

CURRENT LEGISLATIVE ISSUES

As the Legislature begins to wind down the following issues are getting the most attention:

Michigan Business Tax. The replacement legislation following the repeal of the Single Business Tax will not be passed until 2007. Comments by several lawmakers involved in the issue are to the effect that lawmakers and businesses in the time remaining this year cannot adequately evaluate the current proposals on the table. Opposition from the business community for passage during the remaining days is growing while the Governor is continuing to urge action on her tax plan yet this year.

Merit Scholarship. The House Appropriations Committee this week passed out of committee the Governor's merit scholarship plan which provides for a \$4,000 award given in increments to recent high school grads. This is one of the Governor's priority issues and the Republicans had hoped to link their support for the measure for the administration's approval of their welfare program. It doesn't appear that this will happen either.

Welfare Reform. This week the Senate passed its version of legislation that would impose a 48-month lifetime limit on a welfare recipient. Even though the Senate bill contains many more exemptions than the 48-month lifetime limit bill the Governor vetoed earlier this year, it looks as though this bill has the same dim future.

Cable Franchise Legislation. Probably the most intensely lobbied legislation currently before the Legislature is the bill that will change the state's cable franchise system. The vote in the Senate is now set for Tuesday, December 12. The major issues involved include contract abrogation, net neutrality, build-out provisions and in kind services.

BUSINESS TAXES REPORT

All business taxes paid to state and local government have declined as a general portion of the state's gross domestic product and as a percentage of overall state taxes paid over the last 20 years, a report from the Senate Fiscal Agency said. And as Governor Jennifer Granholm and the Legislature begin wrestling with what tax or combination of taxes will replace the Single Business Tax when it expires at the end of 2007, the report also said that Michigan's total business tax burden placed it at 36th among all states. According to the report, the total tax burden paid by businesses in Michigan's neighboring states of Ohio, Indiana, Illinois, Wisconsin and Minnesota was higher than that in Michigan. The report was prepared for legislators and released last month.

The report also said that as lawmakers review a replacement for the SBT they need to keep in mind a number of factors a replacement tax should consider including reliability, equity, efficiency and interstate commerce and remember that "there is no perfect tax."

While the SBT is the tax all persons are now focused on, the report points out that tax is not the largest overall that businesses pay in Michigan. In the 2004-05 fiscal year, businesses paid nearly \$4 billion in general property taxes, more than \$2 billion in sales and use taxes, and then about \$1.9 billion in the SBT. In the 2004-05 fiscal year when all general and specific taxes are added, businesses in the state paid about \$13.7 billion in total taxes. But while the dollar amount the taxes paid has nearly doubled in 20 years, the SFA report said that when adjusted for inflation the real value of the taxes has stayed relatively stable at about \$7 billion.

Michigan's relative position among the states in terms of tax burden was actually calculated earlier this year by the accounting firm of Ernst & Young along with the Council on State Taxation. According to the study the national average percentage of business taxes as a percentage of state gross domestic product was 4.8 percent. Michigan at 4.3 percent was lower than Illinois' 5.3 percent, Minnesota's 4.9 percent, Ohio's 4.7 percent, Indiana's 4.5 percent and Wisconsin's 4.4 percent.

PETITION DRIVES

The near-record turnout on election day may have gladdened the hearts of many but in one sense it will make the job of putting proposals on the ballot in 2008 and 2010 a little tougher. The turnout in excess of 3.8 million voters means petition drive organizers will have to collect significantly more signatures to win a position on the ballot. Under the constitution, petition drives to amend the constitution have to get signatures from the equivalent of 10 percent of the registered voters who voted in the election. Organizers of initiated referendums need to get signatures equivalent to 8 percent, and for referendums on legislation, 5 percent. All those signatures have to be collected in a 180-day period.

To get on the 2006 ballot, constitutional amendment organizers needed to get 317,757 signatures; for 2008 and 2010 that number jumped by better than 60,000 to 380,125. Initiated referendums needed signatures from 254,106 voters for the 2006 ballot; for the next two elections that number is up by nearly 50,000, to 304,100. Organizers of referendums needed 158,879 signatures for this year's ballot; beginning in 2008, they will need 190,063, nearly 38,000 more signatures.

STATE JOB LOSSES

Michigan's struggling economic picture will improve marginally over the next several years, but overall jobs losses will continue according to, a forecast released recently by the University of Michigan's Research Seminar in Quantitative Economics. The state's average unemployment rate is expected to grow in both 2007 and 2008 as the state continues to feel the effects of automotive-related economic problems, the RSQE said, but job growth is expected to occur in economic sectors outside of manufacturing, especially services. Also the study says that personal income growth will improve in 2006. It will see smaller growth in 2007 and 2008 but remain steady.

In its latest quarterly report, the RSQE said that in no time in Michigan history, at least going back as far as records are kept, has the state seen such a struggle over job losses that have lasted so long. Auto industry restructuring remains the dominant factor in the Michigan labor market," the forecast said. While the first waves of early retirement/buyouts left the job market during the summer, the next year will see more leave the industry. "After mid-2007, the Michigan labor market will continue to flounder, but we do see some improvement developing," the forecast said, especially as there is some job growth in areas like services.