



2018 Testimony

900 CHAPEL STREET, 9th FLOOR, NEW HAVEN, CT 06510 • PHONE (203) 498-3000



*Committees on
Appropriations
Commerce
Finance Revenue & Bonding
Planning & Development*

March 23, 2018

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. We appreciate the opportunity to testify on bills of interest to towns and cities.

Members of the Appropriations, Commerce, Finance Revenue and Bonding and Planning and Development Committees, my name is Neil O'Leary, Mayor of Waterbury and current Board President of the Connecticut Conference of Municipalities (CCM). CCM is grateful for the opportunity to comment on Connecticut Commission on Fiscal Stability and Economic Growth's (the Commission) Final Report which has produced numerous recommendations that, if enacted in their entirety, may lay the foundation to stabilize and more importantly grow the State's economic base.

Providing stability, predictability and the opportunity to grow will encourage the economic development that will allow our state, our towns and cities and, most importantly, our residents to thrive. As leaders we must change the way we have looked at our economic problems, Connecticut is the land of steady habits, and this process has restricted our ability to think outside of the box and address as Secretary Ben Barnes described "a state of permanent fiscal crisis".

We cannot hope to address the myriad of problems facing our state if we insist on finding solutions from the perspective of our own ideological comfort zones. We must acknowledge that there are no easy solutions, and that meaningful change will require sacrifice from all parties, and that

sacrifice must truly be shared and not simply allowing the idea of shared sacrifice to mean some will share the sacrifice of others.

As leaders we must be willing to recommend and advocate for solutions that are not politically expedient. We cannot wait until we “get past the next election” with the hopes that our candidate wins and then we can address our State’s problems. Until, we as a state, begin to embrace needed changes we will be forced to look at how to get more the current proverbial pie rather than growing the pie which will allow for more while requiring each of us to contribute less.

CCM supports the Commission’s Report. While some the recommendations included have been proposals which CCM has opposed, when the Report is taken in its entirety, it represents the needed changes that will benefit the State and its residents.

The Report also includes several proposals that are very similar to initiatives contained in our report, *This Report is Different*. Some of which include:

- Require the State pay a higher PILOT payment to municipalities, especially central cities, on the properties it owns.
- Allow towns, or through their local COG, charge fees for Service in Lieu of Taxes (SILOTS). These would be imposed on non-profit colleges and hospitals while allowing these institutions to maintain their property tax exempt status.
- Allow towns, COGs or a consortia of COGS, the option to raise local revenue for capital projects by authorizing them to impose supplemental time limited sales or property taxes by special referenda.
- Enable COGs to levy an additional sales tax of up to 0.5% for regional economic development and shared service arrangements.
- Permit towns to increase fees for use of the public rights of way, stormwater fees, hotels, car rentals restaurants and other services.
- Provide that non-union labor be permitted on rehabilitation projects costing under \$1 million.
- Provide towns with a single neutral arbitrator for municipal labor negotiations.

To enhance the recommendations, CCM would suggest the following considerations to various proposals of the Report:

Sales Tax

The Report recommends increasing the sales from 6.35% to 7.25%, while simultaneously reducing current exemptions by 14%. This is similar to CCM’s recommendation to an increase in the sales tax by .65% to 7% with a dedicated a portion of the additional revenue being apportioned to towns and cities. This would enable them to reduce the existing property tax burden. CCM had recommended the increase of .65% on order to maintain our competitiveness with surrounding states (other than Massachusetts which currently has a 6.25% effective sales tax rate). CCM has supported the concept of an increased sales tax, but wants to ensure we do not create a rate that would place us at an economic disadvantage to our neighboring states and more importantly drive more sales to online retailers versus traditional brick and mortar business that provide local jobs and property taxes.

Furthermore the Commission has recommended allowing for COGs to levy a regional sales tax of an additional .5% to fund regional service sharing initiatives or infrastructure improvements. CCM has advocated that any increases in the sales tax need to be applied uniformly across the state to diminish inter-town competition. We should be encouraging regionalism and shared services. We should not create a situation where our urban centers are competing against our suburban and rural areas and are pressured into adopting new taxes policies that serve only to make them even more fiscally uncompetitive.

In ensuring greater fairness within our tax system, CCM fully supports the recommendation that directs the Department of Revenue Services to research options to better capture sales taxes that should be generated through on-line sales. We should not allow the avoidance of sales tax to promote the on-line purchase of goods at the expense of local retailers.

Municipal Revenue Diversification and Regional Initiatives

CCM commends the Commission for properly identifying that any solutions for sustained economic growth and fiscal stability at the state level must be done concurrently with reforms to strengthen our towns and cities. As the Report states “the towns are the legal creatures of the state and the state and the towns are mutually dependent.”

Similar to the recommendations put forth in CCM’s *“This Report is Different”*, the Commission recommends providing towns and cities with the ability to diversify its revenue stream and reduce its overwhelming dependency on unpredictable levels of state aid the regressive property tax which accounts for 40% of all taxes collected in the State and is continually undermined by the adoption of legislatively mandated property tax exemptions (currently 77). The overreliance on the property tax is especially detrimental to our urban cities where in some cases almost 50% of their taxable property is exempt.

The Report recommends and CCM supports the follow proposals:

- Municipalities, acting separately or together through COGs, should be authorized to charge fees for:
 - Use of public rights of way, stormwater fees, hotel, car rental, restaurant and other services;
 - “SILOTS”—service fees in lieu of taxes—to non-profit colleges and hospitals, while continuing to allow those institutions to retain their property tax exempt status.
- Municipalities, COGs or consortia of COGs should be authorized to impose supplemental time-limited sales or property taxes by special referenda to fund discrete capital projects. Models exist in other states (e.g., Wyoming’s Special Purpose Excise Tax (SPET) or California’s voter-approved special purpose taxes).

- Give regionalization a major boost by empowering COGs to levy an additional sales tax of up to 0.5% (approximately \$400 million assuming base expansion) to be used solely for regional economic development and shared service arrangements.

Transportation and Infrastructure

There is no disagreement that improving and maintaining our transportation network and infrastructure is critical to ensuring long term economic growth and more importantly ensuring public safety. Paying for the maintenance of existing infrastructure and funding improvements has been the subject of debate and disagreement for years if not decades. In regards to the Commission's recommendations concerning tolls, CCM stresses that it needs to be accompanied by a constitutionally approved and adopted "lock-box" to ensure new revenues be used for their intended purpose. Additionally, CCM supports the recommendations that look beyond improvements to highways by providing specific recommendations to improve and expand our air ports, rail system and deep water ports.

The Report also makes critical recommendations that if adopted would enable the more efficient use of limited revenues. These include adoption of Public Private Partnership legislation in order to maximize private equity investment opportunities.

Labor Reforms

CCM has long advocated for providing municipalities with the tools to effectively and efficiently manage their budgets. Fundamental changes are needed to ensure that local governments have the flexibility and means to control their own destinies.

In this spirit, we are grateful for the recommendations the Commission has made pertaining to binding arbitration reform as we believe such proposals will streamline the process and provide for needed predictability in the local budgeting process. However, we believe it is imperative that towns and cities be given the ability to control costs associated with retirement and healthcare benefits in the same way the Commission seeks to provide this control to the State for employees covered by SEBAC.

In addition to the Commission's recommendation for the appointment of a single, neutral arbiter for municipal labor negotiations, CCM believes binding arbitration reform should provide for not more than 10 individuals to be appointed as neutral arbiters rather than the current 20. The 10 arbiters should also serve for five year terms rather than the current two years and a single neutral arbiter should be randomly selected to help ensure arbiters do not feel pressured to render a decision in favor of a particular party.

CCM also supports further adjustments to the prevailing wage thresholds for rehabilitation projects to permit the use of non-union labor on projects that cost less than \$1 million. The results of adjusting the thresholds that trigger the prevailing wage for rehabilitation projects would allow local governments - and the state - to make more efficient investments in infrastructure without increased reliance on revenue provided primarily by local property taxpayers.

Spending Reforms

- CCM supports the recommendations of the Commission to lower the rising costs related to the unfunded liability of the CT Teachers' Retirement System (TRS). The Report recommends specific recommendations to address the growing unfunded pension liability. CCM supports them as unique approaches to helping solve a complex issue without passing the great burden directly onto municipalities and its property tax payers.
- CCM strongly supports the creation of a "Ways and Means Committee" by combining the current Appropriations and Finance Revenue and Bonding Committees. This would enable the Legislature to adopt a proposed budget that better aligns proposed spending with anticipated revenue collections. As the Commission rightly concluded "*Tax policy should determine revenue, and revenue should determine spending*".
- The Commission also recommends the adoption of a cost management initiative with the goal of identifying and realizing savings of \$1 billion annually. While the recommended savings may come at the expense of some the current \$4 billion in annual state-aid to municipalities, if adopted in concurrence with the municipal revenue diversification proposals and labor reforms, towns and cities should be well placed to manage reductions in state-aid and benefit from reduced dependency on unpredictable levels of said aid.

We would again like to commend the Commission for all its diligence in coming up with a comprehensive plan to make Connecticut a better place to live, work and do business. The Report is filled with promise and our organization believes that if these recommendations and CCM's additions are enacted, it would place our great state on firmer financial footing and will make it sustainable for future generations.

★★★★

If you have any questions, please contact Brian O'Connor, Director of Public Policy of CCM at boconnor@ccm-ct.org or (203) 804-4658 or Randy Collins, Advocacy Manager of CCM at rcollins@ccm-ct.org or (860) 707-6446.