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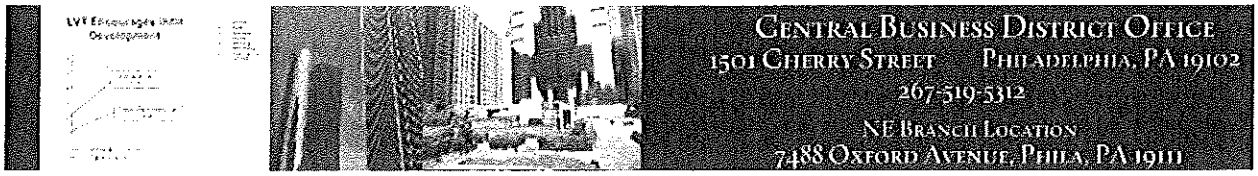

Testimony in support of **House Bill 6572**, March 6, 2015

The Joint Committee on Planning and Development, Connecticut General Assembly

AN ACT EXTENDING THE LAND VALUE TAXATION PILOT PROGRAM

Good morning Committee Members and Chairs Osten and Miller. I am Joshua Vincent and serve as the National Director of the *Center for the Study of Economics* based in Philadelphia, Pennsylvania. Since 1926, the Center has researched and helped implement the collection of what is called "economic rent" in the form of a land value tax. In its most basic form, land value tax is a revenue source that is generated by government and community investment that result in increased site values. Like most economists, we believe that taxpayer generated value ought to be recollected by government. It ought to be the primary source of government revenue to the greatest degree possible, in place of corrosive and destructive taxation of commerce, wages and investment.

Executive Summary:

In 2013, the Connecticut General assembly passed Public Act 13-247 Section 329 from the MORE commission that would permit three municipalities to enact a land value taxation pilot program be it citywide or in a specially chosen district. Unfortunately, the guidelines set down by the Office of Planning and Management were complex and did not seem to provide enough time for the necessary education and engagement of both municipal officials and citizens (attached). The City of Bridgeport indeed voted to implement the pilot program in December 2014.

In the interest of fairness and clarity, HB 6572 has a simple goal: to extend the deadline for municipalities to apply for the program in a way that fits their goals and their strategies for urban rejuvenation, tax relief and fighting blight. It is revenue neutral to the state.

Connecticut is still a state with unsustainable divergences of economic opportunity, wages, poverty and education. Connecticut cities require economic and development tools to help them regain the economic competitive edge that they have lost over the past decades.

Thank you very much for your consideration for HB 6572.

Why Connecticut cities need land value taxation:

Now, more than ever, this option ought to be a part of a package to empower Connecticut's urban areas to maintain steady revenue flows and redesign their tax structures to un-tax buildings, future construction, and new renovations from the acknowledged disincentive effect of the property tax on improvements, but yet maintain revenues by taxing land values.

These observations about Connecticut urban areas today can only lead to the conclusion that something must be done about the framework of municipal taxation:

1. State aid to cities has been declining since the mid-2000s. There is no realistic prospect of an increase, and the current state budget proposal appears to be a net loss to cities.

2. Postindustrial urban areas of Connecticut have yet to attract development and redevelopment without budget busting abatements and other subsidy programs.

3. The downtowns of many Connecticut cities are awash in vacant lots and surface parking which provides little in the way of tax revenue and subtracts development opportunities.

4. The perverse incentives of the currently used property tax place intolerable tax burdens on homeowners, businesses and other productive land users while subsidizing private land banking and underwriting absenteeism and blight. For example, Hartford collects about 80% of tax revenue from improvements, from New Haven it's about 73%.

Unhappily, it is therefore little surprise that much market investment in real estate – and jobs - takes place in lower taxed jurisdictions.

LVT is a proven program; in the USA mostly in Pennsylvania, but also in hundreds of cities, counties, provinces and nations across the world.

Land value tax is accord with other incentive programs. The revenue outcomes of LVT comport with accepted rules of progressivity and ability to pay. Tax burdens are reduced significantly for the most at risk neighborhoods and homeowners. LVT has been proven to spur new construction in cities that use it.

If cities had the right to enact LVT, it would also reduce development pressure in our rural and suburban areas. Therefore, it is unsurprising that such diverse groups as the Connecticut Homebuilders Association, the Rivers Alliance of Connecticut, the CCM and the Southeast Connecticut Sierra Club have supported LVT in the past.

Appendix 2.

OPM

Application for Land Value Taxation Pilot Program

_____

Name of City/Town

Complete this application and return (together with a copy of the City/Town Council's resolution approving the application) to: Benjamin Barnes, Secretary of the Office of Policy and Management, 450 Capitol Avenue MS# 54-SEC, Hartford, CT 06106-1379.

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1. Describe the City/Town's understanding of the policy objective of the land value taxation program for which Public Act 13-247 Section 329 provides.

2. Describe specific results that your municipality hopes to obtain by implementing land value taxation.

3. Describe how your municipality will determine if this system of taxation generates the desired results.

4. Explain why implementing a program of land value taxation is desirable given the current state of the economy.

5. Describe how your municipality intends to resolve disputes arising from the fact that the municipality will increase taxes on non-buildable land using the same tax rate applicable to buildable vacant land.

I herein certify that the (name of city/town) City/Town Council has reviewed and approved this application which will allow for the municipality's selection for the land value taxation program that Public Act 13-247 authorizes. By resolution adopted on _____, _____ (copy attached), the _____ City/Town Council voted to approve this application.
(name of city/town)

_____ _____

Chief Elected Official Date

Criteria for the Municipal Implementation of a Land Value Taxation Pilot Program Pursuant to Public Act 13-247 Public Act 13-247 allows the Secretary of the Office of Policy and Management to "...establish a pilot program in up to three municipalities whereby the municipalities selected shall develop a plan for implementation of land value taxation that (1) classifies real estate included in the taxable grand list as (A) land or land exclusive of buildings, or (B) buildings on land; and (2) establishes a different mill rate for property tax purposes for each class, provided the higher mill rate shall apply to land or land exclusive of buildings.

The different mill rates for taxable real estate in each class shall not be applicable to any property for which a grant is payable under section 12-19a or 12-20a of the general statutes." The municipality must comply with the following criteria when preparing the implementation plan pursuant to the requirements of Public Act 13-247. Terminology For purposes of this explanation and the municipal implementation plan, the land tax rate will be the mill rate applicable to all taxable land.

The land tax rate will be applicable to all vacant land and all improved land, even when such land does constitute a building lot. The building tax rate will be the mill rate applicable to all taxable buildings. The implementation plan that the municipality prepares must define the term "building." The municipality's plan must also explain the tax rate that it will use to determine the property tax for a site improvement that is not a building. The municipal tax rate will be the mill rate applicable to all taxable personal property and motor vehicles. The municipal tax rate will also be used to determine the amount of the Payment-In-Lieu of Taxes (PILOT) the State of Connecticut issues for certain real property under §12-19a and §12-20a of the Connecticut General Statutes. The municipality's implementation plan must include an explanation of how the city/town intends to calculate these differentiated tax rates. A calculation example(s) must accompany the explanation. Designation of Geographic Area(s)

The municipality must designate a geographic area(s) in which it intends to implement land value taxation pursuant to Public Act 13-247. In the event the municipality intends to implement land value taxation in more than one geographic area at different times, the municipality must devise a schedule indicating the fiscal year in which it intends to initiate land value taxation in each such area.

The implementation plan that the municipality submits to the General Assembly's committees of cognizance and to the Secretary of the Office of Policy and Management must include information concerning the census tract(s) that the designated geographic area(s) encompasses, together with a map of each such area(s). Period of Time for Land Value Taxation Implementation

The municipality must determine the period of time, if any, during which there will be gradual increases to the land tax rate and gradual decreases to the building tax rate. The municipality must determine the ratio of the land tax rate to the building tax rate that will be effective for each fiscal year(s) during which such gradual increases and decreases occur and the ratio of the land tax rate to building tax rate that it desires to impose upon full implementation of the land value taxation system.