Unfunded State Mandates: The Corrosive Impact on Property Taxpayers
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Executive Summary

There are currently approximately 1,250 state mandates that directly impact towns and cities, resulting in increases local costs and higher property taxes in Connecticut. Most of these state mandates are unfunded. They burden residential and business property taxpayers and divert limited resources away current local services.

If the State believes an existing or new mandate is appropriate public policy, then the State should be prepared to pay for it.

Each mandate that is unfunded, or only partially funded, adds to the already overburdened property tax, and further reduces local discretionary authority.

Today’s Mandates Relief: Achieved Through Thoughtful Collaboration

There are reasonable solutions that the State can enact to reduce the costly burden of these unfunded and under-funded state mandates:

• Allow towns and their boards and commissions the option to publish legal notices online. It is common sense and will improve citizens’ involvement in the operation of local government.

• Update the thresholds that trigger the prevailing wage mandate for public construction projects. A modest adjustment would free-up state and local dollars and jumpstart and expand projects.

• Prohibit municipal fund balances (essentially “emergency contingency funds”) from inclusion when determining municipalities’ ability to pay.

• Eliminate the premium tax on municipal health insurance.

• Adjust the mandated employee contribution rates, under MERS — and establish a new tier, modeled after the State’s Tier III, for new hires only.

• Get hometowns out of the business of storing evicted tenants’ possessions. Eliminate the costly mandate on towns and cities of storing and auctioning items abandoned by tenants following the conclusion of an eviction proceeding. Municipalities shouldn’t be inserted into landlord-tenant issues. No other state places this burden on municipalities.

• More accurately estimate and identify proposed state mandates, and ensure that proper municipal fiscal impact statements are available on legislative bills and amendments.

• Do not enact additional mandates on towns and cities! While well-intended, without additional state funding to implement these new requirements, a new mandate will result in the reduction or elimination of current services and/or an increase in property taxes to pay for them.
Introduction

What are State Mandates?

In practice, state mandates are requirements and standards imposed by the State on towns and cities. Often these requirements do not include adequate state funding to finance the mandate.

While local leaders often support the objectives of many of these mandates, such as improving education, public health, or the environment, towns and cities must object when the State does not provide commensurate funding.

Municipalities in Connecticut are too often forced to implement and fund policies that should be the responsibility of the state. It is inappropriate and inequitable to force towns and cities to assume all or most of the costs — and thus to pass these costs onto local property taxpayers.

Unfunded mandates allow the State to purchase public policy and enhance their standing with local property tax dollars.

How Many State Mandates are Imposed on Towns and Cities?

Connecticut’s towns and cities must comply with over 1,250 state mandates. In addition, regulations implementing these statutes and other administrative mandates further increase the requirements and costs imposed on local governments.

The Need for Mandates Relief

As a result, the term “mandates relief” has come to define the annual appeal of local officials, Democrats, Republicans and Independents representing urban, suburban and rural communities to their state partners, for fiscal and administrative relief.

The annual request for mandate relief covers a broad range of issues that include, but are not limited to: prevailing wage requirements, special education, minimum expenditure requirements (per-pupil education spending), revaluation requirements, clean water, and other unreimbursed or under-reimbursed state mandates cost towns and cities hundreds of millions of dollars each year.

No New State Mandates

Providing relief from existing mandates is only part of the equation. Each year, legislation is proposed that would impose additional mandates on towns and cities.

During the 2015 and 2016 legislative sessions, 143 new mandates were proposed. While these numbers reflect
legislation introduced, the pressure from municipal officials and property taxpayers for relief from the financial and administrative problems caused by state mandates has helped control the amount of legislation passed into law. However, according to the ACIR, in 2015 and 2016, a total of 56 new mandates were imposed on Connecticut municipalities.

In addition, there has been little accomplished to enact mandates relief and no meaningful mandates relief passed. During the 2015 legislative session 70 mandate relief measures were introduced, while only 17 were introduced in 2016 — a disproportionate amount in relation to the amount of mandates proposed.

With over 1,250 mandates on towns and cities, more needs to be done to examine the need, and the benefit of these mandates relative to their cost. The State Legislature must begin to repeal or reduce these mandates. Additionally, legislative leaders need to ensure that no new mandates are added to the crippling burden existing mandates have placed on municipalities.

New Mandates Proposed 2015 - 2016

1 4 3

Mandates Relief Proposals 2015 - 2016

0 8 7
As Statutorily Defined

Under Section 2-32b(2) of the Connecticut General Statutes, a mandate is “any state initiated constitutional, statutory or executive action that requires a local government to establish, expand or modify its activities in such a way as to necessitate additional expenditures from local revenues, excluding any order issued by a state court and any legislation necessary to comply with a federal mandate.”

As it details, beyond statutory mandates, other mandates exist such as administrative and regulatory. State agency regulations implement either specific sections of the Connecticut General Statutes, or agency programs not required by statute. There are other regulations that can be completed without direct statutory authority.

In addition, what often occurs is that although the State does not direct a specific mandate to municipalities, it effectively imposes one. These “mandates in effect” occur when the State abandons necessary state-provided services that citizens rely on and need.

Municipalities must then continue to provide these services at local expense. For example, deinstitutionalization or cutbacks in funds for mental health institutions and for juvenile homes could shift the service burden to local health personnel, social workers, police officers, and others.

Defacto Mandates

In some cases, the General Assembly passes legislation that “allows” a municipality to enact a mandate, thereby being a “local option” mandate. As a practical political matter, these are initiatives that local government cannot avoid. Thus, the State imposes what could be termed an optional mandate or defacto mandate. For example, in recent years the legislature has increased property tax breaks to veterans at local taxpayers’ expense — a worthy cause, but an option that most municipalities feel compelled to enact. In a situation such as this, the State has bought good will from a segment of the public — yet with local property tax dollars.

While these “optional” mandates do not require specific action to be taken at the local level, political, community and special interest pressure often compel action which thereby in effect is an additional state mandate imposed on towns and cities.
Property Tax Exemptions

Towns and cities lose staggering amounts of revenue as the result of state-mandated property tax exemptions for real and personal property owned by the State, real and personal property owned by private colleges and hospitals, computer software owned by businesses, and the list goes on.

While the state has a statutory authority to provide municipalities funding to compensate the loss revenue in the form of payment-in-lieu-of-taxes (PILOT) from state-owned property, colleges and hospitals, in recent years the rate at which municipalities are compensated is far less than the true amount owed.

There are currently 77 mandated property tax exemptions, and each year more are added.

The erosion of the property tax base has created undue hardship for municipalities, especially for Connecticut’s larger cities which rely on the PILOT payments more so than others. This loss of funding along with state property tax exemptions is a perfect storm for municipalities.

PILOT: Private Colleges & Hospitals

Municipalities receive PILOTs from the State as partial reimbursement of lost property taxes on state-owned and on private college and hospital property. The payments are provided to offset a portion of the lost revenue from state-mandated tax exemptions on this property. This lost revenue totals more than $700 million.¹

The reimbursement rate for tax-exempt private college and hospital property is supposed to be 77 percent. It is actually 29 percent.

PILOT: State-Owned Property

Similarly, the reimbursement rate for most state-owned property is supposed to be 45 percent. It is actually 20 percent.

The actual reimbursement rates are lower due to statutes that allow the amount of the PILOT reimbursements to be reduced on a pro-rated basis when state appropriations are not sufficient. In addition, these PILOT reimbursements cover only real property and do not include revenue lost from state-mandated exemptions on personal property.

Distressed municipalities host much of the state’s tax-exempt property.

When PILOT reimbursements fall short, it forces other residential and business property taxpayers to make up the difference. Thus, other property taxpayers are forced to pay for the State’s underfunded and unfunded property-tax exemption mandates.

State lawmakers should fully fund the private colleges and hospitals, and state-owned property payments-in-lieu-of-taxes (PILOTs) reimbursements. They should also enact a moratorium on state-mandated property tax exemptions for the duration of this fiscal downturn, or until full state reimbursement is made for those already on the books.
Whether a statutory or administrative/regulatory mandate or required property tax exemptions, there is a significant impact on local government expenses and functions. The ACIR has stated:

“There is one final caveat that we urge legislators to consider in reviewing new mandates both in general and in each specific case. Each mandate contains its own set of issues and problems for local officials. In some cases, the costs are large and/or the requirements are very significant in and of themselves. In other cases, however, the single issue may involve relatively little money or relatively little time, but when combined with many other requirements placed on the same people (and system), there is a cumulative effect that has a substantial impact. This cumulative effect is often a significant hidden burden on municipalities and municipal officials. The Commission urges the General Assembly to consider the impact of state mandates on local governments as being directly connected to the relationship between the State and its cities and towns. Each mandate that is unfunded or only partially funded is a direct addition to the burden of the property tax, as well as a reduction in local discretionary authority. State mandates represent decisions on local priorities being made in Hartford and, to the extent they are unfunded or underfunded, made by a state body which is separate from the local body that will have to raise the necessary funds. Similar consideration should also be given to enacting mandates that are funded at the onset, but whose funding may subsequently be reduced or discontinued in future years.”

CCM and its members are committed to helping legislators understand that every mandate, regardless of its size or intent, has an impact on local government. What are those impacts?

Reduction of Local Services

Funding a new mandate can result in the reduction or elimination of current services. Municipal government is responsible for a wide range of services, from education to public safety (police, fire, EMS) along with maintaining streets,
parks, and providing public health, human and other services. Therefore, reductions to local services are often made at the expense of some of these services which residents expect to be maintained at a sufficient level.

**Higher Property Taxes**

Property tax exemptions reduce the local tax base and service reductions are not an option or insufficient to meet the costs of these new state-imposed obligations, therefore municipalities are forced to increase property tax rates.


**State Imposed Municipal Spending Cap**

Additional unfunded mandates will continue to squeeze municipalities as they try to comply with the state’s municipal new spending cap that was enacted in Public Act 15-5. The municipal spending cap requires local officials to limit spending at particular levels without any reflection of a variety of factors. **CCM has urged that the municipal spending cap be amended, to ensure it encourages sound fiscal policies that will benefit, and not harm property taxpayers.**

The State should make the following modifications to the cap:

a. Delay implementation of the spending cap until Fiscal Year 2020.

b. Amend the list of exemptions to the spending cap to include:
   
   • State aid reductions from the previous year (in case the State cuts non-education aid or ECS, or reduces sales tax revenue, etc).
   
   • Increased fees for state services, and costs regarding state regulations and permits.

c. Allow towns and cities the option of requesting a waiver from OPM for exceeding the spending cap in the event that unforeseen circumstances require an increase in municipal spending.

d. Allow municipalities to override the spending cap with a two-thirds vote of local legislative bodies without a reduction of funds.

e. Allow municipalities with automatic referendum to override the spending cap by a simple majority - without a reduction of funds.

f. Exclude arbitration awards from the list of exemptions to the cap.
Legislative Use of Fiscal Notes
The State has become more aware of the negative fiscal and administrative impact unfunded state mandates have on municipalities. However, much more remains to be done. **The State must clearly and accurately identify the cost of proposed state mandates.** In many instances, the fiscal notes of proposed state mandates do not accurately represent the cost associated with the legislation. A fiscal note is a brief statement created by the legislative Office of Fiscal Analysis (OFA) that illustrates the projected fiscal impact that a piece of legislation would have on state and local government. A fiscal note is required on every bill that is approved by a committee or that reaches the floor of the House or Senate. It is also required on all amendments. The economic impact of unintended consequences is not accounted for in the fiscal notes of proposed mandates. In many instances, the Legislature will take advantage of these nuances to pass state mandates under the guise of legislation that has “no fiscal impact.” The collective fiscal and administrative burden of these proposals will ultimately be passed onto property taxpayers.

CCM Due Diligence to Alert Legislators
The Public Policy and Advocacy staff maintains a year-round presence at the Capitol to ensure Connecticut towns and cities are protected from the corrosive effects of unfunded state mandates. **Part of CCM’s efforts include a review of all proposed legislation, including amendments, introduced.** As a result of this review, CCM compiles a list of every new unfunded mandate proposed. CCM provides every legislator a weekly compendium throughout each legislative session — known as **CCM’s Mandates Report** — of these proposed mandates on towns and cities and the projected impact that they would have on local government and its taxpayers.

While the information can be useful to assist lawmakers understand the burden proposed by the legislation, the Legislature must be willing to work with towns and cities to enact meaningful proposals that provide real relief from unfunded mandates to our towns and cities.
What should be proper legislative review of mandates?

Although the State has become more aware of the impact of unfunded state mandates on municipalities, and their consequences in terms of financial and administrative burdens, much more remains to be done.

The following actions can improve the process of (a) identifying, (b) promulgating, and (c) quantifying the impact of these corrosive proposals:

- **Improve the estimation of municipal fiscal impact on proposed legislation to more accurately reflect the costs towns and cities would be forced to assume.** OFA needs to revamp its procedures and dedicate adequate personnel resources to accomplish this. In addition, efforts should continue to invite and encourage the cooperation of municipal officials in assisting OFA staff in preparing fiscal notes on all bills and amendments that affect towns and cities.

- **Provide that the statutory fiscal note and mandates-review procedures continue to be included in the General Assembly’s Joint Rules to assure legislative compliance.** This action will underscore the importance of these procedures, and ensure that all requirements are observed. The General Assembly’s Joint Rules are designed to regulate the legislative process.

- **Ensure that the definition of “state mandate” used for fiscal notes includes legislation that would require municipalities to forego future revenue, or that would create or expand property tax exemptions.**

- **Ensure that municipal fiscal impact statements are available to all legislators in advance of action taken by a particular Committee.** Often, fiscal notes are not prepared for legislators when they are first voted on by a particular Committee, therefore legislators are unaware of the fiscal impact a proposal would have on either the State or municipalities.

- **Ensure that Appropriations Committee review of proposed state mandates, as called for in CGS 2-32(b), be followed in every instance and expand the requirement so that proposed property tax exemptions also go before Appropriations.** Ensure that committee members have adequate fiscal and other information to make a thoughtful decision on municipal reimbursement. Municipal advocates often have to remind legislative leaders to observe this referral requirement, particularly during the end-of-session debates — and recent legislative rules have allowed majority leadership offices broad latitude. While the Appropriations Committee rejects numerous mandates, action on proposed mandates can sometimes be perfunctory.

- **Avoid “unmandating” any statefunded program local residents and property taxpayers rely on.** “Unmandating” merely forces municipalities to continue to provide such service at local expense. It does not constitute true mandates reform.

- **Amend the Joint Rules or enact a Constitutional prohibition to require two-thirds vote to approve mandates on municipalities and school districts.** This would (a) place the burden of proof on the State to demonstrate why a mandate is needed, and (b) present the General Assembly with the issue of municipal reimbursement up-front, as the issue of enactment is debated. This needed reform would require the General Assembly to inject cost-benefit analyses into debates on state mandates.

The federal government realized the detrimental impact mandates have on states and municipalities, and in 1995 passed the Unfunded Mandates Reform Act, which purpose is:

“To curb the practice of imposing unfunded Federal mandates on States and local governments; to strengthen the partnership between the Federal Government and State, local and tribal governments; to end the imposition, in the absence of full consideration by Congress, of Federal mandates on State, local, and tribal governments without adequate funding, in a manner that may displace other essential governmental priorities; and to ensure that the Federal Government pays the costs incurred by those governments in complying with certain requirements under Federal statutes and regulations, and for other purposes.”

If such bold legislation is acceptable by our federal lawmakers, then it should be acceptable by state lawmakers. With little disagreement that unfunded state mandates — either separate or collective — can erode already scarce local resources, the obstacle for progress is finding a starting point. In other words, which laws should we first amend...and what type of relief can be provided?
Allow Towns the Option to Post Legal Notices Online

Doing more with less is a harsh reality for local officials in today’s economy. However, even in 2016 Connecticut’s hometowns can only post legal notices in printed newspapers — placing them online is not allowed. This is an antiquated state law that has out-lived its purpose and should be updated.

The General Assembly should amend this mandate to reflect the realities of today’s world and to allow towns and their boards and commissions the option of an alternate means of publishing legal notices.

It is estimated that this 20th century law costs small towns several tens of thousands of dollars annually in advertisement fees, while the costs to larger cities can be as much as hundreds of thousands of dollars per year. According to a CCM survey, our hometowns are forced to spend approximately $4 million of taxpayers’ dollars statewide, each year, to for-profit print newspapers companies.

Local officials should be allowed to improve the transparency of government by legally posting notices online, in user-friendly, searchable formats, for all to see — while also saving taxpayers’ money. Editors across the state should embrace, not resist, the realities of our world, develop a modern-day business model and work with lawmakers on solutions to this onerous mandate.

In the 21st century, the quickest, most transparent and cost-effective way to get information to the most amounts of residents is via the Internet. The Internet is where people shop, communicate, do their banking, and share general information. Municipal and state websites have become a critical lifeline that link living rooms to their governments instantly. Just like the rise of local cable access stations, the Internet and municipal/state websites have allowed governmental activities to emerge even further into the public spotlight. Despite these obvious advances, in 2016, Connecticut’s hometowns continue to be mandated to post their legal notices in printed newspapers with dwindling circulations.

Enact Mandates Relief For A More Efficient Local Government
The Internet has become a tool widely used for the dissemination of a wide array of information on all levels. The State itself has moved to a paperless system in similar ways — the General Assembly several years ago stopped printing certain bills and legislative documents, and Public Act 12-92 requires proposed state agency regulations to be placed online instead of in paper form. What is amended in the name of efficiency for the State, should also be done for our towns and cities — and their property taxpayers.

**Municipalities are not seeking complete repeal of the law, but rather a reasonable modification.** Such a proposal would allow for publishing notice of the availability of a document in local newspapers, along with a summary and clear instruction as to how to obtain additional information or the complete text of the public document. The proposal would have also allowed notices to be posted in weekly, free newspapers.

The purpose of Section 1-2 of the state statutes was to ensure the public is provided information on governmental actions and issues that may impact them. No one is seeking to hamper the public’s right to know - rather towns and cities seek a more cost effective and efficient manner in which to provide information. In fact, published legal notices in print copy are not placed in a coordinated manner to allow readers ease of access to the information. If the newspapers were serious about protecting the public’s right to know, then each newspaper would have a designated section for all public notices to be listed — for the benefit of readers — complete with a directory listing of the publications’ table of contents, in alphabetical order.

It is important to keep in mind:
- **The Internet is accessible to everyone.** All local libraries are equipped with computers at no cost to the users. Newspapers must be purchased to be read;
- **Online readers can adjust font sizes for reading-impaired residents**, compared to the small print in the back of newspapers;
- **Internet sites can be accessed from anywhere in the world at any time.** Newspapers can only be purchased within the region they serve; and
- **Public notices placed on Internet sites can remain there indefinitely** (archived), making the information available for a greater amount of time. Notices placed in newspapers are only there for the allotted time paid for.

The reality of this issue boils down to the fact that private newspaper companies continue to cling to a business model that no longer makes sense, as such they hold a captive client in municipal government. To compound matters, coercion tactics to preserve this state mandate forces towns to essentially subsidize failing private companies.

**The 2017 General Assembly should address this costly mandate once and for all — through thoughtful compromise — and (1) allow for publishing notices about the availability of municipal documents in local newspapers, along with a summary and clear instructions as to how to get additional information or the complete text of the public document; and (2) allow notices to be published in free, weekly newspapers.**

**Do Not Force Hometowns to Keep Undesired, Evicted Tenants’ Possessions**

Although some relief was provided in 2010 by eliminating the mandate that required towns and cities to transport the possessions of evicted tenants — the existing mandate to store such items continues to drain local finances and resources. While municipalities are allowed to try to recoup some of the costs by auctioning off the items, municipalities must incur costs associated with conducting an auction (including publicizing the auction, etc.). And, usually the possessions are not sellable — ultimately, the municipality receives little or no reimbursement.

According to the Office of Legislative Research report #2006-R-0164 “State Laws on Landlord’s Treatment of Abandoned Property”, of the 37 states researched, Connecticut is the only state that mandates that municipalities remove and store the possessions of evicted tenants. In other states, landlords or sheriffs have the responsibility. The tenant evictions mandate is still costly to municipalities. It is estimated that there are about 2,500 residential evictions per year — this is a conservative estimate.

Town and city halls should not be forced into the storage business for others’ property. It simply makes no sense. Municipalities should not be dragged into what is essentially a landlord-tenant issue. Amending state law to provide towns and cities the flexibility to decide how and when to allocate their own resources would free our local departments from this unnecessary obligation, and allow municipalities to be more efficient in their day-to-day public works’ operations.

**Eliminate the Health Insurance Premium Tax:**

The health insurance premium tax on municipalities is 1.75% on fully insured municipal premiums. Many municipalities, particularly small towns, cannot reasonably consider self-insurance as an option, because just one catastrophic illness could have a severe negative impact on a local budget.

In addition, many self-insured municipalities pay for stop loss insurance and as a result, also pay this state-managed tax. It is estimated that the proposed elimination of the premium tax would save municipalities up to $9 million each year, statewide.

**The 2017 General Assembly should make sure the premium tax on municipal health plans is finally eliminated.**

**Update the Thresholds that Trigger the Prevailing Wage Mandate**

Prevailing wage mandates require workers on public works construction projects to receive the same wage that is customarily paid for the same work in the project’s town. In Connecticut, prevailing wage rates are determined by the U.S. Department of Labor (USDOL). USDOL determines the rates by surveying contractors, contractors’ associations, labor organizations, public officials and other interested parties about the wages and benefits paid on completed construction projects in a particular
geographical area. If it finds that the majority of workers in a particular occupation earn the same wage, that wage becomes the occupation’s prevailing wage for that area.\(^5\) The prevailing wage mandate is triggered once the cost of a public works project reaches a designated threshold.

Appropriate thresholds for remodeling, refinishing, refurbishing, rehabilitation, alteration and new construction, are essential to municipalities in managing their limited resources.

**The Legislature should:**

- **Adjust the thresholds for** (i) renovation construction projects, from $100,000 to $400,000; and (ii) new construction projects, from $400,000 to $1 million;
- **Exempt municipal school construction projects** from the State’s prevailing wage mandate. This modest adjustment could offset reductions in state aid for school construction projects and therefore, enable such projects to continue; and
- **Clearly define the criteria for determining whether a project is new construction or repair/renovation.**

**Why?**

The prevailing wage thresholds have not been adjusted since 1991. Prior to 1991, legislators adjusted the prevailing wage thresholds on a six-year schedule:

- P.A. 79-325 (1979): Set project thresholds at $10,000 for renovations and $50,000 for new construction.
- P.A. 85-355 (1985): Adjusted thresholds to $50,000 for renovations and $200,000 for new construction.
- P.A. 91-74 (1991): Adjusted thresholds to $100,000 for renovations and $400,000 for new construction.

Proponents of maintaining the current prevailing wage thresholds cite safety, quality of work and training as vital components of the construction industry that would be greatly compromised if adjustments to the thresholds were made in Connecticut. There is no credible evidence to support the claim that those states without prevailing wage mandates build sub-quality structures and operate with an inferior-trained workforce than in states that mandate prevailing (higher) wages. However, there is data to demonstrate prevailing wage mandates inflate project costs.

In a 2013 report, the Office of the Independent Budget Analyst for the City of San Diego determined that extending the prevailing wage law to city building projects would increase the labor cost by 20\%. This would result in a total construction cost increase of 7.5\%. The report concluded that the labor force would have to be approximately 17\% - 20\% more efficient to make up for the additional costs.\(^5\) The report also determined an approximate increases in labor cost for road projects of 20\%-35\%. This would result in an increase of 16\% for total construction costs.\(^7\)

A number of other studies have all drawn the same conclusion.

- A 1995 Connecticut Advisory Commission on Inter-governmental Relations study concluded that prevailing wage rates increase construction costs to towns and cities upwards of 21\% annually;
The Wharton School of Business has reported the figure to be upwards to 30%; and

In December 2001, the Kentucky Legislative Research Commission determined that the prevailing wage mandate resulted in a 24% increase in the wage cost of state and local projects.

Given the fact that Connecticut’s municipalities have limited revenue options available to them and the current prevailing wage thresholds force our towns and cities to generate more own-source revenue. This results in municipal budgets becoming even more reliant on the local property tax. This overreliance on the local property tax will inevitably result in future tax increases and further encourage graduates, businesses and families to leave Connecticut.

**Update the Municipal Employees Retirement System**

The Municipal Employees Retirement System (MERS) receives no state funding. It is financed through employer contributions, employee contributions and fund earnings. The Legislature has authorized the State Employees Retirement Commission (SERC) to increase contribution rates for municipalities participating in the MERS nine times. However, the Legislature has never increased the contribution rate for employees. This has shifted a large part of the financial burden of funding the system onto municipalities. Today employee contribution rates remain at 2.25% of payroll earnings for Social Security participants and 5% for employees not in Social Security. Employees in the MERS are contributing the same amount today that they were when the System was created in 1947.

The 2017 General Assembly should address the dramatic disparity between the contributions rates within the MERS by:

a. **Adjusting the employee contribution rates** over time for non-social security participants, from 5% to 8% and the contribution rate for Social Security participating employees, from 2.25% to 5%, and

b. **Creating a new tier within the MERS for new hires** that would maintain a defined benefit plan. The new tier should be modeled after the State’s tier III, which currently exists within the state employee retirement system.

**Adjust the Rates:**

The state’s non-partisan Office of Fiscal Analysis has reported that a 2014 proposal (SB 219) to increase employee contribution rates would result in “savings to municipalities participating in the Connecticut Municipal Employee Retirement System (CMERS), as it increases the employee share of the pension contribution. Total savings in CMERS employer contributions are estimated to be $2.3 million in FY 15 and $5.9 million in FY 16” and that in the out years “total savings are estimated to be $9.8 million in FY 17 and $12.6 million in FY 18.”

The increased financial burden on towns and cities has been driven primarily by enhanced benefits mandated by the Legislature in 2001 and the stock market losses experienced in the financial crisis. Contributions that were shared on an approximately equal basis in 2002, now fall 80% to the Towns and only 20% to the employee (See chart on page 15).

**Create An Additional Tier:**

Employee benefits are the most significant cost drivers of municipal budgets. They are also the most difficult costs to contain. By establishing a new tier within the MERS, modeled after the State’s tier III, towns and cities could begin to achieve savings from adjusted retirement and vesting eligibility while providing a defined benefit plan for new employees. This proposal would help ensure MERS remains solvent without having an effect on current municipal employees.

The Legislature created the State Employee’s Retirement System (SERS) and MERS in the 1940s. The State Legislature made many changes to the SERS over the years in response to changes in life expectancy, a general evolution in benefit levels and the resulting need to contain the costs of the system. The original Tier I plan was replaced with Tier II (1984), Tier IIA (1997), Tier III (2011), the Hybrid Plan (2011) and the Alternative Retirement Plan (ARP). These many alterations have been enacted to keep the State’s pension plans solvent. However, the MERS has never been adjusted.
In 2001, the State Legislature substantially increased the MERS benefit levels from 1.167% per year of service to 1.5%. However, it made no adjustments to other key aspects of the benefits formula. As a result, the MERS is currently more reflective of the State’s old Tier I plan, which was replaced because it was deemed financially unsustainable.

The 2017 general assembly should address the following to ensure a financially sustainable retirement system for municipal employees:

- MERS retains a low normal retirement age of 55 (50 for Police/Fire) compared to age 60, 62 and 65 in the State’s Tier IIa, dependent on service time, and age 63 or 65 for the State’s Tier III employees;
- MERS has a five year vesting period as compared to ten years in the State Tier III plan;
- MERS retirement benefits are calculated on the three highest earning years versus five in the newer State plans;
- MERS utilizes no differential in the contribution rate between general and hazardous duty employees. The State Tier IIa and III plans do provide for a differential between these groups of employees (2% vs. 5%); and
- MERS provides a 1.5% benefit level per year of service as compared to 1.33% for the state plans enacted after Tier I.

Changes to the MERS system are not subject to the collective bargaining process. Upon joining the system, communities agree to allow the State Retirement Division, which is part of the State Comptroller’s office, to administer the plan. There is no mechanism for municipal input concerning matters of system design, management or funding.

Municipalities are technically permitted to withdraw from MERS. However, they are specifically prevented from realizing any financial benefit upon withdrawal. Statute only permits withdrawal from the MERS “provided the rights or benefits granted to any individual under any municipal retirement or pension system shall not be diminished or eliminated.” Such restrictions preclude any attempts to resolve the current funding crisis through the collective bargaining process.

State lawmakers in the General Assembly are the only permissible source of adjustments to the MERS. While the Legislature has recognized the need to make changes in the state employee’s retirement plan many times over the past 30 years, it has never implemented such revisions to the municipal retirement system. As a result, the projected cost for the towns and cities participating in MERS has more than tripled in the last decade.

Minority Set Aside Program Reform

The 2015 Special Session omnibus “budget implementer” bill (PA 15-5, Sections 58-71 & 88), among other things, required towns and cities to comply with the state small business/minority business set-aside requirements. The law applies to state-funded municipal public works contracts in excess of $50,000 for the “construction, rehabilitation, conversion, extension, demolition, or repairing of a public building or highway, or other changes or improvements in real property.”

While well-intended, for larger cities that have an increased amount of projects, the ability to maintain and coordinate this information would consume a significant amount of staff time. For smaller towns, even with a smaller quantity of public works projects occurring at a given time, limited staff would make implementation difficult.

The 2017 General Assembly should suspend and delay the implementation of the municipal set-aside program until it is clear that the Commission on Human Rights and Opportunities (CHRO) will be able to adequately administer the program. As well, local officials are asking the legislature to raise the threshold for municipal public works projects, from $50,000 to $100,000.
Relief from existing mandates is only part of the battle. As mentioned, each year, a greater amount of new mandates are proposed on towns and cities. Below you will see a list of unfunded mandates that have been proposed in previous legislative sessions. They are likely to be seen again in the 2017 legislative session. If adopted and passed into law they would further handicap already struggling towns and cities.

Mental Stress Benefits for First Responders

The Connecticut Workers’ Compensation System covers almost all employees. The system is designed to help workers injured on the job by providing all necessary medical treatment; weekly benefits while disabled.

In 1993, the Legislature acknowledged that workers’ compensation coverage for mental or emotional impairments without an accompanying physical injury (“Mental-Mental”) was an astronomical driver in workers’ compensation costs. As a result, they passed Public Act 93-288 in order to contain costs associated with workers’ compensation claims. To do this, PA 93-288 eliminated compensation for mental and emotional injuries that did not arise out of a physical injury or illness.

The diagnosis of a “mental injury” can be highly subjective and could overlap with existing symptoms of depression, substance abuse, or other anxiety disorders. Additionally, it is an unfortunate fact that workers’ compensation fraud is not uncommon in states where mental injuries are covered.

The cost of an individual claim for a mental or emotional impairment could range from tens of thousands of dollars, to over $1 million for the duration of the claim. Once an injury is identified as a work related injury and covered under the workers’ compensation system any subsequent injury or impairment which can be causally linked to the initial injury is also covered by workers’ compensation. This further compounds the costs associated with such a claim and would result in a wide range of potential per claim costs.

Despite the fact police officers are already eligible for workers’ compensation coverage for mental injuries if they use or are subjected to deadly force, attempts to repeal this sensible reform in lieu of a highly problematic change, occurs in almost every legislative session.

CCM acknowledges and values the important role public
safety personnel have in our communities. We are grate-
ful for their commitment to protect and serve and for the
risks they assume on behalf of Connecticut’s residents.
However, any proposal to extend workers’ compensation
to mental injuries could unduly cripple municipal budgets
and force Connecticut property taxpayers to shoulder a
huge fiscal burden.

Environmental Issues

Every year, the legislature proposes numerous unfunded
mandates pertaining to the environment. The negative fis-
cal impact of these proposals varies. However, while some
may carry smaller fiscal notes, their collective impact will
further constrain local budgets and force Connecticut
residents to shoulder an unnecessary fiscal burden.

Such proposals include:

Extension of the pesticide ban:

Existing law prohibits the use of lawn care pesticide on
the grounds of preschools and schools with students in
grade eight or lower, except in instances where a human
health emergency is present. In previous years, the Legislature has considered propos-
als to extend the current pesticide ban to high school
playing fields and municipal greens. Such proposals
would expand a costly unfunded mandate on towns and
cities already faced with rapidly deteriorating fields and
large expenses in attempts to rehabilitate them. Towns
and cities continue to struggle to maintain safe playing
fields for our children at the K-8 level. These proposals
would simply extend those same problems and costs to
high school fields and municipal grounds.

Municipal officials are second-to-none in ensuring the
safety and health of children. Not only are municipal
officials parents, but they have a fiduciary duty to protect
and defend the public’s interest.

CCM supports the creation of a balanced Advisory
Council as recommended by the MORE Commission, to
thoroughly examine and vet the facts surrounding field
management and provide recommendations as to how
specific synthetic and organic pesticides are reviewed
and approved for use.

Pay As You Throw:

The Connecticut Department of Energy and Environmen-
tal Protection (DEEP) supports a statewide mandate that
would require municipalities to design and implement
plans to reduce waste production by 10%. DEEP intends
to implement this initiative under a unit based pricing
program (“pay as you throw”). Under this program,
households would be charged for waste collection based
on the amount of waste they throw away — in the same
way that they are charged for electricity, gas and other
utilities.

Implementation of this program would force numerous
new unfunded state mandates on municipalities and have
a direct negative fiscal impact on property taxpayers.
Not only would residents likely be forced to pay higher
property taxes as a result of the new mandates, but they would also have to pay an additional penalty for taking out the trash. With our towns and cities are struggling to provide basic services, now is not the time to further complicate local fiscal situations and unduly burden property taxpayers.

**Just Cause for Dismissal for Certain Municipal Officials**

In previous legislative sessions, various proposals have been considered that would have mandated special protection for fire chiefs under a “just cause” provision. In recent years, other municipal department heads have attempted to mandate “just cause” employment provisions. This provision would make it very difficult and costly to remove local officials from their position.

Currently, police chiefs have this special “just cause” provision. CCM understand the rationale for these individuals to have this provision as they may need the flexibility to investigate certain matters without fear of political retribution. No other municipal official would be in that particular situation.

If such a mandate were to pass into law for another class of employees, it is highly likely to be expanded to other municipal employee groups.

Current statute already includes special provisions regarding the dismissal of certain employees, such as a fire chief. This includes proper notification of pending termination, process for a hearing and appeal of any decision. Similar provisions apply to other municipal department heads, including building officials and fire marshals.

**Municipal CEOs are accountable to the residents of their community. Such proposals would eliminate municipal CEOs’ discretion and flexibility to execute critical decisions regarding personnel.**

**Requiring Consolidation of Public Safety Answering Points (PSAPs)**

In recent legislative sessions, there has been an effort to require the consolidation of PSAPs. **CCM appreciates the intent of these proposals — as regionalization occurs on a daily basis among many facets of local government and should be encouraged** — however, there are concerns that method of mandating consolidation would be the proverbial stick looming over already strained local budgets.

On the surface, PSAP consolidation is appealing. There are a vast number of PSAPs throughout Connecticut, far more than other states with larger geographic boundaries and populations. The proponent’s only examination on the necessity for consolidation is that a greater number of calls can be handles with fewer facilities. However there are other, as equally important factors that need to be considered - but have been ignored. These include union contracts, collective bargaining, facility operations and management that need to discussed and agreed to by all municipalities. Without these issues being unified, effective implementation will not occur.

Public safety officials rely on a certain degree of flexibility to (a) ensure the safety of their own communities, and (b) address the unique demands and concerns of their citizens. Therefore, local officials should continue to be afforded the discretion to determine which PSAPs work best for their communities — either operated locally or regionally — as they already do now. Without collaborating on these issues, it would hamper local authority to determine how public safety services are delivered by, among other things, recommending that sanctions be imposed on hometowns that do not comply with certain mandated thresholds.

**Delinquent Property Taxes**

In previous legislative sessions, various committees have considered legislation to reduce the interest rate a municipality may charge on delinquent property taxes. Municipal officials understand the desire to provide property tax relief during these challenging fiscal times, and CCM is a leading advocate for meaningful property-tax relief in Connecticut. However, these proposals could result in significant municipal revenue losses, especially when our distressed municipalities are struggling to provide core services to residents.

Such proposals would further negatively impact municipalities by requiring a town or city that lowered the interest rate on delinquent taxes, to reduce the interest rate charged on other delinquent property taxes as is required by law.

**These mandatory reductions would include:**

- Sewer system installation and collection assessments;
- Assessments imposed on blighted housing; and
- Fees and assessments charged to residents of certain districts within municipalities.

When you reduce incentives for persons to pay taxes on time, you impact taxpayers who pay their taxes on time — persons who are paying their fair share and supporting our municipality. Such taxpayers end up paying higher taxes to make up for those who are not paying at all.

Reducing property taxes would reduce the likelihood of taxpayer delinquency. However, this can only occur through meaningful property tax reform.

The 2017 General Assembly should properly intricately examine the impact new proposed mandates would have on local government, and if the State is unable to provide funding to implement, should reject these and other new proposed mandates.
The similarities of towns and cities are far more important than those characteristics that distinguish them. Together, as partners with the State, there remains optimism in this new era that local officials can work with the General Assembly and the Governor on achieving our common goal of improving the quality of life throughout Connecticut.

As lawmakers prepare for another fiscally challenging legislative session, a seemingly easy solution to the state’s budget woes would be to slash state aid to municipalities. Cutting state aid to towns and cities is not the remedy for what ails our state. It is imperative that lawmakers resist such a desperate temptation and steadfastly protect our hometown schools, parks, and services. Towns need solutions — not more cuts.

CCM has spelled out solutions — one of which is to eliminate and/or modify toxic state laws known as unfunded mandates.

These onerous laws have become cruel and usual punishment for local governments as they struggle to provide community services to property taxpayers still recovering from the Great Recession. Mandates reliefs as part of the solution to current budget problems - sound simple? It is, and this report outlines ways the State could save our communities’ money, so towns do not have to layoff police officers, close libraries or cut school programs.

The art of public policy teaches about windows of opportunity and seizing the right moments to enact meaningful change. This upcoming legislative session, with its fiscal challenges, provides an optimal time to enact meaningful mandates reform.

Mandates relief is part of the solution to current local budget problems. This report is a tangible starting point for the State to use and help our communities save money and avoid more layoffs, closings, and program cuts. The State should not sit idle as these unfunded state mandates stifle towns’ abilities to deliver much-needed day-to-day services. We urge the Legislature to take advantage of these reasonable cost-saving measures.

If it takes difficult economic times to make bold changes, then so be it. Let 2017 be the year that lawmakers champion serious unfunded state mandates.
1. CCM estimate. PILOT reimbursements cover only real property and do not include revenue lost from state-mandated exemptions on personal property.

2. “STATE MANDATES ON MUNICIPALITIES: ACTIONS IN 2012”, Report by the CONNECTICUT ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS; June 2012


4. 109 STAT. 48 PUBLIC LAW 104–4—March 22, 1995


CCM is the state’s largest, nonpartisan organization of municipal leaders, representing towns and cities of all sizes from all corners of the state, with 162 member municipalities. We come together for one common mission - to improve everyday life for every resident of Connecticut. We share best practices and objective research to help our local leaders govern wisely. We advocate at the state level for issues affecting local taxpayers. And we pool our buying power to negotiate more cost effective services for our communities.

CCM is governed by a board of directors that is elected by the member municipalities. Our board represents municipalities of all sizes, leaders of different political parties, and towns/cities across the state. Our board members also serve on a variety of committees that participate in the development of CCM policy and programs. Federal representation is provided by CCM in conjunction with the National League of Cities. CCM was founded in 1966.