Office of Legislative Research
Research Report

February 19, 2015 2015-R-0068

CONNECTICUT'S BONDING PROCESS

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TYPES OF STATE BONDS

The state issues two major types of bonds: general obligation (GO) and special transportation (STO) bonds. GO bonds are repaid using General Fund appropriations and are backed by the state's power to levy taxes (i.e., its full faith and credit). Among other things, the state uses GO bonds to finance the construction of state office and university buildings, economic development projects, housing development grants and loans, and school construction grants.

STO bonds finance the state's transportation programs and facilities. They are repaid by a dedicated revenue stream in the Special Transportation Fund from the state's motor fuels tax; petroleum products gross receipts tax; sales tax collected on certain motor vehicle sales; and motor vehicle registrations, licenses, and fees.

ISSUE

Explain the process Connecticut uses to issue state bonds. What is the procedure for revising the bonding process and when was it last revised?

SUMMARY

The state's bonding process begins with a capital budget initiated by the executive branch. At the beginning of each odd-numbered year, the governor presents a proposed capital budget to the General Assembly. The budget includes capital projects (e.g., repairs and additions to state-owned facilities) and bond-funded financial assistance programs (e.g., the Urban Act and Small Town Economic Assistance programs). The capital budget is based on (1) state agency capital project and financial assistance program requests; (2) the state's facility plan, which outlines each agency's facility needs over a five-year period (CGS § 4b-23); (3) the governor's priorities; and (4) the state's fiscal capacity (Office of Fiscal Analysis, *Connecticut Capital Budget Report*, February 2014).

Although the executive branch oversees the capital planning and budgeting process, the General Assembly is responsible for authorizing all state bonding, within statutory debt limits. Bond bills, including the governor's capital budget, originate in the Finance, Revenue and Bonding Committee and are subject to the regular legislative process. State law limits the total amount of General Fund-supported state debt the General Assembly can authorize to 1.6 times the estimated net General Fund tax receipts for the fiscal year of the authorization.

Once the General Assembly has authorized bonding for a particular purpose, the State Bond Commission must then allocate bond funds for that express purpose before an agency can spend the money. The commission is a 10-member executive-legislative committee that generally meets monthly to approve (1) funding for projects authorized by the legislature and (2) the timing, conditions, and amounts of state bond sales. The governor chairs the commission and controls its agenda.

The legislature could change the bonding process by amending the statutes governing bond authorizations and allocations. There have been no major changes to this process since 1978, when the legislature expanded the State Bond Commission's membership from six to 10 by adding the chairpersons and ranking members of the Finance, Revenue and Bonding Committee (PA 78-366).

BONDING PROCESS

Bond Authorizations

At the beginning of each odd-numbered year, the governor presents a proposed capital budget to the General Assembly, together with legislation needed to implement the proposal. The bond bills typically include new authorizations and adjustments to authorizations enacted in prior years. These bills originate in the Finance, Revenue and Bonding Committee and are subject to the regular legislative process. The committee's general bonding and transportation bonding subcommittees review and analyze the governor's bills, along with other bond bills individual legislators submit or the committee raises. The subcommittees then submit their recommendations to the committee for its consideration. The full legislature must then vote to approve the bond bills, referred to collectively as the "bond package," and the governor must sign them.

Bond Commission

Even though the General Assembly has authorized bonding for a particular purpose, the State Bond Commission must allocate bond funds for that express purpose before an agency can spend the money. The commission is a 10-member executive-legislative committee consisting of the governor, treasurer, comptroller, attorney general, Office of Policy and Management (OPM) secretary, administrative services commissioner, and the co-chairpersons and ranking members of the Finance, Revenue and Bonding Committee, or their designees (CGS § 3-20 (c)). State law gives the commission broad authority to approve bond authorizations that are "in the best interest of the state" (CGS § 3-20 (g)).

The commission generally meets monthly to approve (1) funding for projects authorized by the legislature and (2) the timing, conditions, and amounts of state bond sales. The governor chairs the commission and controls its agenda ("Resolution of the State Bond Commission Regarding the Organization of the State Bond Commission"). The OPM secretary acts as the commission's secretary and keeps its records and minutes (CGS § 3-20 (j)).

Bond Authorization Limit

State law limits the total amount of General Fund-supported state debt the General Assembly can authorize to 1.6 times the estimated net General Fund tax receipts for the fiscal year of the authorization. The limit must be calculated using the Finance, Revenue and Bonding Committee's estimates of annual General Fund tax revenues included in the state budget.

The debt ceiling calculation excludes certain types of debt, including debt incurred for federally reimbursable public works projects, debt incurred in anticipation of receiving revenue, debt issued to finance certain budget deficits (e.g., the 2009 Economic Recovery Notes), and bonds issued for the Teachers' Retirement System's unfunded liability (CGS §§ 3-21 and 10-183qq (g)).

Allotment of Bond Funds

Once the Bond Commission has allocated bonds for a particular project, the agency charged with implementing the project must request an allotment of the bond funds from the Governor (CGS § 3-20 (g)(3)). Once the governor approves the allotment, the agency may begin spending the bond funds for the project's purposes.

Review of Bond Acts

State law requires the legislature and governor to review bond acts under certain conditions. The Finance, Revenue and Bonding Committee must review each bond act no later than five years after it takes effect, while the governor must review each bond act if the state's aggregate bonded indebtedness reaches a statutory threshold.

The Finance, Revenue and Bonding Committee's review must consider how much was spent before the review and the total cost to complete each project. As part of its consideration, the committee can require any state official, board, agency, or commission to provide information within 14 days after the request. After completing its review, the committee must propose whatever legislation it thinks is necessary with respect to each project.

The governor's review depends on the state's aggregate bonded indebtedness, as certified by the state treasurer. Every January 1 and July 1, the state treasurer must compute the state's aggregate bonded indebtedness and certify the total to the governor and the General Assembly. If that total is 90% or more of the state debt limit, the governor must review each bond act and recommend to the General Assembly priorities for repealing authorizations for which no obligations have been incurred. The governor's review must consider the amount previously spent on each project and its remaining completion cost.

Once submitted to the General Assembly, the governor's recommendations must be referred to the Finance, Revenue and Bonding Committee, which must consider them. As part of its consideration, the committee can require any state official, board, agency, or commission to provide information within 14 days after the request. After completing its review, the committee must propose whatever legislation it thinks necessary with respect to each project (CGS § 2-27b).

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