

October 1, 2007

2007-08 BUDGET APPROVED

Today at 4:18 a.m. Governor Jennifer Granholm announced that the four-hour shutdown of state government had ended with legislative approval of a comprehensive solution to the state's budget.

The approval of new revenues in the package enabled the Governor to fulfill her promise to sign legislation authorizing a 30-day continuation budget which will allow government services to continue during the period required to finalize all the budget package specifics. The Legislature will immediately begin to put together the appropriations bills for the 2007-2008 fiscal year.

The major elements of the financial package are as follows:

- Income tax is raised from 3.9 percent to 4.35 percent with a rollback to 3.95 percent on October 11, 2011 and then back to the current rate of 3.9% on October 1, 2015. House Bill 5194 was approved on a party line vote with the following exceptions of Republicans voting yes: Representatives Ed Gaffney (R-Grosse Pointe Farms), and Chris Ward (R-Brighton), and Senators Patty Birkholz (R-Saugatuck), Tom George (R-Portage), Ron Jelinek (R-Three Oaks) and Gerald Van Woerkom (R-Muskegon). Democrats voting against the increase were Representatives Marty Griffin (D-Jackson), Mike Simpson (D-Jackson), and Lisa Wojno (D-Warren) and Senators Glenn Anderson (D-Westland), and Dennis Olshove (D-Warren). The Senate vote was 19-19 with the deciding vote cast by Lieutenant Governor John Cherry.
- Sales tax expanded to cover services to become effective December 1, 2007. The following is a list of services that will be taxed:

Business Service Centers	Carpet/Upholstery
Couriers and Messengers	Document Prep Services
Investigation Guard/Armored Car	Janitorial
Investment Advice	Landscaping
Mini-warehouse and self-storage	Transit and Ground Passenger, limo and cab
Office Administration	Other Personal Services
Other Travel and Reservation	Personal care, no haircuts
Scenic Transportation	Security System Services
Service Contracts	Skiing
Interior Design	Tour operators
Consulting	Packaging and labeling services
Warehousing and storage	

State Treasurer Robert Kleine stated that the list of services was guided by the principle of identifying services that people did not have to purchase and were discretionary. Please see attached document for a full description of each taxable service.

This vote too was cast mostly along party lines. Republicans voting yes to House Bill 5198 included Senators Valde Garcia (R-Howell) and Ron Jelinek (R-Three Oaks). Senator Glen Anderson (D-Westland) was the lone Democrat in the Senate casting a no vote, Representatives Kate Ebli (D-Monroe) and Mark Corriveau (D-Northville) also voted against the bill.

- Reform of public employee health insurance. This will require health insurance administrators to surrender to school administrators health claims data for employee pools of 100 employees or more. According to Republicans this will allow districts to better shop for premium rates at a savings of at least 12 percent.
- Other reforms. (1) Future public school teachers will have to pay more for their retirement benefits. (2) Medicaid recipients will be offered lower co-pays to stop smoking and stay in shape. (3) Creation of a commission charged with seeking out government waste. (4) Another commission to make sure the state is living up to all local government mandates. (5) School districts within common intermediate school districts must operate under a common calendar. (6) Department of Corrections inmates can no longer manufacture items already made by the Michigan private sector. (7) Private contractors required to be in charge of prisoner mental health services. (8) State government retirees can no longer collect retirement benefits while working for the state as a contractor or employee. (9) All municipalities and school districts are permitted to pool together for better health insurance rates.

The taxes imposed in the package are calculated to raise \$1.48 billion a year.

With the state shutdown avoided, the focus shifts to the individual department budgets for passage over the course of the next 30 days. Karoub Associates will keep you apprised of any developments.