

## Charting A Way Forward A Path To Fiscal Stability For the State of Michigan

Legislative Commission for Governmental Efficiency

## The Situation...

The state's problems are largely structural, driven primarily by

- The changing nature of Michigan's population, including
  - Shrinking population
  - Aging population
  - Shifting population in terms of where they reside
- Job loss
- On the revenue side, tax policy and structure

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## Key Premises

The state's solutions must deal directly with the structural problems

- The size of the problem is such that the state's leadership needs to fundamentally re-think the size and structure of government across all levels and "who is doing what"
- Left unchecked, the structural deficits will likely grow larger each year in the face of increasing job loss and shrinking tax base
- Neither an economic recovery nor incremental improvements in efficiencies will be sufficient to address the issues
- All units of government are facing issues, so cost shifting won't necessarily be productive; need to think about taking costs out "throughout the system" and exploring and capitalizing on existing collaborative efforts to drive increased efficiencies
  - Local governments
  - K-12
  - Corrections
  - Significant increases in health care costs throughout all units of government

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## "Road Map" To Fiscal Health

Actions	Cross-cutting and Underlying Principles
<ul style="list-style-type: none"> <li>▪ Short-term (Next Year)</li> <li>▪ Intermediate-term (2 - 3 Years)</li> <li>▪ Long-term (3+ Years)</li> <li>▪ Focus on efficiencies instead of cuts; to the extent cuts are suggested, they are offered in the context of structural recommendations and not cuts for the sake of cuts.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Look to optimize across all levels and units of government</li> <li>▪ Address underlying structural issues</li> <li>▪ Be holistic in the approach (look at all aspects of the budget and government operations)</li> <li>▪ Create a roadmap to fiscal stability</li> <li>▪ Be of sufficient magnitude to make a difference</li> </ul>

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## Our Recommendations Covered All Key Areas

- Units of Government
  - Corrections
  - K12
  - Higher Ed
  - Medicaid/DCH
  - Revenue Sharing
- Functions of Government
  - Personnel Planning Staffing
  - Information Technology
  - Purchasing
  - Health Benefits

\$2+ billion of annual savings possible

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## Corrections

- **Reduce the prisoner population and close prisons**
  - 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
  - Target reducing the prisoner intake rate by 10,000
  - Re-establish a sentencing guidelines commission
- **Lower salary and benefits expense**
  - Reduce overtime by \$50 million
  - Re-evaluate prisoner classification levels
- **Reduce prisoner health care costs of \$250 million per year**
  - Which represents 12.5% of the MDOC's budget
- **Implement other cost reduction opportunities**

\$500 million savings opportunity

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## 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 \$300,000 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

\$300 million savings opportunity

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## Higher Ed

- Recommend or restructure 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
  - Encourage the use and the expansion of group purchasing of goods and services
  - 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

\$250+ million savings opportunity

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## Medicaid/DCH

- **Medicaid Plan Design Strategies**
  - Increase co-pays
  - Use of Health Savings Accounts
  - Implement a nurse help line
- **Coverage Strategies**
  - Strengthen the State's estate recovery laws
  - Enroll MIChild beneficiaries in managed care
  - Use incentives to expand options for long-term care
- **Pharmaceutical Strategies**
  - Expand the State's preferred drug list (PDL)
  - Require physicians to disclose ties with pharmaceutical companies
  - Lobby Congress to allow states to collect additional pharmaceutical rebates for drugs purchased by HMOs
- **Health IT/Other Strategies**
  - Improve anti-fraud measures related to Medicaid reimbursement
  - Eliminate unhealthy foods from public facilities, including schools, to encourage healthy behaviors
  - Discourage third-party liability cost avoidance (i.e. no-fault auto insurers who intentionally or unintentionally shift costs to Medicaid)
- **Mental Health Strategies**
  - Eliminate or reduce funding for CMH Multicultural services
  - Reduce funding for non-Medicaid community mental health services
  - Eliminate or reduce funding for Healthy Michigan Fund programming

Significant savings but difficult to quantify

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## Revenue Sharing

Hold statewide "summit" with governmental leaders to restructure support for local governments

- Constitutional and statutory revenue sharing should be restructured to support specific services rather than being unrestricted
- Local governments should have certainty and clarity on funding
- Increase local unit tax authority
- Eliminate statutory barriers to consolidation of services
- Facilitate and provide incentives for sharing of services
- Create an Intergovernmental Advisory Office (IAO) to facilitate these actions
- The revenue sharing recommendations are mutually supportive. They need to be implemented jointly to maximize the impact.

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## 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
- 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

\$100+ million of savings

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## Information Technology

- Study DIT's funding structure and consider modifying the current Legislative appropriation model to significantly reduce the level of IT cost overruns
- 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

\$50 - \$100 million of savings

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## Purchasing

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- **Buy in volumes**
  - Identify types of goods and services that are common between state and local governmental units to be used for purchases of these types
  - Negotiate contracts with vendors
  - Provide incentives to purchase these standard products
- **Modify standard purchasing processes and procedures to reduce confusion in bidding process and protect savings realized**
- **Invest in and improve existing purchasing system (ADPICS)**

Still quantifying savings, by several hundred million would seem achievable

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

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- Bringing governmental employees benefit packages and premium contributions in line with public employees in other states and with private sector employees.
- Implementing plan design changes that reduce costs.
- Preserving the employee's choice of plan design and health insurance or health maintenance organization company in order to continue the employee's ability to choose between plans where applicable and to ensure competition between insurance providers.
- Leveraging the purchasing power and professional benefits negotiation services of the state to lower costs throughout the system.
- Evaluating different methods to pre-fund retiree health benefits.

\$300+ million in savings

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## Conclusions

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- The budget problems are daunting
- They are deep-rooted in the structure of our government and our budget
- However, they are solvable
- But it will take a different approach to thinking about solutions
  - This broadly about government and look to optimize across all units
  - Be holistic in approach
  - Aspirational
  - Create a roadmap
- Taking these into action will allow the state to invest in areas that are critical to moving the state forward

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