

State will have to trim spending for next budget year

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The Associated Press May 16, 2008

LANSING — A trio of state economists said Friday that lower tax revenues will force smaller increases in the budget being worked on for the next fiscal year.

State Treasurer Robert Kleine and the directors of the Senate and House Fiscal agencies said during the May revenue estimating conference that there will be about \$61 million less for the current budget than what they forecast when they held a similar conference in January.

That's a relatively easy adjustment in the state's overall \$43.6 billion budget. The state's \$9.8 billion general fund is expected to take in about \$82 million less than earlier estimates, while the \$13 billion school aid fund that pays for K-12 education will take in about \$22 million more.

But dealing with the budget year that starts Oct. 1 will be tougher. The state likely is facing a shortfall of \$170 million to \$350 million, depending on which state economist weighs in. That could mean K-12 schools, universities and some programs may not get as much as Gov. Jennifer Granholm has proposed.

Revenues aren't growing as much as expected because of the slower national economy, speedier business depreciation allowed in the federal stimulus package, the weak housing market and a new film industry tax credit, according to Kleine, Senate Fiscal Agency director Gary Olson and House Fiscal Agency director Mitchell Bean.

"There's going to have to be some downward adjustments," Kleine told reporters.

Reasons for revenue shortfall:

- The depressed housing market is affecting how much the state collects through the state education tax, real estate transfer tax and sales tax.
- The slowing national economy is affecting Michigan's economy, especially the auto industry, decreasing employment and tax payments in the state.
- Casinos in Detroit are paying a lower tax rate as they open permanent facilities.
- The new earned income tax credit, which helps low-income workers, will lower revenues by \$133 million in the next budget year.
- A new refundable tax credit aimed at boosting the film industry will cost the state at least \$110 million and possibly more next budget year.
- The federal stimulus package will increase sales tax, casino tax and lottery revenues by around \$72 million this year and \$31 million next year as people spend their rebate checks.

But a provision that lets businesses depreciate equipment more quickly will cost the state around \$31 million this year and \$96 million next year unless the state decides against letting companies include the faster depreciation when figuring what they owe in Michigan taxes.