
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)