



Senate

General Assembly

File No. 639

February Session, 2008

Substitute Senate Bill No. 25

Senate, April 17, 2008

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING A REPORT ON BOND ALLOCATIONS AND BOND AUTHORIZATIONS FOR THE CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY.

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

1 Section 1. Subsection (g) of section 3-20 of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective July*
3 *1, 2008*):

4 (g) (1) With the exception of refunding bonds, whenever a bond act
5 empowers the State Bond Commission to authorize bonds for any
6 project or purpose or projects or purposes, and whenever the State
7 Bond Commission finds that the authorization of such bonds will be in
8 the best interests of the state, it shall authorize such bonds by
9 resolution adopted by the approving vote of at least a majority of said
10 commission. No such resolution shall be so adopted by the State Bond
11 Commission unless it finds that there has been filed with it (A) any
12 human services facility colocation statement to be filed with the

13 Secretary of the Office of Policy and Management, if so requested by
14 the secretary, pursuant to section 4b-23 of the 2008 supplement to the
15 general statutes; (B) a statement from the Commissioner of Agriculture
16 pursuant to section 22-6, for projects which would convert twenty-five
17 or more acres of prime farmland to a nonagricultural use; (C) prior to
18 the meeting at which such resolution is to be considered, any capital
19 development impact statement required to be filed with the Secretary
20 of the Office of Policy and Management; (D) a statement as to the full
21 cost of the project or purpose when completed and the estimated
22 operating cost for any structure, equipment or facility to be
23 constructed or acquired; and (E) such requests and such other
24 documents as it or said bond act [require] requires, provided no
25 resolution with respect to any school building project financed
26 pursuant to section 10-287d of the 2008 supplement to the general
27 statutes or any interest subsidy financed pursuant to section 10-292k of
28 the 2008 supplement to the general statutes shall require the filing of
29 any statements pursuant to subparagraph (A), (B), (C), (D) or (E) of
30 this subdivision and provided further any resolution requiring a
31 capital impact statement shall be deemed not properly before the State
32 Bond Commission until such capital development impact statement is
33 filed. Any such resolution so adopted by the State Bond Commission
34 shall recite the bond act under which said commission is empowered
35 to authorize such bonds and the filing of all requests and other
36 documents, if any, required by it or such bond act, and shall state the
37 principal amount of the bonds authorized and a description of the
38 purpose or project for which such bonds are authorized. Such
39 description shall be sufficient if made merely by reference to a
40 numbered subsection, subdivision or other applicable section of such
41 bond act.

42 (2) The agenda of each meeting shall be made available to the
43 members of the commission not later than five business days prior to
44 the meeting at which such agenda is to be considered. The day of the
45 meeting shall count as one of the business days. The agenda of each
46 meeting, or any supporting documents included with such agenda,
47 shall include a reference to the statute or public or special act which is

48 the source of any funds to be used for any project on such agenda,
49 including any contingency funds and any reuse or reallocation of
50 funds previously approved for any other use or project, and a notation
51 of the outside source from which any funds for any such project were
52 received, if any.

53 (3) Upon adoption of a resolution, the principal amount of the
54 bonds authorized therein for such purpose or project shall be deemed
55 to be an appropriation and allocation of such amount for such purpose
56 or project, respectively, and subject to approval by the Governor of
57 allotment thereof and to any authorization for such project or purpose
58 that may otherwise be required, contracts may be awarded and
59 obligations incurred with respect to any such project or purpose in
60 amounts not in the aggregate exceeding such authorized principal
61 amount, notwithstanding that such contracts and obligations may at a
62 particular time exceed the amount of the proceeds from the sale of
63 such bonds theretofore received by the state. In any such resolution so
64 adopted, the State Bond Commission may include provision for the
65 date or dates of such bonds, the maturity of such bonds and,
66 notwithstanding the provisions of any bond act taking effect prior to
67 July 1, 1973, provision for either serial or term, sinking fund or other
68 reserve fund requirements, if any, due dates of the interest thereon, the
69 form of such bonds, the denominations and designation of such bonds,
70 registration, conversion and transfer privileges and the terms of
71 redemption with or without premium and the date and manner of sale
72 of such bonds, provisions for the consolidation of such bonds with
73 other bonds including refunding bonds for the purpose of sale as
74 provided in subsection (h) of this section, limitations with respect to
75 the interest rate or rates on such bonds, provisions for receipt and
76 deposit or investment of the good faith deposit pending delivery of
77 such bonds and such other terms and conditions of such bonds and of
78 the issuance and sale thereof as the State Bond Commission may
79 determine to be in the best interest of the state, provided the State
80 Bond Commission may delegate to the Treasurer all or any part of the
81 foregoing powers in which event the Treasurer shall exercise such
82 powers until the State Bond Commission, by adoption of a resolution

83 prior to exercise of such powers by the Treasurer shall elect to
84 reassume the same. Such powers shall be exercised from time to time
85 in such manner as the Treasurer shall determine to be in the best
86 interests of the state and the Treasurer shall file a certificate of
87 determination setting forth the details thereof with the secretary of the
88 State Bond Commission on or before the date of delivery of such
89 bonds, the details of which were determined by the Treasurer in
90 accordance with such delegation.

91 [(4) On or before January 1, 2007, and annually thereafter, the
92 Secretary of the Office of Policy and Management shall submit a report
93 to the joint standing committee of the General Assembly having
94 cognizance of matters relating to finance, revenue and bonding, which
95 report shall update, for all outstanding bond allocations, the statement
96 required under subparagraph (D) of subdivision (1) of this subsection.]

97 [(5)] (4) The State Bond Commission may authorize the
98 Commissioner of Economic and Community Development to defer
99 payments of interest or principal, or a portion thereof, in the case of a
100 troubled loan, as defined in subdivision (1) of subsection (e) of section
101 8-37x, made by the commissioner under any provision of the general
102 statutes.

103 Sec. 2. Section 10a-232 of the general statutes is repealed and the
104 following is substituted in lieu thereof (*Effective July 1, 2008*):

105 (a) Revenue bonds or notes issued under the provisions of this
106 chapter shall not be deemed to constitute a debt or liability of the state
107 or of any political subdivision thereof or a pledge of the full faith and
108 credit of the state or of any such political subdivision, but shall be
109 payable solely from the revenues and funds herein provided therefor.
110 All such revenue bonds or notes shall contain on the face thereof a
111 statement to the effect that: (1) The state of Connecticut shall not be
112 obligated to pay the same or the interest thereon and (2) the authority
113 shall not be obligated to pay the same or the interest thereon except
114 from revenues of the education loan program or programs or the
115 portion thereof for which they are issued, and that neither the full faith

116 and credit nor the taxing power of the state of Connecticut or of any
117 political subdivision thereof is pledged to the payment of the principal
118 of or the interest on such bonds or notes.

119 (b) Notwithstanding the foregoing, (1) the constituent units of the
120 state system of higher education may participate in one or more
121 education loan programs with the authority and may incur
122 indebtedness pursuant to authority loans, and (2) the authority may
123 create and establish one or more reserve funds to be known as special
124 capital reserve funds and may pay into such special capital reserve
125 funds (A) any moneys appropriated and made available by the state
126 for the purposes of such funds, (B) any proceeds of sale of notes or
127 bonds, to the extent provided in the resolution of the authority
128 authorizing the issuance thereof, and (C) any other moneys which may
129 be made available to the authority for the purpose of such funds from
130 any other source or sources. The moneys held in or credited to any
131 special capital reserve fund established under this section, except as
132 hereinafter provided, shall be used solely for the payment of the
133 principal of bonds of the authority secured by such capital reserve
134 fund as the same become due, the purchase of such bonds of the
135 authority, the payment of interest on such bonds of the authority or the
136 payment of any redemption premium required to be paid when such
137 bonds are redeemed prior to maturity; provided, the authority shall
138 have power to provide that moneys in any such fund shall not be
139 withdrawn therefrom at any time in such amount as would reduce the
140 amount of such funds to less than the maximum amount of principal
141 and interest becoming due by reason of maturity or a required sinking
142 fund installment in any succeeding calendar year on the bonds of the
143 authority then outstanding and secured by such special capital reserve
144 fund, or such lesser amount specified by the authority in its resolution
145 authorizing the issuance of any such bonds, such amount being herein
146 referred to as the "required minimum capital reserve", except for the
147 purpose of paying such principal of, redemption premium and interest
148 on such bonds of the authority secured by such special capital reserve
149 becoming due and for the payment of which other moneys of the
150 authority are not available. The authority may provide that it shall not

151 issue bonds at any time if the required minimum capital reserve on
152 outstanding bonds secured by a special capital reserve fund and the
153 bonds then to be issued and secured by a special capital reserve fund
154 will exceed the amount of such special capital reserve fund at the time
155 of issuance, unless the authority, at the time of the issuance of such
156 bonds, shall deposit in such special capital reserve fund from the
157 proceeds of the bonds so to be issued, or otherwise, an amount which,
158 together with the amount then in such special capital reserve fund, will
159 be not less than the required minimum capital reserve. The authority
160 may, as part of the contract of the authority with the owners of such
161 bonds, provide that on or before December first, annually, there is
162 deemed to be appropriated from the state General Fund such sums, if
163 any, as shall be certified by the chairman of the authority to the
164 Secretary of the Office of Policy and Management and the Treasurer of
165 the state, as necessary to restore each such special capital reserve fund
166 to the amount equal to the required minimum capital reserve of such
167 fund, and such amounts shall be allotted and paid to the authority. For
168 the purpose of evaluation of any such special capital reserve fund,
169 obligations acquired as an investment for any such fund shall be
170 valued at amortized cost. Nothing contained in this section shall
171 preclude the authority from establishing and creating other debt
172 service reserve funds in connection with the issuance of bonds or notes
173 of the authority. Subject to any agreement or agreements with owners
174 of outstanding notes and bonds of the authority, any amount or
175 amounts allotted and paid to the authority pursuant to this section
176 shall be repaid to the state from moneys of the authority at such time
177 as such moneys are not required for any other of its corporate
178 purposes and in any event shall be repaid to the state on the date one
179 year after all bonds and notes of the authority theretofore issued on the
180 date or dates such amount or amounts are allotted and paid to the
181 authority or thereafter issued, together with interest on such bonds
182 and notes, with interest on any unpaid installments of interest and all
183 costs and expenses in connection with any action or proceeding by or
184 on behalf of the owners thereof, are fully met and discharged.
185 Notwithstanding any other provisions contained in this chapter, the

186 aggregate amount of bonds outstanding at any time secured by such
 187 special capital reserve funds authorized to be created and established
 188 by this section shall not exceed [one hundred seventy million] three
 189 hundred million dollars and no such bonds shall be issued to pay
 190 program costs unless the authority is of the opinion and determines
 191 that the revenues to be derived from the program shall be sufficient (1)
 192 to pay the principal of and interest on the bonds issued to finance the
 193 program, (2) to establish, increase and maintain any reserves deemed
 194 by the authority to be advisable to secure the payment of the principal
 195 of and interest on such bonds, (3) to pay the cost of maintaining and
 196 servicing the program and keeping it properly insured, and (4) to pay
 197 such other costs of the program as may be required.

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2008	3-20(g)
Sec. 2	July 1, 2008	10a-232

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:

Agency Affected	Fund-Effect	FY 09 \$	FY 10 \$
Connecticut Higher Education Supplemental Loan Authority (CHESLA)	GF - See Below	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill increases the cap from \$170 million to \$300 million on the amount of bonds issued by the Connecticut Higher Supplemental Loan Authority (CHESLA) that are secured by a special capital reserve fund¹ (SCRF). The SCRF bonds are a contingent liability of the state, which does not count against the state’s statutory limit on General Obligation (GO) bonds in CGS Sec. 3-21, which imposes a ceiling on the amount of General Fund-supported debt that the Legislature may authorize. That liability would only be realized in the event that the SCRF fell below the minimum required reserve and the state had to appropriate funds in order to maintain the SCRF minimum balance. If the state were

¹ A SCRF is a debt service reserve fund set up at the time the bonds are issued, in an amount equal to the lesser of either one year’s principal and interest on the bonds or ten percent of the issue. If the borrower makes the scheduled debt service payments, the interest earnings on the reserve fund will pay the interest on the bonds that created it and the principal will go to retire the final maturity of the bond issue.

If the borrower is unable to pay all or part of the scheduled debt service payments, the reserve may be drawn upon to pay debt service. The reserve provides up to a year’s adjustment time to deal with a revenue shortfall. When the SCRF has been drawn down in part or completely, a draw on the General Fund is authorized and the reserve is fully restored. The draw on the General Fund is deemed to be appropriated and is not subject to the constitutional or statutory appropriations cap. All that is required is a certification by the issuing authority of the amount required. If draws on a SCRF continue, the annual draws on the General Fund required to refill it also continue.

required to do this, there would be a negative effect on the state's cash flow and a loss of short-term interest on the appropriated funds.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sSB 25*****AN ACT CONCERNING A REPORT ON BOND ALLOCATIONS AND BOND AUTHORIZATIONS FOR THE CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY.*****SUMMARY:**

This bill increases, from \$170 million to \$300 million, the aggregate amount of outstanding Connecticut Higher Education Supplemental Loan Authority (CHESLA) bonds that may be secured by special capital reserve funds. CHESLA makes loans to college students and their parents to help them finance the cost of undergraduate and graduate education.

The bill also eliminates an annual report from the Office of Policy and Management secretary to the Finance, Revenue and Bonding Committee that updates, for all outstanding bond allocations, (1) the full completed cost of the project or purpose that received the allocation and (2) the estimated operating costs of any structure, facility, or equipment being built or acquired. The report is due by January 1 each year.

EFFECTIVE DATE: July 1, 2008

BACKGROUND***Special Capital Reserve Funds***

Although bonds secured by special capital reserve funds are not backed by the state's full faith and credit, the state undertakes a contingent liability for the bonds by authorizing an issuing entity to establish such funds. Subject to any exceptions in the law authorizing establishment of a particular fund, money credited to and held in a special capital reserve fund must be used solely to buy, or pay interest or principal on, the bonds the fund secures or to pay redemption

premiums on them if they are redeemed before maturity.

The minimum capital reserve amount is usually the maximum principal and interest payments due on the bonds for a single year. The state's liability is to maintain the minimum reserve on an annual basis and to restore it to the minimum if it falls below the required amount in any particular year.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 53 Nay 0 (04/01/2008)