



## CAPITOL REPORT

April 17, 2006

**T**he Michigan Legislature comes back into session Tuesday, April 18 after a two week Spring break. Completion of the 2006-07 state budget will be its top priority. Meantime, rhetoric intensifies on repealing the state's **Single Business Tax** (SBT). After Gov. Granholm vetoed a GOP-passed bill (HB 5743) which would have ended the tax as of December 31, 2007 (instead of its presently-scheduled demise on December 31, 2009), Oakland County Executive L. Brooks Patterson announced a petition drive to compel the Legislature to kill the tax in '07 or place the issue before the voters this November. Now that Patterson's supporters have engaged a professional firm to gather the 254,206 signatures he needs, it seems likely his initiative will go forward.

What seems certain is that the SBT will be dead or thoroughly revised by not later than 2009, and probably much sooner. That means a major fight will soon be underway to find replacement revenue. Look for this to be a **battle royal!** Gov. Granholm says she wants the replacement to be revenue neutral and to not fall on individuals, but a number of GOP lawmakers see a net tax cut to business as the only way to revive Michigan's economy. While there is a lot of talk about a sales tax on services, it can be expected that a broad array of service providers, from hairdressers to surveyors, will fight such a proposal tooth and nail. The \$1.9 billion a year tax should be replaced by a tax on corporate gross revenues or profits, say some experts, and that prospect is also expected to ignite a political firestorm. Still another view is that if the tax were revised back to something akin to its original 1977 content, it wouldn't be a bad result.

Meanwhile, Gov. Granholm has selected **Robert Kleine**, a former Treasury official under Republican Gov. William Milliken, to be the new state treasurer. The Senate must confirm the Kleine appointment, but that isn't expected to be a problem. Interestingly, late last year Kleine was quoted as saying that fixing the SBT wouldn't make much of a difference in the state's economy. He stated that the original SBT had been eroded by numerous adjustments over time

but added that he didn't support killing the SBT because "I'm not sure you could come up with anything better." Following his appointment, Kleine, an architect of the original SBT, observed that the tax "is a shadow of its former self and it should be simplified or replaced. It has become a distortion. There's a consensus in the business community that it's a bad tax and we have to get past that."

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Students at Michigan's 15 **public universities** are graduating at a rate higher than the national rate, even if it takes them six years to complete their bachelor's degree, according to the House Fiscal Agency. Students at the University of Michigan had the highest graduation rate, with 67.2 percent after four years of studies, 84.3 percent for five years and 86.6 percent for six years. Michigan State University came in 2nd with 35.6 percent of students graduating within four years, 65.9 percent within five years and 71.3 percent within six. The top three was rounded out by Michigan Technological University with 27.8 percent after four years, 56.4 percent after five and 62.5 percent after six.

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Gov. Granholm has vetoed five bills that would prohibit the Department of Human Services (DHS) and the Department of Community Health (DCH) from waiving certain requirements for home care and **adult foster care** businesses that collectively bargain with employees. The veto has been widely criticized by groups who say state bureaucrats are trying to give an unfair advantage to unions seeking to organize care workers.

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The Department of Environmental Quality (DEQ), three months late, has submitted a report to the Legislature on the effects of **beach grooming** activities on Michigan's ecology. The report has many shoreline property owners steaming because the report appeared skewed toward a pre-determined outcome, and left them little time to respond. The DEQ now proposes to cut the width of weeds a landowner may remove from his/her beach from 100 feet down to a 6 foot wide path to the shoreline.

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The Senate has passed a **Higher Education** budget that is \$5 million more than the Governor's recommendation and includes a 4.2 percent increase for the state's three largest research universities. The state's other 12 universities will see at least a 1.8 percent increase over last year's budget. **Community colleges** are slated for increases ranging from 1.7% to 2.5%.

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The Senate also passed an \$11 billion dollar Community Health budget, an increase of 8.3% over the current year, \$2.9 billion in general fund monies. Included within that amount is a 5% increase in the rate **Medicaid health plans** are paid. This increase is an attempt to pay these health plans at a sound actuarial rate as required by the federal government. The budget also includes a requirement that the state seek a federal waiver that allows the state to establish co-payments and premiums for **Medicaid** recipients.

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**Professional employer** organizations, the businesses that provide personnel services to small and medium sized companies, have told a House committee they are being harassed and are facing unfair penalties by the state as it attempts to clamp down on what officials estimate is some \$40 million a year in lost revenue to the state unemployment system. The organizations, in testimony to the House Employment Relations, Training and Safety Committee, disputed the estimates of lost unemployment revenues from what is known as SUTA dumping and urged the Department of Labor and Economic Growth to more closely follow the law and changes enacted last year.

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Legislative Republicans and the Governor are negotiating the details of her proposal to add \$400 million in **local road projects** for this and next summer, creating 7,000 more jobs and bolstering needed repairs. Under the Governor's plan, state money would be used to help locals immediately draw already-approved federal road construction funds that otherwise would be put off for a few years. Speaker Craig DeRoche wants Granholm to consider a broad plan that could include some road expansion projects the administration has put on hold.

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Lawmakers and the governor are trying to figure out if the state's new minimum wage law extends overtime pay requirements to workers who had been exempt as long as the wage equaled federal standards. Michigan's **minimum wage** will increase to \$6.95 per hour on October 1, departing from the federal minimum wage of \$5.15. Twelve classes of workers are exempt from overtime provisions – requiring pay at time and a half for work more than 40 hours per week – when the state minimum wage is at or below the federal level.

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New **curriculum standards** are on the horizon for Michigan high school students. Senate Bill 1124, sponsored by Rep. Wayne Kuipers (R-Holland), and House Bill 5606, sponsored by Rep. Brian Palmer (R-Romeo), have been signed into law by Gov. Granholm. The measures require students, before graduation, to complete four credits in English; at least 3 ½ credits in math, including algebra, algebra II, geometry and an additional course; three credits in science and in social studies; the equivalent of two foreign language credits; one credit in health and physical education; and one credit in visual, performing or applied arts. The standards take effect in the fall of 2007.

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Many of our clients are asking us: How goes the 2006 **Governor's race**, especially on the heels of several polls showing the race between Gov. Granholm and GOP challenger Dick DeVos at or near a statistical dead heat? We have varying views among our eight in-house governmental relations specialists, but in general terms our "take" is:

DeVos got a substantial boost in the polls by spending \$2 million in an early television blitz. Building up his early name recognition state-wide was essential to his cause. Whether that boost in the polls can be maintained once the Governor cranks up her campaign is another question. DeVos also has yet to spell out specifics of his own platform. Once he does, he will be put on the defensive no matter what he advocates. He also will have to find a way to overcome negatives relating to his personal wealth and his company's China presence. The Governor, on the other hand, will need to fight the growing perception that Michigan is in a "one-state recession" and needs a jolt of assertive leadership. One of her biggest assets will be that she's still personally popular in spite of the increasing restiveness of Michigan voters. She will link George Bush to Dick DeVos and, if she's successful, could put in doubt continued Republican control of the State legislature. A big question mark is voter turnout in Detroit. A low vote there in 1990 gave Republicans the governorship and some observers think 2006 could see a repeat. On the other hand, early polling showed DeVos doing poorer than expected in his own Republican West Michigan back yard. In summary, it could be a very close race...or not.

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**Notes:** A senate task force is studying whether the state should increase its bond cap for **colleges and universities** from the present \$2.7 billion to a new level of \$4 billion. The task force will also consider allowing the schools to spend more than \$1 million without legislative approval .... The President's Council, the association representing the state's 15 public universities, is backing away from supporting the **K-16 coalition** which seeks to guarantee inflationary increases for education. The coalition has enough signatures to put its issue on the ballot but faces a host of opponents including health care providers and local governments .... House Republicans are touting a 2% increase in revenue sharing for **local units of government** .... Legislation is being prepared to allow **out-of-state prisoners** to be housed at GEO Corporation's Baldwin correctional facility .... The state **school aid** bill will soon receive major scrutiny in the House, following Senate approval before the Easter break. The bill would boost the per pupil formulation by \$225 to \$7100 and provide an "equity" payment of up to an

