

# Senate Local Government Committee



Senator Scott E. Hutchinson  
Chairman

Justin N. Leventry, Executive Director  
jleventry@pasen.gov



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Room 170 Main Capitol Building • Senate Box 203021 • Harrisburg, PA 17120-3021 • 717.787.9684 • senatorscotthutchinson.com

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## **SENATE BILL 342 – P.N. 476**

### **SYNOPSIS:**

Senate Bill 342 amends the Municipal Authorities Act and the Local Government Unit Debt Act, to provide protections and restrictions on interest rate management agreements, commonly known as “swaps” or “derivatives.”

### **SUMMARY:**

Amends Title 53 (Municipalities) which would: 1) Require municipal authorities be subject to subchapter F of Chapter 82 (relating to interest rate risk and interest cost management); 2) Amend Chapter 82 to allow a local government unit to enter into swaps agreements that do not exceed 50% of the total principal amount of its outstanding debt capacity; 3) Prohibit any payments to or on behalf of a local government unit other than periodic scheduled and termination payments; 4) Require swaps agreements take effect within three years after the execution date of any confirmation associated with the qualified interest rate management agreement. Any agreement ends within 10 years, unless the local government could terminate it without penalty after that time; 5) Requires that the index or basis used for calculating the periodic scheduled payments receivable by the local government unit be the same index as on the associated debt.

In addition, the bill does not apply to first class cities, and modifies certifications required from the other party to a swaps agreement, including that they must: a) certify that the other party has complied in all material aspects with the applicable rules and regulations of the Commodity Futures Trading Commission, the Securities and Exchange Commission and the Municipal Securities Rulemaking to which it is subject; b) represent and warrant that the rate or rates used to calculate amounts payable by the local government unit pursuant to the swaps agreement is comparable to the rate or rates that it would have quoted to receive from or pay to a similarly situated counterparty to enter into a reasonably comparable qualified swaps agreement taking into account the terms and conditions of the swaps agreement.

Finally, the bill requires local government to report quarterly on the performance of the qualified swaps agreement at a public meeting, and that the other party make certifications to the local government that it has disclosed relevant information and acted in good faith.

### **AMENDMENT #A03721 TO SB342**

Clarifies that an authority or municipal authority formed by two or more local government units for the purpose of providing loan programs for the benefit of local government units and other authorities or municipal authorities are not subject to subchapter F of Chapter 82. However, all municipal authorities are subject to these requirements.

### **BILL HISTORY:**

Reintroduced from last session (Senate Bill 903) and Referred to Local Government, February 20, 2015 as part of a four-bill package pertaining to municipal debt.

Last session, was amended and reported out of both the Local Government and Appropriations Committees.

Effective Date: 60 days.