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BILL ANALYSIS

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Senate Bill 86 (Substitute S-1 as passed by the Senate) *(as enrolled)*
Sponsor: Senator Jack Brandenburg
Committee: Finance

Date Completed: 3-5-15

RATIONALE

Municipalities have an obligation to pay for their unfunded pension and retiree health care liabilities. The amounts needed to fund them each year can vary based on investment performance and changing actuarial assumptions. It was thought that municipalities could benefit from borrowing to pay these unfunded accrued liabilities, by taking advantage of low borrowing costs and specified debt payments each year. Therefore, Public Act 329 of 2012 amended the Revised Municipal Finance Act to allow such borrowing, but only until December 31, 2014. Legislation enacted in 2014 delayed that date by one year, and it has been suggested that delaying the sunset again would allow more municipalities to take advantage of the program.

CONTENT

The bill would amend the Revised Municipal Finance Act to extend until December 31, 2018, provisions that allow counties, cities, villages, and townships to issue municipal securities to pay the costs of the unfunded pension liability for a retirement program or the costs of the unfunded accrued health care liability; and allow a county, city, village, or township to issue a security to refund such a municipal security after December 31, 2018.

The Act allows a county, city, village, or township to issue a municipal security, through December 31, 2015, to pay all or part of the costs of the unfunded pension liability for a retirement program, in connection with the partial or complete cessation of accruals to a defined benefit (DB) plan or the closure of the DB plan to new or existing employees and the implementation of a defined contribution plan, or to fund costs of a municipality that has already ceased accruals to a DB plan.

Also, through December 31, 2015, a county, city, village, or township may issue a municipal security to pay the costs of the unfunded accrued health care liability if the amount of taxes necessary to pay the principal and interest on that municipal security, together with the taxes levied for the same year, does not exceed the limit authorized by law, or to refund all or a portion of a contract obligation issued for the same purpose.

The bill would allow local units to issue these securities through December 31, 2018. After that date, if a county, city, village, or township had issued a municipal security for either purpose described above, the municipality could issue a refunding security to refund that municipal security if the refunding security did not have a final maturity later than that of the security being refunded, and if the municipality had been assigned a credit rating within the category of AA or higher or the equivalent by at least one nationally recognized rating agency in connection with the refunding security. Currently, a municipality may issue a refunding security after December 31, 2015, subject to the same conditions.

MCL 141.2518

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill would give municipalities more time to take advantage of the borrowing program. Reportedly, only nine municipalities have used the law, out of more than 170 that are currently eligible to do so. Some municipalities that would benefit from issuing securities either are still in the process or have not yet applied to the Department of Treasury for approval. It takes time to educate local councils and commissions on the benefits of the program, which include reduced annual payments for health care and pensions, certainty in budgeting, and increased bond ratings. Borrowing costs are very low right now and the municipalities that have issued securities evidently are able to invest at a higher rate than that at which they are borrowing. This improves their financial position and has the potential to increase their bond ratings. For example, Oakland County reportedly was able to save more than $170.0 million by issuing refunding bonds under the law.

Rather than extending the program again for just one year, the bill proposes a three-year extension. This should give municipalities the additional time and certainty they need to make the plans and decisions necessary to participate in the borrowing program.

Legislative Analyst: Ryan M. Bergan

FISCAL IMPACT

The bill would have no fiscal impact on State government. Local governments that issued securities for unfunded pension or health care liabilities or refunded those securities pursuant to the bill potentially would have reduced costs.

Fiscal Analyst: Elizabeth Pratt

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.