

October 11, 2021

## Michigan's Budget Was Strong Throughout the Pandemic

By James M. Hohman

### Summary

Contrary to early expectations, the state of Michigan's finances held up well during the COVID-19 pandemic, giving lawmakers the chance to cut tax rates if they wish.

Main text word count: 516

As October brings a new fiscal year to Michigan's state government, it's worth looking at recent budgetary trends. The worst that was expected didn't happen, and lawmakers have resources to accomplish a lot of their priorities with the extra cash they have at hand. Also, they can lower tax burdens if they want.

In the last fiscal year before the pandemic, lawmakers spent \$34.4 billion in money from state taxes and fees, not including federal transfers. Administrators expected major declines in state revenue when the COVID-19 pandemic hit. The governor intentionally shut down major parts of the economy with her stay-at-home order, as was the case in many other states, and they thought this would take a toll on state finances.

Administrators expected a 12% loss in the state's General and School Aid funds for the first year of the pandemic and thought that revenue wouldn't recover to pre-pandemic levels for four years. Ouch.

Yet the state's fiscal situation played out better than expected. Lawmakers trimmed state spending from \$34.4 billion to \$33.0 billion, a 3.8% decrease, but these minor losses got covered by extraordinary federal relief efforts. The state collected \$33.7 billion in federal money, an increase from \$23.6 billion the year before, a 43.0% gain driven largely by COVID relief.

When lawmakers finalized the current year's budget, they found that state revenues had more than fully recovered. There is \$37.9 billion in state revenue in this budget, a 10.4% increase above pre-pandemic levels. Plus, revenue had recovered in just one year, rather than the four years administrators expected when COVID first hit.

Revenue is only expected to grow from here on out, though who knows what the future holds.

Lawmakers are also sitting on healthy fund balances, which can be used on their priorities. Getting agreements on priorities has been tough, and without a consensus, cash keeps piling up in state accounts. That's not a bad thing; lawmakers should make it a priority not to spend every dollar that comes in. It saves money for emergencies, or for when they finally can reach agreements about their priorities.

There is extra federal money from the 2021 stimulus bills as well, though there are strings tied to it.



A surge of federal aid comes on top of state revenue growth.

Michigan lawmakers are awash in cash. They could get road funding to the point where roads are put back together faster than they fall apart. They could also lower the income tax rate to 3.9% and still have money left over.

Since the pandemic began, lawmakers in 12 states have lowered their tax rates. This includes Ohio, where lawmakers now ask residents to pay less in income taxes than Michigan lawmakers do.

It's worth lowering the state's tax burden because Michigan's economy still has not fully recovered from the pandemic. Businesses are down 1 out of every 15 jobs from before it started, while the state budget is doing fine. The losses administrators feared never came to pass, revenue has instead grown, disagreements about priorities have left cash unallocated, and federal money has covered any problems the state had, and then some. Lawmakers can afford to cut taxes.

#####

**James M. Hohman is the director of fiscal policy at the Mackinac Center for Public Policy,** a research and educational institute based in Midland, Michigan. Permission to reprint in whole or in part is hereby granted, provided that the author and the Mackinac Center are properly cited.

**The state's fiscal situation played out better than expected.**

#### Attention Editors and Producers

Viewpoint commentaries are provided for reprint in newspapers and other publications. Authors are available for print or broadcast interviews. Electronic text is available for this Viewpoint at [mackinac.org/pubs/viewpoints](http://mackinac.org/pubs/viewpoints).

Please contact:

**Holly Wetzel**  
Communications Manager  
989-698-1927  
[wetzel@mackinac.org](mailto:wetzel@mackinac.org)

140 West Main Street  
P.O. Box 568  
Midland, Mich. 48640

[Mackinac.org](http://Mackinac.org)  
[Facebook.com/MackinacCenter](https://Facebook.com/MackinacCenter)  
[Twitter.com/MackinacCenter](https://Twitter.com/MackinacCenter)