

Final Minutes

Legislative Commission on Government Efficiency Meeting

10:00 a.m. • Monday, March 2, 2009
Room 428 • 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 2:00 p.m. and asked the Clerk to take the roll. A quorum was present.

II. Approval of the January 26, 2009 Meeting Minutes

The minutes of the January 26, 2009 meeting were presented to the members. The Chair asked for a motion to approve the minutes. **Commissioner Bean moved, seconded by Commissioner Leonard, to approve the minutes of the January 26, 2009 Legislative Commission on Government Efficiency meeting. There was no further discussion and the minutes were unanimously approved.**

III. Public Comment

The Chair asked to modify the agenda to allow the public comment portion of the meeting to go first to accommodate those who wish to testify before the Commission. There were no objections. The Chair then called on David Hecker of AFT Michigan, Jack Minore of Michigan AFL-CIO, Nick Ciarmitaro of AFSCME, and Cynthia Ann Paul and John Eck of SEIU. Their written testimony is attached to these minutes.

IV. Summary of Potential Recommendations

Chairman Curran assured members that the summary of potential recommendations document was put together for discussion purposes only and is not the final recommendations of the Commission. He then called on each of the work group leaders to highlight the ideas they have been reviewing. The summary document is attached to these minutes.

Education K-12

Commissioner Bean shared his thoughts on his work group's recommendations and a discussion of the consolidation proposal followed.

Higher Education

Commissioner Olson reported that his work group has finished their work and there is no change to the recommendation made at the last meeting. He added that he would like the opportunity to talk about the final report at the appropriate time since the higher ed work group has discussed other options that should be considered.

Medicaid/Community Health

Commissioner Leonard explained that his group broke the issues into separate buckets and strategies. He then summarized his work group's recommendations and pointed out that the federal stimulus package now prohibits the removal of selected optional populations which was listed under the coverage strategies.

Corrections

Commissioner Prokop noted that the summary shows the buckets his group has come up with for the largest opportunity for savings. He added that the recommendation on health care will overlap with some of the work being done by the health care and benefits cost reduction work group. He also answered questions regarding overtime and privatization of some services.

Local Government and Revenue Sharing

Chairman Curran began by clarifying that a constitutional amendment is needed to restructure revenue sharing and the idea of just a population-based revenue sharing that is unrestricted is perceived to be counter productive. He noted that if reductions in revenue sharing are required there needs to be a strategy to incentivize the sharing of services.

Efficiencies within State Departments

Commissioner Sussman would like to separate efficiencies and personnel practices back into two groups. He explained that, in terms of efficiencies, the recommendations are targeted toward leadership and he felt the two areas should be separated so that there is a clear distinction that this is not an HR issue. He has a set of documents to attach to the report that clearly show best practices that are already inside government.

Personnel Practices

Commissioner Griesbach commented that the way the recommendations are laid out in the outline does not really reflect the real intent which is to provide some additional practices and rigor to the approach in deciding the size and composition of the workforce. She will rework the summary and submit it to the co-chairs.

Information Technology

Commissioner Bargamian noted the first bullet point is an addition from the earlier recommendations and proceeded to provide additional information on DIT's funding structure and the inability to completely learn the true spending level of the department. After a discussion of the funding structure issue, Commissioner Bargamian asked for clarification of the fact finding mission of the Commission. The Chair responded that so far the Commission has focused on the highlights and he is uncertain as to how the Commission will fulfill the other charges of the Commission's mandate without staff and resources. Commissioner Leonard agreed and suggested that the Commission consider recommending that the executive branch and/or the legislative branch allocate full-time staff to government efficiency efforts on a going forward basis. Commissioner Sussman shared that there are multiple staffs that help with continuous improvements and performance management, but whether people are following their recommendations is the issue.

Purchasing/Strategic Sourcing

Commissioner Moore characterized the four main items from his work group—the negotiation of the contracts and changing the policy such that we take into account buying volumes upfront, identifying and standardizing items used currently between states, school districts and local municipalities, modifying standard purchasing processes and procedures, and improving the existing purchasing system. He noted that the first three are efficiency type items that can generate savings, but are a little difficult to quantify and the fourth item is where the bulk of the savings can be found. Commissioner Bean expressed his opinion that improving the purchasing system is a great example of really finding efficiencies and improving the tools for people to perform their jobs better; however, he is concerned that many of the recommendations from the other work groups are just another way to cut the budget.

Public Employee Health Benefit Work Group

Commissioner Olson outlined the six recommendations of the work group and noted that consultants with expertise should be brought in to review the recommendations. In response to an inquiry raised by Commissioner Bargamian, Commissioner Olson responded that the work group did not look at the issues in the context of introduced legislation.

Other/Use of Stimulus Dollars

Commissioner Prokop explained that this section on the summary is a place to capture other potential recommendations that don't fit into the other categories. He offered to take recommendations between now and the next meeting as to what else might fall into this category. The Chair added that those areas that might need investment could fall into this section as well.

V. Stimulus Funds Opportunities

The possibility of using stimulus funds for some of the recommendations that require investment was discussed. Commissioner Bargamian expressed her concern with the Commission recommending ways to use stimulus funds.

VI. Structure and Format of Report

The Chair suggested that for the final report each of the areas contain some context as to how each group arrived at their conclusions and recommendations. A discussion of the organization, use of themes, and potential format for the report followed. Commissioner Sussman volunteered to look for more sample reports which he will share with the other members before the next meeting. In terms of the actual drafting of the report, the Co-Chairs hope to have this issue resolved in the near future. They also suggested the drafting start with the Corrections category which could then serve as an example for the rest of the work group categories.

VII. Next Steps and Commission Conclusions

The Chair opened a discussion of the next steps for the Commission which includes attaching dollar amounts to each recommendation when possible to determine. The impact the Commission's recommendations will have on the 2009-2010 budget was also discussed.

VIII. Next Meeting Date

The next Commission meeting is scheduled for **Tuesday, April 2, 2009, at 10:00 a.m.**

IX. Adjournment

Having no further business, **the Chair moved, supported by Commissioner Prokop, to adjourn the meeting. There was no objection. The meeting was unanimously adjourned at 4:40 p.m.**

(Minutes approved at the April 2, 2009 LCGE meeting.)

**SUMMARY OF POTENTIAL RECOMMENDATIONS
COMMISSION FOR GOVERNMENTAL EFFICIENCY**

K-12

- **Re-allocate \$300 million of School Aid Fond 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/CHS

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
 - Increased co-pays in accordance with the provisions of the Deficit Reduction Act of 2005 (B)
 - The 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)
 - 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 QAAP, allowing for increased reimbursement to doctors achieving certain quality goals, thus increasing access and leading to healthier Medicaid participants and lower Medicaid costs (B)
 - Increase reimbursement for preventative measures, quality and efficiency (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 (B)
- Remove selected optional populations: Group 2 19 & 20 yr olds; Group 2 Caretaker Relatives; and Adult Benefit Waiver (NOTE: Federal Stimulus likely prohibits – now being researched) (A)
- 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)
 - 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 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 and Personnel Practices

- 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.
- Reduce headcount if demand forecasting and other efficiency studies indicate that there are opportunities
 - Conduct five year workforce supply and demand forecasting to identify the appropriate size and composition of the workforce
 - Efficiency efforts
- Perform a market study of compensation levels to determine if salaries for some positions should be reduced
 - Recent analysis indicates that the state may be overpaying for positions that do not require college degrees
- Achieve these savings by
 - Mutual gains based bargaining
 - Voluntary separation program

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 appropriations – has caused IT project cost overruns 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 management
- Convert paper files to electronic files in DEQ and other departments
- Consider the concept of an executive information technology oversight group in order to manage and reduce IT cost overruns

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 [employees and retirees?]

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

1. The appropriate level of the total cost of public employee health insurance born by State government, local government, and public education employees through premiums and co-pays. It is recommended that the costs currently born 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.
2. 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.
3. Investigate the feasibility of allowing 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. 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.
4. 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 based on these governmental entities 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.
5. 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.
6. 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.

Other/Use of Stimulus Dollars

- Use dollars to rebuild Michigan's rainy day fund, thereby reducing interest costs related to cash flow timing differences by [\$40 - \$100 million...Mitch's idea from earlier...is this the right number?]
- Consider ways to pre-fund retiree health benefits
- [Invest in systems/technology/other areas that will pay longer-term dividends?]

Legislative Commission on Government Efficiency

March 2, 2009

David Hecker, President, AFT Michigan

Good afternoon. Thank you for your work and for the opportunity for AFT Michigan to present our thoughts and ideas. We very much appreciate that your report did not only include your recommendations but also the rationale for and against such recommendations.

I will be responding to the Commission's ideas concerning school aid and higher education, including employee benefits, and concluding with some thoughts on what Michigan needs to do to best serve our citizens.

We applaud your suggestion to expand the sales tax base and dedicate additional revenue to the School Aid Fund. AFT Michigan has long advocated this strategy for reasons this commission has outlined—we live in what is more and more a service economy. With this expansion, as I am sure the Commission has considered, we must look at essential services. Just as we now exempt groceries and prescription drugs, we would need to be careful to exempt services that relate to the health and well being of individuals and families.

We also agree that the proper retirement incentive could save districts money, prevent or minimize layoffs, and provide job opportunities for recently graduated teachers and staff. As you may know, we do not support the proposed increase in the multiplier to 2 given the enormous financial burden it would put on the pension system. However, an incentive that saves money, does not significantly burden the pension system and allows for surgical implementation should be considered. We would want, for instance, to avoid an incentive that results in a large number of retirements in shortage areas.

We should return to pre-funding retiree health care, a move that would save money in the long term because the money in the trust fund would grow through investment, just as is currently true for pensions themselves. And while last session, the legislature enacted a bill to provide some flexibility in how school retirement funds are invested we should increase the ability to further diversify to increase earnings and ensure the security of the pension fund.

We concur that health care costs must be contained; however, we sharply disagree with the recommendation of all employees being forced into a state health care plan. Our advocacy of controlling costs while maintaining benefits is what drove us to develop the white paper that became Public Act 106. As Public Act 106 did not include all recommendations in the white paper, we believe the remainder should be implemented, such as a state wide catastrophic fund, and full and complete transparency concerning cost and quality of hospital and physician services. Moreover, having worked with Public Act 106 for a few years we need to ensure that disaggregated, and therefore more useful claims data, is provided and that the requirements for setting up a pool are made less burdensome.

On the issue of consolidation we must point out that our ISDs/RESAs provide more consolidation of services than is commonly known. Many do payroll and report cards for districts. There is joint purchasing to gain the discounts associated with purchasing larger numbers. The questions to consider are not just if the additional consolidation of services would save money, but also what can feasibly be done outside of the district in a manner not detrimental to efficiency and to education.

We all know two things concerning district consolidation: 1) Not including charters, Michigan has about 550 districts, and 2) Local control and community-based schools are a hallmark of our education system. Other types of consolidation should be considered first. For example, some smaller districts currently share Superintendents. However, if such consolidation is to be considered it must be with the involvement and support of the local communities. Consolidation from up above will not work.

This brings us to school funding and the proposed limitations on the foundation allowance and categorical funding, as well as the elimination of 20J funding.

We all too often look at education funding as a cost when it is an investment.

The corrections budget is out of control. The average prison stay for a Michigan inmate is 1.2 years longer than the national average. According to the Citizens Research Council, if Michigan had held prisoners no longer than the national average since 1990, the prison population would have declined by 14,000 at a current savings of more than \$400 million a year.

It costs \$32,000 a year in taxpayer money to maintain each prisoner, but state support for higher education has fallen from \$6,853 per student in 2001 to \$5,673 today.

One characteristic of the majority of prisoners is their lack of educational skills and attainments. Limiting schools' ability to enhance, or even maintain, their services to children seems to be short-term savings and a long-term expense. We do not believe the limiting of the foundation allowance and the limiting of categorical funding, much of which is targeted to students at risk, is the right way to go. While we need to reexamine how we fund out PreK12 schools, that should be done comprehensively rather than by piecemeal imposition of arbitrary funding limits or elimination of 20J or other categoricals.

Shifting of community college aid to the School Aid Fund? The fund it is in is not the main issue. Shifting it to save the general fund resulting in less for K-12 schools is not accomplishing anything for our children and their future.

We appreciate that cuts to higher education other than eliminating the Promise Grants have been rejected. However, it must be highlighted that this is in the context of funding for Michigan's universities being cut by \$168 million since 2001.

For reasons I have indicated and for the fact that more and more decent paying jobs are knowledge based, cutting or limiting education funding is not in the best interest of Michigan's future.

Concerning the Promise Grants, let me suggest making them needs based rather than eliminating them. My wife and I receiving a Promise Grant when my daughter completes her second year at Michigan does not make sense. We appreciate it but the money would be better spent increasing the grant to a low-income student who could not otherwise afford post-secondary education.

I have responded to recommendations, as your work deserved our attention and thoughts. However, I want to conclude by saying that Michigan does not have a spending problem. We have a revenue problem.

We appreciate the proposed expansion of the sales tax. However, our income tax rate, while increasing slightly two years ago, is still lower than when Governor Engler took office. We are one of only seven states with a flat tax. We must move to a progressive income tax that is not only fairer, but can be designed to produce more revenue. And we must continue to close tax loopholes.

Layoffs are reducing the size of AFT Michigan locals. Contract settlements include minimal raises, some no raises at all. Health care is costing members more. Yet at our May 2008 convention delegates unanimously approved a significant dues increase. Why? Because we traveled the state talking with leaders and members, listening to them and discussing what they want from their union and what their union needs to be doing. They made a decision that a few more dollars a year would yield much benefit. Our members are a cross section of Michiganders. The kind of tax reform I noted can happen.

Thank you for your work and affording me the opportunity to testify.

(517) 487-5966
FAX (517) 487-5213



Michigan State AFL-CIO

419 Washington Square South, Suite 200 • Lansing, Michigan 48933-2138



MARK T. GAFFNEY, *President*

TINA ABBOTT, *Secretary-Treasurer*

My name is Jack Minore, and I am the Legislative Director for the Michigan State AFL-CIO. I appreciate the opportunity to make some comments today on behalf of the members represented by our affiliates within government – and for the many more that are in the private sector but who all receive services from the state.

My comments will be more generic than specific to particular situations within the state. Some of my colleagues will present more specific examples of our concerns.

I speak from long experience with state government and its funding practices – as a long time Michigan teacher and teacher-union official and negotiator // as a long serving member of a City Council // as a six-year legislator // and now in my capacity representing working men and women across the state. In each of those capacities, I felt the impact of the practices of state government --- sometimes efficient, and sometimes not.

First: I want to stress that “efficiency” does NOT equate to smaller government: they are NOT the same. It has sometimes appeared that this Commission – and the public in general public -- is more interested in cutting government / reducing services / privatizing services / and making government smaller -- all in the NAME of efficiency without regard to the actual efficiency

Let me cite a few examples of “efficiencies gone wrong”:

- It appears that in the area of Unemployment Insurance services, the state made a decision to cut back on employees and to delay upgrading computer services. Then, when the need for the service became greater, we were overwhelmed! People who needed (and I stress ‘needed’) the service were unable to access it. Staff worked diligently for long and stressful hours, piling up overtime – and computer services was hastily upgraded. Staff stress undoubtedly contributed to some sick time – and, in the end, the state paid about the same to deliver the service somewhat poorly as if there had been less “efficiency” // read cost-cutting // up front.
- Fairly recently, I understand, the state sought to privatize some adoption services – all in the name of ‘saving money’. As it turns out, the private company did not deliver as many adoptions as had been routinely done under state supervision – so the cost per adoption appeared to remain the same. BUT – at the same time, if the state were paying for more foster care children for longer periods of time – the actual cost to the state increased substantially. AND, to the children and prospective adoptive parents involved – the emotional cost was also substantial.
- Sometimes cost cutting has a short-term impact while the longer range costs soar. An example would be our State Park system. We have kept campgrounds open – even while increasing fees to the point that some citizens have been priced out of the market. BUT – we’ve done a pretty good job of keeping the park services available to most people – parks which not only contribute to the quality of life – but are significant economic generators in the communities in which they are located. At the same time, we have deferred all but the most critical upgrades and maintenance projects. There may have been cost-savings up front – but the deferred costs will greatly outweigh the ultimate cost of repairs – eliminating any perceived efficiencies.
- Clearly, in the area of education, short changing in the name of saving dollars – whether it is pre-K / K-12 / Community Colleges or in our public universities – to the extent that educational opportunity is limited – is grossly inefficient over the long run.
- I could list other examples where actions taken in the name of ‘efficiencies’ actually resulted in increased costs over time or across agencies – and the end result was gross ‘inefficiency’. Let me cite one more

example – a Federal one – but a timely one. We have cut food inspections greatly. I suspect that the families of those who died from salmonella poisoning related to the peanut problems in Georgia would gladly have paid the penny or two more per year it would have cost all of us to maintain a higher level of inspections. And, if you consider that an isolated incident, think lead poisoning from imported toys, the spinach and tomato scares of recent years, and other examples of which we all read.

We are not universally opposed to privatization of services – where the state does not have the ability to do the job. For example, if we were to build a new international span to complement the Ambassador Bridge, we should probably hire experienced bridge engineers to oversee the construction. BUT, to have consulting engineers from the private sector on board for ‘normal’ road construction seems completely unnecessary!

Nor do we suggest that there are not efficiencies to be achieved; but the Office of the Budget and Auditor General have done an excellent job in pointing out inefficiencies when and where they exist. That is their job – day in and day out // year in and year out.

It has long been my belief that we need as a state – as a citizenry – as government officials – to determine the level of services that are critical, necessary and desirable, and then determine a fair, equitable and **adequate** means of funding those services. Too often, ‘efficiency’ has meant cutting government. Sometimes that results, as I have indicated, in gross inefficiencies and loss of important services.

I would also point out that some of the so-called efficiencies at the state level inevitably result in loss of important services at the local governmental level. Cuts in revenue have resulted in many cuts in County, City and Township government services.

I would hope that this Commission would recognize and applaud the “Real Efficiencies” that have taken place under this Governor and this Administration. This Governor was faced with tax cuts every single year of her first five years – not related to the economy of the state or of the manufacturing sector – but related to cuts put in place about 7 years ago by a previous administration -- cuts that have had an on-going impact for years into this administration.

First, there were a number of important ‘little’ efficiencies enacted: things like more energy efficient lights, cuts in printing and printers, reductions in the state automobile fleet, reductions in travel by state employees, actual reductions in staff, etc.

BUT much bigger cuts have followed: There are approximately 10,000 fewer state employees today than just 7 years ago. There have been significant changes in employee retirement benefits that will save \$\$ for years forward. AND the remaining state employees deserve enormous credit for their contributions! In many cases, 4-5 employees are trying to deliver the same level of service that 6-8 employees did before. That does not mean we had too many in an office before – it means that those left have simply had to work much harder. And those cuts have resulted in significant impact on local governments: it’s believed that about 800 police positions have been cut at local governments across the state: that is NOT efficiency – it’s a loss of service – most would argue the most critical service for which government is charged.

One must also recognize that the loss of government jobs has a negative impact on the economy. In just three years Michigan has lost 37,000 government jobs – including all levels of government. That is 37,000 fewer people buying cars // shopping for new appliances // vacationing in our resorts // purchasing homes // in short, 37,000 fewer people contributing to the consumer economy. In most cases, that’s 37,000 more people filing for unemployment insurance for some period over those three years.

SO, in conclusion, as you look for Efficiencies, I would urge you to do three things:

- Recognize that Michigan Government is already efficient and has been recognized as such by such impartial and unbiased observers as “Governing” Magazine
- Recognize and applaud the work that state employees and this administration have done to win that recognition and to make the state government leaner

- Remember that the very definition of 'efficiency' includes the QUALITY of the service or work being provided – and that cost-saving cuts do not automatically contribute to either the quality of the service nor the efficiency of providing it.

Thank you

Jack Minore, Legislative Director
Michigan State AFL-CIO

Extended Remarks

Following my testimony, I listened to the comments from others and from and between the members of the Commission. From that commentary, I made the following observations:

Virtually every comment from the members dealt NOT with efficiencies, but 'how to cut dollars from the budget'. I felt that this was somewhat contrary to the purpose of the Commission.

A number of issues/comments reminded me of cuts that have not served us well. For example

- A few years ago we closed several mental hospitals in the state. While it is probably true that some patients were merely being warehoused, some needed the relatively intensive care provided. We probably saved some \$\$ in the short run, but virtually every county Sheriff in the state will tell some horror story of those same patients filling up their jails – at a cost that far exceeds the cost of hospitalization.
- I have been told of a prisoner eligible for release except for one small item: he/she had not completed a course required for re-entry into the community. The course offerings had been cut to save money. So, we kept the prisoner (and, over time, I suspect many prisoners) a few months longer waiting for the course to be offered. The up-front cost cutting resulted in MANY more dollars being spent on incarceration.
- It is well documented that strong supervision by a worker with a small case-load can adequately supervise probationary and/or paroled 'prisoners' and prevent their incarceration (or, re-incarceration). But we have increased caseloads so much that genuine supervision cannot possibly occur – and the recidivism rate increases much more and at a much higher cost than if we had spent more dollars up front.
- At one time the state had a reward system for cost-cutting ideas. (I'm reminded of my Father who brought home several checks in the \$100 - \$250 range many years ago from GM because of their suggestion program. At one point he grumbled that for the \$1500 or \$2,000 he had 'earned', he had saved GM a half million dollars.) State employees 'on the job' can tell managers how to save money! I believe that 'suggestion box' idea has been eliminated. It probably should be reinstated.
- Privatization contracts often seem like cost-saving measures, but really aren't. I recall in my municipal experience having privatized a cafeteria that had been run 'in-house' for some time. The contract seemed almost too good to be true: it was. Suddenly repair and replacement bills ate up what savings we had // some equipment was replaced 'as contractor-owned' so the private contractor could get what she wanted. Then, the contract renewal came up – and the cost multiplied substantially. We were stuck, however. No one at City Hall had the experience to take on the job. That gimmick: low bids for the first contract – followed by increased costs down the line – is repeated time and again in privatization efforts.

Most alarming, however, and I repeat myself intentionally; is that virtually every comment from virtually every Commissioner addressed ONLY the idea of CUTTING the budget – NOT with the concept of looking for EFFICIENCIES in government. Either the title of the commission or the mission of it seems to have been thwarted or lost.

**MICHIGAN LEGISLATIVE COMMISSION ON GOVERNMENT EFFICIENCY
REMARKS FROM NICK CIARAMITARO
DIRECTOR OF LEGISLATION AND PUBLIC POLICY
MICHIGAN AFSCME COUNCIL 25
March 2, 2009**

Thank you for this opportunity to address the Legislative Commission on Government Efficiency.

My name is Nick Ciaramitaro and I am the Director of Legislation and Public Policy for the Michigan members of the American Federation of State County and Municipal Employees. AFSCME represents about 95,000 people who are state, county, city, township, school district, health and child care workers providing essential public services throughout the state of Michigan.

I want to briefly address 4 areas:

1. The statutory mandate of the Commission.
2. The direction of the Commission's efforts so far
3. Efficiency in government and "privatization"
4. Suggestions for improving government efficiency and a new approach to the problems facing Michigan.

1. The statutory mandate of the Commission

As you know, the Commission is charged with recommending ways in which the government can provide critical state services efficiently. The temptation exists to simply define "efficiency" as "cutting" state programs or cutting state employees in terms of numbers or compensation. According to the Merriam Webster Online Dictionary, "efficient operation" is defined as "effective operation as measured by a comparison of production with cost (as in energy, time, and money)." Eliminating a service is not "efficient." Reducing costs to the point at which the operation is no longer effective is not efficient. It is the balance of output to cost that constitutes efficiency.

The temptation also exists to determine cost savings based on our own personal philosophy rather than on a factual analysis. This is especially true under the kind of strict time constraints imposed on this Commission. Now, I readily admit that some of my comments this afternoon may fall prey to my personal biases. But it is critical that this Commission works to separate opinions from facts. The Legislature clearly intended such a result when it included a mandate that the Commission perform a thorough review of the existing systems of operation in subsections (b) through (j) of section 12 of the Act. I strongly urge you to take that charge very seriously. It is no secret that state government has been criticized for being too partisan and for engaging in too much gridlock. The way to avoid similar criticism yourself is to base your findings on clear facts and demonstrated practices rather than bowing to the temptation of being guided by a political or partisan philosophy. The need to look at real results and real facts and figures is critical.

2. The direction of the Commission's efforts so far

While the Commission has spent a great deal of time discussing ways in which to cut the cost and even eliminate services during its short existence, I want to urge the Commission to redirect its emphasis on the examination of the existing system and ways in which those services can be delivered more efficiently as I have just indicated. Cutting costs in the short term may well lead to higher costs in the future. Eliminating services in one area may lead to increased demand and higher costs in another area. Many would argue that that approach is exactly what has gotten us into today's fiscal crisis.

Without first determining the current distribution of dollars and staff providing existing services, it is impossible to determine that the system is inefficient. Assuming that any system, even an efficient system, can be made more efficient, setting a target funding cut per area, though often unavoidable in budgeting, does nothing to lead to a more efficient system. It may reduce size, decrease services and save money in the short term. But it is

doomed to reinforce the annual budget process rather than augment it. Because state budgeting is constitutionally required to be annual, it often fails to look at the long term effects on efficiency.

Again, I urge you not to take my word for it but look to the facts:

Has our failure to properly and equitably fund education damaged our ability to attract and retain business and jobs? Has our failure to provide long term hospital care for people suffering from serious mental illness generated higher costs in prisons and jails? What about our general lack of substance abuse prevention efforts? Has that contributed to Michigan having the highest incarceration rate in the country? Does failure to assure minimal preventive care at an early age generate higher health care costs as we age?

Many studies give answers to these questions that often make our budget decisions seem cost saving but ultimately inefficient.

This Commission needs to offer constructive ways for our government to face long term efficiency within the constitutionally imposed limits of the state budgeting system.

3. Efficiency in government and “privatization”

We are frequently told that government should run more like a business. The recent failures of the private sector such as the credit and housing crises and the problems associated with decisions in manufacturing which have both required federal government action to “bail out” major portions of the private sector demonstrate that not all private sector activities are as efficient as we once were lead to believe. This demonstrates once again that we should delve deeper into the facts rather than bowing to myths and ideological statements.

Health care is paid for in a variety of ways. Each has different constituencies and different requirements and a direct comparison of each may be difficult. But one measure of efficiency that cannot be ignored is overhead. Commercial insurance companies have overhead costs of nearly 30%. Blue Cross Blue Shield of Michigan’s overhead runs in the area of 12 to 14 percent. Medicare – the federally run health insurance program for seniors and the disabled – has overhead costs of approximately 2 percent. Medicaid – the joint State/Federal Health Insurance system for the poor – only has overhead costs of one half of one percent. Should the State emulate the private sector in this area?

Ideologues continue to insist that government can be more efficient by outsourcing or “privatizing” services. I have attached a document that was prepared a few years ago by an AFSCME Council 25 staff representative and me that demonstrates some of Michigan’s costly experiments in privatization. Yet every year legislators demand new studies and every year many of those studies again demonstrate that in-house provision of services is often cheaper than outsourcing. The Department of Corrections recently completed yet another study required by budget boilerplate on the question of privatizing food services. Its conclusions are consistent with its experience at Huron Valley where a privatization experiment resulted in tripling of food service costs in less than a year due to higher administrative and security costs.

Often proponents of government efficiency argue that we should compare the cost of public employees to comparable private sector positions. But this approach ignores the fact that historically the public sector has deliberately decided to telescope down its wage structure while the gap between low and high wage jobs has dramatically expanded in the private sector. Which system is more efficient? Should economic justice and questions of basic fairness be factored into the question? Would anyone really support raising the level of public sector executives to match the levels of those currently being criticized in corporate America?

The State of Michigan has reduced its workforce by nearly 10,000 state employees over the last decade. Has that created a more efficient system or will it open ourselves up to more lawsuits such as the recent federal action resulting in a consent decree requiring substantial new hires in the Department of Human Services? Is that an inefficient manner of determining our state work force? According to the U.S. Bureau of Labor Statistics, Michigan saw a decline of 37,200 public sector jobs between 2005 and 2008. Does this constitute new found efficiency or is it an exacerbation of our current economic decline? And will the decline in needed services, saving a few dollars today, generate more costs in the future? Do we feel safer knowing that thousands of police and fire personnel are

no longer available or that we no longer have sufficient numbers of employees to process paperwork or maintain our schools and other public buildings?

Think of the case of a leaky roof in your home. If you see a water spot in the ceiling you can repair the roof or you can paint it over. It's cheaper to paint it over but the leaky roof will continue to leak. Keep painting it year after year and you will spend more money on paint than the cost of fixing the roof.

4. Suggestions for improving government efficiency and a new approach to the problems facing Michigan.

Let me conclude by summarizing my suggestions for this commission and by adding some places to look that would allow for real savings without depriving Michigan citizens of the public services they need and deserve:

1. Check your biases at the door and review facts. Every time someone says "Everybody knows..." get very suspicious.
2. Look to the high cost of excess administration over the cost of the actual provision of service by those who do the real work. Over two years ago, the Department of Human Services eliminated recreation services at Maxey Training School – a locked juvenile justice facility that provides services to adolescent juvenile males. Did it make any sense to continue the "Director" of the recreation program for nearly two years after the program was eliminated? And could the lack of recreational services have contributed to workers compensation costs to the State of Michigan generated when hormonal teenage boys with a history of felonious behavior are locked up and interacting with staff? If you do not examine the system carefully, you might conclude that the State saved money by eliminating a service. But the efficiency of the system may look a lot different if you examine all the facts.
3. Examine the real staff costs associated with early retirement programs. While early retirement options make sense when there is a legitimate need for a reduction in force, excessive use of this "good idea" may result in a "brain drain" requiring the State to pay both retirement and wages simultaneously to efficiently operate a given program.
4. Advise the Legislature to look at the Tax Expenditure budget as well as the spending budget. Ten years ago Michigan was foregoing as much revenue through tax credits and loopholes as it was spending in its General Fund and School Aid Budgets combined. Today, loopholes cost the State one and half times as much as the General Fund and School Aid budgets. And that number is growing daily. Some of those credits are worth the cost. But once adopted they go on and on surviving well beyond their useful life time. Just as we need to reexamine programs for their effectiveness, usefulness and timeliness, so too must we take another look at the effectiveness of these special tax loopholes.

The Legislature has given you an awesome and difficult job. I thank you for this opportunity to share with you a few of the observations AFSCME has on this critical topic. Our members are on the front line and stand ready and willing to help make our system even more efficient than it is today. We look forward to working with you and wish you the best in your efforts.

Testimony Before the Commission on Government Efficiency

I would first like to thank Chairman, Curran, and the rest of the Commission members for allowing me this opportunity to testify before you today.

My name is Cynthia Ann Paul and I am the Legislative Director the Service Employees International Union (SEIU) here in Michigan. SEIU currently represents 80,000 workers and their families in Michigan and approximately 64,000 of them are public sector workers, including head start employees, school employees, home care workers, scientists and engineers with the state of Michigan, sheriff deputies in Wayne County and our state's Correction Officers. Today, I would first like to touch on some of the recommendations already before this committee and add some additional issues for your consideration.

Corrections Workgroup-

- The Corrections Workgroup made a recommendation to reduce the salary and benefit costs of the Correction officers. SEIU believes that this is dangerous and three steps backward, because the Department of Corrections along with the Michigan Corrections Organization (SEIU 526M) has worked very hard over the last couple of decades to ensure that *state Correction Officers are a well-trained professional law enforcement force within our state*. Everyday these Correction Officers risk their lives to make sure that hardened criminals stay safely locked away and that the communities where the facilities are located remain safe.

The K-12 Workgroup-

- The K-12 workgroup made a recommendation to cap the foundation allowance to an annual increase of 2.5% and freeze categorical funding to the 2008-2009 levels. SEIU *opposes this rigid cap on funding for all schools* and we believe that it will be a major disinvestment in one of our state's most promising resources (our children). We also believe that *freezing the categorical funding to 2008-2009 levels will unfairly cripple our state's urban and more poorer school districts*, like Detroit, Flint and Saginaw.
- The workgroup also recommended expanding the sales tax base and dedicate the additional revenue to the School Aid Fund. SEIU supports the state's effort to *modernize our sales and use tax system to include the expanding use of more services and close the loophole to be able to tax Internet and mail order sales*. In fact, SEIU supported (PA 93 of 2007), which expanded the use tax to select services in Michigan, like consulting services, office administration, transit and ground passenger transport, and travel and reservations.
- The workgroup also recommended allowing the state School Superintendent to mandate the consolidation of school districts or intermediate School Districts (ISDs). SEIU encourages the Commission to approach this issue with caution and get more information before acting on this proposal. Especially, placing the power to mandate consolidation in one person, without any input from the local stakeholders.
- The workgroup also recommended requiring all school employees to be placed in a state-run health care plan. *SEIU encourages this committee to get more information on this issue, and encourages this commission to look at (PA 106-109 of 2007) that allows public schools, colleges, universities and local municipalities to set up insurance pools for health care benefits*.

Efficiencies Within State Departments:

- SEIU agrees wholeheartedly with this workgroups recommendation that "pockets of excellence already exist in state Departments" and that "state employees the people who work everyday, have the answer to the efficiency issues."
- SEIU is *committed to ensuring quality public services and that they are done efficiently*. In fact, our International has launched a program that urges public sector locals to establish committees on quality and efficiency.

- SEIU also urges this commission to consider ***amending the Civil Service whistleblower rule*** to protect state employees who blow in the whistle on ***waste, inefficiency and fraud***. See Attachment #1 for the current whistleblower rule. A similar rule can be placed in the Public Employee Relations Act (PERA) to cover other public employees within the state.
- SEIU also encourage this commission to consider ***adopting programs that incentivizes employees to think of ways a state department can save money***, similar to the Department of Transportation's "Bright Idea" program, which was discontinued.
- SEIU also encourages this commission to get more information on ***the number of management in all state departments*** because there are certain state departments are very top heavy with management and the commission should try to come up with a ***formula based system to provide the proper balance of management to employees within all of the state departments***.

The Employee Benefits Workgroup:

- This workgroup recommended that the cost of public employee health insurance be compared to other public sector employees and private sector employees. SEIU encourages this commission to get more information on this issue before acting upon it. Please make note of the fact that ***state employee health care costs have increased some 90% since 2000***. See attachment # 2.
- SEIU also encourages this commission to explore the issue of ***national healthcare coverage being discussed on the federal level and gather statistics on how much such our state could save under this plan*** with respect to insurance coverage for all public sector workers, individuals who are currently receiving health care coverage under our state's Medicaid program and private sector employers.
- This workgroup also recommended that the state investigate the possibility of charging newly hired state employees a different rate to purchase health plans than existing state employees. SEIU encourages this commission to gather more information on this topic before acting upon it, because it may very well lead to disenfranchisement among the state employees, ***negatively impacting employee morale that may result in lower productivity and quality***.
- This workgroup also recommended investigating the feasibility of allowing all public employees to purchase insurance off the state of Michigan health plan. Once again, SEIU encourages this commission to get more information on this issue and explore utilizing (***PA 106-109 of 2007***) that allows public schools, colleges, universities and local municipalities to set up insurance pools for health care benefits.
- This workgroup also recommended conditioning a portion of revenue sharing payments to local units of government, aid to K12 school districts and aid to public universities and community colleges based on these governmental entities charging a minimum amount of the cost of employee health benefits to employees. SEIU urges this commission to get more information on this issue and approach it with caution. Keep in mind that most health care benefits are the ***result of many years of negotiations and that increases in wages and other benefits were most likely forgone in order to keep their current level of health care benefits and employee costs of healthcare benefits down***.
- This workgroup also recommended a complete review for the structure public health plans in Michigan. This would include a plan design and other issues such as employee incentives for health behavior. SEIU encourages this commission to gather more information on the structure of different public health care plans in Michigan, this information would be valuable tool, but we encourages this commission to approach the healthy lifestyle concept very cautiously, because it can be used to discriminate (and charge more for health care benefits) against individuals who have a genetic disposition for certain diseases, like hypertension, high cholesterol and obesity. Any plans should use a carrot incentive approach and make sure that the thresholds are realistic when considering the employee's age and other genetic factors.

Personnel Practices Workgroup:

- This workgroup recommended a voluntary separation program. SEIU encourages this commission to gather more information on this issue; because previous early out incentive programs that the state has implemented lead to a spike in health care and separation costs. Additionally, many state departments lost so many talented employees that it crippled their ability to provide quality services to Michigan's citizens.
- The workgroup also recommended exploring the adoption of a mutual gains bargaining approach that improves traditional collective bargaining through joint problem solving. *SEIU is absolutely committed to working collaboratively with employers to jointly solve problems.* In fact, all three of SEIU Local 517M bargaining units have labor management groups in place. Our experience has been that there is usually a lack of follow through and commitment on the employers side.
 1. For example, the Local 517M tech division has contractual language that allows the employees and management group to resolve issues of contracting out. Art. 3 Subsection 3 (Please see attachment #3), but unfortunately this committee has not been followed through with.
 2. Additionally, SEIU was actively involved in the work group that Governor Granholm set up to look at contacts the state had let out to see if the state could save money by brining this work back into the state. Despite good involvement by employees, the meetings were repeatedly canceled and there was absolutely no follow through with any of the recommendations.
- The workgroup also recommended that the state perform a market study of compensation level for positions that require college and for positions that do not. SEIU encourages this commission to gather more information on this issue and that the state should keep in mind the importance of it maintaining a very talented pool of employees to best serve the citizens of Michigan.

Some Other Issues to Look at:

- SEIU encourages this commission to consider implementing the *Public Service Accountability, similar to -HB 6111 introduced last year.* The trend of privatizing for the sake of privatizing is not sound public policy and more times than not, it ends up costing taxpayers more money and public sector employees their jobs. A 1998 Senate Fiscal Agency report on the use of private contractors in state government found that “most activities privatized.... did not result in cost savings to the state of Michigan.” The Public Service Accountability Act provides the Michigan Legislature with a framework to evaluate whether or not privatization of public services is worthwhile, sound public policy and will save taxpayer money. These measures include the following:
 1. **A pre-privatization Cost-Benefit Analysis-** Before contracting out or renewing a contract, the state department must do a detailed comparative estimate of the costs that will be incurred by the state over the life contract compared with the cost of having the service or activity provided by state employees.
 - This cost-benefit analysis shall utilize accurate, reliable, and objective data, and actuarially sound techniques.
 - The costs of privatizing the services shall include all hidden costs including necessary monitoring and oversight of the private entity, any cost overruns or additional expenses the state may incur.
 - The department or agency shall use only accurate and up-to-date bids from reputable companies with a previous history or reputation of providing quality services or activities.
 - These private entities must be adequately bonded, so as not to expose the state to any potential future liability or legal causes of action.

- There must be a cost savings of at least 10% of the costs of continuing to use state employees in providing the services or activities.
- This cost benefit analysis must be reviewed and approved by both the senate and house appropriations committees.

2. A private contractor shall be subject to the **Freedom of Information Act**.

3. A private contractor that has a contract with the state shall be subject to a **comprehensive audit** upon the request of any member of the senate or house appropriations committee member.

A couple minor changes the state can implement to save money:

- Allow for bike racks on state cars, so employees can utilize their bikes when they reach their destinations to quickly move around and save gas.
- Set all state printers default setting to make two sided copies.
- Incentivize carpooling for training and other statewide meetings, encouraging state, school and other public employees to share rides. Also, substitute telecommunications and website trainings instead of traveling to meetings.
- To reduce the use of emergency rooms, which is four times more expensive than regular office visits, encourage doctors' offices and clinics to remain open late and on the weekends so that individuals can utilize office visits to their doctor and/or clinics instead of costly emergency rooms.
- Make sure that the state, school and other public cafeterias have healthy food options, encouraging employees and students to eat healthy. Also, if lunch is provided at meetings for the state and other public employees, make sure that it is healthy.
- The state and other municipalities should maximize their parking resources, like renting out vacant parking spaces, or spaces that open up when employees take off from work.
- Make state vehicles accessible to employees at their worksite, so that employees do not waste time and gas going to another state facility to get their vehicles used in performing their work duties.
- Prisoner phone calls, instead of using expensive operator assisted calls, sell prisoners pre-paid phone cards instead with a portion of the proceeds going directly to the Department of Corrections.
- Now that marijuana is legal for medical reasons, the state should regulate it for control purposes and tax it like liquor or cigarettes. This will ensure that the marijuana being used for medical reasons is not tainted and the state collects additional revenue.

Once again, thank you for allowing me this opportunity to speak today.

Cynthia Ann Paul, Esq. SEIU Michigan State Council Legislative Director
 115 West Allegan, Suite 400
 Lansing, Michigan 48933
 (517) 482-4886
 (517) 281-4731

Attachment # 1

2-10.1 Reprisal Prohibited

An appointing authority shall not engage in reprisal against an employee for disclosing a violation or suspected violation of any of the following:

- (a)** A state or federal law.
- (b)** A lawful regulation or rule promulgated by a political subdivision of the state of Michigan.
- (c)** A civil service rule or regulation.

2-10.2 Application

An employee who reports, or who is known by the appointing authority to have indicated an intent to report, violations or suspected violations is protected by this rule, unless the employee knew the report was false. This protection extends to an employee who participates in, or who was known by the appointing authority to have indicated an intent to participate in, a court proceeding or an investigation, hearing, or inquiry conducted by a public body.

2-10.3 Forms of Reprisal

Reprisal includes actions such as discharge, threats of discipline, or arbitrary and capricious changes in the conditions of employment.

Attachment # 2

STATE EMPLOYEE'S HEALTH CARE COST

1997-1998: Health care premiums were suspended for 10 pay periods to restore balance in collection (December 28, 1997 thru January 10, 1998). No co-payment required for maintenance drugs thru Caremark mail order. Retail co-payments \$7 brand and \$2 generic drugs. Some HMO's had premiums and no co-payments for drugs

1998-1999: State Health Plan Advantage premiums increased 8%. No change in dental, vision, life, ltd. HMO's started to collect premiums. Major medical increased from 100/150 per member and 200/300 per family. Annual out of pocket increased 750/1000 per member per calendar year. Prescription drugs remain retail \$7 brand and \$2 generic. Merck-Medco has mail order and no co-payment required for 90 day supply. Some HMO's had premiums and no co-payment for drugs.

1999-2000: State Health Plan Advantage premiums increased 8%. Major medical remained the same until January 1, 2000. Major medical increased from 150/300 per member and 300/600 per family. Maximum out of pocket remained at \$1000. Prescription drugs co-payment increased to \$10 brand and \$5 generic for both retail and mail order. Some HMO's had premiums and a \$2 co-payment for drugs was initiated. Dental increased 15% in premiums.

2000-2001: State Health Plan Advantage premiums increased 15%. Deductibles and Co-pays remain unchanged. Dental premiums increased 20%. Vision premiums increased 10%. Prescription drugs continue at \$10 brand and \$5 generic. Life insurance (employer paid) increased.

2001-2002: State Health Plan Advantage premium increased 8%. No change in dental, vision, ltd, or prescriptions. HMO's premiums increased 5%-32.7% depending on residential location. This put employees at a 6%-12.2% deficit depending on whether they had the SHP or HMO.

2002-2003: Restructured State Health Plan from the Advantage to PPO. We now have a \$10.00 office visit co-pay and \$50 emergency room co-pay. Preventative Services covered 100% up to \$500 per person. Deductibles changed to 200 individual/400 family max in network, 500 individual/1000 family max out of network. No change in premiums for SHP, dental and vision. Prescription increased to \$12 brand and \$7 generic. Dental annual maximum increased to \$1250. Ltd increased maximum benefit to \$5000/month. HMO's increased 5.5% with \$10 office visit, \$50 ER co-pay. Prescription drugs increased \$10 brand and \$5 generic.

2003-2004: State Health Plan-PPO premiums increased 20%. Dental premiums increased 12%, with yearly maximum increased to \$1500. Preventative services increased to \$750 per person per year. Deductibles for SHP-PPO remain unchanged. Prescription drugs increased \$15 brand and \$7 generic. No change in vision and Ltd. HMO's premium increase 15%, with no change in prescription drug co-pays.

2004-2005: State Health Plan-PPO premium increased 6%. No change in Prescription coverage until October 1, 2005 when mandatory Mail Order for Maintenance Drugs. No change in Vision and LTD. Dental premiums reduced. Blue Health Connection and Durable Medical Equipment Network started October 1, 2005.

2005-2006: State Health Plan-PPO premium increased 24%. Dental increased 15%, Vision increased 6% and LTD premium decreased 4.5% (except for UAW). No change in Deductibles and Co-pays.

2006-2007: State Health Plan-PPO premium increased 8.5%. Dental increased 10%. No changes in vision, life or ltd. No changes in deductibles or co-pays.

Section 3. Contracting and Subcontracting.

The Employer recognizes its obligation to utilize Bargaining Unit members in accordance with the merit principles of the Civil Service Commission. The Employer reserves the right to use contractual services in accordance with Civil Service Rules and Regulations.

The Employer agrees to make reasonable efforts (not involving a delay in implementation) to avoid or minimize the impact of such sub-contracting upon Bargaining Unit employees. Whenever the Employer intends to contract out or 1 sub-contract services, the Employer shall, as early as possible but at least fifteen (15) calendar days prior to implementation and no later than at the time of submission to Civil Service, give written notice of its intent to contract or sub-contract to the Union. Such notice shall consist of a copy of the material sent to Civil Service which shall include such matters as:

1. The nature of the work to be performed or the service to be provided.
2. The proposed duration and cost of such sub-contracting.
3. The rationale for such sub-contracting.

The Employer shall, upon written request, meet and confer with the Union over the impact of the decision upon the Bargaining Unit. Such discussions shall not serve to delay implementation of the Employer's decision.

Nothing provided in this section shall prohibit the Union from challenging the planned contracting or sub-contracting before the Civil Service Commission, nor from appealing a Departmental action which it alleges violates applicable Civil Service Rules and Regulations.

March 2, 2009
Testimony given to the Legislative
Commission on Government Efficiency

John Eck - MDOT
SEIU Local 517M

Within the Michigan Department of Transportation, personal service contracts for design, inspection and testing services have become common place since the 1996-97 early retirement offered to state employees. Two additional opportunities for early retirement were offered during in 2000 and 2002. In it's memorandum on MDOT staffing levels dated March 16, 2004, the House Fiscal Agency stated "The average number of MDOT employees has declined over the last 12 years - from 3,868 in FY 1990-91 to 2,826 in 2002-03. This represents a reduction of 1042 employees, or 27.0%. The MDOT budget increased over this time period - from \$1.6 billion, in FY 1990-91, to \$3.1 billion in the current year."

Although MDOT was authorized to replace 2 of every 3 of the 488 employees who elected to take the 2002 early retirement, MDOT chose to continue operations without hiring replacement state employees. Currently, MDOT employs approximately 2900 people, the same number that remained in the department after the three early retirements.

In 1996, MDOT began a program to hire consultants to perform the duties of the retired MDOT staff. Requests to fund personal service contracts were submitted to and authorized by the Civil Service Commission. After the second early out in 2000, MDOT took a new approach to funding consultant contracts. A blanket request for \$200 million was submitted to cover all consultant contracts needed by the department. This request was for the period 2000 through 2004. In 2002, MDOT requested an additional \$310 million. This blanket authorization allowed MDOT to avoid submitting individual contract requests for review and authorization which expedites the consultant contract process.

In March of 2004, MDOT Director Gloria Jeff requested authorization from the legislature to hire 136 additional employees to shift design work from consultants back to MDOT staff. MDOT conducted a detailed cost accounting review that found the savings for hiring the additional 136 staff to be \$6 - \$6.5 million or \$41,475 per consultant replaced with an MDOT employee. The appropriation bill passed to fund MDOT for FY 2004-05 did not provide the funds needed to hire the 136 people. Because consultant costs are included in the overall construction project funding portion of the budget, money is always available to hire consultants to do MDOT staff work.

According to the House Fiscal Agency, MDOT spent \$149.5 million for personal service contracts in the FY 2001-02. This was the year 488 MDOT employees elected to retire early shifting additional MDOT work to consultant contracts. This October 24, 2003 memorandum on Personal Service Contracts has not been updated for the current FY.

John Eck testimony
March 2, 2009
Page 2

Current information is available to compare the cost of MDOT inspectors to consultant inspectors. A chart comparing costs for consultant inspectors under contract in the Grand Rapids area is included as an attached file to this testimony. The chart shows that for an MDOT lead inspector, the total cost is \$54.04 per hour including all benefits and overhead. This cost was determined using the most current data available from the MDOT Financial Operations website. For the seven consultant contracts reviewed for the chart, lead inspector costs ranged from \$86.79 to \$122.70 per hour. The primary reason for the significantly higher cost is the fact that consultant contracts are not competitively bid. The Brooks Act, 40 United States Code 1101 through 1104, requires that contracts for design and engineering services must be awarded based on qualifications alone, allowing consulting firms to establish prices after selection. The Brooks Act applies to all contracts that use Federal funding

A recent report, released February 5, 2009, by the U. S. Department of Transportation's Office of Inspector General, provides the results of an audit of consultant contract indirect costs. These costs are associated with the overhead charges billed to state DOTs for work on Federal Highway Administration funded projects. The report is included as an attached file to this testimony. The audit examined 41 design and engineering firms from a total of 3,580 firms under contract to state DOTs. The report concluded, in part "Lack of accountability at D&E firms and insufficient transaction testing by Certified Public Accountant (CPA) firms were the immediate causes of unallowable costs we found. Further, FHWA and state DOT oversight did not ensure effective monitoring of D&E firms' indirect cost rate claims or indirect cost rate audits performed by CPA firms. FHWA relies on state DOTs to implement Section 307 but has not collected sufficient information to properly evaluate the states' implementation efforts. For example, FHWA did not know how well states performed oversight or whether indirect cost rate audits met the intent of Section 307 requirements." The report states "Audits of D&E indirect cost rates are critical to detect fraud and protect taxpayer funds as the firms' Federal-aid contracts are exempt from price competition."

The audit of D&E firms was for FY 2003 with the report concluding in part "Based on the sample test results, we projected that, overall, D&E firms overcharged state DOT contracts for unallowable compensation of \$41.2 million."

Considering the potential for fraud when using consultants and their higher cost to perform design, inspection and testing duties, which was confirmed by MDOT cost accounting reviews, a strong case can be made for transitioning state and federal funded consultant jobs back into MDOT. Prior to 1996, MDOT used consultant services on a very limited basis to supplement MDOT staff in areas where specialized knowledge and experience was needed.

The forced transition to consultants due to the 3 early retirements has redirected untold millions of dollars away from road and bridge construction projects into the accounts of D&E firms. At the present, there is a lot of discussion about transportation funding at both the state and federal levels. According to the House Fiscal Agency in a May 1, 2008 report on the MDOT 2008-2012 Five-Year Transportation Program "The state trunkline highway program as described in the 2008-2012 Five-Year Transportation Program would total \$6.31 billion over the five-year period. The state Highway Program would be supported with an estimated \$4.2 billion in federal-aid revenue, with the balance from state-restricted revenue. The Program also discusses the potential inability to provide the required match - typically 20% - for federal-aid projects. Page 19 of the Program states that "due to declining state revenues for transportation, the department anticipates an inability to match a portion of federal-aid expected to be available beginning in 2010." The department anticipates that based on current revenue estimates there will be a shortfall of \$328 million in state funds necessary to match a portion of federal aid over the 2010-2012 period. If the department is unable to provide necessary state matching funds, it may be unable to access all available federal aid - as much as \$1.8 billion over the final three years of the 2008-2012 Program - a three year average of \$620 million.

If by transitioning consultant jobs back into MDOT the department could save \$50 million per year in labor costs, the money could be used to replace 29 bridge decks or pave 62 miles of 2-lane asphalt roads per year. \$50 million dollars represents the equivalent of a one cent increase in the gasoline tax or a 4% increase in available construction dollars per year. According to the Michigan Infrastructure and Transportation Association, \$50 million dollars in additional road and bridge construction would create over 1000 permanent construction related jobs. High paying jobs which are desperately needed in Michigan.

The only real obstacle to hiring MDOT employees is the lack of will to do so. The current MDOT appropriations bill has standard language imposing a hiring freeze on the department. This is commonly cited by MDOT officials as the reason we must use consultants for MDOT employee work. The appropriations bill states "The state budget director may grant exceptions to this hiring freeze when the state budget director believes the hiring freeze will result in rendering a state department or agency unable to deliver basic services, causes loss of revenue to the state, would result in the ability of the state to receive federal funds, or would necessitate additional expenditures that exceed any savings from maintaining a vacancy."

Through the efficient use of state and federal dollars, MDOT has the opportunity to do additional road and bridge repairs and to create permanent jobs. Let's get it done!