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## OLR Bill Analysis

### sHB 5502

#### ***AN ACT CONCERNING THE OPERATIONS OF THE STATE TREASURER AND THE BONDING AUTHORITY OF THE CONNECTICUT MUNICIPAL REDEVELOPMENT AUTHORITY.***

#### **SUMMARY**

This bill limits the Municipal Redevelopment Authority's (MRDA) bonding authority, therefore, generally aligning it with other quasi-public agencies. Among other things, the bill:

1. repeals the law requiring that the state assume liability of and make payment for MRDA debt in the event that the authority cannot pay for its bonds, notes, or other obligations;
2. authorizes the authority to establish one or more special capital reserve funds (SCRF) to secure the principal and interest payments on bonds; and
3. caps at \$50 million dollars the total amount of MRDA bonds secured by a SCRF.

The bill also:

1. eliminates or sunsets redundant indemnification provisions that apply to MRDA, but retains existing provisions giving MRDA's officials and employees the same protections given to officials and employees of other quasi-public agencies (CGS § 1-125);
2. requires state employees, officers, agencies, boards, and commissions (including the UConn Health Care Finance Corporation), or their agents, to notify the state treasurer of certain financial obligations that must be reported under federal securities law;
3. explicitly requires that certain property sales, leases, or other

dispositions receive the state treasurer's prior approval; and

4. eliminates obsolete statutory references to the Tax-Exempt Proceeds Fund, which no longer exists (§§ 5-15).

EFFECTIVE DATE: Upon passage, except that the provisions on the Tax-Exempt Proceeds Fund and the treasurer's approval for certain property sales, leases, and dispositions are effective July 1, 2022.

## **§§ 1 & 2 — MRDA SCRF-BACKED BONDS**

### ***SCRF Authorization***

The bill allows MRDA to establish one or more SCRFs in connection with its bonds. It allows MRDA to pay into the SCRFs (1) any state appropriations for the SCRF; (2) proceeds from the sale of MRDA bonds, if the MRDA resolution authorizing the bonds allows it; and (3) any other funds the authority receives for a SCRF. The maximum amount of bonds backed by a SCRF that MRDA may issue is \$50 million.

### ***Allowable Use of SCRFs***

The bill requires the SCRF to be used only for (1) paying principal and interest on SCRF-backed bonds, (2) buying SCRF-backed MRDA bonds, and (3) paying any premiums required to pay off the bonds before maturity. It allows MRDA to limit SCRF withdrawals so the balance does not fall below (1) the maximum principal and interest or required sinking fund installment due on MRDA bonds maturing in the current or any future calendar year or (2) the maximum SCRF amount required to preserve the bonds' federal tax exemption (i.e., "required minimum capital reserve."

### ***Minimum Capital Reserve***

The bill allows MRDA to decide not to issue new SCRF-backed bonds unless it deposits enough funds into the SCRF to keep its balance at or above the minimum reserve. Before December 1 annually, MRDA must deposit the full amount required to meet the minimum reserve from any available resources not otherwise pledged or dedicated.

By December 1 annually, but after MRDA has made any required

SCRF deposits, the bill automatically appropriates from the General Fund any amount needed to maintain the minimum reserve balance in the SCRF, as certified by MRDA's chairperson or vice-chairperson to the OPM secretary, state treasurer, and Planning and Development and Finance, Revenue and Bonding committees. In evaluating the SCRF balance, the bill requires investments to be valued as amortized cost.

Subject to its agreements with bondholders, MRDA must repay the state from whatever funds are not needed for its other corporate purposes within one year after meeting all its obligations from bonds and notes outstanding on the date of the state allotment.

***Limitation on Issuing SCRF-Backed Bonds***

Under the bill, MRDA cannot issue bonds secured by a SCRF unless:

1. it determines that project revenues are sufficient to (a) pay the bonds' principal and interest; (b) establish, increase, and maintain any reserves it deems advisable to secure principal and interest payments; (c) pay the project's maintenance and insurance costs; and (d) pay other required project costs (it must provide this determination to the OPM secretary and treasurer or their deputies); and
2. the OPM secretary and treasurer, or their deputies, approves the issuance.

Under the bill, OPM's approval may waive or change any of the SCRF-backed bond requirements described above if the secretary deems it necessary or appropriate for the issuance, subject to any applicable state or MRDA tax covenants.

***Other Debt Service Reserve Funds***

The bill specifies that these provisions do not preclude MRDA from establishing other debt service reserve funds that are not SCRFs.

**§ 3 — PRIOR NOTICE TO TREASURER OF REPORTABLE FINANCIAL OBLIGATIONS**

The bill requires state employees, officers, agencies, boards, and

commissions (including the University of Connecticut Health Care Finance Corporation), or their agents, to notify the state treasurer before (1) incurring a financial obligation of the state or (2) entering into an agreement to covenants, events of default, remedies, priority rights, or other similar terms related to these state financial obligations. Along with the notice, they must also submit any documents under which the financial obligation or agreement is to be incurred or entered into.

These requirements apply to any “financial obligation” exceeding \$1 million, or encumbering property or rights of the state material to its operations. Under the bill, “financial obligation” has the same meaning as under federal securities law, which is generally a (1) debt obligation; (2) derivative instrument entered into in connection with, or pledged as security or payment for, an existing or planned debt obligation; or (3) guarantee for either of these obligations.

After receiving this notice and documentation, the bill requires the treasurer to determine if the information provided is adequate for him to timely meet federal securities law disclosure requirements. The treasurer may request more information that he deems necessary to make this determination. If he is satisfied that the information is adequate to meet these disclosure requirements, the treasurer, or his designee, must give written acknowledgement to the person or entity seeking to incur the financial obligation or enter into the agreement. The bill prohibits them from incurring the financial obligation or entering into the agreement until they have received this written acknowledgement.

The bill allows the treasurer to establish and revise exemptions from these filing requirements as he determines are consistent with the state’s disclosure obligations under federal securities law.

#### **§ 4 — TREASURER APPROVAL OF CERTAIN STATE PROPERTY TRANSACTIONS**

The bill explicitly requires that certain property sales, leases, or other dispositions receive the state treasurer’s prior approval. It applies to sales, leases, or other dispositions to, or uses by, a nongovernmental

entity of all or a portion of a project financed by tax-exempt state bonds if doing so would cause the bonds to be treated as private activity bonds. (Private activity bonds are federally tax-exempt bonds issued by the state, municipalities, and quasi-public agencies to finance private projects that serve a public purpose. Federal law limits the volume of tax-exempt private activity bonds that can be issued each year.) As under existing law, the treasurer may transfer all or a portion of the transaction's proceeds for specified purposes to maintain the bonds' tax-exempt status.

**COMMITTEE ACTION**

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 51 Nay 0 (04/05/2022)