



CAPITOL REPORT

November 19, 2003

The Governor's road show is over, and Republican reaction to it is history. Now comes the hard part, as the executive and lawmakers brace to make far-reaching fiscal decisions that could slice a combined \$920 million from the general and school aid funds. Executive orders may be issued by November 30, and Republican legislators will have approximately two weeks until mid-December, to react and possibly force revisions.

An early clash between the principals focused on whether Gov. Granholm had truly placed "everything" on the table for possible cuts, with Republicans grumbling that she had selectively excluded some targets like the Detroit Medical Center. But by week's end, all parties were saying that "everything" was on the table.

As we see it, these are the programs under the greatest pressure: K-12 schools (already hit by a \$196 per pupil proposed reduction which becomes effective December 6 unless the legislature finds an alternative), higher education (still a target even after last year's 10% cut), merit scholarships and laptops (potentially touching off a major battle with legislative Republicans who want to protect all or most of these programs), non-public college scholarship aid, co-operative extension programs, planned additions to state trooper ranks, revenue sharing, and assorted public health programs (if only because the public health budget is such a large proportion of general fund spending). State departments, generally, can expect further across-the-board cuts.

Even those cuts seem likely to fall well short of the \$920 million needed to fix this year's budget gap. Efforts to find new revenues therefore seem inevitable. We think it is highly likely the next scheduled income tax reduction will be paused (after much gnashing of teeth), but odds of an income tax hike are slim to none. There is renewed talk of expanding the sales tax to "high end" services, but exactly what is "high end" (and thus to be taxed) and what is "low end" (and thus not to be taxed) is highly elusive. Ultimately the distinction will be the Legislature's call.

Bottom line: any attempt to broaden the sales tax to services will be a tough sell for proponents and will surely trigger a major legislative battle.

Expanded gaming at racetracks, strongly supported by Michigan agricultural interests, remains a viable revenue possibility. Other miscellaneous revenue boosters are few since the Governor and Legislature hiked an array of user fees earlier in the year. Dead on arrival is a Republican proposal to rescind state gas taxes and replace the revenue with a one-cent increase in the sales tax. Republican proposals to cut taxes for the beleaguered tool and die industry may well face a gubernatorial veto. Other legislation to aid the state's faltering industrial base will likely win approval, including bills to extend the life of the Michigan Economic Growth Authority, assist brownfield development, and create economic development and small business "czars" within the new Department of Labor and Economic Growth. The idea floated by the Michigan Education Association (MEA) to tap school fund balances is getting modest traction. Even if adopted, it would probably hurt only the state's 52 "hold harmless" districts.

Meanwhile, a re-write of Michigan's sales and use tax laws is underway as part of a national effort to make such levies uniform across the states and improve collections. Although the changes are supposed to be revenue neutral, business is wisely monitoring the bills to make sure inadvertent tax increases don't occur.

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Recent Legislative Action includes: **Fees and escrow payments for tobacco companies** not part of the 1998 national tobacco settlement were modestly increased to stop a loss of state revenue of upwards of \$30 million annually. The legislation (HB 5221, 5222) passed overwhelmingly by the House last week. The bills now go to the Senate where similar legislation is pending. . . The state is spending millions of dollars unnecessarily incarcerating **inmates who are eligible for parole**, according to a recent report by the Citizens Alliance on Prisons and Public Spending. The group said 35% of current inmates (17,129 persons), were in prison past their earliest release date at a cost of \$497 million annually . . . The chairman of the council representing the state's 15 **four year colleges and universities** says "our public universities are indispensable to the state's economic revival" and also warned that failure to reverse the long-term trend of declining state support (down to 50% from 75% of their budgets) jeopardizes the public mission of universities. Wayne State President Irvin Reid made the comments in the first "State of the Public Universities" address delivered last week . . . The Senate has approved a resolution urging a group of 17 education organizations to **consider replacing the Michigan Education Assessment Program (MEAP)** at the high school level. Support for dumping the MEAP in favor of an alternative (such as the ACT or Work Keys) is growing based in part on arguments that it will reduce costs and provide alternatives that are nationally accepted, more reliable gauges of student skills . . .

Legislation (HB 4766) to **require nursing homes and homes for the aged to maintain emergency generators** has passed the House, as has a bill (HB 5184) that would require adult foster care facilities to conduct criminal history checks for new employees. The latter bill was amended to accommodate smaller homes for the aged. Both bills need further revisions in the Senate. . . Also passing the House was a bill (HB 4898) revising standards for the **accreditation of radiologic personnel** and machines to conform with federal law. . . The Senate has passed bills (SBs 658, 659) providing penalties and sentencing guidelines for failing to stop at the scene of an **accident involving watercraft** resulting in serious impairment or death. Meanwhile a re-write of **marine dealer** legislation remains locked in committee. . . **Identity theft** legislation is a major topic in the Senate. A package of bills (SBs 182, 183, 186, 657, 792-798, 803) has been reported out of its Judiciary Committee despite vehement opposition from a wide array of groups who say the bills need substantial amending and refinement, especially those provisions relating to the use of social security numbers in commerce and education. . .

A **Land Use Council recommendation** encouraging local governments to cooperate on planning has won unanimous Senate approval and is on its way to the Governor's desk. The measure (HB 4284) gives local governments the power to create joint planning commissions . . . Also passed by the Senate last week was SB 833 which doubles the amount of bond proceeds that can be used from the new **state sewer infrastructure bond/loan program** from a maximum of \$100 million in the first year of the bond to \$200 million. The House recently passed bills (HB 5264 and SB 805) that would **increase** from \$20 million to \$75 million the amount in the **Clean Michigan Initiative (CMI) Bond Fund** that could be used for grants and loans to local units of government and brownfield redevelopment authorities for redevelopment sites. House Bill 5270 and SB 806 would require the Department of Environmental Quality to **create a Clean Michigan Initiative Revolving Loan Program** for the purpose of making loans to local units of government and brownfield redevelopment authorities.

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The Legislature has now recessed late last week until Tuesday, December 2. When lawmakers return they will undoubtedly be confronted by the Governor's budget-cutting Executive Orders. It should be an interesting ride between then and final adjournment in mid to late December. We'll keep you posted.

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