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Thursday, August 18, 2005

State budget coughs up a little more revenue

Michigan will have additional \$136 million amid hopeful signs economy is brightening slightly.

By Mark Hornbeck / The Detroit News

LANSING - The state has just a little more money to spend -- about \$136 million -- over the next 14 months than initially expected, a panel of budget experts decided Wednesday.

For cash-starved Michigan, it's the first time in five years that revenues exceeded initial expectations. But it was also apparent that hard times aren't over: the stubbornly sluggish state economy is taking longer to turn the corner than even the most cautious economists predicted.

"We're not talking about a lot of (additional) money," said Gary Olson, director of the Senate Fiscal Agency, who along with the state treasurer and the House Fiscal Agency director issued the revenue forecasts. "But it's positive that the number is going up rather than down for a change."

Budget conferees determined the state has \$69 million more to spend this year and \$67 million more to spend next year than projected in May. Revenues were up in May and June and down slightly in July. To offer some perspective, the total state budget is more than \$32 billion, school aid tops \$11 billion, and the general fund, the state's main checkbook, is \$8 billion.

That amount of extra cash isn't going to save Medicaid health care for the poor, which is hundreds of millions of dollars out of whack, and it isn't going to provide major tax relief. At best, it may make things marginally easier for Gov. Jennifer Granholm and state lawmakers as they haggle over spending plans for the next budget year, which begins Oct. 1.

"We need to look carefully at what we can do on Medicaid, to mitigate some of the cuts," said Sharon Parks, analyst for the Michigan League for Human Services. "But am I optimistic that will happen? No."

Shortly after the conference concluded, House Appropriates Chairman Scott Hummel, R-DeWitt, announced that some of the money would be used to keep a couple of prisons open in Northern Michigan. State leaders

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also have agreed that some of the additional money will go toward reducing cuts in higher education spending.

"We're looking at maybe \$65 million to \$75 million in help for the '06 budget negotiations" after covering outstanding expenses, state Treasurer Jay Rising said.

Other economic trends that came out of the conference:

- Gasoline prices will peak soon and should drop by the end of this year and into next year, said Joan Crary, an economist at the University of Michigan. Gas will remain over \$2 a gallon at the pump, though. As gas prices approach \$3 a gallon, the impact will be felt by domestic automakers because they produce a large percentage of the world's gas-hungry light trucks and SUVs.

- Car and light truck sales will total about 17 million this year compared to 16.9 million a year ago and will inch up to 17.1 million in 2006 and 2007, predicted Crary. House and Senate fiscal estimates were slightly lower.

- The state jobless rate will average 7.2 percent this year and 7.4 percent next year.

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