



Substitute House Bill No. 5427

Public Act No. 22-35

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:

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 Subsection (c) of section 7-374c of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2022*):

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

(1) The municipality shall, within the time and in the manner prescribed by regulations adopted by the secretary or as otherwise required by the secretary, notify the secretary of its intent to issue such pension deficit funding bonds and shall include with such notice (A) the actuarial valuation, (B) an actuarial analysis of the method by which the

Substitute House Bill No. 5427

municipality proposes to fund any unfunded past benefit obligation not to be defrayed by the pension deficit funding bonds, which method may include a plan of issuance of a series of pension deficit funding bonds, (C) an explanation of the municipality's investment strategic plan for the pension plan with respect to which the pension deficit funding bonds are to be issued, including, but not limited to, an asset allocation plan, (D) a [three-year] five-year financial plan, including the major assumptions and plan of finance for such pension deficit funding bonds, (E) a comparison of the anticipated effects of funding the unfunded past benefit obligation through the issuance of pension deficit funding bonds with the funding of the obligation through the annual actuarially recommended contribution, prepared in the manner prescribed by the secretary, (F) documentation of the municipality's authorization of the issuance of such pension deficit funding bonds including a certified copy of the resolution or ordinance of the municipality authorizing the issuance of the pension deficit funding bonds and an opinion of nationally recognized bond counsel as to the due authorization of the issuance of the bonds, (G) documentation that the municipality has adopted an ordinance, or with respect to a municipality not having the authority to make ordinances, has adopted a resolution by a two-thirds vote of the members of its legislative body, requiring the municipality to appropriate funds in an amount sufficient to meet the actuarially required contribution and contribute such amounts to the plan as required in subdivision (3) of subsection (c) of this section, (H) the methodology used and actuarial assumptions that will be utilized to calculate the actuarially recommended contribution, (I) a draft official statement with respect to the issuance of the pension deficit funding bonds, and (J) such other information and documentation as reasonably required by the secretary or the Treasurer to carry out the provisions of this section. The secretary and the Treasurer may, if they deem necessary, hire an independent actuary to review the information submitted by the municipality.

Substitute House Bill No. 5427

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

(3) As long as the pension deficit funding bonds or any bond refunding such bonds are outstanding, the municipality shall (A) for each fiscal year of the municipality commencing with the fiscal year in which the bonds are issued, appropriate funds in an amount sufficient to meet the actuarially required contribution and contribute such amount to the plan, and (B) notify the secretary annually, who shall in turn notify the Treasurer, of the amount or the rate of any such actuarially recommended contribution and the amount or the rate, if any, of the actual annual contribution by the municipality to the pension plan to meet such actuarially recommended contribution. On an annual basis, the municipality shall provide the secretary and the Treasurer with: (i) The actuarial valuation of the pension plan, (ii) a specific identification, in a format to be determined by the secretary, of any changes that have been made in the actuarial assumptions or methods compared to the previous actuarial valuation of the pension plan, (iii) the footnote disclosure and required supplementary information disclosure required by GASB Statement Number 27 with respect to the pension plan, and (iv) a review of the investments of the pension plan including a statement of the current asset allocation and an analysis of performance by asset class. With respect to a municipality which issues pension deficit funding bonds on or after July 1, 2006, in any fiscal year for which such municipality fails to appropriate sufficient funds to meet the actuarially required contribution in accordance with the provisions of this subdivision there shall be deemed appropriated an amount sufficient to meet such requirement, notwithstanding the provisions of

Substitute House Bill No. 5427

any other general statute or of any special act, charter, special act charter, home-rule ordinance, local ordinance or local law.

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

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

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

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

Substitute House Bill No. 5427

Upon the completion of an audit, the independent auditor shall file certified copies of the audit report with (1) the appointing authority, (2) in the case of a town, city or borough, with the clerk of such town, city or borough, (3) in the case of a regional school district, with the clerks of the towns, cities or boroughs in which such regional school district is located and with the board of education, (4) in the case of an audited agency, with the clerks of the towns, cities or boroughs in which such audited agency is located, and (5) in each case, with the Secretary of the Office of Policy and Management. Such copies shall be filed within six months from the end of the fiscal year of the municipality, regional school district or audited agency, but the secretary may grant an extension of not more than thirty days, provided the auditor making the audit and the chief executive officer of the municipality, regional school district or audited agency shall jointly submit a request in writing to the secretary stating the reasons for such extension at least thirty days prior to the end of such six-month period. If the reason for the extension relates to deficiencies in the accounting system of the municipality, regional school district or audited agency the request must be accompanied by a corrective action plan. The secretary may, after a hearing with the auditor and officials of the municipality, regional school district or audited agency, grant an additional extension if conditions warrant. Said auditor shall preserve all of his working papers employed in the preparation of any such audit until the expiration of three years from the date of filing a certified copy of the audit with the secretary and such working papers shall be available, upon written request and upon reasonable notice from the secretary, during such time for inspection by the secretary or his authorized representative, at the office or place of business of the auditor, during usual business hours. Any municipality, regional school district, audited agency or auditor who fails to have the audit report filed on its behalf within six months from the end of the fiscal year or within the time granted by the secretary shall be referred by the secretary to the Municipal Finance Advisory Commission established pursuant to section 7-394b, assessed a civil

Substitute House Bill No. 5427

penalty of not less than one thousand dollars but not more than ten thousand dollars [. The] or both, except that the secretary may waive such [penalty] penalties if, in [his] the secretary's opinion, there appears to be reasonable cause for not having completed or provided the required audit report, provided an official of the municipality, regional school district or audited agency or the auditor submits a written request for such waiver.

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

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

(1) A negative fund balance percentage;

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

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

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

(5) [Had a general fund annual operating budget deficit of one and one-half per cent or more of such municipality's general fund revenues

Substitute House Bill No. 5427

in the immediately preceding fiscal year] Did not file an annual audit report in the twelve months after the end of the fiscal year;

(6) [Had a general fund annual operating budget deficit of two per cent or more of such municipality's average general fund revenues in the two immediately preceding fiscal years] 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

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

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

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

(b) Not later than June 30, 2015, each municipality shall implement the uniform system of accounting for municipal revenues and expenditures developed pursuant to subsection (a) of this section by using such uniform system to complete and file annual reports with the Office of Policy and Management as may be required by the secretary in

Substitute House Bill No. 5427

order to increase transparency regarding municipal expenditures and to meet the state's benchmarking goals. Any annual report required pursuant to this subsection shall be filed not later than January thirty-first annually.

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

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

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

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

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

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

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

Substitute House Bill No. 5427

inclusive.

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

(6) "Deficit" means with respect to the general fund of any municipality, any cumulative excess of expenditures, encumbrances, or other uses of funds for any fiscal year and all prior fiscal years over revenues of the municipality for such period and the prior year's unassigned fund balance, as reflected in the most recent audited financial statements of such municipality. For purposes of determining such excess, revenues shall not include the proceeds of tax anticipation notes and expenditures shall not include any principal payment of tax anticipation notes.

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

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

(9) "Designated tier II municipality" means a municipality designated as a tier II municipality in accordance with the provisions of section 7-

Substitute House Bill No. 5427

576b, as amended by this act.

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

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

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

(13) "Fund balance" means the amount that assets and deferred outflow of resources of a municipality's general fund exceeds the liabilities and deferred inflow of resources of the general fund of the municipality, as of the fiscal year ended as reflected in the municipality's most recent audited financial statements presented in accordance with generally accepted accounting principles.

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

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

(16) "General obligation" means an obligation issued by a municipality and secured by the full faith and credit and taxing power of such municipality including any contingent obligation which is

Substitute House Bill No. 5427

payable from the general fund and is subject to annual appropriation.

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

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

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

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

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

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

[(22)] (23) "Municipal revenue increase in fiscal year ending June 30, 2018, as a per cent of revenues" means the net difference in estimated

Substitute House Bill No. 5427

municipal revenues from state sources and new municipal taxing authority as compiled by the secretary pursuant to section 4-71b for the fiscal year ending June 30, 2018, as compared to the estimated municipal revenues from such sources compiled by the secretary pursuant to section 4-71b for the fiscal year ending June 30, 2017, divided by the sum of revenues of the general fund and operating transfers into the general fund as reported in the municipality's audited financial statements for the fiscal year ending June 30, 2016.

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

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

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

[(26)] (27) "Projected fiscal year deficit" means, with respect to the general fund of any municipality during any fiscal year, the excess of estimated expenditures and uses of funds for the fiscal year over estimated revenues and any cumulative unassigned general fund balance from the prior fiscal year. For purposes of determining such

Substitute House Bill No. 5427

excess, estimated revenues shall not include the proceeds of tax anticipation notes and estimated expenditures shall not include any principal payment of tax anticipation notes.

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

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

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

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

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

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

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

[(34)] (35) "Tier I municipality" means any municipality which has

Substitute House Bill No. 5427

applied to and been certified by the secretary as a tier I municipality.

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

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

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

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

(a) [The chief elected official of a municipality may apply to the secretary to request designation as a tier I municipality if any of the following conditions exist: (1) The municipality has no bond rating, or its highest bond rating is A or above, provided the municipality has no rating that is not investment grade, receives less than thirty per cent of its current fiscal year general fund budget revenues in the form of municipal aid from the state, has a positive fund balance percentage, and has a municipal revenue increase in fiscal year ending June 30, 2018, as a per cent of revenues of two per cent or more, (2) the municipality has no bond rating or its highest bond rating is A, provided the municipality has no rating that is not investment grade, receives less than thirty per cent of its current fiscal year general fund budget revenues in the form of municipal aid from the state, and had a positive fund balance percentage of less than five per cent, or (3) the municipality's highest bond rating is AA or above, provided the municipality has no rating that is not investment grade, receives thirty

Substitute House Bill No. 5427

per cent or more of its current fiscal year general fund budget revenues in the form of municipal aid from the state, has an equalized mill rate of less than thirty, has a positive fund balance percentage, and has a municipal revenue increase in the fiscal year ending June 30, 2018, as a per cent of revenues of two per cent or more.] Any municipality referred pursuant to subsection (d) of section 7-395, as amended by this act, to the Municipal Finance Advisory Commission shall be designated a tier I municipality. The chief elected official of any municipality that does not meet the conditions identified under subsection (d) of section 7-395, as amended by this act, may apply to the Municipal Finance Advisory Commission for designation as a tier I municipality, provided such official (1) expects that such municipality will meet one or more such conditions in the following twenty-four month period, and (2) submits a report to the Municipal Finance Advisory Commission, in a form and manner prescribed by the commission, that confirms that such condition or conditions will be met in such period.

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

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

(a) The chief elected official of a municipality designated as a tier I municipality pursuant to section 7-576a, as amended by this act, may apply to the secretary to request designation as a tier II municipality if [any of the following conditions exist: (1) The municipality has no bond rating from a bond rating agency, or, if its highest bond rating is A, provided the municipality has no rating that is not investment grade,

Substitute House Bill No. 5427

receives thirty per cent or more of its current or prior fiscal year general fund budget revenues were or are in the form of municipal aid from the state, has a positive fund balance percentage of five per cent or more, has an equalized mill rate of less than thirty, and has a municipal revenue increase in fiscal year ending June 30, 2018, as a per cent of revenues of two per cent or more, (2) the municipality has no bond rating from a bond rating agency, or, if its highest bond rating is A, provided the municipality has no rating that is not investment grade, receives thirty per cent or more of its current or prior fiscal year general fund budget revenues were or are in the form of municipal aid from the state, has an equalized mill rate of less than thirty, and has a positive fund balance percentage of less than five per cent, (3) the municipality's highest bond rating is AA or higher, provided the municipality has no rating that is not investment grade, receives thirty per cent or more of its current or prior fiscal year general fund budget revenues were or are in the form of municipal aid from the state, and has an equalized mill rate of thirty or more, (4) the municipality's highest bond rating is AA or higher, provided the municipality has no rating that is not investment grade, and has a negative fund balance percentage, or (5) the municipality's highest bond rating is Baa or BBB, provided the municipality has no rating that is not investment grade, has a positive fund balance percentage and] the municipality has held one or more meetings with the Municipal Finance Advisory Committee, and (1) has an equalized mill rate of not less than thirty, or (2) received thirty per cent or more of its most recent audited financial statement revenues in the form of municipal aid from the state. Any such official that applies for such designation pursuant to this subsection shall provide a copy of such application to the Municipal Finance Advisory Committee not later than ten days after making such application.

(b) The secretary shall [refer any municipality which has requested designation as a tier II] (1) designate any tier I municipality as a tier II municipality at the request of such municipality, if the secretary

Substitute House Bill No. 5427

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

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

Sec. 9. Section 7-576c of the general statutes is repealed and the

Substitute House Bill No. 5427

following is substituted in lieu thereof (*Effective October 1, 2022*):

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

Substitute House Bill No. 5427

fiscal condition of the municipality warrants such designation. ~~[(ii) the municipality]~~

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

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

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

Substitute House Bill No. 5427

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

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

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

Sec. 11. Subdivision (8) of subsection (b) of section 7-576d of the general statutes is repealed and the following is substituted in lieu

Substitute House Bill No. 5427

thereof (*Effective October 1, 2022*):

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

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

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

(2) The Municipal Accountability Review Board may designate a tier III municipality as a tier IV municipality based on a finding by the board that the fiscal condition of such municipality warrants such a designation based upon an evaluation of the following criteria: (A) The balance in the municipal reserve fund; (B) the short and long-term liabilities of the municipality, including, but not limited to, the municipality's ability to meet minimum funding levels required by law, contract or court order; (C) the initial budgeted revenue for the

Substitute House Bill No. 5427

municipality for the past five fiscal years as compared to the actual revenue received by the municipality for such fiscal years; (D) budget projections for the following [three] five fiscal years; (E) the economic outlook for the municipality; and (F) the municipality's access to capital markets. For the purpose of determining whether to make a finding pursuant to this subdivision, the membership of the board shall additionally include the chief elected official of such municipality, the treasurer of such municipality and a member of the legislative body of such municipality, as selected by such body. In conducting a vote on any such determination, the treasurer of such municipality shall be a non-voting member of the board. The board shall submit such finding and recommended designation to the secretary, who shall provide for a thirty-day notice and public comment period related to such finding and recommendation. Following the public notice and comment period, the secretary shall forward the board's finding and recommended designation and a report regarding the comments received in this regard to the Governor. Following the receipt of such documentation from the secretary, the Governor may approve or disapprove the board's recommended designation.

(3) If any municipality is designated as a tier IV municipality, the following individuals shall serve as ex-officio, nonvoting members of the Municipal Accountability Review Board, provided such additional members shall only serve for purposes of the tier IV municipality that they represent: (A) The chief elected official of such municipality, or the chief elected official's designee, (B) an elected member of the local legislative body of such municipality, or such member's designee, as selected by a majority vote of the local legislative body of such municipality, (C) in the case where the municipality has an elected treasurer, the municipal treasurer or other municipal official responsible for the issuance of bonds, and (D) a member of the minority party of the municipality's legislative body as elected by such minority party members. Notwithstanding the provisions of sections 7-568 to 7-575,

Substitute House Bill No. 5427

inclusive, and sections 7-576a, as amended by this act, and 7-576b, as amended by this act, a municipality designated as a tier IV municipality pursuant to this section shall retain such designation following the issuance of a deficit obligation subsequent to such municipality's designation as a tier IV municipality. With respect to a designated tier IV municipality, the Municipal Accountability Review Board shall have the same powers and responsibilities as it has with respect to designated tier III municipalities in addition to which it shall have the following additional or superseding authority and responsibilities:

(i) To review and approve or disapprove the municipality's annual budget, including, but not limited to, the general fund, other governmental funds, enterprise funds and internal service funds. No annual budget, annual tax levy or user fee for the municipality shall become operative until it has been approved by the board. If the board disapproves any annual budget, not later than the May twenty-first prior to the beginning of the new fiscal year, the board shall specify the reasons for such disapproval and shall provide the legislative body until the June fifteenth prior to the beginning of the new fiscal year to resubmit the annual budget in accordance with this section. If the legislative body has not adopted a budget by such June fifteenth date or its resubmitted annual budget is not approved by the board, the board shall adopt an interim budget and establish a tax rate and user fees. Such interim budget shall take effect at the commencement of the fiscal year and shall remain in effect until the municipality submits and the board approves a modified budget. Notwithstanding any provision of the general statutes, or any public or special act, local law, charter or ordinance or resolution, a municipality may approve a modified budget pursuant to this section after any applicable deadline for such adoption has passed.

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

Substitute House Bill No. 5427

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

(iv) To approve or reject all collective bargaining agreements for a new term, other than modifications, amendments or reopening of an agreement, to be entered into by the municipality or any of its agencies or administrative units, including the board of education. If it rejects an agreement, the board shall indicate the specific provisions of the proposed agreement present or missing which caused the rejection, as well as its rationale for the rejection. The board may indicate the total cost impact or savings that are acceptable in a new agreement. At any time during negotiations and prior to reaching any agreement, or a modified agreement, the parties, by mutual agreement, may request guidance from the board as to the level and areas of savings that may be acceptable to the board in a new agreement. Following any rejection of a proposed collective bargaining agreement, the parties to the agreement shall have ten days from the date of the board's rejection to consider the board's concerns and propose a modified agreement. After the expiration of such ten-day period, the board shall approve or reject any such modified agreement. If the parties have been unable to reach a modified agreement or the board rejects such modified agreement, the board shall impose binding arbitration on the parties, in accordance with clause (v) of this subdivision, to arbitrate issues identified by the board as the cause for such inability or rejection. In establishing the issues to be arbitrated, as well as in making a determination to reject a proposed agreement, the board shall not be limited to matters raised or negotiated by the parties. Also, to approve or reject all modifications, amendments or reopeners to collective bargaining agreements entered into by the municipality or any of its agencies or administrative units, including the board of education. If it rejects a modification, amendment or reopener to an agreement, the board shall indicate the specific

Substitute House Bill No. 5427

provisions of the proposed modification, amendment or reopener which caused the rejection, as well as its rationale for the rejection. The board may indicate the total cost impact or savings acceptable in a new modification, amendment or reopener. If the board rejects a proposed amendment or reopener to a collective bargaining agreement, the parties to the agreement shall have ten days from the date of the board's rejection to consider the board's concerns and put forth a revised modification, amendment or reopener. After the expiration of such ten-day period, the board shall approve or reject any revised modification, amendment or reopener amendment. If the parties are unable to reach a revised modification, amendment or reopener or the board rejects such revised modification, amendment or reopener, the board shall impose binding arbitration upon the parties in accordance with clause (v) of this subdivision. The issues to be arbitrated shall be those identified by the board as causing such inability or rejection. Prior to the board taking action on any such modification, amendment or reopener, the parties shall have an opportunity to make a presentation to the board.

(v) Except as otherwise provided in this subdivision, with respect to collective bargaining agreements of the municipality or any of its agencies or administrative units, including, but not limited to, the board of education, that are in or are subject to binding arbitration, the board shall have the power to impose binding arbitration upon the parties any time after the seventy-fifth day following the commencement of negotiations or to reject any arbitration award pending municipal or board of education action pursuant to section 7-473c or 10-153f on the date the board is established. If, upon the date of a municipality's designation as a tier IV municipality, the parties are in binding arbitration, or if the board rejects a pending arbitration award, the board shall immediately replace any established binding arbitration panel with an arbitrator selected in accordance with this section. If the board imposes binding arbitration or replaces an existing binding arbitration

Substitute House Bill No. 5427

panel, it shall do so with an arbitrator selected by the Governor from a list of three potential arbitrators approved by and submitted to the Governor by the board. Such list of potential arbitrators shall include former judges of the state or federal judicial systems or other persons who have experience with arbitration or similar proceedings. Prior to the Governor's selection of an arbitrator, the parties may provide recommendations for such selection to the board. The board shall not be limited to selecting arbitrators from those recommended by the parties. The board may reduce the time limits in the applicable provisions of the general statutes or any public or special acts governing binding arbitration by one-half. In imposing such arbitration or in replacing an arbitration panel, the board shall not be limited to consideration and inclusion in the collective bargaining agreement of the last best offers or the matters raised by or negotiated by the parties provided the board shall indicate reasons for raising any matters not negotiated by the parties. The board shall be given the opportunity to make a presentation before the arbitrator. In addition to any statutory factors that shall be considered by the arbitrator with respect to proposed municipal or board of education collective bargaining agreements, the arbitrator shall give highest priority to the short and long-term fiscal exigencies that resulted in the municipality's designation as a tier IV municipality. Not later than ten days after the issuance of any of the arbitrator's decisions on the matters subject to such binding arbitration, the board may request reconsideration of one or more of such decisions and state its position as to the impact of such decisions on the short and long-term fiscal sustainability of the municipality. Not later than five days after the board's request for such reconsideration, the parties may submit comments to the arbitrator in response to the board's stated position. Not later than thirty days following the board's request for such reconsideration, the arbitrator, based on the record of the arbitration, may either modify or maintain the original arbitration decisions. The arbitrator's decisions shall be binding upon the parties. With respect to collective bargaining agreements negotiated pursuant to section 10-

Substitute House Bill No. 5427

153d and arbitration awards issued pursuant to section 10-153f, the provisions of this subdivision shall not apply until the board has rejected such agreement or award pursuant to subdivision (7) of subsection (b) of section 7-576d, as amended by this act, on two occasions.

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

(5) The board may require that the municipality or its board of education notify and submit to the board any or all municipal or board of education contracts that exceed (A) fifty thousand dollars for municipalities with a resident population under seventy thousand, or (B) one hundred thousand dollars for municipalities with a resident population of seventy thousand or more, not less than thirty days prior to execution of such contract, for the purpose of the board's review and approval of such contracts. The board shall establish policies and

Substitute House Bill No. 5427

procedures, in consultation with any such municipality and such municipality's board of education, to implement the provisions of this subdivision.

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

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

(a) A municipality designated as a tier I municipality in accordance with section 7-576a, [or designated as a] as amended by this act, tier II municipality in accordance with section 7-576b, as amended by this act, tier III municipality in accordance with section 7-576c, as amended by this act, or tier IV municipality in accordance with section 7-576e, as amended by this act, shall retain such designation, notwithstanding any positive changes in the factors leading to its current designation, [or] until, in the fiscal years following such designation, (1) there have been no [annual] audited operating [budgetary] deficits in the general fund of the municipality for two consecutive fiscal years, (2) the municipality's bond rating has either improved or remained unchanged since its most current designation, (3) the municipality has presented and the commission or board has approved a financial plan that projects a positive [unreserved] fund balance for the three succeeding consecutive fiscal years covered by such financial plan, where a positive fund balance of at least five per cent is projected in the third such fiscal year, and (4) the municipality's audits for such consecutive fiscal years have been completed and contain no general fund deficit. [Notwithstanding any other provisions of sections 7-560 to 7-575,

Substitute House Bill No. 5427

inclusive, sections 7-568 to 7-579, inclusive, the municipality shall remain undesignated for purposes of a tier designation, unless circumstances would result in the municipality being designated as a tier numerically higher than its most recent designation.]

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

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

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

Substitute House Bill No. 5427

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

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

Approved May 17, 2022