



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 569 (as enrolled)
Sponsor: Senator Mike Nofs
Senate Committee: Local Government
House Committee: Local Government

Date Completed: 5-26-16

RATIONALE

Public Act 30 of 1978 authorizes the governing body of a municipality (a county, city, village, or township), by ordinance, to establish a budget stabilization fund. The governing body may appropriate money in the fund for specified purposes, which include covering a general fund deficit, preventing a reduction in the level of public services, and covering expenses arising from a natural disaster. Each fiscal year, the governing body may appropriate to the fund all or part of a surplus in the general fund. The amount of money in the budget stabilization fund, however, may not exceed a certain percentage of the municipality's general fund budget. Some people believe that the limit is too low and prevents a local unit from bolstering its reserves in good budget years in order to prepare for years in which revenue declines.

CONTENT

The bill would amend Public Act 30 of 1978 to increase the maximum amount of money allowed in a municipality's budget stabilization fund.

The Act limits the size of a municipality's budget stabilization fund to 15% of its most recent general fund budget, as originally adopted, or 15% of the average of its five most recent general fund budgets, as amended, whichever is less. The bill would increase those percentages to 20%.

The bill would take effect 90 days after its enactment.

MCL 141.443

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

A budget stabilization fund (commonly known as a "rainy day fund") allows a governmental unit to set aside money for certain purposes. Money in the fund can guard against the fallout of difficult economic times, such as general fund deficits or reductions in public services, and can be used to respond to an emergency situation like a natural disaster. The extended economic struggles and accompanying budgetary challenges that Michigan and its local units of government experienced during the latest recession illustrate why rainy day funds are needed. As the economy has begun to rebound in recent years, many local units' revenue and budgetary situations also are improving. It would be sensible to allow local governments to be good stewards of their resources by allowing them to dedicate a little more money to their rainy day funds, in order to insulate their residents from the effects of future economic and budgetary challenges.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would tend to reduce local government costs and increase local government revenue. A local government that adopted a budget stabilization fund at the higher amounts allowed by the bill could reduce or avoid borrowing costs or disruptions in services due to unexpected changes in costs or revenue. A larger balance in a stabilization fund would increase interest earnings on the fund, which would depend on the level of interest rates. The impact would vary by local government based on local decisions and financial conditions.

Fiscal Analyst: Elizabeth Pratt

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.