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BILL ANALYSIS

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House Bill 5847 (Substitute H-1 as passed by the House)
Sponsor: Representative Pscholka
House Committee: Appropriations
Senate Committee: Appropriations

Date Completed: 12-6-16

CONTENT

The bill would amend the Management and Budget Act to require the annual appropriation of not less than 25% of the year-end unassigned closing balance in the General Fund for deposit to the Countercyclical Budget and Economic Stabilization Fund (BSF or "Rainy Day Fund"). The deposit to the BSF would be required during the first quarter of the subsequent fiscal year.

The bill also would change the criteria for withdrawals from the BSF. No appropriation from the BSF would be permitted in a year when the annual growth rate in Michigan personal income adjusted for inflation and transfer payments was greater than zero percent. For a year in which the growth in Michigan adjusted personal income was projected to be less than zero percent at a consensus revenue estimating conference, the bill would limit an appropriation from the BSF to not more than 25% of the BSF balance. For consecutive years of decline in adjusted Michigan personal income, the annual appropriations from the BSF would be limited to 25% of the BSF balance in the first year of personal income decline.

In addition, the bill would:

-- Require that transfers into or out of the BSF be made in an appropriations act.
-- Increase the size of the allowable balance in the BSF from 10% to 15% of the combined General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) annual revenue.
-- Revise the requirements for estimates of BSF deposits and recommended appropriations that are included in the annual executive budget recommendation and estimated at consensus revenue estimating conferences to match the deposit and appropriation requirements in the bill.
-- Eliminate the current limit of 1% of GF/GP revenue that applies to adjustments during the year of the amount of appropriation to or from the BSF due to revisions in the personal income growth rate.
-- Delete prior-year BSF appropriations and transfers to the General Fund and other funds, including language that required the year-end unreserved General Fund closing balance to be deposited to the BSF each fiscal year beginning with FY 1997-98 (language that is not effective if the related appropriation is not made).
-- Repeal the current authority for BSF withdrawals based on unemployment rates and prior-year supplemental appropriations.

MCL 18.1302 et al.

BACKGROUND

Current law provides for formula deposits to and withdrawals from the BSF. A formula deposit to the BSF is required when the growth in Michigan personal income is more than 2%. The amount of the deposit is calculated by comparing the growth in personal income in the current fiscal year to the growth in the prior fiscal year. The amount of the deposit is determined by multiplying the growth rate over 2% by the GF/GP revenue in the fiscal year ending in the current calendar year. The amount of the formula deposit (or "pay-in") is reported in the General Government budget bill. The actual appropriation to the BSF during the fiscal year may be different than the formula amount. Similarly, a formula withdrawal (or "pay-out") from the BSF is required when the growth in adjusted Michigan personal income is negative. The pay-out amount is calculated as the rate of negative growth multiplied by the current-year GF/GP revenue; however, the pay-out cannot exceed the amount needed to balance the current-year General Fund budget. The actual amount appropriated from the BSF may differ from the formula amount. Current law also includes additional provisions for BSF withdrawals based on high unemployment which can be used for specific programs to encourage employment. Deposits to the BSF have been made when no formula deposit was required and appropriations from the BSF that were not related to the formula pay-out have been made.

FISCAL IMPACT

Assuming that the proposed BSF pay-in and pay-out requirements were implemented annually through appropriations acts, the bill would increase deposits to the BSF and limit the use of year-end General Fund closing balances in the subsequent year's budget. In years with declining Michigan personal income (adjusted for transfer payments and inflation), the bill would tend to slow withdrawals from the BSF. The appropriation of funds from the BSF and deposits to the BSF would remain an annual policy decision.

The BSF balance is estimated at $612.0 million at the close of FY 2015-16. The Michigan Trust Fund Act provides for the deposit of $17.5 million of tobacco settlement revenue to the BSF each year from FY 2014-15 to FY 2034-35. These deposits reimburse the BSF for the appropriation of $194.8 million in FY 2013-14 to the Settlement Administration Fund as part of the resolution of the Detroit bankruptcy. Language similar to that in the bill is included in the General Government budget for FY 2016-17, which appropriates 25% of the GF/GP FY 2016-17 unassigned fund balance recorded at book-closing to the BSF. No specific amount is included in the budget for that appropriation, and the amount cannot be determined until books are closed for FY 2016-17. Based on the current estimated FY 2016-17 GF/GP closing balance of $1.0 million, this language would result in an appropriation of $250,000 to the BSF. Based on the Trust Fund Act deposit and the estimated interest earned by the BSF, the BSF balance is estimated at $633.5 million at the close of FY 2016-17. The current-law formula pay-in is $155.7 million in FY 2016-17; however, this amount has not been appropriated. The table below shows a history of BSF deposits, appropriations, and fund balances from FY 1998-99 to estimated FY 2017-18.

Under the bill, the maximum size of the BSF would increase from 10% of the total of GF/GP and SAF revenue to 15% of that amount. The total of GF/GP and SAF revenue in FY 2016-17 is estimated at $22.5 billion. Based on that estimate, the current limit on the size of the BSF is approximately $2.3 billion in FY 2016-17. The bill would increase the limit on the size of the BSF to an estimated $3.4 billion in FY 2016-17. Both of these figures are larger than the previous maximum balance in the BSF, which was nearly $1.3 billion in FY 1999-2000 or 6.1% of the total of GF/GP and SAF revenue in that year.

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS, AND FUND BALANCE FY 1998-99 TO FY 2017-18 ESTIMATE (Millions of Dollars)				
Fiscal Year[a)]	**Pay-In**	**Interest Earned**	**Pay-Out**	**Fund Balance**
1998-99	$244.4	$51.2	$73.7	$1,222.5
1999-00	100.0	73.9	132.0	1,264.4
2000-01	0.0	66.7	337.0	994.2
2001-02	0.0	20.8	869.8	145.2
2002-03	0.0	1.8	147.0	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	2.0	81.3	2.0
2005-06	0.0	0.0	0.0	2.0
2006-07	0.0	0.1	0.0	2.1
2007-08	0.0	0.1	0.0	2.2
2008-09	0.0	0.0	0.0	2.2
2009-10	0.0	0.0	0.0	2.2
2010-11	0.0	0.0	0.0	2.2
2011-12	362.7	0.2	0.0	365.1
2012-13	140.0	0.5	0.0	505.6
2013-14[b)]	75.0	0.4	194.8	386.2
2014-15[c)]	111.5	0.4	0.0	498.1
Enacted Deposits and Estimated Interest Earnings:				
2015-16[d)]	112.5	1.4	0.0	612.0
2016-17[e)]	17.5	4.0	0.0	633.5
2017-18	17.5	7.3	0.0	658.3

a) For FY 1998-99 to FY 2014-15 the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. FY 2015-16 to FY 2017-18 include enacted legislation and estimated interest earnings.

b) Pay-in was appropriated in PA 59 of 2013. Pay-out is the transfer of $194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.

c) PA 252 of 2014 appropriated $94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, authorizes the annual deposit of $17.5 million of tobacco settlement revenue to the BSF from FY 2014-15 to FY 2034-35.

d) PA 84 of 2015 appropriated $95.0 million to the BSF, in addition to the $17.5 million deposited under the Trust Fund Act.

e) PA 268 of 2016 appropriates 25% of the FY 2016-17 General Fund closing balance to the BSF. Based on the current estimated FY 2016-17 year-end General Fund balance of $1.0 million, this language would result in an estimated deposit of $250,000, in addition to the $17.5 million appropriated under the Trust Fund Act.

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