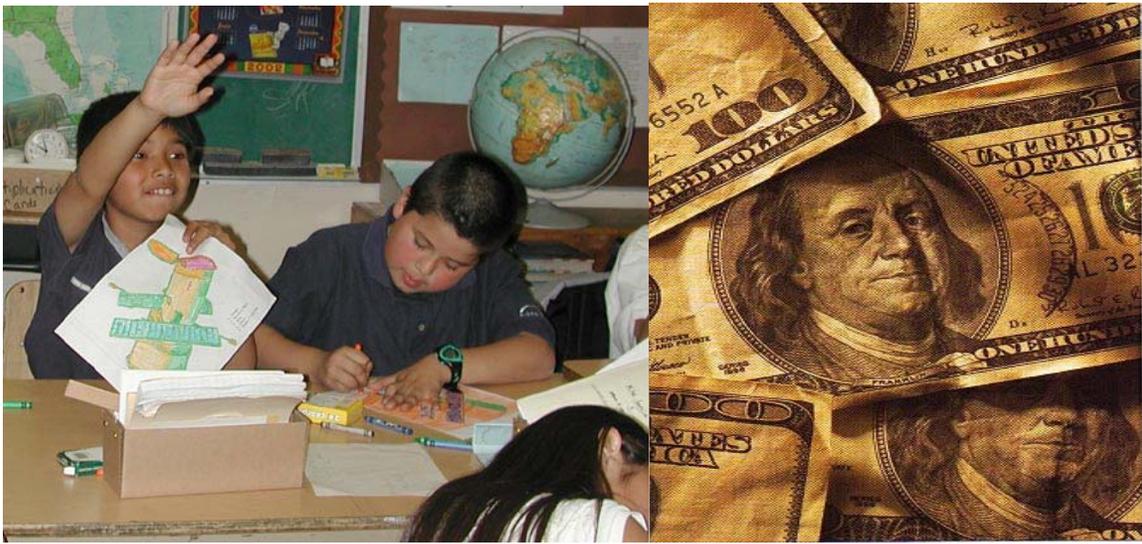

Fair Funding: Let's Find a Better Way to Finance Local Public Education in Connecticut



February 2006

Citizens Network of the Capital Region, Inc.
www.citizensnetwork.info

The Citizens Network of the Capital Region, Inc.



The Citizens Network is a grassroots organization composed of citizens from across Connecticut's Capital Region whose website is at: www.citizensnetwork.info. Our members study pressing issues for the region and deliberate to find common ground and a collaborative agenda for the good of the region and the state.

The mission of the Citizens Network is to: Engage residents and organizations of the Capital Region in collaborative efforts to address and take action on regional issues, problems, challenges and opportunities, building bridges of understanding among our diverse geographic, cultural, economic and multiracial communities.

The Citizens Network began with funding from the Hartford Foundation for Public Giving's Catalyst Group in the fall of 2002. In early 2003, with a further grant, the Network steering committee worked with the Capital Region Partnership on the issue of the Workforce of Tomorrow. The Network held community conversations in Hartford to provide 200 citizens of the region with an opportunity to learn more about the workforce issues and to offer their recommendations on how they should be addressed. In early 2004, with an additional grant from the Foundation, the steering committee focused on (a) designing a structure that would provide a broad-based, diverse, non-partisan opportunity for ordinary citizens and community leaders to identify issues they deemed important to their own communities and the region and (b) establishing a study committee to address an issue selected by citizens. To refine the concept and define a model, information was gathered from a variety of sources including the national Alliance for Regional Stewardship, the Citizens League of Minneapolis, Jacksonville's Community Council (JCCI), Focus St. Louis, and Birmingham's Region 2020. In early 2005, based on several electronic polls on issues of regional significance to over 500 residents of the region, the issue, financing local education, was selected for study.

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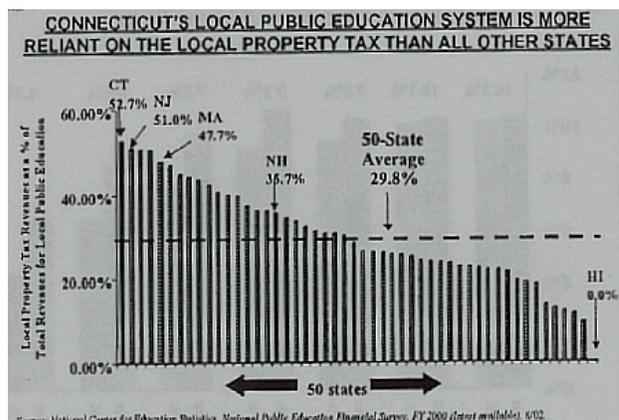
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Fair Funding: Let's Find a Better Way to Finance Local Public Education in Connecticut

Executive Summary

From March and June of 2005 a Citizen Study Committee of the Citizens Network of the Capital Region studied the issue of local education finance in Connecticut. A draft report was completed and used in a community consultation process. The Citizens Network study committee sought to answer the question: How can the tax system in Connecticut be modified to pay for local K-12 public education in a fairer way and to reduce the high level of reliance on local property taxes? The full report and information on the Citizens Network are available at: <http://www.citizensnetwork.info/>

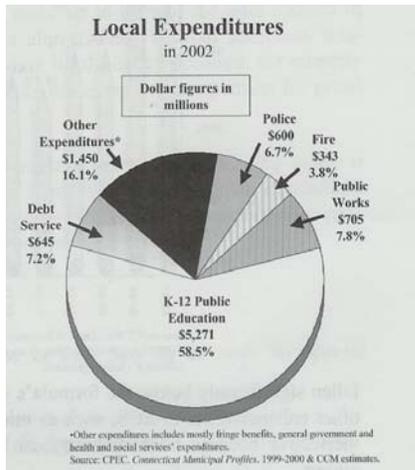
In Connecticut we have tied our highest public priority, public education—a major and fast growing expense item—to the slowest growing and most highly visible



source of revenue—local property taxes (2000 data is shown at left). Nationally we are near the top among the states in educational expenditures, but near the bottom in the percentage of education funding coming from state revenues.

This is a prescription for problems as can be seen in failed local budget referenda, constrained educational investment, intergenerational struggles over priorities, crowding out of important non-educational needs and the increasing competition among communities for property tax funds that accelerates consumption of irreplaceable land. After hearing a number of presentations and holding in depth discussion of issues regarding the financing of local education, the Citizens Network Study Committee identified a number of facts and conclusions, and a recommended set of actions to fix the financing system for local education in Connecticut.

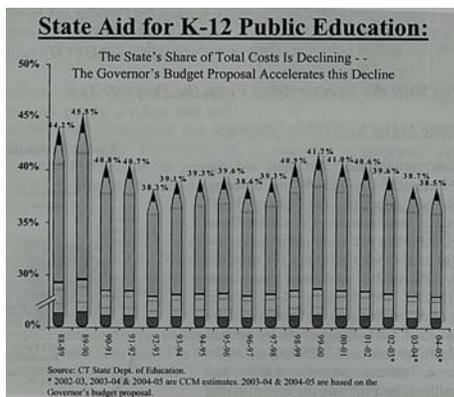
Conclusion 1: Local Property Tax Burdens In Connecticut Are High And Increasingly Problematic In Meeting The Education Funding Challenge:



- Funding from local property taxes is by far the largest source of revenue supporting local public education in Connecticut – typically more than 60% of funding is from local property taxes.
- Local public education in Connecticut relies more heavily on funding from local property taxes than all but a handful of states.
- The percentage of local school budget revenues provided by property taxes had increased sharply in recent years and this trend is continuing.

- Property tax is the slowest growing of the three major sources of revenue—property taxes, incomes and sales taxes.
- There is increasing competition for property tax funds at the local level from many other local program needs and a pressure to build the grand list “at all cost” to commercially develop available land, the so-called “fiscalization of land use.”

Conclusion 2: State Support for Local Education Is Inadequate to Meet the State’s Obligations and Local Need.



- Connecticut ranks 42nd in state funding for local education as a percentage of local school budgets.
- The state has never fully funded the ECS formula at the statewide average 50% level originally contemplated in the law.
- Increases in the level of state funding to municipalities over the past decade have not kept pace with rising education costs.
- The relative percentage of state funds supporting local school budgets is currently 37%, well below the national average.
- Two-thirds of Connecticut’s towns and cities have seen a reduction in the percentage of their municipal budgets represented by State funding over the past decade.

Conclusion 3: The State's Tax System Is Regressive in Paying for Local Education.

- Connecticut's low- and middle-income households pay a higher share of their income in state (income and sales) and local (property) taxes than do wealthier families.



Recommendation 1: The State should pay its fair share of local education expenditures. The current 63% local education funding share is more than double the national average of 29.8%. The current 37% state share of local education is very low by national standards and it is imperative to increase the State's share to rectify the imbalance between state and local contributions to support local education.

Recommendation 2: Use a variety of sources of state and local revenue.

The Committee believes that we should use a variety of funding sources from local and state sources to finance education services and reduce the over reliance on property taxes. We should employ a diverse range of taxes with a broad base, with balance among income, sales, and property taxes, and provide appropriate proportionality in the revenue system. This means that we should specifically avoid a heavy reliance on the local property tax.

Recommendation 3: Preserve an appropriate degree of local control. Any funding system changes should recognize that Connecticut towns prize their local discretion and that changes should preserve the greatest local self-determination that is compatible with local education finance reform.

Furthermore, the proposed funding strategy should not produce a mere shuffling of revenues at the local level with educational revenue gains being matched by losses in funding for municipal services.

Recommendation 4: Base more funding on need. Allocate revenues raised to local governments in a manner that assures a more accurate consideration of student need, appropriate educational investment and property tax relief; and

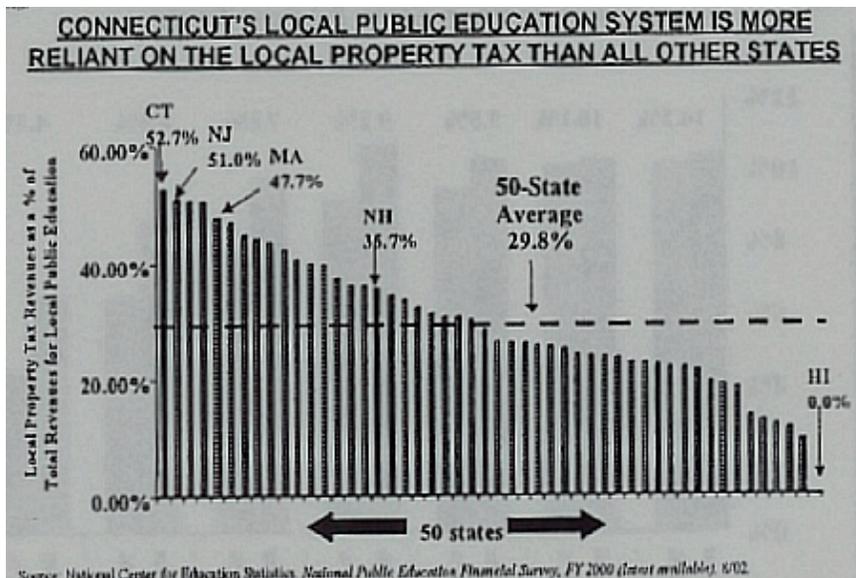
Recommendation 5: Strengthen Accountability for Spending. Strengthen accountability for the use of state funds in order to insure an adequate return on educational investment.

Introduction

The future of the Capital Region and the State of Connecticut has never been more dependent on having our schools produce citizens who can become competitive in our global economy. Clearly, we all have a great deal at stake in the choices we make about financing the education of our children and about how we assure that we get the performance that we need from our investment.

Perhaps not surprisingly, in a poll of more than 500 residents of the Capital Region conducted by the Citizens Network more than 62 percent of those responding chose “financing of local education” as the most important regional issue to be addressed today.

Connecticut is also among those states placing the greatest reliance on local property taxes to fund K-12 public education (Data for 2000 is shown in the chart).



According to a 2005 press report, nationally, an average of 42.8 percent of education funds comes from local, mostly property tax, sources compared to 62.4 percent in Connecticut (Note 1).

Connecticut ranks fourth in the nation in per

capita educational spending (\$1,723) but ranks 22nd (at 75%) in the overall high school graduation rate (Note 2).

Financing local education in Connecticut has been studied as an issue a number of times before, including the ‘**Blue Ribbon Commission**’ of 2003 (Note 3). This new citizen-based study is intended to complement work that has gone on before. It lays out findings, principles, recommendations and action steps. It also sets the stage for broader community conversations on local education finance reform that will raise awareness and broaden engagement on a crucial issue for the future of our region.

The hope is that the work of this Committee should be integrated into the public policy response to the recent work on adequacy of educational funding by the Connecticut Coalition for Justice in Education Funding. The Coalition found that substantial new investments of public funds would be needed to provide local districts with the resources to assure that most children will meet state educational standards (Note 4).

Our Committee's Work

Based on two surveys of more than 500 regional residents, the Citizens Network charged the citizen study committee to address the following question:

- **How can the tax system in Connecticut be modified to pay for local K-12 public education in a fairer way and to reduce the high level of reliance on local property taxes?**

To come to grips with this highly complex issue, the committee focused on three more specific questions:

Revenue: What is the best way to raise revenues to pay for local public education?

Allocation: What is a better way to distribute revenues to local governments for education?

Accountability: How can the state be assured that it is getting full value on every dollar it spends on local education?

While the main focus of the Committee has been on revenue and allocation questions, the Committee recognized that ensuring accountability is an essential component of any school finance system. As we redesign revenue and allocation policy and practice, effective accountability systems are an essential component for educational spending and outcomes going forward.

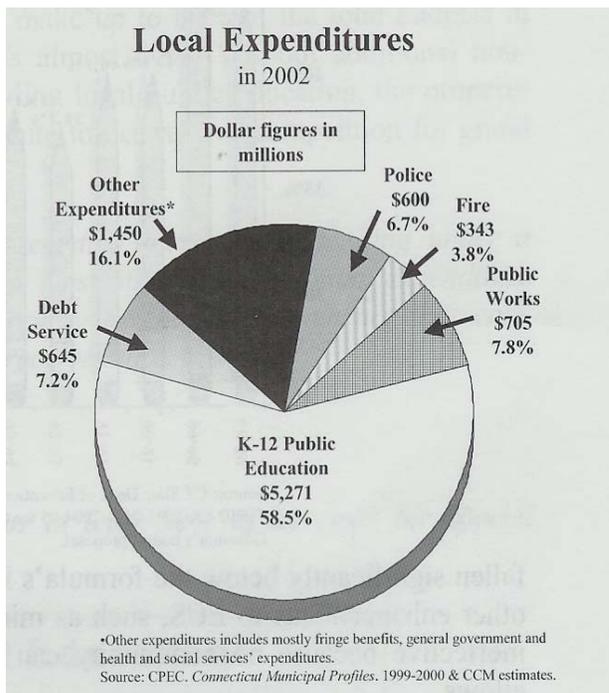
In pursuing the question of fairer funding for local education, the study committee met 12 times and received input from a variety of people and sources on different aspects of educational finance and tax reform. A detailed description of the work of the Committee, as well as a list of committee members, appears at the end of this report.

Findings

Connecticut is far from alone in the struggle to fund education and to temper property tax increases. Nationally, the most expensive property tax rates are in the Northeast. The national average property tax per person in 2002-2003 was \$971, up 18 percent from five years earlier (Note 5). At least 48 states to date have taken steps to reduce property tax burdens.

Connecticut's local governments collected \$5.4 billion in property taxes during fiscal year 2000 (latest year available from the Census Bureau). That equals \$1,588 per person, which ranked Connecticut 3rd highest in 2000 in local government property tax collections in the country (Note 6). More recent

information ranked Connecticut second on property tax per capita at \$1,734, not quite double the national average (Note 7).



The committee heard repeatedly that over-reliance on the property tax as a revenue source for local schools has a detrimental effect on communities. The current situation in funding local education is a prescription for continued strife and discord.

Signs of strain appear in various forms. Many towns are experiencing rising rates of referenda failure, as residents seek to control property tax increases. This often pits the elderly against

those with school-aged children. We heard anecdotally that educators might ask for less than adequate funding in order to avoid the defeat of a referendum. Competition for grand list growth to pay for education promotes the already rapid consumption of farmland across the state. Housing produced is skewed toward 55+ and very large homes in the belief that these types of housing yield fewer children to educate.

One observation about Connecticut struck a chord early in the Committee's deliberations and continued to resonate throughout our proceedings. The funding of local schools is a very high public priority and a fast growing, major

item in local budgets. It has become firmly linked to local property taxes, which is a comparatively slow growing and highly visible source of revenue.

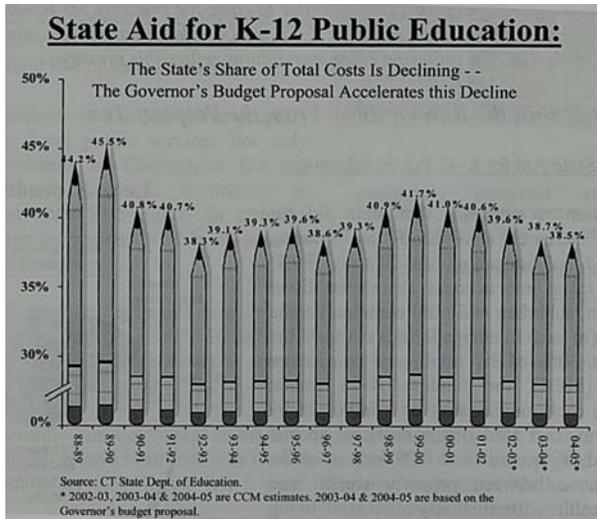
In most other states, the state government provides a far greater share of the total funding for local education. In summary, on a national basis, Connecticut ranks near the top in educational expenditures, but we are at the bottom in the percentage of education funding coming from state revenues.

Finding 1:

Local property taxes in Connecticut are high and increasingly incapable of meeting the education funding challenge

A number of sources of information pointed to the problematic nature of property taxes as the main source of local education financing:

- Connecticut ranks nationally just behind New Jersey with the highest property taxes in the country. (Note 8).
- Connecticut relies more heavily on local property taxes to fund public education than any other state. (Note 9).
- While the percentage of local school budget revenues provided by property taxes has increased by 2% over the past five years, the state's contribution has declined by 3.3%.



- Although property tax is the most stable tax among the state's top three revenue sources (property, income and sales taxes), property tax revenue is also the slowest-growing tax of the three. (Note 11).

increase property tax revenue – the grand list -- is increasingly fierce among Connecticut's cities and towns, which face pressure to commercially develop available land.

- Competition to increase property tax revenue – the grand list -- is increasingly fierce among Connecticut's cities and towns, which face pressure to commercially develop available land.
- In Connecticut, towns are not legally required to spend state funding for schools on education but may spend these funds on other town services. In contrast, most other states have independent school districts that may spend state funds only on education. Educational spending can crowd out other important local expenditure areas.

***Finding 2:
State financial support for local education is inadequate***

Connecticut has a very low level of state support for local education despite the fact that the state government has a deeper and more diverse set of revenue options to raise funds than do local governments. The original goal of the state Education Cost Sharing (ECS) formula was to create a system in which the state provided an average of 50% of the cost of local education, with local governments providing the other half (Note 12).

- State funding for local education as a percentage of local school budgets ranks Connecticut 42nd of the 50 states (Note 13).
- The State has never fully-funded the ECS formula at the stated objective of an average 50% level statewide. In 1989 the state provided 45% of education funding statewide and that has dropped down to 37.6% in 2003-2004 (Note 14).
- Connecticut does not dedicate any specific sources of revenue to public education. While the state has added substantial new funding sources in the last 15 years – including significant gambling and income tax revenues – local government funding remains largely based on property taxes (Note 15).
- Increases in the level of State funding to municipalities over the past decade have not kept pace with rising education costs (Note 16).
- Different communities and geographic areas of the state have markedly different needs for educational resources. Local challenges range from heavy debt service for new facilities to the high cost of meeting the needs of students requiring substantial educational assistance (Note 17).

***Finding 3:
The state's system of paying for public education is regressive***

Those with higher incomes in Connecticut generally pay a lesser percentage of their income to support education than those with lower incomes.

- Connecticut's low- and middle-income households pay a higher share of their income in state income, sales and property taxes than higher-income families (Note 18).

Finding 4:

Resources available to pay for local education in Connecticut vary widely across municipalities, with some towns having significantly lower resources than needed to meet their students' educational needs

- The gap between how much higher-income towns spend per student and how much lower-income towns spend per student is widening, and dramatically so (Note 19).

Principles

The Committee recognizes that the task of restructuring local education finance in Connecticut is a complex one and will take time. The process will involve many members of the Executive and Legislative branches of government and individuals from sectors outside of government. In recognition of these facts, the Study Committee suggests the following guiding principles and policy objectives when that process gets underway. These principles underpin the action recommendations in the next section. As decision makers consider how to respond to the challenges of funding local education, the principles are offered as guidance in the complex process of arriving at an acceptable solution.

Principle 1:

The state should reverse the downward trend in its contribution for funding education and pay its fair share of local education expenditures, thereby reducing local property taxes in Connecticut.

The state share of local education funding at 37.6% for 2003-2004 is very low by national standards. Local education funding should be balanced across the various types of tax revenues available, relying less on property taxes. The Committee believes it is critically important that funding should be derived from a better balance among income, sales and property taxes. An excessive reliance on local property taxes hurts families and businesses, grows revenues slowly for education, and should be avoided.

Principle 2:

The tax system should be fair to taxpayers of differing means.

The tax system to pay for local education should be as fair as possible to all taxpayers. Tax burdens should be distributed fairly among all payers. The overall tax structure should be even more based on the ability to pay.

Principle 3:

Recognize that increasing state funding of local education usually means reducing local control over education.

In some states, such as Michigan and Minnesota, new state revenues have brought the state share of local education funding up to 78% but at the same time have provided for a greater state “say” in local education. Trade-offs

between additional state funding and local decision-making should be explicit, negotiated and considered carefully.

Further, the proposed funding strategy should not produce a mere shuffling of revenues at the local level, with educational revenue gains offset by losses in funding for municipal services. Local control should be maintained to the greatest extent possible; however, focus of the placement of those funds should be directed in total to the needs of public education in the district.

***Principle 4:
The educational finance system should be stable and predictable.***

The new funding system should bring stability, certainty, and sufficiency in raising revenues to support quality education and meet adequacy standards without the need for continuous or drastic changes in tax rates, the tax base, or major local budgets. While difficult to achieve, it would be best to leave an agreed upon formula in place for a number of years to provide year-to-year budget predictability and stability.

***Principle 5:
Efficiency and accountability should be part of the financial reform package.***

Although not addressed in depth in this report, additional state funding will likely produce pressure for greater accountability of the educational system in the state at both the local and state levels to reasonably assure that new funds are boosting student academic achievement in Connecticut.

In addition, the state should provide financial incentives to achieve economic efficiency and economies of scale through inter-municipal/district consolidation of educational functions, building on the precedent established for other selected public services (i.e., emergency medical services, public health services, etc.).

As additional state money is invested in local education, it is appropriate to address questions such as “value for money”. For instance - are we getting the best value from every dollar spent, what factors are pushing educational costs the most, and where ought new funding be invested to produce the best results for students?

A study of what it takes to adequately fund education must consider not only educational costs but also the elements that drive those costs. Each element must be evaluated to determine whether or not it adds to the quality of the education a student receives. State and federal mandates, testing requirements,

teacher tenure and binding arbitration are examples of elements that contribute to the cost of education but may not improve the academic outcomes.

Principle 6:

The tax system should be clear and understandable to taxpayers.

It is important to assure that tax laws are clear, that all aspects of revenue increases and decreases are reported publicly, that proposed changes are well publicized, and that taxpayers have an opportunity for input. After reform, the general public should be able to understand the revenue system.

Principle 7:

Sufficient funds should be provided on a town-by-town basis to assure adequate educational resources for all children in Connecticut.

While the issue of “how much is enough” is not the charge of this Study Committee, we are committed to ensuring that the state provides adequate funding for public education so that our children have the tools they need to succeed in their education.

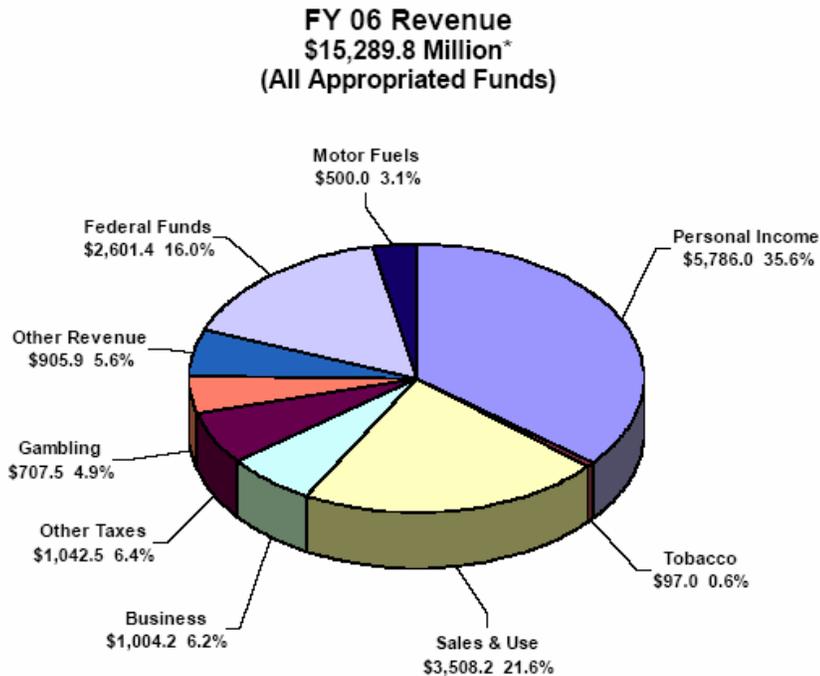
Recommendations

Recommendation 1:

Meet the overall statewide goal of the state funding 50% of local education statewide.

Reduce from 63% to no more than 50% the average local share of educational funding. The state should move to pay half of public education costs as described in the ECS statutes. This recommendation is consistent with the legislature's intent when it adopted the Educational Cost Sharing Formula and with the recommendations of many public finance experts. Moves to higher levels of state funding may bring with them decreases in local decision-making.

To move the state share of local education funding from 37% to 50% would cost approximately \$928 million more per year (Note 20). Here are the state's current revenue estimates (Note 21):



As can be seen from the chart, coming up with \$928 million dollars to fund local education would have a significant impact on the state budget. Leaving aside the important question of finding efficiencies in state spending that would moderate the need for a tax increase, replacing a large portion of property tax revenue would likely require in addition some combination of the following:

- State income tax: A general one percent increase in income tax yields approximately \$1.3 billion dollars per year and the change in income tax could be graduated with a greater burden on those more able to pay
- Sales and use taxes: A one percent increase in sales and use taxes on the current base provides approximately \$600 million dollars;
- Gaming industry revenue. The state takes in nearly \$600 million dollars per year from Indian gaming and the lottery (Note 22).

The menu of options might include some thoughtful combination of:

- A modest increase in state sales tax rates and broadening of the state sales tax base. This could include broadening the goods and services sales tax base to include currently exempt personal and professional services combined with a program of tax credits for low-income households so that the tax is less regressive;
- Adjust income tax yields: An increase in the level of revenue produced by the state income tax, achieved by a combination of adjusting rates, exemptions and deductions and graduation in the tax;
- Designate revenues: Setting aside a designated percentage of the revenues from lotteries and gambling casinos in the state to support public education;
- Increase excise taxes: An increase in excise taxes on cigarettes, and alcohol;
- Imposition of a statewide property tax with a uniform mill rate on business and commercial property and a statewide tax on commercial and industrial property, either in place of or in addition to local taxes on these properties; and
- Limit or cap deductions and exemptions from the corporate income tax.

Increased state revenues for local educational spending should lead to a substantial reduction in property taxes in most towns. But legislation would be needed to assure that the new state revenues would produce reduced local property taxes. The 2003 Blue Ribbon report (p. 35), for example, recommended a spending cap to assure that increased state revenues did actually result in a

reduction in property taxes. There are a number of different approaches to assuring that property tax relief actually materializes.

As part of the consideration of a mix of additional revenues and increased efficiencies and savings in current spending, the state should protect its regional business competitiveness and consider the impact of specific taxes on economic growth. Information from a statewide tax incidence study requested by the 2005 Connecticut General Assembly should be invaluable in making decisions about replacement revenues. (The RFP for a study including these elements was issued with a December 2005 response date).

Recommendation 2:

Make the property tax system less regressive:

Consider a homestead exemption and income-adjusted “circuit breaker” property tax relief or other similar measures.

Change the property tax formula so that ongoing, albeit reduced, reliance on it will be less regressive in how it impacts residents, for both property owners and renters. The menu of options for making it less regressive includes:

- Homestead exemptions, which provide relief to a broad range of homeowners. This is a tax credit for residents on their principal residence. In Florida, for example, the exemption basically takes \$25,000 off the tax-assessed value of the property, giving the homeowner a tax reduction of about \$500.
- Income-based property tax relief: An income-based “circuit breaker,” which addresses the equity issue and provides a tax credit and relief to low-income owners/renters. It comes into play when a household is overburdened by the property tax (for example 5% of income or higher). For instance, it could extend the present circuit breaker beyond the elderly and disabled to include all low-income people.

Recommendation 3:

Provide revenues to local governments in a manner that assures a more accurate consideration of student need, appropriate educational investment and property tax relief.

Like the issue of adequacy of education funding, the matter of how state funds are allocated to municipalities to pay for local education is largely outside the scope of this paper. However, it should include removing the cap on the ECS formula funding. There would also need to be some assurance that if property tax relief were achieved by increasing state aid to municipalities for local education, the new money would be spent on education and not other local programs.

Allocations are largely handled by the state in the Education Cost Sharing Formula. With respect to the ECS formula, options for positive changes include full funding of the formula, eliminating caps for some towns in ECS, and increasing the foundation funding level. The Committee also heard that consideration should be given to recommending changes in how student need and fiscal capacity are measured in the formula to ensure aid is targeted appropriately. The student evaluations used in the present ECS formula are inappropriate, and include such measures as student proficiency score results. The fiscal capacity measure is needlessly complicated and appears to give too much weight to local fiscal capacity. In short, allocations can and should be made fairer.

***Recommendation 4:
Strengthen accountability for the use of state funds in order to insure an adequate educational return on investment.***

A comprehensive look at school accountability is beyond the scope of this report, and yet is critical to mention as an adjunct to any deliberation of equity and fairness.

Among the questions to be addressed in strengthening accountability would be:

- Which steps are needed to assure that any substantially increased state funding is used in ways citizens and taxpayers desire with the understanding that there is an almost inherent tradeoff between local control of education and ensuring a reduction of property tax burdens?
- What are the appropriate adjustments and reassessments of the outcome measurements used in the state?
- How can research on effective instructional and management strategies be more quickly and widely applied?
- Do the performance measures in place provide an accurate assessment of student progress in key subject areas and of school success in improving student performance? Are improvements on state tests also reflected on national tests in the same subject areas?
- Do school districts have the technical capacity and training to effectively utilize performance information to improve effectiveness?
- Does the state education department have the capacity to analyze the performance information, and carry out well-designed program evaluations? Is a uniform chart of accounts for local education helpful for this task?

- Are the sanctions/rewards in the accountability system providing the right incentives to school officials to improve?

Action Steps

This report incorporates a number of comments from community conversations and input held in the fall of 2005 (see Appendix 1).

To advance the “fair funding” agenda, a number of participants in our region and state will need to step forward to do the work of making sound decisions on local education finance. Various key stakeholder groups will be needed to carry out their part in changing the way public education is financed. Here are some suggestions:

Governor and Legislative Leadership

The Governor announced the creation of an Education Finance Commission in September 2005, charged with reviewing the current status of the ECS formula. In addition, the Governor and General Assembly should consider steps to address broader education finance issues in the state. The Governor and General Assembly need to have before them a menu of options for correcting our current over-reliance on the property tax to fund public education, a set of transition mechanisms for implementing reforms and an implementation timeframe.

Business Leadership

The business community must provide leadership if the state’s share of funds for local education is to increase to at least 50 percent. A good business climate in the state requires healthy communities that cooperate with one another rather than compete against each other. Tomorrow’s workforce must be well educated if it is to provide the employees needed to attract and retain business in Connecticut. Improved public education also will reduce the need for prisons and social services.

Local Town Leadership

Mayors, First Selectmen, Council members, Selectmen, Finance Committee members and Boards of Education members should provide leadership in developing efforts to gain additional state resources for pre-K to grade 12 education in Connecticut. They also should support the recommendations in this report by sponsoring forums, passing resolutions and otherwise speaking out on these issues.

The Citizens Network of the Capital Region, Inc.

The Citizens Network plans to take the lead in the Capital Region to promote public discussion and understanding of the need for a new policy for funding local education. Noting that this discussion is beginning as we approach the upcoming election cycle, the Network's strategy and activities include the following:

- A strategy to heighten citizen engagement throughout the Capital region around the issue of finding a better way to fund local education *and* a citizen-based campaign to state and local elected officials urging that a better way to finance local education is in the public interest and should be adopted by the state.
- Activities to implement this strategy include: a public relations campaign involving media, including a news conference, press releases, newspaper opinion pieces, letters to the editor, public affairs television programs on network and local access; presentations to civic associations; town citizen forums across the region as done with the Connecticut MetroPatterns report; meetings with key elected officials in a bipartisan approach; and meetings with community leaders who have experience in promoting policies that are in the public interest.

Study Committee Record

Monday, March 14, 2005. Blue Ribbon Commission. Property tax burdens/smart growth incentives. R. Smuts. Connecticut Policy & Economic Council Michael Meotti. Local, State & Federal and Other Expenditures for Elementary and Secondary Education. A. Taylor. CCJEF: Overview of CCJEF & Education Adequacy Cost Study. D. DeVries. Institute on Taxation & Economic Policy (ITEP). A Study of Connecticut School Finance Adequacy. D. DeVries. Citizens Network – Overview. C. Bourns. Proposed core values and principles statement. C. Bourns and R. Pearson. Framing the Issue document. C. Bourns and R. Pearson. CN Steering & Study Committee Members List. C. Bourns

Monday, March 21, 2005. March 14th meeting notes. C. Bourns. Hartford Courant report – Leaders Take Broad Look at Schools. R. Gottlieb. Handout from Connecticut Policy & Economic Council. M. Meotti.

Monday, March 28, 2005. March 21st meeting notes. C. Bourns and R. Pearson. Proposed Facts from 3/21 presentation. R. McKay. Definition of three categories of school districts. Hartford Courant article – In Praise of Property Taxes. D. Blume.

Monday, April 4, 2005. March 28th meeting notes. C. Bourns and R. Pearson. Proposed Consensus Facts – consolidated. Jared Schmitt. Proposed Principles to Guide Possible Solutions. “How Much is Enough?” “School Matters” Notice & agenda: “Education Adequacy & Equity in CT”. J. Boucher. OLR Research Report – Education Cost Sharing Formula. “No Small Change”. Fair Taxes Now Forum – “Five Great Lessons”. M. Winterfield. “Regionalism is a Challenge” P. Benner

Monday, April 11, 2005. April 4th meeting notes. C. Bourns and R. Pearson. School Finance Systems: Striking the Right Balance. W. Duncombe. Raising Revenue Fairly & Efficiently.

Monday, April 18, 2005. April 11th meeting notes. C. Bourns and R. Pearson. “Property Tax Relief Objectives & Tools: Informing Connecticut’s Options” presentation by S. Cook. Emerging Principles (PDF). Duncombe Presentation. Report – draft outline. Review Proposed Consensus Facts from 3/14 and 3/21 meetings. Study Committee Summary.

Monday, May 2, 2005. April 18th meeting notes (C. Bourns and R. Pearson). Final Report of Maryland Commission on Education Finance, Equity and Excellence (2002). Review of revised draft preliminary (4/29/05) study

committee recommendations. Discussion with/commentary from W. Duncombe and R. Bifulco.

Monday, May 16, 2005. May 3, 2005 memo from W. Duncombe and R. Bifulco on “Principles, Objectives and Policy Options”. “Taxing Smarter and Fairer” report by R. Pomp (March 2005). Initial draft of study committee outline and report (5/13/05).

Monday, May 23, 2005. Review of revised draft study committee report. NYT article (5/19/05) “Property Taxes in New Jersey...” NYT article (5/21/05) “In a Grim Corner of Baltimore...”

Monday, June 6, 2005. Review of revised (6/2/05) draft study committee report. CCJEF report/study “The Cost of An Adequate Education in Connecticut”. Overview of CCJEF study and strategy by L. Erdmann. Discussion of study committee rollout strategy and action plan.

Notes

1. Associated Press, June 19, 2005 "As housing prices skyrocket across the country, so do property taxes".
2. Governing Sourcebook, 2005, p13, Education Week Quality Counts, table, "Per-Pupil Expenditures," p.10. Greene, J.P. & Winters, M. A. (2002). Civic report no. 31: Public school graduation rates in the United States, New York City, Center for Civic Innovation at the Manhattan Institute.
3. State of Connecticut Report of Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives (October 2003).
4. Connecticut Coalition for Justice in Education Funding, (2005). The cost of an adequate education in Connecticut.
5. Pain, J. July 3, 2005, Associated Press, Homeowners deal with rising property taxes.
6. U.S. Census cited in Tax Foundation report:
<http://www.taxfoundation.org/taxdata/show/251.html>.
7. Governing Sourcebook, 2005, p.35.
8. New York Times, May 21, 2005.
9. National Center for Education Statistics (NCES), April 2005, Revenues & Expenditures for Public Elementary and Secondary Education: School Year 2002-2003, table 2 at: <http://nces.ed.gov/ccd/pubs/npefs03/findings.asp>.
10. Allan Taylor March 14 presentation to the Study Committee, citing Connecticut State Department of Education, 2003-2004 Connecticut Public School Expenditures, "Local, State and Federal/Other Expenditures for Elementary and Secondary Education," <http://www.state.ct.us/sde/dgm/report1cpse2004/1sf.pdf>. The NCES report cited just above shows the 2002-2003 local contribution to be 57.4 %.
11. Source: Mike Meotti, CPEC, March 14 Study Committee presentation, page 1 of PDF compilation of material for that meeting. "The cumulative effect of a decade's worth of budget decision-making has made local schools more dependent on the property tax, the slowest growing of the three taxes that generate the bulk of revenue for state and local spending. Statewide property tax revenues grew by 45% from 1993 to 2003 while sales tax revenues grew by 55%

and state income taxes increased by 101%.” Presented with an accompanying table.

12. Office of Legislative Research: Education Cost Sharing Formula, 2004-R-0815, October 20, 2004.

13. NCES April 2005 report, cited above.

14. CSDE report, cited above. See also, October 2003 Report of Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives, page 26.

15. Dianne DeVries, Consultant, presentation to Study Committee on behalf of the Connecticut Coalition for Justice in Education Funding.

16. CT Policy and Economic Council. Mike Meotti, March 14 presentation to the Study Committee, page 1 of PDF compilation for that meeting: “While all state aid to towns and cities (largely but not only for education) grew by 39% from 1993 to 2003, local school spending increased by 56% during the same period. This resulted in a decline in the percentage that state aid contributed to the municipal budgets in 115 of the state’s 169 municipalities.” Two charts included on revenue growth rates and spending growth rates, respectively.

17. Allan Taylor,
<http://www.state.ct.us/sde/dgm/report1/cpse2004/table3.pdf>.

18. Institute on Taxation and Economic Policy, study authored by ITEP’s tax policy director Robert S. McIntyre, Who Pays? A Distributional Analysis of the Tax Systems in All 50 States. Presented at March 14 meeting by CCJEF’s Dianne DeVries, p. 14 of PDF compilation for that meeting.

19. Allan Taylor- March 14 presentation to the Study Committee, page 17 of PDF compilation for that meeting. Table 3 – Per Pupil Expenditure Summary “displays for 2001-02 through unaudited 2003-04 both the traditional net current expenditure per pupil (NCEP) and the MER-related expenditures per need student (RPENS)...These figures suggest a widening of the gap between the very highest spending towns and the lowest spending towns”.

20. Alan Taylor March 14 presentation to the Study Committee, page 16 of PDF compilation for that meeting. Chart 1 -- Local Educational Expenditures in Dollars (Millions) 1998-99 and 2003-04: Total (state/local/federal) education expenditures = \$7,508,000,000 (including special education); State share = \$2,826,000,000 = 37.64%; 50% State share would equal \$3,754,000,000; Difference or shortfall = \$928,000,000).

21. Connecticut General Assembly, Office of Fiscal Analysis June 8, 2005.
Highlights of the 2005-2007 Biennial Budget.

<http://www.cga.ct.gov/ofa/Documents/BudHlts/BudHlts6-8-2005.pdf>.

22. CT Office of Fiscal Analysis, 2005,

<http://www.cga.ct.gov/ofa/Documents/RevItems/TaxFacts/taxfacts2002.pdf>

Study Committee Roster

Study Committee Co-Chairs

David Rhineland davidrx@aol.com Andover, Co-chair, Study Committee

Marie Spivey marie.spivey@po.state.ct.us Newington, Co-chair, Study Committee

Citizens Network Board Chair

Courtney B. Bourns info@thegatheringplace.us West Hartford, Chair, Citizens Network Board of Directors

Consultant to the Committee

Richard Pearson richard-pearson@sbcglobal.net East Hartford

Committee Intern

Tara Brown tara.brown@trincoll.edu Hartford Trinity College Intern

Members of the Committee

Lee Allison, West Hartford
Sara J. Batchelder, Simsbury
Peter Benner, West Hartford
Gail Bettin, Hartford
*Robert Bifulco, East Hartford
David Blume, Simsbury
Jeff Bolton, Windsor Locks
Jim Boucher, Hartford
Robert B. Carrara, Andover
Stephen T. Cassano, Manchester
David A. Chmielecki, Rockville
John Darcey, West Hartford
Jane Dube, Amston
*Roberta Echelson, Hartford
Lee Erdmann, Hartford
Noreen Farmer, East Windsor
Richard Frieder, New Hartford
Sandra Fry, West Hartford
Connie Gree, Bloomfield

Jennifer Heintz, Hartford
Roxanne L. Hoskin, Andover
Timothy Howes, East Windsor
Myles Hubbard, Hartford
Bernie Jacques, West Hartford
*Susan Karp, Glastonbury
Phyllis Katz, West Hartford
Kelly Kennedy, West Hartford
David Kilbon, East Granby
Jonathan S. Krane, Enfield
Fidelia A. Lane, Windsor
*Jane Latus, Canton
Dr. Robert E. Long, Hartford
Anne Lundberg, West Hartford
Virginia Macro, South Windsor
James N. Mason, Windsor
Edi McClure, Farmington
Robert McKay, Amston
Judy Montinieri, Wethersfield

Pam Nabors, Enfield
*Ann Pratt, Hartford
David Rhineland, Andover
*Ivette Rivera-Dreyer, Bloomfield
Tom Sevigny, Canton
Marie Spivey, Newington
David Taft, Rocky Hill
Laura Taylor, Hartford
April Teveris, Tolland

Mary Tomolonius, Canton
William R. Vayda
Mike Winterfield, West Hartford
Lyle D. Wray, West Hartford

*Indicates an individual who was not a member of the committee but wished to remain updated on progress of the Committee

Appendix I: Community Input Received On the Report

Summary of Feedback to Report

Based on community presentations, from online comments and from informal interviews conducted around the region, the following feedback comments were received.

Recommendation 1: *Meet the overall statewide goal of the state funding 50% of local education statewide*

- No more increases in taxes to pay for anything, including education – members of the CT Society of Governmental Accountants
- *Have state assume the entire cost of special education.*
- Uncertainties of funding for special needs children can impose real problems on towns.
- Doubt that the average taxpayer will be any better off with a shift from the status quo: why does it matter which pocket (state or local) the money comes out of?
- *Consider a “regional revenue sharing plan” to end the practice of businesses playing one town off against another in order to get property tax concessions. “CRCOG might become the tax collector/revenue dispenser to assure that all towns equitably share property tax yields.”*
- *Include information about the trade-offs that have occurred in states that have relieved local tax pressure by increasing state support. What will our municipalities give up? (E.g. Michigan and Minnesota)*
- *In the short term our goal must be to see that the ECS formula is fully funded.*
- Consider regional/local taxing authority, e.g. a local hotel tax or share of sales tax on regional/local transactions.
- Must be careful not to scare business away. *A modest increase in state income tax (with a circuit-breaker for hardship cases) is the best of the options we cite.*
- *The goal to increase state support to 50% should be accompanied by assurance that all municipalities, including upscale communities, will share the increased state assistance. (His community has a growing cohort of retired people buying homes on the assumption of long term affordability. Undue reliance on property taxes will overwhelm their ability to retain their homes.)*
- Agrees with 50% goal but *believes our proposed solutions are “soft-pedaled” ---adding a billion dollars to state funding will require greater*

reliance on the personal income tax and probably business taxes... Taxes must be kept affordable through progressive schedules.

- Concern that raising taxes on business (now paying 6/2 % of total state taxes) would stifle economic development.
- Re our finding that most other state governments provide a “far greater share of total education funding” *list the states and their comparative shares of total K-12 support (possibly in the footnotes)*
- *Provide examples of other states that are doing school finance “right”*
- To raise the \$928 million, *rely as much as possible on discretionary expenditures (gambling, luxuries, etc.). Taxpayers in the top 10 % income bracket should pay a larger share.*
- Uncomfortable with gaming source of funding ---sends the wrong message.
- Issue of local autonomy vs. greater state funding: balance must be done VERY CAREFULLY.
- Disagree with the idea of raising taxes and suggest considering a user tax.
- Will greater state funding in fact reduce local property taxes?

Recommendation 2: *Make the property tax system less regressive: consider a homestead exemption and income-adjusted “circuit breaker” property tax relief*

- *Consider also income-based tax relief for senior citizens on fixed incomes.*
- *“Circuit breaker” jargon may need to be explained.*
- The homestead exemption is very good. We have to put something in place to help seniors, many of whom are desperate.

Recommendation 3: *Allocate revenues raised to local governments in a manner that assures a more accurate consideration of student needs, appropriate educational investment and property tax relief*

- In the final report *include a chart that shows the comparative allocations of state support for all of the state’s school districts.*

Recommendation 4: *Strengthen accountability for the use of state funds in order to insure an adequate educational return on investment*

- State already has too much control over K-12 education
- “Centralized operations” tend to become less cost-efficient over time. Decentralized fiscal control (among municipalities) tends to provide “tighter” budgets in response to voter preferences.

- *Local school systems could do a much better job of using local-state dollars already available. They need to be held accountable to address deficiencies reflected in state test scores. Skeptical that the political environment of state government is the best means of achieving this. Should be stronger local controls on spending and performance.*
- *“A huge can of worms....More must be done to find the best tool to measure accountability.”*
- *Accountability is so important. Before the 50% mandate is established a comprehensive study should be undertaken by the state to assure that local school performance is validly measured. We need more effective ways to measure student progress and factor these in to overall accountability measures.*
- *Re teacher tenure and binding arbitration--- the latter contributes to quality teachers and indirectly to academic outcomes.*
- *To whom are questions of accountability to be addressed?*
- *Not enough attention is being paid to the factors that drive the cost of education up (e.g., unfunded mandates, magnet schools, excessive union power, work rules, special ed costs)*
- *Expand the report recommendations to suggest that school districts be asked to state what should be required of them to deserve increased resources.*
- *Accountability should be mutual --- the state needs to provide leadership on this.*

Promoting public discussion of the report:

- *Collaborate with AARP and parent-teacher groups*
- *Sharpen our recommendations re funding source(s) to promote a very specific public debate that will have more impact on legislature*
- *Target pro-school groups and press hard for their support*
- *Encourage League of Women Voters to become an advocate for finance reform.*
- *We need a “well-conceived” plan to engage all stakeholders for strong schools in Connecticut in a coordinated effort to achieve our goal.*
- *It’s crucial to get the business community to step up to the plate if it’s going to have qualified workers---thus Chambers of Commerce should discuss the report.*
- *Boards of Education and Town Councils should discuss it (suggest they might meet together for this purpose)...all stakeholders (e.g. PTA’s, PTO’s, and Family Resource Centers) should be discussing.*
- *AARP groups should be discussing ---there’s a huge amount of discontent about property taxes funding public schools. Invite seniors to breakfast/dinner to discuss.*

General comments:

- The report addresses a real need...Overall I think there is real urgency about the issues raised, though hard to find formulas that work
- We need to impress legislators that this is a huge issue!
- I'm supportive of all the principles set out in the report. The report looks at all the areas. The tone is good...It's professional, credible, a good report.
- *Strengthen the recommendations by stating more emphatically that a major increase in state support will be accompanied by two trade-offs: higher state taxes paid by most or all taxpayers and a stronger state voice in managing local school systems.*
- *Recommendations are so vague that while everyone will agree we have a problem and something needs to be done nothing will be done unless we prompt widespread debate by making a specific funding recommendation --- otherwise interest groups that will be adversely affected by any change in the status quo will prevent change from happening.*
- Report "right on target" ---underscores pressure on local governments to dwell more on voter tolerance and less on actual education needs
- *Report has too many statistics, some not trustworthy. Would favor charts in the Notes section that give more information about statistical references.*
- Report "o.k. – makes sense" --- but has strong reservations about its recommendations
- "Excellent – right on target"
- "The inequities in the funding of public education will only be resolved when a group of thoughtful individuals are willing to look at ways to solve this problem regionally. Political interventions are not working...It is about our children's future....As a community we need to realize that we cannot solve these problems alone....I believe in your message and approach. It works."
- In our town, three town budgets ago we were forced to reduce town services in order to pay for public education, and when the money fell short we couldn't expand the services we know the children needed. Now fixed costs are rising faster than funding for education.
- We can't control how prices in the housing market go up and down (resulting in fluctuations in property tax income) and our school budgets suffer. Meanwhile, special education costs are exploding.
- Today, funding education is not related to people's ability to pay but on the value of their house. Education financing needs to be based on both income and property.
- *Provide more detail on possible remedies.*
- *A bolder set of recommendations would enhance the public debate:*
 - "In addition to a short term goal of 50 per cent of state support, set a longer goal, perhaps 10 to 20 years forward, to gradually increase to 60 per cent.

“This plan should be accompanied by incentives to create more regional school districts. For instance, have Windsor, Windsor Locks, and Bloomfield create one school district with one superintendent, one central administration and other economies that would release dollars for a larger state share of total K-12 costs. He knows this is currently politically unrealistic, but favors any effort to raise the profile of regional solutions to address both quality and cost of education.

“Paul has no problem with a trade-off of reduced local control of education in exchange of lower pressure on the property tax.

“He asked a question which I couldn’t answer: Are the heavy state costs for the magnet schools included in the state’s current 37 per cent share of K-12 education? While acknowledging that a driving rationale for these schools was to address racial concentration in central cities, he maintains the magnets constitute a redundant school system, which if other reforms on traditional schools occurred, would be unnecessary.”

- Very impressed with the report. With a little tweaking it deserves serious consideration.
- The tone of the report is “appropriately academic” in its analysis of a complicated, potentially controversial subject.
- Report is “persuasive, appropriately detailed, and aggressive within appropriate constraint.”
- Involve the education community in our conversations...get its members on board...We need to get boards of education “on board” with these proposals.
- Add the institutional affiliations/credentials of the speakers who addressed the committee –will strengthen the report.

Note: Comments in *italics* for purpose of helping focus committee discussion re possible changes/additions to report.