

Finance, Revenue and Bonding Committee JOINT FAVORABLE REPORT

Bill No.: HB-6655

AN ACT CONCERNING MUNICIPAL TAXATION AND INCENTIVIZING

Title: REGIONALIZATION.

Vote Date: 4/22/2021

Vote Action: Joint Favorable

PH Date: 4/5/2021

File No.:

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SPONSORS OF BILL:

Finance, Revenue and Bonding Committee

REASONS FOR BILL:

This bill seeks to cap property tax increases and offer municipalities incentives if they choose to regionalize municipal services. This bill also allows towns and cities to levy their own taxes.

RESPONSE FROM ADMINISTRATION/AGENCY:

Martin Heft, - Undersecretary for Intergovernmental Policy and Planning at Office of Policy and Management provided information regarding this bill stating that the municipal expenditure cap already exists with penalty. Heft also states that given the efforts and procedures for the Municipal Accountability Review Board, Municipal Finance Advisory Commission as well as PA 10-117 Task Force Legislation, each of these collectively assist municipalities that are undergoing financial challenges. Because of this, Heft states that an additional municipal spending cap may not be warranted. Heft states that OPM is happy to discuss this bill with the committee.

NATURE AND SOURCES OF SUPPORT:

Randy Collins – Advocacy Manager – Connecticut Conference of Municipalities believes this bill starts a much-needed conversation about the regressive tax burden that is imposed by the property tax. Mr. Collins states that this bill will make significant changes to the current property tax system. Mr. Collins says that the current property tax is very regressive and it accounts for more than 40% of all taxes collected in the state and is continually undermined by the adoption of legislatively mandated property tax exemptions. Because municipalities rely heavily on property tax it becomes detrimental to our urban communities where some

have more than 50% of their taxable property tax exempted. Though they support some aspects of the bill they do however have some concerns. In section 1(5)(b) that imposes a tax levy cap, Mr. Collins says that this cap would require significant adjustments by many municipalities as their current levy is in excess of the 2.5%. CCM also has concerns of the effective date of June 30, 2022 due to the ability of towns having to develop needed policy and infrastructure change to meet this date.

NATURE AND SOURCES OF OPPOSITION:

David Cox – Town Manager, Town of East Hampton opposes this bill stating that placing a cap on property tax would require that the Town of East Hampton to cut it's budget by about \$11 million or 22%. Mr. Cox states that having this reduction is not realistic as it would eliminate or severely impede on the most basic town services such as public safety and education. In addition, the Town of East Hampton's residents are approve the towns budget by direct votes

Michael Criss – First Selectman, Town of Harwinton opposes this bill stating that enacting a property tax is not feasible in a community like theirs because they are heavily dependent on local property taxes for town operations, regional school district and the unfunded mandates. Criss also states that the Municipal Revenue Sharing Account (MRSA) was established to help offset declining revenue streams for municipalities like theirs, that money was then diverted to the general fund to offset the state spending. Criss states that this bill has many unintended consequences. Furthermore, Criss testifies saying that regionalization should not be mandated. Towns like who have been regionalizing for years where it works and makes sense should be rewarded for being fiscally responsible and resourceful.

Kenneth Flatto – Director of Finance and CFO, City of Bridgeport opposes this bill stating that passing this bill would have adverse consequences to the city. Bridgeport has a high ratio of tax exempt properties versus taxable properties. Limiting their taxes to 2.5% would reduce the tax levy to 200 million versus the current tax levy of 320 million. This would result in a 120 million loss in Bridgeport's budget revenues. Mr. Flatto states that he appreciates the legislators desire to limit annual tax increases and to incentivize regional efforts to help communities and has no problem with these ideas or portions of legislative proposals that solely deal with such incentives. He asks that the committee not adopt any language or proposal that he states would devastate the way local taxation formulas work in relation to grand lists and property tax levies.

Betsy Gara – Executive Director, CT Council of Small Towns While COST appreciates the bills intended purpose of aiming at reducing CT's overreliance on the property taxes to fund critical services, COST opposes this bill stating that they are concerned that this bill will wreak havoc with local finances in a way that may force cuts to services and programs. COSTS also points out that given the number of businesses in many small towns, additional local taxes from these businesses may not generate sufficient revenue to offset lost property tax revenues. COST supports efforts to encourage and facilitate regionalization of certain local services. Given the uncertain ec

Donald S. Stein – First Selectman, Town of Barkhamsted – opposes this bill stating the bill does not speak to the financial impact to municipalities and does not define how the state will

supplement the revenues lost due to the 2.5% cap. Mr. Stein states that in 2017, the legislature enacted the Municipal Spending Cap. Mr. Stein states that the cap in and of itself is not feasible in a state that is so heavily dependent on local property taxes which funds education and other critical services. The Legislature also created the Municipal Revenue Sharing Account (MRSA). Mr. Stein states that the intention when creating MRSA was to provide municipalities with a reliable alternative revenue stream derived from a portion of the sales tax. However, Mr. Stein states that the portion of the sales tax earmarked for towns was instead diverted to the General Fund to address budget deficits and by 2017-2018 MRSA was suspended. Mr. Stein applauds that the committee includes provisions to incentivize regionalization under MRSA but, wants to committee to be aware that some towns are already working with other Council of Governments (COGs), and other communities and organizations to regionalize. Mr. Steins asks that due to the uncertainty facing towns and cities because of the COVID-19 pandemic, he urges lawmakers to refrain from adopting proposals in the short term that may negatively impact local revenue streams especially with the absence of meaningful analysis to determine what the real impact this bill will have as proposed.

Francis Pickering – Executive Director, Western Connecticut Council of Governments supports the diversification of local revenue sources to reduce the overreliance on the property tax. Pickering states that the property tax is the largest single tax in CT which brings in \$11.3 billion annually. Connecticut has the second highest median property tax bills of any state in the country which is estimated at nearly \$6,000 per household which is equivalent to 7.5% of household income. WesCOG suggests that the committee consider broadening the sales tax base, decrease the sales tax rate on goods/services, providing municipalities with a choice between a local sales tax or a local hospitality and entertainment tax, authorizing municipalities to use new sales tax revenues to give a flat exemption on assessed value of all housing units. WestCOG also supports allowing all municipalities to add increments to the mill rate to account for differences, providing for user fees on properties that use local services but do not pay for them and using the streamlined sales and use tax agreement as a model in tax restructuring. WestCOG does not support a limit on property taxes or forced reductions in local spending and local taxes on income or new local taxes on personal property. They do however support the reduction of barriers to service sharing by municipalities.

Edmond Mone – First Selectman, Thomaston, CT – Opposes this bill stating that the 2.5% limit on property taxes to include motor vehicles as well as personal property is unrealistic and unacceptable. He states that as first selectman and member of CCM, they have sought out ideas to diversify revenue. He states that a sales tax that is regional in nature, administered by the State and distributing those funds by Council of Government in a proportion agreed to by said councils is acceptable but creating a local income tax is not a revenue stream he or his constituents would find acceptable. Mone also states that The State of CT has a net outflow of people leaving our cities and towns due to the cost of living. Taxation at all levels is a part of that outflow. He states that creating other forms of taxation is risky business and could contribute to that outflow.

Reported by: Christina Pen

Date: 5/18/2021