

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 to be phased in over three years**
- Offset a portion of this reduction in state aid to schools by creating local savings by offering \$5,000 state cash retirement incentives to be matched by local school districts and phased in over a three year period for school employees already eligible to retire; with a goal of 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

Higher Ed

- Recommend the elimination or the restructuring of the Michigan Promise Grant Program. This is the only major financial aid program whose eligibility is not based on financial need.
- Encourage that universities and community colleges continue and expand on these current programs:
 - Use of the university center model that brings four-year university programs to community colleges to take advantage of lower cost instruction at the community colleges and the existing expertise at universities.
 - Encourage the use and the expansion of group purchasing of goods and services by universities and community colleges.
 - Encourage the use of and the expansion of the "transfer wizard" to ensure that community college students enroll in courses that count toward degree completion.
 - Encourage universities and community colleges to provide a volunteer system of accountability to provide clearer financial information to students and families.
 - Encourage the more extensive use of public and private partnerships in the construction and renovation of campus buildings.

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)
- Consider requiring 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
 - Review of current contracts
 - Re-introduction of the prisoner phone charge (\$10 million per year)

Revenue Sharing

The revenue sharing recommendations are mutually supportive. They need to be implemented jointly to maximize the impact.

- Constitutional and statutory revenue sharing should be restructured to support specific services rather than being unrestricted
- Increase local unit tax authority
- Facilitate and provide incentives for sharing of services (vertical and horizontal integration) and/or consolidation across local units of government
- Create an Intergovernmental Advisory Office (IAO) to facilitate these actions, establish minimum operational standards and identify further opportunities for shared services, cost savings, and consolidations. These standards and opportunities should be identified via a summit of state and local leaders to recommend those services to be supported by the constitutionally guaranteed revenue sharing. The summit should further review various statutes for potential changes to increase collaborative efforts, including the Urban Cooperation Act of 1967, Public Act 8 of 1967 (Intergovernmental Transfers of Functions and Responsibilities), Public Act 312 of 1969 (Compulsory Binding Arbitration), Public Act 57 of 1988 (Emergency Services to Municipalities), as well as home rule statutes.

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 and/or expanded:
 - Institute a standardized 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 standardized 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 or new programs with documented returns on investment
 - 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
- Expand 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
 - 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 State of Michigan should 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 the option of selling bonds to finance the long-term cost of retired employee health benefits.

In addition, 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.

Other Recommendations That Should Be Considered

- **Implement a Pay-Go System in the Michigan Budget Process**
The State should consider implementing, by State law, a Pay-Go system of budgeting. A Pay-Go budgeting system would require the Governor and the Legislature to identify the funding sources for new programs or expansion of existing programs, or to identify spending reductions to pay for any proposed tax policy changes. Such a Pay-Go system, patterned after systems used periodically by the Federal government, would bring spending and revenue discipline to the State budget and should lessen the occurrence of budget shortfalls resulting from program increases or tax reductions without a specific funding source.