STATE OF MICHIGAN
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Editor: Melissa Hess

What's Happening in Washington?

Governor Stresses States' Rights and Sovereignty in Internet Taxation

On February 2d, Governor Engler testified on the subject of Internet taxation before the United States Senate Budget Committee on behalf of the National Governors' Association. The speed at which the Internet is expanding and changing the business world creates a continuing challenge for all types of government that seek to function in the new economy without hindering its continued expansion.

Engler focused primarily on three issues that face government and e-commerce:

- **The proper relationship between the federal government and the state on issues of taxation**

Engler stressed that although Michigan and many other states oppose new taxes on the Internet, it has become important that those states inform consumers of their obligation to pay a "use" tax for purchases made over state lines. The "use" or remote sales tax applies to any purchase made over state lines on which the consumer did not pay a state sales tax.

- **The necessity of keeping tax policy neutral so that neither traditional retailers nor remote sellers are given an advantage based on tax policy**

Government tax policy must remain neutral and not tilt competitive forces in favor of either traditional retailers, or emerging electronic retailers. Without compliance of both sales and use tax requirements, traditional main-street retailers will face a significant pricing gap with remote competitors. Michigan has increased consumer education and enforcement efforts in order to keep the playing field level.

- **The need to stop erosion of essential revenue streams that support education and other key public services at the local level.**

Legislation proposed by Representative John Kasich and Senator John McCain would allow the federal government to preempt existing state and local sales and use tax systems. The legislation would infringe upon the states' ability to raise revenues necessary for state functions. Sales taxes create the largest revenue collections in the nation. Education is the primary beneficiary of sales tax revenues in Michigan; sales taxes in the state also fund local units of government that provide fire and police protection, road improvements and library services.

Engler concluded his comments by reminding the committee that governors do not want to tax the Internet, but only uphold existing tax law. In doing so, it will remain possible for states to fund critical priorities like education and for traditional retailers to compete with electronic retailers.

What's Inside:

- *Michigan Lobbies for National Cemetery*
- *MDOT's New Five Year Plan*

Governor Promotes National Cemetery

Governor Engler reasserted his goal of securing a National Cemetery for veterans in southeastern Michigan in recent letters to both President Clinton and the Secretary of the Department of Veterans Affairs (VA), Togo West.

VA operates 117 National Cemeteries, and honorably discharged veterans and their spouses may be buried at open facilities. Over the past twenty years, 80% of burials have come from within a seventy-five mile radius of a National Cemetery. As the WWII veteran population continues to age, the need for these facilities will increase. Currently, VA estimates that 1,000 WWII veterans die each day throughout the U.S.; national veteran deaths are expected to peak in 2008 at 1700 veteran deaths per day.

Engler noted that the Veterans Millennium Health Care Act directs the VA to obligate advance planning funds and to announce a schedule for establishing six additional national cemeteries in this fiscal year. Two previous studies by the VA have identified Detroit as one of the ten most populated areas not currently served by a National Cemetery. The veteran population in the Detroit area remains the nation's largest not served by a National Cemetery. Engler concluded his letters by urging financial support for the creation of new National Cemeteries and the selection of the Detroit metropolitan area as a final resting place and lasting memorial for the 450,000 veterans of southeastern Michigan.

Governor Engler encourages the Michigan delegation to support the establishment of a National Cemetery in the Detroit Metropolitan area, including necessary funding to accomplish this objective.



What's Happening in Michigan?

State of the State is Outstanding

Governor Engler delivered his 10th State of the State, enthusiastically declaring, "I think we'd agree: the state of our state is not just okay; not just good. In historic perspective, the state of our state is better than ever. It is simply outstanding!" The address on January 19th unveiled a comprehensive agenda focusing on education and additional tax cuts.

Highlights from the State of the State include:

Full Funding, Full Freedom, and Full Choice. Engler announced his plans for a multi-year budget raising the per-pupil foundation grant to $6,500. Engler stressed that the increase in funding is tied to an elimination of the cap on the number of public charter schools and providing for statewide public school choice. The address also called for an increase in technology training for teachers and cash rewards for those elementary schools with the most impressive improvements and scores on the standardized MEAP tests.

Cutting Taxes. Engler called for six new tax cuts to accelerate income tax reduction, increase exemptions for children, seniors and the disabled, reduce taxes on farmers and help small businesses.

Reforming Welfare. The Governor called for a further expansion of Project Zero across the state. There are only 36,000 families in the state remaining on welfare that have no income from a job, down from a high of 238,000 in 1994.

Revitalizing Core Cities. Citing past successes of reviving abandoned industrial sites, Engler called for a further expansion of brownfield redevelopment to help Michigan's core cities.

The full text of the State of the State address can be found at www.state.mi.us/migov/gov

Also, the FY2001 Executive Budget Recommendations can be found at www.state.mi.us/dmb/dir/

MDOT Reveals Second Five Year Plan

Governor Engler announced the details of Michigan's second "Five Year Road & Bridge Program," revealing that the state will be investing a record $6.385 billion to repair and

rebuild 6,625 miles of state highways and rehabilitate 1,400 bridges across the state between 2000 and 2004. The Michigan Department of Transportation's (MDOT) plan outlines the state's investment strategies and includes a specific list of every major road and bridge program improvement scheduled for the state highway system in those years.

The Governor highlighted several components of the Five Year Road and Bridge Program including:

- $2.45 billion to repair and rebuild roads, including $675 million to relieve congestion through capacity and operational improvements on the most traveled roads;
- $1.45 billion in routine seasonal maintenance (snow plowing, pothole filling, mowing and sweeping) and MDOT's unique capital preventive maintenance program that extends pavement life;
- $925 million to repair and rehabilitate 1,400 bridges, including all high priority structures;
- $678 million in new road construction; and
- $875 million in Safety, Congestion Mitigation Air Quality (CMAQ), Enhancements, transportation Economic Development Fund (TEDF), TEA-21 High Priority Projects and miscellaneous state programs.

"Recent increases in transportation funding have allowed us to fix roads and bridges at a record pace in Michigan," Governor Engler noted. "We are making significant progress toward our overall goal to bring nine out of ten state roads and bridges to good condition by 2007." Additionally, he applauded MDOT for completing 93% of scheduled road repair projects for 1999 and thanked Michigan drivers for their patience as improvements are made.

For more information on the "Five Year Road & Bridge Plan," visit MDOT's website at www.mdot.state.mi.us/press

Director of Michigan Unemployment Agency Named

Last month, Governor Engler named Jack Wheatley director of the Michigan Unemployment Agency effective February 1st. Since October of 1997, Wheatley has served as acting director of the Agency as well as director of the Bureau of Workers' Disability Compensation. Engler praised Wheatley's extensive knowledge and experience in the area of workers' compensation and unemployment and expressed his confidence that Wheatley would continue to serve the state in an extraordinary manner.

Reinstatement of EPA Standard Poses Risks to Roads and Jobs

State and congressional officials warned last month that the U.S. Environmental Protection Agency (EPA) plan to reinstate the former ozone standard could result in a curtailing of economic growth and cancellations of federally funded transportation projects in affected areas. The EPA had planned to reinstate the 1-hour ozone standard that it revoked last year in anticipation of a new, more stringent 8-hour standard. In May 1999, the U.S. Court of Appeals ruled that the new standard is not enforceable and remanded it back to the agency.

Michigan believes that a national ozone standard is necessary and supports reinstatement of the 1-hour standard. However, the state does not agree with EPA's proposed reinstatement of attainment designations and classifications that existed prior to the revocations. The redesignations ignore Michigan's clean air data for these areas and pose needless economic and transportation barriers.

Counties that would once again become nonattainment/unclassified areas include Allegan, Saginaw, Bay, Midland and Genesee counties. States not in compliance face the withholding of federal road repair funds. The EPA proposal could seriously impact the Michigan Department of Transportation's program to bring 90% of state roads and bridges to good condition by 2007.

Furthermore, nonattainment designations also jeopardize local job opportunities by affecting the ability of areas to attract new businesses. Unnecessary offsets and additional emission-control equipment could also lessen existing businesses' interest in expansion.

In November of 1999, Director of the Michigan Department of Environmental Quality (MDEQ) Russell Harding, sent a letter to EPA administrator Carol Browner outlining these objections and encouraging EPA to make designations based on current monitoring data. Harding concluded by requesting specific responses to his comments in order to establish a serious discussion on the issue.

Several public information meetings were held over the Congressional recess in the affected areas. We sincerely appreciate the support from members of the Michigan Delegation on this important matter.

For more information on any of the issues mentioned in the Washington Report, please contact our office.

State of Michigan
Washington Office
444 North Capitol St. NW
Suite 411
Washington, D.C. 20001

(202) 624-5840
(202) 624-5841(fax)

LeAnne Wilson
Director

Bryan Roosa
Deputy Director

Debbie Marshall
Federal Legislative Liaison

Melissa Hess
Executive Assistant

State of Michigan
Washington Office
444 North Capitol Street, NW Suite 411
Washington, D.C. 20001