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## Make Sure Michigan Residents Benefit from State's Cash Haul

By James M. Hohman

### Summary

Federal COVID spending and unexpectedly high returns from state taxes leave Michigan lawmakers with a large pot of money to spend.

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State lawmakers are sitting on an extraordinary amount of cash right now. Between federal government transfers to the state budget — financed by the national debt — and unexpectedly strong state tax collections, policymakers have at least \$11 billion sitting around. That's the equivalent of 34% of all of the money the state collected from its taxes and fees prior to the COVID-19 pandemic.

If lawmakers budget wisely, they can use this money to improve Michigan's long-term financial prospects, improve its services, and put the state in a more competitive position.

So far, lawmakers have followed some of the recommendations the Mackinac Center, along with a number of other groups, made back in March. They've especially taken up the recommendation to avoid a rush to spend. The principles we recommended then still apply.

### Infrastructure: Focus on roads

Lawmakers ought to fulfill their long-term goal and put the roads back together faster than they fall apart. They're close to that point, and a little more in annual spending can ensure that roads get better every year.

They should be careful about spending the available cash on other infrastructure, though. Infrastructure works best when it is funded by the people who use it. This ensures that the people who benefit from it are responsible for keeping it up. This principle also makes it likely that infrastructure will be built where people want it and discouraged it where there are not enough users to sustain it.

### Debt: Pay down pension liabilities

The state's extra cash can be used to improve finances over the long term by paying off state debt. There is around \$40 billion in underfunded pension debt, and the extra money in lawmakers' hands can make a dent in it. They have already done a lot to stop this debt from growing, by reforming retirement benefits and using better funding assumptions. Despite these positive steps, the debt still needs to be paid off, and making extra payments on it now can save taxpayers billions over the long term.



Lawmakers have several good options for using an unusually large amount of unspent money.

## Taxes: Prevent payroll tax increases, cut income tax rates

Lawmakers can also use the funds to replenish the state's unemployment insurance system. Michigan entered the pandemic with a \$4.7 billion balance in the unemployment insurance fund. As of the latest report, it had \$900 million left. Employers have put less into the system than workers have taken out in benefits, which is expected when the state government forces businesses to shut down. The state is levying extra payroll taxes to make up the difference, but this is a bad time to do that. The taxes discourage employment — something the state should not do when job numbers haven't recovered to pre-pandemic levels. Lawmakers can avoid those tax increases while shoring up trust fund balances by using some of the extra state revenue available.

Even if lawmakers invest in infrastructure, pay down debt, and shore up the unemployment insurance trust fund, there may still be money left. And on top of that, incoming revenue continues to grow, giving lawmakers even more funds over the long term. So there should be plenty of money left over to lower the state's tax rates. Doing so would make Michigan more competitive with other states and encourage growth. The state budget can afford it. Reducing the state's personal income tax rate from 4.25% to 3.9% and cutting the corporate income tax rate from 6.0% to 4.5% would take a tenth of the extra state funds on hand.

Lawmakers will be under immense pressure to award extra dollars to various entities without asking much in return. All the people managing schools, local governments, hospitals and other recipients of state funding have an easier time when they get extra cash without having to promise to improve services.

Policymakers need to be careful in responding to their calls. They ought to ensure that residents get something in return and be extra cautious about adding ongoing costs with one-time money. It's better if lawmakers save Michigan taxpayers billions in long-term costs, improve long-term assets, and encourage the state's economic growth with the extra money.

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