



2020 BUDGET PRIORITY: CREATE FAIR TAX STRUCTURES THAT PROVIDE ADEQUATE REVENUE

LEAGUE RECOMMENDATION:

State policymakers should review Michigan’s taxes and fees to ensure they are fair and bring in adequate revenues to fund state priorities. Tax cuts, especially those that disproportionately benefit wealthy taxpayers, should be avoided.

BACKGROUND:

In Michigan, as in nearly all states, budget and taxes are two sides of the same coin. The state is required to balance its budget every year and can spend only what it brings in. However, too often the state has prioritized cutting taxes over investing in the things that Michigan residents and businesses really need—safe roads, quality K-12 education, affordable college and skilled trades training, clean drinking water, and more.

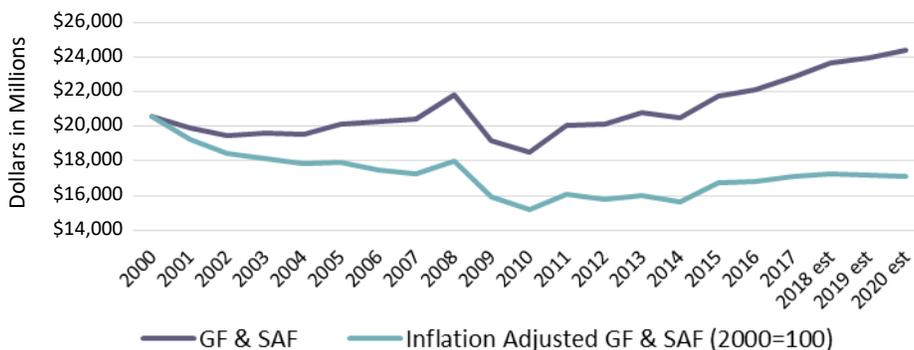
Of the total \$55 billion state budget, very little is flexible funding for state programs. Federal dollars, over which the state has little discretion on what they fund, account for about 40% of our budget. State restricted dollars—including those for education, transportation and many environmental programs—also make up roughly 40%. Our state’s General Fund dollars, over which the state has the most discretion, provide less than 20% of the state budget.

Discretionary spending power is down. Michigan’s General Fund has been relatively flat over the last two decades, and is expected to be below 2000 levels in 2020. However, adjusted for inflation, budget year 2020 estimates are more than 30% below 2000 levels. In fact, inflation-adjusted state General Fund dollars are below 1968 levels, the year in which our income tax was implemented.

Michigan’s School Aid Fund has been flat over the past two decades once adjusted for inflation. Additionally, the inflation-adjusted School Aid Fund is below 1995 levels, when Proposal A first took effect.

Michigan already has a constitutional revenue limitation, which currently shows room for revenue growth. The state last met this limitation in budget year 2000; Michigan is currently \$9-\$10 billion below the constitutional limitation.

STATE GENERAL FUND AND SCHOOL AID FUND REVENUES HAVE NOT KEPT UP WITH INFLATION



Source: Estimates from Senate Fiscal Agency and Consensus Revenue Estimating Conference data

WHY DOES IT MATTER?

Despite the impact of inflation on the state's purchasing power, policymakers have consistently pushed for tax cuts and additional revenue shifts instead of investing in programs that benefit Michigan residents.

Two separate education funding sufficiency studies have shown Michigan is still vastly underfunding K-12 education, especially in districts with struggling students.

Even with the 2015 road funding plan, which provided \$600 million in new revenues to roads and shifted \$600 million of state General Fund dollars to roads, Michigan roads will continue to decline.

This funding will help slow pavement deterioration but will not be enough to maintain or improve road conditions.

Statutory revenue sharing for cities, villages and townships has not been fully funded since the 2001 budget. The state is now funding statutory revenue sharing at only about one-third of the required level.

State funding for colleges and universities, while growing, is still below its peak. This has instead put the increasing cost of securing a college education—a necessity for many high-demand and high-wage jobs today—on students, which has resulted in growing student loan debt.

WHAT DO TAX CUTS MEAN FOR MICHIGANDERS?

- underfunded schools
- deteriorating roads
- struggling communities
- rising college tuition