CONNECTICUT VOICES FOR CHILDREN

Testimony Supporting
S.B. 1007's Municipal Revenue Provisions

Wade Gibson[1]

Finance, Revenue, and Bonding Committee

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Senator Daily, Representative Widlitz, and Members of the Finance Committee:

My name is Wade Gibson, and I am a member of the Legislative Advocacy Clinic at Yale Law School, testifying today on behalf of Connecticut Voices for Children. Connecticut Voices for Children is a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families. We support Governor Malloy's municipal revenue proposals.

The Governor's budget takes much-needed, long-overdue steps to diversify local revenue sources. For over 40 years, tax reform commissions have proposed reducing our towns' reliance on property taxes,[2] but to little effect. In 1977, property taxes made up 99% of Connecticut local taxes; in 2008, they equaled 98%.[3]

While in most other states municipalities can raise revenue through income and sales taxes, here they cannot.[4] Towns in only three states are more reliant on the property tax for tax revenue, and then just barely—it is hard to exceed 98%.[5]

Our towns' only other major revenue source is state and federal funds. Together, property taxes and intergovernmental aid constitute 95% of local revenues.[6] This means if intergovernmental aid is cut—as it often is during recessions—towns have little recourse but to raise property taxes and cut services, as we have seen of late.

Governor Malloy's proposed budget would break new ground in providing more revenue sources for municipalities—diminishing reliance on the property tax, reducing dependence on state aid, and thus creating a more balanced revenue system. Specifically, the Governor's budget would:

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[1] Wade Gibson is a third-year student at Yale Law School. This testimony was prepared through the Law School's Legislative Advocacy Clinic under the supervision of J.L. Pottenger, Jr., Nathan Baker Clinical Professor of Law, Shelley Geballe, Distinguished Senior Fellow at Connecticut Voices for Children and Clinical Visiting Lecturer at Yale Law School, and Jamey Bell, Executive Director of Connecticut Voices for Children.

[2] Judith Lohman and John Rappa, Office of Legislative Research, *Property Tax Review Commissions: 1969-2003* (Oct. 29, 2007), p. 36.

[3] The Urban Institute-Brookings Institution Tax Policy Center, State & Local Government Finance Data Query System, available at www.taxpolicycenter.org/slf-dqs/pages.cfm.

[4] Towns in about three-dozen states receive general sales tax revenue, while towns in about a dozen receive individual income tax revenue. U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State: 2007-2008*.

[5] The 3 states with towns more reliant on the property tax are Maine, New Hampshire, and New Jersey. *Id*.

[6] Office of Policy and Management, *Municipal Fiscal Indicators 2005-2009*.

1. Channel new or additional state taxes directly to towns. These include portions of the increased sales, hotel, and rental car taxes, as well as all of the restored cabaret tax. All told, these would mean an estimated $32.3 million in FY12 and $33.7 million in FY13.[7]

2. Make permanent the current 0.25% municipal real estate conveyance tax and offer all towns the option of levying an additional 0.25% tax. This would mean an estimated $52.9 million in each of FY12 and FY13.[8]

3. Allow towns to levy property taxes on boats, aircraft, and certain large commercial vehicles, which are currently exempt under state law. While these changes do slightly increase towns' reliance on property taxes, they also inject a bit of needed progressivity into the tax code. And together, they would mean at least $42.7 million starting in FY13.[9]

While the Governor's proposal is an important step, it does not tackle a key problem. Connecticut town government is fragmented, and our communities do not share revenues, as happens in other states with larger city footprints and county governments. The fragmentation is expensive, and the lack of revenue sharing means services provided often do not match revenues raised.

In addition, the Governor's new revenues will create a windfall for wealthy towns that could be better used to resolve the state budget crisis. For example, Greenwich, which has the lowest property tax rates in Connecticut,[10] will benefit more than any other town, drawing over $7 million in FY12 and $9 million in FY13.[11] East Hartford, by contrast, will lose several million dollars from the canceled PILOT MME even after new revenues are considered.[12]

We propose this windfall be reduced; one way would be to offset wealthy towns' new revenues against their ECS grants. Since Greenwich's annual grant is about $3.4 million,[13] the town would still keep most of its new revenues, but the state budget would be less impaired. We look forward to offering future testimony and working with policy makers to address these concerns.

Thank you for the opportunity to submit testimony today.

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[7] Connecticut Conference of Municipalities, *Governor's Proposed Budget FY2012-FY2013: Impacts on Towns and Cities* (Feb. 22, 2011), p. 3.
[8] *Id.*
[9] *Id.*
[10] According to the equalized mill rates reported in Office of Policy and Management, *Municipal Fiscal Indicators 2005-2009*.
[11] *Governor's Proposed Budget FY2012-FY2013*, p. E-38.
[12] *Id.* at E-15 to E-38.
[13] *Id.* at E-21.