Legislative Analysis

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MUNICIPAL RETIREMENT SECURITIES SUNSET

Senate Bill 838 (S-2) as passed by the Senate
Sponsor: Sen. Jack Brandenburg
House Committee: Michigan Competitiveness
Senate Committee: Michigan Competitiveness
Complete to 12-17-18

SUMMARY:

Senate Bill 838 would amend Section 518 of the Revised Municipal Finance Act to extend the sunset (expiration date) from December 31, 2018, to December 31, 2020, for a county, city, village, or township to issue a municipal security, subject to certain requirements, to pay all or a part of the costs of the unfunded accrued liability (UAL) when closing a defined benefit pension plan and implementing a defined contribution plan, or to pay the costs of a retiree health care UAL.

To the types of trusts in which a county, city, village, or township is required to deposit proceeds from the municipal security under the act, the bill would add a pension trust fund, defined as a trust or fund established to fund the liabilities of a defined benefit plan that is intended to qualify under section 401(a) of the Internal Revenue Code, or in a trust that has as its beneficiary a pension trust fund. Pension trust funds, along with other trusts created under Section 518, would be subject to limitations regarding investments and investment instruments imposed on public employee retirement systems under the Public Retirement System Investment Act.

MCL 141.2518

FISCAL IMPACT:

To the extent that eligible counties, cities, villages, or townships opted to issue securities to pay off the UAL, those local units would incur fixed debt obligations as opposed to retirement system contributions for UAL costs, which increase or decrease as investment returns and other factors built into actuarial assumptions fluctuate over time. (New UAL costs could arise over time, beyond those for which the local unit initially borrows.) Generally, securities issued for this purpose are not exempt from federal taxation since the purpose of the borrowing is to take advantage of borrowing rates that are lower than assumed rates of returns for defined benefit system investments. The amount of any savings (or costs) to local units borrowing under the bill's provisions would depend on the interest rate at which they could borrow funds relative to future retirement system investment returns.

The bill would create an indeterminate amount of administrative costs for the Department of Treasury to review and approve the issuance of securities allowed under its provisions for an additional two years.

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