Gov. Gretchen Whitmer’s first budget focuses state resources on four long-term goals to strengthen Michigan’s economy and invest in its people: 1) fixing the state’s roads and bridges; 2) ensuring that all communities have clean, safe drinking water; 3) increasing the percentage of Michigan adults that have a postsecondary education and the skills needed in the current economy; and 4) making Michigan a leader in third-grade reading.

Recognizing that these goals cannot be resolved with current revenues, Gov. Whitmer proposes an increase in the gas tax to generate the funds needed to fix the roads. By facing the state’s infrastructure crisis head on, the governor’s budget would free up funding for improvements in public education from preschool through postsecondary, as well as eliminate risks to public health through water contamination caused by lead and other toxins.

The governor’s budget, which was presented to legislative leaders on March 5, 2019, contains the details of her plan to allocate the state’s resources for the 2020 budget year, which begins on Oct. 1, 2019, and ends on Sept. 30, 2020. Legislative committees will now meet to craft their own versions of the budget. The decisions they make could help or hurt Michigan residents who have not felt the full benefits of the state’s economic recovery, including families and communities of color who have faced long-term barriers to economic opportunity because of state policies and budgets that do not address the cumulative impact of discrimination.

The League is advocating for a set of budget priorities that can improve Michigan’s economy by creating equity for the state’s children and families. In addition, the League has created an Owner’s Manual for Michigan that sets out a comprehensive plan to help lawmakers on the road ahead toward a Michigan with good jobs and training, reliable healthcare, high-quality education, strong families and a safe environment.

Total Funding for 2020

The governor recommends a total state budget of $60.2 billion, up 3.6% from the current year. Of that total, 41% is federal funding, and only 18% is from the state’s General Fund—the portion of the budget over which lawmakers have the most control. At $10.7 billion, the state’s General Fund is the same as it was 20 years ago—despite a more than 50% inflationary increase in costs. The result has been a history of disinvestments in the core functions of government including public safety, public health and education.
Facing the State’s Revenue Problems

Gov. Whitmer’s first budget does something that state budgets for years have neglected to do: address the obvious need for new revenues. The declining purchasing power of the state’s General Fund, a series of tax cuts for businesses, and increased tax breaks for special interests have resulted in state revenues falling short while Michigan’s roads continue to decline, schools struggle to provide children a top-notch education, and residents statewide fight to make ends meet. Instead of shifting funds around in a short-term shell game or making deep cuts in important state services, Gov. Whitmer’s 2020 budget provides bold solutions that recognize that the only way we can do more is with more.

- **The budget proposes a significant increase, 45 cents per gallon phased in over one year, in Michigan’s gas tax.** The decline in Michigan roads is obvious—potholes causing flat tires and chipped windshields—and over the next decade, state roads will continue to deteriorate, despite the inadequately-funded 2015 road improvement plan. This is in part because the state’s main dedicated funding stream for road improvements and maintenance has not kept up with inflation. Michigan needs a significant influx of revenues to fix its infrastructure, and a 45-cent increase to the gas tax would bring in about $2.5 billion in new revenues for roads. While some of this new revenue would be dedicated to public transit, more must be done to expand current public transit systems—as well as increase access to public transit in areas not currently serviced.

- **The proposal ends the funding shell game, ensuring that roads are funded by dedicated transportation funds and School Aid Fund dollars are used to pay for preschool through community college.** The governor would end the practice put in place by the 2015 road plan that dedicated up to $600 million in state General Fund dollars to roads. By ending this shift, the more recent practice of partially paying for state universities out of the School Aid Fund would also end, and additional resources would be available to invest in Michigan K-12 students.

- **The Michigan Earned Income Tax Credit would be doubled from 6% of the federal credit to 12% over two years.** The state Earned Income Tax Credit (EITC) is a bipartisan, pro-work policy that helps boost families out of poverty and has long-lasting benefits for children in families that receive it. In tax year 2017, about 748,500 families received the credit at an average of about $150 that year. Doubling the EITC would boost after-tax incomes for many working families, while at least partially offsetting higher fuel taxes.

- **The governor recommends a repeal of the expanded taxation imposed on Michigan retirees.** As part of the 2011 tax shift, Michigan retirees started paying taxes on part of their retirement income—among other tax increases on individuals—in order to pay for a significant tax cut for businesses. The governor recommends reverting back to the tax treatment prior to the fund shift, while allowing taxpayers older than 67 an option to either deduct their retirement income or claim a deduction against all of their income as they currently do in order to ensure that no Michigan retiree sees a tax increase—at a cost of $355 million for the first full year. While the governor’s plan would be paid for by the business tax parity (see next bullet), any changes to retirement taxes must be crafted carefully to ensure that there are adequate revenues for basic state services, and all businesses and taxpayers contribute their fair share.
• The governor recommends increasing taxes on some business pass-through entities, creating parity with businesses currently paying the Corporate Income Tax (CIT). Currently, C-Corporations—traditional corporations—pay a 6% CIT while income earned by pass-through entities, such as Limited Liability Corporations (LLCs), S-Corporations and Partnerships, are passed through to their owners for tax purposes and are thus currently taxed at a lower rate. The governor proposes that all businesses be subject to the 6% tax, with some credits and deductions to protect businesses.

Health

Medicaid and Healthy Michigan Plan

• Healthy Michigan Plan work requirements. The governor has recommended an additional $10 million to help people overcome barriers that may come with trying to meet these requirements including child care and job training, but more funding will be needed to ensure that Michigan residents do not lose healthcare coverage.

• Healthy Michigan funding continues. The governor recommends continued funding for the highly successful Healthy Michigan Plan, which has provided coverage to nearly one million Michiganders since its creation in 2014, with current enrollment around 670,000. The federal match rate drops from 93% to 90% in calendar year 2020, meaning significant additional General Fund dollars are needed to offset the decline. The federal match rate drop to 90% is the final adjustment, and moving forward the federal government will continue to fund Healthy Michigan at this level, with the state responsible for 10% of the costs of the program.

Public/Environmental Health

• Monitoring of environmental health threats will expand. With the ongoing Flint water crisis and per- and polyfluoroalkyl substances (PFAS) water contamination, the governor recommends funding to enable the Michigan Department of Health and Human Services (MDHHS) to monitor and respond to environmental public health threats more effectively. The proposed funding also will enhance laboratory capacity to investigate and assess the impact of potential contamination on individual and population health.

• Funding for the Flint water crisis continues. As Flint continues to deal with the effects of the ongoing water crisis, the governor proposes $8.1 million for lead abatement, lead poisoning prevention, early childhood home visiting initiatives, nutrition and children’s healthcare services.

• Significant new funding would be available for efforts statewide to improve the water supply. The governor proposes to invest $120 million in implementation of Michigan’s recently strengthened rule regarding lead and copper in drinking water, research and innovation in municipal water systems, water affordability and planning at local and regional levels, Drinking Water Revolving Fund loan forgiveness, PFAS cleanup, and research to establish a drinking water standard for PFAS. Additionally, the governor calls for the placement of safe hydration stations in schools throughout the state.
Human Services

Food Assistance/Access to Healthy Food

- **The number of families receiving food assistance continues to fall.** After rising to 967,566 cases in 2011, the number of Michigan families receiving food assistance fell to 645,690 in the first four months of the 2019 budget year—a reduction of 33%. The governor’s 2020 budget reflects that decline and includes $1.8 billion in federal funds for food assistance—down from the $1.9 billion budgeted for this year. The declining number of families receiving food assistance is the result of economic improvements, along with changes in state policy—including the adoption of a food assistance asset test. Four of every 10 people who receive help with food in Michigan are children, with the program supporting the development of nearly 482,000 children in January 2019.

- **The Double Up Food Bucks (DUFB) program will be expanded to provide access to healthy food to more Michigan residents.** Since the 2016 budget year, the state has contributed a total of $2.9 million to support the Fair Food Network’s DUFB program, which enables people using the Supplemental Nutrition Assistance Program to double the value of up to $20 per day in food assistance benefits spent on fresh produce at participating farmers markets and grocery stores. The governor’s 2020 budget proposal includes $4 million to increase the number of participating retailers in the 65 counties where DUFB is already available and expand the program to all 83 counties in Michigan by 2022.

Income Assistance/Basic Needs

- **Children receiving income assistance through the Family Independence Program (FIP) would continue to live on monthly grants that have been eroded by inflation.** The governor proposes no change in FIP benefit levels in 2020. Since the beginning of Michigan’s “welfare reform” in 1993, the FIP monthly benefit amount has been increased in a meaningful way only once, in 2006. As a result, both the income eligibility and the benefits levels have eroded greatly with inflation, and monthly FIP grants now fall 72% below the poverty line. In the 2019 budget year, FIP families received an increase in the clothing allowance for their children, but lawmakers rejected a very small across-the-board increase in FIP benefits.

- **Under the governor’s budget, FIP families will be able to keep a portion of the child support paid by noncustodial parents.** Currently, the Michigan Department of Health and Human Services retains all child support that would otherwise be paid to FIP parents, with a percentage of those funds required to be paid to the federal government. In 2017, 27 states and territories had child support pass-through policies. Under federal law, the federal share of child support collections can be waived to allow states to pass through up to $200 of child support to FIP families with two or more children, and $100 for those with one child. The governor proposes to allow the maximum pass-through of child support and estimates that it will benefit 2,300 of the roughly 18,000 families receiving FIP. In addition to improving the economic circumstances of children and families, this pass-through has been shown to increase child support collections.

- **The number of children receiving public assistance continues to fall.** The number of children receiving FIP income assistance has continued to drop, even though child poverty has remained relatively high. In the decade between 2009 and early 2019, the number of children
receiving FIP payments fell 79%, from 150,943 to 31,928, largely because of policy changes, including the imposition of lifetime limits on FIP participation. FIP caseloads are expected to continue to fall in 2020 with a reduction in FIP costs of $6.6 million.

- **State policies that penalize former drug felons would be maintained.** The governor has maintained the current prohibition on individuals with more than one drug felony occurring after August 1996 from receiving food or cash assistance.

- **The birth certificate fee would be waived for people experiencing homelessness.** The governor has proposed $226,000 to cover the cost of providing copies of vital records that individuals experiencing homelessness need to apply for other identity documents and access services and supports that will help them obtain safe, permanent housing.

**Child Abuse and Neglect**

- **The cost of foster care and other out-of-home placements for maltreated children continues to rise.** Foster care costs have increased in Michigan in recent years, partly in response to a lawsuit against the state for its failure to assure that children who have been abused or neglected are safe and find permanent homes without long delays. As part of the court settlement agreement, the state agreed to increase child welfare staff to address high caseloads. For 2020, the governor includes $255.1 million in payments for foster care—up 9.2% from the current year initial appropriation.

- **Michigan would provide incentives to relatives of abused and neglected children to become foster care providers.** Also in the governor’s budget is $1.8 million for incentives for relatives to become licensed as foster care providers. The state’s settlement agreement requires that 85% of relative caregivers are licensed. A separate court decision now requires that kinship care providers be paid at the same rate as other foster parents, eliminating some of the financial incentive for families to become licensed. In response, the governor recommends $1.8 million for new, one-time incentive payments of $1,000 for relatives who become licensed within 180 days of a relative child’s initial placement with them.

- **Despite a small increase, child abuse and neglect prevention programs continue to be underfunded.** The governor includes $5.9 million to support visits between children in foster care and their parents as a way to promote family reunification, along with $1 million for the Building Community Partnerships parent mentoring program. Michigan has four major family preservation and prevention programs—Families First, Strong Families/Safe Children, Child Protection and Permanency, and Family Reunification. Funding for the programs has remained essentially flat over more than a decade, increasing from $52.7 million in 2007 to only $54.1 million in 2019.

**Child Care and Early Education**

**Child Care Subsidies**

- **Payments for child care providers would be increased.** The governor includes $16.4 million to increase child care provider rates statewide, with larger increases for providers with higher-quality ratings. Child care workers are some of the most underpaid workers in the state, with average wages that fall below those earned by animal trainers/caretakers, manicurists and baggage porters. Low reimbursement rates make it difficult for providers to improve the
quality of care they provide, including hiring and retaining qualified child care staff, and maintaining their facilities to meet health and safety requirements. In the end, low rates can force child care providers to make business decisions to not serve families who are receiving state subsidies.

- **Michigan’s very low eligibility threshold for child care assistance would be increased.** Federal law allows states to set their own eligibility levels up to the 85th percentile of state median income—approximately 250% of poverty in Michigan. At 130% of poverty, the state’s entry eligibility level is one of the lowest in the country. The governor recommends an increase to 140% of poverty in 2020, an investment that would expand child care services to an estimated 2,000 families.

**Great Start Readiness Preschool Program**

- **More children would be able to attend preschool.** The governor includes a 35% increase in total funding for the Great Start Readiness preschool program (GSRP), bringing total funding to $328.9 million. The governor’s budget increases the basic eligibility level for the GSRP from 250% of poverty ($64,374 per year for a family of four) to 300% ($77,250), which would let the state enroll an additional 5,000 children in the program. GSRP funding was increased by $65 million in both 2013-14 and 2014-15 in response to research showing that children enrolled in the GSRP improve in literacy in both urban and rural areas of the state. Michigan currently ranks 16th in the country for its coverage of 4-year-olds, but is one of 15 states with state-funded preschool programs not enrolling 3-year-olds.

- **Per-child GSRP payment increases would improve the quality of early education.** In addition, the governor recommends the first increase in per-child funding for the GSRP since 2014 as a way of recognizing increased costs and maintaining high-quality programs. School day costs for one child would rise from $7,250 to $8,500 per year.

**Early Intervention**

- **State funding for Michigan’s early intervention program for children with developmental delays would not be increased.** In the current budget year, Michigan’s early intervention program for infants and toddlers, *Early On*, received its first state appropriation of $5 million—far short of the estimated need of nearly $70 million. Federal funds for *Early On* have been available since 1986, but they are insufficient to both identify infants and toddlers with delays and provide the services needed to improve their growth and ultimately reduce the need for special education services.

**K-12 School Aid/Education**

**Per-Pupil Spending**

- **Per-pupil spending would increase, with a new weighted formula that recognizes the added costs of teaching children who are economically disadvantaged or have special needs.** For the 2020 budget year, the governor recommends $235 million to increase the per-pupil foundation allowance by between $120 and $180, with schools currently receiving less in state support getting a larger increase. To address the higher costs of teaching high school students, the governor also retains the current $25 additional payment for every high school pupil.
• **Funding for students at risk would increase.** The governor increases funding for students who are economically disadvantaged by $102 million to a total of $619 million. These funds would be distributed through the new per-pupil formula, resulting in an estimated payment of $894 for each eligible student. Students whose families are more economically secure are twice as likely to be proficient on standardized tests for reading and science, and are much more likely to be prepared for college. The governor’s proposal could help address the many barriers to learning faced by children in families with low incomes, including children of color who are disproportionately affected by the lack of economic opportunity for their parents.

• **The higher costs of offering career and technical education (CTE) programs is recognized in the new weighted formula.** The governor’s budget includes an increase of $50 million to provide $487 per pupil for students participating in CTE programs.

• **Reimbursements to schools for the cost of teaching special education students is increased.** The governor recommends $120 million to defray the higher costs of teaching children in special education programs. The state now reimburses districts for 28% of their special education costs, with districts being forced to pick up excess costs out of their general operating funds. The governor’s budget would increase the state reimbursement by an estimated four percentage points and better reflect the true costs of special education.

• **Payments for cyberschools would be reduced.** The governor reduces the foundation allowance for cyberschools by 20% to reflect their lower costs for buildings, maintenance and transportation—for a total reduction of $22 million.

### Third-Grade Reading Instruction in Schools

• **The number of state-funded literacy coaches would triple.** The governor includes an additional $24.5 million to increase the number of literacy coaches statewide from 93 to 279. Michigan’s Read by Grade Three law takes effect in the 2019-20 school year. The new law is intended to focus early literacy services on children who are falling behind in reading, but includes the retention of children in third grade if they are more than one year behind in reading proficiency. While the law includes some exemptions to retention, without adequate resources it has the potential to affect tens of thousands of Michigan students, with a much higher risk of retention for children of color and those in low-income schools.

### Adult Education

• **Adult education programs would not be expanded.** The governor’s budget for 2020 does not include additional funding for adult education programs. In the current budget year (2018-19), funding for adult education was increased by $1 million to $26 million, but still falls far short of the need. In addition to the statewide adult education increase, the Legislature provided an additional $2 million in the 2019 budget for career/technical education programs through Intermediate School Districts. State funding for adult education peaked between 1997 and 2001 at $80 million, but was cut drastically after that period to between $20-22 million annually.
Postsecondary Education

Financial Aid

- **Adult students finally get state financial aid to build their skills.** Michigan has not provided financial aid to students out of high school for more than ten years since 2009, when it discontinued the Part-Time Independent Student Grant, and 2011, when No Worker Left Behind ended. For budget year 2020, the governor has created the Michigan Reconnect program to provide debt-free tuition (as a last-dollar aid program) for up to two years for students over the age of 25 with a high school diploma but not a two- or four-year degree. Programs at community colleges, technical training centers and community-based organizations would be eligible, with aid available to students beginning in the summer of 2019. Michigan Reconnect is expected to cost $50 million annually.

- **The Michigan Tuition Grant and Michigan Competitive Scholarship continue funding levels from the current year, while the Tuition Incentive Program gets a reduction.** Of Michigan’s three need-based financial aid programs, the governor’s budget funds the Tuition Grant (which serves only students attending private not-for-profit institutions) at $38 million, the Competitive Scholarship at $32.4 million and the Tuition Incentive Program at $59.8 million. The Tuition Incentive Program is reduced from $64.3 million in the current year to reflect savings from capping awards.

- **Two years of tuition-free community college beginning in the fall of 2020.** The governor has proposed the Michigan Opportunity Initiative providing two years of tuition-free community college or two years of tuition assistance at a public university or a four-year private not-for-profit college. This proposal is not funded in the current budget.

Operations Funding

- **School Aid Fund (SAF) dollars are no longer pulled from K-12 to fund universities.** Beginning in budget year 2012 and each year since, 15-34% of university operations funding totaling nearly $2 billion has been pulled from the School Aid Fund in order to free up General Fund dollars for other uses or for tax cuts. The 2020 budget uses only General Fund dollars for university funding.

- **Community colleges continue to get hundreds of millions of School Aid Fund dollars.** During the past two budgets, community college operations were 100% funded with SAF dollars. The governor’s budget continues the current year’s appropriation of $408.2 million in SAF dollars for budget year 2020, and adds $9.7 million in General Fund dollars.

- **Full funding for each institution is contingent on tuition restraint.** For budget year 2020, the governor recommends that a university may not increase its tuition by more than 3.2% or $427, whichever is higher. The governor has introduced a similar tuition restraint for community colleges to limit tuition and fee increases to 3.2% or $128, whichever is higher.

Corrections

- **Prison population and costs remain essentially flat.** The governor proposes maintaining current prison operations funding at $1.1 billion to house approximately 39,000 prisoners. Since 2006, the prisoner population has declined significantly and the state has responded by
closing two prisons in 2018 (West Shoreline in Muskegon in March and Ojibway in Marenisco in December).

- **Education, skilled trades and career-readiness programs are continued.** The governor has recommended $40 million for programs that help prepare prisoners for work upon their release, reducing the likelihood of recidivism and helping them to lead stable and fulfilling lives, as part of its “offender success” programming. Although appropriations for individual programs are not specified, this appears to be an increase over recent years.

- **Prisoner healthcare programs are maintained.** The governor maintains $310.3 million to support the delivery of physical care, mental health care and pharmacy services for Michigan’s prisoner population.

**Thriving Communities**

- **Constitutional revenue sharing would be increased due to higher sales tax revenues.** Our state constitution automatically dedicates a portion of sales tax revenues to support Michigan cities, villages and townships. This is an automatic per-person payment that is determined based on the amount of sales tax generated. This year, stronger sales tax revenues are anticipated, which will automatically increase payments to cities, villages and townships.

- **City, village and township (CVT) statutory revenue sharing would be increased.** While CVT revenue sharing has not received full funding since 2001, the governor supports adding $7.7 million to provide eligible cities, villages and townships a 3% increase over the total budget year 2019 level ($262.8 million in total funding).

- **County statutory revenue sharing payments would be increased.** The governor proposes providing county revenue sharing and the county incentive program an additional $6.6 million for eligible counties, a 3% increase over current year payments ($228.1 million in total funding).

- **Grants to support local projects would be expanded.** The governor supports an additional $2.5 million, for a total of $5 million, to support local projects targeting infrastructure, public safety, blight removal and other community revitalization projects (Community Opportunities for Renewal). This is essentially an increase of the grants previously provided to financially distressed cities, villages and townships. CVTs would still need to apply and grants to individual CVTs would be capped at up to $2 million each.