

From the Capitol

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Budgets Sent to the Governor

For months, Governor Snyder has urged the Legislature to complete the state budget by May 31 and the Legislature did just that. On May 26, two omnibus bills, House Bills 4325 and 4526 reflecting the contents of the 16 Conference Reports previously agreed to by the Legislature, were sent to the Governor for his signature and potential line item veto. It marks the first time in decades that a legislature has enacted a state budget prior to Memorial Day.

Some budget highlights include:

- No cuts to Medicaid provider reimbursement rates within the Department of Community Health (DCH) budget
- Partial restoration of the cuts proposed by the Governor to graduate medical education
- A rate increase for Medicaid Health Plans and some providers in order that they be paid at actuarially sound rates
- A directive to DCH to begin plans to enroll "dual eligibles" within Medicaid Health Plans if a waiver to do so is obtained from the federal government
- Achieving some cost savings by requiring mental health drugs to be placed on the preferred drug list within Medicaid
- Reductions to the minimum foundation allowance for the School Aid Fund to \$6,976 per pupil
- Establishment of five criteria by which school districts could obtain another \$100 per pupil, with one being that a school district be the policy holder of its own health insurance. This effectively disqualified approximately 45 percent of school districts who contract with Michigan Education Special Services Association (MESSA), the health insurer founded by the Michigan Education Association (MEA). MESSA and the MEA have long been the targets of Republicans who believe cost savings can be achieved through more competition.
- Reduction of the allowance for the state's 28 community colleges by about 4 percent

- Recognition of the \$50 million toll credit from the Ambassador Bridge instead of the \$50 million Governor Snyder included from Canada for the New International Trade Crossing. This budget also prohibits the Department from spending money on building or planning a new bridge
- Allowance for the Department of Corrections Budget to establish public-private partnerships in order to privatize some prisons
- Assumption of nearly \$3 million in fee increases for the Department of Environmental Quality's budget
- A 1.5 percent cut in appropriations for public universities and colleges; and universities conducting embryonic stem cell research will be required to report the details of that research to the Legislature. Many believe the Governor will veto the reporting provision.

Most Comprehensive Tax Overhaul Signed Into Law

On May 25, Governor Snyder signed legislation that dramatically revamps Michigan's tax structure. According to Enrolled House Bills 4361, 4362, and 4479 through 4484 (now Public Acts 38 through 45 of 2011) the Michigan Business Tax is repealed and replaced with a corporate income tax of 6 percent on "C" corporations having receipts of \$350,000 or more in a year. Also:

- There is no income tax imposed on pass through entities such as LLCs and partnerships
- Numerous business and individual income tax credits were removed
- With some exceptions, public and private pensions will be subject to income tax

This pension tax will be phased in so as to lessen its burden on current seniors. Taxpayers still have one more filing under the old law, as the new law takes effect Jan. 1, 2012.

Reigning In Health Care Benefits

A bill prohibiting a public employer from contributing more than 80 percent toward employees' health care benefits has passed the Senate and is now with the House Committee on Oversight Reform and Ethics where it has already received one hearing. Another is expected this week.

Senate Bill 7 sponsored by Sen. Mark Jansen (R-Gaines Twp.) would also allow a county, city, township or village to opt out of the 80-20 requirement if approved by a 2/3 vote of their governing body.

New Proposal For Infrastructure Funding

Proposals to stabilize and increase funding for Michigan's decaying roads and infrastructure have been discussed for nearly 10 years within and without the Legislature. They have included toll roads and an increased fuel tax. The Legislature is now looking at dedicating a small portion of sales tax revenue toward that end.

Under House Bill 4521, 4 percent of the sales tax on gasoline currently going to the general fund would be dedicated toward infrastructure improvements. Specifically, the revenue would be split between the State Trunkline Fund and the county road commissions. Dedicating this percentage of sales tax could generate \$100 million or more. Some legislators like the idea because it would be a constant source of revenue without a tax hike. A hearing on the bill is scheduled this week before the House Committee on Transportation. The school lobby is expected to vehemently oppose it.

On the Horizon:

- **Health care cap:** Look for Senate Bill 7, legislation placing a cap on what amount a public employer can pay toward its employees' health care benefits, to be reported out of House Committee this month.
- **Senate Bill 398**, which was introduced just prior to Memorial Day, extends the sunset for the mortgage loan modification program to July 5, 2013. The Senate Banking Committee has already scheduled a hearing for this week.
- **Medicaid use tax:** Senate Bills 347 and 348 would repeal the current "use tax" imposed on Medicaid Health Plans and some Medicaid providers in order to draw down federal matching funds. The Center for Medicare and Medicaid Services has given every indication that the use tax would no longer be acceptable for matching funds. Enter the broad-based 1-percent tax on paid claims as its replacement. At issue is \$1.2 billion in Medicaid funding, which has already been assumed in next year's DCH budget.
- **Bridge authority:** Senate Majority Leader Randy Richardville has introduced Senate Bill 410 which would create a new bridge authority in Michigan to work in cooperation with a Canadian bridge authority to retain a private concessionaire to design, construct, operate and maintain a new international bridge spanning the Detroit River. Senate Bill 410 permits the use of Canadian funds, U.S. federal funds and private funds to finance the new crossing, but prohibits expenditure of state funds. Governor Snyder has passage a priority.
- **Community benefits package:** Related to this new international bridge is legislation known as a "community benefits package." The legislation calls for financial aid in job training, environmental cleanup and the development of economic centers within the affected Delray area of Detroit. The House Transportation Committee will give the two bills, House Bills 4635 and 4636 sponsored by Rep. Rashida Tlaib and Rep. David Nathan, both Detroit Democrats, their initial hearing next week.
- **Helmet laws:** Senate Bill 291, which would abolish the mandatory helmet law for motorcyclists, received its first hearing this week before the Senate Committee on Transportation and was reported to the Senate Floor.
- **Recall campaigns:** What are the consequences of the recall campaigns against Governor Rick Snyder and several Republican members of the Legislature? Not much, probably. With one or two exceptions, these campaigns are not well funded and, in the case of GOP lawmakers, the recall efforts are being

undertaken in districts that are statistically heavily Republican. The real purpose is to keep the Democratic Party base riled up.

- **Personal property taxes:** The next big legislative effort on tax policy will, in all likelihood, be waged this fall. The effort will concentrate on repealing the personal property tax paid by business and the revenue generated in order to help fund local government.