

# Michigan budget deadlock broken through cutbacks, tax increases

## \$435 million in additional cuts still threatened

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Michigan state legislators voted to approve a budget deal five hours into a partial shutdown of state agencies ordered early Monday by Democratic Governor Jennifer Granholm. Some 35,000 of the state's 53,000 employees were temporarily affected.

The governor had set an October 1 deadline, the end of the state's fiscal year, for the legislature to reach an agreement resolving a \$1.75 billion budget deficit. The deal, announced in the early morning hours, led to the layoffs being rescinded.

The state has already enacted hundreds of millions in spending cuts this year. Revenue collections are in freefall due to the continued downturn in the state's economy, spearheaded by the meltdown of the auto industry.

Michigan faces a 7.4 percent unemployment rate, the highest in the United States, and home foreclosures in the Detroit area are running at five times the national average.

The budget deal places the burden for the state's economic troubles on the shoulders of working people. Republicans and Democrats agreed on an increase in the state income tax, a regressive flat tax, from 3.9 percent to 4.35 percent. They also approved an extension of the state sales tax to a wide range of services, including landscaping, couriers and hair salons. Both measures will affect workers and small businesses the hardest.

As part of the settlement, Democrats agreed to a Republican proposal targeting healthcare for teachers. The measure forces school districts to solicit competitive bids for employee health benefits, which in many districts are covered by the Michigan Education Special Services Association, which is affiliated with

the Michigan Education Association, the state's largest teachers' union. The Michigan Education Association said the new rules would allow insurers to "cherry pick" the most lucrative districts at the expense of others.

The bill also establishes a graded premium for retiree healthcare, whereby retired school employees will only get a certain percentage of their health premiums paid using a calculation based on the number of years worked. To get full benefits, teachers will now have to work 30 years. Currently a 60-year-old teacher has to work only 5 years.

New teachers hired after June 30, 2008, will have to pay more into the pension fund, 6 percent instead of 4 percent.

The compromise included a 30-day budget extension, which will allow legislators time to discuss a permanent 2007-2008 budget, which will include an additional \$435 million in spending cuts.

Universities and community colleges will likely see a planned 2.5 percent funding increase for the current fiscal year eliminated. Reductions in state funding earlier this year led to massive tuition increases this fall ranging from 10 to 15 percent. There is also talk of eliminating a \$138 million reimbursement owed to universities to cover lack of payment in July and August.

A 1.1 percent cut in reimbursements to state Medicaid providers is also under consideration, which advocates for poor children say could lead to more doctors refusing to treat low-income patients.

Cuts are also being considered for daycare services and foster children's healthcare may be shifted to a Health Maintenance Organization.

“We don’t have the same state we used to have. Present revenues are not there,” said Senate Majority Leader Mike Bishop, Republican of Rochester. “You have to identify your priorities and be able to fund them as we can.”

“These cuts will be difficult, but they must be done,” concurred Governor Granholm, who cut \$4 billion from state spending over the course of her previous term.

Over the past two weeks, a possible shutdown of state operations loomed as Republicans and Democrats were deadlocked over the best means of resolving the budget crisis. Both parties ruled out in advance any measures that would place the burden of the crisis, even partially, on the wealthy. Indeed, to forestall such a possibility, many years ago, the state enacted a constitutional amendment banning a progressive income tax.

For their part, the Republicans opposed tax increases, calling for additional spending cuts. Democrats demanded that spending cuts be partially offset by new taxes that would hit workers and small businesses the hardest.

While the conflict was no doubt real, the drama of the state shutdown, noted in hourly news reports, served to obscure the basic fact that both parties were equally intent on making the broad mass of working people pay for the shortfall. Their only differences were over tactics.

The budget crisis is due to both the impact of the meltdown of the auto industry and more than a decade of tax cuts for the rich, aimed at making the state more “business-friendly.” The tax cuts have eroded Michigan’s tax base, leading to drastic cutbacks in education and social services.

Between 2000 and 2006, Michigan lost 336,000 jobs, the longest stretch of employment loss in the state since the Depression. The state recorded the loss of another 56,000 jobs through August of this year.



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