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**Testimony before the Finance Committee**  
**March 2, 2009**

**RE: HB-6561, AN ACT CONCERNING MUNICIPAL REVENUE  
DIVERSIFICATION**

The Connecticut Council of Small Towns (COST) appreciates the Finance Committee's recognition that towns must begin to diversify their revenue sources. We *support* HB-6561, which will provide towns with an opportunity to generate a steady stream of revenue and reduce the reliance on property taxes and municipal aid.

Clearly, Connecticut is facing an extremely challenging set of economic circumstances. Towns are facing additional pressure associated with significant increases in costs for critical services and programs, including education, road construction and repair, building construction and public safety services. Local budgets have been straining from the enormous weight of these and other costs, as is evidenced by the increasing and historically high number of multiple referenda towns went through last year. We expect this situation will only get worse.

In addition to reasonable levels of municipal aid for education, roads and infrastructure, property tax reform must authorize towns to develop reliable and growing revenue streams so that towns will know that the money will be there for them on an increasing basis from year to year.

**Expanding local revenue options in the State would achieve the following goals:**

- Stability and predictability - Increase the stability and predictability of revenues to municipalities for capital and operating budgets beyond the reliability of current State funding sources (for example, the Town Aid Road program, etc.)
- Revenue diversification - One major benefit of this proposal would be to lessen the over-reliance on the property tax as the preponderant revenue source for municipalities.
- Empower local preferences - Allow the voters to decide on the level of services they wish to receive, without relying entirely on property taxes for revenues through use of local user fees and charges.

Although COST has not taken a formal Board position on the specific revenue raising options, we have discussed the following revenue options that merit further consideration:

- **Vehicle registration surcharge** - A registration surcharge of \$10 per registered vehicle, and \$30 for trucks over a certain Gross Vehicle Weight tacked onto the local property bill would yield over \$30 million dollars that could replace a shortfall in the Town Aid Road fund of \$8 million dollars funded by last year's surplus, and adjusted for inflation. These funds should be restricted to road improvements authorized by Town Aid for Roads (TAR).
- **Sales tax** - An additional ½% sales and use tax could provide much needed revenue to municipalities. Based on the fiscal year 2007 State Budget, the sales tax raises about \$3.6 billion dollars yearly. Assuming a ½% increase, approximately \$300 Million in additional revenue would be raised. Decisions must be made about how to allocate funds to cities and towns. On a municipality-to-municipality basis, there is a very wide divergence in income raised by a sales tax. One half of the revenues might go to a regional service sharing incentive pool and the second to towns on an agreed basis that could include a "floor" that would be established for low sales tax jurisdictions and the remainder to be distributed on a *pro rata* basis on income generated. A portion of these funds could be restricted to capital projects authorized by LoCIP, STEAP and Urban Act funds and serve as a reliable income source for infrastructure maintenance that could reduce the use of bonding by the State. This approach would support smart growth principles and relieve the pressure to grow the municipal Grand List in a quest for revenue.
- **Hotel tax** - A hotel user fee could generate \$45 million annually. Much like the Sales Tax, a formula could be devised that would share the hotel tax with neighboring communities that do not have hotel/motels, so that every community would receive some funding from this tax.
- **Fees and service charges** - Connecticut is significantly below the national average on charging fees. A framework that permits full recovery of fees across a named set of services and uses would be appropriate.
- **Motor vehicle infractions fines and charges** yield \$15 million annually. Instead of these funds going entirely to the State, municipalities that do the enforcement could receive some of these dollars to offset their public safety costs.

#### **Local Revenues Framework**

The State should consider legislation that puts a local revenues options framework in place that would set forth permissible types of revenues (e.g. sales tax, hotel tax, car tax, rental car tax, beverage tax, fees and charges for individuals and businesses) to be used for appropriate, pre-established uses (e.g., to invest in an approved capital plan in towns); and, would require approval mechanisms at the local level, through taxpayer input, for any new or increased revenues.

The following are some further areas for discussion between the State and local government leaders:

**Regional sharing element for new revenues** - As alluded to above, municipalities must be willing to develop a mechanism for sharing any new local taxes with other communities, so that everyone receives a minimum of new revenues, as not everyone has hotels; or not every town has a lot of sales taxes, because they do not have retail and industries in their community. One approach might be to use the geography of the five workforce board regions as a revenue sharing framework.

**State and Local Swaps of Functions** - Both State assumption of local responsibilities and municipalities taking over State responsibilities should be on the table as part of the response to our current situation. The State could assume, for example, the full costs of special education that are visited somewhat at random on municipal budgets or assume the full cost of out of town educational transportation. This type of rearranging of government responsibilities has been done in the past with the State's assumption of municipal welfare costs. Swaps could reduce costs and increase predictability in everyone's budget. Other targets of opportunity would be to reduce conflict in areas of joint responsibilities such as well and septic permits and allow the use of outside engineers modeled after the successful Licensed Environmental Professional process.

**Mandate Relief and Other Measures** - Mandates that require municipalities to spend their dollars continue to pile up. For example, one recent mandate requires towns to accept electronic waste with the prohibition of a fee to recover municipal costs, even though the State agency overseeing this mandate is paid for operating the program. Although mandate relief may not contribute in a major way to balancing the state budget, an 18 month moratorium on costly or new mandates should be considered as a way to relieve pressure on stressed local budgets.

At a broader level, state officials should complete and implement a tax incidence study and update State and local revenue portfolios. The State and local governments collect less in service fees and charges than the country as a whole (CERC communication in PowerPoint November 2008), but far more in property taxes than all but a few states (40% of the total revenue collected at state and local levels). Further, the State takes municipal revenues, in whole or in part, which are almost always collected by the municipalities, such as the conveyance tax and traffic fines.

A revamped taxation framework in Connecticut is long overdue and the economic circumstances we face today provide the appropriate occasion for a serious and thorough review and dialog between State and local government leaders. Our hope is that some of these ideas will lead to new and ongoing discussions between state and local government officials that will lead to action for positive change.

We therefore support efforts, as called for under HB-6561, to allow towns to diversify their revenue sources.

Thank you for the opportunity to testify. Please contact me at 860-676-0770 if you have any questions.

