



## **CAPITOL REPORT**

March 8, 2005

**M**ichigan's budget remains the focal point of State governmental action and controversy.

Nearly two months into the new legislative session the Governor and lawmakers are struggling to solve a \$375 million revenue shortfall in the current fiscal year and simultaneously gearing up for debate on an FY 2005-06 budget that is underfunded by three quarters of a billion dollars.

First, the FY 2004-05 budget: Gov. Granholm proposed \$219 million in cuts through an Executive Order to be followed by a "negative supplemental" of approximately \$156 million. The House approved the EO after winning a series of loose concessions, but the Senate responded with an emphatic rejection, which doomed the EO and sent everyone back to the drawing board to develop a new proposal by not later than mid-March.

Many observers think the Governor's second EO will look somewhat like the compromise she struck with the House, but cemented in by stronger guarantees as sought by the Senate. The Granholm-House compromise contained these key features:

- \$30 million cut from **colleges and universities**, with a promise to restore some or all if the May revenue estimating conference is positive.
- Restoration of \$2.5 million in cuts to **MSU's** Ag Experiment Station and Cooperative Extension Service.
- 4% cut to **Medicaid providers** by EO and not by a negative supplemental bill (thus becoming the "Governor's cut," not a "legislative cut.")
- Delay in closing the state's privatized **youth correctional facility** to at least October 1 (which many hope will be extended into a permanent delay).

Some capitol Democrats understandably took pleasure in watching the two Republican chambers get into a confrontation on a major issue so early in the new session and indeed, the Governor wasted little time in beating up on GOP senators after the EO rejection. Still, expectations are that the FY 2004-05 budget battle will be settled by month's end but only after

Republicans have made their point that the Governor needs to negotiate with both GOP chambers.

That, of course, will set the stage for the really big fireworks, writing the 2005-06 budget which, as proposed, decimates a whole host of state programs. Complicating matters is the Governor's and Legislature's enthrallment with a book titled "The Price of Government" which proposed a whole new approach (arguably) to writing a budget: using focus groups to determine what the public wants from government and how much it is willing to pay for the selected services. Cynics suggest that all of this sounds much like the darling of the 1970s budget reformers who boosted "zero-based" budgeting. In any event, the new process is greatly slowing budget deliberations and many observers believe that next year's budget will not be finalized until the very eve of the new FY, September 30.

The Governor's proposed FY 2004-2005 budget of \$41.2 billion (\$8.9 billion in general funds) is designed to close a \$773 million gap for the next year. Prison cuts, state police post closures, elimination of private college tuition grants, and imposition of a provider **tax on physicians** are just some of the controversial items sought by the Governor. The **school aid** fund is actually expected to enjoy increased revenues, allowing the Governor to propose an increase in the per pupil base foundation of \$175 for lower grades and \$225 for high schools. Colleges and universities, though, are steaming over cuts proposed by the Governor which they say violate her pledge on tuition increases. She responds by saying her proposal for new maintenance monies for **higher education** more than makes up for her cuts. The Governor's budget also does not assume an increase for **Medicaid health plans** that has been mandated by the Feds. In order to actually accomplish the denial of the rate adjustment, the Granholm Administration will have to receive a Federal waiver.

Aside from some essentially nickel-and-dime revenue enhancers, the budget calls for no new taxes, something which probably would be DOA in the Republican-controlled legislature anyway. Other Granholm budget initiatives include speeding up \$800 million in state **building projects** (which will likely be approved) and spending \$2 billion to encourage further high tech development (which may not make it through the legislature and/or could be rejected by state voters at the ballot box).

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**Businesses** would no longer pay tax on what they spend to provide health insurance to their employees under a bill passed last week by the House. House Republicans hailed the measure as a way to improve the business climate in Michigan while also encouraging businesses to offer health insurance to their workers. Democrats criticized the measure, which would reduce state revenues by about \$25 million in 2006 and \$33 million each year afterward, as fiscally irresponsible and touted Gov. Granholm's plan to overhaul the entire Single Business Tax as a more comprehensive approach.

Gov. Granholm has called for reshaping the **SBT** by cutting the tax rate from 1.9 percent to 1.2 percent, changing the formula to base the tax 100 percent on sales, providing a credit to manufacturers on personal property taxes paid, ending some current credits like those for

unincorporated companies and creating a 2 percent tax on insurance premiums. The Governor's plan would keep in place the SBT's taxation of money spent by businesses to provide health insurance to their workers. The State's main business groups are split on the Governor's proposed SBT re-write, with the State Chamber of Commerce being adamantly opposed and the Michigan Manufacturers Association and the Small Business Association of Michigan being supportive. The Chamber is particularly critical of the proposal to increase the profit-weighted sector of the SBT which, it says, would raise taxes \$330 million from profitable companies.

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The Republican-controlled House Transportation Committee will soon hold hearings around the state to examine the Granholm administration's five-year plan for fixing and expanding the state's **road system**. Republicans remain upset with Democratic Governor Jennifer Granholm's shelving of some expansion projects, which had been part of the last Engler administration plan, in favor of repair projects. "We need to start focusing on building the roads and **infrastructure** where people choose to work, live and pay their taxes," House Speaker Craig DeRoche (R-Novi) said. Rep. Phil LaJoy (R-Canton), committee chair, said the panel would hold hearings at Michigan Department of Transportation facilities in Canton, Waterford, Grand Rapids, Cadillac, Brighton and Port Huron.

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A Senate panel heard testimony last week criticizing a proposal allowing the governor to appoint the state **superintendent of public instruction**, taking the responsibility away from the State Board of Education. The committee backed off earlier plans to hold a vote, and it appeared divided on the proposal just days after the House Education Committee narrowly passed a similar measure. Sen. Wayne Kuipers (R-Holland), the Senate Education Committee chair, said he favors giving the appointment power to the Governor subject, however, to Senate confirmation. Oddly enough, legislative Democrats are mainly opposed to giving the appointment power to the Governor and she herself has given the measure only partial support, balking particularly at the Senate confirmation provision. The proposal (SJR B) was a reaction to the Board of Education's decision to fire Superintendent Tom Watkins in January, after Governor Jennifer Granholm requested the firing. Mr. Watkins actually resigned before the board could officially fire him. Appointment of a permanent Superintendent is possibly months off.

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Legislation aimed at meeting congressional requirements that all states pass measures preventing so-called "**dumping**" of **unemployment taxes** has passed the Senate and is now under scrutiny by a House committee. The House Employment Relations, Training and Safety Committee is expected to take a vote as early as this week on the Senate-passed package (SB 171, SB 172, SB 173, and SB 174) that is designed to crack down on businesses using various schemes to reduce or eliminate unemployment taxes.

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A study of Michigan's **certificate of need** program that oversees hospital expansion and expansion of many clinical services said the evidence is inconclusive as to whether the program should be continued as is, modified, or repealed. The report from the Citizens Research Council of Michigan reviews the program, which was begun in Michigan in the early 1970s a few years after the first such program was created in New York. Now 36 states and the District of Columbia have CON programs, after Congress dropped a requirement that each state have such a system. The program has often been controversial, especially when population areas feel they cannot get access to some new medical technology or when areas of fast-growing population argue they cannot get new **hospitals** located in their region.

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Rep. Mike Nofs (R-Battle Creek), chair of the House Energy and Technology Committee, has named chairs to lead subcommittees. Rep. David Palsrok (R-Manistee) will head up the Energy Subcommittee, which is expected to handle requests from some utilities to rewrite the state's **electric utility** regulations. Rep. John Garfield (R-Rochester Hills) will head up the Technology and Telecommunications Subcommittee, which will handle work on the soon to expire **Telecommunications Act**.

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Sen. Bruce Patterson (R-Canton), chair of the Senate Technology and Energy Committee, has announced plans for a new workgroup to further study the State's **telecommunications laws**. Fifty-eight issues were generated by a first workgroup and Patterson says he would charge the next subcommittee with further narrowing down the issues that should be addressed in a rewrite of the Michigan Telecommunications Act. The lawmaker warned the list could also be narrowed by coming rulings of the Federal Communications Commission. The FCC and courts have already ruled some portions of the telecommunications system out of the jurisdiction of states, and Mr. Patterson anticipates that more services and systems will be added to that list in the coming months.

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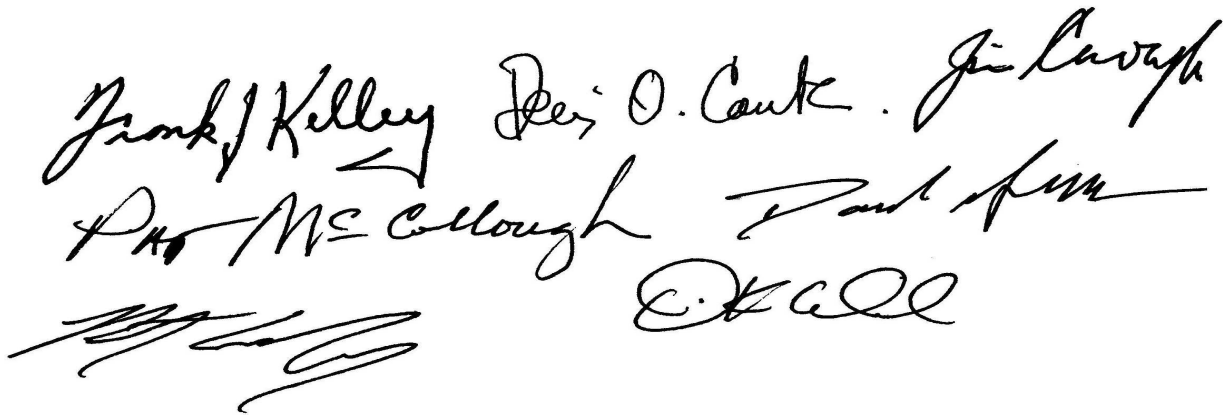
Bills to rescind a new ban implemented by the Granholm administration on using **credit scores** to determine insurance premiums have been introduced into the House and Senate, but the Governor is standing firm on letting the rules take effect. Under the rules (ORR #2004-022, JCAR #05-3), insurance companies would be prohibited from using a customer's credit rating as a basis for insurance rates. The rules also require companies that have been using credit scores to reduce their base rates by the difference between the premium they collected in 2004 and what they would have collected without the credit score discounts. Critics say the rules will likely result in a rate increase for many insurance customers and that the new policy should be the result of legislation instead of bureaucratic rule-making. Industry sources say they will go to court on the issue.

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Long awaited and controversial legislation to guarantee funding increases for the state's education system has been introduced in a hail of opposition. SB 246 would require state funding for its **K-12** public schools, **higher education** and **community colleges** to increase by the annual rate of inflation or 5 percent, whichever is less. Gov. Granholm has said she is opposed to the proposal without some indication of where the funding for the increases would come from. While education organizations backing the proposal have said they will focus on legislative action, there are indications that if it does not become law a petition drive may be started to put the proposal before the voters. Capitol observers give the funding plan little to no chance for success in the Legislature.

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Sen. Shirley Johnson (R-Royal Oak), chair of the Senate Appropriations Committee, may be taking a look at a new approach to **college and university** funding, creating one level for Michigan's "Big Three" (U-M, MSU, Wayne State) and one level for the remaining 15 state schools...Look for Rep. Chris Ward to introduce a bill which increases the frequency of local inspections for **rental property owners** and managers with poor track records...Groups affiliated with **interior design** and geologists are once again seeking a practice act...For the second session in a row, legislation has been introduced which establishes training and education standards for **radiation machines** and the people who operate them...Like many state legislatures, Michigan is looking at the possibility of regulating replacement of **over-the-counter drugs** with pseudo-ephedrine or ephedrine; bills in both the House and Senate were introduced last week...The State Supreme Court is hearing arguments this week over property rights on the **Great Lakes**.



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