

**Testimony Regarding H.B. 6623: An Act Concerning the Reporting
of Town-Level Income Data by the Department of Revenue Services**

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Committee on Finance, Revenue, and Bonding
March 28, 2011

Senator Daily, Representative Widlitz, and Members of the Finance Committee:

I am a Senior Policy Fellow with Connecticut Voices for Children (Connecticut Voices), a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families. I am here today on behalf of Connecticut Voices to testify regarding *H.B. 6623: An Act Concerning The Reporting Of Town-Level Income Data By The Department of Revenue Services*. We support this bill which will provide more accurate personal income data for use in allocating **over \$2 billion** in state funds to towns.

Currently, the Department of Revenue Services (DRS) assigns personal income to towns based on the ZIP Code on a return. For example, North Canaan shares ZIP Code 06018 with Canaan. DRS staff must allocate additional time to all tax returns from both North Canaan and Canaan to determine which town is the true town of residence for each filer. Similarly, about **one-third** of towns in Connecticut share a ZIP Code with another town.¹ This makes it time consuming to accurately assign personal income data correctly to all municipalities based solely on ZIP Code or street address. For tax year 2008, we estimate that at least **7,000 returns** could not be assigned to their corresponding town without additional efforts by staff at DRS.

Furthermore, it is impossible to accurately assign tax returns from filers that use a P.O. Box for their mailing address. Tax filers may use a P.O. Box as their mailing address from a post office that is *not* in the town where they reside. This is likely to be more common in rural areas of the state. There are about **one-hundred** ZIP Codes in Connecticut exclusively for P.O. Boxes. A February 2011 article in the Wall Street Journal reports that some high-income filers are using corporate P.O. Boxes in skyscrapers in Manhattan as their mailing address. These individuals live elsewhere but their income is assigned to Manhattan, which distorts federal income statistics as well as federal and state funding formulas.²

The U.S. Postal Service will be closing 2,000 post offices nationwide in the next two years resulting in the elimination and consolidation of thousands of ZIP Codes, which will likely increase the number of Connecticut tax returns requiring additional time consuming processing.³ Including an entry for the "town of legal residence" would eliminate the need for additional processing of returns from the **sixty-one** towns with overlapping ZIP Codes in Connecticut.⁴ Furthermore, it will allow for the accurate assignment of returns to their true town of residence for filers that use a P.O. Box as their mailing address.

This is an **urgent** issue for Connecticut because the state's funding formulas rely on decennial census income data, which is no longer updated.⁵ Data that was previously collected on the decennial long-form is now collected on a yearly basis by the American Community Survey (ACS), but this not an adequate substitute. ACS data have a high margin-of-error. The National Research Council (NRC) reported in 2007, "A weakness of the ACS compared with the long-form sample [decennial census] is the significantly larger margins of error in ACS estimates..."⁶ The following statistics on ACS 2005-2009 per capita income data (released December 14, 2010) support the findings in the NRC report:

- Forty-seven Connecticut towns have a per capita income estimate with at least a 10 percent margin-of-error.
- The average margin-of-error for all Connecticut towns is 9 percent.
- The town of Kent has the highest margin-of-error at **25 percent**.

Furthermore, ACS is based on self-reported surveys that are not verified. Town income data from DRS is the better alternative.

As a follow-up to H.B. 6623, it will be necessary to change existing statutes to use income data from DRS instead of decennial census data, but we must first start the process for obtaining more accurate income data from DRS. Since 1999, there have been two economic recessions and the distribution of personal income has changed among towns, but our funding formulas do not reflect these changes. Unless state laws are updated, funding formulas will continue to use Census 2000 income data (1999 income) indefinitely. About **\$156 million** from the Education Cost Sharing Grant (ECS) would be reallocated among 130 towns if more current income data were used in the formula.⁷ Annual income tax data from DRS, when combined with annual population counts from the Department of Public Health, will allow for yearly updates to per capita income for towns.

We believe this bill is also foundational to efforts by the legislature to address town funding as expressed in *S.B. 1121: An Act Establishing A Task Force To Study The Distribution Of State Funds to Municipalities*. Adding the "town of legal residence" to the state income tax form will provide more cost effective processing of state income tax returns and make the distribution of state monies **better matched** to local socioeconomic conditions.

If the change proposed in H.B. 6623 is enacted in this legislative session, the 2011 Connecticut income tax return could be the first to provide reliable income data that does not require additional labor intensive processing by DRS staff. Data from 2009 income tax returns were just recently released by DRS. Given a similar delay, data based on the "town of legal residence" would be available for use for fiscal 2014. Currently, personal income tax returns in **Vermont** and **Rhode Island** include an entry for the "town of legal residence," in addition to the mailing address.

Thank you for this opportunity to testify regarding H.B. 6623.

Endnotes

¹ Rodriguez, Orlando, Wayne Villemez, and Medora Barnes. 2006. *How Census Income Estimates Provide Misleading Statistics on Personal Income for Connecticut Towns*. Storrs, <http://cslib.contentdm.oclc.org/cdm4/document.php?CISOROOT=/p128501coll2&CISOPTR=69888>, p. 8.

² De Avila, Joseph, *A Skyscraper of a ZIP Code*, The Wall Street Journal, February 26, 2011, <http://online.wsj.com/article/SB10001424052748703408604576164403040016850.html>

³ *Postal Service Eyes Closing Thousands of Post Offices*, The Wall Street Journal, January 24, 2011, http://online.wsj.com/article/SB10001424052748704881304576094000352599050.html?mod=WSJ_hp_LEFTTopStories

⁴ Rodriguez, Orlando, Wayne Villemez, and Medora Barnes. 2006. *How Census Income Estimates Provide Misleading Statistics on Personal Income for Connecticut Towns*. Storrs, <http://cslib.contentdm.oclc.org/cdm4/document.php?CISOROOT=/p128501coll2&CISOPTR=69888>, p. 8.

⁵ Connecticut General Statute 10-261(a)(8) states that per capita income data used in funding formulas must come from, “. . . the most recent federal decennial census . . .”

⁶ *Using the American Community Survey: Benefits and Challenges*, National Research Council, The National Academies Press, 2007, p. 2.

⁷ Rodriguez, Orlando J., and Jacob Siegel, *Problems with Connecticut's Education Cost Sharing Grant*, February 2011, <http://www.ctkidslink.org/publications/Bud11CTEduCostSharingGrantProblems.pdf>