



February 8, 2007

GOVERNOR’S PROPOSED STATE BUDGET: FY 07-08 & FY 08-09

IMPACT ON *Middletown*

PROPOSAL WOULD PHASE-IN \$1.1 BILLION FOR ECS, INCREASE SPECIAL EDUCATION \$\$, AND PHASE-OUT THE PROPERTY TAX ON MOST CARS

On Wednesday, February 7th, the Governor proposed a bold two-year budget that would dramatically increase the State’s funding role for pre-K–12 public education, gradually eliminate the property tax on most cars, level-fund or reduce many non-education grants, and raise the top state income tax rate from 5.0% to 5.5%.

The table below shows how the Governor’s proposed budget would affect *Middletown*. Note that the Governor’s proposal to eliminate the property tax on most cars has been described as revenue neutral (or slightly better) for most municipalities. To capture the effect of the revenue-neutral proposal on *Middletown’s* bottom-line, CCM has subtracted an amount equivalent to the proposed “CAR grant” under the line item “Loss from property tax exemption on most cars”. (The CAR grant would reimburse *Middletown* for its lost car-tax revenue.) Pages 2 and 3 contain more detail on the Governor’s proposed budget and its impact on Connecticut’s towns and cities.

| Grant | This Year | Governor’s Proposal | | Governor’s Proposal (FY 07-08) over This Year (FY 06-07) | |
|--|-------------------|---------------------|--------------------|--|--------------|
| | FY 06-07 | FY 07-08 | FY 08-09 | Change: | |
| | (\$) | (\$) | (\$) | (\$) | (%) |
| Education | | | | | |
| Adult Education | 1,399,568 | 1,351,589 | 1,351,589 | (47,979) | -3.4% |
| ECS Grant | 13,603,625 | 16,514,411 | 18,473,959 | 2,910,786 | 21.4% |
| Non-public School Transportation | 132,722 | 127,015 | 127,015 | (5,707) | -4.3% |
| Public School Transportation | 1,080,591 | 1,029,146 | 1,029,146 | (51,445) | -4.8% |
| Sub-Total: Education | 16,216,506 | 19,022,161 | 20,981,709 | 2,805,655 | 17.3% |
| Non-Education | | | | | |
| CAR grant | 0 | 1,408,782 | 2,222,454 | 1,408,782 | n/a |
| Local Capital Improvement | 337,637 | 337,637 | 337,637 | 0 | 0.0% |
| PILOT: Colleges & Hospitals | 6,057,768 | 5,905,005 | 5,905,005 | (152,763) | -2.5% |
| PILOT: State-owned Property | 3,119,522 | 2,862,936 | 2,862,936 | (256,586) | -8.2% |
| Pequot-Mohegan Grant | 1,935,208 | 1,873,540 | 1,873,540 | -61,668 | -3.2% |
| Property Tax Relief Grant * | 313,209 | 0 | 0 | (313,209) | -100.0% |
| Town Aid Road Grant | 303,632 | 222,664 | 222,664 | (80,968) | -26.7% |
| Sub-Total: Non-Education | 12,066,975 | 12,610,564 | 13,424,236 | 543,588 | 4.5% |
| Total: Education & Non-Education | 28,283,481 | 31,632,725 | 34,405,945 | 3,349,243 | 11.8% |
| Loss from property tax exemption on most cars | 0 | (1,408,782) | (2,222,454) | (1,408,782) | n/a |
| Net Impact (State Aid less Lost Revenue) | 28,283,481 | 30,223,943 | 32,183,491 | 1,940,461 | 6.9% |

* The Property Tax Relief grant was a one-time-only relief program, beginning and ending in FY 06-07.

Impact of Overall Budget Proposal:

The Governor’s proposed budget for next year (FY 07-08) would increase municipal aid by a net \$204.3 million (7.9%) in FY 07-08 over the current year (FY 06-07). This net increase includes a \$264.8 million (12.7%) increase in education aid and -\$60 million (-12.3%) decrease in non-education aid. The Governor’s proposed increase for pre-K–12 public education would be the largest on record in both dollar and percentage terms. However, many non-education grants would be level-funded or reduced under the Governor’s budget proposal. Many of these grants were partially funded last year (FY 06-07) with one-time surplus revenue. This includes last year’s one-time-only, \$33 million Property Tax Relief grant, which has not been renewed. (Note that if the one-time Property Tax Relief grant is excluded from the analysis, the Governor’s non-education aid proposal improves. The net decrease in non-education aid would be -\$27.4 million (-6%) as opposed to -\$60 million (-12.3%).)

As outlined in the budget, state aid to municipalities would increase by \$334.6 million (13%) over the current year (FY 06-07). But the proposed budget overstates the overall impact on municipalities' because it includes \$99.9 million in the form of a "CAR grant" designed to fully reimburse municipalities for the car-tax revenues they would no longer collect and \$30.4 million in the form of increased funding for the PILOT for manufacturing machinery and equipment (which reimburses municipalities for the property taxes on "old" machinery that they will no longer collect). *The net impact of the Governor's proposal on municipal budgets is, therefore, less than the state aid it delivers. Please note that some newspapers have reported municipal aid figures, but these reports have highlighted only the gross state aid numbers, rather than the net impact for towns and cities.*

Governor's Major Initiatives:

ECS Grant: The proposed budget would increase the ECS grant by \$228.3 million, from \$1.627 billion this year (FY 06-07) to \$1.856 billion next year (FY 07-08). This 14% increase in state "education equalization" funding is the largest since FY 89-90 (when the ECS replaced the Guaranteed Tax Base grant). Under the Governor's proposal, the ECS grant would grow by \$1.1 billion over five years to \$2.7 billion by FY 11-12. Significant changes to the grant would include: (a) increasing the foundation to \$9,867 from the current \$5,891, (b) increasing the State Guaranteed Wealth Level (SGWL) to 1.75, (c) raising the minimum aid ratio to 10% from the current 6%, (d) calculating the "need students" count using the number of students eligible for free and reduced-price meals, and (e) eliminate grant caps.

Special Education Excess Cost Grant – Student-based: The proposed budget would increase the special education excess cost – student based grant by \$18 million, from \$106.6 million this year (FY 06-07) to \$124.6 million next year. This (17%) increase would fully fund the grant at 4.5x each district's per student expenditures.

Special Education Excess Cost – Equity: The proposed budget would eliminate the special education excess cost equity grant by \$4 million, from \$4 million this year (FY 06-07) to \$0 next year.

Magnet Schools: The proposed budget would increase the magnet school grant by \$12.4 million, from \$86.1 million this year (FY 06-07) to \$98.5 million next year (FY 07-08). This 14.4% increase would result from (1) increasing the per student host magnet school grant to \$6,016 from the current \$5,302 and (2) increasing the per student RESC magnet school grant to \$7,060 from the current \$6,500.

Open Choice: The proposed budget would increase the OPEN Choice grant by \$3.2 million, from \$11.4 million this year (FY 06-07) to \$14.5 million next year (FY 07-08). This 27.7% increase would result from (1) increasing the per student transportation subsidy to \$3,250 from the current \$2,100, (2) increasing the per student receiving district grant to \$2,500 from the current \$2,000, and (3) increasing the student bonus payment to \$700 from the current \$326.

Eliminate Property Tax on Most Cars: The Governor's proposal would phase-in the property tax exemption for privately owned passenger vehicles over five years. In FY 07-08, \$1,500 of the value of each eligible vehicle would be exempt, in FY 08-09 \$3,200 of the value of each eligible vehicle would be exempt, and by FY 11-12, 100% of the value of each eligible vehicle would be exempt. To pay for the elimination of the property tax on most cars, the Governor would eliminate the property tax credit against personal income taxes (though maintain the exemption for certain, qualifying seniors) and would gradually designate all of the State's casino payments for municipalities.

Some aspects of the Governor's proposal are still unclear. For example, it is unclear whether or not the Governor's proposal would reimburse municipalities based on previous years' grand lists (which would cause them to be less-than-fully reimbursed) or whether municipalities would file reimbursement claims for the current year.

Grant Reductions:

Under the Governor's proposed budget, the following grant programs would be reduced in FY 07-08 compared to the current year (FY 06-07).

PILOT: Colleges and Hospitals – The \$120 million grant would decrease by \$5.3 million (-4.4%) over the current year, to \$115.4 million. The reimbursement on lost property taxes would fall from 58% this year (FY 06-07) to 52% next year (FY 07-08).

PILOT: State-owned Property – The \$81.2 million grant would decrease by \$5.3 million (-6.5%) over the current year, to \$75.9 million. The reimbursement of lost property taxes would fall from 37% this year (FY 06-07) to 32% next year (FY 07-08).

Pequot-Mohegan grant – The \$91.1 million grant would decrease by \$4.8 million (-5.3%) over the current year to \$86.3 million.

Property Tax Relief Grant: The proposed budget eliminates the \$33 million property tax relief grant for FY 07-08. Last year's grant was financed with FY 05-06 surplus revenue and was intended to be a one-time revenue source.

Town Aid Road grant – The \$30 million grant would decrease by \$8 million (-26.7%) over the current year to \$22 million.

Calculation of the -\$60 million “net impact” for non-education:

Non-education aid (FY 06-07):

| | |
|--|------------------------|
| Ongoing grants | \$ 458.2 million |
| One-time Property Tax Relief grant | <u>\$ 33.0 million</u> |
| Total, Non-education grants (FY 06-07) | \$ 491.2 million |

Governor’s proposed non-education aid (FY 07-08):

| | |
|--|--------------------------|
| Ongoing grants | \$ 561.1 million |
| One-time Property Tax Relief grant | <u>\$ 0.0 million</u> |
| Total, Non-education grants (FY 07-08) | \$ 561.1 million |
| Less: CAR grant | (\$ 99.9) million |
| Less: Increased portion of PILOT for MME | <u>(\$ 30.4) million</u> |
| Net impact of Governor’s proposal (FY 07-08) | \$ 430.7 million |
| Change: (FY 06-07) minus (FY 07-08) | (\$ 60.4) million |

Governor’s Proposed Grant Recommendations (Statewide Totals): FY 07-08

| Education Grants | Non-Education Grants |
|---|---|
| Adult Education\$18.6 million statewide. | CAR grant\$99.9 million statewide. |
| ECS\$1.856 billion statewide. | LoCIP\$30 million statewide. |
| Non-Public School Transportation\$4 million statewide. | Mashantucket Pequot-Mohegan\$86.3 million statewide. |
| Public School Transportation\$48 million statewide | PILOT: Colleges and Hospitals\$115.4 million statewide. |
| Special Ed. – Excess Cost grants\$124.6 million statewide. | PILOT: Manufacturing machinery & equip.\$80.6 million statewide. |
| | PILOT: State-Owned Property\$75.9 million statewide |
| | Town Aid Road\$22 million statewide. |



For more information on the state budget and its impact on Connecticut’s municipalities, please attend CCM’s February 13th Legislative Committee meeting at the Crowne Plaza in Cromwell, CT.

If you have questions, please call Adam Stern, Jim Finley, or Gian-Carl Casa of CCM at (203) 498 – 3000.

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