



Capitol Corner

An ECIC Legislative Update

October 1, 2007

Budget Deal Reached in the Thirteenth Hour

The State experienced a partial shutdown for just over four hours, from Midnight to 4:18 a.m. on Monday morning, October 1, 2007. The Governor rescinded the shutdown, once all the pieces of the budget deal had been passed by the legislature. State parks had been emptied on Sunday night, freeway rest stops were closed, and several drawbridges were left in the raised position so boats could get through during the shutdown period.

In the end, the House and Senate passed enough new revenue, \$1.48 billion, from an increase in the state income tax and extending the sales tax to some services to end the stalemate in Lansing. In Fiscal Year '08, the new revenue will only be \$1.3 billion, since the extension of the sales tax will not be implemented until December 1, 2007 to give the Treasury Department time to set up the new tax.

With the new revenue agreed to, and reform legislation passed, the Governor signed off on a 30-day continuation budget to give the legislature enough time to pass the necessary appropriations bills. The new revenue still means that the state will have to cut the state budget by over \$400 million.

They say the two things you never want to see made are sausage and legislation, having seen both being made I can tell you it's true. Nothing about this budget deal was easy or pretty. It took over eight months and almost 19 straight days of session to get an agreement that could gather enough votes to be passed and sent to the Governor for her signature.

The New Revenue

Income Tax Increase:

House Bill 5194 raises the income tax rate from the current 3.9% to 4.35% this is expected to raise around \$765 million. The increase is only temporary; the rate will roll back to 3.95% in 2011 and then back to its current rate of 3.9% in 2015.

In the House only two Republicans voted for the tax increase, Rep. Chris Ward (R-Brighton) and Rep. Ed Gaffney (R-Grosse Pointe). Three House Democrats did not support the increase Rep. Marty Griffin (D-Jackson), Rep. Mike Simpson (D-Jackson) and Rep. Lisa Wojno (D-Warren).

In the Senate four Republican Senators voted for the tax increase, Sen. Patty Birkholz (R-Saugatuck), Sen. Tom George (R-Kalamazoo), Sen. Ron Jelinek (R-Three Oaks) and Sen. Gerald Van Woerkom (R-Muskegon). Two Democratic Senators voted against the income tax increase, Sen. Glenn Anderson (D-Westland) and Dennis Olshove (D-Warren). The Senate vote on the tax increase was tied at 19-19 allowing Lt. Gov. John Cherry, President of the Senate, to cast the tie-breaking vote.

Sales Tax Expansion:

House Bill 5198 expands the sales tax to around two-dozen business services (a list of the business services impacted is included at the end of this report). The expansion would take place at the beginning of December. It will raise around \$614 million this fiscal year and close to \$751 million in a full fiscal year.

In the House it took 56 Democratic votes to pass the sales tax expansion. Not a single Republican was willing to vote for it. Two vulnerable Democrats voted against the tax increase, Rep. Marc Corriveau (D-Northville) and Rep. Kate Ebli (D-Monroe).

In the Senate, it was another 19-19 tie requiring Lt. Gov. John Cherry to cast the tie-breaking in favor of the tax expansion. Sen. Glenn Anderson (D-Westland) was the only Democrat to vote no; and, Sen. Valde Garcia (R-Howell), Sen. Ron Jelinek (R-Three Oaks), and Sen. Wayne Kuipers (R-Holland) voted yes.

It took several attempts and a lot of lobbying from legislative leadership and the Governor to get the sales tax extension immediate effect in the Senate. Sen. Glenn Anderson (D-Westland) and Sen. Roger Kahn (R-Saginaw) the two most vulnerable Senators for their caucus to both have to vote yes on giving immediate effect for this legislation to begin bring new revenue this year.

The Reforms

The main reform that was passed in exchange for allowing the tax increases to go forward dealt with opening up health insurance claims data for public school employee pools of 100 employees or more. This legislation is aimed at allowing school administrators to better shop around for health insurance for their employees. It is aimed directly at the Michigan Education Special Services Association, an independent third party health care insurance administrator of the Michigan Education Association.

SB 419, SB 420, SB 421 are also part of this legislative package of bills and allow local governments and school districts to pool their employees together to shop around for better health insurance rates.

The MESSA reform bill turned into the linchpin to the budget deal. It took several attempts but finally the House was able to pass it over to the Senate, setting up passage of the tax increases by the Senate.

In a rare “House-like” manner, it took the Senate four votes to get the MESSA legislation passed.

The other Reforms:

SB 1 encourages Medicaid recipients to live healthier lives by lowering co-pays for those who quit smoking and exercise.

SB 395 through SB 398 is a package of bills focused on government efficiency and creates a commission to study how to make government more efficient.

SB 546 and SB 548 requires future public school teachers to pay more for their future retirement benefits through a graded premium schedule and tightens how future teacher can buy years of service towards retirement.

SB 549 requires local school districts in the same intermediate school district to have a common calendar.

SB 622 requires that a private contractor be in charge of prisoner mental health services.

SB 632 prevents prison inmates from manufacturing items that would compete with items being manufactured by Michigan companies.

HB 4800 will prevent future state government retirees from double-dipping on retirement benefits if they work for the state as a contractor or employee.

Cuts

While not outlined in the legislation passed by on Sunday night and Monday morning is an agreement to cut over \$400 million out of the Fiscal Year '08 budget. The legislature will still need to cut around \$212 million from the general fund budget and \$162 million from the K-12 School Aid budget.

Business Services to Be Taxed:

Carpet and upholstery cleaning services

Business service center services

Consulting services

Investigation, guard and armored car services

Investment advice services (does not include accounting)

Janitorial services

Landscaping services (does not include lawn mowing)

Office administration services

All of the following personal services:

Astrology services

Baby shoe bronzing services

Bail bonding services

Balloon-o-gram services

Coin-operated blood pressure testing machine services

Bondsperson services

Check room services

Coin-operated personal service machine services

Comfort station operation services

Concierge services

Consumer buying services

Credit card notification services

Dating services

Discount buying services

Social escort services

Fortune-telling services

Genealogical investigation services

House sitting services

Social introduction services

Coin-operated rental locker services

Numerology services

Palm reading services

Party planning services

Pay telephone services

Personal fitness trainer services

Personal shopping services

Coin-operated photographic machine services

Phrenology services

Porter services

Psychic services

Rest room operation services

Shoeshine services

Singing telegram services

Wedding chapel services, but not churches
Wedding planning services
Other travel and reservation services
Scenic transportation services
Skiing services
Tour operator services
Warehousing and storage services
Packaging and labeling services
Specialized design services
Transit and ground passenger transport services,
Courier and messenger services,
Personal care services (does not include hair care services)
Security system services
Document preparation services
Mini-warehouse services and self-storage unit services