



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 834 (as reported without amendment)
 Sponsor: Senator Michael J. Bouchard
 Committee: Financial Services

Date Completed: 3-12-96

RATIONALE

Public Act 281 of 1990 amended the Shared Credit Rating Act to allow the Michigan Municipal Bond Authority (MMBA) to manage an investment, or create and manage an investment pool, for a local governmental unit and permit a governmental unit to contract with the Authority to invest the unit's money in an investment pool. (Public Act 281 also extended the authority of the MMBA to issue new bonds and notes and repealed a provision that prohibited the Authority from having more than \$800 million in bonds outstanding at any given time, excluding refunding bonds.) At the time, it was contended that allowing the MMBA to create and manage investment pools, and use various investments from local governmental units, would offer municipalities the option of an additional investment tool and could save local units money by taking advantage of the State's expertise in investing large sums and spreading their costs among members of an investment pool. In the five years or so since that authorization was enacted, however, the MMBA has not operated an investment pool program and, according to an official with the Department of Treasury, has no intention to do so. In addition, investment pools reportedly are available through private sector financial operations, such as banks. Given these factors, some people believe that the MMBA's authority to create and operate investment pools on behalf of local governmental units should be eliminated.

CONTENT

The bill would amend the Shared Credit Rating Act to delete the Act's authorization for the board of trustees of the Michigan Municipal Bond Authority to manage an investment or create and manage an investment pool for a governmental unit. The bill also would repeal a section of the Act that provides for a local unit's contracting with the Authority to invest

the unit's money in an investment pool created and managed by the Authority (MCL 141.1078).

The provision that would be deleted allows the Authority to contract with private or public sector 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 may not, however, invest a governmental unit's money in a manner not authorized by law or charter for that unit. Under the deleted provision, the Department of Treasury must consider and account for a governmental unit's investment that is pooled with State surplus funds as a trust fund that is equivalent to a debt service fund within the State Common Cash Fund.

The Act also allows the Authority to authorize a board member or the Authority's executive director to manage investments and create and manage investment pools on behalf of governmental units and the State Water Pollution Control Revolving Fund. The bill, instead, would allow the creation and management of those investments and would delete reference to the creation and management of investment pools.

MCL 141.1057 & 141.1063

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill merely would delete an authorization that is not being used by the Department of Treasury. Although the creation and operation of investment pools could possibly benefit local units of

government, the Department's bonding Authority has never operated an investment pool program and, apparently, does not intend to do so in the future. In addition, according to testimony before the Senate Financial Services Committee, some financial institutions provide this service, so local governments do have an investment pool option.

Response: Although the State does not currently operate a municipal investment pool, doing so is not an inappropriate function of State government. Ohio, Indiana, and Illinois all reportedly operate government-run investment pools that were spurred by private sector abuses in the investment of public funds.

Legislative Analyst: P. Affholter

FISCAL IMPACT

The Michigan Municipal Bond Authority currently does not participate in the creation and management of investment pools. The bill would have no fiscal impact.

Fiscal Analyst: M. Bain

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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.