



FINANCE REVENUE & BONDING COMMITTEE

March 22, 2016

The Connecticut Conference of Municipalities (CCM) is Connecticut's statewide association of towns and cities and the voice of local government - your partners in governing Connecticut. Our members represent over 96% of Connecticut's population.

Good afternoon, my name is Matthew Galligan, Town Manager of South Windsor, and the immediate past President of the Connecticut Conference of Municipalities (CCM).

I appreciate the opportunity to testify today on behalf of CCM, regarding:

SB 446, "An Act Concerning Property Taxes and Payments in Lieu of Property Taxes"

CCM is appreciative of the focus this Committee and Legislative leaders have placed on the need for property tax relief.

SB 446 would, among other things, (1) make adjustments to the motor vehicle property tax cap to ensure towns and cities are held harmless; (2) provide an "opt-out" option from the Municipal Revenue Sharing grant for towns and cities; (3) direct that 35% of grant moneys awarded to regional councils of governments (COGs) be used to facilitate regional education service centers (RESCs) in merging back office functions with municipalities located within their region; (4) provide clarification as to what expenses and costs are counted against the municipal spending cap; and (5) allow for population growth to be considered against increases in municipal spending.

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 446 attempts to ensure that all towns and cities are held harmless from the newly enacted statewide motor vehicle property tax cap set at 32 mills for FY 17 and at 29.36 mills for FY 18 and after. PA 15-244 established a reimbursement rate for municipalities based on their established mill rates for FY 15 grand list. The use of FY 15 grand list created a gap for many municipalities such as Tolland, Norwich Coventry, and others and would result in revenue loss of to those effected towns.

Although CCM appreciates the intent behind this proposal, we are concerned that it does not properly address the issues of adequately reimbursing all towns and cities for lost motor vehicle property tax revenue and creates a revenue shortfall.

The bill relies on data from FY 15 and FY 16 to determine reimbursement amounts. In doing so, it may not accurately reflect the revenue loss in FY 17 and beyond for some towns. CCM asks the Committee to make all towns and cities whole so that owners of real property in those communities are not asked to fund the revenue loss through higher property taxes on real property.

There remain concerns with the newly-imposed motor vehicle property tax cap and whether the revenue from the state sales tax will be available to offset loss in property tax revenues. Since the passage of PA 15-244, state revenues have experienced a precipitous decline that has resulted in cuts to municipal aid and the delay of payments into the MRSA, which will provide the funding to hold towns and cities harmless.

This is the quintessential example 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. Municipal officials do not question the intention of Legislators to provide the needed MRSA funding, but when faced with prospects of drastic budget cuts to core services and the possibility of state employee layoffs, there is concern that these funds will not be available, and towns and cities will lose desperately needed revenues to offset motor vehicle property tax revenues they can no longer collect on their own.

CCM is concerned that if these revenues are not available to towns and cities, the cap on motor vehicle property taxes will shift the burden of a regressive and onerous property tax. **According to the Connecticut Association of Assessing Officers (CAAO), when counting supplemental taxes, towns and cities collect more than \$800 million from the car tax – to pay for essential local services.**

We all agree that the motor vehicle tax was 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 half of one percent of the sales tax revenue would not adequately compensate potential "loser communities" for lost car tax revenue, as enacted in PA 15-244.

Municipal Spending Cap

CCM's member towns and cities remain opposed to the 2.5% municipal spending cap enacted under PA 15-244, as it unnecessarily and unfairly ties the hands of local government. A cap set at 2.5% seems arbitrary and according to the CT Advisory Commission on Intergovernmental Relations, 70 municipalities had budget increases of 2.5% or greater and these increases are often due to factors outside of local control i.e.; increases in health care costs, higher demand for special education services, and compliance with new and unfunded state mandates.

However, CCM and its members remain willing to work with the Committee and Legislative leaders to draft what we feel are reasonable to needed changes that address the needs of 169 unique and diverse municipalities. CCM supports the inclusion of a municipal "opt-out" provision and for local population growth to be considered against the spending cap, but asks the Committee to amend SB 466 to:

- **Delay implementation of the municipal spending cap** until FY 20;
- **Amend the list of exemptions to the municipal spending cap** to include (i) increased fees for state services, regulations and permits, (ii) state aid reductions from the previous year (in case the State cuts non-education aid or ECS, or a reduction in sales tax revenue, etc.), (iii) costs associated with new unfunded state mandates, and (iv) municipalities with town meeting forms of government;
- Create a process by which municipalities may request a **waiver from OPM for exceeding the spending cap in the event that unforeseen circumstances require an increase in municipal spending**;
- Allow municipalities to **override the spending cap with a 2/3 vote of local legislative bodies** -- without a reduction of funds;
- **Exclude arbitration awards from the list of exemptions to the cap.**

Usurps Authority of COGs

CCM also has **concerns with Section 1 (e) that directs 35% of grant moneys provide to COGs be used to assist RESCs in merging certain back office functions with towns and cities in the regions.** Funding made available to COGs should be used at the discretion of the COG members on regional projects that have been identified as priorities. SB 466 unfairly ties the hands of regional COGs and their member towns and cities.

The Way Forward

While there are aspects of local-option taxation and revenue diversification 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. Education Finance Reform: 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 over \$600 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. This not only saves money but helps ensure each child gets premium service no matter their community.

2. Fully Fund PILOT Programs: 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. Inter-municipal and Regional Collaboration: 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.
4. Mandates Reform: The State should eliminate or modify unfunded and underfunded mandates (i.e., additional MBR relief, allow legal notices posting online, adjust the prevailing wage 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.

Conclusion

CCM appreciates SB 446 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 would ask the Committee to amend SB 446 as recommended and we appreciate the opportunity to work with the Committee on this proposal.

Thank you.



If you have any questions, please contact Ron Thomas, Deputy Director of CCM at rthomas@ccm-ct.org or (203) 498-3000 or Randy Collins, Advocacy Manager of CCM at rcollins@ccm-ct.org or (860) 707-6446.