



House of Representatives

General Assembly

File No. 595

January Session, 2011

Substitute House Bill No. 6586

House of Representatives, April 20, 2011

The Committee on Finance, Revenue and Bonding reported through REP. WIDLITZ of the 98th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING THE USE OF CERTAIN REVENUES TO PROVIDE FUNDS FOR THE BUDGET RESERVE FUND, CAPITAL DEBT PAYMENTS AND PENSION PAYMENTS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (a) of section 4-30a of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective from*
3 *passage*):

4 (a) [After the accounts for the General Fund have been closed for
5 each fiscal year and the Comptroller has determined the amount of
6 unappropriated surplus in said fund, after any amounts required by
7 provision of law to be transferred for other purposes have been
8 deducted, the amount of such surplus shall be transferred by the State
9 Treasurer to a special fund to be known as the Budget Reserve Fund.]
10 The State Treasurer shall transfer the following amounts into a special
11 fund to be known as the Budget Reserve Fund: (1) An amount equal to
12 fifty per cent of any projected surplus in the General Fund for the

13 current fiscal year as determined in the Comptroller's January
14 cumulative monthly financial statement pursuant to section 3-115; (2)
15 any amounts received from a sale of surplus state property pursuant to
16 subsection (c) of section 4b-21; (3) any amounts in excess of the
17 estimated revenues in the revised consensus revenue estimate issued
18 on April thirtieth pursuant to section 2-36c; and (4) an amount equal to
19 any unappropriated surplus remaining in the General Fund after any
20 amounts required by provision of law to be transferred for other
21 purposes have been deducted as determined by the Comptroller after
22 the accounts for the General Fund have been closed for each fiscal
23 year. The State Treasurer shall transfer the amount in subdivision (1) of
24 this subsection not later than five days after the Comptroller issues the
25 January cumulative monthly financial statement pursuant to section 3-
26 115. When the amount in [said fund] the Budget Reserve Fund equals
27 [ten] fifteen per cent of the net General Fund appropriations for the
28 fiscal year in progress, no further transfers shall be made by the
29 Treasurer to said fund and the amount of such surplus in excess of that
30 transferred to said fund shall be deemed to be appropriated to the
31 State Employees Retirement Fund, in addition to the contributions
32 required pursuant to section 5-156a, but not exceeding five per cent of
33 the unfunded past service liability of the system as set forth in the most
34 recent actuarial valuation certified by the Retirement Commission.
35 Such surplus in excess of the amounts transferred to the Budget
36 Reserve Fund and the state employees retirement system shall be
37 deemed to be appropriated for: [(1)] (A) Redeeming prior to maturity
38 any outstanding indebtedness of the state selected by the Treasurer in
39 the best interests of the state; [(2)] (B) purchasing outstanding
40 indebtedness of the state in the open market at such prices and on such
41 terms and conditions as the Treasurer shall determine to be in the best
42 interests of the state for the purpose of extinguishing or defeasing such
43 debt; [(3)] (C) providing for the defeasance of any outstanding
44 indebtedness of the state selected by the Treasurer in the best interests
45 of the state by irrevocably placing with an escrow agent in trust an
46 amount to be used solely for, and sufficient to satisfy, scheduled
47 payments of both interest and principal on such indebtedness; or [(4)]

48 (D) any combination of these methods. Pending the use or application
49 of such amount for the payment of interest and principal, such amount
50 may be invested in [(A)] (i) direct obligations of the United States
51 government, including state and local government treasury securities
52 that the United States Treasury issues specifically to provide state and
53 local governments with required cash flows at yields that do not
54 exceed Internal Revenue Service arbitrage limits, [(B)] (ii) obligations
55 guaranteed by the United States government, and [(C)] (iii) securities
56 backed by United States government obligations as collateral and for
57 which interest and principal payments on the collateral generally flow
58 immediately through to the security holder.

59 Sec. 2. Section 4-30b of the general statutes is repealed and the
60 following is substituted in lieu thereof (*Effective from passage*):

61 Notwithstanding the provisions of section 4-30a, as amended by this
62 act, after the accounts for the fiscal year ending June 30, 2010, and each
63 fiscal year thereafter, until and including the fiscal year ending June 30,
64 2017, are closed, if the Comptroller determines there exists an
65 unappropriated surplus in the General Fund, the Secretary of the
66 Office of Policy and Management, in consultation with the State
67 Treasurer, shall use the amount of any such surplus [shall first be
68 used] for either redeeming prior to maturity any outstanding notes
69 issued under section 3-20g [, and any amount beyond that required to
70 redeem such notes shall be used] or to reduce the obligations of the
71 state under the financing plan authorized under section 88 of public
72 act 09-3 of the June special session.

73 Sec. 3. (NEW) (*Effective from passage*) Any payment to the state as a
74 settlement of a court action shall, at the discretion of the Secretary of
75 the Office of Policy and Management, be deposited in the state's trust
76 fund for other post employment benefits, the State Employees
77 Retirement Fund or the Teachers' Retirement Fund.

This act shall take effect as follows and shall amend the following sections:

Section 1	<i>from passage</i>	4-30a(a)
Sec. 2	<i>from passage</i>	4-30b
Sec. 3	<i>from passage</i>	New section

FIN *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 12 \$	FY 13 \$
Budget Reserve Fund	GF - See Below	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill increases, from 10% to 15% of the net General Fund (GF) appropriation for the fiscal year in progress, the maximum amount of surplus funds to be deposited into the Budget Reserve Fund (BRF). For illustrative purposes, the net GF appropriation for FY 11 is \$17.6 billion; the bill would increase the maximum allowable deposits into the BRF during FY 11 from \$1.76 billion to \$2.64 billion, which is a difference of \$880 million.

The bill accelerates the BRF's claim on surplus funds. Specifically, it requires the treasurer to transfer a portion of projected surplus funds identified during the fiscal year instead of waiting until the fiscal year has ended.¹ This is not expected to have a GF impact in the year in which the funds are transferred because if there is a deficit at the end of the fiscal year, the surplus funds would automatically be available from the BRF to pay the deficit.

Under current law, unappropriated General Fund surplus must first be used to redeem outstanding economic recovery notes (ERNs) and then economic recovery revenue bonds (ERRBs). This bill allows OPM

¹ Under current law, the surplus funds are not committed to transfer until the state comptroller has certified the surplus amount in September for the fiscal year ending June 30th.

to use surplus funds to reduce either ERNs or ERRBs. To the extent that ERRBs are reduced before ERNs, it may preclude a future cost savings as ERNs are a General Fund obligation and ERRBs are an obligation of electric ratepayers.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sHB 6586*****AN ACT CONCERNING THE USE OF CERTAIN REVENUES TO PROVIDE FUNDS FOR THE BUDGET RESERVE FUND, CAPITAL DEBT PAYMENTS AND PENSION PAYMENTS.*****SUMMARY:**

Under current law, any unappropriated General Fund surplus at the end of any fiscal year from FY 10 through FY 17 must be first used to redeem any outstanding economic recovery notes before they mature and next to reduce the state's economic recovery revenue ("securitization") bonds. This bill instead requires the Office of Policy and Management (OPM) secretary, in consultation with the state treasurer, to use any surplus in these fiscal years to reduce either of these debt obligations.

The bill also expands the funding sources for the Budget Reserve ("Rainy Day") Fund and increases its maximum balance from 10% to 15% of the net General Fund appropriations for the fiscal year in progress.

The bill gives the OPM secretary the discretion to deposit any payment the state receives from a court settlement into the (1) state's trust fund for post-employment benefits, (2) State Employees Retirement Fund, or (3) Teacher's Retirement Fund.

EFFECTIVE DATE: Upon passage

BUDGET RESERVE FUND TRANSFERS

With the exception of FY 10 through FY 17, the law requires the state treasurer to transfer any unappropriated surplus, exceeding required transfers, at the end of each fiscal year to the Budget Reserve Fund.

The bill requires the treasurer to also transfer to the fund:

1. half of the surplus projected in the comptroller's January cumulative monthly financial statement,
2. any amount received from the sale of surplus state property, and
3. any amount exceeding estimated revenues in any revised consensus revenue estimate issued in April (see COMMENT).

The additional transfers apply for any fiscal year. The treasurer must transfer the January surplus amount within five days after the comptroller issues the January statement.

By law, once the fund reaches the maximum, the treasurer may not transfer additional unappropriated General Fund surpluses to it. Any remaining funds must go towards (1) the State Employees Retirement Fund's unfunded liability and (2) paying off outstanding state debt.

BACKGROUND

Related Bill

sSB 1176 (File 464), favorably reported by the Energy and Technology Committee, establishes a tax on certain electric generators and requires the new tax revenue to be used to pay off the securitization bonds.

COMMENT

Transfer of Excess Revenues

The bill requires the treasurer to transfer to the Budget Reserve Fund any amount that exceeds the April consensus revenue estimate. But it is unclear how the treasurer can determine this amount since the bill does not specify when she must compare the estimate to actual revenues to calculate the surplus.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 41 Nay 11 (04/07/2011)