STATE OF CONNECTICUT
QUI TRANSTULIT SUSTINET

Senate

General Assembly

File No. 406

February Session, 2002

Substitute Senate Bill No. 595

Senate, April 9, 2002

The Committee on Finance, Revenue and Bonding reported through SEN. LOONEY of the 11th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING REQUIREMENTS FOR ISSUANCE OF MUNICIPAL REFUNDING BONDS AND CERTAIN INTEREST RATE AGREEMENTS.

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

Section 1. Section 7-370b of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

[Any] In connection with or incidental to the carrying or selling and issuance of bonds or notes, any municipality, as defined in section 7-369, may obtain from a commercial bank, [or] insurance company or subsidiary of such bank or insurance company, authorized to do business within or without this state a letter of credit, line of credit or other credit facility upon such terms and conditions as shall be approved by the [municipal body empowered to authorize the issuance of bonds, notes or other obligations by such] municipality, for the purpose of providing funds for the payment of such bonds [required by the holder thereof to be] redeemed, [or] repurchased or defeased prior to maturity or for providing additional security for such bonds, notes or other obligations. In connection therewith, such [municipal body] municipality may authorize the execution of reimbursement agreements, remarketing agreements, standby bond purchase agreements, interest rate swap agreements [for the purpose of moderating interest rate fluctuations] and any other necessary or appropriate agreements. If such municipality is required to draw upon any [such] credit facility to redeem bonds prior to maturity, such municipality shall repay the amount of each loan made pursuant to such credit facility within one year from the date it is incurred from the proceeds of refunding bonds, notes or other obligations or from any other available funds. Interest rate swap agreements may include such contracts as the municipality may determine to be necessary or appropriate to place the obligation of the municipality, as represented by the bonds or notes, in whole or in part, on such interest rate or cash flow basis as the municipality may determine, including without limitation, 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 rates risk, including without limitation, interest rate floors or caps, options, puts, calls and similar arrangements. Agreements entered into by any municipality under this section shall contain such payment, security, default, remedy and other terms and conditions as the municipality may deem appropriate and shall be entered into with such party or parties as the municipality may select on the basis of negotiation or competitive bid, after giving due consideration, where applicable, to 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 or notes and any other criteria as the municipality may deem appropriate, provided the unsecured long-term obligations of the counter party shall be rated in a category no lower than AA by at least one nationally recognized rating agency. Such municipality may pledge its full faith and credit to its payment obligations, including netting payments, under any agreement entered into pursuant to this section to the extent the full faith and credit of the municipality is pledged to secure the applicable bonds or notes, or to pledge all or any part of the collateral that secures the applicable bonds or notes to the extent permissible under its contracts with bondholders.

Sec. 2. Section 7-370c of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

Any municipality, as defined in section 7-369, which has issued bonds, notes or other obligations pursuant to any public or special act may issue refunding bonds for the purpose of paying, funding or refunding prior to maturity all or any part of such municipality's bonds, notes or other obligations, the redemption premium, if any, with respect thereto, the interest thereon, the costs with respect to the issuance of such refunding bonds and the payment of such refunded bonds, notes or other obligations. Such refunding bonds shall mature not later than (1) in the case of a single series of bonds, notes or other obligations being refunded, the final maturity date thereof; and (2) in the case of multiple series of bonds, notes or other obligations being refunded, the final maturity date of any such series last to occur. Notwithstanding the provisions of the general statutes or any special act, local law or charter governing the authorization and issuance of bonds, notes or other obligations and the appropriation of the proceeds thereof, such refunding bonds shall be authorized, and the proceeds appropriated for the purposes permitted **[**for**]** under this section, by resolution of the legislative body of the municipality, and shall be subject to the same limitations and requirements as bonds issued pursuant to this chapter, provided the provisions of section 7-371 regarding limitations on the date of the first maturity, or on the amount of any principal or on any principal and interest installments on any bonds, shall not apply to refunding bonds issued under this section which shall achieve net present value savings after comparing total debt service payable on the refunding bonds to the total debt service payable on the refunded bonds, after accounting for costs of issuance and underwriters' discount and further provided the final maturity date of any such refunding bonds may be extended beyond the date of the final maturity of the refunded bonds if they shall mature in annual or semiannual installments of principal that shall substantially equalize the aggregate amount of principal and interest due in each period or shall mature in substantially equal annual installments of principal commencing with the first annual period in which an installment of principal only is due. As used in this section "legislative body" means (A) the board of selectmen in a town that does not have a charter, special act or home rule ordinance relating to its government, (B) the council, board of aldermen, representative town meeting, board of selectmen or other elected legislative body described in a charter, special act or home rule ordinance relating to government in a city, consolidated town and city, consolidated town and borough or a town having a charter, special act, consolidation ordinance or home rule ordinance relating to its government, (C) the board of burgesses or other elected legislative body in a borough, or (D) the district committee or other elected legislative body in a district, metropolitan district or other municipal corporation.

This act shall take effect as follows:	
Section 1	*from passage*
Sec. 2	*from passage*

FIN *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact: None

Municipal Impact:

Effect	Municipalities	FY 03 $	FY 04 $
Savings	Various Municipalities	See Below	See Below

Explanation

To the degree that municipalities are able to refinance outstanding debt more easily and to manage interest rate fluctuations more effectively, the bill affords municipalities the opportunity to realize savings on debt service costs in future years.

OLR Bill Analysis
sSB 595

AN ACT CONCERNING REQUIREMENTS FOR ISSUANCE OF MUNICIPAL REFUNDING BONDS AND CERTAIN INTEREST RATE AGREEMENTS

SUMMARY:
This bill increases municipalities' flexibility to refinance their outstanding debt and establishes conditions under which they may enter into agreements to manage interest rate fluctuations in connection with the sale or issuance of municipal bonds or notes.

EFFECTIVE DATE: Upon passage

REFINANCING DEBT

The bill exempts municipal bonds issued to refinance outstanding bonds ("refunding bonds") from requirements that:

1. they be payable either (a) in substantially equal installments of principal and interest or (b) so that no principal installment is more than 50% higher than any prior installment and
2. the first installment come due within three years, and the last installment come due within 20 years, of the issue date.

It adds a requirement that total debt service on the refunding bonds constitute a net present value savings compared to that of the bonds being refinanced, after accounting for the cost of issuance and the underwriters' discount. Finally, the bill allows refunding bonds to mature later than the refinanced bonds if they require (1) substantially equal payments of aggregate principal and interest or (2) substantially equal payments of principal once all the interest is paid. Current law requires refunding bonds to meet the same requirements as all other municipal bonds.

INTEREST RATE RISK MANAGEMENT

The bill expressly allows municipalities to use interest rate swap agreements in connection with issuing or carrying bonds or notes. (An interest rate swap is a contract in which two parties agree to exchange interest payments of differing character based on an underlying agreed-upon principal amount that is never exchanged.) Under the bill, such agreements can include futures contracts, options, puts (contracts to sell at a predetermined price), calls (contracts to buy at a predetermined price), and other similar risk management mechanisms.

The bill:

1. requires the agreements to contain whatever payment, security, default, remedy or other terms and conditions the municipality thinks appropriate;
2. allows municipalities to select the other party in such an agreement through negotiation or competitive bidding;
3. requires municipalities in selecting the other parties, to consider (a) the party's ability to meet its obligations, including its ratings by nationally recognized rating agencies, (b) the impact of the agreement on the ratings of any outstanding municipal bonds or notes, and (c) any other criteria it considers appropriate; and
4. requires the other party's unsecured long-term debt to be rated in the AA category or above by at least one nationally recognized rating agency.

Current law and the bill allow a municipality to pledge its full faith and credit under such agreements. But the bill allows the pledge to go only as far as the pledge securing the underlying bonds or notes. It also allows the municipality to pledge all or part of the collateral securing the underlying bonds, if permitted under its contracts with the bondholders. The bill specifies that pledges can cover netting payments under the interest rate management agreements. (Netting payments require only the party owing a net balance under a swap agreement to transfer funds.)

Finally, the bill allows a municipality to (1) get credit in connection with issuing or refunding bonds from subsidiaries of banks and insurance companies and (2) use the credit to redeem bonds before maturity even when bondholders do not require it.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 42 Nay 0