



Granholtm Proposes SBT Replacement, GOP Says Not This Year

Legislative action on a plan by Governor Jennifer Granholtm to replace the expiring Single Business Tax (SBT) will wait until next year. The Governor unveiled the Michigan Business Tax (MBT) shortly prior to the lame duck session, and urged lawmakers to pass the five-bill measure before the end of session. However, GOP legislative leaders claim there was not enough time to thoroughly analyze the measures and determine the tax impact. Granholtm wants a revenue neutral replacement, whereas Republicans want a net tax decrease.

Under the proposal, beginning in 2008, businesses would pay .125 percent on gross receipts and assets and 1.875 percent on profits. The measure reduces the personal property tax by nearly \$600 million, but overall the new tax is revenue neutral. The plan increases the tax on insurance companies, which are currently paying a one percent tax on premiums. The proposal would increase that number to 1.25 percent, which is less than the two percent rate Granholtm wanted in her original SBT replacement proposal.

Under the MBT, businesses would not be taxed on payroll or benefits such as health insurance. Businesses with \$350,000 or less in gross receipts would not have to file. Businesses with \$350,000 to \$750,000 in gross receipts would see a graduated tax rate resulting in an average tax rate, half the rate under the SBT.

Commercial and industrial businesses would enjoy a 46 percent tax reduction, because they would no longer pay 18 mills in local school tax and 6 mills in state education tax on the equipment they own.

The Granholtm proposal has a projected revenue income of \$2.53 billion in 2008 with \$2.445 billion coming from the MBT and \$90 million from the higher insurance

company tax. However, \$600 million would go to local school districts to make them whole for the 24-mill personal property tax cut granted to commercial and industrial businesses.

With no action being taken this year, Treasurer Robert Kleine said he does not know what the MBT plan will look like when it is reintroduced next year, or whether it will include the \$600 million property tax cut contained in the current proposal.

Mr. Kleine also indicated he would favor a statewide ballot proposal to expand the State sales tax to services, while reducing the overall sales tax rate.

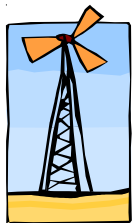
Without a replacement, the expiration of the SBT at the end of 2007 would leave a \$1.9 billion hole in the budget.

Granholtm Urges Renewable Fuels Commission To Think Big

The newly formed 26-member Michigan Renewable Fuels Commission was urged to "think big" by Governor Jennifer Granholtm during the Commission's inaugural meeting early this month.

The goal of the commission is to create a State plan by July 2007 to boost production and research on ethanol, bio-diesel and other alternative fuels.

According to Governor Granholtm, Michigan lags behind Iowa and other states in producing ethanol for automobiles, but should lead the nation in breaking our dependence on foreign oil.



Governor Granholtm announced that the State opened its first E85 fueling center where State employees who drive State flexible fuel vehicles can fill up at the State secondary complex. Currently, the State has 2,113 vehicles capable of running on E85.

Legislature Okays Michigan Promise Scholarship

Governor Jennifer Granholm says she will quickly sign into law the Michigan Promise Grant (SB 1335), a replacement for the Merit Scholarship plan.

After months of delay, the Legislature passed and sent to the Governor legislation that provides up to \$4,000 to high school graduates who do well in college.

Students who successfully pass the State assessment test will receive \$2,000 during their first two years in college. They will get the remaining \$2,000 after successfully completing their freshman and sophomore years. Students who fail to do well on the test will get the full \$4,000 after successfully completing their first two years of college with a minimum 2.5 grade-point average.

The Merit Award provided \$2,500 to college-bound high school students who scored high on their statewide MEAP test.



Granholm To Okay Video Franchising Bill

After a long battle, whereby AT&T and Verizon were proponents, and Google and local units of government were opposed, the Legislature passed and sent to Governor Jennifer Granholm legislation (HB 6456) creating a universal statewide franchise fee so that cable and video service providers no longer have to enter into separate franchising contracts with every local unit of government.

Local governments opposed the measure because they claimed it would cut into their revenues. Google, who came late to the fray, wanted the legislation to include "net neutrality" so that Internet providers could not block certain Web sites from consumers who pay for lower levels of service. A Senate work group determined that issue should be dealt with separately.

You will recall that Google opened an office in Ann Arbor earlier this year. Governor Granholm touted the move saying it would bring 1,000 jobs to Michigan in the next five years and used the announcement during the gubernatorial campaign to argue that her jobs plan is working.

AT&T upped the ante saying it would create 1,200 new jobs in the State by 2009 with 1,200 of the jobs being in place by 2007. The company also said it would invest

\$620 million in the State and made it pretty clear the jobs and investment would not happen if the bill did not pass or was not to its liking. Governor Granholm has said she will sign the bill.

Group Proposes Constitutional Changes

A group of private citizens and public officials met monthly for the past three years, and recently put forth recommended changes to the Michigan Constitution, including extending the length of term limits to twelve years for the Legislature, Governor, Secretary of State and Attorney General. The current law limits House members to six years, Senate members, the Governor, Secretary of State and Attorney General to eight years.

The bi-partisan recommendations also call for eliminating the Natural Resources and Agriculture Commissions with the Governor appointing the entire cabinet; allowing the Governor to appoint members of the State Board of Education and governing boards of the three largest universities with partisan balance subject to advice and consent of the Senate; and allow the Governor to appoint Supreme Court justices to a single 10-year term with partisan balance.

In addition, the group wishes to eliminate the Headlee rollback provision in the Constitution and the ability of non-Michiganders to gather signatures to amend the State Constitution, or require back-to-back general election voter approval to amend the constitution, as is required in some other states.

The complete report is available on-line at: <http://citizens4mi.wordpress.com>. Michigan voters will face the choice in 2010 on whether or not to call for a Constitutional Convention to consider changes to the Michigan Constitution.

State Budget Woes Continue

There may be Executive Order budget cuts early next year, as the State's budget problems continue. Directors of the House and Senate Fiscal agencies project deficits reaching \$500 million in the current 2007 fiscal year budget. Since the State must have a balanced budget the deficit signals some further cuts in State spending.

The 2006 fiscal year book has not yet closed, but revenue collections have been slow. State revenues for November were down \$80 million from earlier projections.

The budget problem will be brought into clearer focus when the Revenue Estimating Conference convenes in mid-January to set revenue figures for the current fiscal year and make projections for the upcoming 2008 fiscal year revenues. These figures will set the tone for the administration's budget proposal in February.

Agreement Reached On Welfare Reform

In the waning hours of lame duck session, the GOP-controlled Legislature and the Granholm administration hammered out an agreement on welfare reform legislation that gives Republicans the four-year lifetime limit they wanted for a healthy welfare recipient, but gives the Department of Human Services (DHS) a great deal of flexibility in drafting exceptions to the limit through the administrative rules process.

The four-bill package of legislation (HB 6580, HB 6587, SB 1500 and SB 1501) also requires a family self-sufficiency plan to help guide families to a better life and imposes sanctions on those who do not follow the plan.

The legislation exempts persons who are mentally, emotionally or physically disabled, encourages recipients to increase their hours and seek higher paying jobs by allowing them to keep more of the money they earn, and stops the four-year lifetime limit clock for those who are working and adhering to their family self-sufficiency plan. The legislation is headed to the Governor's desk.

A Million Here, A Million There...

It was the late U.S. Sen. Everett Dirksen of Illinois who said, "A billion here, a billion there, pretty soon it adds up to real money."



The amount was not nearly that high, but the two candidates in the race for Governor this year spent a big chunk of change. Combined, Governor Jennifer Granholm and her Republican challenger Dick DeVos set a new spending record — \$56,197,660.72. The DeVos campaign spent \$42.1 million of which \$35.3 million was DeVos' own money. Governor Granholm spent \$14.6 million.

NOTE: The Fraser Consulting office will be closed Monday, December 25th and Tuesday, December 26th in observance of Christmas. The office will also be closed Monday, January 1st in observance of the New Year's holiday.

Staff Announcements

- Budget Director Mary Lannoye will become Governor Jennifer Granholm's new Chief of Staff replacing John Burchett who is returning to Washington, D.C.
- Ed Dore, most recently Ingham County Controller/Administrator, has been named Chief Deputy of the Department of Management and Budget taking over for Phyllis Mellon who is moving to the Department of Agriculture as its Chief Deputy Director.
- Sean Carlson, currently the Department of Management and Budget's Director of Purchasing has been tapped by House Speaker-elect Andy Dillon (D-Redford Twp.) as his Chief of Staff.
- Cindy Peruchietti, currently Chief of Staff to retiring Senate Minority Leader Bob Emerson (D-Flint) will become Dillon's Legislative Director.
- Gary Garbarino, long-time Democratic staffer is leaving the Governor's office to become Chief of Staff for incoming House Majority Floor Leader Steve Tobocman (D-Detroit).
- Matt Miner, current Chief of Staff to Sen. Mike Bishop (R-Rochester) will continue in that position when Bishop becomes Senate Majority Leader in January.
- Cami Pendell, currently Director of the Office of the President for Blue Cross and Blue Shield of Michigan, will become Bishop's Deputy Chief of Staff/Legislative Director.
- Carmel Roberts is leaving as General Counsel and Senior Vice President of Government for the Michigan Association of Insurance Agents to become Bishop's Deputy Chief of Staff and Director of Policy/Communications.
- Matt Marsden, most recently Chief of Staff for U.S. Rep. Joe Schwarz (R-Battle Creek) will become Bishop's Director of External Affairs.
- Nancy Vreibel, long-time House Republican budget analyst and current Director of the Department of Community Health Budget and Contracts Division, will become Legislative Director for appropriations in the office of Sen. Ron Jelinek (R-Three Oaks). Jelinek has picked by Bishop to chair the Senate Appropriations Committee.