



# MICHIGAN CAN MAXIMIZE FEDERAL AMERICAN RESCUE PLAN ACT AID

April 2021

The federal **American Rescue Plan Act (ARPA)** signed by President Joe Biden on March 11, 2021, provides unprecedented cash resources to families and significant investments in key areas like housing, child care, education and health coverage. It also provides significant resources to help states, localities, tribes and territories meet COVID-related challenges. Here's what those investments would likely look like for Michigan.

## Michigan was underfunded even before the pandemic, ARPA funds can help right the ship

After decades of disinvestment, critical programs and services in Michigan have been underfunded, making it even harder for kids, families and workers to thrive. By prioritizing tax cuts for the wealthy and corporations over investments in our state's residents, the state Legislature weakened Michigan's foundation so that when COVID-19 hit, the state was already on shaky ground. But the American Rescue Plan Act is a historic opportunity for Michigan to invest in an equitable economic recovery that could leave our communities better off than they were before.

To ensure that we move forward with a better economy and stronger communities, Michigan lawmakers should spend this federal relief where it is needed most: to create opportunities and improve life for Black and Brown Michiganders and for residents with low incomes—they have been hit hard by the pandemic and face long-term inequities due to racism and discrimination.

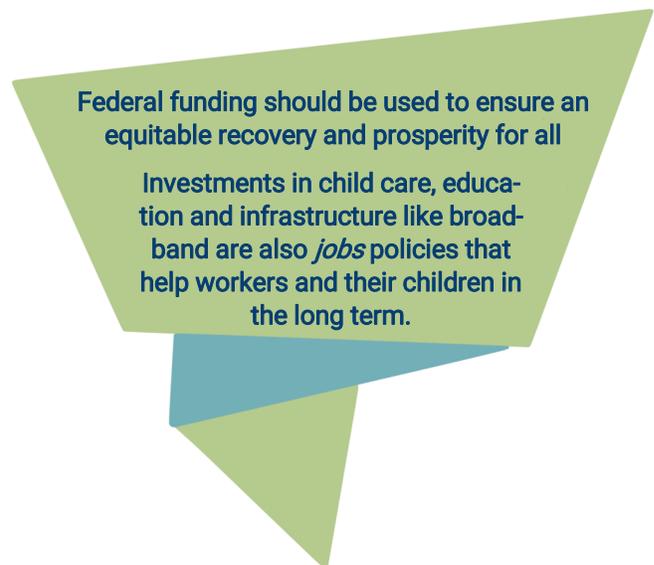
Michigan lawmakers should also make budget decisions that address the future, not just create patches for the dire problems that currently exist. It's past time to raise additional revenues—the state will need them to make investments that can build on the foundation laid by this one-time federal stimulus.

## Michigan must invest federal funds where they're needed most

It's key that this unprecedented aid should be targeted to essential workers, communities of color, households with low incomes and others most affected by the crisis through investments in child care, education and infrastructure. Prioritizing these areas helps Michiganders right now, but will also help workers and their children down the road.

Now is the time to advance long-term, equitable policies like strengthening our safety net programs, developing a statewide housing plan, and fully funding the At-Risk School Aid program.

Robust state investments must be sustained to mitigate the crisis and foster inclusive recovery. It remains critical for Michigan's lawmakers to create a state budget that strengthens programs that help families make ends meet, businesses reopen, and students return to classrooms.



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## How Michigan could *lose* federal aid

The federal aid offered by the American Rescue Plan Act has an important provision: states can not pass tax cuts using this funding. It's an important guardrail that ensures states are using the federal dollars to help families, businesses and communities most impacted by the COVID-19 crisis. This means that if any state changes its laws in a way that reduces net tax revenue after March 3, 2021, and before the state has spent its entire federal ARPA allocation, the U.S. Department of Treasury may deduct an equivalent amount from the aid received by the state.



But Michigan lawmakers are already/currently considering bills that could cost the state up to \$60 million in federal aid, including **House Bill 4485**, which would implement/reinstate a cap on cigar taxes for premium cigars. That bill alone would reduce tobacco tax revenues by about **\$4 million**, plus an equal amount of federal relief. **Additional tax cuts on the table would cost the state up to \$60 million.**

And the Michigan Legislature has plenty of time to create more revenue-reducing bills like this. We learned through the Great Recession, from which the state still has not recovered, that tax cuts for the wealthy and budget cuts to critical services will NOT get the economy moving again. Tax cuts like these were an ineffective strategy at the time, and they are a bad idea now.

## What ARPA *can't* do

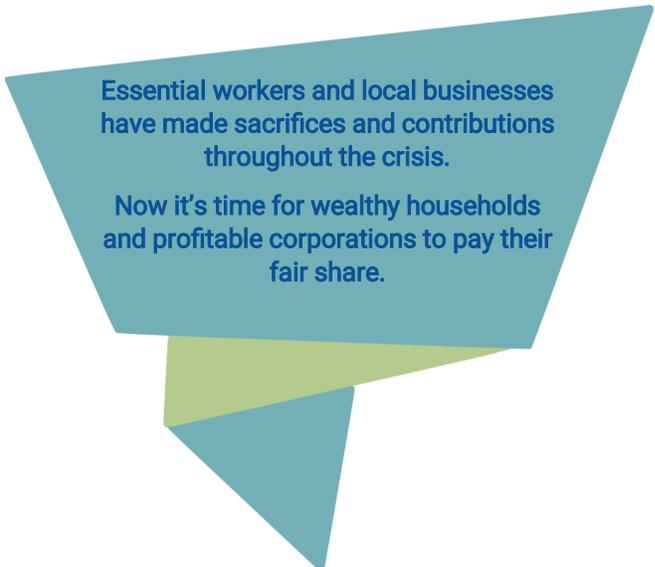
This federal funding will go a long way in helping Michiganders recover, but it will not undo the systemic issues and racist policies that made this crisis so much worse for many of our residents. Barriers to economic stability and health existed before COVID-19 for Black, Brown, Indigenous and immigrant communities. These temporary federal dollars cannot make up for the resources drained from low-income communities over time. The Legislature must focus on systems change that will improve outcomes for all.

Federal lawmakers have already committed to historic investments in our recovery. Now it is up to Michigan's decision makers to do the work. Essential workers and local businesses have made sacrifices and contributions throughout the crisis. Now it's time for wealthy households and profitable corporations to pay their fair share.

## Investing in our future

The American Rescue Plan Act is a critical response to a global pandemic and economic downturn, and will help many Michiganders recover in the short term. But this stimulus will run out, leaving the effects of the tax and budget choices that policymakers make today in full view. Michigan's lawmakers cannot rely on federal relief alone; they must make and sustain critical investments for the state.

Instead of tax cuts for the wealthy and corporations as has been done in the past, Michigan should prepare for the future by building revenue. Some ideas include: eliminating the triggered state income tax cut set to take place in 2023; expanding the state sales tax to personal services; and implementing a graduated income tax through a ballot initiative. These revenue-generating policies will keep families in their homes, keep workers employed, keep students enrolled in college, and keep businesses open.



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