CONNECTICUT CONFERENCE OF MUNICIPALITIES
THE VOICE OF LOCAL GOVERNMENT™

CCM 2015 Testimony

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FINANCE, REVENUE & BONDING COMMITTEE

April 21, 2015

Good afternoon, my name is Scott Shanley, General Manager of Manchester, and member 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 on behalf of Manchester, and members of CCM, regarding:

SB 1136, "An Act Concerning Property Tax Reform"

CCM is appreciative for the focus this proposal has placed on the need for property tax reform.

SB 1136 would, among other things, (1) empower regional Councils of Government (COGs) to cap the property tax assessment on motor vehicles to no greater than a mill rate of 35, and (2) restore the Municipal Revenue Sharing Account (MRSA) by dedicating one quarter of one percent of sales tax revenue be allocated in the MRSA account, and that such funds be distributed via COGs.

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.

Statewide Motor Vehicle Tax

SB 1136 attempts to provide property tax relief to towns and cities by establishing a maximum statewide mill rate for motor vehicles, set at 35 mills.

Although CCM appreciates the intent behind this proposal, we are concerned that it would rely on revenue from the State, which would be doled out via the COGs – with no guarantee that all communities would be held harmless, thus creating the potential for a "winners and losers" scenario among municipalities due to such a statewide mill rate cap.

The irony is that MRSA is a quintessential example of the cause for local officials' skepticism for 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. SB 1136 also proposes that MRSA funds would be distributed back to towns, via COGs, based on the proportion of the amount of sales tax collected in each town or city. This would be problematic for communities with slow retail sales.

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**. The inequity of the tax has never been a debate among CCM members, rather the fundamental policy question remains: how does the State keep towns and cities whole?** Dedicating one quarter of one percent of the sales tax revenue would not adequately compensate potential "loser communities" for lost car tax revenue, as proposed in SB 1136.

CCM recommends lawmakers simply restore MRSA to its original design. 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.

<u>The Way Forward</u>

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. <u>Education Finance Reform</u>: 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. <u>Fully Fund PILOT Programs</u>: 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.

3. <u>Inter-municipal and Regional Collaboration</u>: 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. **While SB 1136 would provide opportunity for funding regional cooperation – it would do so, only if revenue was available after funds were distributed to cover losses from car tax revenue and therefore, would not assure funding would be available.**

4. Mandates Reform: The State should eliminate or modify unfunded and underfunded mandates (i.e. MBR relief, allow legal notices posting online, adjust the prevailing wager thresholds, create a new tier in the Municipal Employee Retirement System). 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 towns and cities are 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.

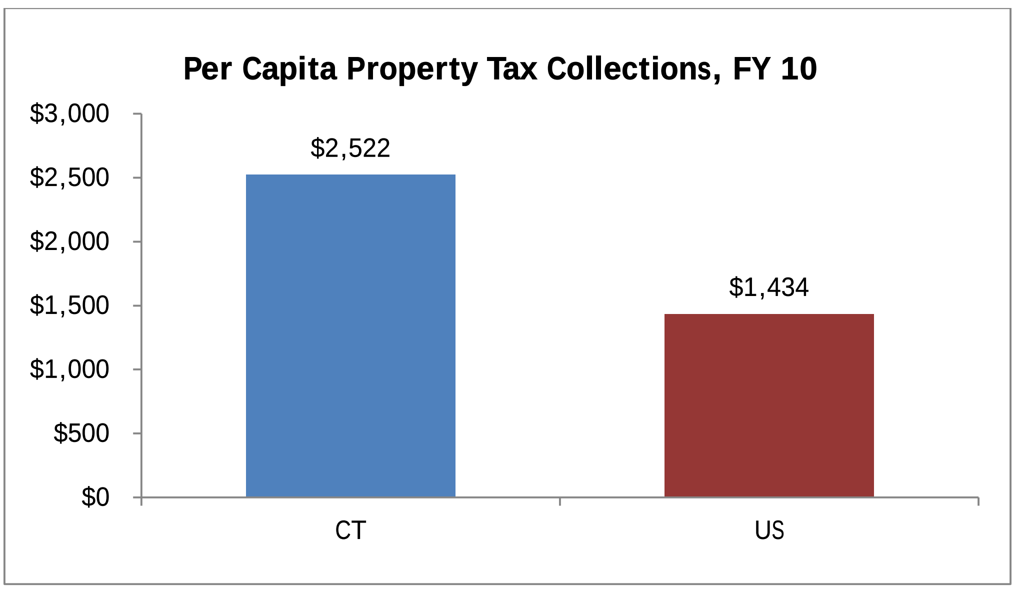
How Did We Get Here?

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.[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, 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

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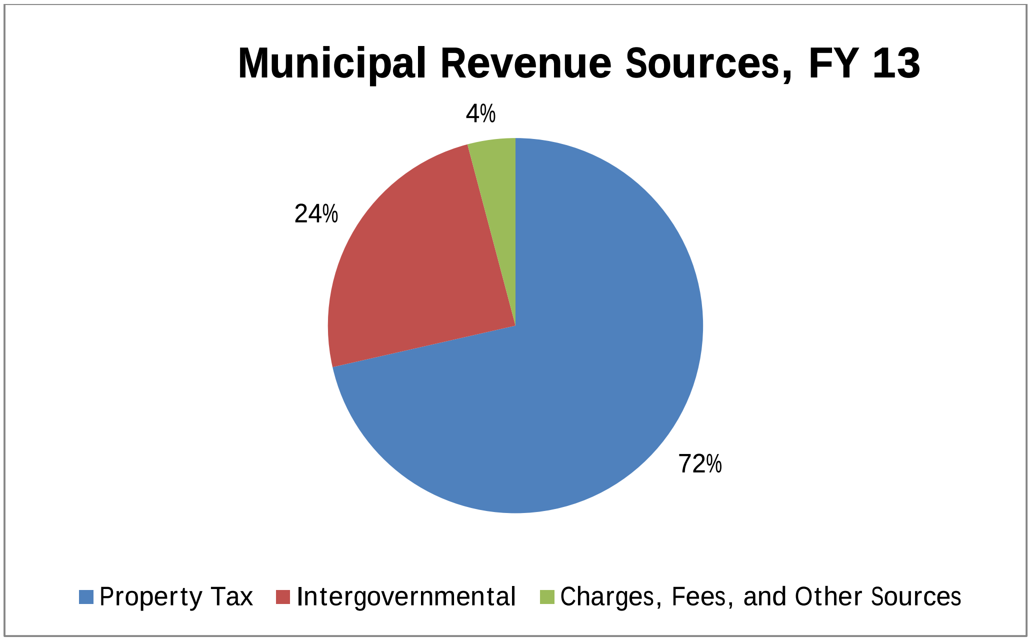
[1] OPM, *Municipal Fiscal Indicators*, 2008-2012

[2] Tax Foundation, 2010 Data

percent of all their revenue. Another 50 municipalities rely on property taxes for at least 80 percent of their revenue.[3]



Source: OPM *Municipal Fiscal Indicators, 2009-2013*

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.**

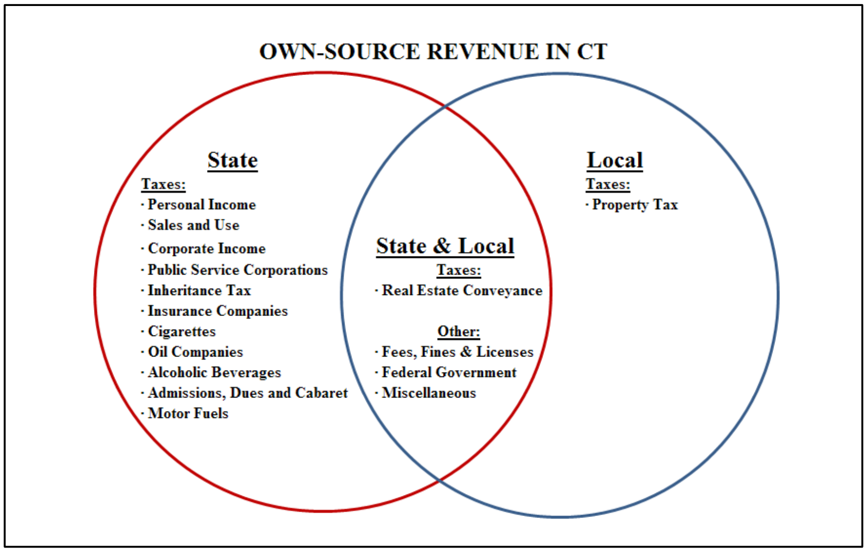
The Property Tax

- 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 12, Connecticut businesses paid over $700 million in state corporate income taxes, but over $1 billion in local property taxes.[6]

[3] OPM, *Municipal Fiscal Indicators, 2008-2012*
[4] Based on data from the US Census Bureau and the Tax Foundation
[5] US Census Bureau, *Public Elementary-Secondary Education Finances, 2012*
[6] CCM estimate

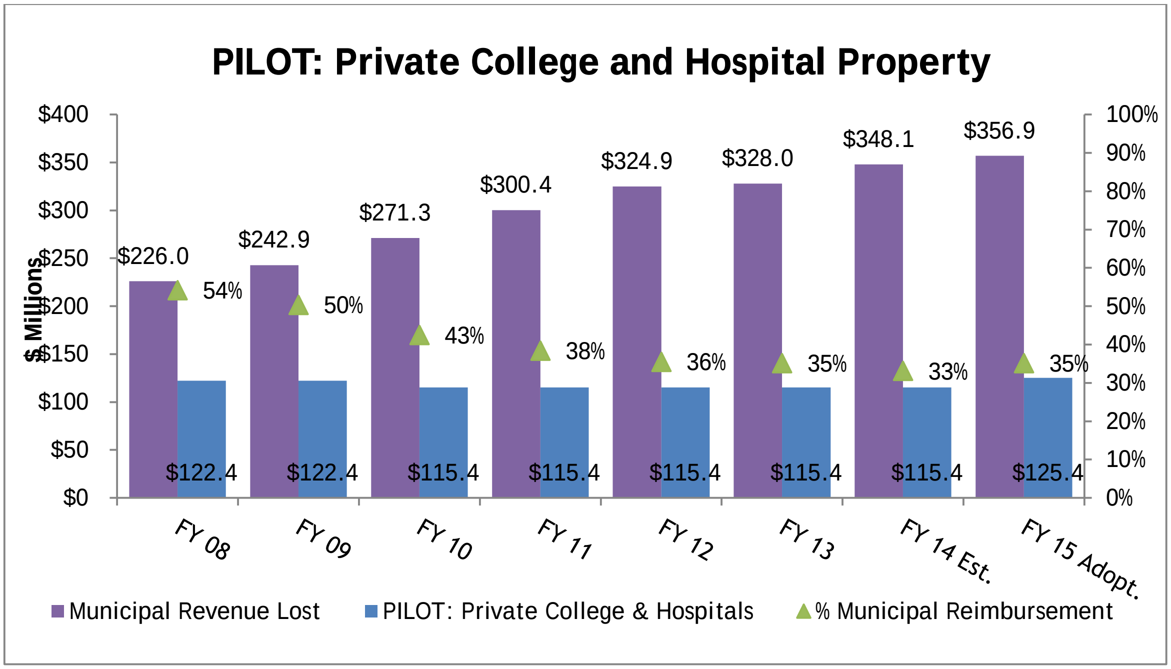
<u>Why is Connecticut so Reliant on the Property Tax</u>?
The revenue options available to Connecticut towns and cities are limited by state statute. The property tax is the only tax over which municipalities have significant authority. Municipalities can levy a conveyance tax on real estate transactions, 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.

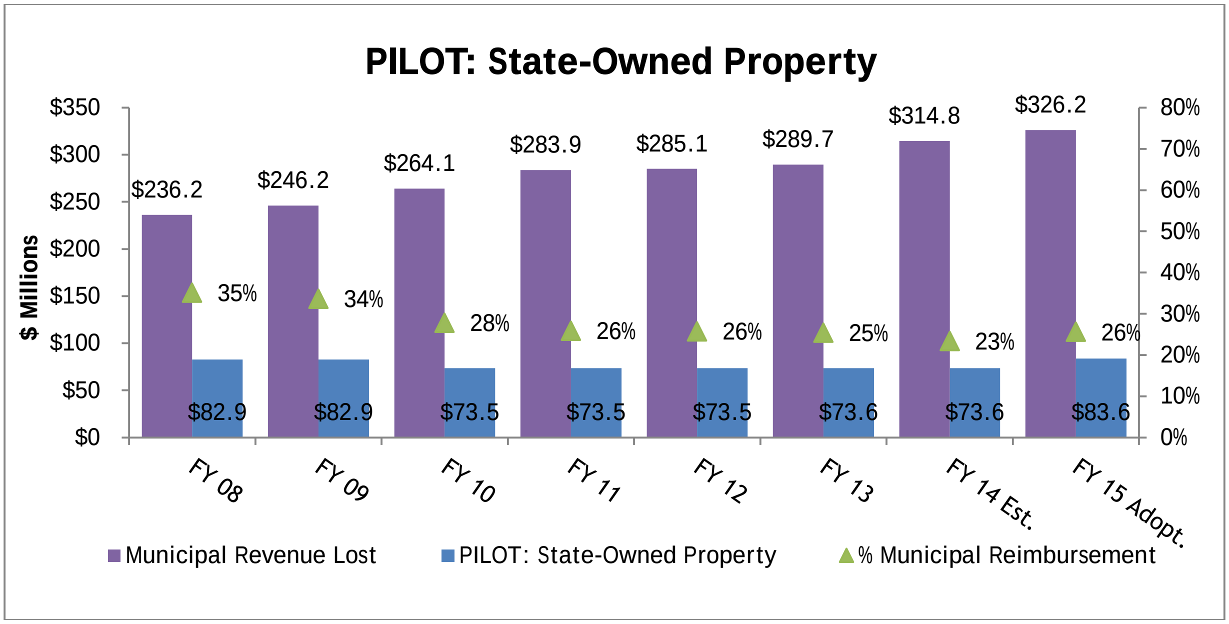
All of this means that, in terms of generating own-source revenue, Connecticut towns and cities are effectively restricted to the regressive and antiquated property tax.



Source: Adopted state budgets; CCM
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 1136 as a proposal that acknowledges this fact: **when PILOT reimbursements fall short, it forces property taxpayers to make up the difference**. Thus, property taxpayers are forced to pay for the State's underfunded and unfunded property tax-exemptions.

Given the budget uncertainties of critical state aid to towns and cities. CCM asks the Committee to obtain a detailed fiscal analysis on the potential impact SB 1136 would have on all 169 municipalities.

Thank you.

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If you have any questions, please contact Robert Labanara, State Relations Manager for CCM, at rlabanara@ccm-ct.org.