Consensus Revenue Estimating Conference Overview

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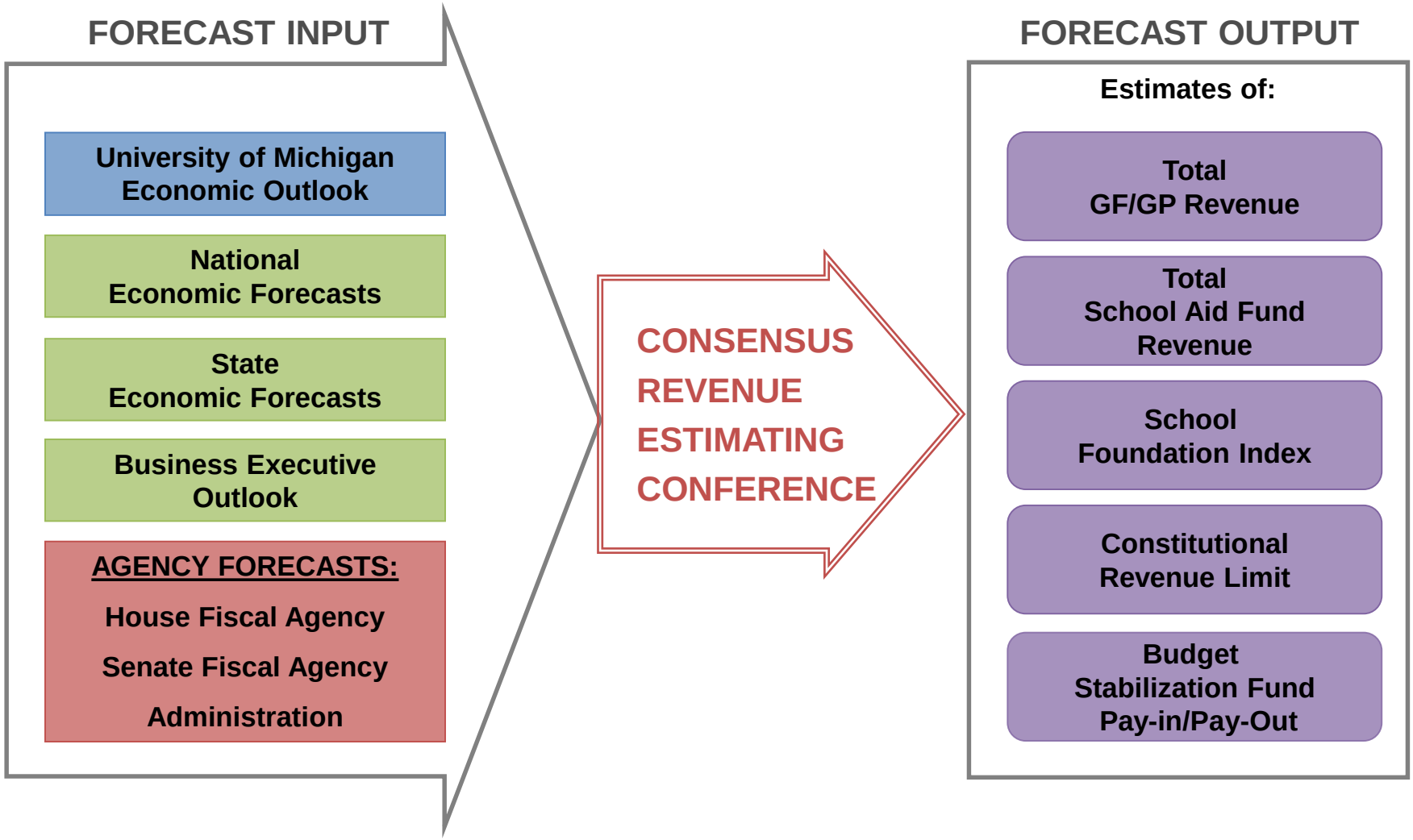
House Fiscal Agency

House Appropriations Committee
January 28, 2015

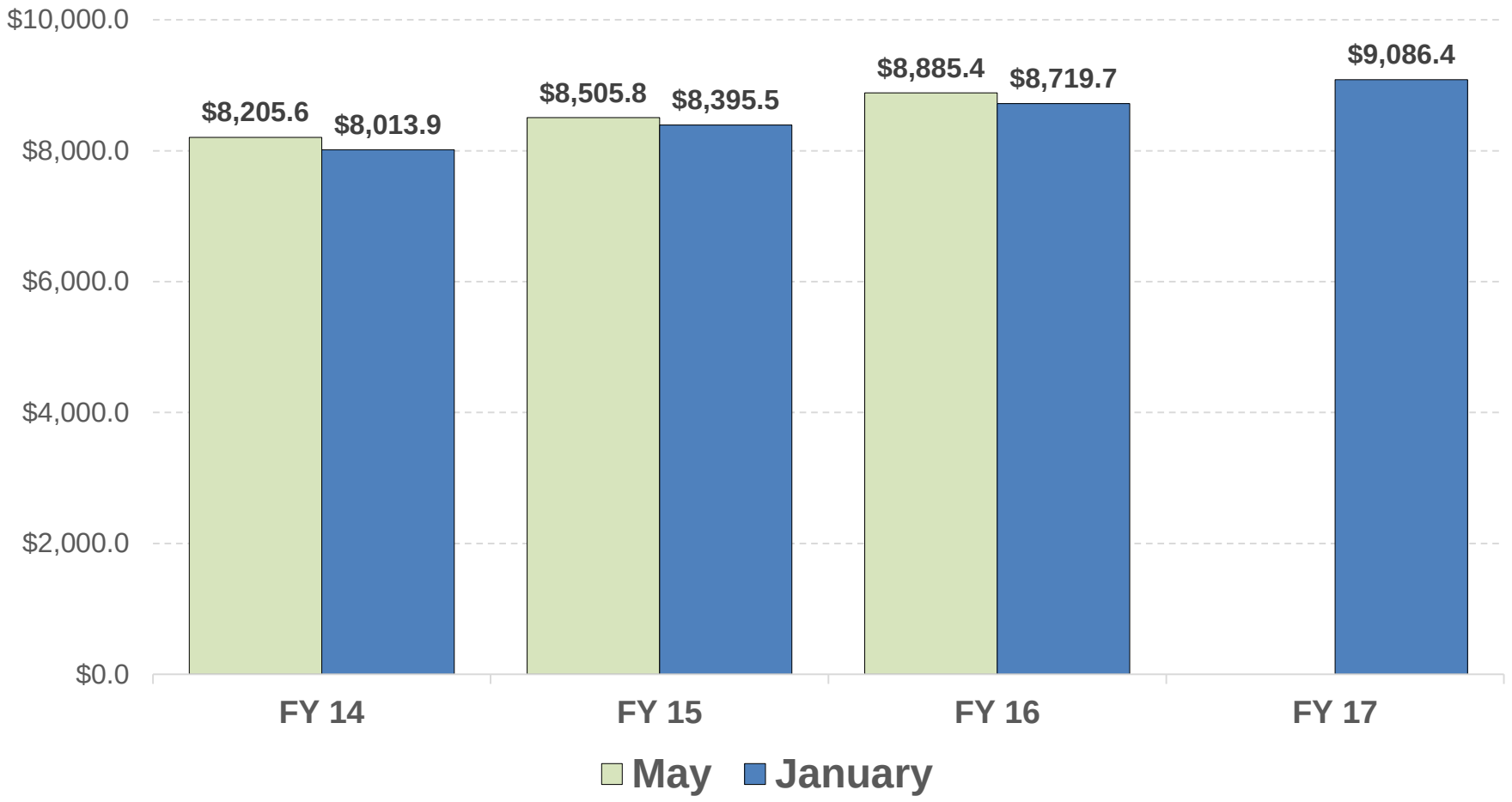
Consensus Revenue Estimating Conference



Revenue Estimates

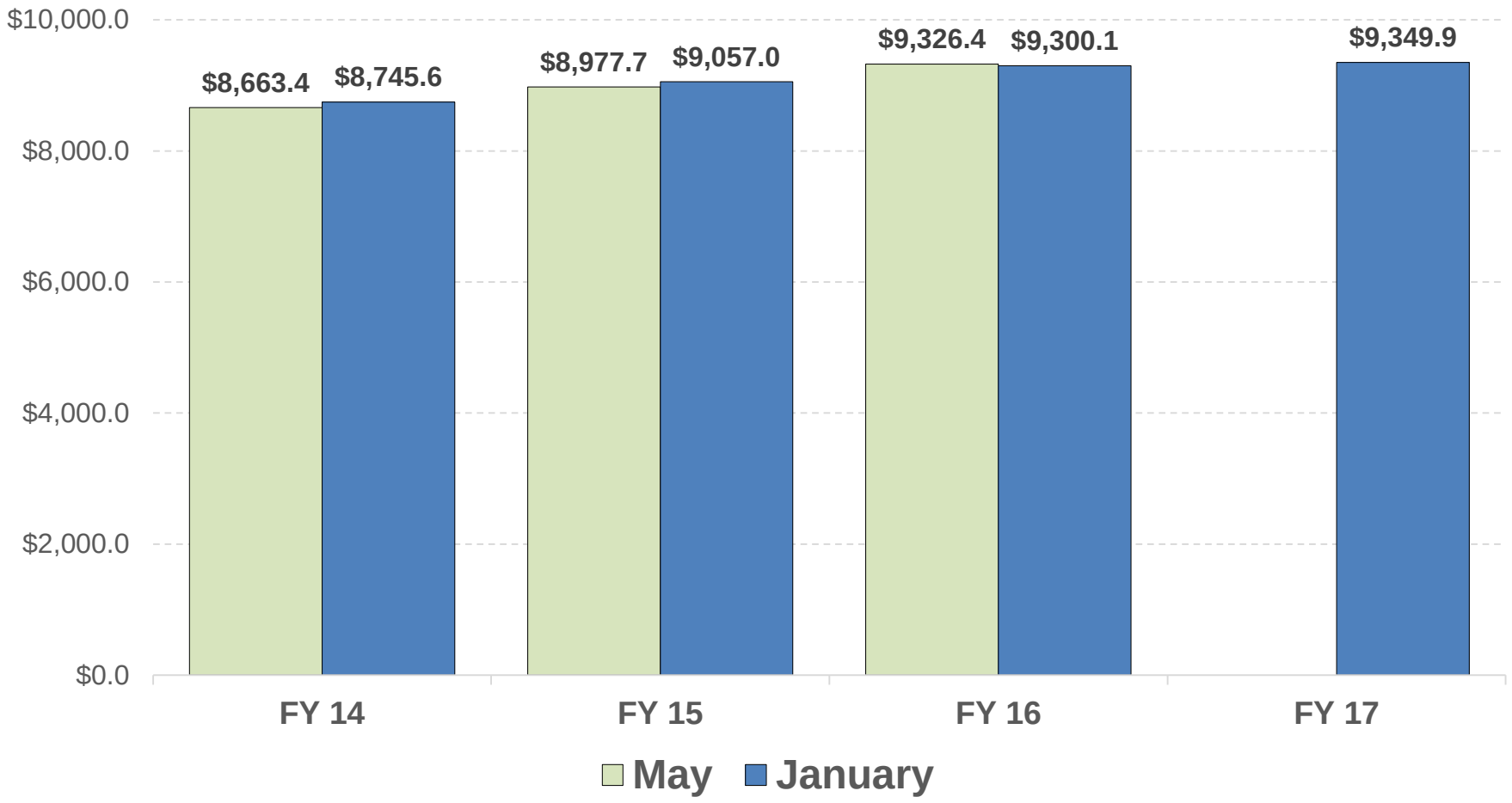
Net Individual Income Tax

(Dollars in Millions)



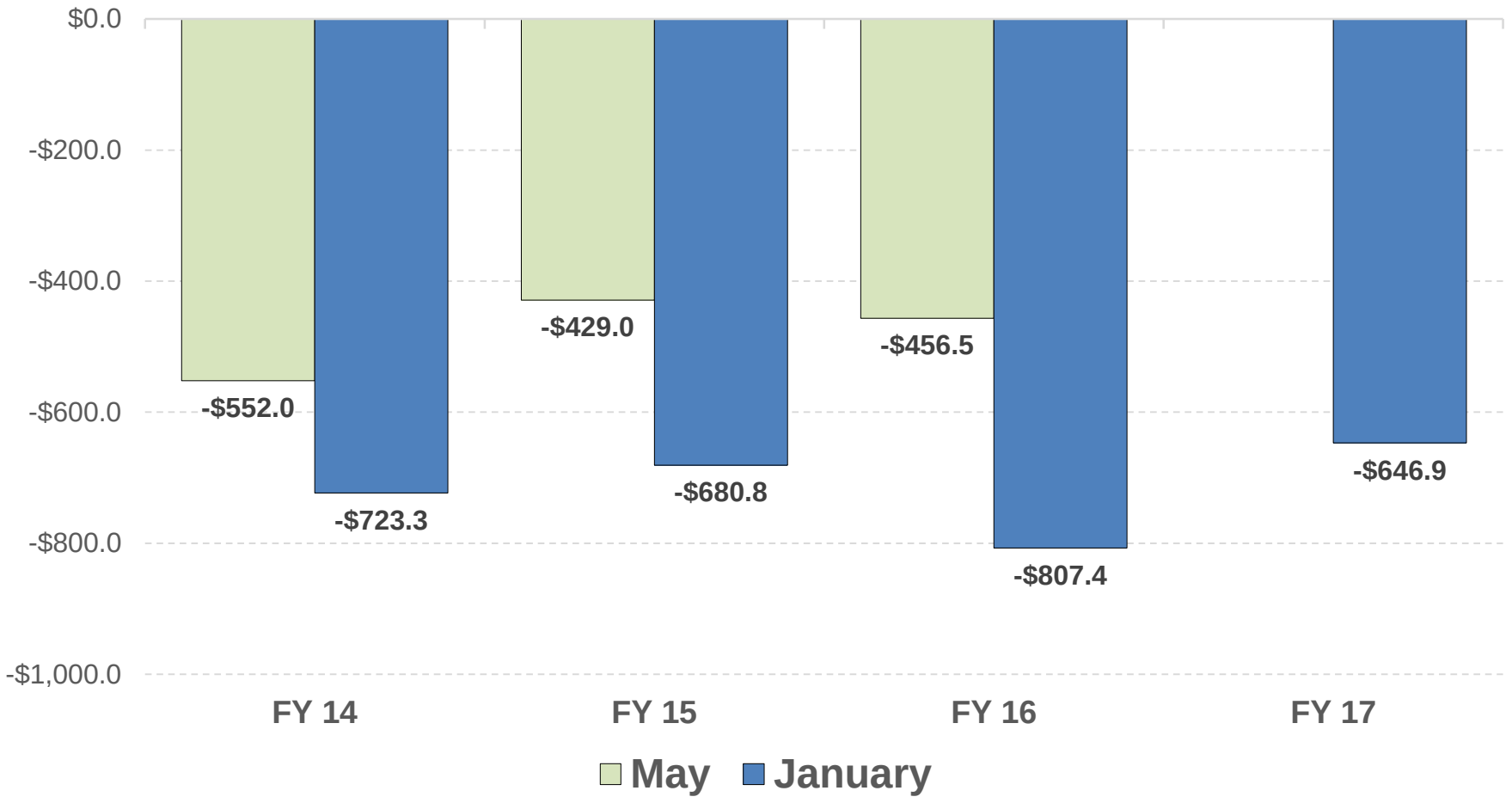
Sales and Use Tax

(Dollars in Millions)



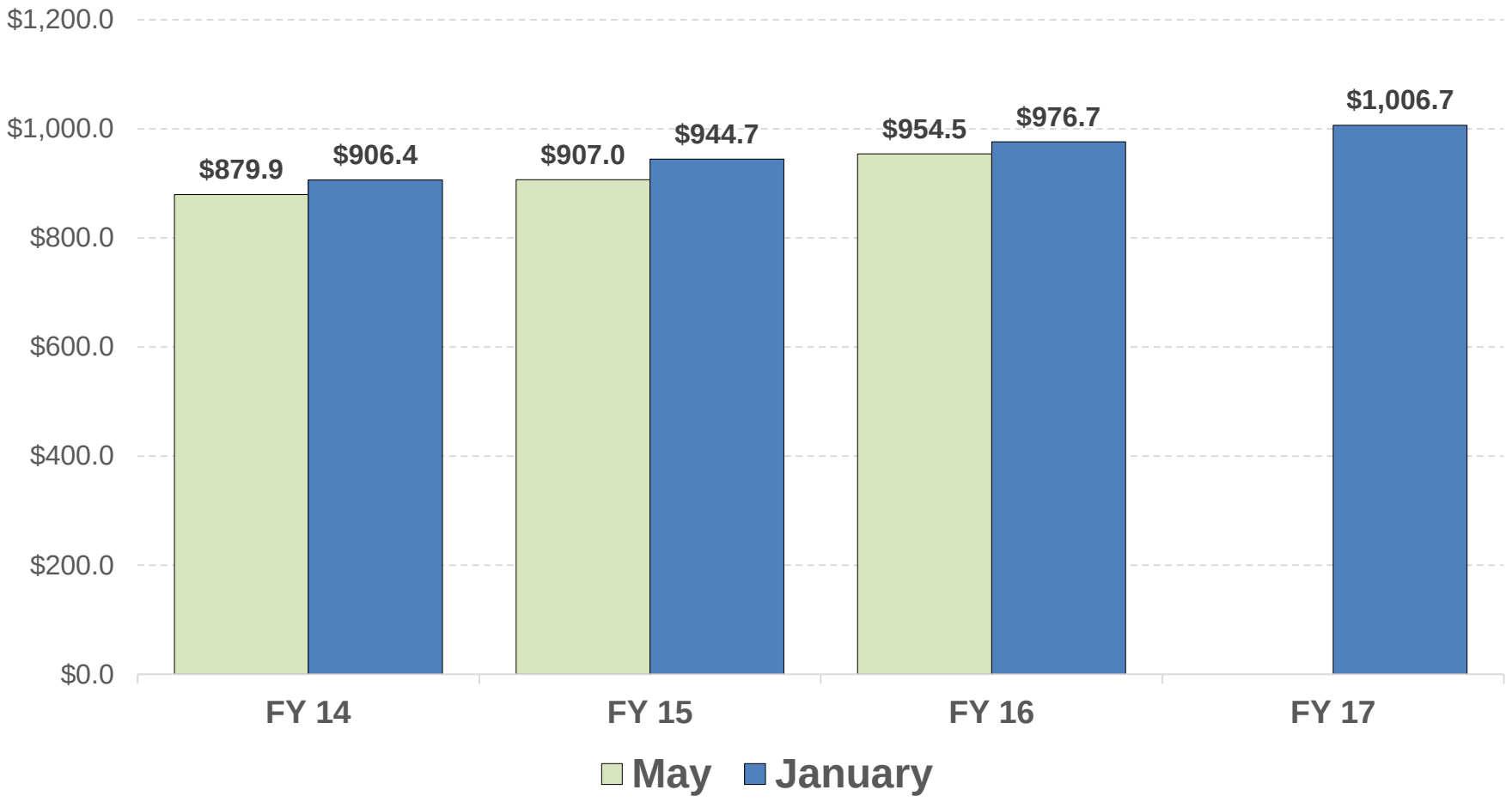
Michigan Business Tax (MBT)

(Dollars in Millions)



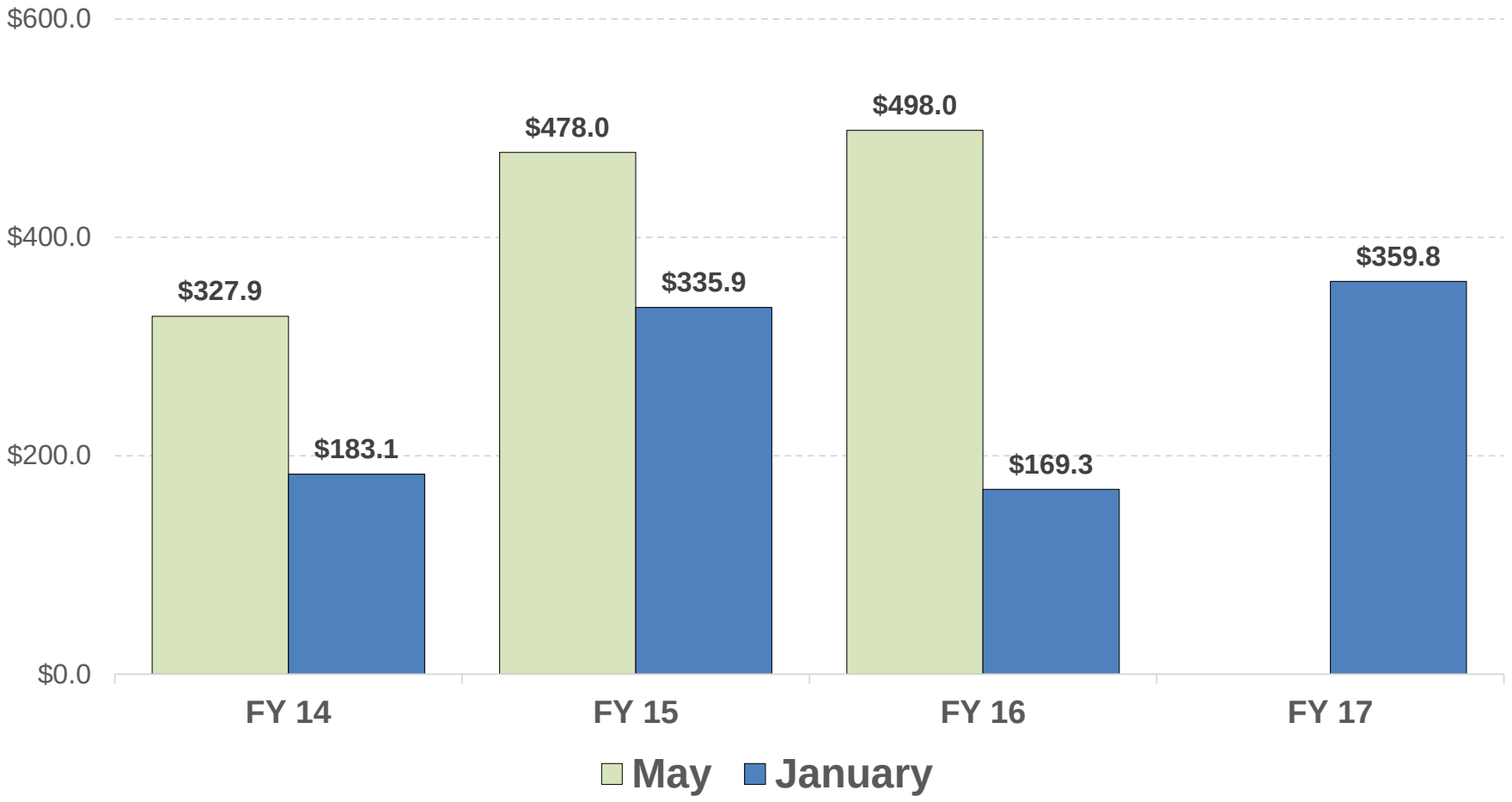
Corporate Income Tax (CIT)

(Dollars in Millions)



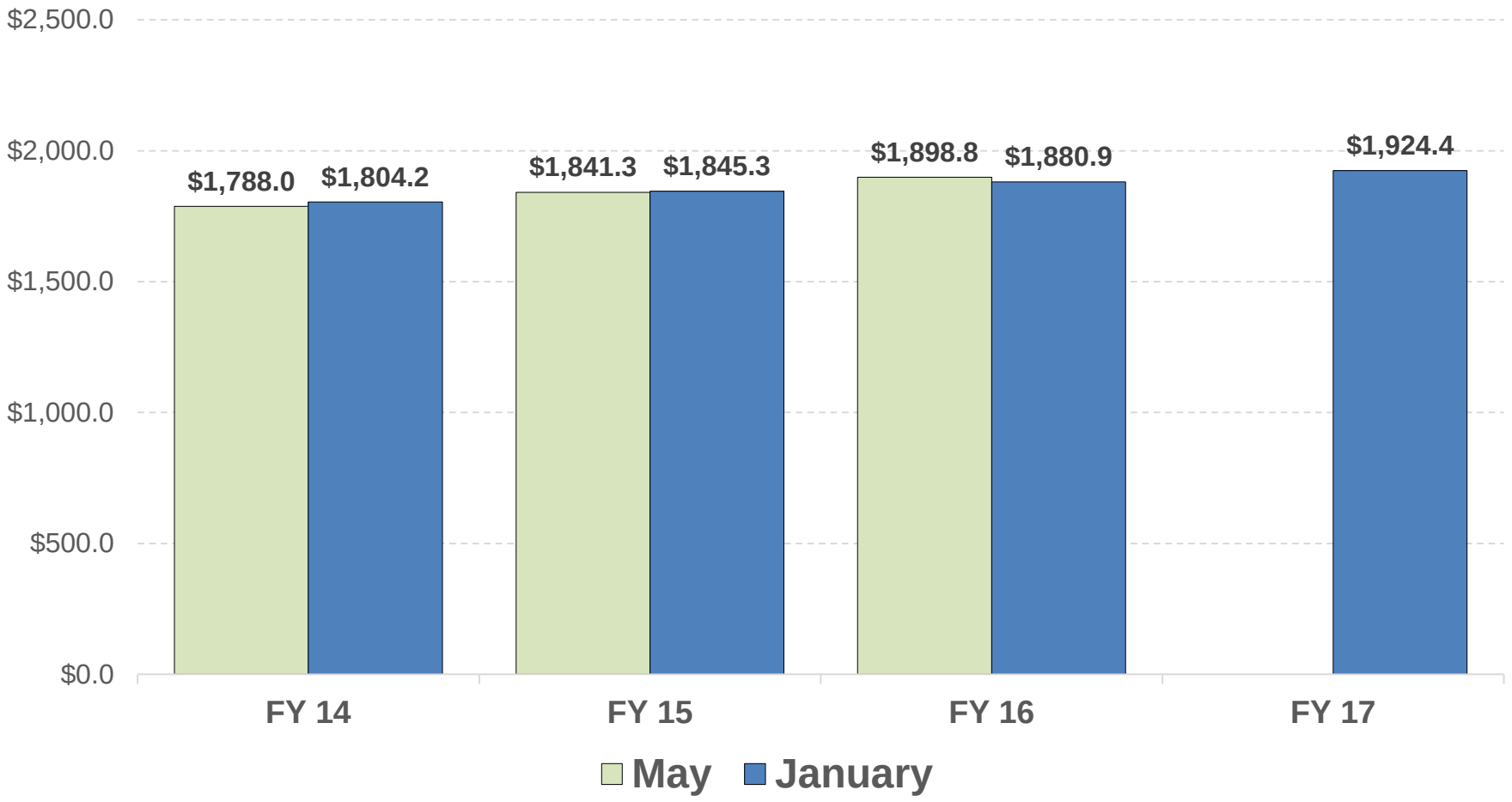
Net Combined Business Taxes (CIT / MBT)

(Dollars in Millions)



State Education Tax (SET)

(Dollars in Millions)



January 2015 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2013-14			
	January 2015 Consensus	Change From FY 2012-13		Change from May 2014 Consensus
General Fund/General Purpose (GF/GP)	$9,018.5	($544.0)	(5.7%)	($300.8)
School Aid Fund (SAF)	$11,520.5	$250.8	2.2%	$24.2
Total Revenue	$20,538.9	($293.2)	(1.4%)	($276.6)

January 2015 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2014-15			
	January 2015 Consensus	Change From FY 2013-14		Change from May 2014 Consensus
General Fund/General Purpose (GF/GP)	$9,501.4	$482.9	5.4%	($324.6)
School Aid Fund (SAF)	$11,889.1	$368.6	3.2%	$35.8
Total Revenue	$21,390.5	$851.6	4.2%	($288.8)

January 2015 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2015-16			
	January 2015 Consensus	Change From FY 2014-15		Change from May 2014 Consensus
General Fund/General Purpose (GF/GP)	$9,713.2	$211.8	2.2%	($532.1)
School Aid Fund (SAF)	$12,263.7	$374.6	3.2%	$5.6
Total Revenue	$21,976.9	$586.4	2.7%	($526.4)

January 2015 Consensus Forecast

(Dollars in Millions)

Constitutional Revenue Limit Calculation

	FY 2014	FY 2015	FY 2016	FY 2017
Personal Income	$378,443	$386,471	$402,703	$420,019
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$35,914	$36,676	$38,217	$39,860
Revenue Subject to Limit	$27,190	$28,168	$28,861	$29,627
Amount Under (Over) Limit	$8,724	$8,508	$9,356	$10,233

Note: Pursuant to constitutional provisions, calculation is based on personal income for the prior calendar year (CY 2012 for FY 2013-14).

January 2015 Consensus Forecast

Budget Stabilization Fund (BSF) Calculation

FY 2014-15: $81.2 million pay-in ($94.0 million appropriated)

FY 2015-16: $95.0 million pay-in

FY 2016-17: $68.0 million pay-in

School Aid Index	FY 2016	FY 2017
Revenue Adjustment Factor	1.0328	1.0317
Pupil Membership Factor	× 1.0087	× 1.0095
School Aid Index	1.0418	1.0415

Balance Sheets

General Fund Balance Sheet

(Dollars in Millions)

	FY 2014	FY 2015	Baseline FY 2016
Beginning Balance	$1,186.6	$306.4	($454.1)
REVENUE			
General Fund/General Purpose (GF/GP)	$9,018.5	$9,501.4	$9,713.2
Venture Michigan Fund	0.0	(38.1)	(38.1)
Use Tax on Medicaid MCO's (GF Portion)	164.6	373.7	377.7
Other Adjustments	(44.6)	3.0	14.0
EVIP / Revenue Sharing	(396.6)	(468.0)	(459.2)
TOTAL REVENUE	$8,741.9	$9,372.0	$9,607.6
EXPENDITURES			
Ongoing Baseline	$9,036.7	$9,599.3	$9,599.3
One-Time Funding	319.5	201.7	0.0
Transportation	451.6	284.7	0.0
Budget Stabilization Fund (BSF)	75.0	94.0	95.0
Lapses / Adjustments	(260.7)	0.0	0.0
Other Caseload / Baseline Adjustments	0.0	(47.2)	131.2
TOTAL EXPENDITURES	$9,622.1	$10,132.5	$9,825.5
Change in Current Year Balance	($880.2)	($760.5)	($217.9)
ESTIMATED ENDING BALANCE / (SHORTFALL)	$306.4	($454.1)	($672.0)

School Aid Balance Sheet

(Dollars in Millions)

	FY 2014	FY 2015	Baseline FY 2016
Beginning Balance	$511.3	$473.1	$283.8
REVENUE			
School Aid Fund (SAF) Revenue	$11,520.5	$11,889.1	$12,263.7
Use Tax on Medicaid MCO's (SAF Portion)	86.8	186.8	188.9
Venture Michigan Fund	0.0	(11.9)	(11.9)
General Fund/General Purpose (GF/GP)	149.9	114.9	125.9
Federal Funds	1,816.2	1,808.2	1,808.2
Other Adjustments	13.8	0.0	44.0
TOTAL REVENUE	$13,587.2	$13,987.1	$14,418.8
EXPENDITURES			
Ongoing Baseline	$13,021.4	$13,394.1	$13,572.7
Expenditures Funded with One-Time Revenue	205.9	380.2	232.6
Postsecondary Expenditures	398.1	402.1	402.1
TOTAL EXPENDITURES	$13,625.4	$14,176.4	$14,207.4
Change in Current Year Balance	($38.2)	($189.3)	$211.4
ESTIMATED ENDING BALANCE / (SHORTFALL)	$473.1	$283.8	$495.2

FY 2016 Budget Pressures

- **GF/GP**
  - Personal Property Tax (PPT) reform estimated cost to GF/GP of $126 million for FY 2016 (increasing to $350 million in FY 2017).
  - Venture Michigan Fund: Program enacted into law 2003; venture funds launched in 2006 and 2011 using tax vouchers as collateral. Expected to be claimed starting this year. Estimated costs of $50 million/year in FY 2015 and FY 2016 and $40 million in FY 2017.
  - Reverse one-time RRR fund shift of $61 million for Medicaid. (FY 2017: Healthy Michigan Plan 5% match, discontinue Use Tax on Medicaid MCO's.)
  - Baseline does not include any increases for Higher Education/Community Colleges/Revenue Sharing. Assumes one-time funding for Transportation/MSF/Revenue Sharing is discontinued.
  - Baseline does include calculated Budget Stabilization Fund deposit of $95 million for FY 2016.
- **School Aid**
  - Michigan Public School Employees Retirement System (MPSERS) unfunded liability costs to pay for increasing state share: $218 million increase for FY 2016.
  - Baseline does not include foundation or other program increases.

Summary

- **Projected FY 2015 ending balance**
  - $454 million General Fund shortfall
  - $284 million School Aid Fund balance
- **Projected FY 2016 resources above/below baseline budget**
  - $218 million General Fund shortfall
  - $211 million School Aid Fund balance
- **Additional Resources**
  - Online sales tax (PA 553/554 of 2014) – FY 2016 revenue increase of $54 million (included in projected balances)
  - Transportation funding package (HJR UU): May 5 ballot proposal
    - $1.2 billion Transportation; $300 million School Aid Fund (SAF); $130 million Comprehensive Transportation Fund (CTF); and $95 million Constitutional Revenue Sharing

HOUSE FISCAL AGENCY

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Appendix

- Michigan Business Tax (MBT)

Michigan Business Tax and Certificated Credits

- The MBT was repealed in 2012 for most business taxpayers and replaced with the CIT.
- Taxpayers awarded certificated credits before 2012 may still pay the MBT and claim their credits.
- In FY 2014, MBT revenue totaled a negative $723 million (refunds/credits exceeded payments).
- MBT revenue was $171 million below the May estimate because certificated credits were much larger than expected.

What are Certificated Credits?

- Certificated credits were awarded to specific businesses who must then meet certain employment and/or investment increases in order to actually claim the credits.
- Certificated credits are refundable and include Michigan Economic Growth Authority (MEGA), battery and others.
- Most are multi-year credits: Existing MEGA credits will last past 2030.
- Michigan Economic Development Corporation (MEDC) awarded credits through 2011; in addition, some existing credits have been amended since 2011.

Timing of Certificated Credits is Uncertain

- Certificated credits are awarded and claimed for particular tax years.
- Credits are claimed by businesses and certified by MEDC after the tax year is over.
- MEDC audits all claims for credits to make sure credit requirements are met.
- If credit requirements are met, MEDC grants the credit and issues a certificate.

Timing of Certificated Credits
(Continued)

- To receive a credit payment, a business must claim the credit on their MBT tax return, attach the certificate and file it with Treasury.

- Very difficult to predict:

  - If and when businesses will claim a credit with MEDC.

  - The amount of time MEDC needs to audit a credit claim.

  - In which fiscal year a business will file a tax return and credit certificate with Treasury (example: 2013 returns filed in FY 2014 or FY 2015).

Projected MBT Credits

- The cost of current MEGA credits is expected to increase over the next few years due to:
  - Employment gains and increased investment activity that will boost credits for TY 2015 and beyond.
  - Some large outstanding credits from prior years are expected to be claimed and paid.
- Remaining battery credits will be paid off in FY 2015 – FY 2018.

Projected MBT Credits
(Continued)

- In FY 2015, MBT net refunds are expected to total $681 million, $252 million larger than the May 2014 estimate.

- In FY 2016, MBT net refunds will total an estimated $807 million, $351 million larger than in May 2014.