



# STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

## ***TESTIMONY PRESENTED TO THE VETERANS' AFFAIRS COMMITTEE***

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Testimony Regarding Raised Bill No. 211

## **AN ACT CONCERNING THE SOLDIERS, SAILORS AND MARINES FUND**

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Senator Leone, Representative Hennessy and distinguished members of the Veterans' Affairs Committee, thank you for the opportunity to offer testimony on Raised Bill No. 211, An Act Concerning the Soldiers, Sailors and Marines Fund.

This bill would repeal sections 121 and 122 of Public Act 13-247, which eliminated the Soldiers, Sailors and Marines Fund (SSMF) agency as of July 1, 2014, and gave the American Legion responsibility for the operations previously performed by the agency. Public Act 13-247 was the product of discussions and negotiations last session aimed at addressing a structural budget problem in the SSMF as well as implementing a structure consistent with recommendations made by the Legislative Program Review and Investigations Committee (LPRIC) in 2006. It should be noted that the Governor has proposed several modifications to last year's legislation to ensure successful transition and implementation—these changes can be found in sections 15 through 23 and in section 27 of Senate Bill 21. Senate Bill 21 was developed in collaboration with the administrator of the SSMF agency and is, we believe, supported by the executive committee of the American Legion (Department of Connecticut).

It's useful to consider the structure of the current and proposed operations of the SSMF under the legislation passed last session. The SSMF agency is, in the words of the January 2006 LPRIC report, "an unusual creation for state government" in that it involves a partnership between the state and the American Legion, a private organization. The American Legion (Department of Connecticut) has been in charge with the responsibility for processing and distributing aid to veterans through the SSMF since 1919. Prior to passage of PA 13-247, the statutes gave wide latitude to the American Legion to determine the amounts and types of assistance to provide to veterans. Currently, the administrator and assistant administrator of the SSMF agency are not only state employees, but are members of the executive committee of the American Legion, Department of Connecticut. So there is nothing new in allowing the American Legion to run the operation of the SSMF; the only thing that changes is that beginning July 1, 2015, the operations of the SSMF will be handled via contract with a nonprofit entity (the American Legion) rather than through a state agency run by leaders of the American Legion.

It's also worth reviewing some key fiscal considerations. For over a decade, the income generated by the funds held in trust by the state for purposes of the SSMF has been insufficient to cover the operating expenses of and award payments made by the SSMF agency. In fact, it is estimated that the cumulative interest income shortfall since FY 2002 exceeds \$7 million, leading to a sizable negative fund balance. While efforts have been undertaken over the years to

address the structural budget shortfall by reducing administrative costs, interest earnings of late have only barely covered the amount needed for award payments, and the prospects of bringing the fund into balance in the future (let alone eliminating the negative fund balance) are low. While some have argued that the fund's assets should be invested more aggressively in order to generate a higher level of income for both award payments and administrative costs, such a strategy could entail significant risks. Chasing increased returns could subject the fund to investment losses in any given year, reducing the corpus of the fund and potentially requiring an infusion of new revenues to help offset losses while maintaining current operations or perhaps requiring reduced levels of support to veterans over a period of years while the fund recovers its value.

It should be noted that Raised Bill 211 would have a three-fold fiscal impact: (1) no resources are currently budgeted for the SSMF agency in Fiscal Year 2015, requiring an appropriation of over \$3.5 million to re-establish the agency's operations (note that the Governor's budget includes \$650,000 for a contract with the American Legion for operating expenses); (2) any new or increased appropriation would have a corresponding spending cap impact in FY 2015; and (3) the bill does not resolve the structural imbalance between the fund's operating costs and its trust income. The agreement embodied in the Governor's proposed Senate Bill 21 represents a significant reduction in administrative expense while guaranteeing a minimum amount of assistance for veterans at a level that the fund can support over time while minimizing investment risk.

I would like to again thank the committee for the opportunity to present this testimony. I respectfully request that the Committee endorse the existing statute, as modified by the language in Senate Bill 21, as an alternative to Raised Bill 211.