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BILL ANALYSIS

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Senate Bill 1129 (as introduced 9-26-18)
Sponsor: Senator Jim Stamas
Committee: Michigan Competitiveness

Date Completed: 11-27-18

CONTENT

The bill would amend the Revised Municipal Finances Act to prohibit a county, city, village, or township from issuing a municipal security to pay the costs of the unfunded pension liability or unfunded accrued health care liability unless it had been assigned a credit rating of AA (as currently required) or if it had been assigned a credit rating of A or higher and met other criteria.

The Act allows a county, city, village, or township to issue a municipal security, through December 31, 2018, 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.

A county, city, village, or township may not issue a municipal security for either purposes unless it has been assigned a credit rating within the category of AA or higher or the equivalent by at least one nationally-recognized rating agency. Under the bill, a county, city, village, or township could not issue a municipal security for either purposes unless it had been assigned a credit rating within the category of AA or higher or the equivalent by at least one nationally-recognized rating agency or met all of the following:

-- Had been assigned a credit rating of A or higher or the equivalent by at least one nationally-recognized rating agency.
-- Was not subject to a corrective action plan or, if it were subject to a corrective action plan, it was in compliance with the plan, as determined by the Municipal Stability Board under the Protecting Local Government Retirement and Benefits Act.
-- Was in the process of closing its DB plan as determined by the State Treasurer.

MCL 141.2518

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The Department of Treasury would see increased administrative costs because of the bill, due to the requirement to review any securities proposed to be issued for the purpose of paying off the unfunded accrued liabilities of a municipality's retiree health care or defined benefit pension system.

The fiscal impact on local governments is indeterminate. Allowing more municipalities to issue securities to finance the unfunded accrued liabilities associated with a defined benefit pension plan or a retiree health care plan would provide an additional financial instrument with which to pay down the unfunded accrued liability (UAL). However, the actual resulting fiscal impact is unknown and would depend upon the cost of the security compared to market performance, the impact (if any) on the municipality's credit rating, and the potential risks associated with converting a "soft" debt of the municipality (the pension or health care UAL) into a "hard" debt with a rigid and fixed repayment schedule.

Fiscal Analyst: Ryan Bergan