



Reinforcing Fiscal Stability of Certain Municipalities

As part of his Fiscal Year 2018/2019 budget proposal, Governor Malloy is proposing a tiered system of accountability under which municipalities would be subject to increasing levels of state review and intervention based on the state of a municipality. This new system will provide the structure to deliver a graduated response to the severity of need. The weaker a local government's finances are, the greater the accountability and state involvement. More importantly, this system allows the state to intervene and support a city or town before its financial situation reaches the brink of a crisis.

Under this system, the vast majority of communities, based on their stable and healthy fiscal conditions, would not experience an increase in state oversight beyond current levels. In fact, Governor Malloy's budget proposal includes significant mandate relief for these communities, including elimination of the local budget cap, and relief from a number of other mandates covering labor, property tax administration, and education.

Tiers 1-3: Low to Moderate Levels of Accountability and Need

For communities that have some level of fiscal stress, the proposed legislation would place them in one of three tiers differentiated by severity of fiscal distress. The criteria used to determine a given community's placement into tiers 1-3 include the following:

- fund balance (reserve levels) that are below five percent of a municipality's annual revenue;
- credit rating; and
- state aid over 30 percent of municipality's annual revenue.

Tier 1 would require minimal reporting. The higher tiers would cap local grand levy growth at three percent and require increased reporting. Additional accountability in Tiers 2-3 include some level of oversight functions carried out by a newly formed Municipal Accountability Review Board (MARB).

Tier 4: Highest Level of Accountability and Need

Based on the request by the local government or a super-majority of the MARB, a community can be placed in Tier 4. In this tier, the board would have powers modeled on the successful review board in Waterbury. Under Tier 4, the MARB may:

- approve debt restructuring and deficit financing using the State's Capital Reserve Fund (SCRF) to enhance a municipality's credit;
- serve as an arbitration panel;
- approve budget assumptions; or
- appoint a fiscal manager to oversee municipal operations.

Composition of the Municipal Accountability Review Board (MARB)

- Secretary of OPM, or designee, and the State Treasurer, or designee, will each serve as co-chairs.
- The Governor will appoint four members: one resident and one affiliated with a business of a Tier 2, 3, or 4 municipality; one with finance expertise; and one current or former municipal chief executive or financial officer. Additional appointees are permitted if more than two municipalities fall into Tier 3 and 4.
- Each municipality referred to the board will appoint three representatives: the local chief elected official; a labor organization representative; and a member recommended by regional COG and appointed by the Governor.