



House of Representatives

General Assembly

File No. 558

January Session, 2007

Substitute House Bill No. 7385

House of Representatives, April 23, 2007

The Committee on Finance, Revenue and Bonding reported through REP. STAPLES of the 96th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING SCHOOL CONSTRUCTION BOND MATURITY.

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

1 Section 1. Section 7-380c of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective July 1, 2007*):

3 (a) Notwithstanding the provisions of sections 7-234, 7-236, 7-263
4 and 7-371 or any other public or special act or charter or ordinance or
5 resolution which limits or imposes conditions on the final maturity of,
6 or the due date of the last sinking fund payment for, bonds issued by
7 any municipality, as defined in section 7-369, for the purpose of
8 acquisition or construction of all or any part of a sewerage system, as
9 those terms are defined in section 7-245, or for the acquisition,
10 construction, extension, enlargement or maintenance of a municipal
11 water supply system or the extension of water mains, the last
12 installment of any series of such bonds shall mature, or the last sinking
13 fund payment for such series of bonds shall be due, not later than forty
14 years from the date of issue of such series, provided that such bonds

15 are issued in conjunction with a water or waste facility loan from the
16 United States Department of Agriculture pursuant to Subtitle A of the
17 Consolidated Farm and Rural Development Act, Title III of P.L. 87-128
18 (7 USC 1922 et seq.) or Section 2322 of the Food, Agriculture,
19 Conservation, and Trade Act of 1990, Title XXIII of P.L. 101-624 (7 USC
20 1926-1) as from time to time amended, and any regulations
21 promulgated thereunder.

22 (b) Notwithstanding the provisions of section 7-371, or any other
23 public or special act or charter or ordinance or resolution which limits
24 or imposes conditions on the final maturity of, or the due date of the
25 last sinking fund payment for, bonds issued by any municipality for a
26 school building project, the last installment of any series of such bonds
27 shall mature, or the last sinking fund payment for such series of bonds
28 shall be due, not later than thirty years from the date of issue of such
29 series. For purposes of this subsection, "school building project" means
30 the construction, purchase, extension, replacement, renovation or
31 major alteration of a building to be used for public school purposes,
32 including the equipping and furnishing of such construction,
33 purchase, extension, replacement, renovation or major alteration, the
34 improvement of land therefor the improvement of the site of an
35 existing building for public school purposes or the purchase cost of a
36 site for public school purposes. "School building project" does not
37 include any project authorized prior to July 1, 1996, or the purchase of
38 equipment or the minor alteration or improvement of a building, land
39 or site to be used for public school purposes, unless such purchase,
40 minor renovation, alteration or improvement is in conjunction with a
41 project that otherwise qualifies as a school building project.

42 Sec. 2. Section 7-378a of the general statutes is repealed and the
43 following is substituted in lieu thereof (*Effective July 1, 2007*):

44 Notwithstanding the provisions of sections 7-264 and 7-378, and any
45 other public or special act or charter which limits the renewal of
46 temporary notes issued in anticipation of the receipt of the proceeds of
47 bond issues to two years or any lesser period of time from the date of

48 the original notes, any municipality, as defined in section 7-369, may
49 renew any temporary notes for a period of not more than eight years
50 from the date of the original issue of such temporary notes if the
51 municipality promptly applies all project grant payments toward
52 project costs or toward payment of such temporary notes as the same
53 shall become due and payable or deposits such grants in trust for such
54 purposes and if the legislative body of such municipality (1) authorizes
55 the inclusion in the annual budget for each year or otherwise
56 appropriates sufficient sums, from funds other than project grants or
57 note proceeds, to retire notes equal to at least one-twentieth of the
58 town's estimated net cost of the project no later than three years from
59 the date of the original issue of such temporary notes and again for
60 each subsequent year during which such temporary notes remain
61 outstanding; (2) reduces the principal amount of each bond issue when
62 sold by the amount spent under subdivision (1) of this section, and
63 provides for the payment or amortization of the principal of such
64 bonds in annual installments commencing no later than nine years
65 from the date of original issue of the temporary notes being
66 permanently financed by such bonds; (3) reduces the maximum
67 authorized term of the bonds when sold by not less than the number of
68 months by which the date of issue exceeds two years from the date of
69 the original notes. For sewer projects or school building projects, as
70 defined in section 7-380c, as amended by this act, the annual payments
71 required under said subdivision (1) shall be at least one-thirtieth of the
72 town's estimated net cost of [the] such sewer or school building
73 project. Any federal or state grants which are to be paid over a period
74 of years to reimburse the municipality for a portion of principal due on
75 bonds or notes may be used in computing the municipality's net cost of
76 the project. That portion of the proceeds of the issue of any such
77 temporary notes being issued as part of a common sale, which portion
78 is not used to refund outstanding temporary notes, shall be deemed a
79 separate loan and be considered to have a separate original issue date.
80 Each such portion of any such temporary notes may be renewed in
81 accordance with the provisions of this section.

82 Sec. 3. Subsection (a) of section 10-56 of the general statutes is

83 repealed and the following is substituted in lieu thereof (*Effective July*
84 *1, 2007*):

85 (a) A regional school district shall be a body politic and corporate
86 with power to sue and be sued; to purchase, receive, hold and convey
87 real and personal property for school purposes; and to build, equip,
88 purchase, rent, maintain or expand schools. Such district may issue
89 bonds, notes or other obligations in the name and upon the full faith
90 and credit of such district and the member towns to acquire land,
91 prepare sites, purchase or erect buildings and equip the same for
92 school purposes, if so authorized by referendum. Such referendum
93 shall be conducted in accordance with the procedure provided in
94 section 10-47c except that any person entitled to vote under section 7-6
95 may vote and the question shall be determined by the majority of those
96 persons voting in the regional school district as a whole. The exercise
97 of any or all of the powers set forth in this section shall not be
98 construed to be an amendment of a regional plan pursuant to said
99 section 10-47c. A regional board of education may expend any
100 premium in connection with such issue, interest on the proceeds of
101 such issue or unused portion of such issue to add to the land or
102 buildings erected or purchased and for the purchasing and installing
103 of equipment for the same. Such bonds, notes or other obligations shall
104 be issued as either serial or term bonds or both, in registered form or
105 with coupons attached, registrable as to principal and interest or as to
106 principal alone, shall be signed by the chairman and the treasurer of
107 the regional board of education and shall mature at such time or times,
108 or contain provisions for mandatory amortization of principal at such
109 time or times, be issued at such discount or bear interest at such rate or
110 rates payable at such time or times, or contain provisions for the
111 method or manner of determining such rate or rates or time or times at
112 which interest is payable, and contain such provisions for redemption
113 before maturity at the option of the issuer or at the option of the holder
114 thereof at such price or prices and under such terms and conditions as
115 shall be determined by such board, or by such officer or body to whom
116 the regional board of education delegates the authority to make such
117 determinations, provided that any serial bonds, notes or other

118 obligations shall be so arranged to mature in annual or semiannual
119 installments of principal that shall substantially equalize the aggregate
120 amount of principal and interest due in each annual period
121 commencing with the first annual period in which an installment of
122 principal is due or maturing in annual or semiannual installments of
123 principal no one of which shall exceed by more than fifty per cent the
124 amount of any prior installment, and any term bonds, notes or other
125 obligations, shall be issued with mandatory deposit of sinking fund
126 payments into a sinking fund of amounts sufficient to redeem or
127 amortize the principal of the bonds in annual or semiannual
128 installments that shall substantially equalize the aggregate amount of
129 principal redeemed or amortized and interest due in each annual
130 period commencing with the first annual period in which a mandatory
131 sinking fund payment becomes due, or sufficient to redeem or
132 amortize the principal of the bonds in annual or semiannual
133 installments no one of which shall exceed by more than fifty per cent
134 the amount of any installment. The first installment of any series of
135 bonds shall mature or the first sinking fund payment of any series of
136 bonds shall be due not later than three years from the date of issue of
137 such series and the last installment of such series shall mature or the
138 last sinking fund payment of such series shall be due not later than
139 twenty years therefrom for any grant commitment authorized by the
140 General Assembly prior to July 1, 1996, and not later than thirty years
141 therefrom for any grant commitment authorized by the General
142 Assembly on or after July 1, 1996. Such bonds, notes or other
143 obligations when executed, issued and delivered, shall be general
144 obligations of such district and the member towns, according to their
145 terms.

146 Sec. 4. Subsection (c) of section 10-56 of the general statutes is
147 repealed and the following is substituted in lieu thereof (*Effective July*
148 *1, 2007*):

149 (c) When a district has been authorized to issue general obligation
150 bonds, notes or other obligations as provided by this section, the board
151 may authorize, for a period not to exceed eight years, the issue of

152 temporary notes in anticipation of the receipt of the proceeds from the
153 sale of such bonds. Notes issued for a shorter period of time may be
154 renewed by the issue of other notes, provided the period from the date
155 of the original notes to the maturity of the last notes issued in renewal
156 thereof shall not exceed eight years. The term of such notes shall not be
157 included in computing the time within which such bonds shall mature,
158 provided such term does not exceed four years. For any series of notes
159 the term of which is extended past the fourth year, the provisions of
160 section 7-378a, as amended by this act, providing for the retirement
161 from budgeted funds of one-twentieth, or one-thirtieth, as applicable,
162 of the net project cost, the reduction of the term of the bonds when
163 sold and the commencement of the first principal payment of such
164 bonds, shall apply with respect to each year beyond the fourth that the
165 notes are outstanding. The provisions of section 7-373 shall be deemed
166 to apply to such notes. The board, or such officer or body to whom the
167 board delegates the authority to make such determinations, shall
168 determine the date, maturity, interest rate, form, manner of sale and
169 other terms of such notes which shall be general obligations of the
170 regional school district and member towns. Such notes may bear
171 interest or be sold at a discount. The interest or discount on such notes
172 and any renewals thereof and the expense of preparing, issuing and
173 marketing them may be included as a part of the cost of the project for
174 the financing of which such bonds were authorized. Upon the sale of
175 such bonds, the board shall apply immediately the proceeds thereof, to
176 the extent required, to the payment of the principal and interest of all
177 notes issued in anticipation thereof or deposit the proceeds in trust for
178 such purpose with a bank or trust company, which may be the bank or
179 trust company, if any, at which such notes are payable.

180 Sec. 5. Section 10-60a of the general statutes is repealed and the
181 following is substituted in lieu thereof (*Effective July 1, 2007*):

182 Any regional school district which has issued any bonds, notes or
183 other obligations pursuant to any general statute or special act may
184 issue refunding bonds for the purpose of paying, funding or refunding
185 prior to maturity all or any part of such district's bonds, notes or other

186 obligations, the redemption premium, if any, with respect thereto, the
 187 interest thereon, the costs with respect to the issuance of such
 188 refunding bonds and the payment of such refunded bonds, notes or
 189 other obligations. Such refunding bonds shall mature not later than (1)
 190 in the case of a single series of bonds, notes or other obligations being
 191 refunded, the final maturity date thereof; and (2) in the case of
 192 multiple series of bonds, notes or other obligations being refunded, the
 193 final maturity date of any such series last to occur. Such refunding
 194 bonds shall be authorized, and the proceeds thereof appropriated for
 195 the purposes permitted under this section, by resolution of the regional
 196 board of education and shall be issued in the same manner, and shall
 197 be subject to the same limitations and requirements, other than those
 198 requirements with respect to the manner of authorization of the bonds,
 199 as bonds issued pursuant to section 10-56, as amended by this act,
 200 provided the provisions of section 10-56, as amended by this act,
 201 regarding limitations on the date of the first maturity, or on the
 202 amount of any principal or on any principal and interest installments
 203 on any bonds, shall not apply to refunding bonds issued under this
 204 section that achieve net present value savings after comparing total
 205 debt service payable on the refunding bonds to the total debt service
 206 payable on the refunded bonds, after accounting for costs of issuance
 207 and underwriters' discount. Upon placement in escrow of the proceeds
 208 of such refunding bonds or other funds of the district in an amount
 209 sufficient, together with such investment earnings thereon as are to be
 210 retained in said escrow, to provide for the payment when due of the
 211 principal of and interest on the bonds, notes or other obligations to be
 212 paid, funded or refunded by such refunding bonds and other funds,
 213 such bonds, notes or other obligations shall cease to be included in
 214 computing the aggregate indebtedness of the district pursuant to
 215 subsection (b) of section 10-56.

This act shall take effect as follows and shall amend the following sections:

Section 1	July 1, 2007	7-380c
Sec. 2	July 1, 2007	7-378a

Sec. 3	<i>July 1, 2007</i>	10-56(a)
Sec. 4	<i>July 1, 2007</i>	10-56(c)
Sec. 5	<i>July 1, 2007</i>	10-60a

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 chamber thereof for any purpose:

OFA Fiscal Note

State Impact: None

Municipal Impact:

Municipalities	Effect	FY 08 \$	FY 09 \$
Various Municipalities	Savings	See Below	See Below

Explanation

The bill has no state fiscal impact because the state and municipalities bond separately for their respective shares of the construction costs of each new school building project.

The short term impact of allowing a town to issue school construction bonds for up to 30 years is that it reduces the amount of money that the town must budget annually for debt service payments on the bonds.

For towns choosing to issue school construction bonds for 30 years rather than 20 years, the long term impacts are:

(1) The town will pay more to finance its school construction projects because the bonds are issued for an additional 10 years,

(2) The town’s debt ratio¹ will increase, which could lower its bond rating and increase the interest rate at which it is able to issue future debt,

(3) Since most towns have several schools that are on different construction cycles,

¹ A town’s debt ratio compares its general obligation debt to a measure of value, such as real property valuations, personal income, general fund resources, or population.

issuing 30-year bonds for each project would lead to overlapping debt service payment for multiple projects.

The bill also increases the flexibility of regional school districts in issuing refunding bonds by exempting the bonds from certain requirements. This may result in debt service savings to the districts because it will be easier for them to refund higher interest rate bonds at a lower interest rate.

The Out Years

The long term impacts of the bill are stated above.

OLR Bill Analysis

sHB 7385

AN ACT CONCERNING SCHOOL CONSTRUCTION BOND MATURITY.

SUMMARY:

This bill allows municipalities and regional school districts to issue bonds for school construction projects with a maximum term of 30 rather than 20 years. The 30-year bonds are allowed only for projects authorized on or after July 1, 1996, thus barring municipalities and regional school districts from refinancing earlier projects for a longer term (see BACKGROUND). The bill makes a conforming change by requiring annual repayments of any municipal or regional school district bond anticipation notes issued in conjunction with 30-year school project bonds to be at least 1/30th instead of 1/20th of the total project cost.

The bill also increases regional school districts' flexibility in issuing bonds to refinance outstanding debt ("refunding bonds").

EFFECTIVE DATE: July 1, 2007

MUNICIPAL AND REGIONAL SCHOOL DISTRICT BONDS FOR SCHOOL BUILDING PROJECTS

Under the bill, municipalities may issue 30-year bonds for building, buying, extending, replacing, renovating or making major alterations in a building to be used for a public school, and for acquiring and improving land for a public school. They cannot use 30-year bonds for any project authorized before July 1, 1996 or for buying equipment or making minor improvements to land or buildings for schools unless these activities are part of a larger school project.

The bill allows regional school districts to issue 30-year bonds to acquire land, prepare sites, and buy or equip buildings for school purposes. As is the case with municipalities, the bill allows a regional school district to issue 30-year bonds only for grant commitments the General Assembly authorized on or after July 1, 1996. By law, the General Assembly authorizes state grant commitments for school construction projects annually.

REGIONAL SCHOOL DISTRICT REFUNDING BONDS

The bill increases regional school districts' flexibility to issue refunding bonds. It does so by requiring total debt service for such bonds to constitute a net present value savings compared to the debt service on the bonds being refinanced, after accounting for the cost of issuance and the underwriters' discount.

Current law requires regional school district refunding bonds to meet the same requirements as the original bonds. These requirements are that:

1. they be payable either (a) in substantially equal annual 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 of the issue date and the last installment by the end of the original bond term.

The law already allows this refunding bond flexibility for municipal refunding bonds.

BACKGROUND

School Project Financing for Projects Authorized On or After July 1, 1996

In 1997, the General Assembly changed the way the state funds state school construction grants starting with projects the General Assembly authorized for state grant commitments on or after July 1, 1996. For

earlier projects, the state funded 20% to 80% of a school district's eligible costs for the project, including interest on local bonds issued to pay the local share of the projects. For more recent projects, the state and municipalities or regional school districts bond their respective shares of the project cost separately, thus eliminating the state's responsibility to issue state bonds to cover interest payable on municipal or regional school district bonds for school construction projects.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 41 Nay 12 (04/05/2007)