

DATE: June 26, 2014
TO: House Appropriations Committee
FROM: Kyle I. Jen, Deputy Director
Jim Stansell, Senior Economist
RE: Budget Stabilization Fund

This memorandum provides updated estimates for the ending balance of the state's Budget Stabilization Fund (BSF) based on recent legislative actions. The final BSF balance for FY 2012-13 was \$505.6 million. HFA currently estimates an ending BSF balance of \$386.3 million for FY 2013-14 and \$499.0 million for FY 2014-15. Under the FY 2014-15 leadership target agreement, additional funds will be deposited into the BSF from FY 2013-14 GF/GP appropriation lapses.

Recent Legislative Actions

Last week, the Governor signed into law a package of legislation related to the proposed settlement of the City of Detroit bankruptcy. Included in the package was House Bill 5574, which authorizes an FY 2013-14 transfer of \$194.8 million from the BSF to the Settlement Administration Fund created by House Bill 5575. Funds will be disbursed from that fund by the newly created Michigan Settlement Administration Authority to the police and fire retirement system and general retirement system of the City of Detroit if certain specified conditions related to the proposed bankruptcy settlement are met. If the conditions are not met, the funds would be returned from the Settlement Administration Fund to the BSF.¹

The figure of \$194.8 million represents a discounted lump sum payment equivalent to the state making an annual payment of \$17.5 million to the city's retirement systems for 20 years. House Bill 5573 provides for \$17.5 million in annual tobacco settlement revenues received by the state to be deposited into the BSF from FY 2014-15 through FY 2034-35. That time period covers 21 years, so \$367.5 million will eventually be repaid to the BSF under the bill's provisions. (These transactions effectively represent the state borrowing funds from itself, avoiding interest and other borrowing costs that would be involved if the funds were borrowed from an outside lender.) The FY 2014-15 enacted budget reserves (that is, does not appropriate) \$17.5 million in available tobacco settlement revenues for this purpose so funds are available to make this transfer.

Separately, the enacted FY 2014-15 budget includes a deposit of \$94.0 million of GF/GP revenue into the BSF. This is an increase of \$19.0 million from the FY 2013-14 deposit amount of \$75.0 million. The May Consensus Revenue Estimating Conference had calculated that no BSF deposit was called for in FY 2014-15 under statutory guidelines, but the actual deposit amount is based on legislative budget action.²

¹ For a complete summary of the legislative package, see this HFA document:

<http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-5566-7780ED85.pdf>

² See Table 3 of this document for the statutory calculations:

http://www.house.mi.gov/hfa/PDF/Revenue_Forecast/CREC_Memo_Final_May15.pdf

BSF Balance Estimates

Based on these legislative actions, Table 1 provides current HFA estimates of BSF balances for FY 2013-14 and FY 2014-15. Estimated interest earnings are very low because funds in the BSF are invested with the state’s common cash for cash flow purposes.

TABLE 1
Budget Stabilization Fund Estimates
Millions of \$

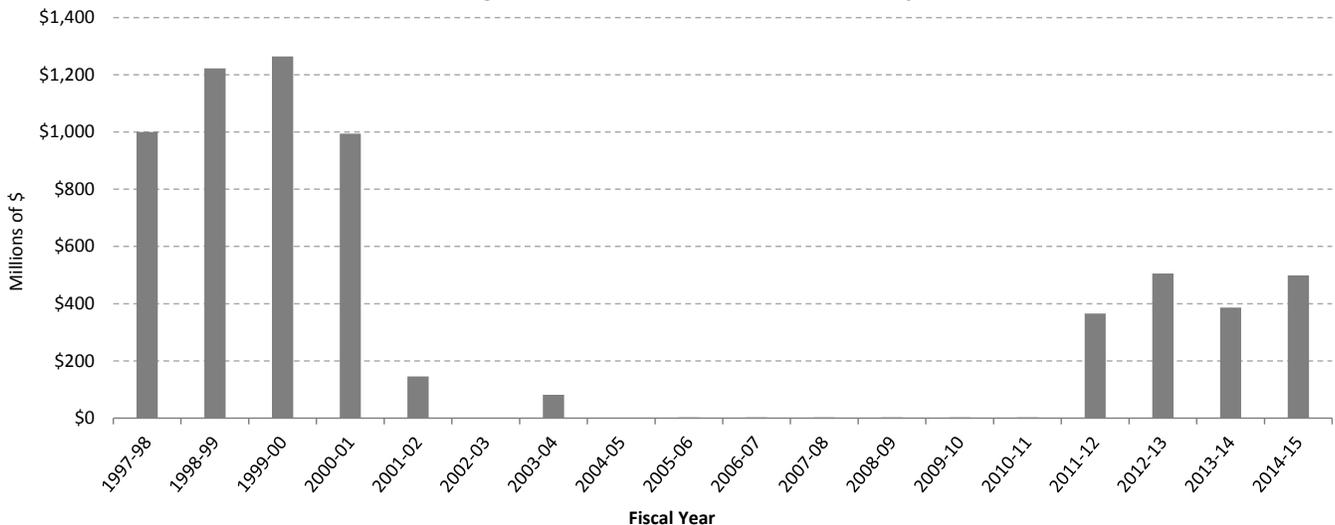
| | |
|--|----------------|
| FY 2012-13 ending balance | \$505.6 |
| FY 2013-14 deposit | 75.0 |
| Transfer to Settlement Authority Fund | (194.8) |
| Estimated FY 2013-14 interest | <u>0.5</u> |
| Estimated FY 2013-14 ending balance | \$386.3 |
| | |
| FY 2014-15 deposit | \$94.0 |
| FY 2014-15 tobacco settlement repayment | 17.5 |
| Estimated FY 2014-15 interest | <u>1.2</u> |
| Estimated FY 2014-15 ending balance | \$499.0 |

Consistent with the leadership target agreement for the FY 2014-15 budget, the State Budget Office has recommended supplemental budget language that would provide for one-third of any GF/GP appropriation lapses at the close of FY 2013-14 to be deposited into the BSF. (Another third would be deposited into the School Aid Fund and the final third would remain in the General Fund.) Assuming this language is enacted by the Legislature, the BSF balances for FY 2013-14 and FY 2014-15 will be somewhat higher than those shown above depending on the level of FY 2013-14 GF/GP lapses.

Long-Term BSF Balance Information

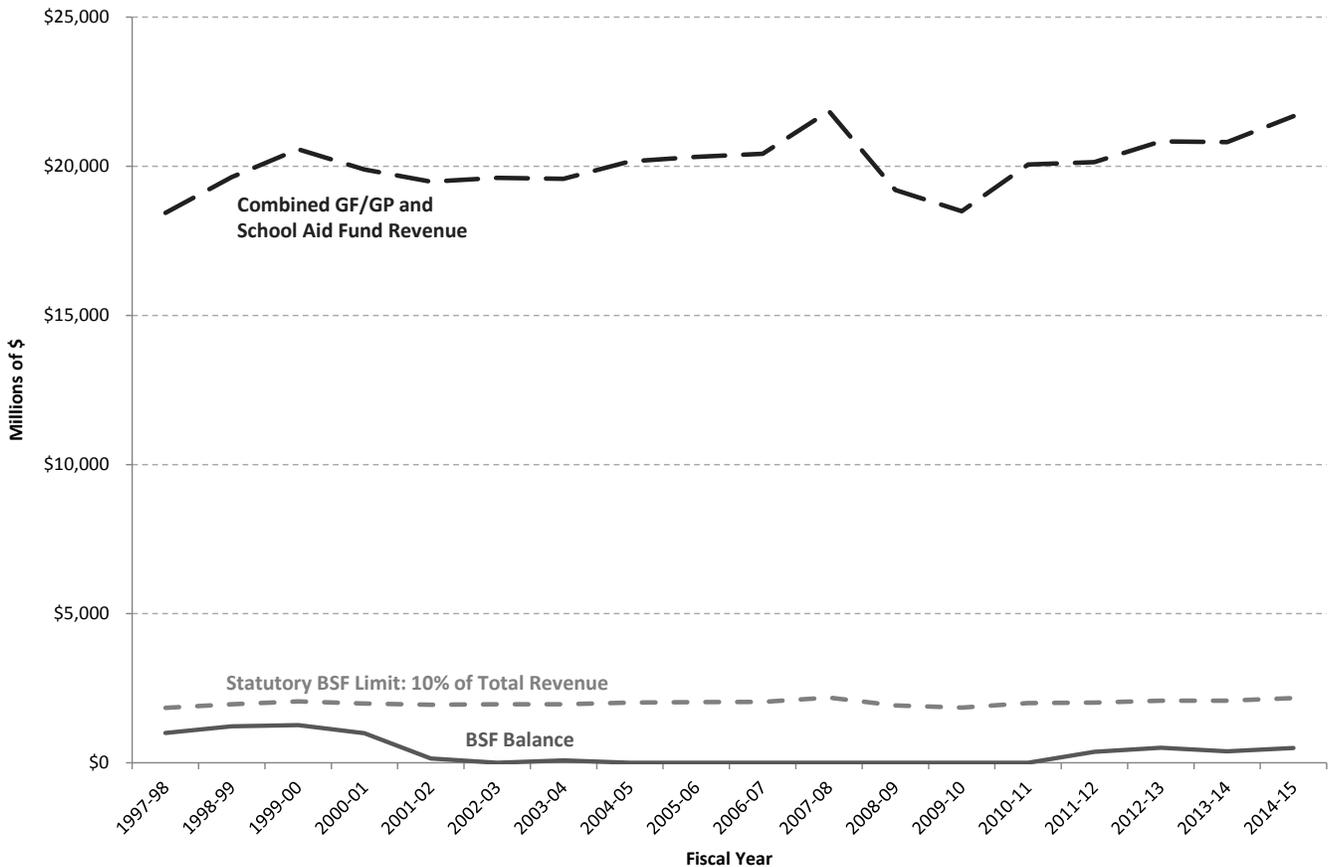
Figures 1 and 2 provides longer term historical information on BSF balances. The peak balance occurred in FY 1999-2000 at \$1.26 billion, which equated to 6.1% of combined state General Fund and School Aid Fund revenue. That balance was exhausted by FY 2002-03 and no significant amount of funds was held in the BSF through FY 2010-11.

FIGURE 1
Budget Stabilization Fund Balance History



The estimated balance of \$499.0 million for FY 2014-15 equates to 2.3% of estimated combined General Fund and School Aid Fund revenue for that year. The Management and Budget Act sets a cap on the balance held in the BSF of 10% of combined General Fund and School Aid Fund revenue.

FIGURE 2
State Revenue and Budget Stabilization Fund Balance



For additional background information on the Budget Stabilization Fund, see the 2013 HFA report on the topic.³ Please call if you have questions regarding this topic.

³ http://www.house.mi.gov/hfa/PDF/Alpha/Budget_Stablilzation_Fund_FiscalForum_Feb2013.pdf