April 2020 | State Budget Notes 2020-01

CITIZENS RESEARCH COUNCIL OF MICHIGAN

Michigan Budget Growth Fueled by Federal Dollars

Key Takeaways

- Michigan has become more dependent on federal dollars to fund state programs since the turn of the millennium.
- This has coincided with a slowdown of the growth of in state discretionary dollars – which has shrunk from 40 percent of the state budget to less than 20 percent.
- State funding used to match federal funding has drawn increased amounts of the limited discretionary dollars collected by the state, furthering the impact on the state budget.

The size of the State of Michigan's budget has grown over the past 30 years. From Fiscal Year (FY)1992 to FY2020, state appropriations increased from $20 billion to $58 billion. At the beginning of this period, state tax revenue constituted the majority of resources in the state budget. Michigan had less reliance on federal dollars than most other states. However, those relationships have inverted. A confluence of economic and policy changes has altered the overall composition of the state budget.

While struggling through two consecutive recessions, Michigan's budget became significantly more reliant on federal dollars than it had previously. Slow growth in state revenue, and an increase in demand for (and availability of funding from) federally funded programs has altered the structure of state finances. As a result, state officials have little discretion over major portions of the budget. With the COVID-19 pandemic bringing large segments of the economy to a halt, state revenue declines are inevitable; the question is, has the state created a resource pool that will weather this (and future) turbulence. With limited discretion over budgetary choices, revenue declines could inhibit some state programs.

Transformation of the Budget

The state budget establishes the plan for allocating financial resources among state departments, agencies, and non-state entities and directs the use of those funds. An appropriation both authorizes spending, and identifies the financing source(s) to support the spending. The three[a] primary financing sources of state appropriations are:

- General Fund/General Purpose, which receives revenue that is not legally dedicated to any specific program or agency and is the state's primary fund for discretionary spending;
- Restricted funds, such as the School Aid Fund, which receive revenue that is constitutionally and statutorily earmarked for specific programs; and
- Federal funds, that nearly always must be appropriated for a specific purpose.

Over the last 30 years, Michigan has become significantly more reliant on federal aid to finance appropriations. This change has occurred gradually over the last few decades. With declines in General

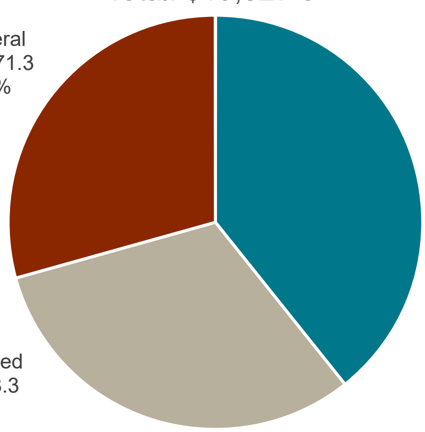
a A small portion of additional revenue comes from local and private sources; this portion represents less than $1.5 billion during every year this millennium and was excluded from the remainder of this analysis because of the small role it plays relative to the three larger components.

Fund resources during the 2000s, and continued increases in federal funding, a much larger portion of state appropriations come from federal dollars.

Early 1990s. Throughout the early 1990s, General Fund appropriations represented the largest share of the state budget (40 percent), with restricted fund and federal appropriations each accounting for about 30 percent and each trailing General Fund appropriations by more than $1.5 billion (see **Chart 1**).

Chart 1

Michigan Appropriations by Fund Source, FY1992 (millions)

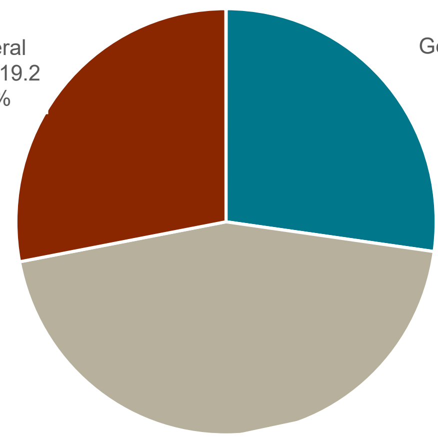


Source: Senate Fiscal Agency

Late 1990s. The makeup of state appropriations was significantly altered when Proposal A of 1994 shifted the responsibility for funding K-12 public education from local property taxes to various state taxes (sales and use, property, tobacco). While the shift netted a modest increase in school funding, it grew the size of the state budget; the entirety of the growth came in the form of new restricted tax revenue dedicated to the School Aid Fund. As a result, the balance between restricted and General Fund appropriations flipped; restricted funds accounted for about one half of the state budget and General Fund and federal dollars each accounted for about one quarter (see **Chart 2**). This ratio remained fairly stable, despite the $7 billion increase in total appropriations from FY1996 to FY2001.

Chart 2

Michigan Appropriations by Fund Source, FY2001 (millions)



Source: Senate Fiscal Agency

Early 2000s. Then, Michigan entered its single state recession in 2001.[b] That was a tumultuous time for the budget.[1] Significant revenue declines without commensurate spending adjustments led to a structural budget deficit. Throughout much of the early- and mid-2000s, annual balance was achieved largely through the use of one-time resources and accounting changes. The Budget Stabilization Fund, which stores savings for rough economic times, was drained over two years (FY2002 and FY2003).[2] The recession hit a major source of General Fund revenue, the income tax, fairly hard because of job losses and stagnant wages (receipts from other major taxes

b The single state recession refers to the early 2000s when Michigan experienced economic turbulence despite the national economy experiencing sustained growth.

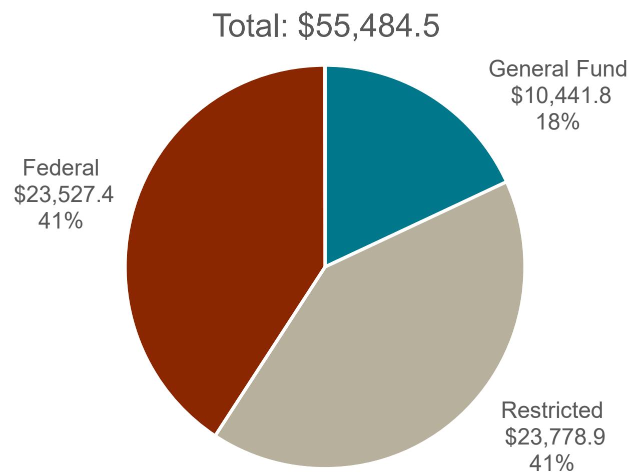
declined, but not to the same extent as income tax collections). The General Fund budget declined four years in a row (FY2002 through FY2005), and was slow to rebound. Restricted and federal dollars in the budget continued to grow during this period though at a slower pace than they did in the late 1990s. While this did not drastically shift the composition of state funds, it left the state in a much weaker position – with no financial reserves, fewer discretionary dollars, and an annual structural budget deficit of $2 billion – leading up to the start of the Great Recession in 2008.

Late 2000s. The 2008 national recession, or Great Recession, further transformed the budget. General Fund appropriations, suppressed because of the slowdown in economic activity during the previous period, dropped more than 20 percent over two years (FY2009 and FY2010). Restricted tax revenue also declined. The increase in federal aid to help stabilize state budgets and avoid cuts to education, healthcare, and other state-funded programs pumped an additional $6.5 billion into Michigan's budget from FY2007 to FY2010, including billions in temporary aid through the American Recovery and Reinvestment Act of 2009 (ARRA). As **Chart 3** shows, this ramp up in federal support, in conjunction with little increase in General Fund tax revenue, drastically changed the makeup of the budget. Federal funds surpassed restricted appropriations by FY2009. General Fund appropriations declined to 17 percent of the total budget, their lowest point since the implementation of Proposal A.

The 2010s. Despite the prolonged economic expansion of the past decade, federal dollars continue to dominate the state budget, roughly equal to restricted fund dollars as the largest proportion of state appropriations. As **Chart 4** shows, the composition of the budget has changed since the start of the millennium. While the General Fund has recovered since its FY2010 low, the role of discretionary appropriations has declined relative to the rest of the budget since FY2001 (and constitute half of what they did in FY1992). In the same time, the role of federal aid is more than double what it was, and has remained elevated more than a decade after the start of the Great Recession.

Chart 4

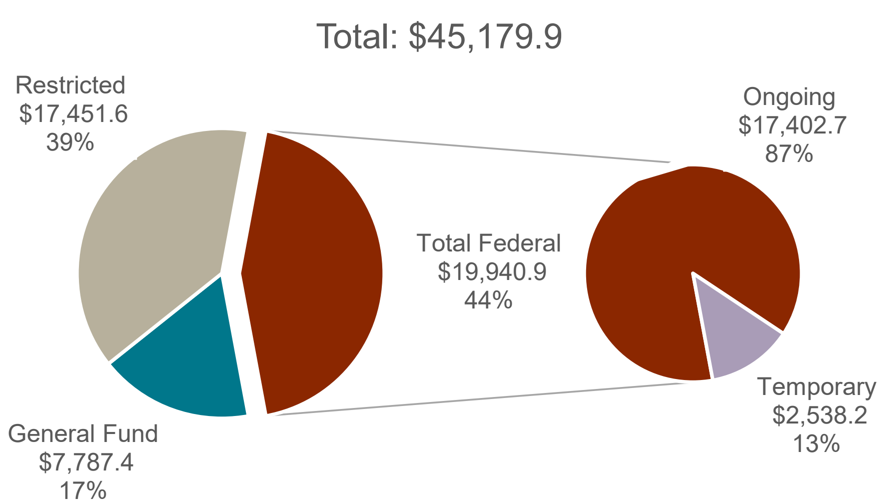
Michigan Appropriations by Fund Source, FY2019 (millions)



Source: Senate Fiscal Agency

Chart 3

Michigan Appropriations by Fund Source, FY2010 (millions)



Source: Senate Fiscal Agency

Weathering the effects of back-to-back recessions caused a major shift in the composition of the budget. Unlike the education finance reforms of Proposal A, no single state or federal policy led to a relative increase in federal dollars or a relative decrease in General Fund resources. These changes were more a result of numerous policy decisions and external circumstances.

Stagnant Population, Economy Caused Flat Budget Growth

A number of factors contributed to the changes in the composition of the budget. Michigan has long dealt with a slowly growing population and declining personal income relative to the national average. Yet compositional changes are also due to economic conditions, tax policy changes, and increased federal aid.

Stagnant Population

Population growth is a key determinant in the amount of tax revenue generated. Generally, an increasing population leads to additional economic activity overall. Thus, population growth expands the tax base (and thus tax collections) without increasing tax rates.

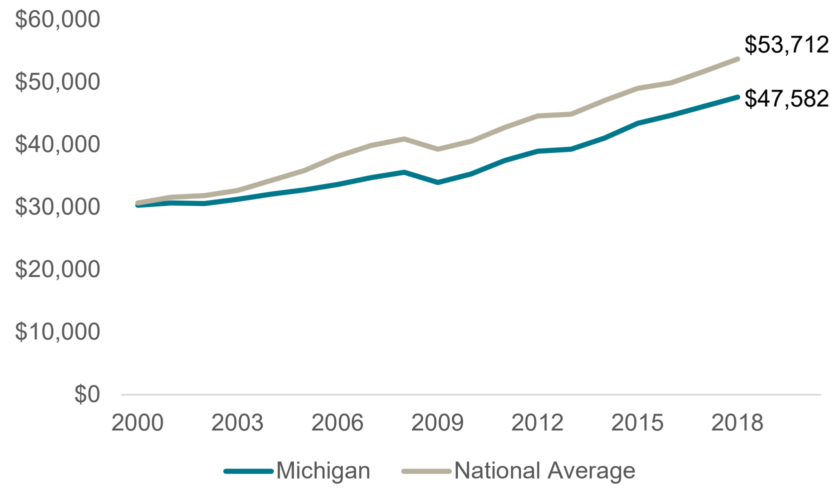
The state's stagnant population for much of the last 20 years contributed to the limited growth in own-source revenue (state revenue vis-à-vis federal aid). This is not a new problem; Michigan's population growth has lagged the national average for the last two decades. Over the course of the millennium, the state population grew by only 0.6 percent compared to a national rate of 16.3 percent, or 0.8 percent per year.[3] This means Michigan is working with a taxpayer group roughly the same size it did in 2000 fueling economic activity and paying income and other taxes, while other states have population bases one-sixth larger than they had previously.

Slow Economic Growth

Michigan's state tax system is closely tied to the economic output of people and businesses in the state. Economic growth has not kept pace with the rest of the nation since the Great Recession ended. This is reflected in part by the change in per capita personal income relative to the national average. In 2000, state per capita income was about equal to the national average; by the end of the Great Recession, per capita income was 10 percent less than the national average (see **Chart 5**).[4]

Chart 5

Michigan and National Per Capita Income, 2000 to 2018



Source: Senate Fiscal Agency

The state's lagging economic performance sheds some light on the expanded role of federal dollars in the state budget. While many federal programs distribute funds based on population, some of the largest programs allocate resources based on income levels. The distribution of federal Medicaid funding, the largest federal aid program, is based on per capita income and total enrollment. With Michigan's economic struggles, the state has seen a more than 50 percent increase in the traditional Medicaid population (those outside of Michigan's Medicaid expansion population). Poor economic conditions, the growth in traditional Medicaid enrollment, Michigan's use of Medicaid expansion dollars, and an increase in the federal match rate (Federal Medical Assistance Percentage (FMAP)), all led to a boost in federal support.

Increased Federal Aid

All states have seen an increase in federal aid. **Chart 6** shows that the average state received 160 percent more assistance from the federal government in FY2018 than it received in FY2000. Michigan shared the same experience during the first half of the period, however, since 2009, aid flowed to the state at a slightly faster pace. By the end of the Great Recession in 2009, the gap closed somewhat. Soon after, the state's implementation of the Medicaid expansion led to a second acceleration of the growth rate. Over the entire period, federal aid grew by 180 percent, while own-source revenue grew 24 percent (see **Chart 9** on page 7).

The enhanced role of federal aid in the Michigan budget is reflected by spending trends[c] (see **Chart 7**). The proportion of spending from federal resources increased slowly and steadily during the early 2000s. As the Great Recession hit, the percentage of spending that came from federal resources spiked from 30 to 40 percent, and then declined slightly as the recession ended.

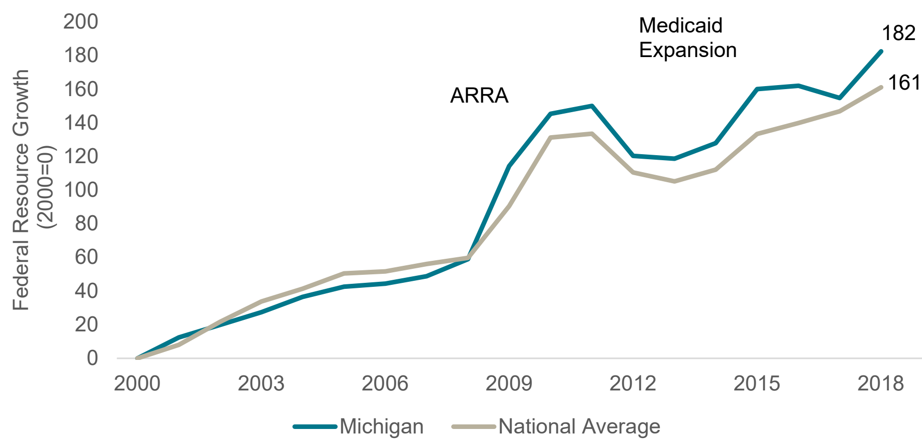
Other states did not experience this trend. Spending from federal resources increased marginally for the average state as a result of the fiscal stimulus and the economic drag from the Great Recession. On average, total state spending supported by federal dollars rose from 26 percent in FY2000 to 32 percent in FY2018. In Michigan, federal spending grew from 23 percent to 41 percent over the same timeframe.

Declining Tax Effort

Historically, Michigan was considered a high tax state, collecting more tax revenue at the state and local government levels than the national average when adjusted for population. This changed during the 2000s, as per capita tax revenue growth stalled in Michigan. The state went from slightly above the national per capita average in 1999 to 20 percent below in 2015

Chart 6

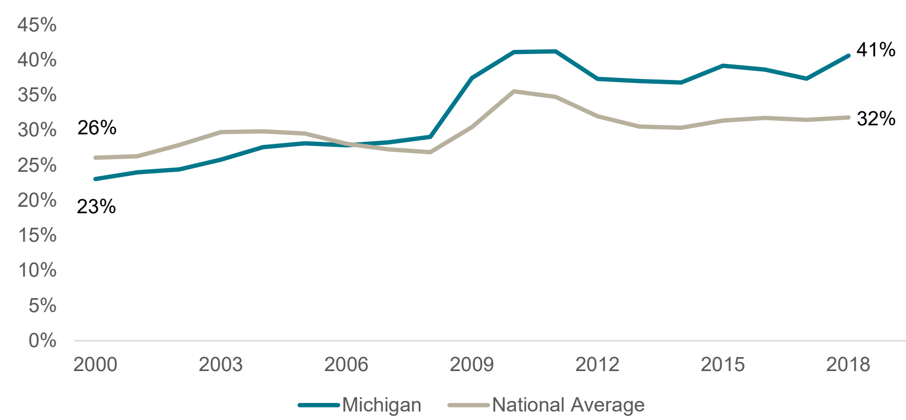
Growth in Federal Dollars to States, FY2000 to FY2018



Source: National Association of State Budget Officers and Citizens Research Council Calculations

Chart 7

Percent of Spending from Federal Sources, FY2000 to FY2018



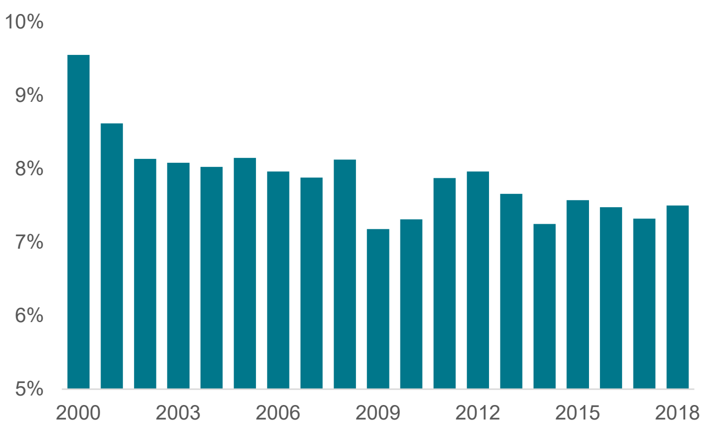
Source: National Association of State Budget Officers and Citizens Research Council Calculations

c The National Association of State Budget Officers, the source for **Chart 6**, reports only state expenditure data. Other data used in this paper is based on state appropriations (authorizations to spend).

While the shift in Michigan's national ranking can be explained, in part, by the slowdown in economic growth in the 2000s, the overall tax burden is also down. State tax revenue as a percentage of personal income also declined over the same period. Unlike the per capita tax burden, this measures tax receipts against income levels and takes into account collections relative to economic growth. **Chart 8** shows that there has been a considerable drop-off in revenue collections as a percentage of personal income since FY2000. Much of the initial drop occurred during the single state recession. Over a two-year period (FY2000 to FY2002), own-source revenue declined in nominal terms, from $24.3 billion to $23.5 billion. Slow recovery of state revenue, and continued increase in personal income kept the ratio deflated. Before state revenue had fully recovered, the Great Recession hit state revenue hard.

Chart 8

State Tax Revenue as a Percent of Personal Income, FY2000 to FY2018



Source: Senate Fiscal Agency and Citizens Research Council Calculations

With it, personal income ratio dropped to its lowest point in 40 years. While state taxes were equal to about 9.5 percent of state personal income in FY2000, state tax revenue was equal to about 7.5 percent of personal income in FY2018.

While revenue climbed relative to personal income in the first few years after the recovery, tax cuts enacted in 2011 brought revenue as a percent of personal income to near the Great Recession lows. Today, state revenue as a percent of personal income is half a percentage point lower than it was through the mid-2000s (half a percentage point is equivalent to more than $2 billion in personal income).

Michigan's tax base has grown slowly, but a large part of sagging state revenue is attributable to the decline in the overall state tax effort, including

- Recent policy decisions, such as the Michigan Economic Growth Authority tax credits granted during the Engler and Granholm administrations and the tax cuts passed during the Snyder administration;
- Structural shifts in the economy, including slowdown of sales/use tax revenue from poor economic conditions and the increased proportion of non-taxed service consumption; and
- Policies adopted at earlier times, for example the scheduled reduction of the personal income tax rate initially passed in 1999.

Few tax increases have occurred without a corresponding reduction in overall tax burden. For instance, the increases in the income tax rate and removal of the retirement exemptions were more than offset by the reduction in business taxes.

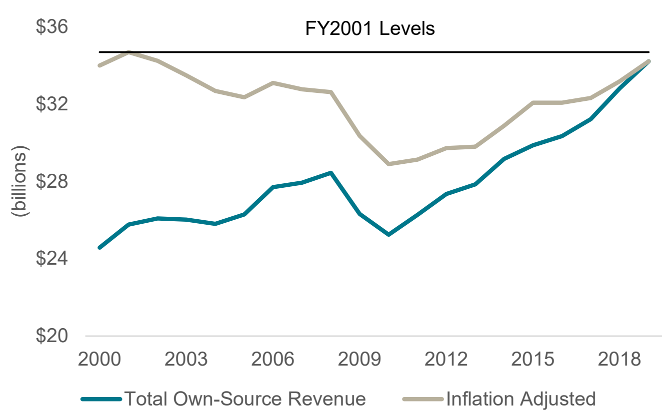
State Own-Source Revenue

The end result of the slow growth in own-source revenue is that, while revenues have increased, the purchasing power of those resources is below FY2001 levels (see **Chart 9**). Total inflation-adjusted state revenue today is about $500 million below FY2001 levels. This puts Michigan well below the national average, as most states have seen real revenue growth.

Michigan's own-source revenue, in fact, has grown significantly slower than the national average since FY2003. Nationally, state government own-source revenue doubled from FY2000 to FY2018 (see **Chart 10**); yet Michigan's revenue grew by only about 25 percent over the same period. Even since the trough of the Great Recession in 2010, other states' revenue grew twice as fast as Michigan's. This slow revenue growth has contributed to the increased reliance on federal dollars in the budget.

Chart 9

Michigan State Government Own-Source Revenue Adjusted for Inflation*, FY2000-FY2019

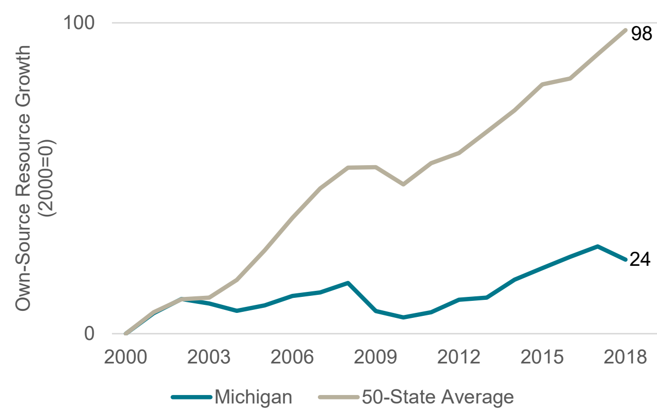


*Note: 2019 CPI-U data is estimated by the January 2020 Consensus Revenue Estimating Conference.

Source: Senate Fiscal Agency and Citizens Research Council Calculations. Inflation adjustments made using Detroit CPI-U.

Chart 10

Own-Source Funding Growth, Michigan vs. 50- State Average, FY2000-FY2018



Source: National Association of State Budget Officers and Citizens Research Council calculations

The Constraining Effects of Federal Funding

While a combination of changes at the state and federal level has diminished the role that discretionary resources play in funding state programs, that is not the only issue at play. Reliance on federal dollars has multiple effects that limit flexibility in state appropriations. Federal dollars are allocated before the states receive them. Federal dollars are appropriated for specific programs based on federal government priorities. This gives states little ability to adjust spending to reflect state needs, unless those requirements align. In addition, many federal programs require the state to spend some of its own resources to draw down funding. Unless those requirements align with the purposes for which restricted state revenue is dedicated, federal matching requirements limit the discretion policymakers have when allocating General Fund dollars.

Federal Priorities Determine Where Money Goes

One of the fiscal realities associated with an increased role of federal dollars is that federal laws and rules determine how that money can be spent. With Michigan, new federal dollars have primarily gone to Medicaid since FY2009. Ever since the Great Recession spiked federal spending to assist states, federal dollars to non-Medicaid programs have been on a gradual decline (see **Chart 11**). The amount of federal Medicaid dollars surpassed all other federal resources when the Healthy Michigan Plan took full effect in FY2015.

The decline in federal, non-Medicaid programs affects many state programs. Federal funding in the School Aid budget declined every year from FY2014 to FY2018. Temporary Assistance for Needy Families, the federal welfare program, has been nearly entirely eliminated. Even major spending priorities that avoided cuts have experienced slow growth. Federal transportation funding, which has increased by $200 million since FY2005, has grown at a rate slower than inflation.

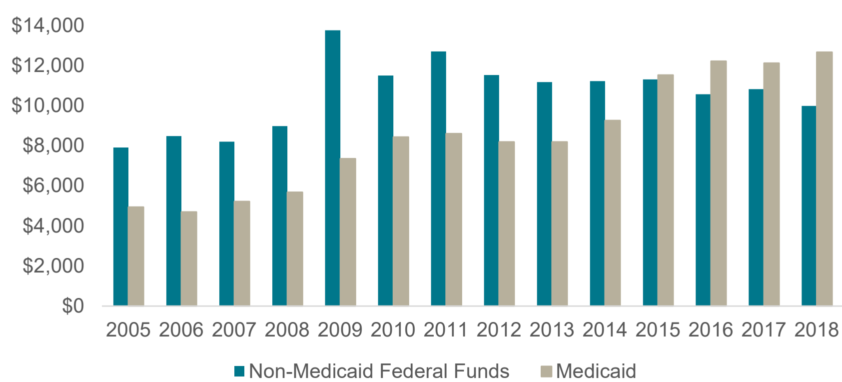
Match Rates

Federal funding typically comes with strings attached. In FY2017,[d] according to the Senate Fiscal Agency, more than $15 billion of the state's $22.7 billion in federal funding required some form of state matching contributions, either in the form of a dollar match (where the federal government pays a predetermined amount for every dollar the state spends), or in the form of a Maintenance of Effort requirement (where the state has to maintain a minimum spending threshold to receive federal funding).[5] As match costs grow and own-source revenue remains largely unchanged, state policymakers are faced with a choice; maintain federal funding at its current level and lose some ability to determine policy priorities or allocate money to the state's top priorities and lose out on federal funding.

In total, the state spent about $7 billion in state resources towards a spending requirement in FY2017. However, the majority of that spending ($5.5 billion) was used to draw down Medicaid dollars. The School Aid Fund required the second most in matching dollars, at about $1 billion, while assistance for the Department of Education and the

Chart 11

Federal Medicaid Funding vs All Other Federal Funding in Michigan, FY2005-2018



Source: National Association of State Budget Officers and Citizens Research Council Calculations.

d This data is not regularly collected at a macro level, and much of the information is internal. For FY2017, the Senate Fiscal Agency published a memo detailing the total of state matching requirements. This is the most recent, comprehensive look at the topic.

Department of Transportation both require slightly more than $160 million of state match. The remainder of federal aid requires a minimal amount of state match or maintenance of effort.

While the majority of the programs do not have a major effect on the state budget (as the state would likely be spending some money on similar programs anyway), Medicaid in particular requires the state to spend dollars to maintain federal dollars. Currently, about $2.4 billion in General Fund Medicaid spending is required to maintain current service levels (along with $2.5 billion in restricted fund spending).[6]

What This Means for Michigan

Over the last two decades, federal dollars have played an increasingly important role in the state appropriations process. With federal dollars representing more than 40 percent of overall appropriations and state match to pull down those dollars representing another 10 percent of state appropriations, there are potential ramifications for the state.

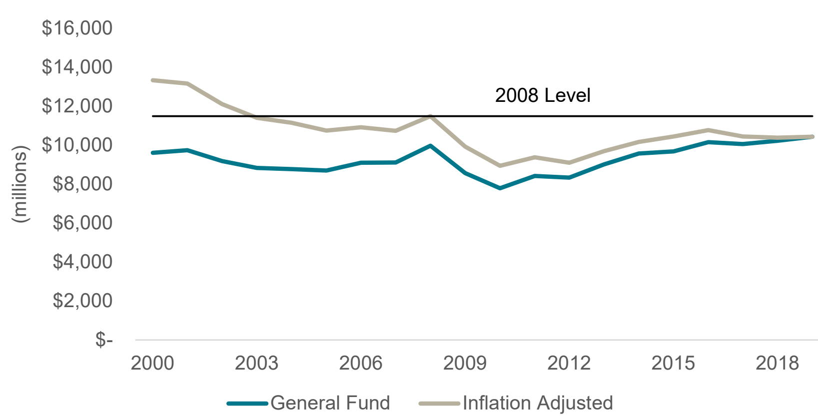
Declining Discretionary Dollars

The gradual shift in the composition of state appropriations limit the legislature's options when putting together the state budget. The purchasing power of the unrestricted General Fund has declined significantly since FY2000 (see **Chart 12**). The effect of two recessions is quite clear when looking at inflation-adjusted revenue. Not only is the state below its peak before the Great Recession, inflation-adjusted FY2019 revenue is about $3 billion less than the FY2000 level. This is not entirely due to a slow recovery in revenue; some dollars that would normally go to the General Fund have been diverted to other policy priorities (particularly the 2015 road funding package that obligated up to $600 million of income tax revenue and MEGA tax credits granted in exchange for business investment). That revenue is not treated as General Fund revenue, even though the legislature made policy decisions directing it. Even with those carve-outs included as part of the General Fund, General Fund revenue would still be below FY2000 levels. In comparison, restricted revenue has increased by 50 percent over the time period,[e] while federal aid has doubled.

As a result, the state has fewer resources to distribute among discretionary priorities. Despite the growth of overall appropriations, unrestricted dollars available to state priorities have actually declined throughout the 2000s. In addition, federal match rates have required the state to increase General Fund support for Medicaid by more than $1 billion since FY2000, making these funds unavailable for other discretionary spending purposes.

The desire to maintain discretionary spending at certain levels since FY2000, caused state policymakers to take measures to reduce the General Fund's responsibility for funding certain large state appropriations. Notably, two major funding shifts were enacted beginning with the FY2012 budget. First, the School Aid Fund picked up the financing responsibility for a larger portion of the

Chart 12
General Fund Appropriations Adjusted for Inflation, FY2000-2019



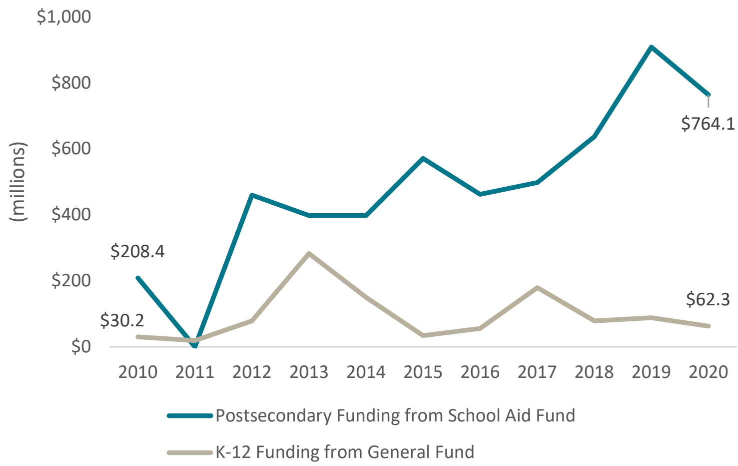
Source: Senate Fiscal Agency and CRC Calculations

e Restricted revenue has increased in part due to increases in taxes from the motor fuels taxes and motor registration fees from the 2015 road funding package.

total state appropriations to community colleges and public universities. Second, General Fund appropriations for K-12 education were reduced (see **Chart 13**).

Chart 13

School Aid Fund Revenue Supporting Postsecondary and General Fund Supporting K-12, FY2010-2020



Source: Senate Fiscal Agency

The constrained growth of discretionary funds could pose a challenge for state finances if recent economic trends continue. Michigan's FMAP, which determines the percentage of traditional Medicaid expenditures the federal government pays (among other items), has declined every year since FY2013. While this signals strength in the state's economy, it also means that Michigan has had to increase Medicaid appropriations to maintain federal aid. As economic growth continues, it will likely mean a continued decline of federal Medicaid assistance and other programs based on the health of the state economy. Growth could also result in reduced enrollment, which would reduce state spending, though Medicaid enrollment has stayed fairly elevated during the recent economic growth. In theory, strong economic conditions would increase state revenue to help offset declines in federal funding, but recent history for General Fund revenue (as shown in **Chart 12** on page 9) may lead to questions on whether that growth will occur.

Economic projections from the January 2020 Consensus Revenue Estimating Conference show little deviation from recent General Fund trends.[7] From FY2019 to FY2022, General Fund revenue is expected to increase by $400 million, which is less than the projected 1.7 percent inflation rate. This is in spite of projections for strong economic conditions. As things currently stand, state discretionary spending has not grown at a rate sufficient to offset any potential declines in federal support while providing inflationary increases elsewhere.

Risks during a Recession

Recessions typically have noticeable impacts on state budgets. Michigan, like most states, has constitutional requirements that restrict deficit spending and borrowing when declining revenue is unable to support past appropriation levels. Recent recessions have demonstrated this quite well, as Michigan's own-source revenue (particularly the Income Tax) declined during both the single state recession and the Great Recession.

Federal funding, on the other hand, typically increases during recessions. The federal government usually engages in deficit spending during a recession to help stabilize the economy. This can come in the form of both direct federal spending and aid to state and local governments.

Historically, this has meant that states with a higher percentage of federal dollars in the budget fare better during a recession. The increase in federal aid during a downturn insulates state budgets from declining tax revenue. This was particularly true during the Great Recession, as the federal stimulus programs pumped billions of dollars into Michigan alone.

However, lingering effects of the previous recessions may make federal funding more of a liability moving towards the next downturn. Much of the recent growth in Michigan's budget has either gone to support increased Medicaid spending or is from restricted revenue sources (like the increase in fuel taxes and registration fees). With many programs still funded below their pre-Great Recession levels, a new recession will continue to squeeze the General Fund.

This is particularly worrying in the case of Medicaid and other means-tested programs. Traditional Medicaid caseloads peaked in FY2012, well after the Great

Recession ended, and enrollment remains several hundred thousand higher in FY2019 than it was in FY2001, despite a lack of population growth. Another recession could require a significant increase in state Medicaid spending if enrollment increased further, which would counteract the relief of a potential increase in federal aid.[8]

Implications of the Census

The start of the decade will bring new census counts to measure the state population. The decennial census, which is mandated by the United States Constitution, informs federal aid policy for a full decade. In FY2016, about $620 billion in grants and other federal aid is provided to states; about 80 percent of that money ($493 billion) comes from programs that utilize census data to divide funding to varying extent.[i] While a significant portion of dollars use census data, how much a census is likely to alter Michigan's budget situation is less clear.

The largest effect would come from Medicaid. The FMAP, which determines how much money the federal government reimburses states, is determined by per capita income. This measure utilizes census population estimates. If the new census leads to a larger than expected recalibration of the state population, it could have fairly large effects on federal support. The George Washington Institute of Public Policy estimates that a one percent reduction in population counts could lower a state's match rate up to a one percentage point. In Michigan, that would represent roughly $150 million in increased state Medicaid spending, all else being equal. A one percent reduction in Michigan's population compared to current estimates would represent a very large deviation.

Federal highway aid is the second largest aid program directed by state populations. The state receives more than $1 billion in federal highway assistance each year. While historically the National Highway Funding Program has used population as a measure of apportionment, under the federal Fixing America's Surface Transportation (FAST) Act of 2015, national highway aid is divided based on apportionment levels received in FY2015, so new census counts would no longer affect highway aid.[ii] Some local road dollars are affected by census classification (whether the census determines an area as rural or local), but a new census is unlikely to alter whether areas are classified as urban or rural to a large extent. The FAST Act does expire after FY2020, so it is possible that funding decisions could be revised to include population once again.

Those two programs alone represented $400 billion (more than 80 percent) of federal aid in FY2106. A significant population decline could cause Medicaid dollars to go down, but based on historical trends it seems unlikely Michigan will experience a full percentage point decline in population based on the census. Many of the other large programs, like the Child Health Insurance Program or the Woman Infant and Children program, utilize census poverty guidelines rather than counts, which is unlikely to lead to significant change based on a new national count. So, although a large portion of funding uses census data, and it could put additional pressure on the state budget, it seems likely that the impact on Michigan's budget will remain relatively small.

i George Washington Institute of Public Policy. (2018). 2020 Census: How the Count Affects State Budgets. Retrieved from: https://gwipp.gwu.edu/sites/g/files/zaxdzs2181/f/downloads/Reamer%20NASBO%20Census%2007-23-18%20rev.pdf

ii 23 U.S. Code § 104. Apportionment. Accessed from: https://www.law.cornell.edu/uscode/text/23/104

Looking Forward

While the state has recovered from the Great Recession, the impacts from a decade of economic woes has altered state budgeting for the foreseeable future. Michigan is more dependent on federal dollars than it was previously, and has moved from a high tax state to a low tax state.

While this is not in and of itself problematic (in fact, the state drawing down a large amount of federal dollars can help maintain the state budget while keeping the tax burden in the state low), the current reliance on federal dollars does come with some potential challenges.

The biggest concern is that state discretionary dollars have declined significantly as a percent of the state budget, meaning the state has less ability to direct funding towards policy priorities. While the overall state budget has grown by $20 billion over the 20 years, discretionary appropriations have mostly stagnated over that time period. This has meant line items like statutory state revenue sharing have declined and higher education funding has been moved to the School Aid Fund so other General Fund programs could receive inflationary and demand-based increases. The long-sought goal of many to allocate more of the state's existing tax resources to road funding would come at a cost to other services, as even large portions of the unrestricted resources are needed to match federal funding or maintain existing service levels for services such as prisons and state police.

With a smaller purchasing power and a larger match requirement to receive federal funds, the state has little room to provide even inflationary adjustments for existing state programs during strong economic times. The COVID-19 pandemic will stretch state coffers, potentially pushing them past a breaking point. While the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act provides some funding for schools, Medicaid, and other healthcare related expenses, the aid is designed to fund specific programs. This will alleviate some pressure on the General Fund (through a six percent increase in the FMAP), but the aid is mostly to alleviate costs for recovery efforts. With the reduction in state income tax, sales tax, and other tax revenues that will correlate with the pandemic, Michigan's own-source revenue issues will pose challenges in the next budget cycle.

Endnotes

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