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An Act To Reduce the Cost of the Unfunded Liability of the State Employee and Teacher Retirement Fund and To Reduce the Cost to Maine Citizens of Purchasing State Bonds

CONCEPT DRAFT SUMMARY

This bill is a concept draft pursuant to Joint Rule 208.

This bill proposes to accomplish 2 goals. Part A would reduce the cost of the unfunded actuarial liability to the state employee and teacher retirement fund by authorizing the issuance of pension cost reduction bonds by the Maine Municipal Bond Bank. Part B would authorize the Treasurer of State to institute a program to make the purchase of State general obligation bonds more accessible to Maine citizens.

PART A

Pension cost reduction bonds would be issued to pay off part or all of the outstanding unfunded liability, currently in excess of \$3,000,000,000, the state has to its state employee and teacher retirement fund. Savings would be realized over time by the difference between the interest cost of the bonds and the cost assessed by the Maine State Retirement System on the unfunded obligation. The bill would provide at a minimum the following elements:

1. Pension cost reduction bonds are tax-exempt or taxable bonds issued by the Maine Municipal Bond Bank.
2. Notwithstanding any other provision of law, the bank may issue up to \$3,000,000,000 plus financing costs, excluding bonds to refund bonds for the purpose of obtaining the economic benefit of reducing the debt service on the outstanding bonds, of pension cost reduction bonds, to be repaid solely from funds provided in this bill. The bank may issue pension cost reduction bonds pursuant to a resolution to be adopted by the bank in the amount and upon such terms as it considers appropriate. The terms of the pension cost reduction bonds, their repayment schedule and other provisions to facilitate their creditworthiness must be determined by the bank.
3. Pension cost reduction bonds are not, and may not be deemed to constitute, a debt or liability of the State or of any political subdivision of the State, or a pledge of the full faith and credit of the State or of any political subdivision of the State, but are special obligations of the bank payable solely from the funds and revenues pledged therefor.
4. Proceeds from any sale of the pension cost reduction bonds must be deposited into the Retirement Allowance Fund established in the Maine Revised Statutes, Title 5, section 17251.
5. The bonds are to be repaid from certain revenues designated by the State Controller.

6. The Maine Municipal Bond Bank shall establish and maintain a debt service fund as a trust fund called "the Pension Cost Reduction Debt Service Fund" into which there must be deposited directly money received into the funds designated by the State Controller. Money in the debt service fund must be held and applied solely to the payment of the interest on and principal of bonds secured by the debt service fund as they become due and payable and for the retirement of bonds, including the payment of any redemption premium required to be paid when any bonds are redeemed or retired before maturity or, in accordance with the resolution authorizing the issuance of the bonds, for the payment of ancillary obligation; except that, in each month, to the extent there is money or funds therein not needed in accordance with the resolution, and subject in all respects to the provisions of the resolution, the bank shall withdraw any excess money or funds and transfer it to accounts identified by the State Controller.

7. The Maine Municipal Bond Bank shall create a capital reserve fund to secure the payment of the interest on and principal of bonds secured by the reserve fund.

8. As long as there are any pension cost reduction bonds issued by the bank outstanding, the State Controller shall transfer immediately to the Pension Cost Reduction Debt Service Fund established all sums deposited into accounts designated by the State Controller, less costs of administering the programs funded by these accounts.

PART B

The Treasurer of State would be authorized to create and implement a program to make the purchase of State general obligation bonds more accessible and more affordable to Maine citizens. The bill would provide at a minimum the following elements:

1. At the direction of the Treasurer and based on market considerations, a portion of each year's general obligation bond issue would be eligible for the program.

2. Only Maine residents could participate in the program.

3. The bonds would be available in denomination as low as \$1,000 to make them affordable to individuals investors.

4. No investor could purchase more than \$10,000 in bonds from a single issue.

5. The Treasurer would negotiate with underwriters, brokers and other to make the bonds conveniently available for purchase and to reduce any commissions, fees or costs charged to investors. Any negotiation should not result in increased costs to the State to issued the bonds.

6. The bonds would be tax exempt.

7. The bonds would be a pledge of the full faith and credit of the State and would not run for a period longer than 10 years from the date of issue.