

**Testimony Regarding Municipal Revenue in Connecticut**  
**S.B. 7: An Act Concerning Property Tax Relief for Businesses**  
**S.B. 8: An Act Authorizing Municipalities to Levy a Local Sales Tax**  
**S.B. 415: An Act Increasing the Property Tax Credit Under the Personal Income Tax for a**  
**Primary Residence or Motor Vehicle**

Ray Noonan  
Finance, Revenue and Bonding Committee  
March 3, 2017

Senator Fonfara, Representative Rojas, Senator Frantz, and distinguished members of the Committee:

My name is Ray Noonan, and I am testifying today as an Associate Policy Fellow at Connecticut Voices for Children, a research-based child advocacy organization working to ensure that all Connecticut children have an equitable opportunity to achieve their full potential.

At Connecticut Voices for Children, we view the state budget as the clearest statement of Connecticut's policy priorities. We believe that these priorities should advance long-term inclusive economic prosperity, equity of opportunity, and support for our most vulnerable residents. We believe that an effective revenue system can advance these core priorities by adhering to five principles: equity, neutrality, adequacy, transparency, and simplicity.<sup>1</sup>

- **Equity** means that those with a greater ability to pay, pay more (vertical equity) and those in similar situations with the same ability to pay, pay equally (horizontal equity).
- **Neutrality** means that our tax system avoids unintentionally influencing private decisions.
- **Adequacy** means that our tax system raise sufficient revenue to continue to provide the level of public services that society desires in the near- and long-term. Stability and elasticity both contribute to an adequate system; stability means that revenues grow predictably, while elasticity means that a particular tax grows in tandem with the economy.
- **Transparency** means that the impact of particular tax policies, as well as processes for administering and complying with the tax system, can be easily assessed.
- **Simplicity** means that taxpayers can easily understand how the government raises revenue and spends their tax dollars.

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<sup>1</sup> Institute on Taxation and Economic Policy. *The ITEP Guide to Fair State and Local Taxes*. March 2011. Retrieved from: [http://www.itep.org/state\\_reports/guide2011.php](http://www.itep.org/state_reports/guide2011.php). Also see Dr. Michael Bell's definition of neutrality in his overview of property taxes in Connecticut to the state tax panel.

### Testimony Regarding S.B. 7

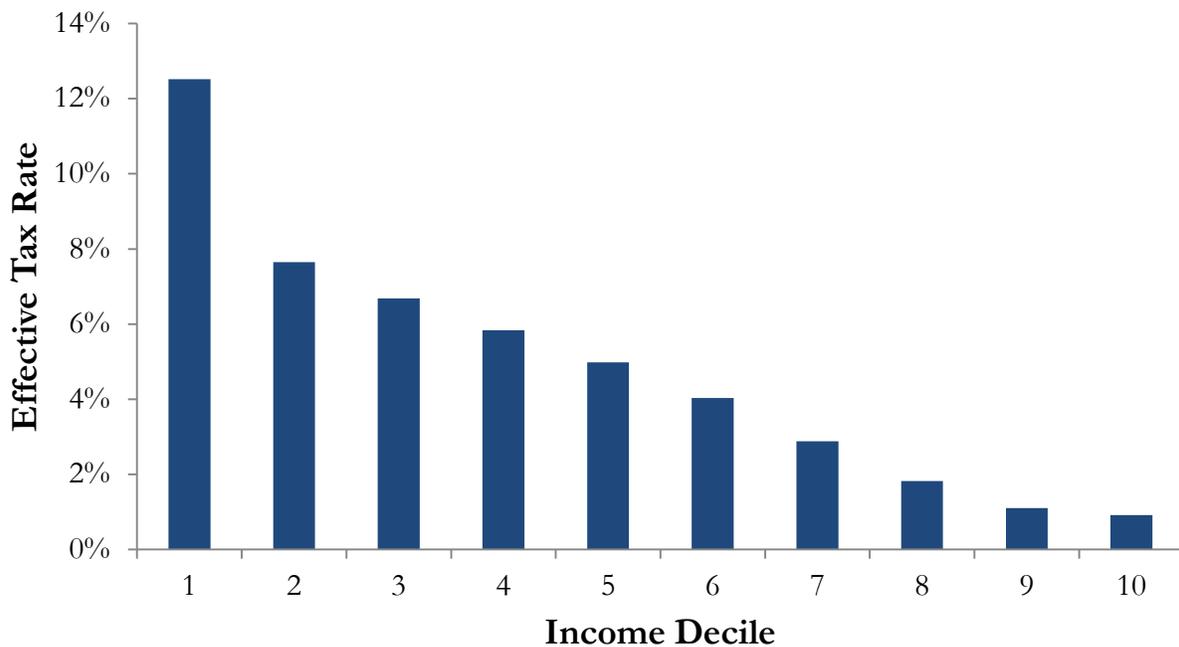
We support the legislature’s desire to make the tax code simpler to administer and comply with. We believe that this proposal to exempt the first \$10,000 of business personal property from taxation, a policy that the bipartisan State Tax Panel unanimously endorsed, will move Connecticut towards that goal.<sup>2</sup>

However, we are concerned that the S.B. 7 does not incorporate measures to ensure that this legislation is consistent with the principle of transparency. This Fiscal Year, revenue lost to tax expenditures will equal \$7.2 billion, or 40 percent of total General Fund revenue, yet there will be no public debate on these expenditures.<sup>3</sup> We urge the Committee to supplement this bill with language ensuring that the legislature will regularly evaluate this tax break’s cost and return on investment.

### Testimony Regarding S.B. 8

We support the intent of this bill, which is to make our tax system more consistent with the principles of equity and adequacy by allowing municipalities to diversify their revenue sources. The property tax penalizes poor families—although households making approximately \$20,000 per year pay about 12.5 percent of their income in property taxes, those making on average more than \$100,000 per year pay less than 2 percent of their income in property taxes.<sup>4</sup> Substituting a portion of property taxes with a more progressive revenue source could make our municipal tax system more equitable.

**Property Tax: Effective Rate by Income Decile**



Source: DRS Tax Incidence Report. 2011 tax year. Effective tax rate is tax as a percentage of income.

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<sup>2</sup> State Tax Panel. *Final Report*. December 2015. Retrieved from: [https://www.cga.ct.gov/fin/tfs/20140929\\_State%20Tax%20Panel/CT%20State%20Tax%20Panel%20Final%20Report.pdf](https://www.cga.ct.gov/fin/tfs/20140929_State%20Tax%20Panel/CT%20State%20Tax%20Panel%20Final%20Report.pdf)

<sup>3</sup> Defiesta, Nick. *Reviewing Tax Expenditures: Improving Transparency and Accountability in Over \$7 Billion Off-the-Books Public Spending*. April 2016. Retrieved from: <http://www.ctvoices.org/sites/default/files/bud16offbooksspending.pdf>

<sup>4</sup> Connecticut Department of Revenue Services. *Connecticut Tax Incidence*.

At the same time, a diverse revenue base allows cities and towns to harness the different benefits of many revenue sources while minimizing the drawbacks of any particular one, helping ensure an adequate tax system overall. Currently, Connecticut's towns do not enjoy diverse revenue bases—they are highly reliant on property taxes. This pattern holds true in surrounding states; in 2014, 85 percent of Connecticut municipalities' locally raised revenue came from property taxes, compared to 77 percent in Massachusetts, 79 percent in New Jersey, and 80 percent in Rhode Island.<sup>5</sup> Connecticut can get ahead of its peers by diversifying its local revenue system now and thus ensuring a more adequate, equitable, and sustainable tax system in the future. A local sales tax would diversify municipal revenue sources by allowing towns to substitute a portion of their property taxes with sales tax revenue.

A local sales tax has the added benefit of helping ensure that everyone who benefits from municipal services pays for them. Currently, since towns can tax just property, only those who own property in a community pay local taxes for that community's roads, police, fire protection, and other essential services. However, people who do not own property in that community—such as those who work there—also benefit from these services, yet pay no local taxes for them. This violates the principle of horizontal equity, since the tax system treats similarly situated people—those who benefit from a community's resources—differently. A local sales tax would correct this by better aligning taxes paid with benefits received.

That said, we have two reservations about how a local sales tax would work in practice:

1. **Sales taxes violate the principle of vertical equity.** A 2014 report by the Department of Revenue Services found that sales taxes punish low-income families just as much as property taxes do.<sup>6</sup> The same analysis found that Connecticut's poorest 10 percent of households, which have an average annual income of about \$20,000, paid nearly 6 percent of their income in sales taxes, while those making more than \$100,000 per year on average paid less than 1 percent of their income to the same.<sup>7</sup> Given that the Governor has already proposed restricting access to child care, reducing eligibility for public health insurance, and cutting the Earned Income Tax Credit, we are concerned that a local sales tax on top of the already-regressive property tax and the proposed reduction to poverty-prevention programs would demand even more from those with less.<sup>8</sup>
2. **Municipal sales taxes would not solve the problem of horizontal inequity in our municipal funding system.** One problem with a local property tax-based municipal funding system is that because towns' aggregate property values vary so widely, wealthier towns can raise more money per resident than less affluent ones, even while imposing a lower tax rate on their residents. This violates the principle of horizontal equity because in order to provide similar levels of services, communities must levy vastly different property tax rates. A local sales tax would at least perpetuate and could exacerbate this problem since municipalities would still rely on their widely varying levels of local wealth to fund local services. A more comprehensive solution to municipal funding would address the structural issues that result from a system that largely leaves each town to fund local services on its own.

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<sup>5</sup> U.S. Census. *2014 State & Local Government Finance*. Retrieved from: <https://www.census.gov/govs/local/>

<sup>6</sup> Connecticut Department of Revenue Services. *Connecticut Tax Incidence*. December 2014. Retrieved from: <http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf>

<sup>7</sup> *Ibid.*

<sup>8</sup> Derek Thomas and Ray Noonan, et al. *The Governor's Budget – A Comparison to Current Year Appropriations*. February 2017. Retrieved from: <http://www.ctvoices.org/ChildrenFY18Governor>

## Testimony Regarding S.B. 415

We support the intent of this bill, which is to ensure that our property tax system more closely conforms to the principle of equity. We would like to submit information that we hope will inform the Committee's decision regarding how best to create an equitable and adequate property tax system.

**1. The Current Local Property Tax System Stifles Economic Development.** Cities are our engines of economic growth, providing jobs and amenities to residents and to surrounding communities. However, these communities also feature some of Connecticut's highest property tax rates. In Fiscal Year (FY) 2014, Bridgeport taxed 3.55 percent of the market value of its property, more than twice Fairfield's rate and nearly four times Darien's.<sup>9</sup> These large disparities in property taxes discourage economic development in dense urban cores at a time when Connecticut's cities are growing fewer jobs compared to other states.<sup>10</sup>

Cities' high property tax rates are partially a result of high concentrations of exempt government- and nonprofit-owned property that have eroded their tax base. In places such as Hartford, New Haven, and New London, non-prison tax-exempt property constitute 45 percent or more of a town's total property wealth.<sup>11</sup> Since Connecticut municipalities rely heavily on the property tax, this loss of taxable property wealth translates into millions of dollars of lost revenue.<sup>12</sup>

The program in place to alleviate this problem, PILOT, has never been fully funded. As of June 2016, the state reimburses only 30 percent of the revenue towns lose in property taxes due to tax-exempt private colleges and hospitals, less than half of what the law requires, and about 22 percent for most state-owned land.<sup>13</sup> To compensate for receiving less state aid than state statute promises, these communities must raise more property taxes to fund their schools, police, and fire protection. These higher property tax rates make it more difficult to raise a family or start a business.

**2. The Current Local Property Tax System Penalizes Poor Families.** Because poor people tend to live in poor municipalities, which tend to have higher mill rates, Connecticut residents who make less money pay a greater share of their income in property taxes.<sup>14</sup> As stated above, although households making approximately \$20,000 per year pay about 12.5 percent of their income in property taxes, those making on average more than \$100,000 per year pay less than 2 percent of their income in property taxes.<sup>15</sup>

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<sup>9</sup> Using equalized mill rates. OPM, Municipal Fiscal Indicators. See also Lemar, Anika Singh. *CT Blowing Chance to Fix Property Tax Problem*. April 2016. Retrieved from: <http://www.courant.com/opinion/op-ed/hc-op-lemar-reform-ct-property-tax-0403-20160401-story.html>.

<sup>10</sup> Lynch, Teresa. *Growing Urban Economies: Strategies for Innovation, Entrepreneurship, and Cluster Development*. October 14, 2016. Retrieved from: [https://www.cga.ct.gov/fin/tfs/20150904\\_Commission%20on%20Economic%20Competitiveness/20161014/Teresa%20Lynch%20-%20Mass%20Economics.pdf](https://www.cga.ct.gov/fin/tfs/20150904_Commission%20on%20Economic%20Competitiveness/20161014/Teresa%20Lynch%20-%20Mass%20Economics.pdf).

<sup>11</sup> Office of Fiscal Analysis. *Connecticut State Budget*. 569–73. Retrieved from: [https://www.cga.ct.gov/ofa/Documents/year/BB/2016BB-20151007\\_FY%2016%20and%20FY%2017%20Connecticut%20Budget.pdf](https://www.cga.ct.gov/ofa/Documents/year/BB/2016BB-20151007_FY%2016%20and%20FY%2017%20Connecticut%20Budget.pdf).

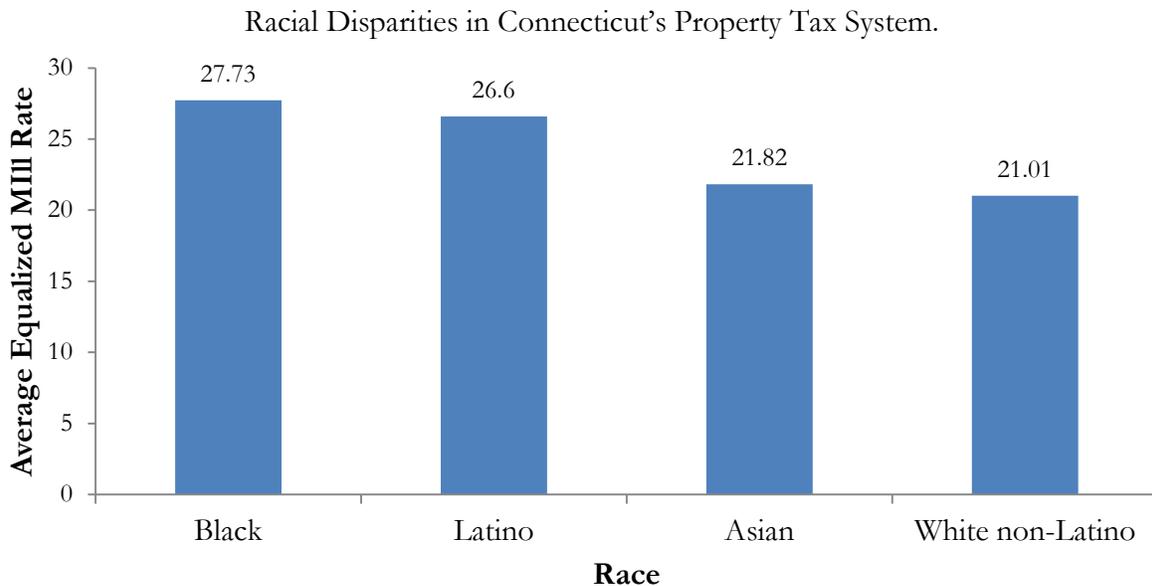
<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*, 559–67.

<sup>14</sup> Residential segregation by class often maps onto residential segregation by race. For relatively recent overviews of this subject, see Douglas S. Massey, "Residential Segregation and Neighborhood Conditions in U.S. Metropolitan Areas," in *America Becoming: Racial Trends and Their Consequences*, ed. Neil J. Smelser, William Julius Wilson, and Faith Mitchell, vol. I (Washington, D.C.: National Academy Press, 2001); Camille Zubrinsky Charles, "The Dynamics of Racial Residential Segregation," *Annual Review of Sociology* 29 (2003): 167–207.

<sup>15</sup> Connecticut Department of Revenue Services. *Connecticut Tax Incidence*.

**3. The Current Local Property Tax System Exacerbates Racial Inequities.** In the United States, decades of discriminatory lending and zoning policies, as well as white flight and racial prejudice, have excluded people of color from wealthy communities that usually have lower mill rates. As a result, Connecticut’s residents of color tend to live in towns with higher mill rates than those that whites live in. This means that on average, black, Latino, and Asian residents pay a higher tax rate on their homes and cars than white residents do. As the chart below illustrates, in Fiscal Year (FY) 2014, black residents paid on average nearly 2.8 percent of their property value in property taxes while white residents paid 2.1 percent.



Source: Connecticut Data Collaborative and OPM, Municipal Fiscal Indicators. Average equalized mill rate is the mean of all towns’ equalized mill rates weighted by the population of each race in each town. Equalized mill rate is property tax levy expressed as percentage of market value. For example, a town with an equalized mill rate of 10 mills would tax 1 percent (10/1000) of the aggregate market value of its property.

**4. The Current Local Property Tax System Contributes to Educational Inequities.**

Connecticut’s property tax system is closely linked to its education finance system. Fifty-seven percent of Connecticut’s education funding comes from local revenue, and property taxes provide nearly all of a town’s local revenue.<sup>16</sup> This reliance on local revenue drives vast disparities in education funding and tax effort between municipalities. Because towns’ aggregate property values vary so widely, wealthier towns can raise more money per pupil than less affluent ones, even while imposing an equal or lower tax rate on their residents. Since education funding affects educational and life outcomes, this difference in taxing capacity results in differences in opportunity for Connecticut’s children based solely on where they are born.<sup>17</sup> This, combined with residential segregation by race, perpetuates racial inequities in educational opportunity.

For example, in FY 2014, both Caanan and Groton taxed about 1.5 percent of their property wealth, representing an equal effort to fund education and other essential services. Yet although Canaan and Groton taxed themselves at about the same rate, because Canaan is so much wealthier than Groton, its tax rate raised about \$10,000 more per pupil than did Groton’s.

<sup>16</sup> U.S. Census. *2014 State & Local Government Finance*. Retrieved from: <https://www.census.gov/govs/local/>

<sup>17</sup> Kevin Carey and Elizabeth A. Harris. The New York Times. *It Turns Out Spending More Probably Does Improve Education*. December 2016: <http://www.nytimes.com/2016/12/12/nyregion/it-turns-out-spending-more-probably-does-improve-education.html>.

We would also like to note that increasing the income tax credit for property taxes paid could prove an expensive way to level the playing field.<sup>18</sup> A less expensive way to provide a tax cut to more residents would be a statewide property tax that demands equal effort for each dollar invested in public education.

Such a system already exists in Vermont. The Vermont education property tax system is based on a simple idea: communities that spend the same amount on education per pupil should have to tax themselves at the same rate to do so. Towns that spend more on education would be taxed at a higher rate, and towns that spend less on education would be taxed at a lower rate. This appeals to the basic ethic that similarly situated people ought to be treated similarly. It is also very different from Connecticut's education finance system—as discussed previously, Canaan and Groton can tax themselves at the same rate but raise very different amounts of money from those rates.

We believe that this is an especially attractive way to correct Connecticut's property tax and education funding systems for four reasons:

1. **It has been successful next door.** Vermont's system has been relatively successful at creating an adequately funded educational system. A study completed for the Vermont legislature found that per-pupil expenditures were just weakly associated with property wealth.<sup>19</sup>
2. **It is consistent with Connecticut's tradition of local control.** In a Vermont-like system, Connecticut municipalities would have total control over their per-pupil education spending. If they want to be taxed at a higher rate to spend more on education, they can; if they want to be taxed at a lower rate to spend less on education, they can.
3. **It is consistent with Connecticut's tradition of taxing property to fund education.** Property taxes are not perfect—among other flaws, they are regressive, require the state to estimate the market value of the property, and do not increase as quickly as income does. Yet if state lawmakers would like to continue funding local education through property taxes, a statewide property tax allows them to do so.
4. **It treats equally communities that spend equally.** Currently, towns that spend the same amount on education per pupil can do so by levying greatly different tax rates. The Vermont system fixes that.

The exact impact of this policy in Connecticut would depend on state decisions about the Education Cost Sharing formula, as well as local decisions on how to allocate additional dollars. That said, our model predicts that if Connecticut implemented such a system, raised PILOT reimbursement rates to 100 percent, and fully funded both programs, it would decrease taxes for 75 percent of Connecticut residents in 117 cities and towns. For those towns that would experience a tax increase, analysis shows that such an increase is a long overdue correction to historic policies that give an unfair advantage to property wealthy communities.

For a more detailed explanation of our proposal, view our full report at [ctvoices.org/proptax](http://ctvoices.org/proptax).

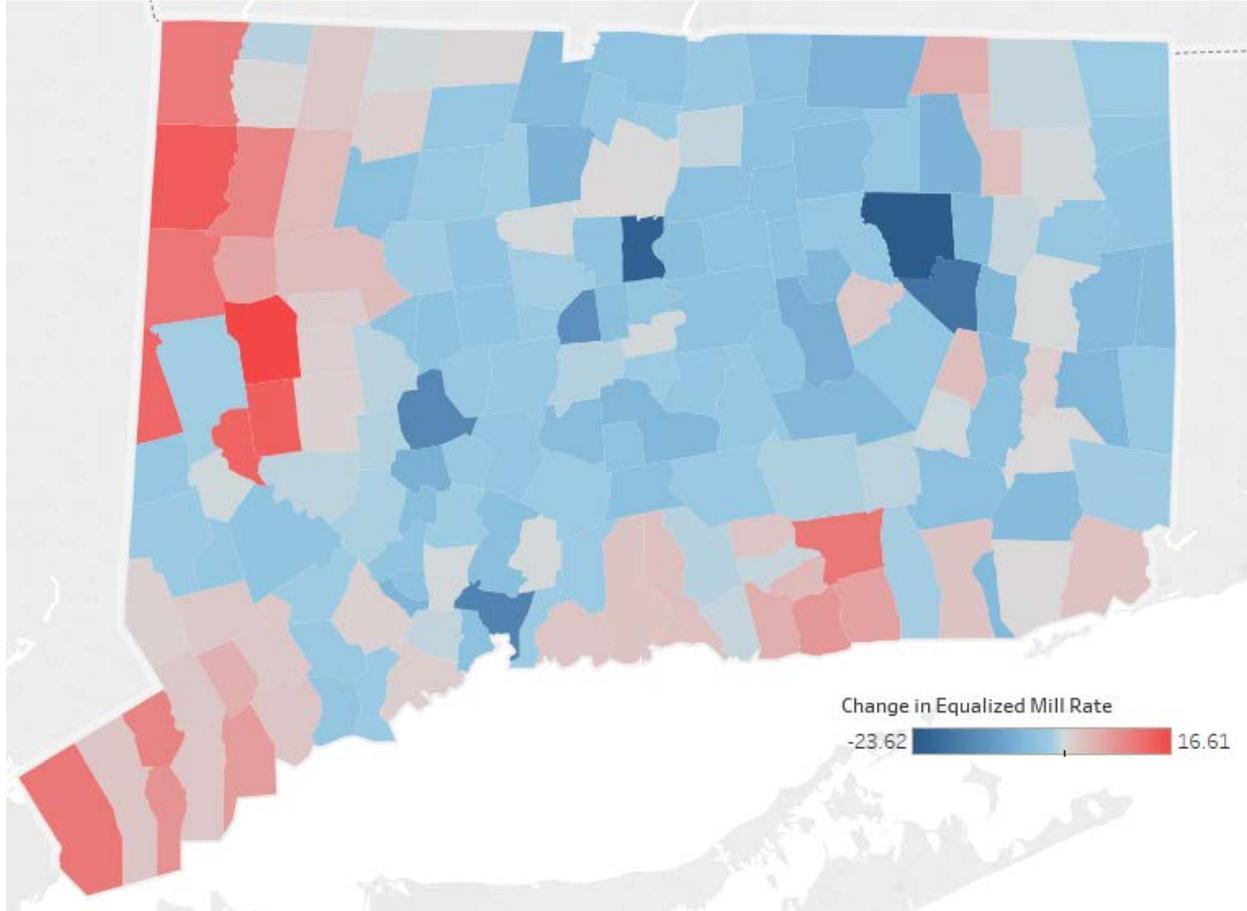
Thank you again for the opportunity to submit testimony. I am happy to answer any questions and can be reached at [rnoonan@ctvoices.org](mailto:rnoonan@ctvoices.org) or 203-498-4240 x113.

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<sup>18</sup> In contrast, the Governor eliminates this credit. See Derek Thomas and Ray Noonan, et al. *The Governor's Budget – A Comparison to Current Year Appropriations*.

<sup>19</sup> Lawrence Picus et al. *An Evaluation of Vermont's Education Finance System*. January 18, 2012. Page 48. Retrieved from: [http://picusodden.com/wp-content/uploads/2013/09/VT\\_Finance\\_Study\\_1-18-2012.pdf](http://picusodden.com/wp-content/uploads/2013/09/VT_Finance_Study_1-18-2012.pdf).

How property taxes would change by town under Vermont-like property tax system raising PILOT reimbursement rates to 100%.



Source: Connecticut Voices for Children analysis. Blue indicates a tax cut; red indicates a tax increase. The darker the color, the greater the change, so dark blue indicates a large cut and dark red indicates a large increase.

Towns where property taxes would decrease: Andover, Ansonia, Ashford, Avon, Barkhamsted, Beacon Falls, Berlin, Bethany, Bethel, Bolton, Bozrah, Bridgeport, Bristol, Brookfield, Brooklyn, Burlington, Canterbury, Canton, Chaplin, Cheshire, Clinton, Colchester, Colebrook, Coventry, Cromwell, Danbury, Deep River, Derby, Durham, East Granby, East Haddam, East Hampton, East Hartford, East Haven, East Lyme, East Windsor, Ellington, Enfield, Farmington, Glastonbury, Granby, Griswold, Haddam, Hamden, Hampton, Hartford, Harwinton, Hebron, Killingly, Killingworth, Lebanon, Ledyard, Manchester, Mansfield, Marlborough, Meriden, Middlebury, Middlefield, Middletown, Monroe, Montville, Naugatuck, New Britain, New Fairfield, New Hartford, New Haven, New London, New Milford, Newington, Newtown, North Branford, North Canaan, North Haven, North Stonington, Norwich, Orange, Oxford, Plainfield, Plainville, Plymouth, Pomfret, Portland, Prospect, Putnam, Rocky Hill, Salem, Scotland, Seymour, Simsbury, Somers, South Windsor, Southbury, Southington, Sprague, Stafford, Sterling, Stratford, Suffield, Thomaston, Thompson, Tolland, Torrington, Trumbull, Vernon, Voluntown, Wallingford, Waterbury, Watertown, West Hartford, West Haven, Wethersfield, Willington, Windham, Windsor Locks, Wolcott, Woodbridge, and Woodstock.

Towns where property taxes would increase: Bethlehem, Bloomfield, Branford, Bridgewater, Canaan, Chester, Columbia, Cornwall, Darien, Eastford, Easton, Essex, Fairfield, Franklin, Goshen, Greenwich, Groton, Guilford, Hartland, Kent, Lisbon, Litchfield, Lyme, Madison, Milford, Morris, New Canaan, Norfolk, Norwalk, Old Lyme, Old Saybrook, Preston, Redding, Ridgefield, Roxbury, Salisbury, Sharon, Shelton, Sherman, Stamford, Stonington, Union, Warren, Washington, Waterford, Westbrook, Weston, Westport, Wilton, Winchester, Windsor, and Woodbury.