

Energy costs spark power politics

By TIM RICHARD

A New Jersey committee last week says yes, you can.

The question is whether a state can float tax-exempt bonds to build electric power-generating facilities. The question is important for two reasons.

Gov. Miliken's Advisory Commission on Electric Power Alternatives has proposed Michigan go into the electric power manufacturing and wholesaling business. It would require amendments to the state constitution and changes in the laws.

The frankly socialist Human Rights Party is about to open a major petition drive for a state takeover of Detroit Edison and Consumers Power companies. This, too, would require constitutional amendments and law changes.

IN EACH CASE, one argument is that the state can get a cheaper interest rate on bonds because these bonds would be exempt from federal income taxes.

Impossible, said a New Jersey committee appointed by Gov. Brendan Byrne to study the question of setting up a state power authority and using state credit to support the bonds of investor-owned utilities.

In a report dated last Jan. 8, Stewart Pollock, New Jersey's commissioner of public utilities, said the study committee found:

"A public power authority cannot sell electricity at a significantly lower rate than a private electric utility. As a practical matter, there is serious doubt whether a New Jersey Power Authority could issue tax-exempt bonds."

THAT FINDING, Pollock wrote, was based on a U.S. Internal Revenue Service regulation. The regulation prohibits use of state tax-exempt bonds unless the proceeds are used to construct a facility that is more than 25 per cent of the use of which is sold to a private utility, or b) that provides electricity to a private utility, the service area of which is not greater than two counties, or c) that sells power to electric utilities without the security of a contract.

The New Jersey committee added that for a state power authority's bonds to qualify for tax-exempt status, "it would be necessary for the authority to sell 75 per cent of the electricity from a facility financed by the bonds to 'tax-exempt' persons—that is, to a unit of government or an organization not subject to federal income taxes."

THE MICHIGAN commission's executive director, Lawrence M. Glazer, says there is a way to issue tax-exempt bonds and counters that "our research is more sophisticated than New Jersey's."

Glazer relies on a 1975 IRS ruling regarding general obligation bonds (tax-exempt) and industrial development bonds (taxable), he says.

"They (IRS) imply from this ruling that if the state issues bonds, receives the proceeds and then appropriates money to the power authority, these bonds would not meet the industrial development bond test."

In other words, the state could issue bonds at a tax-free interest rate, make a budget appropriation presumably equal to the bonds' proceeds, and give that appropriation to the power authority.

THE GOVERNOR'S Advisory Commission on Electric Power Alternatives, headed by Eastern Michigan University President James Brickley, split 8-5 over the proposal to set up the power authority. The commission has 14 voting members and several "governmental advisors."

A Detroit Edison official denounced the proposal, predicting the result would be higher rates.

Under the proposal, a Michigan Power Authority (MPA) would compete with investor-owned electric companies for the right to build new electric generating capacity. The state Public Service Commission (PSC) would award a "certificate of convenience and necessity" to whichever entity—MPA or the investor-owned utility—could demonstrate the ability to build and operate the most efficient plant.

If MPA won the certificate, it would act as manufacturer and wholesaler of electricity, the investor-owned utility would retail it to its customers.

THE UNDERLYING thinking has been stimulated by the utilities' frequent requests for rate increases to boost income.

With additional income, they could either 1) reinvest it in additional generating capacity or 2) have an attractive rough rate of earnings to sell new shares of common stock.

A state power authority, on the other hand, could take the issue of building additional generating capacity out of the rate question. Edison and Consumers Power could ask only for rate increases to cover costs, not to build new plant capacity.


Politically, there has been much argument about the need for generating capacity. Specifically, the power companies have been charged with planning to build unneeded plants and asking the public to pay higher rates to build what isn't needed.

Detroit Edison's reply: "Based upon current load growth forecasts, the company estimates that the reserve margin of generating capability over peak loads will drop from 22 per cent of the summer peak load in 1975 to about 10 per cent in 1977, with no reserve margin at all in 1979."

Thus, Edison is saying that in two years it will have no reserve generating capacity, and the result could be brown-outs.

The governor's commission will hold public hearings around the state somewhere between April 21 and May 21.

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UNRA opposes more transfer tax

The United Northwestern Realty Association (UNRA) is urging public opposition to a bill in the state senate which would increase property transfer taxes 10 times in Wayne, Oakland and Macomb counties.

The proposal, SB 723, would increase the present tax of \$1.10 per \$1,000 of sale price to \$11.10 so that transfer taxes on sale of a \$30,000 home would rise from \$33 to \$333. Under terms of the measure, the funds would be used to finance a rapid transit system for southeast Michigan.

Calling the measure patently unfair, Conrad Jakubowski, UNRA secretary and chairman of the 3,400-member organization's civic and legislative committee, said:

"If enacted, the bill will seriously retard home building and retail home sales just as these critical areas of the economy show signs of emerging from the recessionary slump."

"The continuing rise in costs for a new or existing home already is reducing the number of families who can afford to move up to home ownership. Statistics released by the federal government last year indicated that only 15 per cent of the population had sufficient annual income to purchase a medium-priced new home and only 20 per cent to buy a medium-priced existing home."

"The extra burden imposed by increase of this property transfer tax could only serve to further limit these numbers particularly when coupled with rising property tax rates in many communities."

JAKUBOWSKI POINTED out that last year UNRA members added in the sale of property, primarily family residences valued at some \$301 million. Transfer taxes amounted to an estimated \$630,000. If the proposed tax had been in effect, the total would have been more than \$4.3 million.

"While such figures might suggest a windfall to proponents of the bill, the tax would have singled out the sellers of property to support mass transit, while those not in the real estate market would have contributed nothing, but shared equally in its benefits," he said.

"In our view, any specific tax to raise funds for mass transit should be equitable, non-discriminatory and be directed on all who will benefit. The present proposal certainly does not meet such criteria."

HE SAID that each year approximately 30 per cent of the population changes residences. Addition of the tax each time a home is sold would constantly inflate its price and, in time, could make it unaffordable or bring substantial loss to the seller.

"While purporting to aid the three-county metropolitan area, the increase in property transfer taxes could have an opposite effect," he added. "It could well abet further deterioration of older areas by stifling sales of homes and businesses which presently represent only marginal values."

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Milliken signs probate bill

Gov. William G. Milliken recently signed SB 723 into law, conferring additional enforcement powers on probate courts.

The amended probate code gives the court the same powers enjoyed by the circuit court in matters related to estates and wills.

This new law should help reduce multiple actions, thus saving the state and individuals both time and money," said Milliken.

The powers granted probate courts include authority to issue injunctions, run date specific performance, impose liens and replevy property.

Milliken also signed HB 4882, amending the Michigan Vehicle Code requiring every motor vehicle driven on highways and streets at all times to be equipped with a muffler in good working order. The new language in the law requires that persons owning vehicles originally equipped with tailpipes and/or resonators also maintain these components in proper condition at all times.

This new addition to the state's vehicle code is for the protection of vehicle passengers from the danger of exhaust fumes and to reduce excessive noise created by exhaust systems which have been either modified or inadequately maintained," said Milliken.

Tax tables are often misused

Many taxpayers are making errors in their 1975 income tax returns by failing to follow a tax table which continues to a subsequent page, according to the Internal Revenue Service (IRS).

R. L. Platte, IRS district director for Michigan, said the problem involves taxpayers who use the tax tables provided for persons with incomes under \$15,000 who do not itemize deductions. These people are overlooking the tax table that may continue to another page.

For example, in the tax tables included in the 1975 Form 1040-A instructions, most of the tax table four appears on page 13, but the last part of table four appears on page 13 along with all of tax table five. Taxpayers using table four with an income between \$13,000 and \$15,000 would have to consult the top of page 13 to determine their tax.

"In skipping to the next page," said Platte, "some taxpayers are overlooking the continuation of the same tax table and are figuring their tax liability from the next tax table, resulting in an incorrect tax."

When an error is discovered, the IRS must contact the individual which, in turn, causes processing delays and unnecessary inconvenience to the taxpayer.

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