**Testimony**
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**Connecticut Council of Small Towns**
**Before the Finance Committee**
**March 7, 2011**

**SB-1007 – AN ACT CONCERNING THE GOVERNOR'S RECOMMENDATIONS ON REVENUE**

## Conveyance Tax

We applaud Governor Dannel Malloy's proposal to make permanent the municipal conveyance tax. This is a significant revenue source for our small towns and cities. The state already collects and has collected for many years, one-half of one percent (0.50%) on most real estate transactions. Even though the transaction is strictly a municipal transaction, the towns and cities were only getting 0.11% and recently 0.25%. This increase, which is still only half of what the State of Connecticut receives, has been absolutely critical to our towns' budgets.

Unfortunately, every year we are put in the position of having to fight to retain this much-needed source of revenue. By making the municipal conveyance tax permanent, towns and cities will have a steady stream of revenue to fund critical programs and services.

## Municipal Revenue Diversification

COST also supports provisions in the bill which recognize that we need to diversify municipal revenue sources to provide towns with a steady stream of revenue and reduce the reliance on property taxes. 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.

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;
- **Revenue diversification** - 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:

**Hotel Tax** - A hotel user fee could generate significant revenues which will help towns provide critical education, public health and safety services. We believe, however, that the method for distributing funds should ensure that revenues could also be used to benefit neighboring towns, so that every community would receive some funding from this tax. For example, the host municipality should receive a share of the additional tax revenue and the remaining share of the revenue should be allocated to towns on a per capita basis.

**Sales Tax** – The .10% increase in the sales tax will provide some towns with much needed revenue. We would ask your consideration, however, in exploring ways of allocating these additional funds to cities and towns. On a municipality-to-municipality basis, there is a very wide divergence in income raised by a sales tax. It may be more beneficial to all towns and cities if a portion of the additional revenues were allocated to a regional service sharing incentive pool and the remainder to be distributed on a pro rata basis on income.

We are also supportive of other provisions in the bill which provide towns with additional revenue sources, intended to offset increases in local property taxes: 1) A personal property tax on boats (on 70% of the current value) in the state at a state-wide rate of 20 mills; 2) A personal property tax on aircraft (on 70% of the current value) in the state at a state-wide rate of 20 mills; 3) An additional 1% tax on car rentals; and 4) A new 3% cabaret tax.

In addition, COST has discussed the following funding mechanisms that we submit for your consideration:

**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.

**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).

Thank you for the opportunity to comment. We appreciate your consideration of our position.