



CAPITOL REPORT

April 28, 2003

History buffs among our readers will perhaps remember the “phony war,” that time beginning in late 1939 when the World War II belligerents had declared war on each other but then spent the next six months swapping modest thrusts before totally unleashing their military machines of mass mutual destruction in April of 1940.

Lansing this Spring reminds us of that time. The Democratic Governor unveiled her budget in early March, the Republican Legislature has mildly criticized it, but has gone on to pass parts of it with relatively minor changes. Meantime, both sides seem to quietly recognize, but won’t publicly acknowledge, that her budget may have to be drastically re-written. They claim (1) a number of the Governor’s cost savings and revenue generating proposals may not happen, and/or (2) the revenue picture will further darken after the State’s “revenue estimating” conference on May 13.

That’s the date we expect the “phony war” to turn into the “real war” and the partisan gloves to come flying off. We don’t look for a budget to be finished until late September, just prior to the October 1 start of the new fiscal year. We do look for a contentious struggle between those who are willing to accept even deeper budget cuts versus those who are willing to vote for additional revenues. We’re betting the latter will eventually prevail. But we’re getting ahead of our story...

Governor Granholm predicated a good part of her budget on closing tax “loopholes” and gaining state employee pay concessions. Both will be opposed. Republican legislators, prodded by the State Chamber of Commerce, aren’t inclined to pass her package of corrective measures and claim some are merely tax increases. Meantime, state employee unions, usually staunch Democratic supporters, are balking at turning back scheduled pay increases. Toss in the likelihood that state revenue estimators at their May 13 confab will say projected state revenues are down anywhere from \$200 million to \$300 million from earlier forecasts. Those three factors could put the Governor’s budget at least one half billion dollars out of balance. So, though at least one chamber of the Legislature has passed a number of budget bills, it may be meaningless if lawmakers need additional drastic spending cuts.

That's the point when we think revenue enhancement will start to look a lot more attractive to lawmakers. But that doesn't necessarily mean increases in the Single Business Tax or Income Tax. At best (or worst), it may mean a pause in the scheduled state income tax cut. Increases in cigarette, beer, wine, and liquor taxes would also face a stiff fight. More likely is serious consideration of re-working Tribal and/or other casino agreements and expansion of gaming at horse race tracks. In fact, Rep. Larry Julian (R) is leading efforts to put together a comprehensive racetrack/agriculture preservation package. All of these revenue enhancers will be difficult to enact and will come, if they do, only after various state spending cut scenarios are played out. In the process, extending over the full summer, the relative calm, quiet, and measured responses of the two parties -- so much in evidence now -- will go by the wayside. Hold on for the ride!

Meantime, the Republican majorities in the House and Senate have another big problem. They've passed (or even made progress on) very little substantive legislation so far. Their concern is a perception that they are a "do nothing" Legislature. While it's true that, by tradition, Michigan legislators start their two year term slowly, it is also true that this one is off to an especially slow start. Uncertainty over how to best confront and challenge Governor Granholm adds to GOP frustration. She's been careful not to engage the opposition too fully during the "phony war" period of the 2003-2004 session of the Legislature. Gov. Granholm remains popular with the public and has politely avoided head-on collisions with opposition Republicans.

Against that backdrop, here are some of the things that have happened:

School Aid:

The House has passed the 2003-2004 school aid bill which keeps the \$6,700 per pupil minimum foundation, retains general fund monies for schools, and keeps the current 80/20 student count formula. The Senate began subcommittee hearings last week on the bill. The May 13 revenue estimating conference may well report that school aid fund revenues are holding up (in contrast to general fund revenues), but many legislators are nevertheless pushing hard for revisions to the existing state aid pro-ration law which many say is unfair to poorer, outstate districts. Also, on the K-12 front, we expect to see passage of bills eliminating the state accreditation program and possibly mandatory teacher professional development.

Highway Monies:

New MDOT Director Gloria Jeff has said that the Administration's priority is to fix and maintain existing roads and highways. Under her "Preserve First" policy, 400 miles of reconstruction and repair projects were moved up to this Summer instead of 2004. But Sen. Shirley Johnson (R), chair of the Senate Appropriations Committee, has moved to restore funding to 34 new construction projects, saying she wants to keep faith with local communities that already made commitments to new construction projects.

Environment:

Sen. Gerald Van Woerkom (R) will start hearings this summer on major revisions to the state's long and complex Drain Code. Rep. Brian Palmer (R) has guided through the House legislation (HB 4257) which allows beachfront owners to mow their beaches, regrade them and, if needed, remove all vegetation from the first four inches of soil. Both the state DEQ and federal Army Corps of Engineers and EPA have voiced concerns about the bill, but Palmer and Sen. Jim Barcia (D) are pleased that they have forced the two agencies to the discussion table. Meantime, Gov. Granholm's bills to increase some DEQ fees face opposition in the GOP controlled legislature. On another front, SB 289 started out as a bill imposing extreme regulation on persons making aquifer withdrawals, but Kelley Cawthorne was instrumental in getting a number of revisions that make the legislation far more fair and workable.

Public Health:

Gov. Granholm followed up on campaign promises by splitting off mental health services, along with Medicaid and substance abuse services, from the main Department of Community Health. They will be separate "administrations" with the broader department. Paul Reinhart, veteran budget expert with the State Budget Office, will head Medicaid and Patrick Barrie, who has been with DCH, will take the helm of Mental Health.

Gov. Granholm has also appointed six new persons to the state Certificate of Need Commission. The group will have to deal with recent changes in the CON statute passed late last year, with special attention on proposals to build new hospitals in several Detroit suburbs.

Kelley Cawthorne is closely watching HB 4176 which would allow physical therapists to engage in imaging and other diagnostic procedures currently within radiology's scope of practice. And, once again, this firm was successful in maintaining the state supplementation level (SSI pass through) for foster care and homes for the aged patients.

Higher Ed:

While the Community College appropriations bill (HB 4388) has easily sailed through the House and cuts 6.7% from the budgets of those 28 schools, the Higher Ed bill remains in a House sub-committee. Rep. Sandy Caul (R), Higher Ed subcommittee chair, favors "differential" cuts as between the state's 15 colleges and universities. But many lawmakers say this is a divisive approach and prefer the 6.5% across-the-board cuts proposed by Gov. Granholm. The issue is shaping up to be a contentious one in both the House and Senate.

Small Group Health Insurance:

Blue Cross Blue Shield of Michigan, backed by many local Chambers of Commerce, is pushing legislation to discourage other insurers from “cherry picking” lower risk customers. Under the bills (SBs 234-238), Michigan could adopt health insurance “rate bands” and companies would be prohibited from offering rates too far above or below a middle index rate. The package appears to be gaining strength and will soon be taken up on the Senate floor.

Corrections Budget:

The Department of Corrections will not be seeking changes to current “truth in sentencing” laws, but other changes in assumptions and practices will result in about 2,500 people entering the prison system in the next fiscal year.

The department’s budget (HB 4390) passed the House at nearly the same spending as recommended by Gov. Granholm, but with that money moved around to avoid changes in “truth in sentencing” and to potentially allow more inmates into county jails. The budget would give the department \$1.72 billion, a 2 percent increase over the current year. That would fund 50,782 prison and camp beds and 18,303 employees.

Energy:

House bills 4015 and 4090 would require the Public Service Commission to establish a statewide “net metering” program applying to all electric utilities and alternative electric suppliers in the state. Net metering allows a customer with an electric generator to interconnect with electricity distribution facilities, to feed surplus power back into the grid during periods where the customer’s production exceeds consumption, and to pay the electric supplier only for the net amount of electricity used over the billing period. These bills are currently in the House Energy and Technology Committee.

Corporate Governance:

Senate Bill 218, which would dilute shareholder rights and protect incumbent corporate boards, has been sent back to a Senate committee. The measure was originally approved by the panel but ran into a buzz-saw when its contents became more widely known as a result of efforts by the Simon Group to acquire Taubman Properties. The issue may well be resurrected but faces stiff opposition from shareholder rights groups and others.

And This Just In...

Senate Bill 158, which would increase recoverable costs in tenant eviction proceedings may soon be set for hearings... Sport fishing groups are pushing for increased protection against invasion of Asian carp which, if unchecked in their entrance into the Great Lakes from the Chicago River, could harm the state’s marine industry. A bill limiting liability for canoe livery operators (HB 4140) has passed the House but may

stall in the Senate. Meantime, Great Lakes water levels approach record lows...Legislation prohibiting auto insurers from directing customers to specific glass installers has been the subject of four hearings but probably won't make it out of committee...The House, in what was close to a party line vote, withheld \$60 million from the health budget and re-funded the state's merit scholarship program at the full \$2,500 level, instead of \$500 as proposed by Gov. Granholm...Legislation (HB 4451) has been introduced to prevent state government from requiring social security numbers of individuals on government forms other than tax forms. The bill has numerous practical difficulties and will face significant opposition from credit reporting agencies, among others...Local revenue sharing has so far been saved from further cuts, but could be in jeopardy if the May 13 revenue estimating conference is even worse than expected.

Comings and Goings:

Linda Waters of Dearborn is the new Commissioner of Financial and Insurance Services succeeding Frank Fitzgerald...Former state Rep. Mickey Mortimer won a four way Republican primary to succeed the late Rep. Jerry Kratz (R) who died suddenly in late January after less than 30 days on the job. Mortimer will face Kratz's son, Kent, running as a Democrat, in the May 20 special general election...former Sen. Ken DeBeaussaert (D) has been appointed by Gov. Granholm to head the Office of Great Lakes. During the Engler Administration, the cabinet level position was held by Dave Ladd, now of Kelley Cawthorne...former Rep. Pat Lockwood (D) is the new Governor's liaison to the State Transportation Commission and former Sen. Gary Peters will take over the Lottery Commissioner's spot...Former DCH director Jim Haveman is headed for Iraq, at the request of the Bush Administration, to lead efforts aimed at rebuilding the country's health care infrastructure.

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