

March 13, 2007

GOVERNOR'S TAX PLAN INTRODUCED

On March 1st, Democrats in the House and Senate introduced 23 bills in each chamber that reflect Governor Jennifer Granholm's proposed Michigan Business Tax (MBT) plan, sales tax extension on services, proposed loophole closings, a state estate tax and a nickel cigarette tax increase. All of the bills embody her plan to balance the Fiscal Year (FY) 2007 and 2008 budgets. The MBT would replace the Single Business Tax (SBT), which is set to expire at the end of the year. The MBT would replace \$1.4 billion that is generated from the SBT and would focus on a gross receipts tax (.125 percent), an assets tax (.125 percent) and a profits tax (1.875 percent). The Governor's two-percent excise tax would replace the remaining lost SBT revenue which is why the MBT is also tied to several tax increases.

All of the Senate bills were referred to the Senate Finance Committee and all of the House bills were referred to the House Tax Policy Committee. The Senate bills include SB 306 through SB 328. The House bills include HB 4367 through HB 4389.

In response to questions from the media as to when the Republican specifics would be released, a spokesman for the Senate Majority Leader's office indicated that "Our focus is on our bipartisan, bicameral work groups that will start working on addressing the current budget. Those were agreed to by the Senate Majority Leader and House Speaker Andy Dillon."

BUDGET CRISIS IMPACT ON BOND RATINGS

The threat of lower bond ratings is increasing as time passes without a legislative solution to the budget problem. The state borrows approximately \$1 billion a year due to cash flow problems at certain times of the year. Local governments who borrow from the capital markets would likewise be affected. On Monday Standard & Poors issued a report reflecting Wall Street's concern with the continuing budget problem. This follows the drop in ratings for Michigan bonds issued a few weeks ago by Moody's Investor Services.

NEW "BEST" PLAN

Senate Republicans are making changes to their Business and Economic Stimulus Tax (BEST) proposed to replace the Single Business Tax when it expires at the end of the year. During the Senate Finance Committee meeting Thursday, Senator Nancy Cassis (R-Novi) announced the BEST plan was dropping its assets-based assessment and lowering the rate on the modified gross receipts tax portion, including the elimination of taxes on business-to-business transactions.

The changes will not affect how much revenue Senate Republicans had expected to bring in with the plan keeping the overall business tax at \$1.5 billion.

Other modifications to the proposal include reducing the rate businesses would pay under the modified gross receipts tax, which was set at 0.7 percent. Senator Cassis said how much lower that rate will be hasn't been decided on, but that it would likely be at or below 0.6 percent. The income tax rate would be retained at 1.5 percent, she said. The changes also call for expansion of the personal property tax credit for commercial property going back five years. The plan also keeps the exemptions for industrial equipment going into 2008. The plan also retains the Michigan entrepreneurial exemption, in which small start-ups would pay no tax for five years.

EDUCATION AND THE BUDGET

With wrangling continuing between the Administration and the Legislature over just what the final solution will be for the state's budget — the clock keeps on ticking. For most of the state's budget, the clock isn't really a big issue as the Governor and state lawmakers could always continue to plod along with lawmakers eventually plugging the revenue gap with a supplemental appropriation — perhaps as late as next fiscal year — after they fix the state's budget issues. However, for schools that are continuing to operate day-by-day, week-by-week without knowing whether they'll face so-called pro-rata funding reductions — the further into the calendar they get the harder a cut solution will become.

Under the state's School Aid Act, if the Department of Treasury determines that a pro-rata cut will be required, it shall notify the state budget director and the budget director will then notify the Legislature at least 30 calendar days, or six session days, whichever is more, before the state reduces school funding. If the deficit in the School Aid Fund winds up being dealt with vis-à-vis pro-rata cuts, schools could lose some \$224 per pupil.

HEALTH CARE REFORM PROGRAM

The state's health care reform plan, proposed by Governor Jennifer Granholm last year, would cover up to about \$50,000 a year in medical expenses for families that make less than \$41,000 annually, costing the state and federal government about \$175 a month, excepting any co-pays insurance recipients will be required to pay, Department of Community Health Director Janet Olszewski told the House Health Policy Community last Thursday. Ms. Olszewski said that the state is edging closer each day to getting the federal government approval it needs to initiate the Michigan First Healthcare Plan, which would provide insurance to about 550,000 people who currently can't get Medicaid. The plan, which would also use its buying power to create an insurance pool for small business owners and others who make too much to qualify for First Healthcare insurance, is anticipated to cost about \$600 million annually to operate in state and federal funds.

In her presentation to the lawmakers, Ms. Olszewski outlined the structure of the health care plan, which would create "The Exchange," the entity with oversight by the Office of Insurance and Financial Services and the Department of Community Health. The Exchange would be responsible for recruiting health insurance companies and for making sure they meet minimum coverage qualifications such as benefit guidelines, a healthy lifestyle focus and value purchasing. Enrollees would then have an option between a few different insurance company plans and would choose which they'd want to enroll in. Enrollees below the 100 percent poverty line (\$20,680 for a family of four) would have co-pays, which the Exchange would collect and manage. Enrollees making more than that amount but making less than 200 percent of the federal poverty level would pay premiums and co-payments on a sliding scale depending on their incomes. The combination of those costs wouldn't exceed 5 percent of their income.

The Administration expects many adults who currently get state or county insurance for their children but don't qualify themselves will take advantage of the plan. They also anticipate that hospitals treating the uninsured at extremely high costs will refer patients to the program.