



House of Representatives

General Assembly

File No. 643

February Session, 2018

Substitute House Bill No. 5590

House of Representatives, April 23, 2018

The Committee on Finance, Revenue and Bonding reported through REP. ROJAS of the 9th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

***AN ACT CONCERNING BOND COVENANTS AND THE BOND
ISSUANCE CAP AND REQUIRING A STUDY OF BOND COVENANTS.***

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

1 Section 1. Subsection (aa) of section 3-20 of the 2018 supplement to
2 the general statutes is repealed and the following is substituted in lieu
3 thereof (*Effective May 15, 2018*):

4 (aa) (1) For each fiscal year during which general obligation bonds
5 or credit revenue bonds issued on and after May 15, 2018, and prior to
6 July 1, 2020, shall be outstanding, the state of Connecticut shall comply
7 with the provisions of (A) section 4-30a of the general statutes, revision
8 of 1958, revised to January 1, 2017, as amended by section 704 of public
9 act 17-2 of the June special session, and (B) section 2-33c in effect on
10 October 31, 2017; (C) section 2-33a of the general statutes, revision of
11 1958, revised to January 1, 2017, as amended by section 709 of public
12 act 17-2 of the June special session, (D) subsections (d) and (g) of this
13 section, revision of 1958, revised to January 1, 2017, as amended by

14 sections 710 and 711 of public act 17-2 of the June special session, and
15 (E) section 3-21 of the general statutes, revision of 1958, revised to
16 January 1, 2017, as amended by section 712 of public act 17-2 of the
17 June special session.] The state of Connecticut does hereby pledge to
18 and agree with the holders of any bonds, notes and other obligations
19 issued pursuant to subdivision (2) of this subsection that no public or
20 special act of the General Assembly taking effect on or after May 15,
21 2018, and prior to July 1, 2028, shall alter the obligation to comply with
22 the provisions of the sections [and subsections] set forth in
23 subparagraphs (A) [to (E), inclusive,] and (B) of this subdivision, until
24 such bonds, notes or other obligations, together with the interest
25 thereon, are fully met and discharged, provided nothing in this
26 subsection shall preclude such alteration (i) if and when adequate
27 provision shall be made by law for the protection of the holders of
28 such bonds, or (ii) (I) if and when the Governor declares an emergency
29 or the existence of extraordinary circumstances, in which the
30 provisions of section 4-85 are invoked, (II) at least three-fifths of the
31 members of each chamber of the General Assembly vote to alter such
32 required compliance during the fiscal year for which the emergency or
33 existence of extraordinary circumstances are determined, and (III) any
34 such alteration is for the fiscal year in progress only.

35 (2) The Treasurer shall include this pledge and undertaking in
36 general obligation bonds and credit revenue bonds issued on or after
37 May 15, 2018, and prior to July 1, 2020, provided such pledge and
38 undertaking (A) shall be applicable for a period of ten years from the
39 date of first issuance of such bonds, and (B) shall not apply to
40 refunding bonds issued for bonds issued under this subdivision.

41 Sec. 2. Section 3-20 of the 2018 supplement to the general statutes is
42 amended by adding subsection (bb) as follows (*Effective July 1, 2019*):

43 (NEW) (bb) (1) For each fiscal year during which general obligation
44 bonds or credit revenue bonds issued on and after July 1, 2019, and
45 prior to July 1, 2021, shall be outstanding, the state of Connecticut shall
46 comply with the provisions of (A) section 2-33a of the general statutes,

47 revision of 1958, revised to January 1, 2017, as amended by section 709
48 of public act 17-2 of the June special session, (B) subsections (d) and (g)
49 of this section, revision of 1958, revised to January 1, 2017, as amended
50 by sections 710 and 711 of public act 17-2 of the June special session,
51 and (C) section 3-21 of the general statutes, revision of 1958, revised to
52 January 1, 2017, as amended by section 712 of public act 17-2 of the
53 June special session and section 3 of this act. The state of Connecticut
54 does hereby pledge to and agree with the holders of any bonds, notes
55 and other obligations issued pursuant to subdivision (2) of this
56 subsection that no public or special act of the General Assembly taking
57 effect on or after July 1, 2019, and prior to July 1, 2029, shall alter the
58 obligation to comply with the provisions of the sections and
59 subsections set forth in subparagraphs (A) to (C), inclusive, of this
60 subdivision, until such bonds, notes or other obligations, together with
61 the interest thereon, are fully met and discharged, provided nothing in
62 this subsection shall preclude such alteration (i) if and when adequate
63 provision shall be made by law for the protection of the holders of
64 such bonds, or (ii) (I) if and when the Governor declares an emergency
65 or the existence of extraordinary circumstances, in which the
66 provisions of section 4-85 are invoked, (II) at least three-fifths of the
67 members of each chamber of the General Assembly vote to alter such
68 required compliance during the fiscal year for which the emergency or
69 existence of extraordinary circumstances are determined, and (III) any
70 such alteration is for the fiscal year in progress only.

71 (2) The Treasurer shall include this pledge and undertaking in
72 general obligation bonds and credit revenue bonds issued on or after
73 July 1, 2019, and prior to July 1, 2021, provided such pledge and
74 undertaking (A) shall be applicable for a period of ten years from the
75 date of first issuance of such bonds, and (B) shall not apply to
76 refunding bonds issued for bonds issued under this subdivision.

77 Sec. 3. Subsection (f) of section 3-21 of the 2018 supplement to the
78 general statutes is repealed and the following is substituted in lieu
79 thereof (*Effective from passage*):

80 (f) (1) (A) On and after July 1, 2018, the Treasurer may not issue
81 general obligation bonds or notes pursuant to section 3-20 or credit
82 revenue bonds pursuant to section 3-20j that exceed in the aggregate
83 one billion nine hundred million dollars in any fiscal year.
84 Commencing July 1, 2019, and each fiscal year thereafter, the aggregate
85 limit shall be adjusted in accordance with any change in the consumer
86 price index for all urban consumers for the preceding calendar year,
87 less food and energy, as published by the United States Department of
88 Labor, Bureau of Labor Statistics.

89 (B) Any calculation made pursuant to subparagraph (A) of this
90 subdivision shall not include (i) any general obligation bonds issued as
91 part of CSCU 2020, as defined in subdivision (3) of section 10a-91c, or
92 UConn 2000, as defined in subdivision (25) of section 10a-109c, (ii) any
93 bonds, notes or other evidences of indebtedness for borrowed money
94 which are issued for the purpose of refunding other bonds, notes or
95 other evidences of indebtedness, or (iii) obligations in anticipation of
96 revenues to be received by the state during the twelve calendar months
97 next following their issuance.

98 (2) (A) Not later than January 1, 2018, and January first annually
99 thereafter, the Treasurer shall provide the Governor with a list of
100 allocated but unissued bonds. The Governor shall post such list on the
101 Internet web site of the office of the Governor.

102 (B) Notwithstanding section 4-85, the Governor shall not approve
103 allotment requisitions pursuant to said section that would result in the
104 issuance of general obligation bonds or notes pursuant to section 3-20
105 or credit revenue bonds pursuant to section 3-20j that exceed in the
106 aggregate one billion nine hundred million dollars in any fiscal year.
107 Commencing July 1, 2019, and each fiscal year thereafter, the aggregate
108 limit shall be adjusted in accordance with any change in the consumer
109 price index for all urban consumers for the preceding calendar year,
110 less food and energy, as published by the United States Department of
111 Labor, Bureau of Labor Statistics. Not later than April 1, 2018, and
112 April first annually thereafter, the Governor shall provide the

113 Treasurer with a list of general obligation bond and credit revenue
114 bond expenditures that can be made July first commencing the next
115 fiscal year totaling not more than one billion nine hundred million
116 dollars. Commencing July 1, 2019, and each fiscal year thereafter, the
117 aggregate limit shall be adjusted in accordance with any change in the
118 consumer price index for all urban consumers for the preceding
119 calendar year, less food and energy, as published by the United States
120 Department of Labor, Bureau of Labor Statistics. The Governor shall
121 post such list on the Internet web site of the office of the Governor.

122 (C) Any calculation made pursuant to subparagraph (B) of this
123 subdivision shall not include (i) any general obligation bonds issued as
124 part of CSCU 2020, as defined in subdivision (3) of section 10a-91c, or
125 UConn 2000, as defined in subdivision (25) of section 10a-109c, (ii) any
126 bonds, notes or other evidences of indebtedness for borrowed money
127 which are issued for the purpose of refunding other bonds, notes or
128 other evidences of indebtedness, or (iii) obligations in anticipation of
129 revenues to be received by the state during the twelve calendar months
130 next following their issuance.

131 Sec. 4. (*Effective from passage*) The Secretary of the Office of Policy
132 and Management, the Attorney General, the Comptroller and the
133 Treasurer, or their designees, shall study the use of bond covenants,
134 including the bond covenant set forth in section 2 of this act, as a
135 mechanism to dictate state spending and bonding. Such study shall
136 include, but not be limited to, the legality of such covenants, the
137 possible long-term financial and economic effects of such covenants,
138 the possible impact of such covenants on the operations of state
139 government, including the state's ability to fund social service
140 programs, public education and workforce development programs,
141 and recommendations for alternative methods the General Assembly
142 may use to implement prudent long-term fiscal decision-making. Not
143 later than January 1, 2019, the secretary, Attorney General,
144 Comptroller and Treasurer shall jointly submit a report, in accordance
145 with the provisions of section 11-4a of the general statutes, of the
146 findings of such study to the joint standing committee of the General

147 Assembly having cognizance of matters relating to finance, revenue
148 and bonding.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>May 15, 2018</i>	3-20(aa)
Sec. 2	<i>July 1, 2019</i>	3-20
Sec. 3	<i>from passage</i>	3-21(f)
Sec. 4	<i>from passage</i>	New section

FIN *Joint Favorable Subst.*

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:

Agency Affected	Fund-Effect	FY 19 \$	FY 20 \$
Treasurer, Debt Serv.	GF - Potential Savings	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill delays the bond covenant which requires the state to follow the cap on appropriations to bonds issued between July 1, 2019 and prior to July 1, 2021 from May 15, 2018, and prior to July 1, 2020. The cap on appropriations limits General Fund and Special Transportation Fund appropriations at a specified percentage of estimated revenues beginning in FY 20 at 99.5% of revenue and increasing gradually to 98% of revenue by FY 26.

The bill excludes from the cap on bond issuances bonds which are issued for: 1) refunding outstanding bonds or other indebtedness or 2) for temporary obligations in anticipation of revenue to be received within the next 12 months. This could result in savings in debt service payments to the extent the state is able to refinance outstanding debt at a lower cost.

The bill requires the Office of Policy and Management, the Attorney General, the Comptroller, and the Treasurer to conduct a study concerning bond covenants. The completion of the study is not anticipated to require additional resources for any of the four agencies

required to take part in the study and therefore will have no fiscal impact.

The Out Years

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

OLR Bill Analysis**sHB 5590*****AN ACT CONCERNING BOND COVENANTS AND THE BOND ISSUANCE CAP AND REQUIRING A STUDY OF BOND COVENANTS.*****SUMMARY**

Current law requires certain state bonds issued from May 15, 2018, to June 30, 2020, to include a pledge to bondholders that the state will comply with specified state laws, except under certain conditions. This bill delays the application of the bond pledge (i.e., covenant) to the state spending and bond cap laws and instead applies the pledge for these laws to bonds issued from July 1, 2019, to June 30, 2021. Under the bill, the current bond covenant provision continues to apply, beginning May 15, 2018, to the Budget Reserve Fund (BRF) law and cap on General Fund and Special Transportation Fund (STF) appropriations.

The bill also requires specified state officials to study the use of bond covenants as a fiscal control mechanism and, by January 1, 2019, report their findings to the Finance, Revenue and Bonding Committee.

Lastly, the bill excludes from the caps on bond issuances and expenditures (1) refunding bonds and (2) bonds and other notes issued in anticipation of certain revenue (e.g., bond anticipation notes).

EFFECTIVE DATE: Upon passage, except the provisions delaying and reinstating the application of the bond covenant to certain laws are effective May 15, 2018, and July 1, 2019, respectively.

§§ 1-2 & 4 — BOND COVENANT

Current law expressly requires the state to comply with certain state laws (described below) for each fiscal year during which state general

obligation (GO) or credit revenue bonds issued from May 15, 2018 to June 30, 2020, are outstanding. It also requires, for GO and credit revenue bonds issued during this timeframe, that the treasurer include a pledge to bondholders that the state will not enact any laws taking effect from May 15, 2018, to June 30, 2028, that change the state's obligation to comply with the specified laws until the bonds are fully paid off, unless certain conditions are met. The pledge must apply for 10 years from the bonds' first issuance date.

Under current law, these requirements apply to the following laws:

1. BRF law (CGS § 4-30a);
2. cap on General Fund and STF appropriations in effect on October 31, 2017 (CGS § 2-33c);
3. state spending cap (CGS § 2-33a); and
4. caps on GO and credit revenue bond authorizations, allocations, issuances, and expenditures (CGS §§ 3-20(d) and (g) & 3-21) (see BACKGROUND).

The bill delays the application of these requirements to the state spending and bond cap laws so that they only apply to bonds issued from July 1, 2019 to June 30, 2021. In doing so, it creates two parallel bond covenant provisions that apply to bonds issued during two different, overlapping timeframes, but are tied to different state laws. Under the bill, the current requirements continue to apply to the BRF law and cap on General Fund and STF appropriations for bonds issued from May 15, 2018, to June 30, 2020.

Under current law, the bond pledge prohibits the state from enacting laws taking effect from May 15, 2018, to June 30, 2028, that change the state's obligation to comply with the laws listed above until the bonds are fully paid off, unless one of the following conditions are met:

1. bondholders are protected in another way or

2. (a) the governor declares an emergency or the existence of extraordinary circumstances in which he invokes the statute allowing him at his discretion, and requiring him, for certain budget deficits, to reduce appropriated accounts by up to 5% and total fund appropriations by up to 3% (CGS § 4-85); (b) at least three-fifths of the members of each house of the General Assembly approve the change in compliance; and (c) the change is limited to the fiscal year in progress.

The bond pledge the bill creates, which applies to the state spending and bond cap laws, prohibits the state from enacting laws taking effect from July 1, 2019, to June 30, 2029, unless the same conditions described above are met. As with the pledge under current law, the pledge the bill creates must apply for 10 years from the bonds' first issuance date but not to refunding bonds issued to pay the original bonds.

§ 3 — BOND ISSUANCE AND EXPENDITURE CAPS

Existing law imposes a \$1.9 billion aggregate cap on the amount of GO bonds or notes and credit revenue bonds (1) the treasurer may issue in any fiscal year, beginning with FY 19, and (2) for which the governor may approve allotment requisitions (i.e., expenditures) in any fiscal year, beginning with FY 17.

The bill excludes from these caps (1) any bonds, notes, or other evidences of indebtedness for borrowed money which are issued to refund other debt (i.e., refunding bonds) and (2) obligations issued in anticipation of revenues to be received by the state during the 12 calendar months following a debt issuance (e.g., bond anticipation notes).

By law, GO bonds issued as part of the Connecticut State Colleges and Universities 2020 or UConn 2000 infrastructure programs are also excluded from these caps.

§ 4 — BOND COVENANT STUDY

The bill requires the Office of Policy and Management secretary,

attorney general, comptroller, and treasurer (or their designees) to study the use of bond covenants, including Connecticut's, as a mechanism to control state spending and bonding. The study must consider the covenants':

1. legality;
2. potential long-term financial and economic effects; and
3. impact on state government operations, including the state's ability to fund social service programs, public education, and workforce development programs.

By January 1, 2019, the officials must report, to the Finance, Revenue and Bonding Committee, their findings and recommendations for alternative methods the General Assembly may use to implement prudent long-term fiscal decision-making.

BACKGROUND

BRF Law

Existing law directs to the BRF any (1) unappropriated General Fund surplus at the end of each fiscal year and (2) revenue the state receives each fiscal year in excess of \$3.15 billion from personal income tax estimated and final payments (referred to as the "volatility cap").

BRF funds are deemed appropriated in any fiscal year in which the comptroller has certified a deficit for the immediately preceding fiscal year. The legislature may also transfer funds from the BRF to (1) the General Fund when a deficit is projected, under specified conditions, and (2) pay unfunded pension liabilities when the fund's balance equals 5% or more of net General Fund appropriations for the current fiscal year.

The BRF's maximum balance is 15% of net General Fund appropriations for the current fiscal year; once it reaches the 15% ceiling, the treasurer must transfer any remaining surplus funds, as she determines to be in the state's best interests, for reducing either the

State Employee Retirement Fund's or Teachers' Retirement Fund's unfunded liability. Any amounts that remain after this transfer may be used to make additional payments for outstanding state debt (CGS § 4-30a).

Cap on General Fund and STF Appropriations

Beginning in FY 20, the law prohibits the General Assembly from authorizing for any fiscal year General Fund and STF appropriations that, in the aggregate, exceed a specified percentage of the estimated revenues included in the budget act, unless certain conditions are met. The percentage ranges from 99.5% in FY 20 to 98% in FY 26 and thereafter. The General Assembly may exceed the specified percentage if either of the following conditions is met:

1. the governor declares an emergency or the existence of extraordinary circumstances, specifying the nature of the emergency or circumstances; at least three-fifths of the members of each chamber of the General Assembly vote to exceed the percentage; and the appropriation is limited to the fiscal year in progress; or
2. the General Assembly approves the appropriation, by majority vote, for an adjusted appropriation and revenue plan (CGS § 2-33c).

State Spending Cap

The state's statutory and constitutional spending cap bars the legislature from authorizing an increase in general budget expenditures for any fiscal year that exceeds the greater of the percentage increase in personal income or inflation unless (1) the governor declares an emergency or extraordinary circumstances and (2) at least three-fifths of each house of the legislature approves the extra expenditure for those purposes (CGS § 2-33a & Conn. Const., art. III, § 18(b)).

Bond Caps

The law imposes caps on GO and credit revenue bond

authorizations, allocations, issuances, and spending. Specifically, it caps at:

1. 1.6 times the estimated net General Fund tax receipts for the fiscal year, the total amount of General Fund-supported state debt the legislature may authorize (CGS § 3-21);
2. \$2 billion, the amount of GO and credit revenue bonds the State Bond Commission may allocate in any calendar year to (CGS § 3-20(d) and (g)); and
3. \$1.9 billion, the amount of GO bonds and credit revenue bonds, with certain exceptions, (a) the treasurer may issue in any fiscal year, beginning with FY 19, and (b) for which the governor may approve allotment requisitions in any fiscal year, beginning with FY 18 (CGS § 3-21(f)).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 26 Nay 25 (04/05/2018)