

KAROUB ASSOCIATES NEWSLETTER
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GRANHOLM BALANCES BUDGET ON HOPE

Gov. Jennifer Granholm presented her budget recommendations for FY 2011 ó a budget that totals \$47.1 billion overall (a 4.1% increase over the current year) but a General Fund budget of \$7.87 billion that is 3.2 percent below the current year.

She proposes filling the \$1.7 billion budget hole by cutting \$566 million from the General Fund, raising \$550 million through a sales tax expansion on certain services and using more than \$700 million in hoped for one-time federal money.

Departments taking the biggest hits in the General Fund budget are: Secretary of State (21%); Labor and Economic Growth (17.1%); and Community Health (12.5%). The Corrections budget would be reduced 1.5%. Granholm has threatened to veto any education budget that comes her way with reductions from the current year. She has proposed holding the School Aid and Community College budgets at the current year levels and boosting Higher Education 2.4% and the Department of Education by 3%.

A proposed tax shift that would cut the sales tax rate from the current six percent to 5.5 percent and expand the base to all services except business-to-business transactions, medicine, education, real estate, construction, remodeling, social assistance, industrial processing and some non profits. In exchange, Granholm wants to eliminate the Michigan Business Tax (MBT) surcharge over two years beginning in 2011 and reduce the gross receipts tax from 0.8 to 0.6 percent over a three-year span.

The proceeds in FY 2011 would go to the School Aid Fund to prevent any cuts to K-12 education.

According to Treasurer Bob Klein, a person making \$50,000 a year would pay an extra \$140 a year but quickly pointed out the income tax will be rolled back starting in 2012 and that a tenth of a percent would wipe out the increase.

As for the three percent Quality Assurance Assessment Program fee that Granholm wants to extend to physicians, if the Legislature kills her second attempt, Budget Director Bob Emerson says the alternative in the FY 2011 budget is another 11 percent cut to Medicaid providers.

The much debated Michigan Promise scholarship program that was eliminated in the current year budget would be restored under the Granholm budget proposal through an income tax credit. Specifically, students graduating from college could receive the \$4,000 credit if she or he works and lives in Michigan for a year, obtain their degree from a Michigan school and claim themselves as an a dependent on their own tax return. The credit would be refundable.

In the area of Corrections, Granholm is calling on the Legislature to retroactively give prisoners time off of their sentence for "good time" by June 1 a move that would save \$129 million in FY 2010 and allow for the closing of four to five prisons by October.

That means some 7,500 prisoners would be out on the streets within four to six months of enactment of the policy change.

Governor Granholm wants lawmakers to pass a FY 2011 budget that contains no cuts in education, is not based on fuzzy numbers and is not a partial-year continuation budget and have it on her desk by July 1. She is supporting a constitutional amendment that would require a July 1 completion date and dock lawmakers' pay for every day after that date the budget wasn't passed.

On another budget related item, the Senate Finance Committee Thursday approved a \$9.5 million boost in the state's Pure Michigan advertising budget through unallocated Use Tax revenue for the current year. This brings the total for Pure Michigan funding to about \$15 million.

Granholm is endorsing a \$2.50-a-day car rental fee for vehicles rented at hotels, airports, train stations and convention centers to fund the Pure Michigan ad campaign at an additional \$13 million.

Senate Appropriations Chair Ron Jelinek (R-Three Oaks) is not happy with the Governor's veto threat, saying "It's a little early for her to say her plan is the only one." He also is less than enamored with the reduction in the sales tax rate saying it doesn't go low enough.

And from House Speaker Andy Dillon's (D-Redford Twp.) office, the drumbeat was on passing reforms, not on raising taxes saying "Tax increases should be a last resort, not a first option."

GRANHOLM CALLS FOR REFORMS

Gov. Jennifer Granholm in her State of the State address put forth a list of government reform proposals that would reduce the size of the state work force, lower the number of teachers and cut government spending.

The retirement plan encourages state employees with 30 years or more of service to retire by forcing them to pay 3 percent of their salary toward retirement and eliminate their retirement vision and dental care if they don't.

The proposal also would make newly hired state employees pay more for their health care than current employees; eliminate lifetime health care coverage for state lawmakers; shift to a two-year budget cycle; audit state contracts; implement pay-as-you-go budgeting; allow local government, school, university and other public employees the option of participating in the state's health care plan; and continue changing prison policies.

Granholm also called for competitive bidding of contracts and additional shared services among local governments and schools; end immunity for prescription drug companies to enable recovery of Medicaid dollars; streamline elections by allowing absentee voting for any reason; financial disclosures from all state elected officials and candidates; tightening ethics standards for elected and appointed officials; and better regulation of corporate special-interest campaign spending.

ILITCH GETS OUT, BOWMAN ALMOST IN

Saying she didn't have enough time to prepare a strong campaign, Detroit businesswoman Denise Ilitch said Wednesday she would not seek the Democratic nomination for governor.

Meanwhile, Bob Bowman, CEO of the Internet arm of Major League Baseball, and former State Treasurer in the James Blanchard administration, filed paperwork on Wednesday setting up an exploratory committee that allows him to raise and expend funds for a gubernatorial bid.

House Speaker Andy Dillon (D-Redford Twp.) has formed an exploratory committee and is expected to make an announcement soon. Former Genesee County Treasurer Dan Kildee is still thinking about it.

Lansing Mayor Virg Bernero and Rep. Alma Wheeler Smith (D-Salem Twp.) are the only two formally announced Democratic candidates.