



TESTIMONY

of the

CONNECTICUT CONFERENCE OF MUNICIPALITIES

to the

FINANCE, REVENUE AND BONDING COMMITTEE

March 15, 2010

CCM is Connecticut's statewide association of towns and cities and the voice of local government - your partners in governing Connecticut. Our members represent over 93% of Connecticut's population. We appreciate this opportunity to provide testimony to you on issues of concern to towns and cities.

CCM supports SB 434 "An Act Concerning The Real Estate Conveyance Tax."

This bill would make permanent the present rates of the municipal real estate conveyance tax. The rates are scheduled to sunset on 6-30-10.

Towns and cities could lose over \$40 million in revenue this year, *unless* the General Assembly acts to extend the present rates of the local real estate conveyance tax. Attached to this testimony are the preliminary results of a CCM survey – 67 municipalities responded to date, representing 1.33 million people, and reported over \$17 million in additional conveyance tax revenue from these increased rates for FY08-09 and expect over \$16 million this fiscal year. **Extrapolated to the whole state population, the present rates are expected to bring in over \$43.4 million.**

- Is there any other way \$40 million in non-property tax revenue will come to towns and cities next year?
- Will the General Assembly increase municipal aid by \$40 million?
- Will there be \$40 million worth of mandates relief?
- Let's put it plainly: **if the legislature chooses not to extend the present rates property taxes will go up and local services will be cut.**

There are three main reasons why it is good public policy to make permanent the increased rates:

- (i) the increases provide **important revenue** to local governments and **property tax relief** to local residents and businesses,
- (ii) the **mid-year cuts** enacted by the State in municipal aid programs that prompted the increased rates **have not been fully restored**, and
- (iii) the rate increases **have no impact** on the housing market.

Background

In 2003, the General Assembly and the Governor increased the local portion of the real estate conveyance tax from 0.11% to 0.25 % in all towns, with an optional 0.25 % addition for certain communities with particular economic hardships. The initial legislation provided the increases for two years, and legislation passed in both 2005 and 2007 extended them for another two. They are thus scheduled to “sunset” on June 30, 2010, and return to 0.11%.

The increased rates of the conveyance tax were established to help buffer the impact on municipalities and their property taxpayers of a series of mid-year state budget cuts enacted during fiscal year 2002-2003. Funding for several of those municipal aid programs has never been restored to their pre-2003 levels.

- Pequot-Mohegan Grants: **\$135 million before** the 2003 cuts, **\$62 million now**
- PILOT - Colleges and Hospitals: **73% reimbursement before** the 2003 cuts, **54% now**
- PILOT - State Property: **41% before** the 2003 cuts, **32% now**
- Town Aid Roads: **\$35 million before** the 2003 cuts, **\$30 million now**

Keep these cuts in mind when people tell you the State should let the present rates expire in order to “keep its promise”.

- **It is an inescapable fact: If the 2010 General Assembly does not make permanent, or at least extend, the present rates of the conveyance tax municipalities will lose more than \$40 million in non-property tax revenue.**

Opponents of the increased rates say that ending them would mean \$40 million in the pockets of residents. That is an illusion: if local governments lose this critically needed revenue, property taxes will surely have to rise — and cuts in local services will hurt the quality-of-life that maintains home values in our communities.

It is time to make these rates permanent. Allowing them to expire will drive up property taxes. Extending them, while helpful, will force local officials to come back again in a few years to beg for another extension.

CCM urges the committee to **favorably report** this bill.

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If you have any questions, please contact Jim Finley or Gian-Carl Casa of CCM, at (203) 498-3000.

Attachments



Attachment

Questions And Answers About Municipal Real Estate Conveyance Tax Revenue

Doesn't the real estate conveyance tax cost property sellers thousands of dollars?

For a home with a sales price of \$300,000 the increased municipal rates – those enacted in 2003 and scheduled to sunset, the ones that are being debated – add about \$420. When opponents cite higher figures, they are lumping all the conveyance taxes, state and local, together. For the increased municipal rates – those scheduled to sunset -- to cost a seller in most communities \$3,000, the house would have to sell for about \$2 million!

C'mon, don't people deserve a break on their taxes?

If the tax is reduced, everyone else will feel the pinch, either through higher property taxes or cuts in public services. Further, there are at least nine other charges to someone selling a home, including realtors' fees -- which in some cases are as high as 7%! On the \$300,000 home they are fond of citing, a 7% fee will cost the seller \$21,000, and a lower 5% fee would still cost \$15,000. Compare those figures to the \$420 tax being debated!

Wouldn't reducing the tax help the real estate market?

Nobody seriously would argue that the increased rates of the municipal real estate conveyance tax – a portion of the total tax and a sliver of closing costs described above - would stop a sale. The opponents of the tax have never produced one person or anecdote to the contrary and, during the 2008 discussions, repeatedly denied that they ever claimed the increased rates affect sales. The real estate market certainly seems to fluctuate greatly regardless of the 2003 rates. In fact, Connecticut's real estate "bubble" continued for years after the present rates went into effect.

What about "the promise" the tax would go away?

Assuming there even was such a "promise" - circumstances change. There are no "promises" regarding state and local finances. Over the years the State has made numerous statutory "promises" to towns and cities it has not kept because of changes in the budget situation (just look at the drops in state aid since 2003 listed above).

Isn't a "sunset" really a promise the tax will go away?

Sunset laws are meant to give the legislature time to evaluate the law at issue. There are dozens of laws on the books that are or were scheduled to sunset – nobody claims there is a "promise" they will end, only that a conscious decision would be made about whether to continue them.

But isn't the conveyance tax really unfair?

The State has assessed its own real estate conveyance tax for decades. In fact, towns and cities collect it for the State. In fiscal year 2005 the State garnered \$199.2 million from its own share of the real estate conveyance tax. It's estimated to have raised \$208 million for fiscal year 06.

Why is it fair for the State to collect this tax, but not towns and cities?

But shouldn't towns and cities have more "dependable" sources of revenue?

Revenue from every tax fluctuates from year to year. State aid to municipalities fluctuates from year to year, too. Financial managers deal with it annually.

Opponents of the conveyance tax argue that the conveyance tax is not dependable -- **at the same time that they are advocating for an immediate reduction of \$40 million in local revenues!**

The Facts Are:

- The municipal share of the real estate conveyance tax diversifies the municipal revenue base and relieves pressures on the property tax. It is the only non-property-tax tax that municipalities can levy.
- Municipalities need the revenue – more than \$40 million statewide -- to balance their budgets in a miserable economy. The conveyance tax rates were intended to plug budget holes resulting from mid-year cuts in state aid -- they weren't a gift for special one-time expenditures. Many of those state aid cuts have never been restored, and the revenue is still needed.
- The \$40+ million in local revenues that is being debated will not cost the State a dime.
- Municipal officials are elected and accountable to their citizens. They do their best to provide services that affect the quality of life in their communities. They balance property tax rates with the need for those services. They have called for continuation of the present rates of the municipal real estate conveyance tax because that is the best way to help all the people in their towns and cities.