

**Proposed Substitute
Bill No. 5472**

LCO No. 3330

AN ACT CONCERNING MUNICIPAL FINANCE AND AUDITS.

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

1 Section 1. Section 7-576a of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective July 1, 2024*):

3 [(a) Any] The Municipal Finance Advisory Commission may
4 designate any municipality referred to said commission pursuant to
5 subsection (d) of section 7-395 [to the Municipal Finance Advisory
6 Commission shall be designated] as a tier I municipality. The chief
7 elected official of any municipality that does not meet the conditions
8 identified under subsection (d) of section 7-395 may apply to the
9 Municipal Finance Advisory Commission for designation as a tier I
10 municipality, provided such official (1) expects that such municipality
11 will meet one or more such conditions in the following twenty-four
12 month period, and (2) submits a report to the Municipal Finance
13 Advisory Commission, in a form and manner prescribed by the
14 commission, that confirms that such condition or conditions will be met
15 in such period. Each decision to designate a municipality as a tier I
16 municipality pursuant to this section shall be based on an evaluation of
17 such municipality's financial condition and financial practices. In
18 addition to the requirements of section 7-394b, each municipality
19 designated as a tier I municipality shall prepare and present a five-year
20 financial plan to the Municipal Finance Advisory Commission for its
21 review and approval.

22 [(b) The secretary shall refer any municipality designated as a tier I

23 municipality to the Municipal Finance Advisory Commission, pursuant
24 to the provisions of section 7-395. In addition to the requirements of
25 section 7-394b, such municipality shall prepare and present a five-year
26 financial plan to the Municipal Finance Advisory Commission for its
27 review and approval.]

28 Sec. 2. Section 7-576f of the general statutes is repealed and the
29 following is substituted in lieu thereof (*Effective July 1, 2024*):

30 (a) (1) A municipality designated as a tier I municipality in
31 accordance with section 7-576a, as amended by this act, shall retain such
32 designation, notwithstanding any positive changes in the factors
33 leading to its current designation, until the Municipal Finance Advisory
34 Commission, by unanimous vote, terminates such designation based on
35 an evaluation of such municipality's financial condition and financial
36 practices.

37 (2) A municipality designated as a [tier I municipality in accordance
38 with section 7-576a,] tier II municipality in accordance with section 7-
39 576b, tier III municipality in accordance with section 7-576c, or tier IV
40 municipality in accordance with section 7-576e, as amended by this act,
41 shall retain such designation, notwithstanding any positive changes in
42 the factors leading to its current designation, until, in the fiscal years
43 following such designation, [(1)] the Municipal Accountability Review
44 Board determines that (A) there have been no audited operating deficits
45 in the general fund of the municipality for two consecutive fiscal years,
46 [(2)] (B) the [municipality's] municipality has a long-term bond rating
47 from one or more bond rating agencies that is investment grade or
48 higher and such bond rating has either improved or remained
49 unchanged since its most current designation, [(3)] (C) the municipality
50 has presented and the [commission or] board has approved a financial
51 plan that projects a positive fund balance for the three succeeding
52 consecutive fiscal years covered by such financial plan, [where]
53 provided (i) each fiscal year of such plan is based upon recurring
54 revenue and expenses, (ii) a positive fund balance of at least five per cent

55 is projected in the third such fiscal year, [and (4)] and (iii) such plan does
56 not include funding received pursuant to sections 7-576i, as amended
57 by this act, or 5-576j, (D) the municipality's audits for such consecutive
58 fiscal years have been completed and [contain no general fund deficit]
59 the general fund reports an audited fund balance of at least five per cent,
60 and (E) there is no evidence that the municipality has engaged in
61 unsound or irregular financial practices in relation to commonly
62 accepted standards in municipal finance. The board may undertake the
63 determination described in this subdivision at its discretion or upon the
64 request of a municipality.

65 (b) [Notwithstanding subsection (a) of this section, the Municipal
66 Finance Advisory Commission may, by unanimous vote, end the
67 designation of a municipality designated as a tier I municipality, based
68 on an evaluation of such municipality's financial condition.] (1) If the
69 Municipal Accountability Review Board determines that a municipality
70 has satisfied the criteria listed in subdivision (2) of subsection (a) of this
71 section, the secretary shall, at the secretary's discretion and in
72 consideration of the fiscal condition of the municipality and best
73 interests of the state, terminate such municipality's tier designation or
74 redesignate such municipality to a lower tier, provided no such
75 municipality shall be redesignated as a tier I municipality. Not later than
76 sixty days after the board makes such determination, the secretary shall
77 notify the municipality of the secretary's decision to terminate such
78 municipality's tier designation or redesignate such municipality to a
79 lower tier. A municipality shall retain its existing tier designation until
80 such notice is received. If the secretary fails to provide such notice prior
81 to the expiration of said sixty-day period, the municipality's tier
82 designation shall be deemed terminated on the sixty-first day following
83 such determination.

84 (2) A municipality redesignated to a lower tier pursuant to
85 subdivision (1) of this subsection shall (A) meet the requirements of this
86 chapter pertaining to such lower tier, and (B) not request a
87 determination from the Municipal Accountability Review Board

88 pursuant to subdivision (2) of subsection (a) of this section during the
89 one-year period following such redesignation.

90 Sec. 3. Section 7-576i of the general statutes is repealed and the
91 following is substituted in lieu thereof (*Effective July 1, 2024*):

92 (a) Any designated tier II, III, or IV municipality shall be eligible to
93 receive funding from the Municipal Restructuring Fund, which fund
94 shall be nonlapsing. A designated tier II, III or IV municipality seeking
95 such funds shall submit, for approval by the Secretary of the Office of
96 Policy and Management, a plan detailing its overall restructuring plan,
97 including local actions to be taken and its proposed use of such funds.
98 Notwithstanding section 10-262j, a municipality may, as part of such
99 plan and in consultation with its local board of education, submit a
100 proposed reduction in the minimum budget requirement related to its
101 education budget. The secretary shall consult with the Commissioner of
102 Education in approving or rejecting such proposed reduction. The
103 secretary shall consult with the [municipal accountability review board]
104 Municipal Accountability Review Board in making distribution
105 decisions and attaching appropriate conditions thereto, including the
106 timing of any such distributions and whether such funds shall be
107 distributed in the form of a municipal restructuring fund loan subject to
108 repayment by the municipality. The distribution of such assistance
109 funds shall be based on the relative fiscal needs of the requesting
110 municipalities. The secretary may approve all, none or a portion of the
111 funds requested by a municipality. In attaching conditions to such
112 funding, the secretary shall consider the impact of such conditions on
113 the ability of a municipality to meet legal and other obligations. The
114 board shall monitor and report to the secretary on the use of such funds
115 and adherence to the conditions attached thereto. The secretary shall
116 develop and issue guidance on the (1) administration of the [municipal
117 restructuring fund] Municipal Restructuring Fund, (2) criteria for
118 participation by municipalities and requirements for plan submission,
119 and (3) prioritization for the awarding of assistance funds pursuant to
120 this section. Any municipality that receives funding from the [municipal

121 restructuring fund] Municipal Restructuring Fund, in addition to the
122 other responsibilities and authority given to the board with respect to
123 designated tiers II, III and IV municipalities, shall be required to receive
124 board approval of its annual budgets.

125 (b) The secretary may distribute funds from the Municipal
126 Restructuring Fund to a third party on behalf of a designated tier II, tier
127 III or tier IV municipality. Funds received by a municipality pursuant to
128 this section may be used, in part, to pay an arbitrator selected pursuant
129 to clause (v) of subdivision (3) of subsection (a) of section 7-576e, as
130 amended by this act.

131 [(b)] (c) Notwithstanding the provisions of subsection (a) of this
132 section, in making distributions from the Municipal Restructuring
133 Fund, the board shall give immediate consideration to any municipality
134 that shall default on debt obligations by January 1, 2018, without an
135 immediate distribution of such funds.

136 Sec. 4. Subdivision (2) of subsection (a) of section 7-576e of the general
137 statutes is repealed and the following is substituted in lieu thereof
138 (*Effective July 1, 2024*):

139 (2) The Municipal Accountability Review Board may designate a tier
140 III municipality as a tier IV municipality based on a finding by the board
141 that the fiscal condition of such municipality warrants such a
142 designation based upon an evaluation of the following criteria: (A) The
143 balance in the municipal reserve fund; (B) the short and long-term
144 liabilities of the municipality, including, but not limited to, the
145 municipality's ability to meet minimum funding levels required by law,
146 contract or court order; (C) the initial budgeted revenue for the
147 municipality for the past five fiscal years as compared to the actual
148 revenue received by the municipality for such fiscal years; (D) budget
149 projections for the following five fiscal years; (E) the economic outlook
150 for the municipality; [and] (F) the municipality's access to capital
151 markets; and (G) evidence of unsound or irregular financial practices in
152 relation to commonly accepted standards in municipal finance that the

153 board believes may materially affect the municipality's financial
154 condition. For the purpose of determining whether to make a finding
155 pursuant to this subdivision, the membership of the board shall
156 additionally include the chief elected official of such municipality, the
157 treasurer of such municipality and a member of the legislative body of
158 such municipality, as selected by such body. In conducting a vote on
159 any such determination, the treasurer of such municipality shall be a
160 non-voting member of the board. The board shall submit such finding
161 and recommended designation to the secretary, who shall provide for a
162 thirty-day notice and public comment period related to such finding
163 and recommendation. Following the public notice and comment period,
164 the secretary shall forward the board's finding and recommended
165 designation and a report regarding the comments received in this regard
166 to the Governor. Following the receipt of such documentation from the
167 secretary, the Governor may approve or disapprove the board's
168 recommended designation.

169 Sec. 5. Section 7-393 of the general statutes is repealed and the
170 following is substituted in lieu thereof (*Effective July 1, 2024*):

171 Upon the completion of an audit, the independent auditor shall file
172 certified copies of the audit report with (1) the appointing authority, (2)
173 in the case of a town, city or borough, with the clerk of such town, city
174 or borough, (3) in the case of a regional school district, with the clerks of
175 the towns, cities or boroughs in which such regional school district is
176 located and with the board of education, (4) in the case of an audited
177 agency, with the clerks of the towns, cities or boroughs in which such
178 audited agency is located, and (5) in each case, with the Secretary of the
179 Office of Policy and Management. Such copies shall be filed within six
180 months from the end of the fiscal year of the municipality, regional
181 school district or audited agency, but the secretary may grant an
182 extension of not more than thirty days, provided the auditor making the
183 audit and the chief executive officer of the municipality, regional school
184 district or audited agency shall jointly submit a request in writing to the
185 secretary stating the reasons for such extension at least thirty days prior

186 to the end of such six-month period. If the reason for the extension
187 relates to deficiencies in the accounting system of the municipality,
188 regional school district or audited agency the request must be
189 accompanied by a corrective action plan. The secretary may, after a
190 hearing with the auditor and officials of the municipality, regional
191 school district or audited agency, grant an additional extension if
192 conditions warrant, provided such extension shall not exceed six
193 months from the date the auditor was required to file such copies. Said
194 auditor shall preserve all of his or her working papers employed in the
195 preparation of any such audit until the expiration of [~~three~~] five years
196 from the date of filing a certified copy of the audit with the secretary
197 and such working papers shall be available, upon written request and
198 upon reasonable notice from the secretary, during such time for
199 inspection by the secretary or his authorized representative, at the office
200 or place of business of the auditor, during usual business hours. Any
201 municipality, regional school district, audited agency or auditor who
202 fails to have the audit report filed on its behalf within six months from
203 the end of the fiscal year or within the time granted by the secretary shall
204 be referred by the secretary to the Municipal Finance Advisory
205 Commission established pursuant to section 7-394b, assessed a civil
206 penalty of not less than one thousand dollars but not more than [~~ten~~]
207 fifty thousand dollars or both, except that the secretary may waive such
208 penalties if, in the secretary's opinion, there appears to be reasonable
209 cause for not having completed or provided the required audit report,
210 provided an official of the municipality, regional school district or
211 audited agency or the auditor submits a written request for such waiver.
212 The secretary may impose any civil penalty assessed pursuant to this
213 section against a municipality, regional school district or audited agency
214 in the form of a reduction in the amount of one or more grants awarded
215 by the secretary, including, but not limited to, any grant payable
216 pursuant to section 12-18b.

This act shall take effect as follows and shall amend the following sections:

Proposed Substitute Bill No. 5472

Section 1	<i>July 1, 2024</i>	7-576a
Sec. 2	<i>July 1, 2024</i>	7-576f
Sec. 3	<i>July 1, 2024</i>	7-576i
Sec. 4	<i>July 1, 2024</i>	7-576e(a)(2)
Sec. 5	<i>July 1, 2024</i>	7-393