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ResearchReport

Connecticut's Payment in Lieu of Taxes Program

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Issue

Explain Connecticut's payment in lieu of taxes (PILOT) program and provide its funding level over the past few years.

Summary

Connecticut's PILOT program provides annual grants to municipalities and special taxing districts to reimburse them for a portion of the revenue loss from certain tax-exempt property. The program has the following two components:

1. grants to municipalities for state-owned property, municipally-owned airports, and Indian reservation land, and

2. grants to both municipalities and taxing districts for private nonprofit college and hospital property.

State law establishes the reimbursement rates for PILOT-eligible property and requires the grants to be prorated if the amount appropriated is not enough to fully fund them according to the reimbursement rates. However, the legislature has superseded these statutory requirements since FY 17, opting instead to specify the grant amounts for each municipality and district in its biennial budget acts. Since FY 17, the legislature has also appropriated funds for supplemental PILOT grants to municipalities (and in some cases, districts) with relatively greater percentages of tax-exempt property on their grand lists.

In the past 10 fiscal years, the appropriation for the state, municipal, and tribal property PILOT ranged from a high of $83.6 million for FY 15 to a low of $50.3 million for FY 18. Over the same period, the appropriation for the college and hospital property PILOT ranged from a high of $125.4 million for FY 15 and a low of $98.4 million for FY 18. Since FY 17, the appropriation for the supplemental PILOT grants to specified municipalities and districts ranged from a high of $44.1 million in FY 17 to a low of $35.2 million in FY 18.

Statutory PILOT Amounts

Reimbursement Rates

By law, municipalities (i.e., towns, cities, boroughs, consolidated towns and cities, and consolidated towns and boroughs) are eligible for the state, municipal, and tribal property PILOTs. Municipalities and taxing districts (i.e., village, fire, sewer, and combination fire and sewer districts and other municipal organizations authorized to levy and collect taxes) are eligible for the college and hospital property PILOTs. By January 1 each year, the Office of Policy and Management (OPM) must determine the amount due to each municipality and district for both categories of PILOT-eligible property. These amounts are based on specified reimbursement rates that are established under state law, as shown in Table 1.

Table 1: PILOT Reimbursement Rates Under CGS § 12-18b

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 on or after June 8, 1999	100%
	Land in any municipality where more than 50% of the land is state-owned (Voluntown is the only municipality that qualifies)	100%
	Connecticut Valley Hospital and Whiting Forensic Hospital	65%
	Municipally owned airports	45%

Table 1 (continued)

PILOT Program	Type of Property	Reimbursement Rate
	Mashantucket Pequot reservation land (1) designated within the 1983 settlement boundary and (2) taken into trust by the federal government for the Mashantucket Pequots before June 8, 1999	45%
	Mohegan reservation land taken into trust by the federal government	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%

Additional PILOTs for Specified Municipalities

In addition to the reimbursement rates described above, the law requires the following PILOT grants for municipalities that host specified properties or institutions:

1. $100,000 to Branford for Connecticut Hospice,
2. $1 million to New London for the U.S. Coast Guard Academy, and
3. an additional $60,000 to Voluntown for state-owned forest land (CGS § 12-19b(b) & 12-20b(b)-(c)).

Prorated Grants

By law, if the state's annual appropriation is not enough to fully fund the PILOT grants, the grants must be prorated according to a statutory formula that is designed to increase reimbursements to the 35 municipalities and districts with the highest percentage of tax-exempt property on their grand lists. Although this proration method applied beginning with FY 20, it has not been used to date. (The legislature has instead appropriated funds for supplemental PILOT grants to specified municipalities and districts since FY 17, as we discuss below.)

Specifically, this method (1) establishes minimum reimbursement rates for specific types of PILOT-eligible property, based on a municipality's mill rate, and (2) requires that PILOTs for all other eligible properties be proportionately reduced, but not lower than the reimbursement rate the municipality or district received in FY 15 for such property.

Minimum Reimbursement Rates for Select Property. The law establishes minimum reimbursement rates for (1) "select state property" (i.e., the category of state-owned property reimbursed at 45%); and (2) "select college and hospital property" (i.e., private, nonprofit colleges and universities, nonprofit general and chronic disease hospitals, and certain urgent care facilities). OPM must rank each municipality (and district, in the case of college and hospital PILOTs) based on (1) its mill rate for real and personal property (other than motor vehicles) and (2) the percentage of tax-exempt property on its 2012 grand list, excluding correctional and juvenile detention facilities. Boroughs and districts receive the same ranking as the municipalities in which they are located.

Municipalities and districts are then divided into three tiers based on their rankings. Each tier receives a minimum reimbursement rate for its select property, as shown in Table 2. The portion of the grants made to tiers one and two that exceeds the minimum reimbursement rate for tier three (i.e., 32% for college and hospital PILOTs and 24% for state property PILOTs) must be paid from the select PILOT account (described below).

Table 2: Minimum PILOT Reimbursement Rates

Municipalities*	Select College and Hospital Property	Select State Property
Tier one: 10 municipalities with the highest percentage of tax-exempt property and a mill rate of at least 25	42%	32%
Tier two: Next 25 municipalities with a mill rate of at least 25	37%	28%
Tier three: All other municipalities	32%	24%

*Includes districts for purposes of college and hospital property PILOTs

If the amount appropriated for the grants and available in the select PILOT account is not enough to fund the minimum reimbursement rates in Table 2, OPM must reduce them as follows:

1. Select college and hospital property PILOTs must be proportionately reduced so that the tier one and tier two grants are 10 percentage points and five percentage points greater than the tier three grants, respectively.

2. Select state property PILOTs must be proportionately reduced so that the tier one and tier two grants are eight percentage points and four percentage points greater than the tier three grants, respectively.

OPM must pay the grants to tiers one and two that exceed the grants paid to tier three from the select PILOT account, a separate, nonlapsing General Fund account (CGS § 12-18b(e)(2)-(3) & 12-

18c). (This account was originally designed to be funded by a sales tax diversion to the municipal revenue sharing account (MRSA) (CGS § 4-66*l*(b)(3)).)

Minimum Reimbursement for Other PILOT-Eligible Property. In addition to the minimum reimbursement rates described above, the law requires that PILOTs for all other eligible properties (i.e., "qualified state, municipal, and tribal property" and "qualified college and hospital property") be proportionately reduced, but no lower than the reimbursement rate the municipality or district received in FY 15 for such property (CGS § 12-18b(e)(2)(A)).

Application and Payment Process

Annually by April 1, municipalities must submit claim forms to OPM to report the assessed value of their PILOT-eligible property as of the prior October 1 (the start of the preceding assessment year). The OPM secretary has until August 1 of the following year to audit the municipalities' claims and reevaluate a property if he believes the value the municipality submitted is inaccurate.

Municipalities can request an administrative hearing with OPM to contest reevaluations. A municipality denied a hearing or unhappy with its outcome can appeal to Superior Court (CGS §§ 12-19b & 12-20b). The actual payments are made by the State Treasurer by September 30, 18 months after the municipality first requested the reimbursement (CGS §§ 12-19c & 12-20b).

PILOT Funding Since FY 12

Table 3 shows the PILOT program appropriations from FYs 12 to 21. As it shows, for the current fiscal year, the legislature appropriated $109.9 million for the college and hospital property PILOTs and $54.9 million for the state, municipal, and tribal property PILOTs. It also appropriated an additional $36.8 million for supplemental PILOT grants, referred to as municipal revenue sharing grants. The town-by-town grant amounts for the current biennium are available here.

Over the 10-year period, the appropriation for the state, municipal, and tribal property PILOT ranged from a high of $83.6 million for FY 15 to a low of $50.3 million for FY 18. The appropriation for the college and hospital property PILOT ranged from a high of $125.4 million for FY 15 and a low of $98.4 million for FY 18.

The appropriation for the supplemental PILOT grants ranged from a high of $44.1 million in FY 17 to a low of $35.2 million in FY 18. For FY 17, the supplemental PILOTs grant amounts were specified in statute and awarded to 35 municipalities and seven taxing districts (CGS §12-18b(d)). For FYs 18 through 21, the grant amounts were specified in budget acts and awarded to five municipalities (Bridgeport, Hartford, Mansfield, New Haven, and Waterbury) (PA 17-2, June Special Session, § 590, and PA 19-117, § 56).

Table 3: PILOT Funding, FYs 12 to 21

Appropriation	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
College & Hospital PILOT	$115,431,737	$115,431,737	$ 115,431,737	$125,431,737	$122,919,655	$114,950,767	$98,377,556	$105,889,432	$109,889,434	$109,889,434
State, Municipal, & Tribal Property PILOT	73,519,215	73,641,646	73,641,646	83,641,646	71,356,484	66,730,438	50,306,432	54,944,031	54,944,031	54,944,031
Municipal Revenue Sharing - GF[1]	-	-	-	-	-	-	35,221,814	36,819,135	36,819,135	36,819,135
Municipal Revenue Sharing Fund - MRSF[1]	-	-	-	-	-	44,101,081	-	-	-	-
Total	**188,950,952**	**189,073,383**	**189,073,383**	**209,073,383**	**194,276,139**	**225,782,286**	**183,905,802**	**197,652,598**	**201,652,600**	**201,652,600**

[1]PA 15-244, the FY 16-17 budget act, established the Municipal Revenue Sharing Account (MRSA). One of the intended purposes of the account was to fund supplemental PILOT payments to municipalities with high levels of tax-exempt property. These payments were in addition to the General Fund State Property PILOT and College & Hospital PILOT appropriations. While MRSA has never been funded according to statute, a portion of these supplemental PILOT payments have been provided. In FY 17, they were provided via the Municipal Revenue Sharing Fund. From FY 18 to FY 21, the payments have been provided via a General Fund appropriation called "Municipal Revenue Sharing".

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