# Measuring Nonschool Municipal Fiscal Disparities in Connecticut

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# Disclaimer



The views expressed here are those of the presenter and do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System.

# Importance of Addressing Fiscal Disparities



- Fiscal disparities exist because of differences across localities in taxable resources and service costs.
- These differences largely fall outside the direct control of local officials.
- Fiscal disparities are therefore widely regarded as inequitable.
- This is an important concern in CT given vast socioeconomic differences across the state's 169 cities and towns.

# Impetus for this Report



- The M.O.R.E. Commission was tasked to develop recommendations to address fiscal disparities.
- The Municipal Tax Authority Sub-Committee requested PRI undertake a Municipal Needs Capacity study.
- PRI approached NEPPC to share its expertise in this area.
- This report is focused on measuring nonschool municipal fiscal disparities and examining state nonschool grants.

# Preview of Main Findings



- Connecticut municipalities differ significantly in revenue-raising capacity for nonschool purposes, driven by differences in their property tax bases.

- They also vary in the cost of providing nonschool services.

- As a result, there are large disparities across Connecticut municipalities in their ability to provide nonschool services to their residents, employers, and visitors.

# Municipal Budget and Fiscal Disparities



- A municipality's budget is affected by
  - Fiscal choices: tax rates, service levels, management quality, operating efficiencies, etc.
  - Factors that are outside the direct control of local officials: taxable resources, cost pressures from employers and commuters, etc.
- This study measures nonschool fiscal disparities caused by differences across municipalities in factors outside the direct control of local officials.

# The “Cost-Capacity Gap” Framework



- We calculate the gap between taxable resources (“capacity”) and the costs of providing public services (“cost”).
- Both capacity and cost are measured using factors that are outside the direct control of local officials.
- A larger gap indicates a worse underlying fiscal condition.

# Municipal Capacity



- We do not use actual revenue as “municipal capacity,” because actual revenue reflects the tax rate that local officials choose.
- Municipal capacity is defined as the ability of municipalities to raise revenue from local taxable resources to support nonschool services.
- The property tax is virtually the only own-source revenue available for localities in Connecticut.

# Measuring Municipal Capacity



- We measure capacity by computing how much revenue each municipality would be able to raise from the property tax at a “standard” tax rate.
- We set the “standard” tax rate so as to make the statewide municipal capacity equal the statewide local nonschool spending.
- Municipal capacity is directly proportional to each municipality’s taxable property value (excluding exemptions).

Table 1. Illustrations of Municipal Capacity Calculation for One Sample Municipality (FY 2011, 2012 dollars)

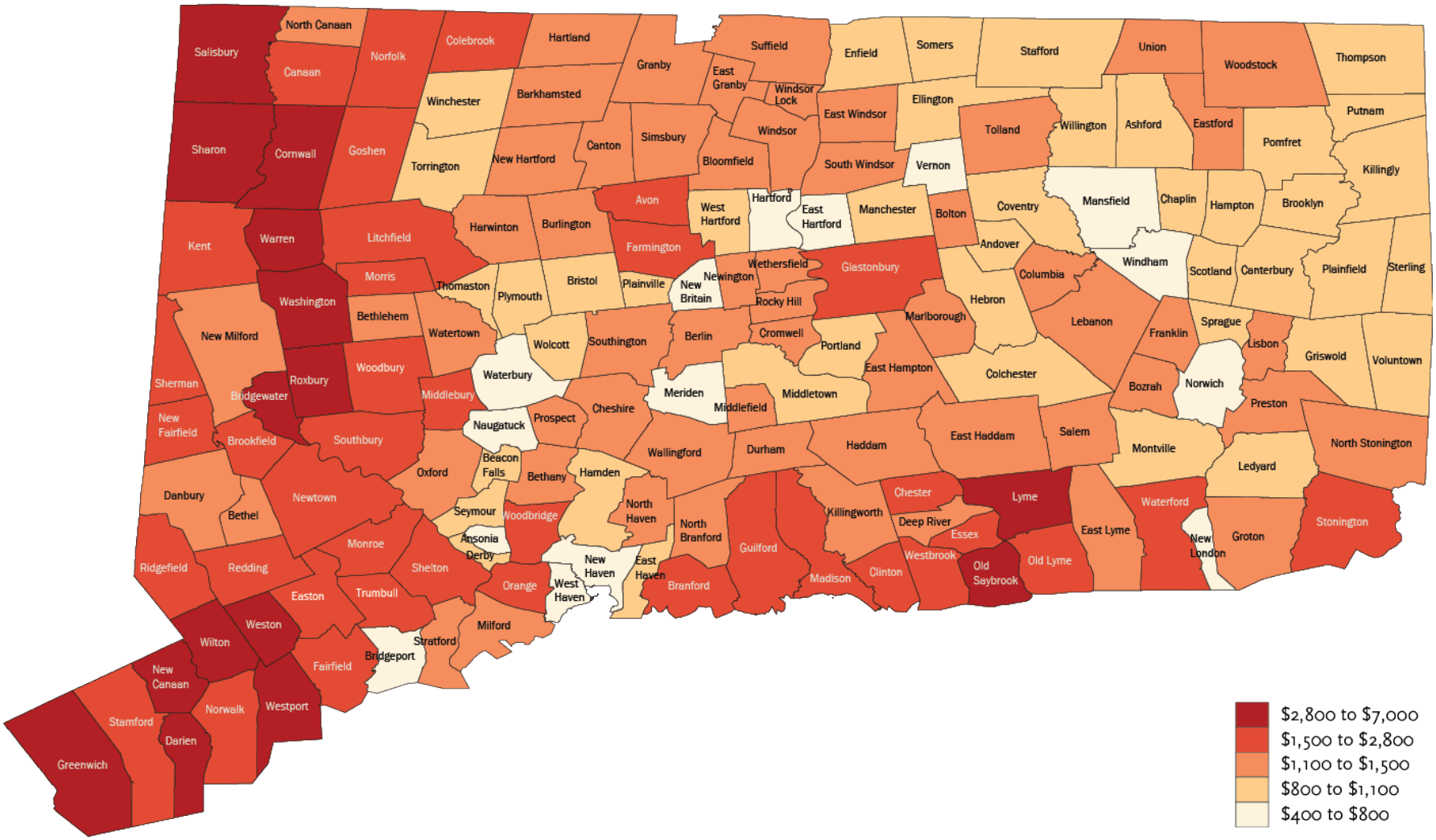
| State of Connecticut | | | New Britain | |
|---|---|---|---|---|
| **State Nonschool Spending** ($ per capita) | **State ENGL** ($000s per capita) | **"Standard" Tax Rate** (mills) | **ENGL** ($000s per capita) | **Municipal Capacity** ($ per capita) |
| (1) | (2) | (3)=(1)/(2) | (4) | (5)=(3)×(4) |
| 1,382 | 153 | 9 | 56 | 506 |

Source: Authors' calculations.

Note: For simplicity, some figures displayed are rounded up to the nearest integer.

## Figure 1. Municipal Capacity by Municipality

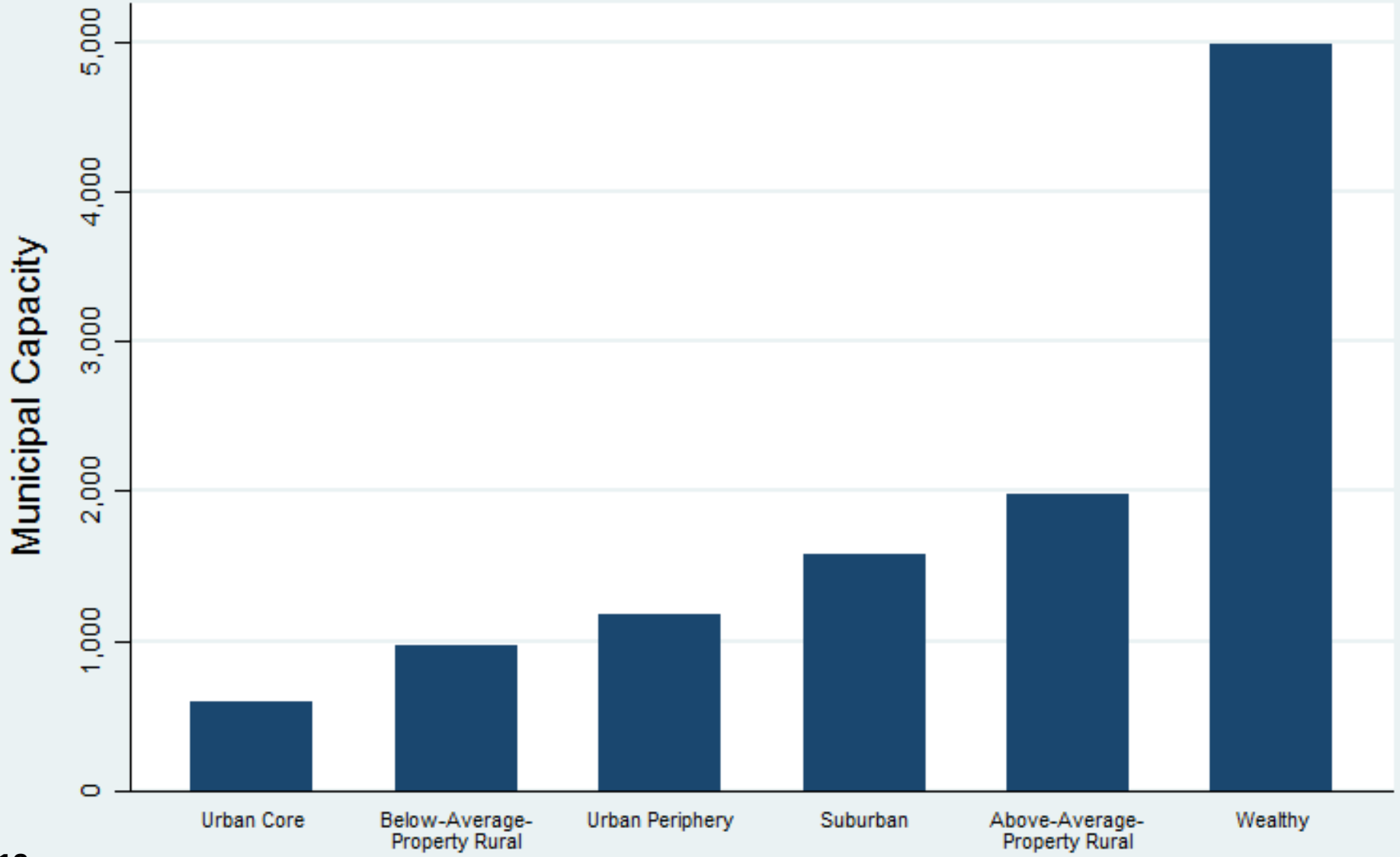
(FY2007–FY2011 average, 2012 dollars per capita)




Source: Authors' calculations.

# Municipal Capacity by Municipality Type

(FY2007–FY2011 population-weighted average, 2012 dollars per capita)




Source: Authors' calculations and Levy, Rodriguez, and Villemz (2004).

# Municipal Cost



- We do not use actual spending as “municipal cost,” because actual spending is impacted by management quality, efficiency, and choices about service levels.
- Municipal cost is defined as how much each municipality must spend to provide a given level of nonschool services, given its socioeconomic characteristics that are outside the direct control of local officials.
- We use statistical analysis to identify cost factors and use them to calculate the cost measure.

# Cost Factors



- Unemployment rate
- Population density
- Private-sector wage level
- Town maintenance road mileage
- Per capita jobs

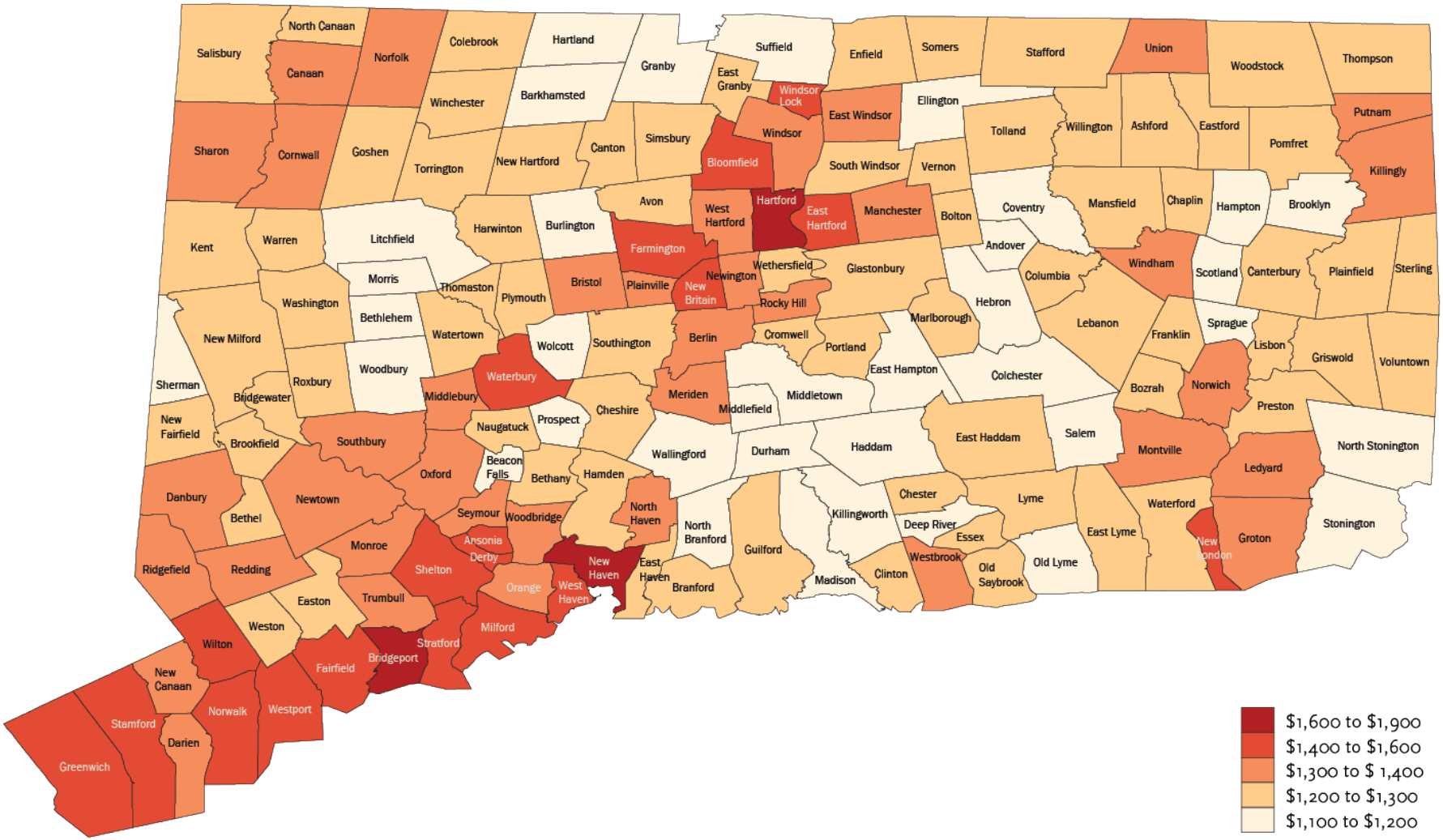
## Table 3. Illustrations of Municipal Cost Calculation for One Sample Municipality (FY 2011, 2012 dollars)

| | | New Britain | |
|---|---|---|---|
| | **Factor Weight** ($ per capita per cost factor unit) | **Factor Value** | **Contribution to Cost** ($ per capita) |
| *Cost factors:* | (1) | (2) | (3)=(1)×(2) |
| Unemployment rate (%) | 24.80 | 14.50 | 360 |
| Population density (000s per square mile) | 36.48 | 5.46 | 199 |
| Private-sector wage index (% of statewide private-sector wage index) | 6.66 | 98.56 | 656 |
| Town maintenance road mileage (per 000 population) | 6.73 | 2.25 | 15 |
| Per capita total jobs | 217.92 | 0.35 | 76 |
| Statewide constant | 257 | 1.00 | 257 |
| **Municipal cost ($ per capita) (total of above)** | | | 1,562 |

Source: Authors' calculations.
Note: The factor weight indicates how much per capita municipal cost would increase with a one-unit increase in each cost factor. For simplicity, some figures displayed are rounded up to the nearest integer.

## Figure 2. Municipal Cost by Municipality

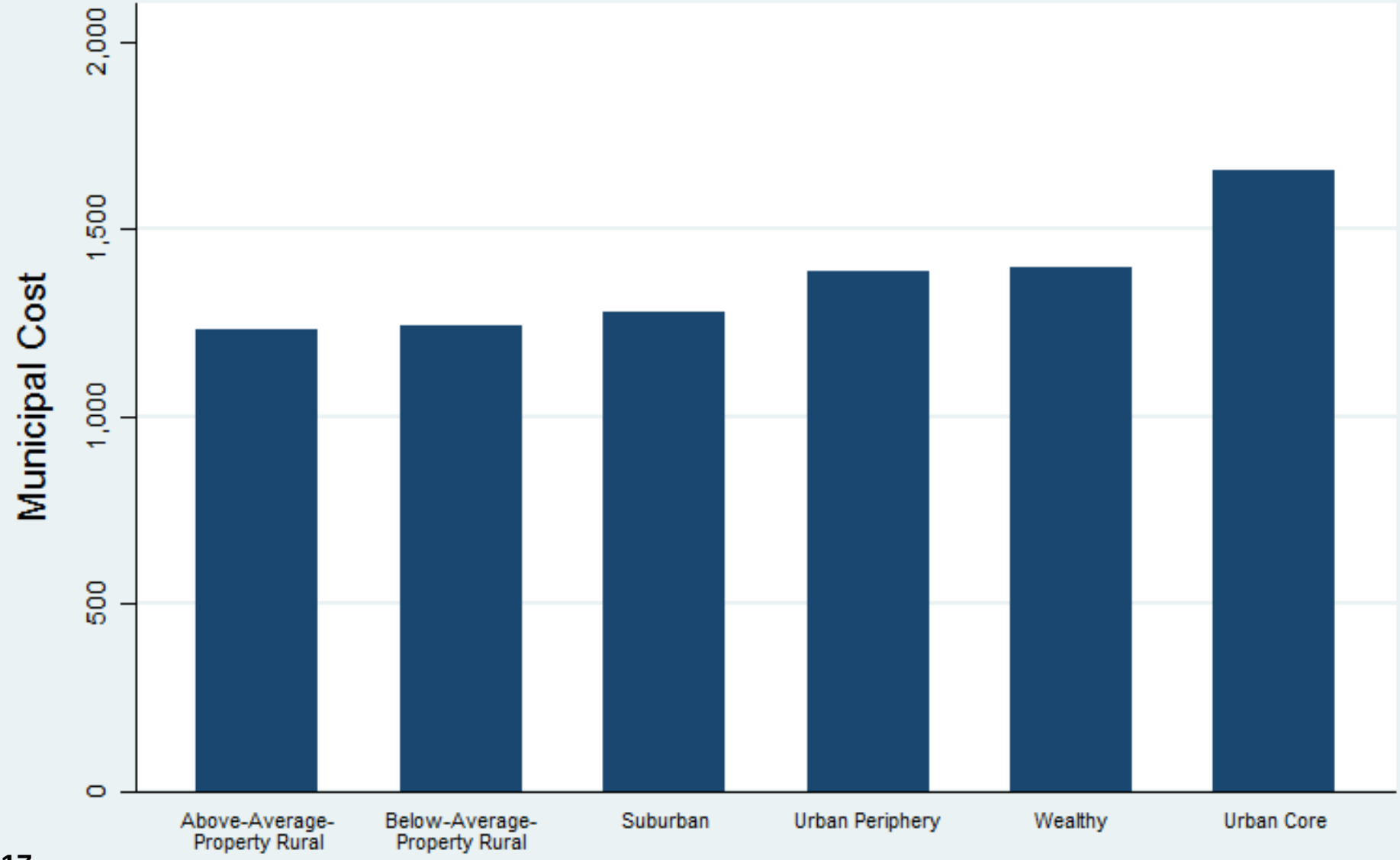
(FY2007–FY2011 average, 2012 dollars per capita)




Source: Authors' calculations.

# Municipal Cost by Municipality Type

(FY2007–FY2011 population-weighted average, 2012 dollars per capita)




Source: Authors' calculations and Levy, Rodriguez, and Villemz (2004).

# Municipal Gap



- Municipal gap = municipal cost – municipal capacity
- Statewide municipal gap is zero.
- A positive gap represents a municipality lacking sufficient revenue-raising capacity to provide common nonschool services. The larger the gap, the worse the nonschool fiscal condition.
- A negative gap represents a municipality having more revenue-raising capacity than needed for providing common nonschool services.

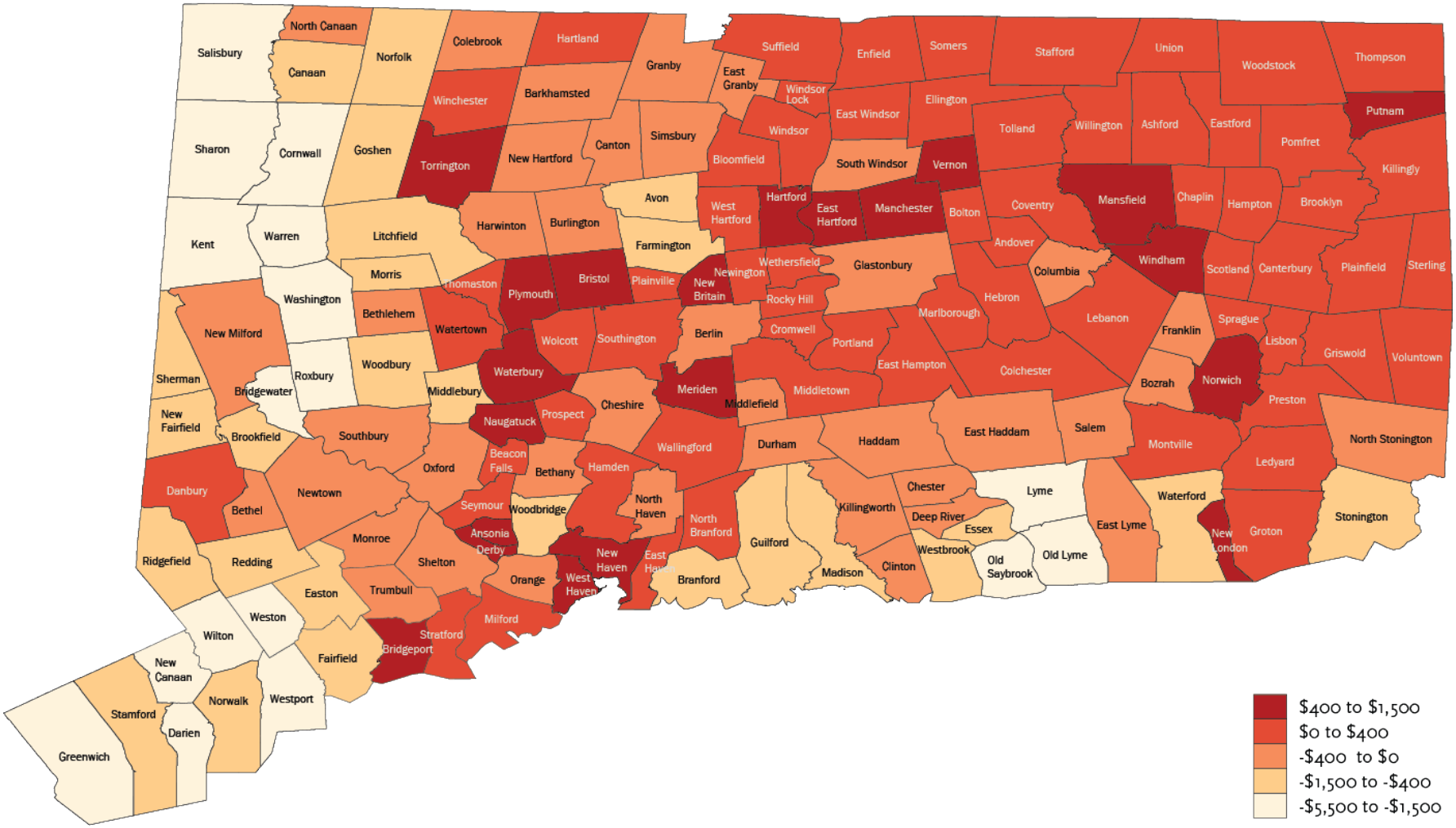
Table 4. Illustrations of Municipal Gap Calculation for One Sample Municipality and the State (FY 2011, 2012 dollars per capita)

| | **Municipal Cost** | **Municipal Capacity** | **Municipal Gap** |
|---|---|---|---|
| | (1) | (2) | (3)=(1)-(2) |
| New Britain | 1,562 | 506 | 1,056 |
| State of Connecticut | 1,382 | 1,382 | 0 |

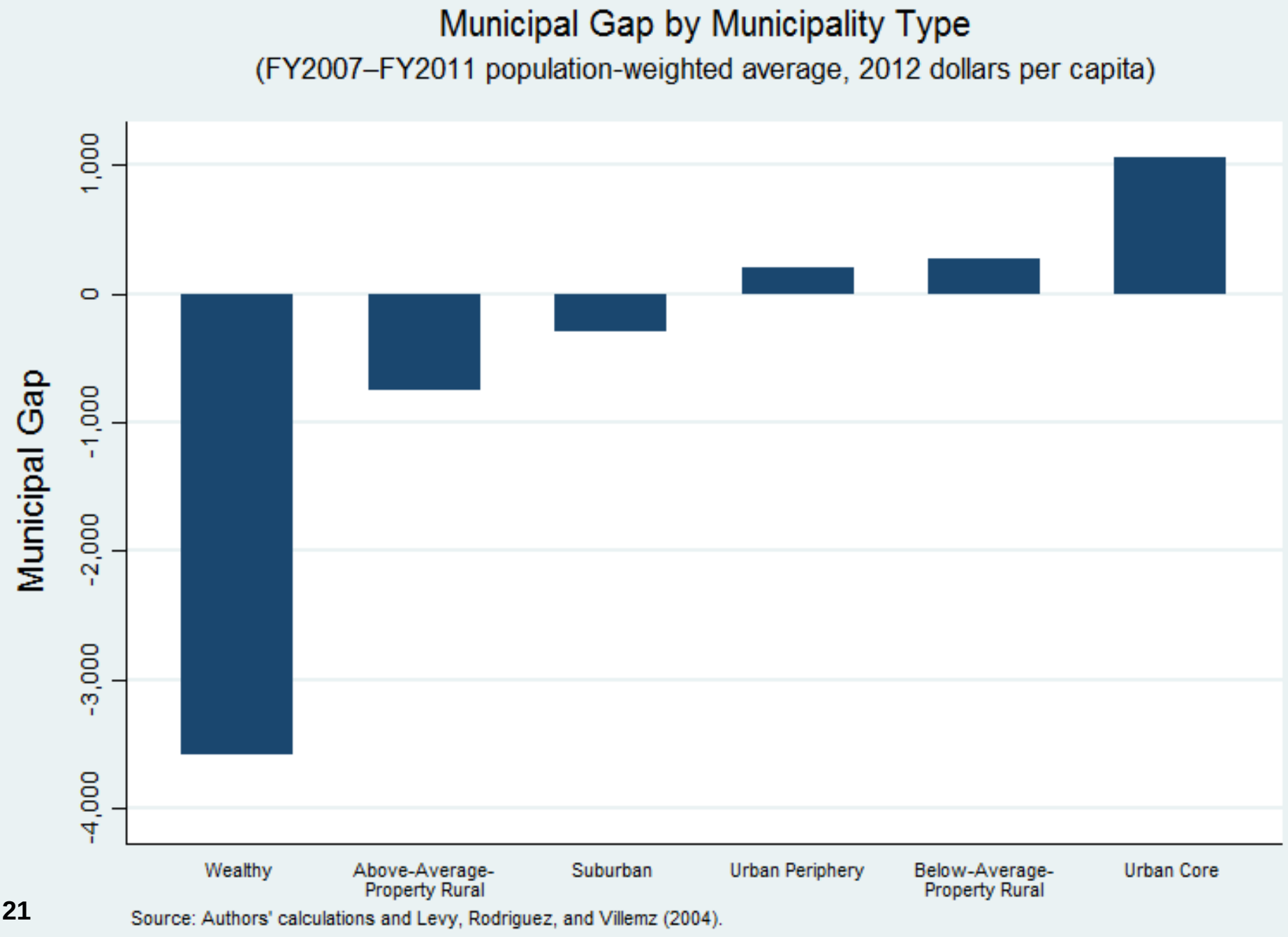
Source: Authors' calculations.

## Figure 3. Municipal Gap by Municipality

(FY2007–FY2011 average, 2012 dollars per capita)




Source: Authors' calculations.


Municipal Gap by Municipality Type
(FY2007–FY2011 population-weighted average, 2012 dollars per capita)
Municipal Gap
1,000
0
-1,000
-2,000
-3,000
-4,000
Wealthy
Above-Average-Property Rural
Suburban
Urban Periphery
Below-Average-Property Rural
Urban Core
Source: Authors' calculations and Levy, Rodriguez, and Villemz (2004).

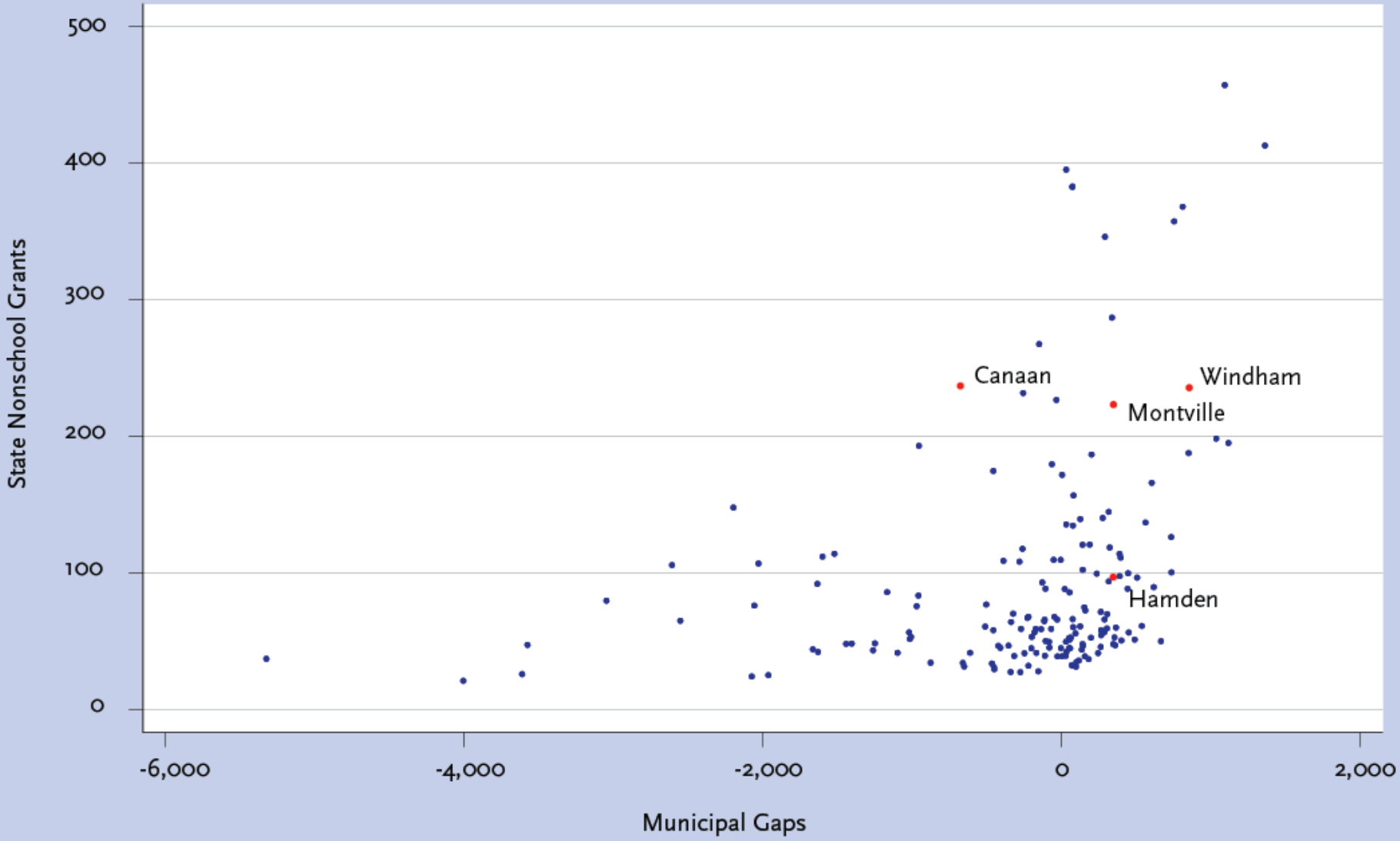
# State Nonschool Grants



- The state provides municipalities with some nonschool grants, which are relatively small compared with the ECS grant.
- They include Colleges & Hospitals PILOT, State Property PILOT, Pequot Grants, Town Aid Road, LoCIP, etc.
- These nonschool grants do not have an explicit equalization goal, although some formulas consider some socioeconomic factors.

## Figure 4. State Nonschool Grants Versus Municipal Gaps

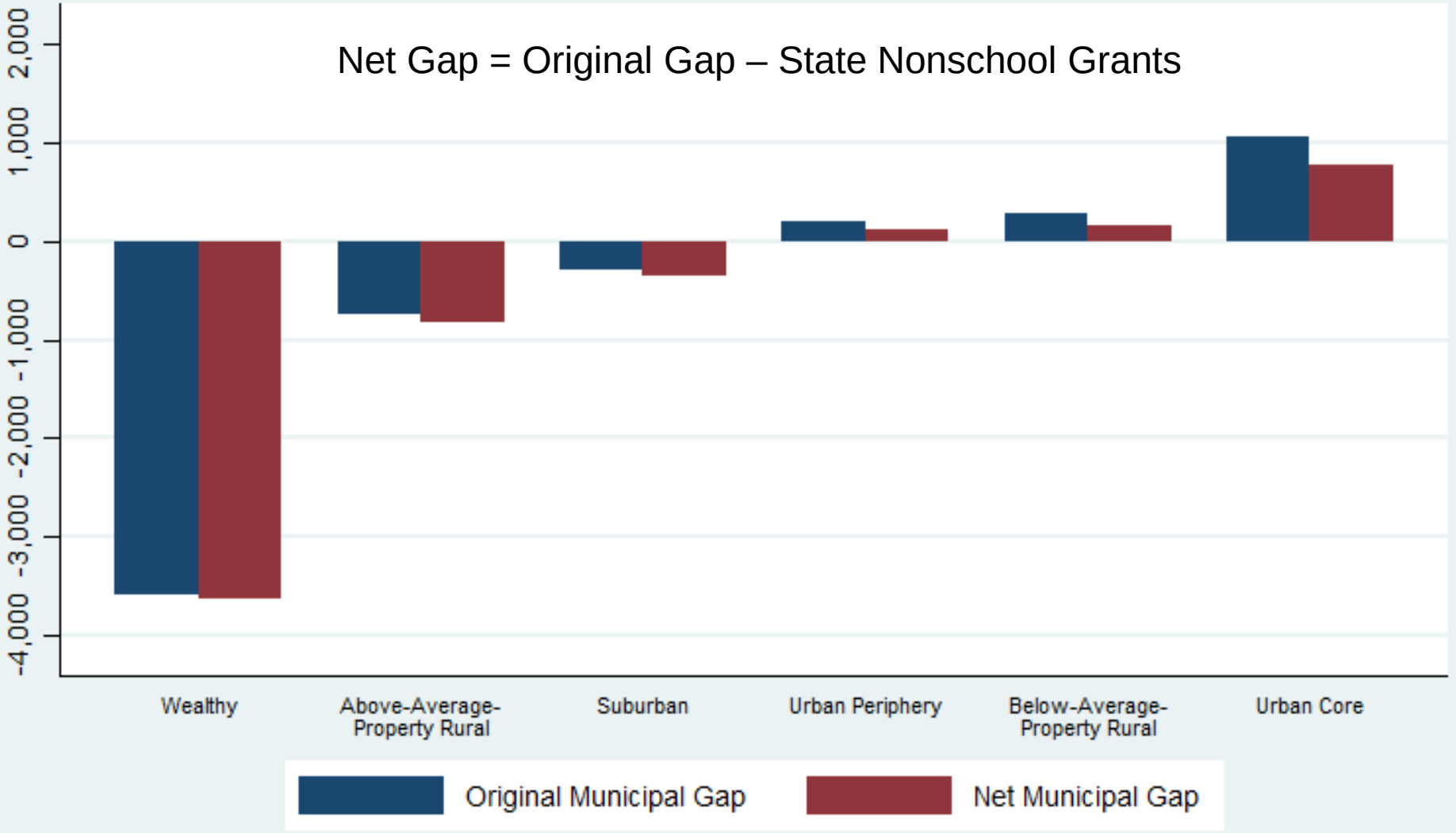
(FY2007– FY2011 average, 2012 dollars per capita)




Source: Authors' calculations.

# Original Municipal Gap versus Net Gap by Municipality Type

(FY2007–FY2011 population-weighted average, 2012 dollars per capita)




Source: Authors' calculations and Levy, Rodriguez, and Villemz (2004).
Note: State nonschool grants include Veterans' Exemption, Elderly Circuit Breaker, Elderly Freeze, Disability Exemption, State Property PILOT, Colleges & Hospitals PILOT, LoCIP, Pequot Grants, Town Aid Road, DECD PILOT Grant, and DECD Tax Abatement.

# Conclusion



- There are significant nonschool fiscal disparities among Connecticut municipalities.
- These disparities are mostly driven by the uneven distribution of the property tax base across the state, while cost differences also play a role.
- State nonschool grant programs play a limited role in reducing nonschool fiscal disparities in Connecticut.

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