

# Final Minutes

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## Legislative Commission on Government Efficiency

12:00 noon • Friday, June 19, 2009  
Room 426 • 4<sup>th</sup> Floor • State Capitol Building  
100 N. Capitol Avenue • Lansing, Michigan

### Members Present:

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

Fern Griesbach  
David Leonard  
Gary Olson

### Members Excused:

Charles Moore  
Michel Sussman

### I. Call to Order

The Chair called the meeting to order at 12:00 noon and asked the Clerk to take the roll. A quorum was present. **Co-Chair Curran moved, supported by Commissioner Leonard, to excuse Commissioners Moore and Sussman from today's meeting. There were no objections and the motion passed unanimously.**

### II. Approval of the June 1, 2009 Meeting Minutes

The Chair asked if there were any changes to the proposed minutes of the last meeting. There were none. **Commissioner Griesbach moved, seconded by Co-Chair Curran, to approve the minutes of the June 1, 2009 Legislative Commission on Government Efficiency meeting. There was no further discussion and the minutes were unanimously approved.**

### III. Commission Update

The Chair began with an overview of the items to be discussed at today's meeting. He then gave a high level review of the draft Potential Overarching Conclusions document (attached to these minutes) and opened a discussion for comments and suggestions. Commissioner Bargamian commented that she assumes the ways revenue can be increased will be a component of the recommendation to address the state's structural problems and it is her interpretation that any cuts would be a result of imposing efficiencies in the system. Other changes to the document were suggested including Commissioner Leonard's comments that there needs to be some recognition of the current state tax structure and revenue stream, and Commissioner's Bean suggestion to include a recommendation that the state implement a pay-go system in the budget process. After further discussion, a number of changes were made to the document. The Chair asked that the document be re-drafted to include the proposed changes and a "track changes" version be circulated to the members.

The Chair then asked each work group leader to give a high level review of their work group recommendations as identified in the draft Summary of Potential Recommendations document (attached to these minutes). A discussion of how to address divergent viewpoints and what the Commission will do when the Commissioners cannot reach consensus on certain recommendations followed. Chair Prokop offered an approach that he has seen used in other reports wherein a statement is included in the introduction to identify where the Commissioners did not agree. The Commissioners then proceeded to highlight their work group recommendations. Co-Chair Curran reminded Commissioners that the process started out by setting target amounts in cuts, but the approach now is more principle-based and some of the recommendations are being made to force a discussion of the issues. Avoiding recommendations that are currently being debated and may be politically charged was also discussed. Reinserting an "Other Efficiency Recommendations" category was also suggested. The Chair offered this category could be a parking lot and include process-oriented ideas like Commissioner Bean's pay-go recommendation.

The Chair then commended Terry Smith for drafting the first-cuts of several of the work group write-ups. He called on the work group leaders to review what Terry has pulled together so that it can be formatted like the corrections example circulated as a model template, and to assist Terry by adding some context wherever possible.

### IV. Update on the Response to AFL-CIO Correspondence

The Chair distributed two reports the Co-Chairs received from DMB and the House Fiscal Agency (attached to these minutes). He called on Co-Chair Curran to walk through the documents. Afterwards, the Chair offered that the response to the AFL-CIO could include an explanation of what the Commission has done and the DMB and HFA information included as an appendix. In response to Mr. Curran's request for her opinion, Commissioner Bargamian acknowledged that the DMB and HFA information is a start and she will need some time to digest the information to determine if it sufficiently articulates what the Commission has done with respect to addressing section 12(b) of the statute.

### V. Public Comment

The Chair asked if there was any public comment. Mr. Jack Minore from Michigan State AFL-CIO testified and expressed his concerns and suggestions for the Commission to consider.

**VI. Next Steps**

The Chair summarized the next steps which included: 1) Susan Cavanagh will circulate a track-changes version of the revised summary of recommendations and overarching conclusions documents to the members, 2) all Commissioners will work with the group leaders to make any additional changes to the documents, 3) the work groups will think about classifying their recommendations into short/intermediate/long term categories, and 4) all Commissioners should look at their write ups prepared by Terry Smith and think about incorporating any formatting or substantive changes into the model template. The Co-Chairs will find someone to do the formatting and will work with Terry to pull together the overarching conclusions and executive summary in parallel with the work group write-ups with the idea of bringing it all together in a draft report sometime in the next four weeks. They will also send out an email with the next steps and some target dates early next week. The Chair asked Terry to send any of the write-ups he has completed to the respective work group leaders.

**VII. Next Meeting Date**

The date for the next Commission meeting will be determined at a later date.

**VIII. Adjournment**

Having no further business, **Co-Chair Curran moved, supported by Commissioner Olson, to adjourn. There were no objections.** The meeting was adjourned at 2:56 p.m.

*(Approved at the October 14, 2009 Legislative Commission on Government Efficiency meeting.)*

**POTENTIAL OVERARCHING PRINCIPLES Conclusions - DRAFT FOR DISCUSSION**

- The state's problems are largely structural, driven primarily by
  - The changing nature of Michigan's population, including
    - Shrinking population
    - Aging population
    - Shifting population in terms of where they reside
  - Significant increases in health care costs (examples?)
- The state's solutions must deal directly with the structural problems
  - The size of the State's government is too large for the state's current resources/tax base, which is shrinking and not in sync with Michigan's current economy (note that we believe this too must be addressed although our charter/mandate was limited to efficiencies and the budget)
  - The size of the problem is such that cost cuts at the GF level alone won't address the issues; need to fundamentally re-think the size and structure of government across all levels and "who is doing what"
  - Left unchecked, the structural deficits will grow larger each year
  - Neither an economic recovery nor incremental improvements in efficiencies will be sufficient to address the issues
  - All units of government are facing issues, so cost shifting won't necessarily be productive; need to think about taking costs out "throughout the system"
    - Local governments
    - K-12
    - Corrections
- A series of actions is needed -- from the short-term to the long-term - to create a "road map" to fiscal health; recommendations span
  - Short-term...what we can do in the next year
  - Intermediate-term...what we can do in 2 - 3 years
  - Long-term...what we can do in 3+ years
  - Focus on efficiencies vs. program cuts, but still include some cuts as suggestions (?) but cuts should be done with an eye towards addressing the structural issues and not cuts for the sake of cuts
- Cross-cutting and underlying principles are the foundation of our recommendations
  - Look to optimize across all units of government
  - Address underlying structural issues
  - Be holistic in the approach (look at all aspects of the budget)
  - Create a roadmap to fiscal stability
  - Be of sufficient magnitude to make a difference

## SUMMARY OF POTENTIAL RECOMMENDATIONS COMMISSION FOR GOVERNMENTAL EFFICIENCY

### K-12

- Re-allocate \$300 million of School Aid Fund to community college funding in order to realize GF savings
- Offset this by offering retirement incentives for school employees already eligible to retire; inducing 10,000 employees to retire would cost the state \$50 million per year but districts would save as much as \$30,000 per year and perhaps more if they chose not to replace those employees
- Achieve further cost reductions at the school district level through consolidation
  - Allowing the State Superintendent the option of requiring consolidation of school districts or ISDs if savings of at least 5% can be shown
  - Providing a monetary incentive to ISDs that continue to consolidate non-instructional services among ISDs and school districts beyond what was reported to the DOE as required in PA 63 of 2007
- Consider requiring all active school employees (i.e., non-retirees) to be placed in a State-run health care plan

### Higher Ed

- Consider eliminating or restructuring the Promise Grant

### Medicaid/DCH

**KEY:** A = "Elimination/Reduction" – certain to result in program savings

B = "Efficiency" – likely to result in program savings

C = "Long-Term Investment" – likely to result in long-term program savings

- Medicaid Plan Design Strategies
  - Increase co-pays in accordance with the provisions of the Deficit Reduction Act of 2005 (B)
  - Use of Health Savings Accounts (HSAs) or alternative benefit plans (B)
  - Implement a telephone health consult service / nurse help-line (B)
  - Embed community health workers in neighborhoods with heavy Medicaid caseloads (B)

- Incent increased use of chronic disease management plans, in both the managed care and fee for service environments (B)
- Incent participation by pregnant Medicaid beneficiaries in ALL recommended prenatal programs and activities to reduce complications and pre-maturity (B)
- New protocols for diagnostic tests and incentives for physicians to comply (B)
- Expansion of Federally Qualified Health Clinics in underserved areas (B)
- Institute a physician provider assessment to leverage additional federal funding for Medicaid payments to physicians, allowing for increased reimbursement to doctors linked to certain quality goals, thus increasing access and incenting healthier Medicaid participants and lower Medicaid costs (B)
- Consider linking receipt by physicians of increased Medicaid payments on participation in patient-centered "medical home" programs in an effort to keep Medicaid populations healthy and out of most expensive care environments (B)
- Increase reimbursement for preventative measures, quality and efficiency (B)
- Require Medicaid beneficiaries who smoke to (1) participate in smoking cessation efforts; and (2) contribute to Medicaid program costs in some manner if they continue to use tobacco products (C)
- Increase use of case managers for most expensive Medicaid fee for service patients (B)
- Coverage Strategies
  - Enroll MIChild beneficiaries in managed care (B)
  - Enroll Children's Special Health Care Services (CSHCS) beneficiaries in managed care (B)
  - Offer HMOs additional incentives for improving health outcomes (B)
  - Strengthen the State's estate recovery laws (A)
  - Expand home- and community-based waiver programming (B)
  - Expand Single-Point-of-Entry (SPE) pilots (B)
  - Use incentives to expand options for long-term care (B)
  - Evaluate value of certain high-cost treatments, tests and procedures and eliminate or reduce coverage for those not determined to

provide sufficient value (similar to comparative effectiveness efforts at federal level and prioritizing in Oregon) (B)

- Pharmaceutical Strategies
  - Expand the State's preferred drug list (PDL) (A)
  - Transfer financial responsibility for anti-depressant and anti-psychotic drugs from the State to the Prepaid Inpatient Health Plans (PIHPs) (A)
  - Require physicians to disclose ties with pharmaceutical companies (B)
  - Lobby Congress to allow states to collect additional pharmaceutical rebates for drugs purchased by HMOs (A)
  - Establish an all-inclusive purchasing pool among state agencies (B)
  
- Health IT / Other Strategies
  - Encourage providers to use e-prescribing, electronic medical records, and other information technologies (C) (already addressed in ARRA through Medicaid incentives for effective use of electronic health records)
  - Improve anti-fraud measures related to Medicaid reimbursement (B)
  - Eliminate unhealthy foods from public facilities, including schools, to encourage healthy behaviors (C)
  - Discourage third-party liability cost avoidance (i.e. no-fault auto insurers who intentionally or unintentionally shift costs to Medicaid) (A)
  
- Mental Health Strategies
  - Eliminate or reduce funding for CMH Multicultural services (A)
  - Reduce funding for non-Medicaid community mental health services (A)
  - Eliminate or reduce funding for Healthy Michigan Fund programming (A)
  - Further consolidate or close state psychiatric facilities (A)
  - Encourage consolidation of CMHSPs, Area Agencies on Aging, local health departments, and Substance Abuse Coordinating Agencies (B)

### **Corrections**

- Reduce the prisoner population – and close prisons – through more nuanced approaches to sentencing, parole and incarceration

- Reduce the number of prisoners past their ERD from 12,200 to 5,000 over the next five years; invest in GPS tether and other programs that provide parole boards with confidence that they can maintain public safety
- Pursue and implement parole reforms, including legislative changes that move towards presumptive parole
- Target reducing the prisoner intake rate by 10,000, primarily by investing in programs that are proven to reduce recidivism
- Re-establish a sentencing guidelines commission with a mandate to collect and publish sentencing data, review and analyze sentencing guidelines, and make recommendations on changes
- Lower salary and benefits expense
  - Reduce overtime from \$100 million to \$50 million historical average
  - Re-evaluate prisoner classification levels, staffing levels, and relief factor ratios, all of which affect the number of corrections officers needed
- Reduce prisoner health care costs of \$250 million per year, which represents 12.5% of the MDOC's budget
- Implement other cost reduction opportunities
  - Explore privatization where it works
  - Re-introduction of the prisoner phone charge (\$10 million per year)

### **Revenue Sharing**

- If reductions in revenue sharing are required, they should be offset by
  - Constitutional and statutory revenue sharing should be restructured to support specific services rather than being unrestricted
  - Increasing local unit tax authority
  - Facilitating and providing incentive for sharing of services (vertical and horizontal integration) across local units of government
  - Expanding participation in public employee benefit pools and creating "standard benefit packages" from which local units could select

- Create an Intergovernmental Advisory Office (IAO) to facilitate these actions, establish minimum operational standards and identify further opportunities for shared services and cost savings

### **Efficiencies Within State Departments**

- To achieve fully and successfully many of the goals listed in this document, two major leadership enabler systems are going to be required:
  - Institute a performance management process with results oriented objectives tracked by a monthly scorecard. Annual results based performance reviews will be conducted with high performers recognized and those needing improvement developing time specific action plans. Managers need to know all individuals in both categories and work towards career development for high performers. Managers need to follow up appropriately with those needing improvement to insure significant acceptable performance is being achieved.
  - Institute a continuous improvement process that focuses on unleashing the workforce on their ideas and commitment to reducing cost, improving service, eliminating waste, and increasing value added results. Techniques include six sigma, Lean, value stream mapping, kaizen, SPC/SQC, and a host of techniques that are readily available and require little to no additional training to use.

### **Personnel Practices**

- On an annual basis, conduct five year workforce supply and demand forecasting to project the appropriate size and composition of the state's workforce
  - On the supply side, factor in projected turnover, productivity and efficiency improvements identified through performance management and continuous improvement, streamlining processes, reducing duplicated functions and overhead, achieving economies of scale and right-sizing spans of control
  - On the demand side, factor in state revenue projections, population trends, changing service levels and likely scenarios such as reduced or eliminated state programs
  - Utilize a targeted voluntary separation program to adjust the size of the workforce if the forecast indicates that demand will be lower than supply



- Perform a market study of compensation levels to determine if salaries for some positions should be adjusted
  - Recent analysis indicates that the state may be overpaying for positions that do not require college degrees
- Explore mutual gains approach to collective bargaining, which has proven to be effective in private and public sector organizations where significant financial pressures exist and retention of jobs is at stake

## IT

- Study DIT's funding structure and consider modifying the current Legislative appropriation model. The current structure – departments funding DIT through their own agency IT and other appropriations – has caused IT project cost overruns of \$90 to 130 million annually since FY 2003-04 and an inability to get a true picture of IT expenditures across State government
- Continue to pursue joint IT initiatives with local governments
- Consolidate and centralize IT systems management in the executive, legislative, and judicial branches
- Convert paper files to electronic files in DEQ and other departments
- Establish an information technology oversight group to manage and reduce IT cost overruns and identify and implement efficiencies in the executive, legislative, and judicial branches

## Purchasing

- Take into account the buying volumes of municipalities, other governmental units (e.g. school districts) and other states up front in negotiation of contracts for goods and services in order to maximize pricing power, rather than establishing contracts based on the State's anticipated buy and allowing others to purchase from that contract
- Identify types of goods and services that are common between state and local governmental units, including school districts, and develop a list of standard products and select vendors to be used for purchases of these types
  - Negotiate contracts with vendors based on preferred status and buying volumes of state and local governmental units.
  - Provide incentives for parties to purchase the standard products and from the select vendors.

- Modify standard purchasing processes and procedures to reduce confusion in bidding process and protect savings realized
  - Broaden the use of Contractual Services, Supplies & Materials (CSS&M) line items and review transfer process used by Appropriations Committee
  - Simplify and make standard the terms and conditions used in all RFQs and contracts
- Improve existing purchasing system (ADPICS) with upgraded system that allows for better data mining activities and takes advantage of newer technologies, including collaborative data exchange to improve vendor access to information to provide better, more cost effective services

### **Health Benefits for State and Local Government Employees and Retirees**

The work group recommends that the State of Michigan hire professional consultants, with expertise in the area of employee health care benefits to review the following issues:

- The appropriate level of the total cost of public employee health insurance borne by State government, local government, and public education employees through premiums and co-pays. It is recommended that the costs currently borne by Michigan public employees should be compared with other public sector employees and private sector employees. This could lead to recommendations of gradual increases in the current levels of employee contributions to health care costs.
- Investigate the possibility of charging newly hired State employees a different rate to purchase health plans than existing employees. A similar change was made in 1997 to the State retirement systems.
- Investigate the feasibility of either allowing or requiring all public sector employees to purchase health insurance off of the State of Michigan health plans. The primary issue that needs to be resolved includes the amount charged other governmental agencies if this option is considered and how to deal with local units not large enough to self-insure. Would these non-State government employees cover the full cost of the health insurance purchase or would their costs be spread across all employees in the State health system?
- Consider the option of conditioning a portion of the revenue sharing payments to units of local government, aid to K-12 school districts, and aid to public universities and community colleges on these governmental entities (a) requiring that their employees are charged a premium for their employee

health benefits at least the same premium level State Civil Service employees are charged for health insurance; and (b) offering benefit packages no richer than those offered to State Civil Service employees.

- Conduct a complete review of the structure of public health plans in Michigan. This would include plan design and other issues such as employee incentives for healthy behavior.
- Consider ways to pre-fund retiree health benefits, including using a portion of the proposed Federal stimulus package as a funding source. As an alternative, the State should consider the option of selling bonds to finance the long-term cost of retired employee health benefits.

The work group also recommends that the legislature consider measures that would reduce health benefit costs for public employers (and also for private employers) by decreasing or eliminating cost-shifting by health care providers (primarily hospitals and physicians) to commercial insurers providing health insurance to State employees as a result of nonpayment of services or payments that do not cover the cost of providing services. Such measures could include but are not limited to: (a) insurance coverage for all Michigan citizens (to eliminate losses resulting from charity care/lack of payment to providers by uninsured patients); and (b) ensuring that the State's Medicaid program reimburses health care providers at a level sufficient to cover the costs of providing care, provided that certain cost/efficiency and quality measures are met by the providers.



STATE OF MICHIGAN

DEPARTMENT OF MANAGEMENT & BUDGET  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

LISA WEBB SHARPE  
DIRECTOR

June 3, 2009

MEMORANDUM

TO: Jim Curran, Co-Chair, Legislative Commission on Government Efficiency  
Kevin Prokop, Co-Chair, Legislative Commission on Government Efficiency

FROM: Lisa Webb Sharpe, Director *LWS*  
Department of Management and Budget

SUBJECT: DMB Efficiencies Since FY 2003

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**EFFICIENCY COMMISSION**

Public Act 96 of 2007 created the Legislative Commission on Government Efficiency (LCGE). The statute listed eleven areas of State government operations to be studied by the LCGE. In FY2008, estimated spending in these areas, allocated across five State agencies, amounted to 1.6% of estimated total expenditures.

The Department of Management and Budget (DMB) responsibilities are divided into those managed by the State Budget Office and those services provided by the management side of DMB. Seven of the areas listed in the Act are the responsibility of DMB management.

The DMB management-related items are:

- ♦ Purchasing programs
- ♦ Printing services
- ♦ Mail services
- ♦ Maintenance services
- ♦ Janitorial or cleaning services
- ♦ Motor vehicle fleet operations
- ♦ Transportation services

An additional item, not addressed in the statute, but discussed in the LCGE Purchasing Workgroup was:

- ♦ Real estate operations

The following items included in PA 96 are addressed by other agencies:

- ♦ Internal auditing, accounting, and financial services – State Budget Office
- ♦ Payroll services - Civil Service Commission

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- ♦ Fiscal analysis – State Budget Office
- ♦ Human resource duties and responsibilities - Civil Service Commission

Below you will find an overview of the cost-saving measures implemented by DMB since FY 2003 in all areas of our operations. This includes both cash savings and cost avoidance through efficiencies, programmatic changes, and consolidation of services. Following the narrative, you will find a spreadsheet which lists the savings and cost avoidance by category, limited to the DMB items listed in the statute (Attachment A).

#### **THE CHALLENGE**

Due to Michigan's recession which began in 2001, the budget challenges have been enormous. Since taking office in 2003, Governor Jennifer M. Granholm has been forced to resolve nearly \$6 billion in budget deficits, including over \$3 billion in cuts to State programs. In 2009, the State is expecting another \$1.3 billion shortfall.

Despite the challenges, Michigan government continues to receive recognition for good management practices. In both 2006 and 2008, the Pew Center's Government Performance Project, in conjunction with *Governing Magazine*, has consistently identified Michigan as one of the best managed states.

#### **DMB-RELATED COST SAVINGS**

Since 2003, DMB has identified over \$2.6 billion in cost reductions or future cost avoidance through very specific actions. Here are some of those activities:

##### *Purchasing controls:*

Reducing the State's spend within its \$23 billion contract portfolio was a high priority. The Purchasing Operations staff engaged in several rounds of contract reviews, including the use of a spend analysis contractor and re-opening of most major contracts for price concessions. Current contracts were rebid if savings seemed possible. Certain types of contracts were prohibited. Memberships, dues, and subscriptions required justification. Use of on-line resources was mandated wherever possible. Since 2003, through all these contract actions, the State realized over \$756 million in true cost reductions or future cost avoidance. Today, emphasis is on ensuring Michigan businesses benefit from State contracts wherever cost and quality are equal.

##### *Retirement savings:*

Actuarial assumption changes adjusting investments to current market value, taking advantage of the Medicare Advantage plan for public school and State employees, encouraging the use of mail order prescription services, retiree health plan adjustments, and implementation of Medicare Part D all contributed to \$1.5 billion in savings. Currently, pharmaceutical contracts for State and public school retirees are being rebid around a transparent pricing model. This approach shows promise for significant additional health care savings.

*Refinancing of State Building Authority bonds:*

Taking advantage of declining interest rates, the State chose to refinance existing bonds whenever possible. While this slowed in 2008/2009 due to the current financial crisis, the State realized \$116.3 million in savings on future principal and interest payments.

*Lease/rent reductions:*

DMB engaged in an aggressive campaign to consolidate State offices into State-owned space wherever possible and approached all rental property owners for voluntary rent concessions. Space reductions and lease cancellations resulted in over \$146 million in savings over existing lease terms. Consolidated space planning is now underway to address statewide data center needs, regional office buildings, and lab projects. Strategic real estate planning includes taking advantage of public/private partnerships, moving tenants into downtowns, and co-location of complementary functions and operations. While rental rates may have stabilized, costs associated with multiple telecommunications networks and excess common space from multiple building locations still show promise for additional savings.

*Sale of surplus property:*

The sale of excess real estate generated \$71 million in revenue and eliminated \$2.5 million in maintenance expenses. The state continues to review its property holdings for property that is no longer needed. Future sales are likely.

*Aggressive energy reduction efforts:*

Energy reduction efforts began with simple "power-down" requests, saving over \$770,000 in two years. With the issuance of an Executive Directive requiring additional energy savings, efforts were implemented including installation of software that integrates building heating, ventilation and air conditioning, installation of daylight harvesting ballasts in several State office buildings, instituting energy audits in all buildings, installing energy-saving technology, and implementing other conservation measures. The result: a 23% reduction in energy use at State facilities. If this reduction had not been achieved, the State would have paid an additional \$31 million in annual utility costs due to utility rate increases. As a result of energy consumption savings, the State has avoided approximately \$70 million in additional expense as utility rate increases have occurred since 2006. Additionally, to offset rate increases, the department entered into an energy-purchasing consortium that enables the State to buy energy at a reduced rate. This has resulted in \$1.8 million in savings since 2004. Recently, Governor Granholm challenged State government to further reduce our reliance on fossil fuels for generating electricity by 45% from 2003 levels by 2020. This approach will require an investment in both renewable energy and energy efficient technologies. We currently are seeking American Recovery and Reinvestment Fund Act (ARRA) funds to assist with this.

*Building maintenance and janitorial services:*

Reductions have been taken in levels of janitorial service, trash hauling, and other operational costs in State-owned and leased buildings. Annual savings are estimated at \$2.1 million. Parking leases have been cancelled and shuttle bus service eliminated from remote parking lots saving \$750,000. The cost of maintenance services has been benchmarked to Buildings Owners and Managers Association (BOMA) national standards. DMB services are provided at rates that are at a minimum 10% and \$1.66 to \$7.58 per square foot below those national standards for office buildings in the government sector.

*Building security:*

After 9/11, the State increased the presence of building security services at considerable cost. Through the introduction of technology, these costs have been reduced by \$2.9 million with more reductions expected as building access controls are further automated.

*Miscellaneous administrative savings:*

Little things add up to big dollars.

- The State purchased advanced presort equipment to increase presort savings on 72 million pieces of outbound mail annually, resulting in incremental presort savings over FY2003 levels. The State's presort savings are over \$5 million annually, covering the cost of new equipment, offsetting postal service rate increases and promising returns for many years to come.
- DMB regularly evaluates whether use of State employees to transport inter-departmental mail and packages between major State facilities results in savings. That analysis indicates that the State saves annually about \$1.9 million over the U.S. Postal Service's standard postage rates which would be required if no service was provided.
- Cell phone usage was reviewed and plans consolidated, saving \$772,000.
- Procurement card assignments were reviewed and procurement card purchase limits on types of purchases were instituted resulting in savings of \$6.3 million.
- Color copiers were turned off saving \$525,000.

*Fleet savings:*

The State of Michigan has a consolidated fleet management operation in DMB, including responsibility for all State vehicle assignments, acquisition, maintenance, resale, and fueling. With two Executive Directives issued by Governor Granholm requiring fleet reductions, all vehicle assignments were reviewed with departments with strict usage guidelines implemented. As a result of these reviews, over 2,600 vehicles were removed from the State fleet at a projected savings of \$18.7 million since 2003. Strict targets for fleet size were given to each department. The State already had significant limitations on personal use of vehicles by any State employee. Those limitations were further tightened as department directors, judges and justices turned in vehicles that had been allowed for limited personal use.

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On-site car washes were eliminated, fuel card controls enhanced, and a new fleet management contract was negotiated. Fleet maintenance, which had been largely outsourced to a network of discounted repair shops and dealerships statewide, was scrutinized for repair trends that could be improved. Vehicle purchases with longer vehicle warranties were factored into maintenance costs. Additional motor pools were created in outstate areas for multi-departmental use; a contract with a rental vendor was implemented for occasional vehicle use in areas where a motor pool was not practical. Policies were implemented to encourage employees to utilize personal vehicles when it is in the economic best interest of the State.

**PUBLIC ACT (PA) 96 OF 2007**

Attached you will find a spreadsheet (Attachment A), which lists the savings and cost avoidance by PA 96 category. Note it is limited to the DMB-related items listed in the statute.

If you have questions on the information presented, or DMB operations in general, please contact me directly at 373-0666, or our Director of Government Affairs, Bob Burns, at 241-3779.

Attachment

c: Bob Burns



**ATTACHMENT A**  
**DMB STATEWIDE COST AVOIDANCE/SAVINGS**  
**FY 2003 through YTD FY 2009**  
**PA 96 of 2007 Items, plus Real Estate Items**

| PA 96 of 2007 Category (DMB - related items) | DMB Item  | Total Cost Avoidance/Savings To Date FY'03 - FY'09 | Comments  |
|--|---|--|---|
| Purchasing Programs                          | Contracts   | \$ 755,804,983                                     | Savings and cost avoidance over contract life from renegotiation and competitive bidding.   |
|  | Cell Phone Usage Reductions and Eliminations            | \$ 772,489   | Two year estimate only, but spending restriction continues.   |
|  | Procurement Card  | \$ 6,329,697                                       | Restrictions and eliminations of procurement cards.   |
| Janitorial or Cleaning Services              | Reduction in Janitorial Services                        | \$ 820,000   | Reductions in frequency of janitorial services, and switch to day-time cleaning.  |
| Maintenance Services                         | Other Service Contract Reductions                       | \$ 80,000  | Reductions in other service contracts.  |
|  | Cancellation of Parking Leases and Shuttle Bus Services | \$ 750,000   | Elimination of parking services.  |
|  | Reduced Operational Costs                               | \$ 1,300,000                                       | Reduced operational costs for Cadillac Place and One Division buildings compared to maintenance/operating costs included in lease rate. |
|  | Energy Management/Power Down                            | \$ 772,482   | Utility cost reduction in DMB managed facilities only.  |
|  | Aggregate Billings (Lansing Board of Water & Light)     | \$ 97,646  | Consolidated electric bills for multiple buildings to take advantage of non-peak rates.   |
|  | Energy Savings through Efficiency Measures              | \$ 70,000,000                                      | Cost avoidance for state facilities due to reduced energy usage.  |
|  | Energy Partnership                                      | \$ 1,670,370                                       | Energy purchasing consortium to buy energy at bulk rates.   |
|  | Security  | \$ 2,900,000                                       | Reduced guard usage through increased use of technology.  |
| Mail Services                                | Mail Savings  | \$ 28,582,000                                      | Elimination of non-critical mailings; additional postage discounts due to technology and improved read rates; and improved mail design. |
| Transportation Services                      | ID Mail Savings vs. USPS Postal Rates                   | \$ 4,437,000                                       | Savings from in-house delivery of mail.   |
| Printing Services                            | Color Copying   | \$ 626,918   | Two year estimate only, but spending restriction continues.   |
| Motor Vehicle Fleet Operations               | Fleet Expenditure Reductions                            | \$ 18,724,274                                      | Savings resulting from fleet reductions.  |
| Other Savings - Real Estate                  |   |  |   |
| Real Estate                                  | Lease/Rent Reductions                                   | \$ 146,200,837                                     | Savings from multiple years. Includes reductions and cancellations.   |
|  | Sale of Property  | \$ 71,145,813                                      | Revenue from property sales.  |
|  | Land Sales Maintenance                                  | \$ 2,597,539                                       | Operational cost savings from sold property.  |

Note: Savings and efficiencies have enabled the administration to respond to ongoing budget pressures in prior year and current year budgets.

**SECTION 108(1): DEPARTMENT OF MANAGEMENT AND BUDGET**

*The Department of Management and Budget (DMB) has legal authority under the Management and Budget Act, 1984 PA 431, and is the central management element of the Executive branch of state government. The DMB is an interdepartmental service and management agency responsible for all of the following: ensuring proper financial record keeping for state agencies, managing capital outlay projects, managing property for the state (i.e., managing state leases, selling surplus property), executing cost-effective purchasing programs, managing the state's retirement systems, supervising the state motor vehicle fleet, administering travel policies, and providing office support services to state agencies.*

*The DMB has several autonomous units, including the Office of the State Budget, which prepares, presents, and executes the state budget on behalf of the Governor; the Office of the State Employer, which is responsible for central labor relations as the employer of the state classified work force; the Office of the Children's Ombudsman, which investigates the actions, decisions, policies, and protocols of the Department of Human Services and child placing agencies as they relate to children in Michigan's child welfare system; the State Administrative Board, which reviews and approves qualifying state contracts and serves as a forum for public comment on those contracts; the Michigan State Fair; Civil Service, which implements policies established by the Civil Service Commission, administers a statewide merit system that provides classified job opportunities within state government, including administering competitive examinations for classified positions, setting pay scales, administering employee benefits, and administering the Civil Service Commission's Employment Relations Policy, as well as maintaining ongoing statewide recruitment; and various boards and commissions.*

|  |                      |   |
|--|----------------------|---|
| Full-time equated unclassified positions                   | 7.0                  | Full-time equated (FTE) positions not in the state classified service.  |
| Full-time equated classified positions                     | 1,424.0              | Full-time equated (FTE) positions in the state classified service.  |
| Total full-time equated positions                          | 1,431.0              | Total number of all full-time equated positions (includes classified and unclassified).   |
| <b>GROSS APPROPRIATION</b>                                 | <b>\$551,059,700</b> | <b>Total of all applicable line item appropriations.</b>  |
| Total interdepartmental grants/intradepartmental transfers | 167,603,800          | Total of all funds received from other departments and transfer of funds.   |
| <b>ADJUSTED GROSS APPROPRIATION</b>                        | <b>\$383,455,900</b> | <b>Total net amount of all line item gross appropriations less (or minus) interdepartmental grants (IDGs) and intradepartmental transfers (IDTs).</b> |
| Total federal revenue                                      | 10,743,700           | Total federal grant or matchable revenue.   |
| Total local revenue  | 1,992,900            | Total revenue from local units of government.   |
| Total private revenue                                      | 150,000              | Total private grant revenue.  |
| Total state restricted revenue                             | 77,694,100           | State revenue dedicated to a specific fund (other than the General Fund); or revenue earmarked for a specific purpose.                                |
| <b>GENERAL FUND/<br/>GENERAL PURPOSE</b>                   | <b>\$292,875,200</b> | <b>The state's primary operating fund; the portion of the state's General Fund that does not include restricted revenue.</b>                          |

## SECTION 108(2): MANAGEMENT AND BUDGET SERVICES

*This unit funds statewide administrative, budget, financial management, building construction, real estate, mail delivery, other operation services, the Office of the State Employer, and the state's motor vehicle fleet.*

|   |            |   |
|---|------------|---|
| Full-time equated unclassified positions              | 6.0        | Full-time equated (FTE) positions not in the state classified service.  |
| Full-time equated classified positions                | 674.5      | FTE positions in the state classified service.  |
| Unclassified positions – 6.0 FTE positions            | \$636,500  | Salaries of Director, State Budget Director, and State Employer (appointed by Governor); Legislative Liaison and Director of Communications (appointed by State Budget Director); and Public Information Officer (appointed by Director).<br>Funding Source(s): GF/GP 636,500<br><br><i>Related Boilerplate Section(s): None</i>  |
| Executive operations – 10.5 FTE positions             | 1,489,600  | Director's office; services to state agencies, universities/colleges, and other government units include strategic planning, program/ policy direction and monitoring, public affairs, communications, internal audit and business quality assurance.<br>Funding Source(s): IDG 366,600<br>Restricted 608,300<br>GF/GP 514,700<br><br><i>Related Boilerplate Section(s): 704, 706, 710</i>  |
| Administrative services – 56.5 FTE positions          | 5,293,700  | <u>Organizational services</u> : for employees, payroll, benefit, and human and labor relations; internal communications.<br><u>Financial services</u> : reports, projections, year-end statements, accounts payable, collection/revenue control, internal control, analysis, business planning, automated billing, contract/lease management, data collection.<br><u>National Association Dues</u> : for state's membership in National Governor's Association, National Association of State Budget Officers, National Association of State Auditors, and GASB.<br>Funding Source(s): IDG 916,800<br>Restricted 3,622,700<br>GF/GP 754,200<br><br><i>Related Boilerplate Section(s): 704, 706</i>   |
| Budget and financial management – 164.5 FTE positions | 16,786,400 | <u>Office of the State Budget</u> : coordinate/manage Executive budget; maintain historical budget data; prepare and monitor transfers and supplemental appropriation requests.<br><u>Office of Financial Management</u> : oversee accounting and payroll functions; develop/issue/monitor financial/accounting policies; maintain central vendor/payee file; aid state accounting system users; prepare State of Michigan Comprehensive Annual Financial Report.<br><u>Local Government Claims Review Board</u> : advise DMB on compliance with 1978 Headlee Amendment to State Constitution; hear/decide claims/appeals from local units.<br>Funding Source(s): IDG 7,349,000<br>Restricted 1,364,300<br>GF/GP 8,073,100<br><br><i>Related Boilerplate Section(s): 704, 706, 708, 710</i> |

|   |            |   |   |            |            |
|---|------------|---|---|------------|------------|
| Office of the state employer<br>– 23.0 FTE positions        | 2,793,300  | Central labor relations (employer of state classified workers); represents Governor, Executive departments, and Legislative Auditor General in employee relations and state management before Civil Service Commission and Employment Relations Board for non-exclusively represented employees; worker's compensation, long term and statewide disability management, safety/health promotion, drug/alcohol tests, counseling services.  | Funding Source(s):  | IDG        | 124,700    |
|   |            |   |   | Restricted | 1,813,200  |
|   |            |   |   | GF/GP      | 855,400    |
|   |            |   | <i>Related Boilerplate Section(s): 704, 705, 706, 707, 710</i>  |            |            |
| Design and construction<br>services – 40.0 FTE<br>positions | 5,357,400  | Administer state capital outlay program; select/survey sites for new state facilities; survey/evaluate state buildings; recommend maintenance/repair procedures; review plans and inspect state facilities to comply with laws/regulations; prepare/review bids and recommend bid awards; provide administration/inspection services during construction.   | Funding Source(s):  | IDG        | 5,357,400  |
|   |            |   | <i>Related Boilerplate Section(s): 704, 706, 710, 712, 713, 716, 717, 718, 719, 721, 722, 723</i>       |            |            |
| Business support services<br>– 84.0 FTE positions           | 8,429,700  | <u>Acquisition Services</u> : procure supplies/equipment/services for state agencies; approve/execute statewide contracts/leases; provide access to state purchasing for local units of government, local/intermediate school districts, non-profit hospitals, higher education institutions, community/junior colleges; support State Administrative Board (state department administration, fund investments, travel regulations, small claims against the state).<br><u>Real Estate Services</u> : obtain/manage state leased-space, acquire real estate, grant/receive state easements, sell/transfer surplus property; jurisdictional transfers.<br><u>ID Mail Program</u> : centralized interdepartmental mail/delivery services for state agencies.<br><u>State Building Authority (SBA)</u> : issue revenue bonds and other short-term debt for construction/facility acquisition for state and agency use; monitor SBA-financed construction; risk management for vehicles, non-health related insurances. | Funding Source(s):  | IDG        | 948,300    |
|   |            |   |   | Restricted | 3,125,300  |
|   |            |   |   | GF/GP      | 4,356,100  |
|   |            |   | <i>Related Boilerplate Section(s): 702, 704, 706, 710, 711, 716, 716a, 717, 718, 719, 723</i>           |            |            |
| Building operation services<br>– 250.0 FTE positions        | 89,004,600 | Operate state facilities; administer building services in state-owned facilities (except state hospitals/institutions/parks); operate and maintain buildings, equipment, and grounds; risk management; insurance/security/utilities/parking; statewide asset and preventive maintenance planning.   | Funding Source(s):  | IDG        | 89,004,600 |
|   |            |   | <i>Related Boilerplate Section(s): 704, 706, 709, 710, 712, 713, 716, 716a, 717, 718, 719, 721, 722</i> |            |            |
| Building occupancy<br>charges, rent, and utilities          | 4,262,000  | DMB space in private and state-owned buildings.   | Funding Source(s):  | IDG        | 583,200    |
|   |            |   |   | Restricted | 1,308,700  |
|   |            |   |   | GF/GP      | 2,370,100  |
|   |            |   | <i>Related Boilerplate Section(s): 704, 709</i>   |            |            |

|                         |         |  |                    |         |
|-------------------------|---------|--|--------------------|---------|
| Internal audit services | 989,100 | Human resources services provided by Department of Civil Service to DMB. |                    |         |
|                         |         |  | Funding Source(s): |         |
|                         |         |  | IDG                | 108,800 |
|                         |         |  | Restricted         | 463,900 |
|                         |         |  | GF/GP              | 416,400 |

*Related Boilerplate Section(s): 720*

|   |            |  |                    |                |
|---|------------|--|--------------------|----------------|
| Motor vehicle fleet –<br>46.0 FTE positions | 56,920,400 | Acquire, lease, maintain, operate, replace, and dispose of state motor vehicles for Executive departments/sub-units; regulate use of privately-owned motor vehicles on official business; maintain motor vehicle title/insurance inventories; assign motor vehicles to higher education institutions; set motor vehicle use rates and per mile reimbursement for privately-owned vehicles used on official state business; grant special reimbursement rates for unique situations; display distinctive plates and other external markings on state motor vehicles; establish/operate motor vehicle repair centers/motor pools; vehicles are assigned to agencies and furnished at a rate to cover cost of operation/maintenance; agencies billed monthly for services rendered. |                    |                |
|   |            |  | Funding Source(s): | IDG 56,920,400 |

*Related Boilerplate Section(s): 715*

|  |                      |  |  |  |
|--|----------------------|--|--|--|
| <b>GROSS APPROPRIATION</b>                                 | <b>\$191,962,700</b> | <b>Total of all applicable line item appropriations.</b>   |  |  |
| Total interdepartmental grants/intradepartmental transfers | 161,679,800          | Total of all funds received from other departments and transfer of funds.  |  |  |
| Total state restricted revenue                             | 12,306,400           | State revenue dedicated to a specific fund (other than the General Fund); or revenue earmarked for a specific purpose.       |  |  |
| <b>GENERAL FUND/<br/>GENERAL PURPOSE</b>                   | <b>\$17,976,500</b>  | <b>The state's primary operating fund; the portion of the state's General Fund that does not include restricted revenue.</b> |  |  |