



CAPITOL REPORT

May 30, 2007

THE ELEPHANT LABORED, AND LABORED, AND PRODUCED...

...a mouse. That's how some might characterize last Friday's \$803 million dollar budget agreement between the Governor, Democratic House, and Republican Senate. Even though newspapers statewide trumpeted "Budget Deal Reached," in fact the tri-partite pact covered only the remaining 4 months of the expiring (2006-07) fiscal year. And it raided and shifted funds among an ever dwindling number of miscellaneous money pots, shoving a large part of this year's shortfall into FY 2007-08 which is now projected to have a gargantuan \$1.8 billion dollar deficit.

The net result is no significant structural changes or revenue enhancements for the remaining FY and a continuation -- until at least September 30 -- of smoke and mirrors accounting that will -- on paper -- leave the budget balanced. The good news for the rest of this FY is that **K-12** schools and **Medicaid providers** will see no cuts in their appropriations. And because the Federal government made an early \$250 million dollar **highway funding** payment -- voila -- the State's cash flow problem has also been "solved" for the balance of the fiscal year. Taking a hit, however, are the state's **colleges and universities** who will find \$95 million dollars in state aid delayed beyond the current FY and **community colleges** who will have to wait for \$12.9 million dollars.

Other highlights:

- The **Higher Education Loan Authority** would transfer \$100 million dollars that will somehow end up in the state's General Fund (GF).
- Seven other existing state funds will be raided to produce \$167.9 million dollars in new general fund revenues.
- Future tobacco settlement revenues will be securitized to produce between \$400 and \$500 million dollars in immediate revenue.
- **Local revenue sharing** will not be reduced below current levels.
- 21 **public health programs** will be cut 25% each.

By week's end, a number of "reform" bills were being teed up for passage as part of the FY 2006-07 budget deal, though it was not entirely certain all would make it through both chambers. These bills include:

HB 4797 and HB 4798 - would have the retirement system for **public school employees** hired after June 30, 2007, pay up to 90 percent of the monthly premium, membership or fee for the hospital, medical-surgical, sick care benefits, dental, vision or hearing, or any combination of plans for the retirant or his or her beneficiaries;

SB 188 - would give **intermediate school districts** more flexibility in doing career and technical education through collaboration with the state and community colleges;

HB 4809 - would limit the cost of health benefits of certain state and **local employees**, set up for discharge;

HB 4804 - would allow all **public employees** to access a health plan that is available to state employees; and

HB 4284 - would allow Medicaid-eligible individuals to receive assisted living services through an **adult foster care** facility if the Department of Community Health gets a waiver from the U.S. Department of Health and Human Services. While the bill expands the range of services for Medicaid recipients, having the services provided in adult foster care settings typically is less expensive and some of the increased program costs could be offset if those individuals did not seek other services such as nursing home admittance.

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And speaking of elephants, the big one in the room is the 2007-2008 budget which the legislature and Governor have yet to dent. It seems virtually certain that an increase in the state income tax to probably 4.4% (from the current 3.9%) will get a serious look and probably enactment. In fact, even though Senate Majority Leader Mike Bishop's position on the 2006-07 budget (no new taxes) appears to have carried the day, there are strong indications he will acquiesce in allowing an income tax increase for 2007-08 and beyond to be taken up (and presumably passed) in the Senate. The Democratic House, with much fear, loathing, and trepidation, will probably do the same. Also likely is a **new tax** on a long list of "luxury" items. The exact final identity of which remains unknown but which may total close to \$500 million dollars. Republicans are also bent on enacting a number of reforms, especially **teacher insurance and pension** issues being part of the package.

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Replacement of the soon-to-expire **Single Business Tax** appears to be close at hand. A House Democratic plan to replace the \$1.9 billion dollar levy is getting some final tweaking from Senate Republicans and could possibly be sent on to the Governor hours before the scheduled annual Mackinac Conference of the Greater Detroit Chamber of Commerce. An important feature of the bill is the passing on to **out-of-state companies** a significant portion of the replacement tax.

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In other action, the House late last week passed 58-41 HB 4799 that prevents **retired school employees** from continuing to receive their pension if they come back to work at the school and begin collecting a pay check. The "anti-double dipping" bill was tie-barred to the income tax increase.

Also passed unanimously (105-0) was HB 4246, sponsored by Rep. Glenn Steil Jr. (R-Grand Rapids), which makes it clear that when two or more local units of government combined services, the **labor agreements** made under the previous arrangements stay in effect. The common perception among governments is that when two services combine, the local units need to honor the more generous contract of the two for all of the employees.

Frank J. Kelley *Dei O. Cantu* *Jim Lavigne*
Pho McCallough *Paul Spivey*
[Signature] *[Signature]*
Melissa Gutzey Bourke

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Kelley Cawthorne
Attorneys and Governmental Affairs Counselors
101 S. Washington Square - 9th Floor
Lansing, Michigan 48933
Phone (517) 371-1400 FAX (517) 371-3207
E-mail: kc@Kelley-Cawthorne.com

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