The following recommendations regarding property tax restructuring were developed by ACIR as part of its Local Government of the Future ("LGF") Initiative. Based on lessons learned from the reinvention of the state-regional-local relationship during the COVID-19 pandemic, the LGF Initiative is predicated on the notion that we have an immediate opportunity to positively and dramatically change how local government in Connecticut is delivered.

ACIR has chosen to focus in particular on the property tax because it acts as a barrier to the goals of the LGF Initiative. In addition, because true structural reform of our property tax system requires significant investment from the State, surpluses currently realized at the state level provide a unique opportunity to make those necessary short-term investments that will reset the baseline for how we finance local government and permanently reduce our over-reliance on the property tax.

After extensively reviewing the body of research and recommendations that has already been produced over the past ten years about the property tax and potential reforms, ACIR has determined that the following actions are both achievable in the short term and necessary for the long-term goal of restructuring Connecticut's property tax system.

1. Increase State Commitment to Special Education
    a. Increase Excess Cost Grants to cover more than 2 times average cost
    b. Change the regulatory burden of proof for IEPs
    c. Require cost efficiencies in out of district placements and transportation

Education is the major cost for cities and towns. As the New England Public Policy Center determined in 2021, Connecticut's heavy reliance on the property tax for funding public K-12 education systems creates a cost-capacity gap between the funding needed to provide public education and the town's capacity to raise those funds.

Special education is by far the most volatile and costly burden on local taxpayers. To provide permanent relief to municipal property taxpayers, the State of Connecticut must reset its financial and policy commitment to special education. This includes an increase in the Excess Cost Grant to cover the cost of special education placements that exceed two times the cost of educating a non-special education student. It also requires a statutory change in who must meet the burden of proof of justifying IEPs. These two reforms alone will initially create a cost shift for special education away from municipalities, and institute from inception cost savings tate in excess of $1 billion per year, and save municipalities approximately $XX in legal and other fees associated with special education placements.

Expected State Cost $1 billion

2. Consolidate Services onto Regional Platforms
    a. Fully fund COGs and RESCs to assume local services
    b. Re-align state service districts onto regional platforms

For decades, studies have demonstrated the inherent inefficiency of Connecticut's local delivery of services, both municipal and state services delivered at the local level. Many services offered at substantial cost by individual municipalities lend themselves to multi-town, regionalized alternatives. At the same time, Connecticut has dozens of regional service delivery systems without consistent delivery structures and significant geographic overlap.

Over the course of these discussions, the Councils of Government ('COGs") and Regional Education Service Centers ("RESCs") have developed an increased capacity to deliver these services on a regional basis for their constituent towns and boards of education. Now is the time for the State to require the consolidation of services regionally, coupled with full funding to COGs and RESCs to administer these efforts. At the same time, state service systems delivered on a local and regional basis, such as health districts and emergency service centers, must be consolidated and reconstituted in a method similar to Connecticut's Probate Court Reforms of 2011, following consistent geographic boundaries, preferably along existing COG boundaries.

Expected State Cost: $250 million

3. Statutorily Promote Municipal Employee Benefits
    a. Establish portable benefit plans through MERS
    b. Enhance early intervention for towns in financial distress

Through our review of existing studies and internal observations among ACIR members, it has been observed that certain common sense changes to existing practice at the State level can gradually, but significantly enhance certain long-term liabilities that many towns face. Specifically, in many towns, pension debt for municipal employees creates an annual financial burden that strangles local budgets and forces ever-higher local taxes. Debt service on capital investments creates a similar burden, leading to similar results in terms of rising mill rates. Taken as a whole, these burdens, if not properly managed, can leave local political leaders with few options and can incent short-term fixes that leave the long-term problem unaddressed.

The General Assembly must work with towns and local labor representatives to create incentives to move more towns toward the existing MERS retirement system. This should likely take the form of creating a second tier of MERS beneficiaries for newly-joined municipal employees. By moving in this direction, municipalities can offer future employees portable benefit plans that allow workers to change jobs without losing benefits.

The legislature must also consider earlier intervention of the MARB for towns that objectively exhibit signs of financial stress. This intervention would not be voluntary, but rather would be triggered when a municipality's bond rating reaches certain levels, or its debt service exceeds certain limits.

Estimated State Cost: Minimal

Expected State Cost: Minimal

4. Close the Needs-Capacity Gap Among Municipalities
   a. Fully fund existing PILOT grants to municipalities
   b. Recalibrate state grants to incorporate equity considerations

Many studies have documented the current inequities among Connecticut cities and towns, and that those inequities are exacerbated by our overreliance on the property tax. The New England Policy Center's 2015 study called these inequities a "needs-capacity gap" – that is, a gap between what may need and what they can afford to raise from their taxpaying residents. That same study suggested that existing state grants to municipalities can be a primary vehicle for levelling out those disparities by 1) fully funding those grants, and 2) recalibrating them with an eye toward promoting equity among our communities.

It is now time for Connecticut to reset its financial commitment to all our cities and towns by using current surpluses to fully fund our PILOT and ECS grants to their originally-intended levels. At the same time, holding all cities and towns harmless, those grant formulas must be reviewed and revised in an open and transparent process for the express purpose of determining whether they adequately address inequities among our towns.

Expected State Cost: $450 million

5. Maximize Federal Funding
   a. Establish new staffing at OPM to monitor and report federal funding opportunities
   b. Provide new funding to COGs and RESCs for federal grant staffing

A recent report produced by the Western Connecticut Council of Governments ("WESTCOG") determined that Connecticut's current method of identifying and accessing federal funds available to municipalities is wholly inadequate. The study confirmed that other states have more robust efforts at the state and county level to ensure that available federal funds are maximized. Our state's insufficient approach is the primary reason

Connecticut is consistently at or near the bottom nationally in terms of federal taxpayer dollars returned to our state.

Funds and staffing must be dedicated to improving our performance in terms of accessing available federal funding. It must begin with establishing a new unit at the Office of Policy and Management whose only focus is the constant monitoring of federal funding opportunities as they arise, consistently transmitting that information to COGs, RESCs and municipalities, and facilitate collaboration among interested parties to leverage existing financial sources toward federal matching requirements. At the same time, consistent with Recommendation #2, the COGs and RESCs must be properly funded to employ staff dedicated to maximizing federal funding grant opportunities on a regional basis.

<u>Estimated State Cost</u>: $ 5 million

6. Diversify Local Revenue Options
    a. Broaden fee options to municipalities for locally-provided services
    b. Allow municipalities to retain 100% of funds collected locally for state services

All studies conducted on the property tax in Connecticut have identified that our almost-exclusive reliance on the property tax contributes the many problems created by the property tax. Put another way, if our towns had other ways to raise revenue, property taxes would not need to be so high. These same studies have discussed possible supplemental revenue sources, including regional income taxes and local option sales taxes. Each of these tax options are used in other states, but they also bring other inequities and policy objections that make them less than optimal solutions. What these studies have also pointed out is that Connecticut relies less on local service fees and user charges than most other states.

Connecticut towns must be permitted by the State to diversify their income streams as they see fit through the use of fees and charges that local residents are comfortable imposing on themselves and other users of their town's services. While these fees are legally required to approximate the cost of services provided, the scale and scope of fees should not be limited by statutory restrictions. In addition, to the extent the State of Connecticut relies on town clerks and other local agencies to collect and remit fees on its behalf, the percentage of fees a town may retain for its own use must be revised or eliminated to provide more revenue options to our towns.

<u>Estimated State Cost</u>: $25 million (lost revenue)