Metro Hartford Alliance

STATEMENT REGARDING
HOUSE BILL 5143: *AAC THE MUNICIPAL OPTION TO ADOPT ASSESSMENT RATES LIMITING PROPERTY TAX INCREASES ON RESIDENTIAL PROPERTIES*

PLANNING & DEVELOPMENT COMMITTEE
March 2nd, 2011

Good afternoon Senator Cassano, Representative Gentile, and members of the Committee. I thank you for the opportunity to testify regarding House Bill 5143.

While we oppose the bill in its current form, we are most appreciative of Representative Ritter's understanding of the unintended but pernicious effect that the last 30 years of Hartford property tax legislation has had on grand list growth and capital investment in Hartford and his effort, through this bill, to eliminate this significant obstacle to job retention and expansion in the Capital City. I also emphasize our continuing to work with Representative Ritter, other members of the Hartford delegation, Mayor Segarra, and the Court of Common Council to identify a mutually satisfactory solution that will dramatically enhance the City's ability to grow the grand list, to attract investment capital, to increase residents and homeownership, and to retain and increase employment.

More specifically, we understand that there are several other, much more complicated proposals before other legislative committees at this time, and we urge the General Assembly to focus on the objective of simplifying Hartford's very complicated tax structure, which is currently a deterrent to investment and, therefore, much needed job creation.

The MetroHartford Alliance is the Region's economic development leader and the City's chamber of commerce, and our investors include businesses of all sizes, health care providers, institutions of higher education, and the 35 towns in North Central Connecticut. Our mission is to ensure that the Hartford Region competes aggressively and successfully for jobs, capital, and talent and thereby remains one of the country's premier places for all people to live, work, play, and raise a family.

The Alliance and its predecessor organizations have worked for over 30 years with City and State leadership to grow Hartford's grand list, to increase its residential population, to attract capital investment, to increase the number of private sector jobs, to establish a vibrant downtown and attractive neighborhoods, and to enhance the quality and reduce the cost of the City's education and public work services. A summary of that history is attached, and we reiterate the Alliance's continuing commitment to working with all parties to achieve these critical objectives.

As evidenced by our work during the 2006 Legislative session, we believe that the best way to accomplish the objectives is to ensure that the City's property tax structure is identical to those of the rest of Connecticut's other 168 municipalities. While we have articulated for the past several months our openness to a potential phasing-in of certain components of the 2006 legislation that will otherwise take effect with the City tax bills of July 1, 2012, we remain firmly committed to the elimination of the cap on residential property evaluations, the establishment of a 70% assessment ratio for all properties, and the elimination of the surcharge on commercial properties.

As previously stated, we look forward to working with the City's Legislative delegation and the Mayor to achieve a desirable outcome this session and with the Mayor, his administration, and the Court of Common Council to address the City's currently projected deficit in FY '12 and its structural fiscal challenges especially in the area of retiree health and pension benefits.

Municipal Funding Options:

Statewide, Connecticut's dependence on the property tax as a primary source of municipal revenue is a symptom of a much larger problem. Per capita property taxes in Connecticut are the second highest in the nation, while the national trend over the past 15 years is to actually reduce reliance on the property tax as a source of state and local revenue. We see the reverse trend happening in Connecticut, where we are more dependent on property taxes to fund local government than any other state, which is discouraging to both homeownership and economic development.

While the state itself has the ability to impose over 40 different taxes on its citizens to fund its programs and services, municipalities have only two options — the property tax and the real estate conveyance tax. Meanwhile, the state places mandates on our cities and towns that are not attached to any dedicated revenue stream and underfunds existing state programs, including PILOT, forcing towns to turn to local sources of revenue to meet the cost of compliance and maintain local services that constituents have come to expect. This perfect storm leaves towns with one option – to increase property taxes.

Hartford's Tax Structure:

Although the over reliance on the property tax is certainly a statewide problem, we are here today to share our collective concern regarding the property tax structure specific to the City of Hartford. Since the late 1970s, Hartford's formula for distributing the property tax burden has been intentionally different from every other city and town in Connecticut. Historically, when residents were faced with increased property values during a revaluation, commercial property owners have stepped up to the plate and borne a disproportionately larger share of the tax burden to alleviate residential tax increases.

Specifically, since 1989 commercial property owners, from your local restaurant or dry cleaner to the largest employers in the Central Business District, have been paying their respective property taxes as well as an additional surcharge of up to 15% to help subsidize the residential taxpayer's bill. They have done this for one reason – to help grow Hartford and increase homeownership. Unfortunately, this tax subsidy has done nothing to stimulate homeownership rates in the city, as cited by UConn's Connecticut Center for Economic Analysis in 1999. The policy failed.

Barriers to Job Creation & Business Retention:

In fact, if anything the surcharge has clearly placed Hartford at a competitive *dis*advantage in the real estate market, which ultimately translates into fewer jobs being located and retained in our city. In November, Moody's ranked the City among the five *worst* commercial real estate markets in the country, putting it in the company of Trenton, New Jersey and Detroit, Michigan. One contributing factor is the mill rate.

1) **Highest Mill Rate in CT:**

   Hartford's commercial mill rate is far higher than any other city or town in Connecticut. To illustrate, here are a few comparisons: (The Effective tax Rate is that rate at which an average property would be taxed if assessed at 100% of revaluation year market value.)

Town	Mill Rate	ETR
Farmington	$20.46	$14.32
Rocky Hill	$23.80	$16.66
Windsor	$29.63	$20.74
Wethersfield	$30.66	$21.46
Bloomfield	$33.60	$23.52
East Hartford	$33.82	$23.67
West Hartford	$38.38	$26.87
Hartford (Commercial)	**$79.34**	**$55.54**

Subsequently, higher taxes lead to higher vacancy rates and lower property values, impacting the total grand list. For example, CT River Plaza, previously valued at $59M, sold for $6.67M, or $12 per square foot, earlier this year. This unfortunate cycle further erodes the City's tax base.

2) Vacancies Exceed National Trends:

Commercial:
The property tax on real and personal property is weighed heavily when an employer makes relocation decisions. High taxes clearly contribute to high vacancy rates. By comparison, nationally, a significant commercial vacancy rate would meet or exceed 15%. Hartford's commercial vacancy rate in the Central Business District currently exceeds 30%.

Retail:
Nationally, retail vacancies become notable at 10%, while the City of Hartford's retail vacancies are among the highest in the region at 19.3%, after two consecutive years of 20% increases in vacancies as a result of business closures or moves out of the city.

Notable Examples of Hartford Vacancies:

- YMCA property
- Capital View

- 101 Pearl
- 111 Pearl
- Bank of America
- Goodwin Square

Clearly, we need to take a serious look at this situation and work together to reverse the trend and attract more investment in commercial property or face continued job losses.

Priorities:

The Alliance and our investors remain firmly committed to working with the City and its legislative delegation to accomplish four major and interrelated objectives:

- to retain and increase the number of jobs in Hartford;
- to encourage commercial investment in existing, vacant, or underdeveloped sites;
- to increase the population of both homeowners and renters;
- to create an economically viable environment for privately held businesses and firms as well as entrepreneurs;
- to ultimately grow the grand list.

This commitment is already manifested in many ways, including the move of employees by Aetna, The Hartford, and Travelers to their City campuses, the relocation of NU's corporate offices to Constitution Plaza, the engagement of several of our working group members on the two City Task Forces on the budget and property tax topics as well as the City's Internal Audit Commission; the funding of the first two phases of the iQuilt initiative; the creation and funding of the Downtown Business Improvement District; the establishment of Live Hartford; the funding of Achieve Hartford!; and countless other actions supported by both private sector dollars and employees volunteering their time, energy, and ideas.

Next Steps:

In 2006, the City and the Alliance worked with the Legislature to pass legislation to phase out the 15% surcharge, instituting a cap to substantially reduce the impact of revaluation on residential and apartment classes, and phasing in the values from the 2006 revaluation. These transitional steps expire with FY'13 and the tax bills that will be issued as of July 1, 2012. Without any action, that expiration will result in a significant increase to residential taxes in the city.

As partners in Hartford's success, we repeat our offer to work with Hartford's elected officials to design and implement appropriate action that will ensure both increased residential and small business populations and a commercially attractive Hartford with a property tax system that is identical to those of all other Connecticut municipalities and competitive outside our borders. However, we have concerns that the bill before you today does not effectively move Hartford towards our goal of growing the grand list and becoming more competitive. Instead, it implements a cap on the impact of revaluation for residential property owners at an astonishingly low rate of 1.5% a year. Additionally, the assessment ratio for the apartment class will be fixed at 50% of fair market value. Not only do these two factors prohibit Hartford's development, they don't bring us close to actually implementing revaluation while other cities and towns across Connecticut proceed with their revaluations on time and tax residents at 70%.

Additionally, the state's budget situation has a direct impact on the City's budget. Therefore, this legislative session, the Alliance is urging the legislature to focus solely on passing a truly balanced budget by April 30th to ensure that municipal government officials are afforded the opportunity to accurately calculate the impact of state funding changes on local budgets. The Alliance also continues to call for a moratorium on unfunded state mandates, which only escalate deficits. Currently, there are an estimated 1203 such mandates. To give an example, the Connecticut Conference of Municipalities estimates the cost of implementing the in-school suspension mandate at $4.5M a year for larger cities. This is unsustainable and further exacerbates an overreliance on the property tax.

Conclusion:

Each time we face a revaluation that results in increased property values, we cannot continue to shift the burden on to the commercial taxpayer. If we truly want the capital city to succeed in the long-term, meaning increased homeownership *and* opening our doors to business development and job growth, we need to learn from our past mistakes and stop repeating them.

Going forward, we can no longer postpone the inevitable. It is important to look at comparable cities to gain a clear understanding of how competitive we are, regionally, nationally and internationally and learn from their best practices. Businesses considering a relocation or expansion will always review the rates of taxation in the municipalities they compare. The fact that Hartford's effective tax rate is significantly higher than its neighboring towns or sister cities in the South and other regions puts us at a distinct and unfortunate disadvantage.

Hartford's business community understands that Hartford will not succeed because of any one of us, but it will succeed because of all of us collectively. The Alliance and its investors stand ready to move the ball forward and seek a diplomatic solution which is fair and equitable to all. Our goal is to work with the City to retain existing businesses and their affiliated jobs, attract additional investment in commercial properties to help create new jobs, grow the grand list and retain both residential property owners and small businesses. Our strongest opportunity to achieve these goals is in pursuing a simple tax structure similar to the rest of the state, increasing the City's overall competitiveness and instilling predictability into an increasingly complicated tax system that currently serves as a deterrent to growth.

Unfortunately, House Bill 5143, as written, does not take the necessary steps to help Hartford compete and grow. At this time, we oppose the bill in its current form and hope to continue to work with the proponents on an equitable compromise to protect homeowners from a large tax increase without sacrificing the long-term economic growth of the City.