Property Tax Reform
for
Connecticut

a report and recommendations

made by the

Advisory Commission on Intergovernmental Relations
ACIR

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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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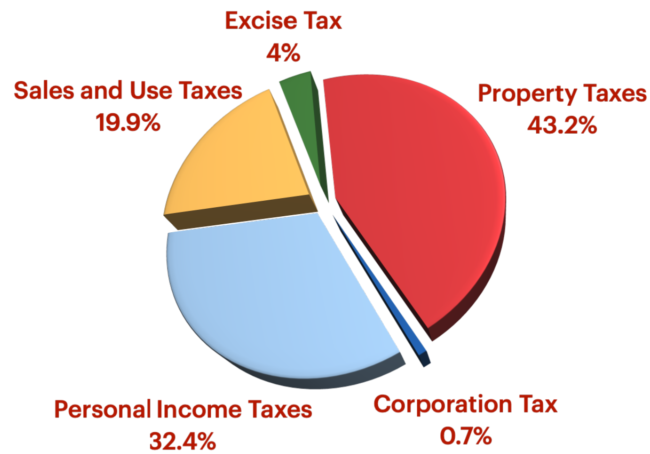
Introduction

Overall Connecticut Tax Incidence, 2019



Source: CT DRS Tax Incidence Study, 2022

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 create the long-term savings and efficiencies that will 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**
2. **Close the Needs-Capacity Gap Among Municipalities**
3. **Consolidate Services onto Regional Platforms**
4. **Statutorily Promote Municipal Cost Savings**
5. **Maximize Federal Funding**
6. **Diversify Local Revenue Options**

ACIR does want to emphasize that these recommendations are not a menu to pick from. Rather there are linkages between the policy issues which support or are reliant on each other.

ACIR Recommendations

1. Increase State Commitment to Special Education

a. Increase Excess Cost Grants to cover more than 2 times average cost[1]

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[2] between the funding needed to provide public education and many towns' 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. In exchange for this increased financial commitment, local boards of education would maintain primary control over special education in their districts, but adhere to caps in outplacement costs and consolidate outplacement transportation through the RESCs.

The General Assembly must also codify a statutory and regulatory change in who must meet the burden of proof of justifying IEPs. These reforms alone will initially create a cost shift for special education away from municipalities of approximately $1 billion per year, and generate significant savings for school districts in legal fees and administrative costs for special education placements.

Estimated State Cost: $1 - $1.5 billion (state assumption of additional special education cost)

2. Close the Needs-Capacity Gap Among Municipalities

a. Fully fund existing PILOT grants to municipalities

b. Recalibrate state grants to incorporate equity considerations

c. Fully fund MRSA (Municipal Revenue Sharing)

Many studies have documented the current inequities among Connecticut cities and towns, and that those inequities are exacerbated by our over-reliance on the property tax. The New England Policy Center's 2015 study called these inequities a "needs-capacity gap[3]" – that is, a gap between what towns may need and what they can afford to raise from their taxpaying residents.

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1 Connecticut School Finance Project -https://ctschoolfinance.org/resource-assets/Excess-Cost-Grant-FAQs.pdf

2 Zho, Bo, Reforming Connecticut's Education Aid Formula to Achieve Equity and Adequacy across School Districts, New England Public Policy Center, Research Report 21-1, February 2021 - 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

3 Measuring Municipal Fiscal Disparities in Connecticut - Federal Reserve Bank of Boston - 2015 - https://www.bostonfed.org/publications/new-england-public-policy-center-research-report/2015/measuring-municipal-fiscal-disparities-in-connecticut.aspx

That same study suggested that existing state grants to municipalities can be a primary vehicle for leveling 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.

Estimated State Cost: $450 - $500 million

3. Consolidate Services onto Regional Platforms

a. Fully fund COGs and utilize both COGs and RESCs to assume local service

b. Re-Structure the Regional Services Grant (RSG) to cover, at a minimum, a common set of operational functions and service capacities at each COG

c. Re-align state service districts onto regional platforms

d. Eliminate statutory barriers to consolidation and collaboration

For decades, studies have demonstrated the inherent inefficiency of Connecticut's local delivery of services, both municipal and state. 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.

The nine regional Councils of Government ('COGs") and the six Regional Education Service Centers ("RESCs") now have broad statutory authority and have developed an increased capacity, experience and expertise to deliver many services, as authorized by their respective chief-elected officials and boards of education, on a regional basis for their member towns and boards of education. RESCs are nonprofit, fee-for-service, public education agencies. COGS are statutorily authorized public agencies funded by statutory Regional Series Grant -RSG (CGS 4-66k (d)). As currently constituted, the funding formula for the COGs is not sufficient to cover a common set of operational functions and service capacities. Each of the nine COGs should have a common set of operational functions and service capacities supported by the RSG. This should include: leadership, financial management, grant procurement and management, regional program development, GIS and policy planning. As currently constituted, RSG does not provide for these core functions and in some cases over compensates due to the current formula's use of a per capita approach and failure to consider other support.

Now is the time for the State to fully invest in the consolidation of services regionally by transforming the Regional Performance Incentive Program ("RPIP") from a competitive grant to an enabling grant that allows local governments or boards of education to utilize its COG or RESC to assume services currently provided individually. Such a change would require the additional investment of funds by the state in order to realize the potential of these regional initiatives. Such an investment would allow state services delivered on a local and regional basis, such as health districts and emergency service centers, to be be consolidated and reconstituted in a method similar to Connecticut's Probate Court Reforms of 2011. The state currently has a illogical labyrinth of state and local service delivery geographies (which the MORE Commission documented) built up over decades. The result is significant inefficiencies and duplications of effort. It is ACIR's contention that following consistent geographic boundaries, along existing COG and RESC boundaries, can result in the more efficient, consistent delivery of services (local and state) with significant cost savings.

Estimated State Cost: $100 million

4. Statutorily Promote Municipal Cost Savings

a. **Reform CMERS to make it more affordable, sustainable, and portable for municipalities, consistent with recent changes in the state pension system.**

b. **Amend the Municipal Finance Advisory Commission's (MFAC) role to enable education and outreach to proactively assist towns in avoiding financial distress**

c. **Amend what constitutes municipal fiscal distress for consistency from state agency to agency and with the federal government.**

d. **OPM's Municipal Fiscal Health Monitor must be enhanced to create more transparency into local budgetary practices, enabling local taxpayers better insights into their town's fiscal condition.**

Through our review of existing studies and internal observations among ACIR members, it has been observed that certain common sense changes to state law and practice can gradually, but significantly reduce 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 long-term problems unaddressed.

The General Assembly must work with towns and local labor representatives to create incentives to move more towns away from standalone pension and OPEB (Other Post Employment Benefits) obligations that are underfunded and administratively costly toward the existing Connecticut's Municipal Employees Retirement System (CMERS). This should likely take the form of creating a second tier of CMERS 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, with the passage of Public Act 19-193 § 1, did put in place an enhanced set of requirements and authority for OPM to refer municipalities to MFAC (Municipal Finance Advisory Commission) based on a municipalities annual audit review by OPM. ACIR's review has shown that our state must establish earlier awareness of towns that objectively exhibit signs of financial stress and provide pro-active assistance to avoid unwanted fiscal distress.

Estimated State Cost: Minimal

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

c. Modify DECD's definition of a distressed municipality to conform to the federal definition.

Recent work by the Western Connecticut Council of Governments investigated how state governments enable – or restrict – the ability of local governments to access federal funds. WestCOG found that other states have more robust efforts at the state and county level to bring in federal dollars. Connecticut's lack of focus on maximizing its access and use of federal resources contributes to the state's consistent ranking at or near the bottom nationally in terms of the cents it receives in return for every dollar it contributes in federal taxes.

Additionally, the federal government and Connecticut use different criteria as to what constitutes a distressed municipality. This disconnect results in confusion in terms of eligibility and the loss of grant opportunities.

Funds for staffing must be dedicated to improving our ability to fully access available federal funding. It begins 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, our COGs and RESCs must be properly funded to employ staff dedicated to maximizing federal funding grant opportunities on a regional basis as well as maintaining grant compliance and reporting.

Estimated State Cost: $5 - $7 million (primarily staffing)

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 locally contributes a list of problems that result in poor land use decisions, unnecessary economic competition between towns, racial inequities and more. Put another way, if our towns had other ways to raise revenue, property taxes would not need to be so high. 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 must remit to the state could be revised or eliminated to provide more revenue options to our towns.

Estimated State Cost: $25 million (lost revenue)