



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bill 658 (as passed by the Senate)  
Sponsor: Senator Michelle A. McManus  
Committee: Local, Urban and State Affairs

Date Completed: 11-14-07

### **RATIONALE**

The City of Manistee has about \$6.7 million in the Oil and Gas Fund it established to preserve and invest the money garnered through oil and gas wells located in the city. Under the city's charter, the earnings of the investments may be spent for municipal operations, but any royalties must be added to the corpus or principal investments and may not be spent. The city must invest its funds under Public Act 20 of 1943, which pertains to the investment of surplus funds of political subdivisions and limits investments to certain instruments and depositories, including bonds, securities, obligations, certificates of deposits, savings accounts, and mutual funds. According to a resolution passed by the city, the types of investments allowable under Public Act 20 "are not adequate to prudently and effectively invest long-term funds..."

In order to expand the investment options of Manistee and other political subdivisions with an oil and gas trust fund, it has been suggested that a public corporation should be permitted to invest the money in such a fund in the same manner that money in the Michigan Natural Resources Trust Fund may be invested. Under the Natural Resources and Environmental Protection Act, the State Treasurer has the authority to invest the Fund's assets as a fiduciary under the Public Employee Retirement System Investment Act.

### **CONTENT**

The bill would amend Public Act 20 of 1943 to authorize the governing body of a public corporation that had a long-term or perpetual trust fund consisting of money and

royalties or money derived from oil and gas exploration on property or mineral rights owned by the public corporation, by resolution to provide its investment officer with the same authority to invest the assets of the long-term or perpetual trust fund as is granted an investment fiduciary under the Public Employee Retirement System Investment Act. The bill would apply notwithstanding any law or charter provision to the contrary.

(Under the Public Employee Retirement System Investment Act, an investment fiduciary may invest, reinvest, hold in nominee form, and manage the assets of a public employee retirement system, subject to the terms, conditions, and limitations of the Act. An investment fiduciary may invest in any of the following under certain conditions:

- Stock.
- Investment companies registered under the Federal Investment Company Act.
- Annuity investment contracts or participations in separate real estate, mortgage, bond, stock, or other special investment accounts of a life insurance company authorized to do business in the State.
- Obligations issued, assumed, or guaranteed by a solvent entity created or existing under the laws of the United States or of any state, district, or territory of the United States, that are not in default as to principal or interest.
- Obligations secured by a security interest in real or personal property and a lease obligation given by a solvent entity

- whose obligations would be qualified investments under Public Act 20.
- Real estate or mortgages on real property leased or to be leased to the United States government, or to a state, territory, agency, authority, or public instrumentality of the United States.
  - Publicly or privately issued real estate investment trusts or real or personal property.
  - Loans secured by first liens upon improved or income bearing rental property, first mortgages or deeds of trust on leasehold estates, and first mortgages of real property.
  - Foreign securities.)

Proposed MCL 129.97

## **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 authorize Manistee and other political subdivisions that have oil and gas trust funds to invest the money and royalties of those trust funds under the Public Employee Retirement Investment System Act, rather than only in investments permitted under Public Act 20 of 1943. That statute requires very safe, very liquid investments in order to avoid losses on money that might be needed for current municipal operations. The Public Employee Retirement System Investment Act allows a much wider array of possible investments, which might entail higher risk but also generate higher returns. This statute recognizes the long-term nature of pension funds, and therefore permits investments that appropriately match the long-term investment horizon of those assets.

Currently, the State Treasurer is authorized to invest assets of the Michigan Natural Resources Trust Fund, a State-level permanent trust fund composed of royalties from oil and gas, in the same manner as public employee retirement funds are invested. Although it is managed locally, Manistee's Oil and Gas Fund is comparable to the Natural Resources Trust Fund and should be subject to the same investment options for long-term funds.

Legislative Analyst: Craig Laurie

## **FISCAL IMPACT**

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: David Zin

A0708\658a

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.