



# House of Representatives

General Assembly

**File No. 600**

February Session, 2022

Substitute House Bill No. 5427

*House of Representatives, April 25, 2022*

The Committee on Finance, Revenue and Bonding reported through REP. SCANLON of the 98th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

***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2 repealed and the following is substituted in lieu thereof (*Effective October*  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 current year audited revenues in the form of  
455 municipal aid from the state. Any such official that applies for such  
456 designation pursuant to this subsection shall provide a copy of such  
457 application to the Municipal Finance Advisory Committee not later than  
458 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] year audited  
508 revenues in the form of municipal aid from the state. Prior to submission  
509 of such request by a chief elected official, such official shall provide  
510 notice of intent to apply for such designation to the legislative body of  
511 such municipality. Such legislative body shall have [thirty] forty-five  
512 days from receipt of such notice to approve or reject the chief elected  
513 official's decision to submit such a request. If such legislative body does  
514 not approve or reject such decision during such [thirty-day] forty-five-  
515 day period, the chief elected official's decision to submit such request  
516 shall be deemed approved by such legislative body. Any chief elected  
517 official or legislative body that submits a request pursuant to this  
518 subsection shall provide a copy of such request to the Municipal Finance  
519 Advisory Commission not later than ten days after submitting such  
520 request. The secretary shall designate a municipality as tier III if [: (i) A  
521 municipality meets either condition described in subdivision (1) or (2)  
522 of] a request for such designation has been made pursuant to this  
523 subsection, and based on reports and findings of the Municipal Finance  
524 Advisory Commission, the secretary finds that the fiscal condition of the  
525 municipality warrants such designation. [, (ii) the municipality]

526 (b) Any municipality that (1) receives a bond rating below investment  
527 grade from a rating agency, (2) issues refunding bonds that [(I)] (A) have  
528 a term of more than twenty-five years, [(II)] (B) do not achieve net  
529 present value savings pursuant to the provisions of section 7-370c, and  
530 [(III)] (C) have annual debt service obligations associated with any  
531 existing debt and such refunding bonds in any year that are greater than  
532 the first full year debt service obligation following the issuance of such

533 refunding bonds, or [(iii) the municipality] (3) issues a deficit obligation  
534 [or has issued a deficit obligation in the five years preceding July 1,  
535 2017.] shall be designated as a tier III municipality. Any municipality  
536 that meets one or more conditions described in subdivisions (1) to (3),  
537 inclusive, of this subsection, shall notify the secretary not later than ten  
538 days after having met such condition or conditions.

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

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

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

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

563 (6) With respect to any municipality referred to the Municipal  
564 Accountability Review Board on or after [January 1, 2018] October 1,

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

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

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

591 Sec. 12. Subsection (a) of section 7-576e of the general statutes is  
592 repealed and the following is substituted in lieu thereof (*Effective October*  
593 *1, 2022*):

594 (a) (1) The chief elected official of a tier III municipality or the  
595 legislative body of such municipality, by a majority vote, may apply to  
596 the secretary to request designation as a tier IV municipality. The  
597 secretary may approve the request if the secretary determines that such

598 designation is necessary to ensure the fiscal sustainability of the  
599 municipality and is in the best interests of the state. Prior to submission  
600 of any such request by the chief elected official, such official shall  
601 provide notice of intent to apply for such designation to the legislative  
602 body of such municipality. Such legislative body shall have thirty days  
603 from receipt of such notice to approve or reject the chief elected official's  
604 decision to submit such a request. If such legislative body does not  
605 approve or reject such decision to seek such designation during such  
606 thirty-day period, the chief elected official's decision to submit such  
607 request shall be deemed approved by such legislative body.

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

633 secretary, the Governor may approve or disapprove the board's  
634 recommended designation.

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

657 (i) To review and approve or disapprove the municipality's annual  
658 budget, including, but not limited to, the general fund, other  
659 governmental funds, enterprise funds and internal service funds. No  
660 annual budget, annual tax levy or user fee for the municipality shall  
661 become operative until it has been approved by the board. If the board  
662 disapproves any annual budget, not later than the May twenty-first  
663 prior to the beginning of the new fiscal year, the board shall specify the  
664 reasons for such disapproval and shall provide the legislative body until  
665 the June fifteenth prior to the beginning of the new fiscal year to  
666 resubmit the annual budget in accordance with this section. If the

667 legislative body has not adopted a budget by such June fifteenth date or  
668 its resubmitted annual budget is not approved by the board, the board  
669 shall adopt an interim budget and establish a tax rate and user fees. Such  
670 interim budget shall take effect at the commencement of the fiscal year  
671 and shall remain in effect until the municipality submits and the board  
672 approves a modified budget. Notwithstanding any provision of the  
673 general statutes, or any public or special act, local law, charter or  
674 ordinance or resolution, a municipality may approve a modified budget  
675 pursuant to this section after any applicable deadline for such adoption  
676 has passed.

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

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

683 (iv) To approve or reject all collective bargaining agreements for a  
684 new term, other than modifications, amendments or reopening of an  
685 agreement, to be entered into by the municipality or any of its agencies  
686 or administrative units, including the board of education. If it rejects an  
687 agreement, the board shall indicate the specific provisions of the  
688 proposed agreement present or missing which caused the rejection, as  
689 well as its rationale for the rejection. The board may indicate the total  
690 cost impact or savings that are acceptable in a new agreement. At any  
691 time during negotiations and prior to reaching any agreement, or a  
692 modified agreement, the parties, by mutual agreement, may request  
693 guidance from the board as to the level and areas of savings that may be  
694 acceptable to the board in a new agreement. Following any rejection of  
695 a proposed collective bargaining agreement, the parties to the  
696 agreement shall have ten days from the date of the board's rejection to  
697 consider the board's concerns and propose a modified agreement. After  
698 the expiration of such ten-day period, the board shall approve or reject  
699 any such modified agreement. If the parties have been unable to reach a

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

729 (v) Except as otherwise provided in this subdivision, with respect to  
730 collective bargaining agreements of the municipality or any of its  
731 agencies or administrative units, including, but not limited to, the board  
732 of education, that are in or are subject to binding arbitration, the board  
733 shall have the power to impose binding arbitration upon the parties any  
734 time after the seventy-fifth day following the commencement of

735 negotiations or to reject any arbitration award pending municipal or  
736 board of education action pursuant to section 7-473c or 10-153f on the  
737 date the board is established. If, upon the date of a municipality's  
738 designation as a tier IV municipality, the parties are in binding  
739 arbitration, or if the board rejects a pending arbitration award, the board  
740 shall immediately replace any established binding arbitration panel  
741 with an arbitrator selected in accordance with this section. If the board  
742 imposes binding arbitration or replaces an existing binding arbitration  
743 panel, it shall do so with an arbitrator selected by the Governor from a  
744 list of three potential arbitrators approved by and submitted to the  
745 Governor by the board. Such list of potential arbitrators shall include  
746 former judges of the state or federal judicial systems or other persons  
747 who have experience with arbitration or similar proceedings. Prior to  
748 the Governor's selection of an arbitrator, the parties may provide  
749 recommendations for such selection to the board. The board shall not be  
750 limited to selecting arbitrators from those recommended by the parties.  
751 The board may reduce the time limits in the applicable provisions of the  
752 general statutes or any public or special acts governing binding  
753 arbitration by one-half. In imposing such arbitration or in replacing an  
754 arbitration panel, the board shall not be limited to consideration and  
755 inclusion in the collective bargaining agreement of the last best offers or  
756 the matters raised by or negotiated by the parties provided the board  
757 shall indicate reasons for raising any matters not negotiated by the  
758 parties. The board shall be given the opportunity to make a presentation  
759 before the arbitrator. In addition to any statutory factors that shall be  
760 considered by the arbitrator with respect to proposed municipal or  
761 board of education collective bargaining agreements, the arbitrator shall  
762 give highest priority to the short and long-term fiscal exigencies that  
763 resulted in the municipality's designation as a tier IV municipality. Not  
764 later than ten days after the issuance of any of the arbitrator's decisions  
765 on the matters subject to such binding arbitration, the board may  
766 request reconsideration of one or more of such decisions and state its  
767 position as to the impact of such decisions on the short and long-term  
768 fiscal sustainability of the municipality. Not later than five days after the  
769 board's request for such reconsideration, the parties may submit



770 comments to the arbitrator in response to the board's stated position.  
771 Not later than thirty days following the board's request for such  
772 reconsideration, the arbitrator, based on the record of the arbitration,  
773 may either modify or maintain the original arbitration decisions. The  
774 arbitrator's decisions shall be binding upon the parties. With respect to  
775 collective bargaining agreements negotiated pursuant to section 10-  
776 153d and arbitration awards issued pursuant to section 10-153f, the  
777 provisions of this subdivision shall not apply until the board has  
778 rejected such agreement or award pursuant to subdivision (7) of  
779 subsection (b) of section 7-576d, as amended by this act, on two  
780 occasions.

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

799 (5) The board may require that the municipality or its board of  
800 education notify and submit to the board any or all municipal or board  
801 of education contracts that exceed (A) fifty thousand dollars for  
802 municipalities with a resident population under seventy thousand, or  
803 (B) one hundred thousand dollars for municipalities with a resident

804 population of seventy thousand or more, not less than thirty days prior  
805 to execution of such contract, for the purpose of the board's review and  
806 approval of such contracts. The board shall establish policies and  
807 procedures, in consultation with any such municipality and such  
808 municipality's board of education, to implement the provisions of this  
809 subdivision.

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

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

819 (a) A municipality designated as a tier I municipality in accordance  
820 with section 7-576a, [or designated as a] as amended by this act, tier II  
821 municipality in accordance with section 7-576b, as amended by this act,  
822 tier III municipality in accordance with section 7-576c, as amended by  
823 this act, or tier IV municipality in accordance with section 7-576e, as  
824 amended by this act, shall retain such designation, notwithstanding any  
825 positive changes in the factors leading to its current designation, [or]  
826 until, in the fiscal years following such designation, (1) there have been  
827 no [annual] audited operating [budgetary] deficits in the general fund  
828 of the municipality for two consecutive fiscal years, (2) the  
829 municipality's bond rating has either improved or remained unchanged  
830 since its most current designation, (3) the municipality has presented  
831 and the commission or board has approved a financial plan that projects  
832 a positive [unreserved] fund balance for the three succeeding  
833 consecutive fiscal years covered by such financial plan, where a positive  
834 fund balance of at least five per cent is projected in the third such fiscal  
835 year, and (4) the municipality's audits for such consecutive fiscal years  
836 have been completed and contain no general fund deficit.

837 [Notwithstanding any other provisions of sections 7-560 to 7-575,  
838 inclusive, sections 7-568 to 7-579, inclusive, the municipality shall  
839 remain undesignated for purposes of a tier designation, unless  
840 circumstances would result in the municipality being designated as a  
841 tier numerically higher than its most recent designation.]

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

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

849 (a) Any designated tier II, III, or IV municipality shall be eligible to  
850 receive funding from the Municipal Restructuring Fund, which fund  
851 shall be nonlapsing. A designated tier II, III or IV municipality seeking  
852 such funds shall submit, for approval by the Secretary of the Office of  
853 Policy and Management, a plan detailing its overall restructuring plan,  
854 including local actions to be taken and its proposed use of such funds.  
855 Notwithstanding section 10-262j, a municipality may, as part of such  
856 plan and in consultation with its local board of education, submit a  
857 proposed reduction in the minimum budget requirement related to its  
858 education budget. The secretary shall consult with the Commissioner of  
859 Education in approving or rejecting such proposed reduction. The  
860 secretary shall consult with the municipal accountability review board  
861 in making distribution decisions and attaching appropriate conditions  
862 thereto, including the timing of any such distributions and whether such  
863 funds shall be distributed in the form of a municipal restructuring fund  
864 loan subject to repayment by the municipality. The distribution of such  
865 assistance funds shall be based on the relative fiscal needs of the  
866 requesting municipalities. The secretary may approve all, none or a  
867 portion of the funds requested by a municipality. In attaching  
868 conditions to such funding, the secretary shall consider the impact of  
869 such conditions on the ability of a municipality to meet legal and other

870 obligations. The board shall monitor and report to the secretary on the  
 871 use of such funds and adherence to the conditions attached thereto. The  
 872 secretary shall develop and issue guidance on the (1) administration of  
 873 the municipal restructuring fund, (2) criteria for participation by  
 874 municipalities and requirements for plan submission, and (3)  
 875 prioritization for the awarding of assistance funds pursuant to this  
 876 section. Any municipality that receives funding from the municipal  
 877 restructuring fund, in addition to the other responsibilities and  
 878 authority given to the board with respect to designated tiers II, III and  
 879 IV municipalities, shall be required to receive board approval of its  
 880 annual budgets.

881 Sec. 15. Section 7-576g of the general statutes is repealed. (*Effective*  
 882 *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	October 1, 2022	7-576d(b)(8)
Sec. 12	October 1, 2022	7-576e(a)
Sec. 13	October 1, 2022	7-576f
Sec. 14	October 1, 2022	7-576i(a)
Sec. 15	October 1, 2022	Repealer section

**Statement of Legislative Commissioners:**

In Section 13(a), "where the third such fiscal year projecting a positive fund balance of at least five per cent" was changed to "where a positive fund balance of at least five per cent is projected in the third such fiscal year" for clarity.

<b><i>PD</i></b>	<i>Joint Favorable Subst. C/R</i>	FIN
<b><i>FIN</i></b>	<i>Joint Favorable Subst.-LCO</i>	

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*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.*

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**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.

**The Out Years**

**State Impact:** None

**Municipal Impact:** None

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**OLR Bill Analysis****sHB 5427****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 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.

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 current 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 current 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**

<b>Measures</b>	<b>Set 1</b>	<b>Set 2</b>	<b>Set 3</b>
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**

<b>Measures</b>	<b>Set 1</b>	<b>Set 2</b>	<b>Set 3</b>	<b>Set 4</b>	<b>Set 5</b>
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 a percentage of revenue	At least 2%	Not applicable	Not applicable	Not applicable	Not applicable
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 current year audited 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 a tier II municipality, 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 current year audited 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 such 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: Status Retention Under Current Law and the Bill**

Current Law		The Bill
<i>Tiers I &amp; II</i>	<i>Tiers III &amp; IV</i>	<i>Tiers I - IV</i>
There have been no annual operating deficits in the municipality’s	There have been no annual operating deficits in the	There have been no audited operating deficits in the municipality’s general fund for

general fund for two consecutive fiscal years	municipality's general fund for three consecutive fiscal years	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, (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)