VIEWPOINT
ON PUBLIC ISSUES

Nov. 9, 2015 No. 2015-33 ISSN 1093-2240
Available online at Mackinac.org/v2015-33

Beware Claims of State Budget Cuts

By James M. Hohman

Summary

The Michigan House wants to fix the roads by devoting an increasing amount of money from future tax receipts to transportation. Critics call that a tax cut for other programs. But trends favorable to the state, both in revenue and spending, suggest that Michigan can fix the roads and still maintain other priorities without raising tax rates.

Main text word count: 525

A common refrain heard from policymakers is that there is no extra money in the state budget for roads, or most any other priority. Even the plan to eventually devote $600 million in future revenue to the roads has been attacked as unaffordable cuts to the budget. Michigan's continued economic growth, however, has resulted in extra cash to meet the Legislature's spending priorities, and this trend can be expected to continue.

Legislators were able to find hundreds of millions of extra road funds in the past three years. While the stated preference is to fund the roads with fuel and vehicle registration taxes — those paid largely by people who use the roads — policymakers have supplemented this revenue with money from the state's general taxes.

This year's allotment is considered one-time funding that Gov. Rick Snyder argues ought not to be considered ongoing. Yet the collections by the state keep coming in higher than the year before, so if Lansing chooses to end the use of one-time revenue for the roads, this allotment will be available for other budget items.

With an expected increase in revenue, Michigan can fix its roads without raising tax rates.

And the state revenue forecast is looking strong. General state economic growth is generating more revenue for the budget. Jobs are up and unemployment is down by nation-leading levels. Personal income continues to increase, as does state economic production.

Income tax revenues are especially looking positive. Collections from the personal income tax increased 9.5 percent from the previous year. While the levels of corporate income tax receipts have been tough to estimate, the state expects a 17 percent increase in revenue for the current fiscal year compared to its level two years ago.

All told, Michigan budgeting of state revenues broke $30 billion for the first time.

A number of items that drive the cost of government have turned favorable for budget-makers. There are 76,000 fewer kids in the state's K-12 schools than there were five years ago. Enrollment in state universities may have peaked as well. Employment in state and local government is down.

With all the positives, however, there remain some negatives. State and local pension systems continue to rack up unfunded liabilities. (To contain this underfunding, the state should enroll new employees only in a defined-contribution retirement system.) The bill for corporate welfare deals made in

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the past has come due and will continue to cost hundreds of millions. Health care costs keep on increasing, making Medicaid and prisons more expensive. And of course, the roads need more work.

State policymakers recognized these trends, devoting a portion of income tax receipts to transportation funding, beginning in fiscal year 2018-19 and increasing to $600 million in fiscal year 2020-21.

The state government should also re-examine its expenditures. The state is still spending millions on the Granholm-era 21st-Century Jobs Fund, for example. That's just one example — there are plenty of other opportunities to trim the spending side of the budget.

Too often, policymakers resort to tax increases when they feel there is no other choice. This is not the current situation. The road package was a compromise that recognized the reality that growing state revenues can go to road repairs. It also raised taxes.

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