



House of Representatives

General Assembly

File No. 236

January Session, 2011

Substitute House Bill No. 5480

House of Representatives, March 28, 2011

The Committee on Planning and Development reported through REP. GENTILE of the 104th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT ESTABLISHING A MUNICIPAL POSTEMPLOYMENT BENEFIT PLAN DEFICIT FUNDING BONDS PILOT PROGRAM.

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

1 Section 1. (*Effective from passage*) (a) The Secretary of the Office of
2 Policy and Management shall establish a pilot program in a single
3 municipality whereby the municipality selected shall be authorized,
4 for one time only, to issue postemployment benefit plan deficit
5 funding bonds pursuant to section 2 of this act.

6 (b) To be eligible for the program a municipality shall (1) have a
7 population of not less than one hundred fifteen thousand; (2) have
8 been incorporated by special act; and (3) have a mayor and city council
9 form of government. The secretary shall establish an application
10 procedure and any other criteria for the program. The secretary shall
11 not select a municipality for the pilot program unless the legislative
12 body of the municipality has approved the application. The secretary
13 shall send a notice of selection for the pilot program to the chief

14 executive officer of the municipality.

15 (c) The secretary shall submit a report on the status of the program,
16 in accordance with section 11-4a of the general statutes, to the joint
17 standing committees of the General Assembly having cognizance of
18 matters relating to local government and finance, revenue and bonding
19 not later than December 1, 2011.

20 Sec. 2. (*Effective from passage*) (a) For purposes of this section:

21 (1) "Actuarial valuation" means a determination certified by an
22 actuary, in a method and using assumptions meeting the parameters
23 established by generally accepted accounting principles, of the normal
24 cost, actuarial accrued liability, actuarial value of assets and related
25 actuarial present values for a postemployment health and life benefit
26 plan of a municipality as of a valuation date not more than thirty
27 months preceding the date of issue of the postemployment benefit plan
28 deficit funding bonds, together with an actuarial update of such
29 valuation as of a date not more than three months preceding the date
30 of notification of the secretary by the municipality, in accordance with
31 subdivision (1) of subsection (c) of this section, of its intent to issue the
32 postemployment benefit plan deficit funding bonds.

33 (2) "Actuarially recommended contribution" means the annual
34 required contribution of the municipal employer to the
35 postemployment health and life benefit plan of the municipality, as
36 established by the actuarial valuation and determined by an actuary in
37 a method and using assumptions meeting the parameters established
38 by generally accepted accounting principles, provided the
39 amortization schedule used to determine such contribution shall be
40 fixed and shall have a term not longer than the longest of (A) ten years,
41 or (B) thirty years from the date of issuance of the postemployment
42 benefit plan deficit funding bonds.

43 (3) "Chief executive officer" means (A) for a municipality as
44 described in section 7-188 of the general statutes, such officer as
45 described in section 7-193 of the general statutes, (B) for a metropolitan

46 district, such officer as described in the special act, charter, local
47 ordinance or other local law applicable to such metropolitan district,
48 (C) for a district, as defined in section 7-324 of the general statutes, the
49 president of its board of directors, (D) for a regional school district, the
50 chairperson of its regional board of education, and (E) for any other
51 municipal corporation having the power to levy taxes and to issue
52 bonds, notes or other obligations, such officer as prescribed by the
53 general statutes or any special act, charter, special act charter, home-
54 rule ordinance, local ordinance or local law applicable to such
55 municipal corporation.

56 (4) "Actuary" means a person who is a member in good standing of
57 the American Academy of Actuaries.

58 (5) "General obligation" means an obligation issued by a
59 municipality and secured by the full faith and credit and taxing power
60 of such municipality.

61 (6) "Legislative body" means (A) for a regional school district, the
62 regional board of education, and (B) for any other municipality not
63 having the authority to make ordinances, the body, board, committee
64 or similar body charged under the general statutes, special acts or its
65 charter with the power to authorize the issue of bonds by the
66 municipality.

67 (7) "Municipal Finance Advisory Commission" means the Municipal
68 Finance Advisory Commission established pursuant to section 7-394b
69 of the general statutes.

70 (8) "Municipality" means a municipality, as defined in section 7-369
71 of the general statutes, or a regional school district.

72 (9) "Obligation" means any bond or any other transaction which
73 constitutes debt in accordance with both municipal reporting
74 standards in section 7-394a of the general statutes and the regulations
75 prescribing municipal financial reporting adopted by the secretary
76 pursuant to said section 7-394a.

77 (10) "Postemployment benefit plan deficit funding bond" means any
78 obligation issued by a municipality to fund, in whole or in part, an
79 unfunded past benefit obligation. "Postemployment benefit plan deficit
80 funding bond" shall not include any bond issued by a municipality
81 pursuant to and in accordance with the provisions of subsection (g) of
82 this section to pay, fund or refund prior to maturity any of its
83 postemployment benefit plan deficit funding bonds previously issued.

84 (11) "Secretary" means the Secretary of the Office of Policy and
85 Management or the secretary's designee.

86 (12) "Treasurer" means the State Treasurer or the Treasurer's
87 designee.

88 (13) "Unfunded past benefit obligation" means the unfunded
89 actuarial accrued liability of the postemployment health and life
90 benefit plan determined in a method and using assumptions meeting
91 the parameters established by generally accepted accounting
92 principles.

93 (14) "Weighted average maturity" means (A) the sum of the
94 products, determined separately for each maturity or sinking fund
95 payment date and taking into account any mandatory redemptions of
96 the obligation, of (i) with respect to a serial obligation, the principal
97 amount of each serial maturity of such obligation and the number of
98 years to such maturity, or (ii) with respect to a term obligation, the
99 dollar amount of each mandatory sinking fund payment with respect
100 to such obligation and the number of years to such payment, divided
101 by (B) the aggregate principal amount of such obligation.

102 (b) Except as expressly provided in this section, no municipality
103 shall issue any postemployment benefit plan deficit funding bond.

104 (c) Any municipality which has been selected by the Secretary of the
105 Office of Policy and Management pursuant to section 1 of this act and
106 has no outstanding postemployment benefit plan deficit funding
107 bonds, other than an earlier series of such obligations issued under

108 subsection (b) of section 7-374b of the general statutes or this section to
109 partially fund an unfunded past benefit obligation, may authorize and
110 issue postemployment benefit plan deficit funding bonds to fund all or
111 a portion of an unfunded past benefit obligation, as determined by an
112 actuarial valuation, and the payment of costs related to the issuance of
113 such bonds in accordance with the following requirements:

114 (1) The municipality shall, within the time and in the manner
115 prescribed by regulations adopted by the secretary or as otherwise
116 required by the secretary, notify the secretary of its intent to issue such
117 postemployment benefit plan deficit funding bonds and shall include
118 with such notice (A) the actuarial valuation, (B) an actuarial analysis of
119 the method by which the municipality proposes to fund any unfunded
120 past benefit obligation not to be defrayed by the postemployment
121 benefit plan deficit funding bonds, which method may include a plan
122 of issuance of a series of postemployment benefit plan deficit funding
123 bonds, (C) an explanation of the municipality's investment strategic
124 plan for the postemployment health and life benefit plan with respect
125 to which the postemployment benefit plan deficit funding bonds are to
126 be issued, including, but not limited to, an asset allocation plan, (D) a
127 three-year financial plan, including the major assumptions and plan of
128 finance for such postemployment benefit plan deficit funding bonds,
129 (E) a comparison of the anticipated effects of funding the unfunded
130 past benefit obligation through the issuance of postemployment
131 benefit plan deficit funding bonds with the funding of the obligation
132 through the annual actuarially recommended contribution, prepared
133 in the manner prescribed by the secretary, (F) documentation of the
134 municipality's authorization of the issuance of such postemployment
135 benefit plan deficit funding bonds including a certified copy of the
136 resolution or ordinance of the municipality authorizing the issuance of
137 the postemployment benefit plan deficit funding bonds and an opinion
138 of nationally recognized bond counsel as to the due authorization of
139 the issuance of the bonds, (G) documentation that the municipality has
140 adopted an ordinance, or with respect to a municipality not having the
141 authority to make ordinances, has adopted a resolution by a two-thirds
142 vote of the members of its legislative body, requiring the municipality

143 to appropriate funds in an amount sufficient to meet the actuarially
144 required contribution and contribute such amounts to the plan as
145 required in subdivision (3) of this subsection, (H) the methodology
146 used and actuarial assumptions that will be utilized to calculate the
147 actuarially recommended contribution, (I) a draft official statement
148 with respect to the issuance of the postemployment benefit plan deficit
149 funding bonds, and (J) such other information and documentation as
150 reasonably required by the secretary or the Treasurer to carry out the
151 provisions of this section.

152 (2) Not later than ten days after the sale of the postemployment
153 benefit plan deficit funding bonds, the municipality shall provide the
154 secretary and the Treasurer with a final financing summary comparing
155 the anticipated effects of funding the unfunded past benefit obligation
156 through the issuance of the postemployment benefit plan deficit
157 funding bonds with the funding of the obligation through the annual
158 actuarially recommended contribution, prepared in the manner
159 prescribed by the secretary.

160 (3) So long as the postemployment benefit plan deficit funding
161 bonds or any bond refunding such bonds are outstanding, the
162 municipality shall (A) for each fiscal year of the municipality,
163 commencing with the fiscal year in which the bonds are issued,
164 appropriate funds in an amount sufficient to meet the actuarially
165 required contribution and contribute such amount to the plan, and (B)
166 notify the secretary annually, who shall in turn notify the Treasurer, of
167 the amount or the rate of any such actuarially recommended
168 contribution and the amount or the rate, if any, of the actual annual
169 contribution by the municipality to the postemployment health and
170 life benefit plan to meet such actuarially recommended contribution.
171 Notwithstanding the provisions of any other general statute or of any
172 special act, charter, special act charter, home-rule ordinance, local
173 ordinance or local law, in any fiscal year for which the municipality
174 fails to appropriate sufficient funds to meet the actuarially required
175 contribution in accordance with the provisions of this subsection, there
176 shall be deemed appropriated an amount sufficient to meet such

177 requirement. On an annual basis, the municipality shall provide the
178 secretary and the Treasurer with: (i) the actuarial valuation of the
179 postemployment health and life benefit plan, (ii) a specific
180 identification, in a format to be determined by the secretary, of any
181 changes that have been made in the actuarial assumptions or methods
182 compared to the previous actuarial valuation of the plan, (iii) the
183 footnote disclosure and required supplementary information
184 disclosure required by GASB Statement Number 45 with respect to the
185 plan, and (iv) a review of the investments of the plan including a
186 statement of the current asset allocation and an analysis of
187 performance by asset class.

188 (4) The municipality shall not issue postemployment benefit plan
189 deficit funding bonds prior to, nor more than six months subsequent
190 to, receipt of the written final review required under subsection (d) of
191 this section. A municipality may renotify the secretary of its intention
192 to issue postemployment benefit plan deficit funding bonds and
193 provide the secretary with updated information and documentation in
194 the manner and as described in subdivision (1) of this subsection, and
195 request an updated final review from the secretary if more than six
196 months will elapse between the receipt of the prior final review of the
197 secretary and the proposed date of issue of the postemployment
198 benefit plan deficit funding bonds.

199 (d) Upon receipt of notification from a municipality that it intends
200 to issue postemployment benefit plan deficit funding bonds, the
201 secretary shall inform the Treasurer and the Municipal Finance
202 Advisory Commission of such notification. The secretary and the
203 Treasurer shall review the information and documentation required in
204 subsection (c) of this section and within fifteen days shall notify the
205 municipality as to the adequacy of the materials provided and whether
206 any additional information is required. The secretary and the
207 Treasurer shall issue a written final review to the municipality
208 verifying that the municipality has complied with the provisions of
209 subdivision (1) of subsection (c) of this section and including any
210 recommendations to the municipality concerning the issuance of

211 postemployment benefit plan deficit funding bonds not later than
212 thirty days following the receipt of such information and
213 documentation. The secretary shall file a copy of such final review
214 with the chief executive officer of the municipality and the Municipal
215 Finance Advisory Commission. If the secretary and the Treasurer fail
216 to provide a written final review to the municipality by the forty-fifth
217 day following the receipt of such information and documentation,
218 such final review shall be deemed to have been received by the
219 municipality.

220 (e) Except as otherwise provided in this section, the provisions and
221 limitations of this chapter shall apply to any postemployment benefit
222 plan deficit funding bonds issued pursuant to the provisions of this
223 section. Such postemployment benefit plan deficit funding bonds shall
224 be general obligations of the municipality and shall be serial bonds
225 maturing in annual or semiannual installments of principal or shall be
226 term bonds with mandatory annual or semiannual deposits of sinking
227 fund payments into a sinking fund. Notwithstanding the provisions of
228 any other general statute or of any special act, charter, special act
229 charter, home-rule ordinance, local ordinance or local law, (1) the first
230 installment of any series of postemployment benefit plan deficit
231 funding bonds shall mature or the first sinking fund payment of any
232 series of postemployment benefit plan deficit funding bonds shall be
233 due not later than eighteen months from the date of the issue of such
234 series, provided such first installment shall mature or such first sinking
235 fund payment shall be due not later than the fiscal year of the
236 municipality next following the fiscal year in which such series is
237 issued, and the last installment of such series shall mature or the last
238 sinking fund payment of such series shall be due not later than thirty
239 years from such date of issue, (2) any such postemployment benefit
240 plan deficit funding bonds may be sold at public sale on sealed
241 proposal, by negotiation or by private placement in such manner, at
242 such price or prices, at such time or times and on such terms or
243 conditions as the municipality, or the officers or board of the
244 municipality delegated the authority to issue such bonds, determines
245 to be in the best interest of the municipality, and (3) no municipality

246 shall issue temporary notes in anticipation of the receipt of the
247 proceeds from the sale of its postemployment benefit plan deficit
248 funding bonds.

249 (f) Proceeds of the postemployment benefit plan deficit funding
250 bonds, to the extent not applied to the payment of costs related to the
251 issuance thereof, shall be deposited in the postemployment health and
252 life benefit plan of the municipality to fund the unfunded past benefit
253 obligation for which the bonds were issued, and, notwithstanding any
254 limitations on the investment of proceeds received from the sale of
255 bonds, notes or other obligations set forth in section 7-400 of the
256 general statutes, may be invested in accordance with the terms of said
257 postemployment health and life benefit plan, as such terms may be
258 amended from time to time.

259 (g) A municipality may authorize and issue refunding bonds to pay,
260 fund or refund prior to maturity any of its postemployment benefit
261 plan deficit funding bonds in accordance with the provisions of section
262 7-370c of the general statutes or, with respect to a regional school
263 district, the provisions of section 10-60a of the general statutes,
264 provided, notwithstanding the provisions of said sections 7-370c and
265 10-60a, the weighted average maturity of such refunding bonds shall
266 not exceed the weighted average maturity of the outstanding
267 postemployment benefit plan deficit funding bonds being paid,
268 funded or refunded by such refunding bonds. The municipality shall
269 notify the secretary, who shall in turn notify the Treasurer, of its
270 intention to issue refunding bonds pursuant to this subsection, not less
271 than fifteen days prior to the issuance thereof, and shall provide the
272 secretary with a copy of the final official statement, if any, prepared for
273 the refunding bonds, not more than fifteen days after the date of issue
274 of such bonds.

275 (h) The secretary, in consultation with the Treasurer, is authorized
276 to adopt regulations, in accordance with the provisions of chapter 54 of
277 the general statutes, as necessary to establish guidelines concerning
278 compliance with the provisions of subsections (c), (d) and (g) of this

279 section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	New section
Sec. 2	<i>from passage</i>	New section

Statement of Legislative Commissioners:

Subdivision (1) of subsection (c) of section 2: internal reference was reworded for clarity.

PD *Joint Favorable Subst.-LCO*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: None

Municipal Impact:

Municipalities	Effect
One Municipality	See Below

Explanation

The bill requires the Office of Policy and Management (OPM) to establish a postemployment benefit¹ deficit funding pilot program that selects a single municipality to issue one time post employment benefit plan deficit funding bonds. The one-time issuance of the bonds is intended to help the municipality manage its liability for these benefits, resulting in a potentially positive impact on its credit rating and overall municipal debt costs.

It is assumed that a financial analysis will be conducted by the municipality to determine the fiscal impact of actually issuing the bonds at the specified interest rate, assuming a particular rate of return on investments made with the bond proceeds². If the interest paid on the bonds is less than the rate of return on the investments, the transaction will result in a savings to the municipality. The municipality assumes the risk that the interest paid on the bonds is more than the rate of return on the investments, resulting in an increased cost to the municipality.

¹ Postemployment benefits include retirement benefits other than pension plans, with the majority of obligations and liabilities being retiree health insurance benefits.

² The municipality will issue the postemployment benefit bonds and invest the bond proceeds in the financial markets to generate earnings needed to pay benefits to former employees.

There is no fiscal impact to the Office of Policy and Management to establish a pilot program for a single municipality and report findings.

Background

Currently, most governmental entities pay expenses for other postemployment benefits (OPEBs) on a “pay-as-you-go” basis. Under the new Government Accounting Standards Board (GASB) regulations³, the liabilities attributable to OPEB plans must be actuarially determined and reported on the financial statement of all public sector employers. It is anticipated that the unfunded OPEB plan liability will be sizable; with the actuarially recommended contribution (ARC) potentially being two to six times the annual “pay as-you-go” amount now being spent by municipalities on OPEB expenses.

Although GASB regulations do not require municipalities to fund the OPEB liabilities, the unfunded OPEB liability can be reduced or eliminated over time if the municipality makes the ARC. This payment represents the “normal” cost of the benefits provided and a past service payment that gradually funds the unfunded liability.

The credit rating agencies have indicated that the new GASB reporting requirements are unlikely to have an immediate impact on municipal credit ratings. However, the way towns manage OPEB liabilities may influence future ratings because it is likely that OPEB obligations will be evaluated in the same way that pension obligations are currently evaluated. Currently, unfunded pension fund liabilities are considered in the rating process as equivalent to bonded debt of the town; unfunded OPEB liabilities are expected to be viewed in a similar way. Historically, poorly funded pension plans have had a negative impact on the town's credit rating. The ratings agencies will likely consider the implications of not only the total OPEB unfunded

³The Government Accounting Standards Board (GASB) is responsible for setting standards for those governments (including Connecticut municipalities) that follow generally accepted accounting principles. GASB's Statement 45 requires governmental entities to account for their OPEB plan liability within their financial

liability, but also how the OPEB ARC is managed. For example, an increasing net OPEB obligation would impact the credit rating negatively, similar to an increasing net pension obligation.

The Out Years

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

statements in the manner similar to that currently required for pension plan liability. This requirement was phased in starting in 2008.

OLR Bill Analysis

sHB 5480

***AN ACT ESTABLISHING A MUNICIPAL POSTEMPLOYMENT
BENEFIT PLAN DEFICIT FUNDING BONDS PILOT PROGRAM.***

SUMMARY:

The Office of Legislative Research does not analyze Special Acts.

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable

Yea 16 Nay 4 (03/07/2011)