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The Connecticut Council of Small Towns (COST) appreciates the opportunity to comment regarding **SB-1070 -AN ACT CONCERNING PAYMENT IN LIEU OF TAXES**, which restructures the statutory formulas for state payments in lieu of taxes (PILOTs) that reimburse municipalities for lost revenue from State-Owned property and Colleges and Hospitals property which is exempt from local property taxes.

Under current law, PILOTs are based on a specified percentage of taxes that the municipality would otherwise collect on the property and the amount the state appropriates for these payments. The bill instead bases the payments on the amount of tax-exempt property in the municipality. COST is concerned that this will have an inequitable impact on many of Connecticut's small towns.

Under the bill, OPM is authorized to rank each municipality based on the percentage of tax-exempt property on its grand list and, with certain exceptions, set a PILOT rate for municipalities based on this ranking. As proposed, the first one-third of municipalities with the highest percentage of such property will receive a PILOT equal to 40% of the property taxes that would have been paid on tax-exempt property. The next one-third of municipalities will receive a 33% PILOT grant and the remaining one-third of municipalities will receive a 27% PILOT grant.

Under current law, municipalities generally receive PILOTs of 45% for state-owned property and 77% for college and hospital property. The actual reimbursement rates, however, are much lower because state statute allows the reimbursements to be reduced on a pro-rata basis when state appropriations are not sufficient. As pro-rated, in FY 15, actual reimbursement rates are approximately 33% for the Colleges & Hospitals PILOT and 24% for the State-Owned Property PILOT, according to the Office of Fiscal Analysis.

The bill retains the statutory language which allows the reimbursement to municipalities to be reduced on a pro-rata basis when state appropriations are not sufficient. It appears, then, that all municipalities eligible for PILOT reimbursements will be faced with a reduction under the bill, unless funding for PILOT is significantly increased.

Moreover, the towns with the least amount of tax exempt property – all of which are small towns - will only be eligible for a 27% PILOT grant. Given the state's fiscal challenges, we can assume that PILOT grant reimbursements will continue to be pro-rated, further reducing the 27% PILOT reimbursement that small towns will receive under the bill.



For example, in the current fiscal year, the State Legislature has funded the PILOT program for State -owned property at 53.4%. Accordingly, the 45% PILOT reimbursement the town is eligible to receive is prorated by 53.4%, resulting in an actual reimbursement rate of approximately 24.0%.

Using the current proration rate, under the bill, one-third of the state's municipalities will see a drop in PILOT reimbursements for state-owned property because the 27% PILOT reimbursement prorated by 53.4% results in an actual reimbursement rate of approximately 14.42%. Municipalities in the second tier will also have their actual reimbursement rate reduced from approximately 24% to 17.62%, depending on the proration rate. And, even the municipalities in the top tier will see their actual reimbursement rate drop from 24% to 21.36%.

Moreover, the bill does not include a "hold harmless" provision, which would provide that no municipality will receive a grant in lieu of taxes that is less than that received for the previous fiscal year. Consequently, Connecticut's small towns and cities will see a significant reduction in PILOT reimbursements unless the state significantly increases overall funding for the PILOT programs. Even if PILOT funding is fully funded, the reimbursement rate for most small towns will be frozen at 27% or 33%.

Clearly, SB-1070 will have a devastating impact on Connecticut's small towns, many of which rely on Payment in Lieu of Taxes (PILOT) reimbursements to make up for lost property tax revenues to fund critical services. Payment is made only for real property and does not include payment for tax loss on exempt personal property owned by these facilities or property used for highway purposes.

For small towns, state aid to municipalities has been largely flat funded, putting considerable pressure on property taxpayers to fund more of the cost of delivering critical services, such as education, transportation and public safety. Cuts in state aid to municipalities, including PILOT reimbursements, will place an untenable burden on local property taxpayers and/or force cuts to critical programs.

COST urges lawmakers to reject this proposal and, instead, phase in plans to increase and fully fund PILOTs to provide reimbursement to municipalities for 100% of the revenue lost due to state-mandated property tax exemptions.

COST is an advocacy organization committed to giving small towns a strong voice in the legislative process. Its members are Connecticut towns with populations of less than 30,000. COST champions the major policy needs and concerns of Connecticut's suburban and rural towns.

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