

NEW SOLUTIONS FOR MICHIGAN

Strategies from Frontline Employees to Make
State Agencies Leaner and More Cost Effective



EXECUTIVE SUMMARY

Times are tight. Lawmakers have settled on a budget with cuts to schools, public safety, roads and other public services that will deeply impact Michigan communities. But other important issues have been substantially overlooked.

As front-line workers with ultimate insider knowledge, we have identified innovative solutions that could save the state tens of millions of dollars in agency spending without diminishing services or lowering standards.

- Prioritize front-line service delivery by reducing management
- Pursue better value from contractors, consultants and agency staff
- Deliver better customer service through collaboration between agency leaders and front-line employees

Prioritize front-line service delivery by reducing management

Michigan has cut its workforce dramatically in recent years, but remains top heavy. Information provided by the Civil Service Commission shows the state classified workforce has a **basic staff-to-management ratio of 5.87 to 1**, meaning there are fewer than six nonsupervisory staff for every manager and/or supervisor.

Other states have begun to look more closely at directing scarce human resources to customer services rather than multiple layers of management. Texas and Iowa, with broad bipartisan support, have instituted policies setting ratios at 11:1 and 14:1, respectively, closer to private sector “span of control” norms. Iowa is seeking to increase its ratio to 20:1 by 2016.

Although the fiscal impact of changing the staffing mix is difficult to measure, a preliminary analysis for Michigan, which has nearly 1,300 unfilled managerial positions, suggests that improving the ratio by one (from 5.87:1 to 6.87:1) could save the state approximately \$75 million annually in compensation costs (not including benefits). Over the long term, moving toward an 11:1 target could save hundreds of millions of dollars in annual spending. We found little evidence the state is even aware of this problem or making efforts to fix it.

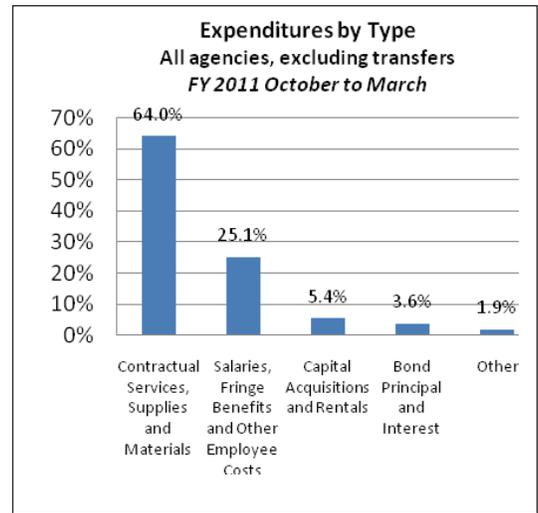
Recommendation: Michigan should begin a long term effort to improve its worker to management ratio, beginning with a one staff per manager increase in FY 2012.

Pursue better value from contractors, consultants and agency staff

Information newly available on the Michigan Transparency website (www.michigan.gov/spending) sheds new light on how state agencies are using available funding. Year-to-date information for FY 2011 shows that 64 percent of executive branch spending is on contractors and 25 percent is on compensation for state workers. Although the state has sharply reduced its workforce and raised employee contributions to benefit plans, it has done little

to lessen its dependence on third-party contractors. Every major agency expends tens of millions of dollars per annum on purchased services, often from out of state firms.

As the state looks to maximize value for taxpayers, it clearly cannot ignore its largest spending category, the purchase of contractual services and supplies. In some cases, contracts can be renegotiated or terminated. In other cases, state employees can successfully provide services at a lower cost than now spent on contractors. As the agencies begin to realign resources toward service delivery, they should seek to become more self-reliant, while also pursuing better value from private sector partnership with Michigan firms.



Recommendations: Curtail spending on contracted services by 10 percent in FY 2012, for a savings of more than \$100 million. Enact Public Service Accountability Act.

Deliver better customer service through collaboration between agency leaders and front-line employees

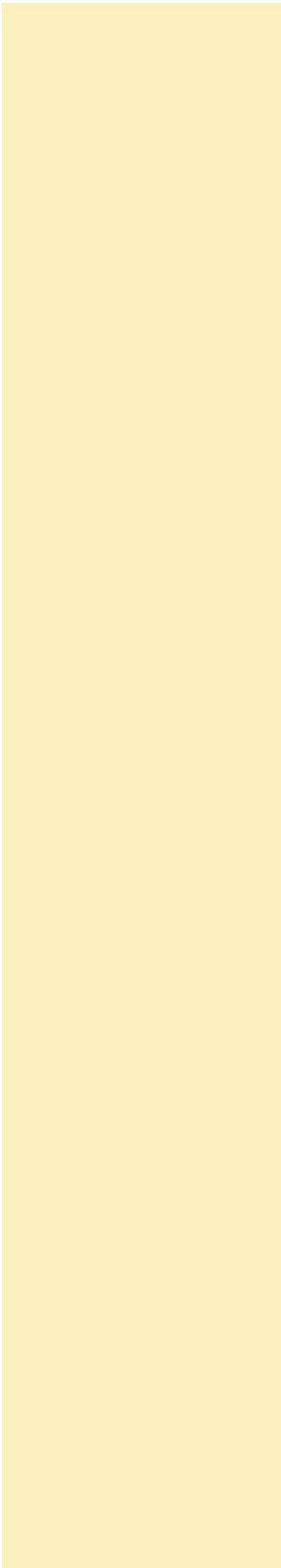
Michigan has begun a new era of transparency and performance-mindedness but has yet to truly modernize and streamline how its agencies function. A growing literature on best practices in state government, which features top-to-bottom collaboration for performance improvement, can help inform Michigan's approach to modernization.

Front-line workers are essential partners because they know the impediments to their own productivity, can help identify waste, and best understand the customer experience. When front-line workers feel ownership and authorship of their outcomes, they will lead the change. Groundbreaking reforms in other states have shown that strong collaborations with front-line workers can have spectacular success.

Recommendation: Involve agency personnel at all levels in serious, collaborative, outcomes-oriented performance improvement strategies, starting with agencies most in need of service improvement.

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INTRODUCTION

As officials in Lansing turn from budget balancing to implementing decisions, the time is ripe to tackle important issues that have been overlooked from the budget debate.

Lawmakers made sweeping tax changes and have settled on a budget that includes steep reductions in school funding, public safety and other services. They have debated revenues versus expenditures, how tax policies impact economic growth, and the wisdom of borrowing versus debt reduction.

While the big picture tax and spending issues are critical, there are additional opportunities for Michigan to realize substantial cost savings—an estimated \$175 million in FY 2011-12—by implementing new cost-savings and efficiency solutions recommended by front-line workers united in SEIU Local 517M, UAW Council 6000, AFSCME Council 25 and the Michigan State Employees Association.

This report outlines three important ways to save tax dollars and protect essential services.

- Prioritize front-line service delivery by reducing management
- Pursue better value from contractors, consultants, and agency staff
- Deliver better customer service with collaboration between agency leaders and front-line employees

These recommendations have their basis in the ideas of front-line public service employees in Michigan, whose daily experience provides a unique insight into how the state spends taxpayer dollars, where efficiencies can be created, and how agencies can save tens of millions of dollars without diminishing public services or lowering standards.

Union leaders worked closely with professional research staff to take a careful, under-the-hood look at how state agencies operate and to analyze data newly available on the state's transparency website.

The findings point to new solutions that will allow Michigan to increase efficiency, save taxpayer dollars, and deliver better services to the people of our state.

PRIORITIZE FRONT-LINE SERVICE DELIVERY BY REDUCING MANAGEMENT

Since Michigan's decade-long recession began, the state has cut its workforce dramatically, especially in agencies funded with state revenue. Michigan has reduced its number of classified employees by 22 percent, or 13,500. The reductions, from more than 62,000 employees in 2000 to about 48,000 today, were accomplished mainly through retirement incentive programs. What hasn't changed very much is the workforce still has extraordinarily high numbers of managers and supervisors and relatively low numbers of service delivery staff. Even while cutting staff, state agencies have not done enough to reduce their top heaviness and reallocate resources toward providing services to the people of Michigan.

Information provided by the Civil Service Commission¹ shows the state classified workforce has a basic staff-to-management ratio of 5.87 to 1, meaning that there are only 5.87 nonsupervisory staff for every manager and/or supervisor. (See Table on Page 3 of this report.) Michigan reported 6,999 managers and supervisors for an April 2011 payroll period, a large concentration of highly compensated employees. (Not included in the ratio are administrators, even more highly paid, and over and above classified status.)

Other states facing fiscal pressure have begun to look more closely at reducing top-heaviness as a way of directing scarce resources to customer services rather than redundant layers of management.

Texas has instituted a policy setting its ratio at 11:1 (minimally its latest actual statewide ratio is approximately 14:1)². By comparison, Michigan is more than twice as top-heavy.

Iowa legislation enacted in 2010 incrementally increases the span of control over the next six years, starting from 14 employees to one supervisory employee in July 1, 2010, and increasing by one employee per year until the ratio becomes 20 employees to one supervisory employee by July 1, 2016.

Oregon has held legislative hearings and received national attention in the business press³ after a study found its ratio an alarming 5.7 to 1 (similar to Michigan's). Proposed legislation would require agencies to move toward an 11:1 target.

The Clinton administration's Government Performance Review recommended a 15:1 ratio in federal agencies.⁴

In the private sector, thought leaders in business management, including the late Peter Drucker, Edward Lawler (who recommends at least a 15:1 ratio), and Tom Peters (25:1), have driven the debate substantially in favor of flatter and leaner hierarchies. The shift reflects myriad changes in technology that have made old structures for workplace organization obsolete as well as the recognized value in placing more decision-making authority in the hands of workers on the front lines.

Although the fiscal impact of Michigan's top heaviness cannot be measured using publicly available data, information provided by the Civil Service Commission⁵ shows that annual base compensation of all managers and supervisors exceeds that of front-line staff by an average of approximately \$22,000. The highest paid of these, more than 1,200 salaried managers, average nearly \$101,000 in annual base salary alone. A preliminary analysis of pay and classification data suggests that improving the ratio by one (i.e., from 5.87:1 to 6.87:1) could save the state up to \$75 million annually in wage compensation alone⁶, depending upon how the improvement was accomplished. Over the long term, moving toward an 11:1 target could save hundreds of millions of dollars in annual spending⁷.

When public services are contracted out, private firms often compete, in part, on cost by reducing layers of management. We would be unlikely to see such top heaviness in the private sector, where much higher ratios are not at all unusual. By modernizing management and directing more resources to the front lines, Michigan could make its workforce more efficient, responsive and productive.

There is no evidence the state is aware of this problem. Neither its regular workforce reports⁸, published annually for more than 30 years, nor its strategic workforce plan⁹, address the issue of top heaviness or provide an indication the state has any kind of strategic focus on this area.

All agencies have low staff to manager ratios and ample reason to look critically at whether their staffing mixes represent the best use of taxpayer dollars. The following table depicts some variability across agencies, as might be expected. Michigan actually has large numbers of nonrepresented, nonmanagerial staff, as well as heavy concentrations of managers, especially in a few smaller agencies. However, none of the large agencies, those providing direct services, vary substantially from the statewide average.

Michigan State Workforce: Top-Heavy with Managers/Supervisors

Michigan Classified Personnel Data: 2011 <i>Pay Period Ending April 16, 2011</i>	All Classified Staff	Managers and Supervisors		All Other Staff	Staff: Manager Ratio*
		Managerial	Supervisory		
<i>Agency</i>	<i>Number</i>				
EDUCATION	449	27	44	378	5.32
STATE	1,377	45	233	1,099	3.73
STRATEGIC FUND	130	18	9	103	3.81
TREASURY	1,819	118	179	1,522	5.12
CIVIL RIGHTS	85	7	10	68	4.00
ENRGY, LABOR, ECON **	3,762	191	314	3,257	3.73
HUMAN SERVICES	10,100	143	1,091	8,866	7.18
COMMUNITY HEALTH	3,318	168	396	2,754	4.88
MILITARY AND VETS	944	12	114	818	6.49
TECHNOLOGY, MGT, BUDGET	2,426	149	213	2,064	5.70
AUDITOR GENERAL	147	34	30	83	1.30
CIVIL SERVICE	413	51	12	350	5.56
EXECUTIVE	41	0	0	41	N/A
ATTORNEY GENERAL	423	253	6	164	0.63
AGRICULTURE	388	13	51	324	5.06
NATURAL RESOURCES	2,872	64	320	2,488	6.48
TRANSPORTATION	2,667	77	327	2,263	5.60
CORRECTIONS	14,352	127	1,852	12,373	6.25
STATE POLICE	2,367	41	260	2,066	6.86
Total:	48,080	1,538	5,461	41,081	5.87

*Ratio is derived from the following formula: (All other staff)/(Managers and Supervisors)

** Agency now known as Licensing and Regulatory Affairs

PURSUE BETTER VALUE FROM CONTRACTORS, CONSULTANTS AND AGENCY STAFF

Information now available on the Michigan Transparency website sheds new light on the state budget, revealing in new ways how the executive branch agencies are spending taxpayer dollars. It shows, for example:

The state spends much more on contractors than its own workforce;

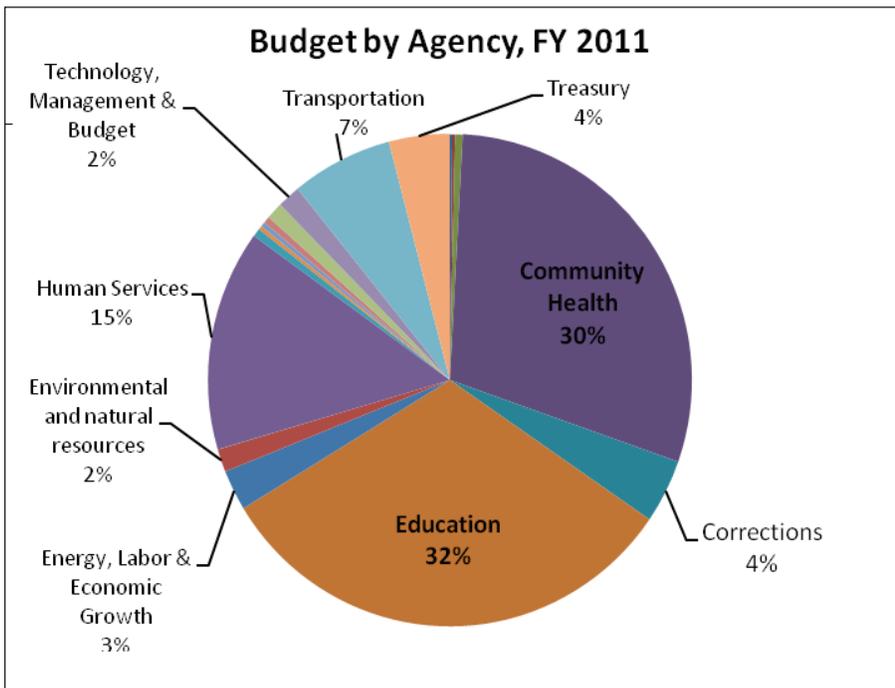
Every large agency routinely spends tens of millions on the purchase of third-party services; and

The state has billions of dollars in long-term commitments to out-of-state firms.

As the state agencies face repeated budget shortfalls, this new transparency data suggests Michigan cannot maximize the value for taxpayers without addressing contracts, the largest single category of state agency spending.

State Expenditures by Agency

A traditional view of the Michigan budget, represented in the pie chart below, accounts for budget expenditures by agency or general purpose. Traditional budget proposals are also aggregated at the agency level. For example, the governor’s proposed budget for the Department of Agriculture is \$3 million smaller than it was last year. The budget pie chart is a familiar tool for presenting this kind of view.¹⁰

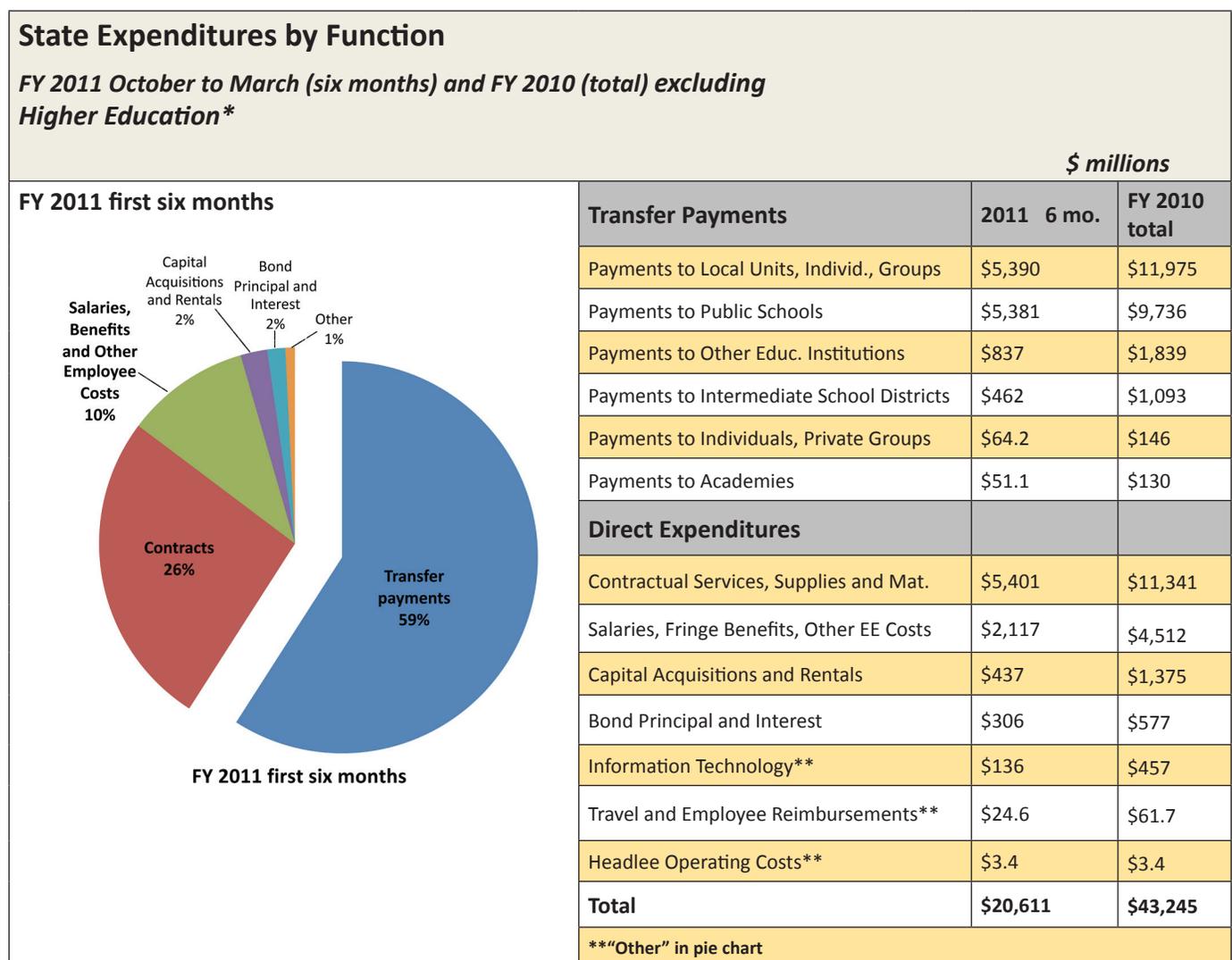


This view depicts state spending by function, not by agency.¹¹ While it's no secret that spending on K-12 education and other levels of government is a major piece of the state budget, this view shows just how important payments to other levels of government and to individuals are in the overall budget picture; 59 percent of spending thus far this fiscal year was simply transferred through the state for other purposes. Last fiscal year in total it was 58 percent.

The remaining spending is by state agencies. As the chart and table show, most of this spending is actually indirect, in the form of payments to contractors. Fully 26 percent of all spending, \$5.4 billion in the first half of FY 2011, was on contracts. By comparison, 10 percent or \$2.1 billion or was spent on state employees, including salary, healthcare and other benefits. These percentages are relatively consistent with last fiscal year.

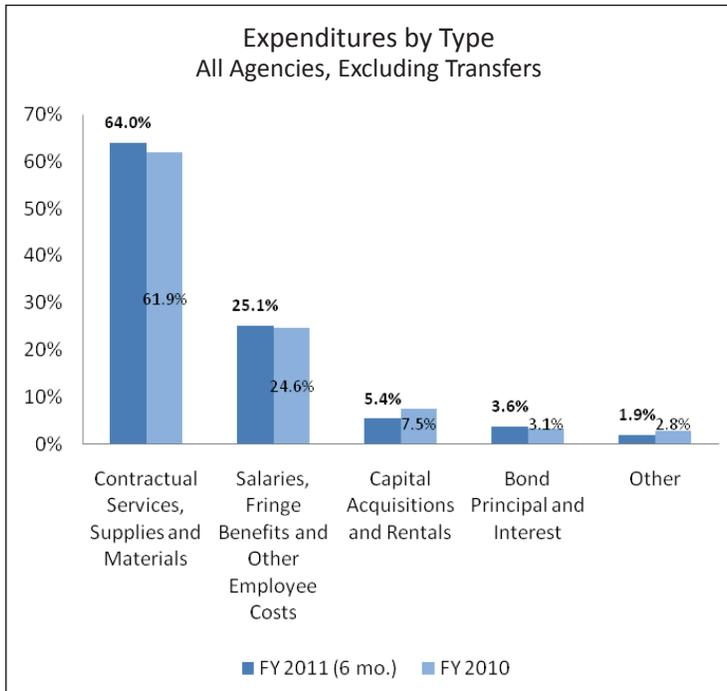
State Expenditures by Function: A New View

The data now available on the state's transparency website allow for a very different kind of view.



*Higher education is excluded because the transparency data do not permit a detailed breakdown.

The contrast between contract costs and employee costs is made vivid by excluding transfer payments and focusing only on direct spending by executive agencies for services for which the agency is directly responsible, roughly the left half of the pie chart above. Focusing on this piece of the pie, 64 percent of direct spending by executive agencies in the first half of FY 2011 went to contractors, as the bar chart below reveals. Only 25 percent went to state workers. In dollar terms, the state spent 2.6 times more on contractual services, supplies and material than it spent on salaries, fringe benefits and other employee costs, \$5.4 billion compared to \$2.1 billion so far in 2011. Again, the findings for this fiscal year so far look similar to the findings for FY 2010.



Expenditures by Agency			
<i>FY 2011 October to March (six months)</i>			
<i>\$ millions</i>			
Agency	Total Expenditures	Selected Subtotals	
		Salaries, Fringe Benefits and Other Employee Costs	Contractual Services, Supplies and Materials
AGRICULTURE	\$25.4	\$20.5	\$1.8
ATTORNEY GENERAL	\$28.7	\$25.8	\$1.8
CASINO GAMING BOARD	\$8.5	\$5.0	\$1.9
CIVIL RIGHTS	\$5.1	\$4.5	\$0.2
CIVIL SERVICE COMMISSION	\$23.5	\$20.7	\$1.1
COMMUNITY HEALTH	\$6,191.2	\$176.0	\$4,837.7
CORRECTIONS	\$906.2	\$685.3	\$185.0
EDUCATION	\$6,980.9	\$22.3	\$15.5
ENERGY, LABOR AND ECONOMIC GROWTH*	\$495.9	\$170.6	\$38.4
EXECUTIVE OFFICE	\$2.3	\$2.2	\$0.1
HUMAN SERVICES	\$2,926.5	\$411.4	\$97.3
MILITARY AND VETERAN AFFAIRS	\$63.4	\$36.5	\$20.7
NATURAL RESOURCES AND ENVIRONMENT	\$191.4	\$125.0	\$20.3
STATE	\$71.5	\$52.6	\$10.0
STATE BUILDING AUTHORITY	\$221.6	\$0.0	\$0.3
STATE POLICE	\$196.0	\$143.5	\$11.4
TECHNOLOGY, MANAGEMENT AND BUDGET	\$131.9	\$33.1	\$10.8
TRANSPORTATION	\$1,280.3	\$127.6	\$82.0
TREASURY	\$771.2	\$54.6	\$65.0
TOTAL	\$20,521.5	\$2,117.1	\$5,401.3

*Renamed Department of Licensing and Regulatory Affairs.

Agency Spending Detail

The Transparency data also sheds light on agency spending detail by function. The table above details total year-to-date (unaudited) spending, and compares agency spending on staff and contractors.

One detail stands out, the high number for contracts for community health. Importantly, community health, whose payments to medical services providers might otherwise be characterized as vendor payments, often at or below market rates, might not be a good place for the state to look to achieve savings on contracts.

Outside of community health, however, there remains \$1.1 billion in contract spending, projected on an annual basis. The contracts are for a range of items—from insurance to software design and vehicle maintenance—detailed in the chart below.

With \$1.1 billion in direct contract spending, **a 10 percent cut in contract payments would save \$110 million annually.** In an era of austerity, when the public is sacrificing school funding, police and other essential services,¹² it is impractical to leave contracts off the table and ask vendors to make no adjustments in their payments or profits.

FY 2011 Projected Contract Spending All state agencies, except community health and colleges	
Type of contract	Millions
Agricultural and Horticultural	\$0.003
Dues, Fees, Subsc, Conferences & Seminars	\$9.7
Food and Beverages	\$38.9
Fuel	\$7.2
Household and Laundry	\$0.001
Insurance and Bonds	\$23.7
Mailing Services and Postage	\$30.7
Maintenance Services	\$32.1
Medical, Surgical, and Laboratory	\$0.1
Other Fees and Compensation	\$259.3
Purchased Services	\$487.7
Replacement Parts	\$0.04
Supplies	\$126.8
Telecommunication and Utilities	\$107.7
Vehicle Maintenance Expense	\$3.3
TOTAL	\$1,127.3

Within the general framework of overall cuts, some items call out for additional scrutiny. We call particular attention to out-of-state contracts, as well as contracts for Information Technology and certain transportation services.

Out-of-State Contracts

The transparency web page provides information about current contracts, with links to the contracts themselves, an exercise in open government that allows for systematic examination of the state’s current commitments.¹³ SEIU analysis of the large state contracts—those exceeding \$10 million in authorized value over their multiyear terms—found approved spending totaling \$15.9 billion. Of this total, \$11.2 billion in contracts are with Michigan companies; \$4.7 billion, 30 percent, are with out-of-state firms.

In-state and out-of-state contracts	
Active contracts, approved spending over \$10 million	
Total	\$15.9 billion
Total in Michigan	\$11.2 billion (70 percent)
Total out-of-state	\$4.7 billion (30 percent)

On the next page is an itemized list of out-of-state contracts with cumulative authorized contract values in excess of \$100 million, excluding public healthcare benefits, which is a class by itself. Some out-of-state contracts that appear ripe for reconsideration include:

Tennessee-based Prison Health Services (PHS) provides healthcare services in Michigan prisons at a cost of roughly \$100 million every year. Reconsideration is especially timely because PHS is being acquired by the Missouri-based Correctional Medical Services, the other giant in the field, leading to a near-monopoly on the service.¹⁴ The absence of meaningful competition is itself a reason to doubt the effectiveness of outside contracting.

Houston-based GC Services has a contract with the Department of Treasury costing more than \$20 million per year to collect back taxes. Other states and the Internal Revenue Service are starting to bring such work back in house, after finding that in-house collection is cheaper and more effective than hiring agents working in private firms.¹⁵ Treasury has a similar contract with Versus Financial for unclaimed property.

Out-of-State Contracts Currently Active in Michigan Cumulative Amounts in Excess of \$100 million									
Contractor Name	State	Description	Agency	Cumulative Amount	Start date	End Date	Length (years)	Avg. amount per year	
Catalyst RX	MD	Pharmacy benefits management for MPERS	Management and Budget	\$1,321,798,804	1/1/2010	12/31/2012	3.0	\$440,599,601	
Prison Health Services Inc.	TN	Prisoner health care services	Corrections	\$325,344,397	2/10/2009	3/31/2012	3.1	\$103,557,898	
Wheels Inc.	IL	Management services for fleet and fuel cards	Management and Budget	\$305,714,622	10/1/2005	9/30/2012	7.0	\$43,690,855	
Qwest Communications	CO	Link MI-DIT telecom/state-wide	Information Technology	\$238,530,541	3/10/2004	10/31/2011	7.6	\$31,214,466	
Verizon North Inc.	NY	Link MI-DIT telecom/state-wide	Information Technology	\$238,530,541	3/10/2004	10/31/2011	7.6	\$31,214,466	
Pharmacorr LLC	MO	MDOC Pharmacy services and pharmacists	Corrections	\$194,254,200	7/1/2006	6/30/2011	5.0	\$38,872,436	
Pollard Banknote Ltd.	Canada	Printing of instant lottery tickets	Bureau of State Lottery	\$189,188,919	1/1/2009	12/31/2016	8.0	\$23,648,615	
Minnesota Mutual Life	MN	Life insurance administration services	Civil Service	\$170,641,000	7/16/2008	9/30/2013	5.2	\$32,780,555	
Bank Of America	IL	Bank of America	Statewide	\$150,000,000	12/17/2008	6/30/2012	3.5	\$42,419,482	
Client Network Services Inc.	MD	Program evaluator	Community Health	\$137,655,786	3/14/2006	12/31/2012	6.8	\$20,251,771	
GC Services Ltd.	TX	Collection services - department of treasury	Treasury	\$129,905,075	3/15/2010	11/15/2015	5.7	\$22,924,425	
Versus Financial LLC	CT	Non-state initiated unclaimed property audits	Treasury	\$110,000,000	8/11/2008	3/31/2012	3.6	\$30,229,008	

Contracting Not Shown in the Transparency Data

Importantly, the full extent of the use of state budget dollars for private contractors is not represented in the transparency data summarized in this report. Agencies and other levels of government, including counties, schools and universities, may use state funds to contract for services, or arrange for the hiring of consultants, temporary agency staff, and other third-party service providers. Much of this support is customary, appropriate and purchased at fair market value. It also merits scrutiny, however, especially the use of professional services contracts, which have been found elsewhere to be subject to premium and noncompetitive pricing.

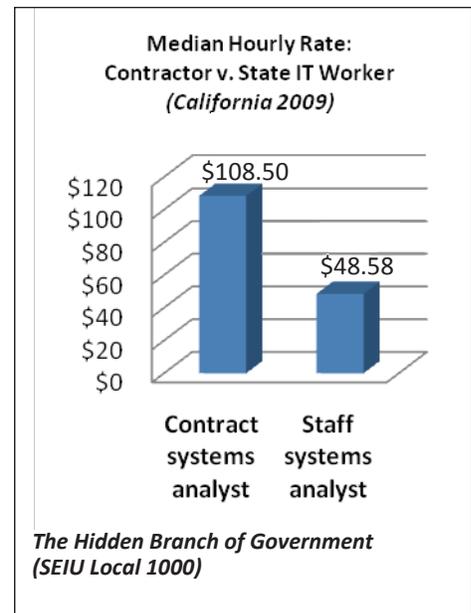
Contracting Areas Most Subject to Waste and Excess

As Michigan seeks long-term sustainability in its budget, it will be important for the state and its agencies to focus on competitive contracting, given the size of contract obligations alone. Certainly contracting by governments is not at all unusual, and not intrinsically wise or unwise. In some cases, governments enter contracts in pursuit of cost savings, short-term needs or specialized skills. However, it is critically important to monitor and manage contracts for cost-effectiveness. The Pentagon is by no means the only public contracting body that has experience with colossal cost overruns. Information Technology and transportation professional services are two areas where governments are increasingly realizing the use of third-party contractors is often exceptionally and unnecessarily costly.

Information Technology

A number of other states and federal agencies have begun to scrutinize runaway costs of Information Technology (IT) contracts, seeking more competitive pricing and in some cases bringing more of this work back in-house. IT is important, complicated, ubiquitous and expensive. In Michigan, even with the new transparency systems it is difficult to determine what IT work is done by state employees in the Department of Technology, Management and Budget (DTMB) compared to what IT work is done by contractors.

The transparency web page indicates state agencies spent \$136 million in the first half of the fiscal year, on pace to spend \$271 million over the year. Some of these funds were intergovernmental transfers, as agencies received fee-for-service IT work from DTMB. Some of the funds went to contractors, hired either by DTMB or by the agencies themselves. This is a place to look for savings since IT contractors tend to be very highly priced and critical skills are not as rare and special as they once were.



Comparisons made by SEIU Local 1000 in California in 2009 found IT contractors cost \$108 per hour to do work that state IT workers could do for \$48 per hour.¹⁶ A 2005 audit of the California State Retirement System found the agency's dependence on contract staff increased costs by about 84 percent.¹⁷ Considering how many of the large contracts in Michigan are for IT-related services, attention needs to be paid to determine both what functions can be performed in-house and whether fees can be negotiated downward.

Department of Transportation

With annual expenditures in excess of \$3 billion, the Department of Transportation is an agency where small percentages represent great sums of funding. Transportation has a relatively lean workforce but a high dependence on contractors. But Transportation contractors, like IT contractors, often charge more to do work routinely done by Transportation employees at lower prices. This practice is actually hard to detect because the contracts are invisible even in the new transparency systems.

The artificially small workforce is a crucial underlying problem. Through attrition and early retirement incentives, Transportation lost nearly 1,000 employees in the late 1990s and early 2000s—a quarter of its workforce. The Transportation Department's workload did not diminish proportionately, however. To maintain its expected level of service with reduced staff, Transportation began hiring more consultants to perform design, engineering and inspection functions previously performed by staff.

But contractors are more expensive. The state's own analysis revealed that contractors cost on average \$41,475 per year more than state staff, and that more than \$6 million could be saved by bringing contracted work back in house. The Legislature did not, however, authorize funds to cover the replacement staff.¹⁹ Thus, every year the state spends more than \$6 million extra on just this sliver of transportation funding. The state actually pays more to make government look smaller.

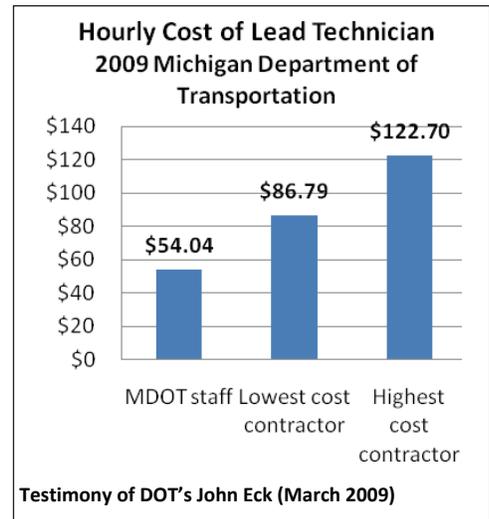
Legislative Commission on Government Efficiency, 2009

“In a 2004 analysis, MDOT established its optimal staffing mix—contract 35 percent of design work and 50 percent of environmental work, and do the remaining work with state employees. While this would result in hiring an additional 136 employees, the state would save \$6 million to \$6.5 million a year. The 136 positions were not funded.”¹⁸

Inspectors are a case in point. A study of Transportation inspectors under contract in the Grand Rapids area revealed that contract inspectors cost between \$86.79 per hour and \$122.70 per hour, including profits, administrative overhead and all other costs. Yet state Transportation employee inspectors cost on average \$54.04 per hour, including overhead costs and full benefits.²⁰ The state employees and the contractors often work side by side, performing similar roles on the same projects—but at unequal cost.

Finally and perhaps most importantly for the principle of clean, transparent government, many of these contracts are difficult to find. Transportation contracts on the state’s transparency web page include none related to the design, inspection and other professional services contracts. Transportation staff explains the agency typically requests large, up-front sums for engineering services and then engages individual contractors directly, bypassing the official process for review.

Other agencies may share the same appearance of efficiency—shrinking state workforces but hiring contractors to make up the difference. Agencies sometimes dodge hiring freezes or payroll caps by contracting for work instead of hiring staff, even if it costs more to do. A classic study of the federal government published in 2006 found that more than half of the federal workforce were contract employees, and that between 2002 and 2005, the federal government added 2.5 million contract employees but only 54,000 direct civil servants.²¹ While there are many legitimate reasons to contract for goods and services, care must be taken not to contract for functions that can capably and cost-effectively be performed directly, without adding the costs and profits of a middleman.



DELIVER BETTER CUSTOMER SERVICE THROUGH COLLABORATION BETWEEN AGENCY LEADERS AND FRONT-LINE EMPLOYEES

Governments throughout the United States, burdened with fiscal stress, growing long-term liabilities, and increasing public need, are facing a “productivity imperative²².” This need is elevated during times of economic hardship. Businesses are coping with the loss of customers and income, but governments have an even greater challenge; they have many more people to serve and less revenue, too. Many are responding by modernizing management, and by seeking to make their operations leaner and more efficient, more transparent, more accountable, more responsive, more competitive, and higher in quality. In the public sector in general, and certainly in Michigan, there is much more of this work to be done.

“How do you actually find the productivity in the government? Well, you don’t find it at the top.”²³

Elaine Kamarck,
(National Performance Review)

Approaching Quality Improvement in State Government

At least since the publication of *Reinventing Government* (1992), there has been a growing debate about how public entities can modernize management, shed their bureaucratic inefficiencies, and radically improve quality. Competing schools of thought (Total Quality Management, Continuous Quality and Improvement, Lean, Six Sigma, many others), some of which originated in the private sector, have informed and shaped this debate. Michigan state workers have witnessed a number of attempts by incoming agency managers to institute quality improvement strategies. For many reasons, only a minority of these efforts has had long-term success, and the persistence of the top-heaviness of the state’s workforce is just one indicator of this failure. Partly as a result, poor performing agencies are under more pressure than ever, from public opinion and public coffers. They simply have to do more with less.

There remain competing schools of thought, including various iterations of the now popular performance management (“what gets measured gets done”) approach. But there is also a growing knowledge base of what actually works, and a convergence of thought around the idea that a customer service focus is an essential piece, for one. Equally important, whereas the outgoing models tended to be management-driven, top-down, and coercive, emphasizing accountability, quotas, incentives and sanctions; the succeeding models emphasize outcomes, top-to-bottom collaboration, and workplace supports and processes where front-line workers can be their most productive.

Groundbreaking reforms in other states have shown that approaches featuring front-line workers can have spectacular success.

Iowa has over the last several years earned a reputation as one of the best administered state governments in the country. In 2003, it instituted a charter agency model, in which participating agencies may waive administrative rules, reduce bureaucracy and red tape, gain more control over budget and spending, be exempt from the full-time employee caps, and create better work flow and a more supportive work environment. This approach has broad support from legislators, agency directors, managers, unions and the media. More recently, Iowa has created an Office of Lean Enterprises, which facilitates “kaizen” process improvements. In usually weeklong kaizen events, a model borrowed from Toyota, empowered teams of workers and managers look inward critically at workplace processes, identifying and eventually eliminating what are familiar problems in state agencies everywhere: bottlenecks and backlogs, and excessive handoffs, paperwork, decisions, steps and built-in delays. The results are discrete but meaningful improvements: the wait time for obtaining a landfill permit in Iowa was reduced by 93 percent, many other permits and licenses wait times reduced 50 percent or more, access to unemployment benefits improved dramatically, veterans’ hospital delays reduced 80 percent, employee grievance resolution delays and arbitrations sharply reduced.²⁴ These are the kinds of improvements that don’t grab headlines, but have saved agencies tens of millions of dollars in waste and earned Iowa an Innovations in Government Award in 2007.

Oregon’s Department of Human Services, in partnership with SEIU Local 503 and the McKinsey Corp., has transformed a number of vital public service functions through similar collaborative, worker involved process improvement campaigns.²⁵ A major breakthrough is in the Food Stamp program (now called SNAP), where the once monthlong wait for benefits is a thing of the past. Families now get same day or next day

Why the Involvement of Front-Line Workers is Essential

- **Front-line workers understand the impediments to their own productivity.**
- **Front-line workers who have face-to-face interactions with customers understand best how to improve the customer experience.**
- **Front-line workers know which tools and equipment work well and which don’t.**
- **Front-line workers can help identify waste.**
- **When workers feel ownership and authorship of their metrics, they will lead the change**

access to benefits, a level of performance unmatched in other states, and unimagined even in Oregon before the process began.

Michigan itself has adopted some of the familiar tools of performance-minded government, including sharply improved transparency and the publication of performance rankings and goals. It is important that this focus on quality and performance be embraced at the agency level, and essential that agency effort be informed by mounting evidence of what works in high performing agencies in other states. The single most important lesson is that top-to-bottom collaboration among adults who care about quality is what ultimately drives success.

RECOMMENDATIONS

Michigan has the opportunity to respond to its budget shortfalls not only with budget cuts and tax changes but by looking inward and ensuring that state agencies are making the best use of available funding. Michigan has a budget crisis, but also an opportunity to modernize, to make government leaner and more dedicated to delivering services, to look only for value from private sector partners, and to build the sustainable, high performance state government that Michiganders deserve.

Prioritize front-line service delivery by reducing management

State agencies should critically examine their staffing mixes and workforce development strategies, and be held accountable for realigning agency resources, more economically, toward the customer service needs of their constituencies.

Recommendation: Michigan agencies should begin long-term efforts to improve worker to management ratios, beginning with a one staff per manager increase in FY 2012. Estimated Impact: up to \$75 million.

Pursue better value from contractors, consultants and agency staff

Renegotiate or terminate unnecessary contracts. At a time when all stakeholders, even public schools and unemployed residents, are facing cuts, contractors should not be awarded privileged status.

Recommendation: Pursue 10 percent cost savings on third-party contracts in FY 2012. Estimated Impact: \$110 million.

Contract for services that add value for the people of Michigan. Agencies ought to be given the latitude and discretion to provide the services for which they are responsible in the most cost-effective manner, even if new hiring is needed to reduce contractor costs.

Recommendation: Perform comprehensive cost/benefit analysis of contracts as required in the Public Service Accountability Act.²⁶

Improve transparency. The state should continue to improve transparency by providing detailed information of its contracts and service providers, including those that are funded through agency lump sum payments, differentiating interagency and third-party services.

Work together to deliver better customer services

Recommendation: Involve agency personnel at all levels in serious, collaborative, outcomes-oriented performance improvement strategies, beginning in agencies most in need of service improvement.

END NOTES

- 1 Michigan Civil Services Commission, http://www.michigan.gov/mdcs/0,1607,7-147-6879_9329_48076--,00.html
- 2 Texas State Auditor, Quarterly Report of Full-Time Equivalent Positions, Management Span of Control. <http://sao.hr.state.tx.us/advisory/FTEMgmtStaffRatio.html>
- 3 Among others, Jonathan Cooper, Oregon looks at worker-to-manager ratio in gov't. Bloomberg Business Week, April 14, 2011. <http://www.businessweek.com/ap/financialnews/D9MJMAAG1.htm>
- 4 Downsizing In the Federal Government (Office of Personnel Management, 1998)
- 5 Civil Service Commission response to an SEIU Freedom of Information Request (05/05/11)
- 6 SEIU analysis of data provided through information request to Michigan's Civil Service Commission.
- 7 Year to year cost savings would be affected by multiple variables and would be difficult to project. In scenarios in which the ratio rises, the year-to-year impact is incrementally smaller, even as savings over the base year continue to accrue. The year one (FY 2011) fiscal impact of Iowa's span of control legislation (SF 2088) was projected to be \$41.6 million, and its agencies now cannot fill a supervisory position with a span of control of less than 14 without explanation. <http://www3.legis.state.ia.us/noba/data/SF%202088%20-%20NOBA%20-%20Final%20for%20the%20web.pdf>. The impact would be higher in Michigan, which has a larger workforce and a more initial top heaviness.
- 8 Michigan Civil Service Commission, http://www.michigan.gov/mdcs/0,1607,7-147-6879_9329_48076-251456--,00.html
- 9 Michigan Civil Service Commission, Planning for Our Future: 2009 State of Michigan Strategic Workforce Plan, http://www.michigan.gov/documents/mdcs/SOMWorkforcePlan2009_297950_7.pdf
- 10 Executive Budget, Fiscal Years 2012 and 2013. Budget Schedule by Agency, 2011 Current Law, p. C-26 (PDF 144). <http://www.michigan.gov/budget>. For clarity, all budget lines are not listed or displayed in the pie chart, and some are combined.
- 11 <http://apps.michigan.gov/MiTransparency/>. The page permits the download of actual expenditures for Fiscal Year 2011 on a monthly basis. At time of writing, the expenditures begin at the beginning, October 1, 2010, and go through March 31, 2011, the first six months of FY 2011. Information for FY 2010 was supplied the state in response to an SEIU FOIA request.
- 12 Emma Graves Fitzsimmons, Michigan Governor Proposes Budget Cuts and Lower Taxes, February 17, 2011. <http://thecaucus.blogs.nytimes.com/2011/02/17/michigan-governor-proposes-big-budget-cuts-lower-taxes/>
- 13 Unfortunately, the transparency data are not perfect. First, the funding is presented as a cumulative amount over the life of the contract – so some contracts appear large simply because they are long, even if the cost per year is unexceptional. (SEIU researchers estimate the annual amount simply by dividing the cumulative amount by the number of years). Second, the contract and the web page show the authorized values, not the amount actually spent. Finally, the web page does not reveal the contractor's location. In this case, SEIU research staff determined location by direct examination of each contract.
- 14 Business Wire Press Release, America Service Group Signs Merger Agreement With Valitás Health Services, March 3, 2011. <http://www.thestreet.com/story/11030740/america-service-group-signs-merger-agreement-with-valit225s-health-services.html>
- 15 Internal Revenue Service, Private Debt Collection: Cost-Effectiveness Study, March 2009, http://serrano.house.gov/media/pdfs/PDC_Cost_Effectiveness_Study_March_2009.pdf; <http://www.irs.gov/newsroom/article/0,id=205021,00.html>. "IRS Nixes Private Collection Contracts," Accounting Today, 6 March 2009. <http://www.accountingtoday.com/news/30927-1.html>.
- 16 http://seiu1000.org/whitepapers/hidden_branch_government.pdf
- 17 <http://inthepublicinterest.org/sites/default/files/CA%20IT%20Report.pdf>
- 18 Legislative Commission on Government Efficiency, Charting A Way Forward: A Path towards Fiscal Stability for the State of Michigan, p. 30 (PDF 37). November 2009. http://council.legislature.mi.gov/files/lcge/lcge_final_report.pdf.
- 19 Ibid.
- 20 Testimony of John Eck to the Legislative Commission on Government Efficiency, March 2, 2009.
- 21 Paul Light, The New True Size of Government. New York University Performance Initiative Research Brief, August 2006. http://wagner.nyu.edu/performance/files/True_Size.pdf
- 22 Hans Arnum, Thomas Dohrmann, John Dowdy, and Allison Phillips, Government's Productivity Imperative, McKinsey & Company, 2009.
- 23 Remarks from a speech at the Center for American Progress's Government's Productivity Imperative conference, July 10, 2009.
- 24 Iowa Office of Lean Enterprises, <http://lean.iowa.gov/results/index.html>
- 25 See Iowa Department of Human Services transformation web site, <http://www.oregon.gov/DHS/transformation>
- 26 Such legislation has been introduced but not enacted in recent years. See HB 4892 from 2009. <http://www.legislature.mi.gov/documents/2009-2010/billintroduced/House/htm/2009-HIB-4892.htm>.

