

Tax Relief Committee
Report to the Board of Finance
March 10, 2023

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Tax Relief Committee

The Board of Selectmen, with the concurrence of the Board of Finance, created the Tax Relief Committee to review current North Stonington tax relief programs and in accordance with state law, make recommendations, if any, for changes to current policy.

Committee Members

Louis Gingerella, Chair

Connie Berardi, Vice Chair

Anne Nelson, Secretary

John Olsen

Brian Rathbun

Betty Russ

Background

Property taxes are the principal source of revenue for local governments in Connecticut. Though localities in all states levy property taxes, Connecticut is one of the few states where municipalities have limited alternative options for raising revenue. Unlike most other states, Connecticut law does not allow cities and towns to institute local income or sales taxes. Accordingly, because of Connecticut localities' heavy reliance of property taxes, taxpayers have one of the highest per capita property tax burdens in the nation.

In response, several property tax relief programs exist at the state and local levels to help individuals pay their taxes. Some State sponsored property tax relief programs are **mandatory**, meaning that towns are required to provide relief through such programs. ***While originally designed to fully reimburse towns for their mandatory programs, the State typically reimburses only a small fraction of the programs' cost, if any.***

Towns are also allowed to provide additional **optional** property tax relief programs, fully paid for by the town, upon approval by the town's legislative body.

North Stonington Current Tax Relief Programs

The town currently provides all mandatory, and several optional, tax relief programs. The programs are outlined below. See Page 11 and Exhibit 1.

North Stonington is partially reimbursed by the State for the cost of the mandatory programs. State optional programs are funded entirely by the Town.

The total approximate aid provided by North Stonington for tax relief programs including both mandatory and optional programs is \$ 240,000 *

The State reimbursement to the Town totals \$7,400 (a 3% reimbursement rate).

The Town's program for Relief for Firefighters and Emergency Personnel, that costs the Town \$58,000, is not reimbursed by the State.

*The town also has tax relief programs not reviewed by this Committee. These include farm, solar energy and economic incentive programs. The committee views these as socio-economic efforts, not as tax relief programs.

Committee Focus

The Committee was created to review in particular North Stonington's tax relief program for the elderly and disabled called the Circuit Breaker Program, and recommend changes, if any.

The Circuit Breaker Program (CGS 12-170aa to 12-170cc) is overseen by the State's Office of Policy and Management. It requires all municipalities to provide local property tax relief to low-income older adults and persons with disabilities through a **credit** against the local property tax bill (i.e., the property tax bill is reduced). The amount of the homeowner's credit varies inversely with income. The credit amount is up to \$1,000 for single person and up to \$1,200 for a married couple.

There are presently 61 households in North Stonington utilizing this program. The cost of this program to the town is \$39,000 or .17% of the proposed FY2023 Town Budget

The Committee's Immediate Recommendation:

Modify the Circuit Breaker Program

The committee believes the expansion in benefits is warranted. The modified program will provide greater assistance to elderly living well below the Town's median income level. This proposal would add approximately \$79,000, for a total of \$118,000, or .5% of the proposed FY2023 Town Budget. This is the Committee's best guess as utilization numbers and benefits are difficult to determine. No data base exists identifying qualified households. Households that may qualify must apply for any assistance.

Supporting Information:

- Per the most recent census data the Town's median household income is \$85,000, slightly above the State average.
- Only households with a median income of 75% of the Town's median household income or less will receive benefits.
- The majority of the benefits will go to households having less than half the Town's median income, or \$35,000.

The financial impact for the existing and proposed program, is shown in Exhibit 2a and Exhibit 2b respectively.

The Committee's Endorsement:

The Committee was asked to review a new program, as presented to the Committee by the North Stonington Fire Chief, to provide additional incentivized financial support to volunteer firefighters. The Committee endorses the below program.

Create a Firefighters Participation Incentive program

This will be in addition to two existing Volunteer Firefighter and Emergency Personnel support programs. This program will provide compensation to volunteer firefighters on a per response basis.

It is becoming increasingly difficult to attract and retain volunteer firefighters. Rather than establishing a fully paid fire department, increased incentives are viewed as a cost-effective way to positively impact recruitment and retention of the volunteer staff.

The Committee Recommendations – Long Term:

After reviewing current programs available to North Stonington taxpayers, the committee felt it important to put forth several programs for consideration to more fairly distribute the town's tax burden. Presented below are tax policy changes and taxing alternatives (while currently not allowed by State law), that deserve further study for possible implementation.

Establish a program to assist low income, non-elderly residents. Similar to the Circuit Breaker Program, and based on income, reduce taxes for those that cannot afford current taxes.

Establish a formal Deferred Tax Program. For circumstances where tax payments cannot be expected due to financial hardship, allow for taxes to be deferred until paid, the property is sold or transferred. The town should file a lien on such property and charge a market interest rate during the holding period.

Establish a formal Monthly Payment Program. Allow lower income residents to pay taxes on a monthly basis. Residents that cannot afford to pay large semi-annual taxes should be allowed to make smaller monthly payments under an established monthly payment program. Any formal payment plan should charge simple interest at market rates. The Town currently charges *a minimum* 18% on any ad hoc payment plan. There are no guidelines for establishing such payment plans. This type of program is deemed necessary as residents earning below the Town's median income may not be able to borrow from conventional sources to cover semi-annual tax payments.

Continued:

Establish a Payment for Services System in lieu of Property Taxes

MUNICIPAL FEE FOR SERVICES

The purpose of any municipal taxation system is to establish a revenue source to acquire the funds to provide for necessary and desired services to the residents of the municipality.

The tax system currently utilized applies a mill rate to the assessed value of land and property.

Although land-based, it is the sum of Land Value Taxation and Value Added Taxation. Both are based on money already spent and the anticipated return, if sold. It is totally unrelated to a homeowner's ability to pay (it is not income based), nor is it related to the cost of town services provided to them.

Town Budget – other revenue sources = Municipal revenue needed

Municipal revenue needed = Property + Land Value Assessments (mill rate)

An alternative land-based taxation model utilizes the number of lots rather than their perceived value. This alternative tax revenue approach begins with the actual cost of municipal services and divides them as a fee for the services provided. The Municipal Fee for Services can be implemented various ways. Below are three examples.

Example A

Based on equal bill for equal services

Town Budget – other revenue sources = Municipal revenue needed

Municipal revenue needed / # of lots = Municipal Fee for Service (per lot)

Example B

Based on equal bill by type of lot

Town Budget – other revenue sources = Municipal revenue needed

Municipal revenue needed = residential rate (# of lots) + commercial rate (# of lots)

Example C

Based on Use or Benefits received (this requires much more bookkeeping)

Town Budget – other revenue sources = Municipal revenue needed

Municipal revenue needed = itemized services cost / # lots benefited

sewer + water / some lots

school bus / some lots

highway dept. / all lots

landfill / all lots

The current mill rate system already has fees for a limited number of services based on use listed as other revenue. (Recreation Dept. classes, Transfer Station fees, Licenses, Permits, Inspections)

If the town is hesitant to implement this method of taxation full scale, it is also possible to gradually transition to it over time by transferring selected items from the mill rate system when deemed appropriate.

POTENTIAL IMPACT of Example A and B

The total 2022-2023 town budget, \$21,637,432, provided services to 3,444 lots. (# must be confirmed) If there were no other revenue sources except taxing lot owners, it would cost \$6,283/lot (\$524/month).

But there are, so the current mill rate (28.45) takes in about \$17 million.

Residential property tax varies from \$0 to \$32,000. Commercial maximum is \$276,818.

Example A. If equally divided \$4964/lot (\$414/month)

Example B. The residential rate would be reduced by the commercially applied rate.

More detailed analysis is necessary to document how many residents would be overburdened by paying the equal share of cost for the benefits of services provided. This impact can be remedied or reduced by the following:

1. Increase other revenue sources.
2. Establish a Municipal Assistance Program (MAP) funded by
 - A. Circuit Breaker Program Funds
 - B. Charitable Donations (tax deductible to the donor)
 - C. Fund Raising Activities
3. Eliminating the need for all assessment office expenses.
4. Itemizing actual use of services (Example C.)

ADDITIONAL BENEFITS

1. Budget meeting discussions will focus on if we all agree to equally fund each line item. No more disputes based on disproportional impact.

2. MAP recipients will qualify as Municipal Government Assisted households. Additional research may indicate they can qualify as affordable housing without deed restriction. There are already 61 circuit breaker households. The contributors can deduct donations as charitable giving on their income tax returns.

Additional Information:

Mandatory State Property Tax Relief Programs

Towns *must* provide the following State property tax relief programs.

Elderly Circuit Breaker: Various amounts of **tax credits*** based on income and age

Exemption for Disabled Persons: \$1,000 **property tax exemption****

Exemption for the Blind: \$3,000 **property tax exemption**

Standard exemption for Veterans: \$6,000 **property exemption**

Additional exemption for Veterans: Based on income

Exemption for Disabled Veterans: \$3,000 **property tax exemption**

Exemption for Severely Disabled Veteran: \$10,000 **property tax exemption**

Optional Programs

The below programs are allowed under state law and are not offered by North Stonington. Optional programs do not receive State funding.

Relief for Firefighters and Emergency Personnel: For non-salaried and volunteer personnel.

Relief for Surviving Spouses of Police Officers or Fire Fighters: For surviving spouse of a police or fire fighter who dies while performing his or her duties.

Relief for Property Taxes Exceeding 8% of Homeowner's Income: If property taxes exceed 8% of owner's income taxes may be deferred. A lien is placed on the property, earning 6% per year and paid upon sale or transfer of the property.

* A tax credit lowers the tax bill by the credit amount.

** A "property tax exemption" is the amount the assessed value of a property is lowered. The mill rate is then applied to this lower amount creating a lower tax bill.

Exhibits

Exhibit 1

PART IV - EXEMPTIONS 2022 GRAND LIST OF TAXABLE PROPERTY FOR							DATE: 02/06/2023	PAGE: 5
CODE	EXEMPTION DESCRIPTION	NUMBER	REAL ESTATE NUMBER	MOTOR VEHICLE NUMBER	PERSONAL	TOTAL		
A	NON-REIMBURSED EXEMPTION	289	1,649,490	43	241,480	1,090,970		
B	REIMB ADDL VET / INCOME	23	236,000			236,000		
C	REIMB ADDL VET/NON INCOME	265	769,000	31	49,740	818,740		
D	DISABILITY - NON REIMB							
E	100A DISABLED - REIMB	30	31,000	6	4,000	35,000		
F	BLIND	1	3,000			3,000		
G	ECONOMIC & DEVELOPMENTAL							
H	ENVIRONMENTAL & DEVELOPM							
I	FARM AND MECHANICS							
J	SOLAR ENERGY/POLYUT CTRL				123	1,388,620		
K	PP/TAX EXEMPT INSTITUTION				38	2,207,970		
L	INDIVIDUALS				5	435,325		
M	MISCELLANEOUS	61	2,920,080	6	2,390	2,390		
N	MANUFACTURERS & TRUCKS				83,210	3,003,290		
O	PHASE-IN RESIDENTIAL							
P	PHASE-IN NON RESIDENTIAL							
Q	RESIDENTIAL FIXED ASSET							
R	TECH							
T	FORMERLY KNOWN AS HBB							
U	FORMERLY KNOWN AS NAD							
	GRAND TOTAL	669	5,608,570	87	360,820	11,285,895		

Exhibit 2a

**North Stonington
Elderly Homeowners Program**

# TPs	From	Income To	Tax Credit		Credit Max		Credit Min		Current Cost
			Married	Single	Married	Single	Married	Single	
1	\$ -	\$ 20,200	50%	40%	\$1,250	\$1,000	\$ 400	\$ 350	\$ 1,250
14	\$20,200	\$ 27,100	40%	30%	\$1,000	\$ 750	\$ 350	\$ 250	\$14,000
16	\$27,100	\$ 33,800	30%	20%	\$ 750	\$ 500	\$ 250	\$ 150	\$12,000
17	\$33,800	\$ 40,300	20%	10%	\$ 500	\$ 250	\$ 150	\$ 150	\$ 8,500
13	\$40,300	\$ 49,100	10%	0%	\$ 250	\$ -	\$ 150	\$ -	\$ 3,250
61	Total participants							Total:	\$39,000

Exhibit 2b

**Proposed
North Stonington
Elderly Homeowners Program**

EST # TPs	From	Income To	Tax Credit		Credit Max		Credit Min		Est Max Cost
			Married	Single	Married	Single	Married	Single	
31	\$ -	\$ 35,000	50%	40%	\$2,000	\$ 1,500	\$ 750	\$ 350	\$ 62,000
30	\$35,001	\$ 50,000	40%	30%	\$1,500	\$ 1,000	\$ 500	\$ 250	\$ 45,000
15	\$50,000	\$ 65,000	30%	20%	\$ 750	\$ 500	\$ 250	\$ 150	\$ 11,250
76	Total Estimated Participants							Total:	\$118,250