

PROPERTY TAX REFORM FOR CONNECTICUT

A Talk Before

CONNECTICUT ASSOCIATION

of

MUNICIPAL DEVELOPMENT COMMISSIONS

September 28, 1976

By

Perry Prentice

I was invited to be your speaker here tonight in the hope that I can make it quick and easy for all of you to see what is so painfully wrong with the property tax in Connecticut and what the misapplication of the property tax in Connecticut is doing to drive employers and taxpayers out of your Connecticut cities and out of Connecticut and thereby making your municipal development jobs many times more difficult.

And while I'm about it I hope I can also make it quick and easy for you to understand the only property tax reform that would be good for everybody in Connecticut except land speculators and landowners who persist in keeping their land unused, underused, or misused.

I hope I can make it quick and easy for you to understand the only property tax reform that would reduce the tax homeowners must pay on their homes without exposing them to a still bigger increase in some other kind of tax.

I hope I can make it quick and easy for you to understand the only property tax reform that would reverse the crazy inflation in land prices that is doing more than anything else to price good homes out of the unsubsidized market. That would help everybody in Connecticut enjoy a better home for less money.

I hope I can make it quick and easy for you to understand the only property tax reform that could cut billions of now-wasted dollars off the cost of local government in Connecticut.

I hope I can make it quick and easy for you to understand the only property tax reform that would check the premature subdivision

and urbanization of many thousands of acres of Connecticut land that could and should be left open country for farming and recreation for many years to come.

I hope I can make it quick and easy for you to understand the only property tax reform that could help you attract more employers and more jobs to Connecticut and bring those jobs closer to where the people who need those jobs live, so they won't have to waste billions of hours and billions of dollars driving billions of needless miles to get to and from where they have to go.

I hope I can make it quick and easy for you to understand the only property tax reform that would harness the profit motive to what you want for Connecticut and its people instead of harnessing the profit motive (as now) to so many things you don't want.

That sounds like a big order, so let me hasten to assure you that the property tax reform I came here to help you understand quickly and easily is not a new miracle cure of my own invention.

On the contrary, it is just a commonsense reform unanimously - repeat, unanimously - recommended by the Urban and Regional Affairs Committee of the Chamber of Commerce of the United States. It is the only property tax reform whose potential for good you will find spelled out simply and authoritatively in the Encyclopaedia Britannica. It is the only property tax reform whose potential for good even your children are expected to learn and recite when they study the most widely used school textbook of economics.

You will find the simplest authoritative statement of what I came here to help you understand in the consensus of the outstanding

urban experts at two round table conferences that were variously co-sponsored by the National League of Cities, the Council of State Governments, the Conference of Mayors, the American Institute of Architects, the International City Management Association, and the National Association of Counties. So, to save you time, I'm just going to read you a few paragraphs of what these experts said about property tax reform and why land should be taxed much more heavily and improvements should be taxed much less heavily if at all.

Said the urban experts at the round table:

"Wisely applied, the property tax on which local governments depend for most of their local tax revenue could be one of the wisest and fairest of all taxes; but as most cities apply it today(including, alas! all your Connecticut cities) it may well be the very worst of all taxes - a weird combination of overtaxation and undertaxation, an incentive tax for what we don't want and a disincentive tax for what we do want. It harnesses the profit motive backward instead of forward to both urban renewal and urban development. Too often it makes it more profitable to misuse and underuse land than to use it wisely and fully, more profitable to let buildings decay than to improve them or replace them.

"Too few tax levyers and too few taxpayers seem to understand that the property tax is not just one tax; on the contrary, it combines and confuses on one tax bill two completely opposite and conflicting taxes, and it would be hard to imagine two taxes whose consequences for our cities, our suburbs, our open country, and their people would be more different.

"One of the two conflicting taxes fused and confused in the property tax is the tax on the improvement - the tax on what past, present, and future owners of the property have spent or will spend to improve it. And it should be obvious - repeat, obvious - to anyone that heavy taxes on improvements are bound to discourage, inhibit, and often prevent improvements."

"The other levy confused in the property tax is the land tax - the tax on the unimproved location value of the site, the tax on what the property would be worth if its past and present owners had never done anything or spent any of their own money to improve it, the tax on a value that derives almost entirely from an enormous investment of other peoples' money and other taxpayers' money to create the community around it and make the location accessible, livable, and richly saleable.

"And it should be obvious - repeat obvious - to anyone that heavy taxes on the location cannot discourage the owner from improving it; on the contrary, heavy taxes on the location could put effective pressure on the owners to put their sites to better use so as to bring in enough income to earn a good profit after paying the heavier land tax.

All this is so obvious - repeat, obvious - that you would think every city would try to tax land heavily and tax improvements lightly if at all; but just the opposite is the case. Almost every city collects two or three times as much money from taxes on improvements as from taxes on land. In fact, many cities (including all your Connecticut cities)

tax improvements more heavily than the combined local, state, and federal taxes on any other product of American industry except hard liquor, cigarettes, and perhaps gasoline.

"Conversely, millions of idle urban and suburban acres are so underassessed and undertaxed that the owners have been able to hold their land off the market for a net yearly cost well under 1/2 of 1% waiting for inflation and an enormous investment of other peoples' money to double or triple its price" - i.e., to give them an unearned increment of 100% or 200%, or in at least one Connecticut instance I could cite an unearned increment of not 200% but 2,000%.

This same message is concisely and authoritatively restated in 66 words in these quotations excerpted from the latest property tax study by the Federal Advisory Commission on Intergovernmental Relations:

Concluded the ACIR report:

"The present property tax acts as a deterrent to private investment in improvements.....constitutes a force to promote leapfrogging and urban sprawl.....fosters speculative land holding.....discourages construction and undoubtedly discourages the rehabilitation and improvement of existing structures.

"A changeover to a site value tax imposing a differentially higher tax on land would result in more intensive use of land and provide an incentive to improve and build."

And that's why the 1973 president of the National Tax Association reports that "Practically all competent economists who have studied the problem are now agreed that land should be taxed much more heavily and owner-paid-for-improvements should be taxed much more lightly if at all. The tax on improvements can be a horrible tax; a tax on land can be one of the best."

So much for what the ACIR and the National Tax Association president said about the need for property tax reform everywhere, and so much for what the urban experts at those two conferences said about what kind of property tax reform is needed everywhere.

Now let's talk about Connecticut.

Now I'm sure there is no need for me to remind anyone here tonight that Connecticut is in big economic trouble - so much trouble that I don't envy any of you Connecticut Redevelopment Commissioners as you go about your all-too-discouraging jobs. I'm sure I don't have to remind you that Connecticut lost more net manufacturing jobs from 1967 to 1972 than any other state except one, according to the Department of Commerce Census of Manufacturers, and from 1967 to 1974 Connecticut lost more net manufacturing jobs than any other state except four according to the Department of Labor manpower report to the President. I'm sure I don't need to remind you that the cities that employ you are losing jobs even faster. I'm sure I don't need to remind you that the Fantus report mentioned in your CAMDC president's September 1st message that there are only five states where the business climate is worse and only four where per capita income went up less from 1963 to 1973. And I am sure I don't need to explain to such a knowing Connecticut audience that all these Connecticut figures would be worse and more discouraging if the tax follies of your next-door state of New York were not driving thousands of jobs and thousands of executives and other upper income taxpayers

out of New York into Connecticut, thereby creating a business boom along the Connecticut side of the state border that conceals in the statewide statistics I have just cited how much worse your problems are in the rest of Connecticut.

And I'm sure I don't have to remind any of you city redevelopment commissioners that taxpayers are moving out of your cities at a disastrous rate that is somewhat obscured by the high rate at which poor people are moving into your cities. From 1960 to 1970 the number of dwelling units in Hartford city went up 1.5% while the number in the rest of Hartford County went up 30%; the number in New Haven city fell half of 1% and the number in Waterbury went up 6.3% while the number outside in New Haven County went up 35%; the number in Bridgeport went up 5.8% while the number in the rest of Fairfield County went up 27.4%.

All this economic bad news about Connecticut must be so well known to you that I mention it here only to assure you that I too know how serious your problems are, that I am more than sympathetic, and the only reason I came here to take counsel with you tonight is that I want to help you

Now let me talk seriously and at some length about property taxation in Connecticut, for I wonder how many of you have any idea how bad the property tax mess in Connecticut has gotten to be.

I wonder how many of you realize that vacant land is the one thing that is grossly undertaxed in Connecticut and I wonder how many of you have stopped to figure out what a preposterous subsidy this undertaxation gives land speculation around your cities. I wonder how many of you have stopped to figure out how much it is costing the taxpayers to give suburban land speculators an almost free ride on the enormous public investment needed to make their land ripe for development. How many of you know that in the metropolitan area report that includes Fairfield, New Haven and Litchfield Counties the New Regional Plan Association has added up to well over \$30,000 the proportionate capital cost of the roads, schools, water supplies, sewer and sewage disposal facilities, police and fire protection facilities, etc. needed to make the land for one more spread-city home reachable, livable and richly saleable. At two homes per acre that would add up to an other-taxpayer investment of \$60,000 an acre to enable the land speculator to sell for say \$20,000 an acre land that he may have bought for less than \$2,000 an acre. And that \$60,000 of other-taxpayer money gives speculation in undertaxed land around your cities a mighty juicy subsidy! I also wonder how many of you realize what an enormous disincentive to private investment in urban development your Connecticut tax on improvements can be.

A 4%-a-year tax on improvements - which is less than the improvement tax in any Connecticut city - may sound small compared with a federal income tax that runs up to a top of 70%; but it sounds small only because the 4% is 4% of the entire capital value of the improvement, whereas the income tax, as its name makes clear, applies only to the income on that capital value.

The enormity of a 4%-a-year tax on the true value of the improvement should become clear if we restate that 4% in sales tax, in income tax, and in consumption tax terms and then apply it to the published tax rates of some of your Connecticut cities, which work out to 4.55% of full value in Waterbury, 5.35% in Hartford, and 4.93% in New Haven.

First in sales tax terms - The Federal Advisory Commission on Intergovernmental Relations has calculated that each 1% added to the tax on improvements is the installment plan equivalent of a 19% sales tax, i.e., it costs the improver as much each year as a 19% single-payment sales tax would cost him if he could finance it at 5% interest over the 60-year life of the improvement. So Waterbury's 4.55% improvement tax is the installment plan equivalent of 86.45% sales tax, Hartford's 5.35% is the equivalent of a 101.65% sales tax, and New Haven's 4.93% is the equivalent of a 93.67% sales tax!

In income tax terms - The property tax in all three cities costs the improver well over half the income the improvement could otherwise earn on the equity investment.

In consumption tax terms - In all these cities the tax adds at least 30% to the rent or 30% to the carrying cost of a home!

I also wonder if you all realize that there is no more reason for taxing land and improvements alike because they are both what we call real estate than there is for taxing gin and gingerale alike because they are both beverages, cigars and cigarettes alike because they both contain tobacco, or books and playing cards alike because they are both made of paper. And there most certainly is no excuse or justification for the present Connecticut law that theoretically requires all local governments to tax land and improvements alike.

Anyhow, I'm sure you all do know that the property tax is by far the biggest of all Connecticut taxes and I'm sure you must know that the

property tax per capita in Connecticut is much heavier than in almost any other state.

This makes it all the more urgent for Connecticut to make a careful study of its property tax to make sure its biggest tax is a good tax instead of a bad tax, but alas! I can't find that Connecticut has made any property tax reform study at all - let alone a serious study in depth.

The report of the Governor's 1972 Tax Reform Commission does say that undeveloped land in Connecticut is grossly underassessed, which is another way of saying it is grossly undertaxed as compared with improvements. It does say that "Many Connecticut assessors have not been properly trained", which is hardly surprising when you consider that assessment in little Connecticut is fragmentated in 169 separate assessment districts (vs. 89 in 32-times-as-big California) and some of your assessment districts pay their only assessor less than \$3,500 a year and others just pay him \$3.50 an hour for the time he spends working on his job. Beyond that, the report just says that "various proposals for property tax reform such as differential assessment and site value taxation have not been explored in enough detail", but it offers no suggestion that they should be so explored.

The 103 top business leaders on the Governor's Strike Force for Full Employment got off to a fine start by saying that "Taxes should be used to stimulate business to expand investment and thereby create more opportunities for employment in the state", but after that fine start it never even mentioned the biggest of all Connecticut taxes and the enormous disincentive to private investment it creates.

The Hartford Process spent more private money to develop its program for Hartford than any other U.S. city has ever raised, but it did not spend a penny for property tax research. New Haven under Mayor Lee got more federal renewal subsidies per capita than any other American city has ever gotten, but ^{none} more of these many millions was spent to study what New Haven's misapplication of the property tax was doing to drive the people and investors out of the city. I can't find a word about easing the improvement tax disincentive in any of Governor Grasso's many calls for action to expand Connecticut's industrial base.

The study of "Revenues and Ratables" just released by the Central Naugatuck Regional Planning Association includes six fine lines on page 4 that are well worth quoting here. Quote: "As suburbanization continues the city faces a loss in its property tax revenue caused by employers and middle and upper income persons moving out to seek lower property taxes in the suburbs. On the other hand, suburban towns often face a rapid rate of growth for which they are unprepared. This requires large capital expenditures for sewers, roads and schools while city facilities often go unutilized."

The most careful and detailed Connecticut property tax study was made by Hartford assessor Ted Gwartney. As he went about his task of reassessing every property in the city, as most of you know, he found that instead of taxing land more heavily than improvements Hartford was taxing improvements two and a half times as heavily as land and that was one reason the owners of a quarter of the buildable land in

Hartford were still making no use of their land three and a quarter centuries after my great great (how many greats?) grandfather Thomas Hooker brought the first settlers to the banks of the Connecticut River.

And some of you may recall the four ago assessor Gwartney told the CAMDC that uptaxing land and downtaxing improvements would help reverse the mass exodus of taxpayers from the city to the suburbs, encourage better in-city land use, save open space and farm land from premature speculative development, reverse the erosion of urban property values and the urban tax base, improve the city's economic base, attract new businesses that would provide more in-city jobs, and make urban redevelopment self-perpetrating.

Ted Gwartney's reward for his efforts to give Hartford all these blessings by taxing land more and improvements less was that the landed interests got him thrown out of Hartford and out of Connecticut -- thrown out so hard and so far that he landed clear out of the United States, 3000 miles away on the Pacific shores of Canada.

It's too late for you to throw me out of Connecticut for my efforts here tonight to help you in your all-too-difficult jobs by sharing with you the property tax recommendation of almost all the urban experts who have studied the problem, for the last train left long ago.

It is also too late for me to keep on talking, so let me close quickly with one last quotation from the consensus of the urban experts I quoted at the beginning of my talk.

"If you want to hold down the cost of municipal services, it is foolish to undertax underused urban land and so encourage sprawl, for almost all municipal costs - water supply, sewage disposal, garbage collection, streets, school bussing, fire protection, police protection, etc., are multiplied by distance.

"If you want to make low-density living possible closer to downtown, it is foolish to subsidize the waste of central-city land by undertaxation. Research inspired by the Urban Land Institute found that better utilization of the land close to the center would satisfy most of the demand that is now proliferating sprawl, thereby making land available for low density living less than half as far out as now.

"If you want to speed up the replacement of obsolete buildings such as now pre-empt so much downtown land, it is foolish to keep them standing and profitable by taxing not only the aging buildings, but also the land under them, less and less as the buildings get older and more and more rundown.

"If you want to check the land-price inflation that threatens to price good new homes clear out of the market, it is foolish to subsidize that inflation by assessing and taxing land lightly and then penalize the homebuyer who has just paid too much for his land by taxing him too much on his house.

"In brief" the round table concluded: "there is hardly an urban problem today that is not made worse by today's practice of undertaxing land and overtaxing improvements."