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BILL ANALYSIS



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House Bill 6297 (as passed by the House)
Sponsor: Representative Ed Clemente
House Committee: Banking and Financial Services
Senate Committee: Banking and Financial Institutions

Date Completed: 9-23-08

CONTENT

The bill would amend the Revised School Code to allow the treasurer of a school district or intermediate school district, if authorized by the school board or intermediate school board, to invest funds in certificates of deposit in insured depository institutions.

Under the Code, the treasurer of an intermediate school district (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. Investments are restricted to any of the following:

- Bonds, bills, or notes of the United States or obligations of this State.
- Certificates of deposit issued by a financial institution.
- Commercial paper rated prime at the time of purchase and maturing within 270 days after the date of purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Investment pools, as authorized by the Surplus Funds Investment Pool Act composed entirely of instruments that are legal for direct investment by an ISD.
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by an ISD.

If authorized by resolution of the board of a school district, the treasurer of the school district may invest debt retirement funds, building and site funds, building and site sinking funds, or general funds of the district. Investments are restricted to those described above and the following:

- Obligations whose principal and interest are fully guaranteed by the United States, or obligations of this State.
- Share certificates of a State or Federal credit union that is a financial institution.

Under the bill, investments made by the treasurer of a school district or ISD also could include certificates of deposit issued in accordance with 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 12 USC 1813, for the account of the ISD or school district.
- 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 ISD or school district with respect to each certificate of deposit.
- At the same time that the funds of the ISD or school district 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 ISD or school district 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 USD 183, "insured depository institution" means any bank or savings association whose deposits are insured by the Federal Deposit Insurance Corporation.)

MCL 380.622 & 380.1223

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 school districts and intermediate school districts by an unknown amount depending on how the bill would influence the rate of return on investments of affected districts. Presumably, use of the additional instruments would produce higher rates of return at a potentially lower cost and thus increase net revenue to the districts 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.