

## **MIRS Newsletter**

**May 12, 2008**

### **State Facing \$434M In New Red Ink For FY '09**

Preliminary numbers from the House Fiscal Agency (HFA) show the state looking in \$434 million in new revenue pitfalls for Fiscal Year (FY) 2009 since the last Consensus Revenue Estimating Conference (CREC) in January.

If the numbers up, it would more than erase the \$125.5 million cushion Gov. Jennifer [GRANHOLM](#) had built into her FY 2009 General Fund budget proposal and the \$48.5 million surplus in the School Aid Fund (SAF).

What remains in play however are plans for a \$100 million Budget Stabilization Fund (BSF) deposit at the outset of FY 2009. That \$100 million has yet to be appropriated to the BSF, and in light of the looming FY 2009 revenue problems, most likely won't be.

"It's a slight negative this year," said HFA Director Mitch **BEAN** of the current fiscal year's revenue picture. "And next year it will be more so."

The \$434 million came today as the HFA, Senate Fiscal Agency and Department of Treasury prepare for Friday's CREC, the year's final regularly scheduled conference and the numbers on which the final FY '09 budget will be built.

Here's where the revenue hits come from:

- The refundable film credits attached to the film incentive package lawmakers passed earlier this year will cost the state's General Fund \$117 million in FY 2009.
- The slowing economy will cost the General Fund another \$85 million
- The federal stimulus package, by reducing business taxable income, will cost the state's General Fund \$97 million
- Declining property values and a stagnating real estate market are going to cost the SAF between \$135 to \$140 million.

The good news is that for the current fiscal year (FY 2008) estimates are coming in pretty much on the mark. Bean said that the federal stimulus package is going to nick the General Fund to the tune of \$21 million for FY '08.

The House Fiscal Agency is reporting that revenues from the state's 13 major taxes for the second quarter of the Fiscal Year (February-April 2008) are up \$424.9 million or 10.3 percent. Much of the

change is due to the income tax hike enacted last fall as well as the new Michigan Business Tax (MBT).

While those numbers seem big, don't let them fool you. Bean said the biggest area of growth is the MBT and, remember, the MBT will bring in higher taxes because that money has to go to the offset personal property tax cuts that were promised as part of the entire MBT tax structure.

In total, the state's second quarter take on business taxes (old Single Business Tax, new MBT and the Insurance Tax) is up 35.3 percent during the February-April period compared to one year ago.

While business taxes grew at 35.3 percent for the second quarter, the HFA revenue report noted that in order to hit January forecasts, the tax should have picked up 35.6 percent growth.

On the income tax side, the net income tax proceeds are up 22.5 percent compared to one year ago. From the January CREC, the state's net take on income tax revenues is up 9.9 percent. Among the primary components of the Income Tax, annual and quarterly payments were up 19.2 percent, withholding payments (which make up 85 percent of income tax revenues) were up 11.1 percent and refunds were up 6.2 percent for the quarter.

But, as mentioned above, Bean warned "we ain't in the money yet" given the challenges coming for the FY 2009 budget.