

MEMORANDUM



DATE: October 3, 2011
TO: Interested Parties
FROM: Mary Ann Cleary, Director *MAC*
RE: Preliminary Overview of Executive Contingency Plan for FY 2011-12

The FY 2011-12 General Fund budget agreement assumed \$145.0 million in savings from employee concessions. Negotiations on state employee contracts are at an impasse, resulting in the administration offering an alternative proposal as a contingency plan for those savings. The contingency plan includes a series of budget reduction proposals totaling \$146.4 million:

- Reductions in the Department of Corrections budget totaling \$65.0 million.
- Ongoing savings of \$52.1 million from eliminating funded vacancies, other departmental contingency plans, and implementing an employee pension contribution.
- One-time savings of \$29.3 million from employee furlough days and debt refinancing.

Preliminary information on the proposed budget reductions is provided below. We anticipate that detailed supplemental recommendations incorporating these proposals to reduce GF/GP appropriations in the FY 2011-12 budget will be submitted to the Legislature in the near future.

Department of Corrections Initiatives: \$65.0 million GF/GP

Proposes a \$50.0 million reduction to the Department of Corrections (MDOC) budget tied to an additional prison closure and various initiatives to competitively bid out services currently provided by MDOC employees. The Mound Correctional Facility would be closed by January 7, 2012 to achieve estimated partial-year savings of \$29.0 million. The remainder of the \$50.0 million savings would be achieved through other initiatives, including the competitive bidding of the operations of the Woodland Center Correctional Facility, competitive bidding of prisoner health care and mental health care services, and the elimination of parole/probation vacancies in recognition of reduced caseloads. Combined, these actions are expected to impact over 2,200 MDOC employee positions.

Another \$15.0 million in unspecified savings would be tied to the results of further labor negotiations. All of these savings would be in addition to the \$31.3 million in net savings already assumed in the enacted budget related to contracting for more cost-effective housing and other department operational changes.

Elimination of Funded Vacancies and Other Contingency Plans: \$33.3 million GF/GP

Reduces state workforce by 367 positions by not filling funded vacant positions in various State departments. Alternate savings related to employee costs, contracts, or alternate funding sources are identified as part of individual contingency plans for some departments. Total estimated savings are \$33.3 million GF/GP, with an additional reduction of \$20.7 million in appropriations from federal and other non-General Fund sources. A more detailed description of proposed position eliminations and other contingency plans for individual departments begins on page 3.

Defined Benefit Retirement Savings: \$18.8 million GF/GP

Assumes passage of House Bill 4701, which would require employees in the State Employees Retirement System (SERS) pension or defined benefit (DB) plan to contribute 4% of their

compensation toward the plan or freeze their pension benefit and continue future service under the SERS 401(k) or defined contribution (DC) plan. Assumes a January 1, 2012 effective date and a savings of \$18.8 million GF/GP. Full-year savings would be approximately \$25.0 million GF/GP. (Under House Bill 4704, the 4% charge would effectively replace the 3% retiree health care contribution currently being charged to state employees but held in escrow due to judicial proceedings. Because of those proceedings, the savings from the 3% contribution have not yet been built into the state budget.)

Furlough Days for State Employees: \$9.5 million GF/GP

Reflects implementation of at least four furlough days for State employees, excluding non-exclusively represented employees (NEREs, for whom the anticipated 3% salary and wage increase for FY 2011-12 was rescinded) and direct care workers in 24-hour facilities. Assumes one-time savings of \$9.5 million GF/GP.

State Building Authority Bond Refinancing: \$19.8 million GF/GP

Reflects refinancing of debt issued by the State Building Authority (SBA) due to lower fixed interest rates. Refinancing will result in a one-time savings of \$19.8 million GF/GP.

Please call if you have questions regarding this information.

Attachment

FY 2011-12 DEPARTMENT CONTINGENCY PLANS
Preliminary Summary: Executive Proposal



Director: Mary Ann Cleary
 Deputy Director: Kyle I. Jen

Summary: FY 2011-12 Department Contingency Plans
 Executive Proposal

| <u>Department</u> | <u>Vacant Positions Eliminated</u> | <u>Gross Reduction</u> | <u>GF/GP Reduction</u> | <u>Restricted Savings to GF/GP</u> | <u>Total GF/GP Savings</u> |
|---|------------------------------------|------------------------|------------------------|------------------------------------|----------------------------|
| Agriculture & Rural Development | (9.0) | (\$720,300) | (\$720,300) | | (\$720,300) |
| Attorney General | (12.0) | (1,298,000) | (40,000) | | (40,000) |
| Civil Rights | (3.0) | (260,900) | (260,900) | | (260,900) |
| Community Health | (88.3) | (9,770,600) | (6,060,900) | | (6,060,900) |
| Environmental Quality | (1.0) | (81,600) | (81,600) | | (81,600) |
| Human Services | (182.0) | (34,241,100) | (18,771,000) | | (18,771,000) |
| Licensing & Regulatory Affairs | (1.0) | (71,100) | (71,100) | | (71,100) |
| Military & Veterans Affairs | 0.0 | (921,300) | (921,300) | | (921,300) |
| Natural Resources | (3.9) | (364,200) | (364,200) | | (364,200) |
| State | (11.0) | (965,800) | (103,900) | (861,900) | (965,800) |
| State Police | (2.0) | (1,202,300) | (1,155,000) | | (1,155,000) |
| Tech, Management & Budget - Operations | (6.0) | (522,300) | (283,100) | | (283,100) |
| Tech, Management & Budget - Civil Service | (3.0) | (284,000) | (284,000) | | (284,000) |
| Treasury - Operations | (43.0) | (3,088,300) | (993,700) | (2,094,600) | (3,088,300) |
| Treasury - Michigan Strategic Fund | (2.0) | (250,100) | (250,100) | | (250,100) |
| TOTAL | (367.2) | (\$54,041,900) | (\$30,361,100) | (\$2,956,500) | (\$33,317,600) |

| <u>FY 2011-12 Contingency Plan Items:</u> | <u>Executive Proposal</u> |
|---|---|
| AGRICULTURE & RURAL DEVELOPMENT (Analyst: William Hamilton) | |
| 1. Food Inspection and Testing | |
| Elimination of three food inspector positions and one laboratory technician position will impact the department's ability to prevent food-borne illness and respond to food safety emergencies. The department indicates the positions are currently unfilled. The department indicates one additional position, as yet unspecified, will be left unfilled through a hiring freeze. | FTE (5.0) Gross (\$354,100) GF/GP (\$354,100) |
| 2. Animal Health Programs | |
| Elimination of three positions in the Animal Industry Division will reduce department's animal disease control and prevention program. The department indicates the positions are currently unfilled. | FTE (3.0) Gross (\$253,700) GF/GP (\$253,700) |
| 3. Pesticide and Plant Pest Management | |
| Elimination of one pesticide inspector position will reduce the department's ability to do compliance monitoring related to pesticide regulatory program. The department indicates the position is currently unfilled. | FTE (1.0) Gross (\$112,500) GF/GP (\$112,500) |

FY 2011-12 Contingency Plan Items:

ATTORNEY GENERAL (Analyst: Robin Risko)

4. Attorney General Operations

Eliminates ten vacant NERE positions and two vacant represented positions within Attorney General Operations. The ten NERE positions are all attorney positions, with two being attorney managers (five positions in the transportation division, four in the labor division, and one in corporate oversight). The two represented positions are investigators in the health care fraud division. The department has indicated a reduction in attorney staffing will challenge the department's ability to meet the legal needs of the state.

FTE (12.0)
Gross (\$1,298,000)
GF/GP (\$40,000)

CIVIL RIGHTS (Analyst: Robin Risko)

5. Civil Rights Operations

The department will restructure their Public Affairs Division to enable the department to assign duties to existing personnel and create a lower level position, saving \$18,000. The department has indicated there will be an impact on services to the public during the transition, but should not result in a long-term impact. In addition, the department will reduce the number of staff funded vacancies in the Enforcement Division through elimination of one current funded vacancy and two impending retirements that will not be filled, saving \$242,900. The department has indicated the reduction of staff will slow down response time to customer complaints of harassment and/or discrimination.

FTE (3.0)
Gross (\$260,900)
GF/GP (\$260,900)

COMMUNITY HEALTH (Analysts: Margaret Alston, Sue Frey, and Steve Stauff)

6. Departmentwide Reductions

Savings of \$2,265,500 Gross (\$1,006,000 GF/GP) are realized from the elimination of 26.0 funded and vacant Department positions. These positions are within the areas of central administration, Office of Services to the Aging, Health Policy, the Medical Services Administration and the Behavioral Health and Developmental Disabilities Administration. Savings of \$1,325,000 Gross (\$331,300 GF/GP) are also achieved by eliminating a contract with the Michigan Public Health Institute for Medicaid billing support services.

FTE (26.0)
Gross (\$3,590,500)
GF/GP (\$1,337,300)

7. Public Health Reductions

Four vacant positions are eliminated in public health administration including one in chronic disease, two in family, maternal and children's health, and one in children's special health care services for savings of \$413,500 Gross (\$121,600 GF/GP). Administrative travel funding in children's special health care services is also reduced by \$17,800 Gross (\$10,100 GF/GP). Impact will be reduction in activities that promote public health, safety, disease prevention, and children's services. Other funds saved are federal.

FTE (4.0)
Gross (\$431,300)
GF/GP (\$131,700)

8. State Psychiatric Hospitals and Forensic Center Reductions

Slightly more than fifty eight funded vacant positions are eliminated for state operated facilities which includes six at Caro Regional Psychiatric Hospital, seventeen at Kalamazoo Psychiatric Hospital, ten and a half at Walter P. Reuther Psychiatric Hospital, three and a half at Hawthorn Center, and twenty one and a quarter at the Center for Forensic Psychiatry. Impact of the reduction will be in the delivery of necessary treatment and services to individuals with mental illness and developmental disabilities (non ICF/MR) as fewer staff will be available.

FTE (58.25)
Gross (\$5,748,800)
GF/GP (\$4,591,900)

ENVIRONMENTAL QUALITY (Analyst: Viola Bay Wild)

9. Accounting Service Center

Reduces funding by \$68,800 Gross and GF/GP by eliminating funding for 1.0 FTE vacant position for the Accounting Service Center; vacancy was expected to remain unfilled; Center is located in MDOT and the corresponding 1.0 FTE reduction will be taken in the MDOT budget.

FTE (1.0)
Gross (\$68,800)
GF/GP (\$68,800)

10. Executive Direction Travel and Supplies Reduction

Reduces funding by \$12,800 Gross and GF/GP in Executive Direction line item; savings to be realized through reductions in CSS&M, travel, and office supplies.

FTE 0.0
Gross (\$12,800)
GF/GP (\$12,800)

HUMAN SERVICES (Analyst: Kevin Koorstra)

11. Child Welfare Salary and Wage Costs

Reduces salary and wage costs of child welfare staff; there is no reduction to the number of budgeted staff. The Children's Right's settlement agreement mandated DHS to hire a substantial amount of new child protective service and foster care caseworkers, and the FY 2011-12 budget assumed a higher average salary than the actual realized salaries of these new staff.

FTE 0.0
Gross (\$21,000,000)
GF/GP (\$5,796,100)

12. Eliminate Funded Field Staff Vacancies

Reduces total public assistance field staffing allocations to current levels. Savings does not assume that layoffs of current employees will be needed.

FTE (84.0)
Gross (\$6,000,000)
GF/GP (\$2,339,500)

13. Targeted Hiring Freeze

DHS will require program areas to institute a hiring freeze with limited exemptions. Direct service workers and central staff for child welfare services will be exempt from the hiring freeze in order to meet the requirements of the Children's Rights settlement agreement.

FTE (98.0)
Gross (\$7,241,100)
GF/GP (\$2,877,000)

| | Executive Proposal |
|---|-------------------------------|
| <u>FY 2011-12 Contingency Plan Items:</u> | |
| 14. GF/GP Offset with Federal TANF Funds | FTE 0.0 |
| Gross savings for the three DHS items above includes \$7.8 million in federal TANF block grant funding that can be redirected to other areas within the DHS budget to offset GF/GP. | Gross \$0 |
| | GF/GP (\$7,758,400) |
| LICENSING AND REGULATORY AFFAIRS (Analyst: Paul Holland) | |
| 15. Workers' Compensation Agency | FTE (1.0) |
| The Department is eliminating one vacant clerical (administrative support) position within the Workers' Compensation Agency. The FY 2011-12 appropriation bill appropriates funds for 96.6 FTE administration positions for the Workers' Compensation Agency to support claims processing, mediation, self-insured programs, health care services, and compliance & employer records. The clerical position eliminated has been vacant for more than six months. | Gross (\$71,100) |
| | GF/GP (\$71,100) |
| MILITARY AND VETERANS AFFAIRS (Analyst: Robin Risko) | |
| 16. Grand Rapids Veterans Home | FTE 0.0 |
| The FY 2011-12 budget includes savings from competitive bidding for resident care aides at the Grand Rapids Veterans Home. Department anticipates that the recently awarded contract will yield savings in excess of \$4.2 million contained in the budget bill, avoiding additional layoffs. | Gross (\$921,300) |
| | GF/GP (\$921,300) |
| NATURAL RESOURCES (Analyst: Viola Bay Wild) | |
| 17. Wildlife Management | FTE (0.5) |
| Reduces funding by \$41,200 Gross and GF/GP by eliminating funding for 0.5 FTE vacant laboratory scientist position within the Wildlife Management line item. Position duties include disease monitoring among white-tailed deer population; reduction expected to reduce staff dedicated to processing samples for Bovine Tuberculosis and Chronic Wasting Disease. | Gross (\$41,200) |
| | GF/GP (\$41,200) |
| 18. Administrative Staff Position Reductions | FTE (2.4) |
| Reduces funding by \$159,700 Gross and GF/GP by eliminating funding for 2.0 FTE vacant administrative support staff positions and reducing the hours of an existing administrative support position by 40%. Savings realized by eliminating funding for an executive secretary position in Central Support Services (\$61,800), a secretary position in Historical Administration and Services (\$91,400), and a 0.4 FTE reduction of a permanent intermittent administrative support position for Executive Direction and Citizen Advisory Councils line item (\$6,500). | Gross (\$159,700) |
| | GF/GP (\$159,700) |
| 19. Marketing, Education and Technology (MET) | FTE (1.0) |
| Reduces funding by \$5,400 Gross and GF/GP by eliminating funding associated with 1.0 FTE vacant position for a Departmental Specialist within the MET line item. | Gross (\$5,400) |
| | GF/GP (\$5,400) |
| 20. Wildfire Protection / Law Enforcement GF/GP Reduction | FTE 0.0 |
| Reduces GF/GP funding by \$129,200 through a reduction in forest fire response and prevention activities and the purchases of supplies and materials for wildfire protection (\$96,200) and a reduction in the amount of hours that conservation officers dedicate to environmental protection enforcement and state land enforcement (\$33,000). | Gross (\$129,200) |
| | GF/GP (\$129,200) |
| 21. Information Technology | FTE 0.0 |
| Reduces funding by \$28,700 GF/GP through reductions in technology support for key computer applications, such as the hunting and fishing license program and the state park camping reservation system. | Gross (\$28,700) |
| | GF/GP (\$28,700) |
| STATE (Analyst: Ben Gielczyk) | |
| 22. Branch Operations | FTE (2.0) |
| Eliminates two vacant NERE positions (one manager position) within branch operation services. The Department of State has deemed the positions non-critical and therefore the elimination of the positions should have a minimal impact on services. NOTE: Gross figure includes \$196,500 in driver fees which are restricted funds that lapse to the General Fund. | Gross (\$201,300) |
| | GF/GP (\$4,800) |
| 23. Central Operations | FTE (5.0) |
| Eliminates five vacant positions (two manager positions), two of which are NEREs, within central operations. The Department of State has deemed the positions non-critical and therefore the elimination of the positions should have a minimal impact on services. NOTE: Gross figure includes \$354,600 in driver fees which are restricted funds that lapse to the General Fund. | Gross (\$385,300) |
| | GF/GP (\$30,700) |
| 24. Regulatory Services | FTE (2.0) |
| Eliminates two vacant NERE positions (one manager) within regulatory services. The Department of State has deemed the positions non-critical and therefore the elimination of the positions should have a minimal impact on services. NOTE: Gross figure includes \$151,400 in driver fees which are restricted funds that lapse to the General Fund. | Gross (\$189,300) |
| | GF/GP (\$37,900) |

| | | Executive Proposal |
|--|------------------------------|--|
| <u>FY 2011-12 Contingency Plan Items:</u> | | |
| 25. Department Services | | |
| Eliminates two vacant NERE positions (one manager) within department services. The Department of State has deemed the positions non-critical and therefore the elimination of the positions should have a minimal impact on services. NOTE: Gross figures includes \$159,400 in driver fees which are restricted funds that lapse to the General Fund. | FTE Gross GF/GP | (2.0) (\$189,900) (\$30,500) |
| STATE POLICE (Analyst: Robin Risko) | | |
| 26. Field Services Bureau | | |
| The department will shift Field Services Bureau employees, to include at-post troopers, to vacant positions in the Emergency Management and Homeland Security Division and the Gaming Division. The department has indicated the Field Services Bureau will recognize a reduction in patrol, enforcement, and investigative hours as a result of operationally diverting personnel from general law enforcement activities to specific program areas. | FTE Gross GF/GP | 0.0 (\$1,019,100) (\$1,019,100) |
| 27. Support Services Bureau | | |
| Eliminates one vacant NERE Department Analyst position in the area of purchasing. The department has indicated reductions in staff and the inability to fill funded vacancies will result in less efficient and effective programs. Delays in processing information and performing duties will occur. | FTE Gross GF/GP | (1.0) (\$88,600) (\$88,600) |
| 28. Science, Technology, and Training Bureau | | |
| Eliminates one vacant NERE Human Resources Developer position in the area of law enforcement standards and training. The department has indicated reductions in staff and the inability to fill funded vacancies will result in less efficient and effective programs. Delays in processing information and performing duties will occur. | FTE Gross GF/GP | (1.0) (\$94,600) (\$47,300) |
| TECHNOLOGY, MANAGEMENT, AND BUDGET- OPERATIONS (Analyst: Ben Gielczyk) | | |
| 29. Budget and Financial Management - Internal Audit Services | | |
| Eliminates four vacant positions in the Office of Internal Audit Services. All positions were NERE positions. The Department of Technology, Management, and Budget stated that both state program audits and audit corrective consulting services will be negatively affected. | FTE Gross GF/GP | (4.0) (\$363,800) (\$228,500) |
| 30. Administrative Services | | |
| Eliminates a vacant administrative support staff position (NERE). Responsibilities would be distributed to current staff. DTMB has indicated the loss of this position could negatively impact DTMB's ability to respond to data requests, custom report projects, etc. | FTE Gross GF/GP | (1.0) (\$94,100) (\$8,500) |
| 31. Real Estate Business Support Services | | |
| Eliminates a vacant secretary position (NERE) within the Real Estate Business Support Services area. DTMB has indicated that the position has been changed and the duties and responsibilities have been allocated to the current staff. | FTE Gross GF/GP | (1.0) (\$64,400) (\$46,100) |
| TECHNOLOGY, MANAGEMENT, AND BUDGET - CIVIL SERVICE (Analyst: Ben Gielczyk) | | |
| 32. Agency Services | | |
| Eliminates three vacant NERE positions in the human resources support area. The Commission has indicated the impact of this reduction will be increased processing times. | FTE Gross GF/GP | (3.0) (\$284,000) (\$284,000) |
| TREASURY - OPERATIONS (Analyst: Ben Gielczyk) | | |
| 33. Banking and Management Services | | |
| Eliminates seven vacant positions in Banking and Management Services. Specifically, six vacant positions are eliminated in the Collection Division and one vacant position is eliminated in Receipts Processing Division. According to the Department of Treasury, these eliminated vacancies will result in delayed revenue collection to the state for taxes in arrears and delayed intake of revenue from all sources according to the Department of Treasury. NOTE: Gross figure includes \$408,000 in delinquent tax collection revenues which are restricted funds that lapse to the General Fund. | FTE Gross GF/GP | (7.0) (\$544,000) (\$136,000) |
| 34. Local Government Programs | | |
| Eliminates five vacant positions, two of which are NEREs, in Local Government Programs. The department of Treasury indicates that the elimination of these positions will lead to less oversight over local government's finances. Moreover, they indicate that the elimination of the positions will have a negative impact on the implementation and operation of the Local Government Fiscal Accountability Act (PA 4 of 2011). | FTE Gross GF/GP | (5.0) (\$390,000) (\$390,000) |

FY 2011-12 Contingency Plan Items:

35. Tax Programs

Eliminates 31.0 vacant positions from the Tax Programs: Customer Contact (4.0 positions), Tax Compliance (12.0 positions), Tax Processing Bureau (8.0 positions), and Michigan Business Tax/Corporate Income Tax (7.0 positions). The department indicates that the elimination of the positions will inhibit full staffing of the tax call center which will likely negatively impact customer services to state taxpayers. Additionally, the department indicates that the elimination of tax audit and processing vacancies will have a negative impact on state revenues. Lastly, staff workloads and training in relation to the newly enacted tax changes will likely grow. NOTE: Gross figure includes \$1.7 million in delinquent tax collection revenues which are restricted funds that lapse to the General Fund.

FTE (31.0)
Gross (\$2,154,300)
GF/GP (\$467,700)

Executive Proposal

TREASURY - MICHIGAN STRATEGIC FUND (Analyst: Ben Gielczyk)

36. Job Creation Services

Eliminates two vacant NERE positions within Job Creation Services. The Michigan Strategic Fund agency indicates additional responsibilities will be placed on existing staff, but a significant disruption in services provided is not anticipated.

FTE (2.0)
Gross (\$250,100)
GF/GP (\$250,100)