



2021 BUDGET PRIORITY: STOP THE EROSION OF STATE TAX REVENUES

LEAGUE RECOMMENDATION:

State policymakers should protect Michigan’s state revenue streams to ensure adequate revenues to fund state priorities. During revenue negotiations, lawmakers should prioritize equity for working families. Policymakers should oppose tax cuts, especially those that disproportionately benefit wealthy taxpayers and corporations.

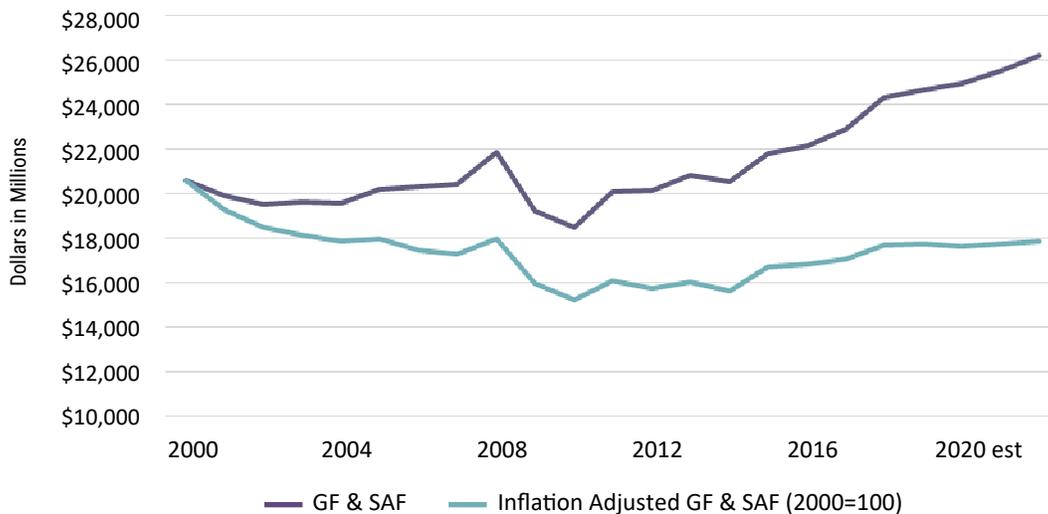
BACKGROUND:

The Michigan budget reflects the state’s collective priorities and goals. By pooling resources, Michigan residents can be assured access to safe roads, high-quality K-12 education, affordable colleges, skilled trades training, clean drinking water and more. Too often, the state has prioritized cutting taxes over using public resources to fund the services and infrastructure that Michigan residents and businesses need.

Discretionary spending power is down. Although the Michigan economy has been growing since the Great Recession, the state’s General Fund has not fared well. While General Fund revenues have increased 7.5% since the Great Recession, inflation has risen 14.3%. This means that Michigan’s General Fund revenue can purchase 6.8% less than in 2008. In fact, state General Fund revenue remains below 1968 levels when adjusted for inflation, the year after which the Legislature passed the Income Tax Act. At that time, Michigan’s population was 15% smaller.

Michigan’s constitutional revenue limit indicates room for revenue growth. The state last met this limitation in the 2000-2001 budget year, during a period of substantial growth. Michigan is currently \$11.5 million below the constitutional revenue limit. This deficit is expected to increase to \$13.4 billion by the 2021-2022 budget year.

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

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There are a number of policy recommendations that have been made to bridge the gap in revenue collections and the constitutional revenue limit. These include everything from amending the state's constitution to allow for a statewide graduated income tax to the statutory implementation of a sales tax on services. Michigan lawmakers need to be bold in implementing many of these recommendations so that the state's budget can remain stable and robust.

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.

Michigan is in a position to prevent further deterioration of its public school system, healthcare system, infrastructure and environment. When lawmakers postpone confronting these issues, they get bigger and cost more to fix. The state will be better off in the long run if steps are taken today to curb the fiscal problems that plague the well-being of our state. Our state budget reflects our collective priorities and shared vision for the future. To achieve our collective goals, we need to generate sufficient resources.

Two separate education funding sufficiency studies have shown that Michigan is still vastly underfunding K-12 education, especially in districts with struggling students. Although School Aid revenues have increased over the last decade due to economic expansion, policymakers are still underfunding our K-12 education system. Meanwhile, the Legislature is shifting money traditionally used for K-12 education to pay for higher education. This means that the state's children are not receiving the education they need to succeed. We must prioritize fairer funding for our public schools so that our students can thrive.

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, and will drain needed General Funds away from other state services.

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 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 costs 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.