



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

Senate Bill 196 (as introduced 2-5-09)

Sponsor: Senator Tony Stamas

Committee: Banking and Financial Institutions

Date Completed: 2-10-09

## **CONTENT**

The bill would amend the Revised School Code to allow the treasurer of a school district or intermediate school district to invest funds in certificates of deposit in one or more insured credit unions.

Under the Code, the treasurer of an intermediate school district (ISD), if authorized by resolution of the intermediate school board, may invest general operating funds, special education funds, area vocational-technical education funds, building and site funds, cooperative education funds, and debt retirement funds of the district. Investments are restricted to any of the following:

- -- Bonds, bills, or notes of the United States or obligations of this State.
- -- Certificates of deposit issued by a financial institution.
- -- Commercial paper rated prime at the time of purchase and maturing within 270 days after the date of purchase.
- -- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- -- United States government or Federal agency obligation repurchase agreements.
- -- Bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- -- Investment pools, as authorized by the Surplus Funds Investment Pool Act, composed entirely of instruments that are legal for direct investment by an ISD.
- -- Mutual funds composed entirely of investment vehicles that are legal for direct investment by an ISD.

If authorized by resolution of the board of a school district, the treasurer of the school district may invest debt retirement funds, building and site funds, building and site sinking funds, or general funds of the district. Investments are restricted to those described above and the following:

- -- Obligations whose principal and interest are fully guaranteed by the United States, or obligations of this State.
- -- Share certificates of a State or Federal credit union that is a financial institution.

The treasurer of an ISD or school district also may invest the funds in certificates of deposit (CDs) in accordance with all of the following conditions:

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- -- The funds are initially invested through a financial institution that is not ineligible to be a depository of surplus funds belonging to this State under Public Act 105 of 1855.
- -- The financial institution arranges for the investment of the funds in CDs in one or more insured depository institutions as defined in Section 1813 of the Federal Deposit Insurance Act, 12 USC 1813, for the account of the ISD or school district, as applicable.
- -- The full amount of the principal and any accrued interest of each CD is insured by an agency of the United States.
- -- The financial institution acts as custodian for the ISD or school district with respect to each CD.
- -- At the same time that the funds are deposited and the CD or CDs are issued, the financial institution receives an amount of deposits from customers of other insured depository institutions equal to or greater than the amount of the funds initially invested by the ISD or school district through the financial institution.

Under the bill, a financial institution would have to arrange for the investment of the funds in CDs in one or more insured depository institutions or one or more insured credit unions as defined in Section 1752 of the Federal Deposit Insurance Act, 12 USC 1752, for the account of the ISD or school district.

At the time the funds were deposited and the CD or CDs were issued, the financial institution would have to receive an amount of deposits from customers of other insured financial institutions or insured credit unions equal to or greater than the amount initially invested by the ISD or school district through the financial institution.

(Under 12 USC 1813, "insured depository institution" means any bank or savings association whose deposits are insured by the Federal Deposit Insurance Corporation. Under 12 USC 1752, "insured credit union" means any credit union whose member accounts are insured by the National Credit Union Administration.)

MCL 380.622 & 380.1223

## FISCAL IMPACT

The bill would have no effect on State revenue or expenditures. The bill would affect the net revenue of school districts and intermediate school districts by an unknown amount depending on how the bill influenced the rate of return on districts' investments. Presumably, use of the additional instruments would produce higher rates of return at a potentially lower cost and thus increase net revenue to the districts from such investments.

Fiscal Analyst: Kathryn Summers-Coty
David Zin

Legislative Analyst: Craig Laurie

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