



TOWN TREASURERS' STATUTORY INVESTMENT AUTHORITY

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ISSUE

Summarize town treasurers' statutory investment authority.

SUMMARY

State law authorizes town treasurers to invest public funds using various financial instruments. Generally, it allows them to invest proceeds received from funds, including the general fund, or from the sale of bonds, notes, or other obligations. Treasurers may invest in the obligations of states, including Connecticut; their political subdivisions; and the federal government. They may also invest proceeds from (1) specified reserve funds when directed to do so by certain entities and (2) certain special purpose funds.

In addition, state law gives municipalities broad authority to invest and manage retirement plan assets. It requires municipalities to hold and invest these assets in accordance with the plan's terms and comply with the statutory standards for the prudent investor (CGS §§ [7-450\(b\)](#) and [45a-541 et seq.](#)). (For more information on municipal bond issuances and derivatives, see [OLR Report 2012-R-0473](#).)

GENERAL INVESTMENT AUTHORITY

State law allows town treasurers, with the approval of the town's budget-making authority, to invest proceeds received from funds, including the general fund, or from the sale of bonds, notes, or other obligations in the obligations of:

1. any state, or any political subdivision, authority, or agency thereof, if they are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service that the banking commissioner recognizes;



2. the state of Connecticut, or any regional school district, town, city, borough, or metropolitan district in the state if the obligations are rated within one of the top three rating categories of any nationally recognized rating service or of any rating service that the banking commissioner recognizes; and
3. the United States, including those of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, or any other federal agency.

In addition, towns may invest in certain money market mutual funds, custodial arrangements, and pools. The portfolios of these investment vehicles (1) are limited to the same U.S. government obligations described above; (2) must meet other conditions regarding the delivery of collateral, management, and credit rating of the investment company or investment trust, and (3) may be made only through a state or federal bank, savings bank, or an out-of-state bank with a branch in the state ([CGS § 7-400](#)).

INVESTMENT OF RESERVE AND SPECIAL PURPOSE FUNDS

The law (1) authorizes town treasurers to invest funds from the police reserve fund, municipal reserve fund, and loss and retiree benefits reserve fund and (2) specifies the types of investments the treasurer may make. The treasurer may invest these funds only if directed to do so by the appropriate entity, as shown in Table 1.

Additionally, the law allows the treasurer (or other person in charge of the town's funds) to invest, in any securities in which public funds may lawfully be invested, moneys from the (1) park and recreation capital and nonrecurring expense fund and (2) agricultural land preservation fund (CGS §§ [7-129a\(c\)](#) and [-131q\(c\)](#)).

Table 1: Investment of Reserve Funds by Town Treasurers

CGS §	Reserve Fund	Entity Directing Treasurer to Invest	Permitted Investments
7-296	Police reserve fund	Reserve fund's board of trustees (i.e., the board of police commissioners or the police committee)	Any securities authorized by state laws as investments for trust funds
7-362	Municipal reserve fund	Municipality's budget-making authority	<p>Invests the portion of the reserve fund that is advisable in the budget-making authority's opinion</p> <p>At least 50% of the total amount invested must be in U.S. stocks, bonds, or interest-bearing notes or obligations, or those for which the faith and credit of the U.S. is pledged to provide for the payment of principal and interest, including District of Columbia bonds</p> <p>Up to 31% of the total amount invested may be in equity securities</p>

Table 1 (continued)

CGS §	Reserve Fund	Entity Directing Treasurer to Invest	Permitted Investments
7-403a	Loss and retiree benefits reserve fund	Municipality's budget-making authority	<p>Invests the portion of the reserve fund that is advisable in the budget-making authority's opinion</p> <p>Up to 40% of the total amount invested (or up to 50% if the budget-making authority has adopted an asset allocation and investment policy) may be in equity securities</p> <p>Remaining funds may be invested in the following:</p> <ul style="list-style-type: none"> ▪ Bonds or obligations of, or guaranteed by, the state or the U.S. or its agencies or instrumentalities ▪ Certificates of deposit, commercial paper, savings accounts, and bank acceptances ▪ Obligations of any state or political subdivision in the U.S., including instrumentalities, authorities, or agencies of states and subdivisions, as long as the obligations are rated, at the time of the investment, within the top rating category of any nationally recognized rating service or of any rating service recognized by the banking commissioner ▪ Obligations of any Connecticut municipality, regional school district, or metropolitan district, as long as the obligations are rated, at the time of the investment, within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the banking commissioner ▪ Investments in certain investment companies or investment trusts registered under the federal Investment Company Act of 1940 ▪ Investment agreements with financial institutions whose (1) long-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the banking commissioner or (2) short-term obligations are rated within the top rating category of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner ▪ Investment agreements fully secured by obligations of, or guaranteed by, the U.S. or its agencies or instrumentalities

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