

**From:** Charlie Glaes  
**To:** Hill, Karen  
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**Subject:** Fwd: Governor's Reform Proposal  
**Attachments:** Gov Reform Proposal Details.pdf

>>> "masa-supt" <[masa-supt@listserv.melq.org](mailto:masa-supt@listserv.melq.org)> 2/1/2010 11:30 AM >>>  
Members-

As a follow-up to our communications of last week, I have attached to this email the full summary of the Governor's reform proposal issued by her office. In addition to the "carrot and stick" retirement incentives that were the focus of most media coverage, Governor Granholm also identified a series of government reform measures in her proposal. I have excerpted several sections below that, in our initial analysis, seem to be those that will have the greatest impact on schools. As you review those highlights as well as the full document, we would appreciate your feedback on how these proposed changes would affect you and your district.

We expect more details to become available both after the Governor delivers the State of the State address this Wednesday, February 3 and when her executive budget recommendation comes out on February 11. We will continue to update you as additional information becomes available.

Please note that, as these are gubernatorial proposals, separate legislative action will be necessary to implement all of the changes. Some pieces already have legislation identified, while others will be included in the executive budget proposal (see appendix 2 of the attachment).

Please note the following highlights (excerpted from the attached document):

Michigan Public School Employees Retirement System  
Public school employees who are members of the Michigan Public School Employees Retirement System (MPSERS) will be subject to the following changes effective October 1, 2010.

- \* To ensure MPSERS is financially sound, employee contributions to the plan will increase by 3 percent for all employees except those in the MIP Plus program, whose contribution was increased in 2008. MIP Plus members' contribution will increase by 0.9 percent.
- \* Elimination of subsidized retiree vision and dental coverage for school employees retiring with an effective date after October 1, 2010. Retirees will be able to purchase this coverage for a monthly fee through the plan.
- \* The retirement multiplier will be increased from 1.5 percent to 1.6 percent for employees who retire with an effective date between July 1 and September 1, 2010, which will be paid by the applicable school districts.
- \* A new, more cost-effective retirement plan for new employees hired on or after October 1, 2010 will be created. New employees will participate in both a base defined benefit plan and a defined contribution plan.
- \* Phased-in retirement will be allowed for up to three years for retiring employees, age 60 or older. They will be able to collect their DB plan retirement with a workload of no more than 20 hours per week for a previously full-time employee. This option is available to the employee at the discretion of the school districts.

\* A limited number of state employees will be hired to replace those who choose to retire under this plan. The replacement of public school employees will be at the discretion of the local district.

#### Pay-As-You-Go Budgeting

Lawmakers would be required to follow a pay-as-you-go policy when approving budget and tax expenditures. Any decision to increase a budget or tax expenditure should require a corresponding action to decrease expenditures or adjust revenues elsewhere.

#### Two-Year Budgets

A longer-range spending forecast and spending plan will benefit all who rely on the state budget to support their services and programs. A constitutional amendment is needed to put in place a two-year state budget cycle beginning October 1, 2011, with a June 30 deadline for passage of all related legislation needed to support or implement the enacted budget.

#### Required Competitive Bidding

Just as state government now requires competitive bidding for the purchase of all goods and services by state government - a requirement that has saved millions of dollars each year - local governments and school districts should be mandated to competitively bid all contracts exceeding \$50,000.

#### Shared Services in Education

Using existing authority, Michigan's public universities can reduce costs by establishing statewide contracting and procurement consortiums to consolidate buying and purchasing of goods and services, voluntarily pool for health care, and share information technology services. In addition, school districts throughout Michigan should be required to identify non-academic functions, such as transportation or accounting, which can be shared with neighboring districts or at the intermediate school district level and submit the service-sharing plan to the Michigan Department of Education for review and approval.

#### Removing Barriers to Consolidation

Binding arbitration for public employees as provided under Public Act 312 should be preserved. However, improvements to the process can provide a resolution in a more timely manner for the benefit of everyone involved, while reducing costs. Improving the process for arbitration under PA 312 and for governments to work together under the Urban Cooperation Act will ensure that consolidation and cooperation can occur efficiently and cost-effectively while still respecting collective bargaining.

#### Access to State Health-Care Plan

Public employers like local governments, schools and universities and their employees should be given the option of participating in the state of Michigan's new, cost-effective health-care plan.

#### Streamlined Elections

Modern technology should be used to streamline and reduce the cost of elections by enacting simple reforms including: no-reason absentee voting; elections-by-mail for some local, school and special elections; and instant run-off voting for local nonpartisan elections.

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## **Making Michigan Government More Efficient, Responsive and Cost Effective in the 21st Century**

Since taking office in 2003, Governor Jennifer M. Granholm has worked to reduce the size and cost of government while making it work better for Michigan citizens. Thanks to her efforts, Michigan citizens have benefited from increased service at a lower price. But more can be done. The governor is proposing four critical additional steps the state should take. These reforms will save state and local governments over \$450 million more next year. The governor's proposal includes:

### **Attacking the State's Structural Deficit**

The massive restructuring of the auto industry, which began in 2001, has dramatically and permanently changed the economic landscape in Michigan. The resulting impact is a state budget with a structural deficit.

During her tenure, the governor has aggressively attacked this structural deficit. She has issued 47 executive directives limiting state spending, saved more than \$1.5 billion by requiring renegotiation and competitive bidding of contracts and other cost-saving measures, and reduced energy usage in state facilities by 23 percent. The governor has eliminated five state departments and nearly 300 obsolete boards and commissions. State government has 10,900 fewer employees than when the decade began; the smallest size it's been since the early 1970s.

State employees have done their part, too. They've agreed to more than \$650 million in concessions over the past seven years, including unpaid furlough days, banked leave time, and paying a larger portion of their health-care costs.

The governor is proposing to further address the structural deficit by:

***Providing Retirement Incentives.*** With state revenue at historic lows, Michigan must continue to reduce the size of our public workforce through retirement incentives for approximately 7,000 eligible state employees and 39,000 eligible public school employees. In some instances, state employees who elect to retire would be allowed to continue to work up to 20 hours a week for up to three years. (See Appendix 1 for a more detailed overview of the proposed changes.)

***Increasing Employee Participation in New State Health Plan.*** Beginning as early as April 2010, new state employees will receive benefits under a new state health plan that is commensurate with health plans in the private sector pursuant to new agreements with state employee unions or state civil service rules. Employees under this plan will contribute 20 percent of premium costs. The new health-care plan would allow state government to reduce its cost by more than 21 percent per person but still provide important health-care coverage for employees and their families.

***Eliminating Lifetime Health Care for Elected Officials.*** In 1992, voters approved term limits for state legislators, but while their length of service was limited, their benefits were

not. In an age of term limits and structural deficits, lifetime health-care benefits for future legislators should be eliminated.

***Smarter Sentencing Policies.*** Michigan's sentencing policies for criminal offenders have contributed to an expansion of government spending. Modifying prison policies to ensure that Michigan prisoners are serving time comparable to prisoners convicted of similar crimes in other states will go a long way to help reduce Michigan's structural deficit.

***Ending Prescription Drug Immunity.*** While other states have successfully recovered hundreds of millions of dollars from drug companies for Medicaid costs resulting from injuries to their Medicaid patients, a 1995 Michigan law completely shields pharmaceutical companies from product liability. No other state in the country provides this protection for pharmaceutical companies who produce products that injure citizens. As a result, Michigan, unlike other states, cannot seek Medicaid reimbursement when drugs purchased with Medicaid dollars cause injury or damage to Medicaid patients.

***Establishing a Medicaid Inspector General.*** The Granholm administration has worked hard to contain the cost of Medicaid while protecting the critical health-care services it provides for Michigan's seniors, children and vulnerable citizens. These efforts have resulted in hundreds of millions of dollars in savings through improved security measures. A dedicated, independent Office of Health Services Inspector General will provide needed support to further reduce waste, fraud and abuse.

### **Strengthening Local Government and Schools**

Governor Granholm has repeatedly shown that creating efficiencies in government can both improve service and reduce costs. In 2007, Granholm signed a series of changes to school administrative procedures into law, including allowing districts to bid health care, requiring additional employee contributions to retirement, and changes to the retiree health-care system. Much more can be done to reduce duplication of services in Michigan's 83 counties, 533 cities and villages, 1,242 townships, and 773 school districts. The governor is proposing:

***Required Competitive Bidding.*** Just as state government now requires competitive bidding for the purchase of all goods and services by state government – a requirement that has saved millions of dollars each year - local governments and school districts should be mandated to competitively bid all contracts exceeding \$50,000.

***Shared Services in Education.*** Using existing authority, Michigan's public universities can reduce costs by establishing statewide contracting and procurement consortiums to consolidate buying and purchasing of goods and services, voluntarily pool for health care, and share information technology services. In addition, school districts throughout Michigan should be required to identify non-academic functions, such as transportation or accounting, which can be shared with neighboring districts or at the intermediate school district level and submit the service-sharing plan to the Michigan Department of Education for review and approval.

***Removing Barriers to Consolidation.*** Binding arbitration for public employees as provided under Public Act 312 should be preserved. However, improvements to the process can provide a resolution in a more timely manner for the benefit of everyone involved, while

reducing costs. Improving the process for arbitration under PA 312 and for governments to work together under the Urban Cooperation Act will ensure that consolidation and cooperation can occur efficiently and cost-effectively while still respecting collective bargaining.

***Access to State Health-Care Plan.*** Public employers like local governments, schools and universities and their employees should be given the option of participating in the state of Michigan's new, cost-effective health-care plan.

***Streamlined Elections.*** Modern technology should be used to streamline and reduce the cost of elections by enacting simple reforms including: no-reason absentee voting; elections-by-mail for some local, school and special elections; and instant run-off voting for local nonpartisan elections.

### **Enhancing Accountability in Government**

Governor Granholm set the tone from her first day in office by establishing a code of ethical conduct for all appointees and employees of her administration in Executive Directive 2003-1. Since then, the governor has fought for an open, responsive government. To further advance these goals, the governor is proposing:

***Financial Disclosure for All Elected Officials.*** Citizens deserve to know if the men and women they are electing to office are personally benefiting from the decisions they will be making. State elected officials and candidates should be required to submit financial disclosure statements annually, as is required in 47 other states.

***Closing the Lobbyist Revolving Door.*** Michigan needs to eliminate the specter of personal gain among those who are serving in government by closing the lobbyist revolving door that allows lobbyists to freely enter state service and state officials to leave state government and become registered lobbyists without any limitations on the timing of such changes.

***Banning Honoraria Payments.*** State elected officials have chosen to represent citizens, and they receive a salary for that service. All elected state officials should be prohibited from accepting an honorarium for any aspect of their work or position.

***Raising Ethics Standards.*** More stringent ethics standards and conflict of interest regulations, including contracting and gift restrictions, should be imposed for all elected and appointed officials and employees in the executive branch, including state contract managers. These regulations should prohibit soliciting or delivering political contributions in government buildings.

***Preserving the Integrity of Elections.*** With special-interest spending in elections now unregulated, we must preserve the integrity of elections in Michigan by requiring real-time disclosure of all corporate contributions for political activity; mandating shareholder approval of corporate political expenditures; prohibiting any corporation with a foreign parent or shareholders, income from a foreign country or non-resident officers from spending money to

influence Michigan elections; and requiring complete disclaimers on advertising to identify any corporation funding a political advertisement.

### **Modernizing the State's Budgeting Process**

The last decade, unquestionably, has posed the most difficult budget challenges this state has ever faced. The governor and the Legislature have faced budget deficits in each of the last nine years. As a result, they have had to make difficult choices to reduce and eliminate important programs and services. During that time, Michigan is the only state in the country whose general fund shrunk in real dollars. When adjusted for inflation, Michigan revenues are at a 45-year low.

Michigan's ongoing economic struggles have shined a light on a budget process that is broken. In two of the last three years, the Legislature has failed to pass a budget by the September 30 deadline. To ensure that the state's priorities are protected, Governor Granholm proposes the following, some of which will require voter approval:

***Two-Year Budgets.*** A longer-range spending forecast and spending plan will benefit all who rely on the state budget to support their services and programs. A constitutional amendment is needed to put in place a two-year state budget cycle beginning October 1, 2011, with a June 30 deadline for passage of all related legislation needed to support or implement the enacted budget.

***Review Tax Expenditures.*** When the Legislature exempts the collection of a tax to help grow the state's economy and create jobs, it gives up revenue that would otherwise support state programs. Today, these tax expenditures cost the state more than \$36 billion in revenue. The governor supports protecting the state's long-term job creation incentives and a biennial review of tax expenditures to reauthorize or repeal them to make certain that we are getting the economic benefits that we expected.

***Biennial Budget Presentations.*** The biennial budget presentation would be expanded to include long-range (10 year) revenue and budget forecasts; projections for transportation-related revenues; and expenditures on major items, including Medicaid, Department of Human Services programs, Department of Corrections' prisoner projections, and continued inclusion of pupil counts from the Department of Education.

***An Additional Revenue Estimating Conference.*** Revenue estimating conferences would be held in January, May and September with a new statutory deadline of December 31 for final reporting on previous fiscal year spending. While representatives from the Michigan Department of Treasury and the House and Senate fiscal agencies would remain the conferees, they would be required to seek advice from non-governmental economists and revenue forecasters.

***Pay-As-You-Go Budgeting.*** Lawmakers would be required to follow a pay-as-you-go policy when approving budget and tax expenditures. Any decision to increase a budget or tax expenditure should require a corresponding action to decrease expenditures or adjust revenues elsewhere.

***Disclosure of Full Cost of Legislation.*** An analysis by a legislative fiscal agency would be required to identify the estimated financial and compliance costs of legislation before it is approved by state lawmakers, including costs to those impacted by the policy. A similar analysis by the State Office of Administrative Hearing and Rules would be required to identify the estimated cost of promulgating rules to implement proposed legislation.

***Auditing State Contracts Annually.*** Each year, the state spends more than \$23 billion with vendors. An annual review of all contracts to identify excess spending, overcharges and inefficiencies will ensure that the state is getting the most for its money.

***Tying Legislative Pay to Budget Performance.*** To further ensure compliance with a new budget deadline, the salaries of the governor and House and Senate members would be docked a day's pay for each day the budget isn't completed after July 1.

## **Appendix 1**

### **Retirement Incentives for State Government and Public School Employees**

The administration has unveiled a retirement incentive plan to reduce the size of the public workforce by offering both positive and negative incentives to approximately 7,000 state employees and 39,000 public school employees eligible for retirement. The retirement incentive plan will require legislative approval in time for state employees to submit their retirement application between April 15 and May 15, 2010.

***State Employee Retirement System.*** State employees who are members of the defined benefit (DB) plan will experience the following changes effective October 1, 2010:

- To ensure that the State Employees Retirement System (SERS) is financially sound, a 3 percent employee contribution will be reinstated.
- Earned service credit capped at 30 years. Employees continuing in state service beyond 30 years will be moved to a defined contribution (DC) plan for any additional years of service accrued after September 30, 2010, excluding what is purchased by the employee.
- Elimination of state-subsidized retiree vision and dental coverage as part of the state employee health plan for state employees retiring with an effective date after September 30, 2010. Retirees will be able to purchase this coverage for a monthly fee through the plan.
- Increased retirement multiplier of 1.6 percent for eligible employees who retire with an effective date between July 1 and October 1, 2010. Details on eligibility will be included in the fiscal year 2011 executive budget recommendation.

- Phased retirement option for retiring employees age 60 or older. Phased-in retirement will be allowed for up to three years, enabling them to collect their DB plan retirement with a workload of no more than 20 hours per week for a previously full-time employee. This option is available to the employee at management discretion.

***Michigan Public School Employees Retirement System.*** Public school employees who are members of the Michigan Public School Employees Retirement System (MPERS) will be subject to the following changes effective October 1, 2010.

- To ensure MPERS is financially sound, employee contributions to the plan will increase by 3 percent for all employees except those in the MIP Plus program, whose contribution was increased in 2008. MIP Plus members' contribution will increase by 0.9 percent.
- Elimination of subsidized retiree vision and dental coverage for school employees retiring with an effective date after October 1, 2010. Retirees will be able to purchase this coverage for a monthly fee through the plan.
- The retirement multiplier will be increased from 1.5 percent to 1.6 percent for employees who retire with an effective date between July 1 and September 1, 2010, which will be paid by the applicable school districts.
- A new, more cost-effective retirement plan for new employees hired on or after October 1, 2010 will be created. New employees will participate in both a base defined benefit plan and a defined contribution plan.
- Phased-in retirement will be allowed for up to three years for retiring employees, age 60 or older. They will be able to collect their DB plan retirement with a workload of no more than 20 hours per week for a previously full-time employee. This option is available to the employee at the discretion of the school districts.

A limited number of state employees will be hired to replace those who choose to retire under this plan. The replacement of public school employees will be at the discretion of the local district.

The retirement incentive plan will be outlined in greater detail when the executive budget recommendation for fiscal year 2011 is presented to the House and Senate Appropriations Committees on February 11, 2010. At that time, the Office of Retirement Services will post additional information about the retirement incentive plan on its web site at [www.michigan.gov/ors](http://www.michigan.gov/ors)

## **Appendix 2**

### **Implementation of Proposed Changes**