CONNECTICUT CONFERENCE OF MUNICIPALITIES
THE VOICE OF LOCAL GOVERNMENT

CCM 2012 Testimony

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PLANNING & DEVELOPMENT COMMITTEE

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The Connecticut Conference of Municipalities (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 bills of interest to towns and cities.

H.B. 5317, "An Act Concerning the Interest Rate on Delinquent Property Taxes"

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

H.B. 5317 would (1) give municipalities the option to charge interest of 12%, instead of 18%, to delinquent property taxpayers, and (2) require that the interest be charged per day instead of per month.

CCM understands proponents' desire to provide property tax relief during the most challenging fiscal times our state has faced in recent memory. CCM is the chief advocate for property tax relief in Connecticut.

Let's be frank: Towns and cities are also facing challenging times. Connecticut towns and cities have made uncomfortable budget cuts and are making preparations for additional cuts. In Connecticut's central cities and poorer towns, the situation is increasing grave and dire. Deep cuts in services and significant layoffs have occurred in these communities – with more service cuts and layoffs to come. Municipalities must still provide the services residents depend on for education, public safety and infrastructure maintenance, regardless of the economy.

Although the bill is voluntary in appearance, it is a de facto mandate, in that, as a practical political matter, a town or city will be required to reduce the interest rate. This could open up a $14.5 million whole in municipal budgets during a time when our poorer communities, in particular, are barely holding on.

We all want to reduce property taxes, which, in turn, reduces the likelihood of taxpayer delinquency. The better approach would be to enact meaningful property tax reform.

The State should examine municipal funding streams like PILOT reimbursement for state-mandated revenue losses on state property and for private colleges and hospitals, education aid, school transportation, and Pequot and Mohegan grants to ensure that they are living up to their statutory obligations.

Property Tax Exemptions

Because state policymakers have decided it is appropriate that certain types of property be removed from the local property tax base (see attached), it is only appropriate that the State replace the revenue lost from these state-mandated exemptions. Otherwise homeowners and businesses in host municipalities are forced to (1) shoulder a heavier property tax burden to make up for the tax-exempt entities, and (2) foot the bill for the municipal services used by these exempt properties (e.g., police and fire protection, snow removal, street maintenance, storm sewers, etc.). It's not fair to businesses or homeowners in these communities, and it undercuts the economic competitiveness of these host municipalities.

In addition to the usual mandate suspects (prevailing wage, binding arbitration, MBR, and others), towns and cities lose staggering amounts of revenue as the result of state-mandated property tax exemptions for real and personal property owned by the State and private colleges and hospitals, and other entities. In fact, there are at least 71 mandated property tax exemptions in state statute.[1]

For Connecticut's major urban centers – the hubs of our regions – the problem is devastating. *Bridgeport, Hartford, New Haven and Waterbury lose at least $115 million in property tax revenue due to these state-mandated exemptions and low reimbursement rates.* This total represents lost taxes on real property only and does not include revenue lost on personal property.

PILOTS

PILOTs, while appreciated, *compensate municipalities for only a portion of the revenue that towns and cities lose to state-mandated property tax exemptions.* This is because (1) PILOTs are made for only a few of the many types of tax-exempt property, and (2) existing PILOT programs are not fully funded (except for state prisons, which are reimbursed at 100%).

Connecticut relies on property taxes more than any other single tax base to fund local government services and activities and to meet the requirements of state-mandated programs. The property tax raises over *$1 billion more* than the state personal income tax. As a result, tax-exempt property is a major issue for towns and cities.

Critics of full-funding of PILOTs sometimes assert that host communities would be worse-off if such tax-exempt properties were *not* located in these communities. But that argument would also be true if a major *tax-paying* business left *any* municipality. The difference is that major tax-paying businesses add to the economy of any municipality *AND* typically pay 100% of property taxes due on both their real estate and personal property. Tax-exempt institutions may add to the vitality of a community but -- because PILOTs are underfunded -- those communities receive only a portion of the revenue that would have been paid by non-exempt businesses. Even where Payments in Lieu of Taxes (PILOTs) exist, the State reimburses only *a portion* of the revenue loss from the exempt institutions' *real estate*, and *not a penny* for the exempt *personal property* of such institutions -- their motor vehicles, office furniture, computers, laboratory equipment, etc.

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[1] See Appendix.

PILOT: State Property & Private Colleges and Hospitals

CCM urges the Committee to consider the following concerning payments-in-lieu-of-taxes (PILOTs) for state property and private colleges and hospitals:

- The PILOT reimbursement rate for tax-exempt, *state-owned property* has fallen from 41% in FY2002 to 26% in FY2011. Statutes call for a reimbursement rate of 45% for most property.

- The PILOT reimbursement rate for the tax-exempt property of *private colleges and hospitals* has fallen from 73% in FY2002 to 38% in FY2011. Statutes call for a reimbursement rate of 77%.

Pequot-Mohegan

The Committee should consider that Pequot-Mohegan grants provided as much as $135 million annually from FY 1998 to FY 2002. In FY 2011, they would provide just $61.8 million. At its inception, municipalities received 78% of these slot-machine revenues – this year they will receive about 18%.

Education Aid

As you are aware, the ECS grant is the largest state grant to local governments, and the principal mechanism for state funding of regular education and the base costs of special education programs in Connecticut.

If fully funded in FY 2011, ECS grants would be $2.6 billion. The actual phased-in ECS grant for FY 2011 is just under $1.9 billion.

After accounting for inflation, today, one in four municipalities still receives less per pupil in ECS aid then under the $250 per-pupil, flat-grant funding system that was determined to be unconstitutional in 1977.

Special Education

With special education expenditures surpassing the $1.5 billion mark, the local share is almost $1 billion. Special education spending accounts for almost 15 percent of all education spending in Connecticut and its costs keep growing faster than other school spending (5-6% vs. 3-4%). Complicating matters, unforeseen demands for the most expensive special education services too often result in local mid-year budget shuffling, supplementary appropriations, and other extraordinary measures. This is particularly true in smaller towns where the arrival of a single new high cost special education student during the school year can create a budget crisis.

Conclusion

When members of the public think about the public services that affect their lives, they are generally thinking of services provided by local governments: education, public safety (police and fire, code enforcement), health, roads, solid waste and recycling collection, elderly and youth services and more. *Connecticut's quality of life during these hard times depends on maintaining delivery of these important local services.*

CCM urges the Committee to oppose HB 5317 and instead focus on comprehensive property tax reform as a way to assist all hard-pressed taxpayers. It's the fairest way to provide relief during this very difficult period.

Attachment

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If you have any questions, please call Ron Thomas at rthomas@ccm-ct.org at (203) 498-3000.

Attachment

STATE MANDATED PROPERTY TAX EXEMPTIONS

Every year there are many well-intentioned proposals to reduce the property tax burden of one group or another. Everybody wants out of the property tax – but peeling off one group after another is not reform. Again, these would only serve to shift the burden of those taxes to the remaining property owners of a given municipality.

Currently, there are close to two-dozen opportunities for property tax abatement at municipal option and **77 mandated ones** (see below).

In an economy where local officials are struggling to sustain critical services – amidst growing deficits, evaporating revenues, and layoffs – this bill would negatively impact hometown budgets. Towns and cities have already suffered significant cuts in state aid over the last several years and the State is currently grappling with a huge deficits. This is not the time for enacting any new unfunded mandates, no matter what the reason.

The following property is exempt from taxation per Connecticut General Statutes (C.G.S. §12-81):

1. Property of the United States
2. State property, reservation land held in trust by the state for an Indian tribe.
3. County Property (repealed).
4. Municipal Property.
5. Property held by trustees for public purposes.
6. Property of volunteer fire companies and property devoted to public use.
7. Property used for scientific, educational, literary, historical or charitable purposes.
8. College property.
9. Personal property loaned to tax-exempt educational institutions
10. Property belonging to agricultural or horticultural societies.
11. Property held for cemetery use.
12. Personal property of religious organizations devoted to religious or charitable use.
13. Houses of religious worship.
14. Property of religious organizations used for certain purposes.
15. Houses used by officiating clergymen as dwellings.
16. Hospitals and sanatoriums.
17. Blind persons.
18. Property of veterans' organizations.
    a. Property of bona fide war veterans' organization.
    b. Property of the Grand Army the Republic.
19. Veteran's exemptions.
20. Servicemen and veterans having disability ratings.
21. Disabled veterans with severe disability.
    a. Disabilities.
    b. Exemptions hereunder additional to others. Surviving spouse's rights.
    c. Municipal option to allow total exemption for residence with respect to which veteran has received assistance for special housing under Title 38 of the United States Code.
22. Surviving spouse or minor child of serviceman or veteran.
23. Serviceman's surviving spouse receiving federal benefits.
24. Surviving spouse and minor child of veteran receiving compensation from Veteran's Administration.
25. Surviving parent of deceased serviceman or veteran.
26. Parents of veterans.
27. Property of Grand Army Posts.
28. Property of United States Army instructors.
29. Property of the American National Red Cross.
30. Fuel and provisions.
31. Household furniture.

32. Private libraries.
33. Musical instruments.
34. Watches and jewelry.
35. Wearing apparel.
36. Commercial fishing apparatus.
37. Mechanic's tools.
38. Farming tools.
39. Farm produce.
40. Sheep, goats, and swine.
41. Dairy and beef cattle and oxen.
42. Poultry.
43. Cash.
44. Nursery products.
45. Property of units of Connecticut National Guard.
46. Watercraft owned by non-residents (repealed).
47. Carriages, wagons, and bicycles.
48. Airport improvements.
49. Nonprofit camps or recreational facilities for charitable purposes.
50. Exemption of manufacturers' inventories.
51. Water pollution control structures and equipment exempt.
52. Structures and equipment for air pollution control.
53. Motor vehicle of servicemen.
54. Wholesale and retail business inventory.
55. Property of totally disabled persons.
56. Solar energy systems.
57. Class I renewable energy sources and hydropower facilities.
58. Property leased to a charitable, religious, or nonprofit organization.
59. Manufacturing facility in a distressed municipality, targeted investment community, or enterprise zone.
60. Machinery and equipment in a manufacturing facility in a distressed municipality, targeted investment community, or enterprise zone.
61. Vessels used primarily for commercial fishing.
62. Passive solar energy systems.
63. Solar energy electricity generating and cogeneration systems.
64. Vessels.
65. Vanpool vehicles.
66. Motor vehicles leased to state agencies.
67. Beach property belonging to or held in trust for cities.
68. Any livestock used in farming or any horse or pony assessed at less than $1000.
69. Property of the Metropolitan Transportation Authority.
70. Manufacturing and equipment acquired as part of a technological upgrading of a manufacturing process in a distressed municipality or targeted investment community.
71. Any motor vehicle owned by a member of an indigenous Indian tribe or their spouse, and garaged on the reservation of the tribe (PA 89-368)
72. New machinery and equipment, applicable only in the five full assessment years following acquisition.
73. Temporary devices or structures for seasonal production, storage, or protection of plants or plant material.
74. Certain vehicles used to transport freight for hire.
75. Certain health care institutions.
76. New machinery and equipment for biotechnology, after assessment year 2011.
77. Real Property of any Regional Council or Agency