

MEMORANDUM



DATE: June 8, 2015
TO: Members of the House of Representatives
FROM: Mary Ann Cleary, Director
Kyle I. Jen, Deputy Director
RE: Fiscal Summary of House Road Package

This memorandum provides summary information on the estimated fiscal impacts of the bills included in the House road package: House Bills 4605 through 4616, as reported by the House Committee on Roads and Economic Development. For more detailed information on the bills in the package, see the HFA analyses for individual bills available at www.legislature.mi.gov.

Transportation Funding

Attachment 1 provides a summary of estimated transportation funding from diverted or increased revenue sources under the package. Total transportation revenue generated under the package would be an estimated \$555.1 million in FY 2015-16, increasing to \$1,163.0 million in FY 2018-19 when the package was fully phased in.

Of the estimated revenue generated in FY 2018-19, \$1,043.9 million would be revenue diverted from current state revenue sources: \$908.9 million from current General Fund/General Purpose (GF/GP) revenue sources and \$135.0 million from revenue sources currently dedicated for economic development purposes. The remaining \$119.1 million would be from new or increased revenue sources: new electric vehicle registration fees, an increase in the tax rate on diesel fuel from 15 cents to 19 cents per gallon, and the creation of an inflationary adjustment for motor fuel tax rates.

Impact on GF/GP Revenue Growth

Attachment 2 and 3 provides estimates for the reduction in GF/GP revenue growth under the package. Under current revenue estimates from the May 2015 Consensus Revenue Estimating Conference, total GF/GP revenue is projected to grow from \$9,724.9 million in FY 2014-15 to \$10,862.6 million in FY 2018-19—an increase of \$1,137.7 million. This equates to annualized revenue growth of 2.8% per year.

The House road package would result in a net reduction of \$401.9 million to GF/GP revenue in FY 2015-16 (roughly equating to the \$400.0 million in GF/GP appropriations for Transportation included in the FY 2015-16 state budget recently adopted by the Legislature). The net GF/GP revenue reduction would increase to \$781.9 million in FY 2018-19. These net reductions account for increased revenue from the elimination of the state's Earned Income Tax Credit.

Accounting for the estimated impacts of the House road package, GF/GP revenue would grow from an estimated \$9,724.9 million in FY 2014-15 to \$10,080.7 million in FY 2018-19—an increase of \$355.8 million. This equates to annualized revenue growth of 0.9% per year.

GF/GP Budget Pressures

On the expenditure side of the long-term GF/GP budget outlook, there are three major Medicaid financing issues that will impact the state budget beginning in FY 2016-17:

Use Tax on Medicaid Managed Care Organizations (MCOs): Federal guidance indicates that the state's imposition of its Use Tax on Medicaid MCOs must be discontinued as a Medicaid financing source at the end of calendar year 2016 (affecting three-quarters of FY 2016-17). Under current law, the Health Insurance Claims Assessment tax rate will automatically revert from 0.75% back to 1.0% when this occurs. The net impact of those changes will reduce available GF/GP resources by approximately \$130 million per year (\$100 million in FY 2016-17). The discontinuation of the Use Tax on Medicaid MCOs will also result in a loss to the School Aid Fund of about \$200 million per year. Additionally, the Health Insurance Claims Assessment, which will generate approximately \$330 million in annual revenue utilized as state Medicaid matching funds at a 1.0% rate, sunsets at the end of calendar year 2017 under current state law.¹

Healthy Michigan Plan Match Costs: State match costs for the expansion of the state's Medicaid program under the Healthy Michigan Plan will begin January 1, 2017, at a 5% state match rate. Estimated GF/GP costs for FY 2016-17 are \$120 million, increasing to roughly \$350 million in FY 2020-21 when the required state match rate will have reached 10%. Alternately, discontinuing the Healthy Michigan Plan would increase GF/GP costs by \$250 to \$300 million per year in order to maintain state mental health services, health care services in the state's Corrections system, and other health care services previously funded by state GF/GP funds but now funded through federal funds under the expanded Medicaid program.

Hospital Retainer Savings: The FY 2015-16 state budget incorporates \$92.9 million in GF/GP savings from an assumed increase in retained state revenue from the state's Qualified Assurance Assessment Program (QAAP) for hospitals, as proposed in House Bill 4447. Under the House-passed and Senate committee-reported versions of the bill, the increase in retained revenue and associated GF/GP savings will be realized only for FY 2015-16.

As part of the FY 2016-17 budget process, the Legislature will need to identify new or increased alternate Medicaid financing sources, reduce services provided through the Medicaid program, and/or include additional GF/GP funds to finance the Medicaid program. The final option, in combination with normal inflationary budget pressures, could result in a structural imbalance in the state's GF/GP budget, depending on the level of GF/GP revenue available.

Finally, House Bill 4608 (H-1) states legislative intent to fund the Pure Michigan program with GF/GP revenue beginning in FY 2016-17. This program is currently funded with 21st Century Jobs Fund revenue that would be diverted for Transportation purposes under House Bill 4607. Complying with this statement of intent would require an increase in GF/GP appropriations of \$29.0 million, equal to the FY 2014-15 appropriation level for the program.

Please contact us if you have any questions regarding this information.

Attachments (3)

¹ For further background information on this topic, see this February 2015 HFA memorandum: http://www.house.mi.gov/hfa/PDF/CommunityHealth/HICA_Memo_Feb2015.pdf.

ATTACHMENT 1

Summary: Estimated Additional Transportation Revenue Under House Road Package (Committee Reported)

Millions of \$

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
<u>Diverted Revenue</u>				
HB 4605: Divert income tax revenue (from GF/GP portion)	\$442.0	\$492.0	\$617.0	\$792.0
HB 4606: Divert GF/GP portion of Sales Tax on motor fuels	\$74.9	\$92.7	\$104.8	\$116.9
HB 4607: Divert tobacco settlement revenue	\$0.0	\$75.0	\$75.0	\$75.0
HB 4608: Capture Indian gaming compact revenue	\$0.0	\$60.0	\$60.0	\$60.0
Subtotal: Diverted Revenue	\$516.9	\$719.7	\$856.8	\$1,043.9
<u>New Revenue</u>				
HB 4612: Create electric vehicle registration fees*	\$1.7	\$1.7	\$1.7	\$1.7
HB 4615: Increase diesel tax rate from 15 to 19 cents	\$36.5	\$37.2	\$37.9	\$38.6
HB 4615: Index motor fuel tax rates to inflation**	\$0.0	\$26.5	\$52.5	\$78.8
Subtotal: New Revenue	\$38.2	\$65.4	\$92.1	\$119.1
TOTAL ADDITIONAL TRANSPORTATION REVENUE	\$555.1	\$785.1	\$948.9	\$1,163.0

*Mid-point estimate.

**Reflects projected increases over current law baseline; increases projected to be partially offset by continuing declines in gas sales.

ATTACHMENT 2

Long-Term General Fund Revenue Projections

Millions of \$

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
GF/GP Revenue: May 2015 Consensus Estimates	\$9,724.9	\$9,881.9	\$10,121.5	\$10,486.8	\$10,862.6
% Change from Prior Year		1.6%	2.4%	3.6%	3.6%
<u>House Road Package (Committee Reported)</u>					
HB 4605: Divert Income Tax revenue		(\$442.0)	(\$492.0)	(\$617.0)	(\$792.0)
HB 4606: Divert GF portion of Sales Tax on motor fuels		(\$74.9)	(\$92.7)	(\$104.8)	(\$116.9)
HB 4609: Eliminate Earned Income Tax Credit		<u>\$115.0</u>	<u>\$119.0</u>	<u>\$123.0</u>	<u>\$127.0</u>
Net Revenue Reduction		(\$401.9)	(\$465.7)	(\$598.8)	(\$781.9)
GF/GP Revenue With House Road Package	\$9,724.9	\$9,480.0	\$9,655.8	\$9,888.0	\$10,080.7
% Change from Prior Year		(2.5%)	1.9%	2.4%	1.9%

Cumulative GF/GP Revenue Growth: FY 2014-15 to FY 2018-19

Current consensus estimates:	\$1,137.7
Percent growth:	11.7%
Annualized percent growth:	2.8%
Estimates with House Road Package:	\$355.8
Percent growth:	3.7%
Annualized percent growth:	0.9%

ATTACHMENT 3
Long-Term General Fund (GF/GP) Revenue Projections
Unadjusted for Inflation

