



## CAPITOL REPORT

April 17, 2007

**B**oth chambers of the Michigan Legislature are back in full-blown session this week after a two week hiatus that saw the Senate not in official session and the House in truncated “semi-session”.

Eager to show that they are willing to roll up their sleeves and tackle the state’s financial crisis, House Democrats said they would work during the Legislature’s usual Spring Break, and left the Senate to catch media brickbats for taking a “business as usual” break.

**Unfortunately**, matters didn’t go as planned. House leadership soon set a schedule that in fact amounted to a partial vacation and then got buried in a barrage of ridicule for appearing to advocate -- in the teeth of a nearly one billion dollar budget deficit -- that every K-12 student in the state be given a free i-Pod. Then, in two acts of questionable timing, a bi-partisan House team proposed a big boost in the gas tax and auto registration fees, and another Dem House leader mused aloud about the possibility of levying a state property tax for community colleges on areas of the state not presently in community college districts. As one capital newsletter put it, “By taking off for Spring Break, the Senate ended up at least treading water while those around it sunk, sputtered, choked, and flailed...”

Meantime, the newly installed **House leadership** took more flak during the break for failing to come up with a long promised revenue (tax) plan to fix the state’s FY 2006-2007 budget mess, making the Republican Senate look responsible by comparison, no mean feat.

Many observers have been left with the impression that House Democrats were reading from a different playbook than Gov. Granholm, and comments from a number of individual House Dems did little to shake that impression.

Finally, members of Gov. Granholm’s bi-partisan Emergency Financial Advisory Panel say it’s imperative that state leaders act immediately. The panel, which includes this firm’s **Frank J. Kelley**, has recommended a mixture of cuts, reforms and taxes to solve both the current and coming budgets. And they say legislators and the administration need to accept that any final budget solution, to have any lasting effect, will need to include all of those elements.

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One of the **big points of difference** between the two parties has been whether the State budget needs to be fixed one fiscal year at a time (Republican position) or whether the problem should be addressed in a much more global, long-term manner (Democratic position). It will be recalled that the current fiscal year (FY2006-2007) budget shortfall was originally pegged at \$900 million. The Governor then issued an Executive Order, opposed by the House and Senate, cutting the current budget by \$305 million. That has now been essentially negated by brand new figures that project the current FY shortfall to be perhaps an additional \$300 million. For the next fiscal year (FY 2007-2008) the shortfall is at least that same amount PLUS \$1.2 billion to cover the much maligned Single Business Tax (SBT) scheduled for repeal on December 31, 2007.

It now appears that there is real momentum for fixing the **SBT problem**, and indeed it may well be fixed before the rest of the budget puzzle is solved. House Dems were expected this week to unveil their SBT replacement plan and in some ways it appears to track fairly well with expected Senate GOP proposals. The new business tax plan institutes an income tax of probably 7.95% and a net worth tax of 0.4% applied to all businesses with over \$350,000 in gross receipts. Because significant credits would be given for Michigan payroll and investment, the net effect would be to shift more of the tax burden to companies based out of state. As part of the Dem plan, the personal property tax on business would be eliminated, and there would be a 1.25% tax levied on direct written premiums of insurance companies.

The Senate Republican plan would cut the total tax on business, but if the Dem plan shifts enough of the tax away from Michigan-based businesses, it may be easier for the GOP to swallow a dollar-for-dollar replacement.

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While there may be light at the end of the SBT replacement tunnel, prospects for other **tax hikes** are much more murky. Before agreeing to any general tax hikes, Senate Republicans will insist, at the very least, on reforms in school employee health care and pension costs, as well as alterations to **PA 312** which mandates municipalities to engage in compulsory and binding arbitration for police and fire personnel. Even then, it will be hard to get GOP votes for higher taxes, though Senate Appropriations chair Ron Jelinek is signaling he could be convinced to go along. Over in the House, most majority Dems would like to see new tax revenues (aside from the SBT replacement), but find it hard to get specific out of concern over the political fall-out that could engulf their newly-elected members from marginal swing districts. Spending plans by House Dems have also been slowed by the perjury trial of House Appropriations chair George Cushingberry (D-Detroit). The very real possibility that he could be convicted is still one more woe for the new House majority because there is a feeling that Cushingberry would never voluntarily relinquish his seat, thus leaving his removal from the Legislature essentially up to House Dems. In a word, not an easy time for new Speaker Andy Dillon.

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State Budget Director **Bob Emerson** has told state school officials he will issue a pro-ration letter on May 1 reducing payments to school districts by between \$90 and \$125 per student if the Legislature doesn't make up the money by that date. The Administration had forecast that the School Aid Fund would be short \$377 million in the current FY, but the annual May revenue estimating conference is expected to show it down by another \$150 million.

“While I remain hopeful that the Legislature will ultimately enact some changes to reduce the school aid budget shortfall, we cannot wait much longer for a solution to this serious problem. Therefore, I intend to issue a pro-ration letter no later than May 1, 2007, informing that the remaining payments to school districts will be pro-rated,” Mr. Emerson said.

**Intermediate school districts** could lose funding of \$5 million to \$8 million. The pro-ration will affect June, July and August school aid payments. The school community is expected to sharply increase its pressure on legislators to adopt new revenue sources.

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In a switch from its usual anti-tax increase stance, the free market “think tank” Mackinac Center says it supports a 6¢ increase in the **gas tax** and a 10¢ hike in diesel tax, phased in over three years. Their support, together with that of the State Chamber of Commerce, could have an impact on Republican legislators, but we think passage will still be tough to achieve.

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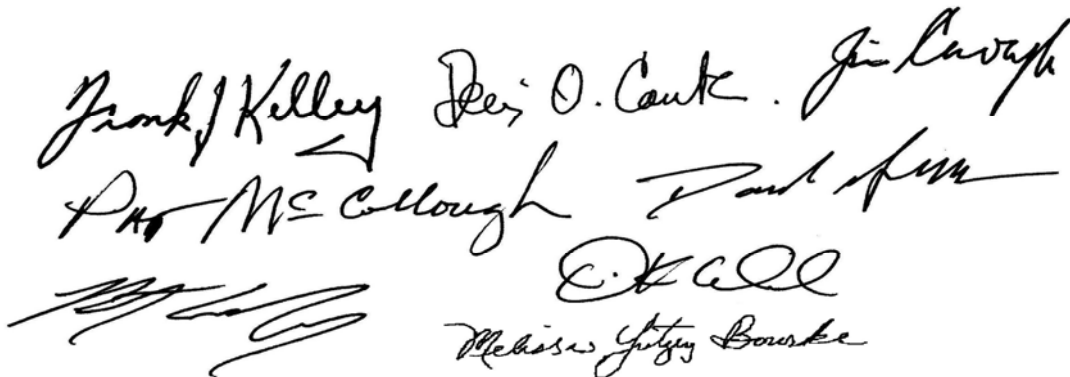
Sen. Wayne Kuipers (R-Holland) will introduce legislation this week to create **health insurance pools** for all public employees. His bills will be similar to ones introduced in the last legislative session, with the major exception that they will cover all public employees instead of just public school workers. Establishing health insurance pools, to effectively break the Michigan Education Special Services Association, the largest health insurer of public school employees in the state, has been a long time goal of many Republicans. Supporters of the concept said the proposal could save hundreds of millions of dollars to school districts, figures that MESSA disputes. A spokesperson for the Michigan AFL-CIO, however, said the proposal would likely be supported by most labor organizations. “It’s a broad-based plan that could lower health care costs for workers while preserving employee benefits,” he said.

Some observers think the Kuipers package could be part of a budget “grand fix” wherein the Administration would swallow some version of it in exchange for legislative approval of tax increases.

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A possible 1 mill property tax on areas outside of current **community college** districts got its first review in a House subcommittee last week, with the panel's chair Rep. Michael Sak (D-Grand Rapids), saying a decision will be made in about a month or whether any such plan will be pursued. At the initial hearing by the House Appropriations Community Colleges Subcommittee, a number of constitutional and other issues were raised that would affect how such a plan would be crafted. With 50 percent of the state and 20 percent of residents living outside of any of the state's 28 community college districts, Mr. Sak said he is looking to address inequities that are not now adequately resolved simply by charging higher tuition to nonresidents.

SB 138, dealing with **auto leasing** and opposed by most of the rental car industry, remains tied up in committee....SB 102 and HB 4401, two bills levied at assisting **firefighters** with cancer-related workers comp claims, are moving forward in their respective committees....Legislation to increase the state's compulsory **school attendance** age from 16 to 18 is bogging down in the House....**Anti-student bullying legislation** (HBs 4091 and 4162) likewise appears to be bogging down in the Senate....Momentum appears to be growing for a repeal or significant modification of PA 141, the state's **electric choice** legislation. Proponents of repeal say that the current structure is throwing the financial and practical stability of the state's electric system into the hands of regional wholesale markets as opposed to a carefully plotted, long-term planning strategy. But Rep. Frank Accavitti (D-Eastpointe), chair of the House Utilities Committee, while agreeing changes are needed, says outright repeal may be too drastic....The House has passed legislation requiring personal financial disclosures from a broad range of elected officials, including **members of the judiciary**. The Senate is expected to strip judges out of the bill if ever the chamber takes it up....**Health care providers** are warily watching tax and budget negotiations, well aware that they are potentially big targets for budget slashers.



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