Finance, Revenue and Bonding Committee
JOINT FAVORABLE REPORT

Bill No.:	HB-5590
Title:	AN ACT CONCERNING BOND COVENANTS AND THE BOND ISSUANCE CAP AND REQUIRING A STUDY OF BOND COVENANTS.
Vote Date:	4/5/2018
Vote Action:	Joint Favorable Substitute
PH Date:	4/2/2018
File No.:	643

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SPONSORS OF BILL:

Introduced by:
Finance, Revenue and Bonding Committee

REASONS FOR BILL:

To delay the inclusion of certain bond covenants for bonds issued during certain time periods and exclude refunding bonds and temporary borrowings from the calculation of the bond issuance cap.

RESPONSE FROM ADMINISTRATION/AGENCY:

Denise L. Nappier Treasurer of the State of Connecticut
Treasurer Nappier's comments focus on Section 3 of the bill. Last year's bipartisan budget bill included a cap on new bond issuances of $1.9 billion per fiscal year, with adjustments for inflation. The cap appears inadvertently to include bonds issued to refund other bonds, notes or other obligations of the State, and bond anticipation notes. The refunding bonds create debt service savings and the bond anticipation notes are retired by permanent long-term bonds. Neither type of debt increases the State's overall level of debt and their inclusion under the issuance cap appears to have been inadvertent. The language of Section 3 provides a technical correction that parallels existing language of the State's debt limit.

NATURE AND SOURCES OF SUPPORT:

Betsy Gara, Executive Director, Connecticut Council of Small Towns
While COST recognizes the need to implement spending controls to restore the state's fiscal stability, they are concerned that the bond lock and other statutory spending caps will undermine the availability of critical sources of municipal aid. HB-5590 will give the state and

municipalities some breathing room to determine the impact of these caps on municipal aid and the delivery of local services.

Tammy Freeberg, Associate Vice President, The Village for Families & Children
While the fiscal restrictions affected by the Bond Lock - the spending cap, volatility cap, and bond cap - contain elements that are sound in principle, they each have flaws in execution that must be reviewed and remedied before they are cemented into place. Ms. Freeberg believes that the potential consequences of these restrictions are not understood well enough to tie them to the state's bonding authority and creditworthiness. She is very concerned about the near-certain limitations that would be placed on spending devoted to children, an investment already declining (as a share of the General Fund) in our state. It seems likely that the Bond Lock would constrain the legislature's capacity to make wise budget choices to address both existing and unanticipated challenges. She urges the committee to heed the specific recommendations put forth by Connecticut Voices for Children: 1. Delay the effective date of all provisions of the Bond Lock until July 1, 2019. 2. Study and issue a report on the impact of the Bond Lock, with a committee hearing on the same, prior to the new effective date

Sheldon Toubman, New Haven Legal Assistance Association
Mr. Toubman testified in support of HB 5590, and more specifically, the delay of the bond lock which stands in the way of revenue increases that would support reversal of the devastating cuts made to the Medicaid program in the October 2017 bipartisan budget. Because of the legislature's unwillingness to adopt reasonable revenue options last year, it was forced to make severe cuts to the Medicaid program, in the October 2017 bipartisan budget.

Connecticut Voices for Children
Voices commends the legislature for providing this opportunity to explore further the implications of the most consequential provision of last fall's budget. Voices supports HB 5590 with the following proposed amendments: (1) delay the bond lock's application to the volatility cap until July 1, 2019 and (2) establish a Commission to study the bond lock and associated fiscal restrictions in depth and report back to the legislature by March 1, 2019.

Jim Horan, CEO, The Connecticut Association for Human Services (CAHS)
CAHS strongly advises this Committee to repeal the Bond Lock before it begins in May 2018. The Bond Lock and Spending Cap will force the legislature to address billions of dollars in increased costs in coming years, including $3.8 billion in state employee and teacher pension obligations and other nonfunctional expenses, primarily with cuts. This will reduce the state's ability to meet residents' needs and spur economic development.

Bill Cibes
Mr. Cibes's testimony notes that if the Committee and the General Assembly do not see fit to repeal the "bond lock" at this time, HB 5590 does provide legislators with the opportunity to reconsider the most damaging provisions of Section 706 during the next legislative session. Although it does not go the "full Monty" by deferring the implementation of all of its provisions until July 1, 2019, it commendably excludes the spending cap and the bond cap from being incorporated into the "bond lock" prior to July 1, 2019, and makes some necessary additional modifications to Section 3-21 of the statutes. The bill could be substantially improved by

modifying the “volatility cap” to reinstate the provisions of Section 4-30 enacted in 2015 to go into effect in 2019.

Art Perlo, Connecticut Communist Party, USA
Mr. Perlo expressed support for HB 5590, concerning the bond cap and the bond lock. The proposal to exclude refunding bonds and temporary borrowings from the calculation of the bond cap makes sense. And it illustrates one reason that the bond lock, AKA bond covenants, should not only be delayed but repealed. It is almost inevitable that there will be technical fixes needed for the various caps covered by the covenants. The bond covenants are fundamentally undemocratic. They bind future legislatures to the policies being decided by the current political balance of forces. The bond lock essentially turns substantial control of our fiscal future over to Wall Street.

Katie Roy, The Connecticut School Finance Project
By delaying, until July 1, 2019, the inclusion of covenants in bonds issued by the State of Connecticut that would bind the General Assembly to the previously passed spending and bond issuance caps, H.B. 5590 allows for further examination of 1) the use of such bond covenants to bind the General Assembly to the spending and bond issuance caps and 2) potential alternatives that can achieve the same fiscal control desired by the General Assembly while not tying the body’s hands in a potentially problematic manner. Delaying the implementation of these bond covenants to allow for further study is not a partisan issue or a matter of “kicking the can down the road.” It is a matter of good governance and fiscal responsibility.

Gian-Carl Casa, President & CEO, The Alliance
This proposal would delay, for one year, inclusion of the spending cap and bond cap in bond covenants. This bill does not address section 705 of PA 17-2, which could exacerbate the damage caused by budget cuts. That section does not go into effect until FY 2020. Section 705 of the budget will reduce the amount of estimated general fund revenues that can be appropriated to 98% over a seven-year period. The State has for several years been unable to adequately fund services with 100% of the revenue it expects. This section of the budget would reduce that even further -- and that could be devastating in the short term for community based nonprofits and the people who depend on them. The Alliance appreciates the “pause” proposed by this bill and they urge the committee to take the intervening time to study the potential impacts of the provisions passed last year before including them in bond covenants.

NATURE AND SOURCES OF OPPOSITION:

Joe Horvath, Director of Legislative Outreach, Yankee Institute for Public Policy
The bonding cap put into place as a part of the bipartisan budget last session was an important and necessary step toward controlling Connecticut’s out-of-control borrowing and spending. Because of the two recent, and very large, tax increases, residents are justifiably weary of the state constantly seeking to collect more revenue. Putting tools into place that restrain the drivers of state costs was the right move. Reverting to the previous means of doing business would be a grave mistake. The Yankee Institute believes that waiving its self-imposed austerity measures would only exacerbate the very issues that cause such a cap to be necessary to begin with.

Eric Gjede, Counsel, CBIA

Mr. Gjede began his testimony by approving of the bipartisan budget that took the first steps towards putting Connecticut back on a sustainable path. Among the many proposals contained in the budget were provisions imposing a volatility cap as well as a cap on new bond issuances of $1.9 billion per fiscal year over the next 10 years, with adjustments for inflation. HB 5590 seeks to delay the inclusion of certain bond covenants set to take effect in 2018. Self-discipline can be incredibly difficult, especially when it comes to spending and borrowing to support many seemingly worthwhile programs. Mounting unpaid obligations forced members of this committee, and their colleagues throughout the General Assembly to impose the volatility and bond issuance caps.

Reported by: Jean Holloway **Date: 4/12/2018**