



To: State Tax Panel

From: Betsy Gara
Connecticut Council of Small Towns

Date: September 16, 2015

Re: **Municipal Issues – State Tax Policy**

Thank you for the opportunity to comment on issues relating to Connecticut's tax policy.

Connecticut's towns and cities are more reliant on property tax revenues to fund critical programs than any other state in the nation, according to the U.S. Census Bureau. Given the fiscal challenges facing the state, municipal aid for Connecticut's small towns has been largely flat-funded for several years now although the cost of providing education, public safety and transportation services has increased significantly. As a result, local property taxpayers are shouldering more of the burden for these increased costs.

To address concerns regarding overreliance on property taxes, the Connecticut Council of Small Towns (COST) urges your consideration for the following recommendations:

I. Utilize a Collaborative Process for Developing Tax Policy

In recent years, there have been significant changes made to various tax policies affecting municipalities. For example, a few years ago, the state eliminated the Manufacturing, Machinery & Equipment PILOT and offset it with the Manufacturing Transition Account. Subsequently, the Manufacturing Transition Account was eliminated and replaced with another funding program. Last year, significant changes were adopted to restructure PILOT reimbursements, cap motor vehicle taxes, impose a municipal spending cap and create a regional revenue sharing program. These are significant shifts in policy which have created uncertainty about how local budgets will be affected in the future. Recognizing that the state's ongoing fiscal challenges require significant changes in state policy, COST stands ready to work with the Governor, state lawmakers and other stakeholders as part of a collaborative process to develop policies that will help position Connecticut for a strong economic future.

II. Address ECS and Special Education Funding Needs

Between 70% - 80% of the municipal budgets of Connecticut's small towns are allocated to fund public education, putting enormous pressure on local property taxpayers. This is due to continued underfunding of Connecticut's Education Cost Sharing (ECS) grant, escalating special education costs, and new or expanded unfunded education mandates. Based on the existing



reimbursement rate and funding caps, municipalities shoulder more than 60% of special education costs, which are increasing by an estimated 5 – 6% each year.

Recommendations:

1. Begin to develop a long-range plan for phasing in increases to the ECS grant with the goal of fully funding the program to provide adequate fair share funding to all towns;
2. Increase the state's education foundation level to more accurately reflect the cost of educating students;
3. Adjust the threshold for reimbursing towns for special education costs to reduce the burden on local property taxpayers;
4. Reject efforts to impose new or expanded mandates on school districts without adequate funding.

III. Reject Unfunded Mandates

Given the ongoing budgetary challenges facing the state and municipalities, Connecticut must act now to relieve some of the burden on our towns and cities. Unfunded mandates continue to drive up local costs beyond the control of municipalities. Failure to provide municipalities with meaningful mandate relief will force increases in property taxes and cuts to local services and programs. COST's recommendations for addressing unfunded mandates include the following:

Recommendations:

1. Require any new or expanded unfunded mandate to be approved by a 2/3 majority of the legislature;
2. Reform the Municipal Employees Retirement System by: 1) Requiring employees to contribute a greater percentage to more equitably fund increased pension costs and unfunded liabilities; and 2) Creating a new tier plan for new hires, consistent with the state's Tier III
3. Adjust the prevailing wage mandate by increasing the Prevailing Wage Threshold on municipal public works projects to \$1 million for new construction and renovations;
4. Allow towns to post legal notices on their municipal websites in lieu of publishing the notices in newspapers;
5. Monitor whether the revised Minimum Budget Requirement law provides towns with sufficient flexibility to reduce education spending to reflect declining enrollment and cost savings; and
6. Adjust binding arbitration laws to ensure that towns can negotiate meaningful savings in personnel costs.



IV. Address Funding Inequities with Payment in Lieu of Taxes (PILOT) Grants

The state Payment in Lieu of Taxes (PILOT) program is severely underfunded, imposing a tremendous burden on municipalities with tax exempt property. Changes were adopted this session providing additional PILOT grants for certain municipalities with the greatest percentage of tax exempt property. However, due to this restructuring and the cap on PILOT reimbursements, PILOT funding for many communities was reduced. COST is also concerned that the restructuring of PILOT grants benefits large municipalities but freezes or reduces grants for most small towns with tax exempt property. These small towns rely on PILOT reimbursements to make up for lost property tax revenues to fund critical services. For example, 66% of the land in the Town of Voluntown is state-owned and, as such, exempt from property taxes. However, the state's PILOT reimbursement to Voluntown only equals 3.9% of total tax payments. In addition, for purposes of PILOT reimbursement, the value of forest land is based on timber value or stumpage prices, even though the land has significant value as a recreational area.

Recommendations:

1. Phase in plans to increase and fully fund PILOTs to provide reimbursement to municipalities for 100% of the revenue lost due to state-mandated property tax exemptions;
2. Ensure that PILOT restructuring does not negatively impact small towns; and
3. Adjust the formula for valuing forested land to reflect recreational value.

V. Develop Alternative Municipal Revenue Streams

Towns must be able to rely on stable, diverse revenue streams to help fund critical services at the local level. Recognizing this, the state has begun to provide towns with additional sources of revenue and is exploring other local revenue options. In addition, under existing law, municipalities may only retain a very small percentage of the numerous fees collected for various services, such as land recording, even though the town bears the cost of indexing, scanning, microfilming, preserving records, etc. The municipal share of these fees is simply not adequate to cover the costs of providing these services.

Recommendations:

1. Explore opportunities to provide towns with stable, alternative revenue sources, such as: 1) A dedicated fee on local motor vehicle taxes, and 2) Restructuring the hotel tax to enable host towns to receive a share of the hotel tax; and
2. Authorize towns to increase and retain a greater percentage of municipal fees.



VI. Refrain from Adopting New Property Tax Abatements/Exemptions

Given the ongoing fiscal challenges facing municipalities, the state must refrain from mandating property tax exemptions, including municipal option tax exemptions, which undermine the ability of towns to provide critical programs and services to residents without shifting more of the burden onto the backs of property taxpayers.

Recommendation:

1. Reject efforts to impose mandatory or municipal option property tax abatements or exemptions.

VII. Address Barriers to Shared Services Agreements

Many towns have entered into shared services agreements with neighboring communities to deliver services more cost-effectively, which will help control local property tax levels. Programs such as the Regional Performance Incentive Program and the Intertown Capital Equipment Sharing program have been successful in encouraging communities to utilize regional approaches to delivering services to reduce costs. However, at times, towns have encountered barriers in implementing shared services agreements or consolidating functions, which should be addressed. In addition, efforts to force consolidation have been counter-productive, undermining efforts to promote voluntary shared services solutions.

Recommendations:

1. Provide continued state support for building out the Nutmeg Network and funding innovative service sharing pilots to help towns utilize technology to reduce municipal costs; and
2. Support efforts of towns to share the services of personnel on a regional basis by eliminating statutory or contractual barriers, such as appointment terms.

COST is a statewide advocacy organization committed to giving small towns a strong voice in the legislative process. Its members are Connecticut towns with populations of less than 30,000. COST champions the major policy needs and concerns of Connecticut's suburban and rural towns.