

# Legislative Analysis



## MUNICIPAL BUDGET STABILIZATION FUNDS

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**House Bill 4194 (reported from committee without amendment)**

**Sponsor: Rep. Charles M. Brunner**

**Committee: Local Government**

### First Analysis (9-23-13)

**BRIEF SUMMARY:** The bill would increase the cap on local government budget stabilization funds from 15 percent to 20 percent of the most recent general fund budget, or the average of the five most recent general fund budgets, whichever is less.

**FISCAL IMPACT:** House Bill 4194 would have an indeterminate fiscal impact on local governments throughout the state. It allows a municipality to divert additional money to its budget stabilization fund. Since the bill is permissive, any fiscal impact would depend on each municipality's budget decisions.

### THE APPARENT PROBLEM:

Currently under the law, the governing body of a "municipality"—that is, a county, township, city, or village—that creates a budget stabilization fund (or "rainy day fund") can, by an ordinance or resolution adopted by a two-thirds vote of the members elected and serving, appropriate to the fund all or part of a surplus in the general fund resulting from an excess of revenue in comparison to expenses. A municipality may not raise taxes to provide for money to make an appropriation to the fund.

The law now caps the amount of money that local officials can set aside for the rainy day fund at 15 percent of the most recent general fund budget, or the average of the five most recent general fund budgets, whichever is less.

During committee testimony, the chief executive of Bay County noted that the 15 percent cap on municipal budget stabilization funds prevents local governments from increasing their reserves in good years in order to prepare for years when revenues decline due to changes in the local economy.

Legislation has been introduced to raise that cap on municipal budget stabilization funds from 15 percent to 20 percent of the most recent general fund budget, or the average of the five most recent general fund budgets, whichever is smaller.

### THE CONTENT OF THE BILL:

House Bill 4194 would amend Public Act 30 of 1978, which provides for the creation of budget stabilization funds by counties, cities, villages, and townships, to increase the cap on local government budget stabilization funds. Currently the cap is set at 15 percent of

the most recent general fund budget, or the average of the five most recent general fund budgets, whichever is less. The bill would raise the cap to 20 percent in each case.

MCL 141.443

***ARGUMENTS:***

***For:***

Despite the economic downturn in Michigan, the leaders of some local units of government—for example, the county executive and county commissioners of Bay County—have succeeded in balancing their budgets and increasing their financial reserves each year. Recently, Bay County's reserve set-aside approached the maximum that Michigan law allows local governments to earmark for their "rainy day funds" each year—an amount that cannot exceed 15 percent of the general fund, or the average of the five most recent general fund budgets, whichever is less. This bill will enable (but not require) local officials, annually, to set aside up to 20 percent of their general fund (or of the five-year average).

***POSITIONS:***

The Bay County Executive supports the bill. (9-12-13)

The Michigan Association of Counties supports the bill. (9-12-13)

The Michigan Townships Association supports the bill. (9-12-13)

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