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BILL ANALYSIS

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Senate Bill 195 (as introduced 2-5-09) *(as enacted)*
Sponsor: Senator Tony Stamas
Committee: Banking and Financial Institutions

Date Completed: 2-10-09

CONTENT

The bill would amend Public Act 20 of 1943, which regulates the investment of funds of public corporations, to allow the investment officer of a public corporation to invest funds in certificates of deposit in one or more insured credit unions.

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 specific types of instruments, including the following:

-- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
-- 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 meets certain rating and maturity criteria.
-- 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.
-- Registered mutual funds with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
-- Investment pools organized under the Surplus Funds Investment Pool Act or under the Local Government Investment Pool Act.

An investment officer also may invest the funds of the public corporation in certificates of deposit (CDs) in accordance with all of the following conditions:

-- The funds are initially invested through a financial institution that is not ineligible to be a depository of surplus funds belonging to this State under Public Act 105 of 1855.
-- The financial institution arranges for the investment of the funds in CDs 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 CD is insured by an agency of the United States.
-- The financial institution acts as custodian for the public corporation with respect to each CD.
-- At the same time that the funds are deposited and the CD or CDs are issued, the financial institution receives 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 the bill, the financial institution would have to arrange for the investment of the funds in CDs in one or more insured depository institutions or one or more insured credit unions as defined in Section 1752 of the Federal Deposit Insurance Act, 12 USC 1752, for the account of the public corporation. At the time the public corporation's funds were deposited and the CD or CDs were issued, the financial institution would have to receive an amount of deposits from customers of other insured financial institutions or credit unions equal to or greater than the amount initially invested by the public corporation through the 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. Under 12 USC 1752, "insured credit union" means any credit union whose member accounts are insured by the National Credit Union Administration.

Public Act 20 of 1943 defines "public corporation" as a county, city, village, township, port district, drainage district, special assessment district, or metropolitan district of this State, or a board, commission, or other authority or agency created by or under an act of the State Legislature.)

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 influenced the rate of return on investments of 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 corporation from such investments.

Fiscal Analyst: David Zin