

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 4384 (as reported without amendment)
Sponsor: Representative Wayne Kuipers
House Committee: Education
Senate Committee: Education

Date Completed: 6-20-01

RATIONALE

The Revised School Code permits treasurers of local school districts and intermediate school districts (ISDs) to invest in specific investment vehicles in order to earn higher interest income on their districts' deposit of certain public funds. Currently, the treasurer of a local district or ISD may invest in bonds, bills, or notes of the United States; obligations of the State; certificates of deposit issued by financial institutions, and securities issued by agencies of the U.S. government. In addition, local school districts may invest in mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district. The Code, however, does not provide for ISDs to invest in these kinds of mutual funds. It has been suggested that intermediate school districts also should be permitted to invest in mutual funds.

CONTENT

The bill would amend the Revised School Code to permit an intermediate school district to invest funds of the district in mutual funds composed entirely of investment vehicles that are legal for direct investment by ISDs.

Under the Code, the treasurer of an ISD, if authorized by resolution of the intermediate school board, may invest general operating funds, special education funds, area vocational-technical education funds, building and site funds, cooperative education funds, and debt retirement funds of the district. Additional funds of the ISD may not be deposited or invested in a financial institution that is not eligible to be a depository of surplus funds of the State. These investments

also are restricted to the specific investment vehicles identified in the Code. The bill would add mutual funds, as described above, to these investment vehicles.

In addition, the Code requires an intermediate school board to keep a set of coded accounts to be approved by the State Board of Education. The bill would refer to the Superintendent of Public Instruction, instead of the State Board (which would reflect the transfer of this responsibility under Executive Reorganization Order 1996-7).

MCL 380.622

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

Public Act 132 of 1986 amended the School Code to expand investment opportunities for local and intermediate school districts. Although the investment options for both local districts and ISDs are otherwise the same, mutual funds were omitted from the investment vehicles available to ISDs. By correcting this oversight, the bill would enable ISDs to earn interest at rates offered by these funds.

Legislative Analyst: L. Arasim

FISCAL IMPACT

The bill would have no fiscal impact on State government.

There would be an indeterminable impact on the revenues of an ISD. Depending on the outcome of the stock market, ISDs choosing to invest in mutual funds could experience substantial earnings or losses. Investing in mutual funds would, however, create the potential for greater earnings than simply placing the funds in regular passbook saving accounts, as is currently done.

Fiscal Analyst: J. Carrasco

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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.