



STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT

TESTIMONY TO THE PLANNING AND DEVELOPMENT COMMITTEE
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IN SUPPORT OF HOUSE BILL NO. 6593
AN ACT CONCERNING FINANCIAL PRACTICES AND AUDITS OF MUNICIPALITIES

Senator Coleman, Representative Sharkey, and distinguished members of the Planning and Development Committee: I am Robert Dakers of the Office of Policy and Management (OPM). I thank you for this opportunity to testify in support of House Bill 6593, "An Act Concerning Financial Practices and Audits of Municipalities".

The legislative proposal in House Bill No. 6593 was developed in conjunction with and has the support of the Municipal Finance Advisory Commission (MFAC), established under §7-394b of the General Statutes, which OPM staffs. The MFAC and OPM are responsible for ensuring that municipal audits are done in accordance with applicable state law and professional standards, and must also help detect and prevent instances of municipal fiscal distress. In regard to fiscally distressed municipalities referred to the MFAC by the Secretary of OPM, the MFAC's powers involve seeking information and making recommendations aimed at improving the fiscal condition of the city or town.

The membership of the MFAC includes the municipal finance directors from Norwalk, Mansfield and Manchester, the First Selectman from the Town of Andover, a municipal bond attorney, a certified public accountant, an insurance professional, and David LeVasseur, the Undersecretary of OPM's Intergovernmental Policy Division.

Although current financial reporting requirements are generally working well, the MFAC and OPM believe that the State could be more proactive in addressing severe instances of municipal fiscal distress. To that end, there is a need for more structure and additional forms of technical assistance, so that we can work with municipalities and prevent the depth of problems and the significant State involvement that was required when Waterbury had its fiscal crisis. Of particular concern to the MFAC is that current state statutes requiring the elimination of cumulative fund deficits are not as clear as they could be in a number of areas. The need for State bailouts and oversight boards in the past has resulted from cash flow crises, the cause of which were cumulative deficits that were left unaddressed, or which were allowed to grow worse.

The result of attempts by the MFAC and OPM to address these concerns is the proposal incorporated in House Bill 6593. We believe it is worth noting that laws in other states, including Massachusetts, Rhode Island and New Jersey, are more prescriptive and involve more state involvement than Connecticut's current laws related to municipal finance and audit issues and the relatively modest adjustments being proposed in House Bill 6593.

The proposed revisions include:

- 1. Cumulative Fund Balance Deficit.** Current state statutes contain several provisions that require municipalities to absorb a cumulative deficit in their upcoming budgets. These requirements do not involve a one-year operating deficit. Rather, they apply to situations in which a city or town has depleted all of its general fund reserve. House Bill No. 6593 seeks to

clarify the statutory provisions related to the absorption of a cumulative deficit as well as provide a process to be followed in the relatively rare occurrence of such a deficit.

Under House Bill No. 6593, a municipality would be required to inform the Secretary of OPM if it has a cumulative fund deficit. The municipality would also have to begin taking reasonable and prudent actions to begin addressing the deficit in its current year budget. The municipality, as under current state law, would need to absorb the deficit in its upcoming budget. An option, which is already allowed under state law, would be to issue deficit funding bonds.

House Bill No. 6593 would require the municipality's chief executive officer to inform the Secretary of OPM of the actions taken to eliminate the cumulative deficit in the coming year or to submit a written notification to the Secretary, approved by the municipality's legislative body, indicating the municipality's intent to absorb the deficit over a period of not more than three years, the first year of which shall be the adopted budget. The Secretary would refer the municipality to the MFAC if the Secretary were to deem that the actions taken were insufficient to eliminate the deficit, or if a notification that the city or town plans to absorb the deficit over a period not to exceed three years is received.

Municipalities referred to the MFAC would then need to submit a deficit elimination plan to the MFAC, with OPM and the MFAC having the ability to develop such a plan if a municipality does not submit one that is acceptable. The MFAC, whose powers would remain advisory in nature, would not be able to require implementation of these plans.

2. **Timely Submittal of Annual Financial Audits.** Currently, municipalities have six months following the end of the fiscal year, or until December 31st, to submit their independent audits to OPM, unless the Secretary of OPM grants one or more 30 day extensions. When there is a need for multiple extensions to complete a municipal audit, it is often symptomatic of deeper financial management issues, and it also denies timely access to important financial information to its citizens. What we are proposing now is to enable the Secretary of OPM to require additional justification, as is deemed necessary, for any extensions beyond the initial 30 day extension.
3. **Findings of Serious Financial Management Weaknesses.** When significant deficiencies related to a municipality's financial practices are cited by its independent auditor, the municipality's chief executive officer (CEO) is required to submit a corrective action plan to OPM. When the same significant deficiency is cited by the auditor for the third year in a row, House Bill 6593 would require the corrective action plan to be approved by the town's board of finance or town council. The intent of this provision is to add more accountability and transparency with respect to efforts to address these underlying weaknesses with the municipality's financial management systems.
4. **Best Practice Guidelines and Technical Assistance.** The proposal would authorize the MFAC and OPM to issue, in consultation with professional and municipal associations, best practice guidelines in regard to municipal finance.

We believe that the measured and modest proposals in House Bill No. 6593 will help to improve financial reporting and "nip" fiscal crises in the bud by assuring that the relatively rare occurrence of a cumulative general fund balance deficit will be addressed expeditiously. Moreover, these proposals will enhance transparency and the advisory powers of the MFAC, whose mission is to promote sound financial and budgetary management.

I thank you for the opportunity to speak in support of House Bill No. 6593, and ask that you issue a favorable report with respect to this bill. I am available to answer any questions you may have.