



## How to Save \$2.2 Billion

By Jack McHugh

Editor's note: This is an updated version of a list of cost-savings first proposed by Senior Legislative Analyst Jack McHugh in July 2006. These recommendations combine reductions from current budgets and speculative savings that assume certain policy reforms. It is intended as a plausible illustration of what is possible, not as a precise roadmap.

### Summary

Gov. Jennifer Granholm and the Michigan Legislature should reduce the state budget, rather than raising taxes, as a way to address the overspending crisis they've created.

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Recent reports that the 2010 state budget could overspend revenues by \$2 billion have triggered a fresh discussion on ways to cut government spending. If you're willing to think creatively and anger certain special interests (including government employees and their unions) who benefit from the status quo, the budget can be balanced — without raising taxes.

Here's a list of ways to achieve \$2.24 billion in savings, some of which involve "dynamic" estimates of economies that ripple through the system when competition is injected into government operations, changing the incentives on managers and employees.

- Change the higher education funding mechanism to a standard "per-pupil foundation grant." If colleges were forced to compete for students, they would "sharpen their pencils," rein in costs and eliminate the kinds of inefficiencies highlighted in recent audit reports. If the effect was that costs fell by just 5 percent, the savings would be: **\$70 MILLION.**
- Eliminate the cash subsidies that this year will transfer \$88 million from Michigan taxpayers to Hollywood film producers and \$131 million next year. Split the difference between current and next year's costs and conservatively project savings of: **\$100 MILLION.**
- Shift state police road patrols to less expensive county sheriff deputies. With benefits and related expenses it costs more than \$100,000 per year to employ a state trooper. Effect on public safety: Zero. Savings: **\$65 MILLION.**
- Require school employees to pay 25 percent of their health insurance benefits. This could save: **\$650 MILLION.**
- Eliminate the Michigan State University cooperative extension service and agriculture experiment station to save: **\$64 MILLION.**
- The original version of this list recommended halting the so-called "21st Century Jobs Fund" before it borrowed and spent \$400 million. Current law requires \$75 million to be diverted each year for this boondoggle. Skip it and save: **\$75 MILLION.**



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- According to a Rio Grande Foundation report, if 5 percent of prisoners are placed in privately managed prisons, the state saves 14 percent on overall prison spending because government-managed prisons have an incentive to “sharpen their pencils.” Savings: **\$154 MILLION.**
- Eliminate “History and Arts” subsidies, and cut state library subsidies in half. Savings: **\$35 MILLION.**
- Reduce Intermediate School District operations grants. Savings: **\$32 MILLION.**
- Cut so-called “20j” payments to affluent schools in half. Savings: **\$26 MILLION.**
- Cut transit funding in half. By eliminating protectionist regulations that restrict alternatives, empty buses driven by public employee union members can be replaced by private sector innovations like jitneys, commercial van pools, “call-and-ride” services, car-sharing and more. Savings: **\$112 MILLION.**
- Repeal the “prevailing wage” law that requires above-market rate wages be paid on school construction projects. Savings: **\$150 MILLION.**
- The Mackinac Center’s most recent survey of school privatization shows that 42.2 percent of school districts contract out for at least one of the three main non-core functions: transportation, food service and custodial work. One district saved the equivalent of \$177 per student by contracting out for its custodial needs. Statewide, similar savings would add up to \$300 million annually. In the short term, it would not be unreasonable to expect savings of: **\$100 MILLION.**
- Reduce the non-need based Merit Award Scholarships by 50 percent. Savings: **\$200 MILLION.**
- The state spends almost \$17 billion on Medicaid and welfare, more than \$7 billion of which is from state taxes and fees. Reforming Medicaid in ways that give recipients an incentive to economize and take better care of themselves could save hundreds of millions of dollars, while actually giving recipients greater freedom and choice. If just 3 percent of the expense in these two programs could be reduced in this way, the state would save: **\$210 MILLION.**
- The average state employee receives salary and benefits worth nearly \$75,000, compared to approximately \$58,000 in the private sector. State workers should be grateful for their much greater job security and benefits and more than willing to assume some of the burden through concessions. Savings: **\$200 MILLION.**

Total: **\$2.24 BILLION.**

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