



The Office Of State Treasurer
Denise L. Nappier

News

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TREASURER NAPIER PROPOSES LEGISLATION TO REBUILD RAINY DAY FUND, LOWER BORROWING COSTS

HARTFORD CT – Citing the need to rebuild the State’s Rainy Day Fund and save the State money by reducing borrowing costs, State Treasurer Denise L. Nappier today announced that she is proposing legislation to create a tax-secured bonding program.

The bonds would be backed by a dedicated portion of the State’s personal income tax revenues, a practice used successfully in other states. This structure capitalizes on the State’s high wealth levels and insulates the bonds from budget and pension concerns, thereby earning higher credit ratings and lowering borrowing costs.

The proposal has been introduced by the General Assembly’s Finance, Revenue and Bonding Committee as Raised Bill 7321, *An Act Establishing a Credit Revenue Bond Program*.

“Throughout my tenure in office, I have consistently worked to proactively manage the State’s debt. Our consistent refunding of outstanding debt to take advantage of lower interest rates has achieved more than \$1 billion in debt service savings during my administration. The approach I am introducing today carries on that tradition of prudent debt management,” Treasurer Nappier said.

“With the recent downgrades of the State’s General Obligation credit ratings leading to increased borrowing costs – on a relative basis -- over the last few years, it is time to counter that trend. Under my proposal, we expect higher credit ratings would be achieved by dedicating a portion of the State’s stable and strong personal income tax revenue stream to repayment,” Treasurer Nappier said.

Benefits of the legislation include:

1. The establishment of a new tax-secured revenue bond program is expected to earn credit ratings that are two to three levels above current General Obligation credit ratings, targeted in the high AA to AAA categories.
2. Higher credit ratings generally drive increased investor demand, which in turn will lower borrowing costs. The new tax-secured revenue bonds will be especially attractive to investors who may have reached capacity limits for General Obligation bonds or are seeking a safer investment because they have concerns about the State’s budgetary and pension challenges. The State would decrease the amount of General Obligation bonds

issued, while issuing the new bonds instead, a step that is expected to improve borrowing costs for General Obligation bonds in the future.

3. Debt service savings generated from the program would be dedicated to rebuilding the Rainy Day Fund. Preliminary estimates show that the State could realize nearly \$980 million in cumulative deposits to the Rainy Day Fund through Fiscal Year 2029, assuming a level of borrowing consistent with the current average annual sales of General Obligation bonds. "This would represent a step in the right direction toward shoring up the State's fiscal health, rather than further eroding it," Treasurer Nappier said.
4. A commitment to funding the Rainy Day Fund explicitly addresses an ongoing concern of the major credit rating agencies.

"This proposal is not a license to increase borrowing. These tax-secured revenue bonds would be in lieu of, not in addition to, General Obligation bonds. Nothing in this proposal would increase the State's total borrowing by itself. Any decisions on borrowing levels rests with the legislature," Treasurer Nappier said.

The savings come from improved credit ratings, reduced borrowing costs on bond sales and a bond structure commonly used for tax-backed revenue bonds.

The new bonding program would adhere to the State's borrowing, budgetary and governance processes and restrictions. The bonds would be subject to Bond Commission authorizations and the State's debt cap. The amount of money budgeted each year for debt service would not be materially affected.

The bill, as currently drafted, contains two bond covenants: One would require that the savings be sent directly to the State's Rainy Day Fund and the other would limit use of the Fund to existing statutorily-authorized use, which primarily is to cover a prior year deficit.

While Treasurer Nappier believes that those provisions would strengthen the program's stated purposes – to rebuild the Rainy Day Fund and lower borrowing costs, she said that the General Assembly should decide whether to include them as covenants or as statutory language for flexibility in the final version of the legislation.

The legislation also has a statutory provision that requires bond premium be used to fund previously authorized capital projects, beginning with the fiscal year starting July 1, 2019. Using premium to fund capital projects in the General Obligation and new tax-secured credit programs would reduce the amount of bonds that would need to be issued for those projects. Over the long term, this would lower debt levels and debt service costs. An estimated \$757 million less debt would be issued over a five year horizon if this provision is adopted.

While she supports this approach to prudent debt management, Treasurer Nappier recommends giving the legislature the flexibility and authority to decide how to apply premium -- whether to pay project costs, reducing debt issued, or pay debt service -- with each biennium budget.

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Proposal to Rebuild the Budget Reserve Fund and Reduce Borrowing Costs

A dedicated tax-secured bonding program utilizing the withholding portion of the State's Personal Income Taxes could provide the State with a lower-cost borrowing program and a mechanism to rebuild the State's Budget Reserve Fund.

