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BILL ANALYSIS

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Senate Bill 1517 (as introduced 9-18-08)
Sponsor: Senator Tony Stamas
Committee: Banking and Financial Institutions

Date Completed: 9-23-08

CONTENT

The bill would amend Public Act 20 of 1943, which regulates the investment of funds of public corporations, to allow investment officers to invest funds in certificates of deposit in insured depository institutions.

Under the Act, the governing body of a public corporation by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States or repurchase agreements consisting of these instruments.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- Commercial paper that is rated at the time of purchase within the two highest classifications established by at least two standard rating services and that matures within 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- Obligations described above if purchased through an interlocal agreement under the Urban Cooperation Act.
- Investment pools organized under the Surplus Funds Investment Pool Act.
- The investment pools organized under the Local government Investment Pool Act.

A public corporation that invests its funds as described above may not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States. Under the bill, this provision would apply except as provided below.

("Public corporation" means a county, city, village, township, port district, drainage district, special assessment district, or metropolitan district of this State, or a board, commission, or another authority or agency created by or under an act of the Legislature of this State.)

In addition to the investments authorized under the Act, the bill would allow the governing body of a public corporation, by resolution, to authorize its investment officer to invest the funds of the public corporation in certificates of deposit in accordance with all of the following conditions:

- The funds were initially invested through a financial institution that was not ineligible to be a depository of surplus funds belonging to this State under Section 6 of Public Act 105 of 1855.
- The financial institution arranged for the investment of the funds in certificates of deposit in one or more insured depository institutions as defined in Section 1813 of the Federal Deposit Insurance Act, 12 USC 1813, for the account of the public corporation.
- The full amount of the principal and any accrued interest of each certificate of deposit was insured by an agency of the United States.
- The financial institution acted as custodian for the public corporation with respect to each certificate of deposit.
- At the same time that the funds of the public corporation were deposited and the certificate or certificates of deposit were issued, the financial institution received an amount of deposits from customers of other insured depository institutions equal to or greater than the amount of the funds initially invested by the public corporation through the financial institution.

(Under Section 6 of Public Act 105 of 1855, if a financial institution is found by a State or Federal agency or a court having jurisdiction over that financial institution, to have engaged in an illegal discriminatory lending practice relating to a mortgage loan or home improvement loan application, the Commissioner of the Office of Financial and Insurance Regulation, if he or she considers it appropriate, must initiate a proceeding to determine whether additional surplus funds belonging to the State will be deposited in that financial institution.

Under 12 USC 1813, "insured depository institution" means any bank or savings association whose deposits are insured by the Federal Deposit Insurance Corporation.)

MCL 129.91

Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would have no effect on State revenue or expenditures. The bill would affect the net revenue of public corporations by an unknown amount depending on how the bill would influence the rate of return on investments of affected public corporations. Presumably, use of the additional instruments would produce higher rates of return at a potentially lower cost and thus increase net revenue to the public corporations from such investments.

Fiscal Analyst: David Zin

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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.