Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 838 (as reported without amendment)
Sponsor: Senator Jack Brandenburg
Committee: Finance

Date Completed: 3-20-18

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 subsequent legislation enacted in 2015 delayed that date further to December 31, 2018. It has been suggested that delaying the sunset again would allow more municipalities to take advantage of the program. In addition, some have proposed that municipalities should be allowed to create pension trust funds, similar to those created for retiree health care.

CONTENT

The bill would amend the Revised Municipal Finance Act to do the following:

-- **Extend until December 31, 2020, 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.**
-- **Require the proceeds of a municipal security covering unfunded pension liabilities, in addition to unfunded health care liabilities, to be deposited in a particular type of fund or trust, and include a trust created by the issuer that has as its beneficiary a pension trust fund.**
-- **Require a trust created under these provisions to invest its funds in the same manner as funds invested by a pension trust fund or, as currently required, a health care trust fund.**

The Act allows a county, city, village, or township, through December 31, 2018, to issue a municipal security 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, 2018, 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, 2020.Except for a refunding, the Act requires the proceeds of a security covering unfunded health care liability to be deposited in any of the following:

-- A health care trust fund.
-- A trust created by the issuer that has as its beneficiary a health care trust fund.
-- For a county, city, village, or township, a restricted fund within a trust that would be used only to retire the municipal securities issued for a purpose described above.

Under the bill, except for a refunding, the proceeds of a municipal security covering unfunded pension liability or unfunded health care liability would have to be deposited in the following:

-- A health care trust fund.
-- A trust created by the issuer that has as its beneficiary a pension trust fund, or a health care trust fund.
-- For a county, city, village, or township, a restricted fund within a trust that would be used only to retire the municipal securities issued for the purposes described above.

The Act authorizes a county, city, village, or township to create a trust to carry out the purposes of the provisions above. The trust must invest its funds in the same manner as funds invested by a health care trust fund. Under the bill, the trust would have to invest its funds in the same manner as funds invested by a pension trust fund or a health care trust fund.

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 to pay the costs of unfunded accrued health care or pension liability. Reportedly, there have been 25 pension obligation or retiree health care bonds issued since 2012 (by 11 counties, 10 cities, and four townships), and the total amount of the bonds issued exceeds $1,264,750,000. According to Senate Finance Committee testimony, the borrowing is still being used by municipalities. 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.

Extending the program again should give municipalities the additional time and certainty they need to make the plans and decisions necessary to participate in the borrowing program.

The bill also would allow a municipality to create a pension trust fund to receive the proceeds of a bond issuance, as the Act currently allows for a health care bonds.

Legislative Analyst: Drew Krogulecki

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: David Zin

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