State Notes

TOPICS OF LEGISLATIVE INTEREST

Spring 2017

General Fund/General Purpose Revenue Growth
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Michigan's General Fund/General Purpose (GF/GP) revenue growth will be constrained over the next few years due to legislation enacted to address the issues of personal property tax[1] (PPT) reform and road funding. The personal property tax reforms of 2014 converted a share of the GF/GP revenue derived from the State use tax to a local tax that reimburses local governments for lost property tax revenue. General Fund impacts of the transportation package enacted in 2015 consist of the allocation of future individual income tax revenue from the General Fund to the Michigan Transportation Fund (MTF) and expansion of the homestead property tax credit. By making assumptions about revenue growth and using the statutory allocations for roads and PPT, it is estimated that by fiscal year (FY) 2020-21, the foregone GF/GP revenue from PPT reform and the road package will exceed $1.2 billion. This projected revenue loss will reduce General Fund revenue by approximately 9.8%. When the impact of the Michigan Business Tax (MBT) credits issued under the Michigan Economic Growth Authority (MEGA) and other MBT certificated credits[2] and other adjustments are added to the analysis, the share of General Fund revenue foregone peaks in FY 2020-21 at 15.2% of baseline revenue. In addition, a number of other tax policy changes have affected GF/GP revenue. This article reviews the impact on GF/GP revenue of tax policy changes since 2012 and the ongoing costs of certificated credits. Assuming stable economic conditions and tax policy (i.e., no significant tax changes) going forward, GF/GP revenue will increase each year through FY 2022-23; however, revenue growth will remain modest by historical standards and the increases in some years are projected to remain below the level needed to keep up with projected inflation.

General Fund/General Purpose Revenue Background

Final GF/GP revenue for FY 2015-16 was $10.0 billion. For FY 2016-17, GF/GP revenue is estimated at $10.3 billion, an increase of 2.7% or $274.8 million from FY 2015-16. The history of GF/GP revenue is shown in Figure 1 and GF/GP revenue compared to inflation is shown in Figure 2. General Fund revenue throughout the consensus estimate forecast period (FY 2016-17 through FY 2018-19) is projected to remain below the peak level of nearly $10.7 billion in FY 1999-2000 and future increases will be below the amounts necessary to cover inflationary cost increases.

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[1] Personal property consists of goods and effects that are distinct from real property, which consists of land and buildings. In Michigan, residential personal property is exempt from property taxation, but property tax applies to agricultural, commercial, industrial, and utility personal property that is not specifically exempted by law.

[2] For more information on MBT tax credits, see "A Primer on Certificated Credits under the Michigan Business Tax", Senate Fiscal Agency, *State Notes*, Winter 2015.

Figure 1

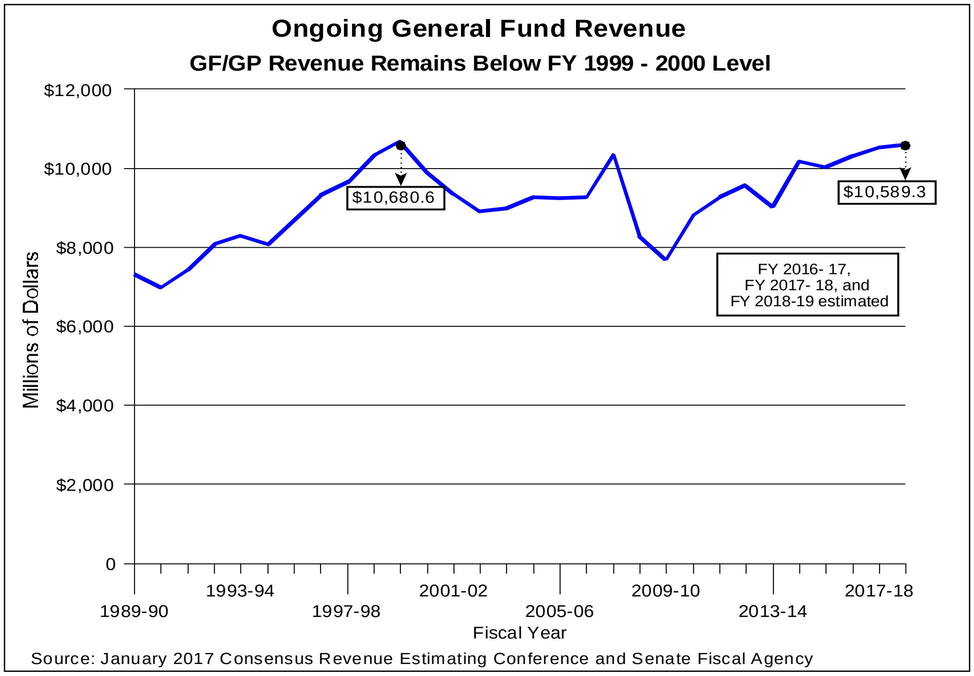
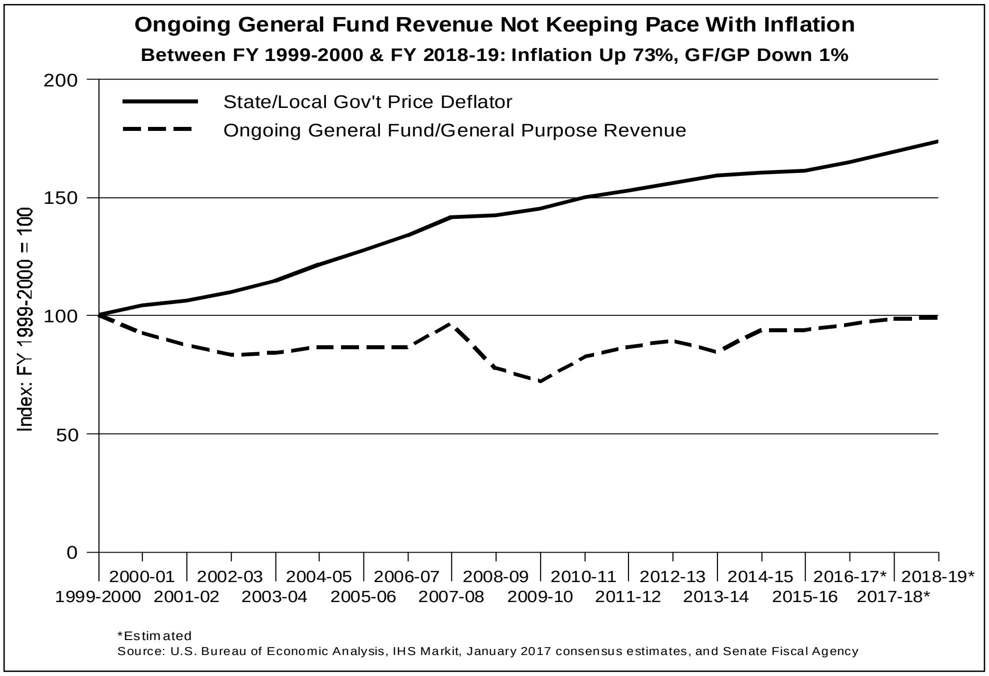
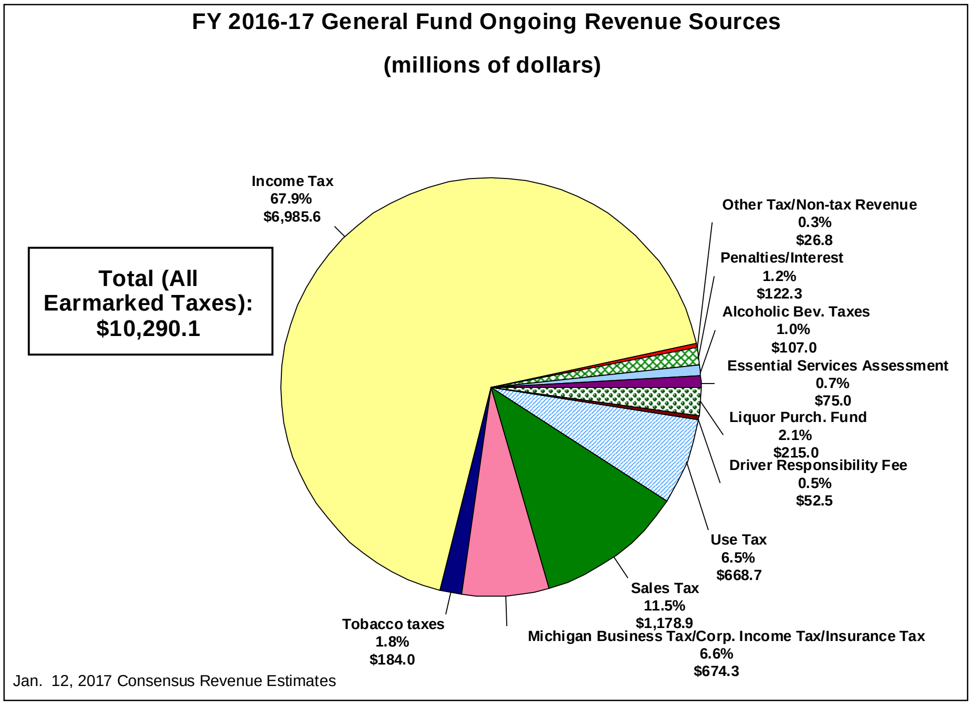


Figure 2



General Fund revenue comes from several major tax sources. The individual income tax provides 67.9% of GF/GP revenue. The sales and use taxes contribute 18.0% of GF/GP revenue and net business taxes (MBT, Corporate Income Tax, and insurance tax) contribute 6.6%. Smaller revenue sources include tobacco tax, beer and wine taxes, and nontax sources such as the transfer of the unused balance in the liquor purchase revolving fund to the General Fund at year end. Figure 3 shows the sources of revenue to the General Fund. Ongoing revenue does not include one-time revenue, such as ending balances carried over from the prior fiscal year or transfers from the Budget Stabilization Fund.[3]

Figure 3



General Fund/General Purpose revenue is the most "flexible" money available for appropriation by the Legislature; however, only about one-half of GF/GP spending is truly discretionary. Major GF/GP costs are driven by caseloads (such as Department of Corrections and Medicaid spending) and debt service obligations, which are difficult to change in the short run. A portion of each State budget is funded by GF/GP revenue. The share of each State department budget that is funded by GF/GP revenue is shown in Appendix A.

General Fund Impact of Personal Property Tax Reform

The personal property reform package enacted in 2014 (Public Acts 80, 81, and 86 to 93 of 2014 and Proposal 14-1 approved by the voters on August 5, 2014) amended previous personal property tax legislation to establish an exemption from property taxation for certain small businesses and eligible manufacturing personal property that phases-in from 2014 to 2023. The 2014 legislation included a mechanism to reimburse local governments for revenue losses related to the expanded

[3] The Budget Stabilization Fund is the State's "Rainy Day Fund".

personal property tax exemptions. A fixed dollar amount of use tax revenue each year through FY 2027-28 was designated as local revenue levied by the Local Community Stabilization Authority (LCSA), a statewide authority created in the PPT package for the purpose of reimbursing local governments. The amount of the LCSA levy is set at $380.9 million in FY 2016-17 and increases annually to $572.6 million in FY 2027-28. Beginning in FY 2028-29, the amount of the LCSA use tax revenue will increase by 1.0% per year. Taxpayers continue to pay use tax at a rate of 6%, of which 2% is deposited in the School Aid Fund and the remaining 4%, formerly a GF/GP revenue source, is now split between the General Fund and the LCSA, with the LCSA amount increasing annually and the General Fund decreasing by that amount. The General Fund also is required to reimburse the School Aid Fund (SAF) for revenue losses due to reduced collections from the State Education Tax and higher State costs for the foundation allowance, resulting from PPT reform. The General Fund impact of the LCSA use tax levy is shown in Table 1.

To offset a portion of the State cost of PPT reform, the 2014 legislation created a new specific tax, the Essential Services Assessment (ESA). The ESA applies to personal property eligible for certain exemptions from property taxation. The base of the ESA is the acquisition cost of the personal property. The rate of the ESA declines with the age of the personal property: from 2.4 mills for property from one to five years after acquisition, to 1.45 mills for six to 10 years after acquisition, and then to 0.9 mill for property acquired by the first owner more than 10 years before the assessment year. The ESA is levied on most personal property that was exempted from property taxation by the PPT reform. However, the ESA is subject to abatement by the Michigan Strategic Fund, which can authorize a company to pay the Alternative Essential Services Assessment at half of the rate of the ESA. The projected revenue from the ESA already has been reduced $2.7 million in FY 2017-18 and $3.9 million in FY 2018-19 by tax exemptions awarded by the Michigan Strategic Fund. The estimated net revenue from the ESA is shown in Table 1. It increases annually as a result of projected growth in taxable value and also the phase-in of the property tax exemption for eligible manufacturing personal property. Growth in ESA revenue is reduced by the exemptions awarded under the Alternative Essential Services Assessment.

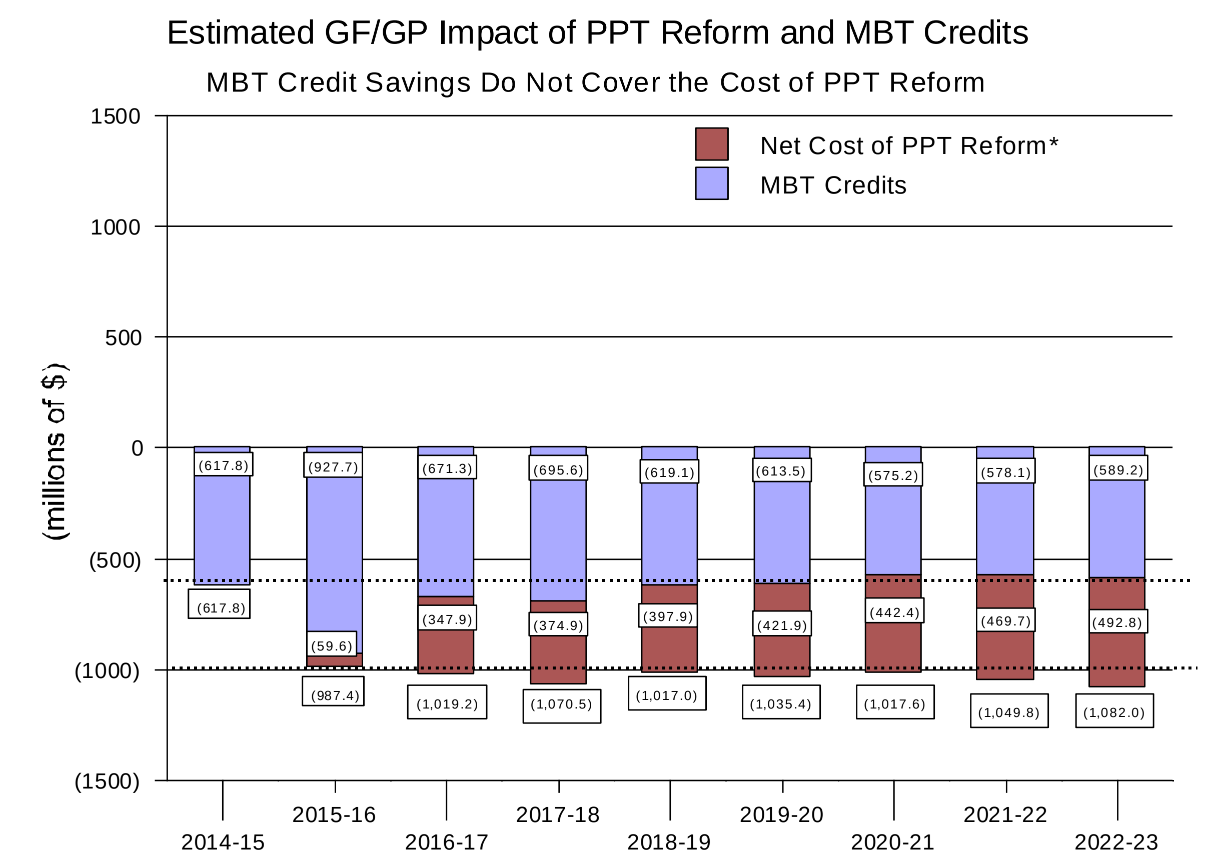
Table 1
Estimated General Fund Impact of Personal Property Tax Reform
FY 2015-16 to FY 2022-23
(millions of dollars)

Fiscal Year	GF/GP Reduction from LCSA Use Tax Levy	GF/GP Reimb to SAF	Essential Services Assessment	Exempt. From 50% of ESA	PPT Reform Net GF/GP Reduction
2015-16	($96.4)	($30.9)	$67.6	$0.0	($59.7)
2016-17	(380.9)	(42.0)	75.0	0.0	(347.9)
2017-18	(410.8)	(42.4)	81.0	(2.7)	(374.9)
2018-19	(438.0)	(42.9)	86.9	(3.9)	(397.9)
2019-20	(465.9)	(43.3)	91.2	(3.9)	(421.9)
2020-21	(491.5)	(43.8)	96.8	(3.9)	(442.4)
2021-22	(521.3)	(44.2)	99.7	(3.9)	(469.7)
2022-23	(548.0)	(44.7)	102.7	(2.8)	(492.8)

Source: January 2017 consensus revenue estimating conference and Senate Fiscal Agency.

According to legislative intent language in an enacting section for Public Act 92 of 2014 (which created the ESA), the projected reduction in State costs for existing credits claimed under the Michigan Business Tax through FY 2031-32 and new revenue from the ESA are considered revenue sources that offset the reallocation of use tax revenue from the State General Fund to the LCSA. Figure 4 compares the total cost of MBT credits and LCSA reimbursement from FY 2014-15 to FY 2022-23. Over this nine-year period, the estimated reduction in payments for MBT credits in large part compensates for the net cost of the PPT reform; however, the cost for the two programs combined increases from $617.8 million in FY 2014-15 (MBT credits alone) to $1,082.0 million in FY 2022-23 (the net impact of General Fund reductions due to the LCSA use tax levy and SAF reimbursement and revenue gains from the ESA), a rise of $464.2 million. The total cost of PPT reform and the MBT credits and refunds will be nearly $1.1 billion in FY 2022-23 ($94.6 million more than the combined cost in FY 2015-16) and will remain close to that level through FY 2027-28, when MBT credits are expected to decline significantly before ending in FY 2031-32.

Figure 4



Source: Michigan Department of Treasury, Michigan Strategic Fund, and Senate Fiscal Agency
*Includes the net impact of use tax levied by the LCSA instead of by the State for the General Fund, GF/GP revenue from the ESA (net of exemptions), and GF/GP cost to reimburse the SAF for lost SET revenue and increased costs of the foundation allowance.

General Fund Impact of the 2015 Road Funding Package

The transportation funding package enacted in 2015 (Public Acts 174 to 180) also will reduce GF/GP revenue, beginning with a reduction of $355.8 million in FY 2018-19 followed by larger reductions in later years. This revenue loss is due to the earmark of income tax revenue to the Michigan Transportation Fund and expansion of the homestead property tax credit.

Beginning in FY 2018-19, a fixed amount of the revenue from the individual income tax is earmarked to the Michigan Transportation Fund annually. These transfers start at $150.0 million in FY 2018-19, increase to $325.0 million in FY 2019-20, and then level off at $600.0 million annually in FY 2020-21 and subsequent years. The increase in the homestead property tax credit is projected to reduce GF/GP revenue by $205.8 million in FY 2018-19, FY 2019-20, and FY 2020-21 due to expansion of eligibility and changes to the formula for the credit that will result in larger State payments. The cost of the homestead property tax credit changes is estimated to increase to $214.0 million in FY 2021-22 when inflation adjustments for key eligibility and payment thresholds in the homestead credit calculation become effective. Table 2 summarizes the General Fund changes due to the transportation package.

Table 2

Estimated General Fund Impact of the Road Funding Package
FY 2015-16 to FY 2022-23
(millions of dollars)

Fiscal Year	Earmark to MTF	Est. Cost of Expanded Homestead Credit	Net Reduction to General Fund
2015-16	$0.0	$0.0	$0.0
2016-17	0.0	0.0	0.0
2017-18	0.0	0.0	0.0
2018-19	(150.0)	(205.8)	(355.8)
2019-20	(325.0)	(205.8)	(530.8)
2020-21	(600.0)	(205.8)	(805.8)
2021-22	(600.0)	(214.0)	(814.0)
2022-23	(600.0)	(218.3)	(818.3)

Source: Senate Fiscal Agency and January 2017 consensus revenue estimates.

A further GF/GP reduction could occur from an individual income tax rate reduction that would be triggered in a year beginning on or after January 1, 2023, if the growth in GF/GP revenue in the immediately preceding fiscal year exceeded a positive inflation rate for the same period. The earliest that this potential rate reduction would affect State income tax revenue is FY 2022-23, when there could be a part-year impact.

Other GF/GP Revenue Changes After 2012

Since 2012, there have been a number of smaller changes that have affected GF/GP revenue or will change revenue in the future. These include tax changes such as the sales and use tax exemptions for data centers in Public Acts 251 and 252 of 2015; the use of GF/GP revenue to reimburse the School Aid Fund for the cost of tax changes that negatively affected the SAF, such as the sales tax exemption for aviation fuel (Public Act 263 of 2015); and earmarks, including the allocation of $3.0 million annually from the tobacco tax to the Michigan Capitol Historic Site Fund under Public Act 272 of 2014. Statutory changes to tax administration practices including "offer and compromise authority" to negotiate settlements on tax bills (Public Act 240 of 2014) and limitations on the tax liability of corporate officers (Public Act 3 of 2014) further reduce tax collections.

While the changes listed above will reduce GF/GP revenue over the period from FY 2015-16 to FY 2022-23, some policy changes increase GF/GP revenue during that period. The mutualization of Blue Cross Blue Shield (BCBS) will increase GF/GP revenue by $75.0 million in FY 2016-17 and the increase is forecast to grow annually. The end of the expanded tax credit for deposits to the

Michigan Auto Insurance Placement Facility (MAIPF) is estimated to return $80.0 million to the General Fund in FY 2016-17 and that amount is projected to increase each year.

The net impact of these and other tax policy changes is an average decrease of $62.3 million GF/GP annually from FY 2015-16 to FY 2022-23. Appendix B lists these tax policy changes, the enacting legislation, and the estimated fiscal impact through FY 2022-23. Appendix B also shows GF/GP revenue changes due to court decisions or settlements in tax cases and year-end accruals, although revenue changes for year-end accruals are shown only for FY 2015-16 revenue. Accruals vary substantially from year to year and may increase or decrease GF/GP revenue. Similarly, the impact of court decisions and settlements is not projected beyond the January 2017 consensus estimates for FY 2016-17 through FY 2018-19.

Projected Revenue Reductions

In addition to the changes to GF/GP revenue for PPT reform and transportation, other policies that predated 2012 are continuing to reduce GF/GP revenue. The MBT credits awarded under MEGA and other programs will continue to affect GF/GP revenue through FY 2031-32. The combined impact of the PPT reform, the transportation package, and other policy changes is shown in Table 3.

Table 3

**Estimated Combined GF/GP Impact of Adjustments to Revenue
FY 2015-16 to FY 2022-23
(millions of dollars)**

Fiscal Year	PPT Reform	Transportation Package	Other Policy Changes After 2012	MBT Credits and Refunds[1)]	Accruals, Litigation, & Other Adjustments	Total
2015-16	($59.6)	$0.0	($69.4)	($927.7)	$51.0	($1,005.8)
2016-17	(347.9)	0.0	(37.3)	(671.3)	(12.8)	(1,069.3)
2017-18	(374.9)	0.0	(50.7)	(695.6)	(25.8)	(1,147.0)
2018-19	(397.9)	(355.8)	(63.4)	(619.1)	(10.9)	(1,447.1)
2019-20	(421.9)	(530.8)	(65.7)	(613.5)	(27.2)	(1,659.2)
2020-21	(442.4)	(805.8)	(68.1)	(575.2)	(51.2)	(1,942.7)
2021-22	(469.7)	(814.0)	(70.7)	(578.1)	(75.1)	(2,007.6)
2022-23	(492.8)	(818.3)	(73.3)	(589.2)	(99.0)	(2,072.6)

Source: CREC estimates where available and Senate Fiscal Agency.

1) Based on CREC estimates and Department of Treasury updates as of January 19, 2017.

Projected GF/GP Revenue Growth

A frequently raised question is to what degree is GF/GP revenue growth available to offset policies that reduce General Fund revenue. Discussions of revenue growth typically consider two definitions of revenue: 1) baseline revenue growth, which projects how revenue would change based on economic factors in a stable tax policy environment, and 2) net revenue available, which is baseline revenue adjusted by several factors including tax policies with fiscal impacts that fluctuate or phase-in over time, year-end accruals, and court settlements in tax cases.

The analysis of revenue growth begins with the Consensus Revenue Estimating Conference (CREC) GF/GP estimates for years within the CREC forecast horizon, which currently is through FY 2018-19. For years after FY 2018-19, it is necessary to make a number of additional assumptions. To estimate the longer-term effects of current tax policies, it is assumed that economic conditions and baseline revenue growth will be consistent with long-term trends, and that tax policies will be stable. Baseline revenue for FY 2019-20 and FY 2020-21 is assumed to grow 3.0% and 3.3%, respectively, rates consistent with the long-term trends in net revenue growth (1.3% in FY 2019-20 and 1.1% in FY 2020-21) projected by the CREC in January 2017. Baseline revenue for FY 2021-22 and FY 2022-23 is assumed to grow at 3.1% annually, the average of the CREC growth rates for the period from FY 2015-16 to FY 2018-19.

Baseline revenue is then adjusted to consider the impact of each tax policy change since 2012. The estimated impact of several policies that were previously included in the baseline is removed from baseline revenue and shown separately. The impact of year-end accruals for FY 2015-16 and settlements in tax cases is included only to the extent that these amounts are part of the CREC estimates. Although accruals and litigation are estimated to reduce GF/GP revenue each year through FY 2018-19, these amounts can vary from year to year, either increasing or decreasing GF/GP revenue; thus, they are not forecast for years after the CREC timeline.

During this period, the PPT reforms and transportation package are both phased in. Many of the key allocations from the General Fund for these programs are established in statute as fixed dollar amounts each year. This limits the estimates that need to be made for future years about the impact of these policies.

Table 4 shows the impact of the adjustments from Table 3 in relation to projected baseline revenue growth to arrive at net revenue estimates through FY 2022-23, in order to illustrate how the growth in revenue adjustments, which become a larger negative number each year, affects net revenue growth. In each year from FY 2016-17 to FY 2020-21, growth in net revenue available is lower than growth in baseline revenue. Revenue that otherwise would be available is reduced each year by larger negative revenue adjustments. Only in FY 2021-22 and FY 2022-23, when the impact of tax policy changes already enacted is expected to stabilize, will increases in net General Fund revenue available again match baseline revenue growth. Table 5 compares the growth in baseline revenue, net revenue, and the size of the gap between baseline and net revenue. The gap between baseline and net revenue is illustrated both in growth rates and in dollar terms. The largest gap in terms of growth rates occurs in FY 2018-19 when the phase-in of the income tax earmark to transportation funding begins. In that year, the 3.1% in baseline growth is reduced to a 0.6% increase in net revenue available, a gap of 2.5 percentage points or more than $1.4 billion. Beginning in FY 2020-21, the percentage of General Fund revenue foregone due to policy changes, MBT certificated credits, and other revenue adjustments reaches 15.2% and stabilizes at that level.

Table 4

The Impact of Revenue Adjustments on Net GF/GP Revenue Available (millions of dollars)

Fiscal Year	Estimated Adjusted Baseline Revenue	% Change in Adj. Baseline Revenue	Revenue Adjustments[1]	Estimated Net Revenue	Change in Net Revenue	% Change in Net Revenue
2015-16	$11,021.1	---	($1,005.8)	$10,015.3	---	---
2016-17	11,359.4	3.1%	(1,069.3)	10,290.1	$274.8	2.7%
2017-18	11,669.7	2.7	(1,147.0)	10,522.7	232.6	2.3
2018-19	12,036.4	3.1	(1,447.1)	10,589.3	66.6	0.6
2019-20	12,390.4	2.9	(1,659.2)	10,731.3	142.0	1.3
2020-21	12,790.8	3.2	(1,942.7)	10,848.1	116.9	1.1
2021-22	13,187.4	3.1	(2,007.6)	11,179.8	331.7	3.1
2022-23	13,596.2	3.1	(2,072.6)	11,523.6	343.8	3.1

Source: CREC estimates for FY 2015-16 to FY 2018-19. SFA estimates for FY 2019-20 to FY 2022-23.

[1] Revenue adjustments include the impact of PPT reform, the 2015 transportation funding package, MBT credits, other policy changes, and costs of litigation, special refunds, and year-end accruals where available.

Table 5

General Fund Revenue Foregone Due to Tax Policy Changes, MBT Certificated Credits, and Other Revenue Adjustments

	Growth Rates			Dollar Changes			
Fiscal Year	Adjusted Baseline Rev.	Net Revenue	Gap	Adjusted Baseline Rev.	Net Revenue	Gap	% of Growth Foregone[1]
2016-17	3.1%	2.7%	(0.4%)	$11,359.4	$10,290.1	($1,069.3)	(9.4%)
2017-18	2.7	2.3	(0.4)	11,669.7	10,522.7	(1,147.0)	(9.8)
2018-19	3.1	0.6	(2.5)	12,036.4	10,589.3	(1,447.1)	(12.0)
2019-20	2.9	1.3	(1.6)	12,390.4	10,731.3	(1,659.1)	(13.4)
2020-21	3.2	1.1	(2.1)	12,790.8	10,848.1	(1,942.7)	(15.2)
2021-22	3.1	3.1	0.0	13,187.4	11,179.8	(2,007.5)	(15.2)
2022-23	3.1	3.1	0.0	13,596.2	11,523.6	(2,072.6)	(15.2)

Source: Senate Fiscal Agency

[1] Amount of gap divided by adjusted baseline revenue.

When the growth in revenue is compared to projected inflation, the estimated net revenue is less than the amount needed to cover the cost of inflation. Table 6 compares the growth rate in baseline and net revenue with the projected inflation rate through FY 2022-23. In each year in which the income tax earmark to the MTF is implemented, from FY 2018-19 to FY 2020-21, net GF/GP revenue will increase; however, growth will be less than the amount needed to keep up with inflationary pressures.

Table 6

Estimated Growth in GF/GP Revenue FY 2016-17 to FY 2022-23				
Fiscal Year	**% Change in Adj. Baseline Growth**	**% Change in Net Revenue**	**Estimated Inflation Rate[1)]**	**Est. Revenue Change After Inflation**
2016-17	3.1%	2.7%	2.0%	$74.5
2017-18	2.7	2.3	1.9	38.5
2018-19	3.1	0.6	2.2	(162.4)
2019-20	2.9	1.3	2.0	(70.8)
2020-21	3.2	1.1	2.0	(100.2)
2021-22	3.1	3.1	2.0	110.3
2022-23	3.1	3.1	2.0	118.0
Note: CREC estimates for FY 2015-16 to FY 2018-19. SFA estimates for FY 2019-20 to FY 2022-23				
[1)] U.S. consumer price index, CREC estimates on a fiscal year basis for FY 2015-16 to FY 2018-19; SFA estimates for FY 2019-20 through FY 2022-23.				

Foregone GF/GP Revenue

The amount of revenue adjustments due to enacted policy changes since 2012 constitutes a significant amount of foregone GF/GP revenue, an amount that will continue to increase until the MTF earmark is completely phased-in. In FY 2016-17, the share of foregone GF/GP revenue due to policy changes is 3.4% of baseline GF/GP revenue. This amount increases each year until FY 2020-21, when 10.3% of former GF/GP revenue is no longer available to the General Fund. Claims of outstanding MBT credits will exacerbate the loss of baseline GF/GP revenue with another 6.0% of potential GF/GP revenue going to pay the cost of the refundable credits against the MBT in FY 2017-18. After FY 2017-18, MBT credits as a share of baseline GF/GP revenue will decline to 4.3% of baseline revenue in FY 2022-23. The share of potential GF/GP revenue that is already committed to other funds, tax reductions, and tax credits through FY 2022-23 is shown in Table 7. The share of the General Fund foregone due to credits and other negative adjustments increases from 9.1% FY 2015-16 to a peak of 15.2% in FY 2020-21 and then is projected to remain at that level until FY 2022-23.

Table 7

GF/GP Revenue Foregone Due to Policy Changes Enacted Since 2012, MBT Credits, and Other Adjustments As a Percent of GF/GP Adjusted Baseline Revenue FY 2015-16 to FY 2022-23				
Fiscal Year	**Revenue Adjustments From Policy Changes Enacted Since 2012**	**MBT Credits**	**Litigation, Accruals, and Other Adj.**	**Total**
2015-16	(1.2%)	(8.4%)	0.5%	(9.1%)
2016-17	(3.4)	(5.9)	(0.1)	(9.4)
2017-18	(3.6)	(6.0)	(0.2)	(9.8)
2018-19	(6.8)	(5.1)	(0.1)	(12.0)
2019-20	(8.2)	(5.0)	(0.2)	(13.4)
2020-21	(10.3)	(4.5)	(0.4)	(15.2)
2021-22	(10.3)	(4.4)	(0.6)	(15.2)
2022-23	(10.2)	(4.3)	(0.7)	(15.2)
Source: Senate Fiscal Agency				

Conclusion

The growth of annual GF/GP revenue has been, and will continue to be, reduced by recent legislation that earmarked revenue previously available to the General Fund for other purposes. In particular, the implementation of PPT reform, which converted a portion of the use tax from GF/GP revenue to a local tax, and the road funding package, which earmarked income tax revenue to the MTF and expanded the homestead property tax credit, will slow the growth in GF/GP revenue available through FY 2020-21. The January 2017 CREC forecast growth in net GF/GP revenue at 2.7% in FY 2016-17, 2.3% in FY 2017-18, and 0.6% in FY 2018-19. Long-term revenue trends forecast by the CREC show growth of 1.3% in FY 2019-20 and 1.1% in FY 2020-21.

In FY 2020-21, the first year in which the full $600.0 million income tax earmark to the MTF is effective, it is estimated that 10.3% of GF/GP revenue will be foregone due to previous tax policy changes. The cost of refundable MBT credits as a share of General Fund revenue is projected to decline after FY 2015-16; however, these credits will reduce GF/GP revenue by 4.5% in FY 2020-21 and continue to affect revenue until the credits expire in FY 2031-32. The phase-in of PPT reform and GF/GP changes under the road funding package will offset most GF/GP revenue growth in FY 2018-19 through FY 2020-21, when the share of GF/GP revenue foregone reaches 15.2% and remains at that level. It is projected that GF/GP revenue growth will stabilize in FY 2021-22, when the income tax earmark to the MTF has been phased-in. At that point, the negative adjustments to GF/GP revenue will be more consistent and growth in net GF/GP revenue is projected to increase. Net GF/GP revenue available for the budget or tax changes will increase somewhat each year through FY 2022-23; however, GF/GP revenue will lose ground to inflation. Actual economic conditions and GF/GP revenue collections likely will differ from these long-range estimates. A recession during the forecast period would reduce GF/GP revenue collections, although the use tax levy by the LCSA and the allocations for the MTF would not change, because these dollar amounts are fixed in statute. Additional tax policy changes or a recession potentially would have a significant impact on these projections. This analysis has addressed only the revenue side of the budget equation. As tax policy discussions continue, legislators will weigh the current limitations on GF/GP growth with competing tax policy goals and the budgetary requirements of State government operations.

Appendix A

GF/GP Share of Year-to-Date Adjusted Gross Appropriations
FY 2016-17

Department	Adjusted Gross Appropriations	GF/GP Appropriations	GF/GP Appropriations As Percent of Adj. Gross
Agriculture and Rural Development	$95,583,700	$49,926,900	52.2%
Attorney General	72,279,700	42,840,500	59.3
Capital Outlay	200	200	100.0
Civil Rights	15,954,900	13,021,300	81.6
Community Colleges	395,925,600	135,510,800	34.2
Corrections	2,002,729,000	1,951,957,900	97.5
Education	331,975,200	76,181,200	22.9
Environmental Quality	507,810,700	49,273,400	9.7
Executive	5,636,300	5,636,300	100.0
Health and Human Services	24,932,444,800	4,392,732,800	17.6
Higher Education	1,582,640,400	1,243,904,500	78.6
Insurance and Financial Services	65,549,600	150,000	0.2
Judiciary	296,684,000	189,157,400	63.8
Legislature Auditor General	18,093,300	16,123,900	89.1
Legislature	147,903,600	143,227,800	96.8
Licensing and Regulatory Affairs	375,653,300	43,721,100	11.6
Military and Veterans Affairs	177,048,400	58,243,600	32.9
Natural Resources	408,078,200	43,410,000	10.6
Natural Resources (Trust Fund)	0	0	---
School Aid	14,164,329,600	218,900,000	1.5
State	228,315,600	22,109,600	9.7
State Police	623,925,900	405,162,800	64.9
Talent and Economic Development	1,149,114,300	182,508,900	15.9
Technology, Management, and Budget	689,671,600	568,052,600	82.4
Transportation	4,111,740,200	9,750,000	0.2
Treasury (Debt Service)	137,037,000	137,037,000	100.0
Treasury (Operations)	513,610,900	101,458,800	19.8
Treasury (Revenue Sharing)[1)]	1,227,408,100	0	0.0
Total as of May 3, 2017	**$54,277,144,100**	**$10,099,999,300**	**18.6%**

[1)] Revenue Sharing appropriations are funded by restricted sales tax revenue. This is a GF/GP equivalent fund source. Sales tax revenue appropriated for revenue sharing payments reduces GF/GP revenue on the balance sheet.

Source: Senate Fiscal Agency

APPENDIX B

Detail of General Fund/General Purpose Revenue Adjustments
Estimated FY 2015-16 to FY 2022-23
(millions)

	Fiscal Year							
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
GF/GP baseline revenue Jan. 2017 CREC, then SFA estimates	$10,975.5	$11,306.6	$11,662.1	$12,032.1	$12,387.7	$12,790.8	$13,187.3	$13,596.1
Adjustments to baseline needed to show tax policy changes								
Less essential services assessment	$67.6	$75.0	$81.0	$86.9	$91.2	$96.8	$99.7	$102.7
Add back MI Auto Insur. Placement Facility (MAIPF) adjustment	80.0	80.0	81.6	83.2	84.9	86.6	88.3	90.1
Add back tax items added to baseline since 2012	2.3	5.8	7.0	8.0	9.1	10.3	11.5	12.7
Add back SAF PPT reimb. treated as expenditure (FY 16 and FY 17)	30.9	42.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted baseline GF/GP revenue	$11,021.1	$11,359.4	$11,669.7	$12,036.4	$12,390.4	$12,790.8	$13,187.4	$13,596.2
Major adjustments to baseline growth (GF/GP impact only)								
Personal Property Tax Reform								
Use tax levied by the LCSA	($96.4)	($380.9)	($410.8)	($438.0)	($465.9)	($491.5)	($521.3)	($548.0)
Reimburse SAF (SET loss, foundation allowance)	(30.9)	(42.0)	(42.4)	(42.9)	(43.3)	(43.8)	(44.2)	(44.7)
Essential services assessment	67.6	75.0	81.0	86.9	91.2	96.8	99.7	102.7
Exemptions from essential services assessment	0.0	0.0	(2.7)	(3.9)	(3.9)	(3.9)	(3.9)	(2.8)
Subtotal PPT Reform	($59.7)	($347.9)	($374.9)	($397.9)	($421.9)	($442.4)	($469.7)	($492.8)
Transportation Package								
Allocate income tax revenue to the MTF	$0.0	$0.0	$0.0	($150.0)	($325.0)	($600.0)	($600.0)	($600.0)
Increase homestead property tax credit	0.0	0.0	0.0	(205.8)	(205.8)	(205.8)	(214.0)	(218.3)
Subtotal Transportation Package	$0.0	$0.0	$0.0	($355.8)	($530.8)	($805.8)	($814.0)	($818.3)
MBT certificated credits and refunds (including MEGA)	($927.7)	($671.3)	($695.6)	($619.1)	($613.5)	($575.2)	($578.1)	($589.2)
Other tax policy changes after 2012 (GF/GP impact only)								
Blue Cross Blue Shield mutualization (2013 PA 5)	$75.0	$75.0	$76.5	$78.0	$79.6	$81.2	$82.8	$84.5
Sales tax on the difference (2013 PA 160/234)	(4.8)	(5.6)	(6.6)	(7.5)	(8.5)	(9.6)	(10.6)	(11.8)
Sales tax on over-the-counter prescription medication (2013 PA 211)	(1.5)	(1.5)	(1.6)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)
Corporate officer liability (2014 PA 3)	(63.1)	(64.6)	(66.5)	(68.5)	(70.6)	(72.7)	(74.9)	(77.1)
Offer in compromise (2014 PA 240)	(4.6)	(4.6)	(4.7)	(4.8)	(4.9)	(5.0)	(5.1)	(5.2)
Driver responsibility fee phase-out (2014 PA 250)	(2.3)	(23.0)	(35.0)	(48.0)	(48.0)	(48.0)	(48.0)	(48.0)
Earmark tobacco tax to MI Capitol Historic Site Fund (2014 PA 272)	(3.0)	(3.1)	(3.2)	(3.2)	(3.3)	(3.3)	(3.4)	(3.5)
Driver responsibility fee comm. serv. alt. (2014 PA 283)	(10.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Affiliate nexus (2014 PA 553/554)	30.0	10.3	10.7	11.0	11.2	11.4	11.7	11.9
Data centers (2015 PA 251/252)	(5.1)	(7.0)	(7.5)	(7.9)	(8.3)	(8.7)	(9.1)	(9.6)
Sales tax on aviation fuel - reimb. SAF from use tax (2015 PA 263)	0.0	(8.2)	(10.0)	(12.0)	(12.6)	(13.2)	(13.9)	(14.6)
MAIPF adjustment (2016 PA 277/278; revises 2012 PA 204)	(80.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Medical marijuana (2016 PA 281/282/283)	0.0	0.0	2.2	6.1	6.3	6.5	6.7	6.9
SUBTOTAL	($69.4)	($37.3)	($50.7)	($63.4)	($65.7)	($68.1)	($70.7)	($73.3)
Adjustments due to litigation, year-end accruals, and indexing								
Index of personal exemption (related to 2011 tax changes)	$0.0	$0.0	$0.0	($18.3)	($42.7)	($67.1)	($91.5)	($115.9)
Insurance tax health insurance credit increase	0.0	(5.0)	(1.6)	0.0	0.0	0.0	0.0	0.0
MBT other payments and refunds	91.8	23.5	15.0	15.0	15.5	15.9	16.4	16.9
Tax litigation and settlements	(48.7)	(31.3)	(6.7)	(7.6)	0.0	0.0	0.0	0.0
Year-end adjustments	27.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use tax large taxpayer refunds	(20.0)	0.0	(32.5)	0.0	0.0	0.0	0.0	0.0
SUBTOTAL	$51.0	($12.8)	($25.8)	($10.9)	($27.2)	($51.2)	($75.1)	($99.0)
Total of adjustments	($1,005.8)	($1,069.3)	($1,147.0)	($1,447.1)	($1,659.2)	($1,942.7)	($2,007.6)	($2,072.6)
Estimated net revenue available	**$10,015.3**	**$10,290.1**	**$10,522.7**	**$10,589.3**	**$10,731.3**	**$10,848.1**	**$11,179.8**	**$11,523.6**

Source: January 2017 consensus revenue estimating conference, prior year consensus estimates, and Senate Fiscal Agency