REPORT OF THE STATE OF CONNECTICUT

BLUE RIBBON COMMISSION ON PROPERTY TAX BURDENS AND SMART GROWTH INCENTIVES

OCTOBER 2003

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Purpose of the Report

The purpose of this report is to respond to Special Act 02-13, "An Act Concerning a Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives." It is our hope that the report will encourage debate on the fiscal and land-use public policy challenges facing Connecticut. This report makes it clear that fiscal policy and land use policy are inextricably linked and must be addressed together in order to maintain and improve the quality of life in Connecticut. The report makes a number of recommendations in these areas. These recommendations are designed to jumpstart a long-overdue and serious discussion among state and local policymakers, business interests, the media, general public, and other stakeholders on what public policy initiatives should be pursued.

The recommendations contained in this report will undoubtedly require a significant, and in many cases controversial, redistribution of state and local taxes. It will be difficult to garner any taxpayer support for reform of our state-local tax system unless there is a sincere commitment to more efficient and cost-effective delivery of state and local services as a means of providing permanent and effective control of overall government spending. Cost drivers at the state and municipal levels – such as collective bargaining, binding arbitration, unfunded mandates, public subsidies, among others – must also be addressed concurrently so that increased state taxes mean reduced property taxes, not higher spending levels. A key goal of reform must be renewed economic growth, because we need to provide all our citizens with opportunities for good jobs. Only a growing economy will provide these opportunities and the increased revenue base necessary to reduce property taxes.

The issues raised in this report have also to varying degrees been raised by other groups and discussed in the following reports: *Connecticut Metropatterns: A Regional Agenda for Community and Prosperity in Connecticut* [Myron Orfield, et al] (2003) sponsored by the Office of Urban Affairs of the Archdiocese of Hartford; *Connecticut Strategic Economic Framework* [the "Gallis" report] (1999) and a new report *Connecticut: Economic Vitality and Land Use* (May 2003) from the Connecticut Regional Institute for the 21st Century; *Is Connecticut Sprawling* (2002) by the Regional Plan Association; *Promoting Smart Growth in Connecticut* (2002) by the Harvard Design School; *10 Principles of Smart Growth in Connecticut* (2001) by the Connecticut Conference of Municipalities; and work done by the Connecticut Chapter of the American Planning Association, the Connecticut Association of Homebuilders, and others.

A concerted effort to address the fiscal and land-use problems in our state will improve the quality of life for all who live and work in Connecticut.

Members
of the
State of Connecticut Blue Ribbon Commission on
Property Tax Burdens and Smart Growth Incentives

Name	Position/Occupation	Municipality/Affiliation	Appointing Authority
* John DeStefano, Jr.	Mayor	City of New Haven	CT Conference of Municipalities
Alex Knopp	Mayor	City of Norwalk	CT Conference of Municipalities
Mary Lou Strom	Minority Leader, Town Council	Town of Enfield	CT Conference of Municipalities
Robert Harrel	First Selectman	Town of Darien	CT Conference of Municipalities
** Howard Dean	First Selectman	Town of Marlborough	CT Council of Small Towns
William Smith	Town Manager	Town of Granby	CT Council of Small Towns
Martin Berliner	Town Manager	Town of Mansfield	CT Council of Small Towns
Jonathan Harris	Mayor	Town of West Hartford	Senate President Pro Tempore
Robin Stein	Land Use Bureau Chief	City of Stamford	Speaker of the House
Peter Rosa	Executive Officer of Academic Affairs	CSU	Sen. Majority Leader
Dale Clark	First Selectman	Town of Sterling	House Majority Leader
Christine Nelson	Director of Land Use	Town of Old Saybrook	Sen. Minority Leader
Christopher Smith	Attorney	North Branford	House Minority Leader
Richard Crane	First Selectman	Town of Woodbury	Governor
W. David LeVasseur	Undersecretary	OPM	Designee of Secretary of Office of Policy and Management
Joseph Brennan	Vice President, Governmental Affairs	CBIA	CT Business and Industry Association
Lori Pelletier	Secretary/Treasurer	CT AFL-CIO	CT AFL-CIO

* Chairperson
** Vice-Chairperson

Substitute Senate Bill No. 599

Special Act No. 02-13

AN ACT CONCERNING A BLUE RIBBON COMMISSION ON PROPERTY TAX BURDENS AND SMART GROWTH INCENTIVES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (*Effective from passage*) (a) There is established a Blue Ribbon Commission on Property Tax Burdens and Smart Growth to (1) evaluate personal and business property tax burdens in this state compared to other states and among this state's municipalities, (2) consider modifications and alternatives to the current system of property taxation, and (3) evaluate disincentives and incentives for smart growth. On or before October 1, 2003, said commission shall make a final report, including any findings or recommendations, in accordance with the provisions of section 11-4a of the general statutes.

(b) Said commission shall have seventeen members as follows: (1) Six members of whom one each shall be appointed by the president pro tempore of the Senate, the speaker of the House of Representatives, the majority leader of the Senate, the majority leader of the House of Representatives, the minority leader of the Senate and the minority leader of the House of Representatives, (2) one member appointed by the Governor, (3) the Secretary of the Office of Policy and Management, or the secretary's designee, (4) four members appointed by the Connecticut Conference of Municipalities, (5) three members appointed by the Council of Small Towns, (6) one member appointed by the Connecticut Business and Industry Association, and (7) one member appointed by the American Federation of Labor-Congress of Industrial Organizations. All appointments to the commission shall be made on or before July 1, 2002.

(c) The chairperson and vice-chairperson of the commission shall be jointly designated by the Connecticut Conference of Municipalities and the Council of Small Towns. The first meeting of the commission shall be held on or before July 1, 2002.

Approved June 13, 2002

Executive Summary

In the Problem Statement adopted by the Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives on March 21, 2003, the Commission asked "How we can have growth and be competitive with other states while at the same time maintaining who and what we are?" In order to fully address this question, and the others posed in the Problem Statement, (see section 3 for full text of Problem Statement) the Commission set up two Committees, one on Property Tax and the second on Smart Growth. Each committee prepared a report on their respective topics. The full Commission then reviewed, modified, combined and approved the recommendations as the full report of the Commission to the General Assembly.

The Property Tax Committee was charged with finding ways to reduce Connecticut's reliance on the property tax to fund local public services. It was determined that particular attention will need to be paid to K – 12 public education to achieve this objective. The Commission agreed that "reducing the reliance on the regressive property tax to pay for local services not only benefits the residents of Connecticut, but our business community as well." (See section 4 for complete text of Property Tax recommendations.)

The Smart Growth Committee's charge was to find ways to utilize more effective growth management measures to address the negative impacts associated with current land use practices in Connecticut. The Commission agreed that "Connecticut's historic fragmented growth patterns have generated the aforementioned problems commonly referred to as 'sprawl.' Our political leadership and citizenry must understand the importance of professional land use planning to effectively curb sprawl by utilizing 'smart growth' incentives." (See section 5 for complete text of Smart Growth recommendations.)

In addressing the specifics spelled out in the Problem Statement, this Executive Summary will provide the highlights of each of the Commission's recommendations, as related to the Problem Statement. The Problem Statement makes the following recommendations to attain the vision of a Connecticut that develops fiscal and land-use policies that grow well-paying jobs and invest in people, while at the same time preserving and enhancing the unique character of the state's quality of life that is so crucial to its economic success and vitality. Therefore, Connecticut needs to:

- Lessen reliance on the property tax by effecting changes in the state-local revenue system that will provide alternative means of raising revenue to support needed public services for residents and businesses. This will reduce the incentive for "fiscal zoning" and for short-sighted but now fiscally necessary development decisions.
- Increase the equity, stability, and sufficiency of the state-local revenue system.
- Pursue transportation strategies that work in support of smart growth policies.
- Promote land-use patterns that support transit alternatives to the automobile by creating the density needed to support such alternatives.
- Make urban centers more attractive for businesses, residents, and institutions.
- Create municipal and regional partnerships to reduce destructive intermunicipal competition for economic development and grand list growth. Cooperation is crucial to success in today's national and international economy.

- Establish strong incentives to promote consistency of local plans of development with state goals, while still reflecting local priorities; and also to ensure that state agency actions and local land use decisions are consistent with state goals.
- Strengthen the advisory state Plan of Conservation and Development so that it becomes a more effective growth management plan.

Overview

1. Lessen reliance on the property tax by effecting changes in the state-local revenue system that will provide alternative means of raising revenue to support needed public services for residents and businesses. This will reduce the incentive for "fiscal zoning" and for short-sighted but now fiscally necessary development decisions.

2. Increase the equity, stability, and sufficiency of the state-local revenue system.

The Property Tax Committee presented a series of recommendations that would address these recommendations from the Problem Statement. Its central focus was to identify ways to reduce the fiscal imperative to grow municipal grand lists in order to raise the revenues needed to pay for local public services, particularly K-12 public education. Other non-property tax revenues were looked at.

a. Increasing State Aid for K-12 Public Education

The first recommendation is that the Education Cost Sharing (ECS) formula be modified to eliminate the ECS funding cap and to increase the foundation under a modified ECS grant to $7,900 at an estimated cost of at least $500 million. Additionally the Commission recommends that each municipality receive from the State at least 50% of its minimum expenditure requirement (MER) for funding K-12 public education, at an estimated cost of at least $300 million, and that that each municipality be reimbursed for at least 50% of its costs for special education, costing at least $125 million.

In order to take into account the cost of living in individual municipalities, the Commission recommends that the ECS formula be modified to strike a better balance between property wealth and income wealth in order to determine how much a local school district should be expected to pay from local revenue sources to fund K-12 public education. The estimated cost for this recommendation is unknown.

b. Fully fund Payment-in-Lieu-of-Taxes [PILOT] Programs

State payments-in-lieu-of-taxes (PILOTs) compensate municipalities for a portion of the revenue that cities and towns lose due to state-mandated property tax exemptions. If funding remains flat, and the assessed value of the exemptions grows, then the rate at which municipalities are being reimbursed declines. Therefore, another recommendation of the Commission is to reimburse municipalities 100% of the real and personal property taxes lost due to state-mandated exemptions under the major PILOT programs, at an estimated cost of $250 million to the State.

c. Motor Vehicle Tax

The Commission examined the motor vehicle tax, and recognizes that inequities exist and that the system of motor vehicle taxation in Connecticut should be addressed in the future. However, after reviewing all the options, the Commission could not come to a consensus and makes no specific recommendation. (See Table 1., page 30 for review of options examined.)

d. Local Revenue Diversification

The Commission examined enabling municipalities to locally collect and retain revenue other than the property tax. The Commission found that local-option taxes levied on a municipality-by-municipality basis in a small state like Connecticut are generally counterproductive in that they tend to foster tax competition between communities and make high-tax towns that opt for additional taxes less competitive. Therefore, the Commission recommends that only a limited expansion of locally generated revenue be proposed through four specific mechanisms.

The first is the continuation of the increase, from $1.10/$1,000 to $2.50/$1,000, of the real estate conveyance tax which was initially increased in early 2003. It is estimated that this would increase revenues to the municipalities by approximately $25 million.

Secondly, the Commission recommends the imposition of a 15% surcharge on top of the existing state room occupancy tax. This tax would be retained by the host municipalities, and is estimated to generate $12 million. A third mechanism is the sharing, on a regional basis, of a portion of the state sales tax generated in each municipality, with the host community getting the greatest share as agreed to by the members of the regional organization (i.e. a Council of Governments). The amount generated/shared would vary by region. Finally, the Commission recommends the sharing of any other additional revenues on a regional basis, again with variable revenue gains.

e. Municipal Efficiencies

In order to increase efficiency and "transparency" in municipal government operations, the Commission examined a number of procedures that could ultimately result in cost savings. These procedures, requiring enactment by the legislature, would promote a greater degree of municipal accountability and ensure that the property-tax burden on residents and businesses be reduced if significant state revenues are used to supplant revenues raised from the property tax.

The first recommendation in this area is to encourage more rigorous requirements for uniform financial reporting, financial policy making, and disclosure by municipal government through the formal adoption by local legislative bodies of a fund-balance reserve policy.

The Commission also recommends that the State Office of Policy and Management, or an entity selected by that office, examine the resulting financial reports from each municipality and present an annual report grading each municipality's financial management. These reports shall be uniform, and summarize each category of financial management on which OPM deems appropriate to comment with a grade; the goal is to provide an assessment of the financial management of the community.

The Commission also recommends the creation of a more aggressive mechanism for state financial oversight if one, or a number of, 'triggers' or warnings are exceeded. The State, with appropriate input from local government representatives and others, would establish two classifications for local governments facing financial strain, with varying degrees of state oversight associated with each classification. The first classification would be a Watch List, in which the State would send written notice to the local municipality that, through a certain triggering mechanism, it has been placed on a watch list. The second classification would be actual financial oversight by the state government in which it could declare a local government to be in a state of financial distress if a number of criteria beyond those of the Watch List are triggered.

At the Watch List stage, the state government would send written notice to a local government that, through triggering certain criteria of fiscal strain, it has been placed on a Watch List. The notice would describe the criteria that caused the government to be placed on the Watch List, as well conditions that would need to be met for a local government to remove itself from the Watch List.

During the first year on the Watch List, the local government would be encouraged by the State to use technical assistance (locally selected, or that recommended by the state) to put in place a multi-year financial recovery plan, which would specify (a) the amount of deficit reduction to take place in each of the following three years necessary for a structurally balanced budget, and (b) management initiatives necessary to increase revenues and reduce spending such that the deficit-reduction targets are achieved. If the local government does not develop a recovery plan during its first year on the Watch List, and remains on the watch list for a second year, the State may require that the local government put in place a recovery plan.

If more dire actions are needed, and further criteria are triggered, the State could declare a local government to be in a state of financial distress. The State would appoint a financial oversight board, leaving the authority of elected officials and department heads in place, while the oversight board exercises its own authority to monitor operating and capital budgets and multi-year financial recovery plans, labor contracts, service contracts over a certain dollar amount, and debt issuance promulgated by local officials. The State would, together with the affected local government, develop a multi-year financial recovery plan using the State's staff or its agents, through some combination of local and state funding. Local officials would be responsible for carrying out the recovery plan.

In order to provide increased technical assistance from the State to local governments, the Commission recommends the identification of state employees and/or consultants to provide assistance to local governments. These state employees and/or consultants would be qualified in key areas of local government operations. Funding for this expertise could stem from a combination of state appropriations and state withholding of a portion of revenue transfers to local governments in need of such services.

Other efficiency measures recommended include the negotiation of master teacher contracts by region. Negotiating master teacher contracts in each region can inject stability into the process while still providing for cost-of-living differences between regions.

Additionally, the Commission recommends giving local legislative bodies greater control over Board of Education budgets by mandating that non-instructional Board of Education service delivery be consolidated with general government service delivery to reduce duplication and inefficiencies.

f. Property Tax Rate Relief

The Commission additionally recommends other ways to provide property tax rate relief to ensure that our residents and businesses benefit from the proposed realignment of the fiscal system. One idea is to implement a temporary spending cap on municipalities to cap total spending at 2.5% per year, or the rate of inflation. It also suggests that critical education areas should be exempt from the cap including: capital construction and debt service; transportation of school children; adult education; special education; and expenditures from income from community use of school facilities (see pages 30-31 for more detail).

3. Land-use management policies that help curb uncontrolled sprawl, increase density adequate to support transit alternatives, and encourage reinvestment in urban areas need to be developed. Municipal land-use management is achieved primarily through zoning regulation and can be informed by policies that target or manage growth, resulting in "smart" growth.

Although smart growth is not a universally agreed-upon concept, constant to it is the aim to:

- encourage development where infrastructure already exists, and conversely
- away from where it doesn't and where development would harm environmentally sensitive and precious land (e.g., farmlands, forests, open space, historical areas).

4. Smart growth calls for a balance of conservation and development, and can be achieved through regulatory or incentive-based approaches, with the latter better fitting with Connecticut's character. Programs that target growth and preserve open space are essential to reversing current sprawl, which has numerous adverse consequences.

a. Create municipal and regional partnerships to reduce destructive intermunicipal competition for economic development and grand list growth.

The Commission considered mandating consistency between municipal, regional and state plans, and related land use decisions, or combining state agencies that oversee land use decisions to ensure consistency with applicable plans of conservation and development. However, ultimately the Commission recommends requiring consistency between municipal, regional and state plans, and that certain smart growth goals be incorporated into each municipal set of land use regulations. The Commission finds that the implementation of smart growth policies will most effectively be accomplished through the voluntary consolidation of Regional Planning Organizations (RPOs), and Councils of Governments (COGs). This would include legislation that would strengthen and further empower existing RPOs and COGs through fiscal incentives that include state funding formulas based upon the implementation of regional smart growth measures.

These strengthened RPOs and COGs would have new powers, including state revenue sharing between municipalities and between municipalities and the State. These strengthened COGs and RPOs could also make headway into issues such as land-use planning, housing and redevelopment efforts, teacher collective bargaining, joint service delivery, investment in regional priorities and the protection of farmland and other open space.

b. Make urban centers more attractive for businesses, residents, and institutions.

The Commission recommends a variety of fiscal incentives that encourage municipalities to promulgate land use regulations and Plans of Conservation and Development (PCDs) that encourage development in existing urban centers, along major state roadways and near existing transportation centers. These fiscal incentives could include state funding for infrastructure improvements and public service costs for municipalities that provide for such development.

Additionally, Connecticut's land use enabling legislation should be amended to require municipalities to designate "preferred growth areas" within their boundaries that are consistent with their applicable regional and state plans of conservation and development. Statutes should grant additional authorization for mixed-use development in existing centers, as well as density bonuses. Enabling legislation should also authorize "fast track" land use review and approval processes for "preferred development" in "target growth areas/corridors" and designated brownfields.

The State should strengthen its commitment to housing diversity by reaffirming the statements of the state PCD regarding integration of economic and racial groups. The regional plans of conservation and development should include a housing-needs assessment. Regional Planning Organizations (RPOs) should establish a fair-share allocation for affordable and mixed-income housing and require that each municipality develop implementation measures to meet the housing needs of all income levels as determined in the housing-needs assessment.

The Commission recommends several other pieces of enabling legislation also. One would provide fiscal incentives authorizing and encouraging the transfer of development rights on an intra- and inter-municipality basis, a second would target land acquisitions to protect natural resources, and a third would permit municipalities to utilize land value taxation measures to encourage highest and best use of unused real property by private owners without requiring additional municipal or state funding.

Fiscal incentives to discourage "exclusionary zoning" or "fiscal zoning" measures consistent with applicable regional and state PCDs are also recommended by the Commission, as well as an incentive for municipalities to promulgate municipal land use regulations that promote a mixture of housing alternatives.

c. Generate information essential for making effective growth-management decisions. Create a layered Geographic Information System ("GIS") database identifying existing urban, suburban, rural areas, as well as infrastructure, brownfields, and natural resources. Conduct a statewide build-out analysis under current land use regulatory format. Conduct a statewide evaluation of public costs associated with sprawl.

Three separate, but related, studies are required to generate information necessary for creating effective municipal, regional and state plans of conservation and development. The first is a "one-stop shop" database that provides an inventory of both existing infrastructure and natural resources. The second is a statewide build-out analysis. This analysis would include evaluations of the equitable allocation of water resources and sewer-avoidance policies, based on impacts of future land use development patterns. The third is a statewide evaluation of the public costs associated with continued unrestrained land use patterns in Connecticut.

d. Establish strong incentives to promote consistency of local plans with state goals, while still reflecting local priorities; and also to ensure that state agency actions are consistent with state goals.

The Commission recommends amendments to Connecticut's land use enabling legislation that requires consistency between municipal, regional and state plans of conservation and development. In addition, Connecticut's land use enabling legislation should also require consistency between land use decisions and the plans and finally, the enabling legislation should require consistency between each municipality's set of land use regulations, and its plan of conservation and development, as well as the applicable regional and state plans.

The municipal, regional and state plans, and applicable municipal land use regulations, must be required to include the smart growth incentives discussed below. By requiring the inclusion of these incentives within the plans and municipal regulations, the tools for effective growth management will be available to every municipality. Municipal indemnification for legal costs associated with the successful defense of land use regulations promulgated to promote consistency between municipal plans and applicable regional and state plans is also a necessity. Fiscal incentives may be promulgated to encourage compliance with these requirements.

These requirements are necessary to integrate the municipal, regional and state plans of conservation and development, and explicitly provide smart growth incentives within each municipality's set of land use regulations.

e. Strengthen the advisory state Plan of Conservation and Development so that it becomes a more effective growth management plan.

The Commission feels that consistency among municipal, regional and state plans of conservation and development would result in a stronger state plan. Therefore, the Commission recommends amendments to Connecticut's land use enabling legislation that requires greater consistency. In addition, Connecticut's land use enabling legislation should also require consistency between local land use decisions and the plans.

Municipalities must be further required to identify those portions of their land use regulations and plans that are, and are not, consistent with their respective regional and state plans.

Additionally, periodic reviews at the regional and/or state level should be required to evaluate the degree to which the aforementioned plans are consistent. It is also felt that fiscal incentives, such as those discussed later in this subsection, should be promulgated to encourage compliance with these requirements.

f. Pursue transportation strategies that work in support of smart growth policies.

The Commission recommends coordinating various transportation assets by developing an alternate scheme for classifying the road network that will better distinguish the dominant land use and transportation policy being articulated for each particular roadway segment. Also, the State should encourage mass transit and railroad transportation by supporting rail transportation alternatives and regional transportation centers, including building more parking garages, decreasing rail travel-times and increasing the number of trains.

An additional recommendation is to provide for enabling legislation with fiscal incentives and/or state mandates authorizing and encouraging the transfer of development rights on an intra- and inter-municipality basis, as well as the encouragement of ride-sharing programs, such as provide parking areas, as well as provision for walk-ability enhancements such as sidewalks in suburban areas.

g. Promote land-use patterns that support transit alternatives to the automobile by creating the density needed to support them.

The Commission is cognizant of the need to promote physical activity, public health and green space and recommends incentives to encourage land use, transportation and development policies and practices to meet those goals. Additionally, it recommends the allocation of more resources to promote pedestrian safety and alternative transportation modes such as transit-oriented priority-development investment areas. It also recommends defining opportunities along corridors and at stations, and to define state, regional and municipal responsibilities for transportation corridor and station-area development, similar to but separate from "priority growth areas."

h. Land use education. Provide training for tax policy and land use decision-makers at the state, regional, and municipal levels concerning the benefits of Smart Growth measures. Provide youth-orientated programs promoting the need for Smart Growth measures to ensure the sustainability of our communities.

A training program for tax policy, and land use policy and decision-makers, should be created based upon the coordination of educational programs currently provided by the University of Connecticut's Center for Land Use Education and Research (CLEAR) and the UCONN Cooperative Extension System, including the Non-point Education for Municipal Officials (NEMO), and incorporating the associated workshops conducted (on a pro bono basis) by the

Connecticut Land Use Education Partnership (CLUEP). The results of the studies recommended in Section I of this Report would be used to update the training program. Specifically, the program would discuss the costs associated with sprawl, utilize the build-out analysis, and disseminate to, and train land use officials and staff about, the information gathered from a comprehensive GIS database. The coordinated training program would educate tax policy and land use decision-makers for effectively planning Connecticut's future.

Problem Statement

State of Connecticut Blue Ribbon Commission

On Property Tax Burdens and Smart Growth Incentives

Connecticut has long had a quality of life that is the envy of other states. Within its small confines, it boasts a wide variety of terrain, with acres of farmland and open space, bountiful forests, secluded waterways, and scenic shoreline. Its vibrant and livable communities range along the wide spectrum from central urban to remote rural. Its manufacturing, financial, and, more recently, biotechnology economy has brought most of its citizens a standard of living unequaled elsewhere in the country. Its lifestyles range from impoverished, modest, to upper-middle-class and wealthy. This diversity, combined with its first-rate education system and numerous cultural attractions, has proved a lure to business and industry, whose choice of Connecticut as a place to locate has enriched its economy and helped maintain its unique way of life.

But the closing decades of the 20th century brought changes that threaten that variety and that way of life. More and more farmland, forested land, and open space has given way to development. We are well on our way to becoming wall-to-wall suburb. Such development brings with it more roads, more congestion, and more pollution. Today the shoreline is less identified with its scenic nature than with its congested corridor, I–95. We are losing our remote rural character, and the central urban core has become increasingly distressed. Fragmented land-use policies and patterns encourage competition for limited resources without a regional approach.

As Connecticut enters the 21st century, we need to have a vision of the kind of state we want to be in that century and beyond. How do we maintain and enhance a quality way of life while planning for our state to remain competitive in a national and international 21st-century economy, one in which small municipalities may no longer be able to independently compete on the necessary state, national and global scale? How do we see our limited land used in the 22nd-century? How do we reduce socio-economic inequality and maintain inclusive, pro-family places to live? In short, how do we keep Connecticut Connecticut?—that place of livable communities, forests, open spaces, and all the amenities that make for a quality of life that will attract new businesses and residents while retaining those we have.

To frame that vision we need first to address the issues Connecticut is confronting that are diminishing the quality of life for its residents. We then need to determine how we can attain that vision—how we can have growth and be competitive with other states while at the same time maintaining who and what we are.

Loss of Open Space and Lack of Targeted Growth

Sprawl is a significant threat to our quality of life in Connecticut. Although Connecticut's population is remaining essentially stable, more and more land is being developed. Sprawl is characterized by:

- vast land consumption, with consequent *loss of farms, forest and open space*. Connecticut is among the top ten states in loss of land to development (1982–1997). Loss of open space is particularly noticeable at the metropolitan fringe – those outer-ring municipalities previously of rural character – but also consumption of remaining undeveloped land in existing suburban communities.
- disinvestment in the city core, with consequent *decline of and flight from urban areas,* along with *economic and racial segregation*. Sixty-two percent of those below the poverty level are concentrated in ten municipalities (according to the 2000 Census) largely because that's where the state's subsidized and rental housing options are concentrated.

Developments that contribute to sprawl are marked by:

- low-density,
- auto-dependence, and
- location beyond existing urban and suburban neighborhoods and infrastructure.

Land-use management policies that help curb uncontrolled sprawl, increase density adequate to support transit alternatives, and encourage reinvestment in urban areas need to be developed. Municipal land-use management is achieved primarily through zoning regulation and can be informed by policies that target or manage growth, resulting in "smart" growth.

Although smart growth is not a universally agreed-upon concept, constant to it is the aim to:

- encourage development where infrastructure already exists, and conversely
- away from where it doesn't and where development would harm environmentally sensitive and precious land (e.g., farmlands, forests, open space, historical areas).

Smart growth calls for a balance of conservation and development, and can be achieved through regulatory or incentive-based approaches, with the latter better fitting with Connecticut's character. Programs that target growth and preserve open space are essential to reversing current sprawl, which has, in addition to those mentioned above, these further adverse consequences:

- *Increased traffic congestion*. Low-density precludes mass transit. Since 1970 the number of registered vehicles has increased 38 percent, while the population increased by 12.3 percent. The state's major arteries are extremely congested at peak hours. Increased traffic results in:

- decrease in air quality. Auto exhaust is a major source of ground-level ozone. The EPA rates Fairfield County "severe" and the rest of the state "serious."
- negative effect on business location decisions.

- *Overcrowded schools* in outlying suburbs lacking the necessary commercial and industrial tax base to support them, combined with
- *Declining population* in cities and older suburbs struggling to maintain a commercial and industrial base, resulting in:

    - spiraling property taxes all around (more than 80 percent of non-reval municipalities increased taxes in 2003.

- *Unused infrastructure* (e.g., sewer and utility systems) and blight (e.g., empty lots, burned-out buildings) in core metropolitan areas and, increasingly, at their fringes.
- Increased cost of infrastructure and services burden municipal budgets without tax revenue to off-set such costs.
- *Potentially overtaxed water supplies, aquifers and delivery systems* that may be unable to supply the future needs of all users in the urban core, suburban and rural areas of the state.
- *Lack of affordable housing*. Municipalities resort to zoning policies, which favor single-family dwellings on large residential lots and discourages the building of multifamily units or single-family units on smaller-sized lots.

Although current state zoning laws and programs contain elements of smart growth, these have proved inadequate in providing the necessary management to contain sprawl.

- The state Plan of Conservation and Development, which designates areas for high-intensity development and areas for conservation, applies to capital state projects only and has little bearing on local and regional land-use decisions.
- Zoning laws that incorporate smart growth techniques lack enforcement provisions or sufficient incentives, e.g.

    - Municipalities are required *only to notify* contiguous towns affected by border projects.
    - The law allowing for transfer of development rights is underused.
    - Weak requirements that development comply with municipal, regional and state plans of conservation and development.

- Programs that use fiscal and tax policy to steer development by providing tax credits are frequently hampered by permit processes or federal liability (e.g., in the case of brownfields).

Land is limited and development is largely irreversible. Unless land-use patterns change and future growth is targeted, most of the state will be suburbanized in the next few decades and the state will have:

- more distressed cities and towns,
- increasingly distressed inner suburbs,
- increasing socio-economic inequality,
- increasing strains on outer suburbs,
- more roads and traffic congestion, with irreversible destruction of Connecticut heritage,
- deterioration in quality of life and in economic competitiveness, and
- increasing strains on public health.

The very character of the state, or of a community within it, that brought people to it in the first place will be destroyed.

Overreliance on Property Tax

A significant contributor to sprawl is overreliance on property taxes. Municipalities faced with growing needs are left with little choice but to zone in the most advantageous (i.e., revenue-producing, service-limiting) way. Cities, older suburbs and rural communities not facing significant new development face small, and often shrinking, tax bases measured per capita, which can lead to loss of competitiveness as taxes increase and service capacity decreases.

The problem of sprawl cannot be addressed without simultaneously addressing the property tax burden in Connecticut, where it is the primary generator of revenue for municipalities (65 percent). The property tax is the largest state-local tax on state residents and businesses, and it is constantly increasing. Most of it (nearly 60 percent) goes to pay for K–12 public education. As a result, some examples of property tax overburden are:

- The property tax burden is the third highest in the nation on a per capita basis and tenth highest in percentage of personal income.
- Property tax rates in Connecticut are above the national average.
- Connecticut is more reliant on property taxation for funding K–12 education than all other states in the nation.
- The state ranks second in the northeast and fourth in the country in regard to commercial property tax.
- The property tax burden for businesses in Connecticut is above the national average (fifth highest in the Northeast, seventeenth highest in the nation).
- The property tax burden on businesses is nearly four times greater than their state corporate income tax burden ($1.6 billion as opposed to $445 million).

As structured, the property tax component of the state-local revenue system provides municipalities with economic incentives to:

- limit residential developments that generate public school students, and
- compete against each other for commercial and industrial projects.

This results in:

- land-use policies designed principally to cultivate grand lists and maximize local property tax revenues.
- continued population movement outward, away from higher taxes, creating sprawl.
- disinvestment in our cities and urbanized towns.
- rising effective property tax rates to meet constantly increasing education needs (41 percent increase since 1991).
- a negative effect on the cost of doing business in the state.
- intermunicipal competition for tax-base development that makes cooperation in other areas more difficult.
- an antifamily bias, through seeking the benefits of revenue without the burden of educating more children.

    - Middle class families are struggling with housing costs and the goal of homeownership, and constrained development of moderate-cost housing is likely a factor.
    - The problems due to high housing costs indicate that simple anti-growth policies are not the smart growth strategies that best address Connecticut's challenges.

- a disproportionate burden on those least able to pay.

    - Property is not an accurate measure of wealth and does not correlate with ability to pay.
    - Property tax is effectively subsidized for the 40 percent of state residents who itemize on their federal income taxes and qualify for the property tax credit state on their income taxes; its poorer residents often do not reach the required threshold to itemize or even to pay income taxes.
    - The elderly on fixed incomes are often forced to move from communities they've lived in all their lives.
    - Problems of central cities and stressed towns are exacerbated; with low per capita income and high tax rates, they are unable to raise revenue adequate for needed services.

Attaining the Vision: Recommendations

Connecticut needs to develop fiscal and land-use policies that grow well-paying jobs and invest in people while at the same time preserving and enhancing the unique character of the state's quality of life so crucial to its economic success and vitality. It needs to:

- Lessen reliance on the property tax by effecting changes in the state-local revenue system that will provide alternative means of raising revenue to support needed public services for residents and businesses. This will reduce the incentive for fiscal zoning and for short-sighted but now fiscally necessary development decisions.
- Increase the equity, stability, and sufficiency of the state-local revenue system.
- Pursue transportation strategies that work in support of smart growth policies.
- Promote land-use patterns that support transit alternatives to the automobile by creating the density needed to support them.

- Make urban centers more attractive for businesses, residents, and institutions.
- Create municipal and regional partnerships to reduce destructive intermunicipal competition for economic development and grand list growth. Cooperation is crucial to success in today's national and international economy.
- Establish strong incentives to promote consistency of local plans with state goals, while still reflecting local priorities; and also to ensure that state agency actions are consistent with state goals.

    - Strengthen the advisory state Plan of Conservation and Development so that it becomes a more effective growth management plan.

Experience in areas of the country that have instituted tax reform and smart growth policies indicates that two items are essential to the fairness and success of such programs. The first, proposed fundamental changes to public policy must be based on the most accurate and comprehensive information possible; second, education of all the stakeholders is vital.

While much solid useful information has been brought into focus during the meetings of this task force we have also learned that some information is not available to us at this time. We have learned that we lack state specific, comprehensive information on:

- The identification and measurement of the sustainability of Connecticut's aquifers and other water supply sources;
- The economic effects of the current tax structure (local, state and federal) on particular demographic groups and geographic areas; and
- Statewide build out projections.

Educational efforts need to be centered on both the public and private sectors and must seek to build support at all levels of government, but most especially legislative and gubernatorial support. At all levels those concerned have to understand:

- the benefits that will occur;
- the effects on their citizens and communities;
- the places that will be protected; and
- the savings that will occur.

Adoption and implementation of these goals is no easy task. It will require the formation of broad coalitions with a sense of shared destiny to overcome local, parochial concerns. And once enacted through legislation, smart growth plans must be effectively maintained and managed by oversight groups. The task is worth the effort. The future character of the state is at stake.

Property Tax Reform Recommendations

Statement of Objectives

There have been several property tax reform studies completed in Connecticut in the last few decades. Historically, the property tax reform proposals that have come from these studies have been enacted or rejected on a piecemeal basis and not dealt with in a comprehensive fashion as intended.

Therefore, it is important to make clear that the recommendations included in this report are intended to work in concert with each other. Taken as a whole, they can significantly improve the current system of state and local government finance. Taken separately, these recommendations could serve to increase the property tax burden or to severely impair the delivery of local public services provided in Connecticut.

In addition, this report places an emphasis on the notion that cities and towns and the State are partners in governing Connecticut. The dynamics of this relationship have a direct impact on the quality of life in our state. Paying for and providing public services in Connecticut are a joint responsibility of state government and local governments.

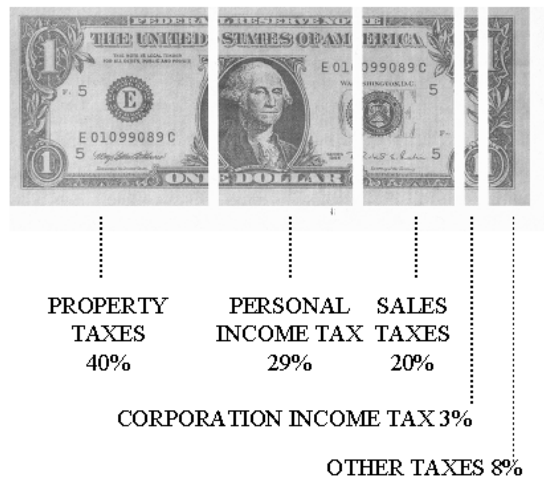
This section of the report makes a number of recommendations that would require the State to provide additional funding for locally delivered (particularly for K-12 public education). For these recommendations to successfully reduce the property tax burden, it is imperative that the State live up to its funding commitments -- not only on a temporary basis, but for the long-term.

The objective of this report is ultimately to reduce the property tax burden on individuals and businesses in Connecticut. The initiatives contained in this section of the report are integral to achieving that goal. Education finance reform, empowering councils of governments, achieving a greater degree of governmental accountability, revitalizing distressed municipalities and spurring economic growth are all important pieces to the overall solution.

Introduction

The Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives looked at ways to reduce Connecticut's reliance on the property tax to fund local public services – particularly to fund K-12 public education.

CONNECTICUT TAXPAYER'S DOLLAR IN 2003

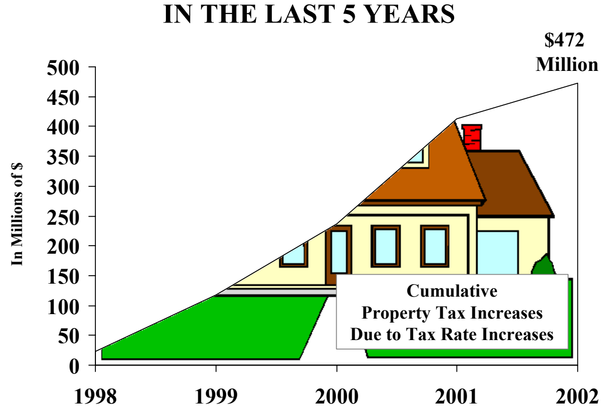


Reducing the reliance on the regressive property tax to pay for local public services not only benefits the residents of Connecticut but our business community as well. Businesses in Connecticut pay over $1.5 billion in property taxes, well above the amount paid by businesses in other Connecticut taxes.

In FY 2002-03, the total statewide property tax levy in Connecticut is approximately $6 billion. This is significantly more than is raised by the State's two largest revenue generators, the state personal income tax -- $4.3 billion and the state sales tax -- $3.1 billion.

Property tax revenue has continued to increase despite sluggish grand list growth. This is because municipalities have been forced to increase property tax rates to keep pace with the cost of providing public services. In the last 5 years, property taxes statewide have increased by almost $500 million due to property tax rate increases alone.

PROPERTY TAXES IN CT HAVE RISEN BY $472 MILLION DUE TO TAX RATE INCREASES* IN THE LAST 5 YEARS



***Excludes increases caused by increase in property values.**

Source: CCM calculations based on data from OPM *Municipal Fiscal Indicators.*

K-12 public education is the single largest local government expenditure in Connecticut. It is estimated to cost about $7 billion per year. While State aid to municipalities has risen 40% (approximately $600 million) overall since 1995, the State's average share of these education costs this year is 39%, and has been declining. More and more of the costs of K-12 public education in Connecticut are being borne by the property tax.

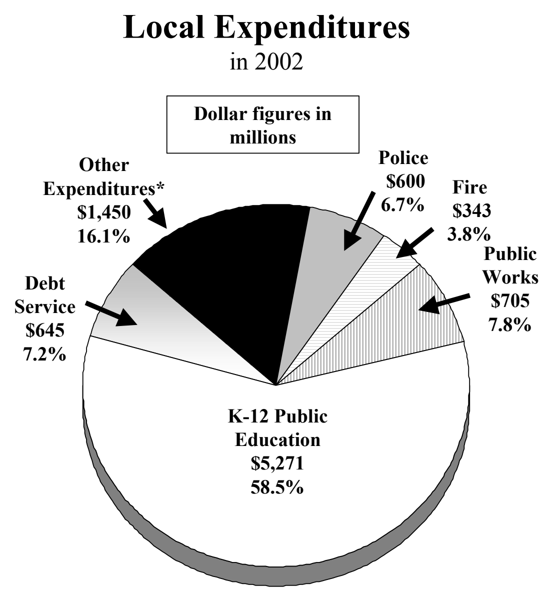
This over dependence on property taxes to fund local public services causes municipalities to engage in destructive competition for grand list growth that has resulted in bad land use decisions and costly and inefficient sprawl development. This sprawl means that development does not occur where the infrastructure to support it already exists but instead occurs in previously undisturbed areas where new roads, schools, sewers and other infrastructure must be built. The present system promotes disinvestments in our cities and urbanized towns. This adds to traffic woes, the loss of open space and disfigures the face of Connecticut.

The central focus of the Blue Ribbon Commission has been to identify ways to reduce the fiscal imperative to grow municipal grand lists in order to raise the property tax revenues needed to pay for local public services, particularly K-12 public education. Other, non-property tax revenues were looked at. The following recommendations reflect this priority.

I. Measures to Shift the Burden Away From the Property Tax

<u>A. Increasing State Aid for K-12 Public Education</u>

The commission recommends that state aid for education be increased significantly by ensuring that (a) a modified Education Cost Sharing [ECS] formula that takes into account the varied fiscal needs of urban, suburban and rural communities be fully funded; (b) each municipality receive from the State at least 50% of its minimum expenditure requirement [MER] for funding K-12 public education; (c) each municipality be reimbursed by the State for at least 50% of the costs for special education; and (d) the modified ECS formula strike a better balance between property wealth and income wealth (particularly cost-of-living differences) in order to determine what a local school district should be expected to pay from local revenue sources to fund K-12 public education.



•Other expenditures includes mostly fringe benefits, general government and health and social services' expenditures.
Source: CPEC. *Connecticut Municipal Profiles*. 1999-2000 & CCM estimates.

1. Fully-fund a modified Education Cost Sharing (ECS) grant.

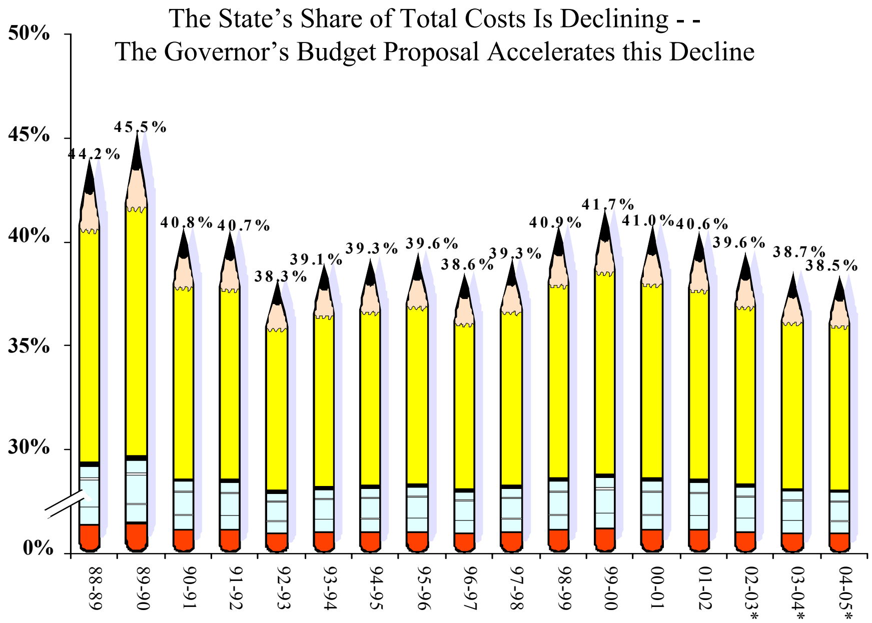
There are a number of problems with the ECS grant formula and with the artificial limits placed on the funding growth of the grant.

In addition, over the life of the ECS formula, there have been numerous changes made on a yearly basis. The formula must be made more consistent and predictable for state and local governments and the schoolchildren and parents they serve.

The ECS grant is currently calculated so that a majority of funding goes to the poorest communities with the most students (Bridgeport, Hartford, New Haven and Waterbury are scheduled to receive 33% of total ECS funding in FY 2003-04). However, the ECS calculation fails to take into account the needs of other municipalities that have similar challenges. The ECS formula should be designed to benefit <u>**all**</u> municipalities depending on each town's particular needs. Based on the data elements used in the ECS formula, some municipalities may appear to be slightly wealthier than the largest cities, but also have many residents with very low ability-to-pay thresholds.

In addition, since 1995, each town's annual ECS allotment has been capped (i.e. it cannot grow by more than 6%), so that grants to towns with growing enrollments or declining wealth have

State Aid for K-12 Public Education:



Source: CT State Dept. of Education.
* 2002-03, 2003-04 & 2004-05 are CCM estimates. 2003-04 & 2004-05 are based on the Governor's budget proposal.

fallen significantly below the formula's intended funding level. Until a funding cap is removed, other enhancements to ECS, such as minimum aid and increases in the foundation, are largely ineffective because no community can receive a year-to-year increase beyond what the cap allows.

The foundation is the per-pupil figure on which the ECS calculation is based. The foundation has been frozen at $5,891 for the last 4 years. If the foundation had risen in accordance with actual costs as originally intended, the present foundation level of $5,891 would instead be set at $7,900.

Therefore, the commission recommends modifying the ECS formula, eliminating the ECS funding cap and increasing the foundation under a modified ECS grant to $7,900.

Estimated Cost – at least $500 million

2. Require that each municipality receive from the State at least 50% of its minimum expenditure requirement (MER) for funding K-12 public education.

The MER represents the minimum level that school districts are mandated by the State to spend on certain education programs. The MER level differs by community and is determined by the previous year's MER, plus any additional ECS funding, minus a resident student adjustment if the district has lost student population. The MER is based on a foundation level times the number of need students in a district.

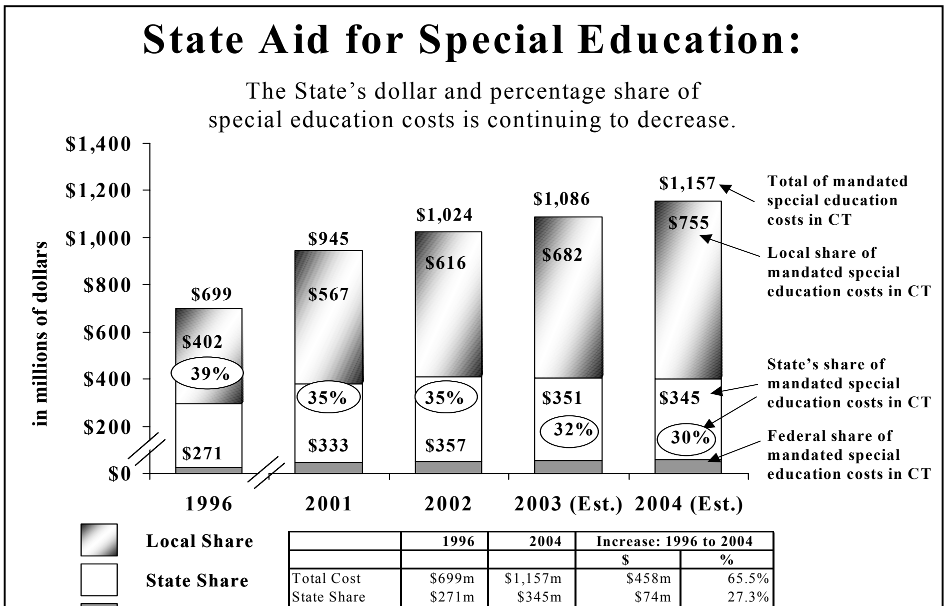
Currently, only "regular" program expenditures count towards a school district's MER. Not included towards a district's MER are special education expenditures, capital construction and debt service payments, transportation expenditures and expenditures from certain state and federal grants.

Over reliance on the property tax to fund K-12 public education is not just a problem of Connecticut's largest communities. Education budgets make up to 80% of the total budgets in some Connecticut towns and the statewide average is almost 60%. Without additional non-property tax revenues to offset the rising cost of providing local public education, the property tax burdens in **all** communities will continue to contribute to destructive competition for grand list growth and bad land use decisions.

Therefore, the commission recommends that if the preceding increases in funding under a modified ECS do not allow municipalities to receive at least 50% of its minimum expenditure requirement, that revenue sources other than the property tax be used to ensure that each community receives 50%. Needier communities should receive more.

Estimated Cost – at least $300 million

3. Require that each municipality be reimbursed for at least 50% of its costs for special education.



	1996	2004	Increase: 1996 to 2004	
			$	%
Total Cost	$699m	$1,157m	$458m	65.5%
State Share	$271m	$345m	$74m	27.3%
Local Share	$402m	$755m	$353m	87.8%

Source: State Department of Education, *Connecticut Public School Expenditure* reports. State share 2003 & 2004 based on 19% of the ECS grant, the Special Education Excess Cost grant and the Special Education Equity grant. Other costs are CCM estimates based on prior year trends. 2004 is based on the Governor's budget proposal .

Even though special education costs are increasing faster than overall education costs, the State's share of funding for these services continues to decline. In FY 2002-03 the State is contributing an estimated 32% of the over $1 billion needed to provide special education services in Connecticut. Special education is a statewide issue and the delivery of these services should not be dependent on the differing fiscal abilities of individual school districts and towns.

Therefore, the commission recommends that each municipality receive at least 50% of its special education funding through revenue sources other than the property tax. Needier communities should receive more.

Estimated Cost – at least $125 million

4. Require the ECS formula be modified to strike a better balance between property wealth and income wealth - - particularly cost-of-living differences - - in order to determine what a local school district should be expected to pay from local revenue sources to fund K-12 public education.

Currently, the State uses a complex formula to distribute ECS funds that is based, in part, on the property wealth and income levels in each town, with a tilt towards property wealth. The factor not taken into account in the ECS formula is the cost-of-living in municipalities. What this means is that in some communities, property wealth appears to be high in relation to other cities and towns, but only because the cost-of-living is also high. The current formula penalizes some communities with pockets of poverty by assuming that its residents have a greater ability to pay than actually exists. All taxes are paid out of income and the ECS formula should do a better job of reflecting that reality.

Therefore, the commission recommends that the ECS formula take into account cost-of-living relationships between communities when determining the distribution of ECS funds.

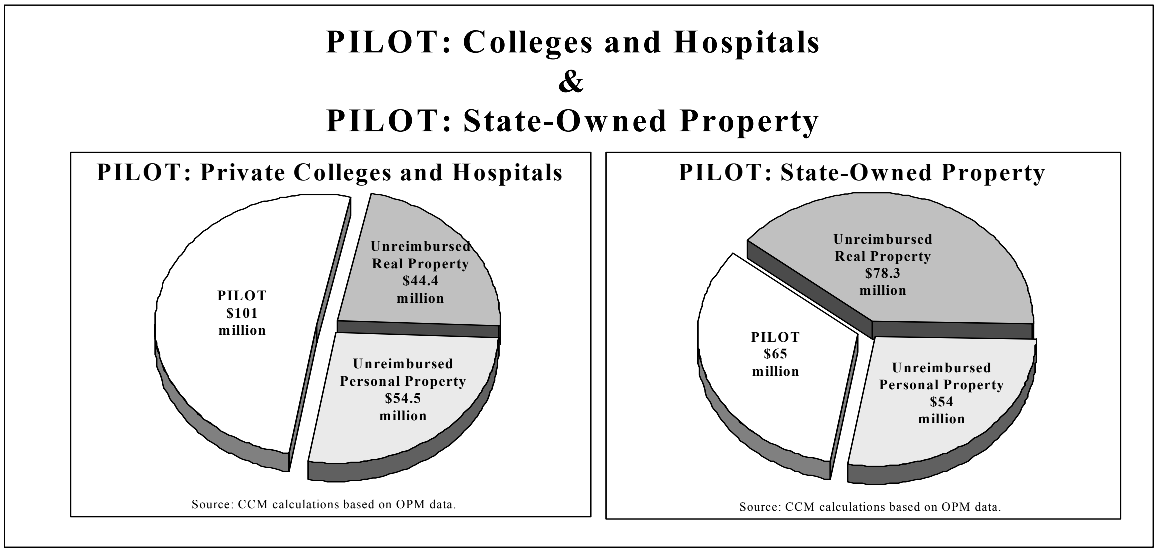
Estimated Cost - Unknown

B. Fully-fund Payment-in-Lieu-of-Taxes [PILOT] Programs

1. Reimburse municipalities 100% of the real and personal property tax loss due to state-mandated property tax exemptions under the major PILOT programs.

State payments-in-lieu-of-taxes [PILOTs] compensate municipalities for only a portion of the revenue that cities and towns lose due to state-mandated property tax exemptions. If funding remains flat, and the assessed value of the exemptions grows, then the rate at which municipalities are being reimbursed declines.

For example, municipalities were reimbursed $101 million -- or 69% -- of the real property taxes lost under the PILOT for Colleges and Hospitals in FY 2002-03. However, in FY 2003-04, the assessed value of the tax-exempt property under this program is scheduled to increase to approximately $156 million. If this grant were funded at $101 million again in FY 2003-04, that funding would represent a reimbursement rate of only 65%.



The statutory reimbursement rate under the PILOT for Colleges and Hospitals is 77%. The actual reimbursement rate has been steadily declining from 75% in FY 2000-01, to 73% in FY 2001-02, to 69% in FY 2002-03 and lower in FY 2003-04 if funding is not increased.

Likewise, the statutory reimbursement rate under the PILOT for State-Owned Property is 45%. The actual reimbursement rate has been steadily declining from 43% in FY 2000-01, to 41% in FY 2001-02, to 37% in FY 2002-03 and lower in FY 2003-04 if funding is not increased.

Connecticut has been a leader in reimbursing municipalities for property tax losses due to state-mandated property tax exemptions. However, such PILOTs compensate municipalities for only a portion of the revenue that towns and cities lose to these exemptions.

Therefore, the commission recommends that the State reimburse municipalities 100% for the tax loss due to the mandated property tax exemptions under the PILOT for Colleges and Hospitals and the PILOT for State Owned Property. This reimbursement should include payment for both real and personal property tax exemptions.

Estimated Cost - $250 million

C. The Motor Vehicle Tax

Currently, Connecticut's municipalities collect approximately $550 million in property taxes on motor vehicles per ear. However, this particular property tax is viewed as especially unfair because residents in different communities pay vastly different taxes on the same property. This system encourages some Connecticut residents to register motor vehicles in other lower-tax municipalities or even out-of-state, causing significant local revenue losses and administrative difficulties. Municipalities spend an inordinate amount of administrative resources to collect this tax.

The question of how to address the motor vehicle tax posed significant public policy challenges to the Blue Ribbon Commission. The commission looked at a variety of ways to make the motor vehicle tax more equitable without reducing revenues for some communities or increasing the tax burden for residents in other municipalities.

The commission discussed various scenarios under the elimination of the motor vehicle tax or options under a statewide mill rate (see Table 1 opposite). However, there was no clear consensus on the options discussed.

Therefore, the commission does not make any recommendations in regard to the motor vehicle tax, but recognizes that inequities exist and that the system of motor vehicle taxation in Connecticut will need to be addressed in the future.

FOR DISCUSSION PURPOSES ONLY

Table 1.

Options to reform Connecticut's system of motor vehicle taxation

✓ ***Eliminate the motor vehicle tax entirely.***

Pro:
- Instantly eliminates almost 10% of the property tax burden statewide.
- Eliminates disparate motor vehicle tax burdens between towns.
- Eliminates the local administration work involved in levying and collecting this tax.

Con:
- Municipalities lose $550 million in motor vehicle revenue statewide.

✓ ***Eliminate the motor vehicle tax (or phase-in elimination) with the State reimbursing municipalities for lost revenue.*** *(see attachment for description of Virginia approach)*

Pro:
- Eventually eliminates almost 10% of the property tax burden statewide.
- Eliminates disparate motor vehicle tax burdens between towns.
- Eliminates the local administration work involved in levying and collecting this tax.

Con:
- Municipalities must rely on the State for this revenue source. Municipal reimbursements may be dependant on state revenue collections.

✓ ***Implement a statewide mill rate, without a hold-harmless provision.***

Pro:
- Eliminates disparate motor vehicle tax burdens between towns.
- Could generate more revenue for some municipalities.

Con:
- Some towns would receive less revenue than they currently receive.
- Residents of some towns would have to pay greater motor vehicle taxes.

✓ ***Implement a statewide mill rate with a hold harmless provision that requires all municipalities to receive the amount of revenue received before the statewide mill rate took effect.***

Pro:
- Eliminates disparate motor vehicle tax burdens between towns.
- Could generate more revenue for some municipalities and the same amount for others.

Con:
- Residents of some towns would have to pay greater motor vehicle taxes.
- Additional state revenue needed to supplement the income of the hold-harmless municipalities.

✓ ***Status quo. Each town levies and collects their own taxes on motor vehicles.***

Pro:
- Municipalities continue to collect $550 million of their own revenue.

Con:
- Residents will continue to illegally register motor vehicles in other municipalities or out-of-state to avoid high tax municipalities.
- Municipalities will have to continue to incur the costs of administering this tax.

D. Local Revenue Diversification

1. Enable municipalities locally to collect and retain revenue other than the property tax.

The property tax is Connecticut's only major locally generated revenue source. One of the methods to reduce over reliance on the property tax is to enable municipalities to generate revenue from other means.

The commission believes that local-option taxes on a municipality-by-municipality basis in a small state like Connecticut are generally counterproductive - - they tend to foster tax competition between communities and make high-tax towns that opt for additional taxes less competitive. The commission believes that regional revenue sharing offers the best model (see G, pages 36-38.)

Therefore, the commission recommends that only a limited expansion of locally generated revenue be proposed:

(a) the continuation of the increase, from $1.10/$1,000 to $2.50/$1,000, under the real estate conveyance tax.

Estimated Revenue Gain - $25 million

(b) the imposition of a 15% surcharge on the state room occupancy tax to be retained by host municipalities.

Estimated Revenue Gain - $12 million

(c) sharing, on a regional basis, a portion of the state sales tax generated in each municipality with the host community getting the greatest share as agreed to by the members of the regional organization (i.e. a Council of Governments).

Estimated Revenue Gain – Variable

(d) sharing any other additional revenues on a regional basis.

Estimated Revenue Gain - Variable

E. Municipal Reporting and Accountability

A priority for changes to the state and local tax system should be an increase in budget "transparency" and accountability on the state and local level.

Therefore, the commission recommends establishing measures through state legislative action that promote a greater degree of municipal accountability and ensure that the property tax burden on residents and businesses be reduced if significant state revenues are used to supplant property tax revenues. The following are some examples of ways to increase municipal accountability:

1. Encourage more rigorous requirements for uniform financial reporting, financial policy making, and disclosure by municipal government.

   (a) Formal adoption by local government legislative bodies of a fund balance reserve policy, which describes the minimum fund balance reserve to be maintained in the general operating fund (e.g. 5 percent), the types of revenue-enhancement and cost-containment actions that will be undertaken to meet minimum reserve levels, exceptional circumstances that would be legitimate causes of fund balance reserve to drop – temporarily, until corrective action led to recovery over time – below the minimum threshold (e.g., natural disaster, steep cuts in state revenue transfers), and the amount of time allowed before fund balance reserves are to return to the minimum level set forth in the policy.

   (b) In consultation, with the Connecticut Office of Policy & Management, CT Government Finance Officers Association, Government Accounting Standards Board or other body of the accounting profession, Connecticut Conference of Municipalities, Connecticut Council of Small Towns, and local government representatives, development of standards for form and content of operating and capital budgets (pre-fiscal year accountability), quarterly financial reports (accountability and opportunity for corrective action during a fiscal year), and financial reporting (end of the fiscal year). Among content and indicator requirements would be the following:

      - Fund balance reserves;
      - Pension fund liability and contributions for the current fiscal year, and at least three prior fiscal years, as a percent of that required to meet adequate, actuarially-determined funding requirements;
      - Outstanding debt as a share of operating revenues and expenditures, assessed taxable property, and per capita debt burden;
      - Separation, heart-and-hypertension and other health care, and other non-debt-related long-term liabilities;
      - For operating budgets, presentation – by major revenue source, expenditure object class, and fund balance – of actual results versus those budgeted for at least three prior fiscal years;

- Presentation of key assumptions for principal revenue sources and expenditure object classes for the upcoming fiscal year's budget, distinguishing material one-time revenue sources and expenditures from those that are recurring;

- Include in the presentation of the operating budget a multi-year financial plan (recommended by the credit rating agency Fitch as an important indicator of sound fiscal management), presenting – by major revenue source, expenditure object class, and resulting fund balance – the local government's fiscal position for at least the next three years, including a clear presentation of principal assumptions that drive the projections. If projected recurring expenditures exceed projected recurring revenue in any of the three future years, the budget/multi-year plan would describe the actions to be taken to restore balance;

- Presentation of off-balance sheet accounts; and

- Plan for implementing conclusions and recommendations in independent auditors' management letters.

(c) The State Office of Policy and Management, or an entity selected by that office, shall examine the resulting financial reports from each municipality and present an annual report grading each municipalities' financial management. These reports shall be uniform, and summarize each category of financial management on which OPM deems appropriate to comment with a grade. A principal goal of the reports will be to give members of the public without wide knowledge of municipal finance a means to assess the financial management of their municipality. The reports will be publicly available and distributed to the local press.

2. Create a more aggressive mechanism for state financial oversight if one, or a number of, 'triggers' or warnings are exceeded.

(a) The State, with appropriate input from CCM, COST, local government representatives and others, would establish two classifications for local governments facing financial strain, with varying degrees of state oversight associated with each classification:

- Watch List. The state government would send written notice to a local government that, through triggering certain criteria of fiscal strain, it has been placed on a watch list. Such criteria may include some combination of (1) a number of consecutive years of operating budget deficits, (2) excessive use of one-time revenue sources to balance the budget, (3) excessive debt burden, (4) a number of consecutive years of tax collection rate falling by at least a percentage point, (5) multiple or a substantial downgrade by credit rating agencies within a certain amount of time, (6) repeated failure to comply with financial reporting requirements, and/or (7) pattern of insufficient funding of pension obligations. The notice would describe the criteria that caused the government to be placed on the watch list, as well conditions that would need to be met for a local government to remove itself from the watch list.

During the first year on the watch list, the local government would be encouraged by the State to use technical assistance (locally selected, or that recommended by the state) to put in place a multi-year financial recovery plan, which would define the amount of deficit reduction to take place in each of the following three years necessary for a structurally balanced budget, as well as management initiatives necessary to increase revenues and reduce spending such that the deficit-reduction targets are achieved. If the local government does not develop a recovery plan during its first year on the watch list, and remains on the watch list for a second year, the State may require that the local government put in place a recovery plan, meeting the State's content requirements for said plan.

- Financial Oversight. The state government could declare a local government to be in a state of financial distress if a number of criteria are triggered beyond those of the watch list, such as (1) negative fund balance or multiple years of negligible fund balance, (2) property tax collection rate falling below 85 percent, (3) a material default on outstanding debt, (4) findings of large-scale fiscal malfeasance, and (5) consistent failure to comply with conditions associated with the watch list. The State would appoint a financial oversight board, leaving authority of elected officials and department heads in place, while the oversight board exercises its authority to monitor operating and capital budgets and multi-year financial recovery plans, labor contracts, service contracts over a certain dollar amount, and debt issuance promulgated by local officials. The State would, together with the local government, develop a multi-year financial recovery plan through the State's staff or its agents, through some combination of local and state funding. Local officials would be responsible for carrying out the recovery plan.

  State statute would define the conditions for establishment, appointment process, funding sources, authority, conditions for dissolution, and other aspects of a financial oversight board, either on a case-by-case basis, or providing discretion to the governor, with advice of the legislature.

3. Provide increased technical assistance from the State to local governments.

(a) Identification of state employees and/or consultants to serve as technical assistance providers to local governments. These state employees and/or consultants would demonstrate to the State's satisfaction qualifications in key areas of local government operations (e.g., personnel management, operational improvements, tax assessments and collection, accounting, budgeting, management information systems, investment management, debt management, engineering). Funding for this expertise could stem from a combination of state appropriations and state withholding of a portion of revenue transfers to local governments in need or such services.

Support and coordination for the implementation of recommendations provided by such consultants would come from the State.

F. Property Tax Rate Relief

Members of the Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives recognize that it is important that a significant share of new state revenues to towns and cities be used for property tax rate relief. It is also important to recognize that increased state revenue must also be used to fund local service delivery.

Therefore, the commission recommends that a portion of increased state aid be dedicated to the reduction of the property tax rate in every municipality.

To ensure that increased state aid be used primarily for the reduction of each town's property tax burden, the commission recommends the following:

1. Implement a temporary spending cap on municipalities.

Cap total municipal spending, including education, at the greater of 2.5% per year or the rate of inflation.

This spending cap shall remain in place from the time that significant state revenues are used to supplant property tax revenues until such time that these revenues are completely phased-in over a specifically defined period (e.g. 4 years).

The following items should not be subject to the municipal spending cap:

Education items exempted from MER calculations, including:

Capital construction and debt service
Transportation of school children
Adult education
Special education
Expenditures from income from community use of school facilities

Some items exempted from municipal spending cap calculations

These items are presently exempted from the State spending cap:

Expenditures for the implementation of federal mandates and court orders.
Principal and interest on bonds, notes or other evidences of indebtedness.

Such cap could only be overridden with a supermajority (2/3rds) vote of the local legislative body. For this purpose, the local legislative body in town meeting towns would be the board of selectmen.

2. Implement other efficiency measures

(a) Negotiate master teacher contracts by Council of Government regions. Negotiating master teacher contracts in each region can inject stability into the process while still providing for cost-of-living differences between regions.

Each region will have a bargaining team that is composed of school board and general government officials as appointed by the Council of Governments.

(b) Give the local legislative body greater control over Board of Education budgets. This can be accomplished by:

(i) Mandating that non-instructional Board of Education service delivery be consolidated with general government service delivery to reduce duplication and inefficiencies. For example, towns and school districts could combine buildings and grounds functions and finance departments.

G. A New and Expanded Role for Councils of Government (COGs)

1. Councils of Government (COGs) should be encouraged to be formed statewide and granted greater authority to make revenue sharing, land-use, and certain collective bargaining decisions.

In addition to the property tax reform initiatives listed above, the Blue Ribbon Commission is also recommending an initiative that will help foster regional cooperation and policymaking.

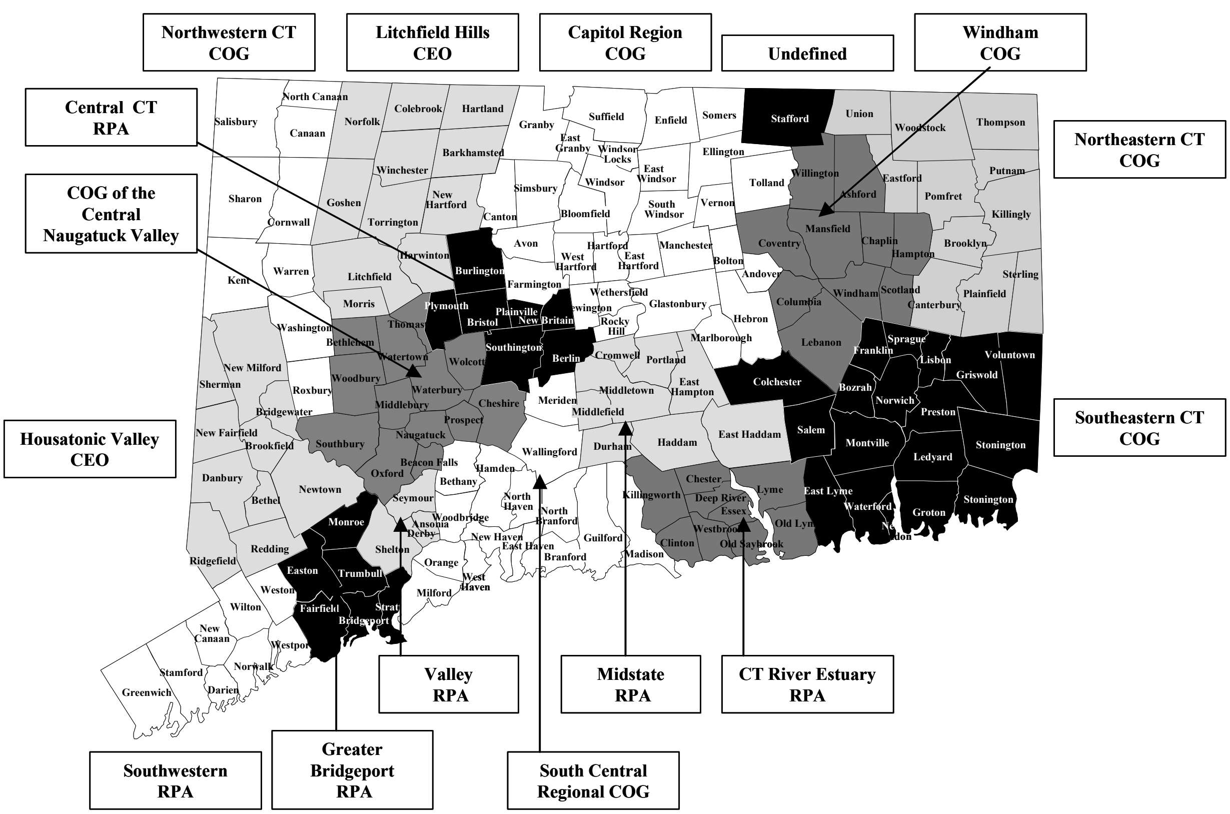
There are Councils of Governments (COGs) already established in some parts of Connecticut and other regional planning agencies throughout the State. If strengthened and expanded statewide, COGs could play a critical sub-state role in encouraging regional cooperation while honoring Connecticut's tradition of local control.

Provide incentives for the formation of strengthened COG-like structures by reserving new powers, including state revenue sharing, to these new entities. These strengthened COG-like structures could make headway on a whole host of regional issues, such as land-use planning, housing and redevelopment efforts, teacher collective bargaining [see recommendation 2(a) on previous page], joint service delivery, investment in regional priorities and the protection of farmland and other open space.

By modifying and strengthening existing regional entities and emphasizing consensus building, it is possible for Connecticut to preserve its essential character, improve its economic prospects and address its difficult problems of concentrated poverty and racial segregation.

The commission recommends that Councils of Government (COGs) be authorized to (a) share state revenues [e.g. a portion of the state sales tax], (b) share local property taxes [pursuant to existing law -- CGS 7-148bb], (c) bond for capital projects, in order to support coordinated economic development strategies, regional assets, and other projects, (d) make certain land-use decisions on a regional basis, (e) facilitate joint service delivery [pursuant to existing law – CGS 7-148cc], (f) negotiate master teacher contracts [see recommendation 2(a) on previous page], (g) receive stronger financial and other incentives for municipalities to consolidate and/or cooperate on a multi-municipal or regional basis and to find areas of cooperation with state government (i.e. the consolidation of state and local road maintenance facilities and operations). (h) help municipalities consolidate the many special taxing and other districts to increase efficiency and accountability, and (i) help towns and cities better use the resources of municipal workers and teachers in fashioning more efficient and effective ways to deliver public services.

Regional Planning Organizations in Connecticut



The aforementioned recommendations will increase the ability of state and local government to increase efficiency up, down, and across the public service delivery spectrum.

H. Other Measures to Revitalize Distressed Municipalities and Connecticut's Economy

One of the ways to decrease the over-reliance on the property tax is to create a vibrant economy in Connecticut's distressed urbanized cities and towns. Programs targeted towards the urban centers benefit not only the host municipalities, but outlying communities and the regions as well. Economically healthy urban centers are less likely to pass their problems onto its suburbs through out-migration or the need for financial support.

Therefore, the commission recommends the adoption of the following initiatives geared toward revitalizing distressed urban centers in Connecticut and creating a healthier economy:

1. Create income tax credits for people living in specifically designated urban areas. For example, residents living in certain urban centers could receive income tax credits up to 50% of their total income tax bill.

2. Allow sales tax inducements for people shopping in specifically designated urban areas. For example, create urban district zones where the sales tax on retail items is only 3%, as opposed to the statewide rate of 6%.

3. Maintain the property tax exemption for all new manufacturing equipment without requiring state reimbursement.

I. Providing Tools to Make Better Tax Policy Decisions

1. In order to make better fiscal policy decisions in the future, better data needs to be available and more detailed analyses need to be performed.

(a) The commission recommends that the State conduct a biennial (in the off-year of the budget) tax incidence study to guide future decisions on state and local tax policy.

A tax incidence study is an analysis that shows the current federal, state and local tax burden borne by Connecticut taxpayers with different income levels and municipal residence. This study would also assess how changes in the state and local tax environment would change the tax burdens across each of these groups of taxpayers.

Estimated Cost - $100,000

(b) The commission also recommends that the responsibility to collect and provide all fiscal and other information relevant to taxation be housed in one state agency.

Estimated Cost – Unknown

J. State Revenue Changes

The underpinning of these recommendations is that there needs to be a shift from the regressive property tax to more progressive state revenue sources to fund local public services, particularly K-12 public education.

An equitable tax is one which treats equals similarly, and which is based on ability to pay.

Horizontal equity refers to the notion that a tax should impose an equal tax burden on people in roughly similar financial situations. The property tax fails this test because taxpayers in similar financial situations often pay varying property taxes based on their municipality of residence.

Equity suggests that the tax burden should increase with the ability to pay, so that wealthier residents have a higher tax burden as a percentage of their income than the less wealthy. The property tax fails this test as well. In particular, seniors and other fixed-income taxpayers often pay a much higher percentage of their income than other taxpayers.

Therefore, the commission recommends that the state use its more progressive revenue sources to supplant property tax revenues.

Decisions concerning the specifics of the amount and breadth of state revenue sources used to displace property tax revenues must be informed by tax incidence and other analyses that will allow state policymakers to more clearly understand the implications of public policy changes in this area.

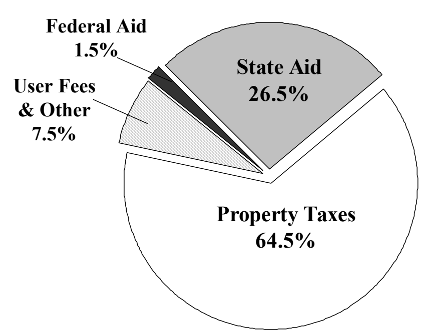
Connecticut presently does not have the analytical tools and information available to understand the full implications of state and local tax policy changes on individuals and households.

Conclusion

Public policy options to reduce the burden of the property tax to fund local public services, particularly to fund K-12 public education, are limited. Revenue can either be derived from a state source, a new regional source, a new local source, or a combination of all three.

The recommendations in this report rely primarily on state revenue, but also include additional regional and local revenue to reduce the reliance on the property tax.

Local Revenues in Connecticut



Source: OPM Municipal Fiscal Indicators, 10/01 and CCM data for FY 2000

The decision to rely primarily on State revenues stems from a few factors: (a) the State's revenue raising options are currently far more diverse and equitable than those of local governments; (b) using state revenue sources eliminates unhealthy competition among municipalities; (c) collecting revenue (i.e. sales tax revenue or income tax revenue) at the state level is less cumbersome than each municipality or region collecting its own revenue; and (d) the State and municipalities are partners in governing Connecticut. The State has the responsibility and the resources to assure that high-quality public services are available to residents of all communities, particularly the delivery of K-12 public education.

STATE REVENUE SOURCES

Revenue Source	$ (In Millions)	% of Total
Personal Income Tax	$ 4,300	32.2%
Sales Tax	3,100	23.2%
Federal Grants	2,312	17.3%
Motor Fuels Tax	463	3.5%
Corporations	445	3.3%
Indian Gaming Payments	394	2.9%
Transfer to the Resources of the General Fund	284	2.1%
Transfers - Special Revenue	269	2.0%
License, Permits and Fees	266	2.0%
Cigarettes and Tobacco	242	1.8%
Insurance Companies	225	1.7%
MV Receipts	204	1.5%
Public Service Corporations	171	1.3%
Miscellaneous Revenue	157	1.2%
Inheritance and Estate	145	1.1%
Transfer From the Tobacco Settlement Fund	133	1.0%
Tobacco Settlement Fund	133	1.0%
Real Estate Conveyance	118	0.9%
Totals	$ 13,361	100.0%

Source: Comptroller's monthly report to the Governor dated 9/3/02.

Regardless of the revenue source, it is important that Connecticut's local governments become less reliant on the property tax. The by-products of Connecticut's current system are having adverse effects on the quality-of-life in the state. The current state and local tax system in Connecticut contributes to costly and inefficient sprawl development, the loss of open space and agricultural lands, traffic congestion, and other woes that threaten our economic vitality.

A recent article in *The New York Times* cites that the State of New Jersey will run out of land for development in the next twenty years under present land use practices. As of 1997, 39% of New Jersey's land area was developed. Connecticut was not far behind. As of 1997, 29% of Connecticut's land area was developed.

If the current over-reliance on the property tax is allowed to persist, Connecticut residents will continue to flee our cities and inner ring suburbs and chew up more and more of the state's undeveloped land. By 2023, the rural, suburban and urban diversity that makes Connecticut unique could be lost forever.

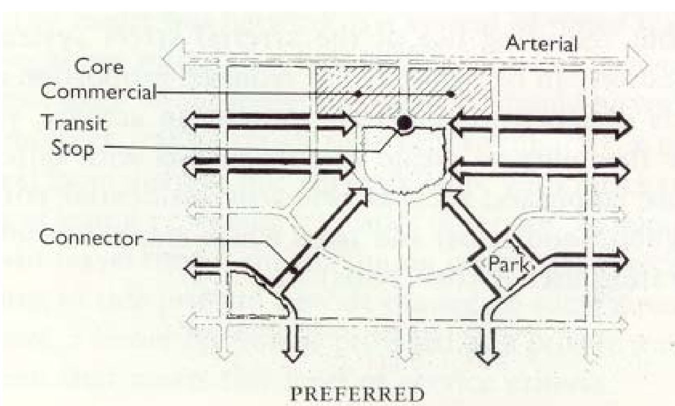
Property tax reform, increased municipal accountability, empowered Councils of Government, and revitalizing distressed municipalities are the keys to opening the door of socioeconomic success for those who live and do business in our state.

Smart Growth Recommendations

Introduction

By its simplest definition, Smart Growth is a comprehensive planning process that encourages more efficient land use patterns of development that accommodate sustainable economic growth, reduce transportation congestion, protect natural resources, preserve the traditional character of communities and ensure equitable access to affordable housing, jobs and community services. Smart growth recognizes connections between development and quality of life. It leverages new growth to improve the community. The features that distinguish smart growth in a community vary from place to place. In general, smart growth invests time, attention, and resources in restoring community and vitality to center cities and older suburbs. New smart growth is more town-centered, is transit and pedestrian oriented, and has a greater mix of housing, commercial and retail uses. It also preserves open space and many other environmental amenities. But there is no "one-size-fits-all" solution. Successful communities do tend to have one thing in common--a vision of where they want to go and of what things they value in their community--and their plans for development reflect these values. (Taken from the Smart Growth Network.)

Given this definition, the history of Smart Growth in Connecticut demonstrates both strengths and weaknesses in developing, implementing and supporting policies and actions that promote a comprehensive planning process. Not only do we need to build upon those strengths, but we must also identify and correct our weaknesses if we are to be successful.



Source: The New Urbanism

Connecticut already has a number of strong Smart Growth tools at its disposal. Unlike some states commonly perceived as being leaders in Smart Growth (most notably Maryland and New Jersey), Connecticut has produced statewide plans of conservation and development since 1979. These plans have been used to guide the state's growth, resource management and state investment policies. Among our other strengths are our recent, aggressive open space protection and preservation initiative, our Farmland Preservation Program, our Brownfield remediation program, our commitment to the revitalization of a number of major urban areas, and economic cluster initiative.

One of our weaknesses is that we have not always utilized these strong tools in a comprehensive and coordinated manner and we haven't promoted them as integral parts of an overall statewide Smart Growth strategy.

Another of our weaknesses in the implementation of Smart Growth concerns the nature of sub-state regionalism in Connecticut. Unlike forty-eight of the other states in the country, Connecticut does not have a county system of government. County governments were abolished in 1960 and no uniform, true replacement intermediate level of government has existed since that time. Connecticut has designated fifteen planning regions across the state which encompass all but one of Connecticut's municipalities. Within each region, the constituent municipalities voluntarily created a Regional Planning Organization (RPO), one of whose statutory responsibilities is to prepare a regional plan of development.

These fifteen RPOs are the closest regional entities available to Connecticut's political leaders. If Smart Growth is to truly become part of the mindset of the leaders and citizens of Connecticut, a review of and statutory modifications to strengthen and further empower these RPOs must occur in order to provide a familiar, regional vehicle to implement issues that require regional responses.

The Commission has reviewed ways to promote "Smart Growth" measures to address problems associated with Connecticut's current fragmented land use practices.

Promoting Smart Growth measures will reduce the substantial public costs attributed to ineffective land use practices that result in what is commonly referred to as "sprawl." Many of the strategies involved with Smart Growth measures do not have significant price tags. Indeed, most measures simply involve the more efficient management of resources through the land use regulatory process.

Source: New Armerican Urbanism

Connecticut's historic land use practices are premised upon a "bottom-up" approach. Most land use decisions are made at the local level by 169 municipalities. These decisions are made without any required consistency with applicable regional and state plans of conservation and development. Therefore, there is no effective implementation of land use decision-making on a regional or statewide basis. This is counter to Smart Growth.

Problems generated by Connecticut's current land use practices include the lack of an integrated state, regional and municipal planning process, development outside of existing centralized infrastructure to the detriment of urban centers and first-ring suburban areas, segregation of land uses that reduces diversity and housing opportunities within communities, transportation congestion attributed to low density development that does not support alternate transportation measures, and the municipal fiscal imperative to promote development for the purpose of growing individual grand lists to raise money for funding public services.

The Commission recommends a "roadmap for Smart Growth" based upon a more regional/statewide approach to the land use decision-making process. This approach is based upon policy reform and fiscal incentives, rather than mandates (e.g., providing state funding for transportation improvements for development approved in designated growth areas). This "incentive model" proposes that Smart Growth incentives be implemented incrementally over multiple five (5) year time periods. This incremental approach is used by other states such as Maryland.

Our political leadership and citizenry must understand the importance of professional planning to effectively reduce inefficient patterns of development by utilizing Smart Growth concepts and incentives. Educating both citizens and public officials of the state as to the substantial costs associated with current development patterns is an essential component for implementing meaningful Smart Growth measures. Therefore, a study to determine the costs associated with current development patterns, such as that recently performed in Rhode Island, is an important first step.

Better planning tools, such as a statewide digital database mapping system (i.e., geographic information system) and a statewide build-out analysis, are required to promote a uniform destiny and enhance economic growth for the state. Finally, the Commission acknowledges that promoting more sustainable development for our communities is inter-related with any attempt to reform Connecticut's fiscal policies.

Connecticut's land use model is at a point in its evolutionary process where changes must be made to minimize the costs generated under the current development format. The time for this required transformation is now.

The Commission's recommendations for implementing Smart Growth incentives in Connecticut are categorized into four areas: I. Generate Information Essential for Making Effective Growth Management Decisions; II. Develop Meaningful Plans of Development on the State, Regional, and Municipal Levels, and Require Specific Goals in the Plans; III. Provide for Stronger Regional Planning Organizations ("RPOs"); and IV. Education of Decision-Makers and Citizens.

Recommendations

A. Generate Information Essential for Making Effective Growth Management Decisions.

- ***i.*** ***Create a layered Geographic Information System ("GIS") database identifying existing urban, suburban, rural areas, as well as infrastructure, brownfields, and natural resources.***

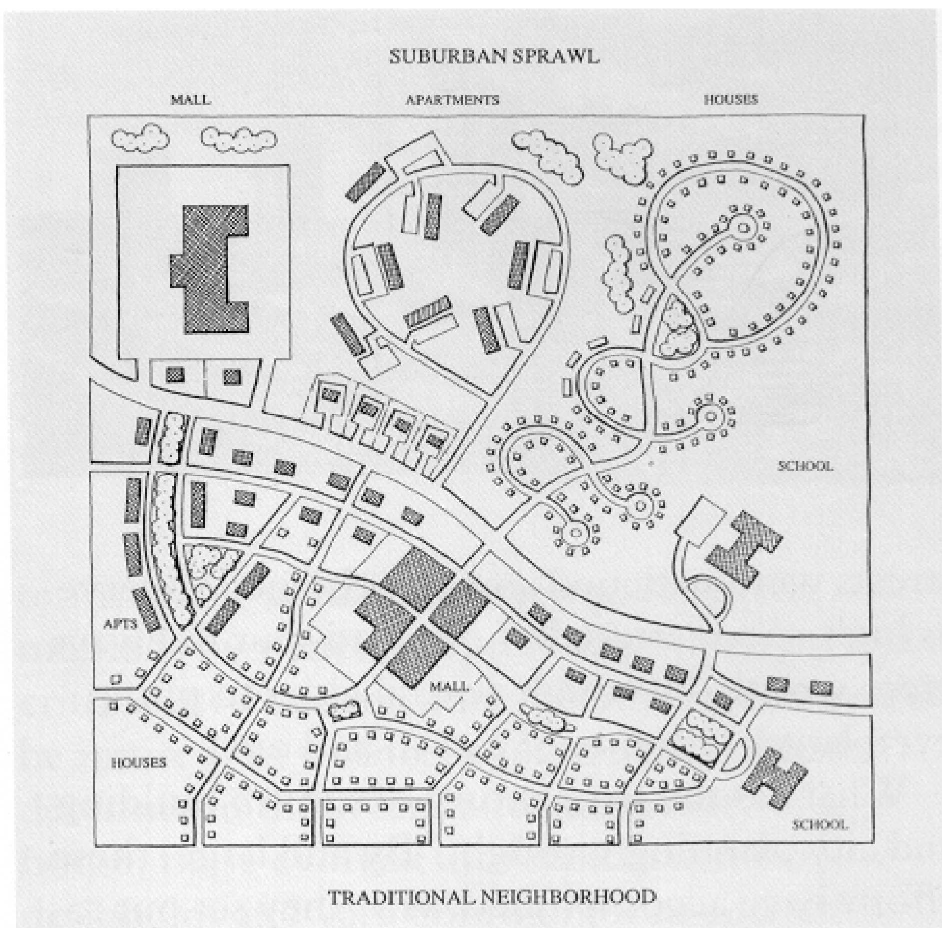
- ***ii.*** ***Conduct a statewide build-out analysis under current land use regulatory format.***

iii. Conduct a statewide evaluation of public costs associated with sprawl.

Detail

Three separate, but related, studies are required to generate information necessary for creating effective municipal, regional and state plans of conservation and development. The first is a "one stop shop" database that provides an inventory of both existing infrastructure and natural resources. The second is a statewide build-out analysis. This analysis would include evaluations of the equitable allocation of water resources and sewer avoidance policies, based on impacts upon future land use development patterns. The third is a statewide evaluation of the public costs associated with continued unrestrained land use patterns in Connecticut.

First, it is critical that a statewide Geographic Information System ("GIS") database of existing infrastructure and natural resources be compiled. This single GIS database would enable land use decisions to be based upon the effective management of existing infrastructure and natural resources in promoting sustainable communities. This uniform database would include: industrial sites; brownfields and superfund sites; infrastructure such as roadways, railways, airports, marine transportation centers; water and sewer facilities; and natural resources including aquifers, water resources such as wetlands and watercourses, open space, and agricultural/farm lands.



Source: Regional Plan Association

Second, a statewide build-out analysis is required to demonstrate what land use patterns can be expected to occur under the state's current land use regulatory format. Such an analysis would provide a picture of what the state would, quite literally, look like if development continues under existing land use regulations. One obvious purpose of this process is to permit citizens, and political leadership, to answer the question: "Is this where we want to be in ten, twenty or fifty years?" If the answer is in the negative, then the specific Smart Growth concepts and incentives discussed further in this report may be used to develop more meaningful and efficient plans to achieve sustainable communities.

The build-out analysis would include an historical component to demonstrate how our existing development has occurred over time. In addition, the build-out analysis should provide a multi-year water allocation analysis, comparable to that being undertaken by Rhode Island's Water Resource Board, that includes both an inventory and assessment of the state's surface and groundwater resources to determine how these resources may best be utilized to support projected growth and economic development. It should also indicate how transportation systems would be affected by build-out. Finally, the build-out analysis should contain an evaluation of the existing statewide sewer planning processes and the resultant individual municipal plans that specifically addresses whether sewer avoidance encourages sprawl, and is consistent with the state plan of conservation and development. The Commission recommends that the state's sewer planning process be consistent with the state's plan of conservation and development.

Third, a statewide study is required to determine the public costs associated with the continuation of our current land use policies. This study would determine the anticipated costs of public improvements such as roads, sewer and water facilities, as well as public services such as schools, police, fire and emergency services, under current build-out patterns. In addition, the study would provide a cost analysis for a build-out scenario that incorporates Smart Growth concepts and incentives such as those recommended in this report. This information would provide a framework for evaluating whether the recommended Smart Growth measures actually result in a public cost savings relative to a build-out under current conditions.

The total costs associated with these three studies is $5M.

B. Develop Meaningful Plans of Conservation and Development on the State, Regional, and Municipal Levels and Require Specific Goals in the Plans.

- ***i. Integrate state, regional and municipal plans of conservation and development.***

- ***ii. Require Smart Growth principles to be included in plans.***

- ***iii. Target growth on a regional basis.***

- ***iv. Coordinate transportation, water and sewer systems infrastructure and land use planning.***

v. ***Promote diversity in housing.***

vi. ***Provide fiscal incentives.***

Detail

Integrated plans for Smart Growth

Land use decision-making in Connecticut is essentially a local, municipal process. Although zoning legislation provides for municipal, regional and state plans of conservation and development, there is no legislative requirement that the plans be consistent. Furthermore, there exists no legislative requirement that land use decisions at the municipal level be consistent with the regional and state plans.

Source: The New Urbanism

The Commission recommends amendments to Connecticut's land use enabling legislation that requires greater consistency between municipal, regional and state plans of conservation and development. In addition, Connecticut's land use enabling legislation should also require consistency between local land use decisions and the plans. Finally, the enabling legislation should require consistency between each municipality's set of land use regulations, and its plan of conservation and development, as well as the applicable regional and state plans.

Municipalities must be further required to identify those portions of their land use regulations and plans that are, and are not, consistent with their respective regional and state plans. The municipal, regional and state plans, and applicable municipal land use regulations, must be required to include the smart growth incentives discussed below. By requiring the inclusion of these incentives within the plans and municipal regulations, the tools for effective growth management will be available to every municipality.

Periodic reviews at the regional and/or state level should be required to evaluate the degree to which the aforementioned plans are consistent. Provision should also be made for municipal indemnification for legal costs associated with the successful defense of land use regulations promulgated to promote consistency between municipal plans and applicable regional and state plans.

Municipal, regional and state plans of conservation and development should be required to address a common set of Smart Growth principles. Currently, municipalities and Regional

Planning Organizations are only required to note any inconsistencies with the State Plan of Conservation and Development when revising their own plans. Therefore, it is recommended that the legislature establish a process for the creation of statutory Smart Growth principles.

This process should begin with the convening of a legislative task force to develop proposed statutory Smart Growth principles and to establish intergovernmental review procedures when state, regional and municipal plans of conservation and development are revised. The task force should also evaluate such concepts as Priority Funding Areas, Corridor Management Areas, Pre-Selected Sites and others to determine their applicability to Smart Growth principles and to locational guide map criteria. The task force's recommendations would then be presented to the General Assembly for adoption.

Fiscal incentives, such as those discussed later in this subsection, should be promulgated to encourage compliance with these requirements.

These requirements are necessary to integrate the municipal, regional and state plans of conservation and development, and explicitly provide Smart Growth incentives within each municipality's set of land use regulations. An integrated format would provide for a more predictable, fair and cost-effective land use decision-making process. In addition, an integrated format maximizes the opportunity for the most effective implementation of Smart Growth incentives on a regional basis. This is discussed more specifically later in this report.

Targeted Growth

An essential concept of Smart Growth is that future growth be encouraged toward developed centers where there is existing infrastructure. This serves a twofold objective. First, it promotes redevelopment of older urban centers and first-ring suburbs that suffer from the loss of revenue attributed to the abandonment of these areas by the state's residential and business populations.

Source: New Jersey Department of Planning

Second, it helps to preserve the outer-ring suburbs and rural areas from development where those communities will then be required to expend limited resources to upgrade the infrastructure and public services demanded by new development.

Therefore, the Commission recommends a variety of fiscal incentives that would encourage municipalities, preferably on a regional basis, to promulgate land use regulations and plans to encourage development in existing urban centers, along existing transportation infrastructure and centers (rail, water and road), and in proximity to sewer and other utility facilities. Such fiscal incentives would include state funding for infrastructure improvements and public service costs for municipalities that provide for such development. In addition, the Commission recommends further dedicated funding to acquire open space and purchase development rights to preserve existing farmlands.

Connecticut's land use enabling legislation should be modified to strongly encourage municipalities to designate preferred growth areas within their boundaries that are consistent with their applicable regional and state plans of conservation and development. Additional authorization for mixed-use (commercial/residential) development in existing centers, as well as provision for density bonuses for below market rate housing or cluster subdivision development should be authorized. Enabling legislation authorizing "fast track" land use review and approval processes for "preferred development" in "target growth areas/corridors" or for designated brownfields should also be provided.

The Commission recommends enabling legislation for municipal tax abatement and other programs to encourage residential restoration in existing urban and suburban areas. These programs may also include individual tax abatements, and create urban/suburban – investment districts that offer business and sales tax incentives. These fiscal incentives are more specifically discussed in the *Fiscal* subsection of this report. These incentives provide additional tools to encourage growth in targeted areas.

The Commission also suggests several pieces of enabling legislation. One would provide fiscal incentives authorizing and encouraging the transfer of development rights on an intra- and inter-municipality basis. A second would target land acquisitions to protect natural resources. A third would permit municipalities to utilize land value taxation measures to encourage highest and best use of unused real property by private owners without requiring additional municipal or state funding. A fourth would authorize regional sales or other taxes to promote smart growth infrastructure or regional asset development.

Transportation

Connecticut has embarked on a major new effort to upgrade its transportation system. The Commission recommends that this effort improve the coordination of transportation and land use planning. One way to help improve this coordination would be to integrate economic development and related land use issues into the state's Long Range and Master Transportation Plans, as well as into studies the state does concerning transportation corridors, and individual development proposals.

Source: Regional Plan Association

New transportation investments should be made that would encourage redevelopment in existing centers rather than make it easy to bring development to new areas. Similarly, high density development should be encouraged near existing rail, road and other transportation corridors, rather than in undeveloped areas that would require new roads and other infrastructure expenditures. Finally, within transit-oriented priority-development investment areas there should be a streamlined regulatory review and approval process in order to focus development in these targeted growth areas.

Mass transit alternatives play an important role in managing growth and stimulating Smart Growth patterns, as are incentives for use of existing mass transit options. For example, expanding ride sharing programs, and increasing parking and bus stops and increasing train trip frequency, would promote usage of these alternatives.

Finally, the Commission recognizes the need to promote physical activity, public health and green space. Therefore, the Commission recommends incentives to encourage land use, transportation and development policies to meet these goals. Examples are resources that promote pedestrian safety, walkable neighborhoods, rails to trails programs, and alternative transportation modes such as biking.

Housing

Source: Regional Plan Association

The State should strengthen its commitment to housing diversity by reaffirming the statements in the Conservation and Development Plan regarding the integration of economic and racial groups. The Regional Plans of Conservation and Development should include a housing needs assessment. Regional Planning Organizations ("RPOs") should establish a fair-share allocation for affordable and mixed-income housing and require that each municipality develop implementation measures to meet the housing needs of all income levels as determined in the housing needs assessment.

Fiscal incentives to encourage "inclusionary zoning" and mixed-income developments are recommended. The State should consider priority funding in infrastructure investments to those regions and municipalities that provide for affordable and mixed-income housing. "Exclusionary" land use measures, such as minimum floor areas for residential units, restrictions on multi-family development, minimum multi-bay garages, prohibition of accessory units should be discouraged, if necessary by statute.

The Commission recommends legislation encouraging regional cooperation to meet affordable housing requirements as provided by Section 8-30g. Additionally, provision for individual tax abatements or credits for residential restoration in urban areas to encourage socio-economic diversity in our urban centers is recommended.

Fiscal Incentives

Fiscal incentives are essential to encourage municipalities to adopt Smart Growth principles. Some examples include: (a.) individual tax abatements and credits for residential restoration in urban and suburban areas to encourage socio-economic diversity in our urban centers and inner-ring suburbs; (b.) provision for priority urban-investment districts through corporate tax incentives; (c.) incentives for the promotion of urban service corridors that provide mixed-use zoning districts for residential, retail, and commercial environments; (d.) incentives for the promulgation of land use regulations that streamline the regulatory review and approval process in targeted growth areas at both the local and state levels; and (e.) incentives for inter-municipal collaboration for provision of public services such as regional and magnet schools, recycling facilities, water and sewerage treatment facilities, waste disposal facilities, and recreational facilities.

Fiscal incentives such as state funding for infrastructure improvements, or state funding for public education costs, should be formulated, in part, to "reward" municipalities, on a regional basis, for planning and making land use decisions that provide for development in targeted growth areas. Such measures would encourage development to existing centers and infrastructure, and thereby further preserve less developed areas within a region.

C. Provide for Stronger Regional Planning Organizations ("RPOs")

- ***i. Provide mechanisms for the strengthening and increased empowerment of RPOs.***
- ***ii. Provide for stronger regional plans and conservation and development ("PCDs").***
- *iii.* ***Provide funding mechanisms and other effective land use tools to ensure the utilization of regional PCDs, consistent with municipal and state PCDs.***

Detail

Land use decision-making in Connecticut is essentially a municipal process. Although land use legislation provides for regional and state plans of conservation and development ("PCDs"), there exists no meaningful provision that the municipal PCDs within a particular region are consistent with the regional PCD, or that the municipal and regional PCDs are consistent with the state PCD. Furthermore, there exists no statutory requirement that land use decisions at the municipal level are consistent with applicable municipal, regional and state PCDs.

The Commission recognizes that Connecticut's "bottom-up" land use decision-making formula does not provide for consistency between the municipal land use decision-making process, and either the applicable regional or state PCDs.

The Commission considered mandating consistency between municipal, regional and state PCDs, and related land use decisions. The Commission also considered recommending that a particular state agency, or perhaps a combination of state agencies (Office of Policy and Management, Department of Environmental Protection, and Department of Transportation –

similar to that created in Massachusetts), oversee land use decisions to ensure consistency with applicable PCDs.

However, the Commission recommends requiring consistency between municipal, regional and state PCDs, and that certain Smart Growth goals be incorporated into each municipal set of land use regulations. The Commission further recommends that fiscal incentives be used to encourage municipalities to provide for such consistency in their plans and goals in their regulations, and use these tools in their land use decision-making process.

The Commission finds that the implementation of Smart Growth policies will most effectively be accomplished through empowering and further strengthening Regional Planning Organizations ("RPOs"). Providing mechanisms for the strengthening and increased empowerment of RPOs results in a number of benefits. First, regional planning can become a more important component in the planning process. Second, existing infrastructure can be used and public services can be provided on a more efficient and equitable basis. Third, resources such as aquifers, waterways and agricultural lands may be better protected and utilized. Fourth, more powerful RPOs can maximize the economies of scale of its individual members for planning, economic development, transportation, educational and housing purposes.

Therefore, the Commission recommends legislation that empowers and further strengthens the RPOs. This could be encouraged through fiscal incentives that include state funding formulas premised upon the implementation of regional Smart Growth measures. For example, additional state funding for infrastructure improvements, and public services such as education costs, could be provided to municipalities that utilize, on a regional basis, Smart Growth measures such as targeted growth areas in their land use decision-making processes.

Source: Regional Plan Association

In addition, the Commission recommends additional legislation that provides incentives for a greater degree of asset and revenue sharing within and among municipalities, and between municipalities and the State. This will provide a mechanism to enable municipalities to consolidate public services such as schools, sewer and water facilities, and recreational facilities on a more cost-efficient basis and will enable municipalities to more effectively compete for tax-generating development on a regional basis, thereby reducing the need for the destructive and costly inter-municipal competition for such development that currently exists.

The provision of fiscal incentives that encourage further regional cooperation of municipalities is critical for promoting economic development that maximizes the utilization of existing infrastructure and public services, while simultaneously preserving natural resources such as aquifers, wetlands, watercourses, open space, and agricultural lands. The result of this regional approach is more sustainable communities.

D. Education

i. ***Provide training for tax policy and land use decision-makers at the state, regional and municipal levels concerning the benefits of Smart Growth measures.***

ii. ***Provide youth orientated programs promoting the need for Smart Growth measures to ensure the sustainability of our communities.***

Detail

A training program for tax policy, and land use policy and decision-makers, should be created based upon the coordination of educational programs currently provided by the University of Connecticut's Center for Land Use Education and Research (CLEAR) and the Cooperative Extension System, including the Non-point Education for Municipal Officials (NEMO), and incorporating the associated workshops conducted (on a pro bono basis) by the Connecticut Land Use Education Partnership (CLUEP). The results of the studies recommended in Section A of these Smart Growth recommendations would be used to update the training program. Specifically, the program would discuss the costs associated with sprawl, utilize the build-out analysis, and disseminate to, and train land use officials and staff about, the information gathered from a comprehensive GIS database. The coordinated training program would educate tax policy and land use decision-makers for effectively planning Connecticut's future.

The Commission further recommends promoting educational civic programs for our youth on the sustainability of our communities comparable to the "benefits of recycling" educational programs. The program would be comparable to the training described above for decision-makers, on an age-appropriate basis, including computer training in GIS.

Source: Regional Plan Association

Conclusion

The Commission's *Recommendations* for implementing Smart Growth incentives in Connecticut are based upon four essential principles.

First, we must generate information essential for preparing meaningful plans of conservation and development at the municipal, regional and state levels. This information must not only inventory the Connecticut's existing infrastructure and natural resources, but include an analysis that projects build-out trends and the public costs associated with current development patterns. Second, based upon this information, we can then formulate meaningful land use plans defining where we wish to go, and require that these plans have specific smart growth goals to ensure that we get there. Third, there must exist a statutory and regulatory format based upon a regional approach that authorizes and encourages Smart Growth measures to effectuate the implementation of our land use plans. Fourth, provision must be made for the education of our current, and future, decision-makers as to how best to achieve, and maintain, sustainable communities through the utilization of Smart Growth measures.

Background

<u>Selected List of Publications Reviewed by the Blue Ribbon Commission</u>

Connecticut's Current State-Local Tax System: A Comparative Analysis. Prepared for the State of Connecticut Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives by Don Klepper-Smith. September 27, 2002.

Connecticut Metropatterns: A Regional Agenda for Community and Prosperity in Connecticut. Ameregis Metropolitan Area Research Corporation. March 2003. Excerpts from *Connecticut Metropatterns* report are included in this report. For the full report, please visit www.oua-adh.org/CenterEdge_project.htm .

Promoting Smart Growth in Connecticut. Harvard Design School. January 2002.

Is Connecticut Sprawling. 2002. Regional Plan Association. <u>Included as Appendix in *Connecticut: Economic Vitality and Land Use* (see below).</u>

Connecticut: Economic Vitality and Land Use. Connecticut Regional Institute for the 21st Century. May, 2003.

REPORT OF THE STATE OF CONNECTICUT

BLUE RIBBON COMMISSION
ON
PROPERTY TAX BURDENS
AND
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