

# CAPITOL NEWS UPDATE

BUDGET PRESENTATION MARCH 5, 2019

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## WHITMER PROPOSES 45-CENT GAS TAX HIKE TO FIX ROADS

*Governor addresses roads, education and environment in first budget presentation*

Gov. Gretchen Whitmer presented her first State of Michigan Budget today in front of a joint session of the House and Senate Appropriations Committees, calling for a 45 cent-per-gallon gas tax over the next year to fund road improvements. Her spending plan also includes increasing education spending, providing more opportunities for postsecondary education, and protecting and providing clean water.

The plan would also eliminate the retirement tax, increase the earned income tax, and increase the corporate income tax to create parity between different types of businesses.

The governor started her presentation with an overview of the “undeniable problems that are facing our state” including public education, helping businesses find the talent they need, ensuring clean, safe drinking water, and fixing “the damn roads.”

Whitmer reiterated that the state’s general fund has not changed significantly over the past 20 years – even if it had changed with inflation only, it would be up by \$5.6 billion. In addition, Michigan ranks last in the nation from 1995-2015 for revenue growth for K-12 education and only 44 percent of adults have completed some form of post-secondary education. The state is also in the bottom 5 percent of infrastructure spending per capita.

To solve these problems, Whitmer proposed a \$60.2 billion total 2020 budget (which would include a 3.6 percent increase from the current fiscal year, or 2.5 percent increase without transportation funding), including:

- **\$10.7 billion in the General Fund** (Up 2.3 percent.)
- **\$10.9 billion in restricted funds**
- **\$14 billion in School Aid Fund**
- **\$23.1 billion in Federal Funds**
- **\$1.5 billion in other**

### Fixing the roads

“Fixing the Damn Roads” continues to be a top issue for Gov. Whitmer, as Michigan’s roads continue to decline. Currently, only 78 percent are in good or fair condition, which is 12 percent below the industry standards stating that 90 percent of a state’s roads should be in good or fair condition, and only getting worse.

Whitmer's goal is to bring the roads up to 90 percent at good or fair condition in 10 years. To do this, she proposes spending \$2.5 billion in infrastructure, with \$1.5 billion going to fix state roads.

Whitmer's plan leverages current low gas prices (\$2.32 per gallon average), by phasing in a total 45 cent-per-gallon fuel tax, adding a 15 cent-per-gallon tax every six months from Oct. 1, 2019, until Oct. 1, 2020.

The State Budget Office estimates this increase will cost the average driver an extra \$23 per month.

### **Earned Income Tax Credit, Retirement tax repeal**

In addition to the tax, Whitmer is proposing to offset these costs for low-income families by doubling the earned income tax credit over the same period of time, which would be an increase from 6 percent to 12 percent—saving low-income families an average of \$30 per month.

Whitmer also plans to work to repeal the retirement tax, which she said would save about 400,000 households on fixed incomes around \$65 per month, but cost the state lost revenue.

Under the plan, the lost state revenue would be replaced by a pass-through tax on business entities to create tax parity with traditional corporations, keeping the corporate income tax at 6% -but allowing a \$50,000 deduction to help small businesses which could also be deducted on federal income taxes.

“We have a choice to make today,” Whitmer said, “Put Michigan on the path to prosperity, help people get ahead and attract more business, or kick the can down the road.”

### **K-12 and Post-secondary education**

In addition to roads, Whitmer's proposed budget calls for the largest change in education funding in a generation.

Whitmer's plan moves public universities into the General Fund, rather than the School Aid Fund. The change would return \$500 million in School Aid to K-12 schools, and ensure the “dollars are spent as the public believes they are being spent.”

The Governor's proposed education budget includes \$15.4 billion for the state's K-12 schools. This includes \$507 million in a weighted foundation allowance, with an increased foundation allowance of \$235 million, (an increase of \$120 to \$180 in per-pupil funding); \$120 million for special education students; \$102 million for at-risk students; \$50 million for CTE students; \$85 million for the Great Start Readiness program; \$24.5 million for early literacy initiatives.

In addition to K-12 spending, Whitmer plans to connect adults with the skills they need and help businesses find talent through the Michigan Reconnect Program, which would receive \$50 million in the current fiscal year and \$50 million in the next fiscal year.

Under the proposed budget, Michigan colleges and universities would also receive a 3 percent increase in funding, if they keep tuition increase under 3.2 percent.

### **Water quality and more**

Finally, Whitmer's proposal includes a \$120 million supplemental budget to improve our drinking water and environmental infrastructure.

Other highlights of the fiscal year 2020 proposed budget include:

- \$52.9 million General Fund for 14 information technology projects to improve government operations and services.
- \$13.9 million General Fund in the Health and Human Services budget
- \$14.1 million General Fund for the Michigan Public Safety Communications System
- \$10.5 million General Fund to support a corrections officer academy
- \$8.6 million General Fund for foster care and child welfare
- \$8.6 million General Fund to support a Michigan State Police new trooper recruit school
- Revenue sharing increases of 3 percent for counties and for cities, villages, and townships.

### **Alternatives to the gas tax hike**

Following Whitmer's presentation, State Budget Director Chirs Kolb gave a detailed presentation and answered questions on the proposal. When asked about the gas tax increase, Kolb said that in order to raise the \$2.5 billion necessary to fix the roads without a gas tax hike, the individual income tax would have to go from 4.25% to 5.3%, the corporate tax 6% to 19.5% and statewide property tax would have to be 7 mills.

[Click here for more information on the Executive Budget.](#)