Office of Legislative Research
Objective Research for Connecticut's Legislature

Issue Brief

Connecticut's Bonding Process

Bonding Process Snapshot

State Agencies
Submit requests for capital projects or financial assistance programs to the Office of Policy and Management (OPM)

OPM
Reviews agency requests and meets with the governor and agency heads to develop the governor's budget

Governor
Submits a proposed capital budget and implementing legislation to the legislature

Legislature
Approves a bond package following Finance, Revenue and Bonding Committee's recommendation (i.e., bond bills)

Governor
Signs the bond bills and sets the State Bond Commission's agenda

Bond Commission
Allocates funds to authorized projects and programs

State Agencies
Request allotment of bond funds from OPM

Connecticut's bonding program funds a wide range of capital projects and financial assistance programs. The process for issuing state bonds is multilateral, requiring parties from the executive branch, legislative branch, and the State Bond Commission to prepare biennial capital budgets, authorize bonds, and allocate bonds, respectively.

Types of State Bonds

The most commonly issued bonds are general obligation (GO) and special tax obligation (STO) bonds, also called special transportation bonds. GO bonds finance the construction of state office, school, and university buildings; economic development grants and loans; and financial assistance programs, among other things. They are repaid from the General Fund and backed by a full faith and credit pledge of the state's taxing power. STO bonds finance transportation projects, programs, and facilities, and are repaid by a dedicated revenue stream in the Special Transportation Fund.

The 2018-19 budget act authorized the issuance of credit revenue bonds in place of GO bonds (PA 17-2, June Special Session, § 714-716). Credit revenue bonds are backed by the withholding portion of the state's personal income tax and are expected to generate debt service savings for the state. The law directs the savings from this new bond program to the state's Budget Reserve Fund (BRF). The Office of the State Treasurer (OST) has indicated that these tax-secured bonds are expected to earn higher credit ratings, increase investor demand, lower borrowing costs, and enable an increase in BRF deposits.

Bond Limits

GO and Credit Revenue Bonds. State law establishes four different limits for GO and credit revenue bonds, as illustrated in the sidebar. With the exception of the authorization cap, the caps are annually adjusted for inflation (beginning in 2018 for the allocation cap and FY 20 for the issuance and spending caps). They generally exclude certain types of debt; the issuance and spending caps, for example, exclude bonds issued for Connecticut State Colleges and Universities 2020 and UConn 2000 infrastructure programs (CGS § 3-21).

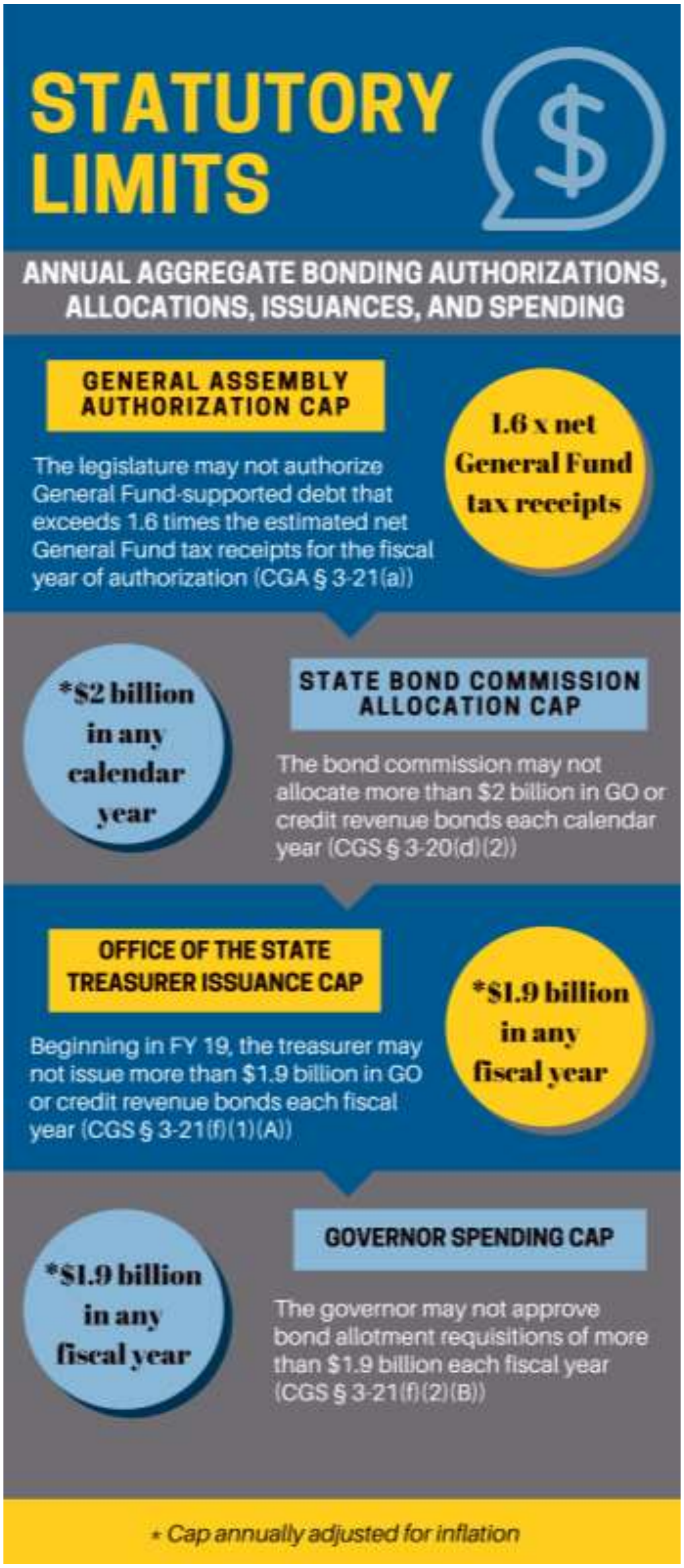
STO Bonds. For FYs 19 and 20, the law limits the amount of STO bonds the treasurer may issue to $750 million in total each fiscal year (PA 18-178, § 44).

Bond Covenant. The state's "bond lock" law requires certain state bonds to include a pledge to bondholders that the state will comply with specified state laws, including the four caps described in the sidebar, for as long as the bonds are outstanding (CGS § 3-20(aa)). Under the law, for each fiscal year during which GO or credit revenue bonds issued from May 15, 2018, to June 30, 2020, are outstanding, the state must comply with the specified laws except under limited circumstances. The pledge must apply for five years from the bonds' first issuance date, but not to refunding bonds issued to pay the original bonds.

Review of Bond Acts

State law requires the Finance, Revenue and Bonding Committee to review bond acts no later than five years after they take effect. The committee must (1) consider the amount spent and cost to complete the project (2) make recommendations to the General Assembly and propose any necessary legislation needed.

The governor must review bond acts if the state's aggregate indebtedness, as certified by the treasurer, reaches 90% of the debt limit. As part of the review, he must recommend priorities for repealing authorizations for which no obligations have been incurred. The governor's recommendations must be referred to the Finance, Revenue and Bonding Committee, which must consider them and propose legislation, as necessary (CGS 2-27b).



Learn More

"Connecticut's Bonding Process," OLR Report 2015-R-0068

Office of Fiscal Analysis (OFA), Connecticut State Budget: FY 19 Revisions

OFA, Connecticut Capital Budget Report (February 2014)

"Issue Brief: Connecticut's Volatility Cap," OLR Report 2018-R-0296

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