



CAPITOL REPORT

THE GOVERNOR'S MESSAGE . . . AND WHAT DOES IT REALLY MEAN

Gov. Granholm delivered her State of the State address last night, kicking off the 2008 legislative session that technically began three weeks before on January 9.

Titling her speech "Creating Opportunity in a Changing World," the Governor emphasized the need to diversify Michigan's economy and expand educational opportunities. She asked lawmakers to focus over the next eleven months on achieving these goals:

- A job for every worker.
- Affordable health care for every family.
- Safe places to live and work for all of us.
- Quality education for our citizens – kids *and* adults.

Recalling last year's rancorous state governmental atmosphere, the Governor said she was "calling on (legislators) to join me in an era of unprecedented cooperation for historic progress."

In her one hour address, Gov. Granholm announced **two major initiatives** to grow new jobs in Michigan. When combined with the 21st Century Jobs Fund and other unique incentives, these new initiatives "will make Michigan the state with the most aggressive job creation strategy in the nation."

Under the plan, the Michigan pension fund and other major Michigan funds will combine to amass a pool of at least \$300 million dollars to create what the Governor calls a win-win: pensioners and investors will get a good return on sound investments, and the state will get cutting-edge businesses and jobs. Michigan will now be in the top three states in the nation for making investment capital available to successful entrepreneurs who create jobs here, according to Granholm.

The Governor also said the budget she presents to the Legislature next month will contain \$200 million in additional cuts and reforms and a \$100 million deposit into the state's rainy day fund. She says she will propose **no new taxes or fees**. She also said her Budget Message next week will contain a speed-up of nearly one billion dollars in infrastructure improvements, made possible by refinancing past borrowings at lower rates. Other parts of her economic stimulus program:

- \$35 million in new credits for employee compensation for targeted business – some 50 categories of fast-growing, high tech firms in areas such as **alternative energy, health care and education** – with the money coming from refinanced bonds. Those firms moving into Michigan also would pay no state taxes in the first year and would have their liability phase in over the next three years.
- \$50 million for tourism/business promotion, also funded by refinanced bonds.
- A one-year moratorium on **Department of Environmental Quality** fees, using general funds generated by refinancing.
- Creation of anchor zones, which would give companies tax credits based on their ability to get their suppliers to locate in Michigan.

The Governor also called for unspecified changes and cuts in **Corrections** Department spending and proposed (that old chestnut) “one stop” shopping for business licenses and permits. **Alternative and renewable** energy also got major attention, with the Governor saying Michigan can be at the forefront of new industries promoting their usage.

On the **education** front, Gov. Granholm said she will ask for full-day kindergarten, an 18 year old drop-out age, and a 21st Century Schools Fund to replace “large impersonal high schools” with smaller schools having greater flexibility, focus, and discipline, and paying for it with bonds financed by Durant monies. Under her plan, the smaller schools would graduate students in five years with both a high school diploma and a **community college** associate’s degree. She also renewed her call for education “promise zones” that utilize private money to help finance college educations for kids from poor areas. The Governor would also reward state **colleges and universities** for graduating students as opposed to merely enrolling them.

Finally, the Governor announced issuance of an executive order creating an **insurance** advocate whose sole responsibility will be to “fight for fair and affordable rates for insurance ratepayers”; reiterated her commitment to the Michigan First **Health Care** Plan expanding coverage to the uninsured; called for legislative passage of the “Save the Dream” home ownership protection; and said she would join legislative efforts to promote film industry activity in Michigan.

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So what does all this mean? The devil, as they say, is always in the details. State of the State messages are always short on specific programmatic details, so when it comes time to flesh out her proposals in bill form, matters may get stickier. Still, most of the Governor’s proposals were not particularly partisan and all the players – legislators and Governor – desperately want to avoid a repeat of last year’s gridlocked mess.

In addition, state leaders will probably be able to get by this year without the huge budget deficit that dragged down everything else in 2007. “New found” money at the close of FY 2007 and increased revenues from the Michigan Business Tax will likely keep things afloat until FY 2009-2010 . . . when fiscal analysts say the State will again face a sea of red ink.

While Granholm’s speech was generally well-received – and the Governor’s platform delivery as usual was excellent – skeptics and critics of specific proposals had a lot to talk about also:

(1) **Education:** some say the increased drop-out age keeps the bad actors around longer to the detriment of would be achievers; the new five year academies sound a lot like the charter schools earlier reviled by some in the MEA and others; after years of encouraging consolidation of small school districts (while denying adequate funds to incentivize it) the state’s new message seems to be “smaller is better,” undercutting consolidation efforts; while more funding is proposed for full day kindergarteners and school laggards, little is done to help high achievers and good students generally.

(2) **Spending:** do all the numbers add up to allow the Governor to do what she proposes in her message? Next week’s budget message will help answer that, but at this point many observers doubt it. At the very least, a good part of her program depends on additional state bonding, leaving fewer and fewer unencumbered assets. The Mackinac Center notes that the Governor proposed “24 expansions of government and just four limitations.” Other observers said the Governor gave short shrift to cost-cutting reforms.

(3) **Energy:** while touting an investment of \$6 billion in new generation by Detroit Edison and Consumers Energy, the Governor did not note that this will likely necessitate legislative approval of a mandatory 10% renewable standard and repeal of the current electric choice program. But neither the mandate nor the elimination of choice appear guaranteed. Sen. Bruce Patterson (R-Canton) said he is ready to move quickly on an electric restructuring package, but it will not likely include either a full return to monopoly power or mandatory renewable standards. Patterson says he would be willing to consider limiting choice to a set percentage of the market. Meantime, the House last week passed a package of renewable portfolio standards and related bills, acknowledging that a House-Senate Conference Committee will have to eventually work out details.

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Other things of note: the Senate Judiciary Committee has approved and sent to the floor SB 865 which essentially overturns a recent State Supreme Court decision and returns the statute of limitations for actions against **architects, engineers, and contractors** to where it had been for the previous 100 years.

The Senate Health Committee continues deliberations on a package of bills (HB 5282-5285) reforming Michigan’s **individual insurance market** and supported by Blue Cross Blue Shield. The House has already passed the package

The standoff over whether state consumers should have the right to sue **drug manufacturers** continued when the Senate approved a resolution calling on U.S. government to improve the drug approval process used by the Food and Drug Administration. SR 134 was approved unanimously on a voice-vote, but a Democratic amendment that said the Legislature would attempt to enact legislation allowing consumers to sue drug companies for injuries failed on a 17-20 straight party line vote.

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