Testimony on Senate Bill 475 (an act to increase the sales tax rate for the benefit of municipalities)

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 475** as currently drafted.

Yankee Institute recognizes that many of Connecticut's municipalities are ill-served by the current property-tax-only method of financing. This argues in favor of offering Connecticut's towns additional income-stream diversity, but only if it arises as part of a complete municipal tax-reform package.

That package must contain other components, however. It should make the sales-tax facility *optional*, in exchange for requiring municipalities that exercise the option to reduce property taxes in exchange for the sales-tax facility. Making this exchange available would ease the burdens on cities like Hartford that find much of the property within its limits unamenable to property taxation. It would also, conversely, keep heavily tax-burdened cities from simply adding another tax onto its citizens shoulders, thus accelerating the tax flight that has propelled those municipalities' economic decay. Meanwhile, cities that would gain little from a sales-tax option and which perform well economically now could proceed under the current arrangements.

Additionally, a mere grant of a portion of sales-tax revenues to the municipalities without more – such as is currently contemplated by **Senate Bill 475** – could not be relied upon by the municipalities except in a triumph of optimism over memory. The state recently promised the municipalities increased revenue from dedicated tax streams, only to draw back from those promises in later years, as obligations on the state fisc mounted.[1] There is no doubt that the coming years hold ever-rising fiscal obligations for the state; there's no reason to believe that precedent won't be followed, with the result that the revenue promised by this bill would fairly

[1] Christine Stuart, *Cities and Towns Want Part of Sales Tax Revenue,* CTNEWSJUNKIE (Oct. 11, 2018) ("As part of the 2013 budget the state created the Municipal Revenue Sharing Account to help provide additional revenue to municipalities, which rely solely on the property tax. The MRSA account was funded through part of the state sales tax and part of the state portion of the real estate conveyance tax. However, funding was eliminated as part of the 2014 budget and the revenue has since dwindled. The revenue for fiscal year 2017 was initially estimated at $168 million, but the town's only ended up getting $133 million. In fiscal year 2018, the MRSA distribution totaled $35.2 million and it's expected to be around $36.8 million in 2019.") *available at* *https://www.ctnewsjunkie.com/archives/entry/20181011_cities_and_towns_want_part_of_sales_tax_revenue/*

quickly be reduced or eliminated. Only a bill that provides meaningful guarantees that the promised revenue stream will remain reliably available into the foreseeable future will do the municipalities much good.

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.