SFA BILL ANALYSIS

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

Senate Bill 1113 (as enrolled) **PUBLIC ACT 281 of 1990**
Sponsor: Senator John M. Engler
Senate Committee: Finance
House Committee: Taxation

Date Completed: 1-23-91

RATIONALE

In 1985, the Legislature enacted the Shared Credit Rating Act, which created the Michigan Municipal Bond Authority (MMBA) to make money available to units of government--including school districts, community colleges, and public universities--at lower rates or on more favorable borrowing terms than they would have been able to achieve on their own. The Act authorizes the MMBA: to issue negotiable tax-exempt revenue bonds and notes, which do not constitute an obligation of the State; to buy municipal bonds under certain conditions; and to loan money to any political subdivision of the State. Local units may pledge present or future State revenue sharing or school aid payments for the repayment of money borrowed from the Authority. The Authority may not have more than $800 million in bonds outstanding at any given time, excluding refunding bonds.

In 1986, the Act was amended to extend the ability of the Authority to issue bonds and notes to October 1, 1990. Some people believe that the Authority's power to issue new bonds and notes has been a success, and should be extended through 1995, to help local governments finance public improvements. Further, it has been suggested that the $800 million limit be eliminated to give the Authority more flexibility to issue bonds, and that the Authority be allowed to manage the investments of local units and create and manage investment pools for local units.

CONTENT

The bill would amend the Shared Credit Rating Act to extend to December 31, 1995, the authority of the MMBA to issue new bonds and notes; allow the Authority to manage an investment, or create and manage an investment pool, for a local governmental unit; permit a governmental unit to contract with the Authority to invest the unit's money in an investment pool; and, repeal a provision that prohibits the Authority from having more than $800 million in bonds outstanding at any given time, excluding refunding bonds.

The bill would give the MMBA the authority to manage an investment for a governmental unit, or create and manage an investment pool for a governmental unit. In implementing this provision, the MMBA could contract with private or public fund investment advisors, investment managers, and fund administrators, and with the Department of Treasury to pool a governmental unit's investment with the investment of State surplus funds. The Authority could not invest a governmental unit's money in a manner not authorized by law or charter for that unit.

The Act defines "governmental unit" as a city, county, township, village, school district, intermediate school district, community college, public university, authority, district, or any other political subdivision or agency of a unit. The bill specifies that, for those provisions of the bill that would allow the management of investments and the creation of investment pools, "governmental unit" would include a group self-insurance pool regulated by the Bureau of Worker's Disability Compensation that was created to provide worker's compensation coverage for municipalities; or a group self-insurance pool, regulated by the Insurance Bureau, created to provide liability coverage for municipalities under Public Act 35 of 1951. (Under Public Act 35, any two or more municipalities can, by contract, form a group self-insurance pool for various kinds of insurance.)

The bill would allow an official or employee of a governmental unit, authorized by law or charter to direct the investment of the unit's money, to contract with the Authority to invest its money in an investment pool created and managed by the Authority. A contract would have to include provisions regarding the deposit or withdrawal of money; the amount of the fee for managing the investment; terms of distribution of earnings in excess of a management fee; and, allocation of losses, if any, to the governmental unit.

MCL 141.1057

FISCAL IMPACT

ARGUMENTS

Supporting Argument

The Act gives the MMBA the authority to pool the bond requests of several local units of government into one large issue, thus making it possible for school districts and municipalities to reduce the cost of issuing bonds so that a greater portion of the proceeds may be used for public improvements such as roads, buildings, and other infrastructure needs. The MMBA can provide local units with access to major national bond markets, where economies of scale tend to reduce interest rates. Local government and schools may participate in the Authority's issues entirely at their own option. If they calculate that they could arrive at a lower borrowing costs by going it alone, they incur no penalty by not participating.

Supporting Argument

By allowing the Authority to create and manage investment pools, and use various investments from governmental units, the bill would give municipalities, universities, schools, and authorities another investment tool. Governmental units could take advantage of the State's expertise in investing large sums of money, could possibly get a greater return on investments than usual because of participation in a pool, and would not have to seek out their own in-house investors or hire outside investors.

Opposing Argument

While the Authority's power to issue new bonds or notes should be extended, granting an extension of five years could be excessive. A shorter period of time would be more prudent and would enable the Legislature to consider the effectiveness of the program more frequently to guard against local units' abusing the program and placing the State in jeopardy.

Response: The Authority is expressly prohibited from incurring any indebtedness or liability on behalf of or payable by the State. The program basically is risk-free to the State since local governments must present the same pledges of security behind the bonds sold by the Authority as if the locals themselves sold the bonds on the open market. If a community defaults, the Authority has the power to intercept State revenue sharing funds or school aid payments to make up the difference. In addition, the Authority is required to report annually to the Legislature on activities, specifying the obligations it has purchased, the amount of Authority obligations outstanding, the amount issued in the preceding year, and a description of each issuance including its rate and term, and an analysis of its market performance. The Authority also is subject to an annual audit by the Auditor General or a certified public accountant appointed by the Auditor General.

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