OFFICE OF LEGISLATIVE RESEARCH
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ResearchReport

MRSA and MRSF

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Issue

Briefly explain the municipal revenue sharing account (MRSA) and Municipal Revenue Sharing Fund (MRSF).

Summary

MRSA and MRSF are part of a municipal revenue sharing program in effect since FY 17. The program was primarily intended to fund (1) motor vehicle property tax grants, (2) supplemental payment in lieu of taxes (PILOT) grants, and (3) municipal revenue sharing grants determined according to a statutory formula. (OLR Report 2016-R-0101 describes the original program in detail.)

This revenue sharing program was originally designed to be a non-appropriated (i.e., off-budget) expenditure funded by a sales and use tax revenue diversion to MRSA, a separate, nonlapsing General Fund account (CGS § 4-66*l*(b)). MRSA was first established in 2011 to fund specified property tax relief grants, but the legislature revamped its funding mechanism and purpose in 2015 as part of the new municipal revenue sharing program. MRSA funds were scheduled to be disbursed beginning in FY 17, but the legislature eliminated the revenue diversion for FY 17 and swept the balance from the FY 16 transfers as part of the FY 17 budget adjustment act (PA 16-2, May Special Session (MSS), §§ 40 & 44). Instead, for FY 17 only, it transferred the program's funding source from MRSA to MRSF, a newly established appropriated fund (PA 16-2, MSS, § 41; codified as CGS § 4-66p). This change effectively shifted the funding for these grants from an off-budget expenditure to a budgeted expenditure.

The legislature subsequently suspended the revenue diversion to MRSA for FYs 18-21 and instead funded the grants for those years through General Fund appropriations (PA 17-2, June Special Session (JSS), §§ 637 & 638, and PA 18-81, §§ 62 & 63). The revenue diversion ultimately took effect for FYs 22 and 23, but the biennial budget act for those years transferred a significant portion of the revenue from MRSA back to the General Fund and required specified grant programs to be paid for from appropriated funds instead of from MRSA. For FYs 24 and 25, the budget and implementer act diverts this sales and use tax revenue to MRSF, rather than MRSA, and requires MRSF to pay for the grant programs.

OLR Report 2016-R-0101 describes in detail the municipal revenue sharing program originally enacted in 2015 and later amended in 2016. OLR report 2021-R-0171 describes the program in effect as of July 1, 2021. This report highlights the changes to the program's funding structure for FYs 22-23 and FYs 24-25.

FYs 22-23

The sales and use tax diversion to MRSA was in effect from July 1, 2021, to June 30, 2023. However, the FY 22-23 budget act required that specified amounts of this revenue ($262.7 million for FY 22 and $276.3 million for FY 23) be transferred from MRSA to the General Fund. The act also superseded the statutory schedule for disbursing MRSA funds, which was designed to ensure availability of MRSA funds in a specified order of priority and disburse them accordingly. Under that schedule, the funds were disbursed (1) first for motor vehicle property tax grants (by August 1), (2) then for tiered PILOT grants, and (3) last for municipal revenue sharing grants to municipalities, according to a statutory grant formula (CGS § 4-66*l*, as amended by PA 21-2, JSS, §§ 444 & 448).

The FY 22-23 budget act superseded this disbursement schedule for the biennium and instead required 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. Any funds remaining in MRSA for FYs 22 and 23 had to be used for the municipal revenue sharing grants (PA 21-2, JSS, § 448).

Prior law also required $7 million to be disbursed from MRSA for regional services grants to regional councils of government. The budget implementer instead required 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)).

FYs 24-25

The FY 24-25 budget act redirects the sales and use tax diversion from MRSA to MRSF and appropriates approximately $569 million from MRSF in each fiscal year (PA 23-204, §§ 13 & 73-74). Beginning in FY 24, it requires the Office of Policy and Management to use MRSF funds to pay for (1) motor vehicle property tax grants; (2) PILOT grants, including those known as Tiered PILOT (described in OLR Report 2023-R-0190), and additional PILOTs paid to specified municipalities; (3) supplemental revenue sharing grants to certain municipalities and fire districts specified under the act; and (4) municipal revenue sharing grants, according to the statutory grant formula (PA 23-204, §§ 75-78).

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