

The Challenge of Financing Local Government in Connecticut

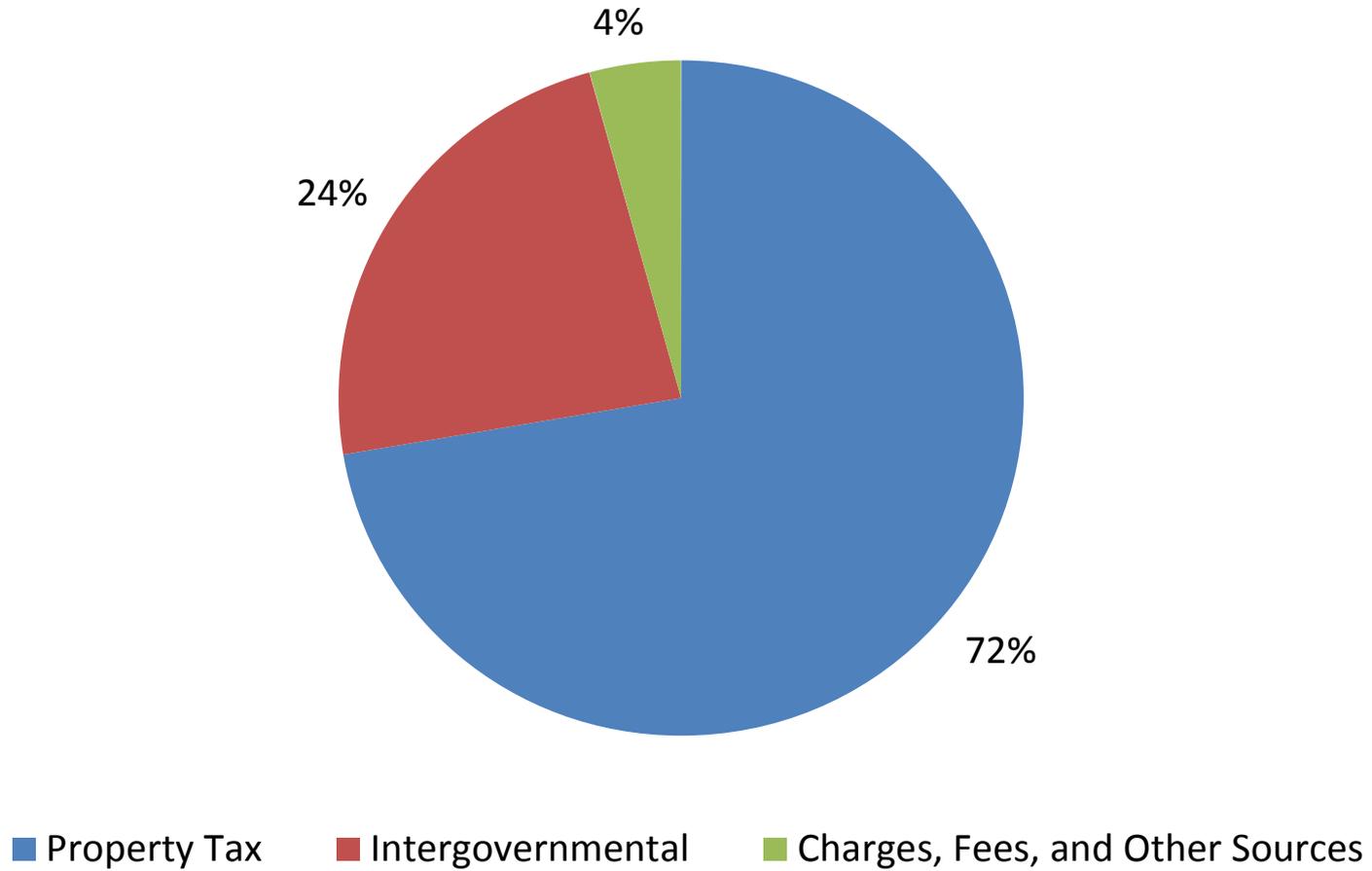
Presentation to

**MORE Commission
Municipal Tax Authority Subcommittee**

March 26, 2013



Municipal Funding Sources FY2011



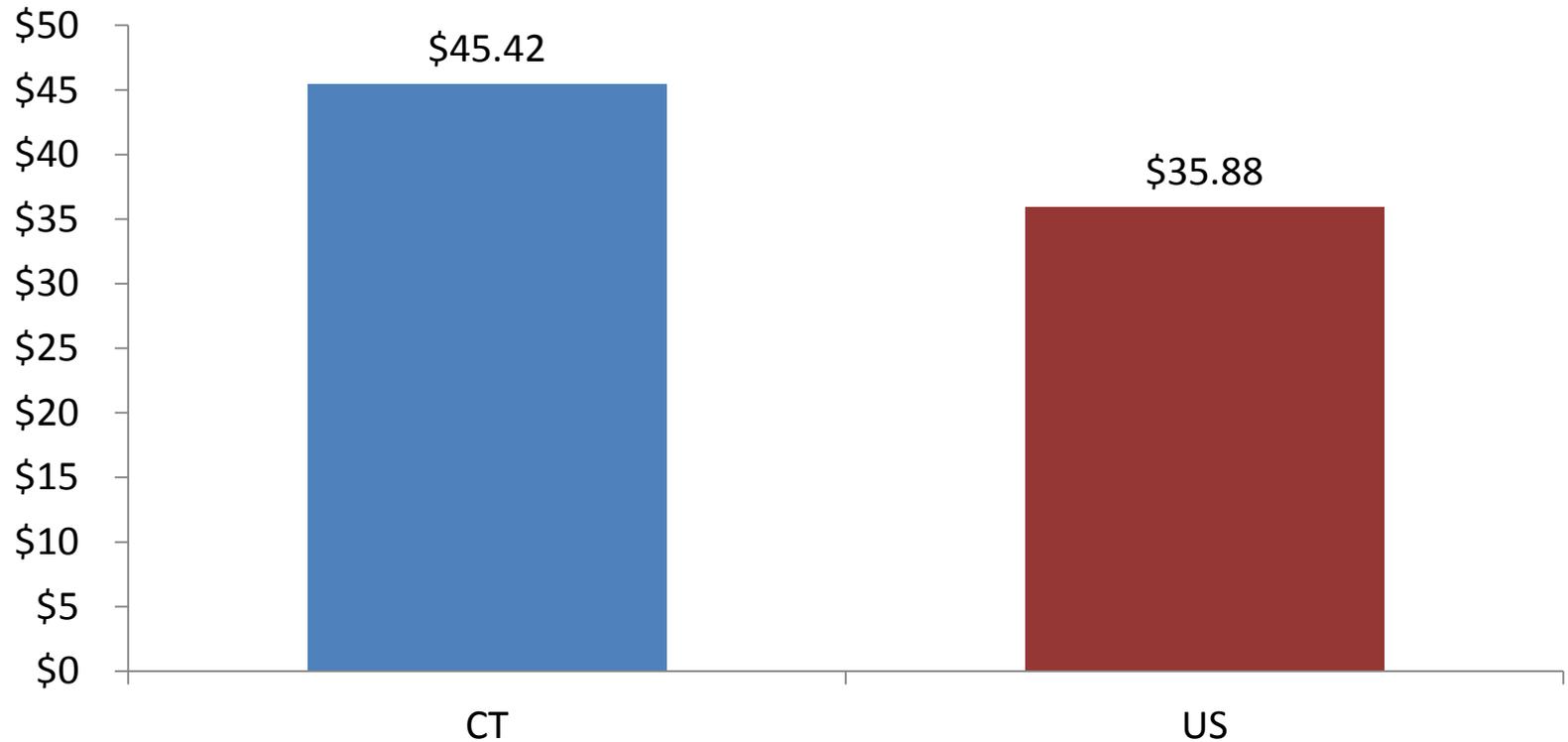
The Property Tax

- Connecticut's largest and most regressive tax (\$9.5 billion in FY13*)
- 72% of municipal revenue statewide
- Biggest tax on Connecticut businesses
- Connecticut is more dependent on it to fund preK-12 education than any other state
- \$0.60 of every property tax dollar goes to pay for preK-12 education
- Income and profit blind

*CCM estimate based on \$9 billion in FY11 per OPM.

Source: CCM

Property Taxes per \$1,000 of Personal Income, FY2010



The Property Tax

- **19 municipalities rely on the property tax for at least 90% of their total revenue**
- **70 municipalities rely on it for at least 80% of their total revenue**
- **113 municipalities rely on it for at least 70% of their total revenue**

Statewide Grand List Components

	Res.	Com./Ind./ Util.	Motor Vehicle	Personal	Other
1998	63.2%	18.5%	8.0%	8.4%	1.9%
2001	65.7%	17.1%	8.1%	7.3%	1.6%
2004	67.9%	15.5%	7.1%	6.0%	1.7%
2007	71.2%	16.4%	5.7%	4.9%	1.8%
2010	70.8%	16.8%	5.5%	5.3%	1.7%

Equalized Net Grand List per Capita, FY2010

Top 10 Ranked High to Low

GREENWICH - \$719,183
NEW CANAAN - \$589,460
WESTPORT - \$555,060
WASHINGTON - \$498,243
ROXBURY - \$462,465
DARIEN - \$454,545
SALISBURY - \$431,359
SHARON - \$431,338
CORNWALL - \$410,269
WILTON - \$373,006

Bottom 10 Ranked Low to High

WINDHAM - \$54,568
MANSFIELD - \$54,625
NEW BRITAIN - \$56,465
HARTFORD - \$58,600
WATERBURY - \$63,715
NEW HAVEN - \$65,111
BRIDGEPORT - \$67,009
WEST HAVEN - \$76,932
ANSONIA - \$79,550
NORWICH - \$83,756

Equalized Mill Rates, FY2011

Top 10 Ranked High to Low

HARTFORD - 34.84
WATERBURY - 31.15
NEW HAVEN - 28.30
BRIDGEPORT - 27.97
WEST HARTFORD - 27.01
NEW BRITAIN - 26.70
NAUGATUCK - 24.31
EAST HARTFORD - 24.25
VERNON - 23.22
WOODBIDGE - 23.12

Bottom 10 Ranked Low to High

GREENWICH - 6.69
SALISBURY - 7.53
WASHINGTON - 8.16
ROXBURY - 8.71
DARIEN - 8.75
WARREN - 9.01
LYME - 9.30
SHARON - 9.45
CORNWALL - 9.75
PUTNAM - 9.90

2011 Median Household Income

Top 10 Ranked High to Low

WESTON - \$205,563
DARIEN - \$193,896
NEW CANAAN - \$191,750
WILTON - \$159,720
WESTPORT - \$155,792
RIDGEFIELD - \$145,000
EASTON - \$141,372
WOODBIDGE - \$129,583
GREENWICH - \$127,201
SHERMAN - \$120,458

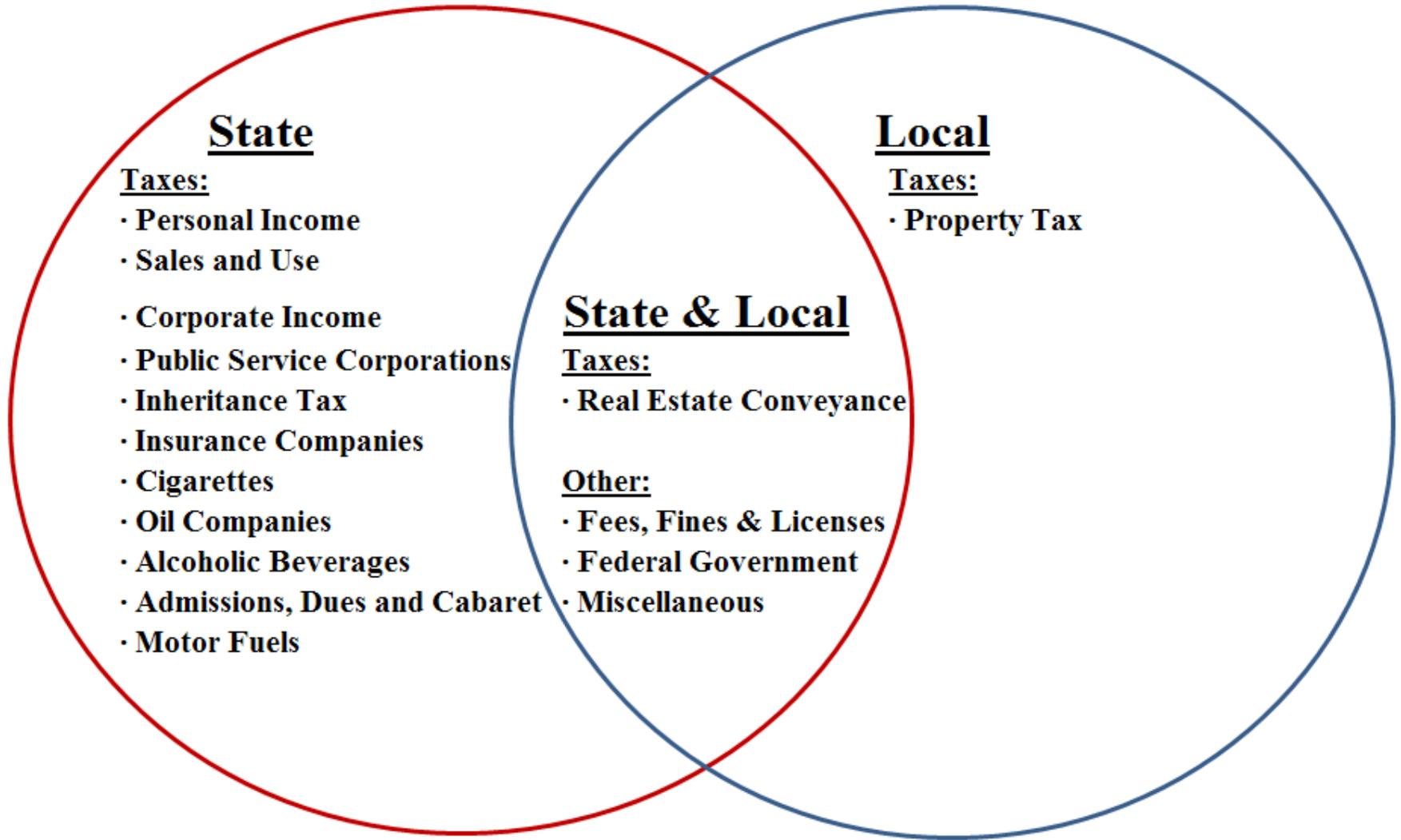
Bottom 10 Ranked Low to High

HARTFORD - \$29,107
NEW HAVEN - \$39,094
NEW BRITAIN - \$39,838
BRIDGEPORT - \$40,947
WATERBURY - \$41,499
WINDHAM - \$42,178
NORTH CANAAN - \$45,139
NEW LONDON - \$45,509
TORRINGTON - \$48,742
EAST HARTFORD - \$49,611

Why the Over-Reliance on the Property Tax?

- The only significant revenue tool granted to towns and cities by the State
- State has consistently failed to meet its share of the state-local funding partnership, particularly in education funding
- Additional burden in the form of unfunded and underfunded state mandates
- Additional burden in the form of state-mandated property tax exemptions
- Lack of consistent, stable state revenue sharing

OWN-SOURCE REVENUE IN CT



State Aid to Municipalities

- **Second largest component of municipal revenue after the property tax at 23%**
- **Totals about \$3.1 billion in the current year**
- **About 85% is education aid and 15% is non-education aid**
- **Education aid was flat-funded for four years**
- **Modest education aid increases for Alliance Districts are conditional, must be applied for, and used only to expand or establish programs**
- **Non-education aid overall has decreased over time in a funding rollercoaster**

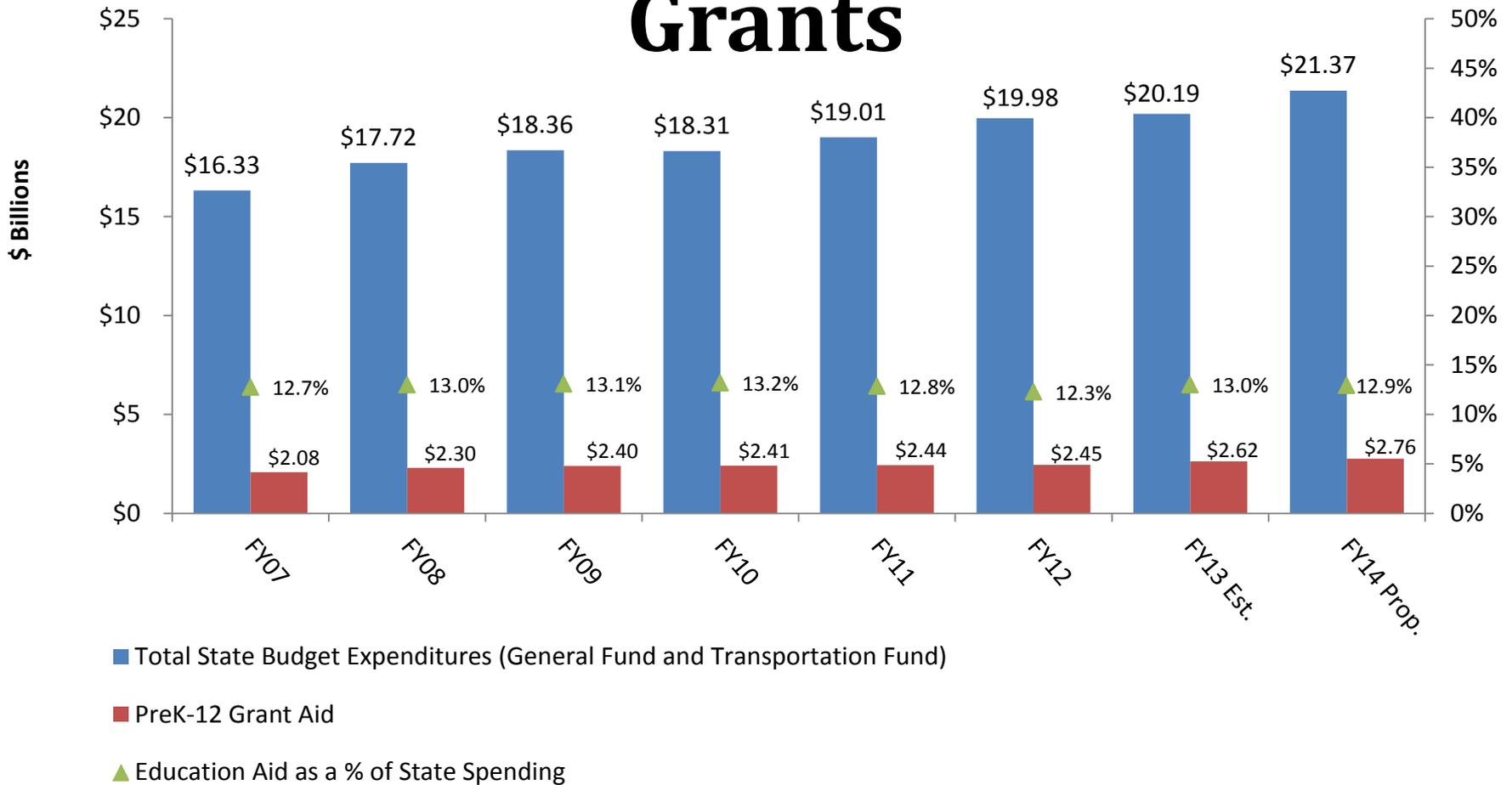
Total Municipal Aid



- Total State Budget Expenditures (General Fund and Transportation Fund)
- Municipal Aid
- ▲ Municipal Aid as a % of State Spending

Source: Comptroller Annual Reports; Governor's Proposed FY14 Budget; CCM March 2013

PreK-12 Public Education Grants



Source: Comptroller Annual Reports; Governor's Proposed FY14 Budget; CCM March 2013

Note: FY14 grant total includes \$74 million shifted from PILOT: State-Owned Property to the ECS account. These funds will not be restricted to education uses in FY14, but they would have to be used for education beginning in FY15.

Total Non-Education Aid



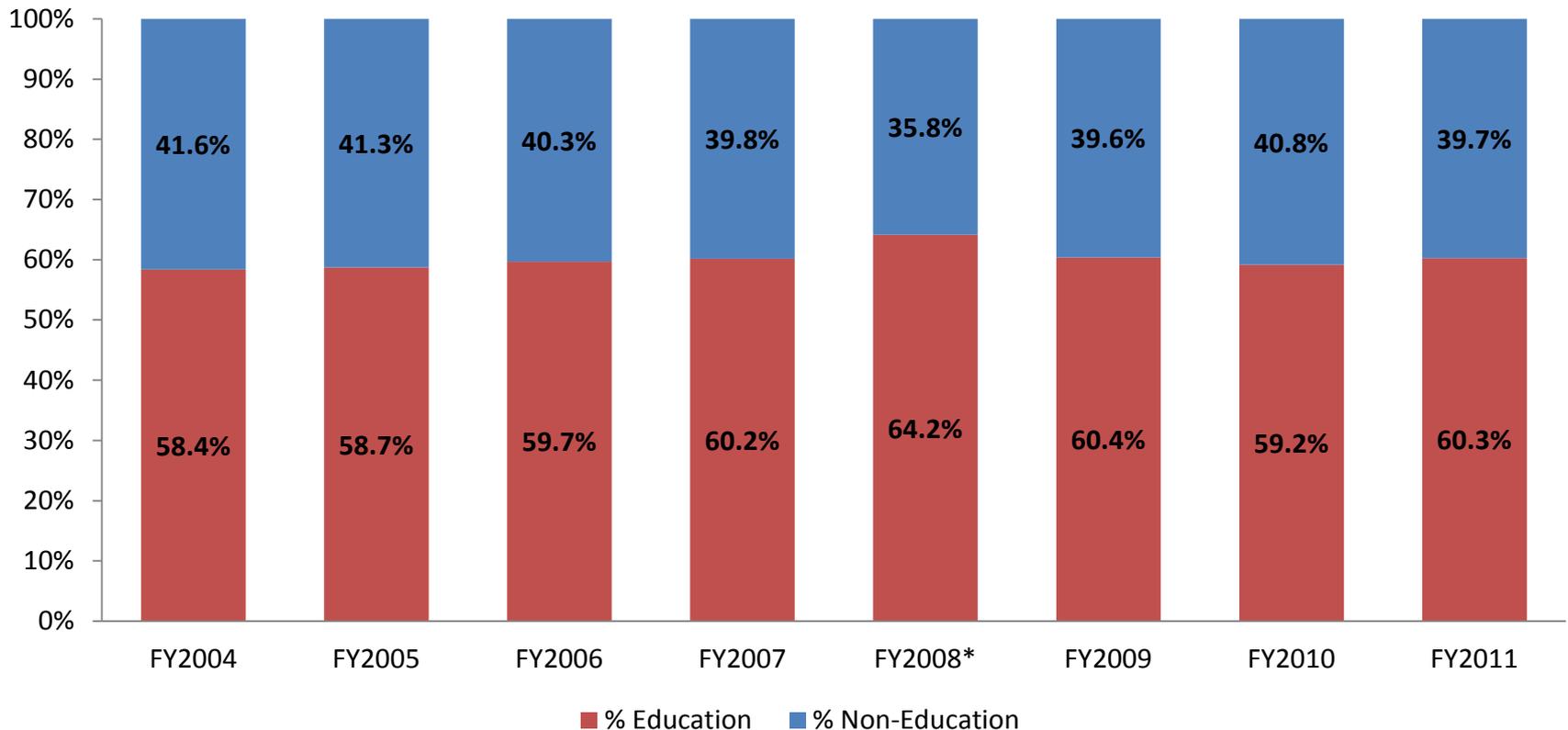
Funding PreK-12 Education

- **PreK-12 education expenditures currently total about \$10 billion in Connecticut**
- **Funding sources**
 - **Towns and cities pay about 51%**
 - **The State pays about 42%**
 - **The rest comes from the federal government and other sources**

Funding PreK-12 Education

- Education expenditures are at least 60% of municipal expenditures statewide
- In most towns, education expenditures are more than 70% of total expenditures
- The education side of municipal budgets has grown as a share of total local expenditures
- The non-education side of municipal budgets has shrunk over the last decade as a share of total local expenditures
- There are fewer non-education, municipal employees today than there were five years ago
- Education finance reform is key to property tax reform

Municipal General Fund Expenditures (Education and Non-Education %)



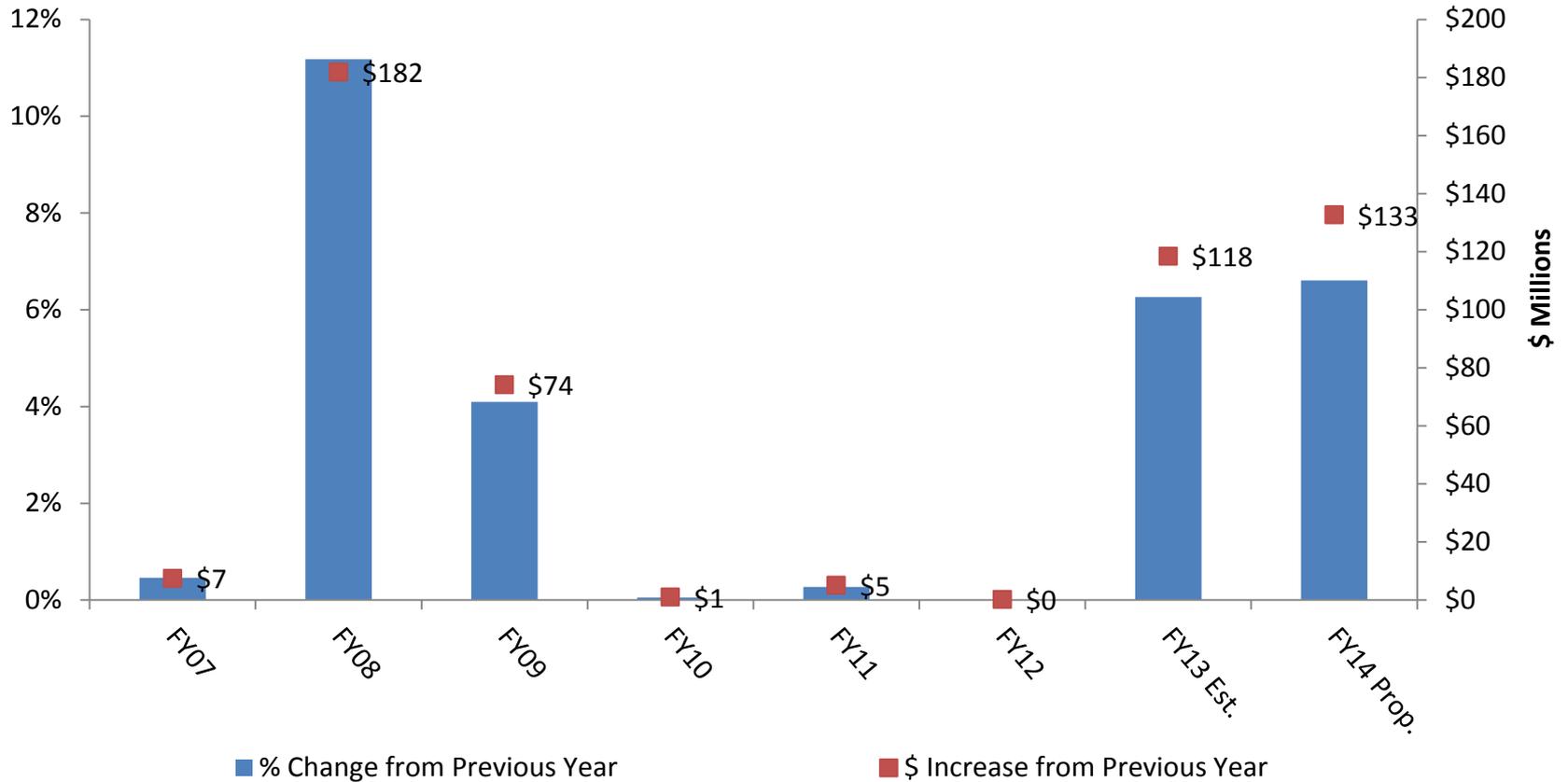
*FY2008 included a one-time \$2 billion payment to the Teachers Retirement Fund.

Source: Comptroller Annual Reports; Governor's Proposed FY14 Budget; CCM March 2013

Education Cost Sharing (ECS)

- The primary state funding mechanism for public preK-12 education
- Supposed to equalize the ability of municipalities to fund education without over-reliance on property taxes
- Currently underfunded by more than \$700 million
- Funded at \$2 billion this year
- Contains a minimum budget requirement (MBR) that forces residential and business property taxpayers to make up for chronic state underfunding
- *CCJEF v. Rell* scheduled to go to trial in 2014

ECS Grant



Source: Comptroller Annual Reports; Governor's Proposed FY14 Budget; CCM March 2013

Note: FY14 grant total includes \$74 million shifted from PILOT: State-Owned Property to the ECS account. These funds will not be restricted to education uses in FY14, but they would have to be used for education beginning in FY15.

Special Education

- **Currently costs more than \$1.7 billion**
- **Growing at double the rate of overall education expenditures**
- **Towns and cities fund more than 60% of these costs**
- **State funding provided primarily through the Excess Cost-Student Based grant, which only begins to partially reimburse school districts after they have spent 4.5 times their average district expenditure on a special-education student**
- **Grant has been flat-funded for five years**

Excess Cost-Student Based Grant



Non-Education Municipal Aid

- **Totals about \$450 million this year**
- **Essentially level-funded over the past several years**
- **Helps defray some costs associated with state-mandated property tax exemptions**
- **Also helps fund capital and infrastructure projects**

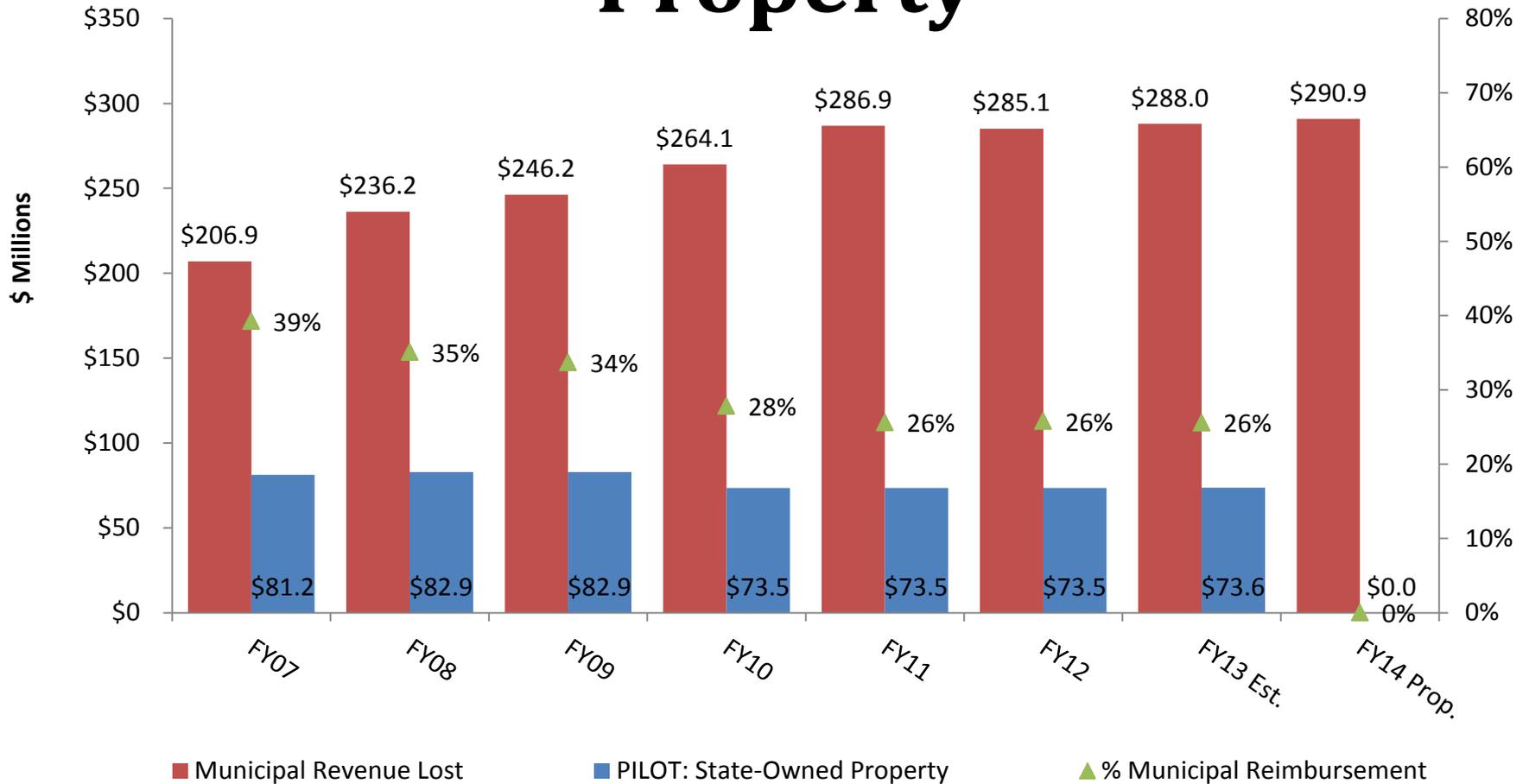
Non-Education Municipal Aid

- **Major grant programs**
 - **PILOT: State-Owned Real Property**
 - **PILOT: Private Colleges & Hospitals**
 - **Manufacturing Transition Grant (PILOT: MME)**
 - **Municipal Revenue Sharing Bonus Pool**
 - **Mashantucket Pequot and Mohegan Fund**
 - **Town Aid Road**
 - **Local Capital Improvement Program (LoCIP)**

PILOT: State-Owned Property

- Provides partial reimbursement payments for property tax losses on tax-exempt real property
- Statutes call for 45% reimbursement for most property
- Actual reimbursement rate is an estimated 26%
- Grants are proportionately reduced if appropriations aren't sufficient
- Total payments are \$73.6 million in current year

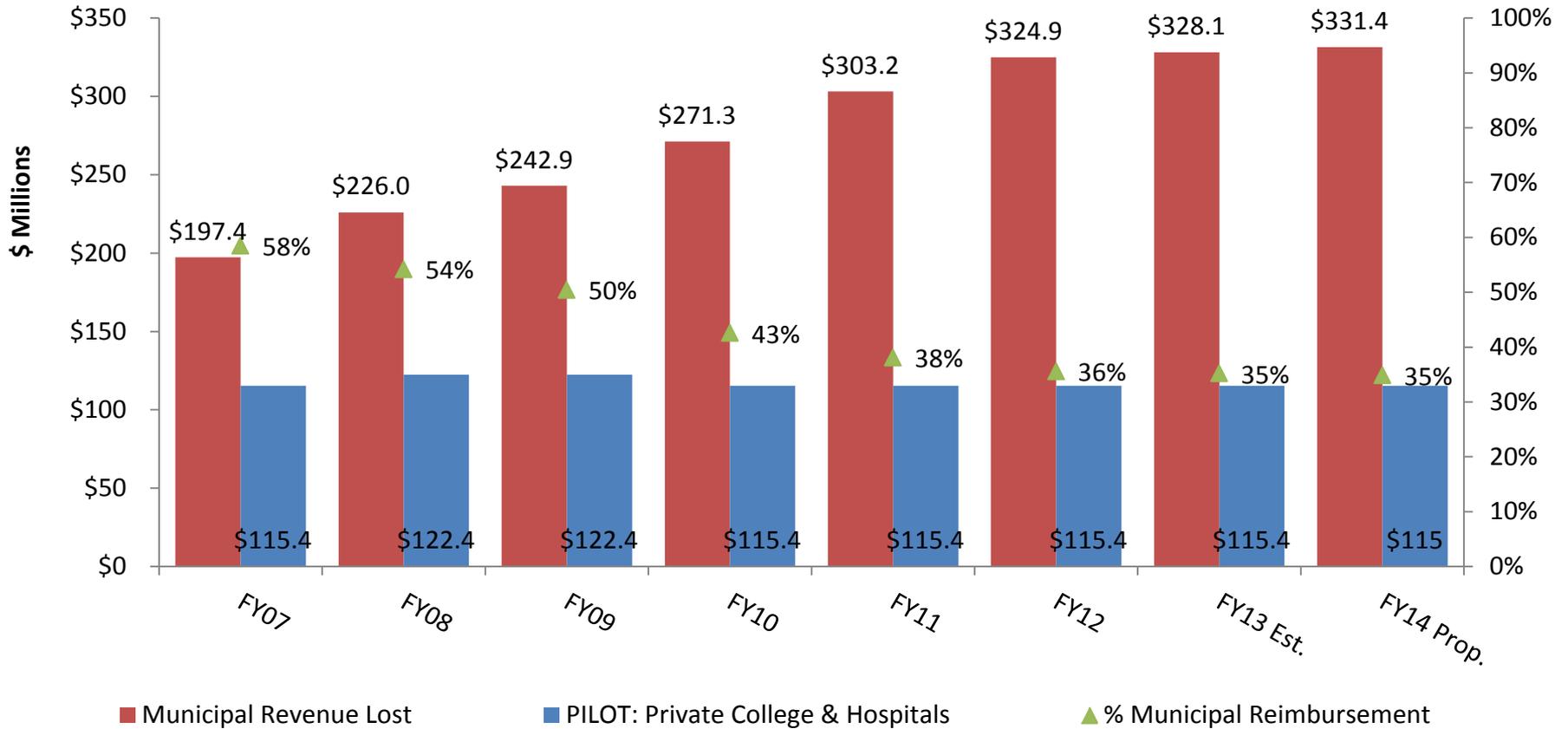
PILOT: State-Owned Property



PILOT: Private Colleges & Hospitals

- Provides partial reimbursement payments for property tax losses on tax-exempt real property
- Statutes call for 77% reimbursement for most property
- Actual reimbursement rate is an estimated 35%
- Grants are proportionately reduced if appropriations aren't sufficient
- Total payments are \$115.4 million in current year

PILOT: Private College & Hospitals



Municipal Revenue Sharing Account

- **New in FY2012**
- **Funded by Sales Tax (0.1%) and portion of the Real Estate Conveyance Tax (0.25%)**
- **Estimated to generate about \$90 million in current year**
- **Funds one PILOT reimbursement and one grant**
 - **Manufacturing Transition Grant (PILOT: MME) (\$47.6 million)**
 - **Municipal Revenue Sharing Bonus Pool (\$42.8 million)**

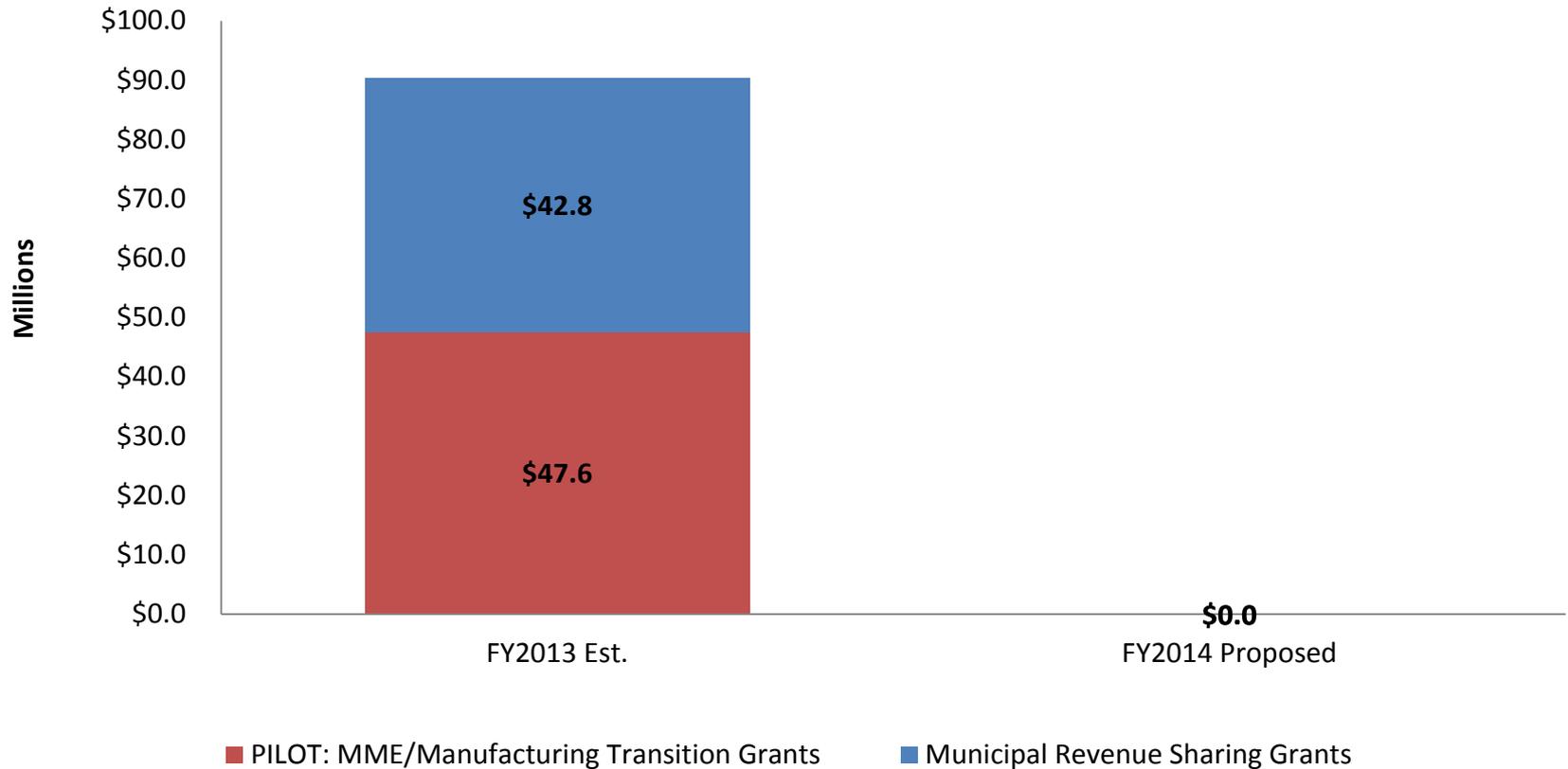
Manufacturing Transition Grant

- **Replaced PILOT: Manufacturing Machinery and Equipment (MME)**
- **PILOT: MME partially reimbursed towns and cities for revenue lost due to state-mandated property tax exemptions on machinery and equipment**
- **Manufacturing Transition Grant is frozen at the FY11 PILOT MME amount for each municipality**
- **Grant totals \$47.6 million in this year**

Municipal Revenue Sharing Bonus Pool

- **Paid from balance remaining in Municipal Revenue sharing Account after Manufacturing Transition Grants are paid**
- **Amounts distributed 50% based on population and 50% based on LPTRTF formula**
- **Grant total estimated at \$42.8 million this year**

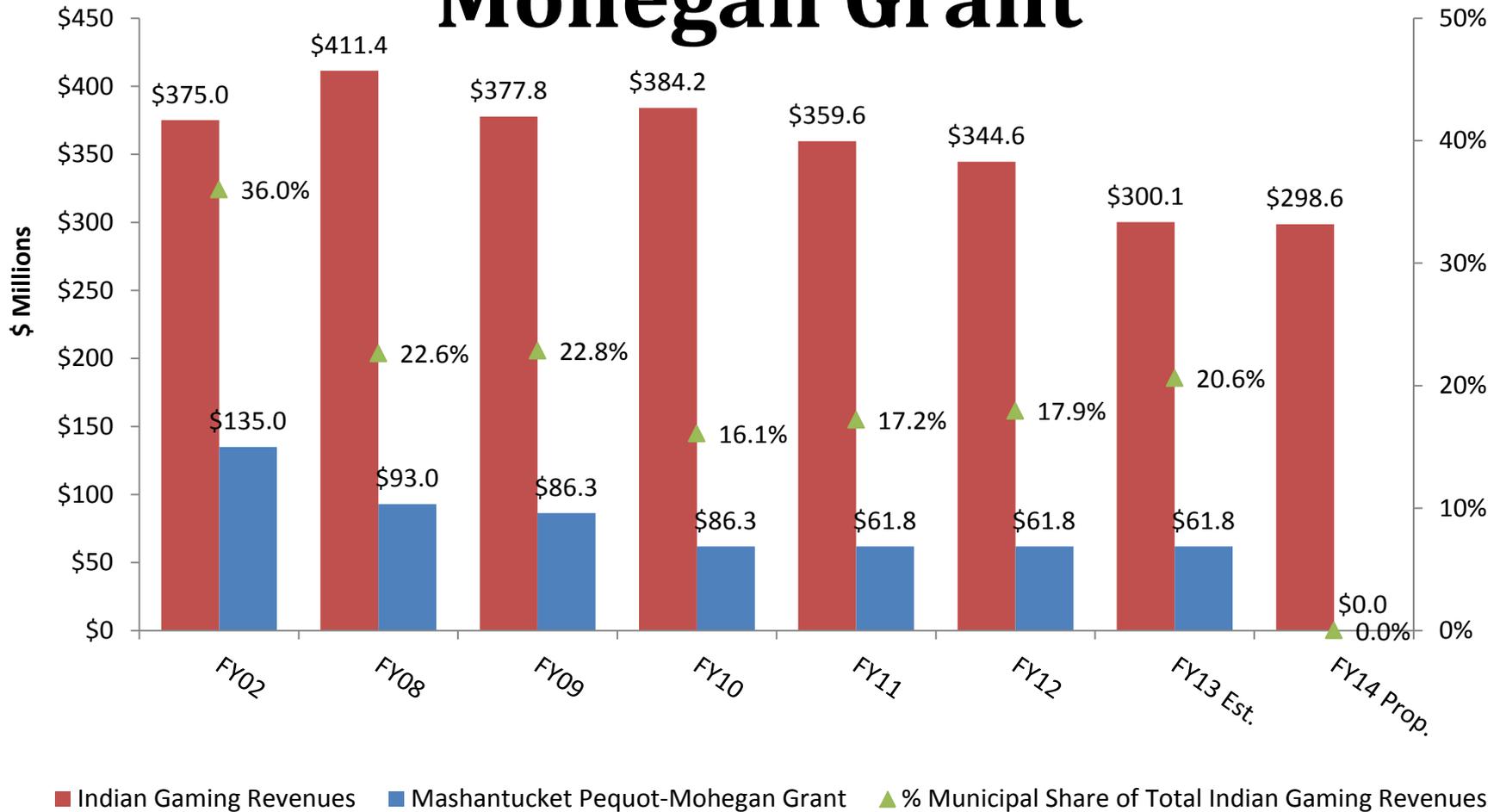
Municipal Revenue Sharing Account



Mashantucket Pequot and Mohegan Fund Grant

- **Payments to all 169 municipalities based on number of need factors**
- **Revenue generated from casino gaming payments**
- **Grants are proportionately reduced if appropriations aren't sufficient**
- **Total payments are \$61.8 million in current year**
- **Fully funded grant would total \$135 million**

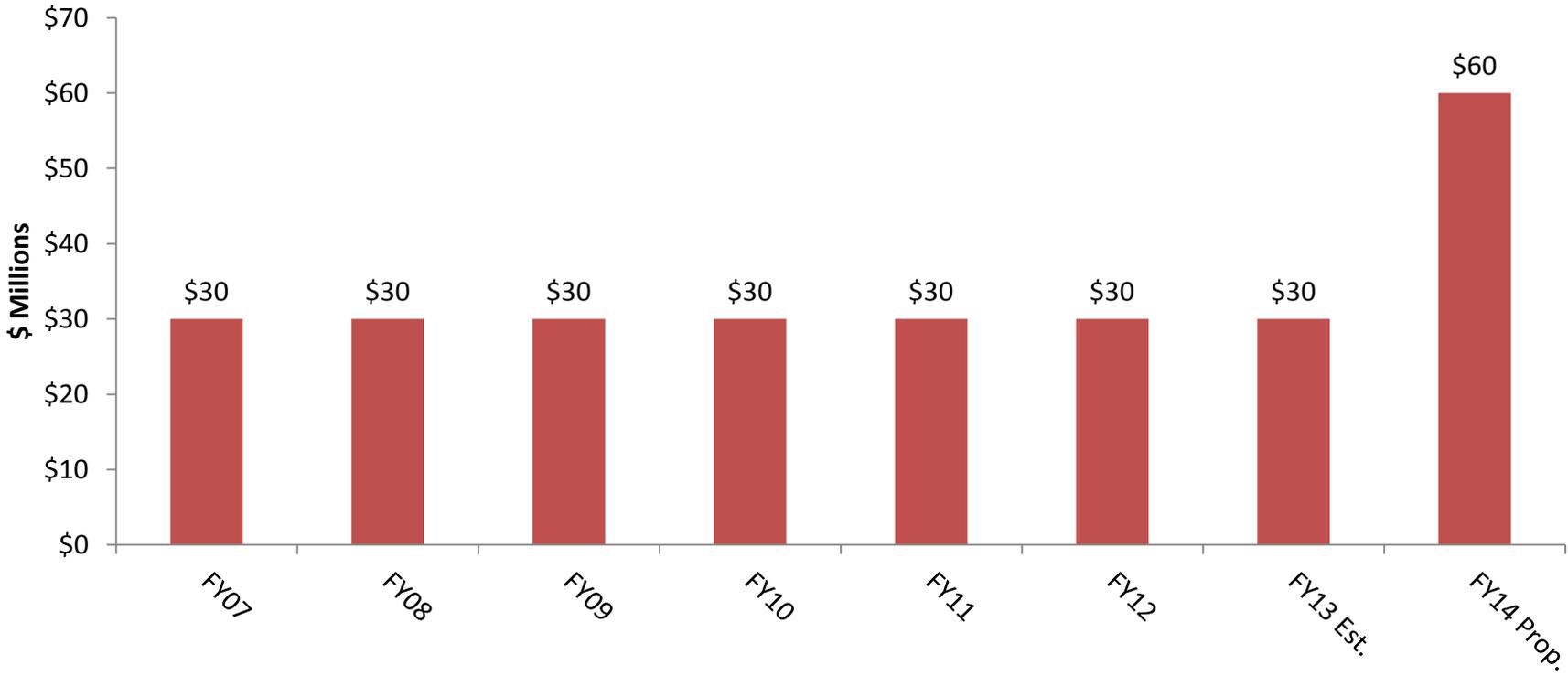
Mashantucket Pequot-Mohegan Grant



Town Aid Road

- **Used for various purposes, including the construction and maintenance of local highways, roads, and bridges**
- **Calculated on factors that include population data and number of road miles**
- **Total payments are \$30 million this year**
- **Level funding for several years**

Town Aid Road Grant



Source: Comptroller Annual Reports; Governor's Proposed FY14 Budget; CCM March 2013

Local Capital Improvement Program (LoCIP)

- **Used to reimburse the costs of local capital improvement projects**
- **Calculated on factors that include population, density, road miles, and net grand list**
- **Towns must request reimbursement for an approved project within seven years of its approval date**
- **Total payments are \$30 million this year**
- **Level funding for several years**

LoCIP



What It All Means

- Connecticut towns and cities are over-reliant on the property tax
- Present local revenue system to support municipal service delivery is not sustainable
- Education finance reform is the key to property tax reform
- Need to preserve and expand state-local revenue sharing
- Mandates relief is cost-effective way to reduce property tax burden
- Programs such as the Regional Performance Incentive Program should be expanded
- Connecticut needs to take a look at comprehensive reform of the state-local revenue system



The Connecticut Conference of Municipalities (CCM) is Connecticut's statewide association of towns and cities. CCM is an inclusionary organization that celebrates the commonalities between, and champions the interests of, urban, suburban and rural communities. CCM represents municipalities at the General Assembly, before the state executive branch and regulatory agencies, and in the courts. CCM provides member towns and cities with a wide array of other services, including management assistance, individualized inquiry service, assistance in municipal labor relations, technical assistance and training, policy development, research and analysis, publications, information programs, and service programs such as workers' compensation, liability-automobile-property insurance, risk management, and energy cost-containment. Federal representation is provided by CCM in conjunction with the National League of Cities. CCM was founded in 1966.

CCM is governed by a Board of Directors, elected by the member municipalities, with due consideration given to geographical representation, municipalities of different sizes, and a balance of political parties. Numerous committees of municipal officials participate in the development of CCM policy and programs. CCM has offices in New Haven (the headquarters) and in Hartford.

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