

**ASSEMBLY BILL NO. 3122
(Second Reprint)**

To the General Assembly:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I am returning Assembly Bill No. 3122 (Second Reprint) with my recommendations for reconsideration.

Joint insurance funds ("JIFs") enable municipalities, counties, school districts and local agencies to pool resources to jointly purchase insurance or jointly self-fund against insurance liabilities. By broadening the risk pool, JIFs allow participating units to stabilize insurance rates and save on insurance costs. JIFs have also proven to be valuable investment tools for local units, as JIFs may invest their funds reserved for the payment of claims and expenses. Although JIFs may currently invest in New Jersey's counties, municipalities and other local entities, these investment opportunities are mostly limited to investments in short-term obligations.

This legislation would expand the securities in which a JIF may invest to include the long-term obligations of any federal government agency or corporation, or any government entity established under New Jersey law, subject to certain exceptions. The aim is to permit JIFs to invest in higher yielding instruments, while at the same time allowing them to participate in New Jersey's local long-term debt market. The bill has the potential to significantly increase the resources available for local infrastructure and other capital projects. Not surprisingly, dozens of municipalities and school districts throughout the State have expressed their strong support.

I commend the bill's sponsors for identifying creative measures to increase the rates of return on JIF investments and free up much needed capital for our counties, municipalities and

school districts. However, I am concerned that the bill does not contain sufficient protections to ensure safe and wise investment practices. Such safeguards are critical to protecting the long-term solvency of the JIFs, the local entities they insure, and ultimately, all of the State's taxpayers.

I am therefore recommending revisions requiring the Department of Community Affairs ("DCA"), in consultation with the Department of Banking and Insurance ("DOBI"), to limit the duration of the long-term investments and to cap these investments at an appropriate percentage of a JIF's overall investment portfolio. This will enable DCA and DOBI to set the parameters necessary to protect JIFs from the volatility inherent in longer-maturity obligations, while still permitting them to invest in longer-term infrastructure and capital projects, including roads, bridges and water and sewer infrastructure. I am also recommending revisions to ensure that the long-term investments authorized in the bill are limited to those entities that have achieved upper level credit ratings by the major credit ratings agencies to further minimize risk.

I am confident that these and other recommended changes will preserve the bill's laudable goals while also protecting the JIFs and the counties, towns, school districts and other local entities they insure.

Therefore, I herewith return Assembly Bill No. 3122 (Second Reprint) and recommend that it be amended as follows:

Page 3, Section 1, Line 1: Delete in its entirety and insert "further provided that the commissioner of the Department of Community Affairs, in consultation with the commissioner of the Department of Banking and Insurance, shall promulgate rules and regulations to limit the duration of the long-term investments and to cap these investments at an appropriate percentage of a joint insurance fund's overall investment portfolio."

- Page 3, Section 1, Line 3: Delete "one" and insert "two"
- Page 3, Section 1, Line 6: After "sentence" insert "and if the bond offering has the unconditional guarantee of the agency, corporation, or governmental entity responsible for the issuance"
- Page 6, Section 3, Line 9: Delete "and one of the three ratings is"
- Page 6, Section 3, Line 10: Delete "sufficient if only one rating is available" and insert "and further provided that the commissioner of the Department of Community Affairs, in consultation with the commissioner of the Department of Banking and Insurance, shall promulgate rules and regulations to limit the duration of the long-term investments and to cap these investments at an appropriate percentage of a joint insurance fund's overall investment portfolio"
- Page 6, Section 3, Line 11: Delete "one" and insert "two"
- Page 6, Section 3, Line 15: After "sentence" insert "and if the bond offering has the unconditional guarantee of the agency, corporation, or governmental entity responsible for the issuance"
- Page 8, Section 5, Line 32: After "banks" insert ", savings banks"
- Page 12, Section 6, Line 46: After "Corporation" insert "or the National Credit Union Share Insurance Fund"
- Page 13, Section 7, Line 13: Delete "immediately." and insert "six months following enactment. Notwithstanding the provisions of the "Administrative Procedure Act," P.L. 1968, c. 410 (C.52:14B-1 et seq.), to the contrary, the commissioner of the Department of Community Affairs, in consultation with the commissioner of the Department of Banking and Insurance, shall promulgate rules and regulations to limit the duration of the long-term investments and to cap these investments at an appropriate percentage of a joint insurance fund's overall investment portfolio; such rules and regulations shall be effective immediately upon filing with the Office of Administrative Law, which rules and regulations shall be effective for a period not to exceed 360 days following the effective date of this Act and may thereafter be amended, adopted, or readopted by the commissioner of the Department

of Community Affairs, in consultation with the commissioner of the Department of Banking and Insurance, in accordance with the requirements of P.L. 1968, c. 410 (C.52:14B-1 et seq.). The commissioner of the Department of Community Affairs, in consultation with the commissioner of the Department of Banking and Insurance, may promulgate such other rules and regulations as are necessary to effectuate the purposes of this Act."

Respectfully,

[seal]

/s/ Philip D. Murphy

Governor

Attest:

/s/ Matthew J. Platkin

Chief Counsel to the Governor