CONNECTICUT CONFERENCE OF MUNICIPALITIES
THE VOICE OF LOCAL GOVERNMENT
CCM 2015 Testimony
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APPROPRIATIONS COMMITTEE

Special Forum for Municipal Officials

March 20, 2015

TESTIMONY

of

MATT GALLIGAN

TOWN MANAGER OF SOUTH WINDSOR AND PRESIDENT OF CCM

Good Morning. I am Matt Galligan, Town Manager of South Windsor and President of the Connecticut Conference of Municipalities. CCM members represent over 95% of Connecticut's population. I thank you, on behalf of towns and cities across the state, for giving us this special opportunity to speak directly to you about the proposed state budget and our ideas for helping towns and cities – and the property taxpayers we represent.

Each year this dialogue is critically important to the residents and businesses we both serve. As officials who have long had to work hard on our own budgets to meet service needs with finite resources, we appreciate the very difficult task before you.

Let me begin by saying "thank you" to this Committee. In the current budget, you have kept a keen eye on the interests of residential and business property taxpayers by NOT balancing the state budget on their backs. Your commitment has helped municipalities maintain needed services, reduce employee layoffs and curb property tax increases. Towns and cities and the State are not "out of the woods" yet, of course. But, you could have made other choices to balance the state budget and you didn't. We recognize that and, again, thank you.

CCM urges you to consider that, while other factors have import, quality of life issues are the most important factors businesses weigh in determining whether to relocate to or remain in a state. Factors such as quality schools, educated workforce, safe neighborhoods, reasonable property taxes, safe and reliable roads and bridges top the list of employers' "must haves". In addition, all residents believe that laying the foundation for a world-class education, police and fire services and safe roads are core government services. No government service is placed above them. These are the services your partners in governing the State -- towns and cities -- provide.

We come before you today in this spirit of partnership. The future of Connecticut's citizens, from our newborns to our seniors, depends on a reinvigorated state-local partnership. Municipal officials stand ready to work

shoulder-to-shoulder with our state partners to ensure a better place for the people and businesses who call Connecticut home.

HB 6824, "An Act Concerning the State Budget for the Biennium Ending June Thirteenth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue"

The first order of business is for the General Assembly to make sacrosanct Governor Malloy's pledge to not balance the state "budget on the backs of towns or our public schools". It's really a covenant between the Governor and Connecticut's residential and business property taxpayers. This singular commitment must guide the Legislature's actions.

The Governor protects main (categorical) state aid grants that benefit property taxpayers from cutbacks: the Education Cost Sharing (ECS) Grant; PILOTS for Private Colleges and Hospitals and for State Property; the Pequot/Mohegan Grant; the Town Aid Road (TAR) Grant and the Local Capital Improvement Program (LoCIP).

However, due to the fact that some state grants are not fully funded, many communities would receive less funding as a result of shifting grant distributions. 70 towns would be cut – many of our poorest, and in significant and harmful ways. CCM urges the Committee to establish a Municipal Aid Adjustment fund to reimburse individual towns and cities that are not held harmless.

Examples of the cuts, which total about $7 million statewide: Hartford (-$2,553,440); New Haven (-$1,216,132); Bridgeport (-$499,830); West Hartford (-$184,922); West Haven (-$157, 126); Hamden (-$146,132); Milford (-$134,934); Mansfield (-$377,178); Newtown (-$45,374) and East Lyme (-$48,100). The total list is enclosed in the packet of material CCM has provided you.

Non-education aid would be cut by $15.5 million, not including the following proposals that would be costly to towns and cities:

(a) Requiring towns to pay 100% of Resident State Trooper costs,
(b) Requiring full day kindergarten,
(c) Cutting Priority School District funding,
(e) Increasing the solid waste disposal fee,
(f) Sweeping local funds collected from land recording fees, and
(g) Cutting Urban Act funding in half, among others.

The budget proposal contains a $20 million cut in municipal aid for MORE Commission-related "municipal efficiencies and regional cooperation." Whether $20 million in actual efficiencies can be achieved this session is questionable. Indeed, the State has already set a bad precedent: the current budget allows the State to cut municipal aid by $10 million to make up for $10 million in savings through MORE Commission-related mandates reform and regional efficiencies. Although no reform was enacted during the last session, OPM plans to cut municipal aid by $12.7 million – mid-year – by raiding the Municipal Revenue Sharing Account fund. Most cities and towns have budgeted for these promised funds.

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.

Just last week, the US Secretary of Education, Arne Duncan, spoke of education disparities in the country and singled out over-reliance on the property tax for public education as a major culprit. Despite serious fiscal constraints, the State must rise to the occasion and meet the challenge of properly financing public education. Our state's very future depends on it.

Why should towns and cities be held harmless?

As stated earlier, towns and cities are sympathetic to your unenviable situation. Having, for years, cut important services, laid off employees and grudgingly, raised taxes, we empathize with your unhappy choices. However, h*olding towns harmless, means holding property taxpayers harmless.* And as the recent Department of Revenue Services report clearly concludes: the property tax is the most burdensome and regressive tax paid by residents and businesses.

Further:

- *Many of the cities and towns facing cuts are among the poorest communities in the country*. They face many challenges: extremely high unemployment, crime, shrinking grand lists, poverty and educational disparities. They suffer disproportionately from our property tax system. Such communities bear a disproportionate burden when it comes to providing services for Connecticut's neediest residents. At the same time, many are regional hubs for economic development, culture and emergency care.

- Although CCM appreciates flat-funding of major grants, after a brief increase, largely due to temporary revenue sharing, the amount of non-education aid provided to towns and cities is set to *decrease*.

- *Education funding is significantly underfunded*. The ECS grant remains underfunded by more than $600 million -- and special-education costs continue to rise while state reimbursement of those costs has been flat.

CCM urges the Committee to consider:

- Property taxes are the primary source of revenue for financing local services in Connecticut. When individuals work in or visit hospitals, attend or work in colleges, visit museums, or attend concerts, they take advantage of the services of a host municipality. Patrons, workers, and the tax-exempt institutions enjoy police protection, use of roads and sidewalks, garbage collection, sewerage, and the entire range of services funded from local property taxes. But, because of state-mandated exemptions, no property tax dollars are available from these institutions to finance the local services that support them.

- When the State provides less than 100% reimbursement for the loss in revenue that results from these property tax exemptions, residents and businesses in the municipalities where these exempt properties are located must pay for (subsidize) the services used by others.

- Because all state residents benefit in one way or another from the existence of tax-exempt institutions and from the services provided by their host municipalities to support them, all state residents should share the cost burden. State reimbursement for these exemptions -- funded from the many sources of revenue paid to the State by individuals and businesses -- is the appropriate mechanism for ensuring that host municipalities, and their residential and business property taxpayers, are made whole.

- The cities of Bridgeport, Hartford and New Haven account for one-third of the value of all exempt private colleges and hospitals in the state. In Hartford, for example, if the PILOTs for state-owned property and private colleges and hospitals were fully funded, property taxes on homeowners and businesses could be reduced by 10%.

Resident State Trooper Program

The Resident State Trooper Program is one of the primary examples of how collaboration and service sharing can be beneficial to the State and its municipalities. Without this program the State would be responsible for providing law enforcement services at their full cost albeit from resources available at the Troop, or the community would be required to start their own department at a cost, which would well exceed available resources.

The proposed change in the budget proposal would require participating towns pay 70% to 100% would impose a significant financial burden on small town budgets and the local taxpayers they serve. CCM conducted a survey of towns participating in the Resident State Trooper Program. The results revealed that if 100% is required, a $40,000 to $300,000 increase in municipal budgets would likely occur. For many small towns, this increase would be unsustainable. Local officials would have to decide whether to continue to participate in the program, or rely on troopers from the barracks to provide necessary public safety. If this occurs, it is unlikely that the State will benefit from the anticipated $4 million savings this proposal forecasts, as troopers will still be required to patrol and respond to incidents in the community.

The current 70/30 split between participating municipalities and State is an equitable distribution. The current percentage allows municipalities the benefit of a State Trooper, as well as it allows the barracks the ability to strategically utilize that trooper when needed. Resident State Troopers are state employees, and the State maintains administrative oversight in the coordination of their response to other emergencies. As several local CEOs have reported, their Resident State Trooper is often called out of town – almost 5-8 times per week – leaving local CEOs with little to no managerial influence on the assignments of Resident State Troopers, beyond their contractual agreements.

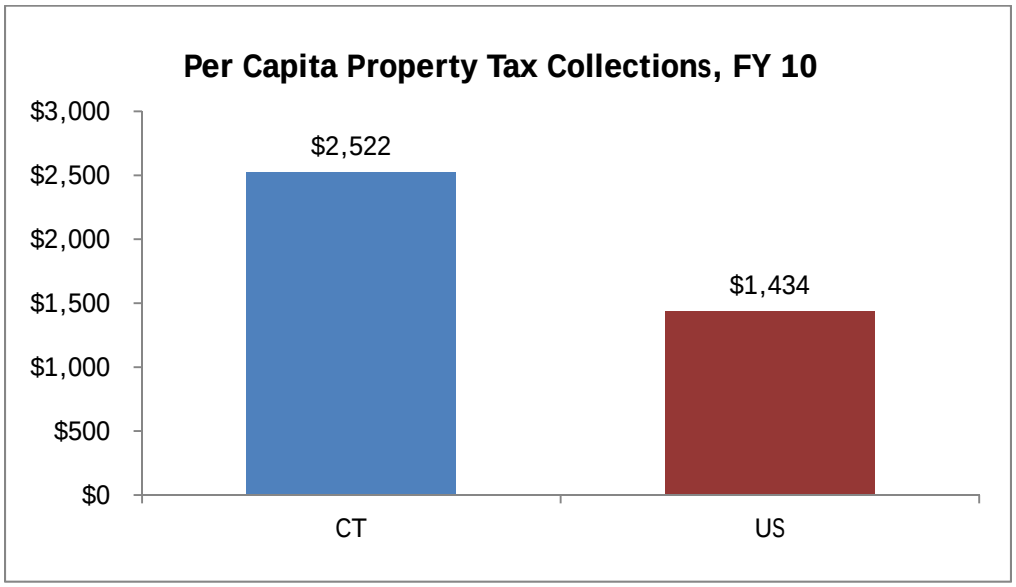
How Did We Get Here?

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 $9.5 billion in 2013.[1]

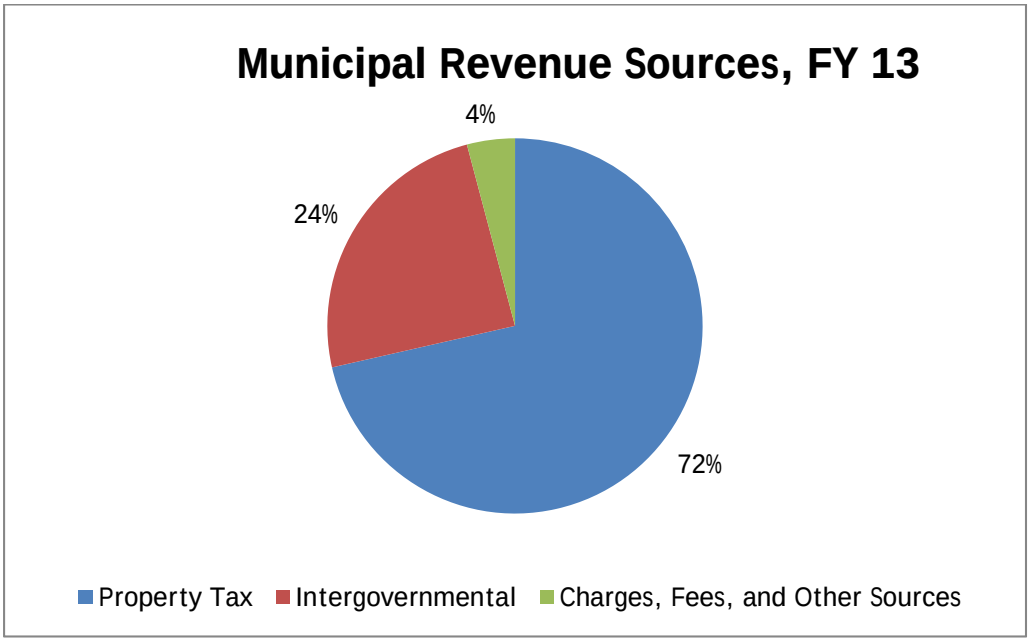
The per capita property tax burden in Connecticut is $2,522, an amount that is almost twice the national average of $1,434 -- and 3rd highest in the nation. Connecticut ranks 8th in property taxes paid as a percentage of median home value (1.70 percent for Connecticut vs. 1.14 percent for the US).[2]



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. Fourteen towns depend on property taxes for at least 90 percent of all their revenue. Another 54 municipalities rely on property taxes for at least 80 percent of their revenue.[3]

[1] OPM, *Municipal Fiscal Indicators*, 2009-2013
[2] Tax Foundation, 2010 Data
[3] OPM, *Municipal Fiscal Indicators, 2009-2013*



Source: OPM *Municipal Fiscal Indicators, 2009-2013; Does Not Include "Other Financing Sources"*

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

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

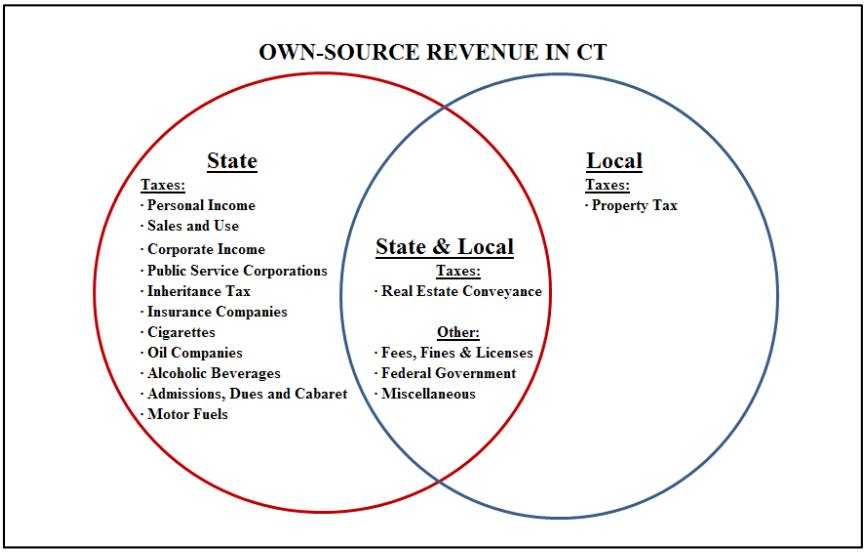
- Connecticut's biggest state-local tax
- Regressive: Income/profit blind
- Property and income wealth vary widely from town to town in Connecticut
- Connecticut is more dependent on it than any other state
- Biggest tax on Connecticut businesses
- 71% of all municipal revenue
- Primary funder of PreK-12 public education in Connecticut

The property tax accounts for 37 percent of all state and local taxes paid in our state. In FY 13, Connecticut businesses paid over $700 million in state corporate income taxes, but over $1 billion in local property taxes.[6]

[4] Based on data from the US Census Bureau and the Tax Foundation
[5] CCM estimate based on data from US Census Bureau, *Public Elementary-Secondary Education Finances, 2012*
[6] CCM estimate

Why is Connecticut so Reliant on the Property Tax?

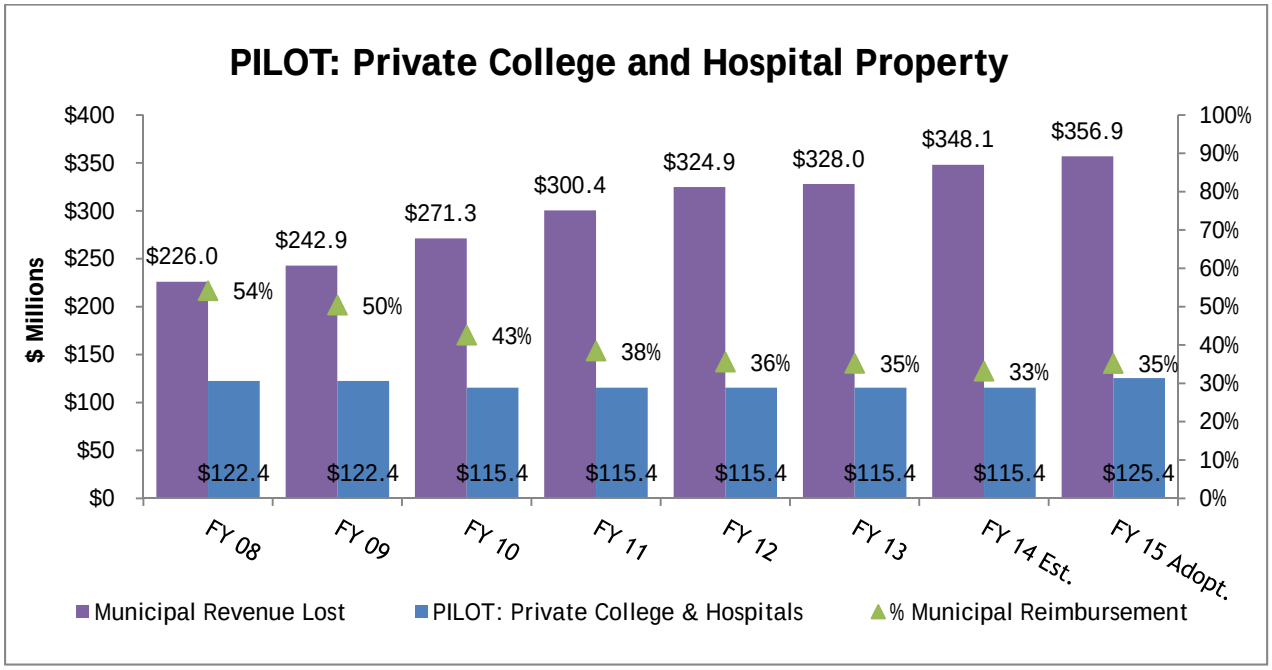
The revenue options available to Connecticut towns and cities are limited by state statute. The property tax is the only tax over which municipalities have significant authority. Municipalities can levy a conveyance tax on real estate transactions, but that tax rate is set by the State and provides a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



Source: CCM 2014

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

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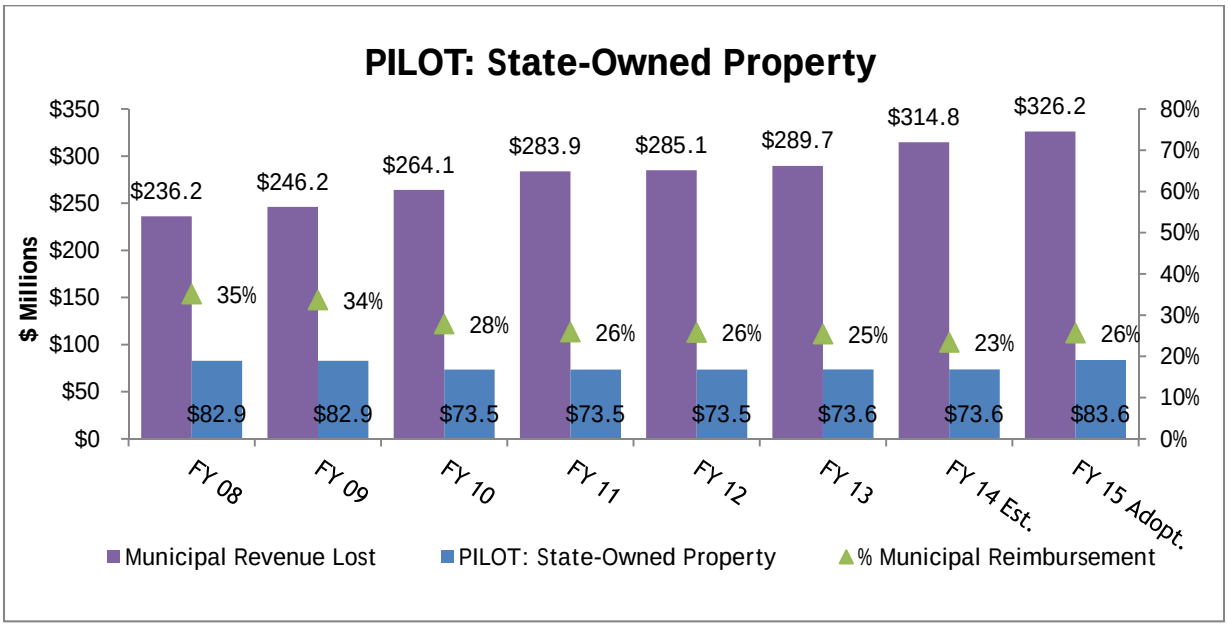
Note: This includes only revenue lost on real property and not additional revenue lost on personal property.

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

Two entities have recently pointed out the perniciousness of our over-reliance on the property tax: the State's DRS study and the US Department of Education. In past years, countless studies and independent entities have reached the same alarming conclusion. Even during serious fiscal challenges, this looming issue begs for resolution.

If the State wants to ensure its economic competiveness, it must start with sustaining its towns and cities. Funding critical local public services come from two primary sources – the property tax and state aid, and it is increasingly clear that sustaining state aid is an essential component to thwarting the municipal over-reliance on the property tax.

CCM urges the Committee to continue its good and essential work in standing strong for residential and business property taxpayers. Ensuring that every town is held harmless will help make Connecticut the strong economic engine it must be, and relieve overburdened and overwhelmed property taxpayers.

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