

Legislative Analysis



INCREASE MAXIMUM ALLOWED IN MUNICIPAL BUDGET STABILIZATION FUNDS

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Senate Bill 569 as reported from House committee

Sponsor: Sen. Mike Nofs

House Committee: Local Government

Senate Committee: Local Government

Complete to 5-18-16

(Enacted as Public Act 169 of 2016)

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: Senate Bill 569 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—can create a budget stabilization fund (or "rainy day fund") in order to divert to it all or part of a surplus in its general fund. It must do this by an ordinance or resolution, adopted by a two-thirds vote of the members elected and serving. A municipality may not raise taxes to provide for money to make an appropriation to the budget stabilization fund, and the law 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 financial analyst for 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 the cap to 20 percent.

THE CONTENT OF THE BILL:

Senate Bill 569 would amend Public Act 30 of 1978 to increase the maximum amount allowed in a municipality's budget stabilization fund.

Currently, the act limits the maximum amount in the fund to not more than 15 percent of the municipality's most recent general fund budget, as originally adopted, or 15 percent of the average of the municipality's five most recent general fund budgets, as amended, whichever is less. The bill would increase the maximum percentage of funds to 20 percent.

As before, appropriations to the fund are voluntary, and may be effected by a two-thirds vote of the members of the municipality's governing board.

The bill would take effect 90 days after its enactment.

MCL 141.443

HOUSE COMMITTEE ACTION:

The House Local Government Committee reported out the Senate-passed version of Senate Bill 569 without amendment.

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. For several years, Bay County's reserve set-aside has approached the maximum that Michigan law allows local governments to earmark for their "rainy day funds"—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).

Against:

No arguments were made in opposition in committee.

POSITIONS:

A representative of Bay County testified in support of this bill. (5-11-16)

Michigan Department of Treasury supports this bill. (5-11-16)

Michigan Association of Counties supports this bill. (5-11-16)

Michigan Townships Association supports this bill. (5-11-16)

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.