



General Assembly

**Substitute Bill No. 5472**

February Session, 2024



**AN ACT CONCERNING MUNICIPAL FINANCE AND AUDITS.**

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

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 Section 7-576a of the general statutes is repealed and the  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

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

20 financial plan to the Municipal Finance Advisory Commission for its  
21 review and approval.

22 [(b) The secretary shall refer any municipality designated as a tier I  
23 municipality to the Municipal Finance Advisory Commission, pursuant  
24 to the provisions of section 7-395. In addition to the requirements of  
25 section 7-394b, such municipality shall prepare and present a five-year  
26 financial plan to the Municipal Finance Advisory Commission for its  
27 review and approval.]

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 Section 7-576f of the general statutes is repealed and the  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

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

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

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

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

84 (2) A municipality redesignated to a lower tier pursuant to  
85 subdivision (1) of this subsection shall (A) meet the requirements of this

86 chapter pertaining to such lower tier, and (B) not request a  
87 determination from the Municipal Accountability Review Board  
88 pursuant to subdivision (2) of subsection (a) of this section during the  
89 one-year period following such redesignation.

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

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

120 this section. Any municipality that receives funding from the [municipal  
121 restructuring fund] Municipal Restructuring Fund, in addition to the  
122 other responsibilities and authority given to the board with respect to  
123 designated tiers II, III and IV municipalities, shall be required to receive  
124 board approval of its annual budgets.

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

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

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

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

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

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

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

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

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2024	7-576a

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

**Statement of Legislative Commissioners:**

In Section 2(C)(iii), "5-576j" was changed to "7-576j" for accuracy.

**PD**      *Joint Favorable Subst.*