# Senate

General Assembly

**File No. 302**

*February Session, 2006*

Substitute Senate Bill No. 535

*Senate, April 3, 2006*

The Committee on Planning and Development reported through SEN. COLEMAN of the 2nd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

## *AN ACT AUTHORIZING THE PHASE-IN OF PROPERTY TAX ASSESSMENTS AND EXTENDING THE TIME FOR REVALUATIONS.*

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 12-62c of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2006, and applicable to assessment years commencing on or after October 1, 2006*):

**[**(a) Any municipality may, with respect to the assessment list in such municipality in a year in which a revaluation becomes effective, as required under section 12-62, for the assessment years commencing on or after October 1, 1987, by vote of its legislative body provide for a gradual increase in assessed values of real property for purposes of property tax, commencing with the year in which such revaluation becomes effective and continuing for a certain number of years as elected by such municipality, not exceeding three years immediately following the year of such revaluation. Such gradual increase in assessed values shall be the result of incremental increases in the rate of assessment of real property, to be added as provided in subsection (b) of this section to the assessment ratio determined under section 10-261a for the year immediately preceding revaluation in such municipality.

(b) Upon electing to increase assessed values in the manner allowed in this section, there shall be determined, with respect to said assessment ratio for the year immediately preceding such revaluation, the difference between the assessment rate at seventy per cent of present true and actual value, as required under subsection (b) of section 12-62a, and said ratio of assessed value of real property to fair market value in the year immediately preceding revaluation for such municipality. Such difference shall represent the portion of the assessment rate at seventy per cent to be added to said ratio for such municipality in attaining the required assessment rate of seventy per cent of present true and actual value. Such amount shall be added to said ratio in equal increments, as determined in accordance with this subsection, over the number of years elected by such municipality, provided the total number of years for such purpose may not exceed four years including the year of such revaluation. For the purposes of this subsection, increments shall be considered equal if such increments are equal (1) in terms of the absolute amount of the increase in the assessment ratio for each of the years of such gradual increase in assessed value or (2) in terms of the percentage of increase in the assessment ratio from year to year which is applicable to such gradual increase in assessed value, for each year of the term of such gradual increase in assessed value.

(c) In a municipality which has adopted the assessment procedure allowed in this section, new construction which is first assessed for purposes of property tax, after the assessment date on which such revaluation becomes effective but before the assessment rate has been increased to seventy per cent of present true and actual value, shall be assessed initially at the rate applicable in the procedure as adopted by such municipality at the time of such initial assessment, and thereafter at the rate of assessment applicable with respect to all real property on the assessment list in such municipality.**]**

(a) (1) A municipality implementing a revaluation of all real property may phase-in a real property assessment increase resulting from such revaluation, by requiring the assessor to gradually increase the assessment or the rate of assessment applicable to all such property or to any of the classes of real property listed in subdivision (3) of subsection (b) of this section which has increased in value by fifty per cent or more in the assessment year preceding that in which the revaluation is implemented, in accordance with one of the methods set forth in said subsection (b). The legislative body of the municipality shall approve the decision to provide for such phase-in, the method by which it is accomplished and its term, provided the number of assessment years over which such gradual increases are reflected shall not exceed five assessment years, including the assessment year for which the revaluation is effective. A municipality shall not have in effect a phase-in of the real property assessment pursuant to this section if such municipality has in effect a tax relief plan and surcharge pursuant to section 12-62d. If the legislative body is a town meeting, the board of selectmen shall approve such decision, method and term. Whenever used in this section, "municipality" means any town, borough, consolidated town and city, consolidated town and borough or any city not consolidated with a town.

(2) The legislative body or board of selectmen, as the case may be, may approve the discontinuance of a phase-in of real property assessment increases resulting from the implementation of a revaluation, at any time prior to the completion of the phase-in term originally approved, provided such approval shall be made on or before the assessment date that is the commencement of the assessment year in which such discontinuance is effective. In the assessment year following the completion or discontinuance of phase-in, assessments shall reflect the valuation of real property established for such revaluation, subject to additions for new construction and reductions for demolitions occurring subsequent to the date of revaluation and on or prior to the date of its completion or

<u>discontinuance, and the rate of assessment applicable in such year as required by section 12-62a.</u>

<u>(b) A municipality shall use one of the following methods to determine the phase-in of real property assessment increases resulting from the implementation of a revaluation:</u>

<u>(1) The assessment of each parcel of real property for the assessment year preceding that in which such revaluation is effective shall be subtracted from the assessment of each such parcel in the effective year of said revaluation, and the annual amount of incremental assessment increase for each such parcel shall be the total of such subtraction divided by the number of years of the phase-in term;</u>

<u>(2) The ratio of the total assessed value of all taxable real property for the assessment year preceding that in which a revaluation is effective and the total fair market value of such property as determined from records of actual sales in said year, shall be subtracted from the rate of assessment set forth in section 12-62a, and the annual incremental rate of assessment increase applicable to all parcels of real property shall be the result of such subtraction divided by the number of years of the phase-in term;</u>

<u>(3) The ratio of the total assessed value of all taxable real property in each of the following property classes for the assessment year preceding that in which a revaluation is effective and the total fair market value of such property in each class as determined from records of actual sales in said year, shall be subtracted from the rate of assessment set forth in section 12-62a, and the annual incremental rate of assessment increase applicable to all parcels of real property in each such class shall be the result of such subtraction divided by the number of years of the phase-in term: (A) Residential property; (B) commercial property, including apartments containing five or more dwelling units, industrial property and public utility property; and (C) vacant land. In the event the assessor determines that there are no records of actual sales of real property in any such property class in said year or that the number of such actual sales is insufficient for</u>

purposes of determining a rate of increase under this subdivision, the annual incremental rate of assessment increase determined under subdivision (2) of this subsection shall be used for said property class.

(c) The assessment of any new construction that first becomes subject to taxation during an assessment year encompassed within the term of a phase-in shall be determined in the same manner as the assessment of all other comparable real property in said assessment year, such that the total of incremental increases applicable to such other comparable real property are reflected in the assessment of such new construction prior to the proration of such assessment pursuant to section 12-53a.

(d) Not later than thirty business days following the date a municipality's legislative body or board of selectmen, as the case may be, votes to phase-in real property assessment increases resulting from such revaluation, or votes to discontinue such a phase-in, the chief executive officer of the municipality shall notify the Secretary of the Office of Policy and Management, in writing, of the action taken. Any chief executive officer failing to submit a notification to said secretary, as required by this subsection, shall forfeit one hundred dollars to the state for each such failure.

Sec. 2. Section 12-62 of the general statutes is amended by adding subsection (l) as follows (*Effective October 1, 2006, and applicable to assessment years commencing on or after October 1, 2006*):

(NEW) (l) Notwithstanding the provisions of this subsection, the Secretary of the Office of Policy and Management may exempt any town from performing its next scheduled revaluation in accordance with regulations adopted by the secretary in accordance with the provisions of chapter 54. The regulations shall include, but not be limited to, (1) standards and criteria for an exemption, which shall include, but not be limited to, a demonstration of fiscal stability and responsibility, and (2) application procedures. Any exemption granted under this section shall be for a period of five years. At the end of such five-year period a town may apply for an extension. The secretary shall approve such extension if the town continues to meet the standards and criteria established in regulations adopted under this subsection.

| This act shall take effect as follows and shall amend the following sections: | | |
|---|---|---|
| Section 1 | *October 1, 2006, and applicable to assessment years commencing on or after October 1, 2006* | 12-62c |
| Sec. 2 | *October 1, 2006, and applicable to assessment years commencing on or after October 1, 2006* | 12-62 |

***PD*** *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

## *OFA Fiscal Note*

***State Impact:*** None

***Municipal Impact:***

| Municipalities | Effect | FY 07 $ | FY 08 $ |
|---|---|---|---|
| Various Municipalities | See Below | See Below | See Below |

### *Explanation*

The bill allows municipalities to perform a gradual phase-in of real property revaluation assessment increases over a time period not exceeding five years if they choose property which has increased more than 50% in value since the last revaluation. The bill also allows a subsequent revaluation of real property during the phase-in of the initial incremental revaluation assessment or discontinues such adjustments, if the municipality chooses to do so. Therefore, municipalities opting to perform a gradual phase-in of incremental assessment values would see their grand list increase accordingly over the same time period of the phase-in. Also, the bill will result in properties not eligible for the phase-in to carry a greater portion of the tax burden.

### *The Out Years*

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

**OLR Bill Analysis**

**sSB 535**

***AN ACT AUTHORIZING THE PHASE-IN OF PROPERTY TAX ASSESSMENTS AND EXTENDING THE TIME FOR REVALUATIONS.***

## SUMMARY:

This bill repeals a provision that allows municipalities to phase-in the effects of their property revaluations over as many as three years. It instead allows them to adopt a phase-in for up to five years. The new phase-in is not available to municipalities that have adopted a tax relief plan funded by a surcharge on non-residential property pursuant to statue. (To date, only Hartford has adopted such a plan.)

The current phase-in applies to all real property in the municipality. The bill additionally allows a municipality to adopt a phase-in that applies only to properties in one, two, or all three classes of property (residential, commercial/industrial/utility, and vacant land) whose assessed value increased by 50% or more.

The bill gives municipalities more options on how to implement the phase-in. Under current law, the municipality's legislative body must authorize the phase-in and set its term. The bill additionally requires the legislative body to select the implementation option. It assigns these responsibilities to the board of selectmen in town meeting towns.

The bill modifies how property built during the phase-in is assessed. It requires the municipality's chief elected official to notify the Office of Policy and Management (OPM) secretary within 30 days after the legislative body decides to implement or discontinue the phase-in. Failure to do so subjects the official to a $100 fine.

Finally, the bill allows the OPM secretary to adopt regulations to

exempt towns from performing their next revaluation.

EFFECTIVE DATE: October 1, 2006, and applicable to assessment years beginning on or after this date

## IMPLEMENTATION OPTIONS

Under current law, the phase-in must be based on the property's assessment ratio, i.e., the relationship between its assessed value and its fair market value. It must bring the assessment ratio up to the ratio required by law (70%) in equal increments over the life of the phase-in. The annual increments can be equal in terms of the absolute increase in the assessment ratio or in percentage increase in this ratio. Under the first scenario, the assessment ratio for affected properties could be 50% in the first year of the phase in, 60% in the second, and 70% in the third. Under the second scenario, the assessment ratio could increase by 10% (as opposed to 10 percentage points) each year.

The bill instead gives municipalities three implementation options, two of which are based on the assessment ratio. In the first option, the total assessed value of all taxable property in the year before the revaluation is effective is divided by the total fair market value of the property (based on actual sales records) in that year and that amount is subtracted from the required 70% ratio. For example, if the total assessed value of property in a municipality was $650 million in the pre-revaluation year and the fair market value was $1 billion, the difference between the resulting ratio (65%) and the statutory assessment ratio (70%) would be phased in over the term specified by the municipality. If a municipality opted for a five-year phase-in, the assessment ratio would increase by one percentage point each year.

In the second option, the calculation is the same as under the first option, but is made for three classes of property. These are (1) one- to four-unit residential property; (2) five or more unit residential property, other commercial property, industrial property, and utility property; and (3) vacant land. If the assessor determines that there were no records of sales in any of these classes or that the number of sales wasn't sufficient to determine the rate of increase, he must used the number calculated under the first implementation option to determine the increase for that class.

The third implementation option is to subtract the assessed value in the pre-revaluation year from the assessed value in the revaluation year, and spread the difference over the life of the phase. For example, if a property was assessed at $200,000 before revaluation and $250,000 afterwards, and the municipality opted for a five-year phase in, the assessed value would increase $10,000 in each year.

## ASSESSMENT OF PROPERTY BUILT DURING THE PHASE-IN

Under current law, new construction first assessed during the phase-in period must be initially assessed at the rate applicable to the phase-in method the municipality has chosen (percentage point or percentage increase) at the time of the initial assessment. Afterwards, such property is subject to the assessment rate applicable to all real property on the municipality's assessment list.

Under the bill, the assessment of new construction must be determined in the same way as comparable property is assessed, so that the total of incremental increases that apply to the comparable properties are reflected in the assessment of the new construction, prior to the prorating required by law. By law, a property that gets its certificate of occupancy, or that is first used for its intended purposes six months into an assessment year is subject to half of the tax that would apply to a comparable property on the assessment list on the first day of the assessment year.

## REVALUATION EXEMPTION

The bill also allows the OPM secretary to exempt any town from performing its next scheduled revaluation in accordance with regulations he adopts. The regulations must at least include (1) standards and criteria for an exemption, which must at least include a demonstration of fiscal stability and responsibility; and (2) application procedures. Any exemption runs for five years. At the end of the five years, a town may apply for an extension, which the secretary must approve if the town continues to meet the standards and criteria established in regulations.

## COMMITTEE ACTION

Planning and Development Committee

Joint Favorable Substitute
Yea 17 Nay 0 (03/17/2006)