Michigan is Facing Unprecedented Public Health and Budget Crises

The rapid expansion of COVID-19 across the country and world changed our lives in many ways, including the need to protect ourselves, our loved ones and our communities by staying home. As Michigan’s governor responded to protect the state’s residents, businesses were closed, jobs were lost, and students left their classrooms behind. The foundations of the state’s economy were shaken as they haven’t been in decades.

The fallout from COVID-19 placed an intense and much-needed spotlight on policies and budgets that have harmed Black and brown people and communities in Michigan and across the country. Michigan was one of the first states to report COVID-19 data by race and ethnicity, showing that while African Americans make up 14% of the state’s population, more than 40% of Michigan residents who died as a result of COVID-19 were Black.

The reasons for these inequities are many, including persistent and deep employment discrimination, fewer opportunities to work from home or take advantage of other workplace protections, lack of access to healthcare and transportation, and the lack of appropriate housing to shelter at home. All of these factors have a long-standing backstory in policies, practices and budgets with racist intention or impact—mostly designed without any leadership or input from the people and communities most affected.

The public health crisis isn’t over, but the state’s bold moves to flatten the curve of COVID-19 have had an unavoidable impact on the state’s revenues and budget. In May, state economists predicted a budget deficit of $3.2 billion in the current budget year (2020), and an additional $3 billion in 2021. Because Michigan is required to balance its budget, any shortfall this year has to be resolved before the end of September—just a couple months from now.

The unprecedented drop in state revenues has come with a sharp increase in the need for public services, and related costs. Hospitals struggled to care for the sick, and skyrocketing unemployment increased the need for food, water, shelter, medical care and safe transportation. As Michigan moves to reopen businesses, schools and other aspects of community life, the costs will be higher including higher healthcare costs; the need to purchase adequate protective and cleaning materials; the costs to businesses, restaurants, schools and colleges of maintaining safe social distancing; and the price tag associated with providing distance learning.

The bottom line is that Michigan residents are suffering, and this public health crisis has become a very personal crisis for the many who are ill, have lost a loved one, can’t access needed medical care, are unemployed or can’t find the child care they need to work—with the greatest impact on communities of color. Any attempt to address
Michigan's budget deficit without accounting for current inequities based on race, place and income will only widen disparities and ultimately impede Michigan's economic recovery.

**What Options Does the State Have to Balance its Budget?**

Given the short timeframe, the options for the governor and lawmakers to bridge the budget gap for 2020 were fairly limited, and included:

- **Rainy Day Fund**: Michigan's budget stabilization fund, or rainy day fund, currently holds $1.2 billion. Based on triggers in statute, $287 million was automatically available, but a larger withdrawal required a supermajority legislative vote. Rainy day fund withdrawals are one-time money, but can provide a much-needed boost to state revenues.

- **Federal Funds**: Michigan and states around the country have needed federal relief to battle COVID-19 and its costs to the healthcare system, businesses, workers and families. There have been several rounds of federal assistance, most of which was targeted to very specific health and other costs related to COVID-19. The Coronavirus Aid, Relief and Economic Security (CARES) Act (stage 3 of stimulus relief) is the main funding for the state budget, but federal guidance has made it difficult for states to use those funds to fill holes in state and local budgets, and CARES dollars must be expended before the end of December—even though unemployment is expected to remain high at least until 2022, and Michigan is facing deficits for several years.

- **Budget Cuts**: Michigan's budget is already very lean, and deep cuts would have made it nearly impossible to open schools and keep Michigan's economy working. Michigan has two major state funds, both of which rely heavily on revenues from the state personal income and sales taxes, which were hard hit by the COVID-19 shutdowns. Nearly 80% of the $10.4 billion General Fund budget is used to fund health and human services, public safety, and higher/K-12 education. In the 2019 budget year, the state's General Fund was estimated to be nearly 30% below 2000 levels when adjusted for inflation, while the School Aid Fund was 2.2% below 2000 levels.\(^1\)

- **Tax Reform**: While tax reform was not a practical solution for increasing revenues during the few months left in Michigan to balance the 2020 budget, it is a viable and needed long-term fix. Michigan revenues have eroded over time in the face of increased costs through inflation, and the state’s tax system cannot generate the revenues needed for the COVID-19 crisis, or adequately produce the resources needed to rebuild the state’s economy, fund vital services and infrastructure, and prepare for future downturns.

**What Have Lawmakers and the Governor Done so Far to Address the Deficits?**

To bridge the budget gap, Michigan lawmakers and the governor agreed at the end of June to a plan for balancing the 2020 budget that included:
- A total of $350 million from the state’s rainy day fund.
- $490 million in savings from state hiring freezes, layoffs and other savings in state government.
- $475 million in state savings from public safety costs that are now eligible for federal relief.
- $256 million in School Aid Fund reductions to schools, with a total of $512 million in federal relief to fill some of the funding gaps, as well as $53 million for hazard pay for Michigan teachers.
- A $200 million reduction in School Aid Fund dollars for colleges and universities, offset with federal funds.
- A $97 million reduction in state funds for local governments, offset by $150 million in federal funds, as well as $300 million already approved for public health and safety costs and first responder hazard pay (P.A. 123 of 2020).

The 2020 budget agreement allocates approximately $3.1 billion in federal CARES dollars, including funding from SB 690 (P.A. 123 of 2020), a bill signed by the governor on June 22 to address COVID-19 needs. Highlights of the approved spending include:

- **Funding to sustain child care businesses and provide rate relief to parents** ($125 million) with up to a 30% reimbursement to providers who reduce rates for parents during June, July and August. Payments are available to providers who received assistance under the governor’s Child Care Relief Fund initiative, which is providing up to $130 million in grants to child care providers to help stabilize their programs and reopen.

- **School district COVID relief** ($18 million) for summer and other recovery programs, benchmark assessments and health/safety expenses.

- **Water utility assistance** ($25 million) to reimburse utilities for forgiveness for arrearages, along with a 25% discount on total water bills for families eligible for food assistance through the end of December.

- **Rental assistance** ($60 million) with $4 million for legal services, $4 million to help community action agencies provide case management, and $2 million for state administration and promotion of the assistance. The remainder of the funds are to help pay for rent arrearages and rent subsidies.

- **Funds to expand staff needed to process unemployment insurance requests** ($20.1 million), with the goal of getting assistance to those who need it as quickly as possible.

- **Funding for distance learning in schools** ($25 million), for the purpose of helping districts purchase equipment and improve connectivity.

- **Grants to local governments** ($200 million) and **first responder hazard pay** ($100 million). Local grants of federal relief funding were provided to reimburse counties, cities, villages and townships for eligible public safety and health payroll costs under CARES. The funds are only available to local governments that did not receive direct CARES grants. Funds for hazard pay are available for law enforcement, firefighters, EMTs, paramedics, 9-1-1 providers, local
corrections officers, airport safety and ambulance operations.

- **Small business restart grants** ($115 million), including $100 million for small businesses with 50 or fewer employees, and $15 million for agriculture processing/farming safety.

**What’s Next?**

**Michigan is still facing a large deficit for the 2021 budget year, and more flexible federal relief is critical.** As part of last year’s budget agreement, which continued until nearly the end of the state’s budget year in the fall, a new target of July was set for final 2021 state budget deliberations. Facing the COVID-19 crisis and the need to balance the current state budget (2020), the Legislature and governor agreed to extend that timeline, and it is anticipated that much of the action on the 2021 budget will continue into September of this year. The League has developed a series of recommendations related to the programs and policies needed to weather the COVID-19 crisis and that can inform the 2021 budget.

To be clear, the state’s ability to balance the 2021 budget will hinge on the willingness of Congress to provide additional and flexible relief to the state. Michigan and other states need federal relief that is tied to economic conditions, not the calendar, and allows states to use the funds to cover revenue losses created by COVID-related shutdowns. The League is advocating for additional federal assistance through the HEROES Act that was passed by the U.S. House of Representatives in May.

**Michigan needs tax reform:** For 2021 and beyond, Michigan lawmakers have another option, one that the League believes is long overdue—reform of Michigan’s tax system to ensure that there are adequate state funds to weather downturns and sufficient revenues to craft state policies and programs in ways that eliminate inequities based on race and ethnicity, provide for the basic needs of families and children, and create economic opportunities for all Michiganders. The League has developed a set of recommendations for improving Michigan’s tax system to make it more fair and progressive.

**Addressing racial and ethnic inequities:** State and community leaders must work together to change the state policies and spending priorities that helped to create the deep inequities that have harmed Black and brown Michiganders before and during the COVID-19 crisis. In April, the governor issued an Executive Order establishing the Michigan Coronavirus Task Force on Racial Disparities to identify the factors driving the inequitable impact of COVID-19 on communities of color. Decisions made by policymakers and leaders over generations have contributed to current racial disparities in health outcomes, and it is imperative that this work continues after the end of the COVID-19 health emergency to address how state policies and budgets contribute to—and more critically, can eliminate—those unacceptable outcomes.

**Endnote**