



**House
Legislative
Analysis
Section**

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POOLED INVESTMENTS

**House Bill 4622 as introduced
First Analysis (6-16-93)**

**Sponsor: Rep. James M. Middaugh
Committee: Local Government**

THE APPARENT PROBLEM:

Under the Surplus Funds Investment Pool Act, a local unit of government, including a drainage district, road commission, building authority, or a municipal or public corporation or authority, may contract with a financial institution to place its surplus funds in an investment pool. The financial institution may invest the pool's funds in the investments permitted under Public Act 20 of 1943, which regulates the investment of the surplus funds of political subdivisions. (The financing activities of local units of government are also regulated by the Local Government Investment Pool Act, the Revenue Bond Act, the Municipal Finance Act, and Public Act 31 of 1948, which provides for the incorporation of county, city, village, or township authorities to own buildings or parking lots). Both the Surplus Funds Investment Pool Act and the Local Government Investment Pool Act require the financial institution responsible for an investment pool to maintain a separate account, showing deposits, earnings, and withdrawals, for each participant in the pool. However, in practice, many of these investment pool transactions are handled by computerized investment systems, and do not maintain records of individual transactions to and from participants' accounts, many happening as often as every day. (Individual bank accounts are not needed for transactions within a computerized investment system, since funds are disbursed by wire transfer rather than by check). Although this method of investing has been practiced for some ten years, it is only recently that local units of government were notified by the Department of Treasury that it may not be authorized under current law.

THE CONTENT OF THE BILL:

The bill would create a new act to permit a local governmental unit that maintained investments in a computerized pool to continue to do so, or begin to do so, provided that the status of money allocated to each fund in an investment, including the

principal amount of each investment, were issued in a written accounting at least once per month. Under the bill, the interest on an investment could be transferred or expended through pooled, concentrated, checking accounts, or by wire or other transfers. The provisions of the bill would apply to a local governmental unit (which under the bill would mean a county, city, village, township, drainage district, road commission, building authority, or other municipal or public corporation or authority) with computerized, pooled, investments that allocated portions of its investments in the pool to various funds and accounts, including, but not limited to, debt service funds, sinking funds and other pledged funds.

FISCAL IMPLICATIONS:

The House Fiscal Agency says the bill would not affect state or local budget expenditures. (6-15-93)

ARGUMENTS:

For:

The bill would enable local units of government to continue in the computerized investment pool practices they have engaged in for the past ten years. Without the provisions of the bill, it seems likely that they would be forced to devise an expensive bookkeeping system that would involve maintaining individual bank accounts, from which each investment would have to be debited or credited, perhaps as often as every day.

Against:

At present, a multiplicity of acts regulate local activity in investment pools, including the Surplus Funds Investment Pool Act, the Local Government Investment Pool Act, the Revenue Bond Act, the Municipal Finance Act, Public Act 31 of 1948, which provides for the incorporation of county, city, village, or township authorities to own buildings or parking lots, and Public Act 20 of 1943, which

regulates the investment of the surplus funds of political subdivisions. In fact, it has been suggested that some of these acts may even prohibit the practice that would be allowed under this bill. Rather than create another act to regulate this area of local affairs, current law should be amended to provide a uniform policy.

POSITIONS:

The Michigan Association of County Treasurers supports the bill. (6-15-93)

The Michigan Townships Association supports the bill. (6-15-93)

The Ingham County treasurer supports the bill. (6-15-93)

The Saginaw County treasurer supports the bill. (6-11-93)

The Department of Treasury opposes the bill as it may violate the provisions of various state laws and local ordinances regarding the investment of local government funds. (6-15-93)