



## TESTIMONY

of the

### CONNECTICUT CONFERENCE OF MUNICIPALITIES

to the

### FINANCE, REVENUE & BONDING COMMITTEE

March 11, 2008

The Connecticut Conference of Municipalities appreciates the opportunity to testify on the following bill of interest to towns and cities:

#### **HB 5844 – “AAC A Municipal Share Of the Hotel Occupancy Tax”.**

This bill would provide municipalities with a share of the state’s hotel occupancy tax.

Municipalities need additional revenue – the property tax is overworked, it can no longer do all the jobs it is being asked to do.

The per capita property tax burden in Connecticut is \$2,042, an amount that is almost twice the national average of \$1,123, and 2nd highest in the nation.<sup>1</sup> And it doesn’t get much better when Connecticut’s wealth is taken into account: Connecticut ranks 4<sup>th</sup> in property taxes as a percentage of personal income (\$6.10 per \$100 of income, compared with the national average of \$5.10).<sup>2</sup>

Connecticut is more dependent on property taxes to fund local government than any other state in the nation. It also is the 2nd most dependent on property taxes to fund education.<sup>3</sup> That means that the educational opportunity a child has is tied to the property tax wealth in the community in which he lives.

The property tax in Connecticut is the largest single tax on residents and businesses in our state. Overall, property taxes account for 37% of all state and local taxes paid in our state.

Property taxes are the biggest tax on businesses. In FY 07, Connecticut businesses paid over \$700 million in corporate income taxes – but over \$900 million in property taxes.

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<sup>1</sup> US Census: State and Local Government Finance, 2005; 2006 America Community Survey; 2006 State and County Quick Facts

<sup>2</sup> US Census Bureau: States Ranked by Total State Taxes and Per Capita Amount, 2005

<sup>3</sup> US Census Bureau: Public Elementary-Secondary Education Finances, 2005

Statewide, 69% of municipal revenue comes from property taxes. Most of the rest, 23%, comes from state aid. Some Connecticut municipalities are almost totally dependent on property taxes to fund local government. Nine towns depend on property taxes for at least 90% of all their revenue. Another 48 municipalities rely on property taxes for at least 80% of their revenue.<sup>4</sup>

### Hotel Occupancy Tax

It is time for Connecticut to consider sources of local government revenue other than property taxes.

The Blue Ribbon Commission on Property Tax Reform and Smart Growth recommended that a 15% surcharge be put on the hotel occupancy tax, to be retained by the host municipality. The proposal before you is a moderate one – it would not increase the tax, but would share some of the state's revenue.

The language of the bill before you describes the share as ½ of 1% of the gross receipts from sales. Gross receipts are roughly \$666 million, so this would bring approximately \$3.3 million in non-property tax revenue to towns and cities.

Many other states allow municipalities to levy their own hotel occupancy tax. Sharing this source of state revenue with municipalities is an idea whose time has come for Connecticut.

### Regional Sales Tax Sharing

One other idea for revenue sharing should also be considered this session – sharing a portion of the state's sales and use tax.

Rather than do sharing that tax on a town-by-town basis, consideration should be given to doing this regionally. The State should create incentives for the voluntary establishment of councils of government (COGs) in each of the 15 planning regions so that municipal CEOs in each region meet, on a regular basis, to discuss and act on issues of mutual concern – including economic development, land-use planning and joint service delivery.

Such COGs could be enabled, among other things, to share a portion of state sales tax and other revenues collected within a region.

Several groups, including the Blue Ribbon Commission mentioned above, have endorsed such a sales-tax sharing arrangement.

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***We urge you to favorably report this bill***, and consider regional sales tax sharing as another way to diversify municipal revenues.

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For more information, please contact Gian-Carl Casa or Bob Labanara at (203) 498-3000.

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<sup>4</sup> Municipal Fiscal Indicators, Office of Policy and Management, Dec. 2007