



Senate

General Assembly

File No. 658

January Session, 2013

Substitute Senate Bill No. 1116

Senate, May 1, 2013

The Committee on Finance, Revenue and Bonding reported through SEN. FONFARA of the 1st Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING THE USE OF CERTAIN REVENUES TO PROVIDE FUNDS FOR THE BUDGET RESERVE FUND.

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

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 Section 4-30a of the general statutes is repealed and the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

3 (a) [After the accounts for the General Fund have been closed for
4 each fiscal year and the Comptroller has determined the amount of
5 unappropriated surplus in said fund, after any amounts required by
6 provision of law to be transferred for other purposes have been
7 deducted, the amount of such surplus shall be transferred by the State
8 Treasurer to a special fund to be known as the Budget Reserve Fund.]
9 The Treasurer shall transfer the following amounts into a special fund
10 to be known as the Budget Reserve Fund: (1) Any net General Fund
11 revenue for the fiscal year in progress in the revised consensus revenue
12 estimate issued on January fifteenth pursuant to section 2-36c, that is in
13 excess of the statement of estimated revenue for the fiscal year in

14 progress contained in the most recent state budget act passed by the
15 legislature; (2) any amounts received from a sale of surplus state
16 property pursuant to subsection (c) of section 4b-21; (3) any net
17 General Fund revenue for the fiscal year in progress in the revised
18 consensus revenue estimate issued on April thirtieth pursuant to
19 section 2-36c, that is in excess of the revised consensus revenue
20 estimate for the fiscal year in progress issued on the immediately
21 preceding January fifteenth pursuant to section 2-36c, not including
22 any amounts transferred pursuant to subdivision (1) of this subsection;
23 and (4) an amount equal to any unappropriated surplus remaining in
24 the General Fund after any amounts required by provision of law to be
25 transferred for other purposes have been deducted as determined by
26 the Comptroller after the accounts for the General Fund have been
27 closed for each fiscal year. The Treasurer shall transfer the amount in
28 subdivision (1) of this subsection not later than five days after the
29 Comptroller issues the January cumulative monthly financial
30 statement pursuant to section 3-115. The Treasurer shall transfer the
31 amount in subdivision (3) of this subsection not later than five days
32 after the Comptroller issues the April cumulative monthly financial
33 statement pursuant to section 3-115.

34 (b) When the amount in said fund equals [~~ten~~] fifteen per cent of the
35 net General Fund appropriations for the fiscal year in progress, no
36 further transfers shall be made by the Treasurer to said fund and the
37 [~~amount of such surplus~~] amounts listed in subsection (a) of this
38 section in excess of that transferred to said fund shall be deemed to be
39 appropriated to the State Employees Retirement Fund, in addition to
40 the contributions required pursuant to section 5-156a, but not
41 exceeding five per cent of the unfunded past service liability of the
42 system as set forth in the most recent actuarial valuation certified by
43 the Retirement Commission. Such [~~surplus~~] amounts listed in
44 subsection (a) of this section in excess of the amounts transferred to the
45 Budget Reserve Fund and the state employees retirement system shall
46 be deemed to be appropriated for: (1) Redeeming prior to maturity any
47 outstanding indebtedness of the state selected by the Treasurer in the
48 best interests of the state; (2) purchasing outstanding indebtedness of

49 the state in the open market at such prices and on such terms and
50 conditions as the Treasurer shall determine to be in the best interests of
51 the state for the purpose of extinguishing or defeasing such debt; (3)
52 providing for the defeasance of any outstanding indebtedness of the
53 state selected by the Treasurer in the best interests of the state by
54 irrevocably placing with an escrow agent in trust an amount to be used
55 solely for, and sufficient to satisfy, scheduled payments of both interest
56 and principal on such indebtedness; or (4) any combination of these
57 methods. Pending the use or application of such amount for the
58 payment of interest and principal, such amount may be invested in (A)
59 direct obligations of the United States government, including state and
60 local government treasury securities that the United States Treasury
61 issues specifically to provide state and local governments with
62 required cash flows at yields that do not exceed Internal Revenue
63 Service arbitrage limits, (B) obligations guaranteed by the United
64 States government, and (C) securities backed by United States
65 government obligations as collateral and for which interest and
66 principal payments on the collateral generally flow immediately
67 through to the security holder.

68 [(b)] (c) Moneys in said Budget Reserve Fund shall be expended
69 only as provided in this subsection. When in any fiscal year the
70 Comptroller has determined the amount of a deficit applicable with
71 respect to the immediately preceding fiscal year, to the extent
72 necessary, the amount of funds credited to said Budget Reserve Fund
73 shall be deemed to be appropriated for purposes of funding such
74 deficit.

75 [(c)] (d) The Treasurer is authorized to invest all or any part of said
76 fund in accordance with the provisions of section 3-31a. The interest
77 derived from the investment of said fund shall be credited to the
78 General Fund.

79 Sec. 2. (NEW) (*Effective from passage*) Any payment to the state as a
80 settlement of a court action shall, at the discretion of the Secretary of
81 the Office of Policy and Management, be deposited in the state's trust

82 fund for other postemployment benefits, the State Employees
83 Retirement Fund or the Teachers' Retirement Fund.

84 Sec. 3. Section 10a-8c of the general statutes is repealed and the
85 following is substituted in lieu thereof (*Effective from passage*):

86 (a) Except as provided in subsection (b) of this section,
87 notwithstanding the provisions of sections 10a-77a, 10a-99a, 10a-109c,
88 10a-109i and 10a-143a, no funds shall be appropriated to the Office of
89 Higher Education for grants pursuant to subdivision (2) of subsection
90 (a) of section 10a-77a, subdivision (2) of subsection (a) of section 10a-
91 99a, subdivision (2) of subsection (b) of section 10a-109i and
92 subdivision (2) of subsection (a) of section 10a-143a: (1) Until such time
93 as the amount in the Budget Reserve Fund, established in section 4-
94 30a, as amended by this act, equals [ten] fifteen per cent of the net
95 General Fund appropriations for the fiscal year in progress, (2) the
96 amount of the grants appropriated shall be reduced proportionately if
97 the amount available is less than the amount required for such grants,
98 and (3) the amount of funds available to be appropriated during any
99 fiscal year for such grants shall not exceed twenty-five million dollars.

100 (b) Endowment fund eligible gifts that meet the criteria set forth in
101 subdivision (2) of subsection (a) of section 10a-77a, subdivision (2) of
102 subsection (a) of section 10a-99a, subdivision (2) of subsection (b) of
103 section 10a-109i and subdivision (2) of subsection (a) of section 10a-
104 143a made by donors during the period from January 1, 2005, to June
105 30, 2005, shall be matched by the Office of Higher Education in an
106 amount equal to one-half of the total amount of endowment fund
107 eligible gifts received. The board shall transfer the amount of the
108 match to the endowment funds of the constituent units in accordance
109 with section 10a-8b.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	4-30a
Sec. 2	<i>from passage</i>	New section

Sec. 3	<i>from passage</i>	10a-8c
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Statement of Legislative Commissioners:

References to "surplus" in section 1(b) were changed to "amounts listed in subsection (a) of this section", for accuracy, and sec. 3 was added to the bill, amending section 10a-8c of the general statutes, for conformity.

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 13 \$	FY 14 \$	FY 15 \$
Resources of the General Fund	General Fund; Budget Reserve Fund; State Employees Retirement Fund	Uncertain, Subject to the Difference Between Revenue Projections and Actuals	Revenue shift	Revenue shift	Revenue shift

Municipal Impact: None

Explanation

The bill diverts excess General Fund revenues to the Budget Reserve Fund prior to the end of the fiscal year. The amount of the diversions would be determined by consensus revenue projections in January and April, as reported by the State Comptroller on February 1st and May 1st, respectively.¹ To the extent that the mid-year diversion of excess revenues under the bill reduces surplus appropriations, the bill would increase the Budget Reserve Fund.

The bill also increases, from 10% to 15% of General Fund appropriations for the fiscal year in progress, the maximum amount of

¹ By law, the Office of Policy and Management and Office of Fiscal Analysis develop consensus revenue projections on November 10th, January 15th and April 30th of each year. If these agencies do not reach consensus, the Office of the State Comptroller must determine it.

the Budget Reserve Fund. To the extent that the maximum deposit of 10% is exceeded under the bill, it could result in a revenue loss from interest income as funds are diverted from the State Employees Retirement Fund, which receives higher interest rates, to the Budget Reserve Fund, which receives lower, short-term interest rates.²

The bill also requires amounts received from the sale of surplus state property to be deposited into the Budget Reserve Fund, which results in the shifting of revenue from the General Fund to the Budget Reserve Fund. For illustrative purposes, in FY 12 a total of \$271,092 was deposited in the General Fund from the sale of property.

Background

Since FY 2000, approximately \$2.3 billion in surplus appropriations have been made to support one-time or ongoing programs.

Summary of Surplus Appropriations since FY 00

	Ongoing \$	One-time \$	Totals \$
FY 00	19,900,000	145,055,970	164,955,970
FY 01	101,048,176	357,561,564	458,609,740
FY 04	83,400,000	29,000,000	112,400,000
FY 05	105,306,466	396,755,724	502,062,190
FY 06	43,355,000	356,632,000	399,987,000
FY 07	238,400,000	383,900,000	622,300,000
Total	591,409,642	1,668,905,258	2,260,314,900
% of Total	26	74	100

The Out Years

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

² Pursuant to CGS 4-30a, once the Budget Reserve Fund has reached its statutory maximum, the balance of surplus funds remaining is to be deposited into the State Employees Retirement Fund.

OLR Bill Analysis**sSB 1116*****AN ACT CONCERNING THE USE OF CERTAIN REVENUES TO PROVIDE FUNDS FOR THE BUDGET RESERVE FUND.*****SUMMARY:**

This bill 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 also gives the Office of Policy and Management 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***Required Transfers***

The bill requires the state treasurer to transfer to the Budget Reserve Fund net General Fund revenue for the fiscal year in progress in the (1) January 15 consensus revenue estimate that exceeds the estimated revenue contained in the most recent state budget act passed by the legislature and (2) April 30 consensus revenue estimate that exceeds the estimated revenue in the January estimate, excluding any amount transferred pursuant to the January estimate. The treasurer must transfer these amounts within five days after the comptroller issues his January and April cumulative monthly financial statements, respectively.

The bill also requires the treasurer to transfer to the fund any amount received from the sale of surplus state property.

Although current law and the bill direct the state treasurer to transfer to the fund any unappropriated surplus, exceeding required transfers, at the end of each fiscal year, two other laws override this requirement. By law, General Fund unappropriated surpluses (1) starting with FY 12, must be first used to reduce the state's accumulated General Fund deficit (i.e., generally accepted accounting principles (GAAP) deficit) and (2) from FY 10 through FY 17, must be used to redeem outstanding economic recovery notes (ERNs) before they mature and then to reduce the state's economic recovery revenue bonds (ERBs), which were never issued.

Maximum Balance

The bill increases the Budget Reserve Fund's maximum balance from 10% to 15% of the net General Fund appropriations for the fiscal year in progress. It makes a conforming change to the Endowment Fund Matching Grant program, which matches private donations to the state's higher education constituent units when the Budget Reserve Fund is fully funded.

By law, once the Budget Reserve Fund reaches the maximum, the treasurer may not transfer additional funds 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 842, reported favorably by the Finance, Revenue and Bonding Committee, repeals the statutes requiring the use of unappropriated General Fund surpluses to (1) reduce the state's GAAP deficit and (2) redeem outstanding ERNs and ERBs. In doing so, the bill requires the state treasurer to transfer any unappropriated surplus, exceeding required transfers, at the end of each fiscal year to the Budget Reserve Fund.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 49 Nay 0 (04/12/2013)