

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

July 30, 2009

AUG - 3 2009

Martin H. Berliner
City Manager
City of New London
181 State Street
New London, Connecticut 06320

Dear Mr. Berliner:

On July 1, 2009, Governor M. Jodi Rell signed Public Act 09-236 (AN ACT ESTABLISHING A LAND VALUE TAXATION PILOT PROGRAM). As you are aware, this legislation allows the Secretary of the Office of Policy and Management to establish a pilot land value taxation program in a single municipality in Connecticut. The provisions of subsection (b) of Section 1 Public Act 09-236 make New London the only municipality eligible for this pilot program.

Public Act 09-236 also requires the Secretary of the Office of Policy and Management to "...establish an application procedure and any other criteria for the program." On behalf of Secretary Genuario, I have enclosed materials that were prepared pursuant to this requirement. These include:

- 1) Application for Land Value Taxation Pilot Program;
- 2) Criteria for the City of New London's Implementation of a Land Value Taxation Pilot Program Pursuant to Public Act 09-236; and
- 3) A copy of Public Act 09-236.

In order for the Secretary of the Office of Policy and Management to select New London for the pilot land value taxation program that Public Act 09-236 authorizes, you must complete the enclosed application and submit it to the city council for approval. Once the city council adopts a resolution approving the application, you must submit the application and resolution to:

Robert L. Genuario, Secretary
Office of Policy and Management
450 Capitol Avenue MS# 54-SEC
Hartford, CT 06106-1379

Upon receipt and review of the completed application, the Secretary of the Office of Policy and Management will notify you of New London's selection for the land value taxation program under Public Act 09-236. Once this occurs, you must "appoint a committee consisting of relevant taxpayers and stakeholders" to prepare a plan for implementation of land value taxation. Public Act 09-236 requires the plan to "...(1) provide a process for implementation of differentiated tax rates; (2) designate geographic areas of the municipality where the differentiated rates shall be applied; and (3) identify legal and administrative issues affecting the implementation of the plan."

You (as well as New London's assessor and tax collector) must have an opportunity to review and comment on the plan that the committee prepares. The New London City Council must approve the plan before you submit it to the General Assembly's Planning and Development Committee and the Finance, Revenue and Bonding Committees. December 31, 2009 is the deadline for submitting the city council's approved plan for implementation of land value

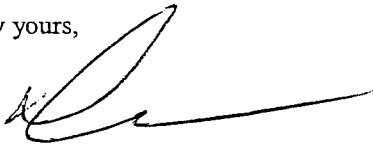
taxation to the General Assembly's committees of cognizance and to the Secretary of the Office of Policy and Management.

In addition to an application procedure, Public Act 09-236 requires the Secretary of the Office of Policy and Management to establish "...any other criteria for the program." To that end, the Secretary of the Office of Policy and Management prepared the attached criteria for the pilot land value taxation program. Such criteria will form the basis of the City of New London's land value taxation implementation plan.

Subsequent to receipt of the City of New London's implementation plan, the Connecticut General Assembly must approve legislation allowing the city to actually implement land value taxation.

If you have any questions concerning this matter, please do not hesitate to contact Paul LaBella, of my staff, at 860-418-6313 or Paul.labella@ct.gov.

Very truly yours,



W. David LeVasseur, Undersecretary
Intergovernmental Policy Division

Cc: ✓ The Honorable Wayne Hyslop Jr., Mayor, City of New London
The Honorable Eric Coleman, Planning and Development Committee Co-Chair
The Honorable Brendan Sharkey, Planning and Development Committee Co-Chair
The Honorable Len Fasano, Planning and Development Committee Ranking Member
The Honorable Bill Aman, Planning and Development Committee Ranking Member
The Honorable Eileen Daily, Finance, Revenue and Bonding Committee Co-Chair
The Honorable Cameron Staples, Finance, Revenue and Bonding Committee Co-Chair
The Honorable Andrew Roraback, Finance, Revenue and Bonding Committee Ranking Member
The Honorable Vincent Candelora, Finance, Revenue and Bonding Committee Ranking Member

OPM Q/A

1. Describe the City of NL's understanding of the policy objective of the land value taxation program for which Public Act 09-236 provides.

As written and signed, the Public Act allows the City of New London to develop a plan for the implementation of land value taxation (LVT) as a pilot program. The LVT program will permit the municipality to divide taxable property into two classes, land and buildings on land. This, then, will allow the municipality to shift taxation from buildings to land. Under current law, land cannot be taxed at a rate exceeding improvements. This option would allow the municipality to, in fact, increase land over improvements as a means of providing municipal revenues through the use of a split mill rate.

This Public Act insures that current Payment In Lieu Of Taxes (PILOT) funding and State and other non-taxable properties keep their status. Only taxable properties are included.

The municipality will determine through a local citizen/tax-payer/stakeholder committee, a recommendation on how LVT would be used geographically and submit that recommendation to the city government for approval and forwarding to the designated State body. It is understood that the Act does not authorize the municipality to implement the plan.

2. Describe specific results that the City of New London hopes to obtain by implementing land value taxation.

First, our approach is to test LVT as a fundamental part of a larger strategy to invigorate New London's local economy. We do not see this as an instant "fix" to an old problem, but one that will yield positive results over time, year after year.

A carefully implemented shift-to-land taxation is expected to reverse a situation which deprives the city of much of its self-generated land value wealth. A committee of local tax-payers and stakeholders will be assembled to develop an implementation plan. Additionally an educational roll-out will be undertaken to ensure public awareness and to afford an opportunity to address questions. Lastly, we hope that a successful LVT Pilot will strengthen the region and will provide a model for other Connecticut municipalities.

3. Describe how the City of New London will determine if this system of taxation generates the desired results.

We expect to see infill and rehabilitation of existing building stock much of which will be measured by the number of building permits obtained. We expect that this development will be of the private capital and sweat equity variety, rather than generated through dependence on government for state subsidy. It is realized that implementation will need to be coordinated with zoning regulations and planning policy for it to be successful. So, coordination with the Planning and Zoning Commission and the Planning and Zoning Office will be essential.

In addition to increases in the number of building permits, we will evaluate the increase in building valuation and population growth in the areas of the community selected for implementation of LVT. The first year will be revenue neutral and so it is difficult to evaluate significant changes until year 2 and beyond.

Another factor that is expected to change upward in time as a result of land development and building rehabilitation is the number of businesses. As part of the LVT plan the City will establish pre-LVT benchmarks in order to effectively monitor program results.

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

The Land Value Taxation program has been in practice by municipalities since the early 1900's, most notably in the municipalities of Pennsylvania. Harrisburg, PA, for example, implemented the LVT (the two-tiered tax rate system) in 1975. The LVT program is still being used today in Harrisburg and is credited with being one of the major factors in Harrisburg's remarkable turnaround from one of the nation's most distressed cities to a rejuvenated, economically stable city. Since 1975 there have been several minor and major national recessions which have had little negative impact on the LVT system in Harrisburg and the other Pennsylvania municipalities.

In fact, it appears from the research available that LVT municipalities may be in a better position for economic growth as the economy comes out of a recession in that they become an attractor for capital. LVT would encourage movement of capital to New London. Today New London, like most municipalities, uses abatements during these times. This is an investment which requires the city/state to forgo revenues to support an entity for 5 to 10 years. Abatements can be appropriately used, but as they terminate, LVT allows for a lower overall tax rate, based more on land value rather than the increased building value, allowing the improvements to be maintained without the burden of significant tax increases.

LVT, as contemplated for implementation in New London, is intended to start on a revenue neutral basis and will be gradually implemented to mitigate drastic local economic shifts. This has been the most successful means of implementation.

5. Describe how the City of New London intends to resolve disputes arising from the fact that the city will increase taxes on non-buildable land using the same tax rate applicable to buildable vacant land.

Non-buildable land is not highly valued. The value of land falls primarily on buildable land, particularly land on which buildings were once located and which is now vacant. It is also important to keep in mind that the current property tax system taxes non-buildable land as well.

Land value is determined by market value. Those are the tools of the assessor and the opportunity to appeal and redress issues with value assessments is unchanged with LVT. The LVT planning committee will investigate this further with all ramifications being considered before implementation in those affected areas.

Criteria for the City of New London's Implementation of a Land Value Taxation Pilot Program Pursuant to Public Act 09-236

Public Act 09-236 allows the Secretary of the Office of Policy and Management to "...establish a pilot program in a single municipality whereby the municipality 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 City of New London must comply with the following criteria when preparing the implementation plan pursuant to the requirements of Public Act 09-236.

Terminology

For purposes of this explanation and the City of New London's 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 City of New London prepares must define the term "building." The city'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.

New London's implementation plan must include an explanation of how the city intends to calculate these differentiated tax rates. A calculation example(s) must accompany the explanation.

Designation of Geographic Area(s)

New London must designate a geographic area(s) in which it intends to implement land value taxation pursuant to Public Act 09-236. In the event New London intends to implement land value taxation in more than one geographic area at different times, the city 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 New London 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

New London 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 city 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.

Study of Impact of Differentiated Mill Rates and Land Value Taxation

The implementation plan that New London submits, pursuant to subsection (c) of Public Act 09-236, must include the results of a study regarding the impact of land value taxation. The study's purpose will be to provide an analysis of the impact of this method of taxation on various real estate owners in each geographic area(s) in which land value taxation will apply. The study must include a comparison of the current property tax system for land and buildings, to the tax the city will levy using land value taxation.

If New London intends to gradually increase the land tax rate and gradually decrease the building tax rate over a period of time, the city shall factor such gradual increases and decreases into the study. (For example, if the city intends to provide for gradual increases to the land tax rate and gradual decreases to the building tax rate over a period of five fiscal years, New London's study must encompass a five-year period of taxation.) The city must estimate land and building property taxes for taxpayers in each such geographic area(s), based upon any such gradual increases and decreases.

The study must provide a breakdown of estimated annual property taxes for owners of (1) residential land, (2) apartment land, (3) commercial, industrial and public utility land; (4) residential buildings; (6) apartment buildings; and (7) commercial, industrial and public utility buildings. For purposes of determining the types of real estate included in these category breakdowns, the city shall use the definitions provided in the Office of Policy and Management's Grand List Administrative Abstract Coding System.

The study shall describe the method the city uses to allocate land values to the unit owners of condominiums (and dockominiums, if applicable) in each such category.

For the first year of the study, New London must provide a comparison of the property tax under the current taxation system and under land value taxation, using assessment data for the 2008 Grand List, together with the actual grand levy for the fiscal year commencing July 1, 2009. For each subsequent fiscal year the study encompasses, the city must reflect a similar comparison using reasonable and supportable projections of (1) grand list growth; and (2) property tax levy requirements. The study must include an explanation of the methods the city uses to estimate grand list growth and tax levy projections. (Given that the 2008 Grand List was the year of the city's most recent revaluation, the city cannot use the growth in the real property grand list from October 1, 2007 to October 1, 2008 to project future real property grand list growth.)

For each real estate parcel the 2008 Grand List assessment of which reflects an exemption, the city must determine an allocation of an appropriate portion of that exemption to the building and land components of the total property assessment. The basis for allocating an exemption to building(s) is the ratio of the assessment of the building(s) to the total property assessment. The difference between the total exemption and the amount of that exemption allocated to the building(s) will be the portion of the exemption allocable to the land. Unless a property tax exemption is applicable only to land or only to a building(s), the city must allocate the appropriate portion of the total exemption to the parcel's building and land assessments.

In the event the State of Connecticut reimburses the City of New London for any portion of the property tax loss for an exemption applicable to real estate in the geographic area(s) that the city selects for land value taxation, the implementation plan shall include information concerning the impact on the amount of the state's reimbursement for each year the study encompasses.

New London's study may provide for more than one timeline for full implementation of land value taxation, as well as more than one desired ratio of a land tax rate to building tax rate upon full program implementation.

(5) missing ?

Education of Taxpayers

Prior to implementing land value taxation in any geographic area(s), New London shall conduct educational workshops in order to provide taxpayers with information concerning the change in property taxation systems. There shall be not less than three workshops in each geographic area(s) in which the city intends to implement land value taxation, during the four months immediately preceding the beginning of the fiscal year in which New London first implements this system of property taxation. The city shall hold at least one such workshop on a Saturday and shall hold at least one such workshop after 5:00 PM on a weekday.

The City of New London shall (1) ensure that persons knowledgeable about land value taxation are present at each such workshop to answer questions that members of the public may pose; and (2) make information available at each such workshop concerning the results of the city's study impact of how land value taxation would affect homeowners and businesses in each geographic area(s) in which city leaders are contemplating implementing land value taxation.

In addition to holding such workshops, the City of New London shall make the implementation plan it submits to the General Assembly's Planning and Development and Finance, Revenue and Bonding Committees available on its web site, if any. The city shall also mail an explanation of land value taxation to real estate owners in each geographic area(s) it selects for land value taxation, prior to implementing this method of taxation.

The implementation plan that New London submits, pursuant to subsection (c) of Public Act 09-236, must describe each of the methods the city intends to use to provide taxpayers with information concerning land value taxation.

Appointment of Committee to Prepare Implementation Plan

Public Act 09-236 requires the appointment of a "committee consisting of relevant taxpayers and stakeholders to prepare a plan for implementation of land value taxation." In making appointments of "relevant taxpayers", New London's City Manager shall attempt to appoint persons who are generally representative of the types of real estate owners in the geographic district(s) the city intends to designate for land value taxation implementation.

The City of New London shall make available to the committee the resources it requires to comply with the provisions of Public Act 09-236 regarding preparation of an implementation plan for land value taxation.

The New London City Manager shall instruct the committee to provide a draft implementation plan by a date that allows sufficient time for the review and comment regarding such plan for which Public Act 09-236 provides.

Provisions Included In Implementation Plan

In addition to the information specified above, the City of New London's implementation plan shall identify legal and administrative issues affecting land value taxation, including but not limited to the following:

- (1) An explanation of all computer software changes that may be necessary to facilitate land value taxation, together with an estimate of the cost of such changes and the time required to effect them;
- (2) An identification of the number and cost of additional full or part-time staff, if any, that may be necessary to implement such a taxation system;

- (3) Identification of additional monetary resources, if any, that may be necessary to address an increase in land valuation appeals that may result from property tax increases due to the change in the municipality's taxation system;
- (4) The estimated cost of conducting educational workshops to inform taxpayers about the city's proposed adoption of a land value taxation system;
- (5) The estimated cost of providing a written explanation of land value taxation, by mail, to real estate owners in the geographic area(s) New London designates for land value taxation implementation;
- (6) An explanation of any tax abatement or other incentives the City of New London intends to offer in conjunction with a land value taxation program; and
- (7) An identification of all other administrative or legal issues affecting the implementation of land value taxation, and recommendations concerning such issues.

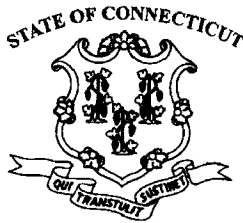
Approval of Implementation Plan

Public Act 09-236 requires the City of New London's legislative body to approve the implementation plan the city submits to the General Assembly's Planning and Development Committee and Finance, Revenue and Bonding Committees. The city must also submit such plan to the Secretary of the office of Policy and Management. The cover letter that accompanies such plan must include the following attestation statement:

I herein certify that the New London City Council has reviewed and approved the enclosed land value taxation implementation plan, pursuant to the requirements of Public Act 09-236. The council voted to approve said plan on _____ . Attached is a copy of the resolution approving the enclosed land value taxation implementation plan.

Martin H. Berliner, City Manager

Date



Substitute Senate Bill No. 379

Public Act No. 09-236

AN ACT ESTABLISHING A LAND VALUE TAXATION PILOT PROGRAM.

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

Section 1. (NEW) (*Effective from passage*) (a) The Secretary of the Office of Policy and Management shall establish a pilot program in a single municipality whereby the municipality 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.

(b) To be eligible for the program a municipality shall (1) be a distressed municipality, as defined in subsection (b) of section 32-9p of the general statutes; (2) have a population of not more than twenty-six thousand; and (3) have a city manager and city council form of government. The secretary shall establish an application procedure and any other criteria for the program. The secretary shall not select a municipality for the pilot program unless the legislative body of the

Substitute Senate Bill No. 379

municipality has approved the application. The secretary shall send a notice of selection for the pilot program to the chief executive officer of the municipality.

(c) After receipt of the notice of selection provided by the Secretary of the Office of Policy and Management pursuant to subsection (b) of this section, the chief executive officer of such municipality shall appoint a committee consisting of relevant taxpayers and stakeholders to prepare a plan for implementation of land value taxation. Such plan shall (1) provide a process for implementation of differentiated tax rates; (2) designate geographic areas of the municipality where the differentiated rates shall be applied; and (3) identify legal and administrative issues affecting the implementation of the plan. The chief executive officer, the assessor and the tax collector of the municipality shall have an opportunity to review and comment on the plan. On or before December 31, 2009, and upon approval of the plan by the legislative body, the plan shall be submitted to the joint standing committees of the General Assembly having cognizance of matters relating to planning and development and to finance, revenue and bonding.

Approved July 1, 2009