



Friday, June 19, 2009

MANAGEMENT

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**Centerpiece**

As the state Senate this week worked on passing budgets that trim over \$1 billion in spending for FY '10, *GCSIntel* sat down with Senate Fiscal Agency Director Gary Olson to talk about the state's budget process, timelines and the state's revenue picture.

**Q. What's your estimate on a timeline for getting the Fiscal Year 2010 budget resolved?**

A. The goal of the leadership of the legislature and the governor is after the July recess, July 12, to come back and have targets established and get the appropriations bills out of conference committee and get them going.

The goal was to get the bills into conference by June 25. Obviously we haven't established final targets, so that will have to take place, and hopefully that will be done when they get back from the two-week break.

**Q. Is this the first time they've done the budget this way (proceeding without setting targets first following the Revenue Estimating Conference)?**

A. Yes. I mean there was a delay before. We had a delay in 2007, but it was a different kind of delay. That was a delay waiting on tax increase agreements. This was a delay in waiting on revenue estimates. It's different than in 2007 because there was this huge debate between the House and the Senate and the Governor over a general tax increase.

The goal is to get things done in July. Is it possible? Sure it's possible. Will it happen? I don't know.

**Q. Have the state's revenues stabilized?**

A. May revenues came in about \$60 million below what our revised estimate was after the consensus. That was one month. I would have rather seen it the other way. There's no point at this time to jump off of a cliff. If we see two or three months of revenues falling below revised estimates, then I think it's probably imperative for the three of us to have a discussion if we're going to revise our estimates.

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You can't get overly cautious on one month's revenues. There are some indications to me that the U.S. economy has hit bottom. We need some stabilization in the auto industry and with Chrysler out of bankruptcy, that's positive. Hopefully, General Motors will have a good bankruptcy, not a bad bankruptcy.

**Q. Are you more confident now than you were at the Revenue Estimating Conference about the bankruptcy . . .**

A. Yeah. I feel better that Chrysler got out of bankruptcy pretty quick. General Motors is a much more complicated, bigger company.

Hopefully a new GM will emerge that will be viable and they'll be able to pay back the billions of dollars. For us in the short-term, bankruptcy, good or bad, is very preferable to liquidation of the company.

SFA had the lowest estimate at that conference a month ago. I would have preferred to go lower, but I'm only one of three.

**Q. Are these auto companies doing enough restructuring?**

A. I have to believe these companies are shutting down enough so that they have reasonable estimates of what their demands will be -- that they'll be building that level of cars. My understanding is that they've greatly revised downward their projections of sales. As we understand it, they're in the range of what we estimated which is very constrained.

I think the key for all of them is to get sales back above 9.5 million units [per year]. I don't think they'll jump back to 16.5 [million units] anytime quick, but I think eventually they will. Getting some confidence back among consumers is critical. That's what the stimulus was designed to do; whether it's working or not, you could debate.

But, there needs to be a general up-tick in consumer confidence before the national economy can move forward. But in Michigan we're cutting budgets very substantially. There is a lot of negative news, but at the end of the day we're going to hit bottom.

**Q. For school districts financially -- is this year the bottom or does that come next year with the drop in property tax values?**

A. We make that up effectively. The drop in property tax for schools is an issue that the state deals with in this budget. The intent in this school aid fund is to sort of use the amount of federal stimulus money we have, spread it out over two years, so that the 2011 budget won't have even bigger cuts on top of it.

That's really what we're trying to do with the general fund budget with the Senate GOP targets -- is to spread it [the federal stimulus money] over the next two years. We could have just spent all this money in '09-'10 and left a big hole in 2011 and nobody wanted to do that.

Could you do it differently? Sure you could have left a big hole in 2011 and hope what -- we get more stimulus money?

As an advisor to the Senate I think that's the absolute prudent thing to do, is to spread it out over two years.

## ***GCSEye On The Capitol***

### ***GOP Considers And Backs Off Early Convention Idea***

Michigan Republican Party Chair Ron Weiser on Thursday pulled the plug on a nascent plan for the Republican Party to hold an earlier nominating convention for the offices of Secretary of State and Attorney General.

The concept was that for the GOP's selected candidates an earlier convention would allow fundraising time for what is expected to be a very crowded 2010 general election slate of candidates.

Weiser pulled the proposal, which was slated to go before the state central committee on Saturday after Secretary of State Terri Lynn Land sent a request for a ruling from Attorney General Mike Cox whether state law would allow such a move.

### ***Senate Passes Significant Budget Cuts***

The Michigan Senate this week went about passing its idea of what a much smaller Michigan state budget would look like by moving bills aimed at trimming \$1.2 billion.

Included among the budget cuts was a \$410 million slice from the state's K-12 annual budget. According to Senate Fiscal Agency personnel, schools will see a reduction in per pupil aid of \$110 beginning in the next fiscal year.

### ***Unemployment Pops Up To 14.1%***

The shuttering of General Motors and Chrysler plants as well as the general economic malaise pushed the state's unemployment figure for May up to 14.1 percent.

"Major events continued to unfold in Michigan's auto industry in May, which had a considerable impact on the state's unemployment rate," said Rick Waclawek, director of DELEG's Bureau of Labor Market Information & Strategic Initiatives. "Curtailed production negatively influenced suppliers and other related sectors, resulting in further weakening in the labor market."

That weakening auto sector means that total employment fell in Michigan during May 54,000 jobs while unemployment rose by 55,000.

At 14.1 percent, May's unemployment rate is the highest since July 1983 and marks the largest monthly advance in unemployment since January's jump of 1.4 percent.

#### **Michigan Factoid:**

Isle Royal Park shelters one of the largest moose herds remaining in the United States.

-- Michigan Fast Facts & Trivia

### **The Week Ahead**

Both the House and Senate are expected to continue working on budgets as leaders hope to get the bills into conference committee before the legislature's annual two-week Fourth of July break.

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