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SFA BILL ANALYSIS

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Senate Bill 485 (as enrolled)
Sponsor: Senator Leon Stille
Committee: Local, Urban and State Affairs

Date Completed: 8-4-99

RATIONALE

The Municipal Finance Act requires that a local government's debt retirement funds be maintained separately from each other and from other money of the municipality. Additionally, a debt retirement fund may be used only to retire the funded indebtedness of the municipality for which the fund was created. Consequently, a municipality must keep separate bank accounts for each debt incurred, such as debt resulting from issuing a special assessment bond or a general obligation bond. This requirement has resulted in many local governments' having numerous bank accounts to record these funds. Given the fees that banks charge local governments to maintain the accounts and the expense of municipal staffs to record them, it has been suggested that local governments be permitted to combine debt retirements funds into specific categories for deposit or investment purposes.

CONTENT

The bill would amend Chapter 7 (Tax Levies, Debt Retirement, and Sinking Fund) of the Municipal Finance Act to permit debt retirement funds created for the following categories of debt to be pooled or combined for deposit or investment purposes with other debt retirement funds created for the same category of debt: voted bonds; nonvoted bonds, other than special assessment bonds; and special assessment bonds.

(The Act defines "debt retirement fund" as a fund for the payment of 1) interest on any issue of term or serial obligations; 2) principal on any issue of serial obligations; 3) both principal and interest on any issue of serial obligations; or 4) any combination of such principal and/or interest. "Term obligations" means any series of obligations maturing in one installment after three years from their date of issuance. "Serial obligations" means any series of obligations maturing in two or more installments, or maturing in one installment within three years from the date of issuance.)

MCL 137.1b

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
Because State law requires that debt retirement funds be kept separately, local governments must maintain individual bank accounts for each fund. This has resulted in some communities' maintaining many separate accounts for their debt obligations. The City of Novi, for example, reportedly has had to maintain 200 separate special assessment accounts. While each account may generate minimal activity in a year, the administration of a large number of accounts can overwhelm a local government. The bill would permit local governments to combine debt retirement funds into three categories of debt (special assessments, voted bonds, and nonvoted bonds, other than special assessment bonds), thus reducing the number of accounts to be maintained. Furthermore, allowing communities to pool these funds when investing could result in higher returns on the investments.

Opposing Argument
Since some smaller local governments may not employ staff members who are trained in maintaining debt retirement funds that have been combined, or commingled, with other similar funds, the accounts for these funds should remain separate.

Response: While the bill would allow debt retirement funds to be combined into three categories of debt for the purpose of depositing or investing the cash, municipalities still would have to maintain separate accounting records (though not bank accounts) on each fund.

Legislative Analyst: L. Arasim

FISCAL IMPACT

The bill would have no fiscal impact on State government. Municipalities would reduce bank-related expenses and receive higher returns on investments.

Fiscal Analyst: R. Ross