



# CCM 2015 Testimony

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## ***PLANNING & DEVELOPMENT COMMITTEE***

March 18, 2015

Good Morning. My name is Matt Galligan, Town Manager of South Windsor and President of the Connecticut Conference of Municipalities (CCM). CCM is Connecticut's statewide association of towns and cities and the voice of local government - your partners in governing Connecticut. Our members represent 156 towns and cities, representing over 95 percent of Connecticut's population.

I appreciate the opportunity to testify today regarding a bill of particular interest to towns and cities:

### **SB 1, "An Act Concerning Tax Fairness and Economic Development"**

CCM is grateful for the manner in which the proponent of this bill has focused on the need for comprehensive property tax reform – and by the priority placed on this important issue by designating the bill SB 1, a long-time indicator of an issue's priority on the Senate calendar.

SB 1 would, among other things, (a) reconfigure how state funding via Payments-In-Lieu-of-Taxes (PILOTs) – for state-mandated exemptions for state property, private colleges and hospitals – are distributed to towns and cities by establishing a 3-tiered system, (b) establish a statewide mill rate for the car tax, and (c) create a system to share property tax revenue from commercial and industrial property with regions.

Overreliance on the property tax to finance local public services, particularly K-12 public education, is the root cause of many of the public policy challenges facing Connecticut. To paraphrase Mark Twain, "Everyone complains about the property tax system, but nobody does anything about it."

The antiquated and inequitable property tax system continues to cause numerous problems, including the fiscal distress and decline not only of our cities, but also of our towns. It encourages the continued economic and racial segregation of our state. It often prevents municipalities from meeting the public service needs of their residents and businesses without levying a heavy local tax burden. It promotes bad land use decisions and contributes to costly and destructive sprawl.

### Reconfiguring PILOT Reimbursements for Colleges and Hospitals and State Property

CCM supports the intent behind this provision, however, **CCM is interested in working with the Committee to ensure SB 1 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 any communities would exacerbate the burden of the property tax and could force local service cuts and employee layoffs. **It is imperative that town-by-town state aid be funded, at least, at current levels – and that such critical state aid is not sacrificed at the expense of other communities. It’s also essential that state statute retain the state’s historic obligation to fund the PILOTs at 77% (for private colleges and hospitals) and 45% (for state property). These are goals the State must continue to strive for to assist struggling communities.**

### Statewide Motor Vehicle Tax

This Section attempts to provide property tax relief to towns and cities by establishing a statewide mill rate for motor vehicles.

Although CCM appreciates the intent behind this proposal, we are concerned that (1) the proposal requires revenue to go to the State to be doled out to municipalities, and (2) there will be winners and losers among municipalities due to a statewide uniform mill rate.

Please keep in mind: there have been times when the State has made revenue promises to towns that it did not keep. There must be some kind of “lock box” to ensure that the money could not be tapped into when the State is in dire straits.

Any statewide motor vehicle mill rate proposal should (1) commence after several fiscal years, (2) require that taxes remain collected on the local level, and (3) compensate “loser” communities.

CCM is concerned that this provision would shift to homeowners and businesses the concentrated burden of the regressive property tax. **According to the Connecticut Association of Assessing Officers (CAAO), when counting supplemental taxes, towns and cities collect nearly \$700 million from the car tax – to pay for essential local services.**

We all agree that the motor vehicle tax is one in dire need of reform. However, the State collecting and doling out funds to municipalities is not the way.

CCM looks forward to working with the proponents of motor vehicle tax reform to come up with a proposal that provides relief without intrusive or crippling state involvement.

### Regional Revenue Sharing

SB 1 would create a system to share property tax revenue from commercial and industrial property in each region.

CCM understands the intent behind this proposal, however, the proposal has several important flaws. Among them: the 40% that would go to host communities for commercial and industrial property may not cover additional expenses incurred by the host community, for such things as infrastructure improvements and maintenance. The host community could actually lose revenue under this enterprise.

This proposal should be studied further to ensure it’s right for Connecticut and its towns and cities.

## The Way Forward

While there are aspects of local-option taxation that are of particular concern in a small state such as Connecticut, there are other proven approaches that should be on the table as we seek a way out of the property tax chokehold:

1. Education Finance Reform: Reforming preK-12 public education finance is a key to property tax reform in Connecticut. Chronic state underfunding of preK-12 public education is the single largest contributor to the overreliance on the property tax in our state. The ECS grant alone is underfunded by about \$700 million. Special-education costs are now approaching \$2 billion per year and impose staggering per-pupil cost burdens on host communities. Special education costs should be borne collectively by the State, not individual school districts.
2. Restore State Revenue Sharing: 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. The elimination of its funding, however, is a cause for concern and will further increase the reliance on property taxes to fund municipal services. Funding for the program should be restored to add to the longstanding municipal aid programs that help fund local government.
3. Fully Fund PILOT Programs: The State should increase and fully fund PILOT to provide reimbursement to municipalities for 100 percent of the revenue lost due to state-mandated property tax exemptions.
4. Inter-municipal and Regional Collaboration: State financial and technical assistance incentives for increased inter-municipal and regional collaboration should be expanded. The Regional Performance Incentive Program (RPIP) Grant – funded through a share of the State Hotel Tax and Car Rental Tax – is a great foundation upon which to build stronger incentives and support for cooperative efforts.
5. Mandates Reform: The State should eliminate or modify unfunded and underfunded mandates. This would lower the property tax burden without adding additional costs at the state level.

The over-dependence on the property tax is unsustainable, and Hometown Connecticut is in desperate need of revenue assistance. Harnessing the revenue-raising capacity of the State to equitably and adequately fund preK-12 public education and share resources with local governments and regions can reduce the over-reliance on property taxes in Connecticut.

## **How Did We Get Here?**

### **Property Tax Dependence**

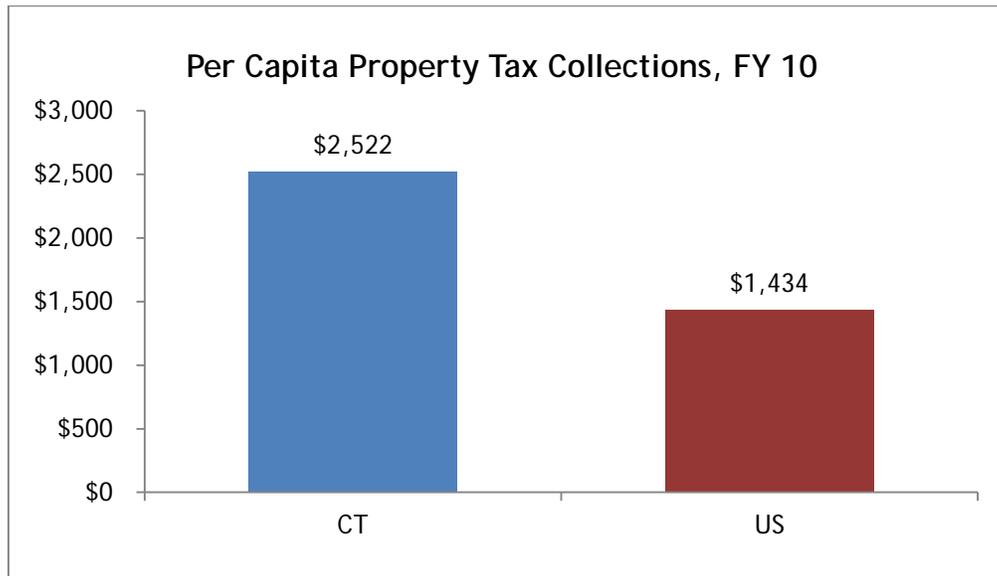
The property tax is the single largest tax on residents and businesses in our state. The property tax is income-blind and profit-blind. It is due and payable whether a resident has a job or not, or whether a business turns a profit or not.

The property tax levy on residents and businesses in Connecticut was \$9.22 billion in 2012.<sup>1</sup>

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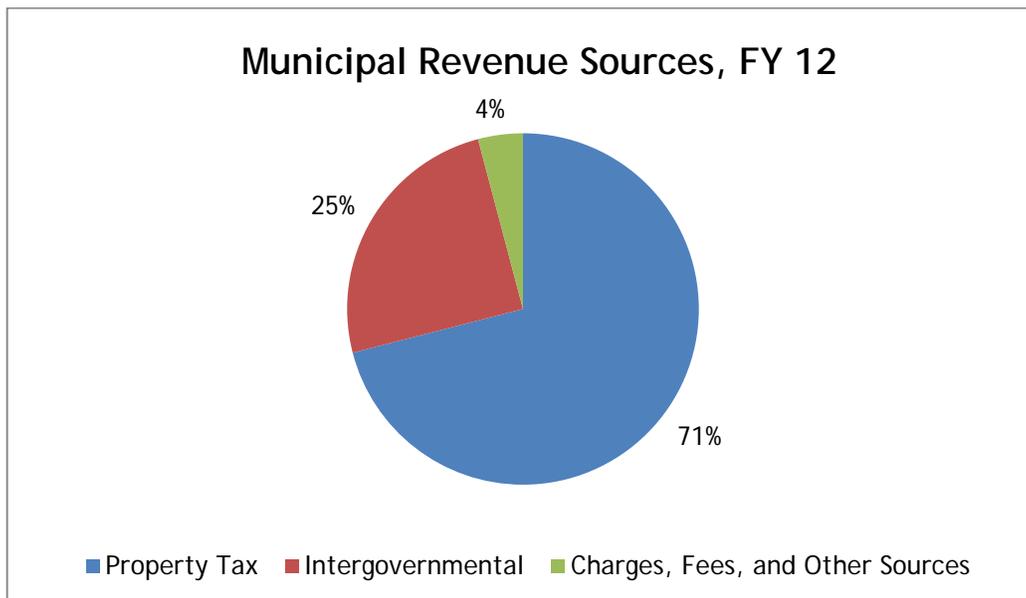
<sup>1</sup> OPM, *Municipal Fiscal Indicators, 2008-2012*

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 8<sup>th</sup> in property taxes paid as a percentage of median home value (1.70 percent for Connecticut vs. 1.14 percent for the US).<sup>2</sup>



Source: Tax Foundation, latest data available

Statewide, 71 percent of municipal revenue comes from property taxes. Most of the rest, 25 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. Fifteen towns depend on property taxes for at least 90 percent of all their revenue. Another 50 municipalities rely on property taxes for at least 80 percent of their revenue.<sup>3</sup>



Source: OPM *Municipal Fiscal Indicators, 2008-2012*

<sup>2</sup> Tax Foundation, 2010 Data

<sup>3</sup> OPM, *Municipal Fiscal Indicators, 2008-2012*

Connecticut is more dependent on property taxes to fund local government than any other state in the nation.<sup>4</sup>

Connecticut is the most reliant state in the nation on property taxes to fund preK-12 public education.<sup>5</sup> **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.**

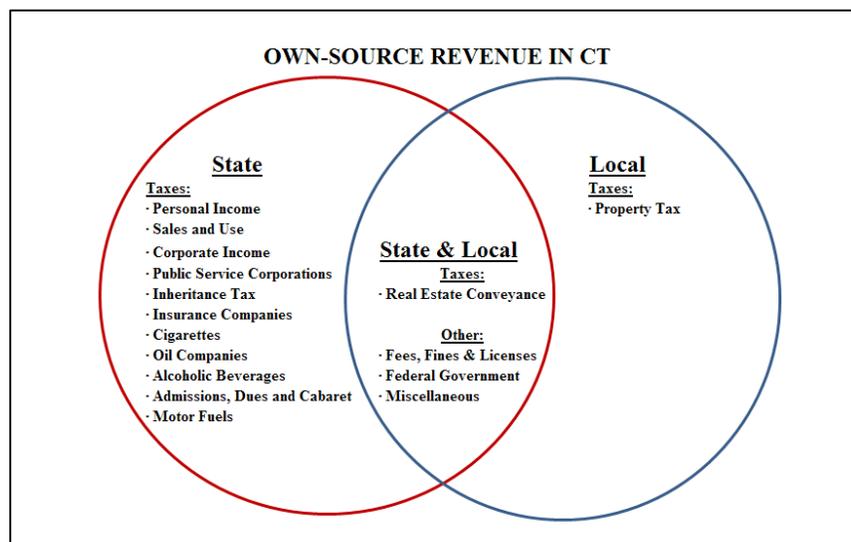
### The Property Tax

- 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
- 71% 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 12, Connecticut businesses paid over \$700 million in state corporate income taxes, but over \$1 billion in local property taxes.<sup>6</sup>

### 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 2014

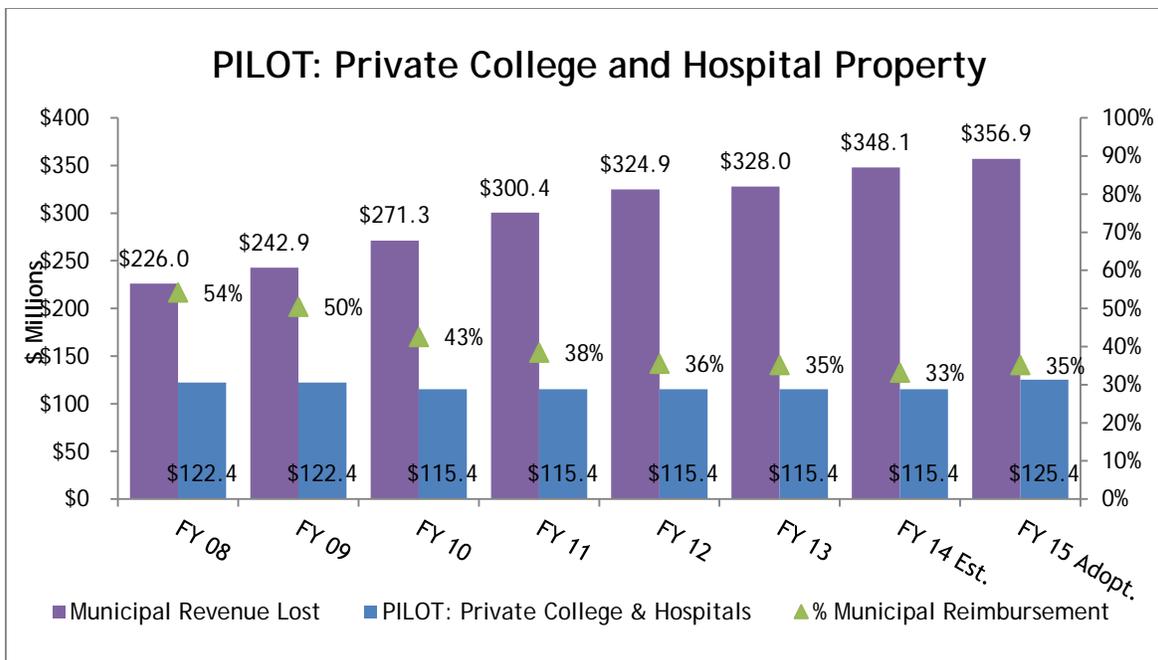
<sup>4</sup> Based on data from the US Census Bureau and the Tax Foundation

<sup>5</sup> US Census Bureau, *Public Elementary-Secondary Education Finances, 2012*

<sup>6</sup> 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 and antiquated property tax.

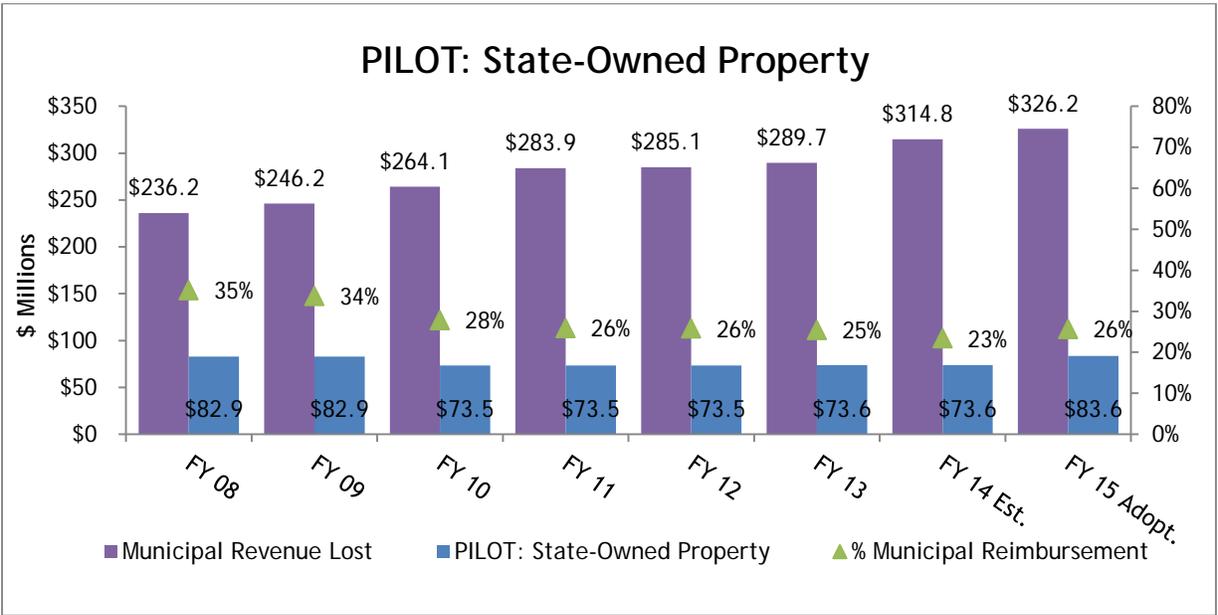


Source: Adopted state budgets; CCM

Note: This includes only revenue lost on real property and not additional revenue lost on personal property.

**PILOT: State-Owned Property**

Similarly, the reimbursement rate for most state-owned property is supposed to be 45 percent. It is actually 26 percent. 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. Many of our poorer towns and cities host the most tax-exempt property.



Source: Adopted state budgets; CCM

Note: This includes only revenue lost on real property and not additional revenue lost on personal property.

**Conclusion**

CCM appreciates SB 1 as a proposal that acknowledges this 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-exemptions.

**CCM asks the Committee for a detailed fiscal analysis on the potential impact SB 1 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.

Thank you.



If you have any questions, please call Ron Thomas, Director of Public Policy & Advocacy, at (203) 498-3000.