
OLR Bill Analysis

sHB 6655

AN ACT CONCERNING MUNICIPAL TAXATION AND INCENTIVIZING REGIONALIZATION.

SUMMARY

This bill generally limits the total revenue municipalities may raise through property taxes. It does so by imposing limits that generally cap (1) total taxes levied at 2.5% of the municipality's net grand list (commonly referred to as a "levy ceiling") and (2) annual increases in the tax levy to 2.5% over the preceding fiscal year (commonly referred to as a "levy limit"). The bill allows municipalities to exceed these limits but generally requires voter approval for any additional levies. It also establishes narrow conditions under which municipalities may levy additional taxes or adjust the limits without voter approval.

Separately, the bill allows municipalities to impose, by ordinance, a local tax on income, goods, services, or other tangible or intangible assets that their legislative bodies determine are necessary or desirable to meet the municipality's public service or other needs.

The bill also establishes state grants for municipalities that enter into interlocal agreements to jointly provide services that they currently provide separately. It requires that the grants be funded by the municipal revenue sharing account (MRSA).

The bill deems that any provision of a municipal charter, special act, or home rule ordinance that prohibits or limits a municipality from sharing services with other municipalities is repealed, revoked, and rescinded. It allows collective bargaining units to enter into agreements with other units to establish a coalition bargaining unit to negotiate with multiple municipalities to provide regional public services, including education, police, fire, and emergency medical services.

EFFECTIVE DATE: July 1, 2022, except the local option tax provision is effective upon passage.

§ 1 — PROPERTY TAX LIMITS

General Provisions (§ 1a)

Beginning in FY 23, the bill establishes property tax limits on “municipalities,” which the bill defines as towns, cities, boroughs, consolidated towns and cities, consolidated towns and boroughs, special taxing districts, and municipal corporations statutorily authorized to levy a property tax. It also establishes a process by which municipal legislative bodies may exceed the limits, generally with voter approval. Under the bill, a municipality’s “legislative body” is the:

1. board of selectmen in any town without a charter, special act, or home rule ordinance relating to its government;
2. council, board of aldermen, representative town meeting, board of selectmen, or other elected legislative body described in a charter, special act, or home rule ordinance relating to government in a city, consolidated town and city, consolidated town and borough, or town having a charter, special act, consolidation ordinance, or home rule ordinance relating to its government;
3. board of burgesses or other elected legislative body in a borough; and
4. district committee or other elected legislative body in a district or other municipal corporation.

The bill defines a “voter” as (1) an elector of the municipality (i.e., a registered voter) or (2) a U.S. citizen older than age 18 who is liable, or would be but for certain tax exemptions, to the municipality for taxes on an assessment of at least \$1,000. (Generally, these are the same individuals who may vote in town meetings.)

Levy Ceiling (§ 1b & 1c)

The bill limits the amount of property taxes municipalities may levy at 2.5% of their net grand list (i.e., levy ceiling). This limit applies to the “total tax levied” by municipalities (i.e., the amount of property taxes levied on real and personal property and motor vehicles).

If the total tax levied by a municipality exceeds the levy ceiling, the municipality generally must reduce its levy by at least 15% for each successive fiscal year until it no longer exceeds the ceiling. However, the bill allows a municipality’s legislative body, by a two-thirds vote of the members who are present and voting, to hold a referendum seeking voter approval to add taxes back to the levy after the required reduction is made. The amount added back may not exceed the required reduction.

The bill requires a (1) two-thirds majority of the voters casting votes to approve proposals to levy an additional amount that is greater than half of the required reduction and (2) simple majority of the voters casting votes to approve amounts less than or equal to half of the required reduction. Table 1 below lists the questions that must be presented to voters.

Levy Limit (§ 1d & 1e)

The bill generally requires municipalities that levy taxes below the levy ceiling to limit the levy for any given fiscal year to 102.5% of the maximum levy limit for the preceding fiscal year (i.e., no more than a 2.5% increase from the previous year). It allows municipalities to increase this levy limit as a result of new growth in the tax base or voter overrides, as described below. It similarly allows them to decrease the limit as a result of voter underrides.

New Growth. Under the bill, a municipality may increase the total tax levied for the then-current fiscal year by an amount equal to the tax rate for the preceding fiscal year multiplied by the amount of any increase in the assessed value of specified real or personal property over the preceding fiscal year. For purposes of this calculation, the real or personal property is property (1) that is subject to property tax, or taxed as a separate parcel, for the first time during the then-current

fiscal year or (2) whose assessed valuation increased over the preceding fiscal year. Any increase in property valuation due to revaluation is not included in the calculation.

Overrides. The bill authorizes a municipality's legislative body, by a two-thirds vote of the members who are present and voting, to hold a referendum seeking voter approval to levy additional taxes in excess of the levy limit. The question must be submitted to voters, as provided in Table 1, and requires approval by a majority of the voters casting votes.

Underrides. The bill allows a municipality's legislative body, by a majority vote, to call a town meeting seeking voter approval to reduce the taxes levied to an amount below the levy limit described above (see BACKGROUND). It also requires the legislative body to hold such a meeting if at least 50 voters request it. The question must be submitted to voters as provided in Table 1. If approved by a majority of the voters casting votes, the proposal is deemed approved, and the municipality must decrease its tax levy accordingly.

Special Exclusions (§ 1f)

The bill authorizes municipalities to exempt taxes levied for specified purposes, as described below, from the levy ceiling or levy limit. Amounts exempted from the levy ceiling must be excluded from the calculation of the total tax levied, while the amounts excluded from the levy limit must be excluded from the calculation of the maximum levy amount.

Capital and Debt Expenditures. The bill authorizes municipalities to assess taxes for certain debt and capital outlay expenditures in excess of either the levy limit or levy ceiling if voters approve the expenditures. Specifically, the bill allows a municipality's legislative body, by a two-thirds vote of the members present and voting, to place questions on the ballot at a regular or special state or municipal election, as provided in Table 1 (see BACKGROUND). The proposed exclusions require approval by a majority of the voters casting votes.

Specifically, at any regular or special state or municipal election held before the annual tax rate is set, municipalities may seek voter approval to levy additional taxes for capital outlay expenditures, as long as the expenditures are for a municipal purpose for which the municipality would be authorized to borrow money under title 7 of the statutes.

At any regular or special state or municipal election, municipalities may also seek voter approval to levy additional taxes for debt payments (1) that are outstanding as of July 1, 2022, or (2) incurred on or after July 1, 2022. The bill defines “debt payment” as the payment of principal and interest on bonds or notes or certificates of indebtedness issued by a municipality, excluding revenue bonds.

Water and Sewer Debt (§ 1h)

The bill authorizes a municipality’s legislative body to levy taxes exceeding the levy ceiling or levy limit solely to pay water or sewer debt charges, in whole or in part, as long as the total amount of water and sewer charges are reduced by the same amount.

Under the bill, any municipality with water and sewer service provided and separately billed by an independent commission, authority, or district may enter into an agreement with the provider to similarly pay the debt charges and reduce the rates. The municipality’s tax collector or treasurer must immediately pay the taxes collected under this provision to the provider, without appropriation by the municipality, minus any amounts agreed upon by the parties for administrative costs. The bill specifies that this provision does not affect the commission’s, authority’s, or district’s eligibility for loans and grants for water pollution control projects or eligible drinking water projects.

Extraordinary Events (§ 1i)

The bill authorizes a municipality’s legislative body to adjust the levy ceiling and levy limit to counterbalance the effects of extraordinary, nonrecurring events that (1) occurred during the base year, (2) were not within the purview of normal financial practices,

and (3) would otherwise cause a limit to be set that would be inconsistent with those intended under the bill’s provisions. The municipality must provide written and detailed notice of such an adjustment to voters.

General Requirements for Voter Approvals (§ 1)

Home Rule Charters and Ordinances Superseded. The bill’s voter approval provisions apply regardless of any municipal charter, special act, or home rule ordinance.

Placing Questions Before Voters. The bill generally allows the municipality’s legislative body to (1) direct the question or questions authorized for a referendum under the bill to be placed on the ballot at any regular or special state or municipal election or (2) call a town meeting to submit the question or questions to voters. However, for certain questions (e.g., overrides), the bill specifically provides for one of these methods only, as shown in Table 1 below.

Under existing law, local questions voted on at an election generally must be approved for submission at least 60 days before the election (CGS § 9-370).

Form of Questions. The bill specifies the form of the questions to be submitted to voters, as listed in Table 1. The votes must be by a “yes” or “no” vote by paper ballots or voting machines.

Threshold for Voter Approval. As described above, each question, other than certain exceptions to the 15% levy reduction, requires approval by a majority of the voters casting votes.

Table 1: Form of Questions Submitted to Voters

Type of Voter Approval	Question	Submission to Voters
Exception to 15% levy reduction (applies to municipalities whose total levy	"Shall the ____ (insert name of the taxing entity) be allowed to levy an additional \$ ____ (insert the amount) in real and personal property taxes for the fiscal year commencing July 1, ____ (insert	(1) Regular or special state or municipal election or (2) town meeting

exceeds the ceiling) (§ 1c)	the year)?"	
Override (§ 1d)	"Shall the ____ (insert name of the taxing entity) be allowed to levy an additional \$____ (insert the amount) in real and personal property taxes for the purposes of ____ (insert the intended purpose or purposes for which the moneys from the levy will be used) for the fiscal year commencing July 1, ____ (insert the year)?"	(1) Regular or special state or municipal election or (2) town meeting
Underride (§ 1e)	"Shall the ____ (insert name of the taxing entity) be required to reduce the amount of real and personal property taxes to be assessed for the fiscal year commencing July 1, ____ (insert the year) by an amount equal to \$____ (insert the amount)?"	Town meeting
Exclusion for capital outlay expenditures (§ 1f)	"Shall the ____ (insert name of the taxing entity) be allowed to levy an additional \$____ (insert the amount) in real and personal property taxes for the purposes of ____ (insert intended purpose or purposes for which the moneys from the levy will be used) for the fiscal year commencing July 1, ____ (insert the year)?"	Regular or special state or municipal election before the tax rate is set
Exclusion for debt payments outstanding as of July 1, 2022 (§ 1f)	"Shall ____ (insert the municipality) be allowed to exempt from ____'s (insert municipality) levy limit the total amounts required to pay for bonded indebtedness incurred prior to July 1, 2022?"	Regular or special state or municipal election
Exclusion for debt payments incurred on or after July 1, 2022 (§ 1f)	"Shall ____ (insert the municipality) be allowed to exempt from ____'s (insert municipality) levy limit the total amounts required to pay for the bonds issued in order to ____ (insert the purpose or purposes for which the	Regular or special state or municipal election

	moneys from the bonds issued will be used)?”	
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§ 2 — LOCAL OPTION TAXES

The bill authorizes municipalities to impose, by ordinance, a local tax on income, goods, services, or other tangible or intangible assets, or any combination of these, as its legislative body determines is desirable or necessary to meet the municipality’s public services and other needs. The tax is not effective until the municipality has notified the municipality’s residents and general public about the tax by posting information on the municipality’s website and other appropriate means, as determined by the legislative body.

The ordinance must include the (1) specific items or amounts on which the tax will be imposed, (2) tax’s rate and effective date, (3) interest and penalty imposed on delinquent taxes, (4) collection and remittance method, and (5) provisions for a taxpayer’s right of appeal.

Under the bill, this authorization supersedes the provisions of any municipal charter, special act, or home rule ordinance.

§§ 3 & 4 — GRANTS FOR REGIONAL SERVICES

Eligible Municipalities

The bill establishes new state grants for any municipality that enters into an interlocal agreement on or after July 1, 2021, with one or more municipalities to provide a service that each municipality currently provides separately. Under the bill, each such municipality is eligible for a grant for each year in which it remains a party to the agreement and the applicable service is provided regionally. Municipalities that terminate or withdraw from an agreement, or otherwise cease to provide a regional service, become ineligible for these grants beginning in the fiscal year of the termination or withdrawal.

Grant Amounts

The bill sets the grant amounts at a specified percentage of the amount the municipality budgeted for the service in its most recently approved budget. They are (1) 10% for education services; (2) 5% for

police, fire, or emergency medical services; and (3) 2.5% for any other service. In the case of non-education services, the grants are based only on the budgeted amount that is attributable to the specific service being provided regionally.

Application Process

Under the bill, eligible municipalities must apply annually to the Office of Policy and Management (OPM) secretary in the form and manner she prescribes. The application must include the following:

1. a description of the specific service being provided regionally,
2. the other municipality or municipalities that are a party to the interlocal agreement, and
3. documentation of the amount budgeted in the municipality's most recently approved budget that is attributable to the service.

The OPM secretary must review each application to verify the service claimed and calculate the grant (or grants) due to the municipality.

Funding Source

Current law establishes a schedule for distributing the sales tax revenue directed to MRSA. The bill requires that an amount sufficient to pay the grants for regional services be distributed before the municipal revenue sharing grants to municipalities but after the distributions for (1) motor vehicle property tax grants, (2) payment in lieu of taxes (PILOT) grants, and (3) regional services grants to councils of government.

BACKGROUND

Town Meetings

By law, questions submitted to a town meeting may be taken up at the meeting, or the board of selectmen may decide at least five days before the meeting date to hold the vote on a question at an adjourned town meeting. Alternatively, at least 200 voters or 10% of the qualified

voters, whichever is less, may petition to hold the vote on a question at an adjourned town meeting, where eligible voters go to the polls on a day set between seven and 14 days after the date of the town meeting and cast ballots on the question (CGS § 7-7).

Questions Submitted at State or Municipal Election

By law, only electors of a municipality may vote in an election. However, when a question is submitted to voters who are not electors of a municipality, the municipality may submit it to a vote by electors and voters held in conjunction with an election. Voters who are not electors must vote at a separate location using separate tabulators or paper ballots containing solely the question, or by separate absentee ballot containing solely the question (CGS § 9-369d).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 32 Nay 16 (04/22/2021)