SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 554 (as reported without amendment)
Sponsor: Senator Norman D. Shinkle
Committee: Finance

Date Completed: 10-16-89

RATIONALE

Public Act 105 of 1855 regulates the disposition of surplus funds in the State Treasury and provides for the investment of those funds. (Surplus funds are, on any given date, the excess of cash and other assets that can be resolved into cash, over liabilities and necessary reserves on the same date.) The Act provides that the State Treasurer can invest surplus funds in commercial paper, financial institutions, and U.S. government obligations. The Act does not specify, however, that surplus funds can be invested in mutual funds, even if the portfolio of the mutual fund is limited to U.S. government obligations. It has been suggested that allowing the State Treasurer to invest in such mutual funds would, under certain favorable market conditions, give the State more flexibility in the use of its surplus funds.

CONTENT

The bill would amend Public Act 105 of 1855 to provide that the investment of surplus funds in bonds, notes, and other evidences of indebtedness of the U.S. government could include securities of, or other interests in, a "no-load open-end or closed-end management type investment company or investment trust" (mutual fund) if both the following were true:

-- The portfolio of the investment company or investment trust was limited to U.S. government obligations and repurchase agreements fully collateralized by U.S. government obligations.

-- The investment company or investment trust took delivery of collateral for any repurchase agreement either directly or through an authorized custodian.

MCL 21.143

FISCAL IMPACT

The bill would have an indeterminate fiscal impact. Allowing the investment of surplus State funds in mutual funds could increase or decrease the State's investment return depending on the relative rates of return between investment choices.

ARGUMENTS

Supporting Argument

While the State can invest surplus funds directly in U.S. government obligations, the language of Public Act 105 of 1855 does not specify that surplus funds can be invested indirectly through mutual funds that contain only U.S. government obligations. The bill would allow for such investments, and is patterned after legislation from 1988 (Public Act 280) that allowed private investment trusts to invest in mutual funds that were limited to U.S. government obligations. The bill would simply provide the State with another investment option.

Opposing Argument

The State has little or no money invested in U.S. government obligations at this time, because other investments yield a greater return. Even without existing market conditions, it is questionable why the State would want to pay a fee to a mutual fund management company for U.S. government investments, when it can invest directly in such obligations and not pay a fee. The reasons for an individual investor to invest in mutual funds--expertise and diversification--do not necessarily apply to the State, which has the expertise on staff and has a large enough supply of funds to diversify.

Response: The bill is entirely permissible. If the State's investors did not feel that surplus funds should be invested through mutual funds because of greater yields elsewhere, then they would not have to invest in mutual funds. It market conditions changed so that a mutual fund became attractive in the future, then the bill would ensure that the option was available.

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