costs of switch to MI Promise Program	\$60.0
Increased debt service: tobacco bonds	\$39.0
Increase cost of Earned Income Tax Credit	\$170.0
County revenue sharing	\$50.8
Economics	\$40.0
Total	\$459.8

Summary of Recommendations to the Legislative Commission on Government Efficiency

Organization	Recommendations
Citizens Research Council	<ul style="list-style-type: none"> • Significant opportunities may still exist in reorganizing operations to rebalance supervisory/non-supervisory employee ratios and use advanced technology.
	<ul style="list-style-type: none"> • Change system so revenues grow in line with economy and personal income.
	<ul style="list-style-type: none"> • Consider taxing services broadly.
	<ul style="list-style-type: none"> • Modify personal income tax by changing rate and exemptions—or—implement graduated income tax (Constitutional amendment required).
	<ul style="list-style-type: none"> • Consider taxing pensions and other retirement income (area of greatest income growth in future).
	<ul style="list-style-type: none"> • Reduce reliance on “sin” taxes.
	<ul style="list-style-type: none"> • Reduce prison incarceration rate to the average of our neighbors over ten-years reduces General Fund <u>annual</u> spending pressure growth by 1.1%.
	<ul style="list-style-type: none"> • Hold health care cost increases to 5% per year reduces General Fund <u>annual</u> spending pressure growth by 1.8%.
LCGE: Commissioners Bean and Olson	<ul style="list-style-type: none"> • Elimination of some of the boilerplate reports in the budget.
LCGE: Commissioner Bean	<p>Potential solutions to the state's cash-flow borrowing problem include:</p>
	<ul style="list-style-type: none"> • Reconcile disbursements and revenue collections.
	<ul style="list-style-type: none"> • Create a cash-management fund that could invest in short-term notes to earn interest when a portion of the balance is not needed to cover cash-flow needs.
	<ul style="list-style-type: none"> • Utilize some combination for these potential solutions.
	<ul style="list-style-type: none"> • The cash-flow problem could also be mitigated to some extent by moving payments to colleges, universities, and public schools to the end of the month.
	<ul style="list-style-type: none"> • LCGE to request Department of Treasury do the following: <ol style="list-style-type: none"> 1. Testify about cash-flow costs. 2. Provide an estimate of the amount that would be needed to create a cash-management fund. 3. Estimate the potential savings that may be associated with moving payment schedules to month-end, and/or back-loading payments so that a larger portion is disbursed later in the fiscal year.
Michigan State Chamber of Commerce	<ul style="list-style-type: none"> • Recommend to the Legislature and Administration a one-year moratorium on any new state government programs. Ask them to focus on how we can get more value for the \$42 billion currently spent by State government.
	<ul style="list-style-type: none"> • Encourage the Commission to focus on streamlining processes for providing services, changes that need to be made in existing labor agreements to improve efficiency and competitiveness, and ways to gauge customer satisfaction.
	<ul style="list-style-type: none"> • Conduct Agency reviews starting with a review of the Department of Environmental Quality including the DEQ permitting process.

Michigan State Chamber of Commerce (continued)	<ul style="list-style-type: none"> •Encourage the Commission's consideration of the principles outlined in PERM: Privatize, Eliminate, Retain or Modify...Recommendation to the Governor on Improving Service Delivery and Increasing Efficiency in State Government...Final Report issued by the Michigan Public Partnership Commission, December 1992 Final Report and Budgeting For Outcomes - principles put forth in The Price of Government by authors David Osborne and Peter Hutchinson.
	<ul style="list-style-type: none"> •Encourage the Commission's consideration of other reports on efficiency in State government for Michigan and other states. •Urge the Commission to encourage State government leaders to use consultants and businesses who have expertise relating to many of the activities of State government, such as operations of prisons, human resources administration, and information technology. •Encourage the Commission to advocate that employment agreements within State government undergo change to adapt to new competitive circumstances.
Mackinac Center on Public Policy	<ul style="list-style-type: none"> •Recommend the need to change the incentives that drive how an agency operates.
	<ul style="list-style-type: none"> •Recommend changing the higher education funding mechanism to a voucher system. •Recommend moving control of road patrol functions from State Police troopers to local county sheriff deputies. •Recommend creating one department to issue all permits. •Recommend continuing efforts being made to make government more efficient.
The Center for Michigan	<ul style="list-style-type: none"> •Reduce spending on Corrections.
	<ul style="list-style-type: none"> •Develop a Michigan Scorecard of performance metrics to help govern allocation of state revenues to schools and local government. •Require intensified consolidation and service sharing in schools and local government. •Critically examine public sector pay, benefits, and staffing levels and adjust accordingly based on statewide and national benchmarking. •Extend sales tax to services if justified for specific purposes. •Graduate the state income tax. •Broaden the base and lower the rate of state business taxes. •Consider tax increases on beer and soft drinks.
The Detroit Regional Chamber of Commerce	<ul style="list-style-type: none"> •In the area of Medicaid reform, recommend the elimination of some of the "optional" services from Community Health to include the 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.
	<ul style="list-style-type: none"> •In the area of Corrections spending, a combination of reductions in overhead expenditures with thoughtful changes in sentencing policies could result in savings of up to \$500 million annually.
	<ul style="list-style-type: none"> •Significant long-term savings can be found at the public school and local government levels through further attention to pension and health insurance reforms. Require public schools and local units of government to switch all new employees to 401(k) retirement savings accounts and ask employees to contribute to their health insurance benefits.

Detroit Renaissance	<ul style="list-style-type: none"> •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.
	<ul style="list-style-type: none"> •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.
	<ul style="list-style-type: none"> •State government should focus on encouraging and supporting the growth of existing Michigan businesses.
	<ul style="list-style-type: none"> •State government should invest its limited capital resources in economic stimulus projects that will promote the state's overall competitiveness.
	<ul style="list-style-type: none"> •Enact meaningful structural reforms to minimize the need for new sources of revenue 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: <ol style="list-style-type: none"> 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.
	<ul style="list-style-type: none"> •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 by State government 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.
	<ul style="list-style-type: none"> •Those responsible for administering regulatory programs should help business comply with these standards as part of their responsibility. Appoint individuals to regulatory compliance position who have a strong customer service ethic; monitor cycle-times for regulatory decision-making; and establish a strong ombudsman role to trouble-shoot problems.
	<ul style="list-style-type: none"> •State government should more aggressively seek to increase federal resources coming back to Michigan.
	<ul style="list-style-type: none"> •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. Urge higher education funding to be a top priority for any new spending. K-12 education spending should be more effectively managed through rigorous outcome standards and incentives for consolidation and efficiency.
	<ul style="list-style-type: none"> •State investments should be focused on initiatives that will have the greatest long-term economic impact for the State (higher education, public infrastructure, transportation, and urban development).