

Governor Jennifer M. Granholm
Remarks – State Government Reforms
Lansing Rotary Club
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Good afternoon. It's great to be with you today.

I'd first like to thank members of the Lansing Rotary Club for your commitment to community service, high ethical standards, goodwill and understanding. Thank you for putting "Service Above Self," and a special thank you to all Rotarians for providing desperately-needed relief to the people of Haiti.

This is the first of three speeches that I'll be giving in the next two weeks. My State of the State address next Wednesday will focus on economic diversification. My February 11 budget message will concentrate on Michigan's budgetary and fiscal crisis.

Today, I want to talk about transforming government in Michigan to make it less costly, more efficient and more accountable.

First, we must put the need to transform government into context.

Everyone in this room knows that over the last 10 years, Michigan has been hemorrhaging jobs. Some of the job loss is due to the impact of globalization on our economy. Some is because of unfair trade policies that disadvantage American businesses and workers. But much of it has come from the profound changes that reverberated throughout the auto industry.

In 2008, skyrocketing oil prices and the collapse of the financial markets created a worldwide recession. Michigan's manufacturing-based economy, already under tremendous financial pressure, reached the breaking point and snapped.

The unthinkable happened – General Motors and Chrysler declared bankruptcy, as did many of our key auto suppliers. Businesses closed because they couldn't obtain credit. Home foreclosures soared while real estate values plummeted. Hundreds of thousands of workers lost their jobs and looked to government for assistance.

At the end of this year, Michigan will have lost one million jobs since the dawn of this century. Three out of four automotive jobs in our state are gone.

Also gone is the old Michigan economy. It's gone, and let's be candid – it's not coming back.

For decades, there had been a lot of talk about the need to diversify Michigan's economy. When my administration began in 2003, because of the restructuring that had already begun in the auto industry, we knew the time for talk was over.

We needed to act. We began the long, hard work of diversifying Michigan's economy and weaning ourselves from being solely dependent on the fortunes of just one industry.

So we laid out a plan. And the plan was this: begin to build a new, diversified Michigan economy based on our natural strengths.

We evaluated our options for economic diversification and consulted outside economic experts for their advice and guidance.

The result was to target six economic sectors for growth: advanced manufacturing, such as robotics and nanotechnology; clean, alternative energy; life sciences; defense and homeland security; the film industry, and tourism.

Despite all of the challenges, we have made tangible progress in these areas. And I'll be discussing these in my State of the State address.

We also have reformed our education system from top to bottom to ensure that every child gets a world-class education and that every worker has access to the training they need for 21st century jobs.

And as we move from the old Michigan economy to a new Michigan economy, we have worked to protect people during the transition.

Much progress has been made, but we know that much more needs to be done.

Government cannot be all things to all people. We must focus on the things that matter most: job-creation, education and providing basic critical services to those most in need.

Our challenge is to free up every possible resource, every possible dollar, to attract business investment, to foster job-creation and to provide our children and our workers with the education and the training they need.

Our limited resources are further diminished by a state government that was designed in the 1960s. And that has to change.

We need to borrow a page from the recent "Cash for Clunkers" program and trade in our 1960s-model state government for a new sleeker, smaller state government designed for the 21st century.

The 21st century economy is all about speed, access, intelligence and efficiency. A 21st century government needs to be about the same things.

We've already taken numerous actions during my administration to make state government leaner, more efficient and less costly.

No governor in the history of Michigan has cut more state spending than I have. No state has contained spending more than Michigan. Not one.

Over the past seven years, my administration has resolved more than \$10 billion in budget deficits. And we're working with state revenues that, when adjusted for inflation, are at a 45-year low.

Seven years ago, there were 20 state departments – the constitutional maximum. We've sliced that number to 15, with more reductions to come. And we've eliminated nearly 300 obsolete state boards and commissions.

Today, at the end of this decade, state government serves more citizens with almost 11,000 fewer state employees than at the start of this decade – the fewest number of state employees since 1972.

We've saved \$1.1 billion by reevaluating every state contract and eliminating no-bid contracts. All goods and services purchased by state government must be competitively bid.

We've sold off state planes, made state facilities and state vehicles more energy-efficient, consolidated offices and sold off excess property – saving another \$460 million.

Hundreds of millions more have been saved by targeting waste, fraud and abuse in the Medicaid, food assistance and day-care programs.

And we've leveraged technology to make state services less costly and easier for people to access.

For example, we don't want you to have to go to 10 different state departments or agencies to get the business permits you need.

So we created a one-stop shop for business on the Web at www.michigan.gov/business. Now you have easy, online access to licenses, permits and other information. It's just one example of what we're doing to make it easier for businesses to open or expand in Michigan.

In recognition of all the work we've done in making government more efficient and less costly, the Pew Center on the States and Governing magazine have repeatedly named Michigan as one of the best-managed states in the nation during my years as governor.

And yet more remains to be done.

So today I am unveiling a four-step plan that will further transform Michigan government, saving \$450 million in the first year alone.

The four steps are:

- further reducing the structural deficit;
- facilitating local government and school cost savings, service sharing and consolidation;
- enhancing accountability in state government; and
- improving the management of state finances.

Further reducing the structural deficit

Let's talk about further reducing the structural deficit in state government.

First, it's time to eliminate lifetime health care benefits for state legislators. In good times, lifetime health care benefits paid by taxpayers for elected officials who may serve only six years in office would be indefensible. In tough times they are outrageous.

I applaud the Michigan House of Representatives for recognizing this. In 2007, the House voted 107 to 2 to end this giveaway. And I know Joan Bauer was one of the 107.

Unfortunately, the legislation died in a Senate committee after nearly two years without even a hearing. The House has demonstrated that they will pass legislation to end this cushy deal. It's time for the Senate to step up as well.

It's also time to make difficult changes regarding retirement and health care for state employees.

State employees have been our partners throughout the last seven years as we have battled perpetual budget deficits. They have increased their payments for health care and retirement, and taken banked leave and unpaid furlough days. They have done more work with fewer people. Their commitment to this state has saved taxpayers \$650 million since I've been governor.

And we must ask them to do even more.

With state revenue at historic lows, Michigan has to continue to reduce the size and the cost of the state workforce. So I am proposing a plan that will encourage eligible employees to retire.

Approximately 7,000 state employees are eligible to retire. We estimate that those who choose to retire will create first-year savings for the state totaling \$87 million, and an estimated \$1.8 billion in savings over the next 10 years.

Not every state employee who retires under this plan will be replaced. However, we will be hiring some new replacement workers, at a ratio of two new workers for every three retiring workers, which will create new job opportunities for Michigan college graduates and a chance for public service.

Changes are also coming in state employee health care.

I want to commend the members of Service Employees International Union Local 517M for ratifying an agreement last month that includes a new health care plan for employees hired after April 1 of this year. I also commend members of the Michigan Corrections Organization for negotiating a similar agreement which is currently in the ratification process.

The new health-care plan is comparable to plans in the private sector and will require a 20 percent employee premium share. It is our goal to implement or negotiate this new health care plan with other state employee groups as well.

State employees will still receive important health coverage for themselves and their families. But state government will save 21.3 percent on health care for every newly-hired state employee.

We also want to offer participation in this new state health care plan to all Michigan public employers and their employees. We will encourage the Civil Service Commission to authorize the new plan and enable any public employer and their employees to choose to participate – cities, counties, universities and schools.

Another area where we will continue fighting to cut costs is in the Department of Corrections. Michigan is out of step with other states regarding the length of sentences served by prisoners. The length of stay for Michigan prisoners needs to be reduced so it is comparable with that of inmates in other states imprisoned for "like" crimes.

I want to be very clear on this: we will not put Michigan citizens in danger. Dangerous felons who pose a threat to society will be behind bars. But studies have shown, and experience has taught us, that keeping prisoners in jail beyond their release date does not make Michigan a safer place.

However, it does cost a whole lot of your money – money that could be better spent on education.

Facilitating local government and school cost savings, service sharing and consolidation

Step two in our plan is facilitating local government and school cost savings, service sharing and consolidation.

As I mentioned earlier, state government has saved more than a billion dollars through competitive bidding. This requirement should extend to our local governments and school districts as well.

To assist school districts still grappling with budget deficits, I am also proposing a plan – similar to the state employee plan – that will encourage eligible teachers and other school employees to retire.

Approximately 39,000 teachers and other school employees could choose to retire. We estimate that those who actually do retire will create a total first-year savings of \$230 million for Michigan school districts.

And it will open up thousands of new jobs for young teachers who otherwise may have to leave Michigan. I will ask the legislature to move quickly on this so that schools will be able to start the next school year with their new personnel in place.

I am also proposing a new, lower-cost retirement plan for new school employees.

There are other savings that can be realized as well. Many school administrative functions can be consolidated, and services shared. I am proposing requiring school districts to submit required consolidation and shared services plans to the Michigan Department of Education for review and approval. This will allow us to accelerate realization of efficiencies in the sharing or consolidation of administrative and other non-academic school services.

For example, why not have an intermediate school district buy computers and provide information technology services for every school in its region rather than having each individual school district go it alone?

It's also time for common sense changes to Public Act 312 – the law that governs binding arbitration for police and fire fighters – and the Urban Cooperation Act so we can protect the rights of employees while eliminating some of the barriers that inhibit true cooperation and consolidation among local governments.

We also must modernize the way in which Michigan conducts elections to make the process easier for citizens and reduce costs for local governments and schools.

While we already have made progress by limiting elections to four consolidated election dates, experience elsewhere demonstrates that Michigan's election process remains too cumbersome and expensive. We can reduce the number of election workers and precincts by expanding opportunities to vote by mail.

Michigan also must join the majority of other states and authorize no-excuse absentee voting. Citizens shouldn't have to get a permission slip from government before exercising their constitutional right to vote.

We also can reduce election administration costs by authorizing online voter registration by requiring local, school and special elections not held in August or November to be conducted by mail only and by authorizing optional instant run-off voting for nonpartisan local elections.

Through these changes, we can both increase voter participation and cut the costs of elections.

Enhancing accountability in state government

The third step in our plan is enhancing accountability in state government.

I will ask the Legislature to enact a new law requiring complete financial disclosure by state elected officials and candidates. Michigan is one of only three states that don't require financial disclosure.

To make government work in the people's best interests, we need to shine a light on the special interests that seek to influence state legislation and policy.

I want to thank the Michigan House for passing financial disclosure legislation, and I urge the Senate to do the same.

We also need to close the revolving door in state government where a state official today becomes a lobbyist tomorrow. And we must ban honoraria for all elected state officials, strengthen existing ethics and conflict of interest laws, and prohibit conflicts of interest for state employees who manage state contracts.

We also must move aggressively to amend the Michigan Campaign Finance Act, portions of which were invalidated earlier this month by the U.S. Supreme Court, to assure Michigan voters that elections in this state are not for sale to high-spending special interests.

The court struck down long-standing protections against undue interference in our elections by corporate special interests. The integrity of Michigan elections can be preserved by enacting changes in state law.

We must require real-time disclosure of all contributions by a corporation for political activity and that shareholders approve all corporate expenditures intended to influence an election.

These changes, plus safeguards against foreign influence and clearer disclaimers on corporate political advertisements, will maintain public confidence in our election process.

Improving the management of state finances

Our fourth step is improving the management of state finances. All of the following proposals require amending the state constitution.

First, let's change to a two-year budget cycle. Two years. This will allow longer-term projections of revenues and expenditures, and enhance stability.

We also need to require that the budget be completed by July 1. If the budget isn't completed by July 1, then the pay of all legislators and the governor should be docked every day until the budget is done.

I want to commend the Michigan House bipartisan freshman caucus for advocating this constitutional change as well. People are sick and tired of a budget process that leads to posturing, stalemates and government shutdowns, and this change to the state constitution will literally make those who are responsible pay for it.

Regarding tax expenditures and loopholes, every two years the legislature should be required to revisit state tax credits and tax exemptions to make sure they're still producing the desired results.

These tax breaks reduced state revenue by \$36 billion for the 2010 fiscal year. Long-term tax credits to attract jobs to Michigan are an important part of our economic diversification toolbox, and companies that rely on them will be able to continue to do so.

But sound budgeting means we should treat tax expenditures like every other expenditure in the state budget. We need to periodically reauthorize or repeal them to make certain we're getting the benefits – in job-creation and economic growth – that we expected.

We also need a “pay-as-you-go” state budget. If the Legislature commits to spending new money, granting tax cuts or approving new tax loopholes, then those commitments will have to be paid for either by raising revenue or reducing spending elsewhere in the budget.

Finally, we should require that every piece of state legislation include information on its financial impact not just on government, but on everyone affected by the legislation. This fiscal information would have to be available before bills could be acted on.

So, four major steps: further reduce the structural deficit, encourage consolidation and cost sharing among schools and municipalities, increase accountability in government, and improve the management of state finances. Under these four things, there are actually 29 different actions, but that's too much detail for any sane person.

What I want you to take away is this: The comprehensive plan that I've outlined today will transform our present state government into a state government for the 21st century.

It was the early 20th century when the Rotary Club of Chicago – which was Rotary's first service club – was formed. The year was 1905.

The world was a very different place in 1905. Agriculture, lumber and mining were the major industries in Michigan. Women couldn't vote, let alone hold political office.

But in many ways, today's Michigan is very similar to the Michigan of 1905. It was on the verge of a major change – a complete redefining of who we were.

The horseless carriage was about to take the world by storm, forever changing what Michigan would be.

We are in the midst of another great change. And we have set a new foundation for Michigan through this period of change: economic diversification based on our strengths, jobs for people, education for our children, and protection for families during this difficult economic transition.

John F. Kennedy once said, “Change is the law of life, and those who look only to the past or present are certain to miss the future.”

We are not going to miss the future here in Michigan. We are building a new Michigan economy.

It will not be easy. There will be bumps along the way. But by working together, we can effect significant change. We can create a new state government that better serves the new Michigan of the 21st century. Thank you.

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