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LOCAL UNITS: CREDIT CARD USE

House Bill 5019 (Substitute H-2)
First Analysis (9-26-95)

Sponsor: Rep. Robert Brackenridge
Committee: Local Government

THE APPARENT PROBLEM:

Some local units of government have for some time used credit cards to purchase goods and services and have issued credit cards to officials and employees for use for official business, including expenses. Gasoline purchases, for example, are commonly made with a credit card issued to a driver or a vehicle. In recent years there has reportedly been some debate between representatives of local government and the Department of Treasury about the validity of credit card use, including whether this was legally authorized debt. Usually, government debt is approved by voters. State audits have also turned up some abuse of credit cards at the local level. The result of this debate is a legislative proposal, specifically authorizing the use of credit cards by local governments and providing for the regulation of credit card use.

THE CONTENT OF THE BILL:

The bill would create a new act to authorize and regulate credit card transactions involving local units of government. Under the bill, the total combined authorized credit limit of all credit cards issued by a local unit could not exceed five percent of the unit's budget in the current fiscal year. The balance on a credit card, including interest due, would have to be paid within 60 days of the initial statement date.

The term "local unit" refers to a village, a city, a township, a county, a county road commission, a local school district, an intermediate school district, a community college district, and an authority or organization of government that can issue obligations under Public Act 202 of 1943.

Under the bill, the governing body of a local unit could enter into a credit card arrangement, which would not be subject to the Municipal Finance Act

or to provisions of law or charter concerning the issuance of debt. The local unit would have to adopt a written policy by resolution of the local governing body. The policy would have to provide, among other things, for a system of internal accounting controls, for the approval of credit card invoices before payment, and for disciplinary measures for the unauthorized use of a card by an officer or employee. The policy would also designate an officer as responsible for the unit's credit card issuance, accounting, monitoring, and retrieval, and generally for overseeing compliance; provide that a credit card could be used only by an officer or employee of the local unit for the purchase of goods or services for official business; and, at the discretion of the local unit, limit the specific official business for which cards could be used. The policy also would require an officer or employee using credit cards issued by the local unit to submit documentation as described in the policy detailing purchases, their cost, and the official business involved. An officer or employee would be responsible for the protection and custody of his or her card and would have to notify the local unit immediately if it was lost or stolen. The policy also would require that the card be returned when the officer or employee left employment or service with the local unit.

The Department of Treasury could issue an order, following a public hearing, limiting or suspending the authority of a local unit to issue and use credit cards for failure to comply with the requirements of the new act or with the local credit card policy.

A credit card arrangement entered into by a local unit before the effective date of the new act would be valid but could not be used after the act took effect unless it complied with the act.

The act would take effect six months after its enactment.

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FISCAL IMPLICATIONS:

The bill would have no cost or revenue impact, according to the House Fiscal Agency. (Fiscal Note dated 9-14-95)

ARGUMENTS:

For:

The bill would authorize in statute the use of credit cards for purchases by local units of government and would provide for the regulation of the practice. A local unit would have to adopt a policy about who could use credit cards and for what purposes and designate a person to responsible for the unit's credit card program. Under the bill, a local unit's credit card limit could not exceed five percent of its budget, and all balances, including interest, would have to be paid within 60 days. If a community failed to comply with its own policy or with the statute, the Department of Treasury could issue an order limiting or suspending the unit's authority to issue and use credit cards.

POSITIONS:

The Department of Treasury supports the bill. (9-20-95)

A representative of the Michigan Association of Counties testified in support of the bill. (9-20-95)

A representative of the Michigan Townships Association has indicated support for the bill. (9-20-95)

A representative of the Michigan Municipal League testified in support of the bill. (9-20-95)

A representative of the County Road Association of Michigan has indicated support of the bill. (9-20-95)

The National Bank of Detroit has indicated support for the bill. (9-20-95)