

Testimony of

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Connecticut Education Association

Before the

Committee on Planning and Development

Re:

**HB 5050 AN ACT CONCERNING THE ONLINE PUBLICATION OF MUNICIPAL BUDGETS
AND INFORMATION CONCERNING MUNICIPAL FINANCES**

February 3rd, 2025

Good morning, Senator Rahman, Representative Kavros DeGraw, Senator Gordon, Representative Zullo, and members of the Committee on Planning and Development. My name is Orlando Rodriguez, and I am a Research and Policy Development Specialist for CEA, which represents educators in over 150 school districts across the state.

Since 2020, as part of teacher contract negotiations, CEA has looked at the budgets of roughly 60 towns and found issues of concern for taxpayers. More transparency is needed for town residents to be accurately informed of their town's true finances. Additionally, we have found that misleading financial representations result in decisions that are not in the best interests of the local school district.

At times, when you look at a town's audit from year-to-year you see ongoing budgeting practices that raise red flags. It's common practice for a town to understate revenues and overstate expenditures. This is prudent budgeting until it results in ongoing large surpluses that voters did not knowingly approve because the budgeted amounts were consistently inaccurate. Inaccurate or distorted financial data also misleads decision-makers and voters on critical school funding issues.

What if funds budgeted for education were instead spent on something else, but obscured from taxpayers with accounting lingo? Would voters approve of hiding money in surplus accounts rather than attracting and retaining teachers or making class sizes reasonable?

To illustrate, here are some examples. Each year from fiscal 2021 to 2023, one southeast town collected \$14 million in annual expenditures and collected an additional 1 million in revenue. In total during this period, the town collected \$3.9 million, or 9 percent, more than it spent. During this same 3-year period, a northwest town collected \$2.5 million, or 7 percent, more than was spent on annual expenditures of roughly \$12 million. There are other towns with similar practices.

Towns have an unassigned fund within their General Fund. This is often called the Rainy Day fund. Monies in this fund are not dedicated to any purpose. How large should a Rainy Day fund be? There's no

single correct answer, but there is some guidance. The [Government Finance Officers Association](#) recommends at least two months of operating revenues or expenditures — which is 16.7% of budgeted revenues or expenditures.

Frequently, we see town budgets with unnecessarily high Rainy Day funds. According to their 2023 audit, one southeastern coastal town had an unassigned fund equaling 30.6 percent of expenditures. A town in northeastern Connecticut carried a 30.5 percent surplus fund, and another along the Connecticut River maintained a 28.3 percent surplus fund. Some towns have limits on the size of their unassigned fund, but it is not common practice.

What do towns do with such large unassigned funds? They may be using the Rainy Day fund to sequester taxpayer dollars for capital projects that voters have not approved. There may also be the misconception that a large Rainy Day fund is needed in case of an unforeseen decrease in local revenues. However, the typical municipality gets most of their revenue from property taxes, which are a dependable source of revenue regardless of what happens to the economy. Regarding Connecticut town finances, Moody's states "Revenues are highly predictable and stable, due to a large reliance on property taxes." Municipalities shouldn't hoard excessive Rainy Day funds.

Regarding transparency, a town's budget is just an estimate, but the annual audit is how we get an independent unbiased opinion of the dollars actually collected and spent. Within the audit, the *Management Discussion and Analysis* section is where a town comments on its finances, and it should reflect the audit's findings. However, this is not always the case as town managers slip contrary and wholly misleading language into the auditors' reports.

As an example, in the fiscal 2021 audit for a south-central coastal town, the auditors stated the General Fund had a "deficiency of revenues over expenditures" of \$2.2 million; meaning, the town had a deficit. However, in the same audit, the town's narrative stated that "The general fund ended the year with a budgetary surplus of approximately \$6.5 million." What is the taxpayer to believe? A \$2.2 million deficit or a \$6.5 million surplus. It's not a small difference.

To address misleading practices in municipal financial reporting, CEA recommends the following:

- A cap should be placed on the size of the unassigned fund. A maximum of 20 percent of expenditures is reasonable.
- Towns' unassigned funds should not be used to squirrel away taxpayer dollars for capital projects that taxpayers have not approved.
- Towns should be limited to only one unassigned fund in the General Fund. One southwestern Connecticut city has two, which results in the city misrepresenting its finances.
- Towns should be required to post both the *Schedule of Revenues and Other Financing Sources (Budget and Actual)* and the *Schedule of Expenditures and Other Financing Uses (Budget and Actual)* from their annual audit where it is easily accessible to taxpayers.
- The *Management Discussion and Analysis* in the annual audit should reflect the findings of the auditor unless the town disagrees, in which case the town must clearly state why it disagrees with the auditors.
- There should be standardized user-friendly terminology and common reporting requirements for town finances.

There are varied and inconsistent accounting practices exhibited in municipal financial reporting, and that is part of the problem. Citizens need financial statements that are easy to understand. Voters should not need to be accountants to know whether their hometown had a surplus or a deficit. CEA has prepared legislation to address many of these concerns, which we are happy to share with legislators.

Thank you for your interest in making town finances more transparent and towns more fiscally accountable.