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# Supermajority Proposal: A Super-Bad Idea for Michigan

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Michigan residents are being asked to embrace a proposal that would endanger support for our schools, transportation and other building blocks of job creation and a strong economy. In addition, this proposal to amend Michigan's Constitution would increase the power of special interests, lock in wasteful corporate tax loopholes and increase the state's borrowing costs. All of these ill effects, and more, could become reality under an amendment that would require a two-thirds majority vote by the Legislature—instead of the simple majority required since Michigan became a state in 1837—to increase taxes. But first, supporters of the amendment must gather enough signatures from registered voters to put the "supermajority" proposal on the November ballot.[1] Voters have more than enough reasons not to sign the petition.

## Supermajority Requirements Tie the Hands of Policymakers

A two-thirds vote requirement would allow a small minority of legislators to stifle necessary revenue increases even if they are supported by a simple majority. During an economic downturn, lawmakers would be virtually locked in to making damaging cuts to education, health care and other resources instead of pursuing a balanced approach that also includes more revenue. A cuts-only approach increases the likelihood that recessions will be deeper and longer. It takes resources out of the economy just when they are needed most and harms schools, transportation and other building blocks of long-term job growth. Indeed, states with supermajority requirements fared worse during the recent recession than other states.

Michigan's economy has already been damaged by excessive cuts. From 2002 through 2010, funding for programs housed in state departments was cut 25%.[2] State Revenue Sharing, which funds local public safety and other community services, was cut by more than $4 billion between 2001 and 2011. Since 2001, over 3,500 law enforcement officials have been cut. In the current fiscal year budget alone, $1.5 billion was cut. These include steep cuts to K-12 education, a 15% cut to colleges and universities and a 4% cut to community colleges.

Meanwhile, revenue collections have been falling. For the past 12 years, total collections remained below the revenue limit set in the state Constitution. In fiscal year 2012, collections are expected to fall nearly $6 billion below this revenue limit.[3] In addition, the inflation-adjusted General Fund, a measure of Michigan's

[1] Center on Budgetand Policy Priorities, *Six Reasons Why Supermajority Requirements to Raise Taxes Are a Bad Idea*, February 13, 2012. http://www.cbpp.org/cms/?fa=view&id=3678

[2] Governor Granholm Biography, State of Michigan Former Governor's Home page, http://www.michigan.gov/granholm/0,4587,7-168--57920--,00.html

[3] House Fiscal Agency, *Economic Outlook and HFA revenue Estimates*, http://www.house.mi.gov/hfa/PDFs/Revenue%20Estimates%20May12.pdf, May 2012, p. 22.

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discretionary funds, has declined by 40% since FY 2000.[4] Clearly, Michigan's revenue collections are already low and do not need to be artificially depressed. A supermajority requirement would hurt the state's ability to manage resources that can change with the ups and downs of the Michigan economy.

## Special Interests Gain Power with Supermajority Requirements

Efforts to end ineffective and unfair tax breaks that benefit large, profitable corporations and other special interests would also be subject to the supermajority requirement since they would raise revenue. This would make it much more difficult to eliminate them even if they fail to create jobs. But only a simple majority would be needed to create or expand costly tax loopholes.

Michigan business taxes are at their lowest level in decades. They were cut by 83 percent, or $1.6 billion, in 2011 and 95,000 businesses were exempted from the new Corporate Income Tax. At the same time, taxes on families and individuals were boosted by $1.4 billion, primarily by ending or reducing tax credits, exemptions and deductions that benefit families. A supermajority requirement would make it very difficult, if not virtually impossible, to reverse this unfair tax shift by restoring collections formerly provided by businesses to pay for the services they use.

### Proposed Constitutional Amendment

"No new or additional taxes shall be imposed by the state government, nor shall it expand the base of taxation, nor shall it increase the rate of taxation unless: (a) by the vote of two-thirds of the elected members of each branch of the Legislature; or (b) by a statewide vote of Michigan electors at a November election."

## Supermajority Requirements Impede Tax Reform

Middle- and lower-income Michigan households pay a far higher percentage of their earnings in taxes than upper-income households do. This is partly due to Michigan being one of only a handful of states with a single income tax rate. (Most other states with income taxes have graduated rates that increase along with income.) A supermajority requirement would impede efforts to create a more fair tax system in Michigan. That's because comprehensive tax reform could include increasing some taxes, making it subject to approval by a two-thirds majority vote, even though other taxes would be lowered or eliminated. Tax reform that benefits the majority of Michigan taxpayers could be halted by a small minority of dissenters.

## Supermajority Requirements Can Increase State Borrowing Costs

Michigan and other states routinely sell bonds to finance the construction of roads, schools, hospitals and other investments in the future. The interest rates they pay on the bonds are determined by scores set by credit rating agencies such as Moody's and Standard & Poor's. Supermajority requirements can lower a state's credit rating, leading to higher interest rates that cost taxpayers millions of dollars, because they make it more difficult to raise revenue and pay debts. Moody's cited supermajority restrictions in Nevada and Arizona as reasons for downgrading those two states in recent years. It also expressed concern about the supermajority requirement in Oklahoma, citing the rule as a reason for declining to raise that state's credit rating.

A supermajority requirement would also set back the state's effort to persuade credit rating agencies to boost its score. In 2003, Michigan's credit rating was lowered from AAA, the highest Standard and Poor's

[4] House Fiscal Agency, *A Problem 10 Years in the Making*, Mitch Bean, Director, April 21, 2011, p.7. http://www.house.mi.gov/hfa/PDFs/FINAL%20Bauer%20Town%20Hall%20Apr21%20WEB.pdf

rating, to AA, down three steps from the top.[5] This downgrade meant that Michigan was viewed as a less-than-safe credit risk.  Lower ratings translate into higher interest rates that cost taxpayers millions of dollars. In the FY 12 budget, Michigan took significant steps toward getting the bond rating restored by improving its financial picture with payments into the Budget Stabilization Fund and balancing the state's structural budget deficit.[6] However, the bond market moves in a very measured pace and upgrades take years. Supermajority requirements are rigid rules that will damage Michigan's financial standing because bond agencies see the state as less responsible for paying their bills. Standard & Poor's specifically mentions not having constitutional constraints to adjusting taxes or revenues in giving states a higher credit rating.[7]

## Supermajority Requirements Don't Prevent All Tax Increases

Making it difficult to raise taxes doesn't take away the need to fund services. If a supermajority requirement is imposed, lawmakers are more likely to raise fees and other levies not subject to the requirement. Alternatively, if they cut funding for local services and schools, local property taxes may have to be raised to replace state funding. This results in simply shifting taxes from the state level to the local level.

[5] *Michigan Seeks to Regain Triple-A Credit Rating in Four Years*, http://online.wsj.com/article/SB10001424052702303714704576385804139832050.html, June 14, 2011, Wall Street Journal.

[6] http://www.mlive.com/politics/index.ssf/2011/06/snyder_upbeat_on_michigan_bond.html June 14, 2011 M Live. And, MIRS, May 18-19, 2012.

[7] Center on Budgetand Policy Priorities, *Six Reasons Why Supermajority Requirements to Raise Taxes Are a Bad Idea*, February 13, 2012. http://www.cbpp.org/cms/?fa=view&id=3678, p. 6.