



Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

POOLED INVESTMENTS

House Bill 4622 as enrolled
Second Analysis (7-11-94)

Sponsor: Rep. James M. Middaugh
House Committee: Local Government
Senate Committee: Local Government &
Urban Development

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.

Under the bill, investments of debt service funds, sinking funds, or other pledged funds relating to one or more issues of bonds, notes or other indebtedness of a municipality could be maintained in or as part of a computerized pool subject to the conditions set forth in the bill, unless otherwise prohibited by law or contract. However, a computerized pool for such funds would have to be maintained separately from any computerized pool for other funds and accounts of the municipality. The bill also would specify that it is intended to authorize the holding and accounting of electronically pooled investments but is not intended to permit types or categories of investments not currently authorized by law or contract.

FISCAL IMPLICATIONS:

The House Fiscal Agency says the bill would not affect state or local budget expenditures. (7-11-94)

House Bills 4622 (7-11-94)

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.