



CAPITOL REPORT

March 22, 2004

The Michigan Legislature enters a frantic two week stretch before its April 2-10 spring break, with budget-making front and center on lawmaker agendas.

Legislators have yet to pass revenue bills necessary to support the approved expenditures . . . in fact they're hundreds of millions of dollars short. Gov. Granholm's proposed revenue boosters – estate taxes, early county tax collections, cigarette and liquor levies – all face serious trouble in the legislature. We think it unlikely that any of these will pass before early May, if ever. That means the really serious decisions on the size and content of state budgets will remain in doubt until at least early June.

A number of Senate bills have moved from sub-committee to the full Appropriations Committee, including budget bills for K-12, higher education, community colleges, and the Departments of Family Independence, Community Health, and Environmental Quality.

The ***Higher Education Budget*** approved by a Senate sub-committee late last week illustrates some of the problems on the spending side. Legislators approved a budget \$66.6 million over the Governor's recommendation, (never mind the revenue shortfall even at her suggested lower spending level). Republican senators re-inserted \$64.8 million in private college tuition grants that the Governor had deleted, added \$1.85 million to MSU agricultural experiment and cooperative extension programs, and then toyed with modifying tuition cap language before retreating on the issue. The Community College budget left tuition caps in place, despite a strong effort to remove them.

Meantime, another Senate panel restored all Medicaid adult dental, chiropractic, podiatric and hearing aid services, but dumped Gov. Granholm's proposed (cigarette tax-funded) increase in the Healthy Michigan Fund. The ***Department of Community Health*** budget bill, second largest state budget after K-12, also limits contracts on Medicaid health maintenance organizations to just one year and requires the state to study alternatives to Medicaid HMOs, including a possible return to fee for services or creating a primary care case management program. The one year contract provision is not expected to survive full Senate consideration.

The ***K-12*** bill reported by its Senate sub-committee increases general fund expenditures \$23.3 million over Gov. Granholm's budget. But the bill cuts at-risk, vocational education, school readiness and Section 81 grants to ISDs by \$13.9 million, \$2 million, \$2 million and \$12.5 million respectively. However, the present 80-20 student count formula was kept intact, as well as full funding for Section 20j. The foundation grant was fixed at \$6,700 per pupil. Of all the major budgets, this one stands the best chance of remaining fairly near the levels approved by the sub-committee, primarily because there is relatively little general fund money used to finance it.

The ***DEQ*** budget cuts \$33.9 million from new clean-up projects, all from restricted funds facing shortfalls in revenue and fee collections. Meantime, some 1,300 current holders of groundwater permits or applicants for permits will receive letters in the coming days informing them the program is nearing an end because of an unresolved dispute between the Granholm administration and Republican legislators on a bill establishing new permit fees.

A package of bills pitting local pharmacists against the Big 3 automakers, the so-called Economic Alliance, ***pharmacy benefit managers***, mail order drug suppliers and the Granholm Administration remains in a House Committee. Rep. Stephen Ehardt's legislation is under fire for potentially raising health care costs in the state and restricting free negotiation over health care benefits.

A series of bills aimed at ***Intermediate School District*** (ISD) governance have passed the House, but the main piece of the package has been significantly watered down. Passed with virtually no objection were bills to: require public disclosure of constituent school district board votes to elect their ISD board; require advertising for competitive bids for infrastructure projects; require constituent school districts to approve the budget for their ISD; and to create a parental advisory committee on the ISD's special education services. However, HB 4338 was amended to take out popular election of ISD board members, a ban on serving simultaneously on K-12 and ISD boards, and mandatory term limits. Virtually the only thing left intact was a recall procedure for ISD board members. The battle on this bill now shifts to the Senate. A second series of House bills affecting ISDs will be taken up later.

Hearings have begun in the Senate on legislation to change the governing structure of the ***Detroit-Wayne County Community Mental Health Board***. The bills, introduced by Sen. Bev Hammerstrom, would effectively create a three-way governance system with the state, Detroit and Wayne County all having an equal role in the operations of the board and agency. Wayne County Executive Robert Ficano has said there is no need for state appointees on the Detroit-Wayne County Community Mental Health Board but does want another appointee for the county. Though the governance board is split between the city and the county, the actual operation of the board falls to the county.

New and expanded withdrawals of water would for the first time be regulated by the state under legislation unveiled earlier this month by Gov. Granholm and legislative Democrats. Lauded by environmentalists as a pragmatic, effective move to protect the Great Lakes basin, the package is being viewed warily by business groups and farmers. Granholm said the bills are “the most significant legislation of our lifetimes.” The governor in January had announced her plan to call for a *law regulating groundwater and surface water withdrawals* by manufacturers, water bottlers and farmers.

Technology needs to keep improving, but Michigan’s Public Service Commission needs to have the authority to provide consumer protection under those changes, Commissioner Robert Nelson told the Senate Technology and Energy Committee as it began recent hearings to explore changes to the *Michigan Telecommunications Act* which is scheduled to expire in 2005. Mr. Nelson said the current act and its predecessors have led to strong local service competition in the state, with some 25 percent of the lines in SBC’s territory now controlled by competitors.

Federal Health and Human Service officials are now indicating they will work through their concerns with the state and approve Michigan’s multi-state plan to purchase drugs for *Medicaid prescription* needs. The state had earlier received notice that the plan, along with Vermont’s, would be rejected, posing a potential \$40 million problem to the state’s already stretched budget.

Pressure continues to build on Michigan’s *electric deregulation* law, as fears of sharply increased residential rates and plunging revenues for major electric suppliers gain voter attention. Under current state law, said one utility executive, “we’ve got a situation where we’re still regulated, we still have an obligation to serve, (and) we can only offer fixed regulated rates; the opposition has none of those restrictions . . . we have a situation where we cannot win.” Sen. Bruce Patterson is holding hearings on electric issues and legislation may soon be introduced to tackle rising concerns.

The controversial *MEAP exam* may be headed for the scrap heap with the introduction of legislation this week to replace it with a new test. Sen. Wayne Kuipers (R-Holland), chair of the Senate Education Committee, said he will advance a five-bill, bi-partisan package to do away with the high school portion of the Michigan Education Assessment Program (MEAP). Segments of the state’s education community want to replace MEAP with the ACT, but the Kuipers’ proposal does not name a specific replacement instead leaving the door open for the use of other national tests.

Members of the State House Appropriations subcommittee on Transportation are quizzing MDOT’s plans to bring in house some 136 *engineers, designers* and others, a proposal that has Republicans raising a number of questions. MDOT says its goal is to have the department handle 60 to 65 percent of the design and environmental work inside the department. The hiring would represent more than a 100 percent staffing increase. MDOT says the private sector won’t see an immediate downtick in MDOT contracts.

The Department's hiring is expected to take two years to complete. Rep. Scott Shackleton typified the response of GOP legislators: "We're skeptical that our state government can do these projects in-house better than the private sector. Secondly, during this transition of doubling the number of employees, should the quality of the work slip, your \$6 million in savings will go like that."

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Estate taxes look nearly dead at this point, early county tax collections are on life support, and increased cigarette and liquor taxes are certainly possible but far from inevitable. Stay tuned for major battles to be waged when the Legislature returns to Lansing on Tuesday, April 20.

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