Testimony
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The Connecticut Council of Small Towns (COST) appreciates the opportunity to comment regarding concerns with **SB-1136, AN ACT CONCERNING PROPERTY TAX REFORM.**

SB-1136 authorizes the regional Councils of Government (COGs) to establish a "program of cooperation" with member towns to create efficiencies in the delivery of services and reduce costs within the planning region. It also creates a mechanism for funding such programs by requiring ¼ of 1% of the amounts received by the state for sales and use taxes to be deposited into the Municipal Revenue Sharing Account (MRSA).

COST supports efforts to enhance the role of the COGs in working with member towns to create opportunities for regional efficiencies in ways that will reduce costs. COGs have been instrumental in developing programs to assist towns in delivering services more cost effectively through shared services agreements and regional partnerships. These programs include a wide range of services, including regional online permitting, GIS mapping, and property revaluation. In addition, many towns are hoping to take advantage of new technology under the Nutmeg Network to share back office functions, such as payroll, document retention and back-up and human resources functions.

Programs such as the Regional Performance Incentive Program and the Intertown Capital Equipment Sharing program have also been successful in encouraging communities to utilize regional approaches to delivering services to reduce costs. COST supports efforts to enhance regional planning efforts by exploring funding mechanisms that may be used to support the COGs and by increasing funding to the Regional Performance Incentive Program and Intertown Capital Equipment Sharing program.

However, we have concerns about how the revenues generated by the sales tax will be allocated to the COGs. Under the bill, each COG will receive a grant from the Municipal Revenue Sharing Account and distribute the amount of such grant to members of the COG in proportion to the amount of sales and use tax collected in such member's town, city or borough. Distribution of revenues in proportion to taxes generated in each town will create winners and losers based on the amount of retail. For example, if a mall is built on a town border with parking in one town and stores in another, this distribution method will be inequitable.

In addition, COST is concerned that the bill relies on MRSA as the mechanism for distributing revenues to COGs. MRSA was created to fund the Manufacturing Transition Grant and the Property Tax Relief Grant. Prior law required the state to reimburse municipalities for the revenue loss resulting from state mandated property tax exemptions for manufacturing machinery and equipment (MME) and certain commercial trucks. However, these PILOTs were eliminated, despite concerns raised by municipalities at the time.

To mitigate the loss of these PILOTs, the legislature enacted the Municipal Revenue Sharing Account to fund 1) "manufacturing transition grants" to municipalities equal to the amount each received as a PILOT for MME, commercial vehicles and certain real property in enterprise zones and the 2) "property tax relief" grant. The funding for MRSA comes from a portion of (1) Conveyance Tax (0.25% of the variable marginal 0.75% - 1.25% real estate conveyance tax revenue); (2) Luxury Tax (0.1% of the 7.0% luxury tax revenue)

MRSA was touted as a groundbreaking program to help reduce reliance on local property taxes to fund critical services, including education, recognizing that Connecticut is more dependent on local property taxes to fund local services than any other state in the nation. Unfortunately, a bill before the Appropriations Committee, HB-6825, proposes to wipe out this program, leaving towns with additional budget holes to fill. **Lawmakers should look to preserve MRSA for its intended to use – to help municipalities reduce reliance on local property taxes.**

COST also believes it is important to define the regional services that may be provided by the COGS to ensure that the COGs have sufficient capacity and local support to deliver such services effectively. Many COGs are in the process of finalizing consolidation and there are significant differences in the staffing levels and expertise of the COGs as well as the needs and priorities of their respective municipal members.

SB-1136 also authorizes the COGs to cap motor vehicle property taxes at a rate of 35 mills. COST understands the inequities inherent in the current process for assessing property taxes on motor vehicles. We are concerned, however, that this proposal authorizes grants to COGs from MRSA to distribute to member towns in proportion to the amount of sales and use tax collected in such member's town, city or borough. It is unclear how this will impact municipal revenues but creates concerns that this funding mechanism will benefit some communities to the detriment of others.

COST understands that lawmakers are facing daunting challenges this year in trying to address what has been referred to as a "permanent fiscal crisis". In addition, continued years of flat funding of state aid to municipalities has put considerable pressure on property taxpayers to fund more of the cost of delivering critical services, including education, transportation and public safety. Given these challenges, we understand the need to consider innovative solutions.

However, we are concerned with how proposed solutions will affect our member towns and the delivery of critical services on the local level as well as property tax levels. We are committed to working with lawmakers to develop innovative solutions based on careful analysis of the impact on our towns and property taxpayers.

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