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CONNECTICUT CONFERENCE OF MUNICIPALITIES

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THE VOICE OF LOCAL GOVERNMENT

TESTIMONY

of the

CONNECTICUT CONFERENCE OF MUNICIPALITIES

to the

PLANNING AND DEVELOPMENT COMMITTEE

Regional Hotel/Lodging Tax

March 10, 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 93% of Connecticut's population. We appreciate this opportunity to testify before you on the issue of revenue diversification, and in particular, increasing the hotel tax for the benefit of municipalities and regions.

CCM supports **R.B. 144, "An Act Concerning Enhanced Regionalism", R.B. 159, "An Act Concerning Intermunicipal Cooperation and Enhanced Regionalism"**, and **R.B. 303, "An Act Concerning A Municipal Hotel Tax."** All these proposals would allow municipalities to benefit from an increase in the hotel tax.

MORE Commission Recommendation

CCM supports the Municipal Opportunities and Regional Efficiencies (MORE) proposal to increase the hotel tax by 3%, with 1/3 of the proceeds to go to host towns, 1/3 to all towns in host regions, and 1/3 for regional initiatives, like the Regional Incentive Performance Grant. The 3% increase is expected to raise $15-$20 million.

This important proposal would begin to put towns and cities on the road to economic security and less dependence on state aid. It would benefit property tax burdened communities -- without adversely impact the hospitality industry. CCM is unaware of any compelling evidence that portends harm to the hotel industry.

It should be noted that, according to the Office of Legislative Research (OLR), in the Northeast, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Vermont allow some form of local hotel taxes:

OLR STUDY (2008-R-0695) HOTEL TAX RATES IN NINE NORTHEASTERN STATES

	Hotel Tax Rate (State)	*Hotel Tax Rate (Local)*
Connecticut	12%	No tax

Maine	7%	No tax
Massachusetts	5. 7%	Up to 4%
New Hampshire	8%	No tax
New Jersey	12%	Up to 3%
New York	4%	Up to 5%
Pennsylvania	6%	1%
Rhode Island	12%	1%
Vermont	9%	1%

As the Committee well knows, the State faces a current deficit of $500 million, and a deficit for the next biennium of up to $4 billion. Federal ARRA funding used for ECS alone -- $270 million – is expected to be gone by FY 12. Clearly, the State is not in a good position to help towns with sufficient state aid to survive the financial crisis.

Connecticut towns and cities have been making uncomfortable budget cuts and are making preparations for additional cuts. In Connecticut's central cities, the situation is increasingly grave and dire. Deep cuts in services and massive layoffs have occurred in these communities – with more cuts and layoffs to come without state action.

The modest increase in the hotel tax will provide much-needed assistance to municipalities – and regions. Let's be honest: much of it will be paid by non-Connecticut residents.

Funds for Regional Efforts

1/3 of the proceeds from the increased hotel/lodging levy would go toward regional efforts like the Regional Performance Incentive Program (PA 07-239), a one-year initiative which provided $8.6 million to regional entities for provision of a service or services provided by municipalities within a region, but not currently provided on a regional basis. The initiative was extremely popular, with OPM receiving more proposals than the State had funds.

If financial resources were available, regional councils of government would undertake a variety of regional initiatives that would benefit the State, including:

- Purchasing land along regional corridors to enhance environmental quality and provide affordable housing.
- Assisting regional airports to promote economic growth in the region.
- Developing regional entertainment centers to anchor entire region and attract businesses and tourism.
- Ensuring disaster preparedness – vaccines, public awareness campaigns and transporting special needs populations.
- Constructing a regional solid waste transfer station.

- Constructing greenways to connect two or more municipalities.

- Enhancing geographic information systems (GIS) capacity within the region.

Property Tax Dependence

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, 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 or whether you've lost your job and life savings — you just have to pay it.

What worked in 1810 doesn't work in 2010.

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. That means that the educational opportunity a child has is directly tied to the property tax wealth of the community in which he or she 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. 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.

Municipal aid from the State isn't increasing any time soon. The General Assembly has heretofore refused to enact significant mandates relief. That leaves local revenues. Unless additional local revenue sources are created, failure to provide municipal aid and real mandate relief is a policy choice by the General Assembly to increase property taxes.

The General Assembly has forced municipal leaders to return to the Capitol to beg for extension of the present rates of the municipal real estate conveyance tax.

Most States Allow Local Revenue Diversity

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.**

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. [For example, of the 43 states with a personal income tax, 29 have income tax rates that reach higher than Connecticut's highest rate of 5%. 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.]

Summary

The M.O.R.E. proposal would avoid the political and administrative travails associated with levying new taxes. The State would never lose revenue, but towns and cities would stand to gain.

What has worked for Connecticut before isn't working today. We need new approaches and new solutions as we meet the current economic and budgetary challenges.

In 2010, more than any previous year, local officials need and want tools and flexibility to allow them to maintain service continuity and the quality-of-life in their communities. One of the best things the State can do, given its own budget troubles, is to provide these tools.

***We urge you to draft and favorably report the M.O.R.E. proposal to enact a 3% hotel tax.* The proposal would benefit some our most hard-pressed communities, and encourage thoughtful and productive regionalism.**

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