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SFA**BILL ANALYSIS**

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Senate Bill 664 (as introduced 7-3-97)
Sponsor: Senator Bill Bullard, Jr.
Committee: Finance

Date Completed: 9-30-97

CONTENT

The bill would rewrite Public Act 20 of 1943, which authorizes and regulates the investment of surplus funds by local units of government. Among other things, the bill would require the governing body of a local unit to adopt an “investment policy”, and prescribe the content of an investment policy.

Currently, 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, may authorize its treasurer or other chief fiscal officer to invest surplus funds. The bill would eliminate this provision, and provide instead that, within 180 days after the bill's effective date, a governing body, by resolution, would have to adopt an investment policy that authorized its investment officer to invest the funds of the public corporation in one or more of the investments specified in the Act.

“Governing body” would mean the legislative body, council, commission, board, or other body having legislative powers of a public corporation. A county, city, village, township, port district, or metropolitan district, or another authority created by an act of the Legislature would be a “public corporation”. “Funds” would mean the money of a public corporation, except those funds whose investment was otherwise subject to a State statute, bond authorizing ordinance, or resolution of the public corporation, that permitted investments in fewer than all of the investment options listed in the Act or that imposed conditions on those investments. “Investment officer” would mean the treasurer of a public corporation or other person designated by the statute or charter or the governing body of a public corporation to act as the investment officer.

An investment policy would, at a minimum, have to include 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.

Before executing an order to purchase or trade the funds of a public corporation, a financial intermediary, broker, or dealer would have to 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 would be subject to this requirement beginning on the date that its investment policy took effect or 180 days after the bill's effective date, whichever was earlier.

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

Currently, 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 would eliminate a requirement that the principal and interest of these investment options be fully guaranteed by the United States.

The bill would eliminate a provision in the Act that forbids more than 50% of any fund to be invested in commercial paper at any one time. Further, investments in commercial paper currently must 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 would require investments in commercial paper to be in commercial paper rated at the time of purchase within the two highest classifications.

The bill would add to the investment options allowed in the Act, obligations of the State or any of its political subdivisions that at the time of purchase were rated as investment grade by at least one standard rating service.

The bill would repeal a section of the Act that allows the governing body of a local unit to authorize its treasurer or its chief fiscal officer to deposit in a financial institution funds received under an eligible deferred compensation plan (MCL 129.94). The bill also would repeal a section that provides for the investment of sinking funds or insurance money by a school district (MCL 129.92).

MCL 129.91 & 129.93

Legislative Analyst: G. Towne

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

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.