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# Act early to head off a state budget mess

## The Detroit News

Top analysts for the Legislature warn that revenue estimates built into next year's budget may have to be reduced by as much as a quarter of a billion dollars. That means that lawmakers and the governor should start now to cut back on spending proposals to avoid a last-minute scramble to balance the budget.

The longer the budget process for next year is delayed, the more difficult it will become because this is an election year for many state lawmakers, and making hard decisions on spending isn't something they'll want to do when they're on the campaign trail.

Gov. Jennifer Granholm warned of possible revenue shortfalls when she introduced her budget proposal last month, pointing to the likelihood of a softening national economy. But she didn't build enough of a buffer into her plan. Compounding the state's budget problems are projections of revenue shortfalls in the current fiscal year's budget, which ends on Sept. 30.

The Senate Fiscal Agency issued a report late last week warning of a possible \$134 million decline in anticipated revenues for the current budget and a reduction of \$249.6 million in next year's budget, which will go into effect on Oct. 1.

One of the major causes of the current year's revenue loss, however, isn't the national economy but the lack of an agreement on the terms of the 1999 settlement reached by the tobacco companies and the attorneys general of various states. It now appears, according to the Senate Fiscal Agency analysis, that an agreement may not be reached in time for the current fiscal year, which could result in a loss of nearly \$97 million.

The federal stimulus package may have the ironic result in the current fiscal year of reducing business tax revenues by about \$22 million through an increase in depreciation allowances for business equipment purchases.

The stimulus package could, however, pump an estimated \$54 million into sales taxes and casino and lottery taxes, which would partially offset losses in the School Aid Fund from declining property tax revenues and a possible expensive property tax settlement with a firm in Midland. The School Aid Fund would only lose \$15 million in this analysis.

For the next budget year, the picture is worse. The federal stimulus package could cost the state more than \$114 million in business taxes, and declines in property taxes could result in a loss of \$135 million to the School Aid Fund.

Mitchell Bean, head of the House Fiscal Agency, reportedly told lawmakers last week that his unit's numbers and those of the Senate Fiscal Agency are in the "same ballpark."

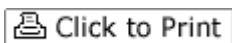
The unhappy facts, as outlined by the Senate Fiscal Agency's budget analysis, are that the domestic automakers' market share of total light vehicle sales have declined to just above 50 percent from more than 70 percent as recently as 1995. Vehicle production has declined to about 2.3 million from 3.2 million in 2000. And vehicle production employment is expected this year to be about 176,000, down from nearly 342,000 in 2000.

As a consequence, revenues from various property taxes are expected to drop an additional \$35 million this year and nearly \$155 million in the next budget year.

A spokeswoman for the governor's budget office says Granholm will make whatever adjustments are necessary to keep the current budget balanced -- and is watching revenues for next year carefully. That's good news -- but these decisions on her part and those of state lawmakers will have to come early in the budget cycle.

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