MONITORING AND OVERSIGHT OF MUNICIPAL FISCAL HEALTH IN CONNECTICUT

Government Fiscal Sustainability Workgroup Meeting
October 21-22, 2019

Connecticut Office of Policy & Management (OPM)

- Governor’s staff agency
- Central role in State government and formulating public policy
- Prepares Governor’s budget proposal
- Implements and monitors adopted State budget
- Assists state agencies in implementing policy on Governor’s behalf
- Seven divisions:
  - Administration
  - Budget and Financial Management
  - Criminal Justice Policy and Planning
  - Finance
  - Intergovernmental Policy & Planning
  - Labor Relations
  - Health and Human Services Policy and Planning
Historical Structures & Processes

1. Municipal Fiscal Indicators
   - Historically available for self-assessment
   - Published annually by OPM
   - Statewide rankings and multi-year data

2. Municipal Finance Advisory Commission
   - Longstanding advisory board
   - Historically focused on fiscal health, sound financial practices, timely audit submissions
   - Recent legislation: role and responsibilities evolving

3. Special Acts
   - Oversight boards created by Special Acts
   - Instances of severe municipal financial distress
     - City of Bridgeport
     - City of Waterbury

Municipal Fiscal Indicators

- Published annually by OPM

- Statewide rankings on wide range of data
  - Financial indicators
  - Tax base and economic data
  - Demographic data

- Profile of each municipality with 5 years of data
- Municipal financial data aggregated from audited financial statements
- Demographic and economic data from multiple state agencies
### Municipal Fiscal Indicators: Example – Statewide Ranking

#### Table 1: Per Capita Property Taxable Valuation

<table>
<thead>
<tr>
<th>Rank</th>
<th>Town</th>
<th>Valuation per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New Haven</td>
<td>$6,952</td>
</tr>
<tr>
<td>2</td>
<td>Westport</td>
<td>$6,452</td>
</tr>
<tr>
<td>3</td>
<td>New London</td>
<td>$5,753</td>
</tr>
<tr>
<td>4</td>
<td>East Hampton</td>
<td>$5,620</td>
</tr>
<tr>
<td>5</td>
<td>Watertown</td>
<td>$5,547</td>
</tr>
<tr>
<td>6</td>
<td>Lockwood</td>
<td>$5,349</td>
</tr>
<tr>
<td>7</td>
<td>Norwalk</td>
<td>$5,282</td>
</tr>
<tr>
<td>8</td>
<td>Redding</td>
<td>$5,279</td>
</tr>
<tr>
<td>9</td>
<td>Stratford</td>
<td>$5,227</td>
</tr>
<tr>
<td>10</td>
<td>Southbury</td>
<td>$5,119</td>
</tr>
</tbody>
</table>

#### Table 2: Sales Tax Collections

<table>
<thead>
<tr>
<th>Rank</th>
<th>Town</th>
<th>Collections per Capita</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>New Haven</td>
<td>$1,885</td>
</tr>
<tr>
<td>2</td>
<td>Westport</td>
<td>$1,795</td>
</tr>
<tr>
<td>3</td>
<td>New London</td>
<td>$1,695</td>
</tr>
<tr>
<td>4</td>
<td>East Hampton</td>
<td>$1,650</td>
</tr>
<tr>
<td>5</td>
<td>Watertown</td>
<td>$1,595</td>
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<tr>
<td>6</td>
<td>Lockwood</td>
<td>$1,540</td>
</tr>
<tr>
<td>7</td>
<td>Norwalk</td>
<td>$1,495</td>
</tr>
<tr>
<td>8</td>
<td>Redding</td>
<td>$1,480</td>
</tr>
<tr>
<td>9</td>
<td>Stratford</td>
<td>$1,425</td>
</tr>
<tr>
<td>10</td>
<td>Southbury</td>
<td>$1,390</td>
</tr>
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#### Table 3: Revenue per Capita

<table>
<thead>
<tr>
<th>Rank</th>
<th>Town</th>
<th>Revenue per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New Haven</td>
<td>$7,537</td>
</tr>
<tr>
<td>2</td>
<td>Westport</td>
<td>$7,147</td>
</tr>
<tr>
<td>3</td>
<td>New London</td>
<td>$6,242</td>
</tr>
<tr>
<td>4</td>
<td>East Hampton</td>
<td>$6,175</td>
</tr>
<tr>
<td>5</td>
<td>Watertown</td>
<td>$5,998</td>
</tr>
<tr>
<td>6</td>
<td>Lockwood</td>
<td>$5,869</td>
</tr>
<tr>
<td>7</td>
<td>Norwalk</td>
<td>$5,784</td>
</tr>
<tr>
<td>8</td>
<td>Redding</td>
<td>$5,764</td>
</tr>
<tr>
<td>9</td>
<td>Stratford</td>
<td>$5,655</td>
</tr>
<tr>
<td>10</td>
<td>Southbury</td>
<td>$5,533</td>
</tr>
</tbody>
</table>

#### Notes

- The rankings are based on the most recent available data as of 1/14/2020.
- The tables above provide a snapshot of municipal fiscal indicators, including property tax valuation, sales tax collections, and total revenue per capita for selected towns in the state.
Municipal Fiscal Indicators: Example – Illustrative Map

Municipal Fiscal Indicators: Example Multi-Year Data
Municipal Finance Advisory Commission (MFAC)

- Historical monitoring and oversight roles:
  1. Compliance with audit reporting requirements for municipalities
     - Municipal Audit Act
  2. Evidence of irregular or unsound financial practices
  3. Financial indicators – potentially unhealthy fiscal condition

- Commission comprised of municipal finance professionals, municipal managers, practitioners in pension, accounting, legal fields

- Staffed and administered by Office of Policy and Management

- Advisory with authority to compel municipalities to appear at meetings and provide information and updates

MFAC, continued

- Oversight
  - Require municipality to report on financial practices
  - Require chief executive to present and discuss remedial plan
  - Make recommendations and advise on corrective actions or ways to improve municipality’s financial condition
  - 3 to 4 meetings per year – monitoring implementation of remedial plans and condition

- Paths to MFAC oversight
  - Voluntary
  - Secretary of OPM has discretion and authority to refer municipalities to MFAC
  - Recent legislation added specific criteria for automatic referral
Special Acts

- Special Acts – special legislation specific to municipalities in fiscal distress
  - *Bridgeport*: several acts in 1980s and 1990s
  - *Waterbury*: twice in 1990s
  - *Jewett City*: 1993
  - *West Haven*: 1992
- In each case, special legislation authorized local borrowing to address fiscal emergencies
- Imposed conditions and requirements for bond issuance
- Created oversight board or receivership with specified powers
- Other obligations on local government

Monitoring and Oversight of Municipal Fiscal Health

Recent Changes

- **Public Act 17-2** (2017)
  - Established tiers of fiscal distress based on set of indicators
    - 4 tiers
  - Created oversight board for designated municipalities
    - *Municipal Accountability Review Board (MARB)*
  - Several paths to MARB oversight

- **Public Act 19-193** (2019)
  - Established process for early detection of municipal fiscal distress
  - Based on 7 fiscal indicators
  - Automatic triggers for referral to MFAC
    - May ultimately lead to referral to MARB
Tier Designations (P.A. 17-2)

- Four Tiers
  - Oversight at Tiers I – III
  - Intervention and Control at Tier IV

- Criteria for Tiers I - III:
  - Fund Balance
  - Bond Rating
  - Reliance on State Aid
  - Tax Rate/Tax Base

Tiered Calculations - 1st Year

<table>
<thead>
<tr>
<th>Municipalities</th>
<th>Moody's</th>
<th>S&amp;P</th>
<th>Fitch</th>
<th>Fund Balance</th>
<th>2016 State Aid %</th>
<th>2017 State Aid %</th>
<th>EqMR</th>
<th>Mini Rev Inc Factor</th>
<th>Designated Tier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated Municipalities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HARTFORD</td>
<td>B2</td>
<td></td>
<td></td>
<td>0.84%</td>
<td>49.51%</td>
<td>54.09%</td>
<td>36.53</td>
<td>-0.39%</td>
<td>Tier III</td>
</tr>
<tr>
<td>WEST HAVEN - Deficit Bonds</td>
<td>Ba3</td>
<td>BBB</td>
<td>-10.00%</td>
<td>43.45%</td>
<td>41.38%</td>
<td>26.42</td>
<td>0.12%</td>
<td>Tier III</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Preliminary Projected Tier III Municipalities</th>
<th>Ba1</th>
<th>A</th>
<th>A</th>
<th>3.18%</th>
<th>41.06%</th>
<th>44.60%</th>
<th>25.18</th>
<th>-1.10%</th>
<th>Tier III</th>
</tr>
</thead>
<tbody>
<tr>
<td>S2(B) BRIDGEPORT</td>
<td>Ba1</td>
<td>A</td>
<td>A</td>
<td>3.18%</td>
<td>41.06%</td>
<td>44.60%</td>
<td>25.18</td>
<td>-1.10%</td>
<td>Tier III</td>
</tr>
<tr>
<td>S2(B) NEW BRITAIN</td>
<td>Ba2</td>
<td>A-</td>
<td>A-</td>
<td>3.65%</td>
<td>43.62%</td>
<td>47.38%</td>
<td>35.90</td>
<td>-2.44%</td>
<td>Tier III</td>
</tr>
<tr>
<td>S2(A) NEW HAVEN</td>
<td>Ba1</td>
<td>BBB-</td>
<td>BBB</td>
<td>-5.50%</td>
<td>45.28%</td>
<td>48.47%</td>
<td>24.54</td>
<td>-0.22%</td>
<td>Tier III</td>
</tr>
</tbody>
</table>

| Tier II Municipalities:                        | Ba2 | A | A-| 5.60% | 43.51% | 40.75 | -0.33% |          |                  |
| S2 BROOKLYN                                     |     |   |   | 5.60% | 43.51% | 40.75 | -0.33% |          |                  |
| S3 EAST HARTFORD                                |     |   |   | 5.52% | 42.90% | 39.38 | 32.85 | -0.48% |                  |
| S3 NAUGATUCK                                    |     |   |   | 4.56% | 33.01% | 34.08 | 20.01 | -1.80% |                  |
| S3 SPRINGFIELD                                  |     |   |   | 5.00% | 37.35% | 40.75 | 40.75 | -0.33% |                  |
| S3 WATERBURY                                    |     |   |   | 5.00% | 37.35% | 40.75 | 40.75 | -0.33% |                  |
| Tier I Municipalities:                         |     |   |   | 5.00% | 37.35% | 40.75 | 40.75 | -0.33% |                  |
| S2 HAMPTON                                      | Ba2 | A | BBB-| 1.25% | 20.26% | 23.35 | 33.64 | -1.28% |                  |
Municipal Accountability Review Board (MARB)

- 11 Member Board consisting of:
  - Secretary of OPM (or designee)
  - State Treasurer (or designee)
  - Appointed members with backgrounds in specified fields (municipal finance, legal, labor, etc.)
- Meet monthly as full board
  - subcommittee structure for each designated municipality
- Staffed by OPM

Paths to Oversight

<table>
<thead>
<tr>
<th>Tier</th>
<th>Process(es)</th>
<th>Oversight Authority</th>
</tr>
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<tbody>
<tr>
<td>Tier I</td>
<td>Voluntary</td>
<td>MFAC</td>
</tr>
<tr>
<td>Tier II</td>
<td>Voluntary</td>
<td>MARB</td>
</tr>
<tr>
<td>Tier III</td>
<td>Voluntary, Secretary Referral based on MFAC advice</td>
<td>MARB</td>
</tr>
<tr>
<td></td>
<td>Voluntary, Automatic triggers (ex. deficit bonds)</td>
<td></td>
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</tbody>
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Oversight at Tier I

- **Tier I**
  - **Oversight by MFAC**
  - **Requires development of three year financial plan**
  - **May require chief executive to appear before MFAC**
    - Provide information on financial condition
    - Provide remedial plan
    - Report on implementation of recommendations from commission
  - **Currently, no municipalities designated at Tier I**

Oversight at Tier II

- **Tier II**
  - **Oversight by MARB**
  - **Requires development of three year financial plan**
  - **MARB must approve certain elements of annual budget**
  - **MARB may require submittal of additional financial or related information**
  - **Tier II makes municipality eligible for Restructuring Funds**
    - If granted Restructuring Funds, annual budget subject to MARB approval
  - **Currently one municipality designated at Tier II**
Oversight at Tier III

- Tier III
  - Oversight by MARB
  - Requires development of three year financial plan
  - MARB must approve certain elements of annual budget
  - MARB approves most labor contracts
  - Review and comment on non-labor contracts, debt issuance, etc.
  - Tier III makes municipality eligible for Restructuring Funds
    - If granted Restructuring Funds, annual budget subject to MARB approval
  - Currently 2 municipalities designated at Tier III

MFAC Role in Tier III Referral

- MFAC reviews financial condition of municipalities meeting Tier III criteria
- Make recommendation to Secretary regarding referral of municipality to MARB
- Review and analysis based on range of indicators
  - Fund balance
  - Operating results
  - Debt management
  - Cash Mgt/Liquidity
  - Employee benefits
  - Tax base and demographics
  - Audit reports/findings
  - Budget analysis
MFAC Role in Tier III Referral

- Excerpt from multi-year trend analysis

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</tr>
</thead>
<tbody>
<tr>
<td>Operating Income (Deficit) as % of Revenues - General Fund</td>
<td>0.09%</td>
<td>0.08%</td>
<td>0.10%</td>
<td>0.11%</td>
<td>0.10%</td>
<td>0% - 1.5%</td>
<td>Neutral</td>
<td>Neutral</td>
</tr>
<tr>
<td>Operating Income (Deficit) as % of Revenues - General Fund</td>
<td>2.42%</td>
<td>2.48%</td>
<td>2.56%</td>
<td>3.18%</td>
<td>3.48%</td>
<td>3% - 7.5%</td>
<td>Unfavorable</td>
<td>Neutral</td>
</tr>
<tr>
<td>Unassigned Fund Balance (Deficit) as % of Revenues - General Fund</td>
<td>2.50%</td>
<td>2.42%</td>
<td>2.50%</td>
<td>3.12%</td>
<td>3.48%</td>
<td>3% - 7.5%</td>
<td>Unfavorable</td>
<td>Neutral</td>
</tr>
<tr>
<td>Significant Fund Deficits - Non-Capital Projects Funds</td>
<td>($85,317,425)</td>
<td>($87,655,787)</td>
<td>($88,808,941)</td>
<td>($89,457,426)</td>
<td>($85,311,643)</td>
<td>$0 to ($1,000,000)</td>
<td>Unfavorable</td>
<td>Unfavorable</td>
</tr>
</tbody>
</table>

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</tr>
</thead>
<tbody>
<tr>
<td>TAA's and Other S/F Notes Issued as % of Expenses</td>
<td>14.57%</td>
<td>14.05%</td>
<td>11.40%</td>
<td>9.80%</td>
<td>8.30%</td>
<td>Over 0% - 2%</td>
<td>Unfavorable</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>Unassigned Fund Balance as % of Revenues</td>
<td>$16,086,763</td>
<td>$14,444,261</td>
<td>$10,063,035</td>
<td>$8,799,053</td>
<td>$7,091,922</td>
<td>-</td>
<td>N/A</td>
<td>Neutral</td>
</tr>
</tbody>
</table>

MFAC Role in Tier III Referral

- Excerpt from benchmark comparisons

[Financial Indicator 2B Diagram]
Intervention and Control – Tier IV

- Tier IV
  - Process for elevating municipality under Tier III oversight to Tier IV
  - High degree of control by MARB
  - Approval of budget and tax rate and ability to impose interim budget
  - Ability to impose binding arbitration re: labor contracts
  - Authority to approve/disapprove budget transfers (including BOE)
  - Authority to appoint financial manager
  - No municipalities at Tier IV

MFAC Early Detection (P.A. 19-193)

- Municipalities meeting certain criteria automatically referred to MFAC
- Municipalities that meet any of 7 criteria based on audited financials:
  - Negative fund balance
  - 3 years of fund balance < 5%
  - 2 consecutive years declining fund balance
  - 3 consecutive years using TANs or BANs to meet cash liquidity
  - General Fund deficit of 1.5% in prior year
  - Average General Fund deficit of 2% over two years
  - Bond rating below A
- New process – to be implemented beginning with FY 2019 data
Next Developments

- Automation of financial data
- Automation of analysis
- Fine-tune indicators/criteria (through legislative process)

CT Office of Policy & Management

Thank you for your interest. Please feel free to contact us with any questions.

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