Legislative Analysis

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BUDGET STABILIZATION FUND AMENDMENTS

House Bill 4602 as reported from committee
Sponsor: Rep. Laura Cox
Committee: Appropriations
Complete to 9-28-18

SUMMARY:

House Bill 4602 would amend the Management and Budget Act to do all of the following:

- Modify the calculation of adjusted personal income as used to determine pay-ins and pay-outs from the Countercyclical Budget and Economic Stabilization Fund (BSF).
- Change the criteria for transferring and appropriating money out of the fund.
- Specify that a legislative appropriation is required for transfers into or out of the BSF.
- Increase the maximum allowable size of the fund.
- Change reporting requirements.
- Repeal sections 353 and 397 of the act.

Under current law, adjusted personal income is determined by subtracting transfer payments from each calendar year's personal income and then adjusting for inflation using the average Detroit consumer price index (CPI) for a 12-month period ending six months before the calendar year. HB 4602 would use a 12-month Detroit CPI period that covers the same calendar year as personal income.

The bill would also change the criteria under which withdrawals may be made. Under the bill, for any year for which the growth in adjusted personal income is greater than zero, no withdrawal would be permitted except for an emergency withdrawal as outlined in section 358.

Under current law, if growth in adjusted personal income is negative, the recommended pay-out is the growth in adjusted personal income, expressed as a percentage, multiplied by the size of the General Fund, so that the negative result signifies a withdrawal. In contrast, under the bill, if growth in adjusted personal income is negative, any withdrawal would be limited to 25% of the BSF balance, as opposed to a percentage of the General Fund.

Repealing section 353 would eliminate a guideline under which the legislature may appropriate from the BSF in periods of high unemployment. Section 397, which would also be repealed, is a reference to appropriations in FY 2001-02.

Additionally, the bill would increase the maximum permissible size of the BSF in any year from 10% of combined General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenues to 15%. Any amount greater than the cap would have to be rebated to taxpayers.

Finally, HB 4602 would prohibit the executive budget from containing a transfer out of the BSF in any year unless the annual growth rate for that year is negative and would require estimates of the maximum allowable pay-outs to be included as part of the consensus revenue estimating conference.

FISCAL IMPACT:

Because the bill would only change criteria pertaining to the BSF, there would be no direct impact on state or local revenues.

Based on the appropriated deposits and estimates of interest earnings, the projected BSF balance will be slightly over $1.0 billion by the end of FY 2017-18. Additionally, at the May 2018 consensus revenue estimating conference, FY 2017-18 GF/GP revenue was estimated at just under $10.5 billion.

Purely as an example, if the growth rate in adjusted personal income were -2.0%, current law would recommend a pay-out of about $209.3 million, whereas HB 4602 would limit any pay-out to no more than $250.0 million.

Finally, at the May 2018 consensus revenue estimating conference, combined GF/GP and SAF revenue for FY 2017-18 was estimated at $23.7 billion, which means the balance in the BSF would be about 4.2% of combined GF/GP and SAF revenues.

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