

THE BUDGET: CRITICAL ISSUES REMAIN AS POLICYMAKERS LOOK AHEAD

The 2007-08 budget is completed, but questions, concerns and criticisms of the spending plan remain, especially as analysts consider its larger effect on the state's ongoing structural deficit and the precedent it sets for future budgets. And officials interviewed said future budgets will have to focus more on spending controls, including the use of budgetary reforms, to help keep the budgets balanced and targeted towards economic growth.

Because the budget for the current year was completed a month into the fiscal year, state officials already are beginning the task of developing forecasts for the next fiscal year. Soon, the actual work of drafting budget proposals in the administration will begin.

And as officials begin their budgetary work for the 2008-09 fiscal year, they will have to worry that the state does not slip back into a structural deficit. Correcting that will be difficult because it is unlikely the Legislature would countenance another effort to raise taxes during 2008.

Governor Jennifer Granholm told reporters on Wednesday that the budget will help the state keep the structural deficit in line (see related story).

But one analyst said at best the budget, with the tax increases enacted earlier in the month, sets the structural deficit back to zero. Without more focus on reforms and spending controls, "those lines could quickly begin to diverge," said Craig Thiel of the Citizens Research Council, and the state would face another structural deficit.

And several analysts said even as work begins on the 2008-09 budget, officials had to remember that the 2007-08 budget may not be complete. If the nation does go into recession, as some economic analysts expect, then the state will be forced into making budget cuts.

"My God, if we go into a downturn nationally we would just be crippled in Michigan," said Craig Ruff of Public Sector Consultants.

Even if the national economy does not turn down, the state could face budget adjustments just on the basis of shortfalls in tax revenues. Economist Charles Ballard at Michigan State University said the state will see two major changes to its fiscal structure in December, when the sales tax on services is now scheduled to take effect, and in January, when the Michigan Business Tax replaces the Single Business Tax. No matter how good a forecaster is on revenues, there is no way that person can predict with specificity what a tax will raise, Mr. Ballard said.

Looking at the overall budget, Jack McHugh of the Mackinac Center said there is no real evidence that the state made an effort to cut and control spending.

"Those of us poring over the final budgets are scratching

our heads looking for the draconian cuts the public had been told would be necessary despite nearly \$1.4 billion in state tax hikes," Mr. McHugh said. Overall, the budget is about "higher spending and maintaining the government's status quo, despite the state's declining employment, its falling home values, its stagnant or declining population and Michiganians' decline in real income," he said.

But Senate Minority Leader Mark Schauer (D-Battle Creek) said the final agreement helped protect critical public sector jobs and promote job creation.

Mr. Schauer also said the budget avoided the "one-time gimmicks" that had become routine to help keep the budgets balanced.

That may be true this year, but Mr. Thiel said the state has got to look more seriously at reforms to prevent that from reoccurring in the future.

For example, he said, closing prisons and camps will help save money this year, but long-term the state has to look at how it sentences people to help control the costs in corrections. The state clearly also has to look at ways to prevent crime, and keep prison populations down because there is no need to punish people, but the state has to seriously look at such issues as sentencing guideline reforms to help control prison populations.

Mr. Ruff said in the end the budget did little to enact many of the reforms that were suggested by the executive panel appointed last winter by Ms. Granholm. While there were changes made to how teacher health care was bid, the panel called for greater changes in terms of employee benefits and sentencing reforms.

"Those bigger reforms were bypassed and only a very little around the edges was nibbled at. That, for the long term, is what has me worried," Mr. Ruff said.

And he suggested that the state look at least informally at creating two-year budgets. Former Governor John Engler attempted to enact two-year budgets nearly a decade ago and was rejected by the Republican-majority in the Legislature at the time.

But Mr. Ruff said it is "awfully difficult" to forecast and plan for change a year at a time. A two-year budget helps in terms of long-term planning and enacting changes, he said.

Mr. Ballard said one critical element the budget provided was a small increase in spending for higher education. That was an important step for the state, he said.

He also agreed that the state will have to look again at sharp cost controls in the 2008-09 budget, but officials had to be candid and recognize that spending control in future budgets would have been less possible had not tax increases been enacted.