



CAPITOL REPORT

March 17, 2003

Capitol observers are giving new Governor Jennifer Granholm generally high marks for the quality of her early appointments and for her adroit handling of the State's budget crisis.

First, the budget story: the Governor presented a 2003-2004 budget proposal that eliminated \$1.7 billion deficit without any significant general tax increases, true to her campaign promises. It's widely conceded that she did a masterful job of lowering public expectations by a series of statements and town hall meetings that presented doomsday scenarios. Many interest groups were therefore relieved when her actual budget message left them only moderately wounded. Public response was mainly positive, in stark contrast to the negative firestorm that greeted Governor John Engler's similar thrusts in the 1991 state budget crisis.

Still. . .Governor Granholm's balanced budget contains a number of assumptions that may not pan out. Expect major legislative battles over closing some tax "loopholes," and the imposition of new fees. Add, the possibility of more bad news at the May revenue estimating conference. . .toss in exploding Medicaid costs. . .inject too optimistic lottery projections and maybe some recalcitrant public employee unions who don't like the idea of a voluntary 3% pay cut. . .it all adds up to the possibility of huge pressure for new revenue enhancements (read taxes, more fees and new gaming outlets). We continue to believe the budget may not be finalized until the end of September, on the very eve of the new fiscal year.

In a nutshell, the Granholm budget:

Cut: higher education 6.5%
 local revenue sharing 3%
 merit scholarships 80%
 life sciences corridor 69%
 arts grants 50%
 school aid categoricals 25%

Proposed additional revenues:

- closing tax “loopholes” \$100 million
- fee increases (including professional, regulatory, and licensing fees, environmental permit fees, court fees and drivers licenses) \$100 million
- school bond refinancings \$100 million
- new lottery games \$50 million

Held harmless:

- school aid foundation grant \$6,700 per pupil minimum
- “at risk” K-12 categoricals
- medicaid health care providers, except drug companies

Legislative Republicans now seem somewhat uncertain as to how they should respond to the Granholm budget. When she avoided a call for income and single business tax hikes, the GOP lost its best potential weapon. Republican response so far has been mainly to criticize reduction of merit scholarships from \$2,500 to \$500 per award. . . hardly a broad-based assault on the executive offering. Many GOP lawmakers favor passing her package of cuts intact and waiting to see if the Dem Governor can really withstand special interest pressure to jack up taxes and re-inflate state spending. The fact that the 2003-04 budget proposals rely on a number of one-time revenue sources means that the 2004-05 situation may make revenue enhancement even more necessary. It’s going to be an interesting Spring, Summer and Fall.

The appointments story: Gov. Grahlm has assembled a capable cabinet and staff team, most observers agree. Her departments are generally experienced. Budget Director Mary Lannoye, who was also Governor Engler’s budget director, is a prime example. The Governor’s own legislative inexperience is well compensated for by the presence of Lt. Gov. John Cherry, with long legislative experience in the House and Senate, DMB Director Mitch Irwin (also an ex-State Senator), and Chief of Staff Rick Wiener and Legislative Director Tim Hughes, both experienced private sector lobbyists.

Detroit Water System

A Bill setting up a suburban-dominated authority to oversee rates and contracts approved by the Detroit water system is just one step short of being sent to Governor Jennifer Granholm who has questioned its constitutionality. The Governor stopped short of saying she would veto SB 195 which passed both chambers. Ms. Granholm, who opposed a broader takeover proposal during last fall’s campaign, said she does not see a possible compromise on the issue of creating a new authority and that no discussions have occurred with legislators on that score.

Brownfield Loans

Michigan became one of 25 states advanced to the second round of a competitive grant process for federal brownfield revitalization funds the Department of Environmental Quality has announced. The DEQ is seeking a \$1 million grant to add to the Brownfield Revitalization Revolving Loan Fund. The fund provides low-interest loans to communities for environmental assessments and response activities to allow properties to be sold or otherwise redeveloped.

Administrative Rules

Legislation giving the Legislature more time to act on proposed administrative rules was reported to the full Senate on a party-line vote recently by the Government Operations Committee. The legislation, SB 255, is currently opposed by Gov. Granholm. Senate Majority Leader Ken Sikkema, chair of the committee, indicated he would be willing to work to find a compromise that guaranteed the Legislature meaningful oversight of administrative rules. Under the bill, the Legislature would have a total of 180 days to review proposed rules, compared to the current 42 days. Similar legislation was approved by the Senate last year but did not move in the House.

Water Pollution Fee

Michigan companies emitting waste into the state's river, lakes and streams should pay for the program that monitors them, Democratic legislators said recently in calling for a new fee to cover the costs of the program. The monitoring program currently is paid for by taxpayers out of the state's general fund. Dem legislators say businesses should pay for the monitoring program, similar to the "air fee" that companies with air pollution emissions pay to fund that monitoring program. The bills would assess the fee based on a sliding scale depending on the existing quality of the waterway, the toxicity of the pollution and the quantity of the pollution. Lawmakers present at a news conference were unable to estimate the potential per company size of the fee, but said it would be enough overall to pay for what they said is now a \$10 million program.

Granholm to Address First Land Use Council

Governor Granholm is planning to speak at the first meeting of the Land Use Leadership Council she created when that board meets later this month. The 26 member council, chaired by Former Governor William Milliken and Frank J. Kelley, former Attorney General and a principal member of this firm, is scheduled to meet March 24 in Lansing. Two sets of hearings have also been set for April.

Adult and Long Term Care

Governor Granholm recommended in her budget that Michigan temporarily constrain medical benefits to healthy adult Medicaid recipients without cutting provider rates or terminating eligibility for any group currently receiving benefits. The Governor would seek Medicaid Adult Benefits Waiver which will permit the state to leverage additional federal funding and provide a limited Medicaid benefit to approximately 135,000 uninsured adults, including individuals who were formerly classified as “caretaker relatives.” Proposed funding for the medical long term care portion of the Medicaid program is recommended at \$4.8 billion in fiscal year 2004. . .

And Also. . .

A leading legislator, Rep. Jim Howell, has indicated he wants to introduce legislation abolishing the State’s remaining municipal courts. . . Rep. Ruth Johnson of Oakland County has introduced legislation (HB 4338) requiring election of all Intermediate School District (ISD) Boards. . . Rep. Leon Drolet of Macomb County has proposed a constitutional amendment (HJR E) capping university tuition increases at 5% or the rate of inflation whichever is greater. While superficially attractive, the proposal would be disastrous for budget-strapped state schools. . . Charter school expansion may pass the Legislature but looks DOA when reaching the Governor’s desk. . . Bills affecting State water use (SB’s 244 and 289 and HB 4087) have been introduced and are beginning to move in the Legislature. . . DARTA bills, designed to better coordinate Detroit metro transit, remain stalled, primarily due to opt-out provisions that would largely gut the legislation . . . The so-called Triangle Project in downtown Lansing, touted as a new headquarters for the State Police and Military Affairs Departments, also is stalled. . . Residential customers of Consumers Energy will pay higher natural gas bills beginning in April. The Michigan Public Service Commission, which regulates utilities has approved the company’s request for a \$14 to \$20 per month increase. Michigan Consolidated Gas Co., which supplies gas to 1.2 million Michigan residents, increased its rates in February.

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