



February 14, 2007

**CCM Analysis:**

**Governor’s Proposed State Budget: FY 07-08 & FY 08-09**

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

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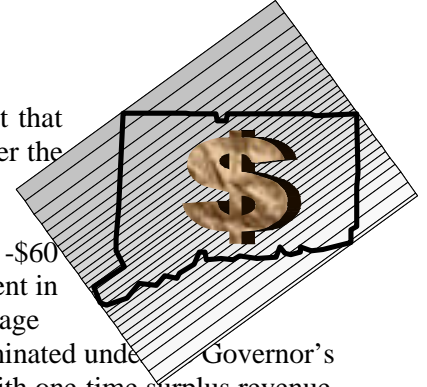
# Governor's Proposed State Budget: FY 07-08 & FY 08-09

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

### Impact on Municipalities

On Wednesday, February 7<sup>th</sup>, 2007, the Governor's proposed an FY 07-08 budget that would increase municipal revenues 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 a -\$60 million (-12.3%) decrease in non-education aid.<sup>1</sup> The Governor's proposed investment in 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, reduced or eliminated under the Governor's budget proposal. Many of these grants were partially funded last year (FY 06-07) with one-time surplus revenue. (These cuts include this year's \$33 million Property Tax Relief grant, which was intended as one-time revenue in anticipation of the State increasing non-education aid in FY 08 and beyond.<sup>2</sup>)



### Key Items for Municipalities

The Governor's proposed budget is designed to (1) increase the State's funding role for pre-K-12 public education, (2) help reduce property taxes, (3) enhance the State's planning capacity, and (4) control the cost of the State's long-term obligations. It would make a variety of changes to many operating and capital programs that affect towns and cities and would change the state-local tax structure.

## Operating Programs

### Education Aid:

Under the Governor's proposed budget, the State would make a major effort to increase its role in the financing of pre-K-12 public education. The centerpiece of the Governor's wide-ranging education proposal is to phase-in a \$1.1 billion increase in the ECS grant over five years. Overall, the Governor's proposal calls for \$264.5 million (14%) increase in pre-K-12 public education funding for towns and cities.

Although not included in the Governor's budget proposal, OPM is drafting legislation to require that new education funding be used to either (a) reduce property taxes or (b) to increase education spending. Details are not yet available.

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<sup>1</sup> See Appendix A for more detail.

<sup>2</sup> As outlined in the budget, state aid to municipalities would increase by \$334.6 million (13%) over the current year (FY 06-07). This figure 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). Because of the mandated tax exemptions, these reimbursement amount to a revenue "wash" to municipalities.

## **(1) Changes in state aid for “Regular” Pre-K–12 Public Education**

### **ECS Grant: (*Change = + \$228.3 million, 14.0%*)**

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 95-96 (when the ECS grant merged with the State’s old special education 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) immediately 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) eliminating grant caps in the fifth year.<sup>3,4</sup>

### **Magnet Schools: (*Change = + \$12.4 million, 14.4%*)**

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: (*Change = + \$3.2 million, 27.7%*)**

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.

### **Priority School Districts: (*Change = + \$5.1 million, 4.1%*)**

The proposed budget would increase the Priority School District grant program (which comprises 5 separate programs) by \$5.1 million, from \$123.6 million this year (FY 06-07) to \$128.6 million next year (FY 07-08). This 4.1% increase would result from a cut of \$6 million to the priority school district grant and an increase of \$11.1 million to the Early Reading Success grant. A commitment to the Early Childhood/School Readiness grant is part of the Governor’s proposal for increased investment in pre-school education. (See “Universal pre-school for children from low-income families” below.<sup>5</sup>)

### **Vocational Agriculture: (*Change = + \$0.7 million, 30.5%*)**

The proposed budget would increase the Vocational Agriculture grant by \$0.7 million, from \$2.3 million this year (FY 06-07) to \$3.0 million next year (FY 07-08). This 30.5% increase would be the largest for the program in over ten years.

### **Universal pre-school for children from low-income families: (*Change = + \$17 million, dna*)**

The proposed budget would increase the state’s investment in pre-school programs for children from low-income families by approximately \$17 million in (FY 07-08). The Governor’s proposal would provide 13,000 children

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<sup>3</sup> The base aid ratio for Stamford (a priority school district) would be 20%. SB 1114 indicates that the foundation would increase for FY 07-08 but that full increases would be “capped” until the final year of the phase-in.

<sup>4</sup> See Appendix B for a comparison of (a) the original ECS grant, (b) the ECS grant formula inputs as recommended by the Governor’s Commission on Education Finance, and (c) the Governor’s proposed ECS grant formula inputs.

<sup>5</sup> In the second year of the biennium (FY 08-09), the Early Childhood/School Readiness grant would increase again, pushing-up total Priority School District funding to \$148.1 million two years from now.

with state subsidized pre-school, would implement a rating system and data registry for all pre-school centers, and would provide funding for the credentialing of pre-school teachers.

## **(2) Changes in grants for Special Education**

### **Special Education Excess Cost Grant – Student-based: (*Change = + \$18.0 million, 16.8%*)**

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, for the first time, fully fund the grant at 4.5 times each district's per student expenditures.

### **Special Education Excess Cost – Equity: (*Change = - \$4.0 million, -100%*)**

The proposed budget would eliminate the Special Education Excess Cost – Equity grant. This (-100%) decrease would offset some of the increase in the student-based grant for the state's neediest districts.

### **Special Education portion of ECS grant (*Change = n/a*)**

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). At least some of this 14% increase would be attributed to special education funding. (The State Department of Education assumes that approximately 19% of ECS grant funding goes to pay for special education costs. This estimate is based on the proportion of grant funds attributed to special education when the ECS grant was merged with the state's former special education grant.)

## **Non-Education Aid:**

Under the Governor's proposed budget, significant non-education grant programs would be level-funded, reduced, or eliminated. Many of these grants were partially funded last year (FY 06-07) with one-time surplus revenue. (These include this year's \$33 million Property Tax Relief grant, which was intended as one-time revenue in anticipation of the State increasing non-education aid in FY 08 and beyond.)

As described in the Governor's budget, non-education aid to municipalities would increase by \$69.9 million (14.2%) over the current year (FY 06-07). This figure overstates the overall non-education grant-impact on municipalities because it includes \$99.9 million in the form of a "CAR grant" designed to reimburse municipalities for lost car-tax revenue 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" effect, then, of the Governor's proposed non-education budget would be to decrease non-education aid by -\$60.4 million (-12.3%).<sup>6</sup>

## **(3) Reduced funding for most Non-education Programs**

### **PILOT: Colleges and Hospitals (*Change = -\$5.3 million, -4.4%*)**

The proposed budget would decrease PILOT for Private Colleges and Hospitals by \$5.3 million, from \$120.7 million in FY 06-07 to \$115.4 million in FY 07-08. This -4.4% decrease would result from the use of one-time surplus revenue to fund the grant at its level last year. The reimbursement for lost property taxes would fall from 58% this year (FY 06-07) to 52% next year (FY 07-08).

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<sup>6</sup> These numbers include this year's one-time-only, \$33 million Property Tax Relief grant, which has been proposed not to be renewed. If the 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%).

**PILOT: State-owned Property (*Change = -\$5.3 million, -6.5%*)**

The proposed budget would decrease PILOT for State-owned property by \$5.3 million, from \$81.2 million in FY 06-07 to \$75.9 million in FY 07-08. This -6.5% decrease would result from the use of one-time surplus revenue to fund the grant at its level last year. The reimbursement for lost property taxes would fall from 37% this year (FY 06-07) to 32% next year (FY 07-08).

**Mashantucket Pequot-Mohegan grant (*Change = -\$4.8 million, -5.3%*)**

The proposed budget would decrease the Mashantucket Pequot-Mohegan grant by -\$4.8 million, from \$91.1 million in FY 06-07 to \$86.3 million in FY 07-08. This -5.3% decrease would result from the use of one-time surplus revenue to fund the grant at its level last year.

**Property Tax Relief Grant (*Change = -\$33 million, n/a*)**

The proposed budget would eliminate the Property Tax Relief grant for FY 07-08. Last year's grant was financed entirely with FY 05-06 surplus revenue and was intended to be a one-time revenue source in anticipation of the State increasing non-education aid in FY 08 and beyond.

**Town Aid Road grant (*Change = -\$8 million, -26.7%*)**

The proposed budget would decrease the Town Aid Road grant by -\$8 million, from \$30 million in FY 06-07 to \$22 million in FY 07-08. This -26.7% decrease would result from the use of one-time surplus revenue to fund the grant at its level last year.

**PILOT for Manufacturing Machinery and Equipment (*Change = +\$30.4 million, +60.5%*)**

The proposed budget would increase the PILOT for lost property taxes on manufacturing machinery and equipment (MME) by \$30.4 million, from \$50.2 million in FY 06-07 to \$80.6 million in FY 07-08. This 60.5% increase would result from the phase-out of taxes on "old" manufacturing machinery and equipment. The increased grant amount is a reimbursement for lost taxes at the local level. Its net impact on local budgets is, therefore, \$0. (See Appendix C for more details on the phase-out of "old" manufacturing machinery and equipment.)

**DECD Housing PILOT and Tax Abatement Programs (*Change = -\$3.9 million, -100%*)**

The proposed budget would eliminate the DECD Housing PILOT and the Tax Abatement program for FY 07-08 (and FY 08-09). Last year's grants were financed with FY 04-05 surplus revenue.

**(4) New CAR grant to reimburse towns and cities for lost property taxes on cars**

The proposed budget would include a new "CAR grant", which would reimburse municipalities for the proposed elimination of the property tax on most cars.

The Governor's proposal consists of a phase-in of a 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, and in FY 08-09 \$3,200 of the value of each eligible vehicle would be exempt. In FY 09-10, \$4,900 of the value of each eligible vehicle would be exempt, and in FY 10-11, \$6,700 of the value of each eligible vehicle would be exempt. By FY 11-12, 100% of the value of each eligible vehicle would be exempt.

The CAR grant would reimburse municipalities for their tax-losses, which would grow each year. The grant would be financed entirely with State casino payments, and in the fifth year municipalities would receive 100% of the State's casino payments plus any additional general fund transfers (if needed). The state would establish a special fund to pay for the CAR grant called the "Casino Assistance Revenue Fund".

The diversion of casino payments to the “Casino Assistance Revenue Fund” would reduce General Fund revenues. To keep the General Fund “whole”, the Governor proposes to eliminate the property tax credit against personal income taxes (though maintain the exemption for qualifying seniors). The elimination of the property tax credit against personal income taxes would generate \$96 million in FY 07-08 and \$193 million in FY 08-09.

The Governor’s car-tax proposal differs from last year’s proposal in *four key ways*:

- (1) Towns and cities would use their October 2006 grand list, January 2007 supplemental list and FY 07-08 mill rate to calculate their forgone car tax revenue and would apply to the State for a reimbursement to be made in November 2008. (Under last year’s proposal, towns and cities would have been reimbursed in FY 07-08 for forgone car-tax revenue, as calculated using the October 2005 grand list, the January 2005 supplemental list, and the FY 06-07 mill rate.)
- (2) The Governor proposes to eliminate the property tax credit against the state personal income tax to help pay for the plan, but this year, the Governor’s plan would exempt seniors (those who turn age 65 prior to the end of their taxable year and those who are spouses of such a person).
- (3) As outlined in HB 7083, the Governor’s new proposal makes no mention of an impermeable “intercept fund” for casino payments, unlike last year’s proposal.
- (4) As outlined in HB 7083, municipalities are not *explicitly promised* 100% of the State’s Casino payments in fiscal years commencing after the phase-in is complete, unlike last year’s proposal.

For more detail on the Governor’s car-tax proposal, see Appendix D.

## Smart Growth Initiatives

### **(1) Enhance and develop State’s planning capacity**

The Governor’s proposed budget includes a number of initiatives to assist regional planning organizations (RPOs) and municipalities with coordination of their planning efforts. The Governor’s proposal combines both “carrots” and “sticks”, and comes on the heels of her Executive Order setting up a new office of Responsible Growth.

#### **Enhance State Role in Funding for Planning**

The proposed budget would require that all municipalities bring their local plans of conservation and development into accordance with statute by FY 08-09 or become ineligible for discretionary state grant funding (unless they receive a waiver from the Office of Policy and Management). The proposed budget provides \$1 million over the biennium to help pay the local costs of this effort.

The proposed budget would increase the annual OPM grant to RPOs from \$360,000 in FY 06-07 to \$1 million in FY 07-08. This 56% increase would restore the grant to its early-decade funding level.

The proposed budget would also increase funding for enhancement of the State’s GIS capacity. The Governor’s budget includes \$2 million over the biennium to enhance RPOs and DEPs GIS capacity.

#### **Open Space Purchasing**

The proposed budget would increase funding to \$10 million per year for the Open Space Acquisition and Farmland Preservation programs.

## **Education for Local Planning & Zoning Commissioners**

The proposed budget would provide 250,000 for education programs for local commissioners.

### **Changes to Brownfield funding**

Existing Brownfield funding programs would be consolidated and the process expedited. Program evaluation criteria would be developed together with an inventory of sites. \$2.5 million would be available under a new brownfield pilot program.

See also (2) below.

## **Capital Programs**

### **(1) School Construction**

#### **Bond Funding in FY 07-08 and FY 08-09**

The proposed capital budget would authorize \$693 million in general obligation bonding for school construction in FY 07-08 and \$691 million in such bonding in FY 08-09. Of these amounts, \$614 million and \$682 million would be paid to on behalf of towns and cities.

#### **Changes to Reimbursement Method for School Construction Projects**

The Governor's proposed capital budget would also change the way in which school construction projects are reimbursed. The current reimbursement rate is based on a sliding scale of 20% state funding to 80% state funding, depending on town wealth (with wealthier districts receiving lower percentage reimbursements and poorer districts receiving higher percentage reimbursements). Under the Governor's proposal, school construction reimbursements would range on a sliding scale from 15% state funding to 65% state funding for applications after July 1, 2007. In addition, the amount of bond funds available for school construction would eventually be capped at \$300 million per year (details on when the cap would go in to effect are not yet available).

### **(2) Responsible Growth Requirements for Capital Projects**

The proposed capital budget requires that all bond-funded projects (except school construction projects) be consistent with the State Plan of Conservation and Development. The proposed capital budget also requires that all Urban Act bonding used for economic development projects meet the criteria established by the State's Responsible Growth Task Force. These requirements can be waived by the Bond Commission, if necessary.

### **(3) Increased Bonding for Clean Water Fund**

The proposed capital budget would authorize \$70 million in general obligation bonding for the Clean Water Fund in FY 07-08 and FY 08-09. The authorizations are up from those for FY 05-06 and FY 06-07, when only \$20 million was authorized. Still, the State Department of Environmental Protection estimates that the State requires \$157.5 million in g.o. bonding in FY 07-08 and \$139.3 million in g.o. bonding in FY 08-09.

### **(4) Governor's Proposed Capital Program Summary for FY 07-08 – Major Bond Funds**

Clean Water Fund: \$70 million, \$20 million more than the FY 06-07 authorization.

LoCIP: \$30 million, no increase over the FY 06-07 authorization.

School Construction: \$614 million, \$36 million less than the FY 06-07 authorization.

STEAP: \$10 million, \$10 million less than the FY 06-07 authorization.

Urban Act: \$40 million, \$25 million less than the FY 06-07 authorization.

Brownfield pilot program: \$5 million

## **State-local tax Changes**

### **(1) Phase-out of the Property Tax on Most Cars over Five Years**

The Governor proposed to eliminate the property tax on most cars over a five-year period. In conjunction with such an elimination, the Governor proposed a new “CAR grant” to reimburse towns and cities for the resulting property-tax loss. For a description of the tax phase-out, see page six (6), item #4 “New CAR Grant to Reimburse Towns and Cities for Lost Property Taxes on Cars”. Additional detail on the CAR grant is provided in Appendix D.

### **(2) Property Tax Credit Against State Income Tax Eliminated**

The Governor proposed to eliminate the property tax credit against the personal income tax as part of her car-tax proposal. Qualifying seniors would not be subject to the elimination of the property tax credit. For a description of how the property tax credit program would work in conjunction with the car-tax phase-out, see page six (6) under item #4 “New CAR Grant to Reimburse Towns and Cities for Lost Property Taxes on Cars”. Additional detail on the CAR grant is provided in Appendix D.

### **(3) Real Estate Conveyance Tax**

The Governor’s budget is silent on extending the present rates of the municipal real estate conveyance tax, scheduled to sunset on June 30, 2007. At stake is \$45 million in needed municipal revenue statewide.

### **(4) Income Tax Hike**

The Governor proposed to raise the top state income tax rate, over two years, to 5.5% from the current 5%. In FY 07-08, the income tax would increase to 5.25% for all filers who currently pay at the 5% rate. In FY 08-09, the income tax would increase to 5.5% for the same filers. The change would increase state revenues by \$618 million in FY 07-08 and \$650 million in FY 08-09.

The current income tax rate of 5% applies to income over \$10,000 for single filers, income over \$16,000 for head-of-household filers, and \$20,000 for joint filers.

### **(5) Cigarette Tax Hike**

The Governor proposed to increase the cigarette tax from \$1.51 per pack to \$2.00 per pack. The change would increase state revenues by \$81.5 million in FY 07-08 and \$78.1 million in FY 08-09.

### **(6) Estate Tax Cut**

The Governor proposed to phase-out the unified gift and estate tax over five years, with total elimination of the tax in FY 10-11. Under current law, estates valued over \$2 million or more are taxed. Connecticut is one of 18 states with an estate tax. The estate tax generated \$165 million in FY 06-07 and \$196 million in FY 05-06. Under the Governor’s proposal, estate tax revenue would fall to \$139 million by FY 08-09.

**(7) Energy Tax Cut**

The Governor proposed to eliminate the sales tax on electricity purchased by commercial businesses. The cut would save businesses \$31 million in FY 07-08 and \$32 million in FY 08-09. This proposal is part of a number of smaller tax cuts designed to mitigate growing energy costs.



**For more information on the scheduled grant increases in the state budget and how it impacts your community, visit the CCM website at [www.ccm-ct.org](http://www.ccm-ct.org).**

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

CCM 02/13/2007

**APPENDIX A**

**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

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\* Property Tax Relief grant was intended to be one-time in anticipation of the State increasing non-education aid in FY 08 and beyond.

**APPENDIX B**

**The Original ECS Formula, Current Law, and The Governor's Budget Proposal**

	<b>Original ECS Formula (if in place today)</b>	<b>Current Law</b>	<b>Governor's Budget Proposal: FY 08</b>
<b>Foundation</b>			
Amount Calculation	\$8,122 Amount spent on the 80th percentile need student three years prior. (Calculation based on costs for <u>regular education</u> students, only.)	\$5,891 Set by General Assembly. (Includes costs for regular and special education students).	\$9,687 Amount spent on the 80th percentile need student three years prior. (Calculation based on costs for <u>regular and special education</u> students).
Frequency of Calculation	Foundation adjusted every year.	Foundation not adjusted since FY 00.	Foundation adjusted every other year.
<b>Wealth Measures</b>			
State Guaranteed Wealth Level (SGWL)	2.00	1.55	1.75
Minimum Aid Ratio	0.0%	6.0%	10%.
Town Wealth	ENGL per student adjusted for per capita income.	ENGL per student & ENGL per capita, adjusted for per capita income & median household income.	No change from current law.
<b>Need Students</b>	574,362	600,927	More than 600,927 (Poverty count increases and weight for LEP students increases.)
Resident Students	Reg. Ed. Students	Reg. + Spec. Ed.	Reg. + Spec. Ed., but magnet school students would no longer be included in a district's need student count.
Poverty	'96-'97 Temporary Family Assistance (TFA) Count x 0.25	'96-'97 Temporary Family Assistance (TFA) Count x 0.25	# of students in free/reduced price lunch program x (.2188)
Remedial students	%age of mastery test scores at or below remedial performance on mastery test x resident students x 0.25.	%age of mastery test scores at or below remedial performance on mastery test x resident students x 0.25.	Eliminated. (Commission chose to eliminate this weight, as is seemed to reward district's for poor performance.)
Limited English proficiency	ELL students x 0.10	ELL students x 0.10	ELL students x 0.20
<b>Regional Bonus</b>			
Size of bonus	Up to \$25 per "regional student"	Up to \$100 per "regional student"	No change from current law.
Cost of bonus	\$612,000	\$2,447,250	\$2,447,250
<b>Supplemental Formula Aid</b>	\$0	\$5,576,500	\$0
<b>Density Formula Aid</b>	\$0	\$5,454,300	\$0
<b>Total ECS Grant</b>	\$2,367,198,996	\$1,627,321,377	\$2,771,194,735
Size of Cap	\$0	(\$54,007,902)	\$0
Size of Stoploss	\$33,349,000	\$135,376,055	Data not yet available, but each town, each year of the phase-in would receive a minimum 3% increase.

## **APPENDIX C**

### **Property Tax Exemption (and reimbursement for) “old” Manufacturing, Machinery, and Equipment**

Next year (FY 07-08), the State will begin phasing-in property-tax exemptions for “old” manufacturing, machinery, and equipment (“old” MME). The State will reimburse municipalities for the corresponding tax-loss. After five years, all “old” MME will be tax exempt and municipalities will be reimbursed, by the State, for 100% of the corresponding tax-loss.

Per CGS §12-94f, the reimbursement program for “old” MME will be part of the existing State reimbursement program for lost taxes on “new” manufacturing machinery and equipment (“new” MME). This program is commonly known as “PILOT for Manufacturing, Machinery, and Equipment”.

See the below questions and answers for more details.

#### What is meant by “old” manufacturing, machinery, and equipment property (“old” MME)?

“Old” MME is MME that is six years old – or older.

#### Isn’t MME already exempt?

All “new” MME is eligible for an exemption for five years. The State’s PILOT program currently reimburses municipalities for 80% of the lost tax revenue during these years. At present, municipalities may tax MME at its residual value, after five (5) years. This post-five (5) year property is now exempt, also.

#### How does the phase-out work?

The property tax on “old” MME will be phased-out between FY 07-08 and FY 11-12. In FY 07-08, 20% of the “old” property will be exempt, in FY 08-09, 40% will be exempt, then 60%, then 80%, and by FY 11-12, 100% would be exempt.

Each year, the State will reimburse municipalities for the property taxes lost as a result of the phase-out. And for every year after FY 11-12, municipalities will receive the same reimbursement that they received in FY 11-12.

#### Are there any foreseeable problems?

Some municipalities may lose under the plan, even though the State will supposedly reimburse them for the revenue loss.

The law makes the statutory depreciation schedule for valuing MME for property tax purposes mandatory instead of optional for towns. It also makes the residual value of MME equal to 20% after eight years. Municipalities that depreciate equipment more slowly or require a residual value greater than 20% will receive a reimbursement that is less than their current collections.

Municipalities will lose the revenue-growth resulting from any increase in the post- FY 11-12 manufacturing equipment tax-base.

**APPENDIX D**

<b>Governor's Car Tax Proposal: Comparing Last Year to This Year</b>		
	<b>Last Year (start date: FY 07)</b>	<b>This Year (start date: FY 08)</b>
<b>Exempt</b>	(1) Privately owned or leased passenger cars (2) motorcycles.	(1) Privately owned or leased passenger cars (2) motorcycles. (3) Pick-up trucks.
<b>Not Exempt</b>	(1) Pick-up Trucks (2) Business-owned Vehicles (3) Other non-passenger vehicles (tankers, tractors, trucks, etc.) (4) Recreational vehicles (campers, motor homes, etc.)	(1) Business-owned Vehicles (2) Other non-passenger vehicles (tankers, tractors, trucks, etc.) (3) Recreational vehicles (campers, motor homes, etc.)
<b>Timeline</b>	Full exemption beginning in FY 07.	Exemption phased-in over 5 years beginning in FY 08 and ending in FY 12. Amt. of Vehicle value exempt, FY 08: \$1,500 Amt. of Vehicle value exempt, FY 09: \$3,200 Amt. of Vehicle value exempt, FY 10: \$4,900 Amt. of Vehicle value exempt, FY 11: \$6,700 Amt. of Vehicle value exempt, FY 12: 100%
<b>Revenue for the Plan</b>	The State would eliminate the property tax credit against state income taxes and use budgeted, natural revenue growth.	The State would phase-out of property tax credit against state income taxes, with an exemption for persons over age 65. (For these persons, the current \$500 property tax credit would be maintained.)
<b>Funding Mechanism</b>	Casino Assistance Revenue (CAR) Grant <i>plus</i> Supplemental Municipal Assistance Grant.	Casino Assistance Revenue (CAR) Fund plus Supplemental Municipal Assistance Grant (in FY 11-12).
Reimbursement Method	Towns and cities would receive 100% of casino revenues and the Supplemental Municipal Assistance Grant to offset revenue losses from the car tax exemption. The State would create an "intercept" fund.	Towns and cities would receive 100% of casino revenues for FY 08 - FY 11, the Supplemental Municipal Assistance Grant (in FY 12), and other general fund transfers (in FY 12, if required) to offset revenue-losses from the car-tax exemption.
Reimbursement Rate	Financing would reimburse for 100% of previous year's car tax levy and two-year's-prior supplemental levy (at an assumed tax-collection rate of 100%).	Financing would reimburse for 100% of their car tax levy (at an assumed tax-collection rate of 100%).
<b>Questions</b>		
How would the CAR Fund adjust in the out-years to reimburse municipalities for natural revenue growth in their local car taxes?	Municipalities would continue to receive a proportion of the state's casino payments equal to their reimbursement's proportion of these revenues in FY 07.	No guarantee as outlined in SB 7083, but the State's casino payments would ostensibly be earmarked annually for municipalities. Each municipality would receive a proportion of the state's casino payments equal to their reimbursement's proportion of these revenues in FY 12.
Would the plan make grant payments in January and July (the months in which municipalities now receive payments)?	No. Payments would be made quarterly, creating cash-flow problems for towns and cities.	Payments would be made in November (and eventually, in the following January, April, and June) creating cash-flow problems for towns and cities.
In the Governor's new proposal, will the senior's property tax credit program be refundable?	No exemption for seniors in last year's proposal.	No.
Would citizens apply for the credit with their local assessor?	No.	It depends. Lessee's would have to fill out a form and apply. Car owners would not; the assessor would do the work for them.

Source: CCM, February 14, 2007.

# CONNECTICUT CONFERENCE OF MUNICIPALITIES



## CCM – CONNECTICUT’S STATEWIDE ASSOCIATION OF TOWNS AND CITIES

The Connecticut Conference of Municipalities (CCM) is Connecticut's association of cities and towns. CCM represents municipalities at the General Assembly, before the state executive branch and regulatory agencies, and in the courts. CCM provides member cities and towns with a wide array of other services, including management assistance, individualized inquiry service, assistance in municipal labor relations, technical assistance and training, policy development, research and analysis, publications, information programs, and service programs such as workers' compensation and liability-automobile-property insurance and risk management, energy cost-containment, and revenue collection assistance. Federal representation is provided by CCM in conjunction with the National League of Cities. CCM was founded in 1966.

CCM is governed by a Board of Directors, elected by the member municipalities, with due consideration given to geographical representation, municipalities of different sizes, and a balance of political parties. Numerous committees of municipal officials participate in the development of CCM policy and programs. CCM has offices in New Haven (the headquarters) and in Hartford.

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