OFFICE OF FISCAL ANALYSIS
Legislative Office Building, Room 5200
Hartford, CT 06106 ◇ (860) 240-0200
http://www.cga.ct.gov/ofa

sHB-6655
AN ACT CONCERNING MUNICIPAL TAXATION AND INCENTIVIZING REGIONALIZATION.

OFA Fiscal Note

State Impact: None

Municipal Impact: See Below

Explanation

The bill results in a shift in municipal revenue away from property taxes beginning in FY 23. It 1) establishes a property tax cap of 2.5% of a municipality's net grand list and establishes a phase in for the cap, (2) allows municipalities to establish taxes on income, goods, services, or other assets, and (3) establishes a grant for municipalities that regionalize various services.

A cap of 2.5% of net grand list is equivalent to a mill rate of 25. Thus, a municipality with a mill rate of 50 would ultimately have to reduce its mill rate by 50%, but would be allowed to do so in 15% increments until the 25 mill cap was reached. The amount of property tax revenue exceeding 25 mills is approximately $2.7 billion in FY 21. If all municipalities with mill rates over 25 instead phased in the cap by reducing their property tax levy by 15%, the revenue change would be $1.3 billion in Year 1 of the phase in.

The bill also allows municipalities to impose a local tax on income, goods, services, or other tangible or intangible assets. As the bill does not set a limit on these taxes, the revenue generated from them could offset the reduction of property tax revenue related to the property tax cap.

Lastly, the bill creates a grant for municipalities that regionalize education, public safety, or other services. The grant reimburses municipalities for a portion of the cost of providing the municipal service that is regionalized, and is funded via the Municipal Revenue Sharing Account (MRSA). To the extent that this facilitates regionalization, there is 1) a potential savings that would vary based on the service being regionalized, and 2) a revenue gain to municipalities that receive state grant funding as a result of such regionalization efforts.

Any grant payments made via MRSA for regionalization grants established by the bill would reduce the amount of funding available for other grants that are intended to be paid from MRSA. As the bill does not change the amount of funding deposited into MRSA, there is no impact to the state.

HB 6439, the FY 22 and FY 23 budget as passed by the Appropriations Committee, assumes that all funding deposited into MRSA in FY 22 and FY 23 will be distributed accordingly: 1) $196.3 million for certain current General Fund appropriations, 2) $145 million in additional PILOT grant funding to municipalities, and 3) any remaining MRSA funding based on the formula established in PA 15-244.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to changes in municipal grand lists, expenditures, and the provisions of any tax policies municipalities adopt pursuant to the bill.