Executive Summary

Unless corrective policies are implemented, Connecticut’s regressive property tax structure will continue to exacerbate disparities in public service quality throughout the state. With the state witnessing wide disparities in income and home values, regressive property tax policies will particularly prevent the closing of the statewide achievement gap between affluent and impoverished students. To provide more equitable educational outcomes lawmakers should strongly consider modifying tax expenditures assisting affluent homeowners and increasing statewide aid to public schools systems statewide.

Property Tax Structure

Similar to other northeastern states, Connecticut local governments rely heavily on property taxes to fund municipal services. In 2011, property tax revenues composed 68% of municipal revenues and were used to fund services such as public education, police and fire services, and local libraries.¹ Connecticut property taxes remain above the national average and in 2007 the average household paid $2,312 in property taxes. (The national average totaled $1,278.) Indeed, the Connecticut Conference of Municipalities accurately concluded, that “the property tax is Connecticut’s only major locally generated revenue source.”²

While local property taxes remain a stable revenue source for municipalities, it should be noted that Connecticut’s property tax structure is also marked by sharp differences in property tax rates between low and high-income homeowners. Unfortunately, the state’s most affluent homeowners often pay lower property tax rates than the state’s least affluent. For example, in

2009, the City of Hartford, possessing a per capita income of $28,300 and an average home value of $184,500, possessed a property tax mil rate of 72.79. The town of Tolland, possessing a per capita income of $104,970, with an average home value of $296,626 taxed its homeowners at a mil rate of 29.15. Clearly, central concerns of regressivity and the process of taxing the state’s least affluent at higher rates than wealthy residents calls into question the state’s notion of vertical equity. Indeed, equity concerns were justified when research revealed that in 2003, “the state’s poorest 40% of households spent 3.9% of their income on property taxes…[while] the richest 20% spent just 1.6% of their income on property taxes.” With the state facing fundamental challenges of housing affordability after the nation’s deep recession the fairness of tax structures may be of heightened concerned to citizens.

**Causes and Consequences of Property Tax Inequality**

There are several reason why wealthy residents pay lower property tax rates than impoverished residents. One cause is the large income disparities present within the state. In 2007, the U.S. Census Bureau reported that Connecticut had the second largest unequal distribution of household incomes in the nation. In accordance to economic principles, as incomes and home values in certain communities rise, municipalities require lower tax rates to raise revenues needed for the delivery of public services. As a result, wealthy homeowners typically observe lower tax rates than those living in poorer towns with lower home values. Additionally, less affluent communities may also face higher costs of providing services to

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economically vulnerable populations. Additional costs of educating more students with limited-English proficiency, providing additional health care services, and supply additional police and fire services may also require less affluent municipalities to raise more revenues to deliver public services than their affluent counterparts.

As a result of income disparities and divergent property tax rates, local public service within Connecticut’s 169 municipalities vary greatly in quality. Exacerbated by the absence of a county or regional government with the power to redistribute property tax revenues, service quality such as police, fire, and education services depend greatly on where a homeowner resides. Evidence exists that large disparities in public services do exist and not only incentivize urban sprawl, but also influence key community aspects like education quality. While affluent communities like Sharon, CT spent over $20,000 per capita on each child entering the local school system, Tolland, spent only $10,617. With funding disparities as large as those witnessed in Connecticut, it is no surprise that the state possesses one of the nation’s largest educational achievement gaps. In 2010, the National Assessment of Educational Progress (NAEP) found “in reading and math, the high school performance gap between Connecticut’s low-income and minority students and their white, middle-class peers [was] larger than that of all other participating states.”

On average, the achievement gap between poor and non-poor students totaled 3.1 grade levels in math.

**Recommendations**

To foster greater vertical equity within the Connecticut property tax structure and close achievement gaps lawmakers should take several steps. First, lawmakers should modify statewide tax expenditures that do not target vulnerable homeowners and use additional tax revenues to increase state aid to public schools. Currently, the state administers an elderly circuit-breaker program, assisting seniors over the age of 65. Homeowners can receive up to a $1250 tax credit on their state income taxes if their earned income does not exceed $39,500. (Figure is for a married couple). Unfortunately, circuit breaker guidelines do not prohibit elderly with high home values from participating in the program. Subsequently, retired elderly with low

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adjusted gross incomes who own high-valued homes outright are still eligible for assistance. Such assistance to affluent seniors is unnecessary and lawmakers should implement new restrictions limiting tax credits to elderly homeowners owning homes valued at under $250,000. New restrictions will increase state resources available for local public services like education.

Secondly, since the state lacks a county government responsible for redistributing regional resources, the state should assume this role and re-appropriate savings from the modification of tax expenditures to increase state aid to local school districts. Increased state aid should target towns and cities with the poorest student outcomes. Educational aid can be used to supplement resources needed for the provision of English-as-a-Second Language programming, special education teaching, health care services, and other district needs. To distribute additional aid, the state Department of Education should use a cost function and cost index to estimate funding needs of the state’s various school districts. A cost function and cost index will allow the state to accurately calculate the funds needed to educate district populations, given student characteristics such as poverty and English proficiency. Additional aid to high-need schools would allow administrators to hire more qualified teachers, implement enrichment-based after school programming, and provide supplemental academic assistance to struggling students.

Seeing whereas increased state aid for education can increase inefficiency at the local level, state lawmakers should also mandate a minimum property tax rate. A minimum tax rate would prevent towns from using aid to lower property taxes or use funds for non-educational services. Additionally, because school districts are often more careful in spending revenues they raise locally, the establishment of a minimum property tax rate may not only guarantee a minimum level of per-pupil spending, but could also minimize inefficiencies associated with statewide re-distributive schemes.

Essentially, to increase the equitable provision of public education within the state of Connecticut, lawmakers should modify tax expenditures benefiting wealthy homeowners, use additional tax revenues to redistribute and increase state aid to local governments, and should implement a minimum property tax rate to prevent inefficiencies. By providing supplemental aid to towns and municipalities experiencing the greatest need, the state can support the closing of persistent achievement gap plaguing the state’s public schools.