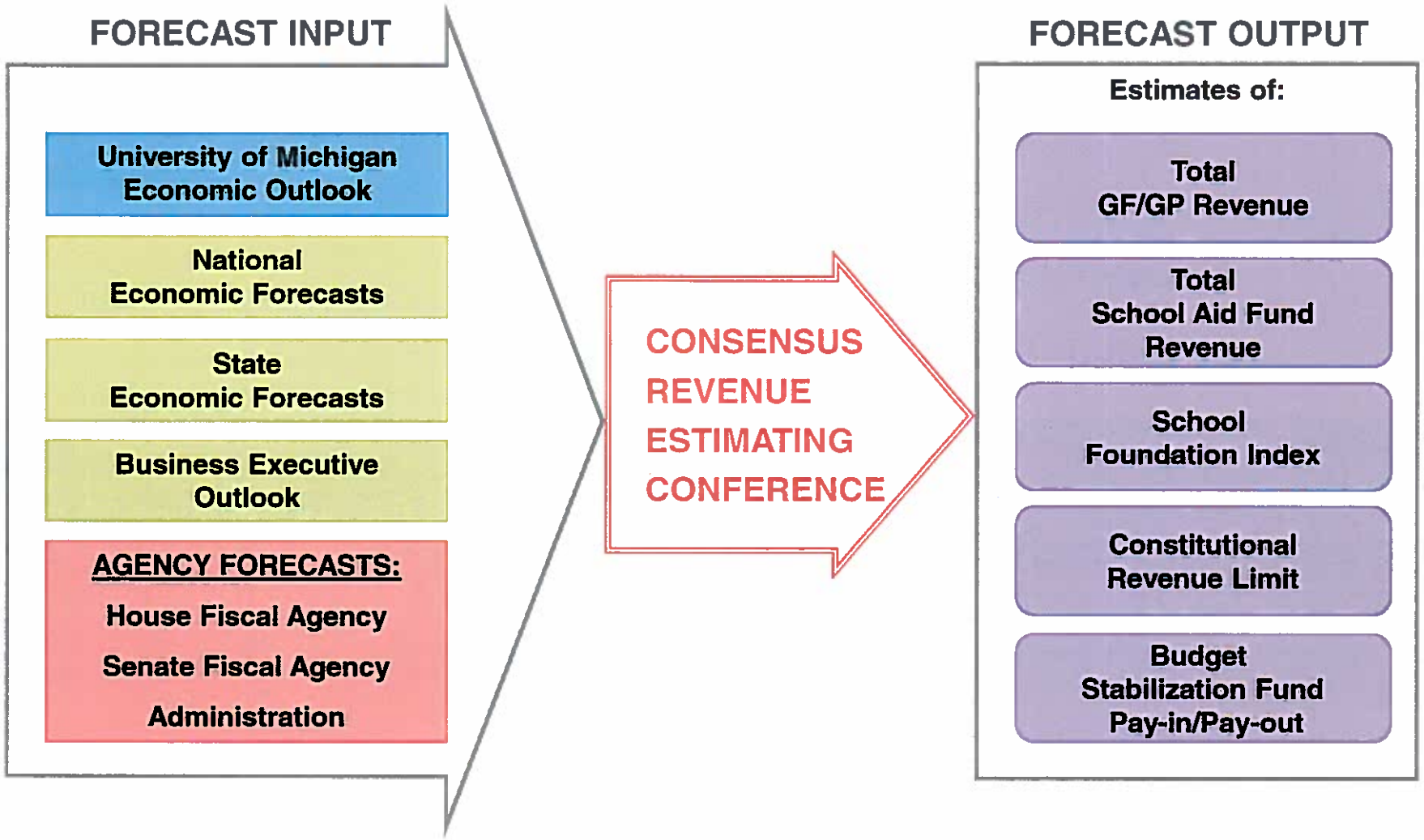
# Consensus Revenue Estimating Conference Overview

**Mary Ann Cleary, Director**
**House Fiscal Agency**

House Appropriations Committee
January 17, 2018

HOUSE FISCAL AGENCY

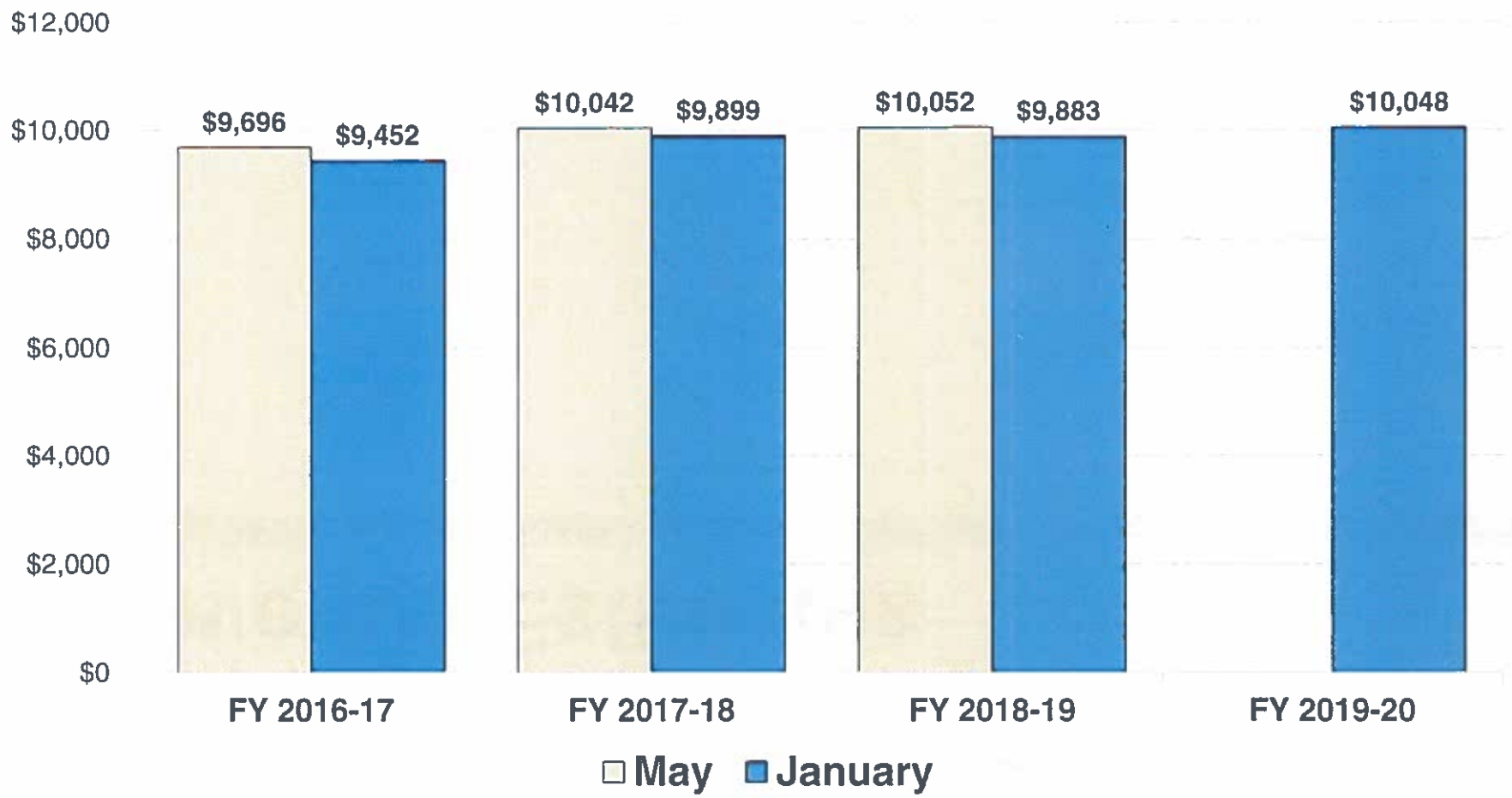
# Consensus Revenue Estimating Conference



# Revenue Estimates

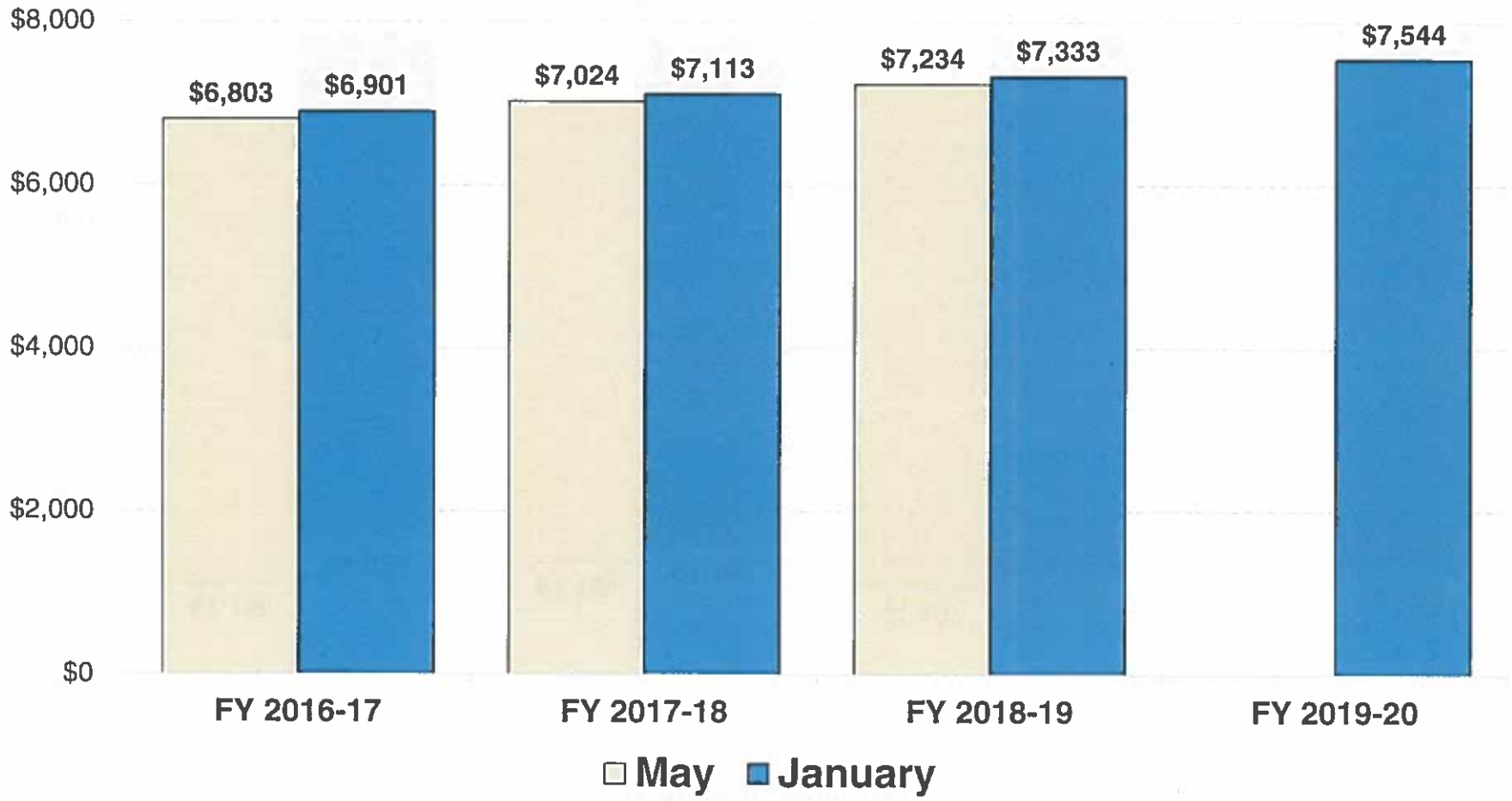
# Net Individual Income Tax

**(Dollars in Millions)**



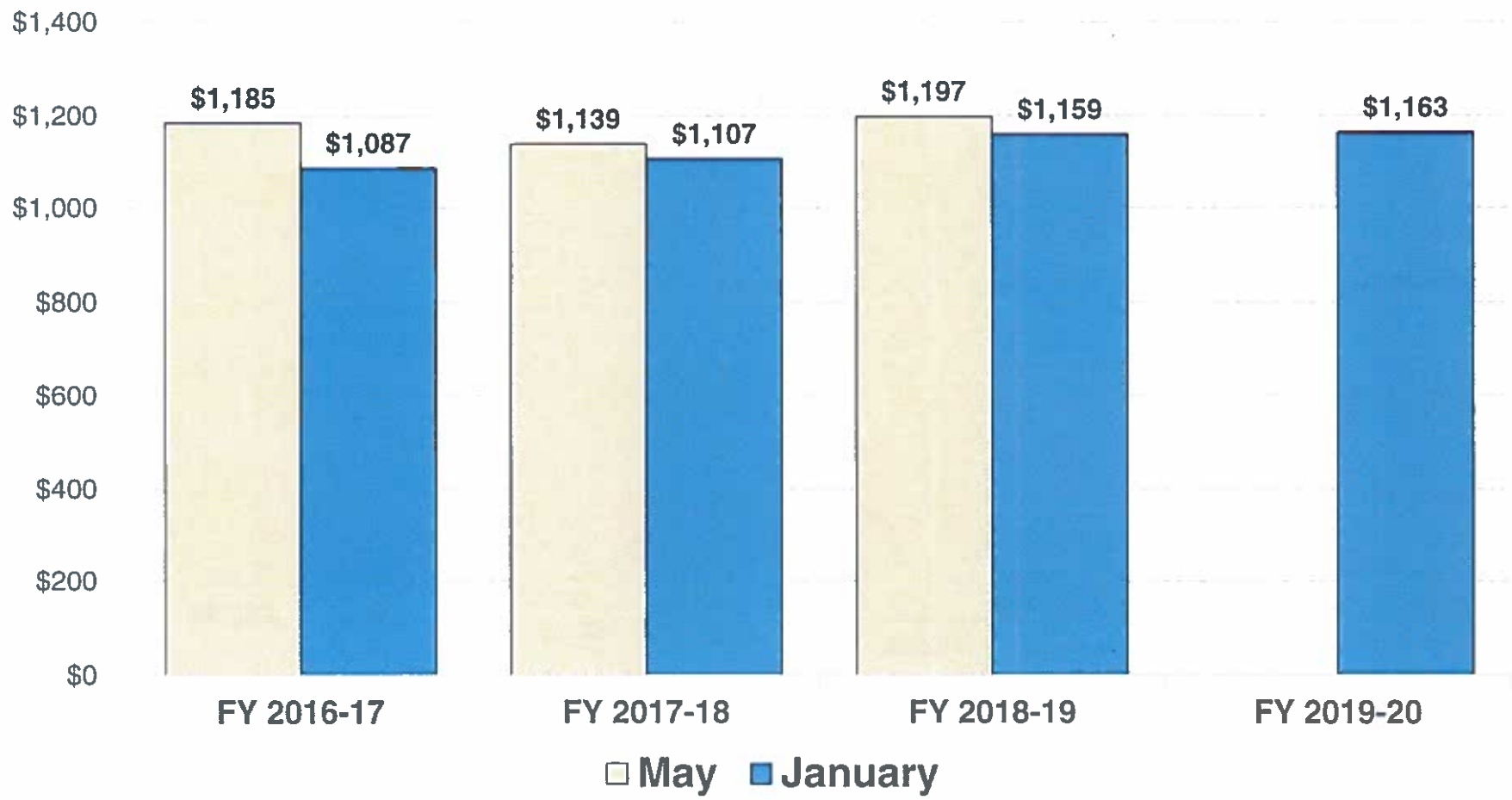
# Sales Tax

(Dollars in Millions)



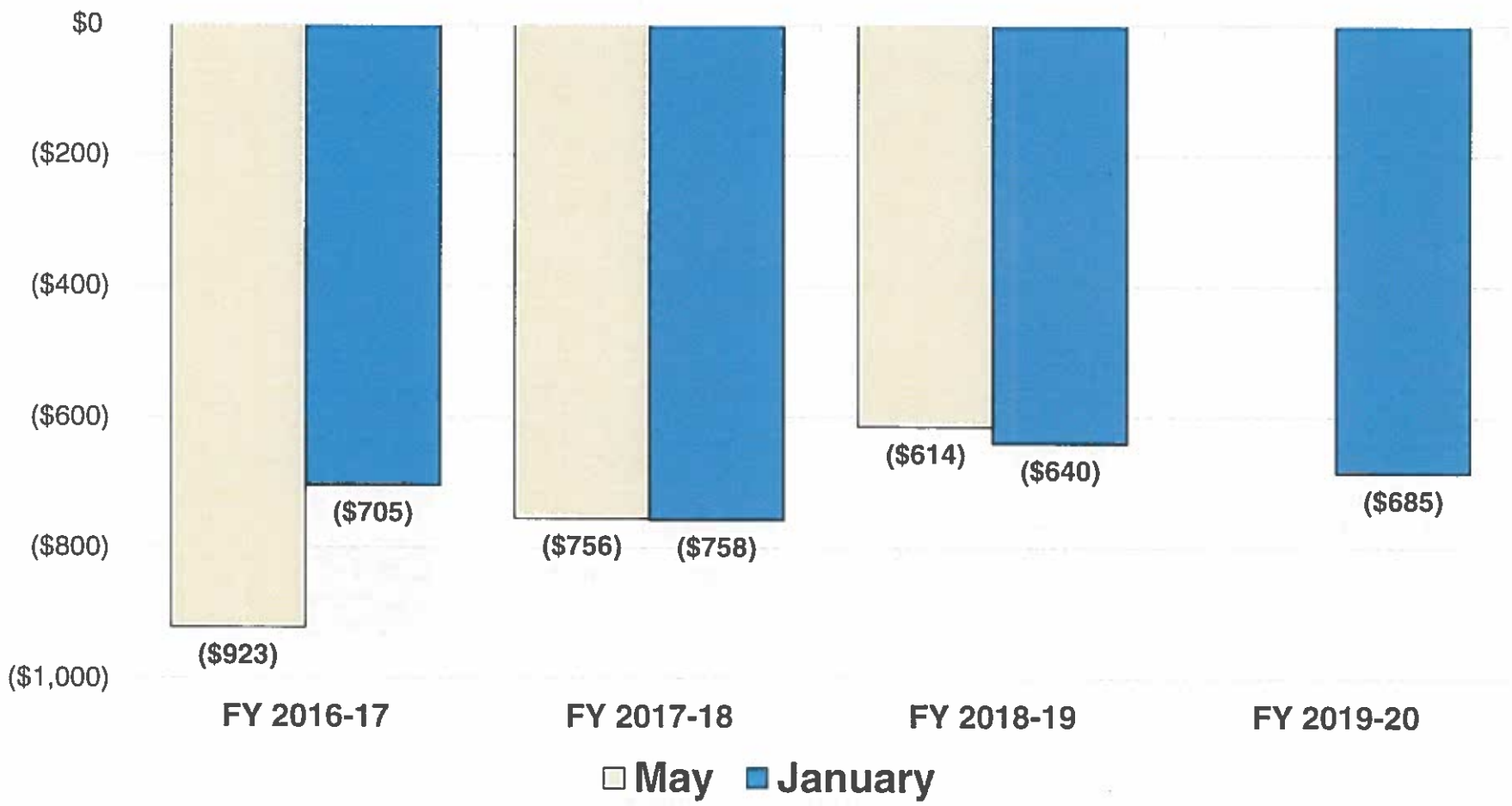
# Use Tax

**(Dollars in Millions)**



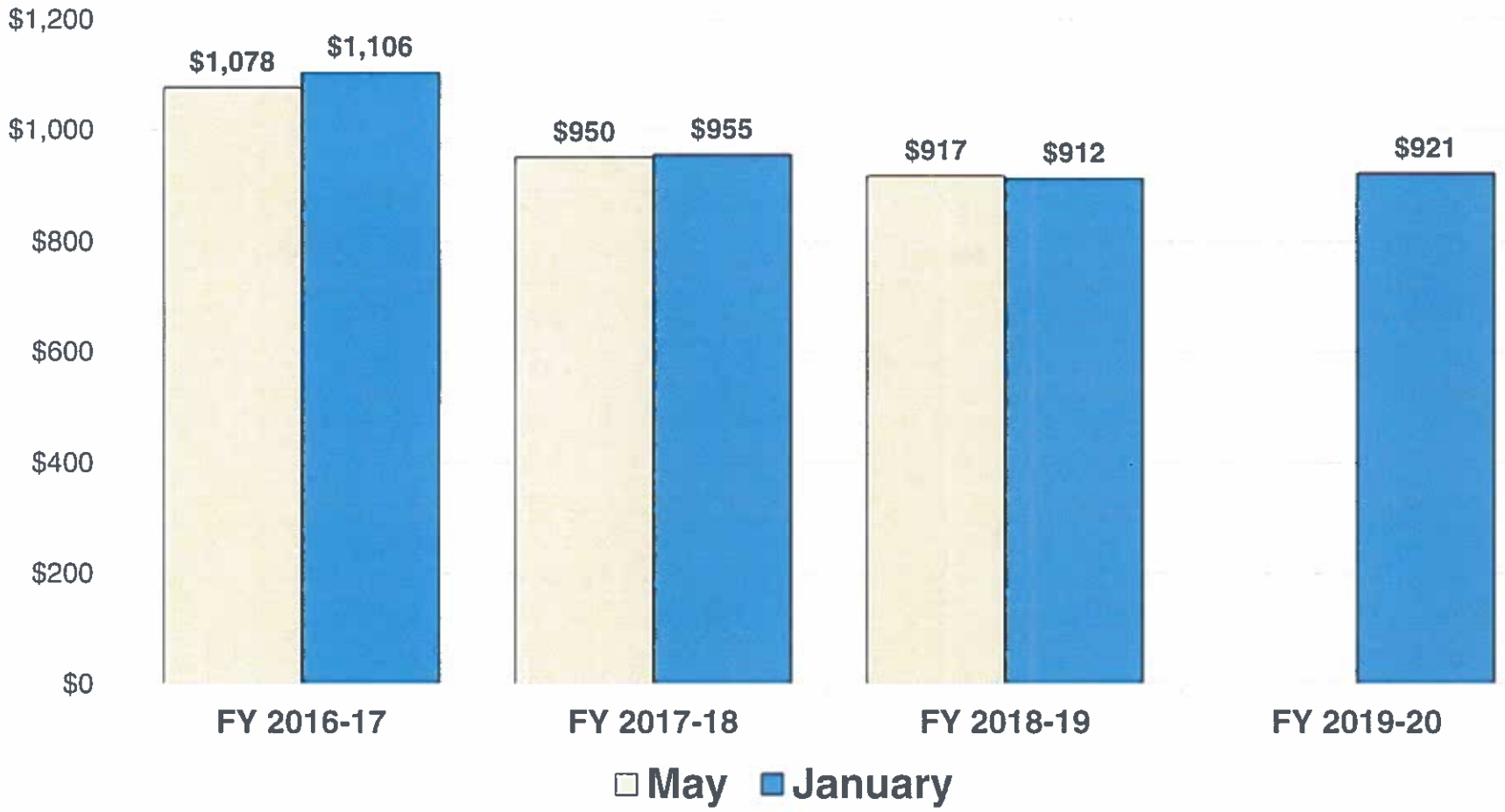
# Michigan Business Tax (MBT)

**(Dollars in Millions)**



# Corporate Income Tax (CIT)

**(Dollars in Millions)**

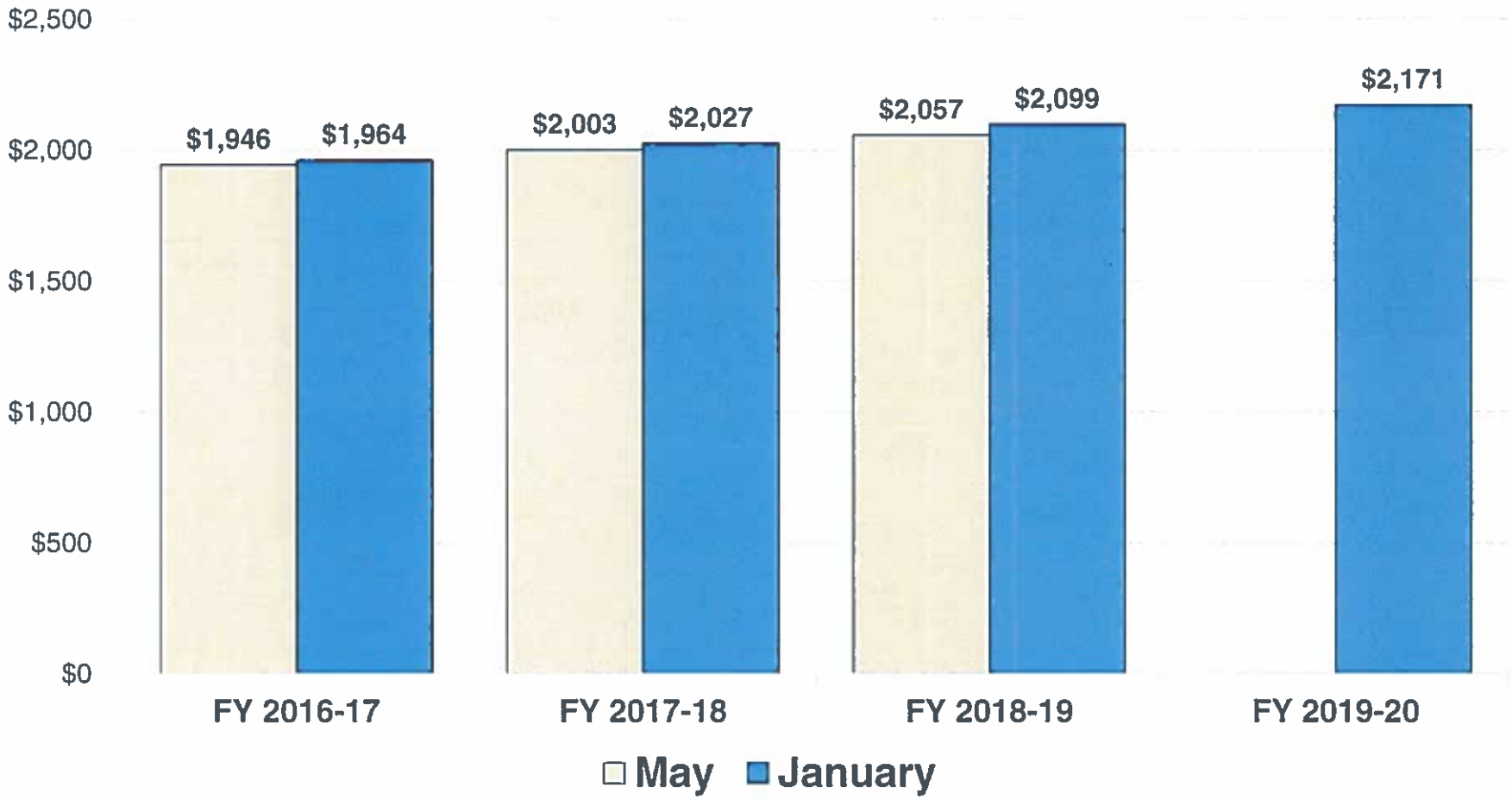


# Net Combined Business Taxes (CIT / MBT)

**(Dollars in Millions)**

# State Education Tax (SET)

**(Dollars in Millions)**

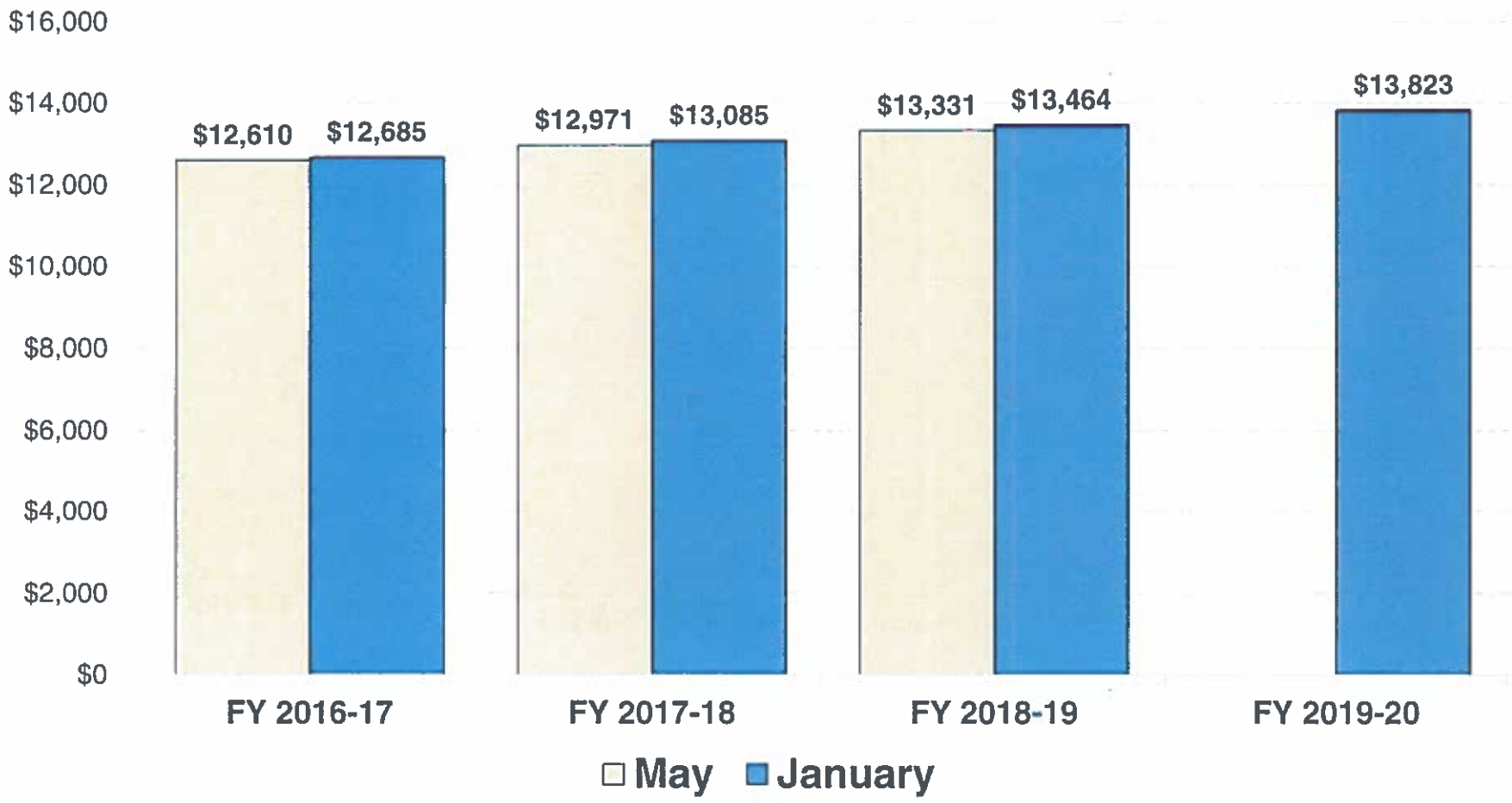


# Total General Fund/General Purpose (GF/GP)

(Dollars in Millions)

# Total School Aid Fund (SAF)

(Dollars in Millions)



# January 2018 Consensus Revenue Estimates

(Dollars in Millions)

| | FY 2016-17 | | | |
|---|---|---|---|---|
| | January 2018 Consensus | Change From FY 2015-16 | | Change from May 2017 Consensus |
| General Fund/General Purpose (GF/GP) | $10,192 | $174 | 1.7% | $81 |
| School Aid Fund (SAF) | 12,685 | 566 | 4.7% | 75 |
| Total Revenue | $22,877 | $740 | 3.3% | $156 |

# January 2018 Consensus Revenue Estimates

(Dollars in Millions)

| | FY 2017-18 | | | |
|---|---|---|---|---|
| | January 2018 Consensus | Change From FY 2016-17 | | Change from May 2017 Consensus |
| General Fund/General Purpose (GF/GP) | $10,308 | $115 | 1.1% | ($101) |
| School Aid Fund (SAF) | 13,085 | 399 | 3.1% | 114 |
| Total Revenue | $23,392 | $515 | 2.3% | $13 |

*Note: Numbers may not add due to rounding.*

# January 2018 Consensus Revenue Estimates

(Dollars in Millions)

| | FY 2018-19 | | | |
|---|---|---|---|---|
| | January 2018 Consensus | Change From FY 2017-18 | | Change from May 2017 Consensus |
| General Fund/General Purpose (GF/GP) | $10,340 | $32 | 0.3% | ($150) |
| School Aid Fund (SAF) | 13,464 | 380 | 2.9% | 134 |
| Total Revenue | $23,804 | $411 | 1.8% | ($16) |

*Note: Numbers may not add due to rounding.*

# January 2018 Consensus Forecast

(Dollars in Millions)

## Constitutional Revenue Limit Calculation

| | FY 2016-17 | FY 2017-18 | FY 2018-19 | FY 2019-20 |
|---|---|---|---|---|
| Personal Income | $424,807 | $439,361 | $452,542 | $472,001 |
| Ratio | 9.49% | 9.49% | 9.49% | 9.49% |
| Revenue Limit | $40,314.2 | $41,695.4 | $42,946.2 | $44,792.9 |
| Revenue Subject to Limit | 31,689.6 | 32,682.8 | 33,581.6 | 34,541.1 |
| Amount Under (Over) Limit | $8,624.6 | $9,012.6 | $9,364.6 | $10,251.8 |

*Notes:*

1. *CY 2015 Personal Income is used for the FY 2016-17 revenue limit calculation, CY 2016 for FY 2017-18, CY 2017 for FY 2018-19 and CY 2018 for FY 2019-20.*
2. *Numbers may not add due to rounding.*

# January 2018 Consensus Forecast

| School Aid Index | FY 2018-19 | FY 2019-20 |
|---|---|---|
| Revenue Adjustment Factor | 1.0278 | 1.0275 |
| Pupil Membership Factor | × 1.0034 | × 1.0024 |
| School Aid Index | 1.0313 | 1.0300 |

## Budget Stabilization Fund (BSF) Calculation

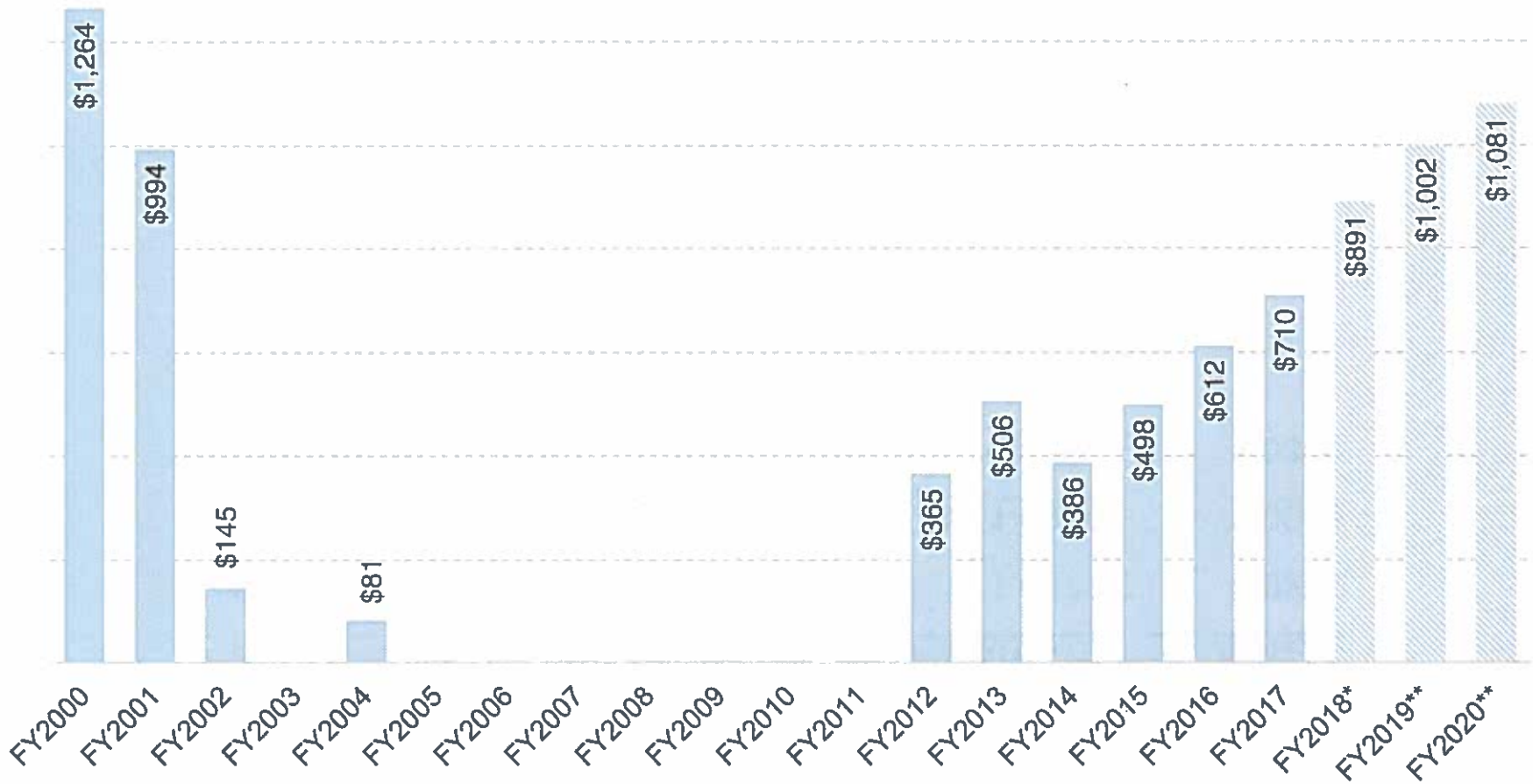
**FY 2017-18: $0 million pay-in ($150.0 million appropriated)**

**FY 2018-19: $72 million pay-in**

**FY 2019-20: $31 million pay-in**

# Budget Stabilization Fund Balance

**(Dollars in Millions)**




* *HFA estimate, including appropriated pay-in.*

** *HFA estimates, including calculated pay-ins from January 2018 CREC.*

# Balance Sheets

# General Fund Balance Sheet

(Dollars in Millions)

| | FY 2016-17 YTD | FY 2017-18 YTD | FY 2018-19 HFA Baseline |
|---|---|---|---|
| Projected Beginning Balance / (Shortfall) | $604 | $623 | $416 |
| **ESTIMATED REVENUE** | | | |
| Consensus Revenue Estimates: January 2018 | $10,192 | $10,308 | $10,340 |
| Use Tax on Medicaid MCOs (Discontinued 1/1/17) | 116 | 0 | 0 |
| Miscellaneous Revenue | 40 | (6) | (5) |
| Revenue Sharing: Ongoing and One-Time | (471) | (472) | (472) |
| **TOTAL REVENUE** | $9,877 | $9,830 | $9,863 |
| **ESTIMATED EXPENDITURES** | | | |
| Appropriations: Ongoing | $9,669 | $9,751 | $9,751 |
| Appropriations: One-Time | 306 | 291 | 0 |
| Deposit to Budget Stabilization Fund | 75 | 150 | 0* |
| Supplemental Appropriations to Date | 82 | 40 | 25 |
| Lapses | (273) | (195) | (105) |
| Economics/Medicaid | 0 | 0 | 223 |
| **TOTAL EXPENDITURES** | $9,859 | $10,037 | $9,894 |
| **PROJECTED ENDING BALANCE / (SHORTFALL)** | $623 | $416 | $385 |

** Budget Stabilization Fund calculation $72 million pay-in - January 2018 CREC.*

*Note: Numbers may not add due to rounding.*

# Major General Fund Budget Pressures

- **Traditional Medicaid Program**
  - Traditional Medicaid caseload, utilization, and inflation costs, on average 2.0% annually, requiring about **$100 million** GF/GP per year.
  - Michigan's federal match rate has begun to decline due to relative growth in personal income, resulting in additional GF/GP costs of about **$40 million** per year.
  - FY 2017-18 budget relies on $**60 million** in restricted revenue fund balances, which will have to be offset primarily with GF/GP in future fiscal years.
- **Healthy Michigan Plan**
  - Originally 100% federally funded; five percent match cost began January 1, 2017, phasing up to ten percent match costs beginning January 1, 2020.
  - Changes to State match will require additional GF/GP funds of roughly **$140 million**.
  - Discontinuing expansion and shifting mental, prison health care, and other costs back to state would cost **$250-$300 million** per year.

# Major General Fund Budget Pressures

- **Transportation** - Road funding package enacted in 2015:
  - 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. (Assumed in January 2018 CREC estimate.)
  - Diverts income tax revenue currently allocated as GF/GP funds to transportation purposes beginning in FY 2018-19:
    - FY 2018-19: **$150 million** (Assumed in January 2018 CREC estimate.)
    - FY 2019-20: **$325 million**
    - FY 2020-21: **$600 million**

# Major General Fund Budget Pressures

- **Personal Property Tax Reform**
  - All state losses/costs directed to General Fund.
  - Total projected costs grow as follows as larger personal property exemptions become effective:
    - **$381 million** in FY 2016-17
    - **$411 million** in FY 2017-18
    - **$438 million** in FY 2018-19
    - **$466 million** in FY 2019-20
- **GF/GP Budget**
  - Higher Education: Additional increases tied to performance metrics and tuition restraint?
  - Revenue Sharing: Additional increases for cities / villages / townships?
  - Indigent Defense Commission: Grant funding to counties?

# School Aid Balance Sheet

(Dollars in Millions)

| | FY 2016-17 YTD | FY 2017-18 YTD | FY 2018-19 HFA Baseline |
|---|---|---|---|
| Projected Beginning Balance / (Shortfall) | $168 | $377 | $231 |
| **ESTIMATED REVENUE** | | | |
| Consensus Revenue Estimates: January 2018 | $12,685 | $13,085 | $13,464 |
| Use Tax on Medicaid MCOs (Discontinued 1/1/17) | 61 | 0 | 0 |
| General Fund/General Purpose (GF/GP) | 179 | 215 | 145 |
| Detroit Public Schools Trust Fund | 72 | 72 | 72 |
| MPSERS Retirement Obligation Reform Reserve Fund | 0 | 23 | 32 |
| Federal Funds | 1,618 | 1,727 | 1,727 |
| TOTAL REVENUE | $14,615 | $15,122 | $15,440 |
| **ESTIMATED EXPENDITURES** | | | |
| Ongoing Baseline | $14,021 | $14,577 | $14,452 |
| Federal Expenditure Adjustment | (113) | 0 | 0 |
| SAF Deposit Into MPSER Reserve | 0 | 55 | 0 |
| Higher Ed/Community Colleges | 498 | 637 | 655 |
| TOTAL EXPENDITURES | $14,405 | $15,268 | $15,107 |
| PROJECTED ENDING BALANCE / (SHORTFALL) | $377 | $231 | $564 |

*Note: Numbers may not add due to rounding.*

# Major School Aid Budget Issues

- **Foundation Allowance**
  - A 2% inflationary increase on the minimum foundation allowance would equal $150 per pupil and would cost **$194 million** through the 2x formula (increases ranging from $75-$150).
- **MPSERS Increases**
  - **$150 million** in MPSERS cost increases have already been built into the FY 2018-19 baseline cost.
  - MPSERS costs will continue to grow in FY 2019-20 by an estimated **$40 million**.
  - MPSERS costs are likely to grow more significantly in FY 2020-21 when the 2018 actuarial experience study first applies to contribution requirements. The study, which will be conducted later this year will likely revise assumptions like mortality and payroll growth which could lead to significantly increased costs.

# Summary

- **Projected FY 2017-18 ending balance**
  - **$416 million** General Fund balance
  - **$231 million** School Aid Fund balance
- **Projected FY 2018-19 resources above/below baseline budget**
  - **$385 million** General Fund balance (mostly one-time)
  - **$564 million** School Aid Fund balance (prior to any discretionary spending)

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