



Capitol Corner
An ECIC Legislative Update
September 27, 2007

Count Down To Budget Deal or Shutdown:

As the end of the month and fiscal year draw closer, the potential for a partial state government shutdown increases with each passing day of inactivity by the legislature. Depending on the day, the hour and the minute, it is either doom and gloom or a ray of sunshine peaks through only to be gone again.

The potential deadline for a deal to prevent a shutdown is Thursday night at midnight. After that, it will be almost impossible to avoid a shutdown. Here is how the week has played out:

Sunday, Day 8 to Shutdown:

Senate Passes \$931.9 million in budget cuts in both the General Fund and in the School Aid/K-12 budget, even with these cuts and the use of one-time revenue from the new Michigan Business Tax the deficit in the coming Fiscal Year budget is still a whopping \$600 million. More than 2,000 employees would be cut and almost every part of the state budget would be reduced. Three to four state prisons would have to be closed; public school districts would not see an increase in their per-pupil foundation grants, \$28 million would be cut for at-risk students, \$20 million from declining enrollment grants and another \$20 million from middle school math grants; Healthy Michigan Fund would be cut \$18.9 million; \$47.2 million in reduced daycare rates, closure of Maxey Boys Training School among others in the Department of Human Resources budget; and, no increase in the Higher Education and Community College budgets.

The General Fund cuts were contained in SB 511 which passed 20-18, with only one Republican, Senator Valde Garcia (R-Howell), voting against the \$900 million cuts to the general fund. SB 237 passed 21-17, with Sen. Garcia voting with his caucus.

Senate Passed Budget Cuts in Detail:

General Fund Department Cuts, (\$574,668,100)

Agriculture	(\$5,147,600)
Attorney General	(\$7,496,000)
Auditor General	(\$1,356,700)
Civil Rights	(\$1,759,900)
Civil Service	(\$2,653,900)
Community Colleges	(\$7,089,600)
Community Health	(\$111,660,300)
Corrections	(\$111,323,700)
Education	(\$3,449,500)
Environmental Quality	(\$7,945,100)
Executive Office	(\$200,700)
Higher Education	(\$35,930,400)
History, Arts and Libraries	(\$6,949,000)
Human Services	(\$207,529,500)
Judiciary	(\$7,562,400)
Labor and Economic Growth	(\$9,563,000)
	(\$2.6 million) from fire protection grants
	(\$4.4 million) from workforce training grants
	(\$1.7 million) from welfare-to-work
Legislature	(\$7,382,700)
Management and Budget	(\$2,109,000)
Military & Veterans Affairs	(\$604,600)
Natural Resources	(\$1,102,100)
Secretary of State	(\$14,027,900) (25 branch office closures)
State Police	(\$14,121,800)
Treasury	(\$11,576,400)

School Aid Foundation/K-12 Cuts, (\$57,300,000):

(\$289.7 million) eliminate per pupil
(\$28.0 million) reduction to At-Risk program
(\$20.0 million) eliminate Declining Enrollment Grants
(\$20.0 million) eliminate Middle School Math

General Fund Cuts:	(\$574,668,100)
School Aid Cuts:	<u>(\$357,300,000)</u>
Total cuts:	<u>(\$931,968,100)</u>

Monday, Day 7 to Shutdown:

House passes \$516 Million in corporate tax loophole closures to help solve budget deficit, Senate would still have to agree.

The Governor, Speaker Dillon and Majority Leader Bishop were reported to be negotiating face to face for the first time in several weeks.

Tuesday, Day 6 to Shutdown:

Senate finally names Conference Committee members to deal with the vehicle bills to potentially increase the income tax, a small ray of hope in a dome full of doom and gloom. The Conference Committee members for HB 5194, the income tax increase vehicle bill are:

Representative Tobocman (D-Detroit)
Representative Meisner (D-Ferndale)
Representative Ward (R-Brighton)

Senator Jelinek (R-Three Oaks)
Senator George (R-Kalamazoo)
Senator Prusi (D-Ishpeming)

The House named its conferees on Monday and waited for the Senate to act. The action of naming conferees by the Senate was seen as a potential sign that there was a slight chance a budget deal might be reached in time to prevent a partial shutdown of state government.

House Business Office Director Tim Bowlin issued a memorandum on potential shutdown effect on House employees. Bowlin said that lawmaker's salary will not resume unless there is a budget. House staff was told to stay home on Monday unless a budget agreement is reached this week. Senate said it would pass out similar memorandum on Wednesday.

Executive branch is making plans for a partial shutdown of state government.

Senator Bishop continues to call for a one-month continuation budget so that negotiations can continue.

Wednesday, Day 4 to Shutdown:

Governor sends out letter to state workers that a possible shutdown is in the works unless the legislature agrees to a solution to fix the pending budget deficit. Liquor sales, gambling at the three Detroit casinos, lottery sales, parks and non-essential services will end on Monday without an agreement. The Secretary of State Terri Lynn Land says that branch offices will close and residents and businesses in need of service should get into a branch office this week or risk not getting their licenses renewed.

What would stay open are the prisons, mental hospitals and juvenile detention centers. Essential public safety functions would be preserved. The state would also try to make bond payments.

The House did move the two continuation budgets to the House Floor for action if needed. Senate Bills 772 and 773 would allow the state to keep functioning for about a month. These bills were passed out of the Senate on September 17, 2007 along straight party lines. These bills will only be enacted if there is of enough an agreement on revenues and potential budget deal is close at hand. Otherwise, the Governor has repetitively said she would veto them.

Senate says it will be in session Thursday, Friday, Saturday and Sunday. House is scheduled for Thursday so far.

Thursday, Day 3 to Shutdown:

The day began with the thought that midnight Thursday was deadline for making a deal to stop a shutdown of state government. The clock was ticking...

At 6:05 pm Governor Granholm took to the airwaves in an address to the residents of the State on current budget crisis. In her address she said called on the legislature to come to agreement on solving the \$1.7 billion budget deficit through cuts, reforms and increased revenue. The Governor said that a continuation budget would not help; it would only increase the deficit (note: the budget deficit grows approximately \$4 million per day).

While she chastised the legislature for its inability to solve the budget crisis in the last eight months, she did indicate the legislative leaders had narrowed their differences on resolving the budget deficit. The Governor closed on an optimist note saying that a deal was close and urged the legislature to stay in session until the deal was done.

Legislative leaders worked throughout the day and night to reach agreement but ended session after midnight without a clear signal that a deal had been reached. But all indications were that a deal was close and that time was needed for the legislation to be written, numbers to be crunched, and support solidified.

The Budget Deal?

Most indications are that the budget deal will include an increase in the income tax rate from the current 3.9% to 4.3%, and the sales tax will be extended to certain luxury items and services. These two actions should raise cost to \$1.5 billion in new revenue for the state.

The linchpin reforms center around teacher health care insurance and opening up access to employee data so that school districts can receive additional bids from health care

insurance providers, and the length of time a new teacher would have to work before qualifying for retiree benefits.

Possible Solutions:

An agreement is reached in principle on revenues, costs and reforms and a continuation budget is agreed to and signed by the Governor allowing state government to remain operating for one month.

Potential revenue sources; Increase Income Tax is increased rate to between 4.3% and 4.6% up from 3.9%.; Sales tax is extended to some luxury services; fees increased, business tax loopholes closed; and, the use of one time only revenue, \$220 million from the new Michigan Business Tax.

Like cuts will amount to between \$300 million and \$900 million, most likely in Reforms.