Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Joint Resolution E (Substitute S-5 as reported)
Sponsor: Senator John Pappageorge
Committee: Appropriations

CONTENT

Senate Joint Resolution (SJR) E proposes to amend Section 31 of Article IV and Section 18 of Article V of the State Constitution of 1963. The general purpose of SJR E is to place new limitations on the level of appropriations that can be recommended by the Governor and enacted into law by the Legislature. The proposed constitutional amendment requires a two-thirds vote of each house of the Legislature and an affirmative vote of the statewide electors to take effect.

The proposed constitutional amendment would make four principal changes in the current process for approval of State appropriations, as follows:

-- Limit the level of appropriations that the Governor can recommend to the Legislature in the Governor's annual budget recommendations.
-- Limit the level of appropriations that the Legislature can approve on an annual basis.
-- Require the amount by which actual revenue for a particular fiscal year exceeds 96.0% of the initial revenue estimate to be automatically deposited into the Budget Stabilization Fund (BSF).
-- Require a two-thirds vote in each house of the Legislature for the withdrawal of some of those funds from the Budget Stabilization Fund.

Under current constitutional requirements (Section 18 of Article V), the Governor must submit to the Legislature a budget that is balanced between estimated revenue and recommended appropriations. Under the proposed change, the Governor's General Fund/General Purpose (GF/GP) and School Aid Fund appropriation recommendations to the Legislature would be limited to 96.0% of the estimated revenue. The revenue estimate to be used to establish this limit would be the January consensus revenue estimate made in the month before the Governor makes his or her budget submission to the Legislature. The Governor would not be able to include any proposed new revenue in his or her proposed budget, but would be able to recommend revenue enhancements as a separate proposal from his or her official budget proposal. These changes would be effective beginning in the FY 2011-12 budget recommendation to be submitted by the Governor to the Legislature in February 2011.

The proposed limitations on the Legislature (Section 31 of Article IV) would restrict the level of State GF/GP and School Aid Fund appropriations to 96.0% of the estimated revenue plus any revenue enhancements. The revenue estimate to be used to establish this limit would be the January consensus revenue estimate made before the start of the fiscal year. This change would be effective beginning in FY 2011-12. Revenue enhancements would include new State revenue enacted into law and additional revenue received from the Federal government or some other non-State government source.

In FY 2013-14, the limit on appropriations that could be recommended by the Governor and passed by the Legislature could increase above 96.0% of the January 2013 consensus revenue estimate based on actual revenue collections in FY 2011-12. This potential increase in appropriations would be equal to the difference between actual revenue collections in FY

2011-12 and the 96.0% of estimated revenue that served as the original appropriation limit. This increase would be limited to the 4.0% of estimated revenue that was not originally appropriated.

If actual revenue collections in FY 2011-12 exceeded 96.0% of the January 2011 consensus revenue estimate, the difference would be automatically deposited into the Budget Stabilization Fund. The portion of this deposit that would result from the fact that actual revenue exceeded 96.0% but not more than 100% of the revenue estimate, could be withdrawn from the BSF with a majority vote of the Legislature. The portion of this deposit into the BSF that would result from the fact that actual revenue exceeded 100% of the original revenue estimate, could be withdrawn from the BSF with a two-thirds vote of the Legislature.

These potential increases in the Governor's proposed budget and the amount the Legislature could appropriate above 96.0% of estimated revenue, would continue for each fiscal year after FY 2013-14. The amount of additional revenue available for appropriation and the potential revenue to be deposited into the Budget Stabilization Fund would be based on a comparison of actual final revenue collections to the initial consensus revenue estimate for the fiscal year. For example, during FY 2014-15, the relevant comparison would be of actual FY 2012-13 revenue collections and the January 2012 consensus revenue estimate.

FISCAL IMPACT

The approval of SJR E would make fundamental changes in the current State budget process. First, the Governor would be limited in the amount of appropriations that can be included in the annual budget message. This would be a significant change from current constitutional requirements that simply limit the Governor's appropriation recommendations to a balance between estimated revenue and appropriations.

The approval of SJR E also would limit the ability of the Legislature to approve appropriations. The difference between 100% of the estimated GF/GP and School Aid Fund (SAF) revenue and 96.0% of the revenue would equal approximately $823.0 million in FY 2008-09. If the limitation were in place during FY 2011-12 and the FY 2010-11 appropriations were supported by 100% of the estimated GF/GP and SAF revenue, the initial year's appropriations subject to the limit would have to be significantly adjusted to reflect the 4.0% set-aside of revenue.

The approval of SJR E would result in a positive impact on the cash flow situation of the State budget. If 4.0% of estimated revenue were set aside, a significant pool of revenue could be used to lessen the amount of short-term borrowing that the State currently undertakes for cash flow needs.

Another potential impact on the State budget of SJR E is that reserve funds would be available if actual revenue collections fell below the consensus revenue estimate. Under current law, if this situation occurs, the GF/GP and SAF budgets are in deficit. The passage of SJR E would eliminate this deficit by using the 4.0% of revenue not appropriated to cover the potential shortfall in actual revenue collections.

In addition, the BSF would have to be restructured because of the two different types of deposits into the Fund that SJR E would create. One sub-fund would have to be created for deposits that would equal the amount by which actual revenue exceeded between 96.0% and 100% of the original revenue estimate, which the Legislature could withdraw from the Fund by a majority vote. Another sub-fund would have to be created for deposits that would equal the amount by which actual revenue exceeded 100% of the original revenue estimate, which the Legislature could withdraw from the Fund by a two-thirds vote.

Date Completed: 9-22-08 Fiscal Analyst: Gary Olson

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