

Municipal Revenue Sharing Account

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Issue

Explain the municipal revenue sharing account (MRSA) and its associated grant programs as of July 1, 2021. This report updates OLR Report [2016-R-0101](#).

Summary

MRSA is a separate, nonlapsing General Fund account designed to fund several state grants to municipalities. Although originally created in 2011 to fund specified property tax relief grants, the legislature significantly revamped MRSA's funding mechanism and purposes in 2015 as part of a new municipal revenue sharing program. (OLR Report [2016-R-0101](#) describes this program in detail.) This revenue sharing program was designed to be funded by a sales and use tax revenue diversion to MRSA, but the revenue diversion was subsequently delayed until FY 22.

The diversion, which requires 7.9% of state sales and use tax revenue to be directed to MRSA, took effect July 1, 2021. State statutes currently require that MRSA funds be used for (1) motor vehicle property tax grants, (2) payment in lieu of taxes (PILOT) grants, and (3) municipal revenue sharing grants. However, the FY 22-23 budget implementer act overrides the statutory requirements for the biennium. The act instead transfers a significant portion of the diverted sales and use tax revenue back to the General Fund. Under the act, for FYs 22 and 23, motor vehicle property tax grants and PILOT grants must be paid from appropriated funds instead. Any remaining balance due for the PILOT grants must be paid from MRSA. Municipal revenue sharing grants will be paid from any remaining amounts in MRSA.

Funding Mechanism

Beginning in FY 22, the law diverts 7.9% of the revenue from the state's 6.35% sales and use tax to MRSA each month to fund the various municipal grant programs described below ([CGS § 12-408\(1\)\(L\)](#) & [12-411\(1\)\(K\)](#)).

By law, the Office of Policy and Management (OPM) secretary may establish receivables for the revenue anticipated from MRSA and sales tax revenue directed into MRSA ([CGS § 4-66o](#)). (A receivable is an amount due from another source or party.) This allows OPM to make specified MRSA grant payments, as described below, before sufficient revenue has accumulated in the account.

Disbursement Schedule

The law requires the OPM secretary to set aside and ensure availability of MRSA funds in a specified order of priority and transfer or disburse them accordingly ([CGS § 4-66\(b\)](#)). With the exception of FYs 22 and 23, OPM must annually prioritize and disburse the funds as follows:

1. an amount sufficient to make motor vehicle property tax grants, according to the grant formula described below, by August 1;
2. an amount sufficient for payment in lieu of taxes (PILOT) grants; and
3. any remaining amounts for municipal revenue sharing grants to municipalities, according to a statutory grant formula ([CGS § 4-66](#)), as amended by [PA 21-2, June Special Session \(JSS\)](#), §§ 181 & 444).

For FY 22 and 23, however, the budget implementer act supersedes this schedule and instead requires that the (1) motor vehicle property tax grants be paid from funds appropriated for the grants and (2) PILOT grants be paid from funds appropriated for the grants, with the remaining balance due being paid from MRSA.

The budget implementer also requires that \$262.7 million for FY 22 and \$276.3 for FY 23 be transferred from MRSA to the General Fund after the remaining balance for the PILOT grants has been paid. Any funds remaining in MRSA for FYs 22 and 23 must be used for the municipal revenue sharing grants ([PA 21-2, JSS](#), § 448).

Although prior law required \$7 million to be disbursed from MRSA for regional services grants to regional councils of government, the budget implementer instead requires these grants to be paid from the regional planning incentive account (RPIA) ([PA 21-2, JSS](#), §§ 179 & 181). The RPIA is

funded by 6.7% of the revenue generated by the room occupancy tax and 10.7% of the revenue generated by the rental car tax ([CGS §§ 12-408 \(1\)\(K\)\(i\) & 12-411\(1\)\(J\)\(i\)](#)).

Grant Programs

Motor Vehicle Property Tax Grants

Motor vehicle property tax grants, also referred to as municipal transition grants, are designed to reimburse municipalities for a portion of the revenue loss attributed to the motor vehicle property tax cap. By law, municipalities that impose a mill rate on real and personal property, other than motor vehicles, that is greater than 45 mills (i.e., the capped motor vehicle mill rate) are eligible for the grants.

The grant amount equals the difference between the amount of property taxes a municipality, and any tax district in it, (1) levied on motor vehicles for the 2017 assessment year (i.e., FY 19) and (2) would have imposed for that year if the motor vehicle mill rate was the same as the rate for other property ([CGS § 4-66\(c\)](#), as amended by [PA 21-2, JSS](#), § 444). Figure 1 shows the statutory formula for calculating the grants.

Figure 1: Motor Vehicle Property Tax Grant Formula

$$\begin{array}{rcl} \text{Amount of motor vehicle property tax levy for} & & \text{Actual motor vehicle property} \\ \text{the 2017 assessment year at the same rate} & - & \text{taxes levied for the 2017} \\ \text{as other property} & & \text{assessment year} \\ & & = \\ & & \text{Motor vehicle} \\ & & \text{property tax grant} \\ & & \text{amount} \end{array}$$

Municipalities' mill rates are combined with those of their special taxing districts for the purposes of determining grant eligibility and amounts. Within 15 calendar days after receiving the grants, municipalities must disburse to districts the portion of the grants attributable to them.

PILOT Grants

The PILOT program provides annual grants to municipalities and taxing districts for (1) state-owned property, municipally owned airports, and Indian reservation land and (2) private nonprofit college and hospital property. (The FY 22-23 budget implementer act extended the state, municipal, and tribal property grants to taxing districts. Under prior law, taxing districts (i.e., village, fire, sewer, combination fire and sewer districts, and other municipal organizations authorized to levy and collect taxes) were eligible only for the college and hospital property PILOTs.)

Reimbursement Rates. PILOT grant amounts are generally determined by multiplying the assessed value of the PILOT-eligible property by the statutory reimbursement rate for the given

property type. Table 1 shows the statutory reimbursement rates for PILOT-eligible property that apply beginning July 1, 2021.

Table 1: PILOT Reimbursement Rates*

PILOT Program	Type of Property	Reimbursement Rate
State, Municipal, or Tribal Property	Correctional facility or juvenile detention center	100%
	John Dempsey Hospital permanent medical ward for inmates	100%
	Mashantucket Pequot reservation land (1) designated within the 1983 settlement boundary and (2) taken into trust by the federal government for the Mashantucket Pequots	100%
	Mohegan reservation land taken into trust by the federal government	100%
	State-owned real property in any municipality where more than 50% of the property is state-owned (Voluntown is the only municipality that qualifies)	100%
	Connecticut Port Authority-owned property and facilities	100%
	Connecticut Valley Hospital and Whiting Forensic Hospital	65%
	Municipally owned airports	45%
	All other state-owned real property	45%
College and Hospital Property	U.S. Department of Veterans Affairs Connecticut Healthcare Systems campus	100%
	Real property owned by private, nonprofit colleges	77%
	Real property owned by nonprofit general hospital facilities and freestanding chronic disease hospitals (including an urgent care facility that meets narrowly specified criteria)	77%

*[CGS § 12-18b](#), as amended by [PA 21-3](#), § 5, and [PA 21-2, JSS](#), § 445

Proration Method. If the amount appropriated for PILOT grants is not enough to fully fund them according to these reimbursement rates, the grant amounts must be prorated according to a three-tiered proration method. This method is based on each municipality’s (1) equalized net grand list (ENGL) per capita, (2) designation as an alliance district, and (3) percentage of state-owned property. But regardless of this method, the total amount of PILOT grants paid to each municipality

and district must equal or exceed the total they received in FY 21 ([PA 21-3](#), § 5, as amended by [PA 21-2, JSS](#), § 445).

To determine each municipality’s and district’s prorated PILOT grant amount, OPM must list them based on their ENGL per capita and divide them into three tiers. Each tier receives the grant percentage shown in Table 2. Regardless of its ENGL per capita, a municipality must be classified as a tier one municipality if (1) it is designated as an alliance district or (2) more than 50% of its property is state-owned real property.

Table 2: Prorated PILOT Grants

Tiers	Percentage of PILOT Grant
Tier One: <ul style="list-style-type: none"> • ENGL per capita of less than \$100,000 • Any municipality designated as an alliance district • Any municipality in which more than 50% of the property is state-owned real property 	50%
Tier Two: <ul style="list-style-type: none"> • ENGL per capita of at least \$100,000 but no more than \$200,000 	40%
Tier Three: <ul style="list-style-type: none"> • ENGL per capita exceeding \$200,000 	30%

If the annual appropriation is not enough to fund PILOT grants at the percentages shown in Table 2, then the grants to each municipality and district must be proportionately reduced, but they cannot be less than what was received in FY 21. Conversely, if the annual appropriation exceeds the amount required to fund PILOT grants at these percentages, then the grants must be proportionately increased.

Additional Pilots for Specified Municipalities. In addition to the reimbursements described above, the law requires the following PILOT grants to be paid to specified municipalities:

1. \$5 million to Bridgeport,
2. \$100,000 to Branford for Connecticut Hospice,
3. \$1 million to New London for the U.S. Coast Guard Academy, and
4. an additional \$60,000 to Voluntown for state-owned forest land ([CGS §§ 12-18b\(e\)](#), as amended by [PA 21-3](#), § 5, and [PA 21-2, JSS](#), §445; [12-19b\(b\)](#); and [12- 20b\(b\)-\(c\)](#)).

Municipal Revenue Sharing Grants

The statutory formula for calculating each municipality's revenue sharing grant amount depends on its mill rate for real and personal property (other than motor vehicles). As explained below, it gives more weight to municipalities with relatively high mill rates by setting a 25-mill threshold and basing the distribution on whether a municipality's mill rate is above or below that threshold. OPM must proportionately reduce each municipality's grant amount if the total amount of grants for all municipalities exceeds available MRSA funds ([CGS § 4-66l](#), as amended by [PA 21-2, JSS](#), §§ 181 & 444).

These grants are also tied to a municipal spending cap mechanism that reduces grant amounts for municipalities whose spending exceeds the cap.

Municipalities Below the Threshold. OPM must calculate grant amounts for municipalities below the 25-mill threshold using specified per capita and pro rata distribution formulas. A municipality's grant is the lesser of the per capita and pro rata distributions.

OPM calculates a municipality's per capita distribution by multiplying its share of the state's total population by the total amount of funds available for the revenue sharing grants. It determines a municipality's pro rata distribution by:

1. calculating a municipality's "weighted mill rate," which is its mill rate for FY 15 divided by the average FY 15 mill rate for all municipalities;
2. multiplying the municipality's weighted mill rate by its per capita distribution (i.e., the "municipal weighted mill rate calculation"); and
3. (a) dividing the municipal weighted mill rate calculation by the sum of all municipal weighted mill rate calculations and (b) multiplying the result by the total amount of funds available for the revenue sharing grants.

Municipalities at or above the 25-mill Threshold. The formula for municipalities at or above the 25-mill threshold also begins by calculating the per capita and pro rata distributions, but OPM must select the greater of the two amounts and increase it based on a specified percentage.

OPM must determine that percentage by:

1. subtracting the total pro rata grants for municipalities below the 25-mill threshold from the total per capita grants for these municipalities and
2. dividing the difference by the sum of the grants (either the pro rata or per capita distribution) for municipalities at or above the 25-mill threshold.

Capped Grant Amounts. Additionally, the law caps the grant amounts for specified municipalities. It caps Hartford's grant at 5.2% of the total amount of revenue sharing grants distributed, Bridgeport's at 4.5%, New Haven's at 2.0%, and Stamford's at 2.8%. OPM must proportionately redistribute any funds remaining after determining these caps to all other municipalities with mill rates at or above the 25-mill threshold ([CGS § 4-66](#), as amended by [PA 21-2, JSS](#), §§ 181 & 444).

Municipal Spending Cap. The municipal spending cap that is tied to these revenue sharing grants is the greater of the inflation rate or 2.5% or more of the prior fiscal year's adopted budget expenditures, including expenditures from a municipality's general fund and any nonbudgeted funds.

Municipalities that increase their adopted budget expenditures over the previous fiscal year by an amount that exceeds this cap receive a reduced revenue sharing grant. The reduction is equal to 50 cents for every dollar the municipality spends over the cap. However, OPM may not reduce a municipality's grant in any year in which its adopted budget expenditures exceed the cap by an amount proportionate to its population increase over the previous fiscal year (based on the most recent Department of Public Health population estimate).

Municipalities must annually certify to the OPM secretary, on an OPM-prescribed form, whether they have exceeded the spending cap and, if so, by how much.

The spending cap does not apply to the following expenditures:

1. debt service, special education, implementing court orders or arbitration awards, budgeting for an audited deficit, nonrecurring grants, nonrecurring capital expenditures of at least \$100,000, or payments on unfunded pension liabilities;
2. those associated with a major disaster or emergency declaration by the president or disaster emergency declaration issued by the governor under the civil preparedness law; or
3. those made from motor vehicle property tax grants or municipal revenue sharing grants disbursed to special taxing districts ([CGS § 4-66](#) as amended by [PA 21-2, JSS](#), §§ 181 & 444).

Property Tax Statements. By law, municipal tax collectors must include, as part of property tax bills, a statement informing taxpayers of this spending cap penalty ([CGS § 12-130\(a\)\(B\)](#)). The statement must read "The state will reduce grants to your town if local spending increases by more than 2.5% from the previous fiscal year."

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