

INVESTMENT OF POLITICAL CORPORATION FUNDS

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House Bill 4757 as introduced
Sponsor: Rep. Bradley Slagh
Committee: Government Operations
Complete to 11-5-25

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 4757 would amend 1943 PA 20, which regulates how *public corporations* invest their *funds*, to add permissible kinds of investments, revise criteria for certain investments such as certificates of deposit, and require public corporations to file their investment policies with the Department of Treasury annually.

Public corporation means either of the following:

- A county, city, village, township, port district, drainage district, special assessment district, or metropolitan district of the state.
- A board, commission, or other authority or agency created by or under an act of the legislature.

Funds means the money of a public corporation that is not, under another public act or the public corporation's bond authorizing ordinance or resolution, subject to more restrictive investment options and conditions than the investments authorized under 1943 PA 20.

New authorized investments

The act generally allows the governing (legislative) body of a public corporation to authorize its investment officer to invest its funds in one or more listed investments. The bill would amend this list to add the acquisition or holding of corporate bonds, notes, debentures, or debt securities that have a credit rating at the time of purchase in the category of A or higher (or the equivalent) by at least one nationally recognized statistical ratings organization and that mature no more than five years after the date of settlement. These investments could not exceed 25% of public funds, and no more than 5% of public funds could be invested in these securities from any one issuer. In addition, to acquire or hold securities under these new provisions, the public corporation would have to meet either of the following conditions:

- The public corporation acquires the securities using a registered investment adviser, a state or nationally chartered bank, or an insurance company licensed to do business in Michigan with which the public corporation has a relationship that is fiduciary in nature and is subject to the Michigan prudent investor rule provided under Part 5 of Article I of the Estates and Protected Individuals Code.¹
- The public corporation is a qualified institutional buyer as defined in 17 CFR 230.144A,² and the investment officer and other designees who invest funds of the public corporation complete an approved training course and maintain the certification or designation as it relates to investing public funds. The state treasurer would have to

¹ <https://www.legislature.mi.gov/documents/mcl/pdf/MCL-386-1998-I-5.pdf>

² <https://www.ecfr.gov/current/title-17/chapter-II/part-230/section-230.144A>

maintain and publish a list of approved certifications or designations, which would include at least the following:

- Certified public funds investment manager and advanced certified public funds investment manager by the Association of Public Treasurers of the United States and Canada.
- Chartered financial analyst by the CFA Institute.
- Certified financial planner by the Certified Financial Planner Board of Standards.
- Chartered financial consultant by the American College of Financial Services.
- Accredited asset management specialist by the College for Financial Planning.
- Certified investment management analyst by the Investments and Wealth Institute.
- Certified fixed income practitioner by the Fixed Income Academy.
- Certified government investment professional by the Government Investment Officers Association.

In addition, the bill would authorize public corporations to invest in obligations of other states or political subdivisions of other states that at the time of purchase have a credit rating in the category of AA or higher (or the equivalent) by at least one nationally recognized statistical ratings organization.

Revised authorized investments

The act now allows investment in certificates of deposit of a *financial institution* that is not ineligible to be a depository of funds belonging to the state under any state or federal law or rule. The bill would revise this provision to apply only to certificates of deposit of a *finance business*.

Financial institution means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in Michigan under the laws of Michigan or the United States.

Finance business means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States under the laws of Michigan, any other state, or the United States. (This is essentially the same as the act's definition of financial institution, but without the requirement to have an office in Michigan.)

The bill would retain current provisions that allow investment in certificates of deposit obtained through a financial institution if all of the following conditions are met:

- The funds are initially invested through a financial institution that is not ineligible to be a depository of surplus funds belonging to the state under 1855 PA 105.³
- The financial institution arranges for the investment of the funds in certificates of deposit in one or more insured depository institutions⁴ or one or more insured credit unions⁵ for the account of the public corporation.

³ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-21-146>

⁴ As defined in 12 USC 1813: <https://www.law.cornell.edu/uscode/text/12/1813>

⁵ As defined in 12 USC 1752: <https://www.law.cornell.edu/uscode/text/12/1752>

- The full amount of the principal and any accrued interest of each certificate of deposit is insured by an agency of the United States.
- The financial institution acts as custodian for the public corporation with respect to each certificate of deposit.
- At the same time the funds of the public corporation are deposited and the certificate of deposit is issued, the financial institution receives an amount of deposits from customers of other insured depository institutions or insured credit unions equal to or greater than the amount of the funds initially invested by the public corporation through the financial institution.

In addition, the act now allows public corporations to invest in bonds, securities, and other obligations of an agency or instrumentality of the United States. The bill would expand this statutory language to allow investment in dollar-denominated bonds, notes, debentures, mortgage pass-throughs, debt securities, or other obligations of any enterprise sponsored by the United States, any agency of the United States, or any instrumentality of the United States, such as debt securities issued by any of the following:

- The Government National Mortgage Association (GNMA).
- The Federal National Mortgage Association (FNMA).
- The Federal Home Loan Mortgage Corporation (FHLMC).
- The various Federal Home Loan Banks (FHLBs).
- The Federal Agricultural Mortgage Corporation (Farmer Mac).
- The Tennessee Valley Authority (TVA).
- The Small Business Association (SBA).
- The Federal Farm Credit Banks Funding Corporation (FFCB).
- The Export-Import Bank of the United States.

Investment policy

The act requires the governing body of a public corporation to adopt an investment policy that meets certain specified criteria. Under the bill, beginning no later than one year after the end of the public corporation's first fiscal year that ends after the date the bill takes effect, a public corporation would have to annually file its approved investment policy with the Department of Treasury. A public corporation that has approved an amendment to its investment policy would have to file the investment policy, as amended, with the Department of Treasury no later than 180 days after the end of the public corporation's first fiscal year that ends after the date the bill takes. The Department of Treasury would have to determine the manner and method of the filings required under these provisions.

Other amendments

The act currently allows the governing body of a public corporation that has 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 to provide its investment officer the same authority to invest the trust fund assets as is granted to an investment fiduciary under the Public Employee Retirement System Investment Act. The bill would amend these provisions to apply to *any* long-term or perpetual trust fund of a public corporation, not just one that consists of money and royalties or money derived from oil and gas exploration on property or mineral rights owned by the public corporation.

Similarly, the governing body of a public corporation that has a special revenue fund consisting of payments for park operations and maintenance can provide its investment officer with the same authority to invest the assets of the special revenue fund as is granted to an investment fiduciary under the Public Employee Retirement System Investment Act. The bill would amend these provisions to apply to a special revenue fund consisting of payments for the perpetual maintenance of public buildings and facilities (instead of park operations and maintenance).

MCL 129.91 et seq.

FISCAL IMPACT:

The bill is generally permissive in nature and would have no direct fiscal impact on state or local government. While the bill would have no direct fiscal impact on local units of government, it would broaden investment options for those governing bodies. New options would result in more investment opportunities and flexibility for possible increased returns on investments and additional revenue. However, new investment opportunities may pose potential downside risk of loss in some cases. Financial implications for investments governed by the act would depend on investment decisions made under the new provisions and subsequent investment returns.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.