

Consensus Revenue Estimating Conference Overview

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House Fiscal Agency**

**House Appropriations Committee
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Consensus Revenue Estimating Conference

FORECAST INPUT

University of Michigan
Economic Outlook

National
Economic Forecasts

State
Economic Forecasts

Business Executive
Outlook

AGENCY FORECASTS:

House Fiscal Agency

Senate Fiscal Agency

Administration

**CONSENSUS
REVENUE
ESTIMATING
CONFERENCE**

FORECAST OUTPUT

Estimates of:

Total
GF/GP Revenue

Total
School Aid Fund
Revenue

School
Foundation Index

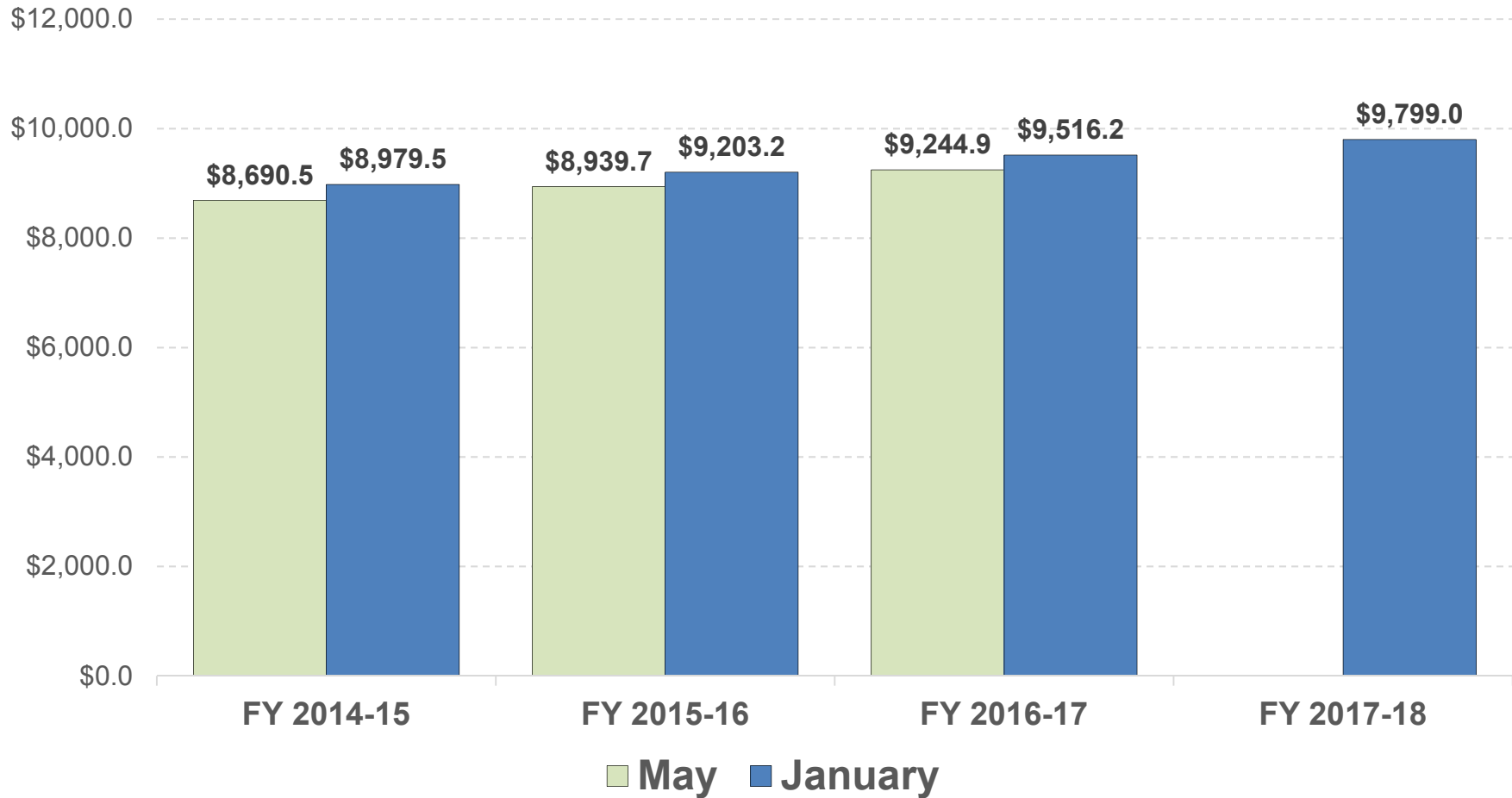
Constitutional
Revenue Limit

Budget
Stabilization Fund
Pay-in/Pay-Out

Revenue Estimates

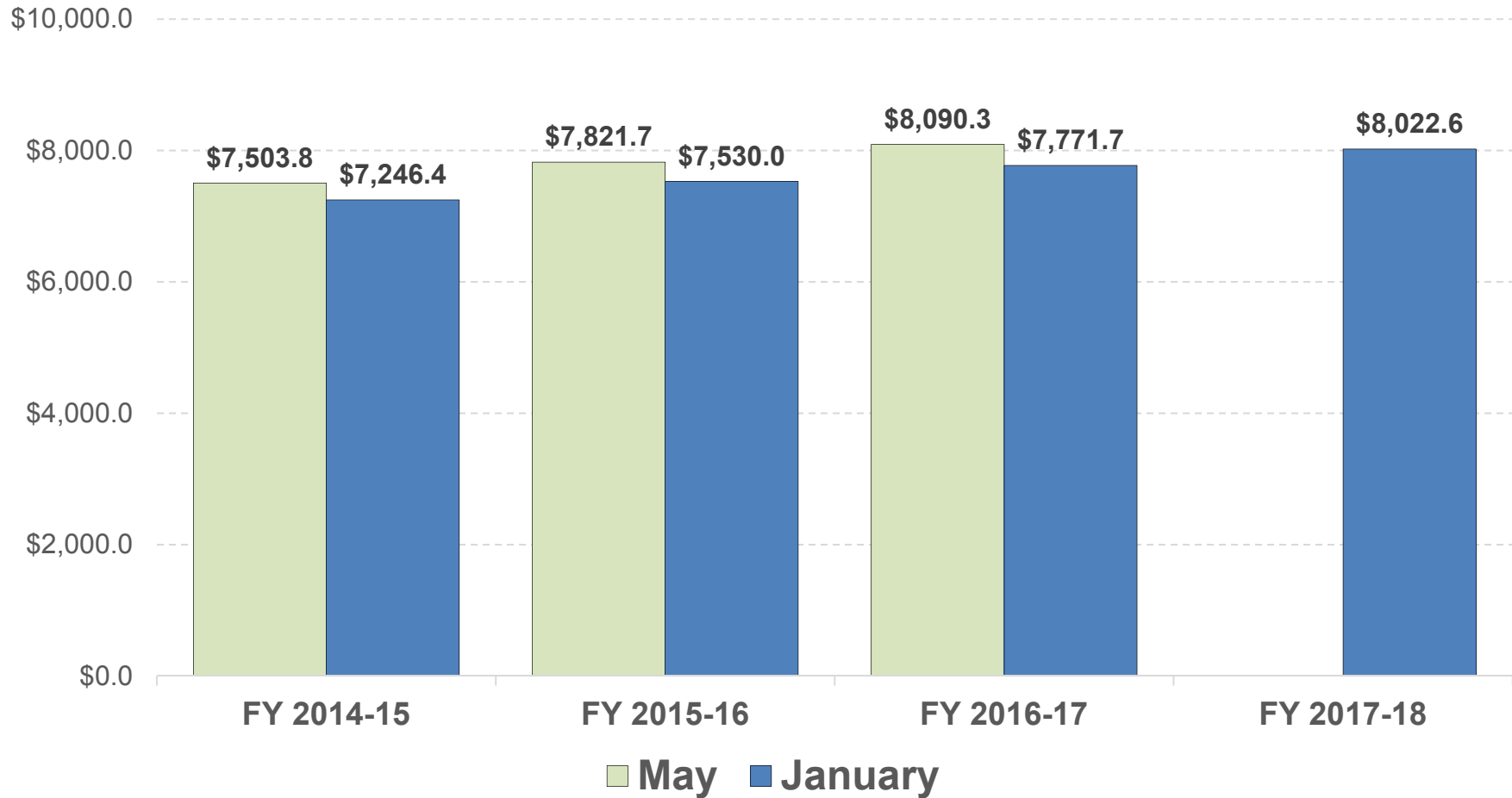
Net Individual Income Tax

(Dollars in Millions)



Sales Tax

(Dollars in Millions)



Sales Tax Collections

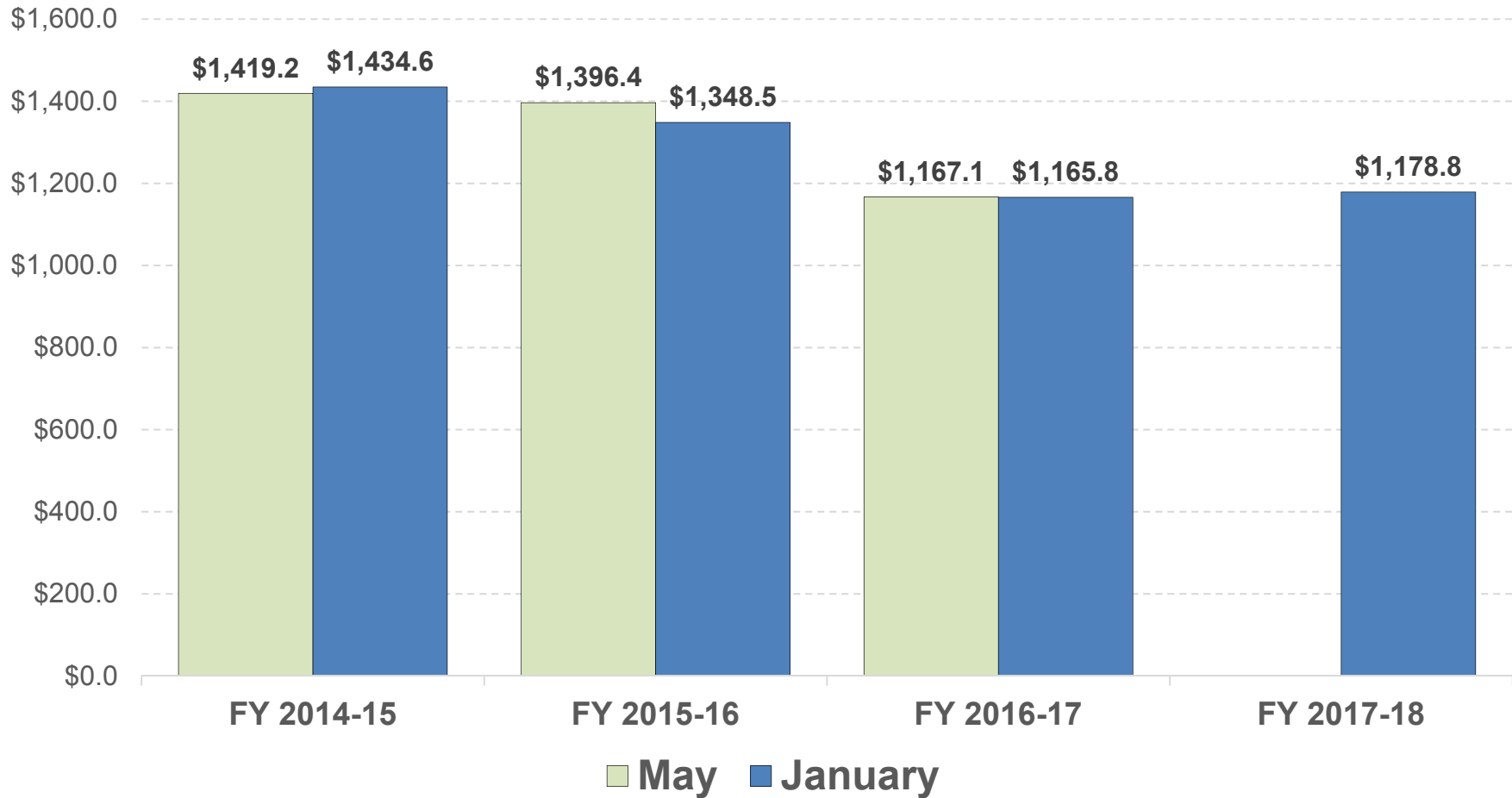
(Dollars in Millions)

Type of Purchase	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Gasoline Sales Tax	\$824.3	\$603.6	(\$220.7)	-26.8%
Motor Vehicle Purchases Sales Tax	906.3	925.4	\$19.1	2.1%
All Other Purchases	5,624.3	5,717.4	\$93.1	1.7%
Total	\$7,354.9	\$7,246.4	(\$108.5)	-1.5%

Source: Michigan Department of Treasury.

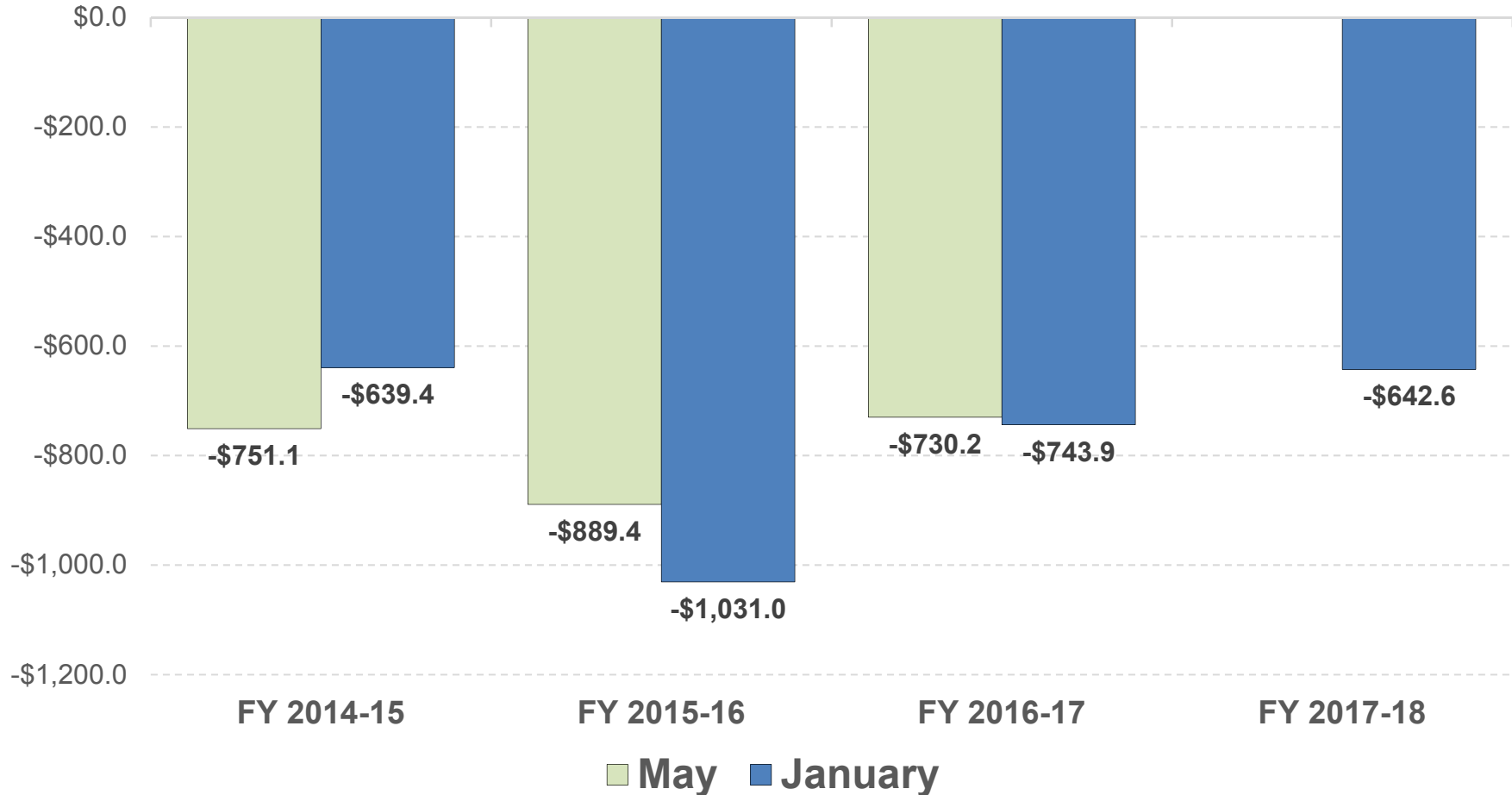
Use Tax

(Dollars in Millions)



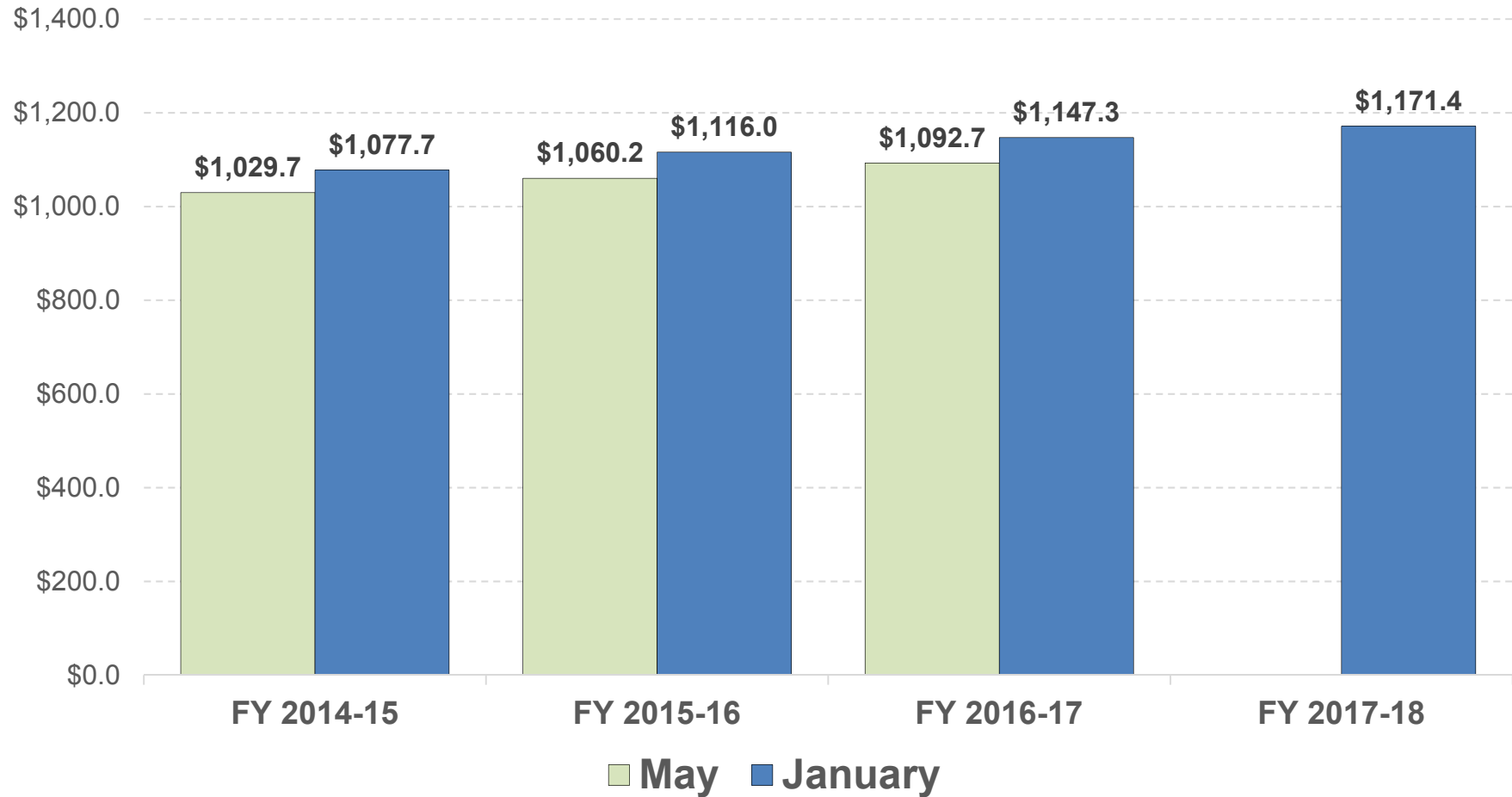
Michigan Business Tax (MBT)

(Dollars in Millions)



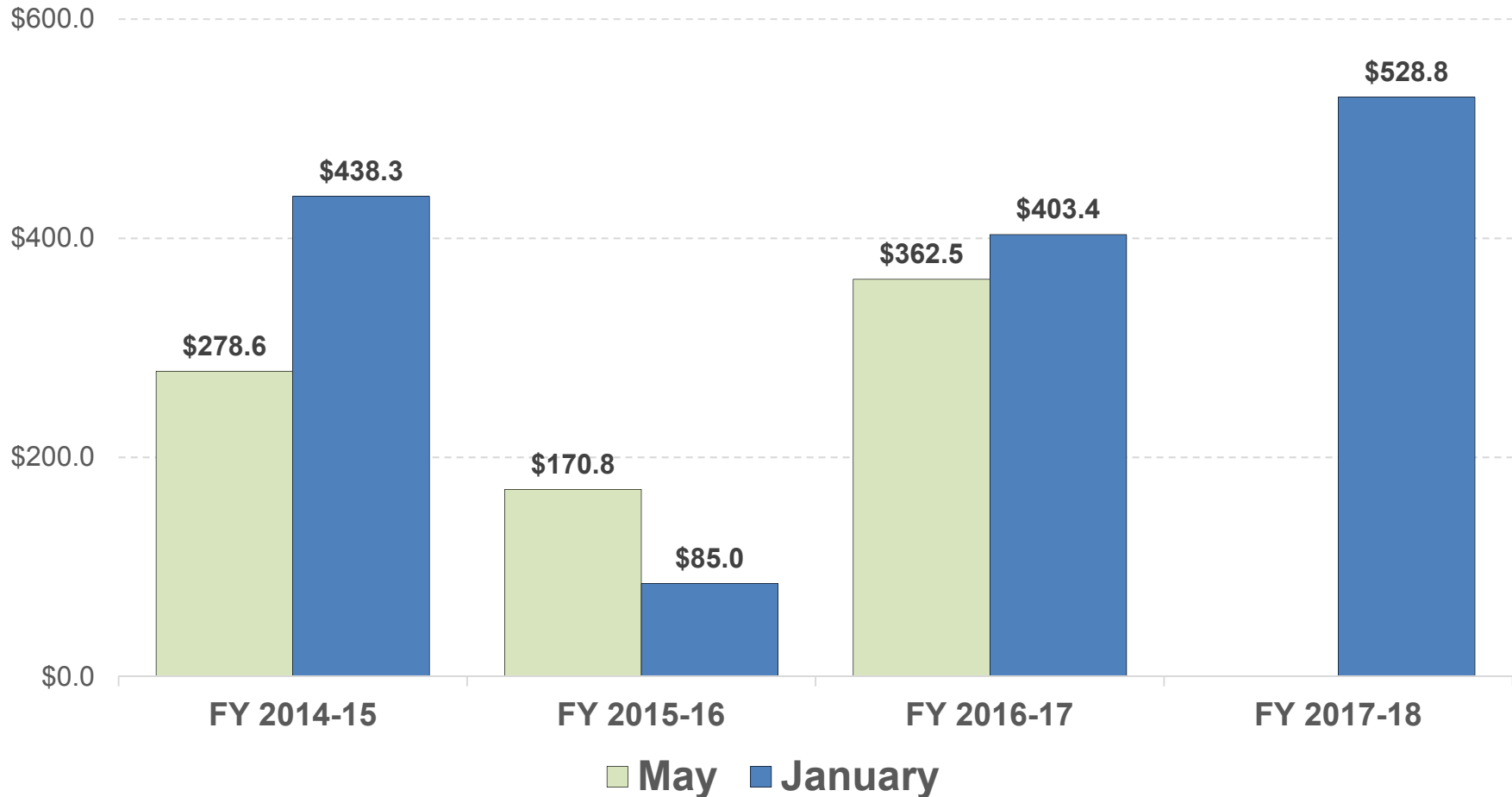
Corporate Income Tax (CIT)

(Dollars in Millions)



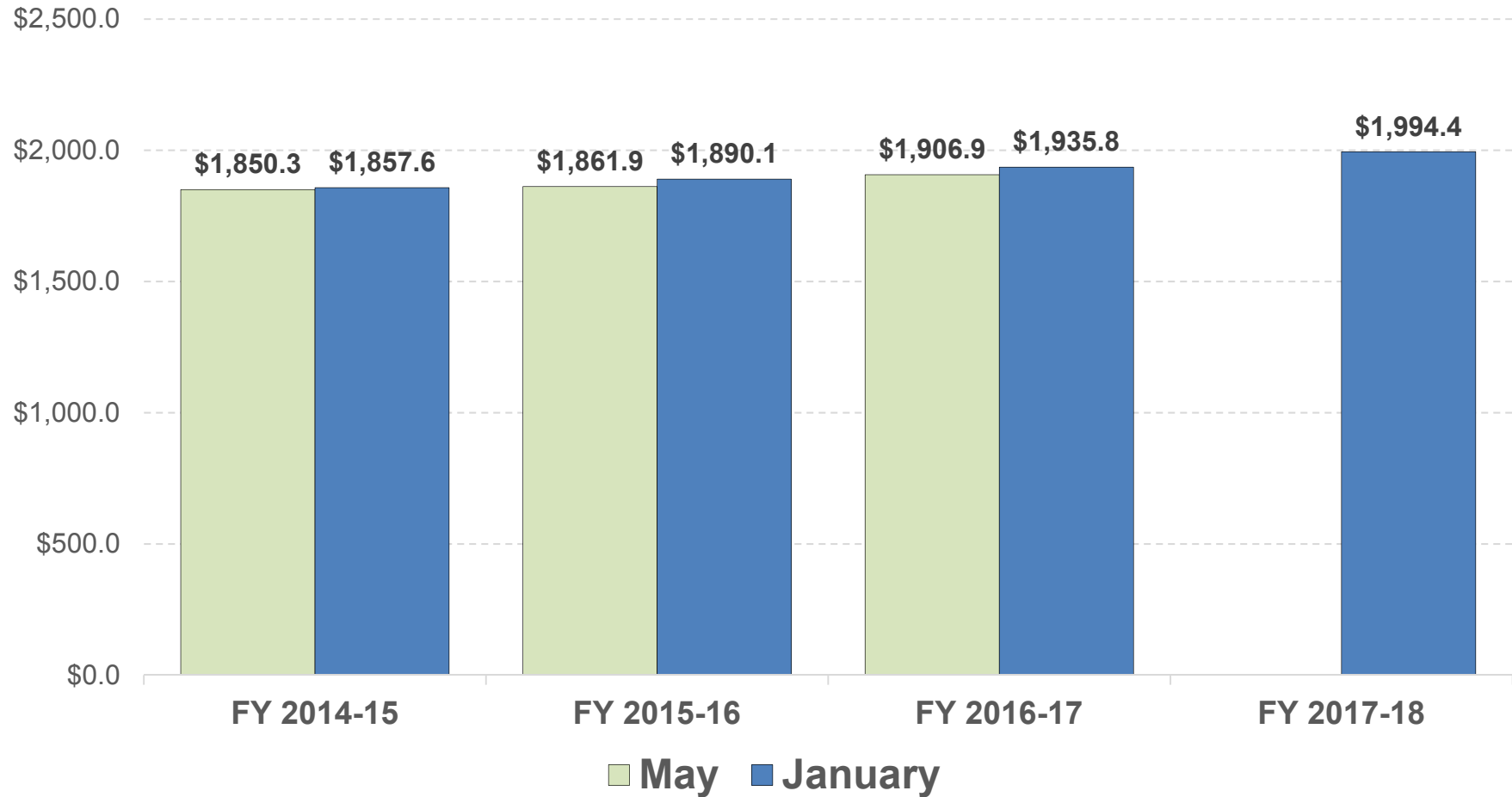
Net Combined Business Taxes (CIT / MBT)

(Dollars in Millions)



State Education Tax (SET)

(Dollars in Millions)



Insurance Company Tax

- Insurance companies pay into several special funds to help pay certain benefits.
- The Insurance Company Tax provides insurance companies credits for many of these payments.
- PA 204 of 2012 (amended Insurance Code) moved the administration of the Michigan Assigned Claims Plan program from the Secretary of State to the Michigan Automobile Insurance Placement Facility (MAIPF) within the Department of Insurance and Financial Services (DIFS).
- No credit was provided for the payments to the Secretary of State, but payments to a fund administered by the MAIPF has qualified and continues to qualify for a credit under the Corporate Income Tax.
- In FY 2014-15, insurance companies began claiming credits for their payments to the MAIPF.
- This reduced insurance tax collections \$60 million in FY 2014-15 and will reduce them an estimated \$80 million in FY 2015-16 and after.

Additional Revenue Estimate Revisions Compared to May Estimates

- Tax litigation court decisions are reducing the following taxes:

Use Tax

- \$60 million in FY 2015-16
- \$15 million in FY 2016-17
- \$25 million in FY 2017-18

MBT

- \$18 million in FY 2015-16

- Larger lottery jackpots will boost lottery revenue an estimated \$20 million.
- Newly enacted data center sales and use tax exemption will reduce revenue:
 - \$11 million in FY 2015-16
 - \$15 million in FY 2016-17
 - \$16 million in FY 2017-18

January 2016 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2014-15			Change from May 2015 Consensus
	January 2016 Consensus	Change From FY 2013-14		
General Fund/General Purpose (GF/GP)	\$10,034.4	\$1,015.8	11.3%	\$309.5
School Aid Fund (SAF)	\$11,747.1	\$226.6	2.0%	(\$136.1)
Total Revenue	\$21,781.5	\$1,242.4	6.0%	\$173.4

January 2016 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2015-16			Change from May 2015 Consensus
	January 2016 Consensus	Change From FY 2014-15		
General Fund/General Purpose (GF/GP)	\$9,843.8	(\$190.6)	-1.9%	(\$38.1)
School Aid Fund (SAF)	\$12,131.6	\$384.5	3.3%	(\$111.3)
Total Revenue	\$21,975.4	\$193.9	0.9%	(\$149.4)

January 2016 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2016-17			Change from May 2015 Consensus
	January 2016 Consensus	Change From FY 2015-16		
General Fund/General Purpose (GF/GP)	\$10,213.9	\$370.1	3.8%	\$92.4
School Aid Fund (SAF)	\$12,486.2	\$354.5	2.9%	(\$112.6)
Total Revenue	\$22,700.1	\$724.7	3.3%	(\$20.2)

Note: Numbers may not add due to rounding.

January 2016 Consensus Forecast

(Dollars in Millions)

Constitutional Revenue Limit Calculation

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>
Personal Income	\$386,471	\$403,726	\$420,279	\$438,771
Ratio	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>
Revenue Limit	\$36,676	\$38,314	\$39,884	\$41,639
Revenue Subject to Limit	<u>\$28,844</u>	<u>\$29,190</u>	<u>\$30,270</u>	<u>\$31,533</u>
Amount Under (Over) Limit	\$7,832	\$9,123	\$9,614	\$10,106

Notes:

- 1. CY 2013 Personal Income is used for the FY 2014-15 revenue limit calculation, CY 2014 for FY 2015-16, CY 2015 for FY 2016-17 and CY 2016 for FY 2017-18.*
- 2. Numbers may not add due to rounding.*

January 2016 Consensus Forecast

Budget Stabilization Fund (BSF) Calculation

FY 2015-16: \$250.9 million pay-in (\$95.0 million appropriated)

FY 2016-17: \$196.9 million pay-in

FY 2017-18: \$10.2 million pay-in

School Aid Index

	<u>FY 2016-17</u>	<u>FY 2017-18</u>
Revenue Adjustment Factor	1.0287	1.0286
Pupil Membership Factor	× <u>1.0066</u>	× <u>1.0068</u>
School Aid Index	1.0355	1.0356

Balance Sheets

General Fund Balance Sheet

(Dollars in Millions)

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>
Beginning Balance	\$306.4	\$694.7	\$477.8
REVENUE			
General Fund/General (GF/GP) Revenue	\$10,034.4	\$9,843.8	\$10,213.9
HMO Use Tax	403.4	406.7	101.7
Venture Michigan Fund	0.0	0.0	(30.5)
<u>Local Revenue Sharing</u>	<u>(468.0)</u>	<u>(468.5)</u>	<u>(462.7)</u>
TOTAL REVENUE	\$9,969.8	\$9,782.0	\$9,822.4
EXPENDITURES			
YTD Ongoing Appropriations	\$9,204.6	\$9,406.4	\$9,376.7
YTD One-Time Appropriations	201.7	97.5	0.0
Transportation	284.6	400.0	0.0
Budget Stabilization Fund (BSF)	94.0	95.0	196.9
Lapses/Adjustments	(203.4)	0.0	0.0
<u>Other Caseload/Baseline Adjustments</u>	<u>0.0</u>	<u>0.0</u>	<u>343.6</u>
<u>TOTAL EXPENDITURES</u>	<u>\$9,581.5</u>	<u>\$9,976.3</u>	<u>\$9,917.2</u>
Current year Revenues - Expenditures	\$388.3	(\$216.9)	(\$94.8)
ESTIMATED ENDING BALANCE / (SHORTFALL)	\$694.7	\$477.8	\$383.0

Major General Fund Budget Pressures

- **Medicaid Financing**

- Recent federal guidance indicates that state's Use Tax on Medicaid Managed Care Organizations (MCOs) must be discontinued by the end of 2016 (3/4 of FY 2016-17 affected).
- Automatic reversal of tax changes under current law (eliminate Use Tax on Medicaid MCOs, restore HICA rate from 0.75% to 1.0%) will leave General Fund budget hole of roughly **\$120 million per year** (also impacts SAF about \$200 million).
- Health Insurance Claims Assessment (HICA) sunsets at end of calendar year 2017; if assessment isn't extended, it would create an additional budget hole of over **\$320 million per year**. (House-passed HB 5105 would extend sunset through FY 2024-25.)
- State retainer from provider tax on hospitals was increased **by \$93 million** on one-time basis for FY 2015-16. Absent statutory extension, GF/GP backfill will be required for FY 2016-17.

Major General Fund Budget Pressures

- **Medicaid Expansion Match Costs**

- Currently 100% federally funded; five percent match costs begin January 1, 2017, phasing up to ten percent match costs begin January 1, 2020.
- Projected costs of about **\$120 million GF/GP in FY 2016-17**, increasing to roughly **\$330 million in FY 2020-21**.
- Discontinuing expansion and shifting mental health and other costs back to state would cost **\$250 million** or more per year.

- **Specialty Drugs**

- Federal guidance regarding the use of specialty drugs could cost **\$150 million** in Medicaid and Corrections budgets for FY 2016-17 (Hepatitis C and Cystic Fibrosis).

- **GF/GP Budget**

- University and Community College funding: Additional increases tied to performance metrics and tuition restraint?
- Revenue Sharing: Additional increases for cities / villages / townships?
- Flint water emergency funding?

Major General Fund Budget Pressures

- **Transportation** - Road funding package enacted in 2015 will:
 - Increase motor fuel taxes from 15 cents per gallon (for diesel) and 19 cents per gallon (for gasoline) to 26.3 cents per gallon on January 1, 2017 (raises roughly \$400 million per year).
 - Increase vehicle registration taxes by 20% beginning January 1, 2017 (raises roughly \$200 million per year).
 - Increase Homestead Property Tax Credit by altering various parameters: creates estimated GF/GP loss of **\$206 million** per year beginning in FY 2018-19.
 - Divert income tax revenue currently allocated as GF/GP funds to transportation purposes beginning in FY 2018-19:
 - FY 2018-19: **\$150 million**
 - FY 2019-20: **\$325 million**
 - FY 2020-21: **\$600 million**
 - Appropriation of GF/GP funds for Transportation in FY 2016-17 would create additional budget pressure. (\$400 million is appropriated for FY 2015-16, a majority on a one-time basis.)

School Aid Balance Sheet

(Dollars in Millions)

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>
Beginning Balance	\$473.1	\$190.0	\$32.9
REVENUE			
School Aid Fund (SAF) Revenue	\$11,767.1	\$12,131.6	\$12,486.2
HMO Use Tax	204.4	204.4	50.8
General Fund/General Purpose (GF/GP)	33.7	45.9	57.0
<u>Federal Funds</u>	<u>1,808.2</u>	<u>1,775.8</u>	<u>1,775.8</u>
TOTAL REVENUE	\$13,813.4	\$14,157.7	\$14,369.8
EXPENDITURES			
YTD Appropriations	\$13,674.0	\$13,900.6	\$13,882.5
Jan Consensus Cost Adjustments	(148.7)	(47.7)	0.0
<u>Postsecondary Expenditures</u>	<u>571.2</u>	<u>461.9</u>	<u>461.9</u>
<u>TOTAL EXPENDITURES</u>	<u>\$14,096.5</u>	<u>\$14,314.8</u>	<u>\$14,344.4</u>
Current year Revenues - Expenditures	(\$283.1)	(\$157.1)	\$25.4
ESTIMATED ENDING BALANCE / (SHORTFALL)	\$190.0	\$32.9	\$58.3

Major School Aid Budget Pressures

- Elimination of Medicaid HMO Use Tax
 - \$204 million revenue source for FY 2015-16
 - Feds disallowed this as a Medicaid financing source, and it ends January 1, 2017.
 - Reduces SAF revenues by \$150 million for FY 2016-17.
- MPSERS Costs
 - State share of Unfunded Liabilities expected to increase by \$100 million for FY 2016-17.
 - FY 2014-15 investment returns: 2.6% increase. (Target: 8% Basic/MIP, 7% Hybrid)
 - FY 2014-15 MPSERS payroll: 2% decrease. (Actuarial Assumed rate: 3.5% increase)
- Detroit Public Schools
 - When FY 2015-16 budget adopted, \$50.0 million left on SAF balance sheet as a potential revenue source for DPS. That's now down to \$32.9 million.
 - Governor's plan would require increased School Aid costs of \$72.0 million per year for FY 2016-17 and beyond. FY 2016-17 SAF revenues insufficient to meet that cost.
- Foundation Allowance Increases
 - \$75 per pupil increase (1% of current minimum) will cost \$111 million for FY 2016-17.
 - Inflation for FY 2014-15 equal to 0.1% so Hold Harmless district foundation allowance growth will be capped at that rate or approximately \$8-\$12 per pupil.

Summary

- **Projected FY 2015-16 ending balance**
 - \$478 million General Fund balance
 - \$33 million School Aid Fund balance
- **Projected FY 2016-17 resources above/below baseline budget**
 - \$383 million General Fund balance (mostly one-time)
 - \$58 million School Aid Fund balance (prior to any discretionary spending)



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