

PA10-150

SB431

Finance	420-421, 423-424, 440, 452-454, 657	9
House	5580-5581, 5587-5588	4
Senate	3940, 3944-3946	4
		17

H – 1089

**CONNECTICUT
GENERAL ASSEMBLY
HOUSE**

**PROCEEDINGS
2010**

**VOL.53
PART 17
5315 – 5590**

rgd/md/gbr
HOUSE OF REPRESENTATIVES

532
May 5, 2010

Necessary for Adoption	75
Those voting Yea	129
Those voting Nay	19
Those absent and not voting	3

Emergency certified resolution passes.

SPEAKER DONOVAN:

Representative Olson.

REP. OLSÓN (46th):

Thank you, Mr. Speaker. I move for suspension of the rules for immediate consideration of House Calendar Number 527.

SPEAKER DONOVAN:

The motion is on the immediate suspension of the rules for consideration of House Calendar 527. Any objection? Any objection?

Hearing none, rules are suspended for immediate consideration of House -- please call Calendar 527.

THE CLERK:

Calendar 527, Senate Bill Number 431, AN ACT CONCERNING COLLATERAL FOR SECURITIES LENDING BY THE STATE TREASURER, favorable reported, the Committee on Finance, Revenue and Bonding.

SPEAKER DONOVAN:

Representative Staples.

rgd/md/gbr
HOUSE OF REPRESENTATIVES

533
May 5, 2010

REP. STAPLES (96th):

Thank you, Mr. Speaker, I move acceptance and passage of the bill in concurrence with the Senate.

SPEAKER DONOVAN:

We will stand at ease until we get the bill on the board.

(Chamber at ease.)

SPEAKER DONOVAN:

Representative Staples.

REP. STAPLES (96th):

Thank you, Mr. Speaker. I move this item to the consent calendar.

SPEAKER DONOVAN:

Motion is to put this on the consent calendar. Any objection? The bill is placed on the consent calendar.

Hurlburt?

Representative Olson.

REP. OLSON (46th):

Thank you, Mr. Speaker. I move for suspension of the rules for immediate consideration --

SPEAKER DONOVAN:

rgd/md/gbr
HOUSE OF REPRESENTATIVES

539
May 5, 2010

Aye.

SPEAKER DONOVAN:

Those opposed, nay.

The ayes have it. The amendment is adopted.

Representative Urban.

REP. URBAN (43rd):

I urge passage, Mr. Speaker.

What? Put it on the consent calendar.

SPEAKER DONOVAN:

Without objection? Hearing none, on the consent
calendar.

Representative Olson.

REP. OLSON (46th):

Mr. Speaker, I move we're going to be voting on
the consent calendar at this time.

Calendar numbers are 527, 530 and 151.

SPEAKER DONOVAN:

Motion is to vote on the consent calendar.

Staff and guests --

We need to vote on the consent calendar
immediately, friends.

Staff and guests, please come to the well of the
House. Members take their seats. The machine will be
opened.

SB431
SB176
HB5314

rgd/md/gbr
HOUSE OF REPRESENTATIVES

540
May 5, 2010

THE CLERK:

The House of Representatives is voting on the consent calendar.

SPEAKER DONOVAN:

Have all the members voted? If all the members have voted, the machine will be locked. Clerk, take a tally.

THE CLERK:

On the consent calendar.

Total Number Voting	146
Necessary for Adoption	74
Those voting Yea	146
Those voting Nay	0
Those absent and not voting	5

SPEAKER DONOVAN:

Consent calendar passes.

Representative Merrill. Representative Merrill.

REP. MERRILL (54th):

And with that, ladies and gentlemen, I would move that we adjourn, sine die.

SPEAKER DONOVAN:

Is there objection? Is there objection?

Hearing none, the House stands adjourned, sine die.

S - 610

**CONNECTICUT
GENERAL ASSEMBLY
SENATE**

**PROCEEDINGS
2010**

**VOL. 53
PART 13
3842 - 4128**

cd
SENATE

386
May 5, 2010

SENATOR LOONEY:

Thank you, Mr. President.

Mr. President, for some additional items to add to the consent calendar at this time. Yes, Mr. President, the first item for the consent calendar to add at this point is calendar page 6, Calendar 334, Senate Bill 431. Mr. President, we move to place that item on the consent calendar.

THE CHAIR:

Senator Looney, do you mean Calendar 344?

SENATOR LOONEY:

Calendar 3 -- I have 334. Is it -- it is calendar page 6, Senate Bill Number 431.

THE CHAIR:

Okay. That's calendar 344, Senator.

SENATOR LOONEY:

Okay, that's -- now that -- 344, then, Mr. President, that is the item, Calendar 344, Senate Bill 431. Move to place that item on the consent calendar.

THE CHAIR:

Without objection, so ordered.

SENATOR LOONEY:

Thank you, Mr. President.

cd
SENATE

390
May 5, 2010

Mr. Clerk, when you're ready, you may make the announcement that the Senate is in the progress of a roll call vote.

THE CLERK:

The Senate is now voting by roll on the consent calendar. Will all Senators please return to the chamber. Immediate roll call has been ordered in the Senate on the consent calendar. Will all Senators please return to the chamber.

Mr. President, the items placed on the first consent calendar begin on calendar page 6, Calendar Number 344, Senate Bill 431.

Calendar page 7, Calendar 427, Senate Bill 110;
Calendar 430, Substitute for Senate Bill 432.

Calendar page 24, Calendar 108, Substitute for
Senate Bill 321.

Calendar page 25, Calendar 118, Substitute for
Senate Bill 176.

Calendar page 30, calendar 274, Substitute for
Senate Bill 305.

Calendar page 32, Calendar Number 337, Substitute
for Senate Bill 433.

Calendar page 33, Calendar 424, Substitute for
Senate Bill 444.

cd
SENATE

391
May 5, 2010

Calendar page 34, Calendar 149, Senate Bill 244;
Calendar 191, Substitute for Senate Bill 405, 407; and
Calendar 272, Substitute for Senate Bill 199.

Mr. President, that completes the items placed on
the first consent calendar.

THE CHAIR:

The machine is opened.

THE CLERK:

The Senate is voting by roll on the consent
calendar. Will all Senators please return to the
chamber. Immediate roll call has been ordered in the
Senate on the consent calendar. Will all Senators please
return to the chamber.

THE CHAIR:

Will Senators please check the board to make certain
that your vote has been appropriately recorded? If all
Senators have voted and all votes are properly recorded,
the machine will be locked.

Would the Clerk please announce the tally?

THE CLERK:

Motion's on adoption Consent Calendar Number 1.

Total Number Voting	35
Those Voting Yea	35
Those Voting Nay	0

cd
SENATE

392
May 5, 2010

Those absent and not voting 1

THE CHAIR:

Consent Calendar 1 is passed.

Senator Looney.

SENATOR LOONEY:

Thank you, Mr. President.

Mr. President, would move for immediate transmittal to the House of Representatives of all items on the consent calendar requiring additional action by the House.

THE CHAIR:

Motion before the chamber is immediate transmittal. Is there objection? Is there objection? Seeing none, so ordered.

SENATOR LOONEY:

Thank you, Mr. President.

If we might stand at ease for just a moment.

THE CHAIR:

Chamber may stand at ease.

(Chamber at ease.)

THE CHAIR:

Would the Senate please come to order?

Senator Looney.

SENATOR LOONEY:

**JOINT
STANDING
COMMITTEE
HEARINGS**

**FINANCE
REVENUE
AND BONDING
PART 2
280 – 559**

2010

2
tmj/gbr FINANCE, REVENUE AND BONDING COMMITTEE
March 22, 2010 10:00 A.M.

you, I'm going to comment briefly on a couple of other bills, three or four bills also on today's agenda then Deputy Secretary Cicchetti will comment on a number of bills on the agenda. And then we'll both be available to talk about the securitization bill before you, if that's okay.

SENATOR DAILY: That's fine, thank you.

DEPUTY TREASURER HOWARD RIFKIN: So very quickly, I want to comment on a number of bills on your agenda specifically. First, Senate Bill 443, AN ACT CONCERNING THE CANCELLATION OF UNISSUED BOND FUND AUTHORIZATIONS.

This would, in fact, represent about 9.2 million of unspent fund proceeds that would be eligible to go to the General Fund, the General Fund Revenue. Once this bill is passed and the Bond Commission acts on it. There's a small amount of 181,000 that would be transferred to the University of Connecticut under self liquidating funds. And these acts go back to the 1970s for the most part. We've done significant amounts of due diligence to ensure that these are able to be essentially scooped up.

SB27 HB5535

The second bill is AN ACT CONCERNING COLLATERAL FOR SECURITIES LENDING BY THE STATE TREASURER, Senate Bill 431. This was before you last year. We've come back with a modified proposal that would allow us to use as collateral in securities lending transactions highly rated debt of G10 countries to serve as collateral. This would allow us to, under our current securities lending program, to also loan out where appropriate the -- our interest in securities of non-domestic companies. This would represent about two million dollars a

3
 tmj/gbr FINANCE, REVENUE AND BONDING COMMITTEE
 March 22, 2010 10:00 A.M.

year additional revenue to the state pension funds. And we urge your consideration, favorable consideration of that bill.

The next one is Senate Bill 27, AN ACT LIMITING STATE BOND AUTHORIZATIONS. Just for the record, I have submitted more detailed written testimony on this bill and some substitute language, which we think will clarify the intent and make sure that the process of sunsetting bond authorizations is done consistent with principles of the process of our issuance of bonds.

Finally, House Bill 5535, which is AN ACT CONCERNING A MONTHLY REPORT FROM THE STATE TREASURER REGARDING THE STATE'S CASH BALANCE. Just for the record, the Treasurer does not have a problem with this bill at all. There is some concern about subsection 4 of the bill and because of what it asks us to submit and how we actually track the common cash pool. There's money that comes in and out on a daily basis. We think that what is implied in subsection 4 is probably too narrow. We have also -- I have attached this part of my written testimony, substitute language that we think will make the bill work and I ask for consideration of that.

Those are the other bills that I have to comment on. I'll turn it over to Secretary Cicchetti and then we'll come back and talk about securitization.

DEPUTY SECRETARY MICHAEL CICCETTI: Thank you, Howard. Representative Staples, Senator Daily, Representative Candelora, members of the committee, for the record, my name is Michael Cicchetti, Deputy Secretary of the Office of Policy and Management. I wanted to comment on a couple of bills, two of which are the

SB 25 SB 27
SB 431 SB 443
SB 477 SB 478
SB 484 SB 485
HB 5528 HB 5529
HB 5534

our statutory bond cap because of the decline in our revenues.

The Governor proposes to reduce the authorizations in this bill by 389 million, partially to get below the bond cap, but also to make room for some of the other programs that she is proposing, namely the previous two I just mentioned, plus the 100 million dollar loan pool program for small businesses that I believe was heard in another committee.

The second bill is senate Bill 27, this would limit state bond authorizations. Any bond authorizations that is on the books for five years or more that has not been used would be automatically canceled. Also, this would amend current law so that if throughout the year the consensus revenue estimates are well below what has been adopted in the budget then the -- in terms of calculating the statutory bond cap -- we would use the consensus revenues as opposed to the revenues that were adopted in the budget, that, at times, can be dated. The ones we're operating under now were actually voted on almost 18 months ago.

I know the Treasurer had some concerns about that -- the operation of that, and I believe that we can meet those concerns and address those concerns and come up with something that works.

If both of these bills are adopted, the total amount of bond authorizations that would canceled would be just under 440 million dollars, some of which are earmarks, some of which are programs set up for agencies.

Now, I'm just offering some comment on some other bills quickly. Senate Bill 431, which is

the Treasurer's bill. We would be in favor of.

Senate Bill 443, we would also be in favor of.

Senate Bill 477, we would opposed to that bill at least at this point as there's a potential revenue loss.

Senate Bill 478 we would oppose. We're not really sure what the purpose of this is, but we're concerned about any major changes in our corporate tax structure at this point in time.

Senate Bill 484, I would note it's titled AN ACT CONCERNING THE GOVERNOR'S REVENUE PLAN. This is not really the Governor's revenue plan. There are some things in here that she has proposed, but there are other things in here she has not. Mainly, the Governor did not propose to utilize proceedings from Keno or the tobacco settlement funds to finance the 2010 deficit.

Senate Bill 485, which is AN ACT CONCERNING TAX FAIRNESS, which establishes a unitary tax, we would be opposed to at this time. Again, this is probably not the right time to be making major changes to corporate tax structure.

House Bill 5528, which is concerning the use of research and development tax credits probably is something we would want to work on. I just want -- I think we're a little concerned about the revenue loss. Just so everyone knows, we have about one billion dollars in unclaimed R&D credits outstanding right now. If we start to open the door for entities to sell or to claim them through this process, there could be a significant revenue loss to the state.

House Bill 5529, which would exempt Rentschler

DEPUTY TREASURER HOWARD RIFKIN: We've had this conversation before, but just to repeat for the full committee, no, I don't agree that the mere sale of economic recovery notes was the basis upon which the -- two of the three rating agencies put us on a negative val book. I think if you look at what's going on in the states across the country, many states, like Connecticut, have been put on a negative val book. I think it is an accumulation of issues, certainly including the use of ERNs, but from the rating agency perspective, the way we have used ERNs in the past has been viewed at least as being conservative, issuing them for a short period of time, paying them off early and we've done that in the past where we have moved into a surplus position. And we've used the surplus to pay down the ERNs in a prompt way. I think, frankly, the rating agencies have commended Connecticut for how it's managed some of the necessity of selling debt to balance the budget.

REP. CANDELORA: And then, finally, on your Raised Bill 431, the collateral for security lending. In reading that, are there other states that have that type of option, that vehicle?

DEPUTY TREASURER HOWARD RIFKIN: Yes, most -- I can't think of any large pension fund in the US that doesn't have a securities lending program.

REP. CANDELORA: Okay. Thank you. Thank you, Madam Chair.

REP. STAPLES: Thank you. Just a quick follow up before I recognize another speaker. I wanted to ask you about, Mike, if you could address the issue about Kenosha. There've been objections been raised that it might violate the terms of

earlier, the Governor is not excited about using this source of revenue to fund the securitization item. But the Treasurer's Office and OPM -- and I'll just speak for the OPM at this point -- were responding to a direction from this General Assembly to come up with a plan to securitize 1.3 billion dollars.

I don't think that anyone could reasonably assume that a plan could be developed to securitize that amount of money that did not have some pain in it. Again, not something that we would be -- that anyone is happy about, but in looking at the totality of the circumstances and looking at what we were required to do, this is probably the best option that we have.

If we want to work on cutting 1.3 billion dollars or making some other amendments to the budget or if there's another source of revenue that's not going to put the state in a worse position in fiscal year 2012, then we are more than happy to work with the committee and the General Assembly as a whole. But I think the notion that we can't -- that we're going to be able to find a source of revenue to deal with that large of an item -- I don't think is -- I don't think it's out there.

REP. LEONE: Thank you. I'll save my last question for potentially later on and open up it to the rest of the folks. Thank you. Thank you, Madam Chair.

SENATOR DAILY: Senator Boucher followed by Senator Stillman, Representative Megna and Senator LeBeau.

SENATOR BOUCHER: Thank you, Madam Chairman and I will be extremely brief. My question is for

SB431

the Treasurers Office, particularly on the testimony with regard to Senate Bill 431, AN ACT CONCERNING COLLATERAL FOR SECURITY FUNDING BY THE STATE TREASURER. I know that over the years, there have been other moves to loosen, so to speak, the lending policies in an attempt to get more return for the various pension funds and so on.

In this particular one, when we talk about expanding the category of collateral that would serve as consideration for the lending securities, that would have something to do with overseas investment products. It alludes to the fact that you're seeking changes to add to the categories of collateral allowing for highly rated debt of G10 countries. Would some of those countries include countries such as Portugal, Italy, Greece or Spain?

DEPUTY TREASURER HOWARD RIFKIN: Senator, I don't believe that the G10 do at the moment. I'll look for the list. But let me just say that the ability for the investment fund, pension investment fund to participate in a securities lending program has existed since the 1970s and what we're really doing is recognizing that over that period of time, we find ourselves investing more and more in securities of companies domiciled not in the US, but elsewhere. So this is a step to enable us to take advantage of the fact that there are other people on another side of the transaction that need to borrow our securities and we get paid a premium in exchange for that.

I'd also say that our -- that the entity that runs our securities lending program essentially takes out an insurance policy so there is very little risk associated with our participating in an expanded securities lending program.

36 March 22, 2010
tmj/gbr FINANCE, REVENUE AND BONDING 10:00 A.M.
COMMITTEE

SENATOR BOUCHER: In your statement, it says that this particular external firm indemnifies the state against any potential losses that arise from lending securities. Is that in general or just specifically for this type of -

DEPUTY TREASURER HOWARD RIFKIN: Just specifically for securities lending. If we could do it for all of our investments that'd be great but unfortunately -

SENATOR BOUCHER: Well, it is highly unusual, no question about it.

DEPUTY TREASURER HOWARD RIFKIN: Let me just say that the G10 countries that we're talking about are Canada, France, Germany, the UK, Netherlands, Sweden and Switzerland plus Belgium.

SENATOR BOUCHER: Thank you for the answers to my questions. I much appreciate it. Thank you, Madam Chair.

SENATOR DAILY: Thank you, Senator. Senator Stillman followed by Representative Megna, Senator LeBeau.

SENATOR STILLMAN: Thank you, Madam Chair. Good morning. Appreciate your lengthy comments today. And I'd like to thank Representative Leone for hitting on some of the points that I wanted to ask you about.

When you look at the DUIT proposal to build a new building, or in this case apparently you want to use Cedar Crest Hospital, can you tell us are you talking about rebuilding an existing building or are you building a new building on that site?

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**JOINT
STANDING
COMMITTEE
HEARINGS**

**FINANCE
REVENUE
AND BONDING
PART 3
560 – 837**

2010



Testimony of Howard G. Rifkin

Deputy Treasurer of the State of Connecticut

SUBMITTED TO THE FINANCE, REVENUE AND BONDING COMMITTEE

MARCH 22, 2010

Senator Daily, Representative Staples, and members of the Finance, Revenue and Bonding Committee, thank you for the opportunity to appear before you today. There are five bills on the agenda for today's public hearing for which we offer our comments: two bills were submitted by the Treasurer; another has been offered by the Governor; and the remaining two were raised by this Committee.

First, the good news. Both bills submitted by the Treasury would generate revenues. The first is Senate Bill 443, An Act Concerning the Cancellation of Unissued Bond Fund Authorizations. This bill, if enacted, would cancel unissued authorizations from certain inactive bond funds and, with the approval of the State Bond Commission, allow the remaining cash balances in these bond funds to be transferred to the General Fund in accordance with section 3-21(b) of the general statutes. Passage of this legislation would release over \$9.22 million of unspent bond proceeds to the State's General Fund, and approximately \$181,000 that could be transferred to university self-liquidating funds. If the required action is taken by both the Legislature and the Bond Commission before June 2010, the proceeds could be credited to the General Fund for the 2010 fiscal year.

The second bill offered by the Treasury is Senate Bill 431, An Act Concerning Collateral for Securities Lending by the State Treasurer. This proposal would amend current statute to expand the category of collateral that may serve as consideration for the lending of securities from combined investment funds established pursuant to section 3-31b. Passage of this legislation would enable the Treasury to generate investment income of approximately \$2 million annually, depending on market conditions. By way of background, existing law limits the types of collateral that may serve as consideration for repurchase agreements and securities lending to cash or securities guaranteed by U.S. government or any U.S. agency. Since the statute was enacted in the 1970's, the economy has grown considerably more global, and the pension fund would benefit from being able to lend its international securities. In order to fully accomplish that, we seek legislative change that would add to the categories of collateral, and allow for highly rated debt of G10 countries to serve as collateral. In this way, we believe that investment income to the pension fund would be maximized without materially increasing risk, particularly given that the external firm managing the securities lending program fully indemnifies the State against any potential losses that may arise from lending securities. With respect to repurchase agreements, the securities would be collateralized in excess of 100 percent.

Turning to the other bills on today's agenda, you have before you a submittal from Governor Rell, Senate Bill 27, An Act Limiting State Bond Authorizations. The bill, as we understand it, endeavors to do two things: the first is to sunset legislative bond authorizations that have not received any allocation from the State Bond Commission in five years; the second is a requirement that the debt limit be calculated on the basis of consensus revenue estimates or the revenue estimates adopted annually by the Finance, Revenue & Bonding Committee, whichever is more recent.

We believe the first provision may inadvertently create more problems than it seeks to address. Specifically, it must be very clear what is meant by "any specific item of authorization," given that existing bond authorizations take several different forms. For example, there are programmatic

HB5535
SB484