



## News From The Firm

Fraser Consulting would like to wish all of you a very Happy New Year! We are excited to begin another legislative year and to continue serving your needs!

This past year our office has relocated to the 8<sup>th</sup> floor of the Boji Building. We remodeled and updated our conference room and completely integrated our firm within that of the law firm, Fraser Trebilcock Davis & Dunlap, P.C. We are thrilled with our new surroundings and encourage all our clients to stop by and check out our new space.

As you may know, Lew Dodak is a former Democratic Speaker, and with the new Democrat controlled House, we should have greater influence in obtaining and maintaining relationships with key legislators. We will all continue building our relationships with key leaders, both legislative and otherwise, to meet our client's needs.

One major issue that will need resolving this legislative session will be fixing an \$800 million deficit in the current budget. The legislature will likely look at revenue enhancement, cuts, a possible increase in user fees and may even look toward gaming issues to fill the budget gap. We will keep all our clients apprised of the status of any legislation that could harm your industry.

Another area of our business we are looking to expand is our ability to serve client's association needs through management. This area will be managed by Mandy Tomich, who has several years experience in this area.

We wish you all the very best for the remainder of the year. We have listed our direct numbers so that you can easily contact us if and when needed. Thank you for allowing us to continue serving you!

### Fraser Consulting's address:

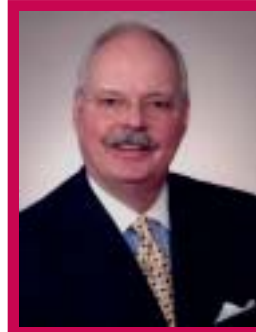
124 W. Allegan, Suite 800  
Lansing, MI 48933

Main Line: (517) 377-0876



**Lew Dodak**

Direct Line: (517) 377-0843  
ldodak@fraserlawfirm.com



**Mike Kelly**

Direct Line: (517) 377-0820  
mkelly@fraserlawfirm.com



**Rick Johnson**

Direct Line: (517) 377-0827  
rjohnson@fraserlawfirm.com

**Mandy Tomich**

Direct Line: (517) 377-0808  
atomich@fraserlawfirm.com

**Brooke Bearup**

Direct Line: (517) 377-0818  
bbearup@fraserlawfirm.com

## Work Begins On Budget Problem

The Granholm administration and lawmakers are turning their attention to finding a solution to the State's serious budget problem. The solution will likely include a combination of budget cuts and revenue enhancements, which may mean tax increases.

The Consensus Revenue Estimating Conference found the current year budget reflecting a nearly \$800 million deficit; \$442 million in the General Fund and \$377 million in the School Aid Fund. Furthermore, if money generated by the Single Business Tax (SBT), which expires at the end of 2007, is not replaced, the budget deficit for the 2008 fiscal year will exceed \$900 million.

Lawmakers and the administration may be facing a potential \$1.7 billion budget deficit.

The budget deficit has grown because the 2006 fiscal year generated fewer revenues than anticipated, and revenues for the 2007 fiscal year budget are not meeting expectations. Currently, there is a projected shortfall for Fiscal Year 2008 if the SBT is not replaced.

Earlier this month by Governor Jennifer Granholm appointed a 12 member Emergency Financial Panel to meet and make recommendations on how to resolve the budget problem.

The panel, co-chaired by former Governors, James Blanchard and William Milliken, has until the end of January to report back to Governor Granholm.

Others on the panel are:

— Dr. John Porter, former President of Eastern Michigan University and former State Superintendent of Public Instruction

— Paul Hillegonds, Senior Vice President of DTE Energy and former Co-Speaker of the State House of Representatives

— Dan DeGrow, Superintendent of St. Clair County Regional Educational Service Agency and former Republican State Senate Majority Leader

— Sr. Monica Kostielney, President and CEO of the Michigan Catholic Conference

— Dr. Lou Anna K. Simon, President of Michigan State University

— Frank Kelley, former Michigan Attorney General

— S. Martin Taylor, University of Michigan regent

— John "Joe" Schwarz, M.D., former U.S. Congressman and former Chair of the Senate Appropriations Committee

— Don Gilmer, Kalamazoo County Administrator and former State Budget Director

— Doug Roberts, former State Treasurer

While the panel is bi-partisan, generally the members appear to be sympathetic to tax increases.

Lt. Governor John Cherry stated on record that a tax hike, "is one of the options that people put before us (and) obviously we need to talk about it." House Speaker Andy Dillon (D-Redford) said all options are, "on the table." Senate Majority Leader Mike Bishop (R-Rochester) has not totally closed the door on tax increases, but commented, "Government is growing beyond anyone's expectations."

---

## Granholm Enters Into Insurance Compact

Michigan is now part of the Interstate Insurance Product Regulation Compact Commission. Governor Jennifer Granholm signed legislation allowing the State to join the commission, which is designed to help states develop national insurance product standards and help protect consumer life insurance, annuities, disability income and long-term care insurance products. There are 28 other states in the compact.

---

## Taylor Re-Elected Chief Judge

Chief Justice Clifford Taylor was re-elected, by a 4-3 vote, as the Michigan Supreme Court's Chief Judge for a second two-year term. Former Governor John Engler appointed Judge Taylor to the court in 1997. He will be up for re-election in 2008.



## Flashback: Blanchard Created Similar Committee in 1983

Shortly after beginning his first term in 1983, former Governor, James Blanchard, appointed a citizens panel, the Michigan Financial Crisis Council, to come up with suggestions on how to erase a \$1 billion plus deficit in the State budget he inherited from the Milliken administration.

That panel made several recommendations; as a last resort, was a temporary increase in the State income tax. Within days, Governor Blanchard invoked the "last resort," proposing a 38- percent increase in the State income tax. The Democratic-controlled Legislature passed the measure, the Governor approved, and the tax increase took effect retroactively.

That action resulted in the recall of two Democratic Senators from Oakland County. After voters replaced them with Republican Senators, the Republicans took control of the Senate. John Engler became Senate Majority Leader and the rest is history. Engler later defeated Blanchard in his bid for a third-term as Governor in 1990; this began a decade-plus Republican domination in Lansing.

---

## Legislative Update

The first two bills for introduction in the Democrat-controlled House propose ending drug industry immunity and banning landfill expansions in an effort to curb Canadian trash imports.

Specifically, the bills would repeal a 1996 law giving drug companies immunity when their products harm or kill residents. The repeal would be retroactive to 1996.



The other legislation would ban landfills from expanding until 2010 as means of reducing out-of-state trash to the State.

The Democratic agenda further includes expanding educational opportunities and developing new policies to attract 21<sup>st</sup> Century jobs and investment.

In the Senate, the first bill to be introduced asks the federal government to allow the State to provide

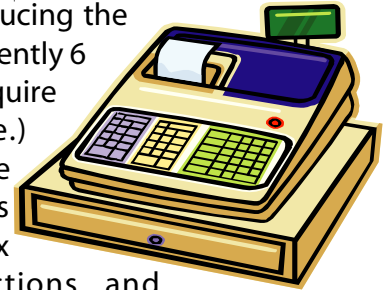
incentives to Medicaid recipients who take good care of themselves. The exact incentives would be provided if the waiver passes the Senate.

---

## What Are The Budget Solutions?

There are probably as many solutions floating around the Capitol, as there are legislators and special interest groups.

One prevalent idea is broadening the base of the sales tax by extending the tax to services, while at the same time reducing the rate of the tax, which is currently 6 percent. (Neither would require a vote of the people.) According to the Department of Treasury's Executive Budget Appendix on Tax Credits, Deductions and Exemptions for Fiscal Year 2007, the State could raise \$8.78 billion if it imposed the sales tax on the 100-some services that are currently untaxed. However, only about one quarter to one half of that amount appears to be politically realistic. A 6 percent business-to-business tax would be met with considerable resistance.



Former House Tax Policy Committee Chair Fulton Sheen (R-Plainwell) is still pushing the "Fair Tax", a consumption tax that would broaden the sales tax to both goods and services, and raise the rate in exchange for the elimination of most other taxes.



There is also talk of reviving efforts to establish racinos in Michigan by putting slot machines at racetracks and adding more games to the list of choices at the Michigan Lottery.

In terms of further budget cuts, there are suggestions to eliminate the statutory portion of the revenue sharing, capping Medicaid services, and reducing corrections costs by developing more efficient handling of prisoners.

Further suggestions include: a freeze on State employee pay and hiring, eliminating an optional home

## What Are The Budget Solutions? continued...

health care program not required by the federal government and privatizing the Temporary Assistance for Needy Families (TANF) eligibility process.

As for solving the structural budget problem, there is discussion of consolidating school districts, eliminating townships, and reducing the number of counties in the state.

Since the State is required to have a balanced budget, the balancing act will come down to political fortitude and in the end, which solutions have the votes necessary for passage.

---

## Michigan Economy: Weakest Since 2001

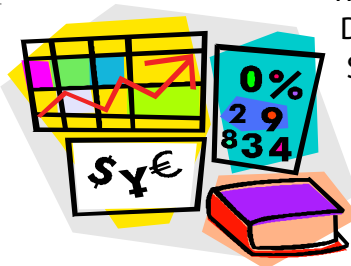
A recently released study by Comerica Bank says the State's economy is the weakest since 2001 and likely will not improve anytime soon.

Dana Johnson, Comerica Bank Chief Economist, said more auto-sector buyouts, declining homebuilding and sluggish national growth are likely to keep the State depressed in early 2007.

The report further indicated Michigan ranks 48<sup>th</sup> in the nation between 2004 and 2005 in the area of inflation adjusted Gross National Product (GNP) and 48<sup>th</sup> in the nation for inflation adjusted GNP between 1997 and 2004.

Meanwhile, in a presentation at the Consensus Revenue Estimating Conference, Dr. George Fulton, with Research Seminar on Quantitative Economics (RSQUE), said Michigan might not completely climb out of the economic slump until 2013. Gary Olsen, director of the Senate Fiscal

Agency (SFA), indicated his group is forecasting that the State will not return to 2000 job levels until 2020, an estimate that Fulton said probable.



## Emerson Named Budget Director



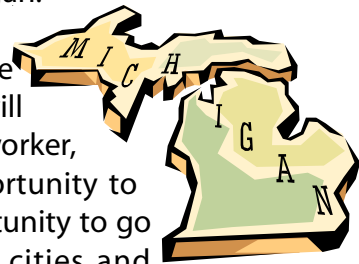
Governor Jennifer Granholm appointed former Senate Minority Leader Bob Emerson (D-Flint) as the new Budget Director; replacing Mary Lannoye, who is serving as Governor Granholm's Chief of Staff. Director Emerson served 18 years in the House of Representatives, and two terms in the Senate.

---

## Granholm: Looking Ahead

In her inaugural address, Governor Jennifer Granholm talked of transforming the State to celebrate what she called the Next Michigan.

According to the Governor, the Next Michigan will have a job for every displaced worker, will give all residents an opportunity to grow, give every kid the opportunity to go to college, will have electric cities and alternative energy and will also be compassionate.



Governor Granholm delivered her address after taking the oath of office on January 1<sup>st</sup> for the second and final time as the State's 47<sup>th</sup> Governor.

"Believe; come with me to the Next Michigan, where every displaced worker has the opportunity to open their own business or be retrained to a new future, where no worker is left behind," Governor Granholm said.

Michigan residents will get more details when Governor Granholm delivers her fifth State of the State address on February 6<sup>th</sup> and her 2008 fiscal year budget proposals on February 8<sup>th</sup>.

