WITH THE 2020 BUDGET COMPLETED, ATTENTION TURNS TO LARGE 2021 DEFICIT

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To fight the COVID-19 virus and save lives, Michigan was forced to take measures that slowed the economy and had an unavoidable impact on the state’s revenues and budget. In May, state economists delivered the sobering news that Michigan was facing a projected 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 each year, the 2020 shortfall had to be resolved before the end of September.

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, and action was taken in the last week to put those changes into law. After accounting for federal relief from the increased federal match for Medicaid for two budget quarters, along with additional budget adjustments since the May budget estimates, the total budget gap still to be closed was reduced to a total of $2.2 billion, roughly evenly divided between the state’s General Fund and the School Aid Fund.

The budget fix for 2020 was accomplished through a combination of Executive Order cuts and supplemental budget bills that incorporated available federal relief funds. Together, these actions, eliminated the $2.2 billion state revenue shortfall for the 2020 budget year.

**EXECUTIVE ORDER 2020-155:** Executive Order 2020-155 cut a total of $620 million in state General Fund dollars, largely through reductions in state department budgets. Under state law, the governor must issue a budget-cutting executive order to reduce expenditures when revenues fall below projections.

**Executive Order Highlights:**

- **Staff Cuts:** Savings from temporary layoffs of state employees ($27 million), and state hiring freezes ($21 million) were included.

- **Discretionary department spending:** A freeze in discretionary spending for state departments ($47 million) was ordered.

- **The use of federal funds for state police and corrections staff:** A reduction in state General Fund spending for state police ($106.8 million) and corrections ($368.2 million) staff was achieved by substituting federal funds from the Coronavirus Aid, Relief and Economic Security (CARES) Act for payroll costs.

- **Cuts in the Department of Health and Human Services (DHHS):** A range of state General Fund cuts were made in the DHHS, including a reduction in funding for
the public health response to environmental crises as a result of less activity during the pandemic ($4.8 million), a cut in Healthy Michigan Plan administrative costs in part because work requirements were not enforced ($2.5 million), elimination of funding for incentive payments to relatives providing care to become licensed foster care providers ($250,000), a reduction in grants for court-ordered outpatient mental health services ($1 million), a reduction in spending for a training program for medical students to ensure more serve rural or underserved areas ($2.3 million), and a cut in funding for senior volunteer service programs ($1.7 million).

SCHOOL AID FUND SUPPLEMENTAL BUDGET BILL: S.B. 373 increases total spending for K-12 education by nearly $136 million, while holding universities and community colleges harmless. This was accomplished by the appropriation of $712 million in federal relief funds, the use of $350 million from the state’s rainy day fund, and other funding shifts. With this withdrawal for K-12 schools, the state’s rainy day fund falls to $836 million.

School Aid Fund Highlights:

- **K-12 Public Schools:** School Aid payments to K-12 schools were reduced by $175 per pupil, for a total reduction of $256 million. Instead, $512 million in federal CARES Act funds were made available to districts, which equates to $350 per pupil. However, school districts must use the federal funds for purposes allowed by the CARES Act, which could reduce flexibility in district budgets.

- **Community colleges:** School Aid Fund dollars for community colleges were cut by $36.3 million (11%), and replaced by an equal amount of federal CARES funding, which must be spent on costs allowed by the federal guidance.

- **Universities:** University School Aid funding was reduced by $163.7 million (11%), and replaced with an equal amount of federal CARES funds, also to be used as allowed by federal guidance.

GENERAL FUND SUPPLEMENTAL BUDGET BILL: H.B. 5265 increases total spending (federal and state funds) for 2020 by $1 billion, while reducing state General Fund spending by nearly $539 million. Included in the bill was the swapping of federal relief funds for state funds, budget cuts, caseload changes, and the repurposing of unspent dollars.

General Fund Highlights:

- **Health and human services.** Overall, the DHHS budget is increased by $1 billion (3.6%) in state and federal funds. However, the DHHS also took the largest cut in state funding, with a $427 million (8.8%) cut in state General Fund dollars—offset by increased federal funds, including $493 million from the increase in the federal matching rate for Medicaid in the Families First Coronavirus Response Act. The enhanced federal matching rate for Medicaid was one of the most flexible budgeting tools provided by Congress to the states, and was a major contributor to the state’s ability to balance the 2020 budget.

  - **Growing Medicaid caseloads:** The public health crisis has increased the need for healthcare coverage, and the budget includes an increase of $508.1 million total to cover the growing number of Michiganders needing...
Medicaid, as well as the increased cost of care. In the five months between January and May, an additional 62,000 people enrolled in Medicaid in Michigan.

- The need for food assistance has increased: The revised 2020 budget includes an additional $600 million in federal funding for food assistance, with a 30% increase in the number of recipients between January and May of 2020, before declining in June.

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**AS MICHIGANDERS LOST JOBS, THE NEED FOR FOOD AND MEDICAL ASSISTANCE GREW**

Growth in Recipients of Medicaid & FAP (Jan-Jun 2020)

![Graph showing growth in Medicaid and Food Assistance recipients]

Source: Michigan Department of Health and Human Services

- More families needing income assistance: The budget includes a total of $33.6 million to cover growing caseloads for the Family Independence Program, State Disability Assistance and Supplemental Security Income payments, with caseloads growing as a result of the continuing COVID-19 crisis.

- The costs of foster care for maltreated children are rising: The budget includes $23 million to reflect in part the growing cost of foster care payments and cases.
Revenue sharing to local governments. Revenue sharing funds are reduced by $43.5 million for cities, villages and townships, $45.8 million for counties, and $7.2 million for the county incentive program—a total of $96.5 million. These funds are replaced with $150 million in federal CARES dollars. Cities, villages, townships and counties will have to use those funds in ways that are permitted under the federal CARES bill, which allows them to cover eligible public safety and public health payroll costs.

In total, 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 Gov. Gretchen Whitmer on June 22 to address COVID-19 needs. Highlights of the approved spending in P.A. 123 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 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.

### The Looming 2021 Deficit

The governor and the Michigan Legislature must now swiftly turn their attention to the 2021 budget. Michigan is still facing a deficit of $3 billion in 2021, and more flexible federal relief is critical. State leaders must have a budget in place before the beginning of the next budget year—which begins October 1—without a current guarantee of sufficient federal assistance.

**Congress needs to provide more relief to states:** The state’s ability to balance the 2021 budget will hinge on the willingness of Congress to provide continuing relief to states, including an additional and larger increase in the federal share of Medicaid costs. 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:** 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. For 2021 and beyond, Michigan lawmakers have the opportunity to make overdue changes to Michigan’s tax system to guarantee that there are adequate state funds to weather downturns, ensure the state has an ongoing and robust rainy day fund, and generate sufficient revenues to invest in the state’s people and infrastructure—including state policies and programs that eliminate inequities based on race and ethnicity. Michigan revenues have eroded over time in the face of increased costs through inflation, in part because the state’s system is not progressive or based on the ability to pay. 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 The League has developed a set of recommendations for improving Michigan’s tax system to make it more fair and progressive.

**Michigan needs to use its resources to address 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.

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**Endnote**