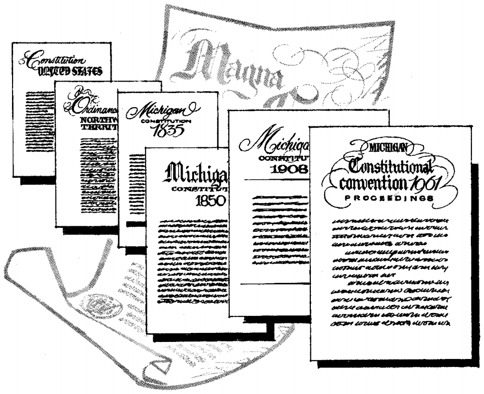

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AN ANALYSIS

of the

PROPOSED CONSTITUTION

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BUDGETING, ACCOUNTING, PENSION AND DEBT PROVISIONS

The proposed constitution includes new provisions on state and local budgeting and on the benefits and financing of public pension systems. Substantial changes are made in the provisions of the proposed constitution relating to debt and accounting for public funds.

One of the major innovations in the proposed constitution is the establishment of a constitutional framework for a state budget system. Michigan has had a state budget system for over forty years, but the system has been entirely statutory. This constitutional framework for a budget system is intended to promote the orderly management of the status financial affairs and to provide a mandate for a balanced budget.

Underlying the constitutional budget system are two basic provisions which have been carried over without substantial change from the present constitution.

1. "No money shall be paid out of the state treasury except in pursuance of appropriations made by law." This provision requires that all expenditures of money be authorized by statute or by the constitution. Thus, the spending of money is subjected to a number of procedural safeguards, some of which are applicable to all statutes and some of which specifically apply to appropriations statutes.

2. "The legislature shall impose taxes sufficient with other resources to pay the expenses of state goverment." This is a general mandate to the legislature to use its taxing powers to pay the expenses of the state.

The proposed constitution supplements these basic provisions by providing for a constitutional budget system which includes an executive budget, the legislative appropriation process, and a system of budget administration and control.

Preparation and Submission of the Executive Budget

The proposed constitution places in the chief executive of the state, the governor, the responsibility for preparing and submitting to the legislature a budget. The executive budget preparation

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provision requires the following:

1. The governor shall submit to the legislature at a time fixed by law a budget for the ensuing fiscal period setting forth in detail for all operating funds the proposed expenditures and estimated revenues of the state. This gives the governor the constitutional responsibility and authority for submitting a comprehensive plan of financial operation covering all agencies and activities of the state including those officers and institutions not directly responsible to the governor.

2. Proposed expenditures *shall not* exceed estimated revenues. This is a requirement for the governor to submit a balanced budget.

3. At the same time the bud-et is submitted, the governor shall submit appropriation bills embodying proposed expenditures and any bills needed to provide additional revenues to meet proposed expenditures. The purpose of this provision is to place the executive budget before the legislature in the form in which the legislature acts on measures—in bill form.

4. The governor shall include in the budget the amount of any surplus or deficit incurred during the last preceding fiscal period and it shall be incorporated in an appropriation bill. This provision requires the financing of deficits within two years of when they occur and is designed to prevent the building up of a large accumulated deficit. Similarly, the provision requires that a prior surplus be included in the budget, thus preventing the accumulation of an unbudgeted surplus.

5. The governor is authorized to submit amendments to the next year's appropriation bills after they are in the legislature and is required to submit deficiency or supplemental appropriation bills for the current year. This will permit the governor to correct oversights in his original budget or provide for emergencies that arise during the budgetary process and requires the submission of bills to cover supplements needed during the current year.

Adoption of the Executive Budget

As a second step in the overall budget process the proposed constitution provides for legislative consideration and action on the executive budget bills.

1. The legislature must pass or reject the items set forth in the governor's appropriation bills prior to passing any appropriation for any other item, except supplemental appropriations for the current year. This provision is designed to insure consideration of and action on the governor's budget proposals prior to consideration of any other budget proposals.

2. Any bill requiring an appropriation is to be considered an appropriation bill. The apparent intent of this provision is to integrate into the budgetary process all legislation which involves the expenditure of money. This will prevent piece-meal appropriations which would vitiate the consolidated and balanced budget concepts.

3. One of the appropriation bills must contain an itemized statement of estimated revenues by major source in each fund, the total of which shall not be less than the total of the appropria-

tions made from each fund. The purpose of this provision is to require the legislature to adopt a balanced budget. At present, the legislature makes no official estimate of the revenues upon which its appropriations are based. It is impossible, therefore, to determine whether or not the legislative appropriations exceed estimated revenues. The requirement that revenue estimates be shown by major source for each operating fund will give the governor, who has the item veto power on appropriation bills, and the public the opportunity to determine whether the estimates are reasonable and thereby determine whether the legislature has complied with the balanced budget requirement.

Approval by the Governor

The third step in the budget process is the approval of the legislative appropriation bills by the governor. The proposed constitution requires, as does the present constitution, that every bill, including appropriation bills, passed by the legislature must be presented to the governor before it becomes law. All bills, except appropriation bills, must be approved or disapproved in their entirety. In the case of appropriation bills, the governor has item veto power-he may approve or disapprove any distinct item appropriating money. The parts approved become law and the items disapproved are void unless repassed by a two-thirds vote of the members elected to and serving in each house.

Budget Execution

The final step in the constitutional budget process is administration of the budget during the fiscal year in which it is effective. The constitutional provisions on budget execution are designed primarily to implement the requirements that the budget be balanced. The proposed constitution states that, "no appropriation shall be a mandate to spend." That is, appropriations are to be considered an "authorization" instead of a mandate to spend. The proposed constitution provides that when actual revenues fall below the estimates upon which the appropriations were based, thus threatening to throw the budget out of balance, the governor shall reduce expenditures with the approval of the house and senate appropriation committees. Procedures for reducing expenditures are to be prescribed by law. Expenditures of the legislative and judicial branches, which are co-equal with the executive branch, are exempted from the governor's expenditure-reduction powers as are funds constitutionally dedicated for specific purposes.

Budgets of Local Units of Government

A new provision requires that any county, township, city, village, authority or school district empowered to prepare a budget shall adopt such budget only after a public hearing in a manner prescribed by law.

Accounting

The proposed constitution continues the present constitutional requirements on accounting of funds by the state and counties and expands it to include all local units of government. The new provision requires an annual accounting of all public money, state and local, and interim accounting may be provided by law. The legislature is to provide by law for the maintenance of uniform accounting systems by units of local government—the present constitution requires a uniform system of accounts for counties.

The requirement of auditing of county accounts by competent state authority is continued, and a new provision calls for the auditing of other units of government as provided by law.

Pensions

A new provision makes the accrued financial benefits of each state and local pension plan a contractual obligation of the state or its subdivisions. The state and local units are prohibited from diminishing or impairing these accrued benefits. This provision is designed to give the employee a vested right in his earned pension benefits. It is further provided that financial benefits of pension plans arising on account of service rendered in each year shall be funded (paid for) during that year and that such funds shall not be used to finance unfunded accrued liabilities.

In order to provide greater flexibility in the investment of public pension funds, the proposed constitution exempts pension funds from the constitutional prohibition against granting the credit of the state or investing state funds in stock. The present prohibition against granting the credit of the state to any person, association or corporation, public or private, is continued with the proviso "except as authorized in this constitution." The proposed constitution provides that this shall not be construed to prohibit the investment of public pension funds as provided by law. The present prohibition against the state subscribing to or having an interest in stock is continued, except that public pension funds may be invested as provided by law.

Credit and Debt

The proposed constitution includes several provisions limiting the state's power to borrow money. In general the new sections provide- for greater flexibility in incurring and repaying debt than the present provisions.

General Provisions

The proposed constitution continues the prohibition against granting the credit of the state or using it to aid any person, association or corporation, public or private, but adds a new provision—"except as authorized in this constitution." This exception is needed because of the school bond loan fund provided for in the present and proposed constitutions(see below). The present general prohibition against issuing evidence of state indebtedness except for debts authorized pursuant to the constitution is also continued. This provision is intended to apply only to debt which involves the faith and credit of the state and not to revenue bonds. The debts authorized by the constitution and thus excepted from the general prohibition are discussed below.

Long-Term State Debt

The proposed constitution provides that the state may borrow money for specific purposes with the approval of two thirds of the members elected to and serving in the legislature and with the approval of a majority of the electors voting on the question. The question submitted to the electors must state the amount to be borrowed, the specific purpose for which the funds are to be used, and the method of repayment. Under the present constitution, the state cannot borrow money on its faith and credit without amending the constitution. While the proposed constitution retains the present safeguards for issuing bonds in terms of vote requirements (two thirds of the legislature and a majority of voters), the necessity for adding long and detailed amendments to the constitution authorizing specific bond issues is eliminated.

Two other provisions governing long-term debt are included in the Schedule and Temporary Provisions section of the proposed constitution. The first of these provides that contractual obligations of the state incurred pursuant to the present constitution shall continue to be obligations of the state. This section serves to protect the integrity of the state's faith and credit and to assure the rights of present bondholders. This provision also appropriates from the state's general fund sufficient monies to pay the principal and interest on the Korean War bonus bonds. A second special provision authorizes the legislature by a two-thirds vote to borrow money to refund the bonds issued by the Mackinac bridge authority. The present bridge bonds are revenue bonds and this authorizes refunding them by issuing faith and credit obligations of the state. The provision requires that the authority be abolished at the time of refunding and operation of the bridge transferred to the state highway department.

Short-Term State Borrowing

The proposed constitution provides short-term borrowing power for the state to meet revenue deficiencies during a fiscal year. The provision authorizes the state to issue faith and credit notes to meet obligations incurred pursuant to appropriations for any fiscal year and requires that undedicated revenues to be received during the same fiscal year be pledged for the repayment of these notes. Such notes must be repaid when the pledged revenues are received and not later than the end of the fiscal year in which they are issued. The amount of notes issued cannot exceed 15 per cent of the undedicated revenues received by the state during the previous year—this would authorize short-term borrowing of about $70 million at current levels of revenue. This provision does not authorize borrowing against future years' tax collections to meet current obligations, but it does provide flexibility in borrowing against revenues within any given year. The present constitution authorizes the state to borrow up to $250,000 to meet deficits in revenue.

School Bonds

The proposed constitution continues with minor change the present school bond loan fund provision. The provision authorizes the state to borrow money and pledge its faith and credit for the purpose of making loans to school districts under certain prescribed circumstances. A school district may borrow from the state funds to meet principal and interest payments on qualified bonds when the school district's debt service requirements exceed 13 mills ($13 per $1,000) on the state equalized valuation or such lower millage as may be prescribed by the legislature. The proposed constitution deletes the present time limit for issuing qualified bonds, of July 1, 1972. The provision also requires the state to lend money to a school district to pay debt service to prevent a default. Any school district receiving loans from the state is required to levy for debt service 13 mills or such lower millage as may be prescribed by law until the loan has been repaid.

The power of the school districts to tax for the payment of debt service or the repayment of state loans is without limitation as to rate or amount. The provision also protects the rights of holders of bonds issued under the present constitutional school bond fund provisions.

Borrowing by Public Bodies Corporate

A new provision authorizes public bodies corporate to borrow money and issue bonds subject to the constitution and laws. Units of government named as bodies corporate include the state universities and colleges, counties, townships, and cities and villages. The proposed constitution provides that the general laws providing for the incorporation of cities and villages and the charter county law shall restrict their powers to borrow money and contract debts. The constitutional debt limit for counties is placed at ten per cent of the assessed valuation, an increase from the present three per cent limit. Cities and villages are prohibited. from lending their credit for private purposes , but,are authorized to loan-their credit for public purposes provided by law. The proposed constitution also authorizes counties, townships, cities, villages and districts to lend their credit to one another as provided by law in connection with any authorized publicly owned undertaking. This provision is designed to permit the joint financing of public facilities by local units of government.

Two other provisions on the borrowing power of local units are significant. First, debt service is specifically exempted from the property tax millage limitation provision and taxes for debt service may be imposed without limitation as to rate or amount. Thus, the authorization of a bond issue will automatically carry with it the authorization to levy the taxes necessary to pay the debt service requirements. Another provision in the proposed constitution continues the present requirement that whenever the question of authorizing a bond issue is submitted to the electors of a political subdivision only property taxpayers and their spouses may vote on the question.