Senate

General Assembly **File No. 297**

January Session, 2009 Substitute Senate Bill No. 375

Senate, March 30, 2009

The Committee on Planning and Development reported through SEN. COLEMAN of the 2nd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT AUTHORIZING BONDS OF THE STATE FOR LOANS TO MUNICIPALITIES FOR EMPLOYEE PENSION FUNDS.

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

Section 1. Subsection (a) of section 7-406o of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2009*):

(a) For the purposes of this section and section 7-406n, the State Bond Commission shall have the power, from time to time, to authorize the issuance of bonds, bond anticipation notes or other obligations of the state in one or more series and on such other terms and conditions as the Treasurer shall determine to be in the best interests of the state in principal amounts not exceeding in the aggregate two hundred fifty million dollars.

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

Section 1	*July 1, 2009*	7-406o(a)

PD *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:

Agency Affected	Fund-Effect	FY 10 $	FY 11 $
Treasurer, Debt Serv.	GF - Potential Cost	See Below	See Below

Note: GF=General Fund

Municipal Impact:

Municipalities	Effect	FY 10 $	FY 11 $
Various Municipalities	Savings	See Below	See Below

Explanation

The bill provides for the issuance of $250 million in either General Obligation (GO) bonds or revenue bonds to fund a municipal loan program for the costs associated with pension systems. In both cases, taxable state bonds would be issued because the bond proceeds would be invested in municipal pension funds. The loans would be provided at the same interest rate as the rate on the bonds issued by the State.

The main risk to the state is that a municipality would be unable to repay its loan and the State would be obligated to pay the full debt service on the bonds. It is likely that municipalities would only choose to participate in the program if: (1) they were not able to borrow at interest rates comparable to the State because they were small or financially distressed or (2) they wanted to minimize their administrative costs. The magnitude of the potential fiscal impact to the state cannot be determined because the bill does not specify the amount of bonds that can be issued.

There are no administrative or issuance costs to the General Fund for the municipal pension system loan program because the bill stipulates that any such costs shall be paid out of the proceeds of the bonds.

The bill will result in a savings to municipalities that participate in the program to the extent that they are able to borrow at a lower interest rate and minimize their administrative costs.

Further Explanation

The two scenarios below show what the fiscal impact to the state would be if $100 million in either General Obligation (GO) or revenue bonds were issued.

<u>If the state issues $100 million in GO bonds:</u>

1. The issuance cost is $0.5 million, which will be paid out of the bond proceeds.

2. The maximum amount of debt service for which the General Fund would be liable annually if all towns defaulted on their loan payments is $10.0 million.

3. The GO bonds would be a direct General Fund liability and would count against the statutory debt limit in CGS Sec. 3-21. No reserve account would be needed for the bonds.

<u>If the state issues $100 million in revenue bonds:</u>

1. The issuance cost is $1.0 million, which will be paid out of the bond proceeds.

2. Assuming that the State would not let a major revenue bond program default, the maximum amount of debt service for which the General Fund would be liable annually if all towns defaulted on their loan payments is $10.0 million.

3. The revenue bonds would not be a direct or contingent General Fund liability and would have no effect on the debt limit. Debt service payments would be based solely on municipal loan repayments and it is expected that a reserve fund would need to be established to make the bonds marketable. It is likely that the reserve fund would be funded

from bond proceeds.

The Out Years

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

OLR Bill Analysis
sSB 375

AN ACT AUTHORIZING BONDS OF THE STATE FOR LOANS TO MUNICIPALITIES FOR EMPLOYEE PENSION FUNDS.

SUMMARY:

This bill authorizes $250 million in state bonding to fund the municipal pension solvency loan program. By law, the program is authorized to lend money to municipalities for their unfunded employee pension liabilities.

EFFECTIVE DATE: July 1, 2009

BACKGROUND

Pension Loan Fund Program

By law, loans issued under this program must carry the same interest rate the state pays on the bonds, notes, or obligations it issues to fund the program. Loan agreements must contain penalty provisions for municipalities that fail to (1) repay the loan on time or (2) contribute to their pension funds as required under the agreement. The agreements must also require repayment of the administrative costs associated with the loan program. The state treasurer or the Office of Police and Management secretary may require credit enhancement provisions, as they deem necessary, to be included in the loan agreement.

The treasurer and the secretary must establish a priority list of eligible towns and a ranking system for making the loans. They must consider, among other things, the amount of a municipality's unfunded pension liability and whether the loan can eliminate or substantially eliminate the liability.

If a municipality fails to appropriate the required actuarially recommended pension contribution, such an amount will be deemed appropriated by the municipality, regardless of any other state law, charter, special act charter, or local ordinance.

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable Substitute
Yea 18 Nay 1 (03/11/2009)