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SFA BILL ANALYSIS

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Senate Bill 472 (Substitute S-2 as reported)
Sponsor: Senator Shirley Johnson
Committee: Appropriations

CONTENT

The bill would amend the Children's Trust Fund Act to allow a change in the investment of the Children's Trust Fund (CTF), and to require a report.

The State Treasurer currently is required to invest the CTF in the same manner as surplus funds of the State are invested. The State Treasurer is allowed to invest surplus funds in bonds, notes, and other debt instruments of the United States government and its agencies, in prime commercial paper, and in financial institutions whose principal office is in the State. The bill would expand the options for the investment of the CTF to include capital stock, common stock, American depository receipts, and other evidence of residual ownership of a corporation. Such investments would be limited so that not more than 5% of the assets of the Fund were invested in the stock of any one corporation; and so that the assets of the Fund were not used to purchase more than 5% of the outstanding stock of any one corporation. Stocks purchased with the assets of the Fund would have to be registered on a national securities exchange, or on the Association of Securities Dealers Automated Quotation System.

The bill would allow the assets of the CTF to be pooled for investment purposes with other investments of the State, but would require the Department of Treasury to maintain distinct accounting records of any pooled assets of the CTF.

The bill would require the State Treasurer to report annually to the Appropriations Committees of the Legislature on the revenues and expenditures of the CTF. The report would have to describe specifically the impact of the expanded investment options on the revenues and expenditures of the CTF.

The bill is tie barred to Senate Joint Resolution T, which would amend the State Constitution to exempt certain funds from the prohibition on investment in stocks.

MCL 21.171

FISCAL IMPACT

If it is assumed that the CTF were invested in the same manner as the State Employees' Retirement Fund (SERF) is invested, and if it is assumed that the earnings rate of the SERF is similar to the earnings rate of the last 15 years, then the CTF would earn approximately 6.5% more per year than currently earned. In FY 2000-01, if the CTF earned at the annual average rate of the SERF, then the earnings of the Fund would be approximately $1.3 million greater than under current investment restrictions.

Date Completed: 11-2-01 Fiscal Analyst: P. Graham