

fiscal forum

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REVIEW AND ANALYSIS OF EXECUTIVE ORDER 1999-1

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Executive Order 1999-1, issued by Governor Engler on February 4, 1999, calls for a reorganization of the functions currently administered by the Department of Michigan Jobs Commission (MJC). The Governor's order seeks to improve the state's economic development programs by providing for "greater consolidation . . . maximum flexibility to compete effectively in the national and international marketplace . . . (and) enhanced cooperation with local economic development programs."

Essentially, the order makes three broad changes to the current structure of state programs:

- ◆ Most significantly, it divides the Department of Michigan Jobs Commission into two distinct units: a new Department of Career Development, which would handle the administration of federal and state job training-related programs, and the Michigan Strategic Fund, which would become an autonomous agency within the Department of Management and Budget and administer the state's economic development programs.
- ◆ Second, the order authorizes the Michigan Strategic Fund to enter into "interlocal agreements," as authorized by statute, with local units of government to create the Michigan Economic Development Corporation (MEDC), which would coordinate state and local economic development efforts.
- ◆ Finally, the order transfers spending

authority for certain driver's license fee revenue from the Department of Transportation's Office of Economic Development to the Michigan Strategic Fund.

In accordance with the State Constitution, E.O. 1999-1 will become effective on April 5, 1999 unless both the House of Representatives and the Senate disapprove the order by that date by a resolution concurred in by a majority of those elected and serving in each chamber.

This **Fiscal Forum** was prepared to assist House members in understanding the Executive Order and its implications. In particular, it focuses on four questions:

- ◆ How does the order affect individual programs currently administered by the Department of Michigan Jobs Commission and other state agencies?
- ◆ How does the order affect current Department of Michigan Jobs Commission employees?

- ◆ How might the order impact legislative oversight?
- ◆ What fiscal considerations arise out of the reorganization?

How does the Executive Order affect individual programs currently administered by the Department of Michigan Jobs Commission and other state agencies?

The proposed restructuring of the Department is summarized in the chart presented on the insert to this publication. As is shown, the economic development-related programs within the Department are transferred to the Michigan Strategic Fund (MSF) (shaded boxes with solid border), while the workforce development/job training-related programs will move to the Department of Career Development (unshaded dashed-border boxes). Those programs or positions that will be allocated between both agencies (e.g. executive management and administration) are shown in the chart as shaded with dashed border.

The second side of the insert provides an overview of the proposed Executive Budget appropriations for the two entities. As shown, while the bulk of the MJC's gross appropriations will move to the Department of Career Development, most of the GF/GP appropriations will be shifted to the Michigan Strategic Fund.

If the order becomes effective, MSF would then have the authority to enter into an interlocal agreement with local units of government to create the Michigan Economic Development Corporation as a new public entity to administer any programs transferred to the MSF. Finally, the MSF will gain spending authority over certain license fee revenue currently utilized by the Michigan Department of Transportation. Each of the components of the order are discussed in more detail below.

Department of Career Development (DCD)

This new principal Department would obtain

the programs currently administered by the Department of Michigan Jobs Commission's Office of Workforce Development. These programs include:

- ◆ Employment training programs for displaced workers, adults, and youth;
- ◆ The Work First program — aims to move welfare recipients into the workplace;
- ◆ Michigan Rehabilitation Services — provides employment-related services to disabled individuals and employers; and
- ◆ The Employment Service Agency — responsible for assisting unemployed individuals in obtaining jobs.

Much of new Department's function will involve administering these and other federally-mandated programs, as over 86% of these programs are currently financed with federal funds within the MJC.

Michigan Economic Development Corporation (MEDC)

While the economic development-related programs of the MJC are transferred to the Michigan Strategic Fund, the order also allows the MSF to enter into an interlocal agreement with one or more local public agencies to form the Michigan Economic Development Corporation.

This type of public partnership is authorized under the Urban Cooperation Act, 1967 PA 7 (Ex. Sess.), which allows public agencies to enter into an agreement to jointly exercise any powers or authorities that the agencies "share in common and which each might exercise independently." As required by the act, the Michigan Strategic Fund, local units of government, and other public agencies would enter into an interlocal agreement which, by authority of the act, may provide for the joint exercise of shared powers or authority; the sharing of costs, personnel, property, and other assets; and the

establishment of other administrative procedures to guide matters such as the receipt and expenditure of available funds.

The act also allows for the creation of a “separate legal and administrative entity” under the interlocal agreement and requires the agreement to provide for the “precise organization, composition, and nature” of this entity as well as the powers designated to the entity.

The Michigan Economic Development Corporation would serve as this newly-created entity. The Executive Order allows the MSF to “contribute any such personnel, services, facilities, property, franchises, powers, responsibilities, or funds to the Corporation as permitted by law and as necessary to carry out the purposes” of the order. Thus, any economic development programs transferred to the MSF could be transferred, along with the relevant personnel and funding, to the new MEDC. Michigan Strategic Fund employees and local government employees detailed to the MEDC, and employees hired directly by the MEDC, would then collaborate on economic development efforts.

The order indicates that the goal of this aspect of the reorganization is to provide greater flexibility to the state’s economic development programs and to enhance state-local collaboration. As an example, a document released by the Governor’s Office that reviews the goals of the order indicates that the MEDC could facilitate the development of flexible partnerships with universities, developers, and other partners to attract high technology firms to Michigan.

License Fee Revenue

In 1987, the Legislature increased fees imposed on operator’s, chauffeur’s, and duplicate and/or corrected licenses through 1987 PA 232 and allocated the fee revenue attributable to the increases to the Transportation Economic Development Fund (TEDF), also created that year by 1987 PA 231.

The TEDF is administered by the Department of Transportation’s Office of Economic Development in accordance with statutory guidelines. Along with the license fee revenue, which produced just over \$12 million in FY 1998, the TEDF receives a statutory allocation from the Michigan Transportation Fund (predominantly gas tax and vehicle registration fee revenue) of \$40.3 million.

This revenue is used to pay debt service and program administration, as well as to finance five categories of grants administered by the program:

- ◆ Targeted Industries grants aimed at economic development projects;
- ◆ Urban County Congestion grants aimed at reducing congestion on major county and city streets;
- ◆ Rural County Urban grants targeted at small municipalities;
- ◆ Rural County Primary grants for rural counties; and
- ◆ Forest Roads grants targeted at heavily-forested counties.

The order transfers authority over the license fee revenue currently allocated to the TEDF from the Department of Transportation to the Michigan Strategic Fund to be used for economic development transportation projects. It does not, however, transfer the program itself to the MSF. Thus, it is likely the Office of Economic Development will remain within the Department of Transportation and that some division of responsibilities for administering the authorizing statute will be determined. Details on this division are not yet available.

How does the order affect current Department of Michigan Jobs Commission employees?

The order assigns the Director of the Department of Michigan Jobs Commission with the task of developing and implementing a plan to “separate the functions transferred to the Strategic Fund . . . from the remaining functions of the department.” While most employees will be reassigned based on their program area, other general administration staff will be assigned based on need. The order provides that the Director reassign these staff as “best serves the ongoing need for these services by the Michigan Strategic Fund and the remainder of the Department.”

As required by the Urban Cooperation Act and indicated in the order, all employees transferred to the Michigan Strategic Fund and then detailed to the Michigan Economic Development Corporation will remain within the state civil service system and will continue to receive wages and other benefits through the system. Furthermore, the MJC has indicated that as civil service employees leave the MEDC through attrition, new hires to fill those civil service positions will also fall within the civil service system. However, new positions created by the MEDC and not filled by employees detailed from the MSF will be filled by non-civil service staff.

How might the order impact legislative oversight?

The MEDC, though still a public entity, would be unique from the current Department of Michigan Jobs Commission in its level of autonomy. In general, state funding used to finance the MEDC would still be subject to the legislative appropriations process. While the Indian gaming revenues that are and will still be used to finance certain MSF programs will remain “off-budget,” this will not be the case for funds allocated for programs transferred to the MSF and MEDC by the Executive Order.

In the case of personnel, services, and/or funds subject to annual appropriation and provided by the state to the non-profit MEDC, the order requires that the interlocal agreement entered

into by the state be conditioned upon such appropriations. In addition, programs created by statute would still be bound to comply with their statutorily-defined functions and roles.

The action may make it more difficult, however, to obtain detailed information on financial transactions for MEDC programs that are now administered by the MJC. Currently, the Michigan Administrative Information Network (MAIN) contains records of all financial transactions entered into by state agencies. Thus, it is possible to query the system and obtain information on grant dissemination, payroll costs, purchased services, and other financial transactions. The MJC has indicated that transactions related to personnel (e.g., payroll, benefits) and travel for MSF employees detailed to the MEDC will be entered into the system and be available within such queries.

It is not clear, however, that MAIN would contain this level of detail on other transactions undertaken by programs directly administered by the MEDC. Instead, the system may treat the MEDC as a grant recipient and would then only provide information on amounts granted by the Michigan Strategic Fund to the MEDC. Details on financial transactions would have to be obtained directly from the MEDC.

If the Legislature determines that certain financial details are vital to legislative oversight, it could choose to require certain reporting in boilerplate or statute as a condition for the MEDC’s receipt of state funding.

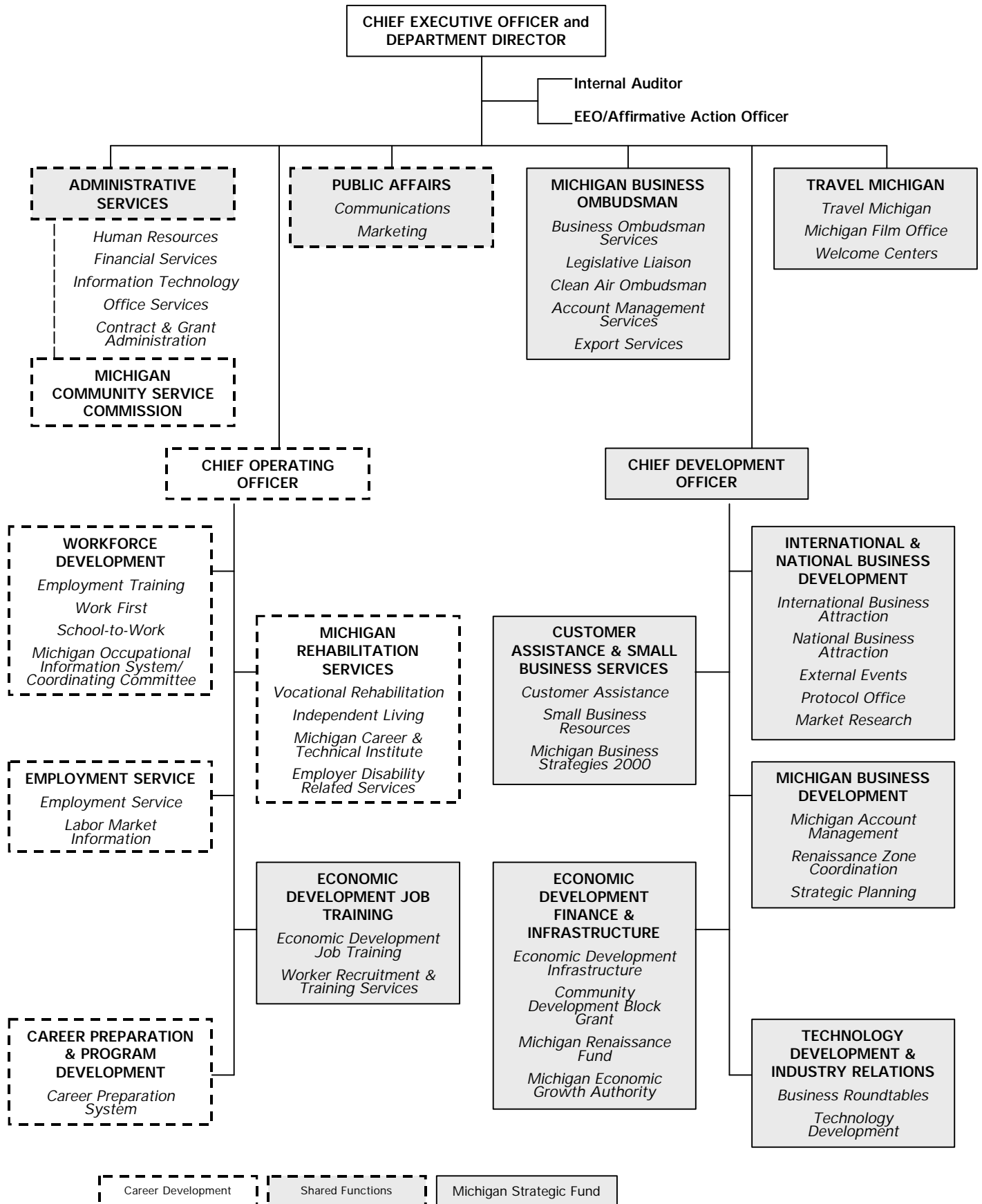
What fiscal considerations arise out of the reorganization?

While a formal analysis of actual expenditures will not be possible until after the reorganization takes effect, it is possible that the reorganization could increase state costs somewhat given that executive management and central administrative functions (e.g., budgeting, accounting, personnel management) currently performed by the Department of Michigan Jobs Commission will now be

administered separately by the new state entities. The duplication of these functions could require additional staff and/or other support that would increase costs.

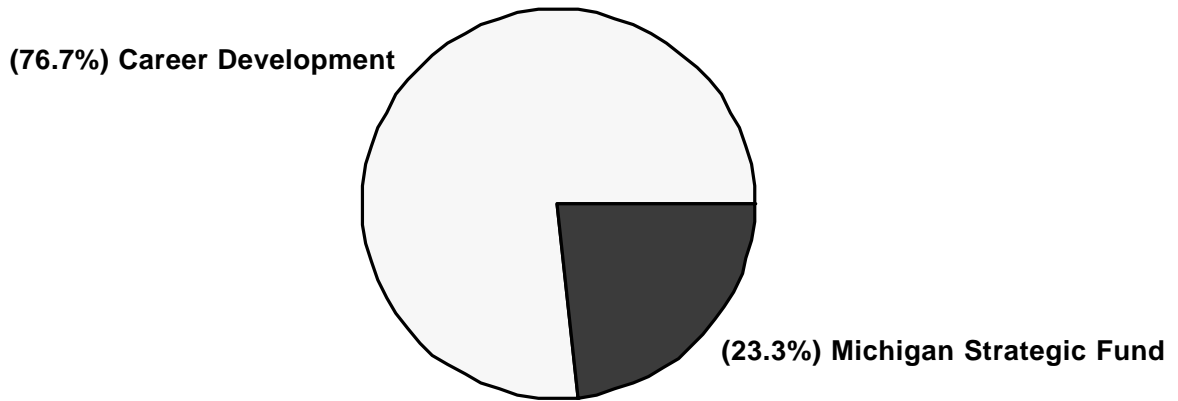
The reorganization will also impose one-time relocation costs to the extent that current programs and employees are physically moved to a new location.

Allocation of Michigan Jobs Commission Functions by Executive Order 1999-1



BUDGETARY ALLOCATION OF MICHIGAN JOBS COMMISSION FUNCTIONS

FY 1999-2000 Executive Recommendation Gross



FY 1999-2000 Executive Recommendation GF/GP

