



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 HB 5480 "An Act Permitting A Regional Sales Tax."

This bill would allow regional planning organizations to impose a regional sales tax, collected and administered by the State, to be used for "capital expenditures, distribution to municipalities, or any regular or special purpose" in the RPOs' budgets.

This bill would allow regional groups of municipalities to impose a sales tax collected by the State, to be used for "capital expenditures, distribution to municipalities or any regular or special purpose" in the budgets of regional planning organizations.

- This important proposal would begin to offset state aid cuts and prevent even higher property tax increases and severe service cuts.
- This proposal would **encourage regional cooperation** – cooperation that could help spur things like joint economic development efforts and shared services.
- Connecticut is **one of just 15 states that limit municipalities primarily to the property tax**
- Connecticut's **sales tax is lower than many in the northeast**, for example:
 - Massachusetts: 6.25%
 - Rhode Island: 7%
 - New York: 4%, but another 5% may be added by other taxing entities
 - Vermont: 6%, but local jurisdictions may add another 1%, the tax on prepared foods is 9% and 10% on alcohol served in restaurants
 - New Jersey: 7%
- Each percentage increase in the sales tax raises, statewide, about **\$550 million - \$600 million**
- Regional application of a sales tax avoids the type of intermunicipal competition that may arise from local-option taxes, it would avoid competition within a retail market to site facilities and grow local revenue because retailers seeking to serve a market would have the same rate no matter the town.
- Exemptions in Connecticut's sales tax system for things like food, clothing and prescriptions make it more progressive.

Property Tax Dependence

Connecticut statutes dictate that towns and cities are dependent on one tax — the property tax — for the vast majority of their revenue. But it's been clear for years that the property tax can no longer carry the burden by itself — it is a regressive tax that is not adequate for the task of funding local government services in the 21st Century.

- 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. That means that the educational opportunity a child has is directly tied to the property tax wealth of the community in which he or she lives. This is particularly true now that the State's share of K-12 public education costs at 36.9% is the lowest since 1983.
- The property tax in Connecticut is the largest single tax on residents and businesses in our state.
- 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.
- Municipal aid from the State is in decline. The state is relying on over \$540 million in federal recovery act funding during this biennium to "level-fund" the Education Cost Sharing grant – the largest grant to towns and cities. The General Assembly has heretofore refused to enact significant mandates relief. That leaves local revenues.
- Unless additional local revenue sources are created, failure to provide municipal aid and real mandate relief is a policy choice by the General Assembly to increase property taxes. The General Assembly has forced municipal leaders to return to the Capitol to beg for extension of the present rates of the municipal real estate conveyance tax.

Most States Allow Local Revenue Diversity

Only 15 states allow municipalities just the property tax.

- **23 states** allow at least some municipalities to levy both **property and sales taxes**
- **6 states** allow at least some municipalities to levy both **property and income taxes**, and
- **5 states** allow at least some municipalities to levy all three — **property, sales and income taxes**.
- Plus, remember that most other states have county governments that levy taxes in addition to state and local taxes, and that provide public services.
- When people consider moving to other states they often come back talking about how low the taxes are — but they are often referring to *property* taxes, the need for which is off-set by optional local taxes, county taxes and higher state income tax and sales tax rates.
- For example, of the 43 states with a personal income tax, 29 have income tax rates that reach higher than Connecticut's highest rate of 5%. They include states we typically think of as our economic

competitors: North Carolina (7.75%), South Carolina (7%), Georgia (6%) and our neighbors New York (6.85%) and Massachusetts (5.3%).

- Those economic competitors have combined state/county sales tax rates that are higher than Connecticut's: North Carolina – 7.8%, South Carolina – 7.05%, Georgia – 6.95%
- Yet, as we've seen above, Connecticut's property taxes are second highest in the nation.

Regional Cooperation

Savings can be achieved in many areas by encouraging cooperation among municipalities in a region. By allowing towns and cities to raise and share certain revenues you will be creating an environment of trust wherein more regional efforts can blossom.

CCM encourages you, however, to make it clear that **regional revenue decisions must be made by the municipal elected officials in a region**. They are accountable to the citizens in their communities. To do this, the legislation should be explicit that such revenue capabilities are only available to regional councils of government and councils of elected officials. It is simply not appropriate for regional planning agencies, which are governed by appointed boards, to make revenue decisions. At a very minimum, such decisions in areas served by RPAs should only be effective upon the vote of a meeting of the chief elected officials in RPA regions.

Summary

What has worked for Connecticut before isn't working today. We need new approaches and new solutions as we meet the current economic and budgetary challenges.

If the State

- **chooses to ignore the need for increased non-property tax revenue at the local level,**
 - **continues to cutback municipal aid,**
 - **fails to encourage regional cooperation,**
 - **again falls short on providing significant mandates relief**
- the next few years look bleak.**

The result will be:

- **increased property taxes**
- **fewer local services, and**
- **statewide lay-offs of local employees.**

Let's be honest with ourselves: that would be a policy choice – the wrong one.

In 2010, more than any previous year, local officials need and want tools and flexibility to allow them to maintain service continuity and the quality-of-life in their communities. One of the best things the State can do, given its own budget troubles, is to provide these tools.

CCM urges you 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.