

The Detroit News

MICHIGAN

Whitmer slashes \$225M from GOP Legislature's COVID-19 relief bill

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Published 11:22 a.m. ET Dec. 29, 2020 | Updated 12:50 a.m. ET Dec. 30, 2020

Lansing — Michigan Gov. Gretchen Whitmer on Tuesday vetoed \$225 million from a Legislature-approved supplemental COVID-19 spending bill that allocated \$465 million in surplus funds to a variety of COVID-related expenses.

The veto prompted criticism from Republican legislative leaders and business groups since most of the money was directed at propping up the Unemployment Insurance Trust Fund. But Whitmer and her Democratic allies countered that using taxpayer money to bolster a fund financed by taxes on businesses amounted to an improper corporate subsidy.

The money approved by the governor includes \$55 million in small business survival grants, \$3.5 million for entertainment venues hit hard as result of the pandemic and \$45 million in payments to laid-off individuals. Whitmer also reversed a \$100 million decrease in Medicaid funding, bringing the total signed budget to \$340 million.

Whitmer initially reported the spending bill as amounting to \$106 million. It was not clear why.

Included in the line-item vetoes are \$5 million for a property tax deferral program and \$220 million meant for the Unemployment Insurance Trust Fund, a pool of money that businesses use to help finance benefits for workers. Whitmer on Tuesday called it a "giveaway" that benefited employers, even after the state has directed some tax breaks toward businesses.

"We have helped, but this went too far," the Democratic governor said. "... The funding that I vetoed has nothing to do with extending benefits."

Whitmer also signed a separate bill that would extend unemployment benefits from a maximum of 20 weeks to 26 weeks through April. The maximum has been 26 weeks throughout most of the pandemic.

The GOP-led Legislature argued the unemployment extension will not take effect because Whitmer vetoed the bill. The bill had language tying the \$220 million appropriation for the Unemployment Insurance Trust Fund to the extension, meaning a veto voided not only the \$220 million but also the extension, legislative leaders said.

Sen. Curtis Hertel, the East Lansing Democrat who sponsored the bill, contended that's not the case and the bill's language leaves a loophole for federal dollars to fund the extension.

The Legislature's insistence on linking the extension to the unemployment money, Hertel said, is akin to lawmakers being "willing to hold unemployment benefits for people hostage if they don't get a corporate tax break."

Republicans said the language allowing for federal funding for the extension would not take effect until a future budget bill is approved.

"The legislation does allow for expenditure of federal funds; however, I doubt the people depending upon these benefits will find comfort in Gov. Whitmer's willingness to defer and wait on the federal government to help support Michigan workers," said Amber McCann, a spokeswoman for Senate Majority Leader Mike Shirkey.

Both Shirkey, R-Clarklake, and Speaker-elect Jason Wentworth, R-Farwell, criticized the governor's veto.

"Unemployment benefits cannot be extended without those funds," Shirkey said. "Those dollars would have extended unemployment benefits without placing additional costs on Michigan businesses already struggling to stay afloat under Gov. Whitmer's closure policies."

Wentworth called the veto an "incredible and shocking mistake."

"She either doesn't understand the legislation in front of her or her actions today are just as cruel and tone deaf as so many others have been during this pandemic," Wentworth said.

Whitmer's office countered that the Unemployment Insurance Agency had already provided more than \$900 million in tax breaks to COVID-affected businesses by keeping the new tax rate calculation identical to 2020, when layoffs would usually increase the tax rate for businesses.

"General fund dollars must be used to fund essential services like vaccines and PPE, not to give tax breaks to big businesses," Whitmer spokeswoman Tiffany Brown said.

Whitmer also vetoed language that would have allowed some hazardous waste to be transported across the Ambassador Bridge connecting Detroit to Windsor.

The fund's financing

The Michigan Unemployment Insurance Trust Fund is primarily financed by unemployment taxes paid by businesses, which are then used to pay the state's share of unemployment benefits. Since the start of the pandemic, roughly \$27 billion has been paid to Michigan's unemployed, but a majority of that is federal funding.

The fund decreased from \$4.6 billion prior to the pandemic to about \$732 million now, but Michigan's trust fund remains "one of the healthiest trust funds in the country," Unemployment Insurance Agency spokesman Jason Moon said.

In July, the state's dwindling unemployment fund triggered an unemployment tax increase on businesses in the coming year. When the fund fell below \$2.5 billion that month, state law required the taxable wage base to rise from \$9,000 to \$9,500 in 2021.

That will likely increase collections \$50 million or about \$14 per employee next year, Moon said.

Aside from that tax increase, businesses also are worried about the prospect of bankruptcy, which would force the state to take a federal loan with interest, triggering a penalty tax that businesses would have to pay, said Rich Studley, president and CEO of the Michigan Chamber of Commerce.

The state is paying out roughly \$45 million to \$50 million a week, with businesses still contributing to the fund. But if the current unemployment numbers stay the same through the summer, the trust fund could become insolvent, Moon said.

That would push the state to obtain interest-bearing federal loans, which likely would be paid for through a solvency tax on businesses. If that tax isn't enough to cover the state's interest payments, the state would cover the difference.

Currently, states can have interest-free federal loans for their unemployment shortages through March 14, and Michigan is pushing to extend the grace period, Moon said.

The Legislature's \$220 million appropriation was a "good faith effort" to increase the trust fund balance, ward off bankruptcy and prevent the tax increase that would result from the federal loan to the fund, Studley said.

The appropriation was merited considering the governor's COVID-19 orders triggered the layoffs and her agency distributed hundreds of millions of dollars in fraudulent unemployment checks from the employer-financed fund, he said.

"She wants to stick employers with the bill for the massive layoffs that stemmed directly from her shutdown orders, which is extremely unfair," Studley said.

In late November, Deloitte released a report finding the Whitmer administration's attempts to speed unemployment payments — including personnel moves, policy changes and technological short cuts — likely exposed the system to fraud amounting to "hundreds of millions" of dollars. As claims poured in, the agency struggled to process them in a timely manner and compromised some security in an effort to do so, according to the Deloitte report, which was commissioned by the state.

Michigan's unemployment insurance agency has had early issues meeting demand for claims and some residents didn't receive payments for months as the agency tried to work through its backlog.

Former Director Steve Gray stepped down from his post leading the agency in November with little explanation. Gray wrote in a letter at the time that the agency had paid out nearly seven years' worth of benefits to the people of Michigan in seven months.

The Michigan chamber leader also argued the governor was attempting to "redefine bipartisanship" by ignoring the bipartisan legislative support for the spending bill and instead focusing on whether she supported the bill.

"There's a new definition of bipartisanship," Studley said.

Other spending approved

The bill signed Tuesday included about \$57 million for vaccination operations, \$22.5 million for testing of vulnerable populations and \$110 million to increase pay and hiring of direct care workers.

Another \$45 million in employee assistance grants for laid-off restaurant workers and others out of work because of state-ordered closures was included.

About \$2 million will go to care and recovery centers for non-acute COVID-19 long-term care residents and \$3.3 million to help hospitals keep COVID-positive long-term care residents longer.

About \$2.9 million was appropriated for COVID-19 response in state veterans homes and \$2.5 million for grants for certain full-time teachers.

The relief bill signing was announced as Whitmer and Chief Medical Executive Dr. Joneigh Khaldun touted the state's decreased incidence of COVID-19 cases, hospitalizations and deaths.

The state confirmed 18,417 new infections and reported 568 new deaths linked to the virus over the seven days. The new case number was the lowest since the week of Oct. 18-24. The number of new deaths was the lowest since Nov. 22-28.

While the case and death tallies could have been affected by the Christmas holiday, which was Friday, the percentage of COVID-19 tests bringing positive results also dropped last week to 8.2%, the lowest weekly rate since the end of October.

As of Monday, the state reported 2,518 hospitalized individuals with confirmed cases of the virus, a 24% decrease from the total two weeks ago.

In an appearance Tuesday night on MSNBC's "All in with Chris Hayes," Whitmer told guest host Mehdi Hasan that in tackling the virus, "governors across the country have been united, Republicans and Democrats alike, because we know — we've been on the front line of this crisis without a lot of help out of Washington, D.C."

Whitmer went on to address President Donald Trump's signing of the \$900 billion economic relief package and Tuesday's action by Senate Majority Leader Mitch McConnell to block an immediate vote on a proposal to boost COVID-19 relief checks from \$600 to \$2,000.

"I'm glad that the president signed the bill. I'm sad that he took a week to go play golf and not get it done quicker. It's going to be money out of people's pockets for a week when people are really in need right now," she said. "I would love it if the U.S. Senate would get this \$2,000 relief done so that people can get through this tough time."

Hasan referenced a tweet from Trump on Tuesday night saying vaccine distribution was up to the states.

Whitmer replied: "We have been on the front line from testing to getting our hands on everything from PPE to building up the ability to administer vaccines. We've gotten chaos out of Washington, D.C., out of the White House in particular. Despite that, we have forged ahead, but we haven't gotten the additional resources. What we've gotten is inconsistent vaccine deliveries that ... really undermined and compromised our ability to get people vaccinated."

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