

Final Minutes

Legislative Commission on Government Efficiency Meeting

10:00 a.m. • Monday, December 8, 2008
Room 426
4th Floor • State Capitol Building
100 N. Capitol Avenue • Lansing, Michigan

Members Present:

James Curran, Chair
Kevin Prokop, Co-Chair
Georgi-Ann Bargamian
Mitch Bean
Fern Griesbach

David Leonard
Charles Moore
Gary Olson
Michel Sussman

Members Absent:

None

I. Call to Order

The Chair called the meeting to order at 10:00 a.m. and asked the Clerk to take the roll. A quorum was present and there were no absent members.

II. Approval of the October 30, 2008 Meeting Minutes

The minutes of the October 30, 2008 meeting were presented to the members. Two changes were offered to the proposed minutes—amend page 1, Education K-12 section, line 2, by changing "\$100" to "\$400" and amend page 2, Medicaid/Community Health Work Group section, line 2, by changing "Hart" to "Health." The Chair asked for a motion to approve the minutes as amended. **Commissioner Olson moved, seconded by Commissioner Leonard, to approve the minutes of the October 30, 2008 Legislative Commission on Government Efficiency meeting as amended. There was no further discussion and the minutes were unanimously approved.**

III. Report on Work Group Progress

Chairman Curran commented that he and Commissioner Prokop would like to meet with each of the leaders and staff of the work groups in January to receive a brief review of their progress and asked Commissioners Olson and Bean to help with pulling those meetings together. He then called on the leaders of the work groups to provide an update.

Education K-12

Commissioner Bean highlighted the Education K-12 work group's list of preliminary efficiency/savings options. See attached report for more details. A discussion of health coverage for active school employees followed.

Corrections Work Group

Commissioner Prokop presented his work group's report which include looking at reducing the prisoner population and closing prisons through more nuanced approaches to sentencing, lowering salary and benefit expenses, reducing prisoner health care costs, and exploring other opportunities such as privatization. See attached report for more details.

Efficiencies within State Departments

Commissioner Sussman shared information regarding his work group's activities which include the distribution of a management survey questionnaire. He highlighted the three preliminary focus items they are reviewing—a consistent performance management system, a consistent continuous improvement process for all departments, and a consistent step change process for all departments that utilize proven event driven techniques. See attached report for more details.

Higher Education

Commissioner Olson explained that his report contains the same higher education work group preliminary efficiency options shared at the last LCGE meeting and noted that his group is recommending Option 1 (eliminate the Michigan Promise Grant Program). A copy of the report is attached. Commissioner Leonard pointed out that Option 1 is one of the few efficiency measures that do not require a constitutional amendment.

Information Technology

Commissioner Bargamian gave an overview of the Information Technology work group's recommendation options which include centralizing management of state telephone networks, creating an IT application to reduce the use of paper files, utilizing video, audio, and web conferencing, extending child welfare data, reduce contracts for software development and programming activities, consolidating management of IT for legislature and judiciary, creating an executive workgroup for IT projects oversight, and exploring opportunities to cooperate with local government. See attached report for more details.

Local Government and Revenue Sharing

Chairman Curran reported that his group will begin to draft a preliminary report at their next meeting on December 22. He called on David Bertram from the Michigan Township Association to share comments on his association's perspective of revenue sharing. Mr. Bertram also noted that townships have instituted a number of efficiencies over the years and currently operate very effectively.

Medicaid/Community Health

Commissioner Leonard submitted his report which he noted is the first from his work group. He proceeded with a summary of each recommendation and encouraged members to review the information for more explanation. He thanked the Senate Fiscal Agency staff for assistance in putting the document together and noted that he will summarize the recommendations in a later report.

Purchasing/Strategic Sourcing

Commissioner Moore provided a brief update on the Purchasing/Strategic Sourcing work group's recent activities. He noted his group is focusing on two areas—1) to improve technology systems and processes and 2) include schools, local government and other states to improve purchasing power. His group is also looking at the terms and conditions that are applied to contracts and splitting out the strategic sourcing aspect of contract management. Although some of the areas his group is looking into overlap with other work groups, they hope to have their own document outlining their recommendations by the end of the year.

Health Care

Chairman Curran opened a discussion of how the group will tackle the issue of health care. Because of the complexities, Commissioner Prokop suggested that a sub group be established to work with House and Senate Fiscal Agencies and others to look at health care reforms. Commissioners Leonard and Prokop will participate in the work group and will use the next couple of months to identify best practices and what other states are doing.

Personnel Practices/Employee Benefits

Commissioner Griesbach presented a summary of the preliminary efficiency/savings options of the Personnel Practices/Employee Benefits work group and acknowledged the assistance of Viola Wild of the House Fiscal Agency to the group. See attached report for more details.

IV. Discussion of Next Steps

Commissioner Prokop opened a discussion of how the Commission wants to go forward and offered his support of Commissioner Curran's idea to separate the recommendations into three implementation periods—short-term, mid-term, and long-term. Mr. Leonard suggested a template be developed to organize group reports and Mr. Prokop volunteered to circulate his document to see if it could be used as a potential template. The issue of looking at pensions was also raised and discussed.

V. Public Comment

The Chair asked for public comment. There were no public comments.

VI. Next Meeting Date

The next Commission meeting is scheduled for Monday, January 26, 2009, from 10:00 a.m. to 1:00 p.m.

VII. Adjournment

Having no further business, **Commissioner Olson moved, supported by Commissioner Leonard, to adjourn the meeting. There was no objection. The meeting was unanimously adjourned at 12:55 p.m.**

(Approved at the January 26, 2009 Legislative Commission on Government Efficiency meeting.)

Legislative Commission on Government Efficiency
School Aid Work Group
Summary of Preliminary Efficiency/Savings Options [DRAFT]

The task of this work group was to identify \$200-\$400 million in potential State savings. Options are listed below.

Option 1: Cap Foundation Allowance annual increases at 2.5% and freeze all categorical appropriations (excluding those mandated or for cost reimbursements) at FY 2008-09 levels. Assuming 2.5% growth in the School Aid Fund (SAF), annual savings could reach \$250.0 million by FY 2011-2012.

Pros:

- Would save SAF revenue such that it could support an increasing piece of Community Colleges appropriations, thus reducing pressure on GF/GP expenditures.
- Would require school districts to find further efficiencies by restricting school operating revenue growth.

Cons:

- Over the last 5 years the minimum foundation allowance has increased at an average annual growth rate of less than 1.8% (the state guaranteed maximum foundation grew at an average annual rate of only 1.2%) while the Michigan CPI increased at a average annual rate of 2.6%. Total SAF revenue (with FY 2008-09 estimates adjusted for the MBT revenue replacement for lost local PPT revenue) has grown at an average annual rate of only 1.3% over the same time period.
- Would shift SAF support to community colleges which is allowed under the Constitution but has never been done and may be politically hard to do.
- Even with 2.5% increases there would be some districts who actually receive either stagnant or decreasing total funding due to declining enrollment.

Option 2: Offer retirement incentives for school employees already eligible to retire. As an example, the State could match local cash incentives of \$5,000 for up to 4 years for employees age 55 with 30 years of service. If 10,000 employees are induced to retire it would cost the State \$50.0 million per year in incentives, but districts could save as much as \$30,000 per employee in reduced salary costs (the pay differential between an experienced teacher and one newly hired) or more if they do not replace every retiree.

Pros:

- Initially could create significant savings for districts.
- Allows districts to reduce staff through attrition rather than layoffs.

Cons:

- Increasing retirements at a rate higher than actuarially anticipated will add to the unfunded pension liabilities and will increase annual retiree health care costs. An actuarial analysis from the Office of Retirement Services (ORS) would be required for a cost estimate.
- A State supported incentive would have distributional effects since only participating districts would benefit while all districts would share in the impact of less SAF revenue as well as increased retiree pension and health care contribution rates.

- Could be providing incentives to employees who would have retired anyway. ORS experience shows that 25-35% of school employees retire within 1 year of being eligible and that approximately 80% retire within 5 years of being eligible.
- District benefits are short term, in that for the following years districts don't experience normal retirement rates which are usually used to balance other cost increases, and it doesn't take long for new employees with step increases and masters degree attainment to eliminate a significant portion of the savings.

Option 3: Freeze categorical funding other than those that are mandated or cost reimbursements, and review existing categoricals for cost effectiveness. Potential for State savings but the actual amount is dependent on eliminating categoricals. There are currently 30 categorical line items (not including those mandated or cost reimbursements) totaling \$636.4 million.

Pros:

- The intent of creating a foundation allowance under Proposal A was to provide a common per pupil grant which districts could spend flexibly in order to eliminate the need for most categoricals. This could reduce the number of categoricals that have grown again since then.
- Categoricals are not distributed equally and are sometimes awarded on a political basis.

Cons:

- Restricts funding increases to programs deemed valuable by the Legislature.
- Categoricals can be a useful funding mechanism for recognizing the varying needs of districts.

Option 4: Give a monetary incentive to intermediate school districts (ISDs) that continue to consolidate non-instructional services between ISDs and school districts beyond what was reported to the Department of Education as required in PA 63 of 2007. There would be a State cost for providing incentives but a potential savings to ISDs for their continued consolidation of services.

Pros:

- ISDs and districts would jointly determine the services needed to improve students' learning.
- Potentially eliminates duplication of services between ISDs and districts.
- Continues to build positive working relationships between districts, between ISDs, or between ISDs and their constituent districts.

Cons:

- It may be a challenge to blend unique local district initiatives with ISD-wide programs.
- Geographic differences between districts and ISDs may limit some consolidation.
- Consolidation may be complicated by varying local contracts already in place.
- Differences in technology may prohibit some consolidations.

Option 5: Eliminate Sec. 20j formula in the School Aid Act but allow local districts to levy hold harmless millage (with voter approval) to make up for the lost revenue from the elimination of the formula. Estimated savings to the State is \$51.6 million.

Pros:

- Eliminates controversial funding formula in the School Aid Act.
- Actual amount saved can be identified.
- Reduces State funding to some districts but allows them to make up the lost State funding through local millage.
- If millage is approved by the voters, it's revenue neutral to affected school districts.

Cons:

- Gives some districts the ability to raise property tax millages (with voter approval). Some oppose this as being contrary to Proposal A, though the amount would be capped to only offset lost State funding.
- The School Code would have to be amended to allow for the additional millages and requires a 3/4 vote of approval from the legislature.
- Shifts revenue burden from the state level to local level.

Option 6: Expand the sales tax base and dedicate additional revenue to the School Aid Fund.

Pros:

- Improves stability of School Aid Fund revenue stream.
- Changes sales tax policy to reflect the current services-based economy.
- Overall sales tax rate could potentially be lowered.

Cons:

- May be politically hard to do.

Option 7: Allow State Superintendent the option of requiring consolidation of school districts or intermediate school districts (ISDs), if savings of at least 5% can be shown. Local savings would have to be shown before this could occur, and any savings would be retained locally.

Pros:

- Perceptions exists that there are too many school districts and ISDs.
- If the State ordered the consolidation, it would remove the local-level politics from the discussion, and allow the dialogue to focus on local efficiencies.

Cons:

- Takes away local control and places it in the hands of the State Superintendent.
- Administrative savings and/or consolidations of services may occur (and have been occurring) on their own, as districts and ISDs are faced with flat or declining revenue and increasing costs.

Option 8: Require all active school employees (i.e., non-retirees) to be placed in a State-run health care plan. Eliminate all local bargaining on health care, and require charter schools that

offer health care to use the same State-run system. This has the potential to save local districts if the costs of the State-run system are lower than the health care being purchased by the local districts. There would be some State costs in implementing and operating the plan.

Pros:

- Eliminates potentially protracted negotiations over health care.
- Potential savings from standardizing health care options across districts.
- State has a statewide system in place and experience administering such a program. However, the new system would have to be about six times as large as the current civil service system.
- Potential reduction in competition (and mobility) among similar districts for employees, if offering varied health care plans, hence possibly reducing turnover.

Cons:

- Erases all local bargaining agreements on health care. Employees who gave up pay raises in exchange for better health care coverage would end up in a different place relative to those employees who settled for less health care and higher wages. Thus, the move to universal health care would create potential inequities.
- Eliminates much local control and turns it over to the State.
- Some districts, or for some groups of employees within a district, may end up paying more for State health care, if the level of coverage provided by the district was very low.
- Significant savings would require reductions in benefits for some districts

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CORRECTIONS WORKING GROUP

Introduction and Overview

Since ____, the corrections budget has increased at a compounded annual growth rate of __%, from \$__ to \$___. The increase has been driven primarily by an increase in the number of prisoners from __ to ____, due largely to implementation of Truth In Sentencing laws, strict adherence to minimum sentencing guidelines and other “tough on crime” initiatives.

The Department of Corrections has done an excellent job finding ways to manage costs within the current construct and environment.

Any efforts to significantly reduce costs must address ways to *safely* reduce prison populations, direct them to lower cost venues and/or lower salary and benefits expenses. Ultimately, the most significant savings are achieved when the prisoner population is reduced to levels that will allow for facility closures.

The largest opportunity to reduce corrections costs and the potential cost savings impact, include:

- Closing prisons by reducing the prisoner population through more nuanced approaches to sentencing, parole and incarceration (\$__ annual impact in [five] years);
- Lowering salary and benefits expense, which represents __% of the annual budget (\$__);
- Reducing prisoner health care costs (\$__);
- Exploring select other cost reduction opportunities (\$__).

Reducing the Prisoner Population and Closing Prisons Through More Nuanced Approaches To Sentencing

- Pursuing nuanced and data-driven programs to reduce lengths of stay
 - Leveraging risk-based modeling to safely shorten sentencing and reduce the gap between actual release and Early Release date, particularly for the approximately 11,000 non-violent offenders who represent 23% of the prison population
 - Continuing to expand GPS tether and other initiatives that will allow for earlier and safer release of prisoners and increase the number of parolees
- Further investing in programs reduce recidivism; parole failures and probation violators made up 62% of the 2006 prison intake population
 - Michigan Prisoner Re-entry Initiative
 - Performance incentives to reduce supervision requirements for parolees and free up capacity for new parolees
 - Other interim steps for parole and probation violators before re-entry (short-term residential facilities, day reporting centers), particularly for technical violations (1/3 of all new admissions and 1/2 of all prisoners by some counts)
- Complementing the above programs with economic incentives for local governments to reduce recidivism
 - Kansas program
 - Arizona program, in which local governments benefit from 40% of the savings from eliminating recidivism among parolees and people on probation
 - Arizona reduced the re-entry of parolees and probation by 25%, which would imply a roughly 15% reduction in new admissions per year
- Over the long-term
 - Evaluate risk-based approach to sentencing and parole policies
 - Consider expanding community corrections grants to move prisoners to lower cost venues and to find alternatives to prison such as Community Residential Placements (half-way houses), if they can be accomplished safely

Lowering Salary and Benefits Expense

- Leveraging risk-based modeling to re-evaluate classification systems and the resulting staffing ratios in order to reduce staffing levels
- Continue to evaluate relief factor ratios in order to reduce staffing levels
- Continue to evaluate staffing patterns

- Reduce overtime levels, which have doubled over the past five years, by....[specific actions to reduce some of \$100 million in overtime]
- Continue to pursue opportunities to consolidate prisons and prison operations
 - Consolidate contiguous prisons and the resulting functions/management
 - Stores
 - Warehouse
 - Infirmaries
- Leverage technology to reduce the number of officers needed (e.g., officers in guard towers)
- Reduce employee benefits costs¹ through
 - Lower health care costs
 - Increased co-pays and deductibles
 - Reducing defined benefits costs through early buyouts
- Reduce average salary per employee by evaluating early buyout programs

Reducing Prisoner Health Care Costs

- Continue to explore ways to reduce pharmaceutical costs by
 - Lowering drug costs
 - New pharma contract and savings from re-bid underway for 2009
 - [340b] program
 - Consolidated purchasing with [other agencies and communities] to achieve additional leverage and buying power
 - Reviewing and enforcing formularies and prescription patterns and ensuring compliance (Diamond Drug)
 - Increasing prisoner co-pays
 - Using technology to reduce the costs of administration (telemedicine and tele-conferencing)
- Evaluating opportunities to reduce health care costs, which have increased 40% over the past five years through technology (e.g., telemedicine)
- Leverage ideas from the Medicaid/CHS working group to reduce health care costs for prisoners
- Increase the number of infirmary beds to reduce hospital costs and overtime/transportation costs
- Evaluate a centralized infirmary; evaluate if savings could be achieved through privatization

Exploring Select Other Opportunities

- Reviewing select privatization opportunities *where they work*
 - Mental health care
 - Transportation, which might save labor, maintenance and routing costs
- Explore revenue generating opportunities
 - Re-instating the prisoner phone charge (\$10 million)
 - Email, notary, videoconference and other charges
 - Other revenue-generating opportunities, including the expansion of Michigan State Industries
- Continue to consolidate function to achieve efficiencies
 - Procurement
 - Warehousing
 - Business office
 - Accounting and budgeting
- [How reduce fuel and utilities expense?]
- Consolidate purchasing activities with other areas of the government
- Continue to explore federal and private grants to support some of the investment initiatives in particular
- Exploring other opportunities to work jointly with local and county governments to achieve system-wide savings for both the state and the local government
- Transferring eligible prisoners to customs/federal officials

¹ Publicly available statistics seem to indicate that the average salary and benefit level for Michigan officers is 20% higher than that of other states

EFFICIENCIES WITHIN DEPARTMENTS UPDATE FOR DECEMBER 2008

In November, a management survey questionnaire was developed and sent to a contact in the executive branch. The contact forwarded the instrument to the Department chiefs. The instrument focused on understanding existing management systems for performance management, goal objectives alignment, continuous improvement, and event driven improvement with change management.

We look forward to receiving back the information both in written and possibly verbal interviews.

EFFICIENCIES WITHIN DEPARTMENTS INITIAL PROPOSAL

Research on efficiencies gained from management systems finds that 10% reduction in total controllable costs is a reasonable assumption.

Initial reviews find there are many pockets of excellence in many areas within the Michigan government bureaucracy.

The preliminary key focus suggestions for immediate improvements are as follows:

- 1) A consistent performance management system. The system should include an objective based, results driven scorecard for at least all leadership positions from first line leaders to department chiefs. It should also include annual performance reviews that recognize excellent performance, address opportunities, as well as develop performance action plans all employees for the coming year.
- 2) A consistent continuous improvement process for all departments that applies techniques and tools in statistical control, six sigma, lean, 5S, and several other well known functional tools. These tools do not require a lot of training, but do require managerial courage and perseverance.
- 3) A consistent step change process for all departments that utilize proven event driven techniques such as Kaizen and value stream mapping. These techniques do require the use of consultants - many exist at reasonable rates.

These are preliminary focus items. Several more are in development but require analysis from survey results and interviews with department chiefs.

**Legislative Commission on Government Efficiency
Higher Education Work Group
Summary of Preliminary Efficiency Options**

Option 1: Eliminate the Michigan Promise Grant Program, beginning with the high school graduating class of 2010, for annual savings of \$150.0 - \$200.0 million.

Pros:

- Grants are not distributed based on student's financial need.
- Grants are not earmarked for college costs and may be used for other expenses.
- The major portion of the grant funds are paid only after a student completes two years of study.
- Actual amount saved can be identified.
- This is one of the newest among the State-funded Higher Education grant programs.
- A Constitutional amendment would not be required.

Cons:

- An incentive for a student's postsecondary progression would be eliminated.
- There would be a substantial reduction (41.5% in FY 2008-09; increasing in future years) in State support for student financial aid.
- The Program has widespread support among Executive Office and Legislative constituencies.

Option 2: Reduce University and Community College Operations appropriations across-the-board by 7.1%, for savings of \$125.2 million.

Pros:

- Mechanically easy to do.
- Does not require making any decisions regarding policy priorities.
- Actual amount saved can be identified.
- Is often viewed by interest groups as "fair".
- A Constitutional amendment would not be required.

Cons:

- Does not account for public policy priorities.
- Based on history, reductions to State university appropriations would lead to offsetting tuition increases for students.

Option 3: Merge or consolidate universities and/or community colleges within a region, for potential annual savings.

Pros:

- University and/or community college enrollments would be pooled by region, and either regional boards or a Statewide board would consolidate the administration of the schools in each region, resulting in savings through economies of scale and elimination of duplicative programs/services.

Cons:

- There would be potential costs associated with adding a coordinating board or boards.

- Administrative costs are estimated at about 7.0% for the 15 public universities, so consolidation savings may be minimal.
- Actual amount saved cannot be identified.
- Any savings would likely take several years, if not longer, to materialize.
- The proposal would likely spark strong opposition from Legislators in whose districts the institutions are located.
- Community colleges are local units of government and are subject to governance by locally-elected officials who may not support regionalization.
- Merging or consolidating institutions could reduce competition.
- A Constitutional amendment would be required.

Option 4: Privatize the University of Michigan-Ann Arbor, for a savings of \$326.7 million.

Pros:

- Actual amount saved can be identified.
- No other reductions in Higher Education funding would be needed.
- Enrollment loss is unlikely as large pool of students are willing to pay high tuition to attend UM-Ann Arbor, and increased institutional financial aid could be focused on low-income students. Those unwilling or unable to pay higher rates would presumably shift to other State universities.

Cons:

- Loss of a State asset in which the State has invested billions of dollars.
- In-state students whose families have available financial resources would be required to pay full costs of education (\$25,000+), despite having paid taxes as State residents.
- A Constitutional amendment would be required.

Option 5: Develop a funding formula for the 15 public universities that takes into account total expenditures at each university, tuition revenue, changes in the number of students, and types of programs and degrees offered.

Pros:

- Has the potential to place focus on achieving overall efficiencies in State university spending, rather than on tuition increases, which tend to be directly linked to state funding.
- Establishes some level of consistency in university expectations for State funding.

Cons:

- Moves away from historical ways of funding the universities that are based on more flexible criteria.
- If the formula is fully and consistently funded, removes a major option for balancing the State budget if revenues decline and/or costs increase in other major budget areas (Community Health, Corrections, etc.)
- Could result in savings in terms of State university expenditures, but would not necessarily result in savings to the State budget.

Things that are already being done that the Work Group would encourage:

- The use and growth of the "university center" model that brings four-year university degree programs to community college campuses. This takes advantage of: (1) lower-

cost instruction by community colleges at lower division level and (2) existing resources/expertise of State universities to provide upper division instruction.

- The use and expansion of group purchasing of goods and services, such as participation in the State's MiDeal contract program and the Midwest Higher Education Compact.
- The use and continued development of the "transfer wizard" technology to ensure students do not enroll in community college courses that do not count toward degree completion.
- Further adoption of the Voluntary System of Accountability (VSA). Seven of the 15 public universities participate in the VSA which provides clearer information to students and families but is not necessarily a source of cost savings.
- More aggressive pursuit of public/private partnerships in the construction and renovation of campus buildings.

Other recommendations for efficiencies:

- Allow public community colleges to phase out of the Michigan Public School Employees Retirement System. (Potential long-term savings but short-term costs of transitioning between systems.)
- Explore option for independent colleges to become self-insurers. (Further technical exploration may be needed to ensure pool is large enough.)
- Explore option for independent colleges to participate in State's MiDeal contract program.

**Legislative Commission on Government Efficiency
Information Technology Work Group
Summary of Recommendation Options**

Option 1: Centralizing Management of State Telephone Networks as recommended in FY 2006-07 DIT boilerplate report.

Advantages

- Savings associated with centralization of technology across State departments has been historically established as effective.
- Savings associated with this change will be fairly easy to achieve and measure. This recommendation provides a clearer path between policy change and savings than many others discussed in the work group.

Disadvantages

- This change would require an initial expenditure of \$5.0 million over two years to implement.
- This project would likely be a large undertaking and the potential does exist for cost overruns, delays and problems with the quality of the final project.

Option 2: Work with the Department of Environmental Quality (DEQ) to create an IT application that would significantly reduce the use of paper files as recommended in the FY 2006-07 DIT boilerplate report.

Advantages

- This project has already been piloted in Grand Rapids with some positive results.
- This would be another project that would benefit the public, provide easier access to DEQ information and could reduce staff resources allocated to processing paper files.
- The project may also reduce the facility needs of the DEQ currently allocated to storage.

Disadvantages

- Development of this project would be costly (\$12.0-\$17.0 million), time consuming and complicated.

Option 3: Continue to utilize video, audio, and web conferencing to offset the cost of out of state travel as discussed in the FY 2006-07 DIT boilerplate report. Explore using video, audio and web conferencing as a strategy to reduce need for in-state employee travel.

Advantages

- The State already has access to each of these technologies and makes use of them already.
- Aggressive use of video and web conferencing could be used to reduce transportation cost and employee time related to hearings, mandated meetings and administrative procedures.

Disadvantages

- Out of state employee travel has been reduced significantly in recent years. This recent reduction in out of state travel makes it unlikely that significant savings can be achieved through reducing need for out of state travel with audio, video and web conferencing.

Option 4: Extend child welfare data available to the Department of Human Services (DHS) to private contracted child welfare agencies as recommended in the FY 2006-07 DIT boilerplate report.

Advantages

- Granting IT access to private child welfare agencies would eliminate the need for these agencies to submit paper reports to the DHS. This would reduce administrative burden on the private agencies and the State.
- Consolidating the collection of these reports in one source may very well reduce the number of errors (related to late/lost reports, date entry difficulty etc) associated with managing privately supervised children.
- This change may fit into mandated adjustments in the structure of child welfare in Michigan in the Children's Rights lawsuit settlement.

Disadvantages

- The system change will require about \$1.5 to \$2.0 million in initial funding.
- Private agencies unfamiliar with these programs may not be as effective in entering this information in the short/medium term this would increase need for training of private staff.

Option 5: Reduce State reliance upon contracts to provide staff for software development and programming activities.

Advantages

- There are several strategies available to the State to accomplish this including identifying current contracted staff that could be replaced with State employees, increasing internship opportunities, establishing a fast-track hiring process through Civil Service for certain job descriptions or re-training workers on legacy computer systems
- DIT has converted contractors to State employment in prior years leading to significant savings.
- Increasing employed IT staff could provide greater institutional knowledge within Departments. Use of shorter and medium term contracted employees may leave gaps in knowledge of the structure of IT systems being operated in Departments.

Disadvantages

- Savings are largely driven by the number of contractors eligible for conversion. It is difficult to pinpoint precise savings amounts.
- The DIT has completed several conversion projects in prior years. This suggests that additional conversions may not be as easily identified.
- Public sector institutions have had great difficulty recruiting qualified individuals for these positions. Overcoming these recruiting problems will be difficult.

Option 6: Consolidate management of IT for the Legislature and Judiciary in the Department of Information Technology.

Advantages

- The DIT does have some experience/expertise in integrating IT needs of different Departments into the operation of a single Department.

- Prior experience with consolidation of IT management into DIT suggests that some savings could be achieved.

Disadvantages

- The work group has previously expressed some legitimate concerns about how this type of change could be properly managed by DIT.
- The DIT would have to ensure that computer systems used by the Legislature and Judiciary are secure and cannot be accessed by Executive Agencies.
- The DIT would be placed in a difficult position in managing their relationship with the body responsible for their appropriation.

Option 7: Create an Executive workgroup comprised of staff from the State Budget Office, DIT and all other state Departments that would provide oversight of information technology projects whose responsibilities would include (though not limited to): management of large technology projects, suggest project modifications, approve IT projects, re-direct or eliminate efforts if need be, monitor and trouble shoot.

Advantages

- Effort would not require up front expenditure to create.
- This would be another technique to ensure that IT activities best meet the needs for State government
- Creation of this body would also provide decision makers a better understanding of major IT issues facing Departments
- Creating a single body for overall IT review could improve efficiency in the management of projects and may lead to significant reductions in State expenditures

Disadvantages

- Results in an additional review requirement which could slow down implementation time for new and on-going IT projects.

Option 8: Explore opportunities to cooperate with local government on information technology projects. Opportunities include providing access to local governments to State purchasing contracts, create opportunities for local governments to pool purchasing power, provide local governments access to State computer system (like the CRASH system operated by the Department of State Police or the Center for Geographic Information in DIT).

Advantages

- Opportunity to improve relationship between State and local governments.
- Local governments have provided the State with access to IT resources that have lead to cost savings.
- There may be small opportunities available to the State to utilize local data to sell to third parties.
- MDIT has already created the Office of Technology Partnerships and have already gained experience in building some of these arrangements.

Disadvantages

- There is not a clear relationship between many of the cooperative relationships described above and a significant reduction in State expenditure. It is more likely that savings would be achieved at the local level.

- MDIT has found that many local governments are concerned about entering into these arrangements with the State. Larger scale efforts to link IT efforts with local governments may need some form of mandated cooperation. Any mandate upon local governments to enter into these arrangements would likely increase distrust in State IT efforts.

Major Options Considered but Not Recommended

- Shifting some MDIT functions to private contractors, specifically computer help desk functions like password reset and support for basic programs like Microsoft Word and Microsoft Excel.
- An exploration of the financing structure currently used to support MDIT.

LEGISLATIVE COMMISSION ON GOVERNMENT EFFICIENCY
Information Technology Workgroup – Potential GF/GP Savings

		Estimated	Estimated Year Five Savings	
		Initial	Net of Costs	
Item		Costs (1)	Low	High
1	Centralizing management of telephone networks	\$5,000,000	\$4,450,000	\$4,450,000
2	Paperless processing, Department of Environmental Quality	\$12,000,000 to \$17,000,000	\$8,900,000	\$8,900,000
3	Utilize video, audio and web conferencing offsetting travel	\$100,000	\$245,000	\$245,000
4	Extend child welfare information to partners/private agencies	\$1,700,000	\$990,000	\$990,000
5	Increase IT civil service employees and reduce contracted services	Minor administrative	\$200,000	\$2,400,000
6	Consolidate Legislative and Judicial IT into DIT IT	Minor administrative	\$1,130,000	\$1,130,000
7	Create an Executive governing body to approve/review IT projects	Minor administrative	unknown	unknown
8	Cooperate with local governments on IT projects	Minor administrative	unknown	unknown
	Total Savings:		\$15,915,000	\$18,115,000
	Workgroup Target :		\$75,000,000	\$75,000,000
	Over (Under) Target :		-\$59,085,000	-\$56,885,000

(1) Initial costs represents GF/GP that the State would be required to invest up-front to then realize the net 5-year savings.



**LEGISLATIVE COMMISSION ON
GOVERNMENT EFFICIENCY
DCH/Medicaid Workgroup**

OUTLINE OF AREAS OF POTENTIAL COST SAVINGS

Goal: To propose to the Michigan legislature ways in which the projected Department of Community Health GF/GP expenditure could be reduced by \$300 million - \$600 million by FY 2013.

Guiding Principles: Proposals should

- Provide adequate funding for DCH to *efficiently*² perform its key functions.
- Preserve as much federal funding of the Medicaid program as possible, thereby making the most efficient use of GF/GP dollars.
- Not exacerbate the current cost-shift to employers and patients due to current Medicaid underfunding of payments to providers.

KEY: **Green = Recommend**
 Yellow = Further Analysis Required
 Red = Not Recommended

² Webster's online dictionary defines "efficient" as "productive of desired effects ; *especially* : productive without waste."

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FOR DISCUSSION PURPOSES ONLY

MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
1. Cost Sharing Mechanisms			
a. Additional co-pays or premiums, especially non-emergency use of emergency department – for both FFS and managed care	Often results in conscientious use of services; allowed under the DRA	Could result in the inability of beneficiaries to pay for necessary services and lead to more expensive care; copays are difficult to collect and may result in cut to providers	Medium to High. Other states using DRA authority to propose this option, but some uncertainty regarding how high CMS will allow co-pays/premiums to rise if waiver is applied for outside of DRA
b. HSAs for FFS enrollees/Alternative Benefit Plans – each enrollee receives \$X in HSA annually for expenditure on services other than preventive care (physicals, etc.) – amounts remaining at end of year could be (i) rolled over to next year; (ii) used for certain pre-approved purposes/services (housing, childcare, food); or (iii) paid out to enrollee as tax-free income (perhaps not all of remainder – i.e., 50% of remainder paid out?).	Gives recipients a greater role in care determinations; could produce savings	Assumes that Medicaid clients are "rational" consumers of health benefits; fixed amount would be insufficient for high-needs patients	Low to Medium. Would fundamentally change structure of existing benefit – would require waiver approval.
2. Service Restrictions/Incentives to Reduce Utilization			
a. Tightening limits on visits / increasing prior authorization requirements	Prior authorization is common for certain Medicaid benefits – an expansion of this practice is possible and could produce meaningful savings	Places an effective limit on the availability of services; question of State's authority to limit access and may shift costs to other Medicaid services	Low to Medium. While prior authorization or similar limits can and have been applied, waiver approval would be necessary.
b. Strategies to reduce emergency room utilization and high acuity inpatient admissions, including:			

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
i. higher co-pay if not medically necessary/emergent	DRA allows higher co-pays for use of emergency room services – other states exploring this option	Could place excessive financial burden on beneficiaries or lead to a denial of services	High. Other states moving in this direction. Significant co-pay (i.e., \$50) would require federal waiver
ii. increase care management of patients with chronic diseases, especially high cost patients	Could improve care coordination, service delivery and reduce ED visits and inpatient admissions	High-cost patients typically suffer from multiple and/or complex conditions, regardless of whether care is managed	Medium. It's unclear whether care management for high cost patients would be beneficial or cost-effective.
iii. nurse help line telephone service to provide access to basic medical advice;	May represent a simple, cost-effective alternative to unnecessary office and/or ER visits	Uncertainty – difficult to know whether beneficiaries will utilize service or use it as a substitute for more costly services	High. Could be established with relative ease.
iv. Increased use of community health workers embedded in neighborhoods with high concentrations of Medicaid beneficiaries. See Michigan Community Health Worker Initiative	Promotes wellness and access to/proper utilization of health care services, avoiding ER visits and hospitalizations	Added expense with uncertain returns/savings (but proven success in other states).	High. Could be enhanced with relative ease through existing infrastructures.
v. Encourage increased use of chronic disease management programs by Medicaid managed care plans – adoption of best practices proven in most	Could result in better coordination of care for patients	It is unclear whether this coordination of care would produce	Medium. Difficult to specify target population given

MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
successful/efficient Medicaid managed care plans; could be encouraged through appropriate financial incentives.	with chronic conditions	any meaningful savings. Most recipients are in managed care, where there already is a very strong incentive to do disease management. Many others are spend-downs or dual eligibles where Medicaid is not the primary payer.	penetration of managed care. Expansion of care management would likely have significant political support
vi. Expansion of Federally Qualified Health Clinic (FQHC) program in underserved areas	Documented to reduce ED utilization through increased access to basic health care services	Additional expense, but would likely be offset by savings in avoided ED visits and less acute inpatient admissions	High. Infrastructure for program already exists.
c. Reduce utilization of ancillaries by establishing protocols for diagnostic tests (imaging, labs, etc.) and grant immunity to physicians who document adherence to these protocols	Could reduce utilization of costly procedures and streamline service protocols	Savings would depend on the degree to which physicians are currently using inefficient or unreasonable practices	Medium. Immunity issue would require legislative action to amend current statute.
3. Provider Payment Changes			
a. Reductions to provider rates / Elimination of DSH pools	Could be used to generate significant cost savings	Would represent a strong disincentive for providers to accept Medicaid	Medium.

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
		patients (further reducing access) and would exacerbate already significant cost-shift to private payers.	
b. New provider taxes (non-physician – see Item 3(c)(i) below for physician provider tax proposal)	Could produce mutual financial benefits for the State and providers who treat a large number of Medicaid patients	Winners and losers among providers would emerge; it may be difficult to convince potential losers to participate; highly uncertain status with new Administration and should be cautious of increasing MI dependency	Medium. Hospital, nursing home, and direct HMO taxes are at highest feasible level already.
c. Strategies for reimbursement reform			
i. Increase primary care physician reimbursement to Medicare parity, potentially funded through physician QAAP (see 11(a) - Medical Home below); review Grand Rapids Children's Health Access Program (CHAP) pilot. A physician QAAP could also allow for the integration of pay-for-performance standards.	Would encourage physicians to participate in Medicaid, increase access and perhaps reduce uncompensated care costs, ER utilization and inpatient admissions Several other states report improved	A physician QAAP may not effectively bridge the gap between Medicaid and Medicare rates; winners and losers would necessarily emerge	Medium. Requires the establishment of a physician QAAP (see below).
ii. Provide Medicaid reimbursement for Community Health Workers (See 5(c)(iii) above)		Workers will require at least some formal	Medium to High. Ingham County has

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
4. Managed Care Expansions			
a. Medicaid-Medicare dual eligibles;	outcomes and some cost savings associated with Community-based workers Could improve care coordination and service delivery	training. Could lead to laypersons assuming roles that should be filled by medical professionals The State cannot mandate that Medicare beneficiaries join a health plan; this option may not produce meaningful savings	established a pilot for this purpose. Low. Again, hinges on the inability of the State to mandate enrollment of these beneficiaries into managed care. Also would work best if Medicare Advantage health plans also operated as Medicaid HMOs in Michigan.
b. Long-term care;	Could improve care coordination and service delivery	These are often high-cost patients and managed care may not produce significant savings; may actually increase expense.	Medium. Unclear whether managed care will produce efficiencies for this population group.
c. MICHild (Michigan version of "State Children's Health Insurance Program" or "SCHIP")	Could improve care coordination and service delivery through consolidation of like	MICHild beneficiaries may be required to join an unfamiliar provider network; estimated	Medium. The idea of a managed care SCHIP plan is being explored in other states. Enrollment in

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
	<p>services; possible cost savings. Blue Cross continues to claim they lose money on MICHild, so transferring responsibility to Medicaid HMOs would alleviate that issue for Blue Cross.</p> <p>Could improve care coordination and service delivery, furthering Commission's goal of efficiency</p>	<p>savings are minimal (\$0.5-\$1.5 million³ GF/GP) and likely not significant enough to pursue.</p>	<p>current Medicaid HMOs would produce QAAP benefits, but may not be available after FY 2009.</p>
<p>d. Children's special health care services;</p>		<p>These are often high-cost patients and managed care may not produce significant savings or financial risks may be too high to attract managed care provider; limits on choice of providers may be a concern for some patients.</p>	<p>Medium. It's unclear whether care management for this population group would be beneficial or cost-effective. Past experience with voluntary care management has not indicated major savings or major cost increases.</p>
<p>e. ABW enrollees;</p>	<p>Could improve care coordination and service delivery</p>	<p>Care management may not be effective for childless adults who qualify by virtue of very low income, especially given the limited benefits available.</p>	<p>Medium. Since this population is not consistently on Medicaid, it is unclear whether care management would be effective or appropriate.</p>
<p>5. Increased Use of Incentives for Managed Care Plans</p>	<p>To a degree, DCH</p>	<p>An incentive-based</p>	<p>High. DCH</p>

³ All cost savings estimates contained in this Outline are rough estimates and should not be relied upon.

MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
Demonstrating Efficiency and Quality Outcomes	already rewards health plans based on quality measures; this practice could be expanded	strategy may not produce meaningful savings	protocols already moving in this direction.
6. Removal of Optional Populations			
a. Group 2 19 & 20 year-olds;	Savings of about \$15 million GF/GP per year could be generated.	Eliminates coverage for about 15,000 individuals	Low to Medium.
b. Group 2 caretaker relatives;	Savings of about \$32 million GF/GP per year could be generated.	Eliminates coverage for about 45,000 legal guardians	Low to Medium.
c. Adult Benefits Waiver (ABW)	Savings of about \$40 million per year could be generated. (current GF/GP is \$35.8 million) [Note: Medicaid Mental Health needs to be subtracted]	Eliminates coverage for about 60,000 individuals	Low to Medium. Waiver will expire in early 2009, not clear if it will be renewed.
7. Means Testing of Optional Populations			
a. Disabled children less than 18 yrs (PEM 171) – consider parents’ assets & income	Asset and Income tests common in Medicaid; indeterminate savings Current GF/GP is \$7.8 million.	Would eliminate eligibility for some children (out of 400 total) who may require institutional care.	Medium. Question of whether families would end up spending down anyway, reducing savings.
b. SED waiver children (PEM 172) – consider parents’ assets & income	Asset and Income tests common in	Would eliminate eligibility for some	Medium. Question of whether families

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
	Medicaid	children (out of 43 total); no GF/GP savings since CMH's pay state share	would end up spending down anyway
8. Removal of Optional Benefits			
a. Adult dental coverage (adults are currently eligible to receive a very limited package of dental benefits – this is largely limited to emergent conditions and does not include preventative care (i.e. checkups and cleanings))	Previously removed in MI; meaningful savings possible in the range of \$6 million GF/GP.	Benefit was restored in FY06-07; could lead to more serious problems resulting from untreated conditions or higher Medicaid costs for other services	Medium. Was previously a target for cuts; could be again.
b. Optometric services (also a limited benefit – for example, a new pair of basic glasses every three years)	Some savings possible - \$2 to \$3 million GF/GP per year	Could lead to more serious problems resulting from untreated conditions	Medium. Can be achieved by amending the State Plan.
c. Podiatric services;	Ostensible savings possible – about \$1 million GF/GP per year	Could lead to more serious problems resulting from untreated conditions. Past cutoff was reversed when it became apparent that more expensive treatment from MDs was being sought, thus no real savings.	Low. No indication of actual savings.
d. Chiropractic services;	Some savings possible – about \$300,000 GF/GP per year	Could lead to more serious problems resulting from untreated conditions	Medium. Can be achieved by amending the State Plan.

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
		or higher Medicaid costs for other services	
e. Prescription drug coverage;	Would result in significant savings upfront – in the hundreds of millions per year.	Lack of Rx drug coverage would likely have severe impacts on the health of Medicaid beneficiaries as well as additional costs, especially on the mental health side.	Low.
f. Prioritize covered services, excluding certain mandatory services via waiver	Shifts focus to a set of primary services; could reduce unnecessary utilization of services	Would limit access to services deemed "low-priority"	Low to Medium. Waiver authority required and approval not necessarily likely.
g. Discontinue Healthy Kids Dental program	Savings approaching \$20 million GF/GP per fiscal year.	Would end a successful program providing dental care to nearly 300,000 children statewide. Also would likely lead to more dentists dropping out of the Medicaid program (about 40% participate now).	Low to Medium. Difficult to eliminate with noted success of program. Should be noted that these children would still have dental coverage, just at a much lower reimbursement rate.
9. Long-Term Care Options			
a. Expansion of community alternatives, especially transfer to less expensive home care environment when medically	Could produce meaningful savings;	Would deemphasize nursing home care	Medium to High. DCH already moving

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
appropriate;	other states have had success in expanding HCB options	relative to HCB alternatives; net-widening issues.	in this direction, as are many other states.
b. Incent development of more efficient long-term care environments, including but not limited to home-based telehealth.	Could be a strong option for patients who require only limited supervision and care	Questions as to the quality of care that can be maintained using only telehealth measures	Medium. Would likely require additional research and perhaps pilot implementation.
c. Single point of entry expansion;	Program provides beneficiaries with options and tools to evaluate those options; could improve health outcomes and quality of life	Only con would be if there is not a net savings; criteria for provider selection by gatekeeper needs to be objective and discourage favoritism.	Medium to High. The pilot programs have been largely successful, so expansion seems likely.
d. Estate recovery;	Could allow the State to recover additional monies for services provided. Would help deter sheltering of assets, so could lead to even greater indirect savings.	In a sense, this mechanism would operate as a tax on beneficiaries and their families	Medium. Michigan's present estate recovery law is very limited and it could be beefed up to generate much greater savings.
e. Acuity-based reimbursement for nursing homes;	Would provide reimbursement based on categories of patients rather than audited costs.	Audited costs take into account labor markets; ceiling on audited costs provides a strong incentive not to	Medium. No indication that this would lead to better care or save money. Questions as to whether it would be

MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
f. Means testing of children of LTC enrollees (especially if children shelter assets of enrollee)	Means tests are generally acceptable under Medicaid; could provide some savings and ensure compliance w/ existing limits on personal assets	Could limit access to LTC services for some and would serve as a tax on families of LTC patients	more accurate given ranges of needs within acuity groups and labor market conditions. Low to Medium. Since children of LTC beneficiaries are not themselves beneficiaries, it is unclear whether this practice would withstand legal scrutiny. A possible alternative approach would be to strengthen the estate recovery law.
10. Pharmaceutical Strategies			
a. Expansion of preferred drug list;	Would lead to greater rebate savings and reduce costs by tens of millions.	Could have significant effect on mental health treatment. There is difficulty in achieving a balance in medications with mentally ill individuals. A try until failure approach starting with generics would eventually get most	High. To get significant savings, State law exempting certain mental health drugs from PDL would have to be repealed.

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
b. Provider and patient education initiatives; i. Pharmacy Quality Improvement Project (PQIP);	Better education of providers could lead to less over-prescribing.	patients to equilibrium but might take longer than under current policy.	Low. Questionable due to "getting blood from a rock" issue. Easy to implement expansion if areas with potential savings can be identified
		Question of what drugs could be added to the program that are not covered by the PDL, prescribed by HMOs, or barred by the mental health statute referenced in a) above.	
c. Utilization restrictions / monthly limits;	Would definitely lead to savings if applied in a way that is not one size fits all (in other words, some medications almost certainly save money by preventing hospitalizations)	Not clear that patients are opting to have an excessive number of scripts; those with high numbers of scripts have chronic health conditions.	Low. Conflict with Federal Medicaid policy which bars such limitations. Waiver would be difficult to obtain due to impact on people with chronic health conditions.
d. Product cost and dispensing fee revisions	A reduction in the reimbursement for pharmaceuticals or	Would reduce the margin for pharmacies with	High.

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
	<p>the dispensing fee would definitely save money.</p>	<p>high Medicaid volumes, further reducing access</p>	
<p>e. Transfer responsibility for anti-depressants and anti-psychotics to the Pre-Paid Inpatient Health Plans (PIHPs)</p>	<p>Would reduce consideration of costs of treatment options in making treatment decisions. Presently CMHs do not have to pay for anti-psychotics, which creates an incentive to focus more on medications than on treatment and likely raises State expenditures.</p>	<p>Transfer of responsibility would also transfer the financial risk to CMHs.</p>	<p>High.</p>
<p>f. Require disclosure of financial ties between physicians and pharmaceutical/device companies</p>	<p>Would get information into the open and likely would deter excesses and would presumably reduce overprescribing of brand names. Unclear to what extent this would affect Medicaid due to PDL and other restrictions.</p>	<p>Would be strongly opposed by providers</p>	<p>Medium. Amount of savings on Medicaid side would likely be moderate.</p>

MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
g. Change in Federal law to allow the State of Michigan to collect pharmaceutical rebates for medications prescribed by Medicaid HMOs;	Significant savings, probably at least \$50 million GF/GP.	Has not yet been enacted at Federal level; new administration may be more supportive.	Medium. Dependent on Federal action, strong opposition from Pharma.
h. Establish pharmaceuticals group purchasing arrangement among all State agencies, including Medicaid, Corrections, higher ed institutions and any other State bodies purchasing pharmaceuticals.	Could produce meaningful savings by increasing size of pooling arrangements, thus earning additional drug rebates for the State	Will require administrative reconciliations.	Medium. Additional research on this option is warranted.
11. Other Strategies			
a. Medical Home – increase PCP access by increasing reimbursement to Medicare parity, along with enhanced case management; goal would be to maintain wellness and reduce (i) incidence of emergency department visits; and (ii) severity/acuity of health conditions (see North Carolina article); most likely a Medicaid managed care plan “best practice”	If implemented as described, would presumably improve health outcomes.	Michigan, unlike North Carolina, already has the vast majority of its Medicaid clients in managed care, meaning they already have medical homes and full access to primary care.	Low. Not clear if implementation would save money as the managed care system would have to be dismantled to implement this proposal
b. Health IT and e-prescribing;	Full implementation would likely lead to fewer errors and better outcomes.	Timing would be an issue, one size fits all approach or overriding growing private implementation of such programs may	High as these shifts are already occurring.

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
		be counterproductive.	
c. Discourage duplication of numerous Michigan HIEs and consolidate into one	Greater efficiency once fully implemented	Timing is an issue as choosing one approach over another before seeing which ones work best may be problematic.	High if not rushed into before these systems mature.
d. Anti-fraud and abuse measures;	Adding staff to the Department and/or to the Attorney General would allow more fraud to be rooted out and likely would result in a net savings.	Only con would be if there is not a net savings.	High
e. Incentives for healthy behaviors, with specific regard to smoking cessation and obesity remediation; may be a “best practice” for Michigan Medicaid managed care plans.	Healthier behaviors by the Medicaid as well as the general population would lead to long-term reduction in health costs without question.	How does the State encourage healthier behaviors? Financial incentives look to be acceptable to the Federal government, but monitoring costs may be high (smoke tests). Banning access to Medicaid for smokers will not receive Federal approval.	Depends on the type of effort being proposed. Eligibility cut-offs based on individual decisions to use legal products will not receive Federal approval.

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
<p>f. Eliminate unhealthy foods from publicly funded institutions, including but not limited to public schools Or Increase access to healthy, nutritious foods (e.g. farm to school program)</p>	<p>Obesity for many starts at an early age and food choices at schools are a factor in that.</p>	<p>Concerns about government dictating personal choices; potential Medicaid savings would be long term</p>	<p>Medium.</p>
<p>g. Third-party liability cost avoidance and collections – re-introduce legislation to require no-fault insurers to provide certain data to MSA for identification of primary insurance (i.e., if eligible for no-fault insurance, then Medicaid does not pay)</p>	<p>Would achieve savings, likely in the tens of millions, from avoiding improper shifting of costs from no-fault insurance to Medicaid.</p>	<p>Auto insurers would argue that costs would be shifted to rate-payers from taxpayers.</p>	<p>High. Would definitely achieve significant savings if implemented; auto insurers may seek to block or greatly water down proposal.</p>
<p>h. Investigate State purchase of reinsurance for higher cost/highly acute conditions;</p>	<p>If successfully implemented, could reduce costs for the highest cost cases. Would also reduce risk profile for HMOs.</p>	<p>Would likely lead to adverse selection; HMOs would dump expensive cases onto the State. Not clear if State could manage care any more efficiently than HMOs.</p>	<p>Low. Questions of whether there would be genuine savings due to adverse selection.</p>
<p>i. Investigate statewide or regional contracts for transportation services and DME for Medicaid beneficiaries;</p>	<p>If successfully implemented, could lead to savings.</p>	<p>Not clear that statewide contracts for many services would be feasible given geography. Perhaps a focus on regional contracts for certain services</p>	<p>Depends on approach taken. Practicality considerations.</p>

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MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
		in large metropolitan areas would achieve better results. Also possible equity issue if doctors have to use different products for Medicaid patients than for other patients. Authorization through local DHS keeps costs lower than other states.	
j. Establish/designate Centers of Transplant Excellence through bid process focusing on cost, efficiency and quality of programs.	Guaranteed contract would result in lower cost for services, resulting in savings.	Ensuring highest quality care would be an important issue for life-saving treatment. Question of whether this would only apply to Medicaid.	Medium.
k. Establish single payor system for government programs – ie, apply for waiver to ELIMINATE Michigan Medicaid, folding entire program into Medicare program – any person previously eligible for Michigan Medicaid becomes eligible for new “State Medicare” program administered by CMS and partially funded by the State of Michigan (current State spend minus State cost of administering Medicaid program)	Eliminate duplicative bureaucracy. Presumably greater reimbursement for services to former Medicaid recipients would greatly improve access.	Likely to increase costs given higher payment rates and history of understated estimates of Medicare expenditures.	Low. Would require significant shift in Federal policy going well beyond the usual waiver request.

NON-MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
1. Mental Health Services			
a. CMH Multicultural services;	CMHs can continue to contract for such services based on the needs of populations in their communities; present funding appears to be unrelated to actual need. \$6.7 million GF.	Hispanic, Vietnam Veterans, and Native American population funding based on historical need, not lobbying prowess.	High.
b. Some reductions to Non-Medicaid mental health services;	The largest all GF/GP line item in DCH, biggest "bang for buck".	Funding is for mental health services to indigent adults who are not Medicaid eligible, many services already wait-listed.	High.
c. Reductions to substance abuse services;	Marginal dollars are GF/GP, so \$1 GF/GP savings for each \$1 reduced.	Substance abuse services for indigent adults who are not Medicaid eligible, many services already wait-listed. Also issue of Federal maintenance of effort	Low due to MOE issue.

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NON-MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
		requirements restricting the ability to make significant reductions.	
d. Reductions to, consolidations of and closures of State psychiatric hospitals;	Transfer treatment dollars into community and reduce fixed costs.	Question of whether all transferred patients could be handled in the community or with short-term placements.	High.
2. Other Strategies			
a. Consolidation/Regionalization of:	Comments apply to all four categories: Reduce fixed administrative costs, especially in smaller counties. Increase efficiencies, larger base for contracts may reduce per unit costs.	Comments apply to all four categories: Greater distance from agency to consumer. Savings exist but are marginal, rather than major.	High (see Sec. 272 DCH boilerplate report, August 2008).
i. Community Mental Health Service Providers (CMHSPs);			
ii. Area Agencies on Aging (AAAs);		AAAs have federal statutory basis.	
iii. Local Public Health Departments (LHDs);			
iv. Substance Abuse Coordinating Agencies			
b. Certificate of Need changes, tightening restrictions	Would reduce possible overuse of	Would reduce access to best	Questionable. Reduced costs are

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NON-MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
	medical technology and overbuilding of beds ("a built bed is a filled bed is a billed bed") Would increase access to the best technology.	available diagnostic equipment.	likely, but worse outcomes are likely too. Depends on approach taken (beds vs. equipment).
c. Certificate of Need changes, loosening restrictions		Would likely increase demand for such services, thereby increasing costs.	Questionable. Increased costs would occur, associated with likely better outcomes. Again depends on approach taken (beds vs. equipment).
d. Reductions in/elimination of local public health services (i.e., agencies should facilitate/coordinate rather than provide);	Certain services could be contracted if there would be savings.	Access issues (finding the private clinic), questions of whether there would be savings; could lead to more frequent or serious public health problems.	Low. Funding for these services has not been increased in a decade, difficult to find private providers willing to do most services for less.
e. Reductions to Healthy Michigan Fund	\$26 million in GF/GP equivalent funding. Some programs are of questionable value.	Reduction in prevention programs at a time where most health care models are shifting to a prevention approach.	High.
f. What DCH admin services could be potentially performed more efficiently by private sector and bid out via RFPs?	Identifying other services that could be done more	Most DCH services are privatized; the vast majority of	Questionable. Savings estimates are difficult to verify.

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NON-MEDICAID COMPONENTS			
Potential Savings Suggestion	Pros	Cons	Operational Feasibility of Implementation (High, Medium or Low)
	<p>efficiently by the private sector could achieve savings. Community mental health and local public health are still largely public, as is fee-for-service Medicaid administration.</p>	<p>Medicaid services are performed by private providers. Privatizing Medicaid management could leave the state vulnerable at time of contract renewal. MSA costs are \$25 million GF/GP to run a \$4.7 billion fee for service program, difficult to see significant administrative savings below that.</p>	

Legislative Commission on Government Efficiency

Personnel Practices/Employee Benefits Work Group Summary of Preliminary Efficiency/Savings Options December, 2008

Options reflect input from The Center for Michigan, Center for State & Local Government Excellence, Detroit Renaissance, Citizens Research Council, Michigan Chamber of Commerce, Mackinac Center on Public Policy, state employees in this work group, and others in HR roles in state government

Options are targeted to influence the following results:

- Workforce attraction and retention
- Workforce of sufficient size and capability
- Efficient and effective operations and processes within HR and other state government departments
- Competitive wages and benefits
- Savings between \$100M and \$200M

Personnel Practices

Option 1: Workforce forecasting

Conduct five-year workforce supply and demand forecasting and planning to identify the appropriate size and composition of the state government workforce based on required and desired service levels, revenue projections, population trends and knowledge transfer needs. Activities would include:

- Identification of staffing levels and skills needed in the future (workforce demand)
- Analysis of the present workforce -demographics, retirement projections, skills, voluntary turnover rates, etc (workforce supply)
- A gap analysis between supply and demand
- Analysis of the external labor market for skills needed in the future
- Development of strategies for ensuring the workforce needed in the future
- Evaluation to assure that the workforce plan remains valid and strategies are being achieved

Costs: \$10,000 for training for 3 Civil Service Commission and/or fiscal agency staff members

Savings:

Private sector examples

- Wellpoint (largest publicly traded commercial health benefits company in the US) saved \$6M due to reduced voluntary turnover
- Greater Baltimore Medical Center (hospital specializing in cancer, women's health, surgery and emergency services) saved \$4M due to better planning for attraction and retention of registered nurses

State Government example

- State of Wisconsin has a fairly sophisticated workforce forecasting and planning process. As a result of the enterprise-wide challenges that were identified through this planning process. Wisconsin's Office of State Employment Relations has

been working with other state agencies to address issues facing several workforce segments:

- Healthcare related professionals
- Engineering related professionals
- Fiscal related professionals

State of Michigan examples

Office of the Auditor General

- In FY 2008, the Office of the Auditor General had 192 backlogged audits due to reduction in staff of 39 FTE. Funding an additional 4 FTE (at cost of \$400K) could save the state \$8.7M; funding all positions needed to eliminate the backlog would save \$111.4M (these are one time savings; however, ongoing savings are expected as audits continue to be performed at the higher rate)

Treasury

- In FY 2009, Treasury's Personal Property Audit Program was funded at \$3.2M and recovered \$22M (\$10.2M to the state and \$11.8M locally). Additional audits were performed with 44% resulting in discovery. For FY 2010, Treasury has proposed \$1.6M in funding for enhanced field tax recovery and project recovery of \$5M in delinquent tax revenue. Treasury estimates that the cost of one auditor (\$100K) returns \$1M in savings.

Department of Human Services

- Recent slow revenue growth and the early retirement offer have kept staffing levels in the child welfare area down. The settlement entered into as a result of the lawsuit would require Michigan to increase staffing to achieve specified standards for cases per worker, but it also requires enhanced training and education requirements, reorganizing the structure of the Department in the child welfare area, and mandates new policies and procedures intended to create better outcomes. DHS Deputy Director Stanley Stewart told the Appropriations Committee this week that the settlement could mean \$200 million in new costs over the next several fiscal years.

Pros:

- Staffing levels that are not too high and not too low
- Does not assume the status quo in an era of increased spending pressures
- Ability to link workforce planning and budget planning
- Good, data-driven business practice
- Reduced employee burnout/turnover due to better match between workload and staffing levels
- There is public good in adequately staffing essential services

Cons:

- Data may not be available
- Difficult to develop future scenarios with some degree of certainty

Option 2: Effectiveness of HR and other state departments

Require HR department leaders to utilize a consistent and credible methodology to review the work of their departments to find ways to more effectively do their "mission critical" work to meet the needs of their constituencies. Utilize a consultant to work with HR and, if appropriate, 8 of the remaining 18 departments, while transferring capability to state HR employees to continue this work. Areas to explore:

- Streamline processes for providing services, improve efficiency, competitiveness and satisfaction (beginning with personnel processes)

- Reduce duplicated functions and overhead and achieve economies of scale in the management and provision of services; incent consolidation, service sharing and other efficiencies
- Review spans of control

Costs: Consultant = \$190K

(assumes work with 9 departments x average \$20K per department + expenses; does not include time of state employees spent in workshops; includes training for HR to continue work with remaining 9 departments)

Savings: \$21.6M over 5 years (\$4.32M/year)

(2 - 3 FTE reduction per department = ~54 FTE x \$80K loaded per FTE; savings will vary by size and opportunity within departments; does not include intangible benefits of continuous improvement with no additional investment from ongoing use of the tools and techniques)

Pros:

- Provides greater resource focus on “mission critical” work
- Reduces or eliminates less value-added work

Cons:

- Some changes might require negotiation with unions (suggest having OSE collective bargaining expert and/or labor attorney in workshops to identify implications that would require contract changes; also, provide time after workshops for unions to provide feedback and air concerns prior to final approval)

Option 3: Voluntary Separation Program

Implement a voluntary separation program where employees interested in separating from employment with state government identify themselves. State government then determines if it is in the state’s financial best interest to separate a particular employee, based on whether that employee would need to be replaced. This option could be used as a response to efficiencies found via Option 2, and would require negotiation. Once established, this program could be reused (across all of state government or targeted to certain departments).

Costs: See attached scenarios – costs range from \$18M to \$64M in Year 1, but other scenarios can be developed

Savings: See attached scenarios – savings range from \$41M to \$124M in year 2 and beyond, but other scenarios can be developed. Analysis does not take into consideration the cost to the State due to an increase in the rate of retirement of those employees eligible to retire, and thus the possible increase to required State contribution rates.

Pros:

- Managed staff reductions
- Positive morale associated with voluntary rather than involuntary staff reductions
- Avoids the disruption and retraining costs of bumping associated with involuntary reductions

Cons:

- Individual morale issues if an employee volunteers and is turned down
- Loss of institutional knowledge unless managed well

- Must carefully implement program in a consistent and non-discriminatory manner
- May be difficult to secure volunteers, given the current Michigan economy

Option 4: Mutual Gains Bargaining Approach

Recognizing the collaborative approach that already characterizes negotiations between state government and the unions representing state employees, explore whether there is additional benefit to be realized through adoption of a mutual gains bargaining approach. This approach has been used successfully in private sector companies facing financial challenges. It is a structured approach which improves traditional collective bargaining by identifying and addressing the “real” underlying concerns of the parties through joint problem-solving. It can be particularly successful when bargaining involves complex issues, such as employee benefits, where education and data are required to understand and address the issues.

Costs: \$65,000 - \$90,000 for training state and union negotiators and facilitation of the mutual gains bargaining approach

Savings: Difficult to be specific, but most companies and unions have found long-term success when tough subjects such as benefits are being negotiated and where retention of jobs is at stake due to financial challenges

Pros:

- Inclusive process
- Supports long term positive relationship between the parties, avoids threats and ultimatums that could damage the relationship
- Focuses on funding what’s really important to the parties
- Enables the parties to be fair while protecting them against those who would take advantage of the fairness
- Timing might be optimal given the need to look at health care and retirement benefits – challenging areas to address
- This approach was used by Big 3 automakers in last negotiations and by several governmental units and agencies at the state and federal level

Cons:

- Requires training
- Requires agreement by both parties
- Takes more time

Option 5: Competitive Compensation Levels

Perform a complete study of compensation levels for positions requiring college or college courses and those that do not, relative to the market. An analysis of the 2007 Michigan Employee Compensation survey, performed in November 2008 suggests that certain positions which require college degrees or college courses may be pegged below market, while positions that do not require college degrees or college courses may be pegged above market. However, only 49 of the 590 types of jobs were included in Employee Compensation Survey. It is recommended that a more comprehensive study be performed and focus in particular on entry level positions, where changes could be made more easily. It is also recommended that consideration be given to a review of additional vendors to complete this more comprehensive study.

Costs: TBD

Savings: TBD

Pros:

- Improve attraction and retention for positions requiring college
- Eliminate payment above the market for positions not requiring college

Cons:

- Would result in two-tier system where entry level positions with no college requirements are paid at a lower rate than employees are paid in those positions today; there are administrative challenges to a two-tier system
- Morale issues would exist if current or future compensation is reduced
- Proposed changes would require negotiation

Employee Benefits

Option 5: Long term benefits strategy (state employees and retirees)

Develop a long term benefits strategy that assesses competitiveness for current and future employees and retirees, establishes objectives that support attraction and retention to achieve the workforce forecast, and institutes tactics for long term health of the workforce and benefits cost control

Areas to explore:

- Establish state-wide system that would bring local government and public school active employee health care benefits and costs in line with those of state employees and consolidate administration
- Bring state employee health care and pension benefits and costs in line with the private sector
- Provide incentives that encourage healthy living and preventive care
- Share go-forward health care benefit cost increases 50 - 50 between state government and state employees and retirees (trend is 8% increase/year)

Costs: \$25,000 for study to support strategy development (for state employee and retiree benefits; further investment might need to be made to study school and local government health care benefits)

Savings:

- Previous studies done by the Hay Group and MFT/OIUE Local 547 suggested that either having a single state-wide system or state-sponsored catastrophic stop loss coverage along with group purchasing coalitions for providing health care to local and state employees could save \$150M to \$200M per year and avoid larger cost increases in the future. Direct savings would be locally experienced, but could offset decreased funding from the state.
- Reductions in health care cost increases due to healthy living/preventive care incentives (over time) are trending at 25% to 50%, resulting in a 2% to 4% improvement in health care costs. In FY 2007, \$584M was put into the state health care benefits fund; this would result in savings of \$11.7M to \$23M
- Future cost avoidance in sharing cost increases 50 – 50

Pros:

- State-wide system could result in more competitive benefits via a larger pool and more negotiating power with providers
- Reduced absenteeism due to healthy living approach

- Establishing 50 – 50 cost sharing up front provides guidance for managing future costs increases

Cons:

- Healthy living approach could be perceived as “big brother”ish.
- Will take 3 - 5 years to determine if healthy living incentive is reducing risks and resulting health care costs
- Results in employees having different levels of benefits
- Must be negotiated

