Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 4602 (Substitute S-1 as passed by the Senate)
Sponsor: Representative Laura Cox
House Committee: Appropriations
Senate Committee: Appropriations

Date Completed: 12-20-18

CONTENT

The bill would amend the Management and Budget Act to:

- **Change the criteria for transferring money into and out of the Countercyclical Budget and Economic Stabilization Fund (BSF).**
- **Modify the definition of "adjusted personal income" that is used to calculate pay-ins and pay-outs from the BSF.**
- **Increase the maximum allowable size of the Fund from 10% of the combined General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue to 15% of the combined revenue.**
- **Specify that the Legislature would have to provide for transfers into or out of the Fund through an appropriation.**

The bill also would repeal Sections 353 and 397 of the Management and Budget Act. (Section 353 of the Act allows the Legislature to appropriate money from the BSF for specific economic stabilization purposes in any calendar quarter following a quarter in which unemployment is higher than 8.0%. Section 397 pertains to appropriations for fiscal year (FY) 2001-02.) The bill would take effect 90 days after its enactment.

Under the Act, "adjusted personal income" is the total personal income of the State, less transfer payments, adjusted for inflation. The inflation rate for a calendar year is the average of the Detroit Consumer Price Index (CPI) for the twelve months ending six months before the calendar year ends (i.e., July 1 of the previous calendar year through June 30 of the current applicable year). The bill would change the inflation rate to be the average of the Detroit CPI for the same calendar year (i.e., January 1 through December 31 of the applicable calendar year).

The Act currently specifies that when the annual percentage change in adjusted personal income is less than 0%, a transfer from the BSF to the General Fund must be calculated by multiplying the percentage decline in adjusted personal income by the total GF/GP revenue for the fiscal year ending in the current calendar year, unless that amount is more than is needed to balance the current year GF/GP budget.

The bill would prohibit the Legislature from appropriating money from the Fund during a fiscal year when the annual growth rate was estimated to be greater than 0% at the most recent consensus revenue estimating conference, except for emergency appropriations provided for in the Act. When the annual growth rate was estimated to be less than 0% at the Consensus Revenue Estimating Conference (CREC), the Legislature could appropriate up to 25% of the available Fund balance in the fiscal year ending in the current calendar year. If the annual growth rate were estimated to be less than 0% in consecutive calendar years, the Legislature could appropriate up to 25% of the available Fund balance at the beginning of the first fiscal year ending in the first calendar year that had an annual growth rate less than 0%.

The Act also allows for adjustments to transfers into or out of the Fund based on updated estimates of State personal income. The adjustment must be directly proportional to an increase or decrease in the annual growth rate, and it cannot be greater than 1% of the GF/GP revenue for the applicable fiscal year. The bill would remove the 1% limitation and would make the requirement for a proportional increase or decrease apply only to transfers into the Fund.

Finally, the Act currently provides that all unreserved GF/GP balances at the close of the fiscal year shall be transferred to the BSF. The bill would remove that provision.

MCL 18.302 et al.

FISCAL IMPACT

The bill would have no direct fiscal impact on the State or local government. Any fiscal impact would depend on the appropriation decisions of future legislatures, as any funds transferred into or out of the BSF would have to be appropriated.

Based on enacted deposits and estimated interest earnings, the BSF ended FY 2017-18 with a balance of approximately $1.0 billion. The May 2018 CREC estimated FY 2017-18 GF/GP revenue at $10.5 billion and SAF revenue at $13.2 billion ($23.7 billion combined). Using these amounts, it is possible to show examples of the changes in the bill.

The current BSF balance is approximately 4.2% of the combined GF/GP and SAF revenue for FY 2017-18. Under current law, the maximum balance for the BSF would be 10% of combined revenue, or approximately $2.4 billion. The proposed changes in the bill would allow for a maximum balance of 15% of combined revenue, or approximately $3.6 billion.

Under current law, if the State adjusted personal income fell by 2.0% in 2018, the statute would call for a pay-out from the BSF of approximately $209.4 million. Given the current balance of the BSF, the bill would allow for a pay-out of approximately $250.0 million. As another example, if the State adjusted personal income fell by 4.6%, as it did in 2009, the current statute would call for a pay-out of approximately $481.5 million, while the bill would allow the same maximum pay-out of approximately $250.0 million. Under the bill, the maximum pay-out would be the same regardless of the percentage decline in adjusted personal income, as it would be based on the total balance of the BSF, not the percentage decline multiplied by GF/GP revenue.

Fiscal Analyst: Ryan M. Bergan

SAS\S1718\s4602sb