



Written Testimony of State Treasurer Denise L. Nappier

SUBMITTED TO THE FINANCE, REVENUE AND BONDING COMMITTEE

MARCH 9, 2017

Senator Fonfara, Senator Frantz, Representative Rojas, Representative Davis and members of the Finance, Revenue and Bonding Committee, thank you for the opportunity to submit testimony concerning **Governor's Bill 7050, *An Act Concerning Enhancements to Municipal Finance and Accountability***.

My testimony focuses primarily on the sections of the bill that would create the Municipal Accountability Review Board and define its responsibilities.

The State of Connecticut has a long, successful track record of working with our distressed municipalities to help them improve their fiscal footing and get back on course. This bill expands upon our successful approach and creates a vehicle whereby the state can provide oversight and assistance on a continuing basis.

Perhaps most importantly, HB 7050 proposes that the state work closely with a municipality when it begins to experience fiscal stress, helping to strengthen these communities before the fiscal stress becomes distress. Especially for those municipalities seeking to restructure debt or issue deficit notes, the state support will seek to ensure these powerful financing tools are part of a long-term solution, and do not just add to the problem.

The bill provides a structured approach to municipal finance and accountability. It establishes a new Municipal Accountability Review Board to oversee and work with fiscally challenged municipalities using a tiered ranking system. The Board would be co-chaired by the Secretary of the Office of Policy and Management and the State Treasurer and would have four core members plus, for each municipality referred to the board, its chief elected official, a bargaining unit representative and one member recommended by the Council of Governments within which that municipality is located.

Among other provisions, the bill would allow the most distressed municipalities that come under the highest level of oversight by the proposed Municipal Accountability Review Board, Tier IV municipalities, to restructure their debt out 30 years. For any municipality choosing to utilize this powerful debt restructuring tool, I would expect that it must be accompanied by a concrete plan for the municipality to reach improved long-term fiscal footing in the foreseeable future.

In addition, Tier IV municipalities would be able to issue 30-year bonds for all purposes, expanding beyond the ability to issue such bonds for schools, sewers and specific other purposes which municipalities currently possess. While I do not oppose the provision allowing the issuance of 30-year bonds for all new money purposes, I would encourage municipalities to use this power sparingly. Thirty-year bonds are much more expensive than 20-year bonds and result in significantly increased debt

loads in the future while providing minimal short-term budget relief, the classic “penny wise and pound foolish.”

Respectfully, I must also point out that, if adopted, the Board would be an additional unfunded duty for the Treasurer’s Office. Due to reductions already proposed for my office by the Governor’s budget, we would need additional resources in order to properly carry out this new responsibility alongside OPM.

I also would like to speak to the bill’s provision that Connecticut municipalities reimburse the state for a portion of the state's contributions to the Teachers' Retirement System. It charges the Treasurer with tracking these payments and reporting any defaults on payments.

In my opinion, this tracking responsibility would be more appropriately assigned to the Teachers’ Retirement Board, which currently collects teacher contributions from towns and already is set up for such a function.

In addition, the reimbursement schedule could create an operating cash flow issue as payments to the pension fund would predate the municipal reimbursements. Reimbursements would be due to the State on December 31st of each year, and a penalty would be charged for nonpayment after 30 days. Meanwhile, the State’s contributions to the Teachers’ Retirement System are required to be made in four equal installments: 15th of July, 1st of October, 1st of January and 1st of April of each fiscal year. Thus, at least one-half of the municipal payments -- approximately \$200 million in Fiscal Year 2018 -- would be made from the General Fund prior to the municipal reimbursements being received. This mismatch in timing is of some concern because the State’s cash balances are at seasonal lows in early December.

My office would be happy to work with all interested parties to arrive at a revised payment schedule that would minimize negative impacts on the State’s cash flow while being mindful of the ebb and flow of local government cash as well, especially for fiscally distressed municipalities.

Thank you for the opportunity to comment on this proposed legislation.