CONNECTICUT CONFERENCE OF MUNICIPALITIES

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THE VOICE OF LOCAL GOVERNMENT

TESTIMONY

of the

CONNECTICUT CONFERENCE OF MUNICIPALITIES

to the

PLANNING & DEVELOPMENT COMMITTEE

February 25, 2008

The Connecticut Conference of Municipalities appreciates the opportunity to testify on the following bill of interest to towns and cities:

Prop. H. B. 5286, "An Act Increasing Payments to Municipalities in Lieu of Taxes to Municipalities"

CCM strongly supports this bill.

Prop. H.B. 5286 would eliminate the provision in state statutes that caps PILOTS at the level of appropriation.

For several years, state PILOT grants for state property and for private colleges and hospitals have been funded below the levels required by statute (45% for state property and 77% for private colleges and hospitals). This bill would require the state to pay the full 45% or 77%.

CCM believes that if the State mandates that property be taken off local tax rolls, the State should replace the lost revenue. Otherwise, an individual municipality and its property taxpayers end up paying for tax breaks granted by the State to favored entities and activities.

This year, municipalities are receiving only 35% reimbursement for state property. The reimbursement rate for private colleges and hospitals is just 55% this year.

We have been going in the wrong direction -- Prop. H.B. 5286 would correct that.

Connecticut relies on property taxes more than any other single tax base to fund local government services and activities and to meet the requirements of state-mandated programs. The property tax raises over *$1 billion more* than the state personal income tax. As a result, tax-exempt property is a major issue for towns and cities.

The PILOT Programs

PRIVATE COLLEGES AND HOSPITALS (C.G.S. § 12-20a and 12-20b)

Description: Municipalities are reimbursed for 55% in FY 07 of revenue lost due to the exemption of the *real* property of private colleges and general hospitals from local property taxes. There is *no* reimbursement for the *personal* property of these institutions. The statutory standard reimbursement rate for this PILOT program is 77%.

STATE-OWNED PROPERTY (C.G.S. § 12-19a – 12-19c)

Description: Municipalities are reimbursed for 35% in FY 07 of the lost taxes on State-owned *real* property and 100% of lost taxes on real estate for prisons and jails. There is *no* reimbursement for the *personal* property belonging to the State -- motor vehicles, office furniture, computers, laboratory equipment, etc. The statutory standard reimbursement rate for this PILOT program is 45%, 100% for prisons.

MANUFACTURERS' MACHINERY AND EQUIPMENT (C.G.S. § 12-81 (74), 12-94b and 12-94c)

Description: Statutes provide that municipalities be reimbursed for 80% of lost revenue on newly acquired manufacturing machinery and equipment that are exempt from taxes for the first five years after acquisition. New commercial motor vehicles that are used exclusively for transporting freight for hire, with a gross vehicle weight in excess of 26,000 pounds, or any other new commercial truck in excess of 55,000 pounds, are also included in this program.

ELDERLY/DISABLED CIRCUIT BREAKER
(C.G.S. § 12-129(b) – 12-129(d) and 12-170(a) – 12-170(c))

Description: These two programs reimburse municipalities for 100% of the lost revenue resulting from property tax benefits granted to elderly homeowners and totally disabled persons through a state-mandated lowering or freezing of their property tax assessment. There is no reimbursement to municipalities for the cost of administering this program.

PILOT: HOUSING (C.G.S. § 8-216a-f)

Description: Municipalities are reimbursed almost 100% of revenue lost from real property tax exemptions granted to low or moderate-income public housing projects, operated by housing authorities. There is *no* reimbursement for lost revenue related to the tax-exempt property of federally assisted low-income public housing projects.

DISTRESSED MUNICIPALITY TAX ABATEMENT (C.G.S. § 32-9s)

Description: Municipalities receive 50% of the loss from tax abatements granted to manufacturing facilities in Enterprise Zones, Distressed Communities, and Targeted Investment Communities.

BOATS (C.G.S. §15-155b)

Description: Municipalities are reimbursed for revenue lost on tax-exempt boats based on boat registrations as of 1978, the last year in which boats were subject to the property tax. Funding for this payment is allocated from boat registration fees collected by the State each year. This PILOT fails to compensate municipalities for the taxes on the increased value of boats since 1978, and it fails to reimburse the taxes which would have been collected on any additional boats that have been registered since then. If the value of boats had simply increased at the rate of inflation since 1978, municipalities would be collecting $5.7 million annually.

Appendix A lists state mandated property tax exemptions.

Why PILOTs Should Be Increased

There are two primary reasons why the State should fully reimburse municipalities for state-mandated property tax exemptions:

1) ***Accountability***: State decision-makers should be accountable for the consequences of their decisions. The State, over the years, has determined that Connecticut as a whole would benefit by removing certain types of property from local taxation. Because these exemptions were mandated by officials of the state government, affected municipalities and local property taxpayers should not have to pay for the cost of those state decisions.

2) ***Fairness***: The state as a whole benefits from tax exemptions. Therefore the state as a whole should pay for them, not just the communities that host such properties.

- Property taxes are the primary source of revenue for financing local services in Connecticut. When individuals work in or visit hospitals, attend or work in colleges, visit museums, or attend concerts, they take advantage of the services of a host municipality. Patrons, workers, and the tax-exempt institutions enjoy police protection, use of roads and sidewalks, garbage collection, sewerage, and the entire range of services funded from local property taxes. But, because of state-mandated exemptions, no property tax dollars are available from these institutions to finance the local services that support them.

- If the State provides less than 100% reimbursement for the loss in revenue that results from these property tax exemptions, residents and businesses in the municipalities where these exempt properties are located must pay for (subsidize) the services used by others.

- Because all state residents benefit in one way or another from the existence of tax-exempt institutions and from the services provided by their host municipalities to support them, all state residents should share the cost burden. State reimbursement for these exemptions -- funded from the many sources of revenue paid to the State by individuals and businesses -- is the appropriate mechanism for ensuring that host municipalities, and their residential and business property taxpayers, are made whole.

In 1995, the Connecticut Advisory Commission on Intergovernmental Relations (CT ACIR) found that state-mandated property tax exemptions were the second largest state mandate (behind only the mandate to provide public education.) The CT ACIR reported that property tax exemptions cost municipalities $670 million each year, and constituted almost 10% of municipalities' operating budgets.

Distressed municipalities -- those with the heaviest service burdens and the smallest tax bases -- have among the highest concentrations of tax-exempt property. The cities of Bridgeport, Hartford and New Haven account for one-third of the value of all exempt private colleges and hospitals in the state. In Hartford, for example, if the PILOTs for state-owned property and private colleges and hospitals were fully funded, property taxes on homeowners and businesses could be reduced by 10%.

By not fully reimbursing municipalities for these exemptions, the State is increasing the tax burden on property taxpayers, including those -- like the elderly on fixed incomes -- who often can least afford it.

A longstanding goal of Connecticut's cities and towns is to achieve full funding of Payments in Lieu of Taxes. While municipalities appreciate the progress that has been made in this effort, more remains to be done. Although full funding of the PILOTs alone will not resolve the problem of Connecticut's over-reliance on property taxes to pay for public services, it would be a big step toward restoring fairness to a system which now penalizes municipalities for hosting and supporting tax-exempt institutions.

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If you have any questions, please call Ron Thomas, CCM Manager of State and Federal Relations, or Gian-Carl Casa, Director of CCM for Public Policy and Advocacy, at (203) 498-3000.

Appendix A:

State Mandated Property Tax Exemptions

The following property is exempt from taxation in Connecticut (C.G.S. §12-81):

1. Property of the United States
2. State property, reservation land held in trust by the state for an Indian tribe.
3. County Property (repealed).
4. Municipal Property.
5. Property held by trustees for public purposes.
6. Property of volunteer fire companies and property devoted to public use.
7. Property used for scientific, educational, literary, historical or charitable purposes.
8. College property.
9. Personal property loaned to tax-exempt educational institutions
10. Property belonging to agricultural or horticultural societies.
11. Property held for cemetery use.
12. Personal property of religious organizations devoted to religious or charitable use.
13. Houses of religious worship.
14. Property of religious organizations used for certain purposes.
15. Houses used by officiating clergymen as dwellings.
16. Hospitals and sanatoriums.
17. Blind persons.
18. Property of veterans' organizations.
    a. Property of bona fide war veterans' organization.
    b. Property of the Grand Army the Republic.
19. Veteran's exemptions.
20. Servicemen and veterans having disability ratings.
21. Disabled veterans with severe disability.
    a. Disabilities.
    b. Exemptions hereunder additional to others. Surviving spouse's rights.
    c. Municipal option to allow total exemption for residence with respect to which veteran has received assistance for special housing under Title 38 of the United States Code.
22. Surviving spouse or minor child of serviceman or veteran.
23. Serviceman's surviving spouse receiving federal benefits.
24. Surviving spouse and minor child of veteran receiving compensation from Veteran's Administration.
25. Surviving parent of deceased serviceman or veteran.
26. Parents of veterans.
27. Property of Grand Army Posts.
28. Property of United States Army instructors.
29. Property of the American National Red Cross.
30. Fuel and provisions.
31. Household furniture.

32. Private libraries.
33. Musical instruments.
34. Watches and jewelry.
35. Wearing apparel.
36. Commercial fishing apparatus.
37. Mechanic's tools.
38. Farming tools.
39. Farm produce.
40. Sheep, goats, and swine.
41. Dairy and beef cattle and oxen.
42. Poultry.
43. Cash.
44. Nursery products.
45. Property of units of Connecticut National Guard.
46. Watercraft owned by non-residents (repealed).
47. Carriages, wagons, and bicycles.
48. Airport improvements.
49. Nonprofit camps or recreational facilities for charitable purposes.
50. Exemption of manufacturers' inventories.
51. Water pollution control structures and equipment exempt.
52. Structures and equipment for air pollution control.
53. Motor vehicle of servicemen.
54. Wholesale and retail business inventory.
55. Property of totally disabled persons.
56. Solar energy systems.
57. Class I renewable energy sources and hydropower facilities.
58. Property leased to a charitable, religious, or nonprofit organization.
59. Manufacturing facility in a distressed municipality, targeted investment community, or enterprise zone.
60. Machinery and equipment in a manufacturing facility in a distressed municipality, targeted investment community, or enterprise zone.
61. Vessels used primarily for commercial fishing.
62. Passive solar energy systems.
63. Solar energy electricity generating and cogeneration systems.
64. Vessels.
65. Vanpool vehicles.
66. Motor vehicles leased to state agencies.
67. Beach property belonging to or held in trust for cities.
68. Any livestock used in farming or any horse or pony assessed at less than $1000.
69. Property of the Metropolitan Transportation Authority.
70. Manufacturing and equipment acquired as part of a technological upgrading of a manufacturing process in a distressed municipality or targeted investment community.
71. Any motor vehicle owned by a member of an indigenous Indian tribe or their spouse, and garaged on the reservation of the tribe (PA 89-368)
72. New machinery and equipment, applicable only in the five full assessment years following acquisition.

73. Temporary devices or structures for seasonal production, storage, or protection of plants or plant material.
74. Certain vehicles used to transport freight for hire.
75. Certain health care institutions.