Legislative Analysis

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BONDS FOR RETIREE HEALTH CARE

House Bill 4451
Sponsor: Rep. James Marleau
1st Committee: Intergovernmental, Urban, and Regional Affairs
2nd Committee: Retiree Health Care Reforms

Complete to 11-26-07

A SUMMARY OF HOUSE BILL 4451 AS INTRODUCED 3-13-07

The bill would amend the Revised Municipal Finance Act to allow counties, cities, villages, and townships, through September 30, 2010, to issue municipal securities (bonds) to pay the costs of an unfunded accrued liability in the provision of post-employment health benefits for retirees.

The issuance of a security would have to be by resolution or ordinance and would not require approval of local voters, provided the amount of taxes needed to pay the principal and interest, together with taxes levied for the same year, did not exceed the limit authorized by law.

Specifically, the bill defines an "unfunded accrued liability" to refer to the difference between the assets and liabilities of a health care trust fund as determined by an actuarial study. The term "health care trust fund" would mean a trust or fund created in accordance with the state Public Employee Health Care Fund Investment Act, or other state or federal statute, and used exclusively to provide funding for post-employment 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.

A county, city, village, or township could not issue a security under the bill unless it had been assigned a credit rating within the AA category or higher by at least one nationally recognized rating agency. The local unit would need the approval of the Department of Treasury to issue securities. The department would provide approval if, after a review, it verified that the local unit met the requirements set forth in the bill.

The bill would also 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, among other things, a debt service amortization schedule, a plan to mitigate the increase in health care costs, and documentation that issuing the security would result in projected present value savings regarding the unfunded accrued liability. The plan would also have to provide evidence that issuance of the securities, together with other funds, will be sufficient to eliminate the unfunded accrued liability.

- Allow voters 60 days after the publication of the notice of intent to file petitions for a referendum. A petition would need the signatures of at least five percent of registered electors, or 10,000 registered electors, whichever was less.

- Require the proceeds of the municipal security to be deposited in a particular trust fund, trust, or restricted fund within a trust, used to retire the municipal security.

- Specify that municipal securities currently outstanding could not exceed five percent 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 percent of current unfunded accrued liabilities on post-employment health care benefits owed to employees of the local unit existing on the bill's effective date.

- Prohibit the issuance of a security unless the projected difference between the assumed rate of return on the health care trust fund investments and the projected actual interest rate paid on the municipal securities issued is at least 100 basis points.

- Specify that the securities issued would be secured by the general fund of the local unit and could include the phrase "general obligation limited tax" in the resolution authorizing the issuance. A local unit issuing securities without voter approval would not be authorized to levy any tax not authorized by law at the time of the issuance to pay for the municipal securities.

MCL 141.2103 et al.

FISCAL IMPACT:

The bill may increase the short term revenue of local units of government by permitting bonding through the use of general obligation bonds to pay the cost of unfunded public employee pensions and other post-retirement benefits, such as health care. The Michigan Municipal Employees Retirement System (MERS) reports that its 659 local government participants collectively owed $1.7 billion in unfunded actuarial accrued pension liabilities as of December 31, 2006. Of course, this short term revenue increase will result in higher future debt service payments to retire any such bonding for up to 30 years, which is the normal maximum for municipal bonds. The proceeds of such bonds must be invested as provided for in the Public Employee Retirement System Investment Act.

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