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BILL ANALYSIS

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House Bill 6694 (Substitute H-2 as passed by the House)
Sponsor: Representative Dave Hildenbrand
House Committee: Local Government and Urban Policy

CONTENT

The bill would amend the Revised Municipal Finance Act to allow a county, city, village, or township, through September 30, 2010, without a vote of its electors, to issue a municipal security to pay the costs of its unfunded accrued liability, which would be the difference between the assets and liabilities of a health care trust fund as determined by an actuarial study. "Health care trust fund" would mean a trust or fund created in accordance with the Public Employee Health Care Fund Investment Act, or other State or Federal statute, and used exclusively to provide funding for postemployment health care benefits for public employee retirees; the term also would include the retiree health fund vehicle administered by the Municipal Employees Retirement System for a local unit that had adopted the system to provide funding for retiree health care benefits. The bill would do the following:

-- Require a local unit, before issuing the municipal security, to publish a notice of intent and prepare and make available to the public a comprehensive financial plan.
-- Require the comprehensive financial plan to include a debt service amortization schedule, a plan to reduce health care costs, and documentation that issuing the security would result in projected present value savings regarding the unfunded actuarial liability.
-- Require the proceeds of the municipal security to be deposited in a particular trust fund, trust, or restricted fund of a trust used to retire the municipal security.
-- Specify that municipal securities currently outstanding could not exceed 5% of the State equalized valuation of the property assessed in the local unit issuing the securities.
-- Provide that municipal securities could not on a cumulative basis exceed 75% of current actuarial liabilities on postemployment health care benefits owed to employees of the local unit existing on the bill's effective date.
-- Specify requirements for the security's investment grade and the projected difference between the assumed rate of return on health care trust fund investments and the actual interest rate paid on the securities.

MCL 141.103 et al. Legislative Analyst: Suzanne Lowe

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.

Date Completed: 12-13-06 Fiscal Analyst: David Zin