

Retirement Program Bonds: New Tool for Michigan Municipalities

December 5, 2012

In October 2012, Governor Snyder signed into law SB 1129, designed to provide Michigan local governments with the ability to issue bonds or other municipal securities to pay all or part of the costs of their unfunded pension liability or unfunded accrued health care liability. The new law, 2012 PA 329, is designed to provide tools to cities, villages, townships and counties to convert their defined benefit programs to defined contribution programs and/or fund the costs of postemployment health care costs. The law was given immediate effect.

PA 329 authorizes the issuance of bonds by a city, village, township, or county to pay all or part of the cost of its unfunded pension liabilities in connection with the partial or complete cessation of accruals to a defined benefit plan or the closure of a defined benefit plan to new or existing employees and the implementation of a defined contribution plan.

PA 329 also authorizes the issuance of bonds by a city, village, township, or county to pay the costs of its unfunded accrued health care liability and to deposit the funds into a health care trust fund.

Bonds issued under PA 329 may be issued without a vote of the electors, although the taxes levied by the municipality to pay the bonds may not exceed the tax rate limits authorized by law. The authority to issue bonds will continue through December 31, 2014.

In order to issue bonds, the local government must have a credit rating in the AA category or higher from at least one nationally recognized rating agency. The local government must also publish a notice of intent to issue the bonds to notify electors of the amount of the bonds, the purpose of the bonds, and to provide a right of referendum on the issuance of the bonds. Prior to issuing bonds, the local government is required to prepare a comprehensive financial plan regarding its retirement programs and postemployment health care programs and obtain approval of the financing from the Michigan Department of Treasury.

Miller Canfield public finance lawyers worked closely with our municipal clients, the Michigan Municipal League, and the Department of Treasury in helping to craft the new law. Miller Canfield lawyers would be happy to discuss the new law with you. Contact your Miller Canfield attorney for more information.

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