

House passes income, service taxes as ...

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LANSING - Michigan's state government partially shut down early today with no budget deal in place for the new fiscal year.

Gov. Jennifer Granholm was still awaiting key tax increase votes in the Republican-controlled Senate after 12:01 a.m., the deadline for approving a state budget. The state has no authority to spend money without a budget in place.

Parts but not all of a temporary budget fix that would have avoided a shutdown were approved Sunday, but the Legislature was still working when the clock struck midnight on tax increases to help fill a \$1.75 billion deficit.

Granholm was waiting to sign a 30-day continuation budget but not until the Legislature sent her the tax measures.

The Democrat-led House on Sunday passed a bill that would raise the state's income tax from the current 3.9 percent to 4.35 percent, sending the measure to the Senate, where it faced a much tougher fight.

The House earlier passed a bill placing the state's 6 percent sales tax on a wide range of services, but the Senate had not voted on the measure.

The bills passed Sunday were considered crucial parts of the deal to solve the shortfall in the state's new fiscal year.

In the first public sign of a partial state shutdown, campers were asked to leave some Michigan state parks Sunday night.

Liz Boyd, spokeswoman for Granholm, said Sunday that the governor would consider signing the budget extension if the House and Senate also passed the revenue bills.

"If the bills are signed and on their way to the governor's desk, that would be sufficient" to avert a shutdown, Boyd said. "There is a path to resolution, and the Legislature needs to get the job done. We need a comprehensive solution of cuts, reforms and revenue before the governor can support a continuation budget."

The House passed the income tax measure 57-52. Democrats hold a 58-52 edge in the House, but three Democrats - Martin Griffin and Michael Simpson of the Jackson area and Lisa Wojno of Warren - voted against it. Two Republicans, Chris Ward of Brighton and Ed Gaffney of Grosse Pointe Farms, voted in favor of the proposal.

No Republicans voted for the bill placing the sales tax on services - a proposal stiffly opposed by the business community. All Democrats did, except for Reps. Marc Corriveau of Northville and Kate Ebli of Monroe, who voted no.

There were no votes against the two bills implementing the budget extension.

The House cleared the board without tallying the vote on a measure that would change the way some teacher and state worker health benefits are determined.

It also failed twice to pass a measure tying teachers' health care coverage for retirement to how many years they've worked. It would have affected those entering the teaching ranks after June 30, 2008.

Without a budget deal in place, 35,000 of the state's roughly 53,000 workers were expected to be barred from going to work Monday morning and all state services except those needed to protect health and safety were slated to halt.

State workers were told their paychecks would be reduced to reflect any hours missed because of a shutdown. They were given a phone number to call and a Web site to check to see if they should come to work today.

The state last withheld some employee paychecks in 1959, when a cash-starved state budget resulted in what became known as the Payless Payday crisis.

Raising the state's income tax to 4.35 percent would raise an additional \$765 million for the state. Extending the sales tax to some services starting Dec. 1 would bring in an estimated \$614 million for the 10 months remaining in the fiscal year at that point, or about \$750 million annually, state Treasurer Robert Kleine said.

The sales tax would not apply to tickets to sporting and entertainment events, golf, dry cleaning, haircuts or to legal or accounting services, he said. Businesses and consumers would pay the tax on ski tickets, administrative and investment services, consultants, warehousing and storage, interior design, commercial landscaping and janitorial services, among others.

The tax is designed to apply to services that people don't have to use if they want to avoid the tax, Kleine said. The Michigan Chamber of Commerce is lobbying against the measure.

The state already has the nation's highest unemployment rate - 7.4 percent in August - and just went through a two-day strike involving the United Auto Workers and General Motors Corp. Disrupting services from state parks to road construction could further upset an already unsettled public.