



**An Analysis of PILOT
{Payment in Lieu of Taxes}
Windham, Connecticut**

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The Town of Windham engaged the Connecticut Center for Economic Analysis to conduct a study of and make recommendations regarding the distribution of Payment in Lieu of Taxes (PILOT) funds that it receives. The major source of local revenue to the town is taxation of real property. Windham is home to many properties that are exempt from property taxation under state law, most notably Eastern Connecticut State University and Windham Community Memorial Hospital. These properties are located within the Willimantic Services District (WSD). Taxable properties within the Service District pay a tax to the District to cover the costs of the Willimantic Fire and Police Departments in addition to the town-wide tax they pay to fund the school district, public works, and other town-wide services. The distribution of PILOT funds between the Town and WSD budgets has been a matter of controversy for some years, particularly during deliberations on the budget for the 2006-2007 fiscal year.

This report reviews the history of the PILOT fund distribution in Windham, the history of the PILOT fund statutes in Connecticut, and a discussion of the impact of tax-exempt properties on Town and WSD expenditures. The report presents a series of possible scenarios for distribution of the PILOT funds for future years, including a recommended distribution based on CCEA's best judgment. Our recommendation is that the Town guarantee a minimum rate of PILOT funding for to WSD each year to provide greater predictability to that tax rate.

Background discussions with town officials:

Patrick Flaherty met with each member of the Board of Finance except one who preferred not to meet but to provide information in writing. He also collected information from staff in town agencies, including the office of the First Selectman, Town Administrator, Director of Finance, Town Clerk, Assessor, Tax Collector, Public Works, Police Department, Fire Department, Public Works Department, and Waste Water Treatment. In addition, he talked with former First Selectman, current State Representative Walter Pawelkiewicz, and former Finance Director Katherine Maxwell.

Review of the public record with respect to the history of PILOT fund allocation in Windham:

While the statutes reference Payment in Lieu of Taxes (PILOT) programs as far back as the 1930's, and the current statute for PILOT for state-owned property was first enacted in

1969¹, this report focuses its analysis on recent years. For the Town of Windham, the major source of PILOT funds is the State of Connecticut, in particular the PILOT programs for state-owned property in the town and for the private colleges and hospitals. In addition, the town receives a significant grant from the Pequot/Mohegan fund. While the state revenue comes from the slot machines at the two casinos, the state bases the distribution of the funds to the towns in part on the PILOT formula.² For the major PILOT programs, the level of state PILOT is set at a percentage of the taxes that would have been paid on the properties if the properties were fully taxable. Therefore the major payments to town are based on assessed values of these properties and the mill rate.

Windham taxes all non-exempt properties at a uniform mill rate to pay for town-wide services, for example education and public works (roads). In addition, properties in the Willimantic Services District (WSD) pay an additional tax to the town to fund the professional fire and police departments that provide services within the district. Properties in Windham outside the WSD are in the Windham First Taxing District (WFTD), a statutory special services district organized pursuant to Chapter 105 of the statutes. Properties in the First Taxing District pay a tax to the district which is separate from the tax paid to the town, although this tax is collected by the town as an administrative convenience with funds forwarded directly to the WFTD.³

In the 1980s the state recognized only the town mill rate for purposes of calculating PILOT payments, but the town government chose to use the PILOT funds to offset the tax rates for the both the town as a whole and the Willimantic Services District. The basis for this structure was the differential mill rates. Thus about 1/3rd of the PILOT funds went to the Willimantic Services District budget and 2/3rd toward the town-wide budget, reflecting the fact that the Windham-wide mill rate was about twice as high as the WSD rate. Residents of the WSD pay both taxes; from their perspective, approximately 1/3rd of their tax bill went to cover WSD expenses (basically fire and police), the other 2/3rd for general Windham services and programs.

¹ There have been many changes to the PILOT statutes over the years, see a later section of this report.

² More details about the state programs are later in this report.

³ With two exceptions, in the past dozen year or so the WFTD mill rate has been between 11% and 13% of the WSD mill rate. There is no evidence of an outcry for “relief” from the tax rate paid to the WFTD. The two exceptions are FY 2000-01 and the current fiscal year, 2006-07. Both will be discussed in detail later in this report.

In the 1990s, the town persuaded the state Office of Policy and Management to recognize the Willimantic Services District mill rate in addition to the town mill rate for the purposes of PILOT calculations. When the town submits the forms to the state each year for the state-owned property, hospital, and other pilot programs, the state pays PILOT on the properties in the WSD based on the combined (Windham plus WSD) mill rate. Until the 2006-2007 fiscal year, the town continued to divide the PILOT funds between the town-wide and the service district budgets based on the mill rates. For the two largest PILOT funds (state property and hospital), the actual allocation has been extremely close to the actual mill rates. For the other large fund, the Pequot/Mohegan funds, in some years the State of Connecticut (OPM) provided the town with a suggested allocation between the town and the WSD, which the town followed with rare adjustments. In 2006-07 fiscal year, the town decided to allocate the Pequot funds following the same distribution as all PILOT funds. The town also receives PILOT payments based on the property owned by the Willimantic Housing Authority. The town receives two PILOT payments: one from the State of Connecticut and one directly from the Housing Authority. These are shown as separate revenue items in the town’s budget documents. However, the town has allocated both of these payments between the Town and the WSD on the same principles as other PILOT funds. Other state PILOTS include Manufacturers Machinery and Equipment, Elderly Circuit Breaker, Distressed Municipalities Manufacturing, and other very small programs. Given the relatively small size of these programs, there is often a large variance between what the town projects and what is actually received from the state. Timing of the receipt of payments is inconsistent from year to year. The following table summarizes PILOT receipts for the past seven fiscal years; it uses audited revenues, with the exception of 2006-07, when it relies on the adopted budget.

	<u>2000- 01</u>	<u>2001- 02</u>	<u>2002- 03</u>	<u>2003- 04</u>	<u>2004- 05</u>	<u>2005- 06</u>	<u>2006- 07</u>
WSD State PILOTs as % of Combined							
State Property (ECSU & others)	30%	32%	31%	32%	32%	34%	60%
Hospital	30%	32%	31%	32%	32%	34%	60%
Pequot/Mohegan	23%	24%	24%	28%	27%	31%	60%
Housing Authority*	30%	32%	31%	32%	32%	33%	60%
Other State PILOTS	24%	28%	22%	28%	24%	34%	60%
WSD Mill Rate as % of Combined	30%	32%	31%	32%	34%	35%	23%

*Windham allocated the PILOT funds received directly from the Housing Authority in the same manner as those funds received from the State of Connecticut. For this table “combined” means Town-wide plus WSD.

In April 2006, the Board of Finance voted “to adopt a 60% - 40% WDS to Town PILOT allocation formula” for the 2006-2007 fiscal year, switching from the long-standing approximately 2/3rd to 1/3rd allocation.

Legislative history and legislative intent: Connecticut PILOT funds.

There are several PILOT programs in Connecticut statutes. This report focuses on those that are most important to the Town of Windham.

Grants in lieu of taxes on state-owned real property.

Payments to towns based on the amount of state-owned property in the town date back at least as far as 1935.⁴ The legislature enacted the current statute for PILOT for state-owned property (Section 12-19a of the Connecticut General Statutes) in 1969; Public Act 766 established a formula for payment in lieu of taxes (PILOT) for state-owned real property. The 1969 formula was:

$$\frac{\text{total tax levied by town on real property}}{\text{total tax levied on real property by all towns in state}} \times \text{assessed value of all state-owned real property in such town} \times \text{mil rate of such town} \times 10$$

For this formula, the state used the total taxes levied (both numerator and denominator) in the prior calendar year and the assessed value of the state-owned real property, with the exception of property acquired for highways and bridges. The law capped payments at \$600,000 per town, with a minimum payment of \$2,000 per town. The law reduced the grant pro-rata so that the total grants could not exceed the amount appropriated by the state. The law included a stop loss provision (so the state would not reduce grants that towns received in previous years) and a process for assessment and appeals.

In 1971 the legislature made minor changes, and in 1977 it eliminated the \$600,000 cap. Then, in 1978, the legislature also eliminated the pro-rata reduction in case of an insufficient appropriation.

In 1987 the legislature deleted the 1969 formula, replacing it with a grant of 20% of the property taxes which would have been paid for state owned real property on the assessment list for the assessment date two years prior to the start of the state fiscal year in which the grant is payable. At the same time, the legislature raised the \$2,000 minimum to \$4,000 and capped the grant at 7½% of the total tax levied on real property in the preceding calendar year in a town.

⁴ In the *Connecticut General Statutes Annotated*, there is a reference to several “prior laws” – prior to the current PILOT statute. The dates of these prior laws are 1935, 1949, 1951, 1953, 155, 1958, and 1961.

In 1988, the legislature increased PILOT to 100% of property taxes that would have been paid for correction facilities used for incarceration purposes and, in 1989, and, as part of a comprehensive bill on Indian affairs, added “reservation land held in trust by the state for an Indian tribe” to the list of properties eligible for PILOT funds. In 1990, the legislature agreed to raise the cap in phases from the 7½% cap to 14% by fiscal year 1994. In 1991, it eliminated the minimum grant of \$4,000; for fiscal year 1993 it limited the amount of the total PILOT payable proportionally in the event that the total of PILOT payments would exceed the amount appropriated. In 1993, the legislature agreed to remove the 14% cap, raising it progressively to 100% by fiscal year 2004. In 1995, the legislature created a special 40% PILOT grant for Connecticut Valley Hospital (CVH) in Middletown and changed the wording for the cap. In 1997, the legislature expanded the list of properties eligible for PILOT to include municipally-owned airports, extended the property tax exemption to any property the state's colleges and universities lease to nonprofit organizations and qualified the municipality for a PILOT grant for these properties, and added a 100% PILOT for any town in which more than fifty percent of the property is state-owned real property.

In 1998 the state created a 100% PILOT for Long Lane School, the prison section of John Dempsey Hospital, and codified an administrative hearing process for towns wishing to appeal an assessment decision that the Office of Policy and Management (OPM) had made. In 1999, the legislature increased PILOT payments from 20% to 45% of the property taxes that would have been paid, but added language to proportionately reduce the grants payable to each municipality in FY 2000 and each year thereafter if the total grants in such year exceeded the amount appropriated.

In 2000, additional legislation permitted any municipality to “provide to a special services district within such municipality a portion of any payment from the state in lieu of property tax revenues . . . if such payment is attributable to property within such district.” Debate on this provision in the House emphasized that the provision is permissive, that the decision to allocate PILOT payments to the special services district remains with the municipality. (This provision, codified as Sec. 12-20c of the statutes, covers all state PILOT programs, not just the program for state-owned property.) In 2000, the legislature also increased the PILOT for CVH from 40 to 65% and added the word “borough” to the definition of “town” for the purposes of PILOT. In 2001 it changed the law’s language to read “town or borough.”

There have also been a number of changes to the statute with regard to the procedures for establishing the assessed value, including the appeals procedure available to the towns and the procedures and timing for the payments to the town. There has also been legislation regarding particular properties in various years, for example a 2004 act regarding the Torrington courthouse and a 2006 act granting \$60,000 to Voluntown due to the state forest located there.

Private Colleges and General Hospitals PILOT.

Public Act 78-113 (1978) established the PILOT for real property that private nonprofit colleges and hospitals owned. At the time the grant was equal to 25% of the property taxes which would have been paid, based on the assessed value as of the assessment date immediately prior to the commencement of the state fiscal year in which the state would pay the grant. Under the law, the amount the state paid each year would be reduced proportionately if the total of such grants each exceeds the amount appropriated. The grant was payable to any “municipality;” the law defined word “municipality” to mean “any town, consolidated town and city, consolidated town and borough and any city not consolidated with a town.” As with the state PILOT, the statute also set up a process for determining the valuation of the properties for PILOT purposes and a schedule for these determinations and payments.

In 1987, the legislature increased the grant from 25% to 40%, based on the assessment date *two years prior* to the commencement date of the fiscal year in which the state is to make the grant. The law also changed dates for the assessment and payments procedure. Dates were again adjusted in 1988. In 1990 the state increased the rate to 50% of the taxes that would have been paid, and then again in 1991 to 60%. In 1993, the legislature expanded the definition of hospital; in 1994 it clarified this new definition to make sure it excluded convalescent and nursing homes.

For the purposes of this study, the legislature made a more interesting change in 1994. Toward the end of Public Act 94-175, “An Act Making Technical Revisions to the Tax Statutes,” the definition of “municipality” was changed to mean “any town, consolidated town and city, consolidated town and borough, **BOROUGH, DISTRICT, AS DEFINED IN SECTION 7-324,** and any city not consolidated with a town.” (Capital letters indicate new language.) This statute defines a “district” as “any fire district, sewer district, fire and sewer district, lighting district, village, beach or improvement association and any other district or association, except a school district, wholly within a town and having the power to make appropriations or to levy

taxes.” In 1998, the legislature included urgent care facilities that were previously hospitals to the hospital PILOT [e.g., Sharon hospital].

In 1999 the state increased its PILOT rate from 60% to 77% of property taxes which would have been paid, and clarified the definition of urgent care facility to ensure that Sharon hospital would be eligible. In 2001, the legislature rewrote definitions of private colleges and hospitals, and in 2004 the law provided for PILOT payments for “a campus of the U.S. Department of Veterans Affairs Connecticut Healthcare Systems,” phasing them in, starting with 20% of the amount payable for FY2007 through 100% of such amount by 2011. In 2005, the legislature added a \$500,000 annual PILOT for the City of New London for the United States Coast Guard Academy; this PILOT increased to \$1 million in 2006.

Mashantucket Pequot and Mohegan Fund.

In 1993 Connecticut established the Mashantucket Pequot fund to receive revenues from the Mashantucket Pequot Tribe as part of an agreement negotiated between the Tribe and Governor Weicker. The original act provided for a distributions of \$20 million to towns based on the formula for PILOT grants for state-owned property, \$20.1 million to towns based on the formula for PILOT grants for private colleges and general hospitals, \$35 million on a formula based on equalized net grand list, population, and per capita income in each town. The act allocated an additional \$5.475 million based on a similar formula specifically for eleven towns, including Windham. However, the act provided specific dollar amounts to 28 towns, for which none of these provisions applied. The act included Windham in the list of 28 towns and allocated it \$1,307,974. This provision is still in effect, and that dollar amount has not changed through the January 1, 2007 printing of the Connecticut General Statutes. Nevertheless, the amount of funding Windham has received from the Pequot funds has varied greatly over the years, depending on the fiscal position of the state and the will of the legislature. In general, the amount of funding that the state has provided to the towns through this fund has increased. Importantly, in 1997, the act brought in the Mohegan Tribe (and the fund was renamed). In the same legislation, the legislature adopted an amendment that Rep. Johnston (co-sponsored by Sen. Williams) offered to require that eligible special services districts receive a portion of Pequot/Mohegan funds, “the portion payable to any such district under this subsection shall be the amount of the grant to the town under this subsection which results from application of the district mill rate to exempt property in the district.” As codified, “this subsection” is the portion

of the fund allocated according to the formula for PILOT for state-owned properties [Section 3-55j (a) of the General Statutes]. In debate on the floor of the House, Rep. Johnston stated that this was to codify “what presently is in practice. The amendment would result in aid which currently is distributed to Putnam and Windham, be shared between these towns and their special service district. This is current practice and we wanted to make sure it was the state’s intention that it goes this way, but we wanted to make sure that it was in the statute.” (Rep. Johnston, May 31, 1997) Despite Rep. Johnston’s words, it is not clear that this subsection has ever applied directly to Windham due to the phrase “Notwithstanding the provisions of subsections (a) to (f) inclusive of this section, the total grants paid to the following municipalities . . . shall be as follows” with Windham listed as one of the towns that follows. (Section 3-55j(g) of the General Statutes).

In 1996 the legislature passed Public Act 06-187; Section 96 sets aside an additional \$1.6 to be “distributed to municipalities that are members of the Southeastern Connecticut Council of Governments and to any distressed municipality that is a member of the Northeastern Connecticut Council of Governments or the Windham Area Council of Governments,” starting in the fiscal year ending June 30, 2008. This provision has not yet been codified into the statutes but “remain in full force and effect” according to documents released with Governor Rell’s proposed budget for FY 07-08 and FY 08-09.⁵

Review the expenditure budgets of the various entities within town to determine if state properties cause a disproportionate burden on particular services of one taxing district to the extent that this should be reflected in the allocation of PILOT funds.

State property in Windham is heavily concentrated in the Willimantic Service District. Based on assessed value, more than 95% of the state property in Windham is in the WSD. Eastern Connecticut State University (ECSU) itself accounts for more than 94% of the state property in the WSD (and more than 90% of the Windham total): Windham Regional Technical School (a regional technical high school) accounts for 82% of the remaining state property in the WSD. Thus these two educational institutions account for almost 99% of the state property in the WSD and almost 95% of state property within all of Windham based on assessed value.

⁵ The statutes were most recently codified as of January 1, 2007 but this law does not take effect until the fiscal year ending June 30, 2008 – or not until July 1, 2007 at the earliest.

Impact of State Property on Windham Town-Wide Expenditures

The largest town-wide expenditure is for public education. State properties do not generate demand for this service. In this regard, state property is similar to commercial properties. Like a commercial use, the employees and, in this case, the students may have children who are in the Windham schools. But as residents, they pay property taxes to support the schools. Thus ECSU does not itself generate any demand for the services of the Windham public schools. The same holds true for the Windham Regional Technical High School. But it may actually reduce costs for the Windham schools, as some students who would have enrolled at the public high school are instead enrolled at the technical high school.

The second largest town-wide expenditure is for public works. The largest single item in this budget (34% of the public works expenditures) is solid waste removal. Here again the state properties create less demand for services than other properties in town. ECSU has a contract with a private vendor to remove the trash generated on campus. ECSU also picks up 90% of the leaves on campus. Although University does use the town composting site, it is ECSU personnel who bring the leaves to the site. Thus there is no identifiable cost to the town for removal or transport of those leaves. The town does pick up the leaves along High Street from the formerly residential properties that ECSU has purchased. ECSU coordinates with the Windham Public Works Department and puts the leaves out onto High Street at the appropriate time for collection by the town.

The second largest public works expenditure is Roads and Drainage. The major state properties (ECSU and Windham Tech) are located along local roads and do generate traffic. However, these roads are not specific to either institution, are an important component of the local road network, and would need maintenance even in the absence of the state properties. The public works budget also includes funds for snow removal. For the state properties (as well as for other properties in town) the town's responsibility is only for the roads on the perimeters; ECSU takes care of all the snow removal internal to its campus. Because they have the equipment and the personnel, if it chose, ECSU could be a better neighbor by assisting with snow removal on roads near its campus.

One public works function where the state properties generate additional cost to the town is parking. Portions of local streets near the campuses of ECSU and Windham Tech are restricted to "Residents Only" because of the excess demand for parking ECSU and Windham

Tech generate. (“Excess” in this case means that the demand for parking exceeds the amount of parking available on campus.) Each sign costs \$60 for material alone plus the time of public works personnel to install. Signs often need to be replaced. According to the public works director, approximately 90% of the town’s sign budget is related to the parking issues ECSU creates.

Another public works function related to the state properties is cleaning up litter. Because ECSU bans alcohol from campus, students regularly leave campus to consume alcohol, particularly on Thursday evenings. This activity leads to additional litter and cleanup requirements on Friday mornings on local streets near campus. Of course ECSU itself does all litter cleanup on the campus. But ECSU’s policy does have an impact on the public works department. However, in terms of the overall \$3.7 to \$4.1 million public works annual budget, the overall impact does not appear to be significantly different from other properties in town.

This study found no evidence that the impact of the state properties on other town services, including general administration, human services, civic and cultural, planning and development, etc., was any more or less than other state properties. Because ECSU is a major employer and institution in town, the town’s planning and development processes need to consider the presence of ECSU to exploit fully the opportunities its presence offers and to mitigate (as much as practicable) any problems it creates. But in terms of annual expenditures, the state properties do not seem to impose a burden on the other town-wide departments or functions in excess of that from any other property.

Outside the Willimantic Service District, there is some forest land and some vacant state-owned land. Again based on assessed value, more than 98% of the state land outside of the WSD is the airport. As with all commercial properties, the airport generates no impact on the largest municipal expenditure: public education. With regard to the other public services, there is no evidence that the airport creates greater demand than any other property.

Impact of State Property on Willimantic Service District Expenditures

The Willimantic Service District funds a paid fire department and a paid police department to meet the public safety needs within the district. Volunteer fire fighters and the Connecticut State Police cover the rest of the town of Windham.

State property, in particular ECSU, demand more services from the fire department than the typical property in the Willimantic Service District. In the past several years, ECSU has been

expanding. The Fire Department is involved with pre-planning for all new ECSU buildings and reviews all plans for alarm systems, fire protection, fire alarms, access, hookups, etc. Clearly it is in the fire department's interests to be involved in ensuring the construction of safe buildings, as the firefighters' lives would be at risk if there were to be a problem, and the Fire Department appreciates the cooperation of ECSU in these matters. However, these tasks take time and represent a cost to the department.

False alarms are no longer a big problem at ECSU. In this matter, the University has cooperated with the fire department to resolve an issue. At one time there were 4 or 5 false alarms at the University per week. Each alarm requires a response from the fire department. The University has begun to assess fines for false alarms, using its residential advisor program. The number of false alarms has declined to fewer than 4 or 5 per semester and may even be as low as 4 or 5 times per year. There are, however, frequent false alarms at Windham Tech.

The University is a major user of the services of the Willimantic Fire Department. While not "frequent", there are more fires at ECSU than at a "typical" property – especially room fires in dormitories, the result of candles, cooking, and computers. Even something as harmless as food on the stove that creates enough smoke to trip the fire alarm requires the Fire Department to respond. Once a floor on campus is filled with smoke, it will often take an hour for the smoke to clear; the Fire Department may need to call a back-up to fill in at the station. The Fire Department is also involved with the University's hazardous material procedures (this has imposed extra training on Willimantic's fire personnel and required other special resources), and participates in required practice that is part of the ECSU emergency action plan. In the nine months from June 1, 2006 through February 28, 2007, months that included most of the summer and the Christmas break, the fire department was called to the University 125 times. This is approximately once every two days. The department was called to provide EMS service and to respond to smoke detector activations, to smoke from other sources, to a gas leak, to a car fire, to a few false alarms, and to a couple of smoke detector malfunctions.

The University also has an impact on the Police Department. While ECSU has its own police force which patrols the campus, off-campus properties are the responsibility of the Willimantic Police Department. ECSU prohibits alcohol on campus; this policy is enforced. Rather than risk expulsion, students leave campus to consume alcohol, often at off-campus parties. While these parties are on private properties that pay the full tax rate to the Town and

the WSD, many attendees at these parties live in the dormitories on campus which are state property and thus exempt from local taxation. The ECSU alcohol policy has a direct cost impact on the police department, even though the Willimantic police seldom if ever go onto the ECSU campus. There were 173 calls for service in the year 2006 which were specifically identified as college disturbances/parties.

Willimantic police are also responsible for enforcing the parking regulations off campus. As mentioned above, the state properties (ECSU and Windham Tech) generate a demand for parking in excess of that available on campus. Residents of the streets near campus thus depend on the Willimantic Police to enforce the parking regulations.

Willimantic Police benefit from a mutual aid agreement with the ECSU police – in general ECSU provides more assistance to the Willimantic Police than the reverse. However, in most situations where the ECSU police are assisting the Willimantic Police Department, an ECSU student is involved.

Impact of Windham Hospital on Windham Town-Wide Budget

As with any non-residential property, the hospital does not require the services of the education system (the largest town-wide expenditure). The hospital also disposes of its own hazardous waste, so this is not a responsibility of the public works department. The roads leading to and from the hospital are priority roads for snow removal to assure ambulances and others safe access at all times, but there is no evidence that this adds a disproportionate burden to the public works department. As with the University, decisions about the town's plan of development need to take the existence of the hospital into consideration: it is a major employer in town and may be a focus for other town businesses (pharmacies, physicians' offices, etc.) but the hospital itself does not require town-wide services in greater portion than other properties in town.

Impact of Windham Hospital on Willimantic Service District Expenditures

Compared to typical properties in the Service District, the hospital is a frequent user of the services of the Willimantic Fire Department. There are approximately 12 calls per year for fire alarms or a report of an odor that the Fire Department needs to be investigated. The hospital also calls the Fire Department to assist in moving obese patients. And the Fire Department is prepared to handle any situations involving hazardous materials at the hospital. There have been at least four incidents at the hospital in the past twelve years, most are monitored and isolated

quickly, but one required evacuating the immediate area. While the Department received a grant for hazardous material training, the grant only covered training for four department members. Department funds were used to train an addition 13, so there are now 17 Department members with hazardous material training. The Fire Department is also called (about 12 times per year) to assist with situations in the parking lot where someone has either fallen or become ill.

The hospital's demands for police services are higher than those of a typical property. For example, Windham Hospital is the closest hospital to the University of Connecticut's Storrs campus. As a result, the Connecticut State Police contacted the Willimantic Police to request they station an officer at the hospital during Spring Weekend because of concerns that, if students were brought to the hospital for treatment due to excessive drinking, their friends (who may also have been drinking) might come to the hospital to check on their friends and cause problems in the parking lot or within the hospital itself. While the Willimantic Police Department chose not to deploy its officers as requested, this anecdote illustrates the fact that people bring their problems to the only hospital in the area, and there individuals potentially bring other problems as well – problems that on more than a few occasions require a police response. In 2006 there were 241 calls for service at Windham Hospital or approximately two calls every three days.

Impact of Housing Authority Properties on Town-Wide Expenditures

The Public Works Department estimates that the cost of providing service to the properties of the housing authority is twice as expensive as the average property in town due to issues of parking, trash, and bulky waste left on town streets.

Impact of Housing Authority Properties on Willimantic Service District Expenditures

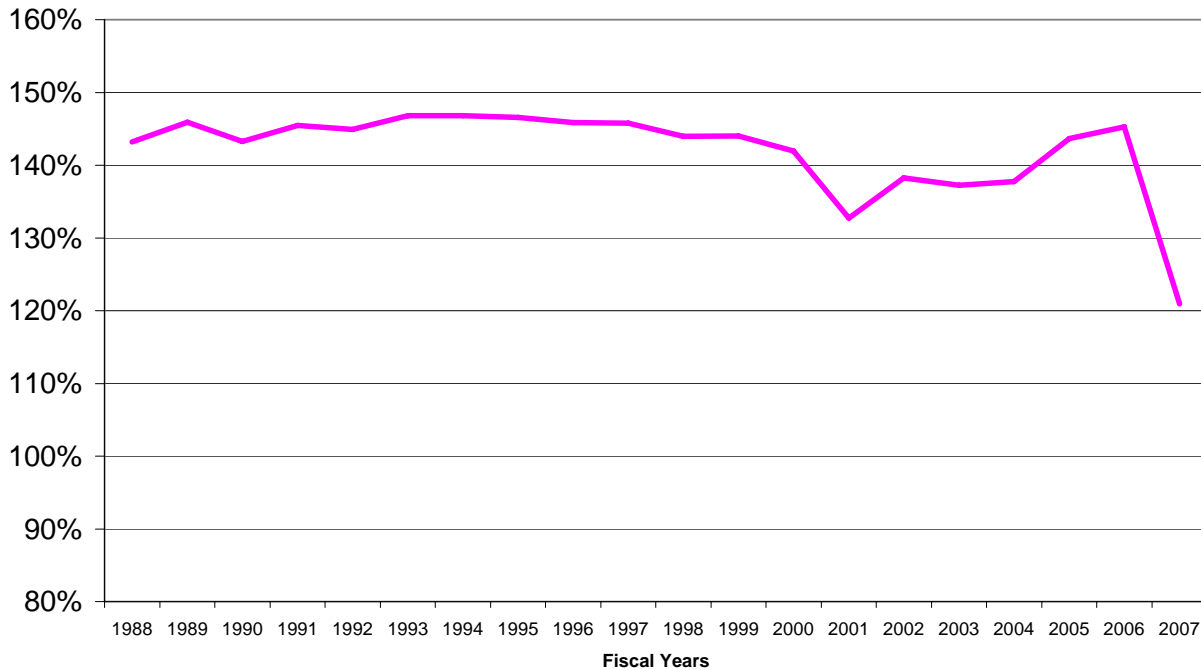
The Fire Department is frequently at Housing Authority properties – at least two or three times per week due to reports of smoke, mal-functioning oil burners, or, most commonly, when cooking triggers the smoke detectors. It also responds to frequent EMS calls. The Fire Department also responds when someone is stuck in an elevator in the high rises or when there is a flooded basement in a Housing Authority property.

The Willimantic Police Department responds to approximately three calls to a housing authority property every day. As a result, 2006 saw 925 police responses to calls for service on housing authority property.

Recommend a rationale for determining an appropriate revenue allocation to offset expenditures within the general government budget, the Willimantic Service District Budget, and/or the Windham First Taxing District Budget

As the chart below shows, the ratio of the mill rates between the Willimantic Service District and the Windham First Taxing District changed significantly for the current fiscal year. (Direct year-to-year mill rate comparisons are difficult because the current fiscal year is the first budget after a revaluation.)

**Willimantic Service District Total Mill Rate (Town + WSD)
as % of Windham First Taxing District Mill Rate (Town + WFTD)**



After the Board of Finance decided to allocate PILOT funds for FY 2006-2007, Windham First Taxing District residents protested that three events raised their taxes in the same year: the charge to the ambulance fund, revaluation, and the change in distribution of PILOT funding. The focus of this report is PILOT, which town officials correctly identified as the major reason for the shift in the relative tax rates between the Willimantic Services District and the town as a whole. Before looking at the impact of the change in the distribution of PILOT, it is useful to consider the impact of the other two events. Both are relatively small in comparison,

the cost of the ambulance service was pro-rated on the basis of actual usage, and revaluation actually shifted the relative share of the tax burden away from the WFTD.

The Willimantic Fire Department provides ambulance service throughout the Town of Windham. Prior to a recent change in Medicare payments, the ambulance fund did not require a subsidy from the Town as charges for services were sufficient to cover the cost of the service. The current Medicare payment structure, however, only covers 1/3 of the cost of a typical ambulance call. Still, federal law prohibits the Department from billing the difference, so in the current fiscal year the Town of Windham is funding a portion of the cost of the ambulance service. In the current fiscal year (2006-07) the Town increased the transfer to the ambulance fund from \$275,000 to \$530,125, an increase of 0.28 mills. This transfer flows from the fact that 700 of the 2,700 EMS calls (26%) were from the portion of the town outside the WSD – the ambulance is a Windham-wide service; all taxpayers, with in the WSD or outside it bear the cost. While any tax increase may be uncomfortable, the cost of the transfer to the ambulance fund was only an increase of 0.28%, less than a third of a mill. In contrast, the shift in the distribution of PILOT raised the tax rate 1.7 mills (1.7%) in the Town of Windham budget, about 6 times the increase resulting from the transfer to the ambulance fund.

The revaluation did not apparently shift the tax burden off the WSD taxpayers and onto WFTD taxpayers. In the last fiscal year prior to the revaluation, one mill raised \$349,956 in the WSD, 52.9% of the town-wide total. After revaluation, the WSD revenues increased to \$485,895, 54.0% of the town-wide total. After revaluation, the revenue raised from one mill in the WSD increased 39.2%, while the increase was 33.5% in the rest of Windham. These were the result of both new construction (additions to the grand list) and increased market values. The combined effect is that, after revaluation, taxpayers in the Willimantic Service District pay a greater portion of the town's tax revenue than before revaluation. Thus revaluation was not itself a source of increased tax burden to property owners in the WFTD.⁶

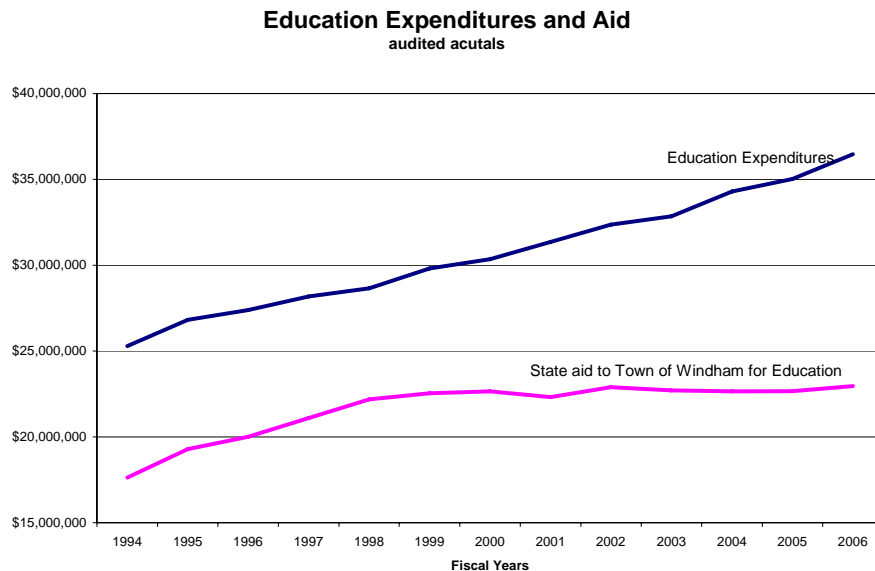
Examination of the chart shows another year when the ratio of the WSD mill rate declined, fiscal year 2000-2001. In that year the town-wide mill rate rose 11% (from 23.69 to 26.34 mills), the WSD mill rate fell 9% (from 12.2 to 11.1 mills) and the WFTD mill rate rose 18% (from 1.59 to 1.87 mills). The WFTD mill rate declined to 1.58 mills the following year, so

⁶ If the revaluation were revenue neutral, then the tax burden in the WFTD would have fallen; the tax burden in the WSD risen.

this was a one-time event. Yet understanding the reasons for the changes in the Windham-wide mill rate and the WSD mill rate is constructive. The Town's general government expenditures declined slightly that year (-0.34%), while education expenditures rose 3.375%. At the same time, education aid from the State of Connecticut fell 1.5%, more than \$342,000. On the other hand, other state grants increased. When the Town adopted the 2001 budget, it anticipated state property PILOT of more than 30%. When all of those payments did not materialize, the Town had to increase the WSD mill rate 12% the following year, but the town mill rate rose only 1%.

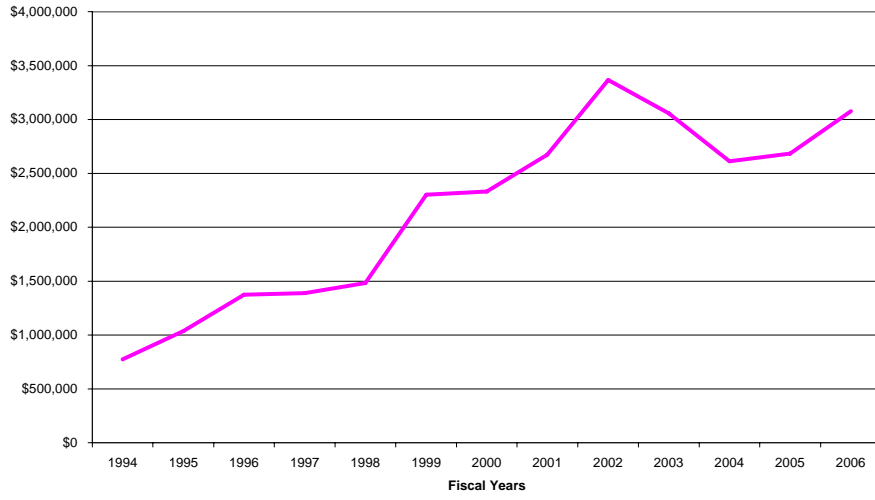
Windham depends on the state for assistance, but, as the following charts show, state education aid has not kept up with education expenditures, while the other major state grants (PILOT and Pequot/Mohegan) vary significantly from year to year. The largest grant the town receives is the Education Cost Sharing grant. The size of this grant depends upon town wealth (equalized net grant list per weighted student and net grand list per capita, adjusted to reflect the town's U.S. Census calculation of per capita and median household incomes),⁷ a base number of students, a number increased depending on the number of students receiving free or reduced lunch, and also adjusted upward based on the number of students with limited proficiency in English. Importantly, the mill rate does *NOT* affect the amount of state education aid.

The charts below track each of the level of the major state grants to Windham.

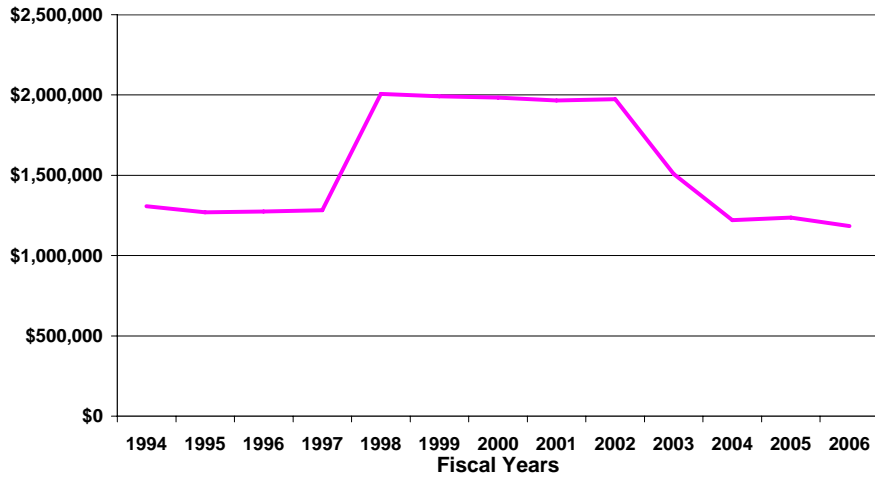


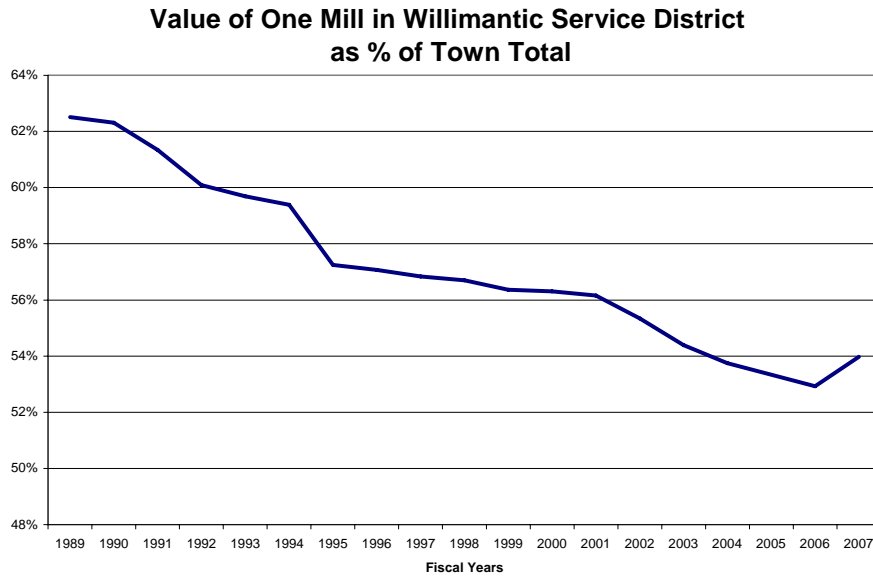
⁷ There are serious shortcomings associated with reliance on U.S. Census income data; such reliance in turn creates some significant distortions in the pattern of state aid to education. It is beyond the scope of this report to explore this issue, but it a reminder of the inadequacies of the ECS formula.

Total State Property and Hospital PILOT
 Windham + WSD -- audited actuals



Pequot/Mohegan Total to Windham
 (audited actuals -- Windham + WSD)





While a majority of taxable properties, and the most recent revaluation, did not significantly shift the tax burden from the Willimantic Service District to the other part of town, the historical trend has been for the total value of taxable property in the Windham First Taxing District to grow faster than the total value in the Willimantic Service District. This is the result of faster price appreciation, new development (Wal-Mart, Home Depot, etc.), or both. While WSD owners pay a higher tax rate (many believe this is unfair), they enjoy a wider array of government services (e.g. fire and police) and have also shared in the benefits flowing from the broader regional economic development. This has helped support the school system and other Windham-wide services. Traditional “Enterprise Zones” (areas where tax rates are deliberately lowered to spur development in targeted sections of cities) have usually been failures – often colossal failures – because they target areas that business do not want to develop. Windham has, however, had the experience of having a lower tax rate for a section of town that has proven desirable for developers.

Managing PILOT: Alternative Strategies:

Scenario 1: The most straightforward proposal would be to return to calculating the PILOT distribution based on the ratio of mill rates between the WSD rate and the Windham-wide rate.

The main arguments for this proposal are:

1. A large portion of the state PILOT funds come to Windham based on the combined WSD and town-wide mill rate. Thus the amount is both larger than it would be if based solely on the base town rate and includes the cost of the extra services the WSD provides.
2. The statement about the distribution of the Pequot/Mohegan funds by Rep. Johnston. While wording of the statute seems to give the town complete discretion with regard to distributing the funds, Rep. Johnston in all likelihood was expressing the understanding of the legislature at the time. Importantly, the only two co-sponsors of the final legislation that incorporated this change to the Pequot/Mohegan fund were Sen. Williams and Rep. Lescoe—Windham’s two legislators. Of course, their co-sponsorship may have had nothing to do with the language regarding Special Service Districts. As the chart shows, Windham received a large increase in funds from the Pequot/Mohegan fund as a result of that 1997 legislation (note the jump in 1998) so any advocate for Windham would support this legislation.
3. This is how the funds were distributed in the past. While this should never be the only reason (or nothing would ever change), it should be a consideration. As much as possible, stability and predictability should be part of any tax structure. The revaluation occurred with a certain expectation about the future course of tax rates – and that influenced the valuation of those homes. While there is some disagreement about the full effect of property tax rates on property values, there is consensus that there is an effect. The study that comes closest to the case for the Windham this year was one Palmon and Smith (1998) did.⁸ They were able to find nearly identical homes in nearly identical subdivisions which received identical public services in Harris County, Texas, but which paid significantly different tax rates. Under these circumstances, the different property tax rates had a significant effect on house prices: those facing higher taxes had lower market valuations. Property owners in the First Windham Taxing District face the same situation, because of the shift in the distribution of PILOT, their property taxes

⁸ Oded Palmon and Barton A. Smith, “New Evidence on Property Tax Capitalization,” *The Journal of Political Economy*, 106:5 (Oct., 1998), 1099-1111.

rose, but their services remained exactly the same. Thus their property values could be affected – but their assessments won't reflect this change until the next revaluation.⁹

If the town had pursued this course, the results would have been those shown in “Scenario A” on the attached exhibit. Compared to current combined tax rates, taxes on properties in the Windham First Taxing District would be 7.6% lower, those in the Willimantic Services District 5.3% higher.

Scenario 2: Only consider non-education expenditures and funding:

Another way to allocate the PILOT funds would rely on the ratio between the mill rate for town-wide general government expenditures (excluding the budget for the Board of Education) and the WSD mill rate. The logic to this approach is that the state provides significant assistance to the town of Windham specifically for education, while PILOT funds are based on properties that in general do not place demands on the school system. This approach does not rely on an arbitrary ratio (60/40), has a clear basis for the budget making process, and has the practical benefit of providing modest relief to the residents of the Windham First Taxing District, who may feel aggrieved by this year's action. If this plan had been put into effect for the 2007 fiscal year, the total tax rate for WSD properties would be 1.25% higher than it is today, the tax rate in the WFTD area would be 1.83% lower.

Scenario 3: Full consolidation with no increase in expenditures:

Consolidation of more town services appears to be an unlikely approach, even if it could be done without a significant increase in expenditures. Besides imposing a significant tax increase on the WFTD properties, an additional drawback is that this approach would reduce the combined town and WSD mill rate, and thus reduce PILOT. Taking this approach, and assuming no increase in total expenditures, the Windham-wide mill rate would be 28.46, meaning an 11% increase from the current level for Windham First Taxing District property owners, an 8% decrease for Willimantic Services District properties. But if this were implemented, state property and hospital PILOT funds could be expected to decrease by the

⁹ Coincidentally, this is one reason that most states have require revaluations much more frequently, and in some case “mark to market” assessed valuations annually, a procedure with modern technology makes relatively simple and inexpensive. Connecticut has been a serious laggard in addressing the problem of relatively rapid changes in property values and the resulting disconnect from property tax burdens.

same 8%. This would add about 1/3 of a mill across the board to the town-wide tax rate in future years.

Recommended Approach:

The state has two fundamental objectives in providing PILOT: general support for town services and thus general property tax relief and specific re-imburement for the costs that state-owned properties impose on host communities. These considerations logically point to allocating the various PILOTs on the basis of their objective. Thus we suggest that Windham allocate the following PILOTS based on the ratio of mill rates as has been done in the prior years:

- PILOT Elderly Freeze
- PILOT Elderly Circuit breaker
- PILOT Housing Authority
- PILOT Property tax relief NEW in 2007
- PILOT totally disabled
- PILOT machinery & equipment
- Pequot/Mohegan
- Distressed Municipalities Manufacturing
- PILOT veterans
- Willimantic Housing Authority
- Telecommunications

These programs are all intended to provide general property tax relief to properties that use services from all aspects of town government or fulfill the purpose of the state program. With regard to PILOT for state properties (primarily ECSU and Windham Tech) and PILOT for private colleges and hospitals (Windham Hospital), which are overwhelmingly located within the WSD and clearly impact the cost of services that the WSD provides, we recommend that Windham allocate these PILOT funds to ensure that the WSD receives at least 90% of the funds that the service district would have received if these properties were fully taxable. We make this recommendation on the basis of the following:

1. These properties do have a disproportionate impact on the WSD budget compared to other properties and compared to their impact on the town-wide budget. Yet the benefits of these properties accrue to the town as a whole. Windham's days as a manufacturing center are largely over. The town may have a future as a higher education and medical services center, but that will not happen if employees, students and their parents, medical professionals and patients do not believe that these

institutions – and the streets around them – are safe. Responsibility for ensuring this safety lies with the departments—Fire and Police—that the WSD funds. Just as the WSD taxpayers benefit from economic development in North Windham, Windham First Tax District residents benefit from the success of ECSU and Windham Hospital.

2. State PILOT funding varies from year to year. This variation has a disproportionate impact on the WSD because these funds are a larger portion of the WSD budget. By ensuring a baseline amount that does not depend on the whims of state government, the Town is providing the WSD with more stability in its funding base.
3. With regard to state funding, PILOT is not the most critical issue facing Windham – aid to education is. This year, if Windham were being reimbursed for educational expenditures at the same rate as it was being reimbursed in 1998, it would translate into more than \$5.9 million in additional funding for Windham. *This is almost as much as all PILOT programs, town + WSD, combined.* By putting a floor under PILOT payments to the WSD, the services that WSD provides will not be disrupted if the state decides to reduce PILOT payments but drastically increase education aid, something that would benefit all Windham taxpayers.

Adoption of the recommendation outlined above would facilitate future budget discussions and transparency in town government. Each allocation of a PILOT flows from its specific purpose and reflects the actual costs that the underlying state or private properties impose. It creates stability in funding for the critical services that the WSH provides. And it makes the allocation of each PILOT transparent to all stakeholders and citizens.

* * * * *

In addition to the tasks outlined in the scope of work, two other issues were brought to CCEA’s attention during this study: the interest of the WPCA to receive a portion of the PILOT funds due to the housing authority and the possibility of cost savings in the Public Works Department with the help of ECSU.

Housing Authority PILOT and Wastewater Treatment

Housing Authority properties are exempt from local property taxes and from sewer use charges. (State properties and the hospital, the focus of much of the above report, pay their full use charges for water and sewage services.) The town receives two PILOTS linked to Housing

Authority property, one directly from the Connecticut Department of Economic and Community Development, one from the Willimantic Housing Authority. In the fiscal year ended June 30, 2006, these payments totaled \$156,766 (audited actual) and are budgeted at \$176,000 for fiscal year 2006-2007. These payments have been divided between the Town of Windham and the Willimantic Service District, using the same ratios as other PILOT funds. State statute permits but does not require the town to use these funds for sewer charges up to the full amount of those charges. During 3 months in 2006, Housing Authority properties generated 9,079 cubic feet (CCF) of sewage, or an estimated 36,316 CCF per year. The Windham customers currently pay a sewer use rate of \$2.58 per CCF, so the estimated charge for the Housing Authority would be \$93,695.28. Data from 3 months in 2004 show a somewhat higher usage, so the actual annual charge might be somewhat higher, approximately \$100,000 per year. Therefore the town could forward up to \$100,000 to the Water Pollution Control Authority. CCEA's suggestion is that, if the town decides to forward some Housing Authority PILOT funds to the WPCA, that this be done according to a formula that takes into consideration that the PILOT funds do not cover the full tax bill. For example, assessments on Housing Authority Properties total more than \$25 million. At current mill rates, taxes would total \$773,519 (combined Town and WSD). Add the estimated WPCA charge of \$100,000 and total taxes plus sewer use charges would be \$873,519 for fiscal year 2007. Combined PILOT payments are budgeted at \$176,000 or 20.1% of this total. Therefore the payment to the WPCA should be 20.1% of the \$100,000 charge or approximately \$20,100. The rest of the PILOT funds would then be distributed between the Town and the WSD consistent with the recommendations in this report.

Cooperation between the Town and ECSU on Public Works issues

The Town and ESCU should explore improving the coordination of public works functions. Evidence suggests that, at the staff level, relationships between the Windham Public Works Department and ECSU are excellent. Nevertheless, there may be more opportunities for mutual cooperation and cost savings, for example in the area of snow removal. Our interviews suggest that the focus of discussions of the committee charged with Town/ECSU relations spends most of its time discussing issues related to alcohol and parties. While CCEA understand the importance of these issues – and indeed they are the basis of some of what we recommend – we would suggest that other issues of mutual concern be explored as well.