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USE ACCIDENT FUND REVENUES

House Bill 5248 as introduced
Sponsor: Rep. Tom Alley

House Bill 5249 as introduced
Sponsor: Rep. Thomas Mathieu

First Analysis (2-17-94)
Committee: Appropriations

THE APPARENT PROBLEM:

Michigan's state park and recreation area system, operated by the Department of Natural Resources (DNR), incorporates 120 miles of Great Lakes frontage; over 260,000 acres of recreational land; 11,000 miles of scenic inland lakes and rivers; sand dunes; waterfalls; wetlands; and historical sites such as museums, forts, logging camps, sawmills, and farms. From its conception in 1919, the state park system grew to be the "crown jewel" of the state's natural resources, and now consists of almost 100 sites that contain over 14,000 campsites. The state's pride in its parks, however, has not translated into a corresponding commitment to provide sufficient funds for their upkeep. The state general fund once supplied 80 percent of the parks' budget; it now provides approximately 20 percent. As general fund appropriations have decreased, park user fees -- first implemented in 1950 -- have correspondingly increased. Fees are currently \$4 per day for a motor vehicle permit and \$6 to \$14 per night for a campsite. Such increases, when combined with the loss of state funding, have resulted in a park system that is mainly funded by users. When weather conditions are poor -- and Michigan's climate is always uncertain -- attendance declines. Such a system fails to provide adequate funding for even the most basic services. Park staffing has been decreased by one-third during the past ten years, and many park programs have been canceled. The result has been a general deterioration in the park system. Thousands of vacationing citizens have been affected: continuous increases in user fees threaten to exclude some citizens from the parks; poor maintenance has persuaded others to switch to private campgrounds.

The legislature, the DNR, and other interest groups have responded to this threat with a plan that would provide the state parks with a permanent source of funding. A large part of the plan evolves around

the concept of a state parks endowment fund, from which interest and earnings could be drawn to supplement current appropriations. It is hoped that this would provide the parks with a continuous, stable source of revenue. The plan, named the Michigan State Park Initiative, consists of a package of 12 bills, including Senate Joint Resolution E, which would place on the November, 1994, ballot an amendment to the state constitution that would end the diversion of revenues derived from oil, gas, and other nonrenewable resources from the Michigan Natural Resources Trust Fund (MNRTF) to the Michigan Strategic Fund; House Bill 5246, which would require, instead, that \$10 million, or up to 50 percent, of the total revenues currently deposited in the MNRTF each year be deposited into the proposed endowment fund until the fund reached an accumulated principal of \$800 million; Senate Bill 971, which would encourage volunteer projects at state parks through the creation of an Adopt-A-Park program, similar to the current Adopt-A-Highway program; Senate Bill 951, which, it is anticipated, would make an earlier transfer of funds to state parks possible by permitting taxpayers to use a state income-tax checkoff to buy annual state park passes; and House Bill 5064, which would establish the Genevieve Gillette Endowment Fund, from which only the interest and earnings would be used to supplement current revenue sources for state park maintenance, operation, and capital improvements.

While the State Park Initiative will help the state park system in several areas, and will lay the foundation for the system to operate independently of legislative appropriations in future years, in will, nevertheless, take many years for the proposed endowment fund to accumulate the proposed \$800 million principal. In addition to the State Park Initiative, legislation has been proposed that would

appropriate \$40 million from the proposed sale of the state accident fund to the Gillette Endowment Fund, and that would permit \$20 million of the proceeds of the accident fund's sale to be appropriated for a proposed Civilian Conservation Corps Endowment Fund.

THE CONTENT OF THE BILLS:

Under the provisions of Public Act 198 of 1993, the proceeds from the sale of the state accident fund would be transferred to the state's budget and economic stabilization fund, the "rainy day" fund. House Bills 5248 and 5249 would amend the Management and Budget Act (MCL 18.1353 et al.) to permit some of the proceeds from the sale of the state accident fund to be appropriated for a proposed state parks endowment fund and a proposed civilian conservation corps endowment fund, respectively. The appropriations would be effective after the proceeds from the sale of the state accident fund had been transferred to the rainy day fund and would be effective for the fiscal year ending September 30, 1994, only.

Transfers from Rainy Day Fund. At present, money is appropriated from the rainy day fund to assist in stabilizing revenue and employment during periods of economic recession and unemployment. House Bill 5248 would amend this provision to permit \$40 million to be transferred from the rainy day fund into a state parks endowment fund that would be established under the provisions of House Bill 5064. House Bill 5249 would add a new section to the act that would permit \$20 million to be transferred from the rainy day fund into a civilian conservation corps endowment fund.

Transfers into the Rainy Day Fund. Under the act, money is deposited into the fund when the annual growth rate of the state's economy, measured as growth in personal income, exceeds two percent when compared to the previous year. House Bills 5248 and 5249 would amend the act to require that a transfer for the fiscal year ending September 30, 1994, be automatically appropriated at the close of the fiscal year. Under the bills, a transfer for the fiscal year ending September 30, 1995, would be considered as automatically appropriated, and would be paid in equal monthly installments throughout the fiscal year. The bill would also transfer all general fund/general purpose balances for the 1993-94 fiscal year into the fund.

FISCAL IMPLICATIONS:

House Bill 5248 would permit \$40 million of the proceeds from the sale of the state accident fund to be appropriated -- for the fiscal year ending September, 1994, only -- for the proposed Genevieve Gillette State Parks Endowment Fund. In addition, legislation has been introduced under the Michigan State Park Initiative that would transfer \$10 million from the Natural Resources Trust Fund into this endowment fund. The interest and earnings from the endowment fund would be used to supplement current revenue sources for state park maintenance, operation and capital improvements. According to the Department of Natural Resources, the interest and earnings received from the fund would have an indeterminate impact on the state parks budget, depending on the eventual size of the endowment fund. (2-16-94)

House Bill 5249 would permit \$20 million of the proceeds from the sale of the state accident fund to be appropriated -- for the fiscal year ending September, 1994, only -- for a proposed civilian conservation corps endowment fund. According to the House Fiscal Agency, the corps has suffered overall budget cuts in recent years, with appropriations decreasing from \$5.4 million in fiscal year 1992-93 to \$1.2 million in fiscal year 1993-94. According to the Department of Natural Resources, the interest and earnings received from the fund would have an indeterminate impact on the civilian conservation corps budget, depending on the eventual size of the endowment fund. (2-16-94)

ARGUMENTS:

For:

The concept of using funds from the sale of one of the state's assets to protect the future of another state asset makes sense. According to a report issued by the Senate Majority Police Office, Michigan ranks first in terms of state-owned parks, campsites, and attendance, but ranks among the lowest in the nation in terms of state funding for its parks. The blame can be attributed to the lack of a stable funding mechanism. Instead, state parks have been under pressure to generate more of their own revenues, and user fees have doubled and redoubled. During the past decade, park officials have closed interpretive centers, cut parks staffs, postponed major equipment purchases, and struggled just to provide basic services such as clean

bathrooms. While routine maintenance jobs, such as mowing and painting, have been kept up, there has been wholesale neglect of the more extensive and expensive repairs, and the maintenance that has been left undone is crucial: sidewalks need to be replaced, shelter roofs need reshingling, and bathrooms need to be torn out and refurbished. After more than a decade of neglect, money for an endowment fund is needed to restore these services and to shore up the parks' crumbling physical facilities. The proposed appropriation of \$40 million under House Bill 5248 would provide some of the seed money that would stabilize that funding for years to come. In addition, as the parks system reaches its 75th anniversary, the proposed funding plans offer some assurance that the system will still be here 75 years from now.

Response:

Some may argue that the proposed transfers from the rainy day fund are inconsistent with the current statutory formula for budget stabilization transfers out of the fund. It can also be argued that the proposed transfers violate the spirit of the law behind the rainy day fund, which is to provide funds to help maintain vital programs in times of economic downturn. Together, House Bills 5248 and 5249 would divert \$60 million from the sale of the accident fund into proposed endowment funds for the state parks system and for the civilian conservation corps, respectively. If, as anticipated, the accident fund sells for \$100 million, then these provisions would result in the diversions of 60 percent of the revenue derived from the accident fund's sale. The sale of the accident fund was approved by the legislature conditional upon the proceeds of the sale being deposited into the state's budget and economic stabilization fund (the "rainy day" fund). Transfers in and out of the rainy day fund are triggered by changes in the growth rate of the economy, as measured by total personal income adjusted for inflation, and less certain transfer payments, such as public assistance: money is deposited into the fund for budget stabilization when the annual growth rate of Michigan's economy -- measured as growth in personal income -- exceeds two percent when compared to the previous year; money is transferred out of the fund for budget stabilization when the growth rate in adjusted Michigan personal income is negative, when the unemployment rate reaches certain threshold levels (however, unemployment-based transfers may only be spent on economic development), and when approved by a two-thirds

vote of the legislature following a gubernatorial declaration of fiscal emergency.

For:

The proposed appropriation of \$20 million under House Bill 5249 to establish a civilian conservation corps endowment fund would benefit the state park system, since the corps has always provided a valuable source of labor for the parks. More important, however, the corps has established itself as a success story in the annals of job training programs for youths. The civilian conservation corps (CCC) enrolls 18 to 25-year-old young people who are either on welfare or who are unemployed, and is the last in a succession of many programs created to provide young people with job skills: the summer youth employment program, the youth conservation corps, and the young adult conservation corps. According to Department of Natural Resources personnel who have overseen these programs throughout the years, and to independent studies on the subject, the current CCC program has been more successful than any previous program in terms of helping young people make the transition from unemployment to the workplace.

Response:

House Bill 5249 would divert \$20 million from the sale of the accident fund toward a worthy program: the civilian conservation corps (CCC) would provide jobs for Michigan youths from urban and rural areas. However, while no one doubts the value of such training, it is important to remember that the unemployment rate among young urban residents is extraordinarily high. The proposed diversion of funds would serve this segment of the population better if, instead, it were specifically targeted to creating jobs for urban youths.

Against:

At present, a designated percentage of general fund-general purpose balances are deposited into the state's budget and economic stabilization fund ("rainy day" fund). Under House Bills 5248 and 5249, however, all general fund-general purpose balances for the 1993-94 fiscal year would be transferred into the rainy day fund. This provision would, therefore, prevent the legislature from taking fund balances into consideration when debating the fiscal year 1994-1995 budget.

Against:

Some argue that the bills could endanger the state's credit rating. Major bond rating houses, which

direct a credit watch over the state, might consider excessive use of the rainy day fund as a factor in deciding whether to lower Michigan's bond rating.

POSITIONS:

A representative of the Department of Management and Budget testified in support of the bills. (1-25-94)

The Michigan United Conservation Clubs supports the bills. (2-15-94)

The Michigan Recreation and Park Association supports the bills. (2-15-94)

The Department of Natural Resources (DNR) supports the bills. (2-16-94)

The DNR Retirees' Association supports the bills. (2-15-94)

The Michigan Travel Bureau supports the concept of providing a stable source of funding for the state park systems but has no position of the bills. (2-16-94)