

Connecticut cities and towns receiving Municipal Revenue Sharing grants are currently subject to a municipal spending cap, which limits how much they can increase their expenditures year-over-year. If a municipality exceeds the spending cap, it is subject to a reduction in its Municipal Revenue Sharing grant, which provides additional state funding to cities and towns, particularly those with mill rates exceeding 25 mills.<sup>1</sup> Importantly, the Municipal Revenue Sharing grant has not been funded for the past two fiscal years.

This frequently asked questions document discusses the municipal spending cap and its impact on Municipal Revenue Sharing Grants outlined in Conn. Gen. Statutes ch. 50, § 4-66l.

### What is the municipal spending cap?

The municipal spending cap is a feature of the Municipal Revenue Sharing grant that limits how much a recipient city or town of a Municipal Revenue Sharing grant may increase their expenditures year-over-year. If a municipality exceeds the spending cap, its Municipal Revenue Sharing grant is subject to a reduction.<sup>2</sup>

### What is the Municipal Revenue Sharing grant?

The Municipal Revenue Sharing grant is one of four grants disbursed from the Municipal Revenue Sharing Fund (MRSF).<sup>3</sup> The Municipal Revenue Sharing grant is the last program funded from the MRSF, and distributions are reduced proportionately if the available funding is insufficient to fully cover the Municipal Revenue Sharing grants.

However, it is essential to note that although the Municipal Revenue Sharing grant is still in effect, **changes made in fiscal year 2024 in how the grant is funded have resulted in no funding for the grant in the last two fiscal years.**<sup>4</sup> Furthermore, Governor Lamont's proposed biennial state budget for FYs 2026 and 2027 eliminates the Municipal Revenue Sharing grant.

### What is the Municipal Revenue Sharing Fund (MRSF)?

The MRSF is a separate, non-lapsing fund that is primarily intended to distribute sales and use tax diversion funds to municipalities<sup>5</sup> under the following programs:

1. **Motor Vehicle Property Tax Grants** – designed to reimburse municipalities for a portion of the revenue loss attributed to the motor vehicle property tax cap.<sup>6</sup>
2. **Tiered Payment in Lieu of Taxes (PILOT) Grants** – designed to provide annual grants to municipalities and taxing districts to reimburse them for a portion of the revenue loss from certain tax-exempt property, including: (1) state-owned property, municipally owned airports, and Native American reservation land, and (2) private, nonprofit college and hospital property.<sup>7</sup>

3. **Supplemental Revenue Sharing Grants** – designed to provide fixed grant payments to municipalities pursuant to amounts outlined in Conn. Gen. Statutes ch. 50, § 4-66p(e)(1), this grant was designed to combine fixed payments from the Municipal Stabilization and Municipal Revenue Sharing grants.<sup>8</sup>
4. **Municipal Revenue Sharing Grants** – designed to provide formula calculated grants to municipalities, particularly those with relatively high mill rates, if funds remain.<sup>A</sup> This is the grant that is reduced should municipalities exceed the municipal spending cap.

Under current law, Motor Vehicle Property Tax Grants and PILOT grants are mandatory payments to municipalities. However, Supplemental Revenue Sharing grants may be reduced proportionately if funding is inadequate, and Municipal Revenue Sharing grants are only issued if funds are available after all other programs are financed. In FYs 24 and 25, due to insufficient funding, no Municipal Revenue Sharing Grants were provided to municipalities.<sup>9</sup> The governor's proposed budget for FYs 2026-27 suggests eliminating Municipal Revenue Sharing grants in FY 2026 and beyond, allowing excess funds to roll over to future years.<sup>10</sup>

However, on April 9, 2025, the General Assembly, through an Emergency Certification, passed legislation to suspend the municipal spending cap for FY 2026. This bill was signed into law by Governor Lamont on April 10, 2025.<sup>11</sup> In addition to suspending the municipal spending cap, the bill excluded certain expenditures from the definition of "municipal spending." Expenditures for debt service, special education, the implementation of court orders or arbitration awards, as well as those related to a federal or state-declared major disaster or emergency<sup>B</sup> are no longer considered municipal spending. Additionally, budgeting for an audited deficit, nonrecurring grants, capital expenditures, or payments on unfunded pension liabilities were also excluded from being counted as municipal spending.<sup>12</sup>

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<sup>A</sup> In FYs 2024 and 2025, no Municipal Revenue Sharing grants were made to municipalities due to insufficient funding in the MRSF.

<sup>B</sup> Expenditures or disbursements in this instance must be pursuant to Conn. Gen. Statutes ch. 517, §§ 28-5c, 28-5e.

The table below details the state aid provided to municipalities under the MRSF from FY 2021 to FY 2025.<sup>C</sup>

**State Aid Provided Under the Municipal Revenue Sharing Fund (MRSF),  
FY 2021 to FY 2025<sup>13</sup>**

| Grant Type                                | FY 2021              | FY 2022              | FY 2023              | FY 2024              | FY 2025              |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Motor Vehicle Tax Reimbursement           | \$164,833,465        | \$312,197,717        | \$316,881,894        | \$339,410,166        | \$347,120,045        |
| Tiered PILOT                              | 32,331,732           | 32,331,732           | 132,216,112          | 146,954,721          | 135,501,951          |
| Municipal Revenue Sharing                 | 36,819,135           | 36,819,135           | 36,819,135           | -                    | -                    |
| Municipal Stabilization <sup>D</sup>      | 38,253,333           | 37,853,333           | 37,853,333           | -                    | -                    |
| Supplemental Revenue Sharing <sup>E</sup> | -                    | -                    | -                    | 87,172,468           | 74,672,468           |
| <b>Total</b>                              | <b>\$272,237,665</b> | <b>\$419,201,917</b> | <b>\$523,770,474</b> | <b>\$573,537,355</b> | <b>\$557,294,464</b> |

### How are Municipal Revenue Sharing grants determined?

Municipal Revenue Sharing grants are distributed to municipalities according to a formula, where each municipality's grant is calculated based on certain attributes, including mill rate and population. These grants are also tied to the municipal spending cap mechanism, which reduces grant amounts for municipalities whose spending exceeds the cap.<sup>14, F</sup>

### How is the municipal spending cap determined?

The municipal spending cap 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 non-budgeted funds.<sup>15</sup>

<sup>C</sup> To view the state aid provided to individual municipalities, please visit <https://app.powerbigov.us/view?r=eyJrIjoibmVudCkMzRmYzgtZDA1Zi00MTE0LTg0NzktMTJmNDRINTI1NWRLIiwidCI6IjNlYzc2NzE0LWlxYjQ0NDE4YS04ODMyLTMyYzQ2ZW40NDIyNiJ9>.

<sup>D</sup> Revenue Stabilization grants were paid annually to municipalities according to payment lists in the budget act for each biennium until FY 2023.

<sup>E</sup> FY 2024 grant amounts include one-time supplemental payments made to Bridgeport and Waterbury.

<sup>F</sup> To view a municipality's calculation for the municipal spending cap, please visit <https://data.ct.gov/Local-Government/Municipal-Spending-Cap-Report/anen-a5ei/data>.

### What expenditures does the municipal spending cap apply to?

The municipal spending cap applies to any expenditures made from a municipality's general fund and expenditures made from any nonbudgeted funds. However, the cap **does not** apply to the following expenditures:

- Debt service, special education, implementing court orders or arbitration awards, budgeting for an audited deficit, non-recurring grants, non-recurring capital expenditures of at least \$100,000, or payments on unfunded pension liabilities;
- 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
- Those made from Motor Vehicle Property Tax grants or Municipal Revenue Sharing grants disbursed to special taxing districts.<sup>16</sup>

### How are Municipal Revenue Sharing grants affected when municipalities exceed the cap?

Municipalities that increase their adopted budget expenditures over the previous fiscal year by an amount that exceeds the municipal spending cap receive a reduced Municipal Revenue Sharing grant. The reduction is equal to 50 cents for every dollar the municipality spends over the cap.<sup>17</sup> As there were no Municipal Revenue Sharing grants made in FYs 2024 or 2025, no penalties were applied to towns that exceeded the municipal spending cap.

### Are other grants impacted by the municipal spending cap?

No other state aid grants, including Education Cost Sharing (ECS) grants, and other grants paid out of the MRSF, are affected when a municipality exceeds the municipal spending cap.

## Endnotes

<sup>1</sup> Pinho, R. (2021). *Municipal Revenue Sharing Account (2021-R-0171)*. Hartford, CT: Connecticut General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2021/rpt/pdf/2021-R-0171.pdf>.

<sup>2</sup> Pinho, R. (2016). *Municipal Spending Cap*. Hartford, CT: Connecticut General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2016/rpt/2016-R-0060.htm>.

<sup>3</sup> Pinho, R. (2023). *MRSA and MRSF (2023-R-0189)*. Hartford, CT: Connecticut General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2023/rpt/pdf/2023-R-0189.pdf>.

<sup>4</sup> Connecticut General Assembly, Office of Fiscal Analysis. (2024, October). Major Sources of State Aid to Towns – FY 20 to FY 25. Retrieved from <https://app.powerbigov.us/view?r=eyJrljoiNDZkMzMmYzgtZDA1Zi00MTEOLTg0NzktMTJmNDRINTI1NWRIliwidCI6IjNlYzc2NzE0LWlxYjQtNDE4YS04ODMyLTMyYzQ2ZW4NDIyNiJ9>.

<sup>5</sup> Ibid.

<sup>6</sup> Pinho, R. (2021). *Municipal Revenue Sharing Account (2021-R-0171)*. Hartford, CT: Connecticut General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2021/rpt/pdf/2021-R-0171.pdf>.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Connecticut General Assembly, Office of Fiscal Analysis. (2024, October). Major Sources of State Aid to Towns – FY 20 to FY 25. Retrieved from <https://app.powerbigov.us/view?r=eyJrljoiNDZkMzMmYzgtZDA1Zi00MTEOLTg0NzktMTJmNDRINTI1NWRIliwidCI6IjNlYzc2NzE0LWlxYjQtNDE4YS04ODMyLTMyYzQ2ZW4NDIyNiJ9>.

<sup>10</sup> State of Connecticut, Office of Policy and Management. (2025). *Governor Lamont's Biennial Budget for FYs 2026 and 2027*. Hartford, CT: Author. Retrieved from [https://portal.ct.gov/-/media/opm/budget/2026\\_2027\\_biennial\\_budget/governors\\_budget\\_2627\\_final\\_webversion.pdf](https://portal.ct.gov/-/media/opm/budget/2026_2027_biennial_budget/governors_budget_2627_final_webversion.pdf).

<sup>11</sup> Conn. Acts 25-3 § 2.

<sup>12</sup> Ibid.

<sup>13</sup> Connecticut General Assembly, Office of Fiscal Analysis. (2024, October). Major Sources of State Aid to Towns – FY 20 to FY 25. Retrieved from <https://app.powerbigov.us/view?r=eyJrljoiNDZkMzMmYzgtZDA1Zi00MTEOLTg0NzktMTJmNDRINTI1NWRIliwidCI6IjNlYzc2NzE0LWlxYjQtNDE4YS04ODMyLTMyYzQ2ZW4NDIyNiJ9>.

<sup>14</sup> Pinho, R. (2021). *Municipal Revenue Sharing Account (2021-R-0171)*. Hartford, CT: Connecticut General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2021/rpt/pdf/2021-R-0171.pdf>.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.