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## EMERGENCY DREDGING LOANS

House Bill 5854

Sponsor: Rep. Scott Shackleton

Committee: Appropriations

Complete to 6-5-00

### A SUMMARY OF HOUSE BILL 5854 AS INTRODUCED 5-30-00

The bill would amend Public Act 105 of 1855, which regulates the disposition of surplus funds in the state treasury, to permit such funds to be invested in certificates of deposit (CDs), or other financial instruments, and used for marina dredging loans (defined under the bill to mean a loan of up to \$50,000 each made to a marina owner by a financial institution for dredging costs that were incurred after January 1, 2000, and that were necessitated by low water levels to accommodate the use of the marina by recreational watercraft).

Investments. The bill would allow the state treasurer to invest surplus funds in CDs or other instruments of a financial institution that was qualified, under the provisions of the act, to receive deposits or investments of surplus funds, for the purpose of facilitating marina dredging loans. The bill would specify that an investment made under the provisions of the act would be found and declared as having a valid public purpose; that documentation for an investment would have to be approved by the attorney general as to its legal form; and that the aggregate amount of these investments could not exceed \$10 million.

Investment Agreements. The treasurer could enter into an investment agreement with a financial institution to provide loans for the dredging of marinas. An investment would be subject to all of the following conditions and restrictions, in addition to terms that might be prescribed in the investment agreement by the treasurer:

- The interest accruing on the investment could not be more than the interest earned by the financial institution on marina dredging loans made after the investment date.
- The financial institution would have to provide good and ample security, as would be required by the state treasurer, and identify the marina dredging loans and the terms and condition of those loans that were made after the investment date that were attributable to that investment, together with other information required under the provisions of the act.
- If established in an investment agreement, a marina dredging loan would be made at the interest rate or rates that were established.

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- To the extent that a financial institution had not made marina dredging loans in an amount at least equal to the investment amount within 90 days after the investment, the interest rate payable on that portion of an outstanding investment would be increased to a rate provided in the investment agreement, with the increase in the interest rate applied retroactively to the date on which the state treasurer had invested the surplus funds.

- The investment agreement would provide that, for marina dredging loans, a financial institution would not have to repay any principal within the first three years after an investment was made, unless the investment was no longer being used to make a marina dredging loan, or to the extent the marina dredging loan had been repaid.

- The investment agreement could include incentives for the early repayment of the investment and for the acceleration of payments in the event of a state case shortfall, as prescribed by the agreement.

Investment Earnings. Earnings from an investment for a dredging loan that *exceeded* the average rate of interest earned during the same period on other surplus funds would be credited to the general fund. This condition would not apply to surplus funds invested under provisions of the act that regulate loans made to municipalities or to “qualified corporations,” such as the Chrysler Corporation.

If interest from an investment was *below* the average rate of interest earned during the same period on other surplus funds, other than those invested under provisions regulating loans made to municipalities or to qualified corporations, the general fund would be reduced by the amount of the deficiency on an amortized basis over the remaining term of the investment.

A loss of principal from an investment would reduce the earnings of the general fund by the amount of that loss on an amortized basis over the remaining term of the investment.

Reports to the Legislature. The state treasurer would be required to prepare and submit annual reports to the legislature regarding the disposition of money invested for marina dredging loan purposes. The reports for each type of loan would have to include all of the following information: the total number of marina owners who had received such loans; the total number and amounts of loans, by county; the name of each financial institution participating in the loan program and the amount invested in each institution for the program’s purposes; and the information reported by the commissioner of the Office of Financial and Insurance Services of the Department of Consumer and Industry Services regarding compliance by financial institutions (see below).

Other. The state treasurer could take any necessary action to ensure the successful operation of the provisions of the bill, including making investments with financial institutions to cover the administrative and risk-related costs associated with a marina dredging loan.

When the treasurer had made an investment, the commissioner of the Office of Financial and Insurance Services would be required to monitor the financial institution's compliance with the terms of the investment agreement and of the act. For each investment, the commissioner would be required to certify the extent of compliance with certain provisions of the bill, and to report these and other findings to the treasurer periodically.

Analyst: R. Young

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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.