TRENDS IN CONNECTICUT MUNICIPAL FINANCE

WESTERN CONNECTICUT COUNCIL OF GOVERNMENTS

EXECUTIVE SUMMARY

Using data from the Municipal Fiscal Indicators gathered by the Connecticut Office of Policy and Management, we are able to track local government revenues and tax rates through the years. We find that per-capita municipal revenues, adjusted for inflation, have risen nearly 2.5 times their 1981 level. This increase is driven by both increased state transfers and higher property tax revenues. Similarly, tax rates (when adjusted for real estate values) have also more than doubled when compared to their 1981 levels.

1. INTRODUCTION

Evaluations of historic spending patterns are infrequent and often limited to less than 10 years in scope. However, accurate and holistic evaluations of how today's spending compares historically require a much longer timespan to compare with. With the state's recent financial troubles in mind, we are interested in examining how Connecticut's municipalities have varied their spending patterns over a long period of time.

2. METHODOLOGY

2.1. **Primary Data.** The primary data source for this analysis is the Municipal Fiscal Indicators collected by the Connecticut Office of Policy and Management (OPM). This data is readily available in digital form back to 1995, and exists in written form going back to 1981. For the data spanning the years of 1981-1994, we scanned and digitized the data by hand. As of time of writing, the data is not yet publicly available, but we plan to release it before long.

2.2. **Additional Data.** A number of additional data sources were used in the making of this analysis. To adjust the figures for inflation, the official Bureau of Economic Analysis GDP Deflator was used to adjust nominal dollar amounts.[1] Mill rates are adjusted for home prices using the Federal Reserve's Real Residential Property Prices Index, indexed to 2010 property prices.[2]

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[1]The GDP deflator was chosen over the more common CPI and PCE indices because the nature of the spending described (government expenditures) more accurately aligns with the US GDP calculation than with either consumer expenditures or the consumer market basket. The results are not significantly different if CPI or PCE are used instead.

[2]While an argument could be made here to use the similar Case-Shiller Index instead, the Case-Shiller Index only extends back to 1987. Once again, the choice of index does not significantly affect results.

3. RESULTS

3.1. **Municipal Revenues and Taxes.**
Figure 1 shows real per-capita town revenues over time (blue), plotted against Connecticut's median household income (red). On a real basis, per-capita town revenues have increased by more than 2.5 times their 1981 levels, while median household income has risen only slightly in the same period of time.

Municipal revenues consists of two main components: state transfers and property tax revenues. Figure 2 shows a similar figure broken down by revenue source. Here, the red line represents state transfers to towns and the blue line represents property tax revenues (both adjusted for inflation and relative to their 1981 levels). Although in the late 1980s through the 1990s state revenues pull away from tax revenues, as of today the two are approximately in line with each other.

There are other ways of visualizing the data. Figure 3 shows the proportion of municipal revenues comprised of state transfers over time. Again, there is a small rise throughout the 1990s and a gentle decline afterwards. Finally, Figure 4 shows adjusted equalized mill rates[3]. Mill rates have approximately doubled relative to their 1981 levels, consistent with property tax behaviors.

3.2. **Differences by Income Level.**
These trends in municipal finance also vary across different towns. In Figure 5 we have plotted state transfers over time for Connecticut's 8 wealthiest and poorest towns. The thick bold line represents Connecticut as a whole. For wealthy towns, we see that transfers decline throughout the 1980s before—with one exception–accelerating upwards. By 2016, these levels are at or exceed those of the remainder of the state. In contrast, for the 8 poorest towns, transfers rise most rapidly in the 1980s before stagnating in the early 2000s.

These patterns are also reflected in Figure 6, which plots the proportion of each town's revenue which comes from state transfers. Again, the bold line represents Connecticut. Notice that for rich towns, dependence drops in the 1980s but gently rises afterwards, although it remains much lower than the rest of the state. The opposite is true for poor towns, where dependence rises sharply then gradually falls, remaining significantly higher than the rest of the state.

4. CLOSING REMARKS

In light of Connecticut's recent and continuing financial woes, it is important for municipal and state governments to take a long-run view of fiscal behaviors. The data to perform such an analysis has always been available, but often in difficult-to-access mediums. In this report, we collect this data together for the first time and hope to offer holistic insight into trends in both municipal and state finance.

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[3]The unadjusted equalized mill rate gives the ratio of property revenues to total property values. With the rate adjusted for home prices, it gives the ratio of property revenues to total property numbers.
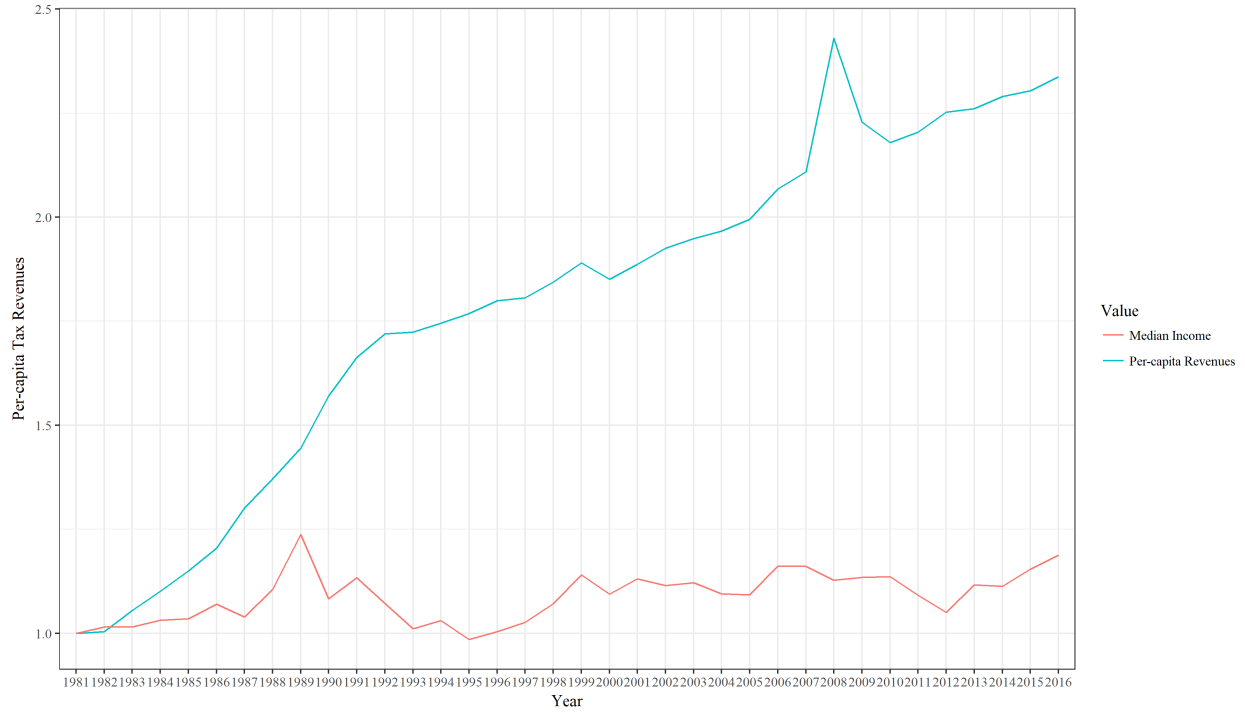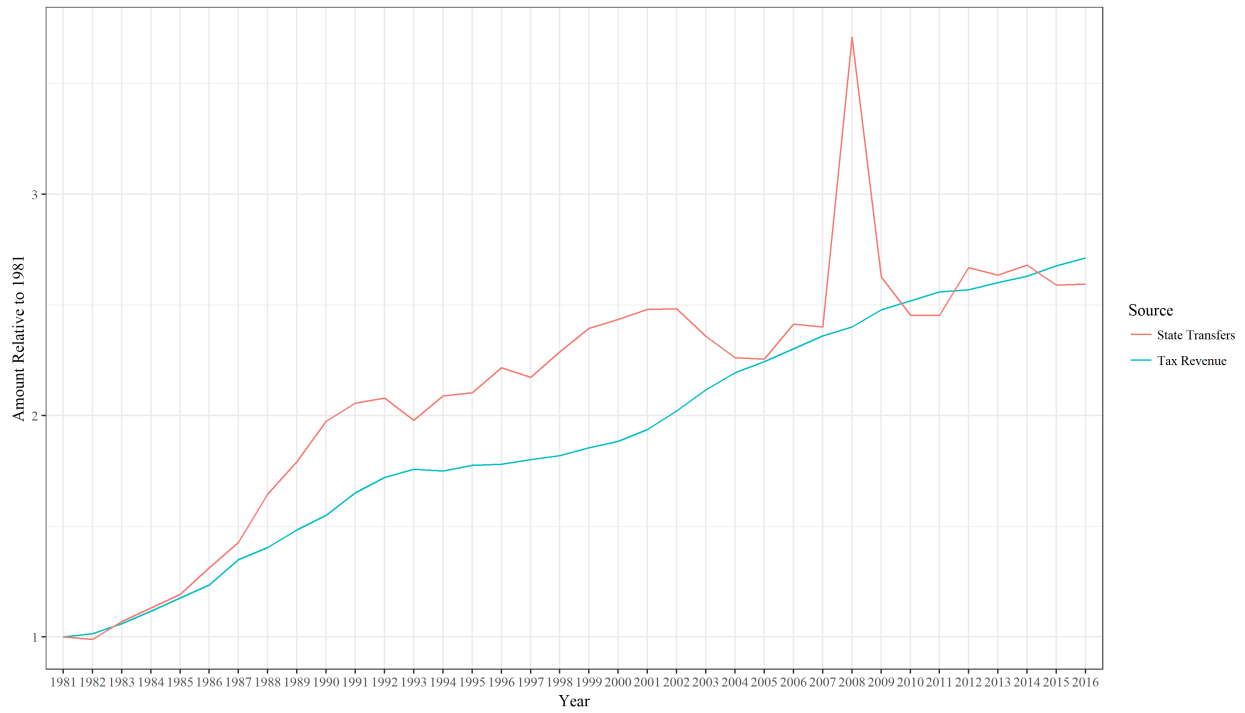
FIGURE 1. Per-Capita Town Revenues
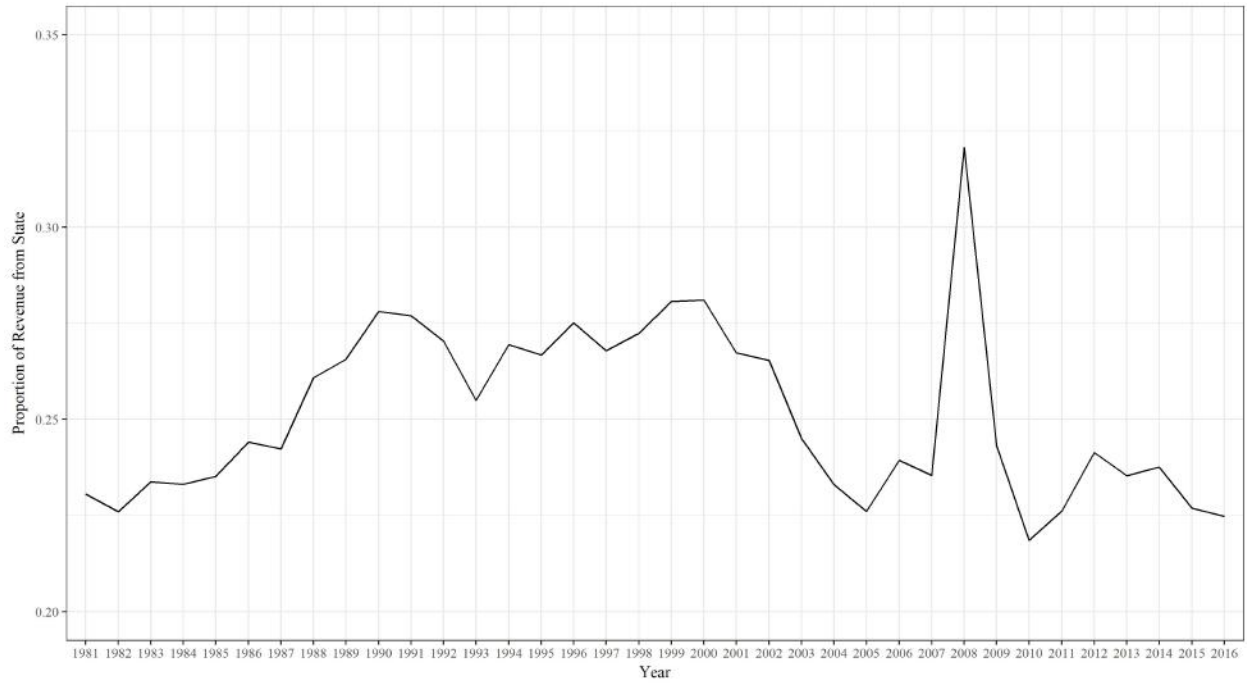
FIGURE 2. Town Revenues by Source

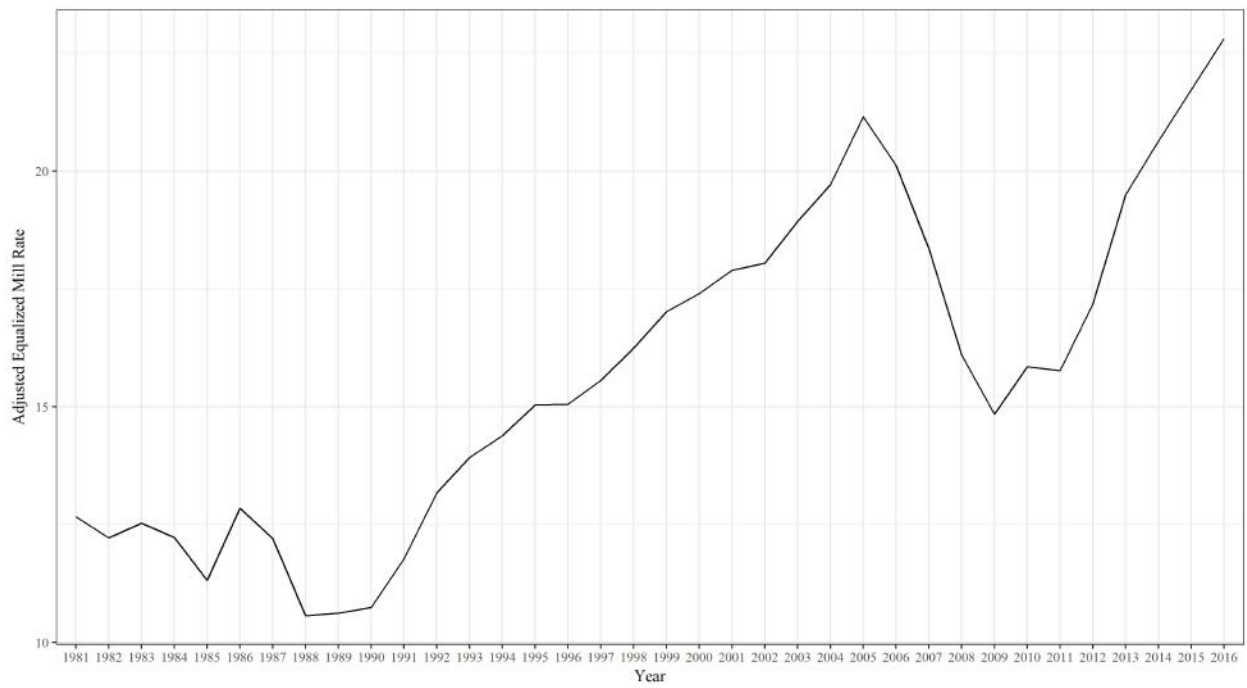FIGURE 3. Proportion of Revenues from State
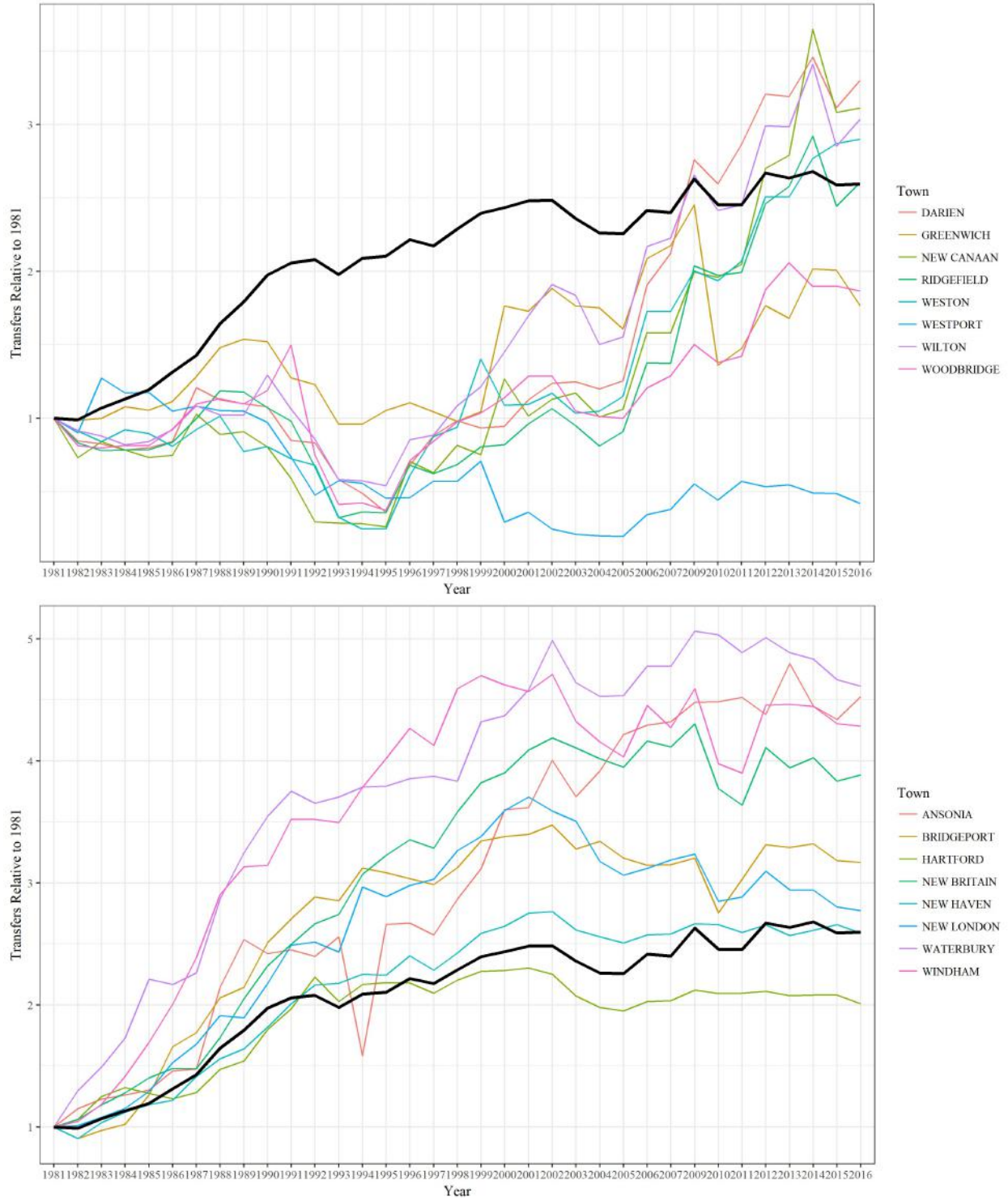

FIGURE 4. Adjusted Equalized Mill Rate

FIGURE 5. State Transfers for 8 Wealthiest (Top) and Poorest (Bottom) Towns

FIGURE 6. State Dependence for 8 Wealthiest (Top) and Poorest (Bottom) Towns