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Michigan Budget Facing Shortfall as Businesses Use Tax Credits.

Michigan faces a \$324.6 million shortfall in its \$9.5 billion budget, mostly because businesses are cashing in more tax credits aimed at stirring economic growth, according to state economists.

A separate \$12.3 billion fund that pays for public schools is running a \$35.8 million surplus because it relies more on sales-tax revenue that reflects a healthier economy, according to an agreement on the numbers announced Friday by the treasury, House and Senate. The figures will shape the current budget and the fiscal 2016 spending plan Governor Rick Snyder will propose to lawmakers on Feb. 11.

The projected net shortfall will rise to \$526.5 million in fiscal 2016, which begins Oct. 1. The deficits are based on revenue predictions from May.

“We will be making reductions in real services,” said Budget Director John Roberts, following a semi-annual meeting at the Capitol to forecast revenue. Roberts said he didn’t know if those cuts would result in layoffs.

Although total revenue is increasing, money for programs is being reduced by higher-than-expected use of business tax credits. The credits were granted before 2012 to businesses on the condition that they invest in facilities and hire specified numbers of people.

As the economy improved, hiring increased and more businesses qualified for the credits, said Mary Ann Cleary, director of the House Fiscal Agency. In some cases, rules for tax credits were eased after they were granted to make them easier to cash in, Cleary said.

The state next month will pay \$195 million to Detroit’s pension funds as part of the city’s bankruptcy settlement. The money will come out of payments received from tobacco companies in a multistate lawsuit settlement.

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