



**Capitol Corner**  
**An ECIC Legislative Update**  
**September 21, 2007**

## **Budget Deal Stalls Again:**

### **The Income Tax Increase:**

Thursday looked like the day that the House would finally gather enough votes to increase the income tax and make significant movement towards solving the pending budget crisis. But another marathon session day produced only another strike out. The effort to increase the state income tax rate to help fill the budget deficit fell four votes short. With no budget agreement, the start of the new fiscal year just 10 days away, and the budget deficit is a whopping \$1.75 billion the threat of a partial state shutdown looms larger with each passing day.

With this last effort failing it looks like Sunday evening may be the best time to get something accomplished when both the House and Senate will be back in session. Sunday is key, because that is the first day that the Senate can act on the two “vehicle” bills that the House passed on Tuesday night to be used for the income tax increase and for the potential sales tax on select services.

The outlook seemed to improve Thursday afternoon when the Speaker and Governor told a packed press conference that they thought they had a bi-partisan agreement in the House to move the tax increase, reform legislation, and cuts to state departments to balance the budget. After thirteen hours, it was clear by 7 a.m. that the effort would fall four votes short. Fifty-one Democrats were voting “yes” along with one Republican, Chris Ward (R-Brighton). All the others were either “no” votes or not voting, when the board was finally cleared this morning.

Raising the state income tax from 3.9% to 4.6% would generate just under \$1.2 billion. The rate would be reduced to 4.2% in 2011. The legislation would have also directed \$90 million towards school districts receiving the lowest school foundation grants; this would have also included Detroit Public Schools. The Game and Fish Protection Fund would get \$45 million, thus eliminating the need to raise hunting and fishing license fees.

Democrats voting no: Rep. Terry Brown (Pigeon); Rep. Marc Corriveau (Northfield); Rep. Kate Elbi (Monroe), Rep. Marty Griffin (Jackson); Rep. Mike Simpson (Jackson); and, Rep. Mary Valentine (Muskegon).

Republicans not voting: Rep. Dick Ball (Owosso) and Rep Judy Emmons (Sheridan). Rep. Dave Agema (R-Grandville) is in Russia on a hunting trip.

### **The Reforms Legislation:**

The tax increase vote was tied to eleven pieces of governmental reform. Those reform pieces were tie-barred to HB 5195 the income tax increase legislation.

\* **SB 0546** a bill to require that the Public School Employees Retirement System to pay 90 percent rather than 100 percent of health care premiums for retired teachers who become eligible for retirement after June 30, 2008. The bill would also require that the retirees be at least 60 years of age before getting the benefit. Projected savings \$300 million once fully implemented.

\* **SB 0549** a bill to require a consolidated school calendar for all districts within intermediate school districts by July 1, 2008

\* **HB 4506** and 4507 a bill to require school board elections to be held in November

\* **HB 4542** a bill to create a nine-member commission appointed by the Legislature to collect all information necessary to evaluate the efficiency of each state agency

\* **HB 4580** a bill to eliminate lifetime benefits for lawmakers, expected savings \$4 million

\* **HB 4799** and **HB 4800** legislation to amend the State Employees Retirement Act to freeze pension benefits for state employees and public school employees who become re-employed by the state

\* **HB 4827** a bill to require the eliminate the automatic assignment of state cars to state department directors

\* **HB 4975** and **HB 4976** legislation to require state or public school employees to put in 10 years of service, up from five, before being allowed to purchase employee service credits that allow employees to retire up to five years earlier with a full pension. It would also no longer allow employees to purchase health care credits, saving \$45 million

\* **HB 5198** a bill that would amend the state's Use Tax. The theory is that this bill could have been amended to allow for a sales tax on services. This bill was later removed from the package; due to objections from Rep. Ward and other Republicans looking to vote "yes" on the budget deal.

Items included in the deal but not tie-barred were:

- \* \$50 million in unspecified corrections savings
- \* Legislation yet to be introduced that prevents Medicaid fraud
- \* Require state departments to adopt professional purchasing programs for all state purchases — projected to save \$200 million
- \* HCR 26, legislation to reduce legislative salaries by five percent - saving \$600,000 a year

### **Profiles in Courage:**

House members were given copies of the book Profiles in Courage, written by John F. Kennedy. It would appear that several legislators actually read it. Representative Chris Ward (R-Brighton) who voted “yes” on the income tax increase and has been identified as one of the Republicans talking to the majority on possible compromise in tax increase for health care reform. Rep. Ward, the House Minority Floor Leader, the second highest office in the Minority Caucus, temporarily stepped down from that position due to concerns raised by his caucus. Word around the Capitol is that he may be stripped of that position permanently. On the Senate side, Senator Valde Garcia (R-Howell) has been actively working on a compromise to end the budget stalemate. He was notably absent from the Senate Majority Leaders press conference held on Thursday and his phone voice message indicates that he might be willing to vote for a tax increase. Several other marginal Democrats in the House put up yes votes for the first time, Rep. Lisa Wojno (Warren), Rep. Dudley Spade (Adrian).

### **Long Days and Long Nights Not Over Yet:**

Last weekends 60 hour marathon session in the House, long session days and nights all week, and last night’s 13 hour session has yet to produce a budget deal that all parties can sign off on, or at least 56 votes in the House and 20 votes in the Senate. This may mean a partial shutdown or some sort of continuation budget if the sides are close to a deal. No matter what it is going to be a wild ride up to October 1, 2007, the start of the new fiscal year.

### **What \$1.75 Billion in Cuts Would Look Like:**

Last week started off with the Senate laying out what a \$1 billion worth of cuts would look like; Sen. Bishops cuts:

Dept. of Human Services:	(\$116.8 M)
Dept. of Community Health:	(\$ 78.0 M)
Dept. of Corrections:	(\$ 50.0 M)
2.5% Cuts to Other Depts.:	(\$ 23.4 M)
Reduce State Employee Econ. Funding:	(\$ 75.4 M)
K-12 School Aid (Eliminate 2.5% Increase)	(\$289.7 M)
Higher Education (Eliminate 2.5% Increase)	(\$ 35.9 M)
Community Colleges (Eliminate 2.5% Increase)	(\$7.1 M)
Comprehensive Transportation Funding Reduction	(\$5.0 M)
Early Retirement Adjustments	(\$192.0 M)
Subtotal Reductions:	(\$875.8 M)

Use One-Time Michigan business Tax Revenue: \$219.4 M

**Remaining Deficit Shortfall from Current Service Level: (\$656.4 M)**

Senate Fiscal Agency at the request of Sen. Bishop identified the following cuts to eliminate the entire deficit with cuts:

Cut Statutory Revenue Sharing to Local Government:	(\$398.7 M)
Utilize 21 <sup>st</sup> Century Jobs Fund for General Fund	(\$ 75 M)
Cut Healthy Michigan Fund	(\$ 25 M)
Eliminate repaying skipped final payment to Universities	(\$138 M)
Cut Aid to Libraries	(\$ 12.1 M)
Cut Fire Protection Grants to Local Governments	(\$10.9 M)
Cut School Aid Fund Categorical	(\$ 77 M)
Cut Secondary Road Patrol	(\$ 14 M)
Cut Michigan Promotional funding	(\$ 5M)
Cut comprehensive Transportation Fund grants	(\$ 78 M)