



Michigan Osteopathic Association

Michigan Budget: What needs to get done:

2007 Problem: Because revenues have come in behind predictions, Michigan has a \$900 million shortfall in this fiscal year. As required by the constitution, the Governor put out a plan to address the shortfall by cutting \$115 million in expenditures and raising the other \$800 million with a new 2% tax on services. The Senate rejected the Governor's plan because it did not make enough cuts in the state budget. Thus far, the Senate has not offered any recommendations for further cuts. The problem is, the longer the cuts are delayed, the bigger the percent of the budget must be cut to achieve the necessary savings.

Comment: The delay is because both the Governor and the Senate want the other to be the author of the unpopular budget cuts. The Governor has put out a proposal to address the \$900 million budget shortfall. If the Senate wants more cuts to address the shortfall, they should offer a plan to outline where they propose to cut the budget. This is the way to begin a negotiation.

2008 Problem: The projected 2008 shortfall is \$3 billion. This comes from two sources: 1) the repeal of the Single Business Tax (SBT) creates a \$1.9 billion revenue shortfall and 2) there is a \$1 billion shortfall in other revenue sources. The Governor has proposed:

1. A SBT replacement called the Michigan Business Tax (MBT) that will raise \$1.5 billion.
2. The continuation of the 2% services tax from 2007 that will raise about \$1.5 billion.
3. A variety of other taxes and cuts that account for \$300 million.

The Senate has also proposed a replacement for the SBT called BEST (Business & Economic Stimulus Tax) It would also raise about \$1.5 billion.

MOA Position: Six principles that must be addressed in the Michigan budget:

1. The state of Michigan requires a budget / tax solution that addresses the \$3 billion budget deficit. Currently, only the Granholm proposal accomplishes this. However, there are other combinations of budget cuts and tax increases that could accomplish this goal and should be discussed.
2. Limited revenues mandate that the state reduce or eliminate all non-productive expenditures before a tax increase is considered. However, individuals or groups who demand reductions in state expenditures without identifying where those cuts can be made are not credible.
3. The state of Michigan has baseline responsibilities to public health and the welfare of its citizens that cannot be abrogated. While the identification and elimination of unproductive discretionary expenditures should be a first priority, it is irresponsible to assume that state government can continue to suffer budget cuts year after year without affecting its constitutional responsibilities.
4. Michigan's tax base must be redeveloped to focus on a future that is not reliant on heavy manufacturing.
5. Michigan is at a crossroads and must decide whether continued tax reductions and budget cuts or investment in Michigan's workforce and infrastructure will result in economic growth in the future.
6. One institution that has thus far been held harmless in the budget cutting process is the state legislature. While substantial savings cannot be squeezed from the legislative budget, it is imperative that the legislature subject themselves to the same budget cuts that are experienced in the rest of the budget. The significance of this symbolic gesture is obvious.

Governor Granholm's proposed budget / tax package is the only proposal that currently comes close to the six principles. However, the MOA believes that the Governor's proposals would benefit from earnest discussion of alternative approaches. Thus far, there has been no serious discussion of alternatives, only politically motivated grandstanding and posturing. The MOA will not support a budget / tax package proposal that does not address these six principles.