

Murphy has 2-year budget

By Tim Richard
staff writer

Oakland's first two-year budget plan will go to the County Board of Commissioners today.

"Budget emphasis is on longer solely on the numbers but also on the why, what for and how behind the numbers," said Daniel T. Murphy in his 14th message as county executive.

"Too often, past budgets were created as events — county resources were appropriated, and that was the end of it. The budget has not been treated as an ongoing process or a device to monitor or measure performance."

Murphy said the two-year budget will allow time to carry out evaluation.

THE PROJECTED spending at \$263 million for 1988 and \$273.2 million for 1989.

"The property tax rates would remain level — 4.6931 mills (\$4.69 per \$1,000 of state equalized valuation) for general operations and 0.24 mills (24 cents per \$1,000) for parks and recreation."

Property taxes are the biggest revenue source — 33 percent or \$85 million. The remaining \$178 million comes from user fees, state aid, federal aid and interest earnings.

The Republican leader predicted surpluses both years because of new construction and more state help for mental health.

JAIL EXPANSION will cost \$3



Daniel T. Murphy
'ongoing process'

million in '88 and \$4 million in '89, the executive said. It's the biggest new item in the budget. Other new expenses:

- Juvenile Court — \$330,800 more for juveniles placed in private and state institutions.

- An automated fingerprint identification system — \$204,000, partly offset by fee revenue. The computerized system will identify fingerprints in minutes compared to the laborious task of thumbing through files.

- Retirees' hospitalization — \$2.8 million, offset in part through lower retirement contributions.

- Greater access to the breast cancer screening program — \$397,000 more for '88 and \$238,000 more for '89.

Forty positions are added in '88 and 11 in '89.

Insurance tax compromise

Senate beats Blanchard on 'loophole'

By Tim Richard
staff writer

The Michigan Senate dealt a bipartisan blow to Gov. James Blanchard's tax program Tuesday as it passed a pair of "revenue neutral" bills equalizing insurance taxes.

"The Senate can feel good about that," said Majority Leader John Engler, R-Mount Pleasant. The GOP chief accused Blanchard's state treasurer, Robert Bowman, of "putting his personal political agenda ahead of the public interest and persisting in a vendetta against Michigan employers in the insurance industry."

Area senators split within party ranks on the two bills, which go to the House of Representatives.

THE FIGHT erupted when the state Court of Appeals in August declared unconstitutional a premium tax on "foreign" insurers — companies whose headquarters are outside Michigan.

For two years, Blanchard had predicted such a ruling. He advocated also levying the premium tax on "domestic" insurers — those headquartered within Michigan. And he wanted to use the revenue from "closing this loophole" to pay for his homestead property tax rebate program.

Instead the Senate passed two bills which will:

- Lift the premium tax on foreign insurers (SB 447). It passed 20-10.

- Make foreign insurers liable for possible "retaliatory" taxes if their home states apply such taxes to Michigan companies (also SB 447).

Apply the single business tax to both Michigan and foreign insurers (SB 448). It passed 28-6.

Republicans dropped a plan to tie the bills to a

third bill reducing the state income tax.

BOTH BILLS were supported by Sens. Richard Fessler, R-Commerce, Robert Geake, R-Northville, Rudy Nichols, R-Waterford, and George Hart, D-Deerborn.

Sen. William Faust, D-Westland, opposed SB 447 lifting the premium tax on foreign companies but supported SB 448 placing all under the single business tax. Sen. Jack Faxon, D-Farmington Hills, missed the vote on SB 447 but supported SB 448.

Sen. Doug Cruce, R-Troy, joined a handful of senators in opposing both measures.

"The basic issue is increasing taxes," said Cruce, estimating they actually would increase total revenue \$25 million. "We can't increase taxes to insurance people without increasing premiums to policy holders."

Cruce preferred to follow the Appeals Court order to lift the premium tax on foreign insurers, which would reduce revenue as much as \$180 million, and cut spending.

OTHER SENATORS, however, argued "the state has significant revenue problems," in the words of Lana Pollack, D-Ann Arbor, a 1988 candidate for Congress in the 2nd District.

Like Faust, she supported one bill and opposed the other. And like Blanchard, Pollack argued "domestic insurance companies have a very, very sweet deal. Domestic insurance companies are not paying their fair share of taxes."

Treasurer Bowman contended domestic firms pay only about \$1 million a year under the single business tax — 3 percent of what they would pay if the premium tax were levied.

But Michigan insurers argued they:

- 1) Pay heavy property taxes.
- 2) Create jobs for people who pay the state income tax.
- 3) Would be hit with a sudden increase — from \$1 million to \$21 million — if the premium tax were levied on them.
- 4) Aren't given the kind of tax credits in Michigan that foreign insurers get in their home states.

DEBATE WAS brief Tuesday. Much talk revolved around an amendment by Sen. John Cherry, D-Clint, to exempt the Michigan Accident Fund from the single business tax.

MAF writes about 10 percent of the state market's workers' comp insurance — covering 21,000 businesses.

For years state officials and the insurance industry argued whether MAF, created in 1912 when workers' comp was begun, is a private business or a state agency whose 380 employees should be covered by civil service rules.

But Monday Ingham Circuit Judge Carolyn Stett ruled MAF is a state agency.

While MAF officials intend to appeal, senators decided in the meantime to treat it like a state agency and exempt it from the single business tax. The Cherry amendment was adopted with support from all local senators except Cruce and Nichols.

Sen. Richard Posthumus, R-Lowell, who sponsored both the tax measures, was clearly unhappy about the amendment. "Is this a valid way of treating an insurance fund that competes with private firms?" he asked. But in the end, Posthumus agreed to the Cherry amendment in order to pick up Democratic votes.

Harden report: \$200 million boost, shift to sales tax

Here are more excerpts from "Educational Quality in the 21st Century," the so-called Harden Commission report to the State Board of Education. Earlier installments were published Sept. 24 and Oct. 1 on page 5A.

The panel recommended a \$1.35 billion tax shift — raising the sales tax from 4 percent to 6, cutting farm-residential property tax rate to 18 mills and cutting the business rate cut to 23 mills. All business property taxes would be shared in common by school districts.

\$200 million asked for new state fund

"The commission recommends that the Legislature enact an 'Educational Trust Fund' (of \$200 million in new revenue). The purpose is to ensure that the money is targeted to improving the quality of K-12 education."

"New dollars (should) be spent on specific programs and not be put into a general formula increase."

The commission suggested the Legislature spend the new money on:

- "Pre-school programs for 'at risk' children 4 years of age.
- "Reducing class size in grades K-3.
- "Providing a flat dollar amount per student to every school building in the state . . . (for) community involvement and staff improvement."
- "Expanded testing and reporting."
- "Funds to encourage open enrollment or choice within a public school district."

THE NEW \$200 million increase could come from these sources:

1. One-tenth of 1 percent of the income tax rate — 50 percent of the "federal windfall." Thus, the panel suggests that Michigan not reduce its income tax rate from 4.8 percent to 4.4 percent, as proposed by Gov. James Blanchard and many senators.
2. Prudent reductions in the state pension fund.
3. Elimination of non-mandated "categoricals and social security for out-of-formula districts." This would shift those costs from the state budget to many suburban school districts.
4. . . . (A)n increase in the cigarette tax."

Case for shift to 6 pct. sales tax

"The commission recommends increasing the sales and use tax rate from 4 percent to 6 percent. This recommendation will require a vote of the people in order to amend the current state constitution."

"A broad-based tax such as the sales tax is more politically acceptable than other forms of taxation."

"HOWEVER, THE increase in the sales tax does present two concerns:

"First, the sales tax is no longer deductible (for income tax purposes) at the federal level Approximately 37 percent of Michigan taxpayers itemize their federal tax return. The increase in the federal income tax liability is estimated to be between \$140 million and \$150 million."

"The second concern is 'regressivity' — a tax in which lower income households pay a higher percentage of their income tax than do higher income households"

"(A) 6 percent sales tax would be clearly regressive. That is, families with an income of \$6,000 would pay an effective rate of 2.9 percent while families with an income of \$40,000 would pay only 1.7 percent."

"However, the regressivity is reduced if the sales tax is excluded from utility payments." Effective rates: 2.3 percent on a \$6,000 income, 1.5 percent on a \$40,000 income."

"Both (sales and property) taxes are regressive. Increasing the rate of one regressive tax while decreasing the rate of another regressive tax will approximately offset each other Specific cases will vary significantly."

Cap business tax rate at 23 mills

"Business property should be subject to a constitutionally fixed rate of tax (of 23 mills). Three reasons supported this position:

"First, if significant property tax relief were granted, then it is possible that several communities would vote to increase their local millage rate. If the local school district could keep the revenue from commercial and industrial property, then the fiscal disparities would continue to exist."

"The second reason concerns economic development. A fixed rate . . . would provide businesses with some degree of equality about future costs of doing business. (Current statewide average is 32 mills.)"

"The third reason concerns the overall business share of total taxes. It is estimated businesses pay 38 percent of the total property tax levy (and) 22 percent of the sales tax. Therefore, a shift from property taxes to sales tax, other things being equal, would reduce taxes borne by business and increase taxes paid by individuals."

"The 23-mill levy still provides some tax relief for businesses. For example, the business portion of the sales tax is estimated to be \$304 million. The business property tax relief is estimated to be \$393 million at 23 mills for a net tax reduction of \$89 million."



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