



House Bill No. 5039

Public Act No. 26-27

**AN ACT REQUIRING TRANSPARENCY AND ADDITIONAL
OVERSIGHT OF THE DISTRIBUTION OF CERTAIN LEGISLATIVELY
DIRECTED FUNDS AND APPROPRIATIONS FOR OTHER
EXPENSES.**

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

Section 1. (NEW) (*Effective July 1, 2026*) (a) For purposes of this section and section 4 of this act:

(1) "Legislatively directed funds" means an appropriation by public or special act of the General Assembly that authorizes a specific amount of money for a contract or other expenditure with a grant, loan or other economic assistance or incentive to a specific entity. "Legislatively directed funds" does not include any of the following:

(A) An appropriation made in response to a natural disaster or other emergency situation;

(B) An appropriation where the recipient or subrecipient is a state agency, political subdivision of the state, the Judicial Department, the Legislative Department or a constituent unit of the state system of public higher education;

(C) An appropriation or other statutorily defined grant program

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made through a formula-driven or competitive award process; or

(D) Any funds authorized by the State Bond Commission pursuant to section 3-20 of the general statutes;

(2) "State agency" means any executive branch department, board, council, commission, institution or other agency of the executive branch of state government, but does not include any constituent unit of the state system of public higher education; and

(3) "Subrecipient" means an entity that is receiving a distribution of legislatively directed funds from a state agency or other pass-through entity for purposes of the goals or objectives for which such funds were authorized, and does not include a subcontractor, as defined in section 4e-1 of the general statutes.

(b) The Secretary of the Office of Policy and Management shall adopt policies and procedures to establish requirements for the administration of legislatively directed funds by state agencies. Such policies and procedures shall implement the provisions of this section and shall include, but need not be limited to, the manner in which legislatively directed funds are distributed to recipients to ensure that such funds are used for their intended purposes. Any adoption of, or revisions made to, such policies and procedures on or after July 1, 2026, shall be submitted by the secretary via electronic mail to a committee consisting of the president pro tempore of the Senate, the speaker of the House of Representatives, the majority and minority leaders of both houses of the General Assembly, the chairpersons and ranking members of the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies, finance, revenue and bonding and government oversight and the chairperson and vice-chairperson of the Black and Puerto Rican Caucus of the General Assembly, and shall not be effective until the sixtieth day after the procedures or proposed revisions to such procedures are

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submitted to the committee, unless such requirement is waived by a majority vote of the membership of the committee. Such policies and procedures shall have the goal of establishing uniform procedures across state agencies concerning legislatively directed funds, and shall require legislatively directed funds to be distributed in a manner that will ensure such funds are used for and achieve their intended purpose, provided:

(1) For any legislatively directed funds equal to or less than one hundred fifty thousand dollars, such funds shall be distributed as an initial or advance payment or scheduled disbursement of funds in accordance with a written agreement executed between the administering state agency and the recipient of such funds that includes the intended use of such funds.

(2) For any legislatively directed funds greater than one hundred fifty thousand dollars, the administering state agency may provide an initial or advance payment, with the remaining balance distributed in subsequent payments or on a reimbursement basis upon submission of documentation of eligible expenditures by the recipient. In determining whether to provide an initial or advance payments, the administering state agency, in consultation with the recipient of such funds and consideration of the stated purposes of the appropriation, shall ensure the payment schedule (A) is responsive to the recipient's needs to execute such stated purposes, and (B) facilitates project startup or capital procurement costs. The distribution of such funds shall be made in accordance with a written agreement executed between the administering state agency and the recipient of such funds that includes the intended use of such funds.

(3) In distributing any legislatively directed funds on a reimbursement basis under this section, the administering state agency shall ensure that its reimbursement procedures (A) do not impose any administrative barriers or documentation requirements that (i) are

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inconsistent with, or more burdensome than, the requirements of this section, (ii) would prevent nonprofit organizations or community-based entities from being able to receive such funds or effectively use such funds, or (iii) would otherwise jeopardize the intended purpose and use of the funds, (B) provide reimbursement determinations to the recipient not later than forty-five days after submission of the recipient's claim of eligible expenses to such state agency, in accordance with the provisions of subdivision (5) of this subsection, and (C) permit initial or advance payments to recipients when necessary to ensure the feasibility of the intended use of such funds and as permitted under this subsection.

(4) Prior to transferring, making a pass-through payment or otherwise paying any legislatively directed funds to a subrecipient, a recipient of legislatively directed funds shall obtain the written approval of the administering state agency and, if the approval of the Secretary of the Office of Policy and Management is required by the policies and procedures adopted under this section, the approval of the secretary, of such transfer, pass-through payment or other payment to the subrecipient.

(5) The administering state agency shall remit payment on any properly submitted request for reimbursement or invoice for legislatively directed funds that is not disputed by such state agency not later than forty-five days after receipt of such request or invoice. Not later than fifteen days after receipt of such request or invoice, the administering state agency shall either (A) approve such request or invoice, or (B) provide written acknowledgment of receipt of such request or invoice.

(c) Not later than August first of each year, the Secretary of the Office of Policy and Management shall hold a pre-award conference for recipients of legislatively directed funds. Each state agency administering legislatively directed funds shall designate at least one employee to participate in such conference. Any such conference shall

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include, but need not be limited to, (1) detailed instruction on (A) policies and procedures for administering legislatively directed funds, including invoicing and reimbursement policies, (B) documentation requirements, and (C) reporting requirements and deadlines, (2) identification of one or more designated employees of each administering state agency whom recipients may contact for fiscal questions and programmatic questions and the contact information for such employees, (3) a description of any applicable monitoring, audit or compliance review processes, and (4) written materials concerning the information described in subdivisions (1) to (3), inclusive, of this subsection. Each such conference shall be recorded and a recording of the conference, along with any written materials distributed to recipients at the conference, shall be posted on the Internet web site of the Office of Policy and Management.

(d) Not later than October 1, 2027, and quarterly thereafter, the Secretary of the Office of Policy and Management shall submit a report, in accordance with the provisions of section 11-4a of the general statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies, finance, revenue and bonding and government oversight. Such report shall include an overview of the status of all legislatively directed funds authorized for the current fiscal year, including a full accounting of all such funds that have been disbursed since the immediately preceding report or, in the case of the initial report, since the commencement of the fiscal year, and a plan for the disbursement of any remaining legislatively directed funds.

(e) On or before January 1, 2028, and annually thereafter, each recipient of legislatively directed funds shall submit a report to the state agency administering such funds, in a form and manner established by the secretary in the policies and procedures adopted under subsection (b) of this section, concerning how the recipient utilized the legislatively

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directed funds during the immediately preceding fiscal year and, if any funds were awarded to a subrecipient, how the subrecipient utilized the legislatively directed funds during the immediately preceding fiscal year.

(f) On or before March 1, 2028, and annually thereafter, each state agency shall submit a report to the secretary, in a form and manner established by the secretary in the policies and procedures adopted under subsection (b) of this section, on any legislatively directed funds the state agency administered during the prior fiscal year, including a summary of any report received under subsection (e) of this section, or a statement that the state agency did not administer any legislatively directed funds during such period.

(g) The Secretary of the Office of Policy and Management shall establish and thereafter maintain on the Internet web site of the Office of Policy and Management or another publicly accessible Internet web site maintained by the state a publicly available database of legislatively directed funds administered by any state agency. On or before June 30, 2028, and at least annually thereafter, the secretary shall publish in such database all legislatively directed funds administered by a state agency during the prior fiscal year. Such database shall contain a summary of the information obtained by the secretary through the annual reports submitted by recipients of legislatively directed funds and state agencies that administer such funds pursuant to subsections (e) and (f) of this section.

(h) Not later than January 1, 2029, and annually thereafter, the Secretary of the Office of Policy and Management shall submit a report, in accordance with the provisions of section 11-4a of the general statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies, finance, revenue and bonding and government oversight. Such report shall include a summary of the information obtained by the

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secretary through the annual reports submitted by recipients of legislatively directed funds and state agencies that administer such funds pursuant to subsections (e) and (f) of this section.

(i) If the Governor reduces an allotment requisition or allotment in force concerning legislatively directed funds pursuant to section 4-85 of the general statutes, the Secretary of the Office of Policy and Management shall provide written notice of such reduction not later than seven days thereafter to the president pro tempore of the Senate, the speaker of the House of Representatives and the majority and minority leaders of both houses of the General Assembly and shall include in such notice an explanation of why such funds were reduced.

Sec. 2. (*Effective July 1, 2026*) Not later than June 30, 2028, the Secretary of the Office of Policy and Management shall submit a preliminary report, in accordance with the provisions of section 11-4a of the general statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to appropriations, the budgets of state agencies, finance, revenue and bonding and government oversight. Such preliminary report shall include a summary of the information obtained by the secretary through the reports submitted by recipients of legislatively directed funds, as defined in section 1 of this act, and state agencies that administer such funds pursuant to subsections (e) and (f) of section 1 of this act.

Sec. 3. Subsection (d) of section 4-186 of the 2026 supplement to the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2026*):

(d) The provisions of this chapter shall not apply to: (1) [To procedures] Procedures followed or actions taken concerning the lower Connecticut River conservation zone described in chapter 477a and the upper Connecticut River conservation zone described in chapter 477c, (2) [to] the administrative determinations authorized by section 32-9r

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concerning manufacturing facilities in distressed municipalities, (3) [to] the rules made pursuant to section 9-436 for use of paper ballots, [and] (4) [to] guidelines established under section 22a-227 for development of a municipal solid waste management plan, and (5) policies and procedures established under section 1 of this act concerning the administration of legislatively directed funds.

Sec. 4. (NEW) (*Effective July 1, 2026*) (a) No state agency shall enter into a written agreement to provide funds, including, but not limited to, funds in the form of a grant, loan or other economic assistance or incentive, to a specific entity at the direction of the General Assembly, unless the General Assembly enacts a public or special act that appropriates funds for such purposes and, either such public or special act or the Connecticut State Budget Agency Sheets issued by the Office of Fiscal Analysis by August first of each year:

(1) Identifies the entity with reasonable particularity, including by specifying the entity's legal name, the actual name the entity is doing business under or the entity's principal office address;

(2) Describes the intended purposes for which the specific entity will use the funds; and

(3) If the funds are intended to be awarded to a subrecipient, provides the same information required by subdivisions (1) and (2) of this subsection with respect to such subrecipient.

(b) The requirements of subdivisions (1) to (3), inclusive, of subsection (a) of this section shall not apply to appropriations or funds that are excluded from the definition of "legislatively directed funds" in subparagraphs (A) to (D), inclusive, of subdivision (1) of subsection (a) of section 1 of this act.

Sec. 5. (NEW) (*Effective July 1, 2026*) (a) For purposes of this section, (1) "state agency" means any executive branch department, board,

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council, commission, institution or other agency of the executive branch of state government, but does not include any constituent unit of the state system of public higher education; (2) "department head" has the same meaning as provided in section 4-5 of the general statutes; and (3) "recipient" does not include a state agency, political subdivision of the state, the Judicial Department, the Legislative Department or a constituent unit of the state system of public higher education.

(b) No funds appropriated to any state agency for Other Expenses shall be used for grants or pass-through payments unless (1) the General Assembly enacts a public or special act that appropriates funds for Other Expenses for such purpose, or (2) such use is pursuant to a written agreement in effect on July 1, 2026, to fulfill a transitional noncompliant Other Expenses obligation, as described in subsection (c) of this section, in accordance with the terms of such agreement.

(c) (1) Not later than January 1, 2027, each state agency shall conduct a review of any expenditure or obligation of funds from Other Expenses that provide financial assistance, a grant or other payment to a recipient that would violate the prohibition in subsection (b) of this section. Any such expenditure shall be designated as a transitional noncompliant Other Expenses obligation.

(2) Not later than January 1, 2027, the Secretary of the Office of Policy and Management, in consultation with the director of the Office of Fiscal Analysis, shall (A) develop a plan to reclassify or reallocate each transitional noncompliant Other Expenses obligation into an appropriate appropriation, grant program or budget classification, and (B) submit such plan, in accordance with the provisions of section 11-4a of the general statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies, finance, revenue and bonding and government oversight.

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(3) On and after July 1, 2027, no state agency shall enter into any new agreement or obligation that would qualify as a transitional noncompliant Other Expenses obligation or continue any such obligation unless such obligation has been reclassified or expressly reauthorized by a public or special act of the General Assembly.

(4) Nothing in this subsection shall be construed to permit the expansion, renewal or increase in funding of any transitional noncompliant Other Expenses obligation beyond the amount and duration authorized as of July 1, 2026.

(d) On and after July 1, 2026, each state agency that makes an expenditure from Other Expenses to a recipient that is a municipality or a nonprofit shall submit to the Secretary of the Office of Policy and Management a statement that includes (1) the purpose of such expenditure, (2) the statutory or program guidelines authorizing such expenditure, and (3) whether such expenditure constitutes financial assistance or a grant award. Any budget document or report on the status of the budget submitted by the Governor pursuant to section 4-71 of the general statutes shall identify any such expenditure and include the information specified in subdivisions (1) to (3), inclusive, of this subsection, and if any such budget document or report recommends that such an expenditure be made annually, such expenditure shall be included as an individual appropriation and not an expenditure from Other Expenses.

(e) Not later than thirty days after the Auditors of Public Accounts report the results of any state agency audit in accordance with the provisions of section 2-90 of the general statutes, the Secretary of the Office of Policy and Management shall report, in accordance with the provisions of section 11-4a of the general statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to finance, revenue and bonding, appropriations and the budgets of state agencies and government oversight a detailed list of

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each expenditure made by such agency over the amount of ten thousand dollars from Other Expenses, including (1) the name of the recipient, (2) the amount of the expenditure, (3) the purpose of the expenditure, and (4) the date approval was received from the secretary, in accordance with subsection (d) of this section, if applicable.

(f) The Auditors of Public Accounts shall annually review each state agency's Other Expenses expenditures and submit a report, in accordance with the provisions of section 11-4a of the general statutes, to the secretary and the joint standing committees of the General Assembly having cognizance of matters relating to finance, revenue and bonding, appropriations and the budgets of state agencies and government oversight identifying any such expenditures that are inconsistent with the provisions of this section, including, but not limited to, any expenditure that constitutes a grant award.

(g) After any expenditure is identified by the Auditors of Public Accounts as inconsistent with the provisions of this section in accordance with subsection (f) of this section, the Secretary of the Office of Policy and Management shall issue a letter to the department head of the state agency that made such expenditure stating corrective action that the state agency shall take to prevent reoccurrence of an expenditure being made from Other Expenses that is inconsistent with the provisions of this section. Such expenditure shall be subject to recoupment or lapse and may result in a reduction in subsequent Other Expenses appropriations.