HOUSE FISCAL AGENCY

MEMORANDUM

DATE: August 23, 2010

TO: All Interested Parties

FROM: Mitchell E. Bean, Director *MB*

RE: Tax Amnesty, Unclaimed Property Revenue, and Debt Service Restructuring Proposals

This memo was prepared by Ben Gielczyk, House Fiscal Agency Fiscal Analyst, Department of Treasury budget. It provides a brief summary of three of the Governor's proposals for closing the FY 2010-11 general fund budget deficit.

Tax Amnesty Proposal

The Governor proposed a 47-day tax amnesty program (May 15, 2011 to June 30, 2011) that would be modeled after the 1986 Michigan tax amnesty program. The tax amnesty program would allow taxpayers with delinquent tax liabilities prior to December 31, 2009 the opportunity to settle their delinquent tax liability with all penalties waived. Interest on the tax debt would not be waived. The tax debt would have to be paid in full prior to the end of the tax amnesty period. In addition, no post-amnesty penalties for those taxpayers who did not come forward would be implemented. Finally, the Department of Treasury expects to implement an extensive advertising campaign in the hopes of educating taxpayers on the tax amnesty program in the hope of raising revenue from the program.

Based on the assumptions[1] used by the Department of Treasury in estimating the expected revenue, the department anticipates $88.8 million in net new revenue for FY 2010-11 after accounting for all costs, foregone penalties, and collection of revenue that would have been collected without an amnesty period. Of this amount, $61.8 million is General Fund revenue, $26.1 million is School Aid Fund revenue, and $1.0 million is dedicated for other services.

Any amnesty period will accelerate the collection of future projected delinquent tax revenue. The Department of Treasury estimated that the state would forego $69.3 million in existing collections and penalties in FY 2011-12 and beyond. This would be slightly offset by approximately $7.8 million in new revenue in FY 2011-12 and beyond due to previously undiscovered and delinquent taxpayers coming forward and reporting on a regular basis. The Department of Treasury estimates that a tax amnesty period in FY 2010-11 would net the state $27.4 million after accounting for present as well as future costs. The following table summarizes the department's revenue estimates for the tax amnesty program:

	FY 2010-11	**FY 2011-12 or after**	**TOTAL**
Gross Collections	$128,500,000	($45,600,000)	$82,900,000
Gross Collections without Amnesty	22,900,000	0	22,900,000
Net New Revenue	105,600,000	(45,600,000)	60,000,000
Costs	(16,800,000)	(15,900,000)	(32,700,000)
Net Increase/(Decrease)	**$88,800,000**	**($61,500,000)**	**$27,400,000**

[1] Assumptions were based on the 1986 tax amnesty model. Factors that the Department of Treasury accounted for include the presence of a previous amnesty in 2002, the current recession, an economic growth factor based on actual tax collections, an SBT/MBT factor (recent business tax transition could lower overall collections), and a collection improvement factor (current delinquent tax collections have improved).

Note: "Gross Collections" include new revenue and existing assessments. Without amnesty, gross collections only include existing assessments. "Costs" include administrative costs and foregone penalties under the amnesty program. In FY 2012 or after, costs only include foregone penalties due to accelerated collection of future existing assessments from FY 2012 or after.

Source: Department of Treasury

The Governor's tax amnesty revenue proposal would require a statute change.

Unclaimed Property Revenue Proposal

The Governor also proposed statutory changes to how unclaimed property is treated. Under current law, most unclaimed property has a five-year dormancy period, with traveler's checks and money orders having a fifteen-year and seven-year dormancy period, respectively. Two statutory changes would be made that would provide the state with an estimated $168.0 million in net new revenue in FY 2010-11 and $61.0 million net new revenue in FY 2011-12:

- The first would move the due date for unclaimed property to be remitted from November 1 to July 1. Currently, unclaimed property exceeding the dormancy period as of June 30 is remitted by November 1. Under the proposed statutory change, unclaimed property exceeding the new three-year dormancy period as of March 31 would be remitted to the state on July 1. Therefore, FY 2010-11 would have two remitted property dates, November 1, 2010 and July 1, 2011. The new date is estimated to result in $52.0 million in net new revenue for FY 2010-11.

- The second statutory change would lower the dormancy period for all uncollected revenue to three years from five years, seven years, or fifteen years. The Department of Treasury expects this statutory change to result in $116.0 million in net new revenue for FY 2010-11. A large portion of the new revenue would come from traveler's checks due to their long dormancy period under current law. Approximately $61.4 million is expected from traveler's checks alone.

The second statutory change is also projected to bring in $61.0 million in net new revenue in FY 2011-12. This is due to the unclaimed property reserve factor[2] used by the Department of Treasury. The accelerated due date and dormancy period change are projected to raise $280.0 million in gross new revenue. Of this new amount, the Department of Treasury expects to hold 40.0 percent in reserve. The new revenue reserved would increase the starting balance in FY 2011-12 and allow for a $61.0 million increase in the General Fund transfer from unclaimed property.

It should be noted that from FY 2012-13 through FY 2014-15, the Department of Treasury expects reductions in normal transfers to the General Fund of $36.0 million, $42.0 million, and $42.0 million, respectively. Revenue reserved would exceed the cash balance in those three years. This three-year drop is due to expected new claims on unclaimed property due to the dormancy change.

It should be noted that even though the statutory change would accelerate the due date and shorten the dormancy period for all unclaimed property, a person with an interest in the property remitted to the state is entitled to make a claim on it after the expiration of the dormancy period. There is no time limit for

[2] The reserve factor is the percentage of annual revenue from unclaimed property that the Department sets aside for the following year. Under normal conditions the revenue reserve factor is 60.0% to 65.0%. For the new revenue expected from the accelerated due date and reduced dormancy period, the reserve factor is projected to be 40.0%.

claiming these funds from the State Treasurer.[3] Almost all property remitted to the State Treasurer after the dormancy period is posted on a publicly searchable database on the Department of Treasury website.[4] The following table provides a snapshot of the department's projected changes in revenue (in millions) transferred to the General Fund under the proposed statutory changes to the unclaimed property law:

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Current Law Transfer to General Fund	$38.0	$40.0	$36.0	$34.0	$34.0	$34.0	$34.0
Proposed Statutory Change Transfer to General Fund	38.0	208.0	97.0	(2.0)	(8.0)	(8.0)	34.0
Net Revenue Gain/(Loss)	**$0.0**	**$168.0**	**$61.0**	**($36.0)**	**($42.0)**	**($42.0)**	**$0.0**

Note: Revenue to GF/GP becomes negative in FY 2013 due to new claims on unclaimed property under new law.

Source: Department of Treasury

The Governor's unclaimed property revenue proposal would require a statute change.

Debt Service Restructuring Proposal

The Governor also proposed a short-term restructuring of general obligation debt in an effort to save the state $117.2 million in FY 2010-11 General Fund and School Aid Fund debt service payments. Of that amount, debt service on the environmental program bonds within the Department of Treasury budget would be reduced by approximately $77.3 million GF/GP. The remaining $40.0 million in debt service savings would go to the School Aid Fund.

The total amount of projected refunded debt service is $121.6 million.[5] After an expected $1.9 million refunding payment in FY 2011, the refunding of the debt service payment would take place over the following five years:

Year	Existing Debt Service Payments	Amount of Refunded Debt Service	Refunding Bonds Debt Service	Total (Savings)/Losses from Refunded Debt Service	Total Projected Debt Service
FY 2011	$180,043,200	$121,623,100	$1,880,400	($119,742,700)	$60,300,500
FY 2012	218,944,900		3,544,200	3,544,200	222,489,100
FY 2013	215,295,300		32,568,400	32,568,400	247,863,700
FY 2014	188,117,200		32,572,600	32,572,600	220,689,800
FY 2015	172,583,300		32,569,600	32,569,600	205,152,900
FY 2016	169,200,500		32,568,300	32,568,300	201,768,800
TOTAL	**$1,144,184,400**	**$121,623,100**	**$135,703,500**	**$14,080,400**	**$1,158,264,800**

[3] See MCL 567.245.
[4] See MCL 567.239. The State Treasurer is not required to post property with a value under $50.00 on the searchable database unless he considers one or more of those items to be in the public interest.
[5] The $121.6 million in total refunded debt service is offset by a $1.9 million refunding bonds debt service payment in FY 2011 and a $2.5 million debt service payment on a new School Bond Loan Program borrowing of $100.0 million. Subtracting those two payments results in $117.2 million in FY 2011 debt service savings.

Note: "Total Projected Debt Service" does not include Department of Treasury's expected new bond issue and FY 2012 bullet maturity restructuring debt service payments. In FY 2011, there will be $2.5 million in new debt service due to the issue of $100 million in borrowing for the School Bond Loan Program.

Source: Department of Treasury

While past restructurings have extended maturities on bond repayments, this restructuring of certain general obligation debt is short[6] to take advantage of the current low short-term interest rates. The interest cost of spreading $121.6 million in FY 2011 debt service payments over five years is projected to be approximately $14.1 million.

The Governor's debt service restructuring proposal would not require a statute change.

Please call if you have questions about this information.

[6] The goal of this restructuring is to take advantage of low short-term interest rates. Therefore, the restructured debt service payments will be refunded fully over the immediately succeeding five-year period and will neither be spread over the maturity of the bonds nor lengthen any bond maturity. The ultimate goal is to refund the $121.6 million in debt service payments while the short-term interest rates are low.