Connecticut School Finance Project

Testimony Regarding
S.B. 1141, *An Act Concerning Property Tax Reform*

Lisa Hammersley, Deputy Executive Director
Finance, Revenue and Bonding Committee
Monday, April 29, 2019

Chairmen Fonfara and Rojas, Ranking Members Witkos and Davis, and distinguished members of the Finance, Revenue and Bonding Committee:

My name is Lisa Hammersley and I am the deputy executive director of the Connecticut School Finance Project, a nonpartisan, nonprofit policy organization based in New Haven that works to identify solutions to Connecticut's school and state funding challenges that are fair to students, taxpayers, and communities.

Thank you for the opportunity to submit informational testimony on S.B. 1141, specifically Section 2 of the bill, which would establish a Municipal Capacity Fund — funded by local sales tax revenue — that would annually distribute municipal capacity grants via a needs-capacity formula.

The Connecticut School Finance Project is supportive of the concept of using a needs-capacity formula to distribute non-education state aid to municipalities, as laid out in S.B. 1141. Additionally, our organization supports using such a formula based on a municipal fiscal capacity gap metric calculated in accordance with the methodologies used in the Federal Reserve Bank of Boston's New England Public Policy Center's 2015 report, *Measuring Municipal Fiscal Disparities in Connecticut*.

Currently, the structure by which the State of Connecticut provides non-education aid to municipalities does not sufficiently address the underlying municipal fiscal disparities that are caused by the unequal costs of delivering services and the different revenue raising capacities of towns in Connecticut.

Allocating non-education state aid to municipalities through a needs-capacity formula would provide for a more equitable distribution of funding to cities and towns and help address fiscal disparities between municipalities.

A needs-capacity formula would accomplish this by considering a municipality's costs for delivering a common level of government service, as well as its capacity to raise revenue to pay for those services, in the calculation to determine the municipality's non-education state aid.

In a needs-capacity formula, municipal cost refers to the amount each municipality must spend in order to provide a common quantity and quality of government services given the underlying socioeconomic and physical characteristics of the municipality.

Municipal cost does not consider the actual spending level of a municipality. Based on the Federal Reserve Bank of Boston's New England Public Policy Center's 2015 report, factors impacting municipal cost include:

- **Unemployment Rate**
    - Municipalities experiencing higher unemployment rates also tend to experience higher crime rates, which increases the cost of police protection.
- **Population Density**
    - High population density means housing is in tighter proximity, which increases the fire hazard and the costs of fire protection.
- **Private-Sector Wages**
    - Municipalities with high private sector wages tend to have to pay more to attract and retain municipal employees.
- **Miles of Public Roads**
    - Holding all else equal, a town with more miles of roads would have to spend more to maintain its roads than other towns.
- **Total Jobs Per Capita**
    - This factor represents cost pressures generated by commuters and employers who do not reside in the municipality in which they work, but consume public services (such as police and fire protection) while they are there.

Municipal capacity refers to a municipality's revenue raising ability through its own resources. This measure reflects resources that governments are authorized to tax and not actual revenues raised. Additionally, this measure does not consider an individual municipality's mill rate. As noted in the Federal Reserve Bank of Boston's New England Public Policy Center's 2015 report, municipalities with a greater quantity of taxable property and higher-valued property will have higher revenue raising capacity.

Finally, a municipal gap, such as the one detailed in Section 2(c), is the difference between the municipal capacity and municipal cost.

These key components of a needs-capacity formula are explained in greater detail in a recently released policy briefing by the Connecticut School Finance Project. The policy briefing introduces and examines the concept of a needs-capacity formula, and contains a sample implementation of how such a formula could be used in Connecticut. The policy briefing is available at www.ctstatefinance.org/assets/uploads/files/Needs-Capacity-Formula-for-State-Aid.pdf.

Addressing fiscal disparities between municipalities is critical for Connecticut to strengthen its economy and financial state, and to improve the fiscal stability and competitiveness of its cities and towns.

High levels of fiscal disparity between municipalities raise two primary concerns. First, it is not equitable for two otherwise-identical households to pay different amounts in taxes to receive the same level of service, simply because the households are located in different municipalities.[1] Second, fiscal disparities place some municipalities at a disadvantage in terms of economic competition because high taxes and a low quantity of public services makes the municipality less appealing to potential residents and businesses.[2]

Using a needs-capacity formula to distribute municipal aid would help reduce fiscal disparities between municipalities and allow fiscally distressed municipalities to provide higher quality services to the citizens and businesses that rely on them.

Thank you again for allowing me the opportunity to testify today on S.B. 1141, and I ask the Committee to strongly consider this bill, in particular the use of a needs-capacity formula to distribute non-education state aid.

I am happy to answer any questions you may have at this time, and if you have questions later, please feel free to reach out to me via the contact information below.

Sincerely,

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About the Connecticut School Finance Project

Founded in June 2015, the Connecticut School Finance Project is a nonpartisan, nonprofit organization that strives to be a trusted and independent source of accurate data and information about how Connecticut funds its public schools. The Connecticut School Finance Project aims to incorporate the viewpoints and perspectives of stakeholders to develop fair, well-thought-out solutions that help create a sensible and equitable school funding system that meets the needs of Connecticut and all of its public school students.

In addition to the organization's school finance work, in November 2017, the Connecticut School Finance Project expanded its work to examine Connecticut's fiscal and economic health. This work includes taking an in-depth look into the State of Connecticut's tax revenue, spending, and long-term pension and debt obligations, with a mission to serve as a nonpartisan resource for state and local policymakers, community leaders, and all Connecticut citizens looking for transparent, accessible, and approachable information about the State's budget and finances.

For more information about the Connecticut School Finance Project, visit www.ctschoolfinance.org/about.

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[1] Yinger, J. (1986). On fiscal disparities across cities. *Journal of Urban Economics, 19*(3), 316-337.
[2] Downes, T.A., & Pogue, T.F. (1992). Intergovernmental Aid to Reduce Fiscal Disparities: Problems of Definition and Measurement. *Public Finance Review, 20*(4), 468–482.