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COMPACT FOR A BALANCED BUDGET

Senate Bill 306 as passed by the Senate
Sponsor: Sen. Mike Green
House Committee: Financial Liability Reform
Senate Committee: Elections Government Reform
Complete to 11-3-15

BRIEF SUMMARY:

This bill would enact the "Compact for a Balanced Budget," which would bind Michigan as a Member State of a prospective Convention (to be convened once 38 states become Member States) to ratify a Balanced Budget Amendment (BBA) to the United States Constitution. Additional rules of the Compact, Convention, and BBA follow:

- The Balanced Budget Amendment would prohibit the United States government from spending more than it takes in, with a small allowance above that amount.
- The Compact makes it clear that the Convention would have only two authorized responsibilities: to introduce, debate, vote upon, propose and enforce:
    - The Convention Rules specified in this Compact and
    - The Balanced Budget Amendment.

All other activities are explicitly prohibited and void ab initio (invalid from the outset).

Specifically, the BBA aims at limiting future federal expenditures beyond the amount of revenue raised. It would do so by limiting outstanding debt to 105% of the outstanding debt at the time this bill is passed (baseline debt). Congress could authorize increases beyond that number, with support by the legislatures of the states, or it could, by vote or by inaction, leave the number unchanged.

Additionally, the BBA states that when the debt limit exceeds 98% of the baseline debt, the President must publicly designate specific expenditures for impoundment, which will become effective 30 days later, if Congress takes no action, or be substituted by other impounded expenditures by Congress. If the President fails to, in effect, stop payment on congressionally-appropriated funds in order to conform to allowable debt limits, the BBA classifies this action as an impeachable misdemeanor. Any spending by the federal government above the baseline debt would be declared void by the BBA.

Once there are at least two Member States, this bill states that the governor of each state may appoint an individual to represent the state in a Compact Commission. Charged with appointing a Compact Administrator and encouraging other states to join the Compact, the Commission would eventually consist of representatives of the first three states to become Member States. The membership may expand as the Commission finds necessary, and will be funded by the Member States and voluntary contributions.

The Compact Administrator is mainly charged with notifying federal and state officials listed in the bill (1) when a Member State joins the Compact, (2) when three-fourths of the states have joined, (3) the time and date of the BBA Convention, once it is determined by Congress, (4) when the BBA has been passed, and (5) when any Article of this Compact prospectively ratifying the BBA is effective in any Member State.

The Compact includes language calling on Congress to convene a BBA Convention once three-fourths of the states have joined the Compact. The governor of each state may appoint one to three delegates to the Convention, who would serve until the Convention is adjourned, and who would together control a single vote on behalf of their state. If a state's multiple delegates do not agree on their state's vote, the view held by the majority of the delegates determines the vote. The Compact states repeatedly that the sole responsibility and goal of the Convention is to introduce and pass the BBA. In fact, Article 8 of the Compact states that any action beyond approving the Convention Rules listed in the Compact and introducing, debating and voting on the BBA as written is "ultra vires," or beyond the legal power or authority of the Convention, and void from the outset. The Convention will permanently adjourn 24 hours after it convenes or once it has completed the business on its agenda.

Until three-fourths of the states become Member States, a state may withdraw at any time by enacting appropriate legislation in its state legislature without the withdrawal affecting the validity for the remaining Member States. However, once three-fourths of states have become Member States, no Member State may withdraw without unanimous consent by all the Member States.

As defined in the Compact, the Balanced Budget Amendment would contain the following language:

> Article ________
>
> Section 1. Total outlays of the government of the United States shall not exceed total receipts of the government of the United States at any point in time unless the excess of outlays over receipts is financed exclusively by debt issued in strict conformity with this article.
>
> Section 2. Outstanding debt shall not exceed authorized debt, which initially shall be an amount equal to 105 percent of the outstanding debt on the effective date of this article. Authorized debt shall not be increased above its aforesaid initial amount unless such increase is first approved by the legislatures of the several states as provided in Section 3.
>
> Section 3. From time to time, Congress may increase authorized debt to an amount in excess of its initial amount set by Section 2 only if it first publicly refers to the legislatures of the several states an unconditional single subject measure proposing the amount of such increase, in such form as provided by law, and the measure is thereafter publicly and unconditionally approved by a simple majority of the legislatures of the several states, in such form as provided respectively by state law; provided that no inducement requiring an expenditure or tax levy shall be demanded, offered or accepted as a quid pro quo for such approval. If such

approval is not obtained within 60 calendar days after referral then the measure shall be deemed disapproved and the authorized debt shall thereby remain unchanged.

Section 4. Whenever the outstanding debt exceeds 98 percent of the debt limit set by Section 2, the President shall enforce said limit by publicly designating specific expenditures for impoundment in an amount sufficient to ensure outstanding debt shall not exceed the authorized debt. Said impoundment shall become effective 30 days thereafter, unless Congress first designates an alternate impoundment of the same or greater amount by concurrent resolution, which shall become immediately effective. The failure of the President to designate or enforce the required impoundment is an impeachable misdemeanor. Any purported issuance or incurrence of any debt in excess of the debt limit set by Section 2 is void.

Section 5. No bill that provides for a new or increased general revenue tax shall become law unless approved by a two-thirds roll call vote of the whole number of each House of Congress. However, this requirement shall not apply to any bill that provides for a new end user sales tax which would completely replace every existing income tax levied by the government of the United States; or for the reduction or elimination of an exemption, deduction, or credit allowed under an existing general revenue tax.

Under Article 5 of the U.S. Constitution, Congress must call a convention to propose amendments to the Constitution if required by two-thirds majority of both the U.S. Senate and U.S. House of Representatives, or upon the application of two-thirds of the state legislatures. Any proposed amendment then must be ratified by the legislatures of three fourths of the states or at conventions in three-fourths of the states.

The Compact contains ten articles, spelling out in detailed provisions its purpose and intent; the nature of compact membership; the role of the Compact Commission and Administrator; the resolution applying for a convention; delegate appointments, limitations, and instructions; the rules of the convention; prohibitions on participation in the convention and limits on actions; resolution for BBA ratification; and construction, enforcement, venue, and severability.

FISCAL IMPACT:

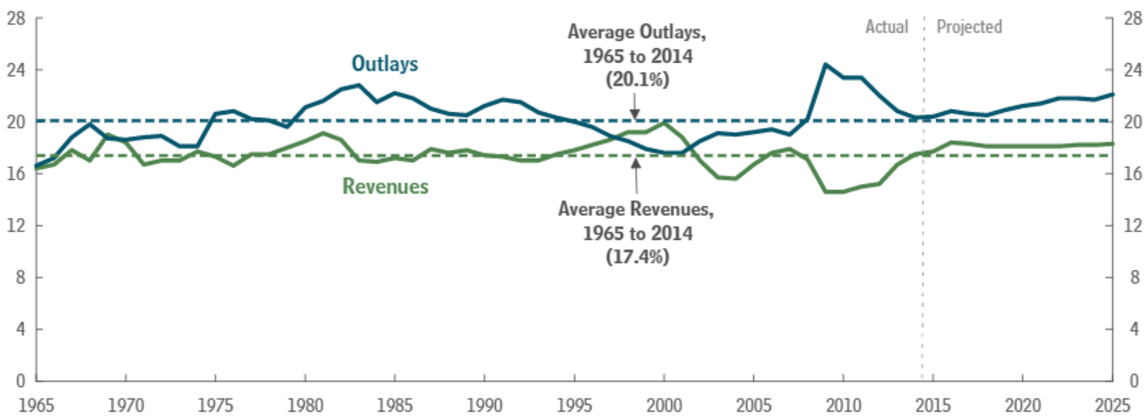
Enactment of the bill itself would have no significant fiscal impact on state or local government. Adoption of and compliance with the federal constitutional amendment described in the resolution could have a substantial fiscal impact on state and local government, depending on how adjustments were made to the federal budget and/or tax code to bring it into balance. For reference, $23.1 billion, or 43.0%, of the current FY 2015-16 state budget of $53.6 billion is appropriated from federal sources. The largest budget areas for which federal funds are received are Health and Human Services, School Aid, and Transportation.[1]

BACKGROUND INFORMATION:

The chart below, produced by the nonpartisan Congressional Budget Office (CBO), provides historical and projected information on federal revenues, outlays, and budget deficits or surpluses.[2] Generally, deficits have increased during periods of economic downturn and decreased during periods of economic growth, although federal tax and budget policy changes also contribute to changes in deficits over time.

Total Revenues and Outlays

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

The federal budget was most recently balanced in the late 1990's. Deficits increased over the ensuing decade, spiking to nearly 10% of Gross Domestic Product (GDP) in 2009 following the Great Recession. The deficit has declined over the last few years to a current level of approximately 2.5% of GDP. The CBO projections indicate that deficits will increase somewhat over the next several years and then persist within a range of roughly 3 to 4% of Gross Domestic Product (GDP) under current federal policies through 2025.

The CBO's projections are that federal debt held by the public will continue to be in the range of 75% to 80% of GDP over that period. This percentage has roughly doubled since the early 2000's.

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[1] Source: http://www.house.mi.gov/hfa/PDF/Appropriations_Year_to_Date_FY16_Alpha.pdf.
[2] Source: https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/49973-UpdatedBudgetProjections_0.pdf.