

OFFICE OF FISCAL ANALYSIS

Legislative Office Building, Room 5200
Hartford, CT 06106 ◊ (860) 240-0200
<http://www.cga.ct.gov/ofa>

sHB-6441

AN ACT CONCERNING CLIMATE CHANGE ADAPTATION.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 22 \$	FY 23 \$
Treasurer, Debt Serv.	GF - Potential Cost	See Below	See Below
Various State Agencies	Various - Cost	Potential	Potential

Note: Various=Various; GF=General Fund

Municipal Impact:

Municipalities	Effect	FY 22 \$	FY 23 \$
Various Municipalities	Revenue Gain	Up to 75.1 million cumulatively	Up to 75.1 million cumulatively
Various Municipalities	Cost/Savings	See Below	See Below

Explanation

Sections 1 to 3 allow any municipality to establish a stormwater authority. The sections also expand these authorities' ability to assess fees, and establish a process for municipalities to approve fees.

In municipalities that establish stormwater authorities, the bill potentially shifts the cost of certain stormwater management projects to stormwater authorities. This results in a savings to those municipalities to the extent that they would have otherwise financed those projects. The bill also results in a cost to the state and municipalities as it requires authorities to assess fees on all property within their jurisdiction. Any state or town owned property located in a stormwater authority's jurisdiction would be subject to such fees,

which would vary based on the size of the property.

Section 4 allows municipalities to establish a tiered real estate conveyance tax that increases based on sale price. If all municipalities established such a tax at the maximum rates allowed by the bill, they would cumulatively collect approximately \$75.1 million annually. Funds may be used only for purposes specified by the bill, including affordable housing, open land stewardship, climate resiliency, and other environmental projects.

Sections 5 to 19 expand the scope and authority of municipal flood and erosion control boards. This has no fiscal impact as the bill does not provide any new funding source for these boards or mandate any new responsibilities for any municipality.

Sections 20-24 expand the Connecticut Green Bank's authority to include the financing of environmental infrastructure projects and makes several changes to the Green Banks's bonding authority.

The bill increases the Green Banks's special capital reserve fund (SCRF) bond authorization from \$100 million to \$250 million. To the extent that additional bonds are issued, there is a potential minimal impact to the state's debt service going forward through the life of any bonds issued. As of November 2020, the Green Bank had outstanding SCRF-backed debt of \$27.4 million.¹

In order to issue SCRF-backed bonds, the Green Bank must get approval from the State Treasurer. The State Treasurer is not expected to approve the issuance of SCRF-backed bonds unless the Green Bank can show that it will be able to generate sufficient revenue from its activities to pay the debt service on the bonds and that the useful lifespan of the projects meets or exceeds the bond repayment duration.

The bill increases the allowable maturity date of the Green Bank's SCRF-backed bonds from twenty to twenty-five years. It also increases allowable maturity for non-SCRF-backed bonds from twenty to

¹ Source: January 2021 General Obligation Bonds Official Statement

twenty-five years for clean energy projects and from twenty to fifty years for environmental infrastructure projects. To the extent that bonds with a longer term are issued, there is the potential for increased borrowing cost to the Green Bank associated with extended maturity dates. See background for more information.

These sections also establish an Environmental Infrastructure Fund that may contain funding from existing funding sources that the Bank already utilizes, such as bond funding, charitable gifts, and interest from financing activities. The administrative costs related to these provisions do not result in a fiscal impact.

Background

SCRF-backed bonds. SCRF-backed bonds are a contingent liability of the state.² The SCRF provides a higher level of repayment security, which results in a lower rate of interest on the bond issuance than the relevant market rate. In the event that the SCRF is drawn down in part or completely, a draw on the General Fund is authorized and the SCRF is fully restored. The draw on the General Fund is deemed to be appropriated and is not subject to the constitutional or statutory appropriations cap. If draws on a SCRF continue, the annual draws on the General Fund required to refill it also continue until the fund is replenished by the bond issuer or the underlying debt is repaid.

Extended maturities. Bonds are typically issued with maturities and debt service payment durations that match the expected useful life of the capital project being financed through the bonds. The state has typically kept maturities at or below 20 years, even when the useful life of projects may exceed the 20-year timeframe.

While bonds issued for longer terms typically have lower annual payments than those bonds issued for shorter terms, the amount of interest paid increases due to slower pay down of the principal balance and because financial markets typically require higher interest rates for

² Contingent liabilities do not count against the state's statutory limits on General Obligation bonding.

longer issuances. An extended use of longer repayment durations may have a deleterious impact on the credit rating of the bonds being issued and/or the organization issuing such bonds. The slower repayment of principal may lead to either less funding being available for projects in the future or increasing debt levels for the life of the bonds.

The Out Years

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