

# Legislative Analysis

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## MUNICIPAL BONDS FOR RETIREE HEALTH CARE

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**House Bill 4074 as introduced**  
**Sponsor: Rep. Mary Valentine**

**House Bill 4077 as introduced**  
**Sponsor: Rep. James Marleau**

**Committee: Judiciary**

**Complete to 2-23-09**

## A SUMMARY OF HOUSE BILLS 4074 & 4077 AS REPORTED FROM COMMITTEE

The bills are part of a package that, along with House Bill 4075, would amend the Revised Municipal Finance Act to allow eligible counties, cities, villages, and townships to issue municipal securities (bonds) through September 30, 2010 to pay for the costs of unfunded accrued retiree health care benefits.

House Bills 4074 and 4077 are tie-barred to each other and to House Bill 4075, meaning that none will go into effect unless all are enacted. House Bill 4075, which has not yet been reported from committee, would authorize eligible counties, cities, villages, and townships to issue municipal securities (bonds) to pay for the costs of unfunded accrued retiree health care benefits and set forth requirements and approval procedures for this type of bond issuance.

**House Bill 4074** would add a new section to the act (MCL 141.2519) to specify that the securities issued would be secured by the general fund of the local unit and could include the phrase "general obligation limited tax" in the resolution authorizing the issuance. The bill also specifies that a local unit issuing securities without voter approval would not be authorized to levy any tax not authorized by law at the time of the issuance to pay for the municipal securities.

**House Bill 4077** would add definitions of "health care trust fund" and "unfunded accrued liability" to Section 103 of the act (MCL 141.2103):

- **"Health care trust fund"** would mean a trust or fund created in accordance with the state Public Employee Health Care Fund Investment Act, or other state or federal statute, and used exclusively to provide funding for post-employment health care benefits for public employee retirees. The term also would include the retiree health fund vehicle administered by the Municipal Employees Retirement System for a local unit of government that had adopted that system to provide funding for retiree health care benefits.

- **"Unfunded accrued liability"** would mean the difference between the assets and liabilities of a health care trust fund as determined by an actuarial study conducted under Governmental Accounting Standards Board Rule 43 or 45.

## **FISCAL IMPACT:**

Together with House Bill 4075, the bills would have an indeterminate fiscal impact on local governmental units opting to issue municipal securities (bonds) as a means of fully funding their unfunded actuarially accrued liability for retiree medical benefits. It is not known which, if any, local units would choose to issue bonds. The general aim of the proposal would be to permit local governmental units to issue bonds and deposit the proceeds of the bond sale into a trust, which would be used to fund retiree health care costs. The revenue and expenditure impact on local units would depend on the structure of the bonds, the local unit's unfunded actuarially accrued liability, the local unit's current method of financing its unfunded actuarially accrued liability, the investment performance of the bond proceeds (market uncertainties), as well as a local unit's future health care policies and costs, none of which are known.

In June 2007, Oakland County issued \$557 million in "certificates of participation" - another form of municipal debt - to fully fund its retiree medical benefits.<sup>1</sup> Debt service payments on the COP issue were about \$46.4 million in 2008, compared to an actuarially determined annual required contribution (ARC) of \$60.2 million. Washtenaw County is also in the process of issuing COPs to fully fund its retiree health care obligations.<sup>2</sup> Reportedly, a local unit's costs of issuing COPs (including direct issuance costs and interest costs) are higher than the costs of issuing a comparable amount in municipal bonds. To the extent that a local unit issues bonds, in lieu of COPs, the local unit could potentially realize some cost savings. The amount of unfunded actuarially accrued liabilities of Michigan local units of governments, on an individual or aggregate basis, is not immediately known.

## **POSITIONS:**

A representative of the City of Dearborn testified in support of the bills. (2-11-09)

A representative of the City of Grand Rapids testified in support of the bills. (2-11-09)

The Municipal Employees' Retirement System (MERS) supports the bills. (2-11-09)

The Michigan Association of Public Employee Retirement Systems (MAPERS) indicated support for the bills. (2-18-09)

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<sup>1</sup> See Dr. Paula Sanford, *The Implementation of GASB 45: Case Studies of 15 Counties*, 2007, University of Georgia, Carl Vinson Institute of Government, prepared for the National Association of Counties, [<http://www.naco.org/Content/ContentGroups/Special/sp-2007-12-10-GASB-45.pdf>]

<sup>2</sup> See the Washtenaw County Board of Commissioners, Ways and Means Committee, [[http://www.ewashtenaw.org/government/boc/agenda/wm/year\\_2008/2008-07-02wm/2008-07-02wm14](http://www.ewashtenaw.org/government/boc/agenda/wm/year_2008/2008-07-02wm/2008-07-02wm14)] and [[http://www.ewashtenaw.org/government/boc/agenda/wm/year\\_2008/2008-07-02wm/Washtenaw%20-%20COPS%20Project.pdf](http://www.ewashtenaw.org/government/boc/agenda/wm/year_2008/2008-07-02wm/Washtenaw%20-%20COPS%20Project.pdf)].

The Michigan Municipal League indicated support for the bills. (2-11-09)

The Department of Treasury is neutral on the bills. (2-18-09)

AFSCME does not oppose the bills. (2-20-09)

The International Union, UAW is neutral on House Bill 4074 and opposes House Bill 4077. (2-18-09)

A representative of the Michigan AFL-CIO testified in opposition to the bills. (2-11-09)

The Service Employees International Union (SEIU) indicated opposition to the bills. (2-11-09)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.