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Second Year of the Biennial Budget: Towns and Cities Flat-lined, Property Taxpayers Face More Pain Unless State Leaders Act

Unless the Governor and the General Assembly act, property taxpayers in towns and cities across Connecticut face potentially huge property tax hikes, large-scale reductions in public services on both.

The biennial budget passed this year provides, for FY 08-09, an overall increase in funding for municipalities of just 3.7% (\$99 million) over the current fiscal year (FY 07-08). Moreover, unless legislation is passed, *municipalities stand to lose over \$40 million in revenue* presently being raised by the real estate conveyance tax.

Make no mistake: the second year of the state budget spells trouble for residential and business property taxpayers. The reasons are simple: statewide, *68.6% municipal revenue comes from property taxes*; the bulk of the rest, *23%, comes from state aid*. If state aid doesn't go up adequately, **property taxes will rise -- and/or -- services will be cut**. There are no other options, municipalities do not have any other revenue sources.¹ Further, municipal cost drivers – health insurance, energy, fuel, personnel and more – continue to rise significantly and make voracious demands on local finances.

The situation is even worse for communities that are particularly property-tax dependent: nine municipalities get over 90% of their revenue from property taxes, and another 48 get over 80% from property taxes.

Inadequate state aid for towns and cities **causes a tax shift from the state level to the local level.**

¹ User and other fees bring in just 7.4% of all revenue, while federal aid adds just 1%. These revenue lines do not fluctuate much from year to year.

Overall: Education Aid Up Slightly, General Government Aid Stagnant

In FY 08-09, the hike of \$99 million in education aid to municipalities comprises all of the funding increase over FY 07-08...leaving general government aid flat-lined and stagnant.² In real-dollar terms, overall aid will be increased by \$97,306,307 (1.4%).

The present rates of **the municipal share of the real estate conveyance tax are scheduled to sunset on June 30, 2008** unless legislation is passed to make those rates permanent. In 2003 the General Assembly and the Governor dramatically cut aid in several areas – in the middle of the budget year. The rates of the real estate conveyance tax were increased to help compensate for the cuts. In some areas, such as Town Aid for Roads and the Pequot-Mohegan Grant, the levels of aid have never returned to pre-2003 levels. Property taxpayers are left holding an increasingly heavier tax bag.

EDUCATION AID³

While two of the largest state grants for education aid are slated to increase for FY 08-09 over this year:

- **ECS** – increase of 4.4% (\$80 million) in FY 08-09 over this year.
- **Special Education (Equity)** - Eliminated, beginning this fiscal year (was \$4.4 million in FY 06-07).
- **Special Education (*Excess Cost – Student Based*)** – increase of 7.5% (\$9.3 million).

Most of the other education grants are flat-lined: *Student Transportation; Adult Education; Bilingual Education; Health & Welfare; Young Parents; Interdistrict Cooperation; School Breakfast; School to Work; Early Reading Success; Youth Service Bureaus; Young Adult Learners*

In real-dollar terms, these grants are being increased by 2.1% or \$97,306,307.

And, **one education grant actually decreases:**

- **Priority School Districts** – decrease of 4.5%.

² Office of Fiscal Analysis, Financial Schedules – State Grants to Towns

³ Office of Fiscal Analysis, Financial Schedules – State Grants to Towns

NON-EDUCATION/GENERAL GOVERNMENT AID⁴

The major non-education/general government grant programs are *flat-lined for next fiscal year*.⁵

- **Town Aid Road grant** – No Increase
- **PILOT – State Property** – No Increase
- **PILOT – Colleges and Hospitals** – No Increase
- **Pequot-Mohegan Grant** – No Increase
- **Property Tax Relief Elderly Circuit Breaker** – No Increase
- **Property Tax Relief Veterans** – No Increase
- **Local & District Departments of Health** – No Increase
- **School Based Health Clinics** – No Increase

In real-dollar terms, the grants are being cut by 2.2% or \$8,083,116.⁶

And, on top of that, some have been decreased or eliminated entirely:

- **Property Tax Relief Elderly Freeze Program** – 10% (- \$100,000) Decrease.
- **DECD Housing PILOT and Tax Abatement programs** - Eliminated, beginning this fiscal year (- \$3,908,890).

LOCAL COSTS UP

For example:

- *Health insurance* costs rise each year - 6.3%, on average, in FY 06-07, 8.3% in FY 05-06 and 13.1% in FY 04-05. Municipal health insurance costs are 46% higher than private sector norms. Many municipalities are reporting cost increases of between 10% and 20% over last year.
- *Energy costs*: The cost of *electricity* in Connecticut has gone up almost 60% in Connecticut since 1999. In the past year the price of *natural gas* increased between 75% and 81%. The price of *heating oil* in Connecticut has risen from \$2.51 per gallon to \$3.31 per gallon in one year. Five years ago (December 2002) it was \$1.29 per gallon.
- *Special Education* costs have risen from \$1.04 billion in 2001-02 to \$1.3 billion in 2005-06. *Employees' salaries* rose 6.3% from 2002 to 2003, another 7.6% in 2004, 8.5% in 2005 and 2% in 2006.

⁴ Office of Fiscal Analysis, Financial Schedules – State Grants to Towns

⁵ The Manufacturing Machinery & Equipment PILOT will increase by 38.7%, \$29.3 million, however, that is not new municipal revenue, but replaces existing municipal revenue as it reimburses for state-mandated property tax exemptions for that equipment (an exemption expands next year). Because it is not an increase in municipal revenue it is not factored into the calculations here.

⁶ CCM analysis based on Federal Reserve estimate of 2.2% inflation.

Moreover, **the State continues to pass unfunded and under-funded mandates on towns and cities.** The 2007 General Assembly passed over 30 of them – adding to an ever-growing list that has a large cumulative impact. The Connecticut Advisory Commission on Intergovernmental Relations states that there are 1,203 such mandates overall.

Towns and Cities – The Most Accountable and Responsive Level of Government in Connecticut

At least 144 municipalities presently have the opportunity to hold a referendum on their budgets either automatically (52) or by citizen petition (92). Further, the legislative body is a town meeting in 106 municipalities. Through the democratic process the residents of their communities vote directly on their budgets. Why should the State dictate to them that they have to abide by some arbitrary limit?

The remaining municipalities have representative legislative bodies that decide on their budgets, **just as the state legislature and Congress do.** They are directly accountable to the voters in their communities for the decisions they make, and most run for re-election every two years. Given that 53 municipalities changed leadership in 2005 and 45 did in 2007, the public seems perfectly capable of deciding when they want a change.

Citizens are more than able to hold their local budgets in check when they see fit. The Connecticut Advisory Commission on Intergovernmental Relations (CACIR) found that **of 73 municipalities that held budget referenda this year, only 45 budgets were approved on the first vote.** “Considering multiple budget referenda in numerous towns, **there has been a total of 160 budget referenda held this year, fifteen more than [2006] and thirty-three more than in 2005**”. The report also found that 17 municipalities adopted their budgets after the start of the fiscal year, compared to 12 in 2006 and 14 in 2005. Local government is the closest to the public. Citizens know their local officials and the way their local government works. Surveys have shown that local government is the most trusted of the three levels in the US.

A Perfect Storm – Unless State Leaders Act

There is no reason to think that the cost of government will go down from this fiscal year to next and, as shown above, there is every reason to think it will go up. Flat-funded aid for municipal general government simply will not get the job done.

The combination of higher costs, numerous new and existing state mandates, along with flat-lined municipal aid will combine to bring down the perfect property tax storm on residential and business property taxpayers.

The time to act is now. Only the State can help avert this storm.