

Properties Exempt from Paying Property Taxes in Connecticut

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Prepared for the Connecticut Tax Study Panel

October 27, 2015

Good News

- In a recent national study, Connecticut was identified as one of only two states in the country that reimburse local governments for a portion of property tax revenues foregone because of state mandated exemption.

Let me repeat –

- Connecticut is a model for how other states should reimburse local governments for revenues foregone because of state mandated property tax exemptions

Reimbursement Programs: Grants in lieu of taxes (GILOTs)

- State owned property -- \$83.6 million in FY2015
- Colleges and hospitals -- \$61.8 million in FY2015
- Pequot -- \$125.4 million in FY2015
- Circuit breaker for elderly and disabled (in FY2015 \$20.5 million reimbursed)
- Elderly freeze (in FY2015 \$235,000)
- Disability programs (in FY2015 \$400,000)
- Veterans exemptions (in FY2015 \$2.97 million)
- Income tax credit (estimated to be \$214.3 million in FY2015)

Tax Panel Criteria for Evaluate Changes in Revenue System

- Taxes should be designed to avoid unintended interference with private economic decisions
- The structure of the tax system should treat taxpayers in similar circumstances similarly

Exempting individual properties from paying property taxes violates these criteria

Policy Issue

- Reduce incentive to buy more property, or more expensive property
- Reduce differential between exempt properties and those properties that do not receive preferential treatment

Selected Real Properties Exempt from Paying Property Taxes in Connecticut	
CGS Source	Description
Sec. 12-81(1)	Property of the United States
Sec. 12-81(2)	State property and reservation land
Sec. 12-81(4)	Municipal property
Sec. 12-81(5)	Property held by trustees for public purposes
Sec. 12-81(6)	Property of volunteer fire companies and property devoted to public use
Sec. 12-81(7)	Property used for scientific, educational, literary, historical, charitable or open space land for preservation purposes
Sec. 12-81(8)	College property
Sec. 12-81(10)	Property belonging to agricultural or horticultural societies
Sec. 12-81(11)	Property held for cemetery use
Sec. 12-81(13)	Houses of religious worship
Sec. 12-81(14)	Property of religious organizations used for certain purposes
Sec. 12-81(15)	Houses used by officiating clergymen as dwellings
Sec. 12-81(16)	Hospitals and sanatoriums
Sec. 12-81(18)	Property of veterans' organizations. (a) Property of bona fide war veterans' organization
Sec. 12-81(27)	Property of Grand Army posts
Sec. 12-81(29)	Property of American National Red Cross
Sec. 12-81(45)	Property of units of Connecticut National Guard
Sec. 12-81(48)	Airport improvements
Sec. 12-81(49)	Nonprofit camps or recreational facilities for charitable purposes
Sec. 12-81(67)	Beach property belonging to or held in trust for cities
Sec. 12-81(69)	Property of Metropolitan Transportation Authority
Sec. 12-81(75)	Certain Health Care Institutions
Sec. 12-81(77)	Real Property of Regional Council of Governments
Sec. 12-255	Public Service Railroad
PA 15-5 Sec. 7	Connecticut Port Authority

Importance of Exempt Properties Across Representative Municipalities

Municipalities	# of Parcels	Share of total	Value of Parcels	Share of Total
Large Cities				
Bridgeport	1,895	5.5%	\$3,093,950,038	33.9%
Hartford	1,455	6.4%	\$3,758,739,591	59.1%
Small Cities				
Manchester	597	3.2%	\$449,156,340	11.9%
Torrington	386	2.6%	\$223,370,750	12.3%
Wealthy Suburbs				
Glastonbury	558	3.9%	\$249,554,640	6.7%
Guilford	569	5.3%	\$157,377,490	5.3%
Litchfield	282	6.2%	\$149,668,630	13.9%
New Canaan	224	3.0%	\$556,342,490	6.7%
Mixed Base				
Hamden	551	2.8%	\$723,993,227	16.6%
Middletown	973	6.3%	\$1,275,323,645	32.4%
Norwich	878	6.3%	\$557,138,265	27.1%
Windsor	448	3.7%	\$264,333,790	10.3%
Rural				
Bozrah	51	3.8%	\$13,710,670	7.0%
Durham	139	4.4%	\$48,143,410	6.8%
Killingly	274	3.7%	\$179,443,790	15.1%
North Canaan	80	4.8%	\$48,063,690	15.3%
Plainfield	186	3.0%	\$120,379,160	14.1%
Union	85	11.6%	\$9,941,520	11.3%
Washington	179	6.8%	\$179,899,646	14.7%

Summary of Relative Importance of Exempt Properties		
	Share of Parcels	Share of Value
Large Cities	5.9%	46.5%
Small Cities	2.9%	12.1%
Wealthy Suburbs	4.6%	8.1%
Mixed Base	4.8%	21.6%
Rural	5.4%	12.0%

Top Five Types of Exempt Properties

Real property owned by

municipal government

educational institutions

charitable organizations

religious organizations

12-20a private colleges (real property owned by any private nonprofit institution of higher learning)

Top Five Exempt Land Uses As Share of the Number and Value of all Exempt Properties		
	Share #	Share Val
Large Cities		
Bridgeport	91.8%	76.8%
Hartford	62.7%	47.8%
Small Cities		
Manchester	75.2%	65.5%
Torrington	72.8%	75.8%
Wealthy Suburbs		
Glastonbury	76.0%	92.3%
Guilford	83.5%	90.5%
Litchfield	39.2%	75.9%
New Canaan	78.6%	83.2%
Mixed Base		
Hamden	64.8%	74.0%
Middletown	82.4%	51.2%
Norwich	81.9%	57.8%
Windsor	65.4%	86.6%
Rural		
Bozrah	52.9%	68.8%
Durham	56.1%	70.9%
Killingly	65.0%	71.1%
North Canaan	41.3%	42.8%
Plainfield	50.5%	80.5%
Union	17.6%	36.7%

Paying for Local Services Provided to Exempt Properties

- Payment-in-lieu-of-taxes (PILOTs)
- Services-in-lieu-of-taxes (SILOTs)
- User fees and charges
- Other direct taxes
- Retaining revenue from properties sold to exempt entities

Payments in Lieu of Taxes (PILOTs)

- ***PILOTs are voluntary payments by nonprofits, in lieu of property tax payments, to the host local government to help finance locally provided goods and services consumed by the nonprofit.***
- PILOTs are in at least 281 municipalities and 20 states (Kenyon et al 2012)
- A number of large cities have PILOTs including Boston, Philadelphia, Providence, Baltimore, Detroit, Indianapolis, Minneapolis and Pittsburgh

Arguments Supporting PILOTs

- Nonprofits should pay for the public services they consume which will reduce the inefficiencies and inequities in the current system of providing property tax exemptions;
- PILOTs can generate essential revenues that can help improve the level and quality of publicly provided goods and services benefiting the exempt properties and to a large extent these revenues might be exported to non-residents;
- PILOTs can ameliorate some of the inequities created by the charitable property tax exemption which gives the greatest tax savings to large nonprofits with the most valuable real estate because large nonprofits are the ones most likely to pay PILOTs;
- PILOTs reduce the subsidies going to properties receiving preferential treatment which, in turn, can reduce market inefficiencies in land use.

Concerns with PILOTs

- Can too often be ad hoc, secretive and contentious
- Provide limited and unreliable revenue
- Could lead some nonprofits to raise fees, cut services and/or reduce employment

Policy Options for Consideration

- ***Policy Option 1: Maintain the Status Quo*** -- stakeholders in the current system – owners of exempt property, the state of Connecticut and local governments in the state – are familiar with the current system and have made decisions in the context of that system. Current system does not address the current efficiency and equity concerns associated with property tax exemptions.
- ***Policy Option 2: Develop a traditional PILOT program along the lines of the program in Boston*** -- City's starting point for negotiations is that each tax exempt organization should pay a PILOT equal to 25 percent of what they would pay if they were totally taxable. This estimated liability is then balanced against community benefits provided by each tax exempt organization.
- ***Policy Option 3: Limit the value of real property exempt from taxation for individual properties*** -- One possibility for limiting property tax revenues foregone because of exemptions would be to simply include some portion of the estimated market value of tax exempt property in the taxable property tax base. The owner of the exempt property would make a payment to the local government based on the value of the property. This would be a required payment, not a voluntary PILOT.

Table 8 Alternative Measures of Payments for State Owned Exempt Properties, FY2016				
	GL2014; FY2016			GL2013/FY2016
Municipalities	State Owned Total		PILOT on	State Owned
	Parcels	Values	25% Value	Current PILOT
Large Cities				
Bridgeport	112	\$ 252,171,940	\$2,660,288	\$ 2,353,126
Hartford	169	\$ 843,708,504	\$15,669,776	\$13,887,253
Small Cities				
Manchester	39	\$ 96,419,200	\$949,729	\$566,228
Torrington	48	\$ 31,853,590	\$364,325	\$104,211
Wealthy Suburbs				
Glastonbury	54	\$ 6,258,700	\$56,485	\$ -
Guilford	34	\$ 3,283,890	\$23,184	\$ -
Litchfield	46	\$ 13,119,240	\$85,931	\$28,313
New Canaan	28	\$ 10,889,410	\$43,517	\$ -
Mixed Base				
Hamden	114	\$ 104,711,810	\$1,069,893	\$715,955
Middletown	75	\$ 329,782,480	\$2,298,584	\$3,252,694
Norwich	63	\$ 120,983,900	\$1,237,060	\$910,659
Windsor	97	\$ 8,042,580	\$62,169	\$ -
Rurual				
Bozrah	12	\$ 971,540	\$6,558	\$ -
Durham	30	\$ 2,546,810	\$21,482	\$ -
Killingly	53	\$ 41,401,760	\$282,671	\$60,358
North Canaan	28	\$ 4,119,040	\$28,318	\$8,147
Plainfield	48	\$ 10,006,240	\$70,944	\$ -
Union	53	\$ 4,472,660	\$33,098	\$23,968
Washington	14	\$ 9,287,880	\$31,927	\$ -

Policy Options (Continued)

- ***Policy Option 4: Phase out property tax exemptions for selected properties*** -- Re-examine certain tax exemptions for specific categories or uses of property. For example, property tax exemptions might be retained for federal, state and municipal properties, as well as religious and educational organizations, hospitals and non-profit organizations providing services to local residents. Other property tax exemptions could be reexamined. For example, PA 15-5 SS, Section 244, which becomes effective October 1, 2015 provides for the taxation of residential real property (not dormitories with 20 beds or more) held by private nonprofit institutions of higher learning.
- ***Policy Option 5: Return Responsibility for Establishing Property Tax Exemptions to Local Governments*** -- Giving some policy making responsibilities to local governments aligns the decision to establish property tax exemptions to the governments that foregone property tax revenues as a result of those decisions. Some local governments might limit exemptions because of their limited property tax base while other local governments might be more generous in providing exemptions. As a result, this could create a mosaic of property tax exemptions across the 169 municipalities in Connecticut. Finally, this does not address the efficiency and equity concerns associated with property tax exemptions.