
Property Tax Reform

for Connecticut

a report and recommendations

made by the

**Advisory Commission on Intergovernmental
Relations**

December 2, 2022

ACIR

The Advisory Commission on Intergovernmental Relations (ACIR) is a 25-member agency of the State of Connecticut created in 1985 to study system issues between the state and local governments and to recommend solutions as appropriate. The membership is designed to represent the state legislative and executive branches, municipalities and other local interests, and the general public.

The role of ACIR, as contained in Section 2-79a of the Connecticut General Statutes, is to: (1) serve as a forum for consultation between state and local officials; (2) conduct research on intergovernmental issues; (3) encourage and coordinate studies of intergovernmental issues by universities and others; and (4) initiate policy development and make recommendations to all levels of government.

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Introduction

The following recommendations regarding the property tax were developed by ACIR as part of its Local Government of the Future (LGF) initiative. LGF is predicated on a reinventing how the state-regional local relationship works to enhance the delivery of services in a qualitative manner.

Reforming the property tax was chosen by ACIR because it acts as a barrier to the goals of LGF which in turn impact every town, school district, business and individual in our state. In developing its recommendations for the property tax ACIR examined previous work done by the General Assembly, academia and non-profits. Our goal with this report was not to create another report as was done previously. Rather, we are presenting an achievable blueprint for reform that can begin in 2023.

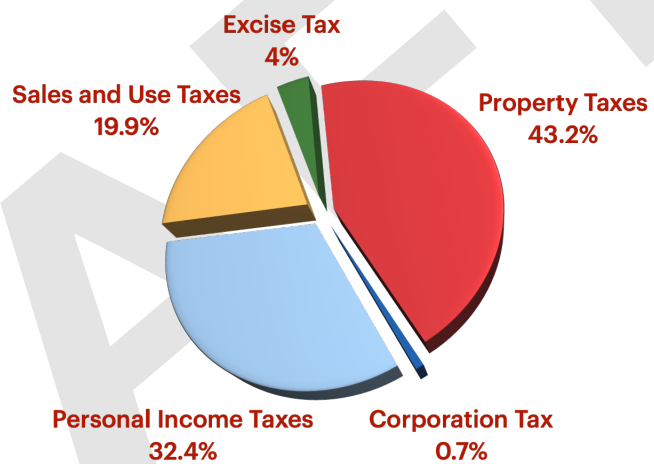
The resulting recommendations in the report represent a consensus of ACIR's membership. ACIR puts forth the following as priorities for action in the collective belief that they will (1) result in significant impact and (2) are achievable in 2023.

Overview

This report, made to Governor Lamont and the member of the General Assembly provides ACIR's recommendations for an **achievable blueprint to reform the property tax that can begin in 2023**. Full reform of the property tax will, in our view, take more than one legislative session to achieve. However, given the state's current positive fiscal condition, this is an opportune time to begin meaningful change .

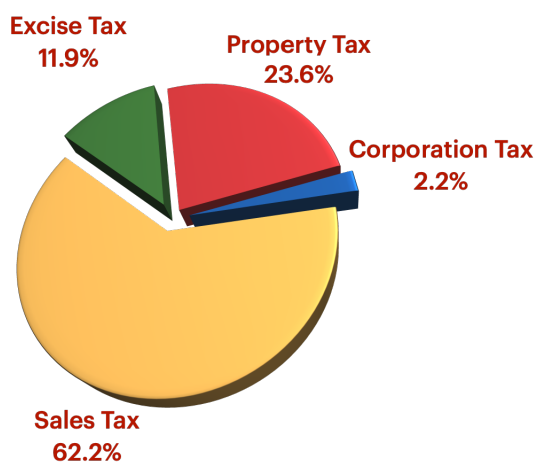
This report does not provide a detailed analysis of the property tax. There are multiple studies, which we reviewed and discussed, that go into great detail on the property tax. A listing of the studies reviewed by ACIR are listed in Appendix A of this report.

Overall Connecticut Tax Incidence for Individual Filers, 2019



Source: CT DRS Tax Incidence Study, 2022

Business Legal Incidence by Tax Type, 2019



Source: CT DRS Tax Incidence Study, 2022

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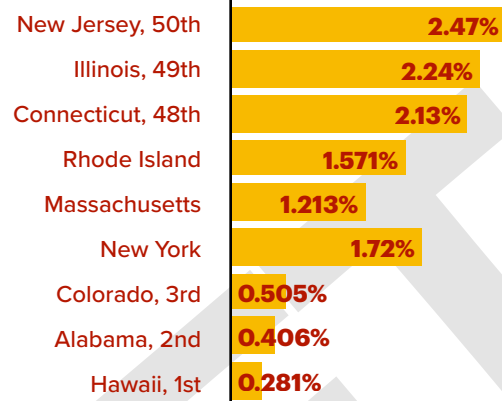
The property tax, as the Department of Revenue Services 2022 Tax Incidence Study¹ details, is regressive and the largest tax placed on individuals and the second largest on corporations (having the largest impact on corporations with gross receipts of \$500,000 or less. corporations). The property tax, as currently structured, inhibits our economic competitiveness regionally and nationally, forces cities and towns to make poor land use decisions, hurts our environment, results in inequities in education, hinders shared and regional cooperation and fosters significant disparities amongst our 169 towns. The property tax is a regressive tax resulting in a disproportionate impact to persons in the lower income brackets.

Compared to other states, both nationally and regionally, Connecticut has a greater burden placed on individuals through the property tax. "Property taxes are determined at a local level, not the state level, so different communities in a state can have different property tax costs. To get the bigger, statewide picture of each state's property tax costs, we looked at its "average effective property tax rate" — which is based on the average cost of owner-occupied residential property taxes paid across all communities."² Compared to almost every other state, our state has one of the highest property tax rates. In 2020, Connecticut had the 3rd average effective property tax rate in the nation - eclipsed regionally only by New Jersey.

For many decades the call to reform the property tax has been made and while some progress has been made - especially in recent years with PILOT reform, property tax credits, car tax equalization and reform to the ECS formula - much more needs to happen to achieve the reforms needed to make our state more competitive, attractive to locate into and equitable for the residents that live here. Decreasing or flat population growth and increasing operational costs necessitate an immediate need for property tax reform.

For Connecticut cities and towns there are common threads that drive the cost of government, including: Education, Salaries and Benefits, Debt Service, Public Safety, Solid Waste Management, Energy, Public Works and others. The degree to which any of these cost drivers impact a town varies; however, Education, Salaries and Benefits and Debt Service stand out as major cost drivers. Changes that result in reduced and predictable costs for these major cost drivers will result in a reduction to property taxes.

Average Effective Property Tax Rate, 2020



Source: Gaby Lapera and Andrew Depietro, States With the Lowest Taxes in 2022, A Credit Karma Study - May 13, 2022 - <https://www.creditkarma.com/insights/i/states-with-the-lowest-taxes#states-with-the-lowest-average-effective-property-tax-rates-in-2022>

¹ Connecticut Department of Revenue Services, Connecticut Tax Incidence Study - Tax Year 2019 - - <https://portal.ct.gov/-/media/DRS/Tax-Incidence/Connecticut-Tax-Incidence-Study-TY2019.pdf>

² Gaby Lapera and Andrew Depietro, States With the Lowest Taxes in 2022, A Credit Karma Study - May 13, 2022 - <https://www.creditkarma.com/insights/i/states-with-the-lowest-taxes#states-with-the-lowest-average-effective-property-tax-rates-in-2022>

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Many towns and cities have growing challenges with their finances and overall administration. Unlike most other states, Connecticut has not embraced having professional management for each of its 169 towns.

A growing challenge for municipalities of all sizes is the recruitment and retention of qualified and talented persons. Competition with the private sector has increased and the ability to remain competitive has decreased.

“A Pew analysis of Labor Department data shows that the year-over-year growth rate for hourly private sector salary and wages in each of the past four quarters has exceeded that for state and local governments by the largest margin on record. To make matters worse, public employee wages aren’t keeping pace with high inflation. Concerns over pay have compounded an already difficult situation for governments in recruiting and retaining staff and put additional strains on public services.

Some states, cities, and school districts have started confronting these growing wage pressures, but the public sector generally has been much slower than private companies to implement changes. Government pay raise proposals are often subject to lengthy approval or union negotiation processes, or they require authorization from elected officials. Many jurisdictions either don’t have enough fiscal wiggle room or are hesitant to commit to the recurring costs of permanent pay raises. How they respond has important long-term implications for their budgets, potentially causing challenges if revenue fails to keep up with new spending commitments.”³

Education is the major cost cost for cities and towns. Connecticut’s revised Education Cost Services (ECS) grant in 2017 and this has made significant improvements. However, a 2021 study by the New England Public Policy Center found that:

“Connecticut’s public K-12 education system relies heavily on local funding, resulting in substantial disparities between affluent districts and low-income districts with a large proportion of socioeconomically disadvantaged students who are more costly to educate. Despite recent improvements, the existing state aid formula has been criticized for failing to provide sufficient funding to districts with the fewest resources and the highest education costs...While districts with larger gaps, on average, receive more per-pupil state aid under the current formula compared with smaller-gap districts, the largest-gap districts still receive less aid than they need to close their cost-capacity gaps. As a result, inequity and inadequacy remain in the state’s education finance system.”⁴

To fill the gap, to ensure a full and adequate education, towns have no choice other than to reduce general government services or turn to the property tax to meet their obligations. The New England Public Policy Center developed five alternatives to the current ECS formula to address what they termite “cost-capacity gap” in education.

More than any other cost, special education is recognized as the most volatile and costly burden on local taxpayers. While many aspects of these services should still be offered through local school districts, the cost and volatility of these services needs be driven downward through state action. Additionally, collaborative regional programs are needed to help local school

³ Mike Maciag Pew Charitable Trusts, Government Wage Growth Lags Private Sector by Largest Margin on Record - How state and local leaders respond to widening gap will have long-term budget ramifications, ARTICLE February 7, 2022 - <https://www.pewtrusts.org/en/research-and-analysis/articles/2022/02/07/government-wage-growth-lags-private-sector-by-largest-margin-on-record>

⁴ Bo Zhao, New England Public Policy Center Research Reports Reforming Connecticut's Education Aid Formula to Achieve Equity and Adequacy across School Districts <https://www.bostonfed.org/publications/new-england-public-policy-center-research-report/2021/reforming-connecticuts-education-aid-formula-to-achieve-equity-and-adequacy-across-school-districts.aspx>

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districts provide cost effective and efficient high quality services for some of the most challenged youth while maintaining the requirements and intent of state and federal law to provide services to students with disabilities in the “least restrictive environment.” Additionally, the state has not been consistent in meeting its statutory obligations to municipalities. Further, the federal government has had, since 1975 with the passage of the Individuals with Disabilities Education Act (IDEA), an obligation to pay 40% of the additional cost of special education. The federal commitment has never been met.

Regionalization is recognized as a key element to realizing relief from the property tax. Our COGs and RESCs each have extensive portfolios of programs and services that have reduced costs and gain significant efficiencies for our towns and school districts. ACIR’s 2020 on Municipal Shared Services⁵ provides the details of the current statutory powers granted both. One area that has not been used, especially as it applies to COGs, is in the delivery and/or administration of state services to municipalities. Connecticut has dozens of regional service delivery structures with significant geographic overlap. The result is a system with little logic and a great deal of inefficiencies.

Finally, sound policy decisions, such as property tax reform, cannot be made without solid data. In 2022 Connecticut saw its second (the first being in 2014) Tax Incidence Study. This was a long overdue achievement and one that provided policymakers with specific insight into the State’s tax system - including the property tax. Other states - notably Minnesota - perform routine and much more in depth tax incidence studies. Connecticut also lacks a non-partisan policy center that can, as is the case in many states (Washington State is a prime example), that can provide policy makers with the type of insight needed on complex issues like property tax reform.

Policy Recommendations:

1. General

- a. **Close the Needs-Capacity Gap for Municipalities** - Phase in, with a hold-harmless provision, a restructuring of municipal state-aid and provide additional new aid consistent with the 2015 recommendations from the New England Public Policy Center to utilize state-aid as a primary means to address fiscal disparities across communities and ensure that all localities have the resources needed to provide high-quality public services.
- b. **Modify the Municipal Accountability Review Board (MARB)** to enable it to be a proactive entity that seeks to assist municipalities they have reached the level of fiscal distress now prescribed by statute. Currently, there are just three municipalities that have qualified and made a referral to MARB (ACIR believes there are more that need assistance). In ACIR’s view waiting for a municipality to get to its worse financial condition is too late in the process - earlier intervention and/or assistance can minimize or prevent. Two neighboring states have direct assistance that Connecticut should investigate:

⁵ ACIR, [https://www.cga.ct.gov/fin/tfs/20200201_Task Force to Promote Municipal Shared Services/20200129/Final Report.pdf](https://www.cga.ct.gov/fin/tfs/20200201_Task%20Force%20to%20Promote%20Municipal%20Shared%20Services/20200129/Final%20Report.pdf)

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- ▶ State of New York Local Government Services and Support (<https://dos.ny.gov/services-and-support>)
 - ▶ State of Massachusetts Division of Local Services (<https://www.mass.gov/orgs/division-of-local-services>)
- c. Bifurcation of Local Taxing Authority⁶** – Municipal bodies and boards of education would each set their own mill rates and levy their own property taxes. This is the standard in all but a few states nationwide, and this change will create greater visibility into the costs of providing local education, and enable greater flexibility to local boards in implementing their own efficiency measures.
- d. Diversification of Local Revenue Sources:**
- local sales and/or income taxes
 - Increasing the basis for service fees beyond the cost of providing the service;
 - Abolishing local taxing districts that encourage inefficiencies; and
 - Enabling greater use of regional tax strategies for specified economic development purposes (e.g. Regional Asset Districts, etc)
- e. Implement statewide uniform property tax for:**
- Motor Vehicles
 - Personal Property
- f. Salary and Benefits**
- Make the **municipal retirement system a portable one** from community to community and community to the state and back.
- g. Within the Intergovernmental Unit of OPM:**
- Establish the **capacity to conduct an annual Needs-Capacity Analysis** for Connecticut cities and towns to inform decisions on State, municipal and education aid and future property tax restructuring.
 - Establish Federal Funds Maximization Unit
 - Using data-driven analyses, establish a fundamental understanding between the state and local governments that the state cannot underwrite inefficiency at either level. Statutory and competitive grant formulas to local and regional entities must include objective and measurable efficiency matrices to determine eligibility. The state must also commit to enhancing local government’s capacity to become more efficient . Focus on incentives and capacity-building to achieve real change and to avoid the “state mandate” tag.⁷

⁶ Source: Governor Lamont’s Shared Services Transition Team

⁷ Source: Governor Lamont’s Shared Services Transition Team

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2. Education

- a. **Further adjust the ECS formula** as recommended by the New England Public Policy Center.
- b. **Provide districts with a wider array of governance options that would successfully address the typical challenges that cause towns and districts to back away or not consider regionalization.** For example, expand the definition of what a school district is and provide towns the authority to create flexible cooperative agreements under 10-158(a) and recognize such agreements as a school district. This keeps the local boards of education intact (although they could be made smaller), maintains local fiscal controls, and gives all towns in the partnership an equal voice as to the direction of their school district.

3. Special Education

- a. **Fully fund Special Education.** Such a change would provide immediate and significant local tax relief and would remove one of the largest unknown costs from each school district's budget. More importantly, it would render local discussion of the cost of Special Education moot and place the focus where it belongs -- on the needs of Special Education students. **In lieu of such a change the Legislature should should examine the current model of state reimbursement** when the cost of a student's special education services exceeds 4.5 times the average per pupil educational cost of that school district to determine the need for a different reimbursement rate for in-district and regional collaborative programs.
- b. The Legislature should put in place **statewide cost standards for all outplacement facilities.**
- c. **Coordination of transportation and other services through the RESCs.** Develop an electronic regional student transportation tool for students and students with special needs – An electronic on-line system for districts to share non-identifiable student information on transportation routes for the purpose of sharing rides to out of district programs should be established. The information could be analyzed by each RESC for the purpose of proposing regional transportation solutions.
- d. **Reversal of the regulatory “burden of proof”** standards in contested IEP cases, consistent with 40 other states
- e. **Educate in Least Restrictive Environment** as close to home as possible.
- f. **Provide incentive funds - established in each RESC for regional diagnostic/intervention programs** for students with social emotional, mental health, and behavioral challenges. The programs can be sustained through cooperative arrangements between member districts once established. While many districts have in-district programs designed to meet the needs of specific populations of students with disabilities, there is a need for more collaborative, small, regional programs to provide these solutions. RESCS can facilitate sustainable regional programs with local school districts.

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2. Regional Services

- a. State agencies and independent regional service delivery agencies** that receive funding from the State or federal governments **should, to the greatest extent practicable, utilize the boundaries of the councils of governments.**
- Put in place **multiple pilots** (rural, suburban and urban) through regional COGs to demonstrate the efficacy of the health district consolidation and/or the 911 Call Center consolidation detailed by the New England Public Policy Center.
 - Put in place multiple pilots to regionalize assessment services, government (especially for parcel-based records and transactions) and solid waste and recycling through COGs.
- b. Legislature should consider distributing funds regionally** for regional delivery unless it can be demonstrated that the COG mechanism is not available, is not cost effective, or will result in diminished services.. Significant grant funding is available from the state, but there is no requirement that towns band together to apply for it. It is not necessary to provide more funding because, if more funding is delivered on a regional basis, it creates an incentive for regional special education or other services.
- c. COGs or RESCs should be funded to assist towns and/or school districts,** lacking the current capacity to do so, **to fully implement** the provisions and intent of Section 7-406(c) - **Uniform Chart of Accounts** and to further **provide financial services on a regional basis.**
- d. Connecticut's economic development approach must be changed** to one where recruitment and expansion are done on a shared and/or regional basis with consideration of both costs and revenues as well as regional impact, rather than the current town specific approach.

Other Priorities for Consideration

- 1. Require Plans of Conservation and Development, at each level, to include sections on shared services efficiencies and education.** Modify existing statutes (Sections 16a-27, 8-35a and 8-23) related to the preparation of the State, Regional and Municipal Plans of Conservation and Development to include two additional elements. One addressing education from the perspective of examining shared efficiencies and educational opportunities for state, regional and local plans and the other addressing town governance for town POCDs. The SDE, RESCs and local boards of education will have to be brought into the POCD process for this to work.
- 2. Allow municipalities and school districts to piggyback on other state and local and federal government contracts for purchasing.** Piggyback cooperatives is a form of intergovernmental cooperative purchasing in which an entity will be extended the same pricing and terms of a contract entered into by another entity. Generally the originating entity will competitively award a contract that will include language allowing for other entities to utilize the contract, which may be to their advantage in terms of pricing, thereby gaining economies of scale that they would otherwise not receive if they competed on their own." This option will save both time and money.

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- 3. Enable School Districts and municipalities to Utilize Reverse Auctions in Contract Bidding in competition with each other instead of just submitting a single bid.** A reverse auction is a process for pricing contracts supported by an electronic tool where offerors bid down, as opposed to the traditional auction which requires buyers to submit sequentially higher bids, the main goal of which is to drive prices downward. Offerors are given the opportunity to continually revise their prices during the bidding process until the auction closes. Multiple benefits have been identified in connection with the use of reverse auctions, including the following: price reductions, enhanced competition and significant small business participation.
- 4. Enable Two or more contiguous municipalities for the creation of a Municipal Consolidation Study Commission.** Should one or more towns wish to explore the possibility of consolidation there is currently no statutory mechanism in statute for such an undertaking.
- 5. Change local appointing authority for zoning enforcement, building inspection, fire marshal to the Municipal CEO.** In each specific case cited the intent is to make all persons employed by a municipality subject to the same rules and obligations as any other municipal employee. There is no intent or support to politicize these positions in terms of their functional responsibilities or qualifications for their service.

 - **Modify Section 8-3 to change the appointing authority for ZEOs from zoning commissions to the town itself.** Current law hinders the ability of non-charter towns to operate their towns in an efficient manner. In the case of the ZEO with the appointment in the control of the zoning commission and the employment being a responsibility of the town - a place of confusion and conflict results that should be corrected.
 - **Amend Section 29-260 regarding the appointment of a building official.** Current law requires that a local building official be appointed for a four-year period. The statute further delineates the way a building official may be removed. The current system works against efforts to consolidate and/or regionalize this service. There is currently no reasonable purpose to justify the system for removal of a building official in current statute.
 - **Amend Section 29-297 regarding the appointment and/or replacement of a local fire marshal.** The proposed change makes the chief executive officer of a town the appointing authority of a local fire marshal. The statute should be further amended to require that the termination or replacement of a local fire marshal be made for cause and in coordination with the State Fire marshal's office.