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BILL ANALYSIS

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Senate Bill 1360 (as introduced 7-26-06)
Sponsor: Senator Nancy Cassis
Committee: Finance

Date Completed: 9-13-06

CONTENT

The bill would amend the Revised Municipal Finance Act to do the following:

- **Allow a county, city, village, or township to issue a municipal security to pay the costs of the unfunded actuarial liability of its public employee retirement system (PERS) pension fund.**
- **Provide that the taxes necessary to pay the principal and interest on the security, plus the taxes levied for the same year, could not exceed the limit authorized by law.**
- **Require that the municipality make available to the public a comprehensive financial plan before issuing a municipal PERS security.**
- **Require a referendum on the question of issuing the municipal PERS security if petitions containing a prescribed number of signatures were filed.**
- **Provide that outstanding municipal PERS securities could not exceed 5% of the State equalized valuation of the property assessed in the municipality.**
- **Require that municipal PERS securities and municipal capital improvement securities be secured by the general fund of the municipality.**

Issuance of a Municipal PERS Security

Under the bill, a county, city, village, or township could by resolution of its governing body, and without a vote of its electors, issue a municipal security to pay the costs of the unfunded actuarial liability of a public employee retirement system pension fund of the municipality that the participants and beneficiaries of a PERS of the municipality were entitled to receive under agreements with the municipality. The amount of taxes necessary to pay the principal and interest on that municipal PERS security, together with the taxes levied for the same year, could not exceed the limit authorized by law.

"Unfunded actuarial liability" would mean the amount by which a health care trust fund is short of the amount that will be necessary, without further payments into the trust fund, to pay postemployment health care benefits already earned by beneficiaries and participants of a public employee retirement system. "Public employee retirement system" would mean a retirement system created and established by a county, city, village, or township. "Health care trust fund" would mean the fund created by a public employee retirement system and used to provide postemployment health care benefits for public employee retirees, and/or the costs of issuance of municipal securities.

Before a county, city, village, or township issued a municipal PERS security, it would have to prepare and make available to the public a comprehensive financial plan that included all of the following:

-- Evidence that the municipal security proceeds and required annual contributions would be adequate to meet the level of benefits required.
-- An amortization schedule and a description of actions required to satisfy the schedule.
-- Actuarial assumptions and a certification that the comprehensive financial plan was complete and accurate.
-- Evidence that the issuance of municipal securities would result in projected present value savings.
-- A plan from the public employee retirement system to reduce health care costs.

Publication of Intent; Referendum

Before a county, city, village, or township issued a municipal PERS security, it would have to publish a notice of intent to issue the security. The notice of intent would have to be directed to the electors of the county, city, village, or township, and be published in a newspaper with general circulation in the municipality. The notice would have to state the maximum amount of municipal securities to be issued; the purpose of the municipal securities; the source of payment; the right of referendum on the issuance of the municipal securities; and any other information the municipality determined necessary to inform the electors adequately of the nature of the issue. The notice of intent would have to be at least one-eighth page in size in the newspaper.

If, within 45 days of the publication of the notice of intent, a petition signed by at least 10% or 10,000 of the registered electors, whichever was less, residing in the municipality, were filed with the municipality's governing body requesting a referendum on the question of the issuance of the municipal securities, then the municipality could not issue the securities until authorized by the vote of a majority of the electors of the municipality qualified to vote and voting on the question at a general or special election. A special election called for this purpose could not be included in a statutory or charter limitation as to the number of special elections to be called within a period of time.

Terms, Size, & Maturity

Municipal PERS securities issued by a county, city, village, or township would have a maximum term of 30 years as determined by the municipality. Currently outstanding municipal PERS securities issued by a municipality could not exceed 5% of the State equalized valuation (SEV) of the property assessed in that county, city, village, or township.

A municipal PERS security could mature annually or be subject to mandatory redemption requirements, with the first annual maturity or mandatory redemption requirement to fall due five years or less from the date of issuance. Annual maturity and/or redemption requirements of a municipal PERS security after 10 years from the date of issuance could not be less than one-fifth of the amount of any subsequent annual maturity and/or redemption requirement.

Municipal PERS securities and the interest on and income from them would be exempt from taxation by the State or a political subdivision of the State.

A county, city, village, or township issuing municipal PERS securities could enter into indentures or other agreements with trustees and escrow agents for the issuance, administration, or payment of the municipal securities.

Municipal General Fund Obligation

Municipal securities issued under Section 517 of the Act or under the bill would have to be secured by the general fund of the county, city, village, or township, and would have to include the phrase "general obligation limited tax" in the resolution authorizing the issuance. The county, city, village, or township issuing the municipal securities would not be authorized to levy any tax to pay for the securities if the tax were not authorized by law at the time the securities were issued.

(Section 517 allows a county, city, village, or township, by resolution of its governing body, and without a vote of its electors, to issue a municipal security to pay the cost of any capital improvement items, as long as the amount of taxes necessary to pay the principal and interest on the security, plus the taxes levied for the same year, do not exceed the limit authorized by law. Section 517 also requires publication of a notice of intent; requires a vote on the issuance if a sufficient number of petitions are filed; and prohibits municipal securities from exceeding 5% of the SEV of the property assessed in the municipality.)

MCL 141.2103 et al. Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would potentially increase both local unit revenue and expenditures by an unknown amount, as well as change the distribution and timing of revenue and expenditures. It is unknown how many local units have unfunded liabilities for the health care costs of retirees, or the number that would choose to issue securities to cover all or a portion of their unfunded liabilities. Furthermore, the impact on individual local units would vary depending on the amount of any unfunded liability, the number of current and future retirees, the economic structure of the community and its effect on future revenue, market returns that can be earned on funds, and future health care costs.

The bill likely would have no fiscal impact on State government.

Fiscal Analyst: David Zin

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