



House of Representatives

File No. 684

General Assembly

February Session, 2022

(Reprint of File No. 600)

Substitute House Bill No. 5427
As Amended by House Amendment
Schedule "A"

Approved by the Legislative Commissioner
April 29, 2022

**AN ACT CONCERNING THE RECOMMENDATIONS OF THE OFFICE
OF FINANCE WITHIN THE OFFICE OF POLICY AND MANAGEMENT.**

Be it enacted by the Senate and House of Representatives in General
Assembly convened:

1 Section 1. Subsection (c) of section 7-374c of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective October*
3 *1, 2022*):

4 (c) Any municipality which has no outstanding pension deficit
5 funding bonds, other than an earlier series of such obligations issued
6 under subsection (b) of section 7-374b or this section to partially fund an
7 unfunded past pension obligation, may authorize and issue pension
8 deficit funding bonds to fund all or a portion of an unfunded past
9 benefit obligation, as determined by an actuarial valuation, and the
10 payment of costs related to the issuance of such bonds in accordance
11 with the following requirements.

12 (1) The municipality shall, within the time and in the manner

13 prescribed by regulations adopted by the secretary or as otherwise
14 required by the secretary, notify the secretary of its intent to issue such
15 pension deficit funding bonds and shall include with such notice (A) the
16 actuarial valuation, (B) an actuarial analysis of the method by which the
17 municipality proposes to fund any unfunded past benefit obligation not
18 to be defrayed by the pension deficit funding bonds, which method may
19 include a plan of issuance of a series of pension deficit funding bonds,
20 (C) an explanation of the municipality's investment strategic plan for
21 the pension plan with respect to which the pension deficit funding
22 bonds are to be issued, including, but not limited to, an asset allocation
23 plan, (D) a [three-year] five-year financial plan, including the major
24 assumptions and plan of finance for such pension deficit funding bonds,
25 (E) a comparison of the anticipated effects of funding the unfunded past
26 benefit obligation through the issuance of pension deficit funding bonds
27 with the funding of the obligation through the annual actuarially
28 recommended contribution, prepared in the manner prescribed by the
29 secretary, (F) documentation of the municipality's authorization of the
30 issuance of such pension deficit funding bonds including a certified
31 copy of the resolution or ordinance of the municipality authorizing the
32 issuance of the pension deficit funding bonds and an opinion of
33 nationally recognized bond counsel as to the due authorization of the
34 issuance of the bonds, (G) documentation that the municipality has
35 adopted an ordinance, or with respect to a municipality not having the
36 authority to make ordinances, has adopted a resolution by a two-thirds
37 vote of the members of its legislative body, requiring the municipality
38 to appropriate funds in an amount sufficient to meet the actuarially
39 required contribution and contribute such amounts to the plan as
40 required in subdivision (3) of subsection (c) of this section, (H) the
41 methodology used and actuarial assumptions that will be utilized to
42 calculate the actuarially recommended contribution, (I) a draft official
43 statement with respect to the issuance of the pension deficit funding
44 bonds, and (J) such other information and documentation as reasonably
45 required by the secretary or the Treasurer to carry out the provisions of
46 this section. The secretary and the Treasurer may, if they deem
47 necessary, hire an independent actuary to review the information

48 submitted by the municipality.

49 (2) Not later than ten days after the sale of the pension deficit funding
50 bonds, the municipality shall provide the secretary and the Treasurer
51 with a final financing summary comparing the anticipated effects of
52 funding the unfunded past benefit obligation through the issuance of
53 the pension deficit funding bonds with the funding of the obligation
54 through the annual actuarially recommended contribution, prepared in
55 the manner prescribed by the secretary.

56 (3) As long as the pension deficit funding bonds or any bond
57 refunding such bonds are outstanding, the municipality shall (A) for
58 each fiscal year of the municipality commencing with the fiscal year in
59 which the bonds are issued, appropriate funds in an amount sufficient
60 to meet the actuarially required contribution and contribute such
61 amount to the plan, and (B) notify the secretary annually, who shall in
62 turn notify the Treasurer, of the amount or the rate of any such
63 actuarially recommended contribution and the amount or the rate, if
64 any, of the actual annual contribution by the municipality to the pension
65 plan to meet such actuarially recommended contribution. On an annual
66 basis, the municipality shall provide the secretary and the Treasurer
67 with: (i) The actuarial valuation of the pension plan, (ii) a specific
68 identification, in a format to be determined by the secretary, of any
69 changes that have been made in the actuarial assumptions or methods
70 compared to the previous actuarial valuation of the pension plan, (iii)
71 the footnote disclosure and required supplementary information
72 disclosure required by GASB Statement Number 27 with respect to the
73 pension plan, and (iv) a review of the investments of the pension plan
74 including a statement of the current asset allocation and an analysis of
75 performance by asset class. With respect to a municipality which issues
76 pension deficit funding bonds on or after July 1, 2006, in any fiscal year
77 for which such municipality fails to appropriate sufficient funds to meet
78 the actuarially required contribution in accordance with the provisions
79 of this subdivision there shall be deemed appropriated an amount
80 sufficient to meet such requirement, notwithstanding the provisions of
81 any other general statute or of any special act, charter, special act

82 charter, home-rule ordinance, local ordinance or local law.

83 (4) The municipality shall not issue pension deficit funding bonds
84 prior to, or more than six months subsequent to, receipt of the written
85 final review required under subsection (d) of this section. A
86 municipality may renotify the secretary of its intention to issue pension
87 deficit funding bonds and provide the secretary with updated
88 information and documentation in the manner and as described in
89 subdivision (1) of this subsection, and request an updated final review
90 from the secretary if more than six months will elapse between the
91 receipt of the prior final review of the secretary and the proposed date
92 of issue of the pension deficit funding bonds.

93 Sec. 2. Subsection (e) of section 7-392 of the general statutes is
94 repealed and the following is substituted in lieu thereof (*Effective October*
95 *1, 2022*):

96 (e) The treasurer or other officer having authority over the financial
97 affairs of any reporting agency shall, annually, file a statement
98 concerning the accounts and finances of such agency with the (1) town
99 clerk of the town in which such agency is located, and (2) Secretary of
100 the Office of Policy and Management, upon the secretary's request. Such
101 statement shall include, but shall not be limited to, a listing of major
102 disbursements and sources of receipts and shall be filed not later than
103 ninety days after the end of the fiscal year or period which is the subject
104 of the statement. Each treasurer or other officer who fails to file a
105 statement required pursuant to this subsection shall be fined five
106 hundred dollars for each statement not filed. The fine shall be levied and
107 collected by the town clerk.

108 Sec. 3. Section 7-393 of the general statutes is repealed and the
109 following is substituted in lieu thereof (*Effective October 1, 2022*):

110 Upon the completion of an audit, the independent auditor shall file
111 certified copies of the audit report with (1) the appointing authority, (2)
112 in the case of a town, city or borough, with the clerk of such town, city
113 or borough, (3) in the case of a regional school district, with the clerks of

114 the towns, cities or boroughs in which such regional school district is
115 located and with the board of education, (4) in the case of an audited
116 agency, with the clerks of the towns, cities or boroughs in which such
117 audited agency is located, and (5) in each case, with the Secretary of the
118 Office of Policy and Management. Such copies shall be filed within six
119 months from the end of the fiscal year of the municipality, regional
120 school district or audited agency, but the secretary may grant an
121 extension of not more than thirty days, provided the auditor making the
122 audit and the chief executive officer of the municipality, regional school
123 district or audited agency shall jointly submit a request in writing to the
124 secretary stating the reasons for such extension at least thirty days prior
125 to the end of such six-month period. If the reason for the extension
126 relates to deficiencies in the accounting system of the municipality,
127 regional school district or audited agency the request must be
128 accompanied by a corrective action plan. The secretary may, after a
129 hearing with the auditor and officials of the municipality, regional
130 school district or audited agency, grant an additional extension if
131 conditions warrant. Said auditor shall preserve all of his working papers
132 employed in the preparation of any such audit until the expiration of
133 three years from the date of filing a certified copy of the audit with the
134 secretary and such working papers shall be available, upon written
135 request and upon reasonable notice from the secretary, during such time
136 for inspection by the secretary or his authorized representative, at the
137 office or place of business of the auditor, during usual business hours.
138 Any municipality, regional school district, audited agency or auditor
139 who fails to have the audit report filed on its behalf within six months
140 from the end of the fiscal year or within the time granted by the secretary
141 shall be referred by the secretary to the Municipal Finance Advisory
142 Commission established pursuant to section 7-394b, assessed a civil
143 penalty of not less than one thousand dollars but not more than ten
144 thousand dollars [. The] or both, except that the secretary may waive
145 such [penalty] penalties if, in [his] the secretary's opinion, there appears
146 to be reasonable cause for not having completed or provided the
147 required audit report, provided an official of the municipality, regional
148 school district or audited agency or the auditor submits a written

149 request for such waiver.

150 Sec. 4. Subsection (d) of section 7-395 of the general statutes is
151 repealed and the following is substituted in lieu thereof (*Effective October*
152 *1, 2022*):

153 (d) The secretary shall refer to the Municipal Finance Advisory
154 Commission any municipality that has not been previously referred to
155 said commission pursuant to subsection (b) of this section or section 7-
156 576, 7-576a, as amended by this act, or 7-576c, as amended by this act,
157 provided the municipality has:

158 (1) A negative fund balance percentage;

159 (2) Reported a fund balance percentage of less than five per cent in
160 the three immediately preceding fiscal years;

161 (3) Reported [a declining fund balance trend] an operating deficit in
162 the two immediately preceding fiscal years and a fund balance
163 percentage of less than five per cent in the immediately preceding fiscal
164 year, as determined by the statement of revenues, expenditures and
165 changes in fund balance of the general fund of the audited financial
166 statements of the municipality;

167 (4) Issued tax or [bond] revenue anticipation notes in the three
168 immediately preceding fiscal years to meet cash liquidity;

169 (5) [Had a general fund annual operating budget deficit of one and
170 one-half per cent or more of such municipality's general fund revenues
171 in the immediately preceding fiscal year] Did not file an annual audit
172 report in the twelve months after the end of the fiscal year;

173 (6) [Had a general fund annual operating budget deficit of two per
174 cent or more of such municipality's average general fund revenues in
175 the two immediately preceding fiscal years] Reported an annual audit
176 that included at least one material or significant audit finding that was
177 reported in the annual audits of the two immediately preceding fiscal
178 years; or

179 (7) Received a bond rating below A from a bond rating agency.

180 Sec. 5. Section 7-406c of the general statutes is repealed and the
181 following is substituted in lieu thereof (*Effective October 1, 2022*):

182 (a) Not later than July 1, 2014, the Secretary of the Office of Policy and
183 Management shall, in consultation with the Department of Education,
184 the Connecticut Conference of Municipalities and the Council of Small
185 Towns, develop and implement a uniform system of accounting for
186 municipal revenues and expenditures, including, but not limited to,
187 board of education and grant agency expenditures and revenue. Such
188 uniform system of accounting shall include a uniform chart of accounts
189 to be used at the municipal level. Such chart of accounts shall include,
190 but not be limited to, all amounts and sources of revenue and donations
191 of cash and real or personal property in the aggregate totaling five
192 hundred dollars or more received by a municipality. The secretary shall
193 make such chart of accounts available on the Internet web site of the
194 Office of Policy and Management.

195 (b) Not later than June 30, 2015, each municipality shall implement
196 the uniform system of accounting for municipal revenues and
197 expenditures developed pursuant to subsection (a) of this section by
198 using such uniform system to complete and file annual reports with the
199 Office of Policy and Management as may be required by the secretary in
200 order to increase transparency regarding municipal expenditures and to
201 meet the state's benchmarking goals. Any annual report required
202 pursuant to this subsection shall be filed not later than January thirty-
203 first annually.

204 (c) Not later than January 31, 2023, and annually thereafter, each
205 municipality shall file financial data with the Office of Policy and
206 Management. Such data shall (1) be filed electronically, in a form and
207 manner prescribed by the Secretary of the Office of Policy and
208 Management, and (2) contain such municipality's audited financial
209 statements and any other information required by said secretary to
210 determine the financial condition of such municipality.

211 Sec. 6. Section 7-560 of the general statutes is repealed and the
212 following is substituted in lieu thereof (*Effective October 1, 2022*):

213 Whenever used in subsection (a) of section 7-394b, and sections 7-560
214 to 7-579, inclusive, the following definitions shall apply:

215 (1) "Attorney General" means the Attorney General of the state of
216 Connecticut.

217 (2) "Certified municipality" means a municipality that has been
218 certified as a tier I or tier II municipality by the secretary.

219 (3) "Chief executive officer" means the officer described in section 7-
220 193.

221 (4) "Debt service payment fund" means the fund into which the
222 proceeds of the property tax intercept procedure are deposited and from
223 which debt service on all outstanding general obligations of a
224 municipality which have a term of more than one year and additionally
225 all outstanding general obligations which the municipality determines
226 are to be supported by the tax intercept procedure shall be paid as
227 provided in subsection (a) of section 7-394b and sections 7-560 to 7-579,
228 inclusive.

229 (5) "Debt service payment fund requirement" means an amount at
230 least equal to the aggregate amount of principal, sinking fund
231 installments, if any, and interest during the then current fiscal year as
232 the same become due and payable on all outstanding general
233 obligations of the municipality which have a term of more than one year
234 and additionally all outstanding general obligations which the
235 municipality determines are to be supported by the tax intercept
236 procedure.

237 (6) "Deficit" means with respect to the general fund of any
238 municipality, any cumulative excess of expenditures, encumbrances, or
239 other uses of funds for any fiscal year and all prior fiscal years over
240 revenues of the municipality for such period and the prior year's

241 unassigned fund balance, as reflected in the most recent audited
242 financial statements of such municipality. For purposes of determining
243 such excess, revenues shall not include the proceeds of tax anticipation
244 notes and expenditures shall not include any principal payment of tax
245 anticipation notes.

246 (7) "Deficit obligation" means any general obligation with a term of
247 more than one year or any bond or any note issued in anticipation
248 thereof, issued by a municipality either for the purpose of or having the
249 effect of reducing, eliminating or preventing a general fund, special
250 revenue fund or enterprise fund deficiency, other than any obligation
251 issued pursuant to chapter 110.

252 (8) "Designated tier I municipality" means a municipality designated
253 as a tier I municipality in accordance with the provisions of section 7-
254 576a, as amended by this act.

255 (9) "Designated tier II municipality" means a municipality designated
256 as a tier II municipality in accordance with the provisions of section 7-
257 576b, as amended by this act.

258 (10) "Designated tier III municipality" means a municipality
259 designated as a tier III municipality in accordance with the provisions
260 of section 7-576c, as amended by this act.

261 (11) "Designated tier IV municipality" means a municipality
262 designated as a tier IV municipality in accordance with the provisions
263 of section 7-576e, as amended by this act.

264 (12) "Equalized mill rate" means the tax rate derived from the most
265 recent available grand levy of a municipality divided by the equalized
266 net grand list on which such levy is based, as determined by the
267 secretary in accordance with section 10-261a.

268 (13) "Fund balance" means the amount that assets and deferred
269 outflow of resources of a municipality's general fund exceeds the
270 liabilities and deferred inflow of resources of the general fund of the

271 municipality, as of the fiscal year ended as reflected in the municipality's
272 most recent audited financial statements presented in accordance with
273 generally accepted accounting principles.

274 (14) "Fund balance percentage" means the fund balance of the general
275 fund of a municipality as of the fiscal year ended in the municipality's
276 most recent audited financial statements and presented in accordance
277 with generally accepted accounting principles, divided by the sum of
278 revenues of the general fund and operating transfers into the general
279 fund for the fiscal year.

280 (15) "General fund deficiency" means a deficit or a projected fiscal
281 year deficit, or both.

282 (16) "General obligation" means an obligation issued by a
283 municipality and secured by the full faith and credit and taxing power
284 of such municipality including any contingent obligation which is
285 payable from the general fund and is subject to annual appropriation.

286 (17) "Maximum required capital reserve" means the maximum
287 aggregate amount of principal, interest and other amounts due and
288 owing during any succeeding fiscal year, excluding any sinking fund
289 installments payable in a prior fiscal year on outstanding general
290 obligations of a certified municipality supported by a special capital
291 reserve fund issued pursuant to subsection (a) of section 7-394b and
292 sections 7-568 to 7-579, inclusive.

293 (18) "Minimum required capital reserve" means the aggregate
294 amount of principal, sinking fund installments, interest and other
295 amounts due and owing during the next succeeding fiscal year on
296 outstanding general obligations of a certified municipality supported by
297 a special capital reserve fund pursuant to subsection (a) of section 7-394b
298 and sections 7-560 to 7-579, inclusive.

299 (19) "Municipal Accountability Review Board" means the Municipal
300 Accountability Review Board established pursuant to section 7-576d, as
301 amended by this act.

302 (20) "Municipal aid" means formula grants, grants, payments in lieu
303 of taxes, reimbursements, payments and other funding provided by the
304 state to municipalities and used to fund municipal general fund
305 budgets, including education budgets.

306 (21) "Municipal Finance Advisory Commission" means the Municipal
307 Finance Advisory Commission established in section 7-394b.

308 (22) "Municipal restructuring fund loan" means a loan received by a
309 municipality from the Municipal Restructuring Fund pursuant to
310 section 7-576i, as amended by this act.

311 [(22)] (23) "Municipal revenue increase in fiscal year ending June 30,
312 2018, as a per cent of revenues" means the net difference in estimated
313 municipal revenues from state sources and new municipal taxing
314 authority as compiled by the secretary pursuant to section 4-71b for the
315 fiscal year ending June 30, 2018, as compared to the estimated municipal
316 revenues from such sources compiled by the secretary pursuant to
317 section 4-71b for the fiscal year ending June 30, 2017, divided by the sum
318 of revenues of the general fund and operating transfers into the general
319 fund as reported in the municipality's audited financial statements for
320 the fiscal year ending June 30, 2016.

321 [(23)] (24) "Municipality" means any town, city, borough,
322 consolidated town and city, consolidated city and borough, any
323 metropolitan district, any district, as defined in section 7-324, and any
324 other political subdivision of the state having the power to levy taxes
325 and to issue bonds, notes or other obligations.

326 [(24)] (25) "Obligation" means any bond, bond anticipation note or
327 other interim funding obligation, certificate of participation, security,
328 financing lease, installment purchase agreements, capital lease,
329 receivable or other asset sale, refinancing covered by this definition and
330 any other transaction which constitutes debt in accordance with both
331 municipal reporting standards in section 7-394a and the regulations
332 prescribing municipal financial reporting adopted by the secretary.

333 [(25)] (26) "Outstanding obligation" means any obligation with
334 respect to which a principal or interest payment, sinking fund
335 installment or other payment or deposit is, or will be, due in the future
336 and for which moneys or defeasance securities have not been deposited
337 in escrow.

338 [(26)] (27) "Projected fiscal year deficit" means, with respect to the
339 general fund of any municipality during any fiscal year, the excess of
340 estimated expenditures and uses of funds for the fiscal year over
341 estimated revenues and any cumulative unassigned general fund
342 balance from the prior fiscal year. For purposes of determining such
343 excess, estimated revenues shall not include the proceeds of tax
344 anticipation notes and estimated expenditures shall not include any
345 principal payment of tax anticipation notes.

346 [(27)] (28) "Property taxes" means all taxes on real and personal
347 property levied by the municipality in accordance with the general
348 statutes including any interest, penalties and other related charges, and
349 shall not mean any rent, rate, fee, special assessment or other charge
350 based on benefit or use.

351 [(28)] (29) "Property tax intercept procedure" means a procedure
352 where a municipality provides for the collection and deposit in a debt
353 service payment fund maintained with a trustee of all property taxes
354 needed to meet the debt service payment fund requirement and which
355 meets all the requirements of section 7-562.

356 [(29)] (30) "Property tax levy" means the mill rate of the municipality
357 multiplied by the net taxable grand list of the municipality.

358 [(30)] (31) "Revenues" means, with respect to the general fund for any
359 municipality for any fiscal year, property taxes and other moneys that
360 are generally available for, accounted for and deposited in the
361 municipality's general fund.

362 [(31)] (32) "Secretary" means the Secretary of the Office of Policy and
363 Management.

364 [(32)] (33) "Special capital reserve fund" means the fund established
365 pursuant to section 7-571 to secure the timely payment of principal and
366 interest on general obligations issued by a certified municipality
367 approved by the Treasurer pursuant to section 7-573.

368 [(33)] (34) "State" means the state of Connecticut.

369 [(34)] (35) "Tier I municipality" means any municipality which has
370 applied to and been certified by the secretary as a tier I municipality.

371 [(35)] (36) "Tier II municipality" means any municipality which has
372 applied to and been certified by the secretary as a tier II municipality.

373 [(36)] (37) "Treasurer" means the Treasurer of the state of Connecticut.

374 [(37)] (38) "Trustee" means any trust company or bank having the
375 powers of a trust company within or without the state, appointed by the
376 municipality as trustee for the municipality's tax intercept procedure or
377 special capital reserve fund and approved by the Treasurer, as well as
378 any successor trust company or bank having the powers of a trust
379 company within or without the state succeeding a prior trust company
380 or bank as trustee, so appointed and approved.

381 Sec. 7. Section 7-576a of the general statutes is repealed and the
382 following is substituted in lieu thereof (*Effective October 1, 2022*):

383 (a) [The chief elected official of a municipality may apply to the
384 secretary to request designation as a tier I municipality if any of the
385 following conditions exist: (1) The municipality has no bond rating, or
386 its highest bond rating is A or above, provided the municipality has no
387 rating that is not investment grade, receives less than thirty per cent of
388 its current fiscal year general fund budget revenues in the form of
389 municipal aid from the state, has a positive fund balance percentage,
390 and has a municipal revenue increase in fiscal year ending June 30, 2018,
391 as a per cent of revenues of two per cent or more, (2) the municipality
392 has no bond rating or its highest bond rating is A, provided the
393 municipality has no rating that is not investment grade, receives less

394 than thirty per cent of its current fiscal year general fund budget
395 revenues in the form of municipal aid from the state, and had a positive
396 fund balance percentage of less than five per cent, or (3) the
397 municipality's highest bond rating is AA or above, provided the
398 municipality has no rating that is not investment grade, receives thirty
399 per cent or more of its current fiscal year general fund budget revenues
400 in the form of municipal aid from the state, has an equalized mill rate of
401 less than thirty, has a positive fund balance percentage, and has a
402 municipal revenue increase in the fiscal year ending June 30, 2018, as a
403 per cent of revenues of two per cent or more.] Any municipality referred
404 pursuant to subsection (d) of section 7-395, as amended by this act, to
405 the Municipal Finance Advisory Commission shall be designated a tier
406 I municipality. The chief elected official of any municipality that does
407 not meet the conditions identified under subsection (d) of section 7-395,
408 as amended by this act, may apply to the Municipal Finance Advisory
409 Commission for designation as a tier I municipality, provided such
410 official (1) expects that such municipality will meet one or more such
411 conditions in the following twenty-four month period, and (2) submits
412 a report to the Municipal Finance Advisory Commission, in a form and
413 manner prescribed by the commission, that confirms that such condition
414 or conditions will be met in such period.

415 (b) The secretary shall refer any municipality [which has requested
416 designation] designated as a tier I municipality to the Municipal Finance
417 Advisory Commission, pursuant to the provisions of section 7-395, as
418 amended by this act. In addition to the requirements of section 7-394b,
419 such municipality shall prepare and present a [three-year] five-year
420 financial plan to the Municipal Finance Advisory Commission for its
421 review and approval.

422 Sec. 8. Section 7-576b of the general statutes is repealed and the
423 following is substituted in lieu thereof (*Effective October 1, 2022*):

424 (a) The chief elected official of a municipality designated as a tier I
425 municipality pursuant to section 7-576a, as amended by this act, may
426 apply to the secretary to request designation as a tier II municipality if

427 [any of the following conditions exist: (1) The municipality has no bond
428 rating from a bond rating agency, or, if its highest bond rating is A,
429 provided the municipality has no rating that is not investment grade,
430 receives thirty per cent or more of its current or prior fiscal year general
431 fund budget revenues were or are in the form of municipal aid from the
432 state, has a positive fund balance percentage of five per cent or more,
433 has an equalized mill rate of less than thirty, and has a municipal
434 revenue increase in fiscal year ending June 30, 2018, as a per cent of
435 revenues of two per cent or more, (2) the municipality has no bond
436 rating from a bond rating agency, or, if its highest bond rating is A,
437 provided the municipality has no rating that is not investment grade,
438 receives thirty per cent or more of its current or prior fiscal year general
439 fund budget revenues were or are in the form of municipal aid from the
440 state, has an equalized mill rate of less than thirty, and has a positive
441 fund balance percentage of less than five per cent, (3) the municipality's
442 highest bond rating is AA or higher, provided the municipality has no
443 rating that is not investment grade, receives thirty per cent or more of
444 its current or prior fiscal year general fund budget revenues were or are
445 in the form of municipal aid from the state, and has an equalized mill
446 rate of thirty or more, (4) the municipality's highest bond rating is AA
447 or higher, provided the municipality has no rating that is not investment
448 grade, and has a negative fund balance percentage, or (5) the
449 municipality's highest bond rating is Baa or BBB, provided the
450 municipality has no rating that is not investment grade, has a positive
451 fund balance percentage and] the municipality has held one or more
452 meetings with the Municipal Finance Advisory Committee, and (1) has
453 an equalized mill rate of not less than thirty, or (2) received thirty per
454 cent or more of its most recent audited financial statement revenues in
455 the form of municipal aid from the state. Any such official that applies
456 for such designation pursuant to this subsection shall provide a copy of
457 such application to the Municipal Finance Advisory Committee not later
458 than ten days after making such application.

459 (b) The secretary shall [refer any municipality which has requested
460 designation as a tier II] (1) designate any tier I municipality as a tier II

461 municipality at the request of such municipality, if the secretary
462 determines that the fiscal condition of the municipality warrants such
463 designation, based on the secretary's review of the reports and findings
464 of the Municipal Finance Advisory Commission concerning such
465 municipality, and (2) refer such municipality to the Municipal
466 Accountability Review Board established pursuant to section 7-576d, as
467 amended by this act. Said board shall have the same authority and
468 responsibilities possessed by the Municipal Finance Advisory
469 Commission with respect to tier II certified municipalities referred to it,
470 including, but not limited to, requiring that such municipalities prepare
471 and present to said board for its review and approval a [three-year] five-
472 year financial plan and monthly financial reports, in a manner
473 prescribed by said board. In preparing and adopting its annual budgets,
474 such municipality shall only include assumptions respecting state
475 revenues and property tax revenues as approved by such board and
476 such board shall approve or disapprove all obligations issued by a
477 designated tier II municipality pursuant to section 7-575 and this
478 section, provided it shall only approve such obligations which in its
479 judgment improve the financial condition of such municipality.

480 (c) The Municipal Finance Advisory Commission may, after holding
481 at least one meeting with a designated tier I municipality, recommend
482 to the secretary that such municipality be designated as a tier II
483 municipality. Any such recommendation shall be made on the basis of
484 such municipality's financial condition, which shall be documented by
485 the commission in a report submitted to the secretary. A copy of such
486 report shall be provided to such municipality not later than ten days
487 after such submission. Not later than forty-five days after such
488 submission, the secretary may approve or reject such recommendation.
489 If the secretary does not approve or reject such recommendation during
490 such forty-five-day period, such recommendation shall be deemed
491 rejected.

492 Sec. 9. Section 7-576c of the general statutes is repealed and the
493 following is substituted in lieu thereof (*Effective October 1, 2022*):

494 (a) The chief elected official of a municipality designated as a tier I
495 municipality pursuant to section 7-576a, as amended by this act, or the
496 legislative body of such municipality, by majority vote, may apply to
497 the secretary to request designation as a tier III municipality after
498 holding at least one meeting with the Municipal Finance Advisory
499 Commission, if [any of the following conditions exist: (1) The
500 municipality has at least one bond rating from a bond rating agency that
501 is below investment grade, or (2) the municipality has no bond rating
502 from a bond rating agency, or, if its highest bond rating is A, Baa or BBB,
503 provided the municipality has no rating that is not investment grade,
504 and it has either (A) a negative fund balance percentage, or (B)] the
505 municipality (1) has an equalized mill rate that is thirty or more, [and it
506 receives] or (2) received thirty per cent or more of its [current or prior
507 fiscal year general fund budget revenues were or are] most recent
508 audited financial statement revenues in the form of municipal aid from
509 the state. Prior to submission of such request by a chief elected official,
510 such official shall provide notice of intent to apply for such designation
511 to the legislative body of such municipality. Such legislative body shall
512 have [thirty] forty-five days from receipt of such notice to approve or
513 reject the chief elected official's decision to submit such a request. If such
514 legislative body does not approve or reject such decision during such
515 [thirty-day] forty-five-day period, the chief elected official's decision to
516 submit such request shall be deemed approved by such legislative body.
517 Any chief elected official or legislative body that submits a request
518 pursuant to this subsection shall provide a copy of such request to the
519 Municipal Finance Advisory Commission not later than ten days after
520 submitting such request. The secretary shall designate a municipality as
521 tier III if [: (i) A municipality meets either condition described in
522 subdivision (1) or (2) of] a request for such designation has been made
523 pursuant to this subsection, and based on reports and findings of the
524 Municipal Finance Advisory Commission, the secretary finds that the
525 fiscal condition of the municipality warrants such designation. [, (ii) the
526 municipality]

527 (b) Any municipality that (1) receives a bond rating below investment

528 grade from a rating agency, (2) issues refunding bonds that [(I)] (A) have
529 a term of more than twenty-five years, [(II)] (B) do not achieve net
530 present value savings pursuant to the provisions of section 7-370c, and
531 [(III)] (C) have annual debt service obligations associated with any
532 existing debt and such refunding bonds in any year that are greater than
533 the first full year debt service obligation following the issuance of such
534 refunding bonds, or [(iii) the municipality] (3) issues a deficit obligation
535 [or has issued a deficit obligation in the five years preceding July 1,
536 2017.] shall be designated as a tier III municipality. Any municipality
537 that meets one or more conditions described in subdivisions (1) to (3),
538 inclusive, of this subsection, shall notify the secretary not later than ten
539 days after having met such condition or conditions.

540 (c) The Municipal Finance Advisory Commission may, after holding
541 at least one meeting with a designated tier I municipality, recommend
542 to the secretary that such municipality be designated as a tier III
543 municipality. Any such recommendation shall be made on the basis of
544 such municipality's financial condition, which shall be documented by
545 the commission in a report submitted to the secretary. A copy of such
546 report shall be provided to such municipality not later than ten days
547 after such submission. Not later than forty-five days after such
548 submission, the secretary may approve or reject such recommendation.
549 If the secretary does not approve or reject such recommendation during
550 such forty-five-day period, such recommendation shall be deemed
551 rejected.

552 [(b)] (d) The secretary shall refer any municipality that is a designated
553 tier III municipality to the Municipal Accountability Review Board
554 established pursuant to the provisions of section 7-576d, as amended by
555 this act.

556 [(c) Notwithstanding any provision of this section, no municipality
557 shall be designated a tier III municipality prior to July 1, 2018, by any
558 means other than an application as described in subsection (a) of this
559 section, except a municipality with a population of one hundred twenty
560 thousand or more that has a bond rating of Caa1 or less.]

561 Sec. 10. Subdivision (6) of subsection (b) of section 7-576d of the
562 general statutes is repealed and the following is substituted in lieu
563 thereof (*Effective October 1, 2022*):

564 (6) With respect to any municipality referred to the Municipal
565 Accountability Review Board on or after [January 1, 2018] October 1,
566 2022, in the case of any proposed collective bargaining agreement or
567 amendments negotiated pursuant to sections 7-467 to 7-477, inclusive,
568 including any such agreement negotiated by a board of education,
569 notwithstanding the provisions of subsection (d) of section 7-474, or
570 pursuant to section 10-153d, the Municipal Accountability Review
571 Board shall have the same opportunity and authority to approve or
572 reject, on not more than two occasions, collective bargaining agreements
573 or amendments as are provided to the legislative body of such
574 municipality in said respective sections, except that (A) any such
575 agreement negotiated by a board of education shall be submitted to the
576 Municipal Accountability Review Board by the bargaining
577 representative of such board of education not later than fourteen days
578 after any such agreement is reached, and (B) [the Municipal
579 Accountability Review Board shall act upon such agreement, pursuant
580 to this subdivision, not later than thirty days after submission by such
581 bargaining representative] such agreement shall be considered
582 approved thirty days after such submission if the Municipal
583 Accountability Review Board has failed to approve or reject such
584 agreement.

585 Sec. 11. Subdivision (8) of subsection (b) of section 7-576d of the
586 general statutes is repealed and the following is substituted in lieu
587 thereof (*Effective October 1, 2022*):

588 (8) The board shall monitor compliance with the municipality's
589 [three-year] five-year financial plan and annual budget and recommend
590 that the municipality make such changes as are necessary to ensure
591 budgetary balance in such plan and budget.

592 Sec. 12. Subsection (a) of section 7-576e of the general statutes is

593 repealed and the following is substituted in lieu thereof (*Effective October*
594 *1, 2022*):

595 (a) (1) The chief elected official of a tier III municipality or the
596 legislative body of such municipality, by a majority vote, may apply to
597 the secretary to request designation as a tier IV municipality. The
598 secretary may approve the request if the secretary determines that such
599 designation is necessary to ensure the fiscal sustainability of the
600 municipality and is in the best interests of the state. Prior to submission
601 of any such request by the chief elected official, such official shall
602 provide notice of intent to apply for such designation to the legislative
603 body of such municipality. Such legislative body shall have thirty days
604 from receipt of such notice to approve or reject the chief elected official's
605 decision to submit such a request. If such legislative body does not
606 approve or reject such decision to seek such designation during such
607 thirty-day period, the chief elected official's decision to submit such
608 request shall be deemed approved by such legislative body.

609 (2) The Municipal Accountability Review Board may designate a tier
610 III municipality as a tier IV municipality based on a finding by the board
611 that the fiscal condition of such municipality warrants such a
612 designation based upon an evaluation of the following criteria: (A) The
613 balance in the municipal reserve fund; (B) the short and long-term
614 liabilities of the municipality, including, but not limited to, the
615 municipality's ability to meet minimum funding levels required by law,
616 contract or court order; (C) the initial budgeted revenue for the
617 municipality for the past five fiscal years as compared to the actual
618 revenue received by the municipality for such fiscal years; (D) budget
619 projections for the following ~~[three]~~ five fiscal years; (E) the economic
620 outlook for the municipality; and (F) the municipality's access to capital
621 markets. For the purpose of determining whether to make a finding
622 pursuant to this subdivision, the membership of the board shall
623 additionally include the chief elected official of such municipality, the
624 treasurer of such municipality and a member of the legislative body of
625 such municipality, as selected by such body. In conducting a vote on
626 any such determination, the treasurer of such municipality shall be a

627 non-voting member of the board. The board shall submit such finding
628 and recommended designation to the secretary, who shall provide for a
629 thirty-day notice and public comment period related to such finding
630 and recommendation. Following the public notice and comment period,
631 the secretary shall forward the board's finding and recommended
632 designation and a report regarding the comments received in this regard
633 to the Governor. Following the receipt of such documentation from the
634 secretary, the Governor may approve or disapprove the board's
635 recommended designation.

636 (3) If any municipality is designated as a tier IV municipality, the
637 following individuals shall serve as ex-officio, nonvoting members of
638 the Municipal Accountability Review Board, provided such additional
639 members shall only serve for purposes of the tier IV municipality that
640 they represent: (A) The chief elected official of such municipality, or the
641 chief elected official's designee, (B) an elected member of the local
642 legislative body of such municipality, or such member's designee, as
643 selected by a majority vote of the local legislative body of such
644 municipality, (C) in the case where the municipality has an elected
645 treasurer, the municipal treasurer or other municipal official responsible
646 for the issuance of bonds, and (D) a member of the minority party of the
647 municipality's legislative body as elected by such minority party
648 members. Notwithstanding the provisions of sections 7-568 to 7-575,
649 inclusive, and sections 7-576a, as amended by this act, and 7-576b, as
650 amended by this act, a municipality designated as a tier IV municipality
651 pursuant to this section shall retain such designation following the
652 issuance of a deficit obligation subsequent to such municipality's
653 designation as a tier IV municipality. With respect to a designated tier
654 IV municipality, the Municipal Accountability Review Board shall have
655 the same powers and responsibilities as it has with respect to designated
656 tier III municipalities in addition to which it shall have the following
657 additional or superseding authority and responsibilities:

658 (i) To review and approve or disapprove the municipality's annual
659 budget, including, but not limited to, the general fund, other
660 governmental funds, enterprise funds and internal service funds. No

661 annual budget, annual tax levy or user fee for the municipality shall
662 become operative until it has been approved by the board. If the board
663 disapproves any annual budget, not later than the May twenty-first
664 prior to the beginning of the new fiscal year, the board shall specify the
665 reasons for such disapproval and shall provide the legislative body until
666 the June fifteenth prior to the beginning of the new fiscal year to
667 resubmit the annual budget in accordance with this section. If the
668 legislative body has not adopted a budget by such June fifteenth date or
669 its resubmitted annual budget is not approved by the board, the board
670 shall adopt an interim budget and establish a tax rate and user fees. Such
671 interim budget shall take effect at the commencement of the fiscal year
672 and shall remain in effect until the municipality submits and the board
673 approves a modified budget. Notwithstanding any provision of the
674 general statutes, or any public or special act, local law, charter or
675 ordinance or resolution, a municipality may approve a modified budget
676 pursuant to this section after any applicable deadline for such adoption
677 has passed.

678 (ii) To review and approve all bond ordinances and bond resolutions
679 of the municipality.

680 (iii) To monitor compliance with the municipality's [three-year] five-
681 year financial plan and annual budget and require that the municipality
682 make such changes as are necessary to ensure budgetary balance in such
683 plan and budget.

684 (iv) To approve or reject all collective bargaining agreements for a
685 new term, other than modifications, amendments or reopening of an
686 agreement, to be entered into by the municipality or any of its agencies
687 or administrative units, including the board of education. If it rejects an
688 agreement, the board shall indicate the specific provisions of the
689 proposed agreement present or missing which caused the rejection, as
690 well as its rationale for the rejection. The board may indicate the total
691 cost impact or savings that are acceptable in a new agreement. At any
692 time during negotiations and prior to reaching any agreement, or a
693 modified agreement, the parties, by mutual agreement, may request

694 guidance from the board as to the level and areas of savings that may be
695 acceptable to the board in a new agreement. Following any rejection of
696 a proposed collective bargaining agreement, the parties to the
697 agreement shall have ten days from the date of the board's rejection to
698 consider the board's concerns and propose a modified agreement. After
699 the expiration of such ten-day period, the board shall approve or reject
700 any such modified agreement. If the parties have been unable to reach a
701 modified agreement or the board rejects such modified agreement, the
702 board shall impose binding arbitration on the parties, in accordance
703 with clause (v) of this subdivision, to arbitrate issues identified by the
704 board as the cause for such inability or rejection. In establishing the
705 issues to be arbitrated, as well as in making a determination to reject a
706 proposed agreement, the board shall not be limited to matters raised or
707 negotiated by the parties. Also, to approve or reject all modifications,
708 amendments or reopeners to collective bargaining agreements entered
709 into by the municipality or any of its agencies or administrative units,
710 including the board of education. If it rejects a modification, amendment
711 or reopener to an agreement, the board shall indicate the specific
712 provisions of the proposed modification, amendment or reopener which
713 caused the rejection, as well as its rationale for the rejection. The board
714 may indicate the total cost impact or savings acceptable in a new
715 modification, amendment or reopener. If the board rejects a proposed
716 amendment or reopener to a collective bargaining agreement, the
717 parties to the agreement shall have ten days from the date of the board's
718 rejection to consider the board's concerns and put forth a revised
719 modification, amendment or reopener. After the expiration of such ten-
720 day period, the board shall approve or reject any revised modification,
721 amendment or reopener amendment. If the parties are unable to reach
722 a revised modification, amendment or reopener or the board rejects
723 such revised modification, amendment or reopener, the board shall
724 impose binding arbitration upon the parties in accordance with clause
725 (v) of this subdivision. The issues to be arbitrated shall be those
726 identified by the board as causing such inability or rejection. Prior to the
727 board taking action on any such modification, amendment or reopener,
728 the parties shall have an opportunity to make a presentation to the

729 board.

730 (v) Except as otherwise provided in this subdivision, with respect to
731 collective bargaining agreements of the municipality or any of its
732 agencies or administrative units, including, but not limited to, the board
733 of education, that are in or are subject to binding arbitration, the board
734 shall have the power to impose binding arbitration upon the parties any
735 time after the seventy-fifth day following the commencement of
736 negotiations or to reject any arbitration award pending municipal or
737 board of education action pursuant to section 7-473c or 10-153f on the
738 date the board is established. If, upon the date of a municipality's
739 designation as a tier IV municipality, the parties are in binding
740 arbitration, or if the board rejects a pending arbitration award, the board
741 shall immediately replace any established binding arbitration panel
742 with an arbitrator selected in accordance with this section. If the board
743 imposes binding arbitration or replaces an existing binding arbitration
744 panel, it shall do so with an arbitrator selected by the Governor from a
745 list of three potential arbitrators approved by and submitted to the
746 Governor by the board. Such list of potential arbitrators shall include
747 former judges of the state or federal judicial systems or other persons
748 who have experience with arbitration or similar proceedings. Prior to
749 the Governor's selection of an arbitrator, the parties may provide
750 recommendations for such selection to the board. The board shall not be
751 limited to selecting arbitrators from those recommended by the parties.
752 The board may reduce the time limits in the applicable provisions of the
753 general statutes or any public or special acts governing binding
754 arbitration by one-half. In imposing such arbitration or in replacing an
755 arbitration panel, the board shall not be limited to consideration and
756 inclusion in the collective bargaining agreement of the last best offers or
757 the matters raised by or negotiated by the parties provided the board
758 shall indicate reasons for raising any matters not negotiated by the
759 parties. The board shall be given the opportunity to make a presentation
760 before the arbitrator. In addition to any statutory factors that shall be
761 considered by the arbitrator with respect to proposed municipal or
762 board of education collective bargaining agreements, the arbitrator shall

763 give highest priority to the short and long-term fiscal exigencies that
764 resulted in the municipality's designation as a tier IV municipality. Not
765 later than ten days after the issuance of any of the arbitrator's decisions
766 on the matters subject to such binding arbitration, the board may
767 request reconsideration of one or more of such decisions and state its
768 position as to the impact of such decisions on the short and long-term
769 fiscal sustainability of the municipality. Not later than five days after the
770 board's request for such reconsideration, the parties may submit
771 comments to the arbitrator in response to the board's stated position.
772 Not later than thirty days following the board's request for such
773 reconsideration, the arbitrator, based on the record of the arbitration,
774 may either modify or maintain the original arbitration decisions. The
775 arbitrator's decisions shall be binding upon the parties. With respect to
776 collective bargaining agreements negotiated pursuant to section 10-
777 153d and arbitration awards issued pursuant to section 10-153f, the
778 provisions of this subdivision shall not apply until the board has
779 rejected such agreement or award pursuant to subdivision (7) of
780 subsection (b) of section 7-576d, as amended by this act, on two
781 occasions.

782 (4) (A) To require its approval of proposed transfers of a
783 municipality's appropriations in excess of fifty thousand dollars, (B) to
784 require its review, approval, disapproval or modification of the budget
785 of the board of education for the municipality on a line-item basis and
786 to require the board of education to submit to it any budget transfers, or
787 (C) to appoint a financial manager and delegate to such manager, in
788 writing, such powers as the board deems necessary or appropriate for
789 the purpose of managing the financial and administrative affairs of the
790 municipality for the period of time during which the municipality is
791 subject to the powers of the board provided the board may override any
792 actions taken by such manager at any time and shall not delegate the
793 powers enumerated under subdivisions (2), (3) and (5) to (7), inclusive,
794 and (11) to (13), inclusive, of subsection (b) of section 7-576d, as
795 amended by this act, or subdivisions (1), (2) and (4) to (6), inclusive of
796 this subsection. The board shall consult with such municipality and the

797 board of education of such municipality, as applicable, to establish
798 policies and procedures for the implementation of the provisions of
799 subparagraphs (A) and (B) of this subdivision.

800 (5) The board may require that the municipality or its board of
801 education notify and submit to the board any or all municipal or board
802 of education contracts that exceed (A) fifty thousand dollars for
803 municipalities with a resident population under seventy thousand, or
804 (B) one hundred thousand dollars for municipalities with a resident
805 population of seventy thousand or more, not less than thirty days prior
806 to execution of such contract, for the purpose of the board's review and
807 approval of such contracts. The board shall establish policies and
808 procedures, in consultation with any such municipality and such
809 municipality's board of education, to implement the provisions of this
810 subdivision.

811 (6) To approve and authorize the issuance of obligations under
812 section 7-575, including, with regard to a designated tier IV municipality
813 otherwise ineligible to issue such obligations, for the purposes of issuing
814 general obligations for purposes of deficit financing, addressing pension
815 liabilities in accordance with section 7-374c, as amended by this act, debt
816 restructuring and other purposes allowed for which municipal
817 obligations are authorized by the general statutes.

818 Sec. 13. Section 7-576f of the general statutes is repealed and the
819 following is substituted in lieu thereof (*Effective October 1, 2022*):

820 (a) A municipality designated as a tier I municipality in accordance
821 with section 7-576a, [or designated as a] as amended by this act, tier II
822 municipality in accordance with section 7-576b, as amended by this act,
823 tier III municipality in accordance with section 7-576c, as amended by
824 this act, or tier IV municipality in accordance with section 7-576e, as
825 amended by this act, shall retain such designation, notwithstanding any
826 positive changes in the factors leading to its current designation, [or]
827 until, in the fiscal years following such designation, (1) there have been
828 no [annual] audited operating [budgetary] deficits in the general fund

829 of the municipality for two consecutive fiscal years, (2) the
830 municipality's bond rating has either improved or remained unchanged
831 since its most current designation, (3) the municipality has presented
832 and the commission or board has approved a financial plan that projects
833 a positive [unreserved] fund balance for the three succeeding
834 consecutive fiscal years covered by such financial plan, where a positive
835 fund balance of at least five per cent is projected in the third such fiscal
836 year, and (4) the municipality's audits for such consecutive fiscal years
837 have been completed and contain no general fund deficit.
838 [Notwithstanding any other provisions of sections 7-560 to 7-575,
839 inclusive, sections 7-568 to 7-579, inclusive, the municipality shall
840 remain undesignated for purposes of a tier designation, unless
841 circumstances would result in the municipality being designated as a
842 tier numerically higher than its most recent designation.]

843 (b) Notwithstanding subsection (a) of this section, the Municipal
844 Finance Advisory Commission may, by unanimous vote, end the
845 designation of a municipality designated as a tier I municipality, based
846 on an evaluation of such municipality's financial condition.

847 Sec. 14. Subsection (a) of section 7-576i of the general statutes is
848 repealed and the following is substituted in lieu thereof (*Effective October*
849 *1, 2022*):

850 (a) Any designated tier II, III, or IV municipality shall be eligible to
851 receive funding from the Municipal Restructuring Fund, which fund
852 shall be nonlapsing. A designated tier II, III or IV municipality seeking
853 such funds shall submit, for approval by the Secretary of the Office of
854 Policy and Management, a plan detailing its overall restructuring plan,
855 including local actions to be taken and its proposed use of such funds.
856 Notwithstanding section 10-262j, a municipality may, as part of such
857 plan and in consultation with its local board of education, submit a
858 proposed reduction in the minimum budget requirement related to its
859 education budget. The secretary shall consult with the Commissioner of
860 Education in approving or rejecting such proposed reduction. The
861 secretary shall consult with the municipal accountability review board

862 in making distribution decisions and attaching appropriate conditions
 863 thereto, including the timing of any such distributions and whether such
 864 funds shall be distributed in the form of a municipal restructuring fund
 865 loan subject to repayment by the municipality. The distribution of such
 866 assistance funds shall be based on the relative fiscal needs of the
 867 requesting municipalities. The secretary may approve all, none or a
 868 portion of the funds requested by a municipality. In attaching
 869 conditions to such funding, the secretary shall consider the impact of
 870 such conditions on the ability of a municipality to meet legal and other
 871 obligations. The board shall monitor and report to the secretary on the
 872 use of such funds and adherence to the conditions attached thereto. The
 873 secretary shall develop and issue guidance on the (1) administration of
 874 the municipal restructuring fund, (2) criteria for participation by
 875 municipalities and requirements for plan submission, and (3)
 876 prioritization for the awarding of assistance funds pursuant to this
 877 section. Any municipality that receives funding from the municipal
 878 restructuring fund, in addition to the other responsibilities and
 879 authority given to the board with respect to designated tiers II, III and
 880 IV municipalities, shall be required to receive board approval of its
 881 annual budgets.

882 Sec. 15. Section 7-576g of the general statutes is repealed. (*Effective*
 883 *October 1, 2022*)

This act shall take effect as follows and shall amend the following sections:		
Section 1	October 1, 2022	7-374c(c)
Sec. 2	October 1, 2022	7-392(e)
Sec. 3	October 1, 2022	7-393
Sec. 4	October 1, 2022	7-395(d)
Sec. 5	October 1, 2022	7-406c
Sec. 6	October 1, 2022	7-560
Sec. 7	October 1, 2022	7-576a
Sec. 8	October 1, 2022	7-576b
Sec. 9	October 1, 2022	7-576c
Sec. 10	October 1, 2022	7-576d(b)(6)

Sec. 11	<i>October 1, 2022</i>	7-576d(b)(8)
Sec. 12	<i>October 1, 2022</i>	7-576e(a)
Sec. 13	<i>October 1, 2022</i>	7-576f
Sec. 14	<i>October 1, 2022</i>	7-576i(a)
Sec. 15	<i>October 1, 2022</i>	Repealer section

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: None

Municipal Impact: None

Explanation

The bill changes the conditions under which a municipality may be referred to the Municipal Accountability Review Board (MARB). This has no fiscal impact, as it imposes no additional requirements on municipalities and makes no additional financial commitments of MARB.

House "A" makes a clarifying change which has no fiscal impact.

The Out Years

State Impact: None

Municipal Impact: None

OLR Bill Analysis**sHB 5427 (as amended by House "A")******AN ACT CONCERNING THE RECOMMENDATIONS OF THE OFFICE OF FINANCE WITHIN THE OFFICE OF POLICY AND MANAGEMENT.*****SUMMARY**

This bill changes the criteria for designating, and terminating the designation of, municipalities as tier I, II, III, or IV for purposes of state fiscal oversight and control by the Municipal Finance Advisory Commission (MFAC) or Municipal Accountability Review Board (MARB), as applicable (see BACKGROUND). In doing so, it generally establishes new criteria for detecting municipal fiscal distress. As under existing law, the municipality's degree of distress determines its designated tier.

Currently, municipalities must request designation as a tier I or II municipality. The bill establishes criteria for the Office of Policy and Management (OPM) secretary to designate them as such, without them requesting it (e.g., for failing to submit an audit or being in a condition that would trigger eligibility for voluntary designation). The bill also establishes conditions under which MFAC may recommend to the OPM secretary that a designated tier I municipality that it is working with be redesignated as tier II or III, making the municipality subject to MARB's oversight.

The bill subjects all designated municipalities to the same criteria for determining whether their designation terminates. The revised criteria are similar to the criteria currently used. The bill also makes it easier to re-designate a municipality as tier I-IV after its initial designation terminates.

Regarding MARB's oversight, the bill also does the following:

1. specifies that the OPM secretary must consult with it to determine whether any Municipal Restructuring Fund assistance funds should be provided as a loan (§§ 6 & 14) and
2. limits the municipalities for which MARB is authorized to approve or reject a municipal or board of education collective bargaining agreement or amendment (§ 10).

This bill also makes the following changes in other municipal finance laws:

1. requires municipalities, before issuing pension deficient bonds, to submit a five-year, instead of a three-year, financial plan (§ 1);
2. requires certain municipal entities, such as special taxing districts, to annually file a financial statement with the OPM secretary upon request (§ 2);
3. allows the OPM secretary to refer a municipality to MFAC, instead of or in addition to assessing a penalty, if it does not file its audit in a timely manner (§ 3); and
4. requires municipalities to file financial reports electronically, using a uniform reporting template (§ 5).

The bill also makes technical and conforming changes.

*House Amendment "A" replaces two references in the underlying bill to "current year audited" revenues with "most recent audited financial statement" revenues, to clarify designation criteria.

EFFECTIVE DATE: October 1, 2022

§ 1— MUNICIPAL PENSION DEFICIENT BONDS

Under current law, before issuing pension deficient bonds (to fund some or all of an unfunded past benefit obligation) under the statutes, a municipality must submit a three-year financial plan to the OPM secretary for him and the state treasurer to review. The bill instead

requires this plan, which under existing law includes the major assumptions and financial plan for the bonds, to cover a five-year period.

§ 2 — FILING FINANCIAL STATEMENTS WITH OPM

Municipal entities with annual receipts of up to \$1 million are exempt from the requirement applicable to other municipal entities that they annually submit an audit to the OPM secretary (CGS § 7-393). Instead, existing law requires these municipal entities, such as special taxing districts, to annually file a financial statement with the local town clerk within 90 days after the end of the fiscal year. The bill additionally requires the statement to be filed with the OPM secretary upon his request. The bill extends existing law's penalty for failing to file the statement with the town clerk (\$500 per statement not filed) to include failure to file with the OPM secretary.

§ 3 — MFAC REFERRAL AFTER LATE AUDIT SUBMISSION

Municipal entities that are required to file an audit with the OPM secretary must do so within six months of the end of the fiscal year unless they apply for and are granted one or more extensions. Currently, municipal entities that miss the regular or extended deadlines are assessed a civil penalty ranging from \$1,000 to \$10,000 unless it is waived by the OPM secretary.

The bill instead requires the OPM secretary to refer an entity that misses the filing deadline to MFAC, assess the civil penalty, or do both. As under current law, the secretary can generally waive these penalties if there was reasonable cause for the delay (see § 4, below, requiring MFAC referrals when audits are more than a year overdue).

§ 4 — MANDATORY MFAC REFERRAL AND TIER I DESIGNATION

The bill changes the criteria the OPM secretary uses to refer a potentially fiscally distressed municipality to MFAC if it has not been referred previously. If a municipality is referred under this set of criteria, it is designated tier I (see § 7, below).

Under current law, the secretary must refer a municipality to MFAC if it has done any of the following:

1. reported a declining fund balance trend in the two immediately preceding fiscal years;
2. had a general fund annual operating budget deficit of at least 1.5% of its general fund revenues in the immediately preceding fiscal year; or
3. had a general fund annual operating budget deficit of at least 2% of its average general fund revenues in the two immediately preceding fiscal years.

The bill replaces these three triggers with a requirement that the secretary refer a municipality that reported (1) an operating deficit in the two immediately preceding fiscal years and (2) a fund balance percentage of less than 5% in the immediately preceding fiscal year.

Under current law, the secretary must also refer a municipality if it issued tax or bond anticipation notes in the three immediately preceding fiscal years to meet cash liquidity. The bill instead requires a referral if it issued tax or revenue anticipation notes for this purpose.

The bill also adds two new referral criteria. The secretary must refer the municipality if it has done either of the following: (1) reported an annual audit that included at least one material or significant audit finding that was reported in the annual audits of the two immediately preceding fiscal years or (2) was at least 12 months late in filing its audit.

Under existing law and unchanged by the bill, the secretary must refer a municipality if it (1) has a negative fund balance percentage; (2) reported a fund balance percentage of less than 5% in the three immediately preceding fiscal years; or (3) received a bond rating below A.

§ 5 — FILING MUNICIPAL FINANCIAL DATA ELECTRONICALLY

Beginning by January 31, 2023, and annually thereafter, the bill requires municipalities (including school districts and special taxing districts) to electronically file with OPM their audited financial statements and any other requested information on their financial condition. (Presumably, this requirement is related to OPM's implementation of the Fiscal Health Monitoring System).

Currently, these municipalities must use the uniform chart of accounts that OPM's secretary developed. The bill specifies that financial reports using this uniform reporting template must be filed annually by January 31. In practice, this is already occurring.

§§ 6 & 14 — MUNICIPAL RESTRUCTURING FUND LOAN

The law establishes the nonlapsing Municipal Restructuring Fund to provide financial assistance to designated tier II, III, and IV municipalities (i.e., those subject to MARB oversight). To receive assistance, an eligible municipality must submit a plan for approval to the OPM secretary that details the municipality's overall restructuring plan, including the local actions it will take and how it will use the funds.

In deciding whether to fund the plan, the secretary must consult with MARB about the amount and timing of the fund distributions and the conditions on how the funds can be used. The bill specifies that the secretary must consult with MARB to determine whether any funds should be provided as a loan.

§§ 7-8 & 11-12 — FINANCIAL PLANS COVERING FIVE-YEAR PERIOD

Currently, if the OPM secretary refers a tier I designated municipality to MFAC, it must prepare and present a three-year financial plan to the commission for its review and approval. The bill instead requires municipalities to prepare and present a five-year plan.

Current law allows MARB to require designated tier II municipalities to prepare three-year financial plans and submit them to MARB for its

review and approval. The bill instead allows MARB to require a five-year financial plan.

The bill also makes related conforming changes (§§ 11 & 12).

§ 7 — DESIGNATION AS TIER I MUNICIPALITY

By Request

Under current law, a municipality's chief elected official (CEO) may apply to the OPM secretary to have the municipality designated as tier I if it meets one of the three sets of criteria as shown in Table 1 below.

The bill eliminates these criteria and instead allows a municipality to be designed as tier I if the CEO (1) expects, in the next 24-month period, that the municipality will meet at least one condition requiring the OPM secretary to refer it to MFAC (see § 4 above) and (2) submits a report to MFAC, in a form and manner it prescribes, that confirms this.

Table 1: Tier I Designation Criteria in Current Law

<i>Measures</i>	<i>Set 1</i>	<i>Set 2</i>	<i>Set 3</i>
Bond rating	No rating or its highest rating is A or above, so long as all of its ratings are investment grade	No rating or its highest rating is A, so long as all of its ratings are investment grade	Bond rating is AA or above, so long as all of its ratings are investment grade
State municipal aid as percentage of current year general fund budget	Less than 30%	Less than 30%	30% or more
Fund balance	Positive	Positive fund balance of less than 5%	Positive
FY 18 municipal revenue increase as a percentage of revenue	At least 2%	Not applicable	At least 2%
Equalized mill rate	Not applicable	Not applicable	Equalized mill rate less than 30 mills

Mandatory Designation Related to Audit Issues

If the OPM secretary refers a municipality to MFAC after reviewing its audit, or for failure to file an audit as described above (see § 4), it is designated a tier I municipality automatically under the bill.

§ 8 — DESIGNATION AS TIER II MUNICIPALITY

By Request

Under current law, a municipality’s CEO may apply to the OPM secretary to have the municipality designated as a tier II municipality if it meets one of the five sets of criteria as shown in table 2 below.

Table 2: Tier II Designation Criteria in Current law

Measures	Set 1	Set 2	Set 3	Set 4	Set 5
Bond Rating	No rating from a bond rating agency or its highest rating is A, so long as all of its ratings are investment grade	No rating from a bond rating agency or its highest rating is A, so long as all of its ratings are investment grade	Highest bond rating is AA or higher, so long as all of its ratings are investment grade	Highest bond rating is AA or higher, so long as all of its ratings are investment grade	Highest rating is Baa or BBB, so long as all of its ratings are investment grade
State aid as percent of prior or current fiscal year general fund budget	30% or more	30% or more	30% or more	Not applicable	Not applicable
Fund balance	Positive fund balance of at least 5%	Positive fund balance of less than 5%	Not applicable	Negative	Positive
FY 18 municipal revenue increase as	At least 2%	Not applicable	Not applicable	Not applicable	Not applicable

a percentage of revenue					
Equalized mill rate	Less than 30 mills	Less than 30 mills	30 or more mills	Not applicable	Less than 30 mills

The bill replaces the current criteria with a requirement that the municipality be designated as tier I, have held at least one meeting with MFAC, and either (1) has an equalized mill rate of at least 30 mills or (2) received 30% or more of its most recent audited financial statement revenues in the form of state aid.

Under the bill, if a CEO applies to OPM for tier II designation, it must provide a copy of the application to MFAC within 10 days.

Under the bill, the OPM secretary must designate the municipality as tier II, as requested, and refer it to MARB if he determines its financial condition warrants it, based on his review of MFAC's reports and findings. Currently, he must refer to MARB any municipality that requests tier II designation.

Designation Upon MFAC's Recommendation

The bill establishes a procedure for MFAC to recommend a municipality be designated tier II. (See § 9 for a discussion on MFAC's authority to recommend a tier III designation for a tier I municipality.)

After MFAC holds at least one meeting with a designated tier I municipality, it may recommend to the OPM secretary that the municipality be designated tier II based on its financial condition, which MFAC must document in a report it submits to the secretary. MFAC must also provide a copy of the report to the municipality within 10 days.

Within 45 days of receiving the report, the OPM secretary may approve or reject MFAC's recommendation; if no decision is made, it is deemed rejected.

§ 9 — TIER III MUNICIPALITY DESIGNATION

Current law provides two paths for designating a municipality as tier III: (1) the municipality (through the CEO or legislative body) requests it because it meets specified bonding capacity and fiscal distress criteria or (2) the secretary designates the municipality as tier III based on specified distress criteria.

By Request

Current law allows a municipality to request designation as tier III if it meets one of the following criteria:

1. the municipality has at least one bond rating from a bond rating agency that is below investment grade or
2. the municipality has no bond rating from a bond rating agency, or its highest bond rating is A, Baa, or BBB, so long as all of its ratings are investment grade, and it has either (a) a negative fund balance percentage or (b) an equalized mill rate of 30 or more, and it receives 30% or more of its current or prior fiscal year general fund budget revenues in state municipal aid.

The bill replaces these bonding-capacity criteria with different fiscal distress criteria and specifies that a tier I municipality can request designation as tier III after holding at least one meeting with MFAC if it (1) has an equalized mill rate of at least thirty mills or (2) received 30% or more of its most recent audited financial statement revenues as municipal aid from the state.

As under current law, the OPM secretary must designate a municipality as tier III if the information MFAC provides supports the designation.

Under current law, if the municipal CEO is making the request, he or she must give the local legislative body at least 30 days to approve or reject the request, after which, if no action is taken, it is deemed approved. The bill extends this waiting period to 45 days.

Under the bill, if a municipality applies to OPM for tier III designation, it must also provide a copy of the application to MFAC within 10 days.

Designation by OPM Secretary

Under current law, the OPM secretary must designate any municipality as tier III, regardless of whether it applied for such designation, if it meets the criteria for voluntary tier III designation (see above) or it issues either of the following:

1. a deficit funding bond or issued one between July 1, 2012, and July 1, 2017; or
2. refunding bonds with over 25-year terms that fail to achieve net present value savings as the law requires, and its total annual debt obligations, including the refunding bonds, exceed the obligations for the refunding bonds for the first full year after they were issued.

The bill retains these criteria (except for the component on deficit funding bonds issued before July 1, 2017) and additionally requires the OPM secretary to designate a municipality as tier III if it receives a bond rating below investment grade.

The bill requires municipalities that are eligible for designation under any of these criteria to notify OPM within 10 days after the triggering condition occurred.

Designation Upon MFAC's Recommendation

The bill establishes a process for MFAC to recommend to the OPM secretary that a tier I municipality, with which it has met at least once, be designated as tier III due to its fiscal condition. MFAC must document the municipality's fiscal condition in a report it gives to the OPM secretary. The secretary must approve or reject the recommendation within 45 days after receiving the report. His failure to act is deemed a rejection.

§ 10 — MARB ACTION ON LABOR CONTRACTS

In addition to reviewing and commenting on municipal budgets, existing law authorizes MARB to approve or reject any municipal or board of education collective bargaining agreement or amendment, to the extent the local legislative body can. The bill limits MARB's authority to do so by specifying that it only has this authority over municipalities that are referred to it on or after October 1, 2022.

Under current law, MARB must act on agreements within 30 days after their submission to MARB. The bill instead specifies that agreements are deemed approved after 30 days if MARB has not approved or rejected them.

§ 12 — DESIGNATION AS TIER IV MUNICIPALITY

The bill makes a minor change to the criteria MARB uses to designate a tier III municipality as a tier IV municipality. It extends, from three years to five, MARB's lookback period when it reviews a municipality's budget projects. This conforms to other changes in the bill requiring municipalities to prepare five-year, instead of three-year, financial plans (see above).

§§ 13 & 15 — CONDITIONS FOR ENDING DESIGNATION

The bill subjects all designated municipalities to the same criteria for determining whether their designation terminates. The revised criteria are similar to the criteria currently used.

The bill also (1) alternatively allows MFAC, by unanimous vote, to end a municipality's designation as tier I after evaluating its financial condition; and (2) makes it easier to re-designate a municipality as tier I-IV after its initial designation terminates.

Criteria for Ending Designation

Under current law, a municipality designated as tier I or II must generally retain this designation until, in the fiscal years after its designation, it meets four criteria as listed in Table 3. The bill modifies these criteria and makes them applicable to tier I-IV municipalities, as

shown in Table 3. The currently applicable criteria for tiers III and IV are also shown in Table 3.

Table 3: Ending Designation Under Current Law and the Bill

Current Law		The Bill
<i>Tiers I & II</i>	<i>Tiers III & IV</i>	<i>Tiers I - IV</i>
There have been no annual operating deficits in the municipality's general fund for two consecutive fiscal years	There have been no annual operating deficits in the municipality's general fund for three consecutive fiscal years	There have been no audited operating deficits in the municipality's general fund for two consecutive fiscal years
The municipality's bond rating has either improved or remained unchanged since its most current designation	The municipality's bond rating has either improved or remained unchanged since its most current designation, so long as it has no bond ratings that are below investment grade	The municipality's bond rating has either improved or remained unchanged since its most current designation
The municipality has presented, and MFAC or MARB has approved, a financial plan that projects a positive unreserved fund balance for the three succeeding consecutive fiscal years	The municipality has presented, and MARB has approved, a financial plan that projects a positive unreserved fund balance for three succeeding consecutive fiscal years	The municipality has presented, and MFAC or MARB has approved, a financial plan that projects a positive fund balance for the three succeeding consecutive fiscal years, and in which a positive fund balance of at least 5% is projected for the third fiscal year
The municipality's audits for these consecutive fiscal years have been completed and contain no general fund deficit		

Under existing law and unchanged by the bill, a tier IV municipality retains its designation if it issues bonds or other debt to fund a general fund deficit after being designated.

Re-designating a Municipality

The bill makes it easier to re-designate a municipality as tier I-IV after

its initial designation terminates. It does so by repealing provisions specifying that a municipality whose designation was removed must remain undesignated unless:

1. for a tier I or II municipality, a change in circumstances requires it to be designated in a higher tier than its most recent designation and
2. for a tier III or IV municipality, it (a) has an annual operating deficit in its general fund equal to 1% or more of its annual general fund budget; (b) experiences an annual operating deficit in its general fund in consecutive years of any amount; or (c) has one or more bond ratings that are below investment grade.

BACKGROUND

MFAC and MARB

MFAC oversees the two-tier certification system that predates the four-tier designation system for classifying financially distressed municipalities as established by MARB legislation (PA 17-2). MFAC oversees certified tier I and II municipalities and designated tier I municipalities. MARB oversees designated tier II, III, and IV municipalities. (The higher numbered tiers relay higher levels of fiscal distress and oversight.)

Generally, MARB may, among other things and depending on the tier designation, (1) require monthly status reports and monitor compliance with financial plans and budgets; (2) review and comment on budgets and approve revenue assumptions; (3) review and comment on, or approve, debt obligations; (4) recommend efficiency measures and hire consultants or a financial manager; and (5) set an interim budget.

The law allows municipalities working with (1) MFAC or MARB to issue deficit financing bonds and (2) MARB to obtain state financial assistance in the form of funds to repay outstanding debt (i.e., contract assistance) and restructure finances (i.e., municipal restructuring).

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable Substitute Change of Reference - FIN

Yea 26 Nay 0 (03/25/2022)

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 51 Nay 0 (04/06/2022)