2019 Testimony
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Finance, Revenue and Bonding Committee

April 29, 2019

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 169 towns and cities and 100% of Connecticut's population. We appreciate the opportunity to testify on bills of interest to towns and cities.

SB 1141 *"AN ACT CONCERNING PROPERTY TAX REFORM"*

SB 1141 would enact a limited measure of municipal revenue diversification through enactment of a local sales tax, funded by an increase the current sales tax rate from 6.35% to 6.85%. The revenue generated by the .5% increase, approximately $340 million and collected by DRS would be held in trust and separate from other funds and used to provide grants to distressed municipalities and promote regional initiatives.

The bill would direct that $25 million of the revenue generated by the increased sales tax would be made available by a grant process to Regional COGs for 1) new programs or services that are available to all members of the regional COG or 2) to replace current programs or service offered by individual member towns and cities.

Additional revenue would be deposited in a Municipal Capacity Fund created by this bill and would be distributed to approximately 60 municipalities based on a "Municipal Fiscal Capacity Gap Metric" calculated by OPM.

Additionally the bill would create three property tax credit options for investments made to commercial or industrial properties that result in an increase in the assessed value of the property based upon the investment made. These credits would be applied against the tax payer's existing tax liability.

CCM supports the intent of SB 1141 which would begin to provide the foundation for needed local revenue diversification and begin to reduce municipal dependency on a regressive property tax system. It has become clear that towns and cities cannot rely solely on property taxes and diminishing state aid to fund essential services and often mandated programs.

CCM has concerns with the proposed language that would direct any revenue generated by the increase in the sales tax (minus $25 million for regional initiatives) to approximately 60 towns and cities based upon a Fiscal Capacity Gap Metric. While sales tax increase would be carried by residents throughout the state, many residents would see little if any return on the increased taxes they are being asked to pay.

CCM understands the needs of our urban centers and distressed municipalities and that they are often asked to carry a disproportionate share of providing critical social services, hosting tax exempt non-profit organizations and having to fund all manner of local government services largely based on the property tax. That property tax base has been eviscerated by mandated exemptions.

How can the state continue to mandate the provision of these services while limiting the only revenue source available to these towns and cities and refusing to allow these same municipalities to access new revenue options? Local leaders are justifiably frustrated when they are told by state leaders to be more efficient while in many cities 50% of their taxable base has been exempted and they denied the ability to seek new revenue options. While local leaders are denied the ability to diversify their revenue away from the property tax, while when the state experiences fiscal difficulties will seek new revenue options, increase existing tax rates, expand the scope of current taxes or surcharges.

Towns and cities have never been given these options and this has resulted in property tax system that drives up the cost of housing, makes home ownership unaffordable and stifles economic growth and job creation. Things have to change.

SB 1141 begins the process of providing some towns and cities with the ability to diversify their revenue stream and reduce their overwhelming dependency on the property tax and unpredictable levels of state aid. The regressive property tax 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).

Meaningful reform and relief from the property tax should not be limited to a few select municipalities rather we should collectively seek reforms that will benefit all of our communities. We are too small of state to allow towns to be pitted against cities, we must work together to reduce the burden of the property tax, enabling economic growth that would reduce local dependency upon state aid and allow for that aid to be redirected to communities and citizens with the greatest needs.

CCM continues to advocate for municipal revenue diversification and the adoption of local sales tax has been a centerpiece of CCM's legislative agenda since the release of our comprehensive report in 2017, *This Report is Different*, which outlined a new path forward for towns and cities. The report highlighted that we cannot solve our ongoing fiscal crisis by relying exclusively on spending cuts or tax increases and that comprehensive solutions will include ideas that fall outside ones ideological comfort zone. CCM's State and Local Partnership panel, which developed the report, included 21 municipal leaders representing cities, suburban and rural communities, Republicans and Democrats. The panel offered recommendations that would enable towns and cities to:

- Diversify local revenue;
- Provide needed cost containment language; and
- Encourage savings through increased regional collaboration.

CCM appreciates the work done by members of the Finance Committee in drafting SB 1141 and for bringing the ideas contained with the proposal forward so we may have a meaningful dialogue and hopefully find common ground to solve the problems we all recognize.

MUNICIPAL REVENUE ENHANCEMENT AND DIVERSIFICATION

SB 1141 proposes to increase the sales tax from the current rate of 6.35% to 6.85% and dedicate a portion of the generated sales tax revenue to select municipalities. This would provide additional sales tax revenue and maintain a uniform sales tax policy throughout the state which CCM has supported as opposed to a local option sales tax. CCM has opposed the creation of a local option sales tax that may have the unintended consequence of creating unnecessary competition among towns and cities and creating confusion for retailers and consumers.

Increasing the current sales tax rate from 6.35% to 6.85% will provide needed revenue to towns and cities, while maintaining a competitive rate with surrounding states:

State	**State Rate**	**Maximum Local Rate**	**Combined State & Local**
Connecticut (current)	6.35%	NA	6.35%
Connecticut (**proposed**)	**6.85%**	NA	**6.85%**
Massachusetts	6.25%	NA	6.25%
New York	4.00%	4.88%	8.88%
New Jersey	7.00%	3.50%	10.50%
Rhode Island	7.00%	NA	7.00%
Pennsylvania	6.00%	2.00%	8.00%

While SB 1141 directs the money to be distributed based upon the aforementioned Fiscal Capacity Gap Metric, CCM would recommend that any additional revenue generated by an increase in the sales tax be distributed based upon existing PILOT and LoCIP formulas. With 60% of revenue being directed to the PILOT based formula and the remaining 40% being directed to the LoCIP based formula. This distribution would ensure that while all municipalities receive some portion of the increased sales tax revenue it would provide additional revenue to our urban centers.

Additionally, CCM would recommend the Committee consider including a 1% local tax on meals and beverages, which would be collected by DRS and remitted to the point of sale or distributed by the DRS on a pro rata basis if the point of sale could not be determined.

In addition to the proposal to dedicate a portion of the sales tax to municipalities CCM would also encourage the members to consider the following proposals which if enacted would represent meaningful local revenue diversification and provide the means for all municipalities to reduce their dependency on an overburdened property tax and inconsistent state aid:

STORMWATER MAINTENANCE FEES

CCM supports language to allow municipalities to create Stormwater Management Authorities to help offset the significant costs of meeting the requirements of the General Permit for Municipal Separate Storm Sewer Systems (MS4). The bill would amend CGS 22a-498 adopted in 2007 that created a Pilot program in which four municipalities were allowed to create such an authority with approval from DEEP. The new language would authorize any municipality to create an authority that could, among other things, levy an assessment on real property based upon the amount of impervious surface contained on the property. These fees may be waived if the property meets low impact development regulations and/or stormwater retention standards as identified within the current MS4 Permit. Any fees collected based on this language would be used by the municipality to offset the cost of stormwater mitigation efforts as outlined within the proposed language.

For example, a Stormwater Authority created with the passage of this bill could assess a stormwater maintenance fee based on the following principal:

- Rate x Property's Impervious Area = $ Fee
- The fees and rates for each municipality are set so that there are sufficient funds to properly manage their respective stormwater programs and to meet federal and state regulatory requirements and unfunded mandates.
- The amount this will generate for each municipality will vary by town based on the percentage of impervious surfaces in the municipality as well as the cost of administering the stormwater program.

PUBLIC SAFETY AND INFRASTRUCTURE BENEFIT CHARGE

CCM supports the proposed language that would authorize towns and cities, by vote of their local legislative body to establish a public safety and infrastructure benefit charge which would be levied on tax exempt organizations that own real or personal property within the municipality. The intention behind this proposal is to offset the cost of providing core municipal services such as police, fire, public works and maintenance of roads and bridges. CCM understands that many non-profits contribute to the local economy through, but not limited to, programs and services for local residents and employment opportunities and as such CCM recommends:

- Fees collected would only pay for the core services provided and described above.
- Voluntary payments and in kind services may be considered when calculating the non-profit's fee obligation.
- The charge would not be enabling legislation, rather towns would be tasked with adopting such a charge by vote of their governing body.

CCM appreciates the contribution made by non-profits, colleges and hospitals to our shared communities. Unfortunately, the current property tax system which exempts almost 50% of their taxable base. Towns and cities can no longer afford to shift the full cost of providing these keys services to residential and commercial tax payers. The continued shift caused by the erosion of local property tax base has stifled economic development, is a barrier to home ownership and results in the increasing cost of local rents. Tax exempt groups will still benefit from the property tax exemptions that have been mandated but will simply be asked to pay a reasonable fee for the public services they benefit from.

While CCM continues to advocate for revenue diversification we also continue to urge the Legislature to adopt a series of cost containment and regional service sharing proposals that CCM outlined in the 2017 ***This Report is Different***. These recommendations include but are not limited to:

1. Revenue generated as a result of an increase in the sales tax and dedicated to towns and cities cannot be considered as an increase in a municipality's ability to pay for purposes of collective bargaining.

2. Remove service sharing arrangements as a subject of collective bargaining to prevent municipalities from bargaining away or losing through arbitration their right to enter into service sharing arrangements; and

3. When service sharing arrangements affect two or more collective bargaining units, the interests of all employees affected by the new arrangements will be represented by either a coalition of bargaining units or a new bargaining unit will be created to represent all affected employees.

By enacting these necessary cost containment proposals, sales tax revenues that would be dedicated to towns and cities will be allowed to limit increases to, and more importantly, reduce local property tax rates. These revenues need to be protected and become a reliable revenue stream that municipalities can depend on and not have them reduced as has been the case with promised PILOT funding or eliminated like the Regional Performance Incentive Program. The additional revenue, combined with the needed cost containment provisions and statutory protections will enable long term local economic growth and stability.

Current State policies have created a scenario that have limited local governments to dependence on regressive property taxes and increasingly insufficient and unpredictable state aid to fund schools, provide for public safety and maintain vital infrastructure. The lack of diversity in local revenue coupled with repeated and significant budget deficits at the state level have created the perfect storm in which, if action is not taken, will see towns and cities unable to provide these needed local services.

CCM believes that the implementation of local revenue diversification, combined with the aforementioned critical cost control components, will provide the foundation for a sustainable and more equitable municipal revenue base. It will provide needed relief for towns and cities that provide a disproportionate share of social services and host a large percentage of state mandated property tax exempt properties. The addition of sales tax revenue, stormwater management fees, and franchise fees will reduce the current overreliance on property taxes and unpredictable state aid. These proposals will serve to limit if not help reduce property taxes, enable towns and cities to maintain current services, improve and expand infrastructure and provide the needed economic stability to promote needed economic development.

No one looks for the opportunity to come forward and testify in support of increased taxes and the ability to apply new fees at the state level or the local level, but in recognizing the severe conditions of the state's finances, and those of municipalities throughout the state, we are obligated to have these difficult discussions and recommend hard choices. We cannot expect our towns and cities to grow and prosper if we continue the current polices of restricting the generation of local revenues to a regressive property tax system and diminishing state aid.

CCM encourages the Committee to ***support SB 1141*** with the recommended changes CCM has provided.

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If you have any questions, please contact Randy Collins, Advocacy Manager, CCM at mailto:rcollins@ccm-ct.orgor (860) 707-6446.