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New '09 Budget Hole Pegged At \$393M

At least it's not \$1 billion.

The fiscal analysts' projection this afternoon that the state faces a \$393 million hole in next year's proposed budget didn't cause the panic of last year's \$1.8 billion deficit, but will force lawmakers and the Governor to do more than roll out the wallpaper.

State Treasurer Bob **KLEINE** said the administration has ruled out a general tax increase, but officials have talked about changing the Michigan Business Tax (MBT) to make it impervious to the new federal stimulus package, which, if left alone, will cost the state \$92 million in Fiscal Year (FY) 2009.

Another option Kleine said he's heard lawmakers mention is scaling back the soon-to-be-implemented Earned Income Tax Credit for low-income families, but the administration has not embraced that suggestion.

Although the Michigan League of Human Services (MLHS) dusted off Gov. Jennifer **GRANHOLM**'s oft-mentioned "tax loophole closings" of yore as a way to raise \$122 million, Kleine said they've not been mentioned in any discussions he's had on the projected shortfall (See "[League Rolls Out Loophole Closure Option](#)," 5/15/08).

Today's updated state revenue numbers from the Consensus Revenue Estimating Conference (CREC) project the state collecting \$472.3 million less than projected in January (\$309.1 million General Fund, \$163.2 million School Aid Fund). Once smaller social service caseloads and other factors are considered, the state policymakers are looking into a \$393 million hole compared to Granholm's budget earlier this year (\$207 million General Fund and \$186 million SAF), according to the Senate Fiscal Agency (SFA).

The Republican-led Senate had prepared its budgets based on less money so today's revised revenue estimates are only \$168 million less than what the upper chamber was planning for.

"This is certainly a lot better than it was in '07 or '06," Kleine said. "We're not anywhere near the situation we were in when we needed to raise taxes. We've had a couple other years that were similar."

Rep. Bruce **CASWELL** (R-Hillsdale), who sat through most of today's four-hour CREC, said today's revised revenue numbers show him that the state's contracting economy simply cannot support the current size of state government.

"We have to downsize in an intelligent and reasonable matter the state government that we have while protecting our most vulnerable citizens but realizing our taxpayers can't continue to pay more taxes every year to keep the government we have," Caswell said. "It's a simple concept and it's doesn't have to be slash-and-burn."

Caswell suggested a long-term contraction of state government that includes

continual cost-cutting improvements, be it privatizing day care eligibility or a five-year lifetime cap on welfare benefits.

Talks of the knives coming out again sent Lansing special interest groups scurrying for cover. On Thursday, MLHS pushed alternatives to more budget cuts. Today, the Michigan Health and Hospital Association locked arms with the Michigan State Medical Society (MSMS) in a press statement that if lawmakers are looking for places to slice, they shouldn't be looking at the Medicaid budget.

"It may be tempting to look at the Medicaid budget as a place to make cuts, but that is very short-term thinking," said MHA Executive Vice President David **SEAMAN**. "Providing health care for those in need is as basic a necessity as food, shelter and clothing."

The Michigan Municipal League (MML) continued the theme of "Don't cut you, don't cut me, cut the man behind the tree" in its press release issued shortly after CREC.

"It's time for state elected officials to solve the structural budget deficit, and it's time they stop balancing the budget with cuts that harm public safety, drinking water, waste collection and other local services that are undeniably essential to everyday life," said MML Executive Director Dan **GILMARTIN**.

So why did the SFA, state Treasurer and House Fiscal Agency (HFA) drop the state's revenue picture?

HFA Director Mitch **BEAN** said policy decisions made at the state and federal level were two-thirds of the problem. The sputtering national economy can be blamed for the rest.

Earlier this year, the Governor signed a series of bills designed to draw the film industry to Michigan. While fiscal experts project the package will produce close to \$1 billion in economic activity, it comes at the expense of \$118.2 million in film industry credits that are coming right out of the state treasury.

It's projected the state will see \$19.1 million come back in higher income and sales tax collections, but it still leaves a \$99.1 million slice in revenues.

Likewise, the federal economic stimulus package is projected to bring in \$54 million in additional sales tax money and \$17.5 million more in casino and lottery revenues this fiscal year. But the impact on FY '09 will be felt as companies take advantage of new depreciation rules that will reduce the income businesses report to the state for MBT collection.

Unless lawmakers agree to "decouple" the depreciation rules from the MBT, the state will lose \$92 million in expected revenues. Doing so, however, puts lawmakers at risk of being accused of raising business taxes, which is a charge some House members would theoretically want to avoid going into this fall's election.

The national economic picture isn't helping matters either. Economic forecasters from the SFA, HFA and Treasury pointed at \$125-a-barrel oil, financial market turmoil and falling consumer confidence as reasons why tax revenues haven't been coming as hoped.

Even in the current year, fiscal analysts also project \$60.6 million in less revenue for FY '08 (\$82.4 million less in General Fund, \$21.9 million more in SAF), which could put the \$100 million Granholm wanted to put into the Rainy Day Fund in jeopardy, Kleine said.

The \$100 million cushion likely will spare Granholm from making any mid-year pro-ration cuts to education or any other piece of the budget, said Budget Office Spokeswoman Leslee **FRITZ**.

Housing starts have dropped 59 percent since January 2006. Year-to-year housing price changes are at their lowest point since at least 1988. The real estate transfer tax collections are down 20.4 percent from the eight-year average.

Consumer sentiment is down to 62.9 percent, the lowest point since 1990. Employment is declining nationally for the first time in recent years. The Big Three automakers continue to lose market share. And the number of Michiganders working in the auto sector is about half of what it was just eight years ago.

All the while, the Department of Treasury is putting in place the new MBT to replace the Single Business Tax.

"There are more moving parts in putting together these estimates than we've seen since probably 1994 and Proposal A," Kleine admitted.

Despite the bad news, Fritz said there's no need for Michigan to push the panic button.

"There's no reason to panic. The state has been in this situation before with deficits and shortfalls for a number of years," Fritz said. "The Governor and legislative leaders will look at what the options are and do what they need to do."

Senate Appropriations Committee Chair Ron **JELINEK** (R-Three Oaks) said today's numbers will not prevent the Senate from finishing its budget work by a July 1 deadline.

"Today's revenue projections are lower than expected, but they are not surprising. Michigan's economy continues to falter but we are prepared to meet the challenges that lie ahead in balancing the budget. Tough decisions will be made regarding each department as we continue to work toward . . . the completion of the Fiscal Year '09 budget."

House Democratic Spokesman Greg **BIRD** concurred that a tax increase is not in the cards as far as their caucus is concerned.

"House Democrats are committed to balancing the budget with reasonable cuts and government reforms — not with a tax increase," he said. "Instead of playing politics, we should work together to craft a budget solution that will create jobs while protecting education, public safety and health care. We can and must manage our way to a bipartisan solution."