Senate

General Assembly

File No. 705

January Session, 2023

Substitute Senate Bill No. 1235

Senate, May 4, 2023

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 IMPLEMENTING THE TREASURER'S RECOMMENDATIONS CONCERNING THE INVESTMENT ADVISORY COUNCIL AND RELATED STATUTES AND CONCERNING THE BABY BOND TRUST PROGRAM.

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

Section 1. Section 3-13a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

(a) The Treasurer, with the advice and consent of the Investment Advisory Council, shall appoint a chief investment officer and may appoint a deputy chief investment officer, **[**and**]** principal investment officers, investment officers and other personnel to assist the chief investment officer, for the Connecticut retirement pension and trust funds, who shall serve at the pleasure of the Treasurer and whose compensation shall be determined by the Treasurer within salary ranges established by the Treasurer in consultation with the Investment Advisory Council. The provisions of section 4-40 shall not apply to the compensation of [said] such officers and personnel. The chief investment officer shall be sworn to the faithful discharge of duties under law and shall, under the direction of the Treasurer and subject to the provisions of sections 3-13 to 3-13d, inclusive, and 3-31b, advise the Treasurer on investing the trust funds of the state. [Said] The chief investment officer shall also perform such other duties as the Treasurer may direct. [In addition to said officers, the Treasurer may appoint investment officers and other personnel to assist said chief investment officer, which officers and other personnel shall serve at the pleasure of the Treasurer.]

(b) The Treasurer may retain professional investment counsel to evaluate and recommend to the Treasurer changes in the portfolio of the state's trust and other funds. [Said] Such counsel shall inform the Treasurer of suitable investment opportunities and shall investigate the investment merit of any security or group of securities.

(c) The cost of operating the investment department including the cost of personnel and professional investment counsel retained under sections 3-13 to 3-13d, inclusive, and 3-31b shall be paid by the Treasurer charging the income derived from the trust funds.

Sec. 2. Section 3-13b of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

(a) (1) There is created an Investment Advisory Council [which] that shall consist of the following:

[(1)] (A) The Secretary of the Office of Policy and Management who shall serve as an ex-officio member of said council; [(2) the State]

(B) The Treasurer who shall serve as an ex-officio member of said council; [(3) five]

(C) (i) Five public members all of whom shall be experienced in matters relating to investments. The Governor, the president pro tempore of the Senate, the Senate minority leader, the speaker of the House of Representatives and the minority leader of the House of

Representatives shall each appoint one such public member to serve for a term of four years. [No such public member or such member's business organization or affiliate shall directly or indirectly contract with or provide any services for the investment of trust funds of the state of Connecticut during the time of such member's service on said council and for one year thereafter. The term of each public member in office on June 30, 1983, shall end on July 1, 1983.] The appointing authority shall fill all vacancies of the public members; [(4) three]

(ii) Such public members shall recuse themselves from discussions or votes related to any direct or indirect contract with such public member or such member's business organization or affiliate for the provision of any services for the investment of trust funds of the state;

(D) Three representatives of the teachers' unions, and two representatives of the state employees' unions. On or before July 15, 1983, the teachers' unions shall jointly submit to the [State] Treasurer a list of three nominees, and the state employees' unions or a majority thereof who represent a majority of state employees shall jointly submit to the Treasurer a list of two nominees. On or before July 30, 1983, the Governor shall appoint five members of the council from such lists, for terms of two years. Any person appointed to fill a vacancy or to be a new member at the expiration of a given term, whose predecessor in that position was either a representative of one of the teachers' unions or one of the state employees' unions, shall also be a representative of such respective union group. Any such appointee shall be appointed by the Governor from a list of nominees submitted to the Treasurer by the teachers' unions or state employees' unions or such majority thereof, as the case may be, within thirty days of notification by the Treasurer of the existence of a vacancy or a prospective vacancy, or the expiration or prospective expiration of a term.

(2) All members of the council shall serve until their respective successors are appointed and have qualified. No public member of the council shall serve more than two consecutive terms. [which commence on or after July 1, 1983.]

(b) The Governor shall designate one of the members to be chairperson of the council to serve as such at the Governor's pleasure. The Treasurer shall serve as secretary of said council. A majority of the members of the council then in office shall constitute a quorum for the transaction of any business, and action shall be by the vote of a majority of the members present at a meeting. Votes by members on investment policies shall be recorded in the minutes of each meeting. Members of said council shall not be compensated for their services but shall be reimbursed for all necessary expenses incurred in the performance of their duties as members of said council. The council shall meet at least once during each calendar quarter and at such other times as the chairperson deems necessary or upon the request of a majority of the members in office. Special meetings shall be held at the request of such majority after notice in accordance with the provisions of section 1-225. Any member who fails to attend three consecutive meetings or who fails to attend fifty per cent of all meetings held during any calendar year shall be deemed to have resigned from office.

(c) (1) The Treasurer shall recommend to the Investment Advisory Council an investment policy statement **[**which**]** <u>that</u> shall set forth the standards governing investment of trust funds by the Treasurer. Such statement shall include, with respect to each trust fund, without limitation, (A) investment objectives; (B) asset allocation policy and risk tolerance; (C) asset class definitions, including specific types of permissible investments within each asset class and any specific limitations or other considerations governing the investment of any funds; (D) investment manager guidelines; (E) investment performance evaluation guidelines; (F) guidelines for the selection and termination of providers of investment-related services who shall include, but not be limited to, investment advisors, external money managers, investment consultants, custodians, broker-dealers, legal counsel, and similar investment industry professionals; and (G) proxy voting guidelines. A draft of the statement shall be submitted to the Investment Advisory Council at a meeting of said council and shall be made available to the public. Notice of such availability shall be published in at least one newspaper having a general circulation in each municipality in the state which publication shall be not less than two weeks prior to such meeting. Said council shall review the draft statement and shall publish any recommendations it may have for changes to such statement in the manner provided for publication of the statement by the Treasurer. The Treasurer shall thereafter adopt the statement, including any such changes the Treasurer deems appropriate, with the approval of a majority of the members appointed to said council. If a majority of the members appointed to said council fail to approve such statement, [said] such majority shall provide the reasons for its failure to approve to the Treasurer who may submit an amended proposed statement at a subsequent regular or special meeting of said council. Such revised proposed statement shall be made available to the public in accordance with the provisions of the Freedom of Information Act, as defined in section 1-200. Any revisions or additions to the investment policy statement shall be made in accordance with the procedures set forth in this subdivision for the adoption of the statement. The Treasurer shall annually review the investment policy statement and shall consult with the Investment Advisory Council regarding possible revisions to such statement.

(2) All trust fund investments by the [State] Treasurer shall be reviewed by [said] the Investment Advisory Council. The Treasurer shall provide to the council all information regarding such investments which the Treasurer deems relevant to the council's review and such other information as may be requested by the council. The Treasurer shall provide a report at each regularly scheduled meeting of the Investment Advisory Council as to the status of the trust funds and any significant changes [which] that may have occurred or [which] that may be pending with regard to the funds. The council shall promptly notify the Auditors of Public Accounts and the Comptroller of any unauthorized, illegal, irregular or unsafe handling or expenditure of trust funds or breakdowns in the safekeeping of trust funds or contemplated action to do the same within [their] said council's knowledge. The Governor may direct the Treasurer to change any investments made by the Treasurer when in the judgment of said council such action is for the best interest of the state. Said council shall,

at the close of the fiscal year, make a complete examination of the security investments of the state and determine as of June thirtieth, the value of such investments in the custody of the Treasurer and report thereon to the Governor, the General Assembly and beneficiaries of trust funds administered, held or invested by the Treasurer. With the approval of the Treasurer and the council, [said] such report may be included in the Treasurer's annual report.

(d) The Investment Advisory Council shall be within the office of the [State] Treasurer for administrative purposes only.

(e) For the purposes of this section, "teachers' union" means a representative organization for certified professional employees, as defined in section 10-153b, and "state employees' union" means an organization certified to represent state employees, pursuant to section 5-275.

Sec. 3. Section 3-13i of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

(a) On and after January 1, 2001, or on and after the first adoption of an investment policy statement under section 3-13b, as amended by this act, whichever is later, any contract for services related to the investment of trust funds, as defined in section 3-13c, as amended by this act, shall be subject to the investment policy statement adopted under section 3-13b, as amended by this act. [No contract for services related to the investment of such funds shall be awarded to a provider of such services until the Treasurer's recommendation of a provider is reviewed by the Investment Advisory Council. The] If any contract for services related to the investment of trust funds deviates from such investment policy statement, the Treasurer shall provide notice of [such] the Treasurer's recommendation concerning the selection of such provider at a meeting of the council. Not later than forty-five days after such meeting, the council may file a written review of the Treasurer's recommendation [concerning the selection of such provider] with the Office of the Treasurer where it shall be available for public inspection. The Treasurer may proceed to award the contract after such forty-five-day period.

(b) Commencing with the calendar quarter ending September 30, 2023, and each calendar quarter thereafter, the Treasurer shall submit a report to the Investment Advisory Council regarding contracts awarded during each such calendar quarter for services related to the investment of trust funds. The initial report shall include all such contracts awarded and in effect on July 1, 2023, and each report shall include the name of each provider awarded any such contract and the value of such contract.

Sec. 4. Section 3-36b of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

(a) Commencing July 1, 2023, there is established the Connecticut Baby Bond Trust. The trust shall constitute an instrumentality of the state and shall perform essential governmental functions as provided in sections 3-36a to 3-36h, inclusive, as amended by this act. The trust shall receive and hold all payments and deposits or contributions intended for the trust, as well as gifts, bequests, endowments or federal, state or local grants and any other funds from any public or private source and all earnings until disbursed in accordance with **[**section**]** sections 3-36c, 3-36d and 3-36g, as amended by this act.

(b) The amounts on deposit in the trust shall not constitute property of the state and the trust shall not be construed to be a department, institution or agency of the state. Amounts on deposit in the trust shall not be commingled with state funds and the state shall have no claim to or against, or interest in, such funds. Any contract entered into by or any obligation of the trust shall not constitute a debt or obligation of the state and the state shall have no obligation to any designated beneficiary or any other person on account of the trust and all amounts obligated to be paid from the trust shall be limited to amounts available for such obligation on deposit in the trust. The amounts on deposit in the trust may only be disbursed in accordance with the provisions of **[**section**]** sections 3-36c, 3-36d and 3-36g, as amended by this act. The trust shall continue in existence as long as it holds any deposits or has any obligations and until its existence is terminated by law and upon termination any unclaimed assets shall return to the state. Property of the trust shall not be governed by section 3-61a.

(c) The Treasurer shall be responsible for the receipt, maintenance, administration, investing and disbursements of amounts from the trust. The trust shall not receive deposits in any form other than cash.

Sec. 5. Section 3-36e of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

[The property of the trust and the earnings on**]** Disbursements from the trust shall be exempt from all taxation by the state and all political subdivisions of the state.

Sec. 6. Section 3-36f of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

(a) Notwithstanding any provision of the general statutes, to the extent permitted by federal law, no **[**moneys invested in**]** disbursements from the Connecticut Baby Bond Trust shall be considered to be an asset or income for purposes of determining an individual's eligibility for assistance under any program administered by the **[**Department of Social Services**]** state.

(b) Notwithstanding any provision of the general statutes, no **[**moneys invested in**]** disbursements from the trust shall be considered to be an asset for purposes of determining an individual's eligibility for need-based, institutional aid grants offered to an individual at the public eligible educational institutions in the state.

Sec. 7. Section 3-36g of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

[(a) The Treasurer shall establish in the Connecticut Baby Bond Trust an accounting for each designated beneficiary. Each such accounting shall include the amount transferred to the trust pursuant to section 3-36h, plus the designated beneficiary's pro rata share of total net earnings from investments of sums held in the trust.**]**

[(b)] (a) Upon a designated beneficiary's eighteenth birthday and completion of a financial literacy requirement as prescribed by the Treasurer, such beneficiary shall become eligible to [receive the total sum of the accounting under subsection (a) of this section to be used for an eligible expenditure. The Treasurer may adopt regulations, in accordance with the provisions of chapter 54, to carry out the purposes of this section] request an amount, to be used for payment of an eligible expenditure, of up to the total sum of the amount transferred on behalf of the designated beneficiary pursuant to section 3-36h, as amended by this act, and adjusted, if applicable, in accordance with said section, plus the designated beneficiary's pro rata share of the total net earnings from investments of sums held in the trust at the time of disbursement.

[(c)] (b) A designated beneficiary may submit a claim [for such accounting until his or her thirtieth birthday,] pursuant to subsection (a) of this section, in such form and manner as prescribed by the Treasurer, until such designated beneficiary's thirtieth birthday, provided such designated beneficiary is a resident of the state at the time of such claim. If a designated beneficiary (1) is deceased before submitting a valid claim, or (2) fails to submit a valid claim, as determined by the Treasurer, before [his or her thirtieth birthday, such accounting shall be credited back to the assets of the trust] such designated beneficiary's thirtieth birthday, the sum such designated beneficiary was eligible to claim shall be retained by the trust to credit to designated beneficiaries born in subsequent years.

[(d)] (c) Subject to obtaining adequate consent authorizing the disclosure of confidential information related to designated beneficiaries in accordance with all applicable state or federal laws, the Treasurer and the Department of Social Services shall enter into a memorandum of understanding to establish information sharing practices in order to carry out the purposes of [public act 21-111] sections 3-36b to 3-36h, inclusive, as amended by this act.

Sec. 8. Section 3-36h of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

[Upon] After the birth of a designated beneficiary, the Treasurer may transfer up to three thousand two hundred dollars [from the bond proceeds issued pursuant to section 3-36i] to the trust. [to be credited toward the accounting of such designated beneficiary as described in section 3-36g.] For any year in which the funds [made available] authorized pursuant to section 3-36i, as amended by this act, [is] are insufficient to provide such amount per designated beneficiary, the amount so transferred shall be reduced pro rata and the Treasurer shall adjust the shares of each designated beneficiary accordingly. For any year in which such funds are in excess of the amount sufficient to provide such amount per designated beneficiary, the excess shall be retained by the trust to credit to designated beneficiaries born in subsequent years.

Sec. 9. Section 3-36i of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

(a) The State Bond Commission may authorize the issuance of bonds of the state, in accordance with the provisions of section 3-20, in principal amounts not exceeding in the aggregate six hundred million dollars. The proceeds of the sale of bonds described in this section shall be used for the purpose of funding the transfers provided for under section 3-36h, as amended by this act. The amount authorized for the issuance and sale of such bonds in each of the following fiscal years shall not exceed the following corresponding amount for each such fiscal year, except that, to the extent the State Bond Commission does not provide for the use of all or a portion of such amount in any such fiscal year, such amount not provided for shall be carried forward and added to the authorized amount for the next two succeeding fiscal years, and provided further, the costs of issuance, including the expenses of implementing the provisions of sections 3-36b to 3-36h, inclusive, as amended by this act, and capitalized interest, if any, may be added to the capped amount in each fiscal year, and each of the authorized amounts shall be effective on July first of the fiscal year indicated as follows:

Fiscal Year Ending June Thirtieth	Amount
2025	$50,000,000
2026	$50,000,000
2027	$50,000,000
2028	$50,000,000
2029	$50,000,000
2030	$50,000,000
2031	$50,000,000
2032	$50,000,000
2033	$50,000,000
2034	$50,000,000
2035	$50,000,000
2036	$50,000,000

(b) [On or before the first day of September in each year, commencing September 1, 2024] Commencing with the fiscal year ending June 30, 2025, the Department of Social Services shall, not later than September first of each fiscal year, inform the Treasurer of the number of designated beneficiaries born in the prior fiscal year. Promptly thereafter, the Treasurer shall submit to the Governor and the Secretary of the Office of Policy and Management, by certified mail, a report of and a calculation of the total amount required to [deposit] be transferred to the trust [for crediting] to credit three thousand two hundred dollars [for the account of] to each such designated beneficiary born in the prior fiscal year. [as described in section 3-36g.]

(c) All provisions of section 3-20, or the exercise of any right or power granted thereby which are not inconsistent with the provisions of this section, are hereby adopted and shall apply to all bonds authorized by the State Bond Commission pursuant to this section, and temporary notes in anticipation of the money to be derived from the sale of any such bonds so authorized may be issued in accordance with section 3-

20 and from time to time renewed. Such bonds shall mature at such time or times not exceeding twenty years from their respective dates as may be provided in or pursuant to the resolution or resolutions of the State Bond Commission authorizing such bonds. All such bonds, notes or other obligations shall be general obligations of the state and the full faith and credit of the state of Connecticut are pledged for the payment of the principal of and interest on such bonds, notes or other obligations as the same shall become due, and accordingly and as part of the contract of the state with the holders of such bonds, notes or other obligations, appropriation of all amounts necessary for punctual payment of such principal and interest is hereby made, and the Treasurer shall pay such principal and interest as the same become due. [All such bonds, notes or other obligations shall be sold at not less than par and accrued interest in such manner and on such terms as the Treasurer may determine is in the best interest of the state, and shall be signed in the name of the state and on its behalf by the Treasurer. All such bonds, notes or other obligations shall mature at such time or times not later than twenty years after their respective issuance, in such principal amounts and at such times, bear such date or dates, be payable at such place or places, bear interest at such rate or different or varying rates, payable at such time or times, be in such denominations, be in such form with or without interest coupons attached, carry such registration and transfer privileges, be payable in such medium of payment, be subject to such terms of redemption with or without premium and have such additional security, covenant or contract provisions, as appropriate or necessary to improve their marketability, as the Treasurer shall determine prior to their issuance. In connection with such bonds, notes or other obligations, the Treasurer may enter into such paying agent agreements, indentures of trust, escrow agreements or other agreements, with such parties and with such provisions as the Treasurer determines are appropriate or necessary.

(d) The Treasurer may obtain from a commercial bank or insurance company authorized to do business within or without this state a letter of credit, line of credit or other liquidity facility or credit facility for the purpose of providing funds for the payments in respect of bonds, notes or other obligations required by the holder thereof to be redeemed or repurchased prior to maturity or for providing additional security for such bonds, notes or other obligations. In connection with any such liquidity facility or credit facility, the Treasurer may enter into any reimbursement agreements, remarketing agreements, standby purchase agreements or any other necessary or appropriate agreements on behalf of the state in connection with securing, insuring or remarketing such bonds, notes or other obligations, on such terms and conditions as the Treasurer determines to be in the best interest of the state. The Treasurer is authorized to pledge the full faith and credit of the state to the state's payment obligations under any such agreement and the Treasurer is authorized to include such pledge in any such agreement as part of the contract with the provider of such liquidity facility or credit facility. The Treasurer shall apply any appropriation for the payment of such bonds, notes or other obligations to such reimbursement repayment if such liquidity facility or credit facility is drawn upon. As part of the contract of the state with the other parties to any agreement entered into pursuant to this subsection for which the full faith and credit of the state is pledged to the state's payment obligations under such agreement, appropriation of all amounts necessary for the punctual payment of the obligations of the state under any such agreement is hereby made and the Treasurer shall pay such amounts as the same become due.

(e) In connection with or incidental to the carrying of such bonds, notes or other obligations, or in connection with or incidental to the sale and issuance of such bonds, notes or other obligations, the Treasurer may enter into such contracts as the Treasurer may determine to be necessary or appropriate to place the obligation of the state, as represented by the bonds, notes or other obligations, in whole or in part, on such interest rate or cash flow basis as the Treasurer may determine, including without limitation, interest rate swap agreements, insurance agreements, forward payment conversion agreements, futures contracts, contracts providing for payments based on levels of, or changes in, interest rates or market indices, contracts to manage interest rate risk, including without limitation, interest rate floors or caps, options, puts, calls and similar arrangements. Such contracts shall contain such payment, security, default, remedy and other terms and conditions as the Treasurer may deem appropriate and shall be entered into with such party or parties as the Treasurer may select, after giving due consideration, where applicable, for the creditworthiness of the counter party or counter parties, including any rating by a nationally recognized rating agency, the impact on any rating on outstanding bonds, notes or other obligations or any other criteria as the Treasurer may deem appropriate, provided the unsecured long-term obligations of the counter party or counter parties are rated the same or higher than the underlying rating of the state on the applicable bonds, notes or other obligations by at least one nationally recognized rating agency. The Treasurer is authorized to pledge the full faith and credit of the state to the state's payment obligations under any contract entered into pursuant to this subsection. As part of the contract of the state with the other parties to any agreement entered into pursuant to this subsection for which the full faith and credit of the state is pledged to the state's payment obligations under such agreement, appropriation of all amounts necessary for the punctual payment of the obligations of the state under any such agreement is hereby made and the Treasurer shall pay such amounts as the same become due.

(f) The Superior Court shall have jurisdiction to enter judgment against the state founded (1) upon any express contract between the state and the purchasers and subsequent owners and transferees of any bonds, notes or other obligations issued or contracted to be issued by the state pursuant to this section, and (2) upon any agreement entered into pursuant to subsection (c) or (d) of this section. Any action brought under this subsection shall be brought in the superior court for the judicial district of Hartford. The jurisdiction conferred upon the Superior Court by this subsection includes any set-off, claim or demand on the part of the state against any plaintiff commencing an action under this subsection. Such action shall be tried to the court without a jury. All legal defenses, except governmental immunity, shall be reserved to the state. Any action brought under this subsection shall be privileged in respect to assignment for trial upon motion of either party.

(g) Any expense incurred in connection with the issuance or renewal of the bonds, notes or other obligations issued pursuant to this section shall be paid from the accrued interest and premiums on such bonds, notes or other obligations, from the proceeds of the sale of such bonds, notes or other obligations or otherwise from the General Fund. The Treasurer is authorized to issue such bonds, notes or other obligations in such form and manner that the interest on such bonds, notes or other obligations may be includable or excludable under the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as amended from time to time, in the gross income of the holders or owners of such bonds, notes or other obligations. The Treasurer may make representations and agreements for the benefit of the holders or owners of any such bonds, notes or other obligations which are necessary or appropriate to ensure the inclusion or exclusion of interest on such bonds, notes or other obligations of the state from taxation under the Internal Revenue Code of 1986 or any subsequent corresponding internal revenue code of the United States, as amended from time to time, including agreements to pay rebates to the federal government of investment earnings derived from the investment of the proceeds of bonds, notes or other obligations. The Treasurer may make representations and agreements for the benefit of the holders or owners of such bonds, notes or other obligations on behalf of the state to provide secondary market disclosure information. Any such agreement may include: (1) Covenants to provide secondary market disclosure information, (2) arrangements for such information to be provided with the assistance of a paying agent, trustee or other agent, and (3) remedies for breach of such agreement, which remedies may be limited to specific performance. The state shall protect and save harmless any official or former official of the state from financial loss and expense, including legal fees and costs, if any, arising out of any claim, demand, suit or judgment by reason of alleged negligence on the part of such official, while acting in the discharge of his or her official duties, in providing secondary market disclosure information or performing any other duties set forth in any agreement to provide secondary market disclosure information. Nothing in this section shall be construed to preclude the defense of governmental immunity to any such claim, demand or suit. For purposes of this subsection "official" means any person elected or appointed to office or any state employee. This indemnity provision shall not apply to cases of wilful and wanton fraud.

(h) All such bonds, notes or other obligations, their transfer and the income therefrom, including any profit on the sale or transfer thereof, shall at all times be exempt from all taxation by the state or under its authority, except for estate or succession taxes, but the interest on such bonds, notes or other obligations shall be included in the computation of any excise or franchise tax. Such bonds, notes or other obligations are hereby made and declared to be (1) legal investments for savings banks and trustees unless otherwise provided in the instrument creating the trust, (2) securities in which all public officers and bodies, all insurance companies and associations and persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and persons carrying on a banking or investment business, all administrators, guardians, executors, trustees and other fiduciaries and all persons who are or may be authorized to invest in bonds, notes or other obligations of the state, may properly and legally invest funds, including capital in their control or belonging to them, and (3) securities that may be deposited with and shall be received by all public officers and bodies for any purpose for which the deposit of bonds, notes or other obligations of the state is or may be authorized.**]**

Sec. 10. Section 3-13c of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

[Trust funds as**]** <u>As</u> used in sections 3-13 to 3-13e, inclusive, and 3-31b<u>,</u> **[**shall be construed to include**]** <u>"trust funds" includes the</u> Connecticut Municipal Employees' Retirement Fund A, <u>the</u> Connecticut Municipal Employees' Retirement Fund B, <u>the</u> Soldiers, Sailors and Marines Fund, <u>the</u> Family and Medical Leave Insurance Trust Fund, <u>the</u> State's Attorneys' Retirement Fund, <u>the</u> Teachers' Annuity Fund, <u>the</u>

Teachers' Pension Fund, the Teachers' Survivorship and Dependency Fund, the School Fund, the State Employees Retirement Fund, the Hospital Insurance Fund, the Policemen and Firemen Survivor's Benefit Fund, any trust fund described in subdivision (1) of subsection (b) of section 7-450 that is administered, held or invested by the State Treasurer, the Connecticut Baby Bond Trust and all other trust funds administered, held or invested by the State Treasurer.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*from passage*	3-13a
Sec. 2	*from passage*	3-13b
Sec. 3	*from passage*	3-13i
Sec. 4	*from passage*	3-36b
Sec. 5	*from passage*	3-36e
Sec. 6	*from passage*	3-36f
Sec. 7	*from passage*	3-36g
Sec. 8	*from passage*	3-36h
Sec. 9	*from passage*	3-36i
Sec. 10	*from passage*	3-13c

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 24 $	FY 25 $	Out Years $
Treasurer	Various - See Below	See Below	See Below	See Below
Resources of the General Fund	GF - Precludes Revenue Gain	None	None	See Below
Treasurer, Debt Serv.	GF - Potential Cost	None	See Below	See Below

Note: GF=General Fund; Various=Various

Municipal Impact: None

Explanation

Sections 1-3 authorize the State Treasurer to set compensation levels for investment officers and other personnel involved with the chief investment officer, which has no fiscal impact to appropriated funds.

To the extent future investment personnel are hired at compensation levels different from those currently allowed, various investment funds overseen by the State Treasurer would be subject to potential changes to personnel costs.

Sections 4-10 alter technical and administrative aspects of the Baby Bonds program. Future General Fund debt service costs may be incurred sooner under the bill to the degree that it causes authorized GO bond funds to be available, expended, or to be expended more rapidly than they otherwise would have been.

The bill also exempts disbursements from the fund from state and local taxes, which precludes a potential revenue gain to the state beginning in FY 42.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to future hiring decisions and the terms of any bonds issued.

OLR Bill Analysis
sSB 1235

AN ACT IMPLEMENTING THE TREASURER'S RECOMMENDATIONS CONCERNING THE INVESTMENT ADVISORY COUNCIL AND RELATED STATUTES AND CONCERNING THE BABY BOND TRUST PROGRAM.

SUMMARY

This bill makes the following changes concerning the state treasurer and Investment Advisory Council (IAC):

1. expands the investment-related job titles for which the state treasurer, in consultation with the IAC, may set compensation;

2. eliminates a prohibition against the IAC's public members and their business organizations or affiliates contracting with or providing investment services for state trust funds while they serve on the council and for one year after, but requires that they recuse themselves from discussions or votes related to these contracts (§ 2); and

3. eliminates the requirement that the IAC review contracts for investment-related services before the treasurer may award them, but authorizes the IAC to review any of these contracts that deviate from the investment policy statement that sets standards for investing state trust funds.

It also makes various changes to the Connecticut Baby Bond Trust program (see BACKGROUND). Principally, the bill:

1. allows the program's implementation expenses to be added to the capped amount of bonds authorized for each year of the program;

2. subjects the bonds to standard statutory general obligation bond

procedures and repayment requirements;

3. exempts disbursements from the trust, rather than the trust's property and earnings, from all state and local taxes (§ 5);

4. requires that the disbursements, rather than funds invested in the trust, be disregarded as assets or income for state assistance programs and need-based educational aid;

5. eliminates the requirement that the state treasurer establish an accounting for each designated beneficiary and makes conforming changes;

6. exempts the trust's property from the law for determining when property held by a fiduciary is presumed abandoned (§ 4);

7. explicitly subjects the treasurer's trust investments to the same oversight and requirements that the law establishes for other treasurer-administered funds, such as the Teachers' Pension Fund, the State Employee Retirement Fund, and the Connecticut Municipal Employees' Retirement Fund (e.g., investment review by the Investment Advisory Council) (§ 10); and

8. makes various minor, technical, and conforming changes and corrections.

EFFECTIVE DATE: Upon passage

§ 1 — INVESTMENT OFFICER AND PERSONNEL SALARIES

Existing law authorizes the treasurer to set the salary ranges for the chief, deputy, and principal investment officers, in consultation with the IAC. The bill additionally authorizes him to do so for investment officers and other personnel that assist the chief investment officer. In doing so, it exempts these officers and personnel from the requirement that executive branch employee salaries not set by law must be set by the administrative services commissioner and approved by the Office of Policy and Management secretary.

By law, unchanged by the bill, the cost of operating the investment department, including personnel costs and professional investment counsel, is paid from state trust funds' income.

§ 3 — INVESTMENT-RELATED SERVICE CONTRACTS

The bill eliminates the requirement that all investment-related service contracts be reviewed by the IAC before the treasurer may award them and limits the IAC's review to contracts that deviate from the IAC-approved investment policy statement. In doing so, it allows the treasurer to award contracts that conform to the state's investment policy statement without IAC review. For contracts that deviate from the policy statement, it (1) requires the treasurer to notify the IAC at a council meeting of his recommendation for a provider and (2) authorizes the IAC to review the treasurer's recommendation.

Under the bill, after the council meeting during which it receives this notice from the treasurer, the council has 45 days within which it may file a written review of the treasurer's recommendation. After the 45-day period expires, the treasurer may award the contract. The same notification process and 45-day waiting period applies under current law for the IAC's required review of all investment-related service contracts. As under current law, any written review by the IAC must be available for public inspection.

The bill also requires the treasurer to submit quarterly reports to the IAC on investment-related service contracts awarded each quarter. The first report must cover the quarter ending September 30, 2023, and include contracts awarded and in effect on July 1, 2023. Each report must include the name of the contracted service provider and contract's value.

§§ 6-9 — CONNECTICUT BABY BONDS TRUST PROGRAM

Implementation Costs and Bond Procedures (§ 9)

Existing law authorizes the treasurer to issue up to $600 million in state general obligation bonds for the program, in amounts of up to $50 million per year from FYs 25-36. The bill authorizes the program's implementation expenses to be added to the capped amount of bonds authorized for each year of the program.

Current law requires the Baby Bonds program to be funded with bonds from a specific bond issuance and incorporates certain provisions relating to this issuance, including the treasurer's powers in connection with the bond sale and certain legal actions related to the bonds. The bill instead subjects the bonds authorized under the program to standard statutory bond procedures and repayment requirements.

Impact on Assistance Programs and Need-Based Aid (§ 6)

The bill prohibits disbursements from the trust from being considered assets or income when determining an individual's eligibility for (1) state-administered assistance programs, to the extent allowed by federal law, or (2) need-based, institutional aid grants offered at the state's public eligible educational institutions. In doing so, it eliminates similar provisions in current law that applied to funds invested in the trust.

Amounts Transferred for Designated Beneficiaries (§§ 7-9)

Under current law, the state treasurer must establish an accounting for each designated beneficiary and may transfer up to $3,200 from the program's bond proceeds to the trust to be credited to the beneficiary's accounting at birth. The bill eliminates the requirement that (1) each designated beneficiary have an accounting and (2) the transferred funds come from these bond proceeds. It also allows the transfer to be made after the designated beneficiary's birth, rather than at birth.

Under current law, if a designated beneficiary fails to submit a valid claim before his or her 30th birthday or dies before doing so, the amount of his or her accounting is credited back to the trust's assets. The bill instead requires that this amount be retained by the trust to credit to designated beneficiaries born in subsequent years.

Existing law requires the treasurer to proportionately reduce the transfer amount for any year in which the bond funds are insufficient to provide the $3,200 transfer to each beneficiary. The bill also requires, for any year in which these funds exceed the amount required to provide the transfer, that any excess be kept by the trust to credit to designated beneficiaries born in subsequent years. It also makes technical and conforming changes.

BACKGROUND

Connecticut Baby Bond Trust Program

Administered by the state treasurer, the program authorizes up to $600 million in bonds to give designated beneficiaries (i.e., babies born on or after July 1, 2023, whose births were covered under HUSKY) up to $3,200 in a state trust. Once they reach age 18, designated beneficiaries that meet the program's eligibility requirements may receive the funds, including any investment earnings, to be used for an eligible expenditure (e.g., education, buying a home or investing in a business in Connecticut, or personal financial investments).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 34 Nay 17 (04/18/2023)