CONNECTICUT CONFERENCE OF MUNICIPALITIES
THE VOICE OF LOCAL GOVERNMENT

CCM 2013 Testimony

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PLANNING & DEVELOPMENT COMMITTEE

March 1, 2013

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 92% of Connecticut's population. We appreciate the opportunity to testify on the following bill of interest to towns and cities.

S.B. 820, "An Act Concerning the Interest Rate on Delinquent Property Taxes"

CCM opposes this bill.

SB 820 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.

Although SB 820 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 hole in municipal budgets** *during a time when our poorer communities, in particular, are barely holding on.*

The fact is residents pay higher fees for delinquent state taxes, because towns do not charge a penalty. For instance:

	Delinquency	Penalty	Interest	Amount Owed After One Month
Property Tax	$10,000	0	1.5% per month	$150.00
State Income Tax	$10,000	10%	1% per month	$1,100.00
State Sales Tax	$10,000	15% or $50, whichever is greater	1% per month	$1,600.00

Municipal officials understand the 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.

The logic behind the delinquent interest rate is to encourage on-time payment of taxes, on which the financial health of municipalities depends. It also serves to compensate towns and cities for the financial loss that occurs from not having revenue paid in a timely manner. When you reduce incentives for persons to pay taxes on time, you impact taxpayers who pay their taxes on time – persons who are paying their fare share. These law-abiding taxpayers end up paying higher taxes to make up for those who aren't paying at all.

It should be noted that, last year, the Connecticut Tax Collectors Association said an exact proposal would require the purchase of costly software systems. This is not a simple or cheap enterprise.

***The municipal tax delinquency rate is lower than that of the State.* SB 820 is an issue the State should not weigh in on – at least in the method proposed.**

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

Unfortunately, the State is going in the opposite direction regarding property tax reform. The Governor's FY 14-15 budget proposal would cut or eliminate:

1. PILOT: State-Owned Property (-$74 million): This nation-leading PILOT program, enacted in 1969, is designed to partially reimburse host municipalities for the loss of property tax revenue due to the state-mandated property tax exemption on state-owned real property. The program would be erased from the statute books and the funding eventually folded into the Education Cost Sharing (ECS) grant.

2. Mashantucket and Mohegan Fund (-$56 million): This seminal revenue-sharing program to provide local property relief, funded by a portion of Native American slot machine revenues, would be slashed.

3. PILOT Manufacturing and Equipment (-$48 million): The assault on this PILOT program to partially reimburse host municipalities for state-mandated property tax exemptions on manufacturing equipment began last year with a proxy MME Transition grant. The proposed budget kills the program.

4. Municipal Revenue Sharing Grant (-$43 million): Gov. Malloy's groundbreaking new program to share a portion of the increased state sales and state real estate conveyance taxes to provide local property tax relief is eliminated after only one year of existence.

5. Public School Transportation Grant (-$25 million): This grant program to assist municipalities in paying for public school transportation is eliminated.

6. PILOT DECD (-$2.2 million): This PILOT program to partially reimburse municipalities for revenue lost from state-mandated property tax exemptions on developments operated by housing authorities would be eliminated.

7. Priority School District Grant (-$76 million): Funding for this program that helps our poorest school districts would be slashed by 62 percent.

8. Motor Vehicle Property Taxes (-$520 million in municipal revenue): The governor proposes to eliminate the local property tax on most motor vehicles (those with assessed values of $20,000 or less) beginning in FY 15. The concentrated burden of the regressive property tax would then be shifted to homeowners and businesses.

By eliminating three out of four payments-in-lieu-of-taxes (PILOT) programs, the proposed state budget would turn the clock back 40 years and terminate state funding responsibility for state-mandated property tax exemptions. It would immediately establish $126 million in new unfunded state mandates, leaving other local property taxpayers and host municipalities holding the bag.

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.

Again, *the Governor proposes to eliminate 4 seminal payments-in-lieu-of-taxes (PILOT) programs.* Elimination of these nation-leading payments will force homeowners and businesses 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. Currently, there are at least 77 mandated property tax exemptions in state statute.[1]

Conclusion

When members of the public think about the public services that affect their lives, they are generally thinking of services provided by local government: 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 SB 820 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

★★★★★

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

[1] See Appendix.

Appendix

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.