CONNECTICUT CONFERENCE OF MUNICIPALITIES

900 Chapel St., 9th Floor, New Haven, Connecticut 06510-2807
Phone (203) 498-3000 • Fax (203) 562-6314 • www.ccm-ct.org

THE VOICE OF LOCAL GOVERNMENT

TESTIMONY

of the

CONNECTICUT CONFERENCE OF MUNICIPALITIES

to the

PLANNING & DEVELOPMENT COMMITTEE

February 18, 2009

CCM is Connecticut's statewide association of towns and cities and the voice of local governments - your partners in governing Connecticut. Our members represent over 93% of Connecticut's population.

We appreciate the opportunity to testify on the important issue of helping municipalities to maintain local services by diversifying their revenue bases.

CCM <u>supports</u> the following bills:

Prop. S. B. 393, **"An Act Concerning Municipal Revenue Diversification"**

Prop. S. B. 397, **"An Act concerning Municipal Revenue Diversification"**

Prop. H. B. 5540, **"An Act Concerning Municipal Revenue Diversification"**

Prop. H. B. 5542, **"An Act Authorizing Towns to Levy Certain Taxes"**

Prop. S. B. 377, **"An Act Concerning Local Property Tax Relief"**

Prop. S. B. 385, **"An Act Concerning Municipal Alternatives to the Property Tax"**

Prop. H. B. 5524, **"An Act Authorizing Municipalities to Impose A Tax on Hotels and Motels"**

Prop. S. B. 89, **"An Act Concerning A Local Option for A Hotel Tax"**

Prop. H. B. 5027, **"An Act Concerning the Institution by Municipalities of A Local Hotel Tax"**

Prop. H. B. 5187, **"An Act Concerning An Increase in the Sales and Use Tax on Hotels and Lodging Houses"**

Prop. H. B. 5189, **"An Act Concerning A Local Option to Impose A Lodging Tax"**

Prop. S. B. 379, **"An Act Concerning Land Value Taxation"**

Prop. S. B. 392, **"An Act Authorizing Municipalities to Adopt Land Value Taxation"**

Present state statutes dictate that towns and cities are dependent on one tax – the property tax – for the vast majority of their revenue.

But it's been clear for years that the property tax can no longer carry the burden by itself – it is a regressive tax that is not adequate for the task of funding local government services in the 21st Century.

In early America the property tax made sense as a proxy for wealth. The people in town with the most property, the biggest farm, and the most horses paid the most. But that's not necessarily the case anymore. Many people on fixed or slowly growing incomes own homes whose value has risen significantly since they purchased the property (despite the recent slump in the housing market). Their property taxes rose with the values. The property tax is income blind. Your property tax liability has no relation to how much you earn – you just have to pay it.

What worked in 1809 doesn't work in 2009.

A. <u>**Connecticut is one of the most property-tax-dependent states in the nation**</u>

- **Per capita property tax burden** in Connecticut is **almost twice the national average,** and second highest in the nation.
- Connecticut ranks **fourth in the nation in property taxes as a percentage of personal income.**
- The property tax is the **largest single tax on residents and businesses** in Connecticut.
- **69% of all municipal revenue** in Connecticut comes from property taxes.

  --9 towns get at least 90% of their revenue from property taxes
  --48 get at least 80% of their revenue from property taxes

- Inadequate state funding of noneducation municipal aid is pushing some communities, particularly distressed municipalities, to look at local-option taxes because of their desperate need for non-property tax revenues.

B. <u>Most states allow local option taxes</u>

- **Only 15 states allow municipalities just the property tax** (see enclosed). **For all intents and purposes, Connecticut's predominant reliance on property taxes puts it in this group.**

  --23 states allow municipalities **both property and sales taxes***

  --6 states allow municipalities to levy **both property and income taxes***

  --5 states allow municipalities to levy **property, sales and income taxes***

  If they work for 34 other states – including states thought to be our competitors for economic development -- local-option taxes can work in Connecticut.

- **Local-option taxation allows citizens of the municipality to decide what mix of taxes works best for their community.**

  The State should allow towns and cities, particularly distressed municipalities, **to levy certain types of local-option taxes,** including sales and hotel occupancy taxes, as a way to take pressure off of property taxes, even on a pilot or trial basis (to get us through the economic slump). For example, **locally levied hotel occupancy taxes can be considered in municipalities where it will be of benefit.** "Land value" taxes can be allowed for distressed municipalities as both an in-fill tool and a revenue source. New local-option taxes can also be levied on entities that do business in distressed municipalities, but which are not as 'mobile' as other businesses. For example, franchise-fee-type tax on telecommunications and public service companies are common in other states — but although these profit-making businesses utilize municipal rights-of-way, Connecticut municipalities get only property taxes from them.

C. <u>Alternatives to local option taxes</u>

Some opponents of local-option taxation argue that granting each municipality its **own taxing authority might increase intermunicipal competition.** Three **ways to avoid that** are:

1. **Sharing state revenue streams with municipalities or regions** (for example, a portion of the sales tax);

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* In at least some municipalities

Adding or dedicating ½% of the existing or increased state sales tax to regions would provide an estimated $300 million to facilitate tax sharing and cooperative efforts between municipalities. It would be a powerful step towards making government, overall, more efficient by providing revenues to help finance joint service delivery initiatives and take some of the burden off the property tax.

2. Establishing **new local taxes that are applicable statewide** (i.e. in all towns), such as the hotel/lodging tax. There is precedent for this – for example, the municipal real estate conveyance tax is applied to all towns; and

3. Allowing municipalities to **assess alternative taxes on a regional basis.**

Local option taxes and/or regional taxes are important non-property tax revenue options to consider in order to maintain service continuity. The establishment of a Blue Ribbon Commission -- involving state, regional, and local officials, as well as the private sector – to discuss and develop alternative service-delivery models should also be considered.

CCM urges the Committee to favorably report a proposal that provides meaningful property tax relief by providing municipalities and regions with new tax options. Our struggling communities are in dire need of such relief -- now.

##

CCM urges you to examine the enclosed CCM Candidate Bulletin entitled, *Municipal Revenue Diversification and the Real Estate Conveyance Tax*. The Bulletin examines why it is so crucial to permit towns and cities the ability to levy taxes other than the property tax.

##

For more information, please contact Jim Finley, Gian-Carl Casa or Ron Thomas of CCM at (203) 498-3000.

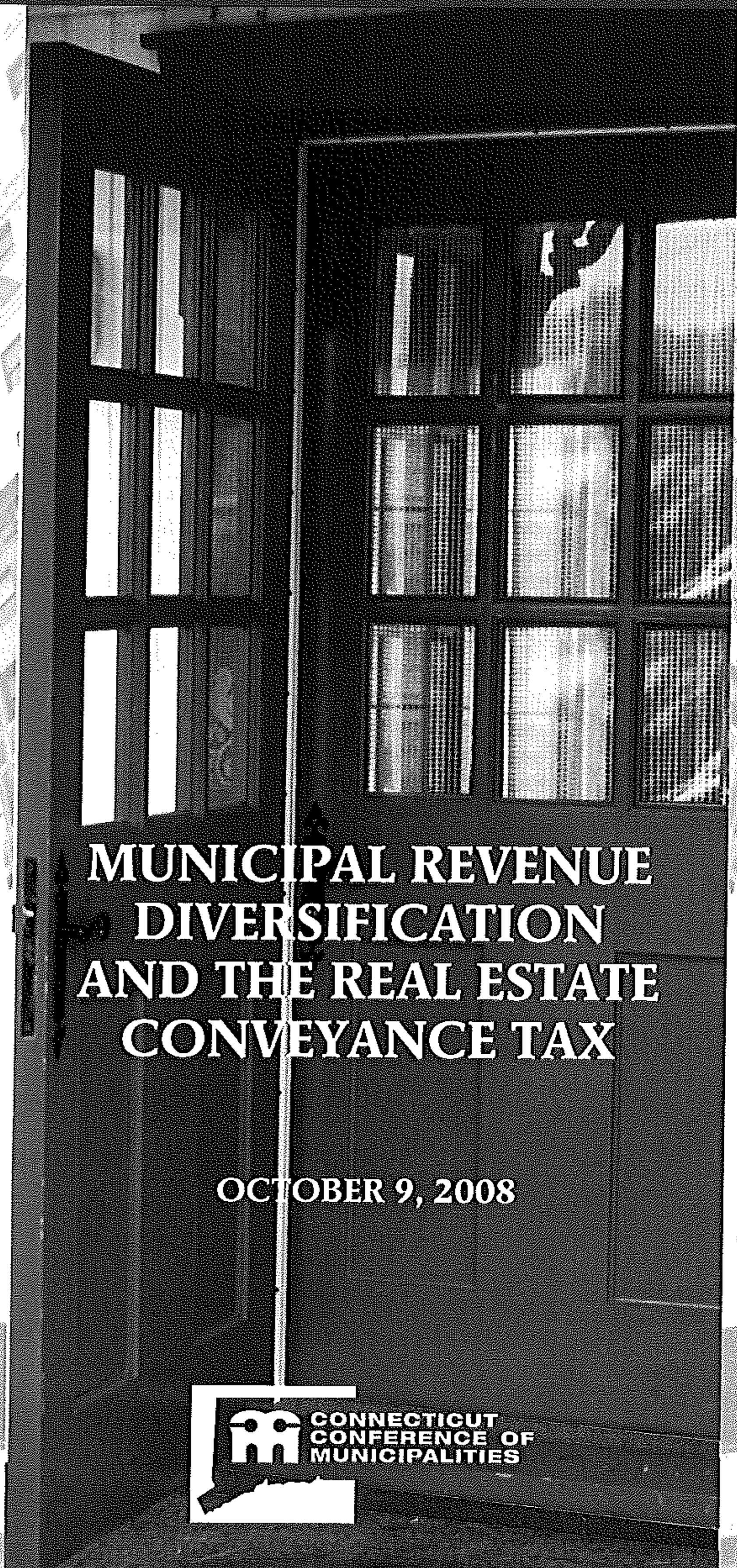
Enclosures

APPENDIX: MUNICIPAL TAX AUTHORITY BY STATE

State	Notes
Alabama	Property, sales, income (19 cities)
Alaska	Property, sales
Arizona	Property (with voter approval), sales
Arkansas	Property, sales, income (not used by any municipality)
California	Property, sales
Colorado	Property, sales
Connecticut	Property, conveyance
Delaware	Property, income (Wilmington only)
Florida	Property
Georgia	Property, sales
Hawaii	Property (Honolulu is only municipality in Hawaii)
Idaho	Property (sales for resort cities < 10,000 population)
Illinois	Property, sales
Indiana	Property, income
Iowa	Property, sales
Kansas	Property, sales
Kentucky	Income, property
Louisiana	Property, sales
Maine	Property
Maryland	Property, income (Baltimore city-county only)
Massachusetts	Property
Michigan	Property, income (22 cities)
Minnesota	Property, sales (some cities, if approved by State Legislature)
Mississippi	Property
Missouri	Property, sales, income (Kansas City & St. Louis only)
Montana	Property (sales for resort cities < 5,500 population)
Nebraska	Property, sales
Nevada	Property
New Hampshire	Property
New Jersey	Property (sales for Atlantic City, Wildwood only)
New Mexico	Property, sales
New York	Property, sales, income (New York City & Yonkers only)
North Carolina	Property
North Dakota	Property, sales
Ohio	Income, property
Oklahoma	Sales
Oregon	Property
Pennsylvania	Property, income, sales (Philadelphia only)
Rhode Island	Property
South Carolina	Property
South Dakota	Property, sales
Tennessee	Property, sales
Texas	Property, sales
Utah	Property, sales
Vermont	Property (some sales)
Virginia	Property, sales
Washington	Property, sales, B&O (business income) tax
West Virginia	Property
Wisconsin	Property
Wyoming	Property

Source: *Cities and State Fiscal Structure*, National League of Cities, 2008

CANDIDATE ★ BULLETIN



MUNICIPAL REVENUE DIVERSIFICATION AND THE REAL ESTATE CONVEYANCE TAX

OCTOBER 9, 2008

CONNECTICUT CONFERENCE OF MUNICIPALITIES

CCM — THE VOICE OF LOCAL GOVERNMENT

CANDIDATE BULLETIN

MUNICIPAL REVENUE DIVERSIFICATION AND THE REAL ESTATE CONVEYANCE TAX

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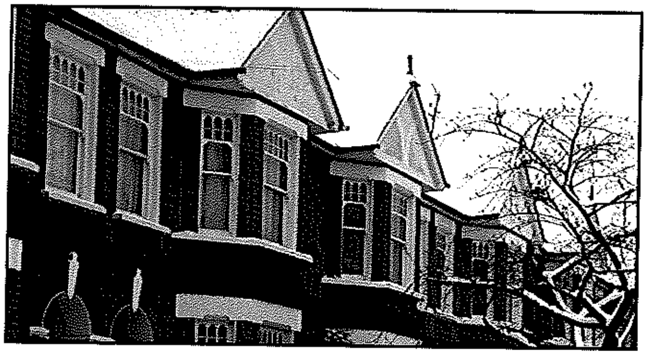
TABLE OF CONTENTS

OVERVIEW

Connecticut statutes dictate that towns and cities are dependent on one tax – the property tax – for the vast majority of their revenue.

But it's been clear for years that the property tax can no longer carry the burden by itself – it is a regressive tax that is not adequate for the task of funding local government services in the 21st Century.



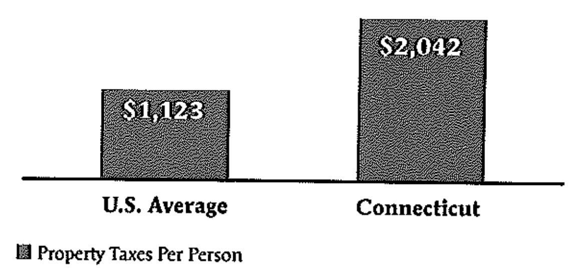
In early America, the property tax made sense as a proxy for wealth. The people in town with the most property, the biggest farm, and the most horses paid the most. But that's not necessarily the case any more. People on fixed or slowly growing incomes own homes whose value has risen significantly since they purchased the property (despite the recent slump in the housing market). Their property taxes rose with the increased values. The property tax, however, is income blind. Your property tax liability has no relation to how much you earn – you just have to pay it.

What worked in 1808 doesn't work in 2008.

CONNECTICUT IS ONE OF THE MOST PROPERTY-TAX-DEPENDENT STATES IN THE NATION

The per capita property tax burden in Connecticut is $2,042, an amount that is almost twice the national average of $1,123, and 2nd highest in the nation.[1] And it doesn't get much better when Connecticut's wealth is taken into account: Connecticut ranks 4th in property taxes as a percentage of personal income ($6.10 per $100 of income, compared with the national average of $5.10).[2]

Connecticut Property Taxes Significantly Exceed National Average



Connecticut is more dependent on property taxes to fund local government than any other state in the nation. It also is the 2nd most dependent on property taxes to fund education.[3] That means that the educational opportunity a child has is directly tied to the property tax wealth of the community in which he lives.

The property tax in Connecticut is the largest single tax on residents and businesses in our state. Overall, property taxes account for 37% of all state and local taxes paid in our state.

The Property Tax

- Connecticut's biggest state-local tax
- Connecticut is more dependent on it than any other state
- Biggest tax on Connecticut businesses
- 69% of all municipal revenue

[1] US Census: State and Local Government Finance, 2005; 2006 America Community Survey; 2006 State and County Quick Facts.

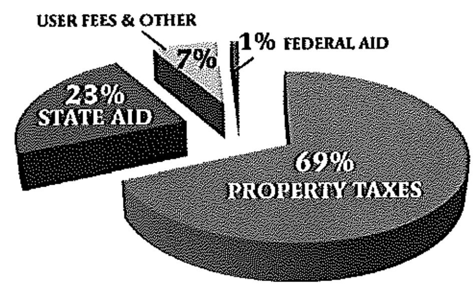
[2] US Census Bureau: States Ranked by Total State Taxes and Per Capita Amount, 2005.

[3] US Census Bureau: Public Elementary-Secondary Education Finances, 2005.

Property taxes are the biggest tax on businesses. In FY 06-07, Connecticut businesses paid over $700 million in corporate income taxes – but over $900 million in property taxes.

Statewide, 69% of municipal revenue comes from property taxes. Most of the rest, 23%, comes from state aid. Some Connecticut municipalities are almost totally dependent on property taxes to fund local government. Nine towns depend on property taxes for at least 90% of all their revenue. Another 48 municipalities rely on property taxes for at least 80% of their revenue.[4]

Municipal Revenues in Connecticut



Source: CCM estimate based on OPM Municipal Fiscal Indicators, 2006.

THE MUNICIPAL REAL ESTATE CONVEYANCE TAX – THE ONLY OTHER LOCAL TAX

Other than the property tax, the only tax municipalities in Connecticut can levy is the municipal real estate conveyance tax.

The municipal real estate conveyance tax has been in place for decades, as has a state real estate conveyance tax. Only recently has the local portion of the tax become controversial.

Present Rates Set In 2003

In 2003, the General Assembly and the Governor increased the local portion of the real estate conveyance tax from 0.11% to 0.25 % in all towns, with an optional 0.25 % addition for certain communities with particular economic hardships.

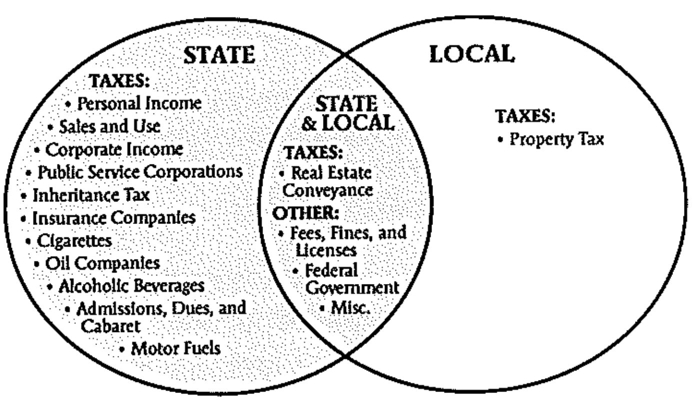
The increased rates of the conveyance tax were established to help buffer the impact on municipalities and their property taxpayers of a series of mid-year state budget cuts enacted during fiscal year 2002-2003. Despite increases in state aid the past few years, funding for several of those municipal aid programs has never been restored to their pre-2003 levels.

The initial legislation provided the increased rates for two years, and the General Assembly has extended them three times since then. The 2008 General Assembly stood up to a well-funded special interest lobbying effort and passed legislation to keep the rates in place until at least 2010. The rates should be made permanent.

The increases in the rates of the real estate conveyance tax were enacted to protect property taxpayers – residents and businesses – from the impact of flat-funding or cutbacks in state aid – and that protection is still needed.

Opponents of the increased rates say that ending them would mean $40 million in the pockets of residents. That is an illusion: if local governments lose this critically needed revenue, property taxes will surely have to rise – and cuts in local services will hurt the quality-of-life that maintains home values in our communities. There will be even more pressure on the General Assembly to provide increased aid to towns and cities.

Revenue Sources for State and Local Governments in Connecticut



Source: CCM, July 2008

[4] Municipal Fiscal Indicators, Office of Policy and Management, December 2007.

MUNICIPAL TAXING AUTHORITY IN OTHER STATES

Only 15 states allow municipalities just the property tax.

➤ **23 states** allow at least some municipalities to levy both **property and sales taxes**

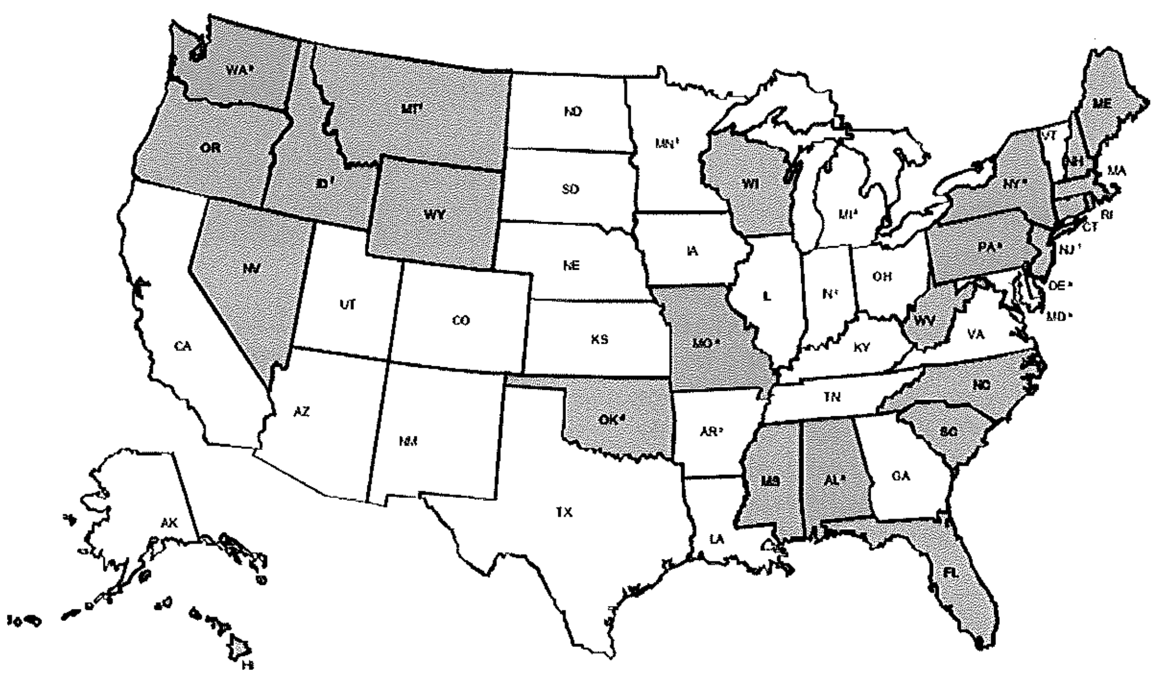
➤ **6 states** allow at least some municipalities to levy both **property and income taxes**, and

➤ **5 states** allow at least some municipalities to levy all three – **property, sales and income taxes.**[5]

Plus, remember that most other states have county governments that levy taxes in addition to state and local taxes, and that provide public services.

When people consider moving to other states they often come back talking about how low the taxes are – but they are often referring to *property* taxes, the need for which is off-set by optional local taxes, county taxes and higher state income tax rates. Of the 43 states with a personal income tax, 29 have income tax rates that reach higher than Connecticut's highest rate of 5%.[6] They include states we typically think of as our economic competitors: North Carolina (7.75%), South Carolina (7%), Georgia (6%) and our neighbors New York (6.85%) and Massachusetts (5.3%). Yet, as we've seen above, Connecticut's property taxes are second highest in the nation.

Municipal Tax Authority By State



a Income or sales tax for selected cities. b Cities can levy a local income tax, but no locality currently does so. c A local income tax under certain circumstances. d Sales tax only; cities can levy a property tax for debt -retirement purposes only. e Cities can impose the equivalent of a business income tax. f Sales taxes for selected cities and/or restricted use only.

Property or Sales Only | Property + Sales Or Income | Property + Sales + Income

Cities and State Fiscal Structure, National League of Cities, 2008. Note that in some states sales and income taxes are options open only to certain municipalities. In this total we include them. Also Connecticut is listed as one of the 15 with only the property tax although some revenue is derived from the real estate conveyance tax. For more detail see the Appendix.

6 Federation of Tax Administrators, 2008 rates. Note that in neighboring Massachusetts, which has a property tax cap, the lowest income tax rate is 5.3% – higher than Connecticut's highest rate.

CAN LOCAL TAXING AUTHORITY WORK IN CONNECTICUT?

What works in other states may not work successfully in Connecticut. We're a small state, divided 169 ways. Other states are geographically larger, have unincorporated areas that get few services, and have county governments.

One concern about granting municipalities the power to levy additional taxes is that municipalities that are poorer and have higher property tax rates will most likely be the ones that choose to levy additional taxes. In a small state like ours that might make the poorer/high tax communities even less competitive over time when it comes to attracting business investment, homeowners, etc. That would be counterproductive.

But inadequate state funding of non-education municipal aid is pushing some of our poorer communities to look at local-option taxes because of their desperate need for non-property tax revenues.

There are four primary ways that this can be dealt with:

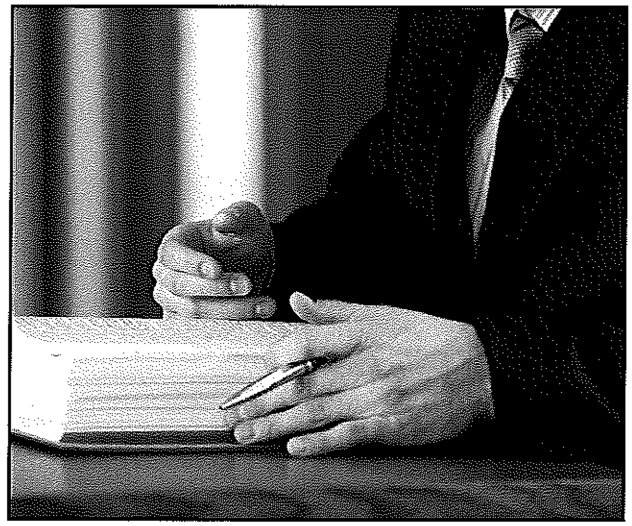
Local Option Taxes

Allow distressed municipalities, or all municipalities, **to levy certain types of local-option taxes** as a way to take pressure off of property taxes. For example, locally levied sales taxes and hotel-occupancy taxes can be considered in municipalities where those industries are strong. **New local-option taxes can also be levied on entities that do business in distressed municipalities, but which are not as 'mobile' as other businesses.**

CCM recommends that the State encourage the transition of all regional planning organizations (RPOs) into regional councils of government (COGs).

For example, franchise-fee-type tax on telecommunications and public service companies are common in other states — but although these profit-making businesses utilize municipal rights-of-way, Connecticut municipalities get only property taxes from them.

One positive aspect about local-option taxation is that it allows citizens of the municipality to decide what mix of taxes works best for their community.



Allow municipalities to assess alternative taxes on a regional basis

If alternative sources of local revenue were an option open to *regions* it would allow local elected officials, working with their neighbors, to levy the taxes that would fit best with their particular region. It would combine the advantages of local revenue enhancement while tailoring it to regional needs and avoiding negative competition between urban centers and suburbs.

For example, a local-option sales tax might drive retail activity to the suburbs and away from cities, but an optional sales tax applied on a regional basis would not have the same effect — if the retailers want access to the market of a given region, the tax would apply no matter where they locate.

Of course, regional consensus is often difficult to reach, hence the allure of local-option authority as discussed above.

CCM recommends that the State encourage the transition of all regional planning organizations (RPOs) into regional councils of government (COGs). Presently, there are three kinds of regional entities, one of which — regional planning agencies — comprise appointees and not elected officials.

COGs are made up of chief elected officials — people who are accountable to the voters of their communities for their decisions. Any other type of regional entity would be inappropriate for greater fiscal authority. The State should enact an expedited process to encourage the transition of all regional organizations to COGs. [7]

Granting local-option taxing authority to COGs would not just diversify the municipal revenue base. It would be a major step towards increasing regional cooperation and thus improve overall governmental efficiency.

Make local taxes applicable statewide

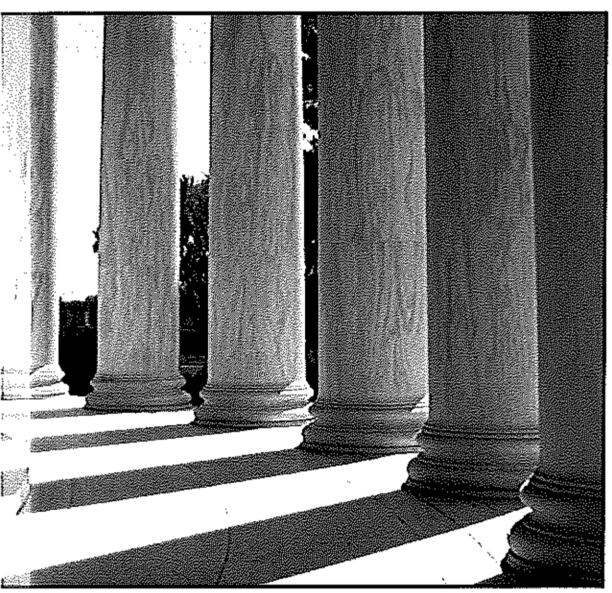
One very straightforward approach would be for the State to add new sources of municipal revenue, but do so on a *statewide* basis. In this way all municipalities would be able to relieve pressures on the property tax, while avoiding any competitive harm that would arise if only certain municipalities applied the tax.

For example, the State could authorize all municipalities to collect a local tax on lodging. The money would be kept by any municipality with a hotel, motel, B&B, etc. One attractive aspect of hotel taxes is that they export most of the tax to out-of-state visitors, rather than place the revenue burden on locals.

Another example would be to raise the state sales tax and share the increase with towns and cities. This piggyback approach makes administrative sense.

There is precedent for applying local taxes on a statewide basis. The State already dictates that property taxes are the primary source of municipal revenue, and it applies the base municipal real estate conveyance tax evenly across all 169 municipalities.

The State could share a portion of the sales tax with the municipalities or region in which the tax is collected. This would avoid the political and administrative travails associated with levying new taxes.



Share state revenues with municipalities or regions

A fourth way to diversify local revenue would be for the State to share portions of state revenue streams with municipalities. For example, the State could share a portion of the sales tax with the municipalities or region in which the tax is collected. This would avoid the political and administrative travails associated with levying new taxes, although it would affect state revenue. However, the State could specify that municipalities receive all, or a portion of, any increases in state sales tax revenue above the levels anticipated in the present state budget. In that way, the State would never lose revenue, but towns and cities would stand to gain.

The State could also use a piggyback approach (as discussed above) and share any increase in state taxes with towns and cities.

In two regions there are "councils of elected officials" (CEOs) that function similarly to councils of governments and would not need to convert. There may need to be minor changes in the CEO statutes, however.

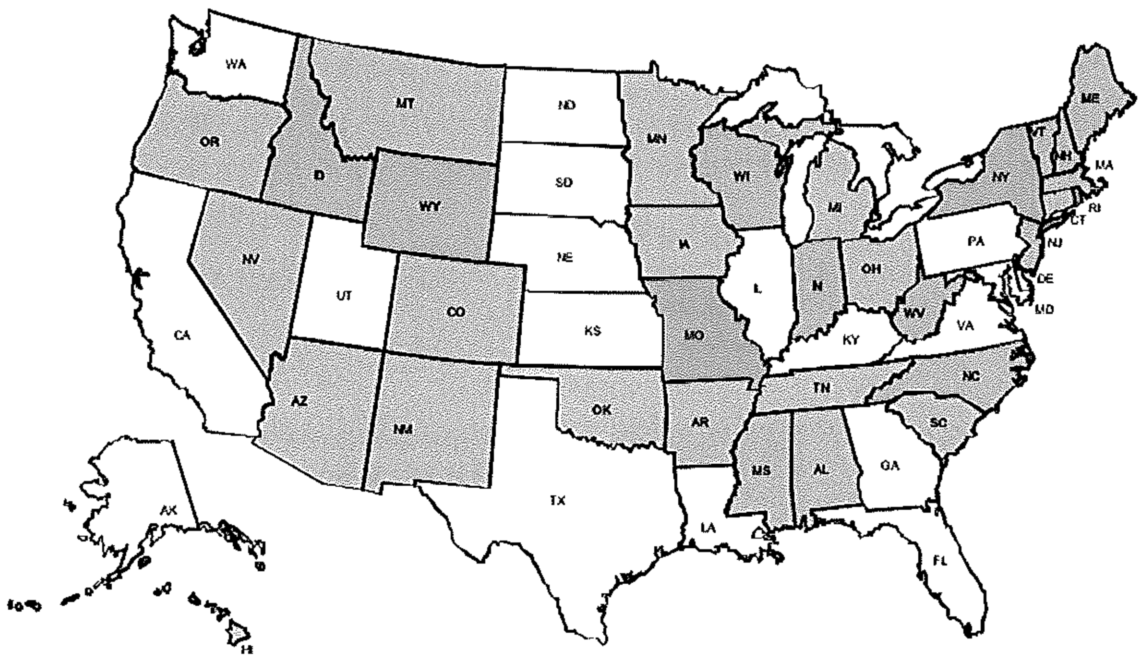
SUMMARY

Overreliance on the property tax coupled with a reluctance among state leaders to adequately increase state aid to towns and cities — particularly non-education aid — has forced a new look at diversifying municipal revenue sources. Most other states have done so — our state is one of the few locked into such an antiquated property-tax dependent system. While there are aspects of municipal revenue diversification that are of particular concern in a small state such as Connecticut, there are at least four possible approaches that should be on the table as we seek a way out of the property tax chokehold.

◈ ◈ ◈

For more information, please contact Jim Finley, Gian-Carl Casa or Ron Thomas of CCM at (203) 498-3000.

Municipal Revenue Reliance By State



One Tax Source **One Source + Low Second Source** **Two Tax Sources** **Three Tax Sources**

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5 Federal Reserve Bank of New York, Historical Exchange Rates

EXECUTIVE SUMMARY: MUNICIPAL REVENUE DIVERSIFICATION AND THE REAL ESTATE CONVEYANCE TAX

➤ **Per capita property tax burden in Connecticut is almost twice the national average, and second highest in the nation.**

➤ **Connecticut ranks fourth in the nation in property taxes as a percentage of personal income.**

➤ **The property tax is the largest single tax on residents and on businesses in Connecticut.**

➤ **69% of all municipal revenue in Connecticut comes from property taxes.**

- 9 towns get at least 90% of their revenue from property taxes.
- 48 get at least 80% of their revenue from property taxes.

➤ **The municipal real estate conveyance tax is the only tax municipalities can levy other than the property tax.**

- The present rates of the tax, slated to sunset in 2010, are a significant source of non-property tax revenue for towns and cities.
- The present rates were established in 2003 due to mid-year cuts in state aid to municipalities — and several grant programs have never returned to pre-2003 levels.
- **The present rates of the real estate conveyance tax should be made permanent.**

➤ **Only 15 states allow municipalities just the property tax. For all intents and purposes Connecticut's predominant reliance on property taxes puts it in this group.**

- **23 states** allow municipalities **both property and sales taxes.***
- **6 states** allow municipalities to levy **both property and income taxes.***
- **5 states** allow municipalities to levy **property, sales and income taxes.***

➤ **Four ideas for diversifying municipal revenue sources are:**

1. Allowing at least some municipalities to **levy additional local taxes.**
2. Allowing municipalities to **levy additional taxes on a regional basis.**
3. Establishing **new local taxes that are applicable statewide** (i.e. in all towns), such as the hotel/lodging tax.
4. **Sharing state revenue streams with municipalities or regions** (for example, a portion of the existing or increased sales tax).

* *In at least some municipalities*

APPENDIX: MUNICIPAL TAX AUTHORITY BY STATE

State	Notes
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Iowa	Property, sales
Kansas	Property, sales
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New Mexico	Property, sales
New York	Property, sales, income (New York City & Yonkers only)
North Carolina	Property
North Dakota	Property, sales
Ohio	Income, property
Oklahoma	Sales
Oregon	Property
Pennsylvania	Property, income, sales (Philadelphia only)
Rhode Island	Property
South Carolina	Property
South Dakota	Property, sales
Tennessee	Property, sales
Texas	Property, sales
Utah	Property, sales
Vermont	Property (some sales)
Virginia	Property, sales
Washington	Property, sales, B&O (business income) tax
West Virginia	Property
Wisconsin	Property
Wyoming	Property

Source: *Cities and State Fiscal Structure,* National League of Cities, 2008

CCM — CONNECTICUT'S STATEWIDE ASSOCIATION OF TOWNS AND CITIES

CONNECTICUT CONFERENCE OF MUNICIPALITIES

The Connecticut Conference of Municipalities (CCM) is Connecticut's statewide association of towns and cities. CCM represents municipalities at the General Assembly, before the state executive branch and regulatory agencies, and in the courts. CCM provides member towns and cities with a wide array of other services, including management assistance, individualized inquiry service, assistance in municipal labor relations, technical assistance and training, policy development, research and analysis, publications, information programs, and service programs such as workers' compensation and liability-automobile-property insurance, risk management, and energy cost-containment. Federal representation is provided by CCM in conjunction with the National League of Cities. CCM was founded in 1966.

CCM is governed by a Board of Directors, elected by the member municipalities, with due consideration given to geographical representation, municipalities of different sizes, and a balance of political parties. Numerous committees of municipal officials participate in the development of CCM policy and programs. CCM has offices in New Haven (the headquarters) and in Hartford.

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February 18, 2009

CCM is Connecticut's statewide association of towns and cities and the voice of local governments - your partners in governing Connecticut. Our members represent over 93% of Connecticut's population.

We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. H.B. 5560, **"An Act Concerning the Municipal Share of the Real Estate Conveyance Tax"**

CCM supports this bill.

This bill would make permanent the present rates of the municipal real estate conveyance tax, which are scheduled to sunset 6/30/10.

Towns and cities receive as much as $35 million in revenue from the increases in the conveyance tax that were enacted in 2003.

There are three main reasons why it is good public policy to make permanent the increased rates:

(i) the increases provide **important revenue** to local governments and **property tax relief** to local residents and businesses,

(ii) the **mid-year cuts** enacted by the State in municipal aid programs that prompted the increased rates **have not been fully restored.** In today's economic and budget environment, municipalities are in danger of even further cuts, and

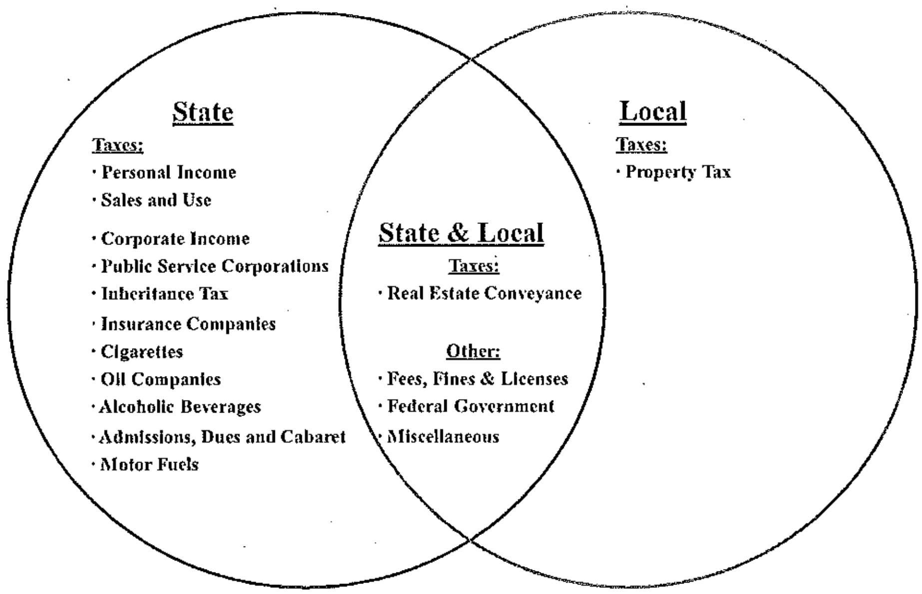
(iii) the rate increases **have no impact** on the housing market, and allowing the rates to sunset next year would be of no help in combating the nationwide slump in the housing market.

Background

Other than the property tax, the only tax municipalities in Connecticut can levy is the municipal real estate conveyance tax.

The municipal real estate conveyance tax has been in place for decades, as has a state real estate conveyance tax. Only recently has the local portion of the tax become controversial.

REVENUE SOURCES FOR STATE AND LOCAL GOVERNMENTS IN CONNECTICUT



Source: CCM, July 2008

Present Rates Set In 2003

In 2003, the General Assembly and the Governor increased the local portion of the real estate conveyance tax from 0.11% to 0.25 % in all towns, with an optional 0.25 % addition for certain communities with particular economic hardships.

The increased rates of the conveyance tax were established to help buffer the impact on municipalities and their property taxpayers of a series of mid-year state budget cuts enacted during fiscal year 2002-2003. Despite increases in state aid the past few years, funding for several of those municipal aid programs has never been restored to their pre-2003 levels, and are unlikely to be restored in the present state budget climate.

The initial legislation provided the increased rates for two years, and the General Assembly has extended them three times since then. The 2008 General Assembly stood up to a well-funded special interest lobbying effort and passed legislation to keep the rates in place until at least 2010. The rates should be made permanent.

The increases in the rates of the real estate conveyance tax were enacted to protect property taxpayers – residents and businesses -- from the impact of flat-funding or cutbacks in state aid – and that protection is still needed.

Opponents of the increased rates say that ending them would mean millions of dollars in the pockets of residents. That is an illusion: if local governments lose this critically needed revenue, property taxes will surely have to rise -- and cuts in local services will hurt the quality-of-life that maintains home values in our communities.

Opponents also point to the downturn in recent revenues from this tax as evidence that it is an undependable revenue source. But (a) every revenue source is down in a recession like this one and (b) a sudden drop of $35-40 million in mid-2010 will not exactly add to local budget stability.

We urge you to draft and favorably report this bill. It is a priority for hometowns across our state.

** ** **

For more information, please contact Ron Thomas, Gian-Carl Casa or Jim Finley at (203) 498-3000.

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February 18, 2009

CCM is Connecticut's statewide association of towns and cities and the voice of local governments - your partners in governing Connecticut. Our members represent over 93% of Connecticut's population.

We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. H. B. 5549, "An Act Concerning the Mill Rate for Motor Vehicles"

The problem of the Motor Vehicle Property Tax has long been a vexing one for both state and municipal officials.

As the 2003 Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives said:

> ...this particular property tax is viewed as especially unfair because residents in different communities pay vastly different taxes on the same property. This system encourages some Connecticut residents to register motor vehicles in other lower-tax municipalities or even out-of-state, causing significant local revenue losses and administrative difficulties.

Attached is an excerpt from the Report that weighs some of the pros and cons of proposals like H.B. 5549.

We look forward to working with you towards a solution to this difficult aspect of the property tax.

##

For more information, please contact Jim Finley, Gian-Carl Casa or Ron Thomas of CCM at (203) 498-3000.

Attachment

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C. The Motor Vehicle Tax

Currently, Connecticut's municipalities collect approximately $550 million in property taxes on motor vehicles per ear. However, this particular property tax is viewed as especially unfair because residents in different communities pay vastly different taxes on the same property. This system encourages some Connecticut residents to register motor vehicles in other lower-tax municipalities or even out-of-state, causing significant local revenue losses and administrative difficulties. Municipalities spend an inordinate amount of administrative resources to collect this tax.

The question of how to address the motor vehicle tax posed significant public policy challenges to the Blue Ribbon Commission. The commission looked at a variety of ways to make the motor vehicle tax more equitable without reducing revenues for some communities or increasing the tax burden for residents in other municipalities.

The commission discussed various scenarios under the elimination of the motor vehicle tax or options under a statewide mill rate (see Table 1 opposite). However, there was no clear consensus on the options discussed.

Therefore, the commission does not make any recommendations in regard to the motor vehicle tax, but recognizes that inequities exist and that the system of motor vehicle taxation in Connecticut will need to be addressed in the future.

FOR DISCUSSION PURPOSES ONLY

Table 1.

Options to reform Connecticut's system of motor vehicle taxation

✓ ***Eliminate the motor vehicle tax entirely.***

Pro:
- Instantly eliminates almost 10% of the property tax burden statewide.
- Eliminates disparate motor vehicle tax burdens between towns.
- Eliminates the local administration work involved in levying and collecting this tax.

Con:
- Municipalities lose $550 million in motor vehicle revenue statewide.

✓ ***Eliminate the motor vehicle tax (or phase-in elimination) with the State reimbursing municipalities for lost revenue.*** *(see attachment for description of Virginia approach)*

Pro:
- Eventually eliminates almost 10% of the property tax burden statewide.
- Eliminates disparate motor vehicle tax burdens between towns.
- Eliminates the local administration work involved in levying and collecting this tax.

Con:
- Municipalities must rely on the State for this revenue source. Municipal reimbursements may be dependant on state revenue collections.

✓ ***Implement a statewide mill rate, without a hold-harmless provision.***

Pro:
- Eliminates disparate motor vehicle tax burdens between towns.
- Could generate more revenue for some municipalities.

Con:
- Some towns would receive less revenue than they currently receive.
- Residents of some towns would have to pay greater motor vehicle taxes.

✓ ***Implement a statewide mill rate with a hold harmless provision that requires all municipalities to receive the amount of revenue received before the statewide mill rate took effect.***

Pro:
- Eliminates disparate motor vehicle tax burdens between towns.
- Could generate more revenue for some municipalities and the same amount for others.

Con:
- Residents of some towns would have to pay greater motor vehicle taxes.
- Additional state revenue needed to supplement the income of the hold-harmless municipalities.

✓ ***Status quo. Each town levies and collects their own taxes on motor vehicles.***

Pro:
- Municipalities continue to collect $550 million of their own revenue.

Con:
- Residents will continue to illegally register motor vehicles in other municipalities or out-of-state to avoid high tax municipalities.
- Municipalities will have to continue to incur the costs of administering this tax.

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We appreciate the opportunity to testify on the following bills of interest to towns and cities:

Prop. H. B. 5546, "An Act Authorizing Municipalities to Increase and Assess Fees for Services and Violations"

Prop. H. B. 5563, "An Act Authorizing Municipalities to Increase and Assess Fees"

CCM supports these bills.

H.B. 5546 and H.B. 5563 would allow municipalities broader authority to, at local option, increase and assess fees for municipal services and fines for violations.

Towns and cities are facing the greatest budget challenges in recent memory.

State policy should ensure that towns and cities get through the brutal economic situation of the next few years without slashing local public services and causing spikes in already skyhigh property taxes. Towns and cities provide the public services that mean the most to people and businesses. Our quality-of-life, one of Connecticut's greatest assets, is at risk.

H.B. 5546 and H.B. 5563 would provide significant relief to towns and cities – in a way that would not impact state revenues.

- over -

Municipal elected officials are mature leaders voted into office by the residents of their communities to make decisions on their behalf. They are as capable of thoughtful decision-making as the state legislature. They should be able to assess local situations and increase fees and fines, if the community deems it appropriate. Of course, fee increases would occur through the usual very public process, which ensures full public participation.

This is the kind of proposal that provides sound tools for towns and cities to regain control over their budgets during excruciating fiscal times.

CCM urges the Committee to combine, draft and favorably report these bills.

##

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We appreciate the opportunity to testify on the following bills of interest to towns and cities:

Prop. H. B. 5868, "An Act Concerning Economic Development Teams"

Prop. H. B. 5523, "An Act to Require Transit Agency Participation in the Review of Proposed Development Projects"

CCM <u>supports</u> these bills.

H.B. 5868 and H.B. 5523 add reason and clarity to the local economic development process by ensuring that key state and local players are at the table.

For years, municipal officials have told tales of economic development proposals that foundered when developers gave up the projects due to long waits for approvals.

At present, the review-and-approval process is slow and bogged down. It can take years for a project to go through all the bureaucratic hoops and hurdles at both the state and local levels. One reason is that approaches are sequential. This bill would make the state/local/regional entities work together to ensure that services and approaches are coordinated and, where possible, go forward simultaneously.

-Over-

This is a common-sense step that could go a long way towards (a) improving the state-local partnership for economic development and (b) ridding Connecticut of the reputation as a place where economic development proposals go to die.

This makes for sounder – and timelier – consideration of projects.

CCM urges the Committee to support these bills.

##

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. H. B. 5864, "An Act Concerning Remission of Funds to Municipalities for Traffic Violations"

This bill would require that 15% of any fee or fine paid to the State with respect to any moving violation by a motor vehicle, for which a ticket was issued by a municipal police officer, be remitted to the municipality by which such police officer is employed.

Each year, arresting authorities in Connecticut issue approximately 400,000 tickets for motor vehicle-related traffic offenses. Local and state police officers issue the majority of tickets for infractions involving automobiles. In 2006, legislation was passed to allow towns and cities to collect a surcharge of $10 per motor vehicle fine levied by municipal police departments, in 2007 municipalities as a whole received over $800,000 in revenue as a result. H.B. 5864 would increase that revenue stream.

CCM asks the Committee to support H.B. 5864 as one step to providing property tax relief, while enhancing public safety.

CCM urges the committee to *draft and favorably report H.B. 5864.*

##

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The Connecticut Conference of Municipalities is Connecticut's statewide association of towns and cities and the voice of local governments - your partners in governing Connecticut. Our members represent over 93% of Connecticut's population. We appreciate this opportunity to testify before this joint committee on the issue of mandates reform, a top priority of CCM's.

Prop. H.B. 5522 **"An Act Requiring the Enactment of a Connecticut 'Livable Streets' Program"**

CCM supports this bill.

H.B. 5522 would require the State to implement a "Livable Streets" program utilizing "red light" cameras at traffic light intersections.

CCM has long supported amending CGS 14-107 to include traffic control signals (14-299) to the list of registered owner - presumed operator violations, that would allow municipal police departments the option of utilizing photographic enforcement of red light violators (red light cameras).

Red light violations pose a real danger to the general public and are difficult to enforce. Photographic enforcement has been effective in reducing intersection accidents in many U.S. and overseas locations. Current law in Connecticut however, does not enable law enforcement officials to decide for their communities whether to effectively use such technology to apprehend red light violators.

CCM urges the committee to draft and favorably report H.B. 5522, and provide towns and cities the flexibility needed to protect our hometowns.

##

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

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. S. B. 260, **"An Act Concerning Municipal Fees for Telecommunication and Public Services Companies"**

CCM <u>supports</u> this bill.

S.B.260 would permit towns and cities to assess fees on telecommunication and public service companies for use of municipal right-of-ways.

The ability to levy such taxes is common in others states -- Connecticut is in the minority. Telecommunications and public service companies use public right-of-ways for profit-making endeavors. Property taxpayers deserve to receive revenue for use of public assets for such purposes.

CCM urges you to draft and favorably report this bill.

##

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. H. B. 5861, "An Act Concerning the Processing of Municipal Applications for State Permits"

CCM supports this bill.

Towns and cities are partners in governing the State. However, many state agencies take an inordinate amount of time to process and approve various permits that are necessary for routine municipal functions or local economic development projects. This results in additional fiscal and administrative costs to towns and cities, and a loss of economic development opportunities.

Another way to address this situation is to assign a "municipal ombudsman" in each state agency that interacts regularly and directly with local governments to improve coordination for economic development, planning, transportation, etc. Such an initiative would increase efficiency in economic development, while designation of an existing employee would avoid the need to add staff to perform this function

CCM urges the Committee to draft and favorably report a bill that would either provide deadlines or require such ombudsmen.

##

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. H. B. 5536, "An Act Concerning Interest on Charges for Sewer System Expansion"

CCM <u>supports</u> this bill.

H.B. 5536 would allow persons who will be assessed for sewer improvements that are not bonded (paid for by the Town in cash from the Capital and Non Recurring Expenditure Fund), to pay on an installment basis, instead of having to pay them in a lump sum. Those payments, which generally run on such projects from about $6,000 to about $15,000, would be a burden if they had to be paid in a lump sum by the property owner.

Current statutes allow payment on an installment basis only if the improvements are bonded, not paid for in cash.

CCM urges the Committee to draft and favorably report this bill.

##

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. H. B. 5554, "An Act Concerning Appeals to the Local Board of Assessment Appeals"

CCM <u>supports</u> this bill.

By allowing local boards of assessment appeals the authority to raise the threshold for which such boards may elect not to hold a hearing, the State would be providing municipalities more control over their appeals processes -- enabling them to streamline and create efficiencies, while providing fair and reasonable decisions.

In this tough economic period, the State should seek to provide municipalities with more tools and flexibility to control local cots, such as proposed in this bill

CCM urges the Committee to draft and favorably report H.B. 5553.

##

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. S. B. 375, **"An Act Authorizing Bonds of the State for Loans to Municipalities for Employee Pension Plans"**

CCM <u>supports</u> this bill.

This bill would require the State to bond for up to $250 million for the establishment of a Municipal Pension Solvency Account for loans to towns and cities to fund employee pension funds.

S.B. 375 is an intriguing proposal to help shore-up municipal pension plans, many of which of have been severely effected by the economic downturn.

CCM urges the Committee to draft and favorably report this common sense proposal.

##

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We appreciate the opportunity to testify on the following bills of interest to towns and cities:

Prop. S. B. 10, "An Act Concerning Monthly Payment of Property Taxes"

Prop. H. B. 5554, "An Act Authorizing Monthly Payment Plans for Property Tax"

CCM understands the thought behind these proposals – to provide taxpayers with relief by allowing them to pay property tax payments in monthly installments. However, we have two concerns with it:

First, these proposals fail to address the real problem. The underlying issue is not that taxpayers need more time to pay property tax bills – they need relief from an out-dated local taxation system.

Overreliance on the property tax to finance local public services, particularly K-12 public education, is the root cause of many of the public policy challenges facing Connecticut. To paraphrase Mark Twain, "Everyone complains about the property tax system, but nobody does anything about it."

- Over -

The antiquated and inequitable property tax system continues to cause numerous problems, including the fiscal distress and decline not only of our cities but also of our towns. It encourages the continued economic and racial segregation of our state. It often prevents municipalities from meeting the public service needs of their residents and businesses without levying a heavy local tax burden. It promotes bad land use decisions and contributes to costly and destructive sprawl.

Second, these proposals will impose an administrative burden on towns and cities, since tax collectors will have to devise systems to accept monthly payments, and possibly increase staffing to accommodate much more frequent visits by residents.

At the end of the day, because the State enables an archaic local tax system to continue, the very property taxpayers who are meant to take advantage of such a proposal would not be able to make monthly payments, because the overall tax rates are the same.

Overhauling the current system will provide the much-needed relief to overburdened property taxpayers.

We urge you to <u>take no action</u> on these bills.

##

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. H. B. 5557, "An Act Concerning Traffic on Residential and Collector Roads"

CCM <u>supports</u> this bill.

H.B. 5557 would provide towns and cities with a vehicle by which to help control noise on residential streets and preserve neighborhood vitality and harmony.

CCM urges the Committee to draft and favorably report this common sense proposal.

##

For more information, please contact Jim Finley, Gian-Carl Casa or Ron Thomas of CCM at (203) 498-3000.

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. S. B. 389, "An Act Revising the Date for Commencement of the Fiscal Year by Municipalities"

CCM thinks this proposal is an intriguing one. However, there needs to be more consideration given to things like municipalities' need to know state allocations before the school year begins, as well as the 14-month period before the date-change year.

##

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. H. B. 6041, "An Act Concerning Hearings in Certain Assessment Appeals"

CCM <u>opposes</u> this bill as an unfunded state mandate.

CCM is concerned that this proposal is counter to providing towns and cities with more authority over local processes.

H.B. 6041 would likely have the effect of requiring additional hearings, which may result in additional local costs.

CCM urges the committee <u>to take no action</u> on this proposal.

##

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We appreciate the opportunity to testify on the following bill of interest to towns and cities:

Prop. H. B. 5254, "An Act Concerning Extending the Time of Expiration of Certain Land Use Permits"

CCM is concerned that, under H.B. 5254, municipalities may lose protections for such things as infrastructure completion and maintenance for extended periods. Developers occasionally walk away from projects leaving towns to hold the bag; the longer permits are valid the greater the chance this may happen. On the other hand, an arbitrary drop dead date may result in projects being abandoned unnecessarily. It would make more sense to base the expiration period on a project's size and scale.

Any extensions beyond the initial expiration deadline (whether 8 years or 5 years) should remain discretionary.

##

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