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December 31, 2007

[eperez@hartford.gov]
The Honorable Eddie A. Perez
Mayor's Office
550 Main Street, 2nd floor, Room 2
Hartford, CT 06103

[jbazzano@hartford.gov]
The Honorable John V. Bazzano
Court of Common Council
550 Main Street
Hartford, CT 06103

Re: Property Tax Reform Task Force

Gentlemen:

Please find attached the First Set and Second Set of Resolutions of the 2007 Property Tax Reform Task Force. These resolutions were adopted on December 12, 2007 and December 20, 2007, respectively, and represent the recommendations of Task Force for legislative action in the coming session of the General Assembly.

Many of these resolutions are obvious on their face as to purpose and likely effect. Others, however, are not.

For example, the Task Force's recommendation that tax incidence analysis be performed with respect to any proposed change on any tax levied within the State of Connecticut grows out of the recognition of the Task Force that assessing the economic impact of changes to the current system for levying of property taxes for and within the City of Hartford can be a speculative matter. Thus, while it is often possible to accurately predict the effect of various changes by resort to the limited empirical evidence in existence, anecdotal personal experience, and general economic principles, the lack of comprehensive data and rigorous analysis makes such assessments more difficult (and more speculative) than need or should be the case.

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Second, the Task Force's recommendation with respect to the establishment of a state data council grows out of its recognition of the frustration of the Assessor and Finance Director in attempting to accurately levy and timely and completely collect taxes on motor vehicles. Specifically, the inability (or perhaps unwillingness) of the Department of Motor Vehicles to timely and smoothly interface with municipal officials often allows car owners to avoid paying their automobile taxes, yet still re-register their vehicles -- all in contravention of state law. It is the view of the Task Force that, rather than propose absolution appropriate to that one specific problem, the City of Hartford, and indeed the State of Connecticut, would be better served by a recommendation that would ultimately provide for the comprehensive compilation and sharing of data across jurisdictional lines.

While the Task Force is confident that most of its recommendations will be well received - - at least within the City of Hartford - - it also recognizes that its recommendation with respect to amendments to the system for the assessment of taxes on real and personal property (including automobiles) is likely to generate some controversy. Aside from the points set forth in the explanation to that resolution, it should be noted that the Task Force's recommendation was made only after extensive debate and upon the unanimous vote of the members present, which included representatives of both large and small businesses, homeowners, renters, and Representative Douglas McCorry. Indeed, I do not believe that I misstate the state of mind of the Task Force in saying that it is a point of pride of among all members that the Task Force was able to reach a unanimous recommendation with respect to this potentially controversial and highly important point.¹

You will no doubt note that the Task Force's recommendation for legislative action relative to the assessment of property taxes is couched in terms of modifications to the present system, rather than in terms of an entirely new system. I believe this was a wise choice for several reasons.

First, it was the desire of the Task Force to present a proposal that it believe could be enacted in the context of a short legislative session. As such, proposing amendments to the present system seemed more realistic than proposing an entirely new system.

Second, the relatively short time allotted to the Task Force for its work and the volunteer status of its members precluded the in-depth, systematic, study that would have been necessary to proffer a dramatic, new proposal.

¹ Indeed, all of the recommendations of the Task Force, with the exception of one resolution (which received a single "no" vote), were unanimous.

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Third, the fundamental disagreement between elements in the business community and other stakeholders about what is likely to – and should – happen after 2010; the short time allotted to the Task Force; the lack of standing of the members to conclusively bind their various constituencies; and the Task Force's goal of unanimity, precluded development of a comprehensive solution that extends beyond 2010.

Nevertheless, it is my opinion that the seeds for a comprehensive solution have nevertheless been sown. Specifically, the Task Force's unanimous endorsement of key points of policy; *i.e.* continued phase-down of the surcharge and overall reduction of the subsidy provided by business; protection of Hartford's small homeowner class; the equal tax treatment of all classes of property used for profit-making purposes; and a concern for the well-being of renters grounded in economic realities, not politics or disguised self-interest, provide a "road map" for a final, negotiated resolution of Hartford's property tax dilemma.

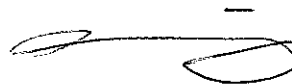
On behalf of the Task Force, I would like to take this opportunity to thank you for allowing us to serve the City of Hartford. All of the members of the Task Force repeatedly stated and demonstrated their firm commitment to the future of our City. Finally, and again on behalf of the entire Task Force, I would also like to thank the many employees of the City of Hartford who assisted us in our efforts.

Special thanks, however, must be given to Ms. Renee L. Richards, Assistant to the Mayor. In addition to performing her usual duties, Ms. Richards worked extremely hard to facilitate the work of the Task Force, and we could not have timely completed our work without her constant assistance.

We will, of course, provide you with our recommendations for action by the city government on or before January 31, 2008.

Please do not hesitate to call me if you have any questions.

Respectfully,



Richard F. Wareing

RFW:jfz

cc: Renee L. Richards, Assistant to the Mayor [richr001@hartford.gov]

FIRST SET OF RESOLUTIONS OF THE
2007 PROPERTY TAX REFORM TASK FORCE,
Adopted on December 12, 2007

RESOLVED, that the City of Hartford and its delegation at the General Assembly should propose and advocate for an increase in the payments in lieu of taxes made by the State of Connecticut to the City of Hartford, particularly those made for private educational institutions and hospitals, to 100% funding of the statutorily authorized reimbursement percentages.

Explanation: The City of Hartford has a grossly disproportionate share of the non-taxable real property in Connecticut, both real property owned by the state itself, as well as property owned by religious, educational, cultural, charitable, and other not-for-profit institutions. While the City of Hartford and its residents do obtain some benefit from the presence of not-for-profit institutions and many state-owned properties, the high number of such properties within the City of Hartford both generates a demand for city services and increases the burden on all taxpayers. The State of Connecticut does, in part, compensate the City of Hartford through significant payments in lieu of taxes. These payments, however, are too low by any objective measure, both in terms of the assessment ratios the General Assembly has fixed to various classes of non-taxable real property, as well as in terms of the actual funding the General Assembly has appropriated for each of the various classes of non-taxable real property. While the Task Force understands there may be significant reluctance at the General Assembly to greatly increase payments in lieu of taxes because of the disproportionate impact upon one municipality (*i.e.* the City of Hartford), the Task Force believes that an ongoing objective of our legislative delegation should be to increase payments in lieu of taxes. Moreover, the Task Force also believes that the most likely avenue for immediate success would be to propose increasing the payments in lieu of taxes made by the State of Connecticut for private educational institutions and hospitals. This is because at least one other municipality, the City of New Haven, also bears the burden of hosting a significant university and hospital presence, thus providing the City of Hartford with at least one potential ally.

RESOLVED, that the City of Hartford and its delegation at the General Assembly should propose and advocate for the restoration of the Housing Property Tax Abatement Program.

Explanation: Per the Finance Department, the Housing Property Tax Abatement Program previously provided approximately \$4 million in annual payments to the host municipalities of not-for-profit housing developments as partial compensation (approximately 33-40%) for the taxes said developments would pay but for their not-for-profit status. Per the Finance Department, the City of Hartford received approximately \$1 million per annum from this program. The Task Force believes that restoration of this program would represent a significant benefit to the City of Hartford at a very small cost to the State of Connecticut. In addition, because other large municipalities also received significant benefits under this program, the City of Hartford would have several natural allies at the General Assembly on this issue.

RESOLVED, that the City of Hartford and its delegation at the General Assembly should propose and advocate for the retention of a fair residual depreciated value on communications lines and equipment.

Explanation: Per the Finance Department, recent changes in the General Statutes allow telecommunications companies to depreciate to zero the value of their lines and equipment. This will soon result in a significant loss of personal property tax revenue to all Connecticut municipalities, especially the City of Hartford. Per the Finance Department, the City of Hartford previously received \$5-6 million per annum in personal property taxes on such equipment, currently receives only approximately \$1 million per annum, and will receive nothing in the next fiscal year. While depreciation of personal property is a well-recognized concept, residual value (*i.e.* value that remains after all allowed depreciation has been taken) is an equally well-recognized concept. The Task Force thus believes that a fair residual value should be established for communications lines and equipment. Because this issue effects all municipalities that host such facilities and equipment the Task Force also believes that the City of Hartford and its legislative delegation will also find many natural allies at the General Assembly on this issue.

RESOLVED, that the City of Hartford and its delegation at the General Assembly should propose and advocate for the State of Connecticut to annually perform no later than June 1 of each year a statistical property tax revaluation for the preceding year.

Explanation: It is the opinion of the Task Force that a major cause of political unrest vis-à-vis property taxes are the sometimes dramatic swings in tax burdens caused by revaluation, especially when municipalities are able to delay revaluation beyond the five-year window now permitted by the General Statutes. It is thus the opinion of the Task Force that more frequent revaluations would reduce such unrest because more frequent revaluations would have the effect of phasing-in more gradually the effect of swings in tax-burdens attributable to revaluation. Indeed, the Task Force notes that more frequent statistical revaluations are undertaken in a number of states. While the Task Force recognizes the financial burdens associated with more frequent revaluations, a significant part of that burden is already borne by the State of Connecticut. Specifically, at present, the State of Connecticut, Office of Policy Management (“OPM”), collects and processes as part of its production of an annual equalized grand list the data necessary to perform an annual statistical revaluation. With additional resources, OPM could perform an annual statistical revaluation for the entire State of Connecticut by June 1 for the preceding year.

**SECOND SET OF RESOLUTIONS OF THE 2007
PROPERTY TAX REFORM TASK FORCE, Adopted on
December 20, 2007**

RESOLVED, the City of Hartford and its delegation at the General Assembly should propose and advocate for an amendment to the portions of the Connecticut General Statutes dealing with the assessment of property taxes by and within the City of Hartford that would require the 2005 revaluation to be implemented immediately, except with respect to owner-occupied residential real property and condominiums, which would continue to be subject to no more than a 3.5% increase in taxes attributable to revaluation until 2010.

Explanation: It is the considered opinion of the Task Force, based upon the experience and expertise of its members along with the evidence and other materials before it, that the current system of taxation for real and personal property (including automobiles) in the City of Hartford is flawed in a number of critical respects:

First, the surcharge on commercial property represents a major disincentive to do business within the City of Hartford, especially in light of the already high mill rate;

Second, the protections afforded to all residential property, condominiums, and apartments — regardless of ownership status — drives the mill rate higher. This, in turn, not only directly increases the burden on business through increased taxes on real property, but also increases taxes on personal property which is likewise detrimental to business. Moreover, the artificially high mill rate also increases incentives for business owners to relocate personal property outside of Hartford, where mill rates tend to be lower, as well as to engage in underreporting and other forms of improper evasion;

Third, the increased mill rate also increases the tax burden on automobiles. Although accentuated by demographic factors, this increased burden helps drive down the collection rate to roughly 80% (versus a roughly 90% statewide average). Moreover, because most Hartford residents are renters their automobile is probably their most significant – if not only taxable – asset. As such, the present system contains an extremely regressive element;

Fourth, the City of Hartford's unique combination cap/surcharge system currently in place creates a complex system with multiple effective mill rates that is a further disincentive to business because it is often difficult

to accurately predict the tax burden on property, especially in light of the often-changing (and thus unstable) tax regime.

Fifth, there is no empirical evidence to support the claim that the significant protection afforded to the owners of non-owner-occupied residential real property, condominiums and apartments in the form of a maximum 3.5% increase in taxes attributable to revaluation has in any way “trickled down” to renters in the form of more affordable rents;

Sixth, the significant protection afforded to the owners of non-owner-occupied residential real property, condominiums, and apartments in the form of a maximum 3.5% increase causes an unfair and unjustified subsidy to landlords by all other business enterprises in the City of Hartford; *i.e.*, investors in commercial (and industrial) real property are providing a massive subsidy to residential landlords; and

Seventh, the subsidy provided to residential landlords not only depresses the value of commercial (and industrial) real property, but also artificially inflates the value of residential real property and condominiums, thereby reducing opportunities for homeownership within City limits by persons of moderate or limited means.

In fact, it is also the considered opinion of the Task Force that the only positive feature of the current system is the subsidy it provides to homeowners who are both a small and economically fragile class. Indeed, while Hartford’s low homeownership rate is all too well-known, what is less apparent is the large number of sub-prime mortgages which have been recorded against residential real property in the City Hartford. One estimate considered by the Task Force puts the number such sub-prime mortgages at as much as 50% of all mortgages on residential real property in the City. This evidence suggests that, not only are a significant percentage of Hartford’s limited class of homeowners persons of moderate or even limited means, but also that they comprise an extremely fragile class that, given current economic circumstances, likely have only a limited capacity to absorb additional taxes.

In light of the foregoing, it is the considered opinion of the Task Force that the foregoing recommended amendments to the legislation governing the assessment of property (including automobile) taxes in and for the City of Hartford should be enacted. The Task Force believes that such an amendment would have significant beneficial results as follows:

First, the continued subsidization of the small and fragile homeowner class will protect this vital asset. Indeed, the preservation and growth of the homeowner class is essential to the long-term viability of the City of Hartford as increases (or decreases) in the number of homeowners

strongly correlates to positive (or negative) movement in various indicators of social and economic well-being, such as school attendance and performance by children; unemployment and *per capita* income; and crime and other pathologies that reduce quality of life;

Second, removal of the subsidies afforded to landlords should increase homeownership rates by inducing absentee landlords to either move into their residential properties or condominiums, or sell them to individuals who will be resident. Moreover, because residential real property and condominiums used for income-generating purposes will no longer receive favorable tax treatment, it should also make homeownership a more realistic possibility for many Hartford residents by lowering residential property values, especially for multi-family dwellings, which often represent the best pathway to homeownership;

Third, removal of the subsidies afforded to landlords will eliminate an unjust disparity between the tax treatment afforded to commercial (and industrial) property and residential property, condominiums, and apartments owned for income-generating purposes, *i.e.* all real property used for profit-making purposes will receive like treatment;

Fourth, removal of the subsidies afforded to landlords will cause a reduction in the mill rate. This will not only reduce the tax burden on business, but also reduce both the taxes assessed against personal property as well as taxes assessed against automobiles by as much as 25% and 20%, respectively. This will not only further benefit business, but also most residents; and

Fifth, the continued step-down of the surcharge at the rate of 1.5% per annum thought 2010 will continue to reduce the tax burden on business.

In making this recommendation, the Task Force was not unmindful of the potential impact that increased property taxes on rental properties could have upon tenants; *i.e.* landlords might seek to pass through some, or all, of the tax increases though to their tenants in the form of higher rents. But, based upon the research, debate, and personal experience and expertise of the members of its members, it is the conclusion of the Task Force that such a pass-through is unlikely for at least the following reasons:

First, rents are determined at a regional, not municipal, level. Thus, while landlords in the City of Hartford might desire to pass-through to their tenants increased property taxes, their ability to do so will be constrained by the availability of other rental properties throughout the region. Put more simply, a landlord can charge only what the market will allow and in this case the market includes a large number of

properties outside the City of Hartford. Indeed, there was no evidence before the Task Force that the significant tax savings which accrued to the owners of apartments as a result of the most recent changes to the legislation governing the assessment of property taxes for and in the City of Hartford had in any way “trickled-down” to tenants, either in the form of lower rents or increased capital investment and maintenance;

Second, there are approximately 10,000 subsidized housing vouchers held by renters in the City of Hartford. Assuming that a *pro rata* share of those vouchers are held by renters living in apartments and non-owner occupied residential properties, there are roughly 8,500 rental units where landlords will be able to recoup some or all of their increased tax burden from other government entities. This means that the renters of more than 25% of the approximately 32,000 apartments and non-owner occupied housing units within the City of Hartford will not be affected;

Third, although the Task Force did not quantify their exact number, there appear to be a not insignificant number of rental units within the City of Hartford whose taxes are fixed, either by a formal tax-fixing agreement and/or through various abatement programs. As with persons holding subsidized housing vouchers, renters of these units should be largely unaffected; and

Fourth, the ability of landlords to pass-through the impact of any tax increases is further constrained by the fact that there are approximately 5650 rental units in owner-occupied housing and 450 rental units whose taxes will actually decrease, because they are in structures classified as commercial. These 6100 units will thus likely help suppress rent increases attributable to tax increases because the owners of these units will be able to charge lower rents, thus helping to hold down the prices for rental properties within the City of Hartford

Moreover, even if landlords were able to pass-through the impact of these tax increases, the Task Force believes that, while not insignificant, they are still manageable. Specifically, the Task Force estimates that the maximum impact on renters of residential property will average \$1078 per year in 2010 while the maximum impact on apartment renters of apartments will average \$576 per year in 2010. This calculates out to an approximately \$30 per month and \$16 per month rent increase each year, respectively. Moreover, given that automobile taxes should decrease on average by as much as 20%, many renters will receive back at least some of any pass-through to which they may be subject in the form of lower taxes on their vehicles.

Finally, the Task Force notes that this recommendation is effective only for the duration of the current scheme; *i.e.* through 2010, and the Task Force makes no specific recommendations for action thereafter.

RESOLVED, the City of Hartford and its delegation at the General Assembly should propose and advocate adoption of a requirement that the Office of Fiscal Analysis (or other agency) carry out tax incidence analysis of current taxes and of any proposed change in the system of state taxes.

Explanation: Tax incidence analysis, now required in several states, evaluates the “incidence” of any change in state taxes. The analysis involves first determining how the change in taxes would interact with federal and local taxes. For example, in Connecticut, the economic cost of one dollar (\$1) in revenue from the state income tax is roughly one-half the cost of one dollar (\$1) in revenue from the state sales tax, according to an analysis that the Center for Economic Analysis at the University of Connecticut completed. The reason for this disparate is that taxpayers can itemize their state income tax against their federal liabilities, reducing their federal tax exposure. They therefore have more disposable income, which feeds back into the state’s economy. Taxpayers can not reduce their federal tax liability because of the sales tax, and thus pay more federal income tax. The same kind of analysis reveals that that the property tax credit on the state income tax reduces the amount Connecticut taxpayers itemize on their federal returns, and so increase federal tax payments. Thus Connecticut taxpayers may pay as much as \$150 million more in federal taxes that they would in the absence of the property tax credit. A second element of tax incidence analysis assesses who actually bears the burden of a tax. Thus, increasing the gasoline tax in general results in consumers bearing most of the burden because they do not reduce consumption proportionately to the increase in the price. Similarly, a tax incidence analysis of the property tax credit may reveal that much of the benefit goes to suburban home owners whose income is sufficient to pay state income taxes, even though they face lower average mill rates. Urban residents, with lower incomes who may owe no state taxes but face high mill rates, may get little benefit. Tax incidence analysis would provide a clear picture of the nature of the choices being made in the construction of the state system of taxation.

RESOLVED, that the City of Hartford and its delegation at the General Assembly should advocate for implementing the constitutional spending cap.

Explanation: Currently the state is operating under the emergency legislation passed in 1991 prior to the referendum to adopt a constitutional requirement for a spending cap. The constitutional spending cap requires implementing legislation; the legislature has failed for sixteen years to adopt such legislation. The consequence is that the statutory spending cap is both denying to the state substantial federal funds and slow strangling the state's ability to meet its responsibilities in education, social services, transportation infrastructure, and municipal aid. It effectively prevents any meaningful initiative to reform the deeply corrosive and stunningly inequitable system of local property taxes on which Connecticut is peculiarly dependent. Two salient examples reveal the damage that the statutory spending cap imposes. First, the statutory spending cap includes federal funds under the cap. The consequence is that accepting ear-marked federal funds reduces, on a dollar-for-dollar basis, the ability of the state to spend discretionary funds. The state chooses to forego federal funding, perhaps in the range of \$300 million to \$600 million annually, in order to sustain discretionary authority. Second, the statutory spending cap "wrenches down" whenever the State fails to spend to the cap. That is, the formula for the spending cap in any given year depends on spending in the previous years. Instead of conforming to the intent of the 1991 law—to limit state spending to the ratio of spending to state economic output—the current statutory provision progressively reduces the amount the state can spend. The current cap is already about \$1.2 *billion* below the ratio of 1991. If Connecticut fails to implement the constitutional spending cap, permits full access to federal funds, and articulates a cap consistent with the legislative and popular intent of 1991 and 1992, the state will increasingly lose the ability to make the strategic investments and sustain the critical programs that are core to its quality of life and economic competitiveness.

RESOLVED, the City of Hartford and its delegation at the General Assembly should propose and advocate for creation of a State Data Council to establish priorities in the development of integrated administrative databases, both state and municipal; to facilitate coordination between agencies; to provide a mechanism through which agencies are able to raise issues about quality, comprehensiveness, and access to administrative data.

Explanation: Much state and municipal data exists in “silos,” denying to agencies the ability to perform their responsibilities fully and efficiently, and denying to policy makers and agencies the ability to assess fully policy implementation, performance, or other aspects of state and municipal activity. For example, the Department of Motor Vehicles and the local assessors and tax Collectors are unable to share data on car taxes efficiently, permitting owners to re-register cars despite owing taxes. The result is a significant loss of revenue for municipalities, especially cities like Hartford. A State Data Council would provide an appropriate framework through which to address this challenge. An excellent model for the direction the state, in collaboration with municipalities, should take is NYCMAP, the New York City integrated database for every element of information. Organized on a geospatial basis—using the 925,000 parcels within the five boroughs—NYCMAP organizes all administrative data which the city develops and on which the city relies in tracking every aspect of city services, infrastructure, economic activity, etc. Policy makers, state agencies, municipalities, and citizens would all benefit for development of high quality, comprehensive, integrated administrative data. Creation of a State Data Council to oversee the creation of such a system and to facilitate discussion about data needs is critical to developing this capacity. Representatives of the City of Hartford should provide the leadership in developing and passing enabling legislation.