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BILL ANALYSIS

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Senate Bill 664 (as enrolled)  
Sponsor: Senator Bill Bullard, Jr.  
Senate Committee: Finance  
House Committee: Local Government

**PUBLIC ACT 196 of 1997**

Date Completed: 2-10-98

**CONTENT**

The bill amended Public Act 20 of 1943, which authorizes and regulates the investment of surplus funds by local units of government, to require the governing body of a public corporation to adopt an investment policy; prescribe the content of the investment policy; impose certain requirements on financial intermediaries, brokers, or dealers who purchase or trade the public corporation's funds; and expand the investment options previously allowed under Public Act 20.

Previously, under the Act, the legislative or governing body of a county, city, village, or township, an agency, board, or commission of one of those local units, or a special assessment district, could authorize its treasurer or other chief fiscal officer to invest surplus funds. The bill provides instead that, within 180 days after the end of a public corporation's first fiscal year after the effective date of the bill (December 30, 1997), the public corporation's governing body, in consultation with the investment officer, must adopt an investment policy. The investment policy will have to include, at a minimum, a statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment; a delegation of authority to make investments; a list of authorized investment instruments; and a statement concerning safekeeping, custody, and prudence. The bill provides that, if a governing body had adopted an investment policy that substantially complied with these requirements, as of the effective date of the bill, the governing body is not in violation of the requirements as long as the policy remains in effect.

Under the bill, before executing an order to purchase or trade the funds of a public corporation, a financial intermediary, broker, or dealer must be provided with a copy of the public corporation's investment policy, as well as acknowledge receipt of the policy and agree to comply with its terms regarding the buying or selling of securities. A public corporation is subject to this requirement beginning on the date that its investment policy takes effect, or 180 days after the end of the public corporation's first fiscal year ending after the bill's effective date, whichever is earlier.

The bill requires a public corporation's investment officer to provide an annual written report to the governing body concerning the investment of funds.

Under the Act, one of the investment options of a local unit is to invest in bonds, securities, or obligations of the United States or an agency or instrumentality of the United States. The bill eliminated a requirement that the principal and interest of these investment options be fully guaranteed by the United States.

The bill also eliminated a provision in the Act that prohibited more than 50% of any fund from being invested in commercial paper at any one time. Further, investments in commercial paper previously

had to be made in commercial paper rated at the time of purchase within the three highest classifications established by at least two standard rating services. The bill requires investments in commercial paper to be in commercial paper rated at the time of purchase within the two highest classifications.

The bill adds to the investment options allowed in the Act, the following:

- Obligations of the State or any of its political subdivisions that at the time of purchase are rated as investment grade by at least one standard rating service.
- Certain mutual funds registered under the Federal Investment Company Act.
- Certain obligations described in the bill, if purchased through an interlocal agreement under the Urban Cooperation Act.
- Investment pools organized under the Surplus Funds Investment Pool Act.
- Investment pools organized under the Local Government Investment Pool Act.

The bill specifies that assets acceptable for pledging to secure deposits of public funds are limited to those investment options allowed under the Act that are authorized for direct investment.

Under the bill, a “governing body” is the legislative body, council, commission, board, or other body having legislative powers of a public corporation. “Public corporation” means a county, city, village, or township, or a port, drainage, special assessment, or metropolitan district, or a board, commission, or authority or agency created by the Legislature. “Funds” are the money of a public corporation, except those funds whose investment is otherwise subject to a State statute or bond authorizing ordinance or resolution of the public corporation that permits investments in fewer than all of the investment options listed in the Act or that imposes conditions on those investments. “Investment officer” means the treasurer or other person designated by statute or charter of a public corporation to act as the investment officer; in the absence of a statutory or charter designation, the governing body must designate the investment officer.

The bill repealed a section of the Act that provided for the investment of sinking funds or insurance money by a school district (MCL 129.92).

MCL 129.91 et al.

Legislative Analyst: G. Towne

### **FISCAL IMPACT**

The bill will have no fiscal impact on State government, and no measurable impact on or local governments.

Fiscal Analyst: R. Ross

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.