Testimony on Senate Bill 431 (an act concerning property tax reform)

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 431**.

While there is the beginning of one good idea within this bill, the bill overall is yet another tax grab by the state at the expense of municipalities and the taxpayers of Connecticut. There is no reason that any municipality should trust this bill, and a good number of reasons why every Connecticut resident should oppose it, as we at Yankee Institute do here.

First, the good point: capping – or better, eliminating – the car tax. This tax is regressive. It hits the working poor hardest. It is hard to administer. In previous testimony before this committee, Yankee Institute outlined a plan under which municipalities would be offered a constitutionally guaranteed opportunity to collect a sales tax in exchange for permanent elimination of their car taxes and reductions in their real property taxes. We remain committed to broadening the tax streams for interested municipalities while in exchange requiring them to reduce significantly and permanently their property tax rates. We think that this strategy would allow participating municipalities additional choices and more attractive profiles to families and businesses while keeping them from making things worse by simply piling new taxes on the old.

We object to the balance of this proposal.

First, history tells us clearly that while this would begin as a small tax designed to help out poorer municipalities, neither of those features would last for long. The tax initially charges one mill. That will grow, and grow quite a bit. We know this because we have often been promised before that a tax would remain small and manageable, only to watch it grow exponentially. Within a few years this one-mill teaser would grow to significant proportions. The state cannot be trusted with yet another mode of statewide taxation.

And even if the state were to be trusted with such a new method of taxing the people, this would not be it. As our previous testimony to this committee demonstrated in detail, property taxes must *fall* if Connecticut is to regain its economic vigor, not rise. The state's property values still have not recovered from the Great Recession of more than a decade ago.[1] We're alone in the

[1] Kenneth R. Gosselin & Matthew Kauffman, *Home Prices Across Connecticut Have Failed To Recover Since Peak In 2007*, HARTFORD COURANT (May 17, 2018).

country in that regard.[2] Contemplating an addition to the state's property tax burden now is scandalous.

Likewise, the bill promises to return the one-percent real-estate tax and the car tax to (some) municipalities through the PILOT program. This sort of promise has been made – and then broken – before, and very recently.[3] With past as prologue, we can expect that, if this bill passes, all municipalities will lose their car-tax revenues; some will be promised the return of those revenues plus additional cash flows; and *no municipalities will get much of anything for long, as the state's unconstrained fiscal gap swallows those revenues up***.** There's no mechanism to stop that process of reneging, and no conceivable reason why the people of Connecticut should believe that this time will be different.

Property taxes should be cut, not raised. *Municipal* tax streams should be diversified, not the state's streams. The state should not be trusted with more revenue, but must balance its books with the revenue it has, including the revenue from a seemingly endless string of significant tax hikes in recent years. We oppose **431**.

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[2] Jamie Kasulis, *CT Home Prices and job recovery lagging behind,* CTMIRROR (June 11, 2018).

[3] Christine Stuart, *Cities and Towns want part of sales tax revenue,* CT NEWS JUNKIE (Oct. 11, 2018).