CONNECTICUT CONFERENCE OF MUNICIPALITIES
THE VOICE OF LOCAL GOVERNMENT

CCM 2014 Testimony

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FINANCE, REVENUE & BONDING COMMITTEE

March 17, 2014

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 bills of interest to towns and cities.

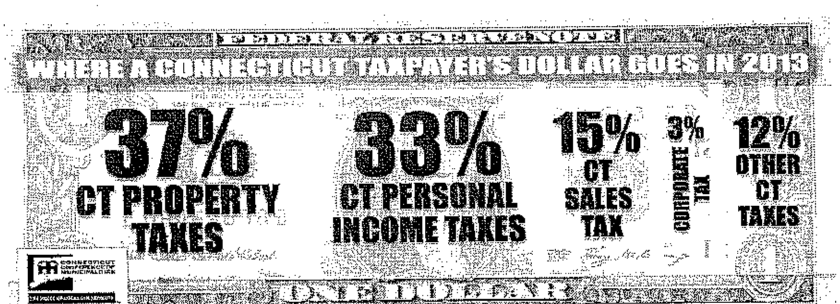
Senate Bill 467, *"An Act Concerning State Grants In Lieu f Property Taxes"*

SB 467 would, among other things, reconfigure how state funding via Payments In Lieu of Taxes (PILOTs) – for property tax revenue from exempt state-owned, private college, hospital, and prison properties – are distributed to towns and cities by establishing a certain tiered-system.

CCM **<u>supports the intent of SB 467</u>** as a much-needed proposal that would addresses local officials' concerns about the impact of stagnant state aid in the last decade, and Connecticut's overreliance on the property tax. To this end, **CCM is interested in working with the Committee to ensure SB 467 does not merely treat the symptom of inadequate levels of PILOT reimbursements** and as a result, create a new scenario of "winners and losers". CCM urges the Committee to identify solutions that would assist all municipalities that have state-mandated exempt property to receive statutorily-set reimbursement levels, and not amounts that would be less than current levels. Any additional cuts in PILOTs to our hometowns would exacerbate the burden of the property tax and could force local service cuts. **It is imperative that town-by-town state aid be funded, at least, at current levels.**

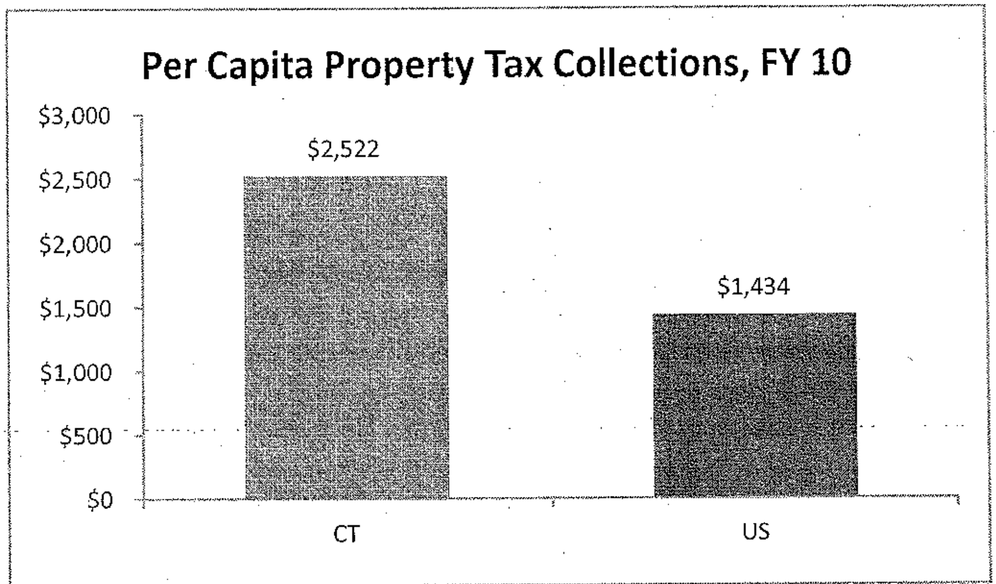
<u>Background</u>

The property tax is the single largest tax on residents and businesses in our state. The property tax is income-blind and profit-blind. It is due and payable whether a resident has a job or not, or whether a business turns a profit or not. **The property tax levy on residents and businesses in Connecticut was $8.98 billion in 2011.**[1]



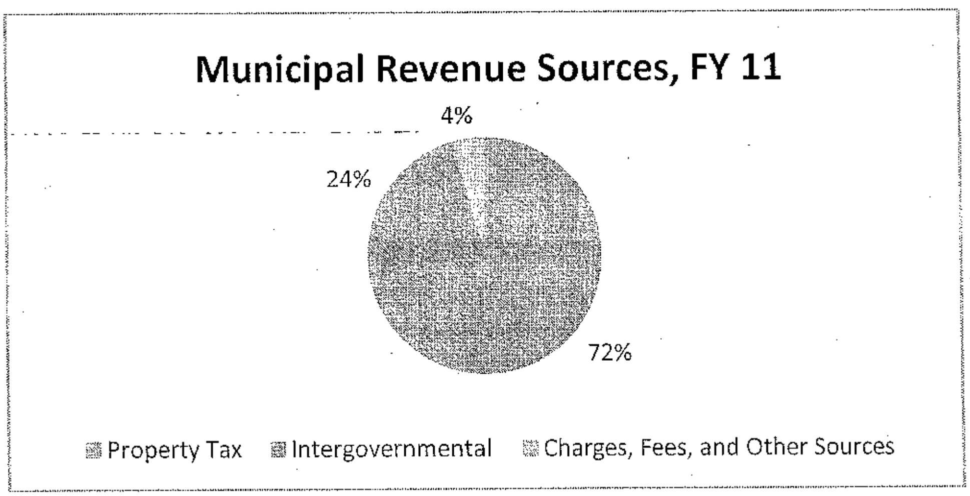
[1] OPM, *Municipal Fiscal Indicators*, 2007-2011

The per capita property tax burden in Connecticut is $2,522, an amount that is almost twice the national average of $1,434 and 3rd highest in the nation. Connecticut ranks 8th in property taxes paid as a percentage of median home value (1.70 percent for Connecticut vs. 1.14 percent for the US).[2]



Source: Tax Foundation, latest data available

Statewide, 72 percent of municipal revenue comes from property taxes. Most of the rest, 24 percent, comes from intergovernmental revenue, mostly in the form of state aid. Some Connecticut municipalities are almost totally dependent on property taxes to fund local government. Nineteen towns depend on property taxes for at least 90 percent of all their revenue. Another 51 municipalities rely on property taxes for at least 80 percent of their revenue.[3]



Source: OPM *Municipal Fiscal Indicators, 2007-2011*

Connecticut is more dependent on property taxes to fund local government than any other state in the nation.[4]

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[2] Tax Foundation, 2010 Data
[3] OPM, *Municipal Fiscal Indicators, 2007-2011*
[4] Based on data from the US Census Bureau and the Tax Foundation

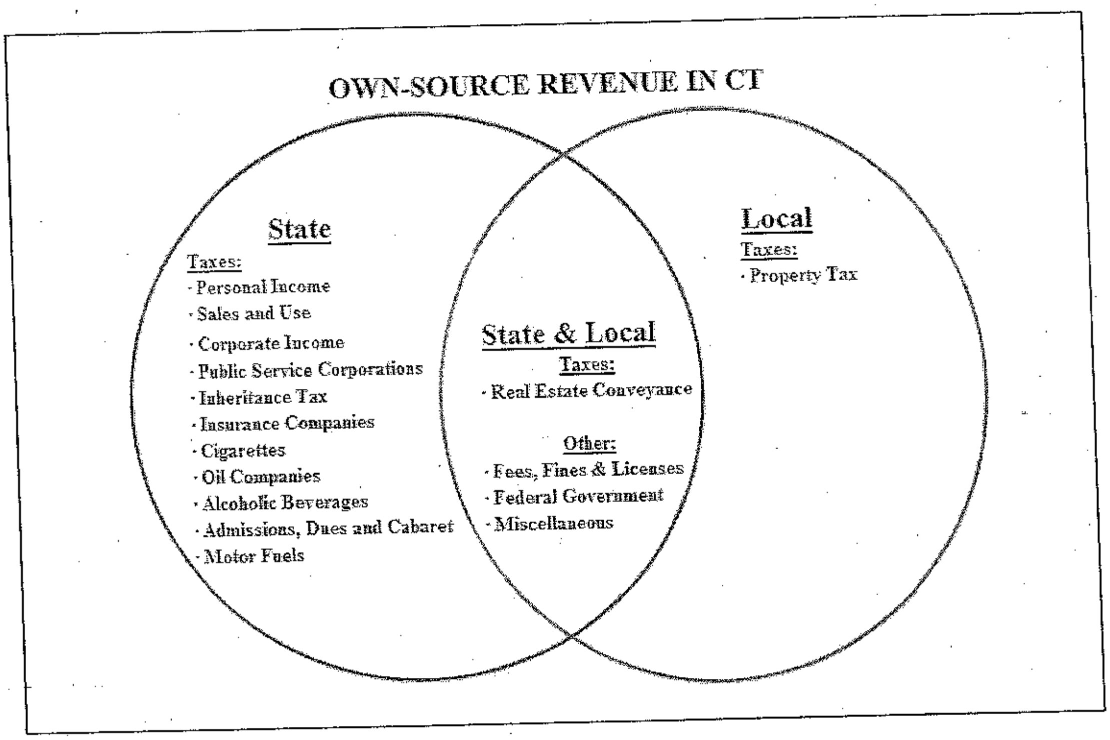
Connecticut is the most reliant state in the nation on property taxes to fund PreK-12 public education.[5] That means that the educational opportunity of a child in our state is directly tied to the property tax wealth of the community in which he or she lives.

The Property Tax

- Connecticut's biggest state-local tax
- Regressive: Income/profit blind
- Property and income wealth vary widely from town to town in Connecticut
- Connecticut is more dependent on it than any other state
- Biggest tax on Connecticut businesses
- 72% of all municipal revenue
- Primary funder of PreK-12 public education in Connecticut

The property tax accounts for 37 percent of all state and local taxes paid in our state. In FY 11, Connecticut businesses paid over $700 million in state corporate income taxes, but over $1 billion in local property taxes.[6]

Why is Connecticut so Reliant on the Property Tax?
The revenue options available to Connecticut towns and cities are limited by state statute. The property tax is the only tax over which municipalities have significant authority. Municipalities can levy a conveyance tax on real estate transactions, but that tax rate is set by the State and provides a relatively small amount of revenue.



Source: CCM 2013

[5] US Census Bureau, *Public Elementary-Secondary Education Finances, 2010*
[6] CCM estimate

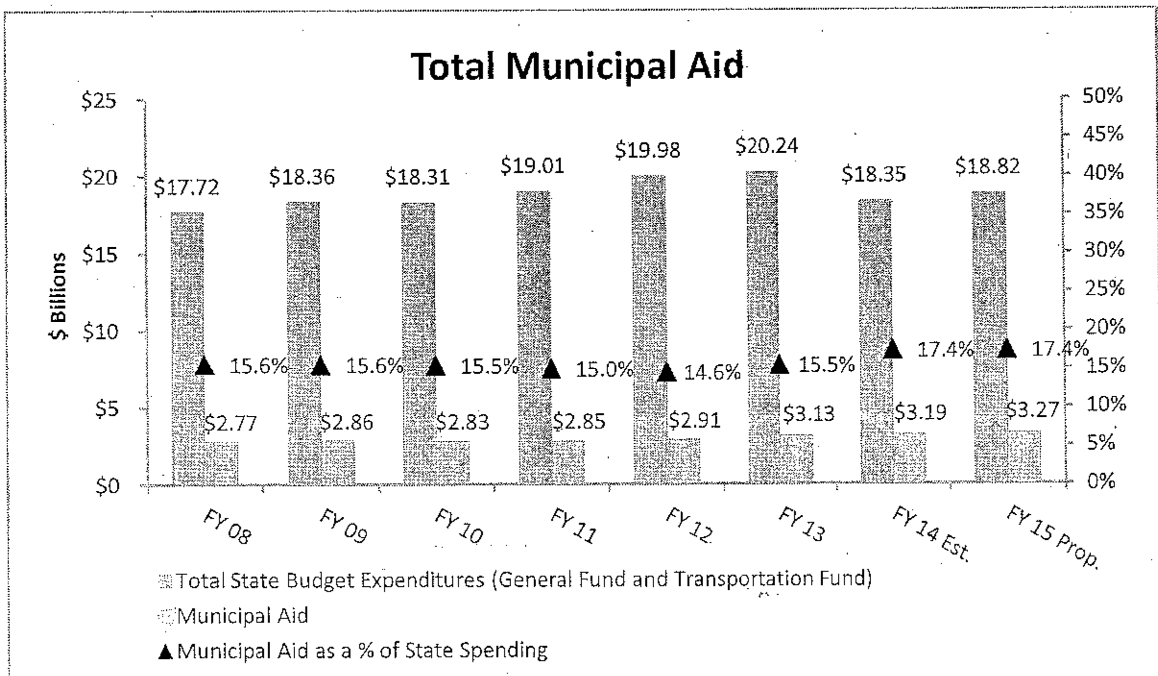
Similarly, municipalities can levy user fees and charges to cover some of the costs of providing services. These are again limited by state law and cannot be used to raise revenue, only to cover necessary costs.

All of this means that, in terms of generating own-source revenue, Connecticut towns and cities are effectively restricted to the regressive property tax.

The Uncertainty of Intergovernmental Revenue

After the property tax, the largest revenue source for municipalities is intergovernmental revenue. These payments from the federal and state governments account for about 24 percent of all local revenue, with the vast majority coming from the State. There are significant issues with federal and state funding however, that increase our hometowns' reliance on property taxes.

Federal revenues to municipalities often come in the form of competitive grants. The nature of these grants means that funding isn't consistent from year to year, and towns and cities can't rely on that funding as a steady stream of revenue. Add to that the dire fiscal condition of the federal government, and the outlook for consistent and dependable federal funding is anything but positive.



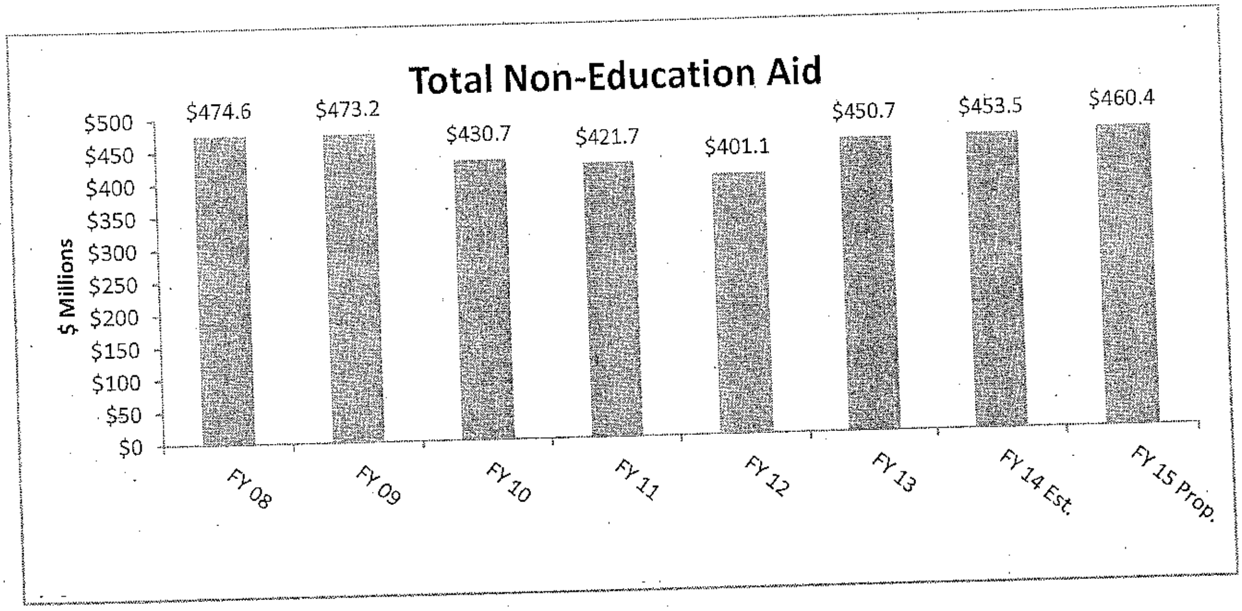
Source: Governor's Proposed FY 15 Midterm State Budget Adjustments; CCM
Note: Total state budget expenditures are reduced in FY 14 due to the removal of the federal share of the Medicaid appropriation totaling approximately $2.8 billion

State Aid to Municipalities: The Realities

The State provides $3.2 billion in FY 14 in education and non-education aid to towns and cities out of a more than $18.4 billion state budget. This accounts for about 17 percent of all local revenue. While it represents a substantial amount of money, this funding has failed to keep up with the rising costs of and greater demands for local public services, particularly education services.

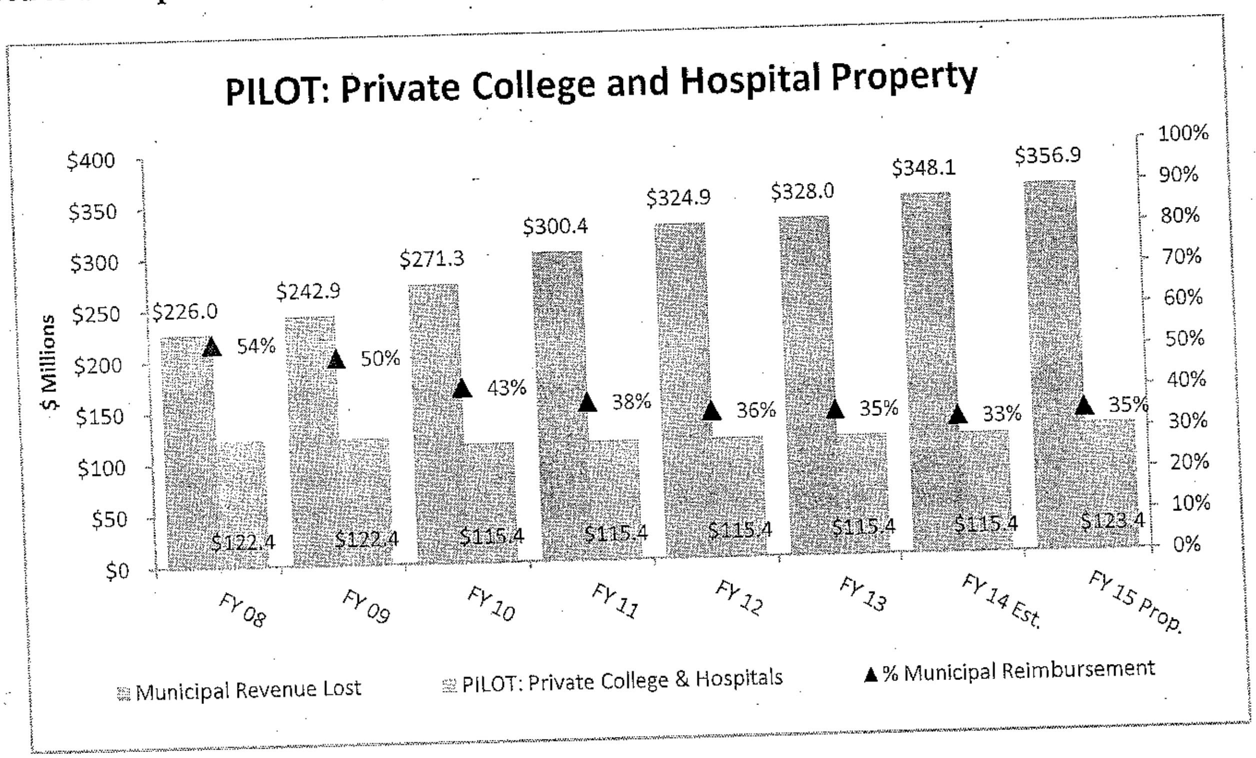
Non-education aid is now only about 14 percent of state aid to municipalities. The other 86 percent comes in the form of education aid.[7]

[7] CCM calculation based on FY 14 State Budget.



Source: Governor's Proposed FY 15 Midterm State Budget Adjustments; CCM

Non-education aid to municipalities is $453.5 million in FY 14, only 14 percent of total state aid to towns and cities.[8] Municipalities receive ***payments in lieu of taxes (PILOTs) from the State as partial reimbursement of lost property taxes on state-owned and on private college and hospital property***. The payments are provided to offset a portion of the lost revenue from state-mandated tax exemptions on this property. This lost revenue totals over $650 million.[9] **The reimbursement rate for tax-exempt private college and hospital property is supposed to be 77 percent. It is actually an estimated 33 percent in FY 14.**



Source: Governor's Proposed FY 15 Midterm State Budget Adjustments; CCM
Note: This includes only revenue lost on *real* property and not additional revenue lost on *personal* property.

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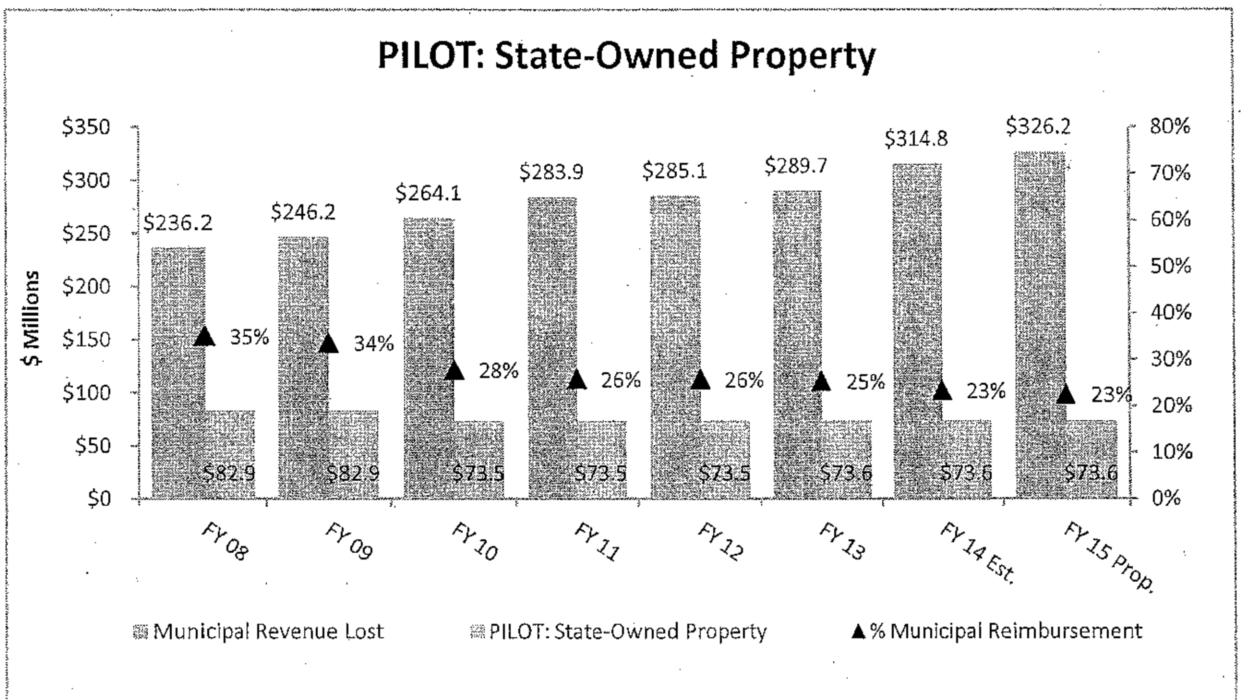
[8] CCM calculation based on FY 14 State Budget.
[9] CCM estimate. PILOT reimbursements cover only *real* property and do not include revenue lost from state-mandated exemptions on *personal* property.

Similarly, the reimbursement rate for most state-owned property is supposed to be 45 percent. It is actually an estimated 23 percent in FY 14.

The actual reimbursement rates are lower due to statutes that allow the amount of the PILOT reimbursements to be reduced on a pro-rated basis when state appropriations are not sufficient. In addition, these PILOT reimbursements cover only *real* property and do not include revenue lost from state-mandated exemptions on *personal* property.



Source: Governor's Proposed FY 15 Midterm State Budget Adjustments; CCM
Note: This includes only revenue lost on *real* property and not additional revenue lost on *personal* property.

The State mandates that qualified machinery and equipment is exempt from local property taxes. Under the **PILOT for manufacturing machinery and equipment (PILOT MME)** program, the State was supposed to provide reimbursement to towns and cities in an amount equal to 80 percent of the revenue lost as a result of property tax exemptions. After several years of underfunding the program, the PILOT MME program was eliminated and towns and cities lost $50 million in reimbursement.

Conclusion:

CCM appreciates SB 467 as a proposal that acknowledges the fact: **when PILOT reimbursements fall short, it forces other residential and business property taxpayers to make up the difference.** Thus, other property taxpayers are forced to pay for the State's underfunded and unfunded property-tax exemption mandates.

CCM asks the Committee for a detailed fiscal analysis on the potential impact SB 467 would have on all 169 municipalities – and for more clarification on how such proposal would be implemented. Understanding local and state officials' shared-goal to "make towns and cities whole" regarding tax exempt properties – CCM recommends the Committee restore critical state tax revenue sharing with municipalities as a tangible source of increasing PILOT payments and addressing burdens identified in this testimony.

The Municipal Revenue Sharing Account (MRSA) was groundbreaking when it was introduced in 2011. This account was funded through part of the state sales tax and part of the state real estate conveyance tax. As the State's finances continue to improve, shared revenue from this account should be restored to add to the long-standing municipal aid programs, such as PILOTs, that help support local governments.

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If you have any questions, please contact Robert Labanara, State Relations Manager of CCM, at rlabanara@ccm-ct.org.