



CAPITOL REPORT

July 17, 2003

Legislators and Governor's staffers were high-fiving each other Thursday (July 17) as they put the finishing touches on the State's 2003-2004 budget. Contrary to what we at Kelley Cawthorne have been predicting for months, the budget action came a full ten weeks before the start of the new fiscal year. And yet . . .

Is the budget really balanced (as required by the state constitution) and is it really the final version or are there still chapters yet unwritten? And as Chris Christoff of the Detroit Free Press has written, "what happened to the worst budget deficit in a generation? Gone, like a song from an oldies station in a warm breeze."

Here are highlights and our "take" on the week's surprising events: (1) all parties concerned received a huge break (worth nearly \$700 million) making budget closure possible when the Bush tax cut plan was amended at the federal level to provide one-time fiscal relief for the states; (2) the state budget is still at least \$250 million out of balance unless and until state employees give up that much in wages or the already-depleted state employee ranks are cut by another two or three thousand workers; (3) reduced revenue sharing for local governments, plus significant cuts for most colleges, universities, and community colleges were key ingredients in keeping general fund budget expenditures to just \$97 million more than this year and \$297 million over what the Governor originally proposed.

Also, (4) \$225 million in new revenue was found, much of it below the public radar screen; increased state fees for licensed professions and occupations, coupled with larger user fees, provided modestly increased revenues of \$70 million which partially offset the Legislature's rejection of a host of Granholm tax "loophole" closures; (5) many Democratic legislators were clearly unhappy with the budget outcome, particularly because a number of urban interests were sacrificed; (6) Republican legislators were eager to avoid a confrontation with the still popular Governor and, in any event, won on such key issues as Merit Scholarships, new highway construction, DEQ funding and western Michigan pork and (7) the Governor was able to avoid the label of a "tax and spend" liberal, even if it meant some pet Democratic interests had to fall by the wayside,

and she emerged as a leader who could work with an opposition-dominated Legislature to put a budget together in timely fashion.

Still . . . some say the really big budget bullets have been dodged for one year only. As the Michigan Education Association (MEA) points out, the \$700 million federal money is a one-time fix, as is a refinancing of the school bond loan program. That potentially means, says the MEA, that there is an \$800 million to \$1 billion structural deficit for 2004-2005. And, of course, for the coming fiscal year there is still that pesky problem of the quarter-billion dollars that state employees are expected to cough up. And will revenue projections from sources new and old, hold up to actually produce the projected revenue? Stay tuned . . .

Some other budget highlights: An agreement to get \$50 million in funds to help the Detroit Medial Center needs to be seen as a transitional step to improve the center's operation, lawmakers said this week. Gov. Granholm has said that the funding would not be issued until a series of stringent conditions were negotiated with the hospital system . . . The Michigan Economic Development Corporation, initially targeted for a 12% cut by Gov. Granholm and even larger cuts by the Republican controlled Legislature, wound up avoiding any reduction, even receiving a small 0.3% increase. The Life Sciences Corridor will still see major cuts, going from \$32 million to \$15 million . . . The final \$12.5 billion K-12 budget put a 75% dent in adult ed programs, but keeps the foundation at \$6,700, established a schools rainy day fund, calls for laptops for all 6th graders, and eliminates a \$15 million Detroit schools subsidy.

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