

## Now Is the Time for Investing, Not Cutting Taxes

As Michigan legislators continue to debate state spending for the upcoming budget year, the Michigan League for Public Policy advocates for a budget that helps make Michigan the place where businesses, communities and residents thrive, including affordable, high-quality child care; good public schools and access to college; safe communities; and drivable roads.

The Michigan Senate and House have approved separate versions of the 2018 state budget. Differences between the two will now be worked out in joint House/Senate conference committees which will be convening in the coming weeks after expected revenues for the upcoming year were determined at the May gathering of economists and budget experts.

Both the House and Senate budgets fall short in several key areas, and more could be done. The House underspent the governor’s budget by about \$270 million, and the Senate underspent the governor by about \$540 million. Neither chamber spent all state General Fund dollars available that could be utilized to help enhance many important state programs instead saving them to be later allocated for tax relief, pension reform or “rainy days.”

*The League opposes tax cuts that further reduce the state’s General Fund or School Aid Fund because they could derail the state’s long-term economic vitality. The evidence is clear that investments in education and infrastructure are directly connected to economic growth. Yet, when adjusted for inflation, ongoing General Fund revenues in the current year are lower than they were 50 years ago—increasing the state’s reliance on uncertain federal funds.*

### WHAT ABOUT REVENUES?

The final budget will be based on state revenue amounts, namely General Fund and School Aid Fund revenues, which were determined at the second Consensus Revenue Estimating Conference of the year. Revenue estimating conferences are held in January, which create the basis for the governor’s proposed budget, and May, which provide the basis for the final budget negotiated between the Legislature and the administration.

At the May revenue estimating conference, combined School Aid and General Fund revenues were slightly up as compared to January. While School Aid revenues are coming in above January estimates, General Fund

State Revenue Outlook									
(amounts in millions)									
Fund	2016-17			2017-18			2018-19		
	Estimate	Change from January	Change from 2015-16	Estimate	Change from January	Change from 2016-17	Estimate	Change from January	Change from 2017-18
GF/GP	\$10,111.3	-\$178.8	0.9%	\$10,408.6	-\$114.1	2.9%	\$10,489.5	-\$99.8	0.8%
SAF	\$12,609.9	\$152.9	4.1%	\$12,970.5	\$187.4	2.9%	\$13,330.5	\$199.0	2.8%
Combined	\$22,721.2	-\$25.9	2.6%	\$23,379.1	\$73.3	2.9%	\$23,820.0	\$99.2	1.9%

Source: Consensus Revenue Agreement Executive Summary

revenues are not as strong as originally anticipated. When combining adjustments for both the current budget year and next year, lawmakers will have \$293 million less in General Fund revenues but \$340 million more in school aid fund revenues to craft the 2018 budget. While the state is not in a deficit, and we are anticipating revenues to grow year after year, lawmakers will not be able to provide the necessary investments to help Michigan's businesses, residents and economy.

## NO WIGGLE ROOM FOR TAX CUTS

What is clear from the revenue estimating conference is that the state cannot afford a tax cut. Rolling back the state income tax would ultimately eliminate a funding stream worth about \$10 billion and put a significant strain on the state's ability to fund schools, roads, communities, healthcare, safety net programs and public safety. Even a small 0.1 percentage point reduction in the income tax rate—about \$250 million—impacts Michigan's budget, which includes growing costs. In return for increasingly underfunded schools and crumbling roads, Michigan taxpayers would receive a small annual benefit, which for many would be barely noticeable as it is spread over paychecks. A tax cut would benefit the wealthy most, while the rest of the state would have to deal with worsening roads, underfunded schools and fewer services. Lawmakers should avoid the tax cut gimmick.

Michigan has been down the tax-cut road before. General Fund revenues have not kept up with the rate of inflation; between budget year 2000 and anticipated 2019, inflation increased 73% while General Fund revenues are actually down about 1%.<sup>1</sup> Tax policy changes, including Personal Property Tax reform and the recent transportation package, will further constrain General Fund revenue growth. These changes, along with the ongoing costs of business tax credits, will cost the state over \$2 billion by budget year 2022. At the same time as the state has been cutting taxes, lawmakers have started looking at spending reforms that put the state's long-term fiscal stability at risk without improving educational or other important state services. The state will be required to spend more as

it has been provided with less, which simply leaves fewer and fewer quality services for Michigan residents. Further tax cuts, and greater spending necessities, would only impair the state's ability to pay for its basic needs.

Instead, what the revenue estimating conference shows is Michigan's need for adequate and stable revenue streams, and lawmakers should start looking at revenue enhancements:

- Regularly review existing tax deductions, exemptions and credits and eliminate those no longer meeting their purposes;
- Improve the fiscal note process so lawmakers have a clear understanding of the costs of future tax changes;
- Review Michigan's current business tax structure to ensure everyone who uses state resources pays their fair share;
- Implement a graduated income tax; or
- Diversify Michigan's sales tax base to tax personal services.

## WHAT SHOULD BE DONE INSTEAD?

In the light of lacking political will to raise revenue, lawmakers this budget season need to start looking at places to get the biggest impact—especially places where small state investments draw down significant federal funds. By providing a small amount of heating assistance, less than \$7 million total, the state will leverage more than \$300 million in federal funds, and 338,000 families in Michigan would receive an average of \$76 more in food assistance each month. Additionally, expanding eligibility for child care assistance would help us meet state match requirements and ensure that we are not turning back federal dollars. Ultimately, investments above and beyond what have been included in either the House or Senate budgets are necessary to make sure Michigan becomes a state where all businesses, communities and residents succeed.<sup>2</sup>

## ENDNOTES

1. Elizabeth Pratt and David Zinn, Senate Fiscal Agency, *General Fund/General Purpose Revenue Growth*, State Notes, Spring 2017.
2. For ways we can improve the state through the budget process, please see "Budget Briefs" produced by the League.