Legislative Analysis

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EXTEND SUNSET FOR CERTAIN MUNICIPAL RETIREMENT SECURITIES

Senate Bill 922 (S-1) *(Enacted as Public Act 297 of 2014)*
Sponsor: Sen. Jack Brandenburg
House Committee: Financial Liability Reform
Senate Committee: Finance

Complete to 9-5-14

A SUMMARY OF SENATE BILL 922 (S-1) AS PASSED BY THE SENATE 6-12-14

The bill would amend Section 518 of the Revised Municipal Finance Act to extend the sunset from December 31, 2014, to December 31, 2015, 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 (DB) pension plan and implementing a defined contribution (DC) plan, or to pay the costs of a retiree health care UAL. (The term "local unit" is used in the document to refer to a county, city, village, or township.)

The bill also would allow for a local unit that has issued a security under this section to issue a refunding security after December 31, 2015, if the refunding security does not have a final maturity date later than the final maturity date of the security being refunded, and if the municipality has a credit rating of AA or higher from at least one nationally recognized credit rating agency.

BACKGROUND INFORMATION:

Section 518 (MCL 141.2518) was added to the Revised Municipal Finance Act under Public Act 329 of 2012 (Senate Bill 1129). It allowed a local unit to issue securities to pay for the UAL costs when transitioning from a DB plan to a DC plan or to pay for a retiree health care UAL until December 31, 2014. Only local units with a credit rating of AA or higher from at least one nationally recognized credit rating agency are eligible. Thus far, 5 local units have issued securities under Section 518.

The ability to issue securities authorized under this section is subject to the following provisions:

- The amount of taxes necessary to pay for the security along with other taxes may not exceed the limit authorized by law.
- A local unit issuing a security must publish a notice of intent, make a comprehensive financial plan containing specified information available to the public, and obtain approval from the Department of Treasury.

- Borrowing proceeds may be used to pay the costs of the issuance of the security. Borrowing proceeds for a UAL health care must be deposited in a health care trust fund.
- A local unit issuing a security may not change the benefit structure of a DB plan if the plan is being partially closed, except that it could reduce benefits for future years of service.
- A local unit issuing a security must covenant with the security holders and the State of Michigan that it will not rescind the action taken to partially or completely close its DB plan.

FISCAL IMPACT:

To the extent eligible counties, cities, villages, or townships opt 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 DB 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 could also create savings by allowing a local unit that issues a security under this section to issue a refunding security after December 31, 2015, as long as the final maturity date of the refunding security is no later than the initial security being refunded. This would allow local units to take advantage of lower interest rates if they are available in the future.

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 year.

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