Testimony on Senate Bill 788 (an act allowing municipalities to impose property tax on certain facilities)

Submitted by Scott Shepard, Policy Director

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Good afternoon. My name is Scott Shepard. I am the Policy & Research Director for the Yankee Institute for Public Policy, Connecticut's free-market think tank. I submit this note in opposition to **Senate Bill 788**.

Municipal financing laws require significant reform. The municipal revenue stream should be expanded. But a piecemeal approach like this is the wrong way to go: it will not result in either meaningful increases in revenue over the long haul nor vitally necessary structural reform of the system. The fundamental bankruptcy of this approach is revealed by the target of this bill: healthcare facilities. When municipalities are flailing around, attempting to tax anything they lay their eyes or might lay their hands on, without considering the underlying injustices and policy errors of the move – just as the state flailed fruitlessly in the direction of a grocery tax until the rightful indignation of the people rose up to dissuade it – then we can reliably conclude that the current policy structure has failed.

A new approach – not more of the same, just slightly more and slightly worse for everyone – is required. That new approach must offer new revenue sources to municipalities that need it, that have too little taxable property, or property of too little value. It must also, however, leave municipalities that are doing fine under the current system alone to continue as they have successfully proceeded. And for financially failing communities, the new revenue-stream option must come with mandatory reductions to and restraints on current property-tax rates, in recognition that their problems arise not only from the fact that they don't have enough property value to tax, but that they have so little property value and economic growth in part *because their property taxes are so high*, and that they cannot start working back toward prosperity without restraining their municipalities' spending at the same time they diversify their sources of revenue.

For all of these reasons, Yankee Institute has developed a municipal tax-reform proposal that is designed to deal with realistic economic conditions across an array of differently situated communities while recognizing the historical background against which any such proposal will have to proceed.

The tax-facility exchange plan described below is *voluntary*. Municipalities would have the option to participate in the plan, or to continue as they now are. For municipalities that opt into the program:

A. Cut & cap property taxes

- Cap municipality real-property taxes at 90 percent of levels on January 1, 2017 (or some other day prior to the introduction of this plan, so that municipalities cannot manipulate the caps by increasing rates before the cap is applied) for participating municipalities. The cap is designed so that all participating municipalities make a proportional cut.
- Initiate a constitutional provision to incorporate these caps permanently for participating municipalities.
- Until the constitutional provision is ratified, sanction any municipality that exceeds its cap by removing taxing authority from the municipality and placing it under the authority of the Municipal Accounting Review Board ("MARB").
- Instruct MARB to honor the caps until they are constitutionally mandated.
- Eliminate personal/tangible property tax for non-businesses; reduce and/or phase out the tax for businesses per the outline above.

B. Replace with limited sales-tax authority

- Grant participating municipalities the authority to levy a sales tax of up to one percent, capped at that amount.
- Initiate a constitutional provision to incorporate the one-percent cap on participating municipal sales taxes permanently, while also obliging the state to distribute these revenues to participating municipalities each year.
- Until the constitutional provision is ratified, sanction any municipality that exceeds its cap by removing taxing authority from the municipality and placing it under the authority of MARB, unless the state fails to remit to the municipalities the entire amount raised pursuant to the sales tax authority.
- Instruct MARB to honor the caps until they are constitutionally mandated.