

New state budget deal already under the gun

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By **TIM MARTIN** of The Associated Press

Michigan's fragile state budget agreement was reached in the middle of the night after months of sometimes painful give-and-take between lawmakers and Gov. Jennifer Granholm.

Shortly after the sun came up Wednesday, it was clear the negotiations and the pain aren't over.

Lawmakers already have introduced bills that would kill off the expanded 6 percent sales tax on services set to take effect Dec. 1. Many businesses consider the tax confusing and unfair, with some warning it will cause them to lose business to out-of-state competitors or have to leave the state themselves.

Businesses would pay about three-fourths of the new tax, which would bring in about \$725 million a year, raising concerns that it could discourage growth in the service sector that Michigan desperately needs.

The Legislature could have its hands full dealing with the issue before a scheduled two-week break in mid-November. That doesn't leave much time to act.

Granholm said Wednesday she could support repealing the services tax law before it takes effect, but she wants lawmakers to come up with other ways to raise the \$614 million the new tax is expected to bring in this fiscal year so payments for schools and other state programs aren't affected.

"I am and have been in discussions with the business community about what that could look like. My criteria for the replacement are that it is revenue-neutral and bipartisan, and is not temporary," the Democratic governor told reporters. "Any changes have to be made in the very, very near future."

Sen. Mike Bishop, the Legislature's top Republican, is among the lawmakers who support looking at a repeal before the new tax takes effect.

Some business groups already have offered to temporarily hike the rates in the new Michigan Business Tax set to take effect Jan. 1 to offset the hundreds of millions lost through repealing the broader sales tax on services.

House Republicans offered their own plan Wednesday, saying they back a repeal plan that would make up the money lost by additional state budget cuts, including a 5 percent cut to lawmaker salaries and savings in state employee benefit programs.

The House GOP plan also would put no more tobacco settlement money into the state's 21st Century Jobs program, which provides seed money to new biotech, advanced manufacturing and other startup businesses. Granholm has opposed earlier efforts by Republican lawmakers to stymie funding for the program, which she sees as critical to helping Michigan's struggling economy.

The service tax was part of the solution reached to fill a \$1.75 billion hole in the state budget. By extending the sales tax to more services and raising the state income tax from 3.9 percent to 4.35 percent, the state hopes to raise \$1.3 billion in new revenue this fiscal year.

But much of that money just replaces previous cuts or delayed payments from the previous state budget. Most of the 3 percent increase in the state's \$22.8 billion in combined spending in the general and school aid funds will cover higher costs in the state's Medicaid and prison systems.

There also is lingering tension over the \$433 million in cuts and scrapped spending increases that lawmakers made this week. Less money means the state police will close two forensic labs, spending will be slashed at two veterans' homes and prison cells will be more crowded.

Public schools are worried Michigan residents may expect new programs, or at least no further cuts, because of the recently approved tax increases. But the reality is that the new budget deal likely will let schools limp along at current levels at best, said Tom White, executive director of the Michigan School Business Officials.

"What they did is fill the pothole that was in the road, but they didn't change the road," White said. "Fundamentally, schools are in the same position as when this all started. It's a survival budget."