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The Impact of the Governor's Proposed Municipal Aid Budget on Education, Towns, and Children

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April 2013

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I. Introduction

The Governor's proposed FY2014-2015 budget would substantially restructure municipal aid, state-town revenue sharing, and education spending, making changes with major implications for Connecticut's cities and towns, public schools, and children. This report seeks to clarify the budget's key proposals with regard to municipal and education finance, highlight areas where the nature and impact of these proposals is unclear, and discuss some of the potential consequences of these proposals.

The impact of the proposed changes on children, particularly in the state's poorest cities and towns, is potentially troubling. Taken together, the changes would:

- Distort the state's formula for funding education, so that towns with greater educational need would not necessarily receive greater state support for education;
- Wipe out many of the benefits of the proposed education funding increases for poor towns by levying substantial concurrent cuts to the flexible aid the state already provides to those towns;
- Pass much of the cost of state-mandated education reforms on to Connecticut's lower-middle class and poor taxpayers through increased local property taxes.

Notably, some, but not all, of these adverse consequences would be alleviated by changes made by the Education Committee on March 28, 2013 when it reported out the Governor's bill H.B. 6367, "An Act Implementing the Budget Recommendations of the Governor for Education."¹ The differences between the Governor's proposal and the Education Committee's proposal are noted in sections labeled "*Education Committee Alternative*" when applicable.

II. Major Changes to Municipal Funding and Education

In summary, the Governor's proposed budget:²

- 1) Eliminates \$73.6 million of funding for the state-owned PILOT (Payment in Lieu of Taxes) grant, which makes payments to towns in lieu of the property taxes that the town would have collected were state-owned property not tax exempt.
- 2) Increases funding for the Education Cost Sharing (ECS) grant – the primary source of financial support the state provides towns for education – bringing the total ECS appropriation closer to the "fully funded" grant amount dictated by the statutory funding formula.³ The budget also modifies the formula used to allocate ECS grant aid.⁴ The combined impact of these formula changes and of continuing to phase in full funding is

¹ See, H.B. 6357, "An Act Implementing the Budget Recommendations of the Governor for Education." Available at <http://www.cga.ct.gov/2013/TOB/H/2013HB-06357-R01-HB.htm>.

² See, Governor's Budget, FY2014-2015 Biennium. Available at <http://www.ct.gov/opm/cwp/view.asp?a=2958&Q=518400&PM=1>.

³ *Id.* The purpose of the ECS grant is to increase funding for education, reduce disparities in funding for education due to differences in town wealth, and promote parity in property taxes among towns. Although a town's ECS allocation is dictated by a statutory formula, the ECS grant has never been fully funded and there are problems both with the formula itself and the way grants are actually allocated in practice, undermining the grant's stated goals. For a detailed discussion of the grant's goals and the problems with its funding, see Orlando Rodriguez and Jacob Siegel, *Problems with Connecticut's Education Cost Sharing Grant*, Connecticut Voices for Children, February 2011. Available at <http://www.ctvoices.org/publications/problems-connecticuts-education-cost-sharing-grant>.

⁴ Specifically, the proposed budget would change the ECS formula by 1) increasing the "Foundation" – the amount of money the state has determined is necessary to educate an average child; 2) replacing student eligibility for Title I with eligibility for Free and Reduced Price Lunch as a measure of poverty to provide a more accurate measure of student need; 3) eliminating the additional weight given to educating Limited English Proficiency students by the formula in calculating "total need students" and also slightly reducing the weight given to poor

an increase in ECS funding of \$51 million in FY2014, and again in FY2015. About 80% of this formula aid is directed at Alliance Districts – the thirty school districts which perform most poorly on Connecticut’s standardized tests.⁵ Each town also receives a further increase in its ECS grant equal in size to its FY2013 PILOT grant.

Ultimately, under the Governor’s proposal, towns would receive grants based on the following formula in both FYs 2014 and 2015:

- a. **Non-Alliance Districts** – If a town is not an Alliance District it would receive a grant equal to: **Previous Year’s Aid + Amount Received for PILOT in FY2013 + Small Increase in Formula Aid.** The Small Increase is based on proportionately phasing in the fully funded ECS grant. However, for towns that would have a decrease in aid under the formula, their Small Increase is \$0. As a result, no town would see a decrease in ECS aid, regardless of whether its grant should decrease under the new formula.⁶
- b. **Alliance Districts** – If a town is an Alliance District it would receive a grant equal to: **Previous Year’s Aid + Amount Received for PILOT in FY2013 + Larger Increase in Formula Aid.** The Larger Increase is also based on proportionately phasing in the fully funded ECS grant, but at a much higher rate than for non-alliance districts.⁷ However, unlike other school districts whose ECS grants are guaranteed, under the 2012 education reforms, all increases in ECS aid over the previous year for Alliance Districts are paid to the State Department of Education (SDE) instead of to the town, and withheld until the town submits a plan for implementing education reform and raising student achievement.⁸ For this reason, Alliance Districts are guaranteed to receive only the Previous Year’s Aid, and must apply to receive their Larger Increase. Alliance Districts do not have to apply for the part of their ECS increase attributable to reallocated State-owned PILOT funds.⁹

The Minimum Budget Requirement (MBR) (the minimum amount of state, local, and federal money each town must budget for education) for FYs 2014 and 2015 requires non-Alliance Districts to budget what they budgeted on education the previous year, plus whatever they would receive in new ECS money from the \$50.8 million statewide increase in formula aid.¹⁰ Alliance Districts are required to budget for education what they budgeted the previous year, plus any increase necessary to ensure that at least 21% in FY2014 and 22% in FY2015 of money spent on education comes from own-source revenue.¹¹ Finally, the Governor’s budget states that in FY2014 towns “will have the discretion of providing tax relief with the \$73.6 million reallocated from PILOT.” It is unclear whether towns must begin to spend PILOT funds on education in 2015.

students; 4) reducing the “Minimum Aid Ratio” – the minimum percentage of the cost to each town of providing an adequate education (as determined by the State) that must be covered by ECS aid – from 9% to 2%, but maintaining the Alliance District Minimum Aid Ratio at 10%; and 5) replacing household income data with more up-to-date measures. See, Governor’s bill H.B. 6357, available at <http://www.cga.ct.gov/2013/TOB/H/2013HB-06357-R00-HB.htm>.

⁵ For a full explanation of the purpose of Alliance Districts, and a complete list of Alliance Districts, see SDE’s website at <http://www.sde.ct.gov/sde/cwp/view.asp?a=2683&Q=334226>.

⁶ 117 towns would receive an increase in their ECS aid. See, Governor’s Budget Summary, Section B: Budget Summary – Department of Education. Available at http://www.ct.gov/opm/lib/opm/budget/2014_2015_biennial_budget/budgetsummary/section_b_budgetsummary.pdf.

⁷ Each year, Alliance Districts would receive 10% of the total increase necessary to bring them up to a fully funded ECS grant. Each year, Non-alliance districts would receive 1% of the amount necessary. See Governor’s H.B. 6357, 2013.

⁸ See, P.A. 12-116, s. 34, available at <http://www.cga.ct.gov/2012/ACT/PA/2012PA-00116-R00SB-00458-PA.htm>. See also, Judith Lohman, *2012 Acts Affecting Education*, Office of Legislative Research, 2012. <http://www.cga.ct.gov/2012/rpt/2012-R-0198.htm>.

⁹ See H.B. 6357, Sec. 4.

¹⁰ For a discussion of the MBR, see Thomas B. Mooney, *A Practical Guide to Connecticut Education Law, 6th Edition*, p. 75.

¹¹ See, H.B. 6357.

Education Committee Alternative: The Education Committee’s proposed revision would not increase each town’s ECS grant by the amount of State-owned PILOT aid it received in 2013. (It is unclear if the state-owned PILOT grant would be restored, or eliminated entirely.) Instead, it would divide towns into three categories, rather than two – non-Alliance Districts, Alliance Districts, and Education Reform Districts, where the third category is comprised of the ten districts that perform most poorly on standardized tests (and hence is a subset of the Alliance Districts).¹² It would provide, in each year of the biennium, small formula aid increases for non-Alliance districts, larger formula aid increases for Alliance Districts, and the largest formula aid increases for Education Reform Districts.¹³ It would also adjust the ECS formula to place nine times as much weight on a town’s property tax base as on its median household income when measuring a town’s ability to pay for its own schools; the Governor’s proposal would weight household income and property tax base equally.

- 3) Eliminates the Municipal Revenue Sharing Account (MRSA), which is funded by revenues raised from a portion of sales, luxury, and real estate conveyance taxes.¹⁴ While town-specific allotments for these grants are not specified in the budget, this cut would total about \$94 million in FY 2014.
- 4) Markedly reduces grants to towns made out of the Mashantucket Pequot/Mohegan (Pequot-Mohegan) fund. Historically, these grants have provided discretionary funds to all 169 towns with distribution based on a number of factors including the value of tax-exempt property in the town and the town’s population, equalized net grand list, and per capita income. This proposal would cut a total of \$56 million, with the remaining \$5.35 million distributed to a subset of towns, including those near the state’s casinos.
- 5) Increases towns’ Local Capital Improvement (LoCIP) grants by the amount of aid a town received in 2013 from the Pequot-Mohegan fund. LoCIP grants, funded by bond funds, currently can be used by towns for capital improvements. The allowed uses of these grants would be expanded to include establishing bikeways, land acquisition, acquiring technology necessary to implement the Common Core curriculum, and other technology upgrades.¹⁵
- 6) Distributes \$47 million in FY2014 and \$32 million in FY2015 in Municipal Aid Adjustments, or “Hold Harmless Grants,” to ensure that no town receives less total state aid than it did in FY2013.
- 7) Eliminates \$25.8 million in grants for public school transportation, and replaces them with a \$5 million incentive grant, distributed on a competitive basis to towns that have “regional transportation plans.”

Education Committee Alternative: The Education Committee would not change the current system for funding public school transportation.¹⁶

- 8) Holds constant the Excess Cost Grant for students with extraordinary special education costs.

¹² See, P.A. 12-116, Sec. 34 “An Act Concerning Educational Reform.” Available at <http://www.cga.ct.gov/2012/ACT/PA/2012PA-00116-R00SB-00458-PA.htm>.

¹³ The full text of HB 6357, as reported out by the Education Committee, can be found at <http://www.cga.ct.gov/2013/TOB/H/2013HB-06357-R01-HB.htm>.

¹⁴ MRSA was created by PA 11-6, as amended by PA-61, to mitigate the elimination of the Manufacturing Machinery and Equipment PILOT (MM&E) grant. OPM to makes grants from MRSA equal in value to towns’ FY2011 MM&E grant; any funds then remaining are split equally with half distributed to towns on a per capita basis and the other half according to a formula used to calculate town need. For more information on MRSA, see http://www.cga.ct.gov/ofa/Documents/year/GT/2013GT-20120621_Manufacturing%20Transition%20Grant%20and%20Municipal%20Revenue%20Sharing%20Account%20FY%202013.pdf.

¹⁵ See Governor’s S.B. 842, Available at <http://www.cga.ct.gov/2013/TOB/S/2013SB-00842-R00-SB.htm>.

¹⁶ See, H.B. 6357, “An Act Implementing the Budget Recommendations of the Governor for Education.” Available at <http://www.cga.ct.gov/2013/TOB/H/2013HB-06357-R01-HB.htm>.

- 9) Reduces funding for School-Based Health Centers. While town-specific allotments are not available, this cut would total about \$1.6 million in FY2014.
- 10) Increases funding for the OPEN Choice grants that help students attend schools outside their districts by \$12.9 million in FY2014, and an additional \$5.6 million in FY2015.
- 11) Increases funding for inter-district magnet schools by \$28 million in FY2014, and by an additional \$15.9 million in FY2015.
- 12) Exempts from property tax the first \$20,000 of assessed value of all motor vehicles (except rentals). The estimated total revenue loss for towns as a result of this exemption is \$633 million.¹⁷

III. Implications for Education and Municipal Services

There are six major consequences of the Governor's proposed municipal aid budget that will affect property tax parity, education, and children:

1) Cutting flexible state aid to towns would increase reliance on local property taxes and build fiscal pressure for property tax increases.

Taken together, cutting both Municipal Revenue Sharing and the Pequot-Mohegan Fund would reduce flexible state aid to towns by about \$150 million. If towns ultimately are required to spend on education the portion of their ECS grant reallocated from State-owned PILOT (see note on page 2), then cuts to flexible aid would total \$223.6 million. Compounding this problem is the Governor's proposal to eliminate property taxes on the assessed value of motor vehicles less than \$20,000, a source of \$633 million in revenue to towns. With an approximately \$850 million reduction in flexible revenues from just these changes, towns' ability to maintain current levels of municipal services will be jeopardized; they may have little option but to raise taxes or cut services.

Further, these proposed cuts to non-school aid would disproportionately affect the state's poorest cities and towns, which spend a greater portion of their budgets on non-education functions such as police, firefighting, and community supports. Residents of Connecticut's poorest cities and towns also already face higher property tax rate than their wealthier peers, and these cuts to aid could exacerbate these disparities. Indeed, the positive effects of the Governor's proposed education funding increases for poor cities may be washed out by the impact of property tax increases on poor families and cuts to other services that provide for their health and safety, and are essential to children's capacity to learn.

2) The Governor's proposed budget would continue the practice of maintaining education aid levels for towns that have seen decreasing need for funding.

The ECS grant is intended to allocate aid to towns in a manner that reflects both a town's educational need and its ability to pay.¹⁸ If ECS aid were actually allocated according to the formula, towns with increasing wealth or declining school-age populations would see their grants fall; however, in the proposed budget, no town sees a decrease in ECS "formula aid" (aid that does not include the money reallocated from PILOT). Not reducing the ECS grant to towns that have seen their need decrease is not a new practice.¹⁹ However, because the ECS grant is underfunded – the total amount of ECS money distributed to towns is still much less than is dictated by the state's statutory funding formula – every additional dollar Connecticut spends on a district that has seen its need *decrease* is

¹⁷ See, CT Office of Fiscal Analysis, "Estimated Impact of Governor's Motor Vehicle Property Tax Exemption Proposal," March, 2013. Data provided in e-mail from George Rafael, April, 2013.

¹⁸ See, OLR brief by John Moran, "Education Cost Sharing Formula," February, 2012. Available at <http://www.cga.ct.gov/2012/rpt/2012-R-0101.htm>.

¹⁹ See, Jacob Siegel and Orlando Rodriguez, *Problems with Connecticut's ECS Formula*, February, 2011. Available at <http://www.ctvoices.org/publications/problems-connecticuts-education-cost-sharing-grant>.

a dollar not spent on a district that has seen its need *increase* and that still receives far less than full funding. Simply put, maintaining the same level of state education aid to towns with increasing wealth (or decreasing school-age populations) means that towns with decreasing wealth (or increasing school-age populations) do not receive a fair slice of the ECS pie. By continuing the practice of holding towns harmless for decreasing need, the proposed budget would further dilute the ECS grant’s ability to ensure every school is adequately funded while reinforcing property tax inequities amongst towns.

3) Reallocating the State-owned PILOT grant dollar-for-dollar into the ECS grant would distort education funding in ways that do not reflect town needs or capacity.

Because the proposed budget repurposes state-owned PILOT funds for education, it would exacerbate inequalities in the allocation of education funds. Towns with large amounts of state-owned property would receive large ECS increases wholly unrelated to their ability to pay for schools, and unrelated to what they would otherwise be allocated by the ECS formula. For example, under the Governor’s budget, Cheshire would receive an ECS increase of \$2.1 million, or 22%, in 2014. By contrast, Guilford, which falls in the same District Reference Group (DRG),²⁰ would receive an ECS increase of less than \$33,000, or 1%.²¹ Because most of the growth in Cheshire’s ECS grant comes from transferred State-owned PILOT funds and reflects the value of state prisons there, rather than Cheshire’s student need or its ability to pay for its own schools, Cheshire’s education budget would become overfunded relative to demographically similar Guilford. As a second example, Hartford would receive an ECS increase of 9%, while Bridgeport would receive an increase of just 4%. This disparity is attributable to the fact that Hartford received \$11 million more in State-owned PILOT aid than Bridgeport in 2013.

Town	FY 13 ECS Grant (\$)	FY 13 State-Owned PILOT (\$)	FY 14 Increase in Formula Aid (\$)	Proposed FY 14 ECS Grant (\$)	Total FY 14 ECS Increase (\$)	% FY 14 ECS Increase
Cheshire	9,376,495	2,072,234	24,563	11,473,293	2,096,798	22%
Guilford	3,058,981	19,304	13,141	3,091,426	32,445	1%
Hartford	192,783,001	13,570,279	4,459,965	210,813,245	18,030,244	9%
Bridgeport	168,599,571	2,834,256	4,288,818	175,722,645	7,123,074	4%

Source – CT Voices Analysis of the Governor’s Proposed FY2014-2015 Biennial Budget: Municipal Aid

These examples illustrate how reallocating State-owned PILOT to ECS would distort ECS funding so as to leave towns with high value State-owned property overfunded relative to their demographically similar peers. Furthermore, because the proposed budget does not decrease the ECS grant allocation to already overfunded towns, and this has consistently been the State’s practice in the past (see page 5), it is likely that towns with high value State-owned property would remain overfunded for the foreseeable future.

Education Committee Alternative: The Education Committee would not reallocate State-owned PILOT to ECS. This would prevent the distortion of ECS described here.

4) Conditional funding for Alliance Districts creates the possibility that underfunded low-income school districts would not receive their much needed ECS increases.

²⁰ Connecticut’s school districts are divided into nine District Reference Groups by SDE. The classification is based on measures of student need, socioeconomic status, and school enrollment. For a full discussion of DRGs, see Connecticut Voices for Children, *District Reference Groups (DRGs), formerly Educational Reference Groups (ERGs)*, June 2006. For a full list of districts by DRG, see <http://www.sde.ct.gov/sde/LIB/sde/PDF/dgm/report1/cpse2006/appndx.pdf>.

²¹ Each town’s total municipal aid grant broken out by grant type is available in the Municipal Aid section of the Governor’s Budget, available at http://www.ct.gov/opm/lib/opm/budget/2014_2015_biennial_budget/municipal_aid_town_by_town.pdf.

A key component of the Governor's proposed municipal aid package is large increases in ECS aid for Alliance Districts, which would see their gaps between current and full-formula aid diminished at ten times the rate of other districts'.²² However, since the ECS formula aid increases to Alliance Districts now are conditional, these districts may not receive any ECS formula aid increase if they fail to comply with the terms of SDE's education reforms. While this provision is intended to ensure that Alliance Districts implement reforms to raise student achievement, Connecticut's 30 Alliance Districts are also 30 of its poorest towns.²³ These towns tend to have higher property tax rates than their wealthier peers, yet still struggle to fund their schools, which in turn serve some of the state's most challenging students.²⁴ If SDE were actually to withhold ECS increases to Alliance Districts, these districts would face even more serious obstacles in meeting their students' educational need.²⁵

5) Less than one third of the proposed ECS increase for Alliance Districts is truly new state money – the remainder is reallocated municipal aid that the towns which house Alliance Districts already had been receiving.

On its face, the Governor's budget suggests that Alliance Districts would receive large ECS increases. However, since the budget also proposes multiple cuts in other municipal aid, the net growth in municipal aid for the poor towns that house Alliance Districts is actually far smaller than the proposed ECS increase suggests. In fact, many of these towns avoided net aid decreases only because of Hold-Harmless Grants, a temporary source of non-formula municipal aid designed to mitigate the impact of the proposed cuts.²⁶ While the total ECS increase for Alliance Districts is \$139 million, the net aid increase for Alliance District towns, which includes both ECS increases and all of the budget's other proposed aid increases and reductions, is only \$40 million, or about 29% of that. In short, towns with Alliance districts receive an additional \$139 million in education funds, but simultaneously lose \$99 million in other state funds, for a net gain of only \$40 million.

²² See Governor's H.B. 6357, sec.2. Available at <http://www.cga.ct.gov/2013/TOB/H/2013HB-06357-R00-HB.htm>.

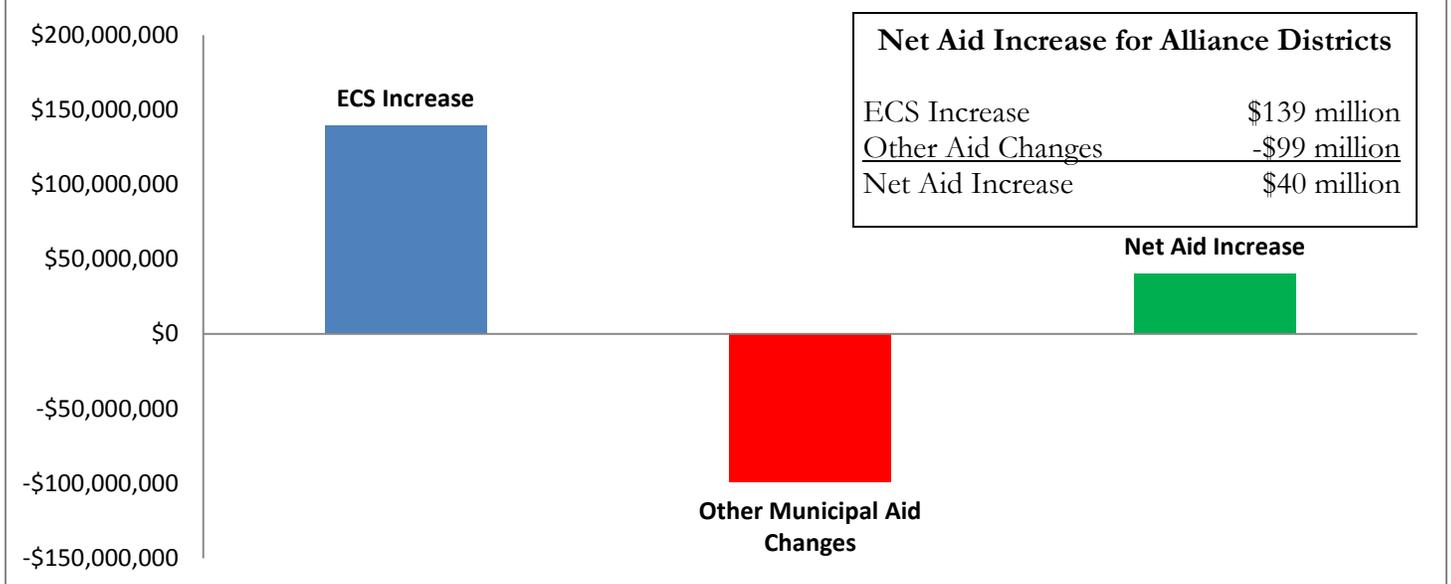
²³ Many of the towns containing Connecticut's Alliance Districts are also designated Distressed Municipalities. For a list of distressed municipalities, see the website of the Department of Economic and Community Development (DECD), available at <http://www.ct.gov/ecd/cwp/view.asp?a=1105&q=251248>.

²⁴ Office of Policy and Management, *Mill Rates*, at <http://ct.gov/opm/cwp/view.asp?Q=385976>.

²⁵ There is evidence that Connecticut's struggling school districts already spend far less per pupil than is necessary to provide them with an adequate education, and recent state funding increases have not been able to make up this spending gap. See, Affidavit of Bruce Baker in *Connecticut Coalition for Justice in Education Funding v. Rell*, available at <http://ccjef.org/Baker%20Affidavit,%20Plaintiffs%27%20Opposition%20to%20Motion%20to%20Dismiss,%20Feb%202013.pdf>.

²⁶ See, Governor's Proposed Budget, Municipal Aid, available at http://www.ct.gov/opm/lib/opm/budget/2014_2015_biennial_budget/municipal_aid_town_by_town.pdf.

Most of ECS Increase Offset by Municipal Aid Cuts



Source – CT Voices Analysis of the Governor’s Proposed FY2014-2015 Biennial Budget: Municipal Aid

For example, over the course of the biennium, Hartford would receive under the Governor’s proposed budget an ECS increase of \$22 million, equivalent to growth of 11% over FY2013. However, because Hartford is slated to lose so much other aid, this increase in ECS funding is nearly entirely wiped out. In fact, Hartford’s net aid increase over the biennium would be only \$77,326, or 0.03%, and this slight increase is possible only because of a \$4.4 million Hold Harmless Grant in 2014.²⁷ Windham provides a second, less dramatic but still illustrative, example. Windham’s proposed ECS increase over the biennium would be \$4.4 million, or 18% over FY2013. However, its bottom-line increase after accounting for other aid cuts would be only \$319,624, or slightly less than 1%. In fact, eight Alliance Districts – Bloomfield, Bristol, East Windsor, Killingly, Putnam, Winchester, Windsor, and Windsor Locks – would receive no net aid increase at all.²⁸

Alliance District	2013 ECS Grant (\$)	ECS Increase (\$)	% ECS Increase	2013 Total Municipal Aid (\$)	Total Aid Increase (\$)	% Aid Increase	Net Total Aid Increase as Percentage of 2013 ECS Grant
Windham	24,933,574	4,393,657	17.6%	32,614,138	319,624	1.0%	1.3%
Hartford	192,783,001	22,469,771	11.7%	257,297,555	77,326	0.0%	0.0%

Source – CT Voices Analysis of the Governor’s Proposed FY2014-2015 Biennial Budget: Municipal Aid.

Importantly, even though most of the poor cities and towns that house Alliance Districts would receive relatively small total aid increases, most of their nominally large ECS increases are conditional, and must be spent on implementing state-mandated reforms. As a result, much of this money may have to be spent on new programs, rather than on bolstering the programs that Alliance Districts already offer.

Put simply, the proposed budget could require Connecticut’s poorest cities and towns to spend more money on new education programs than is being provided to them. If education reform is an underfunded mandate, its benefits could easily be washed out as poor cities and towns are forced to raise property taxes on poor and lower-

²⁷ See, Governor’s Proposed Budget, Municipal Aid, available at http://www.ct.gov/opm/lib/opm/budget/2014_2015_biennial_budget/municipal_aid_-_town_by_town.pdf.

²⁸ See Appendix A for a full list of ECS increases and net aid increases for Alliance Districts.

middle class workers, shift dollars from other education functions (such as school transportation and special education),²⁹ and divert funding from important municipal services to pay for these new reforms.

Education Committee Alternative: The Education Committee would: a) remove the part of each district's increase attributable to FY2013 State-owned PILOT; b) restore aid for public school transportation; and c) provide different formula aid increases than those proposed in the Governor's budget (the dollar amounts of which are not available). It is difficult to tell the extent to which these ECS increases for Alliance (and Education Reform) Districts would come from new state aid rather than repurposed municipal aid that the towns that house these districts were already receiving.

6) By both creating and maintaining loopholes in the Minimum Budget Requirement (MBR), the Governor's budget proposal obscures transparency in the use of State education aid.

First, the budget reallocates the State-owned PILOT grant into ECS, but then leaves towns "the discretion to use the \$73.6 million reallocated from PILOT to ECS for tax relief."³⁰ As long as towns are not required to spend money reallocated from State-owned PILOT on education, these \$73.6 million will effectively be flexible aid hidden within an education grant. In other words, it is unclear if any new education spending will actually result from this change.

Second, while the proposed budget sets an MBR that requires each town to *budget* increasing amounts of money for education each successive year, this is not equivalent to requiring them to *spend* this money on education. This is because – with the exception of Alliance Districts, for whom the balance of conditional ECS funds remaining for the board of education at the end of the fiscal year is carried forward to the next year³¹ – there is typically no mechanism for school boards to reallocate unspent funds at the end of a fiscal year to the following fiscal year. As a result, monies budgeted for education that are not spent on education revert back to the town at the end of the fiscal year, to be spent at the town's discretion.³² This means that, even though the Minimum Budget Requirement is intended to force towns to use ECS funds to supplement, rather than supplant, local spending, it is difficult to tell the extent to which towns simply over-budget for education and then allow unspent money to revert back at the year's end, effectively using ECS money to offset the cost of municipal services rather than to provide for education.³³

Taken together, these changes mean that while the proposed budget includes nominally large ECS increases, it is unclear how much a town's education spending would actually increase over the biennium as a result of these changes.

Education Committee Alternative: Since the Education Committee would not reallocate State-owned PILOT to ECS, this proposal would not hide flexible aid within an education grant.

²⁹ While the Governor's budget technically flat-funds the Excess Cost Grant, which provides aid to towns for high-cost special education students, special education costs are rising faster than inflation, making this an effective cut. For a discussion of rising special education costs, see Jacqueline Rabe Thomas, "Panel looks to tackle skyrocketing special education costs." <http://www.ctmirror.org/story/17491/panel-looks-tackle-skyrocketing-special-education-costs>.

³⁰ See, Governor's Budget Summary, Section E: Municipal Aid. Available at http://www.ct.gov/opm/lib/opm/budget/2014_2015_biennial_budget/budgetsummary/section_e_municipalaid.pdf.

³¹ See P.A. 12-116, s. 34. Available at <http://www.cga.ct.gov/2012/ACT/PA/2012PA-00116-R00SB-00458-PA.htm>.

³² See, Thomas B. Mooney, *A Practical Guide to Connecticut Education Law, 6th Edition*, p. 84. "The appropriation made to the board of education is carried as a town account, and boards of education may not carry funds over from one year to the next...funds typically revert to the town at the end of the fiscal year because the board of education has no general means to hold funds from one year to the next."

³³ See presentation given by Orlando Rodriguez, CT Voices for Children, to the ECS task force. If interested, please contact Kenny Feder at kfeder@ctvoices.org, or Orlando Rodriguez, at orodriguez@ctvoices.org.

IV. New Haven – A Case Study

An examination of New Haven illustrates the potential consequences of the Governor's proposed municipal aid changes. New Haven's mill rate for 2011 was 38.88,³⁴ one of the highest in the state.³⁵ However, in spite of its high property tax rate, the city's level of per pupil spending is still thought to be well below what is necessary to provide an adequate education to the needy students in this district.³⁶ Under the proposed budget, New Haven would receive an ECS increase of \$11,353,988, or 7.8%, over the biennium. Since much of this increase is attributable to other state aid being shifted to education, the growth in New Haven's ECS grant that can be attributed to new state dollars is only about 2.8%.³⁷ However, most of the full 7.8% ECS increase – well beyond the new state funds – would be conditional, and would have to be spent on new, state-mandated education initiatives. In addition, the city would lose approximately \$14.2 million through the Governor's proposed change to taxation of motor vehicles.³⁸

As a result of the proposed aid restrictions and car tax limits, the City of New Haven has proposed three alternative budget scenarios. The first alternative assumes none of the proposed budget changes go forward. In this case, to provide its local share of education and municipal services, New Haven would require a mill rate of 40.97. The second alternative assumes the various changes in aid go forward, but no limits are placed on taxing motor vehicles. Under this scenario, New Haven would have to raise its mill rate to 43.31. Finally, under the third scenario, in which all aid changes and the restrictions on taxing motor vehicles become law, New Haven would have to raise its mill rate to 46.23, i.e. impose \$27.7 million of new taxes on the residents of one of Connecticut's poorest cities.³⁹ In sum, the Governor's proposed municipal aid budget would either increase property taxes on some of Connecticut's poorest families, or cut critical services, or both.

V. Conclusion

Taken together, the Governor's proposed municipal aid changes would:

- 1) Lead to increased reliance on local property taxes, likely imposing an effective hidden tax increase which will disproportionately impact Connecticut's lowest income families;
- 2) Deprive many towns of their fair share of the full ECS appropriation, by failing to reduce ECS grants for towns with decreasing need;
- 3) Distort the allocation of ECS aid by reallocating State-owned PILOT to ECS; and
- 4) Provide only a 2.6% net aid increase to towns that house the state's lowest performing school districts.

An improved municipal aid budget should:

- 1) Pay for education reform with commonsense revenue measures, such as closing corporate tax loopholes, rather than with diverted aid towns were already receiving, that could lead to property tax increases on low-income residents, municipal service cuts, or cuts to other education spending;
- 2) Allocate ECS money as mandated by the formula, and end the practice of not reducing the aid allocated to towns whose wealth has increased or whose enrollment has fallen, so that towns who have seen their wealth decline (or enrollment increase) can receive their fair share of the ECS pie;
- 3) Refrain from distorting the ECS formula by shifting State-owned PILOT funds into ECS, to avoid further obscuring the allocation of education aid;
- 4) Require towns to spend all money budgeted for education on education to maintain transparency in the use of public funds.

³⁴ See, New Haven Office of the Tax Collector webpage, available at <http://www.cityofnewhaven.com/TaxCollector/index.asp>.

³⁵ Office of Policy and Management, *Mill Rates*, at <http://ct.gov/opm/cwp/view.asp?Q=385976>.

³⁶ See, Affidavit of Bruce Baker in *Connecticut Coalition for Justice in Education Funding v. Rell*.

³⁷ See Appendix A.

³⁸ See, City of New Haven, Mayor's Proposed Fiscal Year 2013-2014 Budget. Available at <http://www.cityofnewhaven.com/uploads/FY2014MayorsBudgetWebsite.pdf>

³⁹ *Id.*

Appendix A

The following table shows each Alliance District's FY2013 ECS grant and the ECS increase it would receive over the FY2014-2015 biennium under the Governor's proposal, and compares these to the total amount of municipal aid an Alliance District received in FY2013 and the increase in total aid it would receive over the biennium. The final column is the amount that each town's total aid increased as a percentage of its 2013 ECS grant (Column 6 divided by Column 2). This provides a measure of how much *new* state aid for education the Governor's budget provides each town, as opposed to aid effectively reallocated from other grants. **This table applies only to the Governor's proposal, and not the alternative proposal put forward by the Education Committee.**

Alliance District	2013 ECS Grant (\$)	ECS Increase (\$)	% ECS Increase	2013 Total Town Aid (\$)	Net Total Aid Increase (\$)	% Aid Increase	Net Total Aid Increase as Percentage of 2013 ECS Grant
Ansonia	15,571,383	1,215,864	7.8%	17,526,803	63,873	0.4%	0.4%
Bloomfield	5,614,895	1,205,739	21.5%	8,091,509	0	0.0%	0.0%
Bridgeport	168,599,571	11,407,623	6.8%	202,709,662	3,539,930	1.7%	2.1%
Bristol	43,047,496	2,905,237	6.7%	48,635,359	0	0.0%	0.0%
Danbury	24,554,515	9,779,388	39.8%	35,552,255	5,140,941	14.5%	20.9%
Derby	7,146,221	1,136,504	15.9%	9,077,674	819,621	9.0%	11.5%
East Hartford	43,425,561	5,168,453	11.9%	51,590,051	280,665	0.5%	0.6%
East Haven	19,253,992	1,258,464	6.5%	21,229,058	618,361	2.9%	3.2%
East Windsor	5,650,470	384,075	6.8%	6,438,055	0	0.0%	0.0%
Hamden	23,913,747	4,655,817	19.5%	31,143,773	2,583,443	8.3%	10.8%
Hartford	192,783,001	22,469,771	11.7%	257,297,555	77,326	0.0%	0.0%
Killingly	15,625,767	713,888	4.6%	17,529,690	0	0.0%	0.0%
Manchester	31,962,679	3,915,897	12.3%	37,138,079	1,757,194	4.7%	5.5%
Meriden	55,561,122	3,997,893	7.2%	63,259,689	2,063,532	3.3%	3.7%
Middletown	17,449,023	5,693,364	32.6%	30,040,533	664,899	2.2%	3.8%
Naugatuck	29,846,550	994,491	3.3%	31,815,936	197,001	0.6%	0.7%
New Britain	76,583,631	10,000,508	13.1%	92,875,737	2,842,800	3.1%	3.7%
New Haven	146,351,428	11,353,988	7.8%	211,296,228	4,136,068	2.0%	2.8%
New London	23,749,566	2,330,971	9.8%	34,486,237	1,114,231	3.2%	4.7%
Norwalk	10,672,607	3,756,790	35.2%	18,504,301	2,739,887	14.8%	25.7%
Norwich	33,341,525	2,721,913	8.2%	40,315,546	838,304	2.1%	2.5%
Putnam	8,251,714	278,397	3.4%	10,438,821	0	0.0%	0.0%
Stamford	8,899,110	3,694,719	41.5%	19,375,765	1,014,620	5.2%	11.4%
Vernon	18,316,776	1,724,406	9.4%	20,326,658	1,102,597	5.4%	6.0%
Waterbury	118,012,691	16,192,767	13.7%	143,793,545	6,637,253	4.6%	5.6%
West Haven	42,781,151	3,230,494	7.6%	52,033,924	1,884,031	3.6%	4.4%
Winchester	8,031,362	147,991	1.8%	8,950,176	0	0.0%	0.0%
Windham	24,933,574	4,393,657	17.6%	32,614,138	319,624	1.0%	1.3%
Windsor	11,854,648	1,045,642	8.8%	14,053,893	0	0.0%	0.0%
Windsor Locks	4,904,674	1,563,627	31.9%	11,298,717	0	0.0%	0.0%
Total	1,236,690,450	139,338,338	11.3%	1,579,439,367	40,436,201	2.6%	3.3%

Source: CT Voices Analysis of The Governor's Proposed Budget – Municipal Aid