



Every year the state “bonds” millions of dollars for capital projects. People often ask me about how this process works and what the implications are to the state if our bond rating is down-graded, as has happened to some states. As you know from managing your own or your businesses budget, sometimes use of credit makes sense: to invest in education, equipment, a home, a business that will ultimately produce a greater return to you in the long run. Similarly, one can argue that some state borrowing is justified to invest in buildings necessary to educate our children, roads necessary to enable our businesses to get their goods to market, etc. Such investments pay off for the state in future economic growth. However, like our own budgets, the state must be careful not to overuse the credit card, or we’ll suffer in the future when we (or our children) have to pay it of.

In this mailer I hope to explain the bonding process and answer any questions you have. If you have any further questions about bonding, or anything else. I may be reached by email at Linda.Schofield@cga.ct.gov, or you can call me at home (860.604.6578) or at the capitol (860.240.8635).

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What is Bonding?

Bonding is basically borrowing. The state raises money to fund projects by selling bonds, which then must be paid back to the bondholders over time. Most state bonds are paid back over 20 years. This sale of bonds is managed by our state treasurer, Denise Nappier.

How Projects are Selected?

The decisions about what projects should be funded through bonding are made in a two step process by the legislature and the governor. First the legislature compiles a list of all projects requested by various representatives, senators, and state agencies. This list always includes funding for such things as building or renovating schools or senior housing, acquiring open space, investing in transportation infrastructure, and providing grants to towns for capital improvements. These funds are usually requested and managed by the appropriate state agency, with the governor's approval. In addition, it often includes district-specific projects, requested by an elected official, such as a new senior center or athletic complex in a particular town.

Once the legislature winnows down the list, we pass a bill to authorize bonding for the projects on the list. However, no projects on the list actually get funded until they are approved by the Bond Commission, which allocates the funds for the projects. The bond commission is chaired by the governor, and thus she controls the agenda of items for consideration. Leaders of the house and senate also sit on the Bond Commission.

Some items that are passed by the legislature are never funded by the commission, or they may be funded literally decades later. Other items are quickly funded.

How are Bonds Rated?

The state's ability to make good on its' bonded debt obligations is rated by Moody's, Standard and Poor's, and Fitch. We currently have a medium rating—22 states are rated higher, 23 have the same rating and four are rated lower. However, we have been warned by Moody's and Fitch that we are on their watch list and at risk of being downgraded. If we are downgraded, the interest rate we'll have to pay for any future bonding will go up, costing the state millions more. Our current interest rate on bond issuances is about 3.5% for 20 year notes.

What is Our Current Debt Situation?

Connecticut ranks fourth among states for the highest percent of bonded indebtedness and we are very close to our statutory cap on bonding. Our bonded debt equals \$16.6 billion. Years ago all school construction, for example, was paid for within the state's general fund budget. Over time, more and more such projects were shifted from the state's operating budget to the bonding budget. Every year we bond more debt than we pay off. As a result, our debt service (the interest we pay each year on the bonds) now consumes 11.4% of our annual budget.

If you need additional assistance or have questions, contact Linda Schofield at:

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