

July 2, 2009

BUDGET

In a normal year, the Legislature concludes a substantial part of its work on the budget before Independence Day. With a \$1.7 billion deficit, 2009 is anything but a normal year.

As of today, all budgets except for State Police are in a House-Senate Conference Committee as the state struggles to determine its true financial picture. The House and Senate are about \$585 million apart in proposed General Fund spending. This does not include the Department of Human Services— one of the largest budgets— where the House zeroed out the Department's appropriation in a procedural move to get the bill into Conference Committee.

The \$585 million gap also does not include any differences on the Department of State Police budget as the House has not yet acted on the Senate-passed measure.

Many of the budgets were passed by either the House or Senate earlier in the year prior to the May Revenue Estimating Conference, where revenue estimates were significantly downgraded. The ongoing unprecedented economic woes, especially in the struggling auto sector, have made predicting revenue very difficult.

The Legislature is on a two-week recess, during which legislative leaders are expected to meet and agree on targets for each budget. Between April 2008 and April 2009, Michigan's income tax revenue fell by 34.4 percent. There are strong indications that revenue continues to tumble. On July 10 revenue figures will be updated and with that updated revenue picture, policymakers will proceed to try and finalize budgets by September 1. In all likelihood, we will still be addressing budgets in late September for a fiscal year that begins October 1.

MICHIGAN STATE POLICE

The Michigan State Police (MSP) budget has proven divisive and difficult on several fronts. First, having spent almost \$8 million to train 83 new troopers, the Governor presented an Executive Order calling for layoffs of the newly trained troopers. Efforts by some to avoid these layoffs, which took effect June 30, have failed. While a possible reprieve could come in July with federal funds, these newly trained troopers are receiving job offers from other states. With the layoffs, Michigan's trooper ranks will be the lowest in 35 years. Mandatory and eligible retirements will further exacerbate this problem going forward.

Secondly, an amendment was added to the Senate-passed MSP budget to prohibit expenditure of funds for the new Michigan State Police Headquarters. The highly specialized building, first proposed by Governor Engler, downsized by Governor Granholm, and approved by a bi-partisan, bi-cameral legislative body, is nearly complete.

The effort to prohibit honoring the lease has caused an uproar from business, banking and political leaders for the message it sends anyone entering into agreement with the state. While the Senate added the amendment, it is widely expected to be removed at some point. The House decided not to send the bill to a conference committee while it seeks resolution to the issue.

UNEMPLOYMENT INSURANCE

House-passed legislation to secure additional stimulus funds has encountered strong opposition in the Senate. The bills would provide unemployment benefits to individuals who are available for and seeking only part-time work, and provide extended benefits to individuals who exhaust regular benefits and are enrolled in an approved job training program. Enactment of these provisions would enable the state to receive \$138.9 million in additional federal funding made available under the federal American Reinvestment and Recovery Act of 2009.

The Michigan Chamber of Commerce and other business groups have strongly opposed the measure due to the long-term economic impact on business cost.

Senate Majority Leader Mike Bishop expressed his opposition to the measure. The Senate Republicans also introduced Senate Resolution 60 calling on Congress to end the newly enacted requirement that would allocate more money to the state for unemployment benefits only if it expands benefits to persons getting worker training and unemployed part-time workers.

COBO EXPANSION

Another attempt to transfer Detroit's Cobo Center to a regional authority has passed the Legislature. The Legislation is an effort to expand and modernize Cobo, by extending regional taxes, with the goal of preserving the North American International Auto Show.

Legislation passed last year gave the City Council the ability to veto the deal. They did. While Mayor Cockrel vetoed the Council's veto of the plan, the courts ruled he did not have that power. With the veto, new Legislation was the only way to revise the Authority.

Key differences are that Cobo would be handed over to a five-member regional convention authority under a 30-year lease, rather than a sale, and contract and hiring preferences would be for workers and businesses throughout the three-county region, not just Detroit, a provision to be guided by the "best efforts" of an eight-member citizens advisory council.

The new version explicitly gives the mayor veto power over any action by the city council.

If Detroit fails to approve the lease, Oakland County would receive the extended tax revenues to facilitate expansion or construction of convention space to accommodate the auto show.

LAND DROPS OUT

Secretary of State Terri Lynn Land dropped out of the race for Governor and threw her support behind Oakland County Sheriff Michael Bouchard. Speculation quickly began that West Michigan-based Land and Oakland County-based Bouchard cut a deal regarding the Lt. Governor position. Both Land and Bouchard strongly denied any discussions of that nature.

Most pundits believe the Land decision helps Congressman Pete Hoekstra as Land would draw from his West Michigan base, and a stronger Bouchard hurts perceived front runner Attorney General Mike Cox.

Lt. Governor John Cherry remains the likely Democratic nominee.