Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

Neil Ayers, Director
PHONE: (860) 240-0200
FAX: (860) 240-0052
http://www.cga.ct.gov/ofa

ROOM 5200
Legislative Office Building
Hartford, CT. 06106-1591
ofa@cga.ct.gov

November 20, 2023

TO: Senator John Kissel
Representative Lucy Dathan
Co-Chairs, Regulations Review Committee

FROM: Neil Ayers, Director

SUBJECT: Review of Agenda **Item 2023-020** TK for NA

OFA has reviewed the state and municipal fiscal impact of item 2023-020 for the Department of Consumer Protection for this month's meeting.[1] The following table summarizes our review.

Reg. #	Agency	Is Agency Estimate of State Impact Reasonable?	Is Agency Estimate of Municipal Impact Reasonable?	Did Agency Submit a Small Business Impact Statement or Regulatory Flexibility Analysis?[2]
2023-020	DCP	Yes	Yes	Yes

Please contact me if you have any questions or would like additional information.

[1] CGS Section 2-71c(c)(7) requires OFA to prepare "short analyses of the costs and long range projections of proposed agency regulations."
[2] CGS Section 4-168a requires agencies to prepare a small business impact statement on all regulation submittals or prepare a regulatory flexibility analysis statement when there is an impact on small businesses.

Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

Neil Ayers, Director
PHONE: (860) 240-0200
FAX: (860) 240-0052
http://www.cga.ct.gov/ofa

ROOM 5200
Legislative Office Building
Hartford, CT. 06106-1591
ofa@cga.ct.gov

November 20, 2023

TO: Senator John Kissel
Representative Lucy Dathan
Co-Chairs, Regulations Review Committee

FROM: Neil Ayers, Director

SUBJECT: Review of Agenda **Item 2023-021** -TK for NA

OFA has reviewed the state and municipal fiscal impact of item 2023-021 for the Department of Public Health for this month's meeting.[1] The following table summarizes our review.

Reg. #	Agency	Is Agency Estimate of State Impact Reasonable?	Is Agency Estimate of Municipal Impact Reasonable?	Did Agency Submit a Small Business Impact Statement or Regulatory Flexibility Analysis?[2]
2023-021	DPH	See Comments	Yes	Yes

Implementing the regulations does not result in a fiscal impact to DPH. Nonetheless, the regulations could cost nursing homes approximately $43 million. For more information, please read the separate fiscal analysis that will be provided to the Committee by OFA per request.

Please contact me if you have any questions or would like additional information.

---

[1] CGS Section 2-71c(c)(7) requires OFA to prepare "short analyses of the costs and long range projections of proposed agency regulations."

[2] CGS Section 4-168a requires agencies to prepare a small business impact statement on all regulation submittals or prepare a regulatory flexibility analysis statement when there is an impact on small businesses.

Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

Neil Ayers, Director
PHONE: (860) 240-0200
FAX: (860) 240-0052
http://www.cga.ct.gov/ofa

ROOM 5200
Legislative Office Building
Hartford, CT. 06106-1591
ofa@cga.ct.gov

November 20, 2023

TO: Senator John Kissel
Representative Lucy Dathan
Co-Chairs, Regulations Review Committee

FROM: Neil Ayers, Director

SUBJECT: Review of Agenda **Item 2023-022** TK for VA

OFA has reviewed the state and municipal fiscal impact of item 2023-022 for the Department of Energy & Environmental Protection for this month's meeting.[1] The following table summarizes our review.

Reg. #	Agency	Is Agency Estimate of State Impact Reasonable?	Is Agency Estimate of Municipal Impact Reasonable?	Did Agency Submit a Small Business Impact Statement or Regulatory Flexibility Analysis?[2]
2023-022	DEEP	See Comments	See Comments	Yes

Please refer to attached letter.

Please contact me if you have any questions or would like additional information.

[1] CGS Section 2-71c(c)(7) requires OFA to prepare "short analyses of the costs and long range projections of proposed agency regulations."
[2] CGS Section 4-168a requires agencies to prepare a small business impact statement on all regulation submittals or prepare a regulatory flexibility analysis statement when there is an impact on small businesses.

Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

Neil Ayers, Director
PHONE: (860) 240-0200
FAX: (860) 240-0052
http://www.cga.ct.gov/ofa

ROOM 5200
Legislative Office Building
Hartford, CT. 06106-1591
ofa@cga.ct.gov

November 20, 2023

TO: Senator John Kissel
Representative Lucy Dathan
Co-Chairs, Regulations Review Committee

FROM: Neil Ayers, Director

SUBJECT: Review of Agenda **Item 2023-023** TK for KA

OFA has reviewed the state and municipal fiscal impact of item 2023-023 for the Department of Energy & Environmental Protection for this month's meeting.[1] The following table summarizes our review.

Reg. #	Agency	Is Agency Estimate of State Impact Reasonable?	Is Agency Estimate of Municipal Impact Reasonable?	Did Agency Submit a Small Business Impact Statement or Regulatory Flexibility Analysis?[2]
2023-023	DEEP	See Comments	See Comments	Yes

Please refer to attached letter.

Please contact me if you have any questions or would like additional information.

[1] CGS Section 2-71c(c)(7) requires OFA to prepare "short analyses of the costs and long range projections of proposed agency regulations."

[2] CGS Section 4-168a requires agencies to prepare a small business impact statement on all regulation submittals or prepare a regulatory flexibility analysis statement when there is an impact on small businesses.

Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

Neil Ayers, Director
PHONE: (860) 240-0200
FAX: (860) 240-0052
http://www.cga.ct.gov/ofa

ROOM 5200
Legislative Office Building
Hartford, CT. 06106-1591
ofa@cga.ct.gov

November 20, 2023

TO: Senator John Kissel
Representative Lucy Dathan
Co-Chairs, Regulations Review Committee

FROM: Neil Ayers, Director

SUBJECT: Review of Agenda **Item 2023-018A** TK for NA

OFA has reviewed the state and municipal fiscal impact of item 2023-018A for the Department of Agriculture for this month's meeting.[1] The following table summarizes our review.

Reg. #	Agency	Is Agency Estimate of State Impact Reasonable?	Is Agency Estimate of Municipal Impact Reasonable?	Did Agency Submit a Small Business Impact Statement or Regulatory Flexibility Analysis?[2]
2023-018A	DoAg	See Comments	See Comments	Yes

The chart correctly summarizes that there is no fiscal impact; the Explanation of State and Municipal Impact of Regulation explains the actual regulation.

Please contact me if you have any questions or would like additional information.

---

[1] CGS Section 2-71c(c)(7) requires OFA to prepare "short analyses of the costs and long range projections of proposed agency regulations."

[2] CGS Section 4-168a requires agencies to prepare a small business impact statement on all regulation submittals or prepare a regulatory flexibility analysis statement when there is an impact on small businesses.

Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

Neil Ayers, Director
PHONE: (860) 240-0200
FAX: (860) 240-0052
http://www.cga.ct.gov/ofa

ROOM 5200
Legislative Office Building
Hartford, CT. 06106-1591
ofa@cga.ct.gov

November 20, 2023

TO: Senator John Kissel
Representative Lucy Dathan
Co-Chairs, Regulations Review Committee

FROM: Neil Ayers, Director

SUBJECT: Review of Agenda **Item 2023-019A** TK for NA

OFA has reviewed the state and municipal fiscal impact of item 2023-019A for the Department of Agriculture for this month's meeting.[1] The following table summarizes our review.

Reg. #	Agency	Is Agency Estimate of State Impact Reasonable?	Is Agency Estimate of Municipal Impact Reasonable?	Did Agency Submit a Small Business Impact Statement or Regulatory Flexibility Analysis?[2]
2023-019A	DoAg	Yes	See Comments	Yes

The estimate indicates zero fiscal impact to municipalities. There could potentially be costs to various municipalities if they are required to perform certain facility upgrades, as a result of inspections. The magnitude of municipal costs may be significant, some occurring in the first year, based on the scope of required improvements.

Please contact me if you have any questions or would like additional information.

[1] CGS Section 2-71c(c)(7) requires OFA to prepare "short analyses of the costs and long range projections of proposed agency regulations."
[2] CGS Section 4-168a requires agencies to prepare a small business impact statement on all regulation submittals or prepare a regulatory flexibility analysis statement when there is an impact on small businesses.

Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

Neil Ayers, Director
PHONE: (860) 240-0200
FAX: (860) 240-0052
http://www.cga.ct.gov/ofa

ROOM 5200
Legislative Office Building
Hartford, CT. 06106-1591
ofa@cga.ct.gov

Monday, November 20, 2023

TO: Members of the Regulations Review Committee

FROM: The Office of Fiscal Analysis (OFA)

SUBJECT: Additional information and analyses regarding proposed regulations on the agenda for the meeting scheduled for Tuesday, November 28th

Additional commentary on agenda item #2023-21

Based on a 2022 cost report data provided by the Department of Social Services (DSS), the new regulations could cost nursing homes approximately $43 million, with an estimated 98 homes not meeting the 2.16 hours of care required by CNAs and 26 homes not meeting RN/LPN requirements (0.84 hours per day). As these costs are incurred by nursing homes and included in cost reports, they will likely roll out into Medicaid rates with a state share of about 50% of gross costs. Following this process, the state impact will be delayed, but the above estimate provides some sense of the future budget impact ($21+ million). It is important that we note several caveats, below:

• This estimate does not include hours/costs associated with Directors and Assistant Directors of Nursing when considering direct care hours, per the regulations. If homes can temporarily utilize this staff to work shifts providing direct care in lieu of performing director responsibilities while homes are hiring, this would lower the fiscal impact (by close to $20 million, gross).

• Actual costs will depend on if nursing homes hire through temporary staffing agencies or full-time equivalents (FTEs). Temporary staffing agencies are considered more expensive (according to DSS, they are double the cost) and FTEs require fringe benefits, etc. This estimate assumes an average rate per license type, by nursing home, and includes adjustments for sick/vacation time and fringe benefits.

•The DPH regulations outline requirements for two time periods (7am-9pm and 9pm-7am). This estimate cannot account for staffing patterns at different times of day- we can only assess if homes meet the total daily required direct care hours per resident. It is possible that homes appear to comply with the overall hours by employee license type but may actually be out of compliance during specific timeframes.

Fiscal impact analysis for agenda items #2023-22 and #2023-23

You asked for a quantitative fiscal analysis of the proposed regulations related to the two Department of Energy and Environmental Protection (DEEP) regulations on the November 28, 2023, LRRC agenda. The two regulations are 2023-022 Advanced Clean Cars II (ACC II) and 2023-23 Adoption of 22a-174-37 Medium and Heavy-Duty Emission Standards (MHD).

The fiscal impact of these regulations is uncertain and depends on several factors including future macroeconomic conditions and consumer demand. In preparing the fiscal analysis below, OFA applies Connecticut state conditions to the macroeconomic and other trends analysis conducted previously for California to provide an alternative fiscal impact statement to the one provided by DEEP. While we recognize that a high level of uncertainty surrounds any quantitative fiscal impact for these regulations, we have no reason to believe that the CA analysis is an unreasonable approach and therefore use it as a baseline.

A summary of the estimated near-term STF revenue loss of the ACC II and MHD regulations is provided in the table below. Other potential or less significant fiscal impacts are described in the following pages.

Fund	**FY 27 $**	**FY 28 $**
Special Transportation Fund – Revenue Loss	$17 - 22 million	$33 - 43 million

Special Transportation Fund (STF) Revenues for ACC II
Based on the CA methodology, and making certain adjustments for CT described below, the ACC II regulation is expected to result in approximate STF revenue loss of between $15 - $20 million in FY 27 and between $30 - $40 million in FY 28. This includes revenue loss from both the gas tax and from the petroleum products gross earnings tax (PGET). This analysis also assumes a small revenue loss (less than $1 million combined in FY 27 and FY 28) from various registration-based fees that generally do not apply to electric vehicles (EVs), including the Clean Air Act fee and the emissions exemption fee.

The analysis adjusts for three primary issues we identified in DEEP's fiscal note:

- PGET Adjustment. DEEP's fiscal note did not address the revenue impact to PGET, which effectively understates the revenue loss from fuel tax collections by half. (Current collections from PGET are slightly higher than from the gasoline excise tax, though the amounts are comparable.)

- Excise Tax Adjustment for State/Local Split. When adjusting for Connecticut circumstances, DEEP's fiscal note implies that the CA excise tax revenue loss shown in Table 1 (of DEEP's fiscal note) reflects the impact associated with CA's full excise tax rate of 53 cents/gallon. However, in CA only a portion (approximately 58%) of the gasoline excise tax revenue is allocated to the state with the remainder allocated to local governments. For Connecticut purposes, the estimate should assume that the entire impact is attributable to the state. Holding the rest of the methodology constant and properly adjusting for this issue, the gas tax revenue loss shown for CT in Table 1 is understated by nearly half.
    - Related to this is an erroneous statement in the municipal impact section of DEEP's fiscal note, which says: "Displacing gasoline fuel with electricity will decrease the amount of gasoline dispensed in the State, resulting in a reduction of tax revenue collected by local governments." This appears to be a hold-over from the CA analysis which is not applicable to CT. For gas tax revenue purposes, there is no fiscal impact to local governments in CT.

- Registration Fees. DEEP's fiscal note assumes increased revenue from CT vehicle registration fees. This assumption is based on CA's analysis, which itself reflects a CA surcharge on EV registrations (which does not exist in CT). Instead, a small revenue loss should be assumed (and is assumed in our estimate) related to fees because certain CT registration-based fees, such as the Clean Air Act fee and the emissions exemption fee, do not apply to EV registrations.

STF Revenues for MHD

DEEP's fiscal note for its MHD regulation does not address a fiscal impact associated with diesel tax collections. However, OFA estimates that there will be an STF revenue loss from diesel tax collections due to the accelerated rate of MHD electrification. The estimated loss is smaller than that for ACC II because overall diesel tax collections are smaller than those from gas and PGET (diesel is exempt from PGET) and the phase-in is more gradual than for ACC II. A reasonable estimate for the impact to diesel tax loss would be approximately $2 million in FY 27 and $3 million in FY 28 though, as with ACC II, the certainty of the estimate is low.

STF Long-term Trends

Revenue from motor fuels taxes and PGET are critically important to the overall fiscal health of the STF. Together, these sources comprise approximately 37% of total STF revenues over the next five years (or approximately $860 million annually). However, even absent the proposed regulations, over the long-term the revenue from these sources is projected to decline (consistent with national trends) due to ongoing improvements in fuel efficiency across all vehicle classes. While the regulations under consideration are expected to accelerate this pre-existing negative growth trend, the direct fiscal impact is uncertain and is dependent on several factors beyond the scope of this analysis, such as macroeconomic conditions and consumer demand.

Sales Tax

The proposed regulatory changes result in: (1) a potential revenue gain in sales tax collections on motor vehicles to the Special Transportation Fund, and (2) a potential revenue loss in sales tax to the state pertaining to vehicle maintenance and repair, both beginning in FY 27.[1]

The DEEP fiscal note indicates that "increased revenue is expected from sales taxes for increased vehicle sales." OFA agrees that there may be a sales tax revenue gain due to the general price differences between EVs (higher price) over comparable internal combustion engine (ICE) models (lower price). However, any actual revenue gain is dependent upon consumer demand. Some consumers may purchase vehicles based on a specific price point rather than model type, in which case the incremental tax gain would be negligible. Other consumers may purchase a used vehicle in lieu of a new EV model which results in no revenue gain.

The EV market has increased in sales since the mid-2000s and is projected to do so regardless of this regulation, though forecasts by industry leaders on EV production and sales varies widely. IHS forecasts an EV market share of 64% of total North American light vehicle production in 2030; a 2021 KPMG survey of automobile industry executives reports a mean forecast of 52% for the 2030 U.S. EV market share, but notably with responses ranging from 5% to 90%.[2] The incremental increase in EV sales explicitly tied to this regulation is therefore anticipated to be positive, in particular by the end of the phase-in period in 2035, but ultimately indeterminable.

In addition, the CA methodology notes that EVs incur less maintenance and repair costs compared to ICE vehicles.[3] An increase in EVs would therefore result in a revenue loss to the state as state statute applies the sales tax to motor vehicle repair and services.[4]

---

[1] Under current law, all sales tax collected on motor vehicles is disbursed to the STF. Sales tax associated with the 6.35% general sales tax rate is disbursed to the General Fund (5.35 percentage points of the 6.35% rate) and the STF and Municipal Revenue Sharing Fund (0.5 percentage points each).

[2] Klier, Thomas H. & Rubenstein, James, "North America's Rapidly Growing Electric Vehicle Market: Implications for the Geography of Automotive Production," Federal Reserve Bank of Chicago, *Economic Perspectives,* No. 5, December 2022. Retrieved from https://www.chicagofed.org/publications/economic-perspectives/2022/5

[3] See pg. 164, https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2022/accii/isor.pdf

[4] CGS Sec. 12-407(a)(37)(M)

General Fund Registration Fees

Revenues from the Clean Air Act registration fees, mentioned above for the STF analysis for ACC II, are partially distributed to the General Fund. The expected reduction in these revenues discussed above is expected to be less than $1 million annually in both FY 27 and FY 28. The fee annually provides approximately $8 million to the General Fund and is paid on new and renewal registrations for non-electric vehicles. As the regulations' phase-in occurs, GF revenues from this fee will further decline.

State Motor Vehicle Fleet

The proposed regulatory changes are anticipated to result in net savings regarding the motor vehicle fleet, over the life of the vehicle. The savings are primarily from reduced costs of fuel and maintenance to the vehicle fleet. These savings are partially offset by higher initial costs from vehicle purchase, or lease, and any infrastructure improvements made to support EVs.

The state fleet, managed by the Department of Administrative Services, consists of more than 3,600 vehicles which drive roughly 30 million miles a year.

Municipal Impacts

The proposed ACC II regulation does not result in any significant fiscal impact to municipalities. The price difference between purchasing a ZEV or a gasoline powered vehicle is decreasing as more motor vehicle companies move toward manufacturing and selling ZEVs. The population is also increasingly moving toward purchasing ZEVs. As a result, we do not expect any significant impact on property tax revenue. We expect the price difference to continue to decline and municipalities to move toward installing electrical receptables for ZEVs.

The proposed MHD regulation may result in a cost to certain municipalities to the extent they have to install additional electrical receptacles or update current electrical receptacles to meet the demands of new zero emission medium and heavy-duty vehicles. Any anticipated fiscal impact will vary by municipality and depend on the extent to which each municipality has already adopted the use of these vehicles.