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*Testimony of*

***Mark Waxenberg***

***Connecticut Education Association***

*Before the*

***Finance, Revenue, and Bonding Committee***

*April 23, 2015*

Re: ***SB1135 AA Establishing a Sustainable Path for Maintaining the Budget Reserve Fund and Reducing the Effect of Revenue Volatility on the State Budget.***

Good afternoon Senator Fonfara, Representative Berger, and members of the Finance, Revenue, and Bonding Committee. My name is Mark Waxenberg, Executive Director of the Connecticut Education Association.

I am here today to testify on SB1135 and the need for the state to generate sufficient, dependent, and less volatile revenue streams to fund Connecticut's schools. CEA supports SB1135, which goes a long way toward addressing volatility by using the state's Rainy Day Fund more adeptly.

CEA also advocates for the establishment of a State Tax Review Commission to make recommendations for enacting systemic tax reform, including local property taxation. This approach was successfully used during the early 1990s to address what was then the "new normal" of structural deficits in the state budget. It should be implemented again to achieve the goals of this bill and to resolve other long-term state and local revenue challenges. The State Tax Panel established last session to conduct a comprehensive review of state and local taxation could serve as a precursor to a new commission consisting of lawmakers who would be charged with making legislative recommendations.

For the purpose of background, I have attached the statutory language of the prior commission (12-34d, repealed in 2010). Also attached is an excerpt from **OLR Report 2006 – R—0476 "Connecticut State Tax Review Commission,"** that provides further details.

I also want to share with you the magnitude of the problem as it relates to our public schools. As many of you know, 119 Connecticut towns do not receive their full funding under the Education Cost Sharing Grant (ECS). As it stands, this means that the state is shortchanging municipalities about $690 million in ECS alone. The governor's proposed budget does not include any additional funding for ECS over the biennium.

The governor's budget also proposes other cuts to schools. Statutory formula grants for services such as transportation, special education, and adult education are reduced by $123 million in FY16 and $134 million in FY17. Grants for programs that operate outside of the school day and that are critical for addressing the multiple challenges many children face, particularly in less wealthy cities and neighborhoods, are slashed by $33 million in Yr1 and $38 million in Yr2 of the biennium (an example of the impact of these proposed cuts on Bridgeport is attached at the end of testimony).

All told, the state is proposed to shortchange public schools by about $850 million in each year of the biennium. In addition, state funding for providing mandated, unpredictable, and necessary special education services is woefully insufficient leaving the burden of paying for these costs with local property taxpayers.

This is not just an appropriations issue. This is an issue about pursuing a comprehensive approach that ensures sufficient state and local tax revenues for critical public services. While CEA is not advocating any specific revenue solution, we do advocate for progressive solutions that protect the state's neediest families – solutions such as ending certain tax breaks for corporations and adding more progressivity to the personal income tax.

CEA advocates for dedicated funding sources, and for a school funding system that is less vulnerable to distortions inherent in the unpredictable, annual budgeting process. We continue to urge lawmakers to consider strategies for setting aside state revenue for schools in a fund devoted solely to meeting the state's constitutional obligation to equalize educational opportunity across the state. Doing so would be more transparent and help to insulate school funds from the volatile annual budgeting process.

Other states have done this, and so can we.

# OLR RESEARCH REPORT

July 31, 2006 2006-R-0476

## CONNECTICUT STATE TAX REVIEW COMMISSION

By: Judith Lohman, Chief Analyst

You asked for (1) a description of the 1991 law that established the State Tax Review Commission, an explanation of the commission's charge and authority, and a list of its members; (2) a summary of the commission's recommendations and the legislative action taken on them; (3) what happened to the commission and its authorizing statute after it filed its initial report; and (4) information on any statute that later repealed the commission. You also asked for a brief description of the history and operation of the state spending cap enacted in 1991.

This report provides the requested information on the State Tax Review Commission. We attach an Office of Fiscal Analysis background paper that provides the requested information on the state spending cap.

## SUMMARY

The State Tax Review Commission was established in 1991. It had 10 members appointed by the governor and legislative leaders and five ex officio members. The ex officio members were the chairmen and ranking members of the Finance, Revenue and Bonding Committee and the revenue services commissioner. The commission was originally charged with evaluating the state's entire tax system and making a single report, with findings and recommendations, by December 15, 1992. In 1993, after it made the required report, the legislature expanded its charge and required it to make reports every year by December 15. The commission duly filed a report on January 6, 1994, but then fell into inactivity as the appointed members' three-year terms expired at the end of 1994 and the appointing authorities made no new appointments or reappointments. The legislature repealed the statutory authorization for the commission, along with those of 13 other boards and commissions, in 1997. But, the repeal was part of much larger act with many other provisions, and the governor vetoed it. As a result, the commission's authorizing statute (CGS § 12-34d) remains on the books but the commission does not operate.

The commission's 1992 report contained many recommendations concerning the state income, corporation, sales and use, and succession and estate taxes. The legislature adopted most of those concerning the income, corporation, and succession taxes in subsequent years, although its initial 1993 attempt to enact the several of the commission's income tax recommendations was foiled by a gubernatorial veto. The commission's sales and use tax recommendations were largely ignored.

The commission was unable to come to any consensus on recommendations to reform the property tax. The 1992 report provides a list of suggested property tax measures for the legislature to consider. Of these, only one, a property tax credit against the income tax, was eventually enacted.

The commission's 1994 report had a narrower focus and was much less comprehensive. It dealt with a proposed rental car surcharge, phasing out the succession tax, property tax relief for commercial vehicles, and the alternative minimum income tax. Of its four recommendations, the legislature adopted the succession tax and alternative minimum tax proposals, adopted part of the commercial vehicle property tax relief proposal, and rejected the commission's recommendation against adopting a rental car surcharge.

## HISTORY OF THE STATE TAX REVIEW COMMISSION

### *1991 Law*

The 15-member State Tax Review Commission was established by the same law that established the state personal income tax, among other things. The 1991 law required the commission to study and evaluate state and local tax bases and revenue. It was to place particular emphasis on wide-ranging views of the system, its incidence on the state population, and its effects on economic activity in the state (PA 91-3, June Special Session, § 154).

The law required the commission to submit an initial report, including findings and recommendations, to the governor and the General Assembly by December 15, 1992. The report was to be a detailed study of the state's total revenue system. If the commission considered it appropriate, the report was to recommend a complete revision of the system or a revision to eliminate any direct taxes on income.

### *Commission Members*

The commission had 15 members. They were: (1) the chairmen and ranking members of the Finance, Revenue and Bonding Committee; (2) the revenue services commissioner; (3) one member appointed by each of the six legislative leaders; and (4) four members appointed by the governor. The legislative appointees had to include at least one representative each from labor, business, and academia. The governor had to appoint one representative each from the Connecticut Conference of Municipalities and the Council of Small Towns, one executive branch representative, and one public member. Commission members could be legislators. Appointed members' terms were three years and members were limited to no more than two terms.

Table 1 shows the commission members and the appointing authorities for the 10 appointed members.

**Table 1: 1991 State Tax Review Commission Members**

| *Appointed Members* | *Appointing Authority* |
|---|---|
| Chester Malinowski, Jr. | Senate president pro tempore |
| Michael Bartone | House speaker |
| Douglas A. Joseph | Senate majority leader |
| E. Jon Majkowski | Senate minority leader |
| Harry Harris | House majority leader |
| Peter Gillin | House minority leader |
| Charles Lenore | Governor |
| C. Francis Driscoll | Governor |
| Elizabeth Perrault | Governor |
| William Cibes | Governor |
| ***Ex Officio Members*** | ***Position*** |
| Sen. William DiBella | Finance Committee chairman |
| Rep. Richard Mulready | Finance Committee chairman |
| Sen. William Nickerson | Finance Committee ranking member |
| Rep. Linda Emmons | Finance Committee ranking member |
| Allan A. Crystal | Commissioner of Revenue Services |

## *Initial Report – December 17, 1992*

The commission submitted its initial report to the governor and General Assembly on December 17, 1992. According to its preface, the commission divided its work for the report into two parts: (1) to decide whether the state should retain the personal income tax enacted in 1991 and (2) to assess the pros and cons of each existing tax. Each of the report's recommendations was agreed to by a majority of the commission members. The commission recommended retaining the income tax and made several other recommendations regarding that tax and the corporation, sales and use, and estate and succession taxes.

With respect to the property tax, the commission found that the tax creates "significant economic and social dislocations and should be addressed soon." It pointed especially to the competitive disadvantage resulting from Connecticut being one of the few industrialized states to impose the property tax on production machinery and equipment. But the commission could reach no consensus on reforming the system. Instead, it suggested that legislators consider:

- Establishing a property tax credit against the income tax based on the taxpayer's income.
- Greater use of property tax circuit breakers to limit overall property tax burdens to a taxpayer's ability to pay.
- Unrestricted grants to high-tax municipalities that are phased out as effective tax rates decline.
- Reducing the categories of property eligible for property tax exemptions.
- Providing greater state support for payments in lieu of taxes.
- Having the state assume the cost of certain services provided by municipalities that serve a region or the state as a whole.
- Regional tax sharing among towns.
- State-reimbursed homestead exemptions.

Legislative Action in the 1993 Session

In the 1993 session, the General Assembly passed several acts to address elements of the commission's initial report. Many of the commission's income tax recommendations were included in PA 93-2, which the governor vetoed. The vetoed act would have (1) changed the personal credit to reduce income tax cliffs (a tax "cliff" is a structural provision that drastically increases the amount of tax when a person earns one additional dollar), (2) established a new bracket for higher-income taxpayers with a 6.25% tax rate, (3) increased the standard deduction for single filers, and (4) established an income-based property tax credit against the income tax.

Because of the veto, only two commission recommendations became law in 1993. PA 93-74 conformed Connecticut's estimated income tax payments to federal income tax rules and PA 93-361 authorized the Department of Revenue Services (DRS) commissioner to issue "administrative pronouncements" interpreting tax laws. (Please see Table 2 below for a full list of the commission's 1992 and 1994 recommendations and the legislative action taken on each one.)

PA 93-74 also expanded the tax review commission's scope, requiring it to study (1) property tax treatment of people or businesses who rent or lease motor vehicles without drivers; (2) property tax treatment of commercial vehicles that transport freight in Connecticut, including a comparison with other states and an assessment of the effect the property tax has on the industry; (3) the succession tax, including the effect of repealing it and replacing it with a sponge tax (a sponge tax makes state death taxes equal the maximum federal estate tax credit for an estate); and (4) a reduced tax rate on the sale, furnishing, and distribution of gas for use directly by manufacturers. The act also required the commission to file annual reports, starting by December 15, 1993.

## *Interim Report – January 6, 1994*

In conformance with PA 93-74, the commission filed a second report with the governor and the General Assembly on January 6, 1994. The report made recommendations on (1) enacting a surcharge on rental car fees to reimburse rental car companies for property taxes, (2) eliminating the succession tax, (3) property tax relief for commercial transport vehicles, and (4) the Connecticut alternative minimum income tax. Legislative action on these recommendations is included in Table 2 below.

## *The Commission After 1994*

Although CGS § 12-34d makes the commission permanent and requires it to issue annual reports, the commission did not issue any further reports after its January 6, 1994 Interim Report. The appointed commission members' terms expired in September and October of 1994 and neither the governor nor the legislative leaders made new appointments or reappointments. Without members, the commission ceased to operate. In 1997, the General Assembly passed an act that, among other things, repealed the commission's authorizing law along with statutes authorizing 13 other boards and commissions. The repealers were included in a larger act that authorized 57 task forces to study legislative issues (PA 97-310). The governor vetoed PA 97-310 and it did not become law. There has been no other proposal to repeal the tax review commission's authorizing statute, which consequently remains on the books.

**See OLR Report 2006 – R – 0476 for more information**

# CGS Sec. 12-34d. State Tax Review Commission reports.
**(Enacted 1991, revised 1993, repealed 2010)**

**Sec. 12-34d. State Tax Review Commission reports.** (a) There is established a State Tax Review Commission which shall study and evaluate (1) state and local tax revenue and the tax base for such revenue, with particular emphasis on wide-ranging reviews of such system, its incidence upon the populace and its effect upon economic activity within the state, (2) property tax treatment of persons, firms or corporations engaged in the business of renting or leasing motor vehicles without a driver, (3) the succession tax system, including the net revenue impact of the repeal of the succession tax system and adoption of a "sponge tax" system, (4) a reduced rate of tax on the sale, furnishing or distribution of gas for use directly by a company engaged in a manufacturing production process and (5) property tax treatment of commercial vehicles that transport freight in the state, including a comparison of said tax treatment with the property tax treatment of such vehicles in other states and the impact of said tax treatment on industry in the state.

(b) The commission shall consist of fifteen members. The cochairpersons and ranking members of the joint standing committee of the General Assembly having cognizance of matters related to finance, revenue and bonding and the Commissioner of Revenue Services shall serve ex officio. The Connecticut Conference of Municipalities and the Council of Small Towns shall each appoint a representative to serve as a member who shall be appointed as a member by the Governor. The Governor shall also appoint one representative of the executive branch as a member and one representative of the public as a member. The remaining members shall be appointed as follows: One member by the president pro tempore of the Senate, one member by the majority leader of the Senate, one member by the minority leader of the Senate, one member by the speaker of the House of Representatives, one member by the minority leader of the House of Representatives and one member by the majority leader of the House of Representatives and shall be appointed by such legislative leaders so as to provide a minimum of one representative for each of the labor, business and academic communities. Such appointments shall be made within a period not exceeding ninety days following August 22, 1991. Members appointed by the Governor and the members of the General Assembly shall serve for a term of three years and shall serve no more than two terms. The members of the task force may be members of the General Assembly. The chairpersons of the joint standing committee on finance, revenue and bonding shall convene the first meeting of the task force. The commission shall elect such officers as it deems necessary.

(c) The commission shall submit an initial report, which shall detail a study of the totality of the revenue system, which shall, if the commission determines it to be appropriate, recommend a complete revision of such system or a revision of such system to eliminate any direct taxes on income, and which shall include its findings and recommendations, to the Governor and to the General Assembly not later than December 15, 1992, and shall submit further reports, which shall include its findings and recommendations, to the Governor and to the General Assembly not later than December 15, 1993, and annually thereafter.

(June Sp. Sess. P.A. 91-3, S. 154, 168; P.A. 93-74, S. 53, 67.)