



House of Representatives

File No. 605

General Assembly

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(Reprint of File No. 66)

House Bill No. 5039
As Amended by House Amendment
Schedule "A"

Approved by the Legislative Commissioner
April 13, 2026

**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:

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

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

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

10 (B) An appropriation where the recipient or subrecipient is a state
11 agency, political subdivision of the state, the Judicial Department, the

12 Legislative Department or a constituent unit of the state system of public
13 higher education;

14 (C) An appropriation or other statutorily defined grant program
15 made through a formula-driven or competitive award process; or

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

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

22 (3) "Subrecipient" means an entity that is receiving a distribution of
23 legislatively directed funds from a state agency or other pass-through
24 entity for purposes of the goals or objectives for which such funds were
25 authorized, and does not include a subcontractor, as defined in section
26 4e-1 of the general statutes.

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

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

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

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

72 (3) In distributing any legislatively directed funds on a
73 reimbursement basis under this section, the administering state agency
74 shall ensure that its reimbursement procedures (A) do not impose any
75 administrative barriers or documentation requirements that (i) are
76 inconsistent with, or more burdensome than, the requirements of this

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

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

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

102 (c) Not later than August first of each year, the Secretary of the Office
103 of Policy and Management shall hold a pre-award conference for
104 recipients of legislatively directed funds. Each state agency
105 administering legislatively directed funds shall designate at least one
106 employee to participate in such conference. Any such conference shall
107 include, but need not be limited to, (1) detailed instruction on (A)
108 policies and procedures for administering legislatively directed funds,
109 including invoicing and reimbursement policies, (B) documentation

110 requirements, and (C) reporting requirements and deadlines, (2)
111 identification of one or more designated employees of each
112 administering state agency whom recipients may contact for fiscal
113 questions and programmatic questions and the contact information for
114 such employees, (3) a description of any applicable monitoring, audit or
115 compliance review processes, and (4) written materials concerning the
116 information described in subdivisions (1) to (3), inclusive, of this
117 subsection. Each such conference shall be recorded and a recording of
118 the conference, along with any written materials distributed to
119 recipients at the conference, shall be posted on the Internet web site of
120 the Office of Policy and Management.

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

133 (e) On or before January 1, 2028, and annually thereafter, each
134 recipient of legislatively directed funds shall submit a report to the state
135 agency administering such funds, in a form and manner established by
136 the secretary in the policies and procedures adopted under subsection
137 (b) of this section, concerning how the recipient utilized the legislatively
138 directed funds during the immediately preceding fiscal year and, if any
139 funds were awarded to a subrecipient, how the subrecipient utilized the
140 legislatively directed funds during the immediately preceding fiscal
141 year.

142 (f) On or before March 1, 2028, and annually thereafter, each state

143 agency shall submit a report to the secretary, in a form and manner
144 established by the secretary in the policies and procedures adopted
145 under subsection (b) of this section, on any legislatively directed funds
146 the state agency administered during the prior fiscal year, including a
147 summary of any report received under subsection (e) of this section, or
148 a statement that the state agency did not administer any legislatively
149 directed funds during such period.

150 (g) The Secretary of the Office of Policy and Management shall
151 establish and thereafter maintain on the Internet web site of the Office
152 of Policy and Management or another publicly accessible Internet web
153 site maintained by the state a publicly available database of legislatively
154 directed funds administered by any state agency. On or before June 30,
155 2028, and at least annually thereafter, the secretary shall publish in such
156 database all legislatively directed funds administered by a state agency
157 during the prior fiscal year. Such database shall contain a summary of
158 the information obtained by the secretary through the annual reports
159 submitted by recipients of legislatively directed funds and state
160 agencies that administer such funds pursuant to subsections (e) and (f)
161 of this section.

162 (h) Not later than January 1, 2029, and annually thereafter, the
163 Secretary of the Office of Policy and Management shall submit a report,
164 in accordance with the provisions of section 11-4a of the general statutes,
165 to the joint standing committees of the General Assembly having
166 cognizance of matters relating to appropriations and the budgets of state
167 agencies, finance, revenue and bonding and government oversight.
168 Such report shall include a summary of the information obtained by the
169 secretary through the annual reports submitted by recipients of
170 legislatively directed funds and state agencies that administer such
171 funds pursuant to subsections (e) and (f) of this section.

172 (i) If the Governor reduces an allotment requisition or allotment in
173 force concerning legislatively directed funds pursuant to section 4-85 of
174 the general statutes, the Secretary of the Office of Policy and
175 Management shall provide written notice of such reduction not later

176 than seven days thereafter to the president pro tempore of the Senate,
177 the speaker of the House of Representatives and the majority and
178 minority leaders of both houses of the General Assembly and shall
179 include in such notice an explanation of why such funds were reduced.

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

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

194 (d) The provisions of this chapter shall not apply to: (1) [To
195 procedures] Procedures followed or actions taken concerning the lower
196 Connecticut River conservation zone described in chapter 477a and the
197 upper Connecticut River conservation zone described in chapter 477c,
198 (2) [to] the administrative determinations authorized by section 32-9r
199 concerning manufacturing facilities in distressed municipalities, (3) [to]
200 the rules made pursuant to section 9-436 for use of paper ballots, [and]
201 (4) [to] guidelines established under section 22a-227 for development of
202 a municipal solid waste management plan, and (5) policies and
203 procedures established under section 1 of this act concerning the
204 administration of legislatively directed funds.

205 Sec. 4. (NEW) (*Effective July 1, 2026*) (a) No state agency shall enter
206 into a written agreement to provide funds, including, but not limited to,
207 funds in the form of a grant, loan or other economic assistance or

208 incentive, to a specific entity at the direction of the General Assembly,
209 unless the General Assembly enacts a public or special act that
210 appropriates funds for such purposes and, either such public or special
211 act or the Connecticut State Budget Agency Sheets issued by the Office
212 of Fiscal Analysis by August first of each year:

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

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

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

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

226 Sec. 5. (NEW) (*Effective July 1, 2026*) (a) For purposes of this section,
227 (1) "state agency" means any executive branch department, board,
228 council, commission, institution or other agency of the executive branch
229 of state government, but does not include any constituent unit of the
230 state system of public higher education; (2) "department head" has the
231 same meaning as provided in section 4-5 of the general statutes; and (3)
232 "recipient" does not include a state agency, political subdivision of the
233 state, the Judicial Department, the Legislative Department or a
234 constituent unit of the state system of public higher education.

235 (b) No funds appropriated to any state agency for Other Expenses
236 shall be used for grants or pass-through payments unless (1) the General
237 Assembly enacts a public or special act that appropriates funds for
238 Other Expenses for such purpose, or (2) such use is pursuant to a written

239 agreement in effect on July 1, 2026, to fulfill a transitional noncompliant
240 Other Expenses obligation, as described in subsection (c) of this section,
241 in accordance with the terms of such agreement.

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

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

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

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

267 (d) On and after July 1, 2026, each state agency that makes an
268 expenditure from Other Expenses to a recipient that is a municipality or
269 a nonprofit shall submit to the Secretary of the Office of Policy and
270 Management a statement that includes (1) the purpose of such

271 expenditure, (2) the statutory or program guidelines authorizing such
272 expenditure, and (3) whether such expenditure constitutes financial
273 assistance or a grant award. Any budget document or report on the
274 status of the budget submitted by the Governor pursuant to section 4-
275 71 of the general statutes shall identify any such expenditure and
276 include the information specified in subdivisions (1) to (3), inclusive, of
277 this subsection, and if any such budget document or report recommends
278 that such an expenditure be made annually, such expenditure shall be
279 included as an individual appropriation and not an expenditure from
280 Other Expenses.

281 (e) Not later than thirty days after the Auditors of Public Accounts
282 report the results of any state agency audit in accordance with the
283 provisions of section 2-90 of the general statutes, the Secretary of the
284 Office of Policy and Management shall report, in accordance with the
285 provisions of section 11-4a of the general statutes, to the joint standing
286 committees of the General Assembly having cognizance of matters
287 relating to finance, revenue and bonding, appropriations and the
288 budgets of state agencies and government oversight a detailed list of
289 each expenditure made by such agency over the amount of ten thousand
290 dollars from Other Expenses, including (1) the name of the recipient, (2)
291 the amount of the expenditure, (3) the purpose of the expenditure, and
292 (4) the date approval was received from the secretary, in accordance
293 with subsection (d) of this section, if applicable.

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

303 (g) After any expenditure is identified by the Auditors of Public

304 Accounts as inconsistent with the provisions of this section in
305 accordance with subsection (f) of this section, the Secretary of the Office
306 of Policy and Management shall issue a letter to the department head of
307 the state agency that made such expenditure stating corrective action
308 that the state agency shall take to prevent reoccurrence of an
309 expenditure being made from Other Expenses that is inconsistent with
310 the provisions of this section. Such expenditure shall be subject to
311 recoupment or lapse and may result in a reduction in subsequent Other
312 Expenses appropriations.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2026</i>	New section
Sec. 2	<i>July 1, 2026</i>	New section
Sec. 3	<i>July 1, 2026</i>	4-186(d)
Sec. 4	<i>July 1, 2026</i>	New section
Sec. 5	<i>July 1, 2026</i>	New section

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 27 \$	FY 28 \$
Policy & Mgmt., Off.	GF - Potential Cost	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill establishes policies and procedures to administer legislatively directed funds (LDFs). The associated impacts are noted below.

OPM Potential Cost. The bill results in a potential cost to the Office of Policy and Management (OPM) to hold a pre-award conference. Any cost is dependent on the number of recipients that must attend the conference.

Reporting Requirements. The bill also establishes various reporting requirements which have no fiscal impact. The bill requires the OPM to (1) adopt policies for state agencies that oversee the administration of LDFs, and (2) publish a database annually beginning January 1, 2027. This does not result in a fiscal impact to OPM as they have the resources necessary to meet these requirements.

The bill also requires OPM and the Auditors of Public Accounts (APA) to review and report on expenditures made by state agencies under the Other Expenses line item. It is anticipated that OPM and APA

can accommodate these requirements within existing resources.

The bill also establishes policies and procedures to administer LDFs. There is no direct fiscal impact as the bill is similar to the recently announced, statewide executive branch [policy](#) on legislatively-directed or "earmarked" funds (LDFs). But there are potential fiscal impacts associated with that policy which are noted in the background below.

Background on OPM January 20th Policy

State Agencies Administration. The implementation of the policy may increase an agency's administration workload based on (1) the volume of LDFs, (2) the complexity of any particular LDF, and (3) agency resources already dedicated to managing LDFs. Some additional staffing (e.g., temporary, part-time or full-time) may be required by certain agencies to accommodate this workload.

For context, PA 25-168, the FY 26 and FY 27 budget, includes 321 LDFs across sixteen executive branch agencies totaling approximately \$89 million in FY 27. The number of LDFs each such agency administers in FY 27 ranges from one to 200 administered by the Department of Economic and Community Development (DECD).¹

Potential Lapses in Appropriations. To the extent that some designated recipients are unwilling or unable to comply with the new requirements under the policy, some LDF appropriations in FY 27 and beyond may go unspent and lapse.

House "A" requires OPM to hold a pre-award conference which results in a potential cost to that agency. The amendment also makes modifications to the administration of LDFs and establishes additional reporting requirements which have no fiscal impact.

The Out Years

¹ The Appropriations Committee revised FY 27 budget includes three additional positions within the DECD to enhance oversight of LDF grants and contracts.

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**HB 5039 (as amended by House "A")******AN ACT REQUIRING TRANSPARENCY AND ADDITIONAL OVERSIGHT OF THE DISTRIBUTION OF CERTAIN LEGISLATIVELY DIRECTED FUNDS.*****SUMMARY**

This bill addresses the management and oversight of legislatively directed funds (LDFs) and agencies' "Other Expenses" appropriations by creating requirements for LDF recipients and subrecipients, administering state agencies (defined as executive branch entities other than public higher education institutions), and the Office of Policy and Management (OPM).

The bill defines an LDF as a specific amount appropriated by the General Assembly by public or special act for a contract or other expenditure with a grant, loan, or other form of economic assistance to a specific entity. It does not include funds authorized by the State Bond Commission or appropriations (1) in response to a natural disaster or emergency; (2) to a state agency, a political subdivision, the Judicial Department, the Legislative Department, or a constituent unit of public higher education as the recipient or subrecipient; or (3) made through a formula or competitive award process (including statutorily defined grant programs).

Specifically, the bill:

1. generally limits state agencies from entering written agreements to provide funds to an entity at the direction of the General Assembly, unless the General Assembly has included specific recipient information in legislation or in the Office of Fiscal Analysis' (OFA) budget sheets;

2. requires OPM to adopt policies and procedures for state agencies that administer LDFs, in order to have uniform procedures across agencies and ensure LDFs are distributed in a way that achieves their intended purpose;
3. requires reports and publications by LDF recipients, state agencies, OPM, and the Auditors of Public Accounts (APA); and
4. prohibits certain uses of agencies' Other Expenses appropriations and creates a transition process for certain non-compliant uses.

*House Amendment "A" modifies the LDF definition and reporting and publishing requirements, including adding a written notice on allotment reductions related to LDFs; adds a pre-award conference for training on LDFs; changes requirements for OPM's LDF policies and procedures; modifies legislative requirements for identifying entities; adds the provisions on agencies' Other Expenses appropriations; and makes other minor and technical changes.

EFFECTIVE DATE: July 1, 2026

LEGISLATIVE REQUIREMENTS TO IDENTIFY RECIPIENTS AND USE OF FUNDS

The bill prohibits state agencies from entering into a written agreement to provide funds (such as grants, loans, or incentives) to a specific entity at the direction of the General Assembly unless a public or special act appropriates the funds and the special act, public act, or OFA's Connecticut State Budget Agency Sheets include: (1) the awardee's identity, including their legal name, the actual name the entity is doing business under, or its principal office address; (2) a description of the intended purpose of the funds; and (3) the same information described above about any intended subrecipient. These requirements do not apply to appropriations or funds that are excluded from the definition of LDF.

OPM LDF POLICIES AND PROCEDURES

The bill requires OPM to establish policies and procedures for state

agencies that administer LDFs. The policies must include the manner in which LDFs are distributed to recipients to ensure they are used for the intended purpose. If the policies are adopted or revised on or after July 1, 2026, the bill requires the OPM secretary to email the policies and procedures to a committee of the six legislative leaders; the chairpersons and ranking members of the Appropriations, Finance, Revenue and Bonding, and Government Oversight committees; and the chairperson and vice-chairperson of the Black and Puerto Rican Caucus. The adopted or revised policies and procedures are not effective until 60 days after submission, unless waived by a majority of the committee members. The bill allows OPM to adopt policies and procedures without going through the regulatory process.

LDF Distribution Requirements

The bill requires LDFs to be distributed in a uniform procedure as follows:

1. for LDFs up to \$150,000, the funds must be distributed as an initial or advance payment or scheduled disbursement of funds according to a written agreement between the administering state agency and the recipient that states the funds' intended use; and
2. for LDFs greater than \$150,000, the administering state agency may distribute the funds in an initial or advance payment, if the state agency consults with the LDF recipient and determines after considering the appropriations purpose that it (1) is necessary to ensure the payments are responsive to the recipient's needs for the LDF's purpose and (2) facilitates startup or procurement costs, with the remaining balance distributed in subsequent payments or as reimbursements based on eligible expenses (distribution must be made according to a written agreement between the administering state agency and the recipient that states the funds' intended use).

Reimbursement Requirements

If an LDF is distributed on a reimbursement basis, the administering state agency's reimbursement procedures must:

1. not impose administrative barriers or documentation requirements that (a) are inconsistent or more burdensome than required by the bill, (b) prevent nonprofits or community-based entities from receiving or using the funds, or (c) jeopardize the funds' intended use and purpose;
2. provide reimbursement determinations within 45 days after a recipient's eligible expense claim is submitted to the administering state agency; and
3. allow initial or advance payments to recipients when necessary to ensure the funds are used as intended.

Subrecipient Requirements for Payment

Before making any type of payment to a subrecipient (defined as an entity that receives LDFs from a state agency or other pass-through entity for the same authorized purpose, excluding subcontractors), the LDF recipient must obtain the written approval of the administering state agency and the OPM secretary, if required under the OPM policies and procedures.

State Agency Remittance Requirements

Within 15 days of receipt of an LDF request for reimbursement, the administering state agency must either approve the request or provide written acknowledgement of receipt. The bill requires the administering state agency to remit payment within 45 days of receiving a properly submitted, undisputed request.

OPM PRE-AWARD CONFERENCE FOR LDF RECIPIENTS

The OPM secretary must annually, by August 1, hold a pre-award conference for LDF recipients. Administering state agencies must designate at least one employee to attend the conference. The conference must be recorded, and the recording and any written conference materials must be posted on OPM's website. The conference must

include:

1. instruction on policies and procedures for administering LDFs, including invoicing, reimbursement policies, documentation requirements, and reporting requirements and deadlines;
2. designation and contact information of at least one administering state agency employee whom LDF recipients may contact for fiscal and programmatic questions;
3. a description of any monitoring, audit, or compliance review processes; and
4. any relevant written conference materials.

LDF REPORTING AND NOTICE REQUIREMENTS

The bill creates the following reporting and publishing requirements:

1. OPM must quarterly, beginning by October 1, 2027, report to the Appropriations, Finance, Revenue and Bonding, and Government Oversight committees providing an overview of LDF statuses for the current fiscal year, accounting of the funds disbursed since the last report (or since the start of the fiscal year for the first report), and a disbursement plan for any remaining LDFs;
2. each LDF recipient must annually, beginning by January 1, 2028, report to the administering state agency describing how the LDFs were used in the preceding fiscal year and how any subrecipient used funds, in a manner set by the OPM secretary;
3. each state agency must annually, beginning by March 1, 2028, report to OPM summarizing LDFs administered by the agency in the prior fiscal year and any LDF recipient reports or a statement that the agency does not administer any LDFs, in a manner set by the OPM secretary;
4. OPM must annually, beginning by June 30, 2028, publish a

database on OPM's or another state website of all LDFs administered by each state agency in the previous fiscal year, including summaries from the annual reports described above; and

5. OPM must submit a preliminary report by June 30, 2028, and annually beginning by January 1, 2029, to the Appropriations, Finance, Revenue and Bonding, and Government Oversight committees summarizing the reports submitted by the administering state agencies and LDF recipients.

LDF Allotment Reductions Notice

If the governor reduces an allotment requisition or allotment in force related to an LDF, the bill requires the OPM secretary to give written notice, including an explanation for the reduction, within seven days to the six legislative leaders.

“OTHER EXPENSES” IN STATE BUDGET

The bill prohibits state agencies (executive branch entities other than public higher education institutions) from using any funds appropriated for Other Expenses (a category of their budget accounts that generally includes contractual services, commodities, and sundry charges) as grants or pass-through payments unless the (1) General Assembly passes a public or special act that appropriates funds for Other Expenses for this purpose or (2) funds are used according to a written agreement in effect on July 1, 2026, to fulfill a transitional non-compliant Other Expenses obligation (see below).

Transitional Non-compliant Other Expenses Obligations

Transitional non-compliant Other Expenses obligations are any expenditure or obligation of funds from Other Expenses that provide financial assistance, a grant, or other payment to a recipient (in this context, recipients do not include a state agency, a political subdivision of the state, the Judicial Department, the Legislative Department, or a constituent unit of public higher education) and do not qualify for either above exception. The bill prohibits expanding, renewing, or increasing

funding for transitional non-compliant Other Expenses obligations past the amount and duration authorized as of July 1, 2026.

By January 1, 2027, state agencies must review any expenditures of funds from Other Expenses and designate any transitional non-compliant Other Expenses obligations. By the same date, the OPM secretary, in consultation with OFA, must create a plan to reclassify or reallocate each transitional non-compliant Other Expenses obligation in an appropriate way and submit the plan to the Appropriations, Finance, Revenue and Bonding, and Government Oversight committees.

Beginning July 1, 2027, the bill prohibits state agencies from continuing or entering into any new agreement or obligation that would qualify as a transitional non-compliant Other Expenses obligation, unless the obligation has been reclassified or reauthorized by the General Assembly.

Reporting and Review for Other Expenses

If a state agency, on or after July 1, 2026, makes an expenditure from Other Expenses to a municipality or nonprofit, the bill requires the state agency to submit a statement to OPM that includes (1) the expenditure's purpose, (2) the statutory or program guidelines authorizing the expenditure, and (3) whether the expenditure is financial assistance or a grant award. Any budget document or report submitted by the governor to the General Assembly must include these expenditures and the information in the statement to OPM. If any budget document or report recommends that an expenditure be made annually, the bill requires the expenditure to be included as an individual appropriation, not in Other Expenses.

Within 30 days of the results of any state agency APA report, the bill requires OPM to submit a report to the Appropriations, Finance, Revenue and Bonding, and Government Oversight committees listing expenditures over \$10,000 from Other Expenses made by each agency, including the recipient's name, expenditure amount and purpose, and date of approval from the secretary, if required.

Additionally, the APA must annually review each state agency's Other Expenses expenditures and report to the OPM secretary and the Appropriations, Finance, Revenue and Bonding, and Government Oversight committees. The report must identify any expenditures inconsistent with these provisions, including any expenditures that are a grant award. If the APA identifies inconsistent expenditures, the bill requires the OPM secretary to write a letter to the appropriate state agency department head providing corrective action to prevent reoccurrence. The expenditure must be subject to recoupment or lapse and may result in a reduction in following Other Expenses appropriations.

BACKGROUND

OPM Policy on LDFs

OPM published a General Letter on January 20, 2026, titled "Legislatively Directed Funds Administration Policy." It addresses LDF administration, state and federal compliance requirements, best practices, communication, and risk mitigation. The policy requires, among other things, agencies to:

1. request information, if not already included in a public act, from legislative leadership about the legislative intent of the LDF, whether a subaward is permitted, and the name and address of the recipient and any subawardee;
2. document information on an intake form about the recipient or subawardee for state agency review, including general recipient information, intended use of the LDF, budget related to the LDF, organization documents, risk assessment, and any other necessary information;
3. conduct an internal review and approval process, including management and fiscal office validation, issuing final grant approval letters, and withholding the LDF if the recipient or subawardee fails to comply with various policies;

- 4. use a standard process for making payments on an invoice basis;
and
- 5. follow other OPM best practices for LDFs.

Related Bill

HB 5255 (File 321), favorably reported by the Government Oversight Committee, contains similar provisions addressing the management of legislatively earmarked grants.

COMMITTEE ACTION

Government Oversight Committee

Joint Favorable

Yea 12 Nay 0 (03/17/2026)