



# Senate

General Assembly

**File No. 378**

February Session, 2012

Substitute Senate Bill No. 441

*Senate, April 11, 2012*

The Committee on Planning and Development reported through SEN. CASSANO of the 4th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT CONCERNING THE ISSUANCE OF BONDS FOR MUNICIPAL SEWERAGE SYSTEMS.***

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

1 Section 1. Section 7-259 of the general statutes is repealed and the  
2 following is substituted in lieu thereof (*Effective October 1, 2012*):

3 Whenever a municipality has authorized the acquisition or  
4 construction of all or any part of a sewerage system, whether located  
5 within or without such municipality and whether constructed or  
6 acquired by such municipality acting alone or jointly with one or more  
7 other municipalities, and has made an appropriation or has incurred  
8 debt therefor, or has made an appropriation for the purpose of  
9 contributing funds to another municipality located within or without  
10 this state for sharing the costs of acquisition or construction by such  
11 other municipality of all or any part of a sewerage system which will  
12 benefit the municipality making such appropriation, it may issue  
13 bonds, notes or other obligations which are secured as to both

14 principal and interest by (a) the full faith and credit of the  
15 municipality, (b) a pledge of revenues to be derived from sewerage  
16 system use charges or (c) a pledge of revenues to be derived from  
17 sewerage system connection or use charges or benefit assessments or  
18 both and also by the full faith and credit of the municipality. Any such  
19 pledge of revenues shall be valid and binding from the time the pledge  
20 is made. The revenues so pledged and thereafter received by the  
21 municipality shall immediately be subject to the lien of such pledge  
22 without any physical delivery thereof or further act. The lien of any  
23 such pledge shall be valid and binding against all parties having  
24 claims of any kind against the municipality, irrespective of whether  
25 such parties have actual or constructive notice of such lien. The  
26 resolution, trust indenture or agreement by which a pledge is created  
27 shall be filed with the clerk of the municipality or, in the case of a  
28 metropolitan district, in the office of the district clerk. Bonds may be  
29 issued by a municipality pursuant to this section for the purposes of  
30 refunding bonds previously issued by the municipality pursuant to  
31 this chapter, any other provision of the general statutes or any special  
32 act. The body having power to authorize such bonds, notes or other  
33 obligations shall determine the maximum authorized amount of such  
34 bonds, notes or other obligations and may determine or may authorize  
35 an officer or board or commission of the municipality to determine the  
36 form of such bonds, notes or other obligations, their date, the dates of  
37 principal and interest payments, terms of redemption, the manner of  
38 issuing such bonds, notes or other obligations and by whom such  
39 bonds, notes or other obligations shall be signed or countersigned and,  
40 except as otherwise provided herein, all other particulars thereof. Such  
41 body or the legislative body of the municipality, if different, may  
42 determine the rate or rates of interest for each issue of bonds, notes or  
43 other obligations or may provide that the rate or rates of interest shall  
44 be determined by an officer or board or commission of the  
45 municipality or that such officer, board or commission shall provide  
46 for the method or manner of determining such rate or rates or time or  
47 times at which interest is payable. Bonds may be coupon or registered  
48 bonds. If coupon bonds, they may be registrable as to principal only or

49 as to both principal and interest. Any premium received for sale of  
50 bonds, notes or other obligations, less the cost of preparing, issuing  
51 and marketing them, may be used for the purposes for which such  
52 bonds, notes or other obligations were issued, including capitalized  
53 interest, and if not so used, shall be applied to the payment of the  
54 principal of the first bonds, notes or other obligations of that particular  
55 issue to mature, and contributions from other sources for payment of  
56 such bonds, notes or other obligations shall be reduced  
57 correspondingly.

58 Sec. 2. Section 7-260 of the general statutes is repealed and the  
59 following is substituted in lieu thereof (*Effective October 1, 2012*):

60 Bonds, notes or other obligations issued under authority of this  
61 chapter [shall] may be sold by the municipality at par, [and] at a  
62 discount or at a premium, together with accrued interest. [or at a  
63 discount.] Notwithstanding the terms of any resolution or ordinance  
64 authorizing the issuance of bonds bearing a single rate of interest prior  
65 to October 1, 1977, the bonds, notes or other obligations may bear a  
66 single rate of interest, may bear different rates of interest for the same  
67 or for different maturities or may contain provisions for the method or  
68 manner of determining such rate or rates or the time or times at which  
69 interest is payable. The proceeds arising from the sale of any bonds,  
70 notes or other obligations issued under the authority of this chapter  
71 shall be delivered to the treasurer of the municipality and kept by him  
72 in accounts separate from other funds of the municipality. Said  
73 proceeds shall be expended only for the purposes and subject to the  
74 provisions of this chapter, provided the proceeds of sale of any bonds,  
75 notes or other obligations shall first be applied to the payment of such  
76 temporary notes as have been issued in anticipation of such issue.

77 Sec. 3. Section 7-263 of the general statutes is repealed and the  
78 following is substituted in lieu thereof (*Effective October 1, 2012*):

79 Bonds, notes or other obligations issued under the authority of this  
80 chapter (1) shall be in serial form (A) maturing in annual or  
81 semiannual installments of principal that shall substantially equalize

82 the aggregate amount of principal and interest due in each annual  
83 period, commencing with the first annual period in which an  
84 installment of principal is due, or (B) maturing in annual or  
85 semiannual installments of principal no one of which shall exceed by  
86 more than fifty per cent the amount of any prior installment, or (2)  
87 shall be in term form with mandatory deposit of sinking fund  
88 payments into a sinking fund [of] in amounts (A) sufficient to redeem  
89 or amortize the principal of the obligations in annual or semiannual  
90 installments that shall substantially equalize the aggregate amount of  
91 principal redeemed or amortized and interest due in each annual  
92 period, commencing with the first annual period in which a  
93 mandatory sinking fund payment becomes due, or (B) sufficient to  
94 redeem or amortize the principal of the obligations in annual or  
95 semiannual installments no one of which shall exceed by more than  
96 fifty per cent the amount of any prior installment, provided such  
97 requirements will be deemed to have been met with respect to any  
98 issue if they would have been met by the issue taken together with all  
99 other bonds, notes or other obligations previously issued under this  
100 chapter, any provision of the general statutes or any special act and  
101 declared by the municipality to be part of a single plan of finance. The  
102 first installment or the first sinking fund payment of any such series of  
103 obligations, other than obligations secured solely by a pledge of  
104 revenue to be derived from sewerage system use charges, shall mature  
105 or shall be due not later than three years from the date of issue of such  
106 series and the last installment or the last sinking fund payment shall  
107 mature or shall be due not later than thirty years from the date of issue  
108 of such series or, if any notes have been issued in anticipation thereof  
109 or are to be paid from the proceeds thereof, from the date of issue of  
110 the first such note. The first installment or the first sinking fund  
111 payment of any series of obligations issued under the authority of this  
112 chapter which are secured solely by a pledge of revenues to be derived  
113 from sewerage system use charges shall mature or shall be due not  
114 later than four years from the date of issue of such series and the last  
115 installment or the last sinking fund payment shall mature or shall be  
116 due not later than thirty years from the date of the issue of such series

117 or, if any notes have been issued in anticipation thereof or are to be  
118 paid from the proceeds thereof, from the date of issue of the first such  
119 note.

120 Sec. 4. Section 7-266 of the general statutes is repealed and the  
121 following is substituted in lieu thereof (*Effective October 1, 2012*):

122 In connection with any bonds or notes issued under the authority of  
123 this chapter, the municipality may, by resolution of the body having  
124 power to make appropriations for such municipality, covenant and  
125 agree with the holders thereof as to [(a)] (1) the rates or charges to be  
126 imposed upon the users of such sewerage system, including the  
127 municipality, for connection with or the use of such system, [(b)] (2)  
128 the use and disposition of the revenue from such rates or charges, [(c)]  
129 (3) the creation and maintenance of special funds and reserves derived  
130 from any revenue source, and the management, use and disposition  
131 thereof, [(d)] (4) the purposes for which the proceeds of the sale of such  
132 bonds or notes may be used, [(e)] (5) the acts or conduct which shall  
133 constitute a default and the rights and liabilities of the holders arising  
134 upon such default, [(f)] (6) the terms and conditions upon which bonds  
135 or notes issued under the authority of this chapter shall become or may  
136 be declared due before maturity and the terms and conditions upon  
137 which such declaration and its consequences may be waived, [(g)] (7)  
138 the conditions upon which other or additional bonds or notes may be  
139 issued and secured by revenue from sewerage system use charges or  
140 benefit assessments or both, and the refunding of outstanding bonds,  
141 [(h)] (8) the insurance to be carried upon the sewerage system, or parts  
142 thereof, and the use and disposition of any insurance moneys, [(i)] (9)  
143 the maintenance of books of account and the inspection and audit  
144 thereof, (10) the procedure, if any, by which the terms of any contract  
145 with bondholders may be amended or abrogated, including the  
146 number or percentage of bondholders that must consent to such  
147 amendment or abrogation, the manner in which such consent may be  
148 given and any restrictions on the rights of individual bondholders, and  
149 (11) provisions for the execution of reimbursement agreements or  
150 similar agreements in connection with credit facilities, including, but

151 not limited to, letters of credit, policies of bond insurance, remarketing  
 152 agreements and agreements for the purpose of moderating interest  
 153 rate fluctuations. Such covenant and agreement may take the form of a  
 154 trust indenture between the municipality and a corporate trustee  
 155 approved by the municipality.

|   |                 |       |
|---|-----------------|-------|
| This act shall take effect as follows and shall amend the following sections: |                 |       |
| Section 1   | October 1, 2012 | 7-259 |
| Sec. 2  | October 1, 2012 | 7-260 |
| Sec. 3  | October 1, 2012 | 7-263 |
| Sec. 4  | October 1, 2012 | 7-266 |

**PD**      *Joint Favorable Subst.*

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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.

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**OFA Fiscal Note**

**State Impact:** None

**Municipal Impact:**

| Municipalities         | Effect                |
|------------------------|-----------------------|
| Various Municipalities | Potential Cost Saving |

**Explanation**

The bill permits a municipality to use the premium received from the issuance of bonds for a sewer project to be applied to the cost of the project. This will result in a municipal cost saving for the sewer projects to the degree that municipalities are able to issue bonds at a premium.

The other provisions of the bill are technical or conforming and have no fiscal impact.

**Further Explanation**

Applying bond premiums to project costs would reduce the size of the bond issuance needed to finance the sewer project, which would result in a cost saving for bond issuance and capitalized interest costs.

**The Out Years**

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

**OLR Bill Analysis****sSB 441****AN ACT CONCERNING THE ISSUANCE OF BONDS FOR MUNICIPAL SEWERAGE SYSTEMS.****SUMMARY:**

This bill makes various changes to laws concerning municipal sewer bonds. Among other things, it:

1. allows municipalities to issue sewer bonds that are sold at a premium (i.e., above their par value) and apply the premium towards project costs;
2. allows municipalities to issue refunding bonds to pay off bonds previously issued under the municipal sewer system laws or any other statutory provision or special act; and
3. gives municipalities more flexibility in structuring certain bond issuances.

Under existing municipal sewer system law, municipality means any (1) metropolitan district; (2) town, city, borough, consolidated town and city, or consolidated town and borough; and (3) village, fire, sewer, or combination fire and sewer district or other municipal organization authorized to levy and collect taxes.

EFFECTIVE DATE: October 1, 2012

**MUNICIPAL SEWER BONDS*****Revenue Pledge***

Existing law allows municipalities to issue bonds to acquire or build sewer systems that are secured by (1) the municipality's full faith and credit, (2) pledged revenues from sewer system use charges, or (3) both the municipality's full faith and credit and pledged revenues from

sewer system connection or use charges or benefit assessments.

The bill requires any such revenue pledge to be (1) valid and binding from the time it is made, (2) immediately subject to a lien without physical delivery of the money, and (3) valid and binding against all parties with claims against the municipality, regardless of whether the parties received specific notice of the lien.

The resolution, trust indenture, or agreement that contains the pledge must be filed with the municipality's clerk, or district clerk in the case of a metropolitan district.

### ***Redemption Terms***

The bill allows the body authorizing the bonds, or a municipal officer, board, or commission authorized by such body, to determine bond redemption terms. The law already allows the authorizing body or designated municipal officer, board, or commission, to determine other aspects of the bond issuance, including the form of the bonds, their date, and the dates of principal and interest payments.

### ***Bonds Sold at a Premium***

The bill allows municipalities to issue sewer bonds that are sold at a premium or discount with accrued interest. Currently, they are limited to issuing bonds sold at par with accrued interest or at a discount.

Although current law does not appear to allow municipalities to issue bonds at a premium, it requires any premium received from bonds, notes, or other debt obligations, minus issuance costs, to be applied to the first principal payment. The bill allows municipalities to also use the premium for project costs, including capitalized interest.

### ***Bond Structures***

The bill allows municipalities to issue bonds with the same maturity date that bear different interest rates. Under current law, they can issue fixed-rate bonds and bonds with different rates for different maturities.

Existing law allows municipalities to issue term or serial sewer bonds. A term bond matures on a specific date; a serial bond matures at regular intervals each year over the life of the bond.

Current law (1) specifies how the debt service on serial bonds must be structured and (2) requires a sinking fund for any term bonds issued. The bill specifies that any sewer bond issuance is deemed to meet these requirements if they would have been met by the issue taken together with all of the previously issued bonds, notes, or other obligations the municipality declares as part of a single financing plan.

### ***Bondholder Agreements***

The bill explicitly allows municipalities to include provisions in their agreements with bondholders that specify:

1. how reserves derived from any revenue source will be created, maintained, managed, and used;
2. the conditions under which it issues refunding bonds;
3. the procedure, if any, for amending or repealing any contract with bondholders, including the number or percentage of bondholders that must consent to the amendment or repeal, the manner in which they must consent to it, and any restrictions on individual bondholder rights; and
4. how reimbursement or other similar agreements will be executed in connection with credit facilities, including letters of credit, bond insurance policies, remarketing agreements, and agreements to moderate interest rate fluctuations.

The bill also explicitly allows the municipality's agreement with bondholders to take the form of a trust indenture between the municipality and a corporate trustee it approves.

### **COMMITTEE ACTION**

Planning and Development Committee

Joint Favorable Substitute

Yea 20 Nay 0 (03/23/2012)