

## Budget: Education The Big Winner continued..

By department, Education ranks at the top of percentage increases with 58.6 percent. It is followed by Department of State at 41.7 percent. Labor and Economic Growth ranks third, at 24.6 percent followed by Human Services at 10 percent, Agriculture at 6 percent and Corrections with a 4.8 percent boost. The Department of Natural Resources continues to take a budget hit as it has for several years, down 1.9 percent.

### Budget Blues in 2007

Thanks to an unexpected boost in revenues at the end of Fiscal Year 2005, the January Consensus Revenue Estimating Conference does not anticipate the need for any mid-year budget trimming in the current 2006 budget. But things do not look so rosy for Fiscal Year 2007.

There is currently a nearly \$150 million Medicaid caseload increase, federal changes in Medicaid and social service policy that will take away nearly \$131 million, an already \$73 million projected deficit, and the result is an Fiscal Year 2007 budget deficit of about \$350 million.

It was with that backdrop that the administration put forth its Fiscal Year 2007 budget recommendations to the Legislature earlier this month.

### SBT Repeal Headed for the Ballot?

Oakland County Executive L. Brooks Patterson is spearheading an effort to raise \$800,000 to put a proposal on the November 2006 ballot that would eliminate the state's Single Business Tax (SBT) by 2007. Current law calls for the SBT to be eliminated by the end of 2009, but Patterson says that is not soon enough.

A ballot committee, REPEAL SBT, filed paperwork with the Department of State on February 2nd to put the issue on the ballot.

The proposal, however, is not receiving rave review from many Democratic legislators, primarily because it does not provide an alternative to replacing

the nearly \$2 billion annual hit the repeal would place on the state's revenue stream. Some Republicans are also wary because if the measure gets on the ballot and loses, it could be perceived that voters do not want tax cuts.

### Agreement Reached on Water Withdrawal Limits

Governor Jennifer Granholm is prepared to sign into law a five-bill package of compromise legislation that will limit the amount of water that can be withdrawn from the Great Lakes.

The compromise involved a trade-off that leaves bottled water sales outside of the definition of water diversion.

As passed, the legislation provides that only water diverted in containers larger than 5.7 gallons can be considered a diversion; the Legislature has authority to approve or disapprove projects to divert water outside of the basin; and new bottled water facilities would be required to obtain permits for withdrawals of 250,000 gallons of water a day or more.

### No Challenge to Term Limits

Although there is a strongly likelihood of several proposals appearing on the November 2006 ballot, an effort to reform term limits will not be one of them.

The Michigan Chamber of Commerce has abandoned its desire to amend the State's term limit law so a lawmaker could serve a combined 14 years in the Legislature.

The statewide organization had been toying with the idea of expanding the term limit law in exchange for other legislative reforms, but has decided it can wait until the next general election.



Volume VII, Number 2

# Update

a publication of Fraser Consulting, LLC

February 2006

## Budget: Education The Big Winner

Education came out the big winner in an otherwise lean 2007 budget recommendation put forth by the Granholm administration. The recommendation reflects a 3 percent increase in the \$9.25 billion General Fund portion of the \$42.6 billion spending plan.

The budget priority clearly reflects Governor Jennifer Granholm's push for a better-educated workforce, and an increase in the number of higher education graduates to make Michigan more competitive in the world's workplace.

Granholm has proposed a \$200 per-pupil-funding increase to \$7,075 in K-12 education with an overall School Aid budget of \$13.1 billion. This is an increase of \$362 million, or 2.8 percent over FY 2006. Community colleges would receive a 2.1 percent increase.

For higher education, the Granholm administration wants to split the "Big Three" research universities, Michigan State University, University of Michigan and Wayne State University, from the other 12 state universities for budgeting purposes. Under the plan, they would receive a 2 percent increase while the other universities would split about \$12.1 million, or 43 percent of the higher education budget. The percentage increases will vary among them and will be based on affordability and percentage of students completing degrees.

Adult education funding would be increased \$4 million, but financial aid to private colleges would be reduced.

Local units of government, however, did not fair so well. The Granholm budget freezes revenue sharing at the current level of \$1.1 billion. Local governments

were quick to point out that under the statute they will not be receiving the \$1.7 billion they believe they should get.

The Department of Community Health budget includes state and federal funds to phase in a new health insurance program that would provide health care coverage to about 500,000 of the 1 million Michigan families and individuals who do not have employer-provided health care. It would also increase state and federal spending by 7 percent to pay the state's \$7.3 billion Medicaid bill.

Governor Granholm presented lawmakers with a balanced budget as required by the State Constitution, but like most budgets it is based on assumptions. Among them is the closing of \$111 million in tax "loopholes" that House Appropriations Chair Scott Hummel (R-DeWitt) announced "dead on arrival" even before the budget had been presented.

The Granholm balanced budget also assumes a \$23 million liquor license fee increase, a hope that the federal government will send the state \$42 million more in Medicaid money to reimburse Health Maintenance Organizations (HMOs) at a higher rate so they can provide a greater reimbursement to hospitals, and an anticipated \$28 million in land sales, \$18 million of which is state forestland.

The budget contains \$127 million in hard cuts, \$72 million in fund shifts and \$80 million left over from last year. It also contains \$100 million in municipal bonding projects the administration is planning on seeking bids for prior to the money being approved by the legislature. This has rankled the usually calm Senate Appropriations Vice Chair Tony Stamas. (R-Midland)

*Continued on page 4 ...*

## Granholt: "You'll Be Blown Away..."

In delivering her fourth State of the State address, Governor Jennifer Granholt did not define the current state of the State, but on the issue of Michigan's faltering economy, she said she has a plan, she will continue to work the plan and that "in five years, you're going to be blown away by the strength and diversity of Michigan's transformed economy."

Governor Granholt unveiled a \$1 billion Michigan First Healthcare Plan that would provide healthcare coverage to 500,000 of Michigan's 1.2 million people who currently do not have health insurance. Details are still sketchy, but administration officials have said that all recipients would contribute something toward their coverage based on their ability to pay. Department of Community Health Director, Janet Olszewski, said the healthcare program would be paid for by shifting money from other programs and from Medicaid program savings. One major catch is that the State must acquire a waiver from the federal government.

The Governor also proposed a 401(K) plan for workers whose employers do not have a retirement plan, by establishing a statewide pool, but provided few if any details, such as how it would be paid. Treasurer Jay Rising said the plan is in its "development stages," but would result in "minimal" cost to the State. It would involve small businesses, likely those with 15 employees or less, but could go as high as 25.

In the area of education, Governor Granholt called on the Legislature to pass a \$4,000 Merit Award Scholarship, instead of the current \$2,500 award, a proposal Republicans say would leave the scholarship program bankrupt by 2011. She also urged swift passage of the rigorous high school curriculum standards adopted recently by the State Board of Education. The issue appears to be moving through the Legislature, but likely without the mandatory foreign language requirement.

On the jobs and economic front, Governor Granholt stressed that her Jobs Today, Jobs Tomorrow plan is working. To back up her point, she claimed her administration has "created and retained 327,000 jobs" that would have otherwise gone elsewhere, and that "99,000 more people are working today" in Michigan than when she took office.

The Michigan Republican State Committee is disputing that figure. It says one person has lost his or her job every ten minutes since Granholt took office alleging 164,000 job losses during her watch.

Granholt also called on lawmakers to pass legislation:

- Raising the minimum wage. Look for Legislators to go along with some increase
- Allocating an additional \$25 million to help residents pay for home heating bills this winter
- Rolling back auto and homeowners insurance rates by 20 percent.
- Easing the restrictions on stem cell research in the state
- Enacting new ethics laws
- Increasing penalties on businesses that refuse to give back jobs to returning men and women serving in the military
- Requiring criminal background checks on employees who provide elder care or work in nursing homes
- Enacting stronger protections against identify theft
- Limiting over-the-counter sale of ingredients needed to produce methamphetamine

Although Governor Granholt laid out a laundry list of items she wants action on in the Legislature, the real focus in the next three months for both Governor Granholt and lawmakers will be the 2007 budget.

---

## Granholt Vetoes Small Biz Tax Cut

The GOP's effort to provide some tax relief for Michigan small businesses has gone by the way of Governor Jennifer Granholt's veto pen.

Governor Granholt, in vetoing the bill that would have cut in half a portion of the Single Business Tax (SBT) commonly known as the "alternative tax," called

the measure "a piecemeal approach to improving Michigan's tax climate" in contrast to the "fiscally responsible" approach she proposed last year.

Specifically, Senate Bill 0957 would have cut from two percent to one percent the amount small business pays in state business taxes – a cost of \$16 million to the General Fund this year and \$21 million in Fiscal Year 2007, according to the Senate Fiscal Agency.

Governor Granholt also vetoed legislation (HB 5447) that would have prohibited the administration from establishing ergonomics rules in the workplace and a bill that would have transferred \$116.3 million from the General Fund to the Budget Stabilization Fund.

She did, however, sign nine bills of a 12-bill package designed to expedite operations between the businesses in Michigan and the Department of Treasury.

The three bills she vetoed would have prevented Treasury from seeking more taxes from businesses after officials had issued a new ruling on particular issues; would have eliminated perceived "double taxation," businesses allege they are being charged sales and use taxes on the same item; and a measure that would have planted the Treasurer in the middle of disputes between a local tax assessor and a taxpayer on issues of \$50,000 or less.

---

## A Tweaking of Proposal A?

Tweaking of Proposal A was in the forefront of the 2002 gubernatorial campaign between now Governor Jennifer Granholt and her Republican challenger, Dick Posthumus. It appears the issue may resurface in this year's election.

Representative Ed Gaffney (R-Grosse Pointe Farms) has introduced legislation (HB 4269 and HB 4270) that would remove the so-called "pop-up" tax if an owner sold their property and moved to another home in the same community.

Representative Gaffney said the tax represents a huge tax increase to purchasers and is killing real estate sales in his district. He contends the tax is also a deterrent to senior citizens who want to downsize to smaller homes but have to pay the increased tax.

Under Proposal A, homeowners' property taxes remain low as long as they own the property, but jump up to actual assessment levels when the property is sold to a new owner.

Representative Gaffney is hopeful House Tax Policy Chair, Representative Fulton Sheen (R-Plainwell) will take up his legislation soon, but Representative Sheen is not excited about the idea, stating "Proposal A is doing exactly what it is supposed to do. The pop-up tax is the only way to get a parcel to go up to what its value is."

Meanwhile, the Livonia Observer & Eccentric reports that during a recent meet-and-greet with about 75 community leaders, Governor Jennifer Granholt, responding to a question about Proposal A said it is important to readdress it again and suggested the formation of a task force to look at it.

Later, commenting further on Proposal A, at a media roundtable in Lansing, Governor Granholt said she doesn't want to move away from the basic premise of the current education funding mechanism, which relies on state sales money as opposed to property tax money.

---

## Rising Leaving, Cunningham Arriving

Jay Rising, the State's Treasurer since early 2003, is leaving to become Vice President and Chief Financial Officer at the Detroit Medical Center (DMC). Mr. Rising also served as Deputy State Treasurer and Chief Deputy State Treasurer in the Blanchard administration before leaving state government in 1991.

Governor Jennifer Granholt has named Lansing Community College President Paula Cunningham to replace David Hollister as Director of the Department of Labor and Economic Development (DLEG). Ms. Cunningham resigned as LCC president under fire from the college's Board of Trustees over alleged mismanagement. Her appointment, which requires Senate confirmation, could be a rocky one.

Senate Majority Leader Ken Sikkema (R-Wyoming) says unless Ms. Cunningham answers clearly, concisely and forthrightly the mystery surrounding her departure from LCC, she will not be confirmed.