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TESTIMONY BEFORE THE PLANNING & DEVELOPMENT COMMITTEE
Senator Martin M. Looney
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In support of S.B. 1, An Act Concerning Tax Fairness and Economic Development

Good afternoon Senator Osten, Representative Miller, and members of the Planning & Development Committee. My name is Martin M. Looney, state senator for the 11th District, which includes the communities of New Haven, Hamden and North Haven.

I come before you today in support of Senate Bill 1, legislation aimed at improving the fairness of Connecticut's local property tax structure and the creation of a more competitive playing field for economic development across our state. The bill focuses on much needed reforms to the property tax in three areas: an updated approach to state payments in lieu of property taxes (PILOT), reform of the property tax on cars, and the introduction of regional property tax base sharing in Connecticut, modeled on a system that has worked extraordinarily well in the Minneapolis region of Minnesota for over 20 years.

Before elaborating on each of these three proposals, I would like to emphasize an important principle that Senate Bill 1 adheres to: that in contemplating changes to the state's property tax structure, all municipalities be held harmless with respect to the levels of revenue they have come to expect and rely on in past years. This reform can and should be carried out in a way that also provides stability and predictability to our local communities.

Payments in Lieu of Taxes (PILOT)

Connecticut's municipalities rely, first and foremost, on property tax revenues to fund nearly all of the essential services they provide—from public schools, to road maintenance, to police and fire protection. Yet towns are also limited in what property they can and cannot tax. State law exempts various categories of property from the property tax, including land owned by the state, by colleges and hospitals, or by other non-profit entities.

This policy effectively shrinks the municipal grand lists from which towns may raise revenue, with an impact that varies greatly from town to town. For example, in Windsor Locks 43 percent of all real property is exempt from the property tax. In nearby South Windsor, only three percent of real property is exempt.

To compensate towns for the revenue lost to these exemptions, our state provides over $200 million in annual payments in lieu of taxes (PILOT) to municipal governments. Though these payments attempt to replace the revenue towns might have raised if exempt property were taxable, in practice they only cover a small portion of the shortfall. The effective FY 15 PILOT reimbursement rate for state-owned property, for example, is only 24% of what might have been raised in taxable revenue.

For towns with large amounts of state property like Windsor Locks, or others like New London or Canaan, this low reimbursement rate places a disproportionately high burden on the remaining property tax base. Particularly in cities like Hartford and New Haven, where virtually half of all real property is tax exempt, this has left local governments with a difficult choice—either significantly raise mill rates on the town's remaining non-exempt property, or do without essential municipal services.

Under current law, effective PILOT reimbursement rates for various classes of tax exempt property are identical for all towns, irrespective of the proportionate impact on different communities and their respective mill rates. Beginning in the second year of the biennium, Senate Bill 1 proposes a more equitable PILOT reimbursement structure, with a higher level of reimbursement to the communities with the greatest percentage of tax exempt property.

The bill first ranks all 169 towns according to the percentage of their grand list that is exempt from property tax, for any reason. For the ten towns with the highest percentage, it provides an effective reimbursement rate of 32% for state-owned property and 42% for college & hospital property, compared to 24% and 32%, respectively under the current FY 15 budget. For the twenty towns with the next highest percentage, it provides an effective reimbursement rate of 28% for state-owned property and 37% for college & hospital property, again compared to 24% and 32% currently.

All other towns would continue to receive the FY 15 effective reimbursement rates of 24% for state-owned land and 32% for college & hospital property. Towns with other categories of PILOT-eligible property, such as prisons or tribal land, are also held harmless at FY 15 levels of reimbursement.

The inequity of Connecticut's current PILOT structure has been widely discussed in recent years, and the time has come for reform. Senate Bill 1 will provide higher levels of reimbursement for towns with the greatest need, while maintaining a baseline of nothing less than current-year funding for all towns.

Car Tax Reform

I believe the current structure of the property tax on automobiles is grossly unfair to the residents of many municipalities in the State of Connecticut. Under our current system, an otherwise identical car registered in different municipalities is taxed at wildly different rates. A car assessed at $10,000 of value yields an annual bill of $388.80 in New Haven and $223.60 in Guilford, yet only $103.90 in Greenwich and an astonishing $742.90 in Hartford.

The practical effect of this varying taxation is that the very highest rates are charged to residents of the state's poorest municipalities—a highly regressive policy. Among many negative effects, this has also led to widespread tax evasion, and imposed a significant cost on towns as they attempt to identify and combat such evasion.

Senate Bill 1 proposes the replacement of Connecticut's varying local car tax structure with a uniform statewide mill rate, assessed identically in all 169 towns and administered by the state—thus relieving towns of a significant and costly administrative burden. The bill also proposes to exempt the first three thousand dollars of assessed value from taxation, for all cars. The statewide mill rate would be calculated by the Commissioner of Revenue Services to raise an identical amount of revenue statewide as was raised by all towns combined in the base assessment year commencing October 1, 2014—a rate of approximately 29 mills.

A central tenet of Senate Bill 1 is that all towns be held harmless. Accordingly, every dollar raised by the statewide tax will be sent right back to towns, first and foremost guaranteeing each municipality receipt of the same amount of car tax revenue it raised in the base assessment year in all years going forward. As time passes and total revenue raised by the car tax grows, all additional funds above the base year level would also be distributed to towns. Half of this revenue would be distributed on the basis of towns' population, a quarter through a supplement to PILOT grants, and a further quarter in aid to all towns with residents living under the federal poverty level.

Members of both parties have long recognized the unfair nature of the car tax and the urgent need for change. Senate Bill 1 would reform the car tax without causing a disruption in municipal budgets.

Regional Revenue Sharing

An out-of-state business owner considering a new location in Connecticut might look at the disparate map of mill rates levied by our state's 169 municipalities and come away puzzled. Some towns, often the poorest and most in need of economic development, have mill rates up to seven times those of wealthier towns.

This balkanization amongst towns fosters intense competition amongst neighboring municipalities for attracting new development, and creates disincentives for regional planning and collaboration. Unlike most other states, Connecticut does not have a county or any other kind of regional government structure in place to help address these challenges.

The towns of the seven-county Minneapolis-St. Paul region in Minnesota have benefitted from the "Twin Cities Metropolitan Area Fiscal Disparities Program" since 1971. This initiative has two main goals: to promote more orderly regional development, and to improve equity in the distribution of fiscal resources among towns.

It has achieved these goals through the implementation of a regional tax base sharing system, through which 40 percent of the growth in each town's commercial and industrial tax base, relative to a base year, is shared with the other towns of the metropolitan region. Each receives a portion of this tax base in proportion to each town's capacity to raise revenue within its own borders.

Senate Bill 1 adapts the system used in the Minnesota Fiscal Disparities Program for application in Connecticut. It would establish a separate regional revenue sharing area in each of the state's nine OPM-designated planning regions—the same areas covered by the state's nine regional Councils of Governments (COGs). The bill will require each municipality to share a portion of its property tax revenues with its region:, forty percent of the growth in its commercial and industrial tax base since the base year, taxed at the average mill rate of all municipalities in the region All of the resulting funds would then be distributed back to towns, providing larger amounts to towns with the least ability to raise revenue locally,

In order to ensure all municipalities will have the revenue necessary to make this contribution, Senate Bill 1 provides for a separate property tax structure for commercial and industrial property in each town. Each year, towns will recalculate their unique commercial and industrial mill rate to reflect changes in the regional average mill rate, their town's broader mill rate for all other real property, and commercial and industrial tax base growth in their town.

Implementation of this system would achieve two important goals. First, it would help to level the varying map of municipal mill rates by slightly lowering mill rates on commercial and industrial property in high mill rate towns, while slightly raising them in low mill rate towns. Second, it will provide additional revenue to municipalities with the greatest needs and the least ability to raise revenue locally.

For many years, Connecticut's 169 towns have operated as completely separate entities, incentivized to operate as if each town existed in a vacuum, with little or no relationship to its neighbors. I believe this approach has become unsustainable, and a major impediment to the state's future growth and economic competitiveness.

For some time now, a discussion has been building across Connecticut to move the state in the direction of greater regionalization. Senate Bill 1 will provide meaningful incentives for towns to cooperate on economic development initiatives, while removing artificial barriers to shared planning and growth.

Thank you very much for your time and your attention to these important issues.