Person Centered Planning Workgroup Meeting
October 22, 2008

Location: ARC Michigan Offices, Lansing, Michigan

Individuals Present: Jane Alexander, Nora Barkey, Tari Muniz, Kianna Harrison, Andrew Farmer, Denise Rabidoux, Dohn Hoyle, Monique Bonkowski, Marsh Ellis
(I believe others were in attendance but I do not have them listed in my notes-Workgroup Members please let me know if I missed your name-Denise)

Denise Rabidoux called the meeting to order and asked everyone to introduce themselves.

Those present reviewed the planned items of discussion/agenda items and determined that the "flow" of meeting seemed reasonable and would lead to a stated set of action items and follow up items to address by either the nursing home sub group or the PCP Workgroup as a whole.

Ms Rabidoux presented to the group a summary document highlighting the charge issued to the PCP Workgroup and identified the work by various members to date and provided a comprehensive update to those present on the work conducted by the nursing home sub group.

Key principles began to emerge as the discussion continued around what it means for the consumer/client to be "in charge" of their decisions related to their long term care. It was recognized by Dohn Hoyle and others in the group that guardians by their very nature of appointment take control away from the client and place it in the "laps" of another person. It was observed that in some cases a "champion" for the client/consumer is not the guardian and perhaps should not be the guardian in any circumstance. There was a discussion around creating "champion expectations". For instance, all agreed that there should be an expectation that the client "champion" should physically visit and observe for themselves. A qualification of a "champion" would be that they view their role as one of advocacy for the consumer.

Another observation/principle exemplifies person centeredness as a concept to be applied in planning with and supporting any client/individual utilizing long term care supports and services of any kind. A true process puts the individual in charge of their own life; despite the difficulties those around the client may have with the notion of "in charge". It asks the client, "What are you going to do?" and "When are you going to do it?" and "How would you like it done?"

Dohn voiced an observation that living in a "group" setting compromises person centeredness. Andy challenged the group to think of the possibility of recommending a continued process where person centered planning was an expectation across the continuum or array of services and that "compromise" was not a principle.

Denise identified for the members present what tasks are currently being looked at in the nursing home sub group. The "cycles" or "stages" of a nursing home stay were identified and she identified that the test communities were addressing issues related to the pre admission and admission process with nursing homes.

A key observation by the sub group was also the observation of continual evaluation by the client. An evaluation process that continually asks, "How are we (the provider staff) doing now?" "Is there anything we should do differently?"

The presentations by Kari Muniz and Kianna Harrison were extremely helpful as they provided information on the status to date on the implementation of person centered planning in the LTC Connections site, the Waiver Program, etc. A review of education and training to date was also presented. Jane Alexander also discussed her participation in a task force around the implementation of person centeredness in the acute care/hospital setting.

The group also received a report by Nora Barkey and Jane Alexander that focused on the rules or practice guidelines already established as a part of the Long Term Care Workgroup Final Report. The discussion continued around whether the PCP Workgroup can begin to identify a group of standardized principles of person centeredness across the array of long term care supports and services.

It was also determined that the work to date would allow us to begin to draft a competency guideline, expectations of the role and a specific education program for the client "champion" in the person center planning process.

The following common themes surfaced:

- **There is a great need for ongoing public and consumer education. There needs to be a focus on education for family members and the community at large on what "control" and person centeredness means.**
- **There is a need to define the "champion"-what is the role of a "champion"? define the training needs of a "champion", what are the expectations in order to remain a "champion"?**
- **Begin to frame a set of UNIVERSAL practice guidelines and then develop a strategy/plan to introduce and get "buy in" by all the array of service sectors.**
- **Implementation and next steps discussions around the universal practice guidelines will most likely need a sub committee to roll out a plan and establish the universal training materials.**
- **Do we need to revisit participants on the PCP Workgroup to make certain that adequate representation exists? Who do we need to get familiar with our work to date?**
- **How do we begin to coordinate some of our efforts with other workgroups such as Workforce, Finance, Public Education?**
- **What challenges exist in accessing a common data base? What are the technology and information challenges? Is there further information and common access opportunities with service point software?**

The group decided that Nora Barkey, Denise Rabidoux, Jane Alexander and Dohn Hoyle would have a follow up meeting prior to the next Commission Meeting on November 24, 2008.

Respectfully Submitted,

Denise Rabidoux
Co-Chair Person Centered Planning Workgroup

UPDATE:

Workgroup on Person-Centered Planning

October 22, 2008

Workgroup Charge/Responsibility

- Evaluate the implementation of the Person Centered Planning Process as it exists today; including the use of a *consumer chosen supports coordinator* and the process evident in the Medicaid Waiver Program, Single Point of Entry Process, and the LTC Connections sites.

- Review and Refine *Practice Guidelines* and Protocols in a meaningful way so that implementation of the Person Centered Planning Process becomes operational in all long term care settings/service lines.

- Focus workgroup efforts on the importance of ongoing education related to *Practice Guidelines* and "culture change" processes.

Workgroup Charge/Responsibility

- Determine a realistic next steps approach to moving Person Centered Planning into all aspects of long term care supports and services.
- Determine barriers to implementation and make recommendations for change.
- Identify opportunities for advancing and supporting the individual client in all LTC Services Sectors.

Initial Workgroup Meetings Focused on:

•Gaining knowledge regarding Person Centered Planning effectiveness to date.

•Determining reasonable goals and objectives for the Person Centered Planning Workgroup.

•Creating a mechanism for ongoing discussion about task timelines and objectives.

•Determining whether there was widespread workgroup membership, participation and member support.

•Asking ourselves, "What are the questions we need to answer to determine future opportunities and challenges?"

Initial Discussions

- Defined the nursing home as the most regulated and perhaps the most restrictive of the supports and services environment or programs.

- Recognized that conservatorships/guardianships were causing challenges to the implementation of a Person Centered Planning Process in all service sectors and programs and challenged legislation counter to Person Centeredness

Shared Learnings

•There is a difference between a Person Centered Environment and what is true Person Centered Planning!

•There is a recognition that regulations may be a significant barrier to implementation of a true Person Centered Planning Process where the client is at the center of the planning process and where the client's needs, wants and desires are documented and realized on a daily basis.

•There was significant recognition that education of all stakeholders would be necessary and imperative.

•There was a strong feeling expressed by Workgroup members that a subgroup of nursing home providers could evaluate further the existence of the Person Centered Planning Process in a small sample of nursing homes.

Further Shared Learnings

•Despite the Workgroup's ideal belief that culture change education will "jump start" the training in all LTC service sectors, some prescriptive *Practice Guidelines or "Tools"* will need to be developed.

•The *Practice Guidelines* could lead to a series of "open ended questions" for the leader.

• The **consumer** needs to appoint a **"champion"** who understands the Person Centered Process and this **"champion"** should not be the SPE supports coordinator.

•The Workgroup acknowledged the availability of best practice literature that should be evaluated as the Workgroup makes final recommendations.

Next Steps

•Nursing home provider subgroup will begin to analyze the existence of Person Centered Planning Process in a sample group of skilled nursing facilities where culture change has and has not been implemented.

•Need to continue to monitor legislative actions/bills related to guardianships/conservatorships.

•Workgroup will periodically obtain an update from the Office of Long Term Care Supports and Services around the status of the Person Centered Planning Process. The desired report should include identification of short falls.

Desired Outcomes

•Nursing home subgroup will provide a platform for further study and analysis.

•Workgroup will be able to identify Barriers to Implementation along with several Key Recommendations back to the Commission.

•Workgroup will continually evaluate the guardianship approval process and legislative activity related to guardianships or conservatorships.

Nursing Home Sub-Group Update

- Person-Centeredness is a concept to be applied in planning with and supporting the individual who is utilizing/receiving long-term care services.
- A successful Person-Centered Planning Process puts the individual in charge of their own life.

Nursing Home Sub-Group

- Person-Centeredness focuses on individual strengths, skills, life accomplishments, and acknowledges individual needs and desires.
- The consumer of long-term care services who has significant cognitive impairment must be given the opportunity to make as many personal choices/decisions as possible.
- A consumer with cognitive limits may have a designated "champion" knowledgeable about the individual's strengths, skills, desires, needs, etc.

Nursing Home Sub-Group Work Plan

- Identify cyclical opportunities during a consumer's "stay" when a Person Centered Planning Process/Approach is key to individual self-determination, choice, & empowerment.

- Define the "ideal stakeholder experience" at each cycle. (Contrary to individual process) (?)

- Formulate a series of open ended, exploratory questions that prompt exploration of talents, skills, and capabilities and create future life plans and dreams.

- Determine barriers created by regulator interpretation and required assessment tools that may limit the opportunity for true person-centered inquiry.

Identified Stages/Cycles in Nursing Homes

- Public Education/Marketing Materials which explain commitment to Person-Centeredness
- Pre-Admission Visit to Individual's Home or to Hospital
- Admission Process
- Care Planning Process – Long-Term and Short-Term Goals, Life Planning
- Client Evaluation Process

November 13, 2008

Dear Lawmaker,

We are writing to encourage you to stand up for citizens in our state. With state budget cuts waiting in the wings and more economic pain for Michigan looming in the next year, now is not the time to eliminate revenue in the state budget by ending the surcharge on the Michigan Business Tax.

Ending the surcharge without finding a way to replace the revenue would be a terrible mistake that will further hurt our state. We need to make higher education affordable, improve our K-12 system, pay for medical services and prevention programs for poor children and the elderly and make sure our communities have the police and fire protection they deserve. We cannot invest in Michigan and continue to cut revenue at the same time.

In 2007, the surcharge was added in order to eliminate a much-maligned sales tax on services. The revenues from the surcharge were used to balance last year's budget and the budget that began Oct. 1. Budgets now in place and approved by this legislative body were based on that revenue. The Senate Fiscal Agency estimates that eliminating the surcharge over three years, as proposed in SB 1242, would cost $119.5 million this year alone, rising to $660 million in Fiscal Year 2012.

Now, with the Wall Street meltdown, the national economic crisis has further threatened to blow another hole in revenue projections. By ending the MBT surcharge, we would compound our already considerable problems.

We know there will be sacrifices and program cuts, even if we do not end the surcharge.

The 2007 tax increases were a balance between temporary increases on individual taxpayers – restoring some of the income tax cuts that were decided in better economic times – and adding a temporary surcharge on the MBT. It was a good compromise that came at an extremely difficult time in our state's history.

Gov. Jennifer Granholm has suggested she may support repealing the surcharge in exchange for Corrections reform that will reduce length of stay and free up some of the money spent on prisons. We all need to recognize that savings will not be immediate and will not replace lost MBT surcharge revenues.

Further, if we expect to reduce our disproportionately high incarceration rate, we will have to strengthen community oversight and support services and eliminate employment barriers for those remaining in and returning to the community. To be successful, we will need the business community to assist in this effort.

We can look forward to a day when Michigan prospers again. But we cannot afford to eliminate services as we struggle to reach that goal.

Please, invest in our future.

Sincerely,

AARP Michigan
AFT-Michigan
Center for Civil Justice
Comprehensive School Health Coordinators' Association
Justin King
William Long
Michigan AFL-CIO
Michigan AFSCME Council 25
Michigan Association for Infant Mental Health
Michigan Association of School Administrators
Michigan Association of School Boards
Michigan Coalition for Children and Families
Michigan Council for Maternal and Child Health
Michigan Council on Crime and Delinquency
Michigan County Social Services Association
Michigan Environmental Council
Michigan League for Human Services
Michigan Long Term Care Ombudsman Program
Michigan Municipal League
Michigan Nonprofit Association
Michigan Nurses Association
Michigan Primary Care Association
Michigan UAW/CAP
Michigan's Children
PHI-Michigan
Robert Swanson
Tobacco-Free Michigan

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1242 (as reported without amendment)
Sponsor: Senator Mark C. Jansen
Committee: Finance

CONTENT

The bill would amend the Michigan Business Tax (MBT) Act to decrease the MBT surcharge over three years and then eliminate it.

In addition to the taxes imposed under the Act, an annual surcharge is levied on each taxpayer equal to a percentage of the taxpayer's tax liability under the Act after allocation or apportionment to this State but before calculation of various credits. The surcharge does not apply to a person subject to the tax under Chapter 2A (an insurance company) or a person subject to the tax under Chapter 2B (a financial institution) that is authorized to exercise only trust powers.

For each taxpayer other than a person subject to the tax under Chapter 2B, the surcharge is equal to 21.99% of the taxpayer's liability. The amount of the surcharge levied on any taxpayer may not exceed $6.0 million for any single tax year. For a person subject to the tax under Chapter 2B, the percentage is equal to 27.7% for the tax year ending during 2008, and 23.4% for tax years ending after 2008.

Under the bill, the surcharge would be equal to the percentage of the taxpayer's tax liability shown in the following table.

Tax Year Ending During	Taxpayer not subject to tax under Chapter 2B	Taxpayer subject to tax under Chapter 2B
2008	21.99%	27.7%
2009	14.66%	18.47%
2010	7.33%	9.24%

MCL 208.1281

Legislative Analyst: Craig Laurie

FISCAL IMPACT

This bill would reduce Michigan business tax revenue an estimated $119.5 million in FY 2008-09, $333.3 million in FY 2009-10, $555.8 million in FY 2010-11, and $660.2 million in FY 2011-12. All of this loss in Michigan business tax revenue would reduce the General Fund. The bill would not have a direct impact on local government.

Date Completed: 10-1-08

Fiscal Analyst: Jay Wortley

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1038 (Substitute S-2 as reported)
Sponsor: Senator Nancy Cassis
Committee: Finance

CONTENT

The bill would amend the Michigan Business Tax Act to exclude from the definition of "gross receipts" certain proceeds, interest income, royalties, dividends, taxes, fees, and surcharges, and to include hedging transactions.

Under the bill, "gross receipts" would not include amounts that were only deemed received under the Internal Revenue Code (IRC). The bill also would refer to the entire amount received by the taxpayer from "business activity". The bill would exclude from the definition of "gross receipts" interest income and dividends derived from obligations or securities of the United States government and this State in the same amount that was excluded from Federal taxable income; dividends and royalties received from a foreign operating entity or a person other than a U.S. person; any tax, fee, or surcharge required by law, or any deposit required under the bottle deposit law; for a partner, amounts received that are attributable to another entity whose business activities are taxable under the MBT Act or would be subject to the tax if the business activities were in this State.

Under the Act, gross receipts do not include proceeds from a sale, transaction, exchange, involuntary conversion, or other disposition of tangible, intangible, or real property that is a capital asset as defined in the IRC or land that qualifies as property used in the trade or business, less any gain from the disposition to the extent that gain is included in Federal taxable income. Under the bill, gross receipts would include any hedging transaction. The bill would refer to land that was purchased before January 1, 2008, and qualifies as property used in the trade or business as defined in the IRC. The bill also would delete "less any gain from the disposition to the extent that gain is included in federal taxable income".

The bill specifies that it would be retroactive and effective for taxes levied on and after January 1, 2008.

MCL 208.1111 Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would reduce General Fund revenue by an unknown and potentially significant amount. The changes in the bill would provide additional reductions to gross receipts, in many cases excluding receipts that are often excluded under definitions of business income. The magnitude of most of the changes is unknown. Among the changes, the bill would exclude any taxes, fee, or surcharge legally required to be received by a taxpayer. As a result, sales taxes collected by retail businesses would no longer be included in gross receipts. The impact of not including Michigan sales taxes would reduce General Fund revenue by approximately $50 million, according to the Department of Treasury. However, the bill would exclude from gross receipts all sales tax collections, not just those collected under Michigan statute. Similarly, the bill would exclude from gross receipts any other fees and surcharges levied by other states.

The Department of Treasury estimates the bill would reduce General Fund revenue by ~~between $125 million and $150 million.~~

The bill would have no fiscal impact on local government.

Date Completed: 2-5-08

Fiscal Analyst: David Zin

~180 Mil

Floor\sb1038
This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

Michigan League FOR Human Services

DRAFT

November 13, 2008

Legislature Considering Phase-out of Michigan Business Tax Surcharge Despite Looming Deficits

During last October's budget impasse, with the state preparing to close parks and discontinue other non-essential services, the legislature adopted a 6 percent sales tax on selected services. Within weeks, however, negative public reaction convinced policy makers to replace the ill-fated services tax with a 21.99 percent surcharge on tax liabilities associated with the recently adopted Michigan Business Tax (MBT). The surcharge, which was viewed by many in the business community as less cumbersome to administer than a sales tax on services, was estimated to yield approximately $660 million annually prior to its phase-out beginning in 2017.

On October 2nd, less than one year after its adoption, the Michigan Senate approved a measure (SB 1242) intended to eliminate the MBT surcharge over a four year period beginning in the current fiscal year. The Senate also adopted SB 1038, a measure estimated to reduce MBT tax revenues by approximately $140 million annually in association with amendments governing the treatment of real estate and security trader commissions and taxes paid by companies with annual gross receipts less than $6 million. If implemented as adopted the Michigan League for Human Services estimates that these measures would reduce current year revenues by $260 million and cumulative state revenues through FY2012 by approximately $2.23 billion.

As the following table illustrates, the resulting revenue losses would exacerbate a forecast $500 million annual structural deficit and growing cyclical deficits associated with a rapidly deteriorating economy.

FORECAST DEFICITS ASSUMING ADOPTION OF MICHIGAN BUSINESS TAX CHANGES FY2009-FY2012

	FY 2009	FY2010	FY2011	FY 2012
MBT Surcharge Phase-out (SB1242)	–$.12	–$.33	–$.56	–$.66
MBT Taxable Income Changes (SB1038)	–$.14	–$.14	–$.14	–$.14
Forecast Ongoing Structural Deficit		–$.50	–$.50	–$.50
Forecast Revenue Loss Due to Recession	–$.56	–$.73	–$.38	–$.00
Total Projected Deficits	**–$.82 BIL**	**–$1.70BIL**	**–$1.58BIL**	**–$1.3BIL**

Data Sources: SB1242 revenue loss estimate prepared by the Senate Fiscal Agency, SB1038 revenue loss estimate prepared by the Michigan Department of Treasury, structural and cyclical deficit forecasts prepared by the Michigan League for Human Services.

Notes: The projected revenue decreases associated with the current economic downturn assume a percentage impact roughly equivalent to the revenue losses experience during the 1981-1983 recession.

The table above does not reflect an estimate for the potential increase in demand for services such as Medicaid and public assistance that typically increase during periods of economic distress. To the extent that demand for these counter-cyclical programs increase during what is expected to be a protracted recession, Michigan's deficit picture could be expected to worsen.

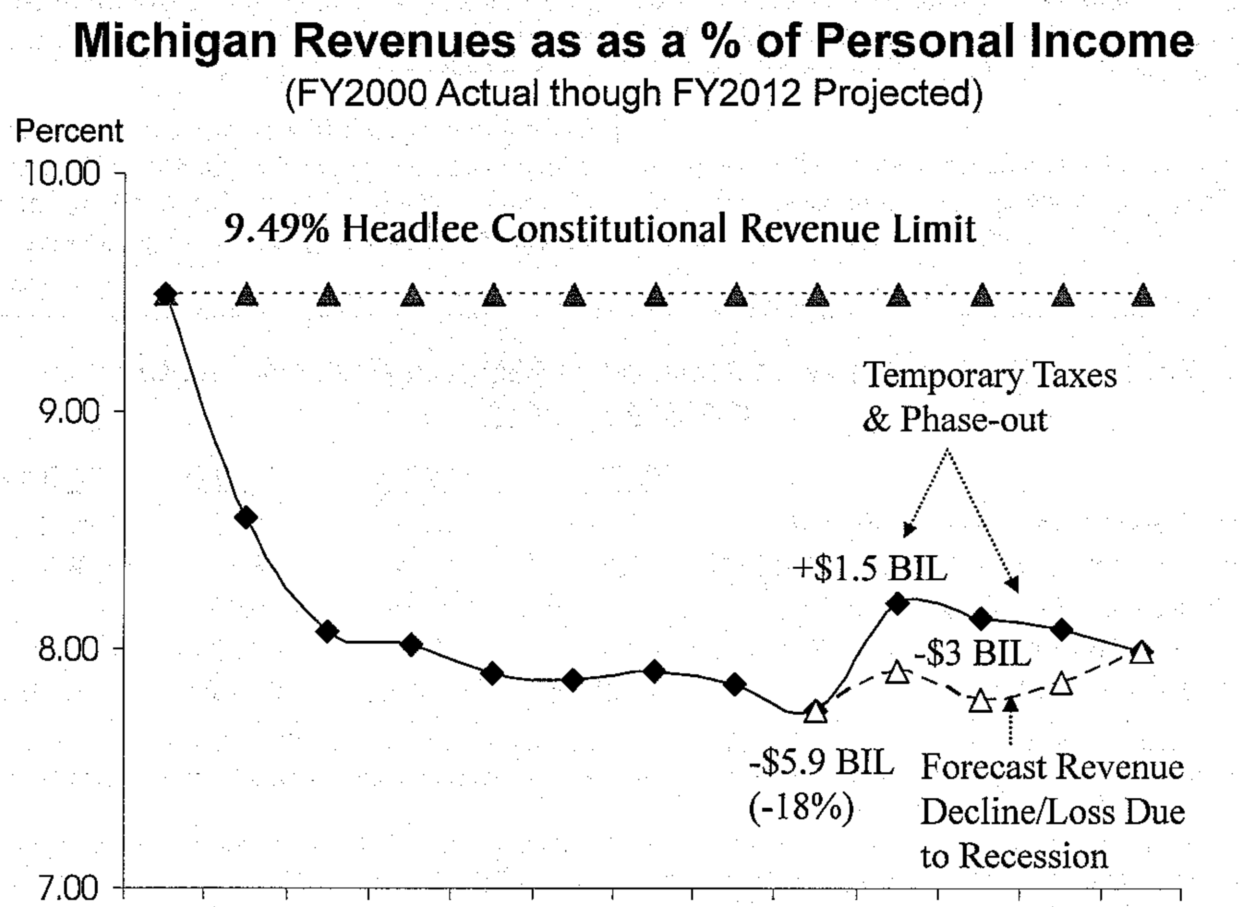
1115 SOUTH PENNSYLVANIA AVENUE • SUITE 202 • LANSING, MICHIGAN 48912

517.487.5436/PHONE • 517.371.4546/FAX • WWW.MILHS.ORG

A UNITED WAY AGENCY

Assuming that repeal of the MBT surcharge and reductions to taxable business income as proposed in SB1038 are not adopted, or if implemented that resulting revenue losses are replaced on a dollar for dollar basis, the preceding forecast suggests that Michigan would likely still face revenue shortfalls of approximately $3 billion through FY2012. These deficits would follow over $11 billion in budget shortfalls addressed by the state since FY2001 through a combination of program reductions, one-time accounting adjustments, temporary tax increases and the depletion of virtually all state fiscal reserves.

As the following chart illustrates, state revenues as a share of Michigan's economy fell by approximately 18 percent, equivalent to $5.9 billion in the last fiscal year alone, since FY2000. In an effort to address forecast out-year deficits exacerbated by this revenue decline, the legislature adopted temporary income and business tax increases intended to restore approximately one-fourth of identified revenue losses. Unfortunately, as the forecast revenue line on the chart below illustrates, most of those anticipated revenue gains appear likely to be offset by the impact of a recession whose dimensions may prove historic. Given the current economic uncertainties, and $3 billion in forecast revenue shortfalls through FY2012, the adoption of business tax cuts projected to reduce revenues by an additional $2.23 billion without a replacement revenue source would appear to be a prescription for massive cuts to public services already strained as the result of a significant disinvestment of resources in recent decades.



Data Sources: Annual CAFR, Consensus Revenue Conference Reports
Note: Forecast assumes the Michigan Business Tax and Surcharge are not significantly modified from their original form.

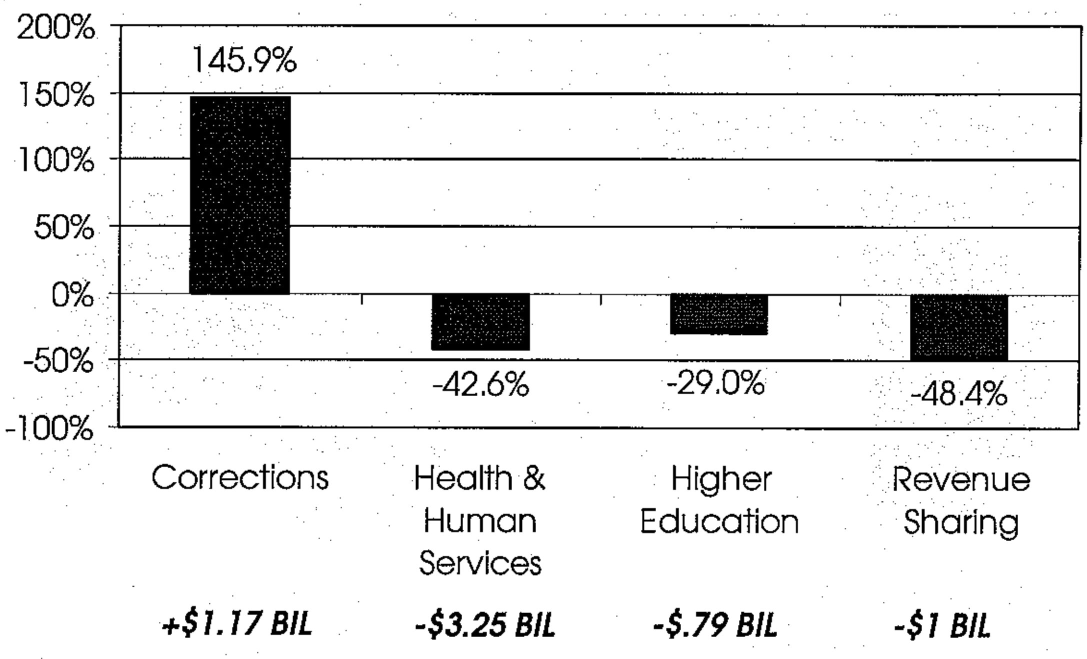
Prepared by Michigan League for Human Services

As the following charts illustrate, over the last twenty-five years Michigan has significantly reduced state funding as a share of personal income for health and human services programs, higher education and revenue payments to local units of government primarily in support of community fire and police protection. On average over this period state spending as a share of Michigan's economy declined by 40 percent in these categories, a disinvestment equivalent to approximately $5 billion. Over the same period state spending as a share of personal income increased by approximately 145 percent, equivalent to nearly $1.2 billion, for the Department of Corrections in conjunction with a rapidly growing prison population.

The sobering revenue trends outlined above suggest that Michigan faces enormous challenges as it attempts to resolve a long-term fiscal crisis that could devastate the programs that are critical to future economic growth and the maintenance of Michigan's quality of life. In this context, further reducing state revenues by adopting SB1242 and SB1038 would make the preservation of these critical programs significantly more difficult.

Michigan's Shifting Spending Priorities

Percentage Changes in General Fund Spending as a Share of Michigan's Economy (1985 vs. 2009).



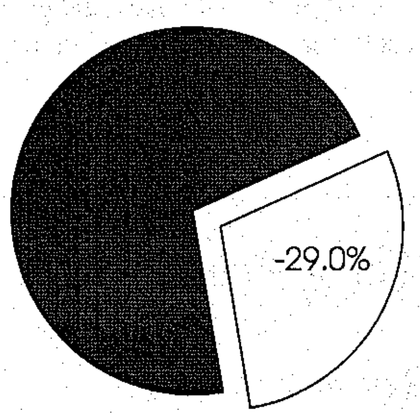
Note: The total personal income value used to represent the size of Michigan's economy in 1985 ($134.08 billion) was taken from the revised state by state personal income report prepared by the U.S. Department of Labor, Bureau of Economic Analysis. The 2009 estimate of total personal income in Michigan ($365.13 billion) was taken from the May 2008 Consensus Revenue Estimating Conference report.

Prepared by Michigan League for Human Services

Michigan's Shifting Spending Priorities

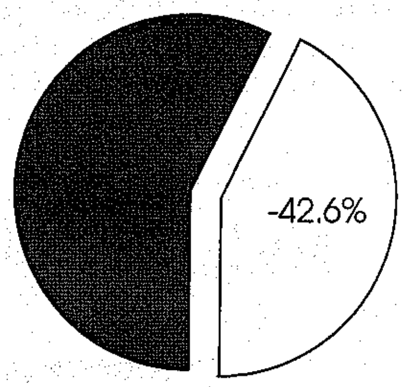
Percentage Changes In General Fund Spending as a Share of Michigan's Economy (FY1985 vs. FY2009)

Higher Education



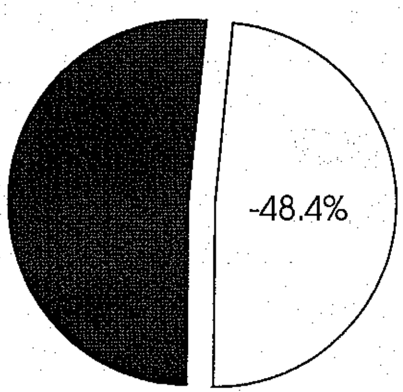
Represents $.79 BIL in reduced spending

Health & Human Services



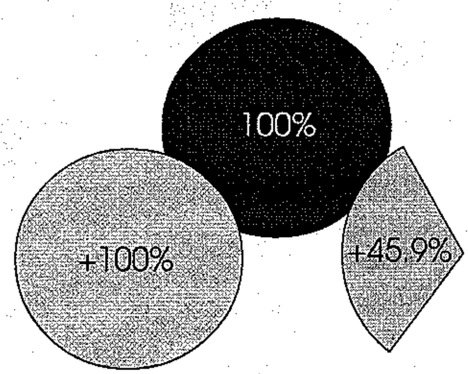
Represents $3.25 BIL in reduced spending

Local Revenue Sharing



Represents $1 BIL in reduced spending

Corrections



Represents $1.17 BIL in increased spending

Note: The total personal income value used to represent the size of Michigan's economy in 1985 ($134.08 billion) was taken from the revised state by state personal income report prepared by the U.S. Department of Labor, Bureau of Economic Analysis. The 2009 estimate of total personal income in Michigan ($365.13 billion) was taken from the May 2008 Consensus Revenue Estimating Conference report.

Prepared by Michigan League for Human Services

Medical Care Advisory Council

Advisory Council to the Medicaid Director

November 18, 2008

Honorable Carl Levin
U.S. Senate
House Office Building
Washington, D.C. 20510

Dear Senator Levin:

On behalf of the Medical Care Advisory Council, a federally mandated advisory body to the state Medicaid Director, I am writing to urge you to support and pass a second economic stimulus package without delay. Reports of state budget deficits continue to mount, as do discussions of reductions in state and local services. Governor Granholm has recently announced the likely release of an Executive Order, yet this calendar year, to cut the state budget.

As you are well aware, during economic downturns, people must rely on safety net programs to survive when jobs and benefits are lost. The Medicaid program, a key safety net program that provides critical health care services, experiences significant enrollment increases during economic slowdowns when state resources are declining.

To ensure that residents have access to needed medical care through the Medicaid program, your leadership and support of a second stimulus package that includes increases in the Federal Medical Assistance Percentage (FMAP) over a period of time is essential. An increase in the FMAP would help to protect the program from potential budget cuts that could increase the number of uninsured/underinsured.

We urge you to further assist state and local governments, stressed by the state and national recessions, by including fiscal relief for them in the stimulus package to ensure necessary public services can be maintained

In addition, we ask that you include a provision in the package to protect Michigan from significant loss of federal funds when the auto industry begins making payments to the insurance trust, Voluntary Employees Beneficiary Association (VEBA), included in the agreements between the auto industry and the unions. In 2003, General Motors made a similar one-time payment to their retirement fund, and that payment cost the State of Michigan hundreds of millions of dollars in federal matching funds because it artificially increased Michigan's per capita income, which is used in calculating the federal matching rate. We must guard against future federal funding losses due to these types of payments.

We look forward to your active participation and support of these critical issues on behalf of your constituents and Michigan residents more broadly.

Sincerely,

Jan Hudson, Chairperson
Medical Care Advisory Council

cc: Janet Olszewski, Director, Michigan Department of Community Health
Paul Reinhart, Michigan Medicaid Director
Chris Priest, Federal Policy Advisor

Common ground for Michigan's budget

Closing loopholes offers option to cutting state services

Since 2005, members of Legislature and the governor have offered tax loophole closures that would restore more than $400 million to the state's revenues. Tax loopholes – credits, expenditures, deductions and the like – often were passed years ago with no ongoing review of their benefits to the state. The idea of a second look at some of those loopholes has a surprisingly wide range of support that crosses party lines:

- Most recently, in 2007 the Democratic-controlled House voted to close $332.1 million in so-called tax loopholes during budget negotiations. Those bills are pending in the Senate.

- About $170 million over multiple years in tax loophole closures nearly became reality in 2005 when the House and Senate, both with Republican majorities, approved eight closures and Gov. Jennifer Granholm signed all but HB5107, which was vetoed. The bills were tie-barred to the vetoed bill, a Single Business Tax cut, so they did not take effect.

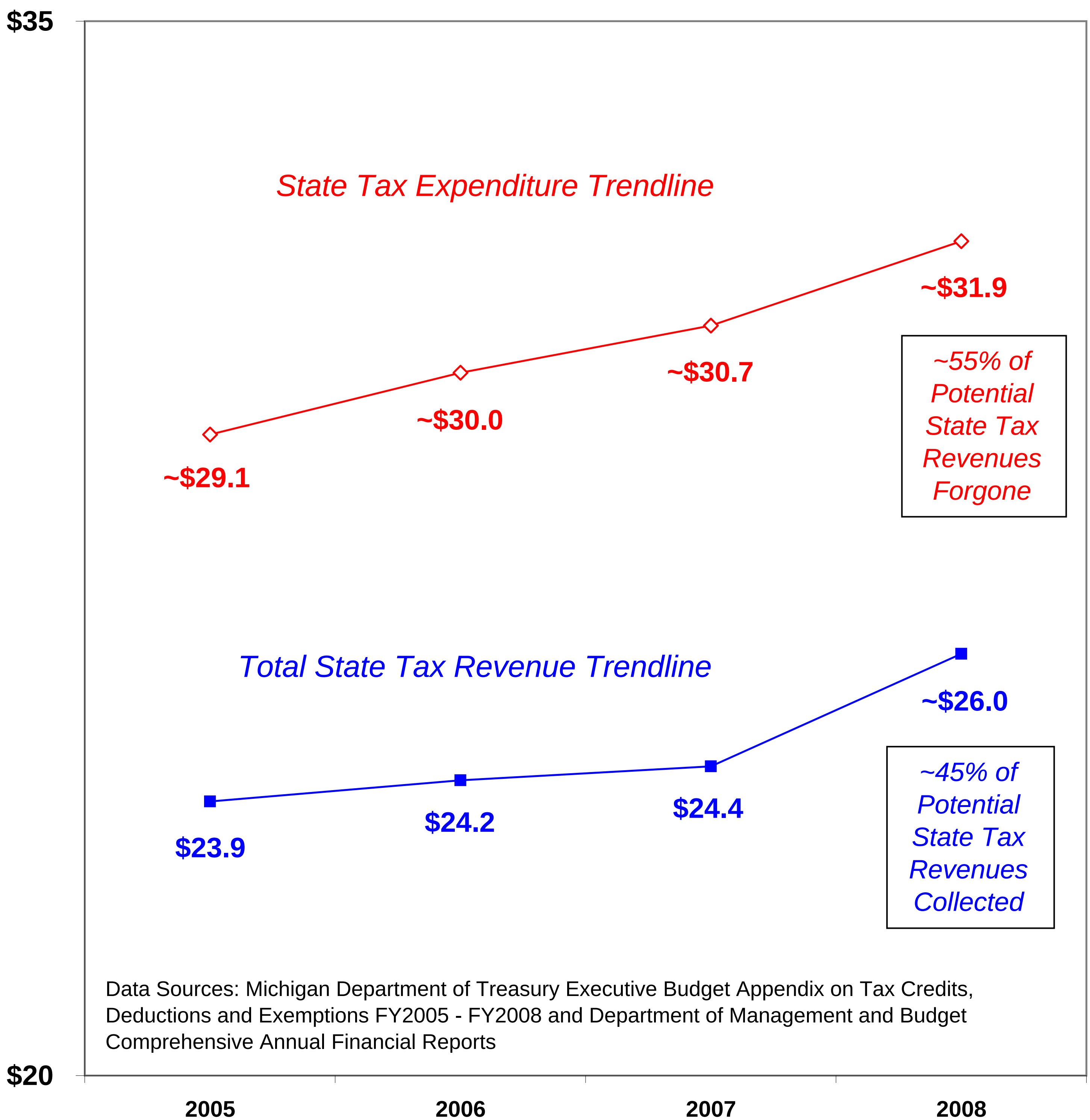
- In February 2005, Gov. Jennifer Granholm called for $112 million in tax loophole closures to balance the FY 2006 budget, and has renewed her call for loophole closures since then.

The House, Senate and governor, and members and leaders of both political parties have supported ending certain tax credits or expenditures. Closing those previously identified loopholes could add more than $400 million in revenue needed to continue state programs.

Supporting this option are:

AARP
AFL-CIO Michigan
American Federation of Teachers-Michigan
Center for Civil Justice
Michigan AFSCME Council 25
Michigan Association of School Administrators
Michigan Association of School Boards
Michigan Campaign for Quality Care
Michigan Council for Maternal and Child Health
Michigan Education Association
Michigan League for Human Services
Michigan Long Term Care Ombudsman Program
Michigan Municipal League
Michigan Nonprofit Association
Michigan Nurses Association
Michigan Primary Care Association
Michigan Protection & Advocacy Service
Michigan School Business Officials
Michigan's Children
Middle Cities Education Association
Presidents Council, State Universities of Michigan
Prevention Network Board
SEIU Michigan State Council
UAW Michigan CAP

Estimated Michigan Tax Revenue and Tax Expenditure Trends
($s in Billions)



Prepared by the Michigan League for Human Services 5/15/2008

Tax Loopholes Description

2007 Total: $332 million

In 2007, the House, led by Rep. Andy Meisner, D-Ferndale, adopted nine loophole closures as part of an effort to balance the budget. The votes were along party lines with Democrats in support. The bills are still pending in the Senate.

HB 5253 Decouple state business depreciation from feds: $70 million
Would increase state taxable income by decoupling state business depreciation rules from federal business depreciation rules.

HB 5254/HB 5255 Bad debts: $64 million
Would end exemption for bad debts of retailers who collect retail sales taxes.

HB 5254 Communications and telephone: $59.8 million
Would tax international calls and wide area telecommunication services or similar services the same as interstate telephone communications.

HB 5254/HB 5255/HB5256 Air and water pollution equipment: $44.2 million
Would end sales and use tax exemption for personal property purchases for certain water and air pollution control facilities.

HB 5254/HB 5255 Periodicals: $35 million
Would end business exemption for periodicals mailed second class

HB 5254/HB 5255 Vending machines: $25 million
Would end sales tax exemption for snacks and pop sold from a vending machine

HB 5252 Tobacco bad debt deduction: $17.7 million
Would end the bad debt deduction allowed to wholesalers who collect and remit the tobacco tax. Also eliminates withholding of 1.5 percent of tax to cover administrative costs of collecting the tax.

HB 5254/HB 5255 Employee meals: $8.4 million
Would end sales tax exemptions for restaurants providing free or reduced-cost meals to restaurant workers.

HB 5254/HB 5255 Aircraft parts: $8 million
Would end sales tax exemption for parts and materials used in repairs/refurbishment for some passenger and cargo aircraft

-- more --

2005 Total: $43.8 -- $170 million

Bills were approved by both House and Senate and signed by Gov. Jennifer Granholm, except 5107, which was vetoed. None went into effect because they were tie-barred to the vetoed bill. Total approved in 2005 was $91.1 million in Single Business Tax changes and $78.8 million in elimination of sales and use tax exemptions between FY06 and FY11.

This list breaks out $43.8 million in revenues that would be generated in FY09 if the eight loopholes were eliminated.

HB 5107 Eliminate international phone call exemption: $15.4 million
Bill would have applied use tax to international calls, wide area telecommunication services and interstate private networks.

HB 5098 Prohibit Subsidiary out-of-state gains deduction: $12.1 million
Bill would have prohibited deduction of gains from out-of-state subsidiaries.

HB 5108 Reduce small business credit: $5.5 million
Bill would have increased the portion of health care benefits that were counted as compensation, among other changes.

HB 5098 Restrict credit/loss carry forward: $5.5 million
Bill would have restricted certain business loss carry forwards.

HB 5098 Eliminate insurance company exemption: $3.3 million
Bill would have eliminated exemption for use tax on items purchased outside of Michigan.

HB 4980 Eliminate prison store exemption: $0.8 million
Bill would have ended sales tax exemptions for inmate purchases at prisoner stores.

HB 5098 Reduce apprenticeship credit: $0.6 million
Bill would have eliminated business tax credit for costs associated with training apprentices.

HB 5106/HB 5107 Eliminate driver's education vehicle exemption: $0.6 million
Bills would have eliminated sales tax exemptions for purchase or lease of vehicles used by public or parochial school driver's education classes.

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Governor's Plan Total: $112 million

In February 2005, Gov. Jennifer Granholm called for loophole closings to balance the FY 06 budget. Her nine-loophole plan would have saved $112 million. Those loopholes were not included in resolving the FY06 deficit.

Food sold through vending machines: $25.2 million
Eliminate the sales tax exemption of certain foods sold in vending machines so that all foods sold in vending machines are treated as food for immediate consumption.

International and certain interstate communications: $21.9 million
Eliminate use tax exemption for wide area telecommunication services, interstate private networks, and international calls.

Railroad credit: $20 million
Eliminate two credits for improvement and maintaining rights-of-way for railroad cars that effectively exempt railroad companies from the state utility property tax.

Copyrighted Motion Pictures: $20 million
Eliminate sales and use tax exemption for persons leasing or purchasing copyrighted motion pictures.

Interstate trucks and trailers: $16.4 million
Eliminate exemption of sales and use tax for trucks and trailers if 10 percent of miles traveled are outside of state.

Oil and gas royalty: $5 million
Eliminate deduction from the income tax of certain indirect costs (such as depreciation) from adjusted gross income – which Michigan Department of Treasury views as a double exemption.

Marginal Wells: $2.2 million
Standardize the tax rate for all oil and gas wells by eliminating lower rate for marginal wells to increase Gas and Oil Severance Tax.

Purchases made by Department of Corrections inmates: $0.7 million
Eliminate sales tax exemption for purchases at prison stores.

Water softener and water cooler exemption: $0.5 million
Eliminate property tax exemption on rented or leased water softeners and water coolers.

Compiled by the Michigan League for Human Services 5/15/08

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Common ground:

Tax loophole closures supported by lawmakers and Governor

1. **Decouple state business depreciation from feds: $70 million** *(H-2007)**
2. **Bad debt exemption for retailers: $64 million** *(H-2007)*
3. **Air and water pollution equipment: $44.2 million** *(H-2007)*
4. **Periodicals: $35 million** *(H-2007)*
5. **Vending machines: $25 million-$25.2 million** *(H-2007, Executive Budget 2005)*
6. **Railroad credit: $20 million** *(Executive Budget 2005)*
7. **Copyrighted Motion Pictures: $20 million** *(Executive Budget 2005)*
8. **Tobacco bad debt deduction: $17.7 million** *(H-2007)*
9. **Interstate trucks and trailers: $16.4 million** *(Executive Budget 2005)*
10. **Communications and telephone/international calls/wide area telecommunications: $15.4 million-$21.9 million -$59.8 million (***H.S.-2005, Executive Budget 2005 , H-2007)*
11. **Prohibit subsidiary out-of-state gains deduction: $12.1 million** *(H.S.Gov-2005)*
12. **Employee meals: $8.4 million** *(H-2007)*
13. **Aircraft parts: $8 million** *(H-2007)*
14. **Reduce small business credit: $5.5 million** *(H.S. Gov-2005)*
15. **Restrict credit/loss carry forward: $5.5 million** *(H.S. Gov-2005)*
16. **Oil and gas royalty: $5 million** *(Executive Budget 2005)*
17. **Eliminate insurance company exemption: $3.3 million** *(H.S.Gov-2005)*
18. **Marginal wells: $2.2 million** *(Executive Budget 2005)*
19. **Eliminate prison store exemption: $0.7 -$0.8 million (***Executive Budget 2005, H.S.Gov-2005)*
20. **Eliminate driver s'education vehicle exemption: $0.6 million** *(H.S.-2005)*
21. **Reduce apprenticeship credit: $0.6 million** *(H.S.Gov.-2005)*
22. **Water softener and water cooler exemption: $0.5 million** *(Executive Budget 2005)*

Total: $380.1 million - $424.8 million

Key:

- *Executive Budget 2005* –Part of Gov. Jennifer Granholm s'executive budget recommendation for FY06
- *H-2007* –Passed House in 2007. Amount cited is from House Fiscal Agency analysis
- *H.S.-2005* –Passed the House and Senate in 2005. Amount cited is FY09 estimate from Senate Fiscal Agency analysis
- *H.S.Gov--2005* –passed both chambers in 2005 and signed by Granholm but was tie-barred to vetoed bill, HB 5107. Amount cited is FY09 estimate from Senate Fiscal Agency analysis

* Differs from bonus depreciation in federal stimulus package, which is estimated to reduce state revenues by a total of $127 million in FY2008 and FY2009.

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