

# Measuring Municipal Fiscal Disparities in Connecticut

Bo Zhao and Jennifer Weiner  
New England Public Policy Center  
Federal Reserve Bank of Boston

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# Disclaimer

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# Importance of Addressing Fiscal Disparities

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- 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

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- 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.

# Preview of Main Findings

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- Connecticut municipalities differ significantly in revenue-raising capacity, 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 report measures municipal fiscal disparities caused by differences across municipalities in factors outside the direct control of local officials.

# The “Cost-Capacity Gap” Framework

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- 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<br>(\$ per capita) | State ENGL<br>(\$000s per capita) | “Standard” Tax Rate<br>(mills) | ENGL<br>(\$000s per capita) | Municipal Capacity<br>(\$ per capita) |
| (1)   | (2)                               | (3)=(1)/(2)                    | (4)                         | (5)=(3)×(4)                           |
| 1,382                                       | 153                               | 9                              | 56                          | 506                                   |

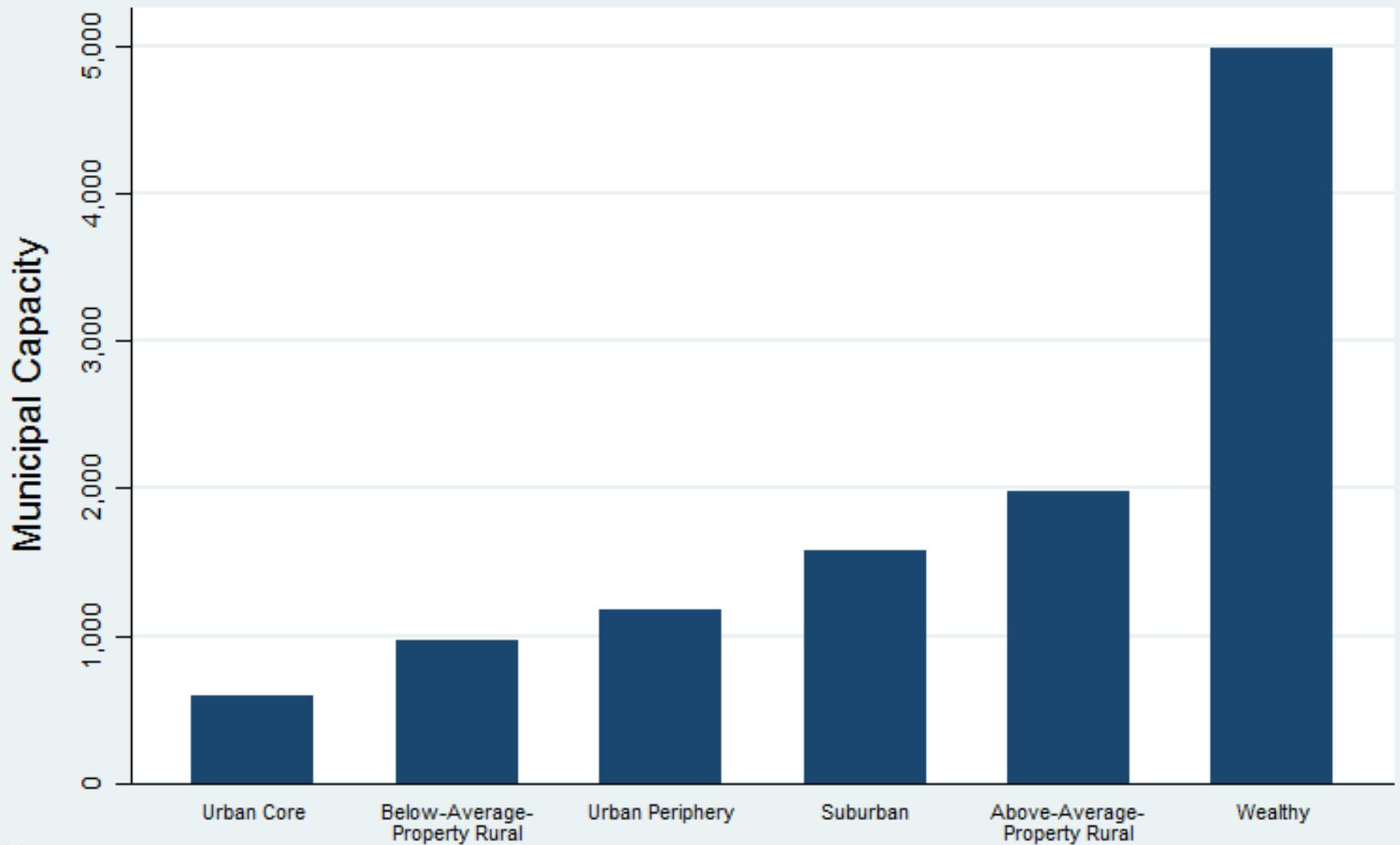
Source: Authors’ calculations.

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



## 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

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- 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

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

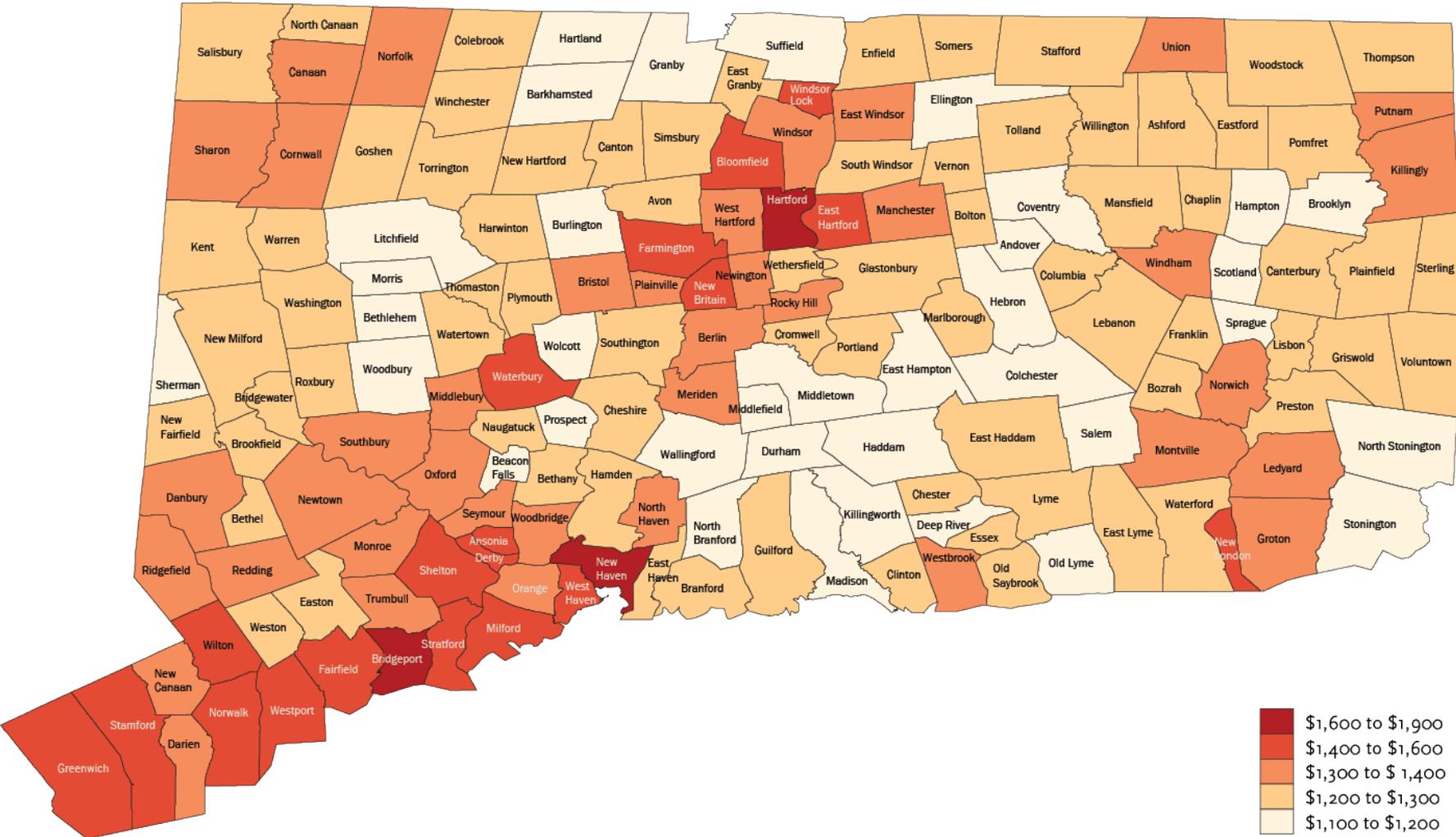
Table 3. Illustrations of Municipal Cost Calculation for One Sample Municipality  
(FY 2011, 2012 dollars)

|  | Factor Weight<br>(\$ per capita per<br>cost factor unit) | New Britain  |   |
|--|--|--------------|---|
|  |  | Factor Value | Contribution to Cost<br>(\$ per capita) |
| <i>Cost factors:</i>   | (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                                     |
| <b>Municipal cost (\$ per capita) (total of above)</b>               |  |              | <b>1,562</b>                            |

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.

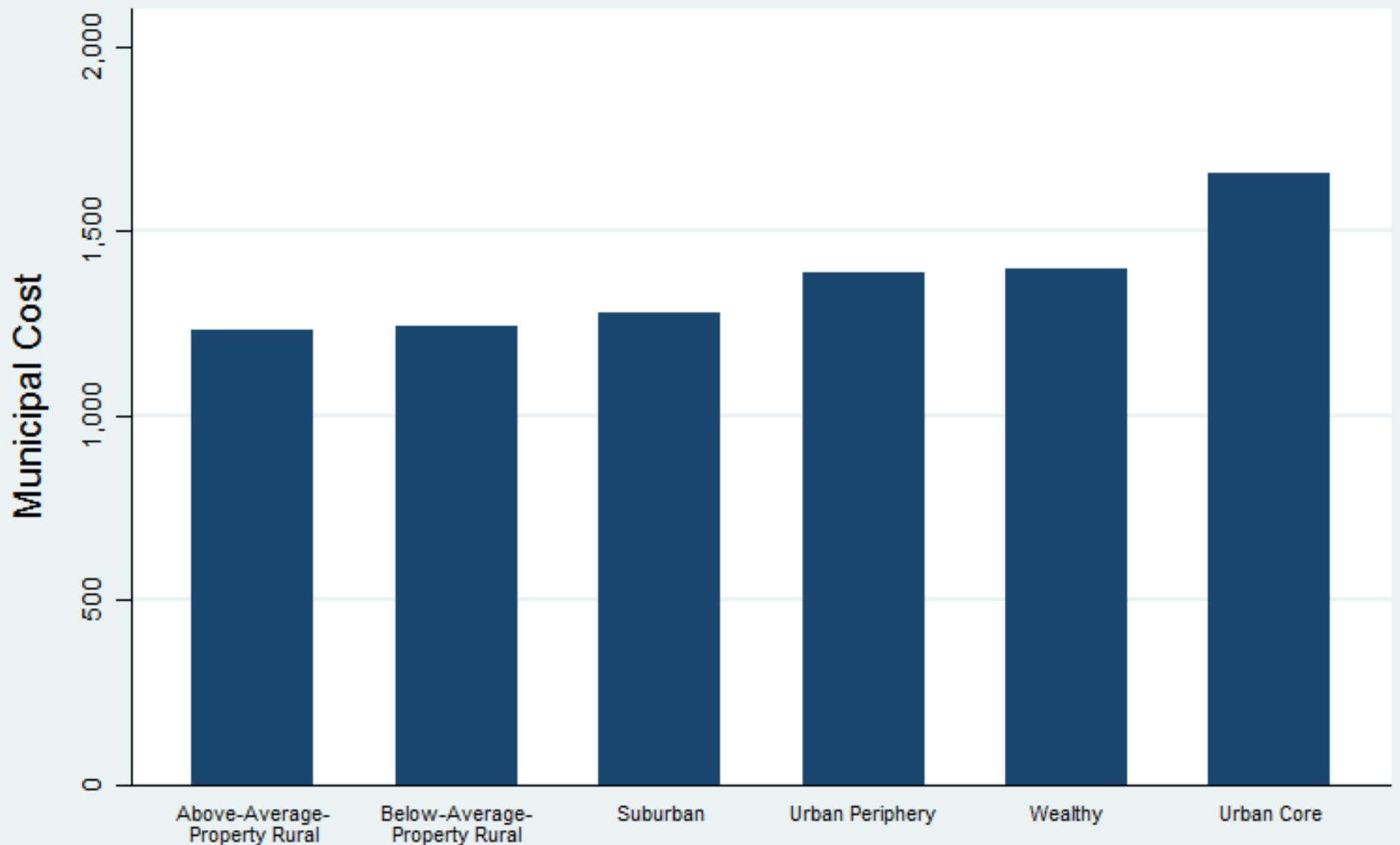
**Figure 2. Municipal Cost by Municipality**  
 (FY2007–FY2011 average, 2012 dollars per capita)



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

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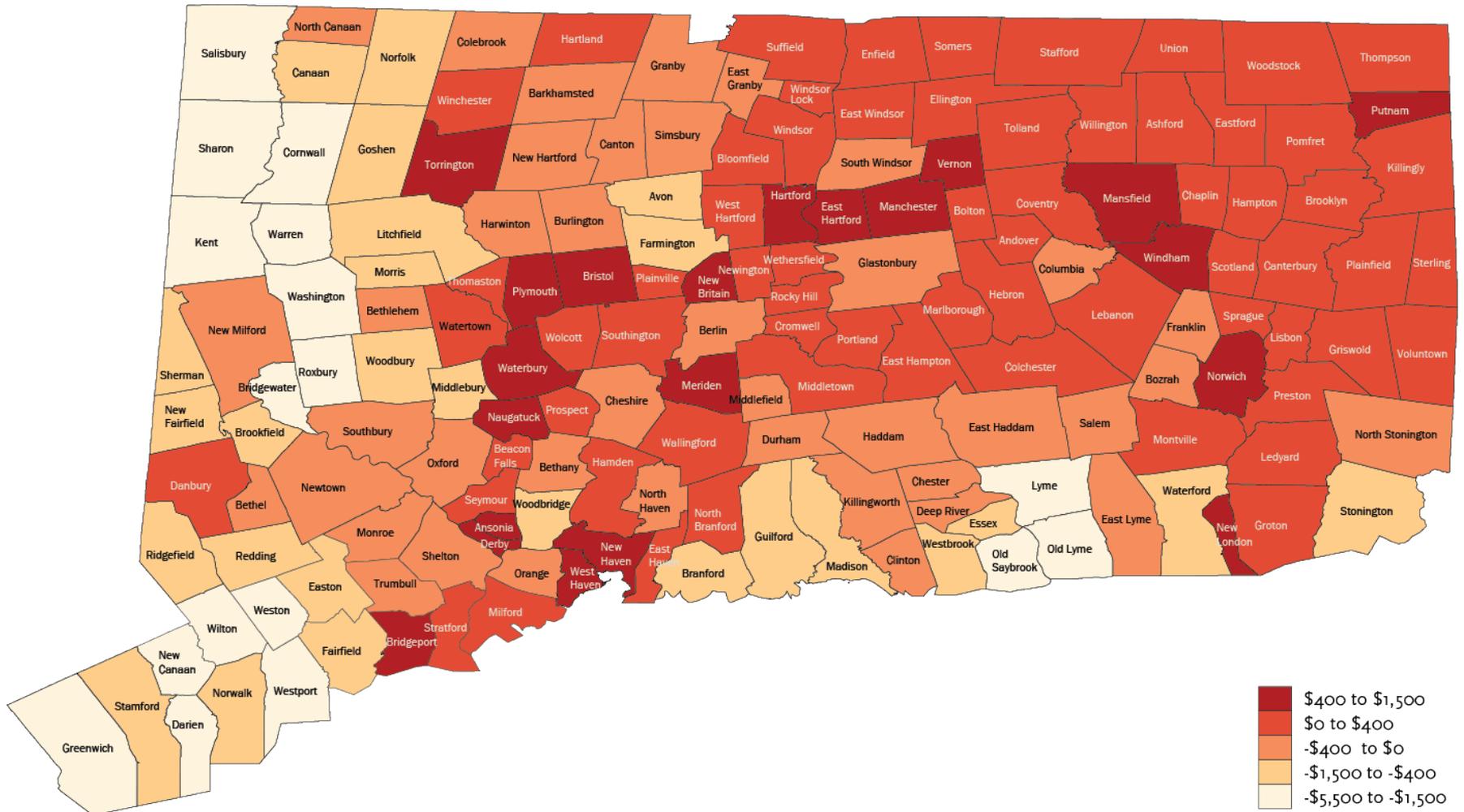
- Municipal gap = municipal cost – municipal capacity
- Statewide municipal gap is zero.
- A positive gap represents a municipality lacking sufficient revenue-raising capacity to provide common nonschool services. The larger the gap, the worse the fiscal condition.
- A negative gap represents a municipality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

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

Source: Authors' calculations.

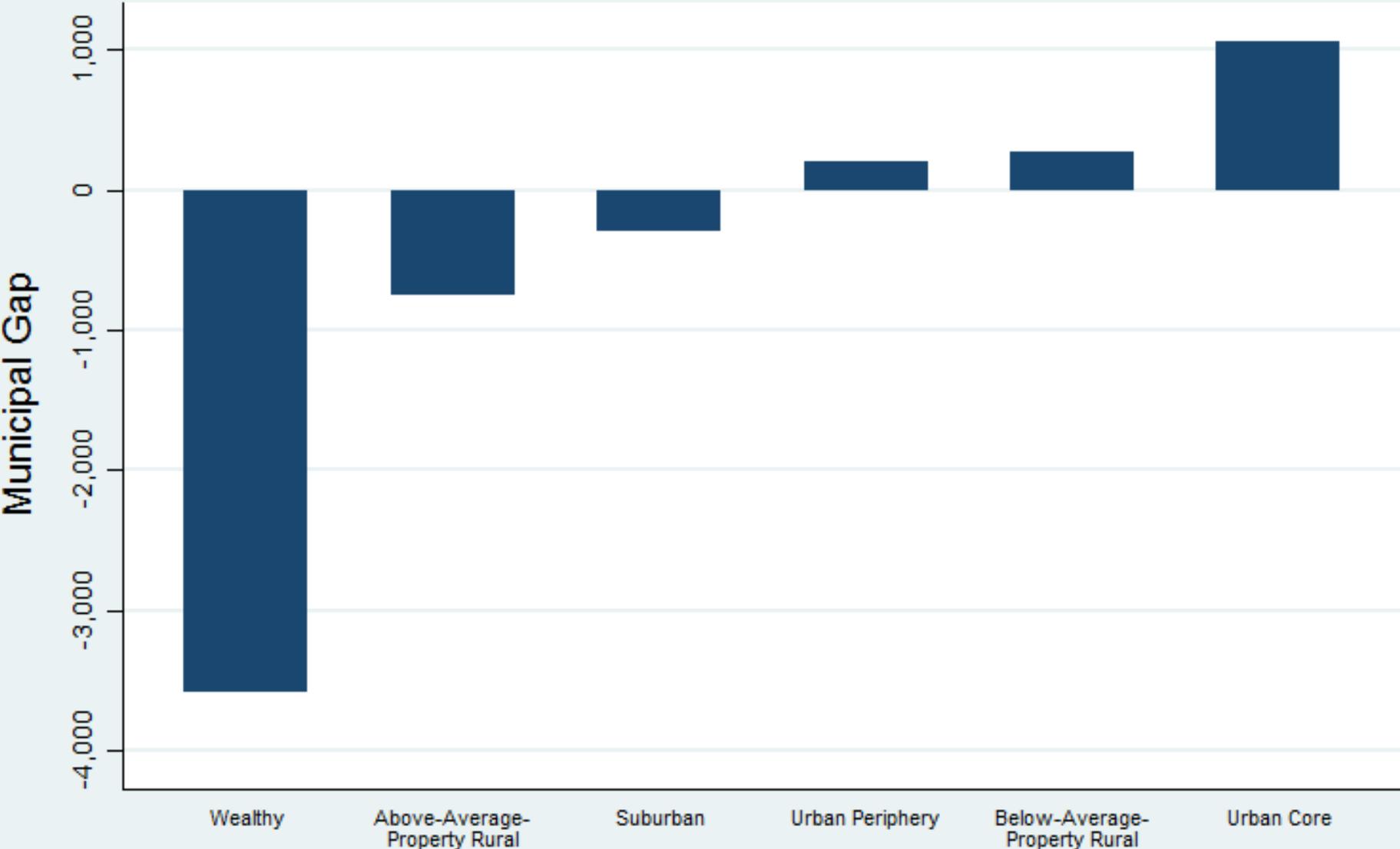
**Figure 3. Municipal Gap by Municipality**  
 (FY2007–FY2011 average, 2012 dollars per capita)



Source: Authors' calculations.

# Municipal Gap by Municipality Type

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



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

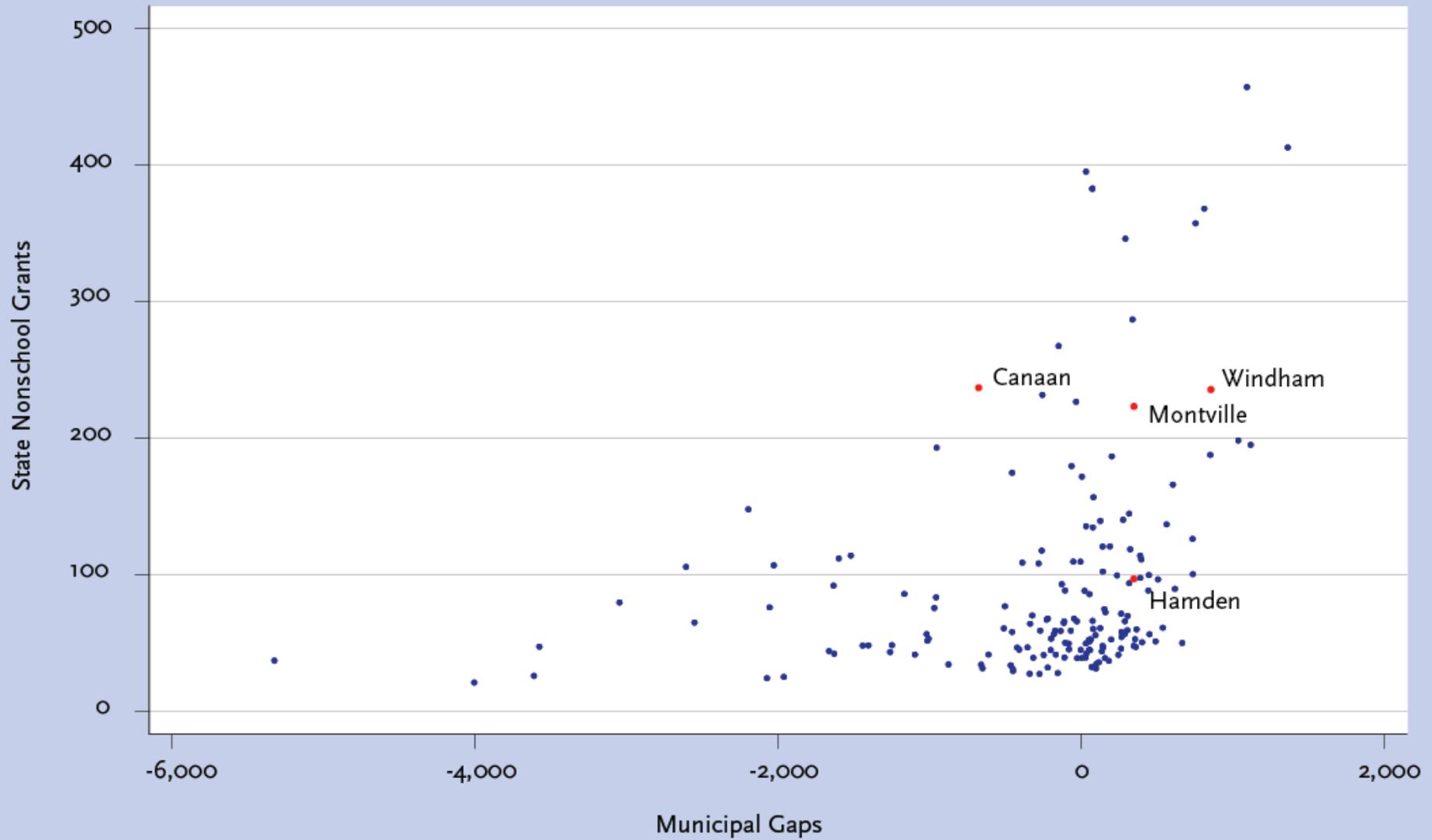
# State Nonschool Grants

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- 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.

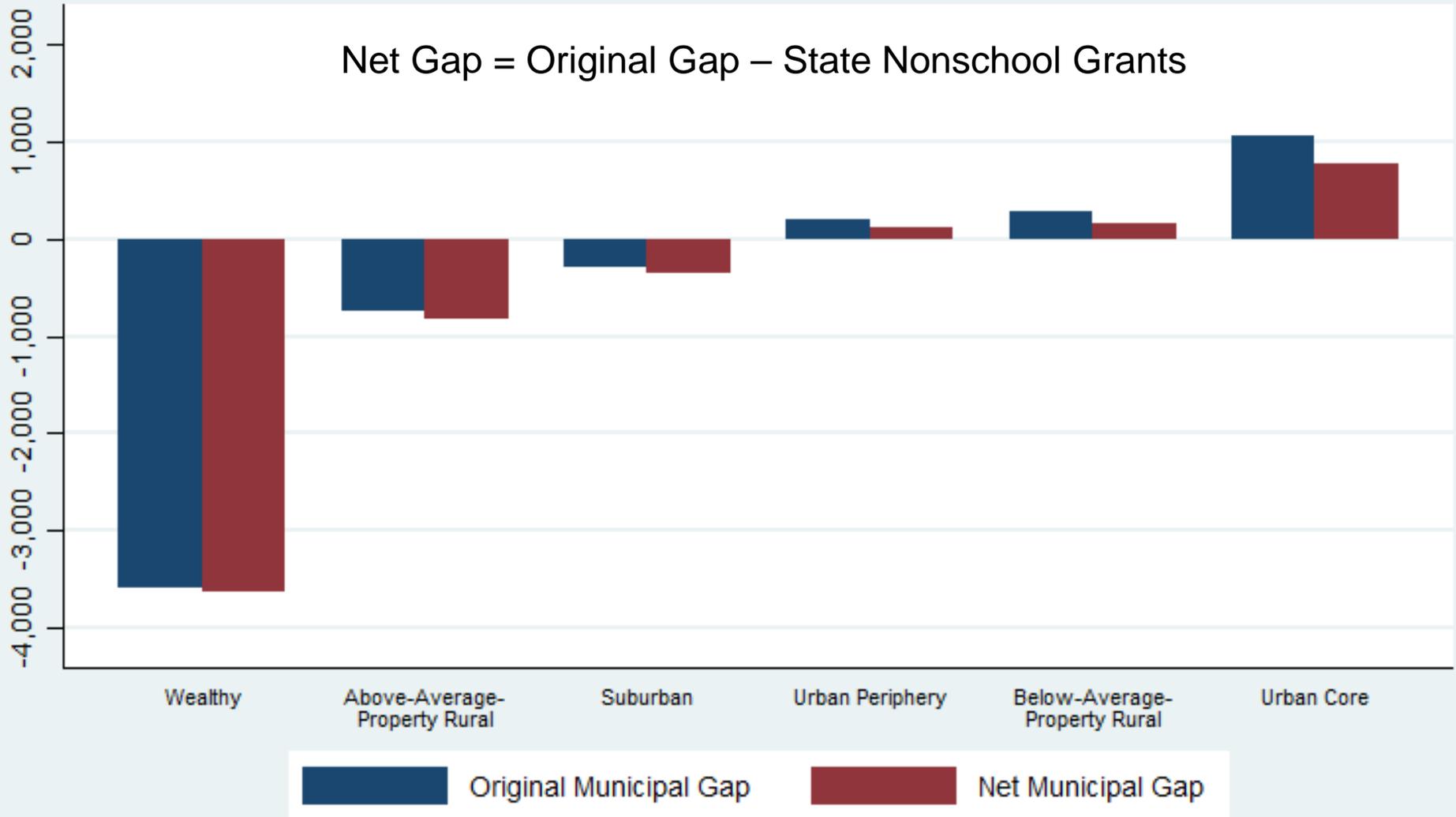
**Figure 4. State Nonschool Grants Versus Municipal Gaps**

(FY2007– FY2011 average, 2012 dollars per capita)



# Original Municipal Gap versus Net Gap by Municipality Type (FY2007–FY2011 population-weighted average, 2012 dollars per capita)

Net Gap = Original Gap – State Nonschool Grants



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 grant programs play a limited role in reducing nonschool fiscal disparities in Connecticut.

# Contact Information of the Corresponding Author

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Bo Zhao

Senior Economist

Federal Reserve Bank of Boston

600 Atlantic Avenue T-8

Boston, MA 02210

(617) 973-3061

[Bo.zhao@bos.frb.org](mailto:Bo.zhao@bos.frb.org)