

February 22, 2007

REPUBLICANS ANNOUNCE BUDGET PROPOSAL

Senate Majority Leader Mike Bishop (R-Rochester) has completed work on a list of proposed budget cuts for the 2006-07 budget and has requested a meeting with Governor Jennifer Granholm to outline the proposals, a spokesperson said Tuesday. There was no comment on the details of the cuts, except that they would be enough to "fill the hole." There was also no comment on whether the proposals would include cutting education. A report on Michigan Public Radio had it that education was a top priority but not necessarily spared. Senator Bishop has consistently said that education could not be taken off the table for budget cuts, even though Ms. Granholm has said her priority is to not cut schools in the middle of the school year.

Sources indicated however that the Senate GOP plan will accept Ms. Granholm's projection on savings due to restatements on the value of the state's employee pension plan and the school employee pension plan. That would save an estimated \$285 million, about \$185 million in the School Aid Fund alone.

With the announcements of layoffs in the Department of State Police and the closure of a Jackson prison, there is some additional focus on public safety in the proposal, sources said. However, the sources would not rule out prison closures as part of the Senate GOP plan.

The announcement that Senator Bishop has proposed cuts comes less than a week after the Senate Appropriations Committee rejected Ms. Granholm's proposed executive order to help balance the budget (the Democratically-controlled House Appropriations Committee later approved the order). An executive order must receive affirmative majority support in both the House and Senate Appropriations Committees in order to be effective. At that time, Senator Bishop said Ms. Granholm's order relied too heavily on her proposal to enact a 2 percent sales, or excise, tax on services. Senate Republicans wanted to balance the budget with just cuts.

Senator Bishop is expected to lay out the plan to his caucus this week.

BUDGET COMMENTS

State Budget Director. Speaking to reporters recently State Budget Director Bob Emerson made these comments. Besides a potential tax increase, the other hot topic of discussion during the budget discussions has been restructuring of government, which includes consolidation of local governments and services and potentially changing such systems as teacher health care insurance. Mr. Emerson said there's value to many of the proposals, but any savings they would generate would be long-term in nature and not help the state's immediate problems. Some of the ideas are also not new, he said. Discussions on consolidating local governments and local government services have gone on since at least the administration of former Governor William Milliken, Mr. Emerson said. And in terms of changing teacher retirement and health care insurance systems, Mr. Emerson said local districts already have a great deal of flexibility in terms of pooling plans to save money. Some of the proposals to save funds are unproven at this point, he said. But restructuring government and government services are clearly on the priorities for the 2007-08 budget and beyond, Mr. Emerson said. One time fixes will be used for the current budget, but the administration is going to use a carrot and stick approach to get local governments to begin consolidating operations to save money, he said.

Schools. Nearly 50 percent of all state public school districts and public school academies finished the last fiscal year with at least \$1 million. Twenty-two schools sported a balance that is actually more than their annual operating budget. According to numbers compiled by the Center for Educational Performance and Information (CEPI), 403 of the state's 827 school districts and individual charter schools (48.7 percent) finished Fiscal Year (FY) 2006 with at least \$1 million in their respective General Funds. In nearly every case, the \$1 million-plus balance represented a double-digit percentage of the schools' operating budget. The numbers come as the Governor and the Legislature haggle over how the state will make up a nearly \$1 billion hole in its current FY 2007 budget. Governor Jennifer Granholm presented a plan that didn't cut school funding and has stayed firm in her desire to keep those cuts off the table. Senate Republicans have said it would prefer to "mitigate" any education cuts. The CEPI numbers show that 22 school districts and charter schools finished '06 in debt and 9 percent finished with fund balances of 2 percent of their operating budget or less. Sixteen percent (135) finished with fund balances of 5 percent or less.

Advisory Panel. Facing a sometimes combative House committee, two members of Governor Jennifer Granholm's Emergency Financial Advisory Panel said Wednesday budget cuts alone cannot solve Michigan's budget problems either in the short term or the foreseeable period ahead. Kalamazoo County Administrator Don Gilmer and Doug Roberts, both of whom served as budget director in the Engler Administration, also told the House Tax Policy Committee it is imperative that both political parties work as quickly as possible to put together a solution to end uncertainty in the tax structure that is stunting the state's recovery. But some committee members said individuals and businesses who are already hit hard by the faltering economy should not be called upon to pay more to government when more can be done to pare back those costs. Both Mr. Gilmer and Mr. Roberts emphasized the advisory panel, which did not propose specific taxes nor specific cuts in government (it urged cuts in areas such as public employee health care, retirement and arbitration), concluded a mix of structural reforms and more revenue is needed to cure the state's chronic budget problems in an economy that is fundamentally changed. Mr. Roberts also sought to balance the cost to taxpayers against the positives gained by protecting education and other key services, and compared the average impact on families to the savings they enjoy from tax cuts provided since 1994. He said the savings in 2006 alone amounted to \$8.6 billion, most of that from lower property taxes, equating to roughly \$860 for every individual in the state. Representative Kimberly Meltzer (R-Clinton Township) wasn't swayed by the arguments for more tax revenue. She said looking at more taxes before reforming government is putting the cart before the horse.

REGIONAL ECONOMIC DEVELOPMENT

The current system of cities and townships running their own economic development programs is too fractured to be effective, said the Citizens Research Council (CRC) in a report issued Tuesday. The group said the state should be drawing regional economic development boundaries and providing support for cooperation among the local units within those boundaries.

The February report states that regional economic development is the basis for economic development. According to the report, states should lump counties into separate regions so they can help each other market their resources, history, culture, business and infrastructure. Essentially the regions would pool various county and state resources to make the region more attractive. As a result, counties would collectively spend less money on this kind of development than they would have without regional collaboration.

The CRC recommended the state change its economic development role some, drawing appropriate boundaries for regional efforts and then providing those efforts with the data and best practices recommendation to aid their development.

The report urges looking to North Carolina as a model for a regional approach. The state has divided into seven regional partnerships, with each county assigned to a region.