

February 16, 2007

EXECUTIVE ORDER REJECTED

Governor Jennifer Granholm's Executive Order to help put the 2006-07 budget back in order has been sent back to the drawing board as the Senate Appropriations Committee voted 10-7 on a straight party line vote to reject the proposal. Shortly after the Senate committee acted, the House Appropriations Committee voted to accept the proposal with all dissention and abstention votes coming from Republicans.

Senate Republicans rejected the proposal because it relied too heavily on new taxes instead of spending cuts. In a press conference Senate Majority Leader Mike Bishop (R-Rochester) and Appropriations Committee Chair Senator Ron Jelinek (R-Three Oaks) said that fixing the budget hole should not be accomplished by raising taxes, at least for the current year. Senator Bishop said that while nothing, including tax increases, is off the table his caucus believes that "taxes are not the solution. We believe we can go with budget cuts alone to solve the state's current budget problemsö. Representative Dan Acciavatti (R-Chesterfield), the top Republican on the House panel, said the administration had not been prudent in providing fundamental structural changes to state government and that a vote in support of the order was a vote for the status quo of one-time gimmicks.

Senate Republicans pledged to approach the Governor "in the near future" with an alternate plan to fill the state's nearly \$1 billion budget hole. Senator Bishop didn't give a time line on when negotiations with the Administration may start, but did express optimism that an agreeable compromise could be reached before March 31, the start of the lawmakers' two-week session break.

By law, the budget-cutting EO goes into effect unless either the Senate or House Appropriations Committees vote to disapprove it. After an EO is killed, state law reads that the Governor "may give reasonable written notice of the time and place of a further joint meeting of the Appropriations Committees, at which time the Governor shall submit another Order." But as far as the Governor and Budget Director Bob Emerson are concerned, they've made their proposal. If the Senate Republican majority doesn't like it, they need to come back with their own plan.

The state anticipates that a total general fund and School Aid Fund deficit in the current fiscal year (October 1, 2006-September 30, 2007) will be in excess of \$900 million, but the executive order calls for spending cuts of about \$200 million. The bulk of correcting the remainder of the budget would come in a proposed 2 percent sales tax - that the administration labels an excise tax - on services. Governor Granholm called for that tax to be approved by April 1 so collections could begin on June 1. Obviously, neither the Governor's proposed two-cent sales tax on

services nor any other "revenue enhancers" (i.e. tax or fee increases) are in EO 2007-01. For Republicans, the rejection was a symbolic gesture against the Governor's direction of erasing the state's red ink with tax hikes. The Senate Fiscal Agency (SFA) is reporting that it found only \$43 million in hard cuts to the Governor's nearly \$1 billion budget solution (only 4 percent). Close to 55 percent is based on tax increases (\$525.4 million). Another 29 percent (\$277.8 million) is based on an accounting change to how the state would pay public employee retirement contributions. Seven percent (\$69.4 million) is delaying universities' final state payment to FY 2008. The last 4.2 percent (\$40.2 million) are other shifts and adjustments, the SFA reported.

The rejection of the executive order opens the possibilities that cuts would be forced to school funding, something that Governor Granholm said in her State of the State address last week she was opposed to doing. Senator Bishop and Senator Jelinek acknowledged to reporters that cutting school funding was a greater possibility, though they refused to say it was inevitable.