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# BUDGET STABILIZATION FUND

House Bill 4150
Sponsor: Rep. Nick Ciaramitaro
Committee: Appropriations

Complete to 2-11-91

## A SUMMARY OF HOUSE BILL 4150 AS INTRODUCED 2-7-91

The bill would amend the Management and Budget Act to require revenue estimating conferences to be held each year, and to provide an alternative means of calculating transfers into and out of the budget stabilization fund, based upon the economic forecasts developed at those conferences. When conference participants failed to reach a consensus, the alternative formula for budget stabilization transfers would employ the University of Michigan Research Series Quantitative Economics (RSQE) forecast for general fund/general purpose revenues.

Budget and Economic Stabilization Fund; current transfers. At present, money is deposited into the fund when the annual growth rate of the Michigan economy, measured as growth in personal income, exceeds two percent when compared to the previous year. The amount deposited is calculated by multiplying the general purpose revenue in the general fund by the percentage of growth over two percent. Money is transferred out of the fund when any of the following occur:

--when the growth rate in adjusted Michigan personal income is negative. When this happens, the amount that may be transferred out of the fund for budget stabilization is determined by multiplying the percentage of deficiency times the general purpose revenue.

--when unemployment reaches threshold levels. When the unemployment rate is between 8.0 and 11.9 percent up to 2.5 percent of the fund's balance may be transferred. Up to 5.0 percent may be transferred immediately following a quarter in which the unemployment rate reached 12 percent. Unemployment-based transfers may only be spent on economic development ("economic stabilization").

--when approved by a two-thirds vote of the legislature following a gubernatorial declaration of fiscal emergency.

Alternative calculations for transfers. The bill would provide an alternative means of calculating budget stabilization transfers based on the revenue forecast made at the annual January revenue estimating conference. If no consensus was reached, the RSQE forecast would be used. In 1991, the amount would be based on a February forecast of revenue. (Note: it is not clear whether the following alternative formulas for transferring money into and out of the budget stabilization fund are meant to apply in 1991 only, as suggested by the grammar of the bill, or whether they are to apply each year.) The amount transferred into and out of the budget stabilization fund would be based on the calculation (that is, current method or bill's alternative) that resulted in the greatest amount for transfer. As with current law, calculations would involve revenue amounts excluding those attributable to statutory or administrative changes. The constitutionally-required estimate of revenue contained in Section 1 of the general appropriation bills each year (the "statutory estimate") would be used as a reference point. If the forecast fell below the statutory estimate by between 1.0 and 1.5 percent, one-third of the fund balance would be available for transfer. If the forecast was 1.5 to 2.5 percent below the statutory estimate, two-thirds of the fund balance would be available for transfer. The entire fund would be available for transfer if the forecast was 2.5 percent or more below the statutory estimate.

If the forecast exceeded the statutory estimate, money would be transferred into the fund according to the following schedule: if the forecast was 1.0 to 1.5 percent over the statutory estimate, one-half of the percentage excess, but not more than 1.5 percent of the statutory estimate, would be transferred; if the forecast exceeded the statutory estimate by 1.5 to 2.5 percent, two-thirds of the percentage excess, plus the amount determined under the prior formula, would be transferred; if the forecast exceeded the statutory estimate by more than 2.5 percent, then all of the excess percentage, plus the amounts determined under the two prior formulas, would be transferred.

Refundable income tax credits. The bill also would specify that refundable income tax credits be appropriated as expenditures, rather than revenue reductions. These items, including property tax credits, prescription drug credits, and home heating credits, would count as expenditures in the year in which the final returns claiming the credits were filed. Funding for the credits would be accomplished by restricting sufficient income tax revenue. For persons whose credits were in excess of any income tax liability before withholding, funding would be from revenues for the fiscal year in which the credits were paid. For persons whose credits were less than their tax liability, funding would be through reserving revenues recognized from those individuals proportionately over the year.

Revenue estimating conferences. Revenue estimating conferences would be held in January and May. At those conferences, the director of the Department of Management and Budget (DMB) and the directors of the House and Senate Fiscal Agencies or their designees would have five days to develop and issue a consensus economic forecast of major variables in the national and state economies. The governor's budget recommendations could not exceed the sum of revenues in the January forecast, adjusted for prior surpluses and stabilization fund transfers. The statutory estimate of revenue in the legislatively adopted budget for the ensuing fiscal year would have to be identical to the May revenue forecast. Conference meetings would be open to the public, and conference forecasts would be published. Upon the written request of one of the three principals, a conference would be convened by the DMB director. The initial conference would be held between February 14 and February 20, 1991.

MCL 18.1352 et al.