

# KAROUB

ASSOCIATES

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## MEMO

To: ESA Legislative Group

From: Matt Kurta

Re: End of Legislative Session Update

Date: December 19, 2014

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At roughly 6:45 this morning, concluding a twenty-hour session day that began at 10:00 yesterday morning, the Legislature adjourned for the year, bringing the 2013-2014 legislative session to a close. The 2014 "lame duck" session of the Legislature proved to be every bit as intriguing as promised, with the Legislature finding compromise at long last on a road funding package in addition to number of legislative initiatives either making their way to the Governor's desk or left to die in either the House or Senate. Following is a summary of legislative action this week:

### **Enacted:**

#### Bi-partisan Road Deal Reached

\* After multiple meetings this week and last between the Governor and the respective leaders of the House and Senate Republican and Democratic Caucuses, the parties announced a comprehensive deal Thursday morning. The framework of the deal represents five "Principles of Reform" declared by the parties yesterday:

- New, needed funding for roads and bridges,
- Protecting schools, local units of government and public transit,
- Dedicating taxes paid at the pump to transportation,
- Competitive prices at the pump, and
- Tax relief for lower-income individuals

The crux of the deal is a ballot initiative to be placed before voters on May 5, 2015 that will provide an option to increase the sales tax 1% from 6% to 7% and repeal the sales tax on gasoline effective October 1, 2015. The ballot initiative will also specifically state that School Aid Fund dollars cannot be used for higher education. Should voters approve the ballot initiative, roads will see an additional \$1.3

billion, schools will see both an additional \$300 million (roughly \$200 per-pupil) and a current-year increase in At-Risk funding of \$40 million, local governments will see an additional \$94 million, and lower-income individuals will receive tax relief of roughly \$260 million through expansion of the Earned-Income tax Credit and Homestead Property tax Credit. The state will also conduct a study on the true cost of properly educating a student to the point where he or she can show successful completion of the Michigan Merit Standard, and whether public money is distributed in a way where all children have equal opportunity to succeed in school. Finally, the state will begin requiring online retailers with a "nexus" in Michigan to remit Michigan sales & use tax on online purchases.

Modifying the rate of the state sales tax requires amending the Michigan Constitution, which can only be done either directly by voters or via a 2/3 vote in each chamber with approval by the voters at the next general election. As a 2/3 vote required cooperation and votes from both Republicans and Democrats in both the House and Senate, Democrats were able to negotiate a number of their priorities into the overall deal, but those priorities are tie-barred to successful voter approval of the ballot initiative, meaning that if the ballot proposal fails, the entire deal fails. The details of the deal are as follows:

- House Bill 4251 allows a township to require a county road commission to award road projects through competitive bidding if the township contributes more than 50% of the project costs
- House Bill 4539 eliminates the sales tax on gasoline after October 1, 2015
- House Bill 5477 creates a new 14.9% wholesale tax on gasoline
- House Bill 5493 includes diesel in the new wholesale tax
- House Bill 5167 requires MDOT and local road agencies to bid out certain projects
- House Bill 4630 freezes the depreciation status on certain vehicle registration fees, increases fees on heavier trucks, and creates a new fee for electric vehicle registrations
- House Bill 5460 requires warranties on road projects
- Senate Bill 80 sets aside \$40 million for "at-risk schools", and requires greater disclosure of school district board and administrator expenses
- Senate Bill 847 increases the state Earned Income Tax Credit to 20% of the federal level
- Senate Bill 423 creates the "cost of property educating a student" study
- Senate Bills 658 and 639 enact the "Main Street Fairness" bills for online sales tax
- House Joint Resolution UU puts the 1-cent sales tax increase on the ballot and modifies the distribution of sales tax
- House Bill 5492 exempts gasoline from the use tax and modifies sales tax distribution to the School Aid Fund
- House Concurrent Resolution 39 offers up suggested ballot language to the Board of State Canvassers

The House and Senate passed this package during the wee hours of the morning, though horse-trading for House passage of certain Senate bills was necessary near the end of session in the Senate to secure the final three votes needed for 2/3 passage, one of which was passage of a modified version of Senator Glenn Anderson's (R-Westland) anti-cyber bullying legislation, Senate Bill 78.

Overall, this package is a very good deal for school districts, who will surely be called upon to assist an emerging coalition in selling the package to voters at the ballot box in May. Should voters not approve the package, legislators will need to start again at square one and the status quo will remain.

### **Not Enacted:**

#### Teacher & Administrator Evaluations:

The House and Senate failed to reach an agreement on teacher & administrator evaluation reforms, meaning effective January 1, at least 50% of annual evaluations will be based on assessments and

student growth. Remaining disagreements center on the degree of local flexibility in evaluation tools, and discussions will continue when the new Legislature reconvenes in January.

### Early Warning

The early warning legislation that passed the Senate last week was reported out of the House Financial Liability Reform Committee this week, but did not see action on the House floor. The Governor will address this and overall transparency and accountability in school districts and local government in his State-of-the-State address on January 20.

### 3<sup>rd</sup> Grade Reading Retention & A-F Letter Grading

Legislation to require third graders to meet proficiency standards in reading before advancing to fourth grade (House Bills 5111 and 5144) and legislation to set up an A-F grade system for evaluating school performance (HB 5112) did not see action this week in the House, meaning the bills will need to start from scratch in January. Governor Snyder made some very positive comments earlier this week with respect to focusing on earlier intervention and teacher training rather than retention when the Legislature revisits this issue next year.

### Critical Shortage

Action on any of a number of bills to address teacher critical shortage will need to wait until next year. Outgoing Sen. Bruce Caswell (R-Hillsdale) deserves credit from the school community for a valiant attempt to find a compromise on the issue in Senate Bill 907.

### EAA

Legislation to codify the Education Achievement Authority (House Bill 4369, sponsored by Rep. Lisa Lyons (R-Alto) has passed both chambers, but will die on the Senate floor. While the legislation has seen significant modifications in each chamber since introduction, the Legislature is likely to revisit the issue next year in the greater context of ongoing discussions surrounding the future composition of Detroit Public Schools.

### School Bond Loan Fund

A late attempt by the Department of Treasury and outgoing Senator John Pappageorge (R-Troy) to further restrict school district access to the School Bond Loan Fund (SBLF) died in House committee. This legislation would have unnecessarily slowed future school construction to a grinding halt, especially in low- to middle-income suburbs, rural areas, and core cities.

Overall, given the number of legislative challenges facing schools and uncertainty surrounding road funding proposals in lame duck and throughout the past two years, the 2013-2014 session of the Legislature ended on a positive note for us. Next year will certainly bring new challenges in addition to rehashed versions of the challenges noted above. I truly appreciated the opportunity to work with you and advocate on your behalf in Lansing over the past year, and I look forward to continued success when the new Legislature convenes in January. In the meantime, on behalf of Don and the entire team here at Karoub, enjoy a safe, relaxing holiday season with friends and family.

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