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

BANKS COMMITTEE

March 11, 2010

CCM is Connecticut's statewide association of towns and cities and the voice of local government - your partners in governing Connecticut. Our members represent over 90% of Connecticut's population.

We appreciate the opportunity to testify on **HB 5279, An Act Concerning Real Estate Conveyance Tax**.

CCM ***opposes*** HB 5279 which would take away $10 million from struggling municipalities - - and $16 million from the State -- by eliminating the real estate conveyance tax on foreclosures. The law just went into effect on January 1, 2010 (section 114 of Public Act No. 09-03 Special Session).

CCM applauds the General Assembly for providing much-needed assistance to Connecticut's most hard-pressed towns and cities through the new law, and urge you not to eliminate it.

The new law brings significant dividends to towns: the Office of Fiscal Analysis (OFA) says that towns will receive up to $5 million in FY 10, and $9 million in FY 11. The state is also a beneficiary: OFA estimates that the state would receive $8.5 million in FY 10, and $16.2 million in FY 11.

As we all know, the country, state and municipalities are experiencing the worst economic crisis since the Great Depression. And, while federal and state governments have various revenue enhancement measures (income taxes, sales taxes, etc.) to assist with recovery, Connecticut towns and cities are mostly relegated to the property tax as a vehicle through which to raise revenue. The new real estate conveyance tax on foreclosed properties is another much-needed vehicle to raise revenue.

There are three main reasons why it is good public policy to continue the new initiative:

(i) the increases provide *important revenue* to local governments and *property tax relief* to local residents and businesses during exceedingly difficult times – especially for our large cities and poorer towns,

(ii) municipalities, especially distressed cities, endured cuts in municipal aid programs. *In today's economic and budget environment, municipalities are in danger of even further -- mid-year -- cuts* (the Governor's deficit mitigation package dated March 1, 2010 includes $45 million in additional cuts to municipal aid), and

(iii) The beauty of the new revenue vehicle is that, once the housing crisis subsides, the assessment will decrease dramatically. The revenue helps our struggling communities during a time when they most need it. These communities did not bring on the housing calamity, but are reeling from it.

Procedure Determined

A rationale for eliminating or postponing the law is that there is a lack of clarity on administering the law. That situation has been remedied.

Judge Barbara Quinn, Chief Court Administrator, has issued official procedure for successful bidders to follow regarding payment of the real estate conveyance tax. The procedure was published in the January 12, 2010 issue of the Connecticut Law Journal:

The payment of the conveyance taxes will be as follows:

> At the closing, the successful bidder must provide the [Foreclosure] Committee with a certified or bank check, payable to the Clerk of the Superior Court, for the balance of the purchase price less the sum of the amounts due the Commissioner of Revenue Services for the State Conveyance tax and the municipal conveyance tax. At the closing, the successful bidder must provide the Committee with photocopies of the checks for the payment of the State conveyance tax and the municipal conveyance tax. In addition, the successful bidder must record the committee deed and pay the conveyance taxes within 30 days of the closing.

Municipalities Reeling from Foreclosure Crisis

According to the Office of Fiscal Analysis (OFA), the foreclosure crisis is having a very adverse impact on towns and cities:

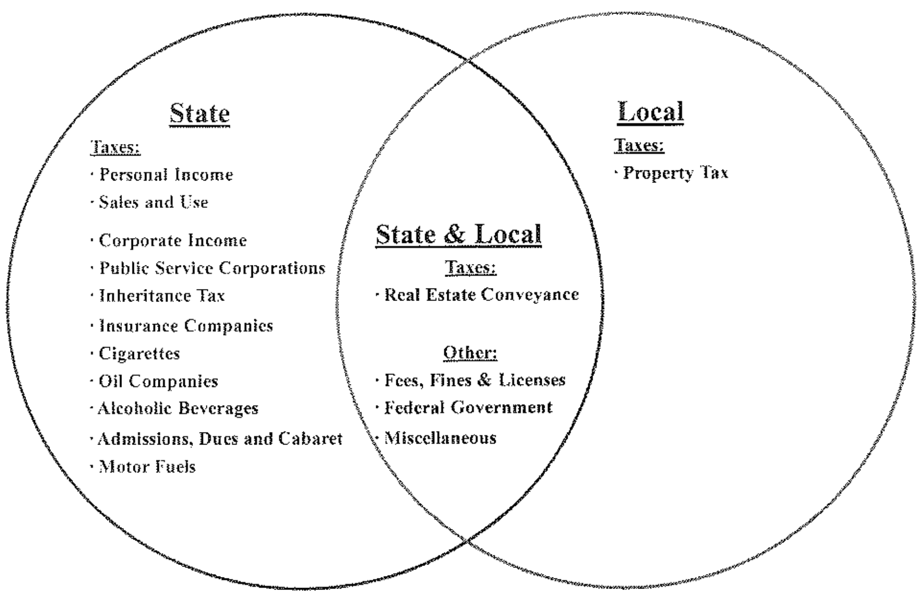
> The foreclosure crisis has affected municipalities in various ways, including eroding their property tax base, increasing administrative and property maintenance costs, and increasing the demand for services by the individuals and families displaced by foreclosures. Municipalities may be forced to cut services, raise taxes, or both, and either response could lead families and businesses to relocate, thus further shrinking the tax base. The combination of these factors could lower municipalities' credit ratings, which could lead to higher rates on their municipal bonds.

The fiscal impact on municipalities may be most severe when a high number of foreclosures are concentrated in a neighborhood or community. The extent of the impact will also depend upon preexisting neighborhood economic stability. Low-income, minority families and communities have been especially vulnerable to foreclosure and its negative effects due to the disproportionate share of subprime loans made in these communities.

The Real Estate Conveyance Tax

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

REVENUE SOURCES FOR STATE AND LOCAL GOVERNMENTS IN CONNECTICUT



Source: CCM, July 2008

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 rate is due to expire on July 1, 2010.

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.

Similarly, the expansion of the tax to foreclosures assists towns and cities during a period of national and state economic crisis – and significant state cuts in aid to towns and cities. In addition, the expansion has an industry whose practices help lead to the foreclosure crisis, assist towns suffering as a result of it.

Municipal Over-Reliance on the Property Tax

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 1810 doesn't work in 2010.

Connecticut is one of the most property-tax-dependent states in the nation

- **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.

In 2009, a tough state fiscal situation resulted in a disproportionate share of budget cuts being felt by the communities that could least afford it—particularly the "Big Three" (Bridgeport, Hartford and New Haven). That's clearly the wrong direction.

Connecticut towns and cities are facing budget crises not seen in generations. Now is not the time to take a viable revenue source from them, one that especially helps those reeling from the home foreclosure crisis.

CCM urges the Committee to protect municipal – and state – interests and ***take no action*** on HB 5279.

Thank you.

** ** **

For more information, please contact Ron Thomas or Donna Hamzy at (203) 498-3000.