Western Connecticut
COUNCIL OF GOVERNMENTS

February 28, 2019

Honorable Senators and Representatives,
Esteemed Colleagues:

The Chief Elected Officials of the Western Connecticut Council of Governments (WestCOG) are honored to present you with a set of legislative and executive priorities for 2019 and beyond.

Our priorities, which were developed by a bipartisan group of Mayors and First Selectman, are intended to foster good governance, promote policy innovation, and, where possible, to be implementable at low cost. Taken together, our 2019 agenda will advance common goals, notably including putting the state and the region's municipalities on a path toward fiscal sustainability and long-term growth.

Our priorities, which are presented in the following pages, fall into five categories:

1. Increase federal transfers
2. Fund and improve transportation
3. Help municipalities support themselves
4. Fix funding formulas
5. Facilitate shared and regional services

In the interests of brevity, we have limited the length of our proposals. However, we would be happy to furnish you with additional information and to discuss these proposals in greater depth.

We look forward to working with you to make these proposals reality.

Sincerely,

Jayme Stevenson

Jayme Stevenson
WestCOG Chair

2019 Policy Agenda

1. INCREASE FEDERAL TRANSFERS TO CONNECTICUT

Connecticut gets less than its fair share from the federal government, paying in more than all but two other states and receiving less than 47 others (both on a per capita basis). The results are higher state and local taxes and diminished competitiveness. If the state is to move beyond slow growth and deficits, it must reduce costs on residents and businesses. Increasing federal transfers to Connecticut should be priority #1.

WestCOG supports strategies to increase federal transfers. These include:

1.1. Reform the state tax code to respond to the 2018 federal tax reform

Last year's Tax Cuts and Jobs Act (TCJA) capped the State and Local Tax deduction at $10,000. The result is an increase in effective federal tax rates on Connecticut households, slowing economic growth, and exacerbating the imbalance of payments with the federal government.

Connecticut has yet to respond in a significant way to TCJA. The Legislature should strategically restructure state taxes to minimize federal tax liability and to maximize use of federal credits and deductions. Proposals expected to withstand IRS scrutiny should be given special consideration.

1.2. Enable regions to apply for federal grants

In most places without county government, the federal government treats regions as a 'county equivalents,' which makes those regions eligible for most federal grants. This is consistent with Connecticut state law, which states that the state's regions (COGs) may receive any grants that a county may. However, for federal agencies to accept grant applications from COGs, the Governor must request that the Census Bureau consider COGs county equivalents. Such treatment will give Connecticut, via the regions, broader access to federal grants. (Across all levels of government, Connecticut receives fewer federal dollars per capita than the average state; two-thirds of this difference is attributable to the lack of recipients for federal transfers at the county/regional level.) WestCOG urges the Governor to advance county equivalency.

1.3. Identify and pursue opportunities to bring in additional funds

Connecticut ranks last among peers in the fraction of its budget that is federally funded. Were the state as reliant on federal revenues as Massachusetts, it would have an extra $200 million per year; as New York, the figure would be $1.2 billion. The causes of this gap, which predates TJCA, and is separate from the current ineligibility of COGs under most federal grants, are poorly understood. To address and correct this gap, research is needed. The Administration and/or Legislature should undertake a thorough and actionable analysis to determine its causes and to develop proposals for the state to increase federal transfers.

2. SUPPORT AND IMPROVE TRANSPORTATION

Western Connecticut is tied for worst peak-hour congestion in the United States and eighth worst in the 36-nation OECD, and has the busiest passenger rail line in the country, much of which runs on bridges from the 19th century. Such congestion and infrastructural antiquation limits growth, undermines the state's recovery, and risks economically severing New England from the nation. (Three of the four expressways that connect New England with the rest of the United States pass through the region.)

WestCOG supports strategies that improve the state of repair and performance of the region's transportation network:

2.1. Ensure continuity in funding

The exhaustion of the Special Transportation Fund (STF) in 2017-2018 resulted in a 'freeze' that interrupted critical projects. While a transfer of the vehicle sales tax to the STF resolved the crisis, the freeze delayed projects, drove up costs, and eroded confidence. The sales tax diversion should be left intact through 2022 to avoid a repeat of such growth-crushing uncertainty.

2.2. Bring transportation costs and revenues in line

Connecticut has not comprehensively studied options to reduce the gap between transportation needs and revenues. Such an analysis is essential. While Connecticut's transportation dysfunction, particularly in the southwest, acts as a drag on its economy, tolls may also slow growth, particularly for low to moderate income households and for small businesses.

The state should consider a range of alternatives to address the funding gap, such as:

- Reforms to reduce administrative costs that are high by national standards;
- Modern project development and delivery methods that may be more cost-effective;
- Models that recapture avoided revenue (e.g., a kilowatt hour tax for electric vehicles and elimination of tax credits);
- Taxes/fees that can be instituted with relatively low cost and delay (gas tax adjustment, weight-mile tax to cover vehicles that disproportionately damage roads); and
- Innovative pricing structures (flat rate tolls).

Second and third order impacts (effects on households and businesses, and consequences for spending, business growth, and tax receipts) may vary by alternative and must be estimated as part of any study.

2.3. Devolve administration of more state grants to the COGs along the lines of LOTCIP

The Local Transportation Improvement Program (LoTCIP), which delegates project selection and oversight to the COGs, has been a success, delivering projects faster and more efficiently than earlier, state-run programs. Other programs, including in the area of transportation, may benefit from a regional approach and should be considered for devolution to the COGs.

3. ENABLE MUNICIPALITIES TO BECOME MORE SELF-SUFFICIENT

When it comes to funding, municipalities in Connecticut have two sources: state aid, which competes in the state budget, and the local property tax, on which municipalities are more dependent here than in any other state, and which is more restrictive here than in most states. Reductions in state aid are putting municipalities, households, and businesses under tremendous pressure. WestCOG supports reducing this pressure through enabling municipalities to broaden the local property tax (or generate revenue by other means):

3.1. Allow municipalities to set different mill rates for different types of property

In many states, municipalities set different tax rates for different types of property. This option, which is not currently enabled in Connecticut, allows tax rates better to reflect the cost of service provision to each property type, improving fairness in the tax system and potentially increasing competitiveness. In contrast, Connecticut municipalities must apply the same rate to all private property. This one-size-fits-all approach produces distortions and adverse economic impacts, including intermunicipal disparities in tax bills on non-fixed assets, such cars and manufacturing equipment, that limit access to jobs and disincentivize investment in urban areas. The Legislature should enable municipalities to set different mill rates for different property classes, including residential, commercial, industrial, motor vehicle, and personal property.

3.2. Allow municipalities to recover costs from tax-exempt property

While Connecticut municipalities cannot tax differently based on property class, they *must* tax differently by the property owner's corporate structure. Property owned by entities incorporated as nonprofits—even well-resourced ones—is exempt from tax. Historically, the state made up for the loss of revenue from these properties through Payments In Lieu of Taxes (PILOT). However, with reductions in PILOT, the costs of serving nonprofits increasingly fall to the municipalities in which the property is located. The clustering of tax-exempt property, regardless of the service area of the property owners, and tax avoidance through changes in corporate structure, concentrate the property tax on a small and shrinking group of households and businesses, increasing the burden of the property tax and making the state less competitive.

Municipalities should be able to impose a reduced mill rate on tax-exempt developed property to cover the cost of providing services (such as police, fire, roads, water, and sewer) to such property. Enabling municipalities to charge both non-exempt and exempt properties for the services they consume is consistent with good governance (a user pays model), will reduce upward pressure on mill rates, and provides more predictability than PILOT.

3.3. Empower municipalities to share services

While municipalities and school districts can realize substantial savings through sharing services, service sharing is less widespread than it could be. This is because the statute on service sharing is an 'opt-in': services are not shared unless both parties agree. Reversing this assumption, so that municipalities and school districts are required to share services unless they agree not to, would significantly accelerate the consolidation of services and deliver cost savings. The sharing of school noneducational services with host communities should be the default. (Require an 'opt-out' rather than 'opt-in.')

4. MAKE FORMULAS FAIR TO MUNICIPALITIES AND THE REGION

State aid and municipal spending levels are regulated by state formulas that determine 'need.' Unfortunately, 'need' has often been defined in ways that structurally disadvantage the region, resulting in reduced state aid and a higher tax burden on local households and businesses.[1] WestCOG supports changes to state formulas that level the playing field for all regions in the state:

4.1. Stop using mill rates and grand list per capita

Historically, many state formulas have used two statistics, the local mill rate and (net equalized) grand list(?) per capita. Use of these numbers, however, results in an inequitable, structural bias against households and businesses in the region:

- Mill rates have no meaning taken in isolation. They only speak to need and ability to pay when interpreted in the context of property values (mill rate × assessed property value = annual tax bill) and incomes (annual tax bill ÷ household income = property tax bill as a percent of household income). Fairfield County may have the lowest mill rates in the state, but it has the highest property tax burden, both in dollar *and* relative terms. Households in Fairfield County pay a far larger share of their incomes in property taxes than anywhere else in Connecticut.
- Grand list per capita only indicates that property in an area is valuable. It does not reflect the need of its residents or the capacity of a municipality to raise taxes. Home values are only realized by households when they sell (which is not something we want them to do), and then only by households who own their homes outright (a minority of the population). For the majority, who rent or have a mortgage, high property values go hand-in-hand with increased need and decreased ability to pay, not vice-versa.

The result of using property tax rates and property values as a proxy for need is underpayment of the region across many categories of state aid. The impacts of this inequity fall particularly hard on the region's cities (Stamford, Norwalk, and Danbury), whose residents—despite need that, for many households, is no different than in any other large city in the state—receive less support from the state than they would if they lived somewhere with lower mortgages and rents.

Mill rates and grand list per capita should be removed from statutory and administrative formulas. State aid formulas, including Education Cost Sharing, and discussions about aid should be based on actual need and ability to pay.

4.2. Eliminate or reform the Minimum Budget Requirement

The Minimum Budget Requirement (MBR) has created a situation where every school district in the state must spend a different amount per pupil, per year. The justification for these differences

[1] Property values in the region, which is part of the New York City real estate market, are substantially higher than in the rest of Connecticut. However, incomes are not proportionally higher, nor are mill rates proportionally lower. Consequently, formulas that use property values as a proxy for need, and that work in other parts of the state, fail to apply properly in the region. (Most state funding formulas fail to grasp that property values and ability to pay are fundamentally separate and often opposed concepts. The region's residents face the highest housing cost burden in the state, both in rents/mortgage payments and in property taxes. These costs create cost burdens, particularly for low- and moderate-income households and smaller businesses.)

in spending is 'that's how much a district spent last year.' This is wasteful of scarce public resources. Education spending should be based on the cost of delivering a quality education.

While flexibility has been provided in the MBR at times, this flexibility has been insufficient to account for changes in enrollment. Over the last decade, enrollment in some districts has dropped up to 50%. The MBR has not permitted municipalities to right-size spending for marked shifts. Enrollment changes are the primary predictor of per pupil spending, and this rigidity has resulted in further divergence, rather than convergence, in education, with some districts (largely those whose enrollments have fallen) spending up to three times what others spend per pupil.

The MBR should be abolished or reformed to serve as a floor, a uniform value to which all districts are held and that has been found to reflect the cost of providing a quality education to a child.

4.3. No devolution of financial responsibility without management responsibility

Proposals have been floated to devolve responsibility for the funding of the Teachers' Retirement System (TRS) to municipalities. The problems with this proposal are twofold and interrelated: 1) the program has been vastly underfunded, and 2) municipalities have no control over the program. The financial problems with the TRS largely stem from a lack of alignment and coordination. Different parties are responsible for payment into (contribution levels) and out of the system (benefit levels, which are based on teacher pay). Unless these two aspects are brought together, contributions and benefits may continue to be out of sync.

Any discussions about municipal spending must begin from the premise that municipalities will only cover costs where they have been responsible for incurring those costs. Regarding TRS, historic underfunding is not a municipal obligation, and any future cost sharing must put municipalities in the drivers' seat when it comes to decisions that affect costs (e.g., benefit levels).

Similar arguments hold for the Municipal Employees Retirement System (MERS).

4.4. Make binding arbitration statutes consistent with peer states

Connecticut, like California, Massachusetts, New York, and Rhode Island, provides for binding arbitration in local governments in educational and non-educational matters. However, none of these peer states restrict an arbitrator's final decision, giving the arbitrator discretion in making in award. California furthermore allows, under certain conditions, public employers to implement their last, best, and final offer. In contrast, Connecticut's arbitration statutes require arbitrators to choose between an employer's last best offer or a union's best offer. This limitation prevents arbitrators from supporting compromise solutions that balance fiscal reality with employee needs, resulting in adverse financial impacts that must be borne through property tax increases and/or increased reliance on state aid.

Connecticut's binding arbitration statutes should be reformed to be consistent with best practices from peer states, including giving arbitrators discretion in making an award.

5. REMOVE OBSTACLES TO REGIONALIZATION

Connecticut has taken positive steps over the last several years to encourage municipalities to work together to reduce costs and to improve service delivery. However, certain sticking points continue to slow progress toward shared and regional services.

WestCOG supports strategies that remove roadblocks that limit regionalization:

5.1. Enable a municipality to meet a state mandate through a shared service

COGs may provide any service that a municipality can, including ones that municipalities are required to. However, state law does not specify that provision of a service by a COG on behalf of a municipality relieves that municipality of providing said service. Moreover, municipalities cannot share some services on a contractual basis and instead must create a new, standalone district, which may be may be costlier and less flexible than contracted arrangements.

State law should clarify that municipalities may meet mandates on themselves through provision of an equivalent service through a COG or through contracting with each other.

5.2. Allow specific changes to municipal charters with regard to regionalism, without opening the entire charter for revision

Some charters contain language that impedes service sharing. While this language may be addressed through charter revision, the cost, complexity, and unpredictability of the process often means that the language persists. Municipalities should be able to amend specific sections of their charter without opening the entire charter for review.

5.3. Adequately fund COGs and restore the Regional Performance Incentive Program

In past years, Regional Services Grants (RSG) to COGs have been reduced well below budgeted amounts, often mid-cycle. In addition, the Regional Performance Incentive Program (RPIP), which funded startup costs for major new services, was eliminated. These cuts have created uncertainty and resulted in delays in the implementation of regional services supported by the regions.

RSG should be funded at a consistent and adequate level, and RPIP should be reinstated.

Policy Index

Increase federal transfers to Connecticut 1
Reform the state tax code to respond to the 2018 federal tax reform 1
Enable regions to apply for federal grants 1
Identify and pursue opportunities to bring in additional funds 1
Improve transportation 2
Ensure continuity in funding 2
Bring transportation costs and revenues in line 2
Devolve administration of more state grants to the COGs along the lines of LOTCIP 2
Enable municipalities to become more self-sufficient 3
Allow municipalities to set different mill rates for different types of property 3
Allow municipalities to recover costs from tax-exempt property 3
Empower municipalities to share services 3
Make formulas fair to municipalities and to the region 4
Stop using mill rates and grand list per capita 4
Eliminate or reform the Minimum Budget Requirement 4
No devolution of financial responsibility without management responsibility 5
Make binding arbitration statutes consistent with peer states 5
Remove obstacles to regionalization 6
Enable a municipality to meet a state mandate through a shared service 6
Allow specific changes to municipal charters with regard to regionalism, without opening the entire charter for revision 6
Adequately fund COGs and restore the Regional Performance Incentive Program 6