



## **CAPITOL REPORT**

January 12, 2004

**T**he Michigan Legislature returns to the Capitol and begins its 2004 session on Wednesday, January 14, in an election year setting and a continuing budget crisis. Governor Granholm is slated to deliver her State of the State message on January 27. She unveils her proposed 2004-2005 budget just two weeks later. These two presentations will go a long way toward setting the tone and agenda for state governmental decision-making in the next 12 months, even in the GOP-dominated legislature.

Now that the Governor and lawmakers have balanced the current FY budget with a late December combination of \$825 million in cuts and a tax freeze, they'll face the reality of having to build a **2004-2005 budget** that is perhaps \$700 million or more in the red just to continue existing programs. A revenue estimating conference on January 14 will determine the exact number and heavily influence upcoming budget decisions. K-12s have received relatively good news, however, with the Department of Management and Budget saying that the per pupil prorated state aid reduction will be \$84 per pupil, not \$100 as earlier believed. The revenue conference may reduce the number another \$5 to \$10 per pupil.

Nevertheless, it is clear that at least two **tax issues** will dominate the new session: 1) whether to extend the income tax reduction freeze beyond July 1, 2004, and 2) whether to extend the sales tax to cover a whole array of services. In addition, pressure may mount to lift the current ceiling on school property tax millages and tax other assorted "easy" targets. One bill, HB 5323, would close an existing tax avoidance loophole and potentially add \$20 million in new revenue.

The Michigan Education Association leaped into the **sales tax on services** fray by announcing its interest in supporting a .5% tax on selected services and reducing the existing sales tax from 6% to 5% . . . which prompted a State Chamber of Commerce spokesman to observe "at the MEA, they feel that individual taxpayers are cows to be milked until dry and then slaughtered."

Meanwhile, House Speaker Rick Johnson has intrigued many observers by hinting that he will unveil a major **alternative to another income tax cut pause**. Johnson is known to be adamantly in favor of the so-called "Agricultural Enhancement" package (aka "racinos"), and

may push the video lottery portion of it to provide substantial new state revenues. The legislation will be taken up by the Senate sometime in the next three to six weeks.

Another important element in the tax picture is the fact that the much-reviled **Single Business Tax** is slated to expire in 2010. Already State Treasurer Jay Rising is undertaking a review of the state's entire business tax structure, with an eye toward an economy that is increasingly becoming service-based. Speaker Johnson has said that he would like to have the review completed by the end of 2004. That seems unlikely, but it's clear that whatever the Legislature does with taxes in this session, the SBT and the issue of which tax chickens get plucked will be around for some time to come. Businesses, especially those that are service-related, will need to be on guard.

**Petition drives** are underway to place two controversial issues before Michigan voters. Ward Connerly's proposed constitutional amendment to ban affirmative action by state and local governments, including universities, needs 317,575 valid signatures to make the November ballot. Right to Life's petition drive to ban partial birth abortions needs 254,206 valid signatures within 180 days to place the issue before the Legislature. If then enacted by the two chambers, as seems highly likely, the measure would become law bypassing the Governor and any potential veto by her. That would leave only the affirmative action issue on the November ballot, but it alone has the potential to swell the Fall turnout, especially in Detroit, which concerns State Republicans hoping to carry the state for President Bush.

Issues abound for consideration by the 2004 Legislature. Here are a few:

**Intermediate School Districts** – Gov. Granholm vetoed a \$600,000 appropriation for the Attorney General to investigate ISDs. But some legislators may try to re-insert the money somewhere in the legislative process, and a package of bills aimed at ISD "reforms" remain poised for possible action.

**Health care** – In addition to the usual budget concerns, legislators will be reacting to an announcement of a comprehensive House Democratic health program focusing on long-term care. Debate on changing various CON standards will also be on-going and controversial. Also on tap are bills to grant certain age waivers in homes for the aged and to require on-site generators at assisted living facilities. Legislation to certify radiological technologists and to prohibit the practice of obtaining pharmaceuticals thru the mail will also be considered. Financial solvency requirements for HMO's will also draw fire.

**Water issues** – Perhaps wanting to placate environmentalists unhappy with her amicus curiae brief in support of Ice Mountain's continuing water interests in Mecosta County, Gov. Granholm has announced she'll be proposing a "regulatory framework" for groundwater withdrawals and useage. Legislative scrutiny will be intense.

**Identity theft** – The Senate has already passed an onerous package opposed almost across the board by Michigan businesses. It will be up to the House to amend it into some kind of workable form.

**Student testing** – A coalition of K-12 education groups will issue a report by month's end which may recommend replacing the existing Michigan Education Assessment Program (MEAP) with the ACT test. The State Department of Education may oppose any change but pressure could be intense on both the Legislature and Governor to make the shift.

**Telecommunications** – Fireworks could occur over efforts to extend the sunset date on the state's Telecommunication Act set to expire in 2005. In addition, some interests are looking at other, more substantive changes to the law. Expect this to be big in the next two years.

**Medicaid** – Preserving provider reimbursement rates will be a major challenge and a lot of attention will likewise focus on the Department of Community Health's rebidding of qualified health plans.

**Energy** – Efforts are expected to reform parts of the state's electric deregulation package to end "cherry picking" that undermines the long-term viability of Michigan's major electric service providers.

**Drain Code** – This "chestnut" has been around for years, but may actually be getting closer to passage. It's a whopper of a bill which, despite its prosaic subject matter, impacts a lot of municipalities and interests.

**Design Profession Practice** – A series of bills address this issue: measures to criminalize and increase fines for unauthorized practice of architecture and professional engineering; to increase licensing fees and earmark the increase for a separate segregated Article 20 enforcement fund; and to require a showing of "up front" merit in lawsuits filed against design professionals. Reform of state contracts language to more fairly apportion fault is an administrative issue.

**Consumer Loans** – Legislation to curb so-called "predatory" lending will be introduced in late January and could be a very contentious issue in the new session.

**Jobs and Commerce** – Efforts to impose tight regulations on Michigan manufacturers of watercraft will be fiercely fought against a backdrop of charges that the legislation could drive jobs out of Michigan and further hinder the state's economic recovery. (Interestingly, Senate Majority Leader Ken Sikkema says the 2004 Senate GOP agenda will be "jobs, jobs, jobs.") Several landlord-tenant bills remain active and various DEQ initiatives will bear watching by many businesses.

### **POLITICAL NOTES:**

Former Rep. Mary Brown (D) has been appointed to the State Natural Resources Commission by Gov. Granholm. . . Former Sen. John "Joe" Schwarz has announced he'll seek the Republican nomination for U.S. Congress from Michigan's 7<sup>th</sup> District to succeed retiring Rep. Nick Smith (R). Whoever emerges from the hot, crowded GOP primary in August is a heavy favorite to win in November. . . . Rep. Dan Paletko (D) is likely to resign from the House this week to accept appointment as interim mayor of Dearborn Heights. That will reduce Dem

seats in the House to 46 (compared to 63 Republicans) and create the possibility of a Republican pick-up in his marginal 17<sup>th</sup> District . . . The Mackinac Center, a well-known conservative think tank, has given Gov. Granholm a "B-" for her first year in office, praising her spending cuts, but faulting her for doing too little to "reinvent" government. Still, considering the source, the grade was surprisingly positive . . . Howard Dean and John Kerry have gained the most endorsements from State and locally elected Democratic officials heading into Michigan's February 7 presidential caucuses . . . 2004 will be an odd election in this state: only the races for President, U.S. reps, state reps, state educational boards, and local offices will be on the Michigan partisan ballot. State-wide contests will be few and confined to relatively minor positions . . . Best wishes in 2004 to you from all of us!

*Frank J. Kelley* *Dez O. Cantu* *Jim Cavaph*  
*Pat McCullough* *Paul*  
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**Kelley Cawthorne**  
Attorneys and Governmental Affairs Counselors  
101 S. Washington Square - 9th Floor  
Lansing, Michigan 48933  
Phone (517) 371-1400  
FAX (517) 371-3207

E-mail: [kc@Kelley-Cawthorne.com](mailto:kc@Kelley-Cawthorne.com)

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