



This Bill Analysis reflects the contents of the bill as it was presented in committee.

HOUSE BILL 301: Escheat Fund Modifications.-AB

2015-2016 General Assembly

Committee:	House Pensions and Retirement	Date:	April 13, 2015
Introduced by:	Reps. Collins, Ross, Tine, Warren	Prepared by:	Theresa Matula
Analysis of:	PCS to First Edition H301-CSSH-13		Committee Staff

SUMMARY: *House Bill 301 amends the State Treasurer's investment authority for the Escheat Fund, at the request of the State Treasurer.*

The PCS makes two technical changes to correct capitalization and to correct a statutory reference.

CURRENT LAW:

North Carolina Constitution, Article IX, Section 10. Escheats:

(1) Escheats prior to July 1, 1971. All property that prior to July 1, 1971, accrued to the State from escheats, unclaimed dividends, or distributive shares of the estates of deceased persons shall be appropriated to the use of The University of North Carolina.

(2) Escheats after June 30, 1971. All property that, after June 30, 1971, shall accrue to the State from escheats, unclaimed dividends, or distributive shares of the estates of deceased persons shall be used to aid worthy and needy students who are residents of this State and are enrolled in public institutions of higher education in this State. The method, amount, and type of distribution shall be prescribed by law.

§ 116B-5 requires all property escheated or abandoned to be paid into the Escheat Fund and administered by the Treasurer.

§ 116B-6 outlines criteria with regard to managing the Escheat Fund and Escheat Account. In particular, this statute includes subsection (b) pertaining to Investment and Transfer of Assets and Income; subsection (e) pertaining to Use of Excess Funds; subsection (f) pertaining to Refund Reserve; subsection (g) pertaining to Additional Funds for Refunds; and subsection (h) pertaining to Expenditures.

§ 147-69.2 authorizes investments for special funds, including the Escheat Fund.

§ 36E-3 pertains to the standard of conduct in managing and investing institutional funds.

§ 36E-3 (e)(1)g. requires the needs of the institution and the fund to make distributions and to preserve capital to be considered when managing and investing an institutional fund.

BILL ANALYSIS: House Bill 301, as requested by the State Treasurer, amends G.S. 147-69.2(b)(12) pertaining to investments authorized for the Escheat Fund. The new language provides that it is the intent of the General Assembly that the Escheat Fund: (i) provide a perpetual and sustainable source of funding; and (ii) retain sufficient monies to allow the State Treasurer to invest in long-term illiquid investments, including those with a North Carolina nexus, in an effort to grow the amount available for scholarships.

The bill moves prior statutory language in G.S. 147-69.2(b)(12) to a new sub-subdivision (a) which currently allows up to 20% of the assets to be invested in certain authorized investments. The bill



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expands investment options to include opportunistic fixed income (6c) and inflation sensitive (9a) investments.

G.S. 147-69.2(b)(12)(b) is new language requiring the State Treasurer to engage a third-party professional actuary or consultant to conduct a valuation and projection of the financial status of the Escheat Fund and to allow the associated costs for the services to be directly charged to the Fund. No later than December 31st each year, the State Treasurer is required to communicate the valuation in an annual report to the Governor, Speaker of the House of Representatives, President Pro Tempore of the Senate, and respective committees of each chamber. The report must evaluate claims by owners; current and projected investment returns; projected contributions; the State Treasurer's assessment of the status of utilizing the Escheat Fund as an endowment fund; and a recommendation on the annual amount available for the funding of scholarships, loans, and grants.

G.S. 147-69.2(b)(12)(c) is new language authorizing the State Treasurer to invest up to 10% of the net assets of the Escheat Fund in businesses with a material nexus with the State provided that the investments are in an asset class and structure authorized for the Retirement System under subdivisions (6c) through (9a) of the subsection. Sub-subdivision (a) includes these same authorized investments, but those are not required to have a material nexus with the State. Overall, up to 30% may be invested in these authorized investment categories.

Finally, G.S. 147-69.2(b)(12)(d) of the bill requires the State Treasurer to discharge his or her investment duties for the Escheat Fund consistent with the provisions of G.S. 36E-3 which require a certain standard of conduct for managing an institutional fund. When considering the factors in G.S. 36E-3(e)(1)g, the State Treasurer may presume that the General Assembly will fund scholarships, loans, and grants from the Escheat Fund in the amount recommended in the annual report.

EFFECTIVE DATE: This bill would become effective when it becomes law.