



Written Testimony of State Treasurer Denise L. Nappier

SUBMITTED TO THE PLANNING AND DEVELOPMENT COMMITTEE

FEBRUARY 22, 2017

Senator Cassano, Senator Logan, Representative Lemar, Representative Zawistowski, and members of the Planning and Development Committee, thank you for the opportunity to submit testimony concerning **Raised Bill 6684, *An Act Concerning Municipalities and Urban Stabilization Bonds***.

Although this bill is presented on behalf of certain municipalities concerned with their ability to fund the cost of debt service in current and near term budgets, its provisions would apply to all municipalities.

The most concerning aspect of this proposal is the unlimited ability for any municipality to restructure their debt out 30 years for the next four years with no oversight or accountability. It shifts the burden of the debt onto the future residents in these communities who potentially would not realize the benefit of the initial intended purpose. If not accompanied by a financial plan, this practice also has the potential to adversely affect the credit quality and debt levels of Connecticut municipalities, which in turn could increase their cost of issuing future debt or their ability to access the financial markets.

A much better approach is suggested in the Governor's bill, 7050. This bill would allow a municipality to restructure its debt out 30 years only under a much more structured approach to municipal finance and accountability. State oversight and a tiered ranking system would allow for restructuring of debt, but only for highly distressed communities that have come under the highest level of oversight by the proposed Municipal Accountability Review Board. In this way, if this powerful debt restructuring tool is used, it would be accompanied by a concrete plan for the municipality to reach improved long-term fiscal footing in the foreseeable future.

Other provisions of the legislation could work to exacerbate the financial difficulties that municipalities face and should be carefully vetted. Specifically, the bill would permit municipalities to:

- Issue 30-year bonds for all purposes. They currently have this ability only for schools, sewers and some other limited purposes. I would caution that this provision could prove "penny wise and pound foolish." Thirty-year bonds are much more expensive than 20-year bonds and result in significantly increased debt loads in the future while providing minimal short-term budget relief. At a minimum, a requirement should be added that would limit the term of the bonds to the useful life of the assets being financed. We shouldn't leave open the possibility of funding the purchase of police cars and fire trucks with thirty year bonds, for example.

- Defer principal for five years on new bond issues, as opposed to the current three-year allowance. The current ability to defer principal for three years is quite liberal; taking a “holiday” when funding debt obligations always comes at an added cost.
- Issue 10-year deficit notes with no tax intercept or state review. Current statutes already provide for this ability, but with a degree of State oversight.

The State of Connecticut has a long, successful track record of working with our distressed municipalities to improve their fiscal footing and get them back on course. This approach should continue, especially for those municipalities seeking to restructure debt or issue deficit notes, to ensure these powerful financing tools are part of a long-term solution, and don't just add to the problem.

Thank you for the opportunity to comment on Raised Bill 6684.