Budget Stabilization Fund
2014 Report

Office of Revenue and Tax Analysis
Michigan Department of Treasury
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Acknowledgments

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Budget Stabilization Fund

Background

The Counter-Cyclical Budget and Economic Stabilization Fund, most commonly called the Budget Stabilization Fund (BSF) or the Rainy Day Fund, was established in 1977 by Public Act 77. The statutory provisions that govern the BSF can be found in the Management and Budget Act, MCL 18.1351 to 18.1359. These statutory provisions are summarized below.

Purpose (Section 351)

- The Budget Stabilization Fund (BSF) was created in order to reserve funds during positive economic times and then have the funds available to use during times of high unemployment and economic downturns.

Pay-In and Pay-Out Formula (Section 352)

- The transfer of funds into and out of the BSF is based on the annual growth rate in Michigan personal income, less transfer payments, adjusted for inflation (this calculation is known as “adjusted real personal income”). The inflation adjustment is based on the Detroit Consumer Price Index. It is important to note that the transfer of funds into and out of the BSF, based on the annual growth rate of adjusted real personal income, does not occur automatically; all BSF transfers must be appropriated by the legislature.

  Personal income is the income that is received by all persons from all sources (such as wages and salaries, interest, dividends, property income, proprietor income and transfer payments) and is a good measure of overall economic activity. *Transfer payments* consist primarily of government payments to individuals including social security, income assistance programs, unemployment benefits and veteran’s benefits.

  1. Payments into the BSF: When the annual growth rate in adjusted real personal income is more than 2% for a calendar year, the percentage excess over 2% shall be multiplied by the total General Fund-General Purpose (GF-GP) revenue for the fiscal year ending in the current calendar year to determine the amount available to be transferred, upon appropriation, to the BSF from the General Fund (GF) in the fiscal year beginning in that calendar year.

     - Example: If the adjusted real personal income for CY 2014 was 3.0% and the GF-GP revenue for FY 2014 was $9.0 billion then $90.0 million would be transferred, upon appropriation, from the GF to the BSF in FY 2015 (i.e. 3.0% minus 2.0% multiplied by $9.0 billion = $90.0 million)

  2. Payments out of the BSF: When the annual growth rate in adjusted real personal income is less than 0% in a calendar year, the percentage deficiency under 0% shall be multiplied by the total GF-GP revenue for the fiscal year ending in the calendar year to determine the eligible amount available to be transferred, upon appropriation, to the General Fund from the BSF in that same fiscal year (the fiscal year ending in that calendar year). When the formula calls for a larger transfer from the BSF than is necessary to balance the GF-GP budget, the excess shall remain in the BSF.

     - Example: If the adjusted real personal income for CY 2014 was a negative 1.0% and the GF-GP revenue for FY 2014 was $9.0 billion then $90.0 million would be transferred, upon appropriation, from the BSF to the GF in FY 2014 (i.e. negative 1.0% minus 0.0% multiplied by $9.0 billion = $90.0 million)

Allowable Appropriations (Section 353)

- The legislature may appropriate transfers in and out of the BSF even if the statutory formula does not trigger a transfer.

- If the unemployment rate is 8% or more, state law allows transfers to be appropriated out of the BSF with the following restrictions:

  1. Appropriations are limited to:
     a. 2.5% of the BSF balance if the unemployment rate is between 8% and 11.9%
     b. 5% of the BSF balance if the unemployment rate is 12% or higher.

  2. Allowable purposes for these appropriations include:
     a. Capital outlay
     b. Public works and public service jobs
     c. Refundable business tax credits to incentivize new outlays and hiring
     d. Any purpose to provide employment opportunities to counter the state's economic cycle

Estimates of Future Transfer Amounts (Section 354)

- The estimate for all transfers in or out of the BSF for future fiscal years shall be detailed in both the Executive Budget and the budget enacted by the legislature.

- The statute regulating the Consensus Revenue Estimating Conference, 1984 Public Act 431 (MCL 18.1367b (3)(j)), requires that an estimate of the BSF pay-ins and pay-outs be completed.

- Appropriated transfers into the BSF are to be made in monthly installments and appropriated withdrawals can be made as needed during the fiscal year.

GF-GP Unreserved Balance Transfer (Section 354)

- All unreserved GF-GP fiscal year fund balances shall be transferred to the BSF, but for this to actually occur the transfer must be appropriated.

Adjustment of Transfers Into or Out of the BSF (Section 355)

- Transfer amounts may be adjusted if the adjusted real personal income annual growth rate is revised. The adjustment would be proportional to the increase/decrease in the growth rate, and cannot exceed 1% of the GF-GP revenue for the fiscal year. Any adjustment transfers must also be appropriated by the legislature.

Limit on Fund Balance (Section 356)

- At the end of a fiscal year, the BSF balance is limited to 10% of the combined General Fund-General Purpose and School Aid Fund revenues for that fiscal year. If the BSF balance exceeds that amount, the excess is to be rebated to taxpayers who file an individual income tax return in the following fiscal year.

Shortfall in State General Fund (Section 357)

- If, after the transfer into the BSF, the General Fund-General Purpose revenue for the fiscal year falls short of the amount appropriated in the state budget, an amount not to exceed the original BSF transfer may be transferred back upon appropriation into the General Fund in order to restore the originally appropriated balance.

Emergency Appropriation from Fund (Section 358)

- The legislature may make an emergency appropriation from the BSF, beyond the original amount determined, through a 2/3 majority vote of each house of the legislature. If an emergency appropriation from the BSF is passed, the transfer can only occur in the current fiscal year.

Investment of BSF Balance (Section 359)

- The state treasurer may combine the amount in the BSF with other funds in the state treasury for purposes of cash management.

<u>Table 1</u> presents a history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and fiscal year-end balances from FY 1978 through FY 2013. Also presented in this table are the pay-ins and pay-outs already appropriated for FY 2014 and FY 2015.

Table 1

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS AND FUND BALANCE
FY 1978 TO FY 2015 ESTIMATE
(Millions of Dollars)

Fiscal Year	Pay-In	Interest Earned	Pay-Out	Fund Balance
1978	$108.7	$6.2	$0.0	$114.9
1979	104.1	22.1	0.0	241.1
1980	0.0	32.1	263.7	9.5
1981	0.0	9.2	16.3	2.4
1982	0.0	0.6	0.0	3.0
1983	0.0	0.2	0.0	3.2
1984	0.0	0.2	0.0	3.4
1985	340.9	30.8	34.2	340.9
1986	30.6	28.2	14.7	385.1
1987	0.0	24.1	24.8	384.4
1988	0.0	29.2	20.4	393.1
1989	0.0	38.0	11.9	419.2
1990	0.0	35.8	69.9	385.1
1991	0.0	27.1	230.0	182.2
1992	0.0	8.1	170.1	20.1
1993	282.6	0.7	0.0	303.4
1994	460.2	11.9	0.0	775.5
1995	260.1	57.7	90.4	1,003.0
1996	91.3	59.2	0.0	1,153.6
1997	0.0	67.8	69.0	1,152.4
1998	0.0	60.1	212.0	1,000.5
1999	244.4	51.2	73.7	1,222.5
1990	100.0	73.9	132.0	1,264.4
2001	0.0	66.7	337.0	994.1
2002	0.0	20.8	869.8	145.1
2003	9.1	1.8	156.0	0.0
2004	81.3	0.0	0.0	81.3
2005	0.0	2.0	81.3	2.0
2006	0.0	0.1	0.0	2.0
2007	0.0	0.1	0.0	2.1
2008	0.0	0.1	0.0	2.2
2009	0.0	0.0	0.0	2.2
2010	0.0	0.0	0.0	2.2
2011	0.0	0.0	0.0	2.2
2012	362.7	0.2	0.0	365.1
2013	140.0	0.5	0.0	505.6
Estimates*				
2014	85.0	0.6	194.8	396.4
2015	111.4	1.6	0.0	509.4

Source: State of Michigan Comprehensive Annual Financial Reports (FY 1978 to FY 2013)
**Estimates based on pay-ins and pay-outs appropriated in the FY 2014 and FY 2015 enacted budgets.*