THE ECONOMIC EFFECTS OF REVALUATION AND TAX POLICY ON THE CITY OF HARTFORD

EXECUTIVE SUMMARY

AND

FINAL REPORT

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EXECUTIVE SUMMARY

Introduction

The Citizen's Committee for Effective Government (CCEG) commissioned the Connecticut Center for Economic Analysis (CCEA) of the University of Connecticut to perform an independent analysis of the effects of a contemporary revaluation of property in the City of Hartford, Connecticut. In order to complete our analysis, sales data were obtained directly from the Hartford Department of Assessment for the period 7/1/97–3/1/99.

The complete analysis provides:

- An aggregate analysis of the impact of revaluation on each category of real estate and personal property under the assumption of revenue neutrality.
- An analysis of the shift in valuations by different classes of commercial and residential property within and between geographical areas of the city.
- An analysis of the cap/surcharge system in Hartford and its effects on current and future economic development through retention and attraction of commercial enterprises.
- A narrative discussion of the significance of regular real estate revaluation both for current owners of real property and for future economic development in Hartford.
- An assessment of the intersection between the revaluation and surcharge structure, the economic cycle of 1990-1998, and the retention/attrition of housing units and businesses.
- An assessment of the economic consequences if the City of Hartford does not revalue its property as scheduled.

Major Recommendations

Based on analysis of the data gathered, the following represent the major recommendations in the report:

1. **Hartford should complete revaluation immediately and revalue regularly as required by state law.**

- Property values across categories and areas of the city have changed dramatically since 1989, resulting in current tax burdens that do not accurately reflect Hartford property values.
- Infrequent and/or irregular revaluation leads to disproportionate tax burdens between revaluations, and to drastic changes in property taxes when revaluation is finally completed, rather than taxes slowly changing over time.
- Nearly all of the states in the U.S. have revaluation periods shorter than CT's: 45 states have revaluation periods of 5 years or less, some requiring annual revaluation.

2. **The cap/surcharge structure should be discarded in the new revaluation.**

- The cap/surcharge structure seems to have damaged the City of Hartford economically, creating a hostile environment for businesses and apartments by distorting the tax burdens of different classes of property.
- Under the current cap/surcharge system, residential property is the only category that will experience a proportionate tax reduction when property values go down, while any increases in the mill rate or budget will have to be absorbed entirely by non-capped and surcharged properties such as apartments and businesses. This leads to loss of local businesses that provide necessary infrastructure and quality of life to neighborhoods.
- Although indirect, the cap/surcharge system has serious long-term implications for attracting and retaining industry. In the immediate term, when a firm is deciding on a place to locate, they may look at the readily available mill rates of equally attractive locations to estimate their property tax burden. If a surcharge is re-instituted, this will be entered into their calculation, which may make the City of Hartford a less attractive location in which to do business. Over time, this will result in fewer businesses choosing to locate or remain in the City of Hartford.
- The long-term effects of a surcharge tax on attraction, retention, and attrition of businesses may therefore be more important, and lasting, than the short-term effects.

History

During the State legislative session of May 1988, the State adopted a "residential property tax relief" statute (CGS Section 12-62d), which allows qualified cities and towns the option of utilizing non-uniform tax rates for different categories of property.

Commonly known as the cap/surcharge structure, the statute has two parts:

- a limit on residential property taxes coupled with
- a surcharge on non-residential properties

The intent of the legislation was to stabilize residential properties and neighborhoods. Based on the data gathered, this surcharge did not realize its goal: in fact vacant properties increased by 11.71% and apartments have decreased by 9.63% since 1990.

The City of Hartford is the only municipality in the state that chose not to use a simple tax system and to implement the cap/surcharge tax system. This taxing option, which is not permanent, will expire with the current revaluation if it is not re-enacted.

How does it work?

Basically, the property tax rate for certain residential properties is set, or "capped," at 1.5% of market value or 2.143% of assessed value. In order to cover the shortfall, a surcharge of up to 15% is added to commercial property tax bills. If the 15% surcharge is inadequate to cover the deficiency arising from the cap, additional tax burden is "passed back" to the capped properties to make up the difference. Conversely, if the savings on the capped properties are less than the revenue from a 15% surcharge, then the surcharge percentage is appropriately reduced. In 1998, the tax rate on capped properties was 1.5% of market value (2.143% of assessed value) and the resulting surcharge amount was 11.8%. In 1999, CCEA projects that the tax rate on capped properties will be 2.434% of market value (3.477% of assessed value) and the surcharge amount will be 15%.

Hartford's system classifies properties into three tax categories as follows:

Hartford's Property Tax System Summarized

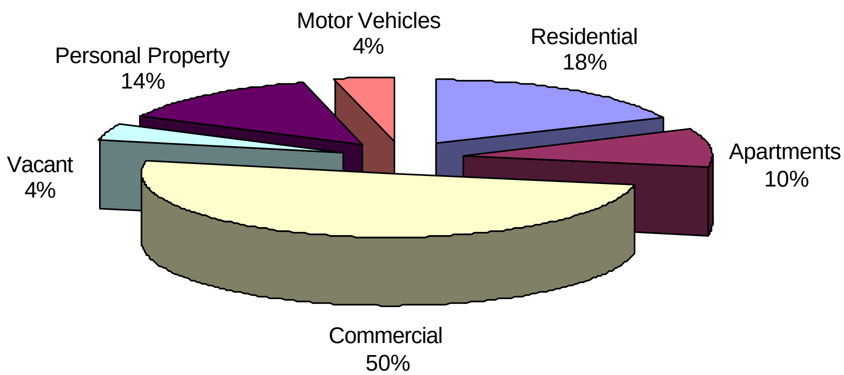
1.5% CAP	One-, Two- and Three-Family Houses and Condominiums
	Pay 1.5% of market value (2.143% of assessed value), with the maximum savings capped at 250% of the average savings. (May pay more if surcharge revenue does not completely cover the savings due to the cap.)
REGULAR	Apartments, Rooming Houses, and Non-Commercial Personal Property such as private motor vehicles
	Pay 100% of the simple mill rate.
15% SURCHARGE	All commercial property (both real estate and personal such as equipment and supplies), and all vacant land (regardless of classification as residential, commercial, etc.)
	Pay 115% of the simple mill rate. (May pay less if total capped savings at 1.5% are less than the total surcharge revenue.)

Under a simple tax structure, tax burden would be commensurate with proportion of the Grand List. However, under the cap/surcharge structure, the tax burdens of entire groups of properties become distorted and are no longer proportionate to property values.

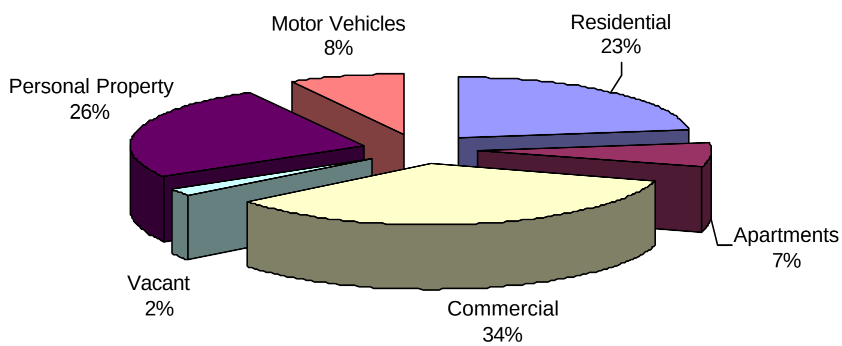
- For example, under the cap/surcharge system, the owner of a capped residence assessed at $140,000 would have paid $3000.20 in property taxes in 1998, while the owner of a small business assessed at the same value would have paid a total of $4,677.40 – more than one and a half times as much.

The pie charts on the following page illustrate the tax burdens by property classification for 1998 and 1999 with and without the cap and surcharge system:

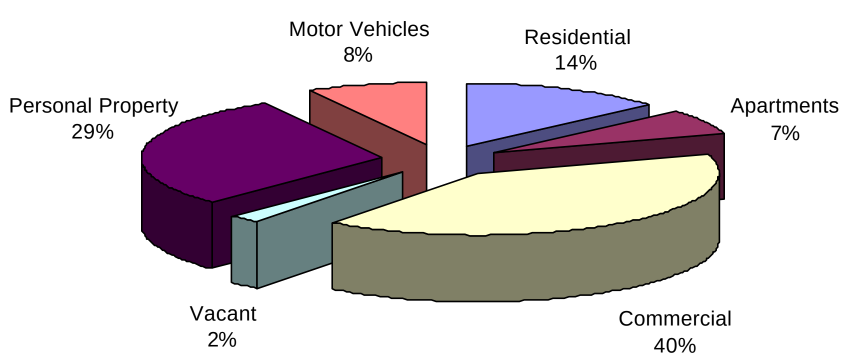
PERCENT OF 1998 TOTAL TAX BURDEN (WITH CAP/SURCHARGE STRUCTURE)



PERCENT OF 1999 TOTAL TAX BURDEN WITH SIMPLE TAX STRUCTURE



PERCENT OF 1999 TOTAL TAX BURDEN WITH CAP/SURCHARGE STRUCTURE



Finally, the following figures illustrate the tax changes expected for typical properties after revaluation under multiple scenarios:

- if Hartford keeps the current cap/surcharge system
- if Hartford discontinues the current cap/surcharge system
- if there had never been a cap/surcharge system

Please note: 1998 assessed values are averages for each property type and 1999 values are based on recent sales ratios. Also, for the first two figures only, 1998 taxes are based on a calculated cap of 1.5% of market value and a subsequent surcharge of 11.8%, and 1999 taxes are based on a calculated cap of 2.434% of market value and a surcharge of 15%.

TAX CHANGES FOR TYPICAL PROPERTIES AFTER REVALUATION . . .

. . . IF HARTFORD KEEPS THE CURRENT CAP/SURCHARGE SYSTEM

Property	Assessed Value 1998	Estimated Assessed Value 1999	**Total Tax 1998**	**Total Tax 1999**	**% Change in Total Tax**
One-Family House	$100,000	$53,480	**$2,143**	**$1,859**	**- 13.2%**
Condominium	$65,000	$18,402	**$1,393**	**$640**	**- 54.1%**
Apartment Building	$225,000	$75,060	**$6,723**	**$4,420**	**- 34.3%**
Small Commercial	$100,000	$32,930	**$3,341**	**$2,230**	**- 33.3%**
Medium Commercial	$1,000,000	$452,800	**$33,410**	**$30,660**	**- 8.2%**
Large Commercial	$5,000,000	$2,610,000	**$167,050**	**$176,728**	**+ 5.8%**
Super Commercial	$20,000,000	$18,868,000	**$668,200**	**$1,277,590**	**+ 91.2%**

For example, a small commercial property with an assessed value in 1998 of $100,000 is projected to be assessed at $32,930 in 1999 after revaluation. Under the current cap/surcharge structure, the total property tax paid in 1998 was $3,341. If

Hartford keeps the cap/surcharge structure, the total property tax in 1999 is projected to be $2,230 or 33.3% less.

. . . IF HARTFORD DISCONTINUES THE CURRENT CAP/SURCHARGE SYSTEM

Property	Assessed Value 1998	Estimated Assessed Value 1999	**Total Tax 1998**	**Total Tax 1999**	**% Change in Total Tax**
One-Family House	$100,000	$53,480	**$2,143**	**$3,149**	**+ 46.9**
Condominium	$65,000	$18,402	**$1,393**	**$1,083**	**- 22.2%**
Apartment Building	$225,000	$75,060	**$6,723**	**$4,420**	**- 34.3%**
Small Commercial	$100,000	$32,930	**$3,341**	**$1,939**	**- 42.0%**
Medium Commercial	$1,000,000	$452,800	**$33,410**	**$26,661**	**- 20.2%**
Large Commercial	$5,000,000	$2,610,000	**$167,050**	**$153,677**	**- 8.0%**
Super Commercial	$20,000,000	$18,868,000	**$668,200**	**$1,110,948**	**+ 66.3%**

If Hartford discontinues the current cap/surcharge system, the same small commercial property with an assessed value of $100,000 in 1998 and $32,930 in 1999 after revaluation would have paid $3,341 in property tax in 1998 under the cap/surcharge system, and will pay $1,939, or 42% less, in 1999 under a simple tax system.

. . . If There Had Never Been A Cap/Surcharge System

Property	Assessed Value 1998	Estimated Assessed Value 1999	**Total Tax 1998**	**Total Tax 1999**	**% Change in Total Tax**
One-Family House	$100,000	$53,480	**$2,988**	**$3,149**	**+ 5.4%**
Condominium	$65,000	$18,402	**$1,942**	**$1,083**	**- 44.2%**
Apartment Building	$225,000	$75,060	**$6,723**	**$4,420**	**- 34.3%**
Small Commercial	$100,000	$32,930	**$2,988**	**$1,939**	**- 35.1%**
Medium Commercial	$1,000,000	$452,800	**$29,880**	**$26,661**	**- 10.8%**
Large Commercial	$5,000,000	$2,610,000	**$149,400**	**$153,677**	**+ 2.9%**
Super Commercial	$20,000,000	$18,868,000	**$597,600**	**$1,110,948**	**+ 85.9%**

Finally, if there had never been a cap/surcharge system, the same small commercial property with an assessed value of $100,000 in 1998 and $32,930 in 1999 after revaluation would have paid $2,988 in property tax in 1998 under a simple system, and will pay $1,939, or 35.1% less, in 1999, again under a simple tax system.

INTRODUCTION

The Citizens Committee for Effective Government (CCEG) commissioned the Connecticut Center for Economic Analysis (CCEA) to perform an independent analysis of the effects of a contemporary revaluation of property in the city of Hartford, Connecticut. This report chronicles CCEA's findings and discusses the related issues surrounding such a revaluation. The City of Hartford Department of Assessment and the State Office of Policy and Management provided most of the data from which CCEA developed this analysis.

The analysis assumes revenue neutrality, that is, that the city budget will remain the same after revaluation. The report begins with an aggregate analysis of the estimated impact of revaluation on each major category of real estate and personal property in Hartford. The next section analyzes the shifts in valuation of different classes of commercial and residential properties in six geographically separate areas of the city, and illustrates the comparative tax burdens of properties in these different areas. The third section presents an analysis of the business property tax surcharge issue in Hartford, including a discussion of the possible effects of continuing or discontinuing the business surcharge tax in the next revaluation. The fourth section evaluates the significance of regular real estate revaluation, specifically the link between regular revaluation and the economic climate in Hartford. The last section discusses the intersection between revaluation and the surcharge structure, the economic cycle of 1990-1998, and the retention/attrition of housing units and businesses.

RECOMMENDATIONS:

- **HARTFORD SHOULD COMPLETE REVALUATION IMMEDIATELY AND REVALUE REGULARLY AS REQUIRED BY STATE LAW.**
    - Property values across categories and areas of the city have changed dramatically since 1989, resulting in current tax burdens that do not accurately reflect Hartford property values.
    - Infrequent and/or irregular revaluation leads to disproportionate tax burdens between revaluations, and to drastic changes in property taxes when revaluation is finally completed, rather than taxes slowly changing over time.
    - Nearly all of the states in the U.S. have revaluation periods shorter than CT's: 45 states have revaluation periods of 5 years or less, some requiring annual revaluation.

- **THE CAP/SURCHARGE STRUCTURE SHOULD BE DISCARDED IN THE NEW REVALUATION.**
    - The cap/surcharge structure seems to have damaged the City of Hartford economically, creating a hostile environment for businesses and apartments by distorting the tax burdens of different classes of property.
    - Under the current cap/surcharge system, residential property is the only category that will experience a proportionate tax reduction when property values go down, while any increases in the mill rate or budget will have to be absorbed entirely by non-capped and surcharged properties such as apartments and businesses. This leads to loss of local businesses that provide necessary infrastructure and quality of life to neighborhoods.
    - Although indirect, the cap/surcharge system has serious long-term implications for attracting and retaining industry. In the immediate term, when a firm is deciding on a place to locate, they may look at the readily available mill rates of equally attractive locations to estimate their property tax burden. If a surcharge is re-instituted, this will be entered into their calculation, which may make the City of Hartford a less attractive location in which to do business. Over time, this will result in fewer businesses choosing to locate or remain in the City of Hartford.

SECTION I: AGGREGATE ANALYSIS OF THE IMPACT OF REVALUATION

I A: PROPERTY TAXES

The City of Hartford collects property taxes based on the assessed value of individual properties, values that the Hartford Department of Assessment establishes on the basis of a physical inspection and the market value of comparable properties. The City of Hartford last completed such a physical revaluation of property in 1989. Individual property values, however, change over time due to direct influences such as additions, improvements, damage and destruction, as well as due to indirect influences such as the economic vitality of the area in which the property is located. These direct and indirect influences often cause market values of individual properties to change by differing amounts over time; hence state law mandates regular revaluation. The legal standard was once every decade, but in 1995 the State legislature mandated a physical revaluation every twelve years and a statistical revaluation every four. This reflects an understandable concern with the rate at which values have changed in many areas of Connecticut in the last decade. The Hartford Department of Assessment is currently working through a full physical revaluation of all properties within the city.

As noted above, the Department of Assessment determines market values for all real estate by physical inspection of each property and comparison to recent sales of similar properties. Assessed value is then 70% of this market value. The assessed value is fixed until the next revaluation, unless there is a physical change in the property because of enhancement or damage. New real estate is assessed based on market values from the year in which the last revaluation was completed. The Department of Assessment updates the market value of all taxable personal property and motor vehicles annually, according to a depreciation schedule and, for automobiles, listed book values. As is the case for real estate, the assessed value of taxable personal property is equal to 70% of the market value.

The City then assesses property taxes on each parcel of taxable property, including personal property such as business equipment and motor vehicles. The tax rate is set based on the city budget. For fiscal year 1998-99, Hartford has a tax rate of 29.88 mills; that is, a tax of $29.88 for each $1,000 in assessed property value. This mill rate changes each year as the city budget changes, as does the assessed value of taxable personal property; the assessed value of real estate does not change until a revaluation is performed. Therefore, the owner of an apartment building in Hartford with a market value of $200,000 in 1989, when the last revaluation was done, would pay a tax in 1998 of $4,183.20, regardless of the 1998 market value of that apartment (see calculation below). But the owner of a car sees the tax on that vehicle decline each year, based on current book value.

1998 Property Tax on an apartment building with an assessed value of $140,000:

$$\text{Tax} = (29.88) * (140{,}000/1{,}000) = \$4{,}183.20$$

Note that the property tax rate, called the mill rate, is the same for all categories of taxable property. However, some categories of property in Hartford are subject to an additional surcharge on top of their property tax bill, so that while the tax rate is the same, the tax burden is not. In addition, some categories of property enjoy a tax rate cap on their property taxes, regardless of the mill rate. This cap and surcharge system will be discussed later in the report.

I B: GRAND LISTS

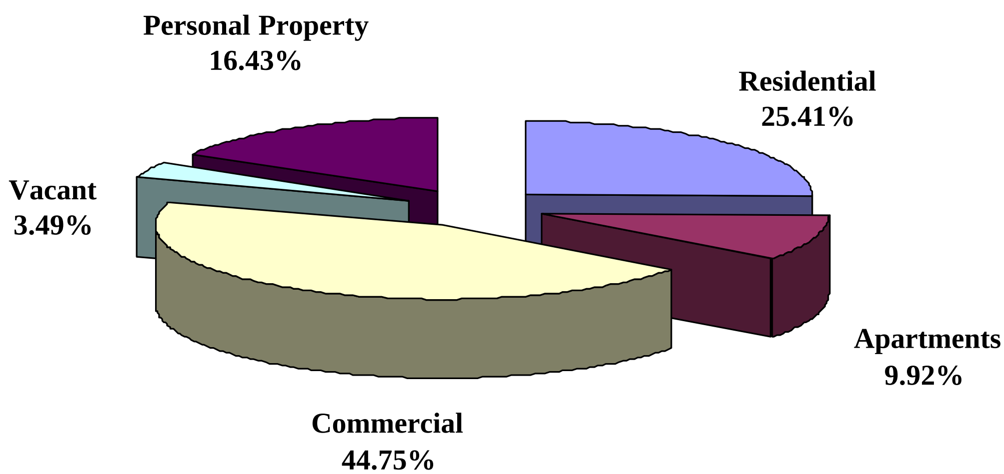
Each year, the Connecticut Office of Policy and Management compiles a listing showing the aggregate assessed values of each major category of property in each town in Connecticut. This list is called a town's Grand List for that year. For each town, property is divided into several major categories including residential, apartments, commercial property, vacant land, and personal property. The personal property category includes items such as motor vehicles and business capital equipment. The total assessed value of all categories, less exemptions, yields a town's total net grand list for a given year. Figure 1 illustrates Hartford's net grand list for 1998, as reported by the Hartford Department of Assessment.

FIGURE 1: 1998 TOTAL NET GRAND LIST

CATEGORY	NET ASSESSED VALUE
Residential Property	$1,514,102,530
Apartments	$591,486,610
Commercial Property	$2,666,513,510
Vacant Land	$207,781,200
Personal Property	$978,967,668
TOTAL NET GRAND LIST	**$5,958,851,518**

Figure 2 shows the percentage of the 1998 total net grand list accounted for by each major category of property.

FIGURE 2: HARTFORD PROPERTY CATEGORIES AS A FRACTION OF 1998 NET GRAND LIST



Commercial property, at 1989 assessed values, made up nearly 45% of the total value of property in Hartford in 1998. Residential is the second largest component, at just over 25%. Personal property at 16.43%, apartments at 9.92%, and vacant land, at 3.49%, round out the net grand list. However, these 1998 percentages are based on 1989 assessments. It is important to remember that the taxes, and thus the tax burden, then reflect *1989* assessed values, not 1998 market values. If property values across categories or areas of the city have moved in different directions since 1989, these assessed values and the resulting tax burdens do not accurately reflect Hartford property values. If this is the case, the burden of property taxes is not fairly distributed.

As noted, the assessed values of property within each property category for 1998 reflect the stock of property in 1998, but at values based on market conditions in 1989. To explore the impact of the current revaluation, the CCEA estimated market values for each class of non-commercial real property based on sales completed between July 1, 1998 and March 1, 1999. For commercial property, that period saw too few sales, so the analysis relies on sales from the period July 1, 1997 to March 1, 1999. CCEA was able to use such current data because of the cooperation of Hartford's Department of Assessment, which records these figures.

The assessed value to sale price ratios, or sales ratios, exhibited significant variation in different areas of the city to warrant using separate sales ratios for each of six main areas of the city, defined below. CCEA calculated the sales ratios for each category of real property in each area, and then individually applied the assessed values by category and location to create an estimate of the total market value of each category of real property in the City of Hartford. This approach gives a conservative approximation of the total market values expected from revaluation. The sales ratio for the vacant property category unfortunately could not be estimated in this way due to an almost non-existent market: only one valid sale occurred between July 1, 1997 and March 1, 1999. Therefore, CCEA used the vacant land sales ratio for 1996, as reported by the Office of Policy and Management. This is likely to be an extremely conservative estimate for the 1998 value because of rapidly changing conditions.

To convert CCEA-estimated current market values to projected post-revaluation assessed values requires multiplying these values by .7. Figure 3 contains the sales ratios calculated for each real estate property category and compares the projected assessed values, based on 1998 market values, to the current assessed values, based on 1989 market values.

FIGURE 3: SALES RATIO SUMMARY
(* indicates CCEA estimates)

Property Category	1998 Assessed	Sales Ratio	1999 Market*	1999 Assessed*
Residential	$ 1,514,102,530	1.531	$ 988,894,887	$ 692,226,421
Apartments	$ 591,486,610	2.099	$ 281,847,648	$ 197,293,354
Commercial	$ 2,666,513,510	1.766	$ 1,510,364,040	$ 1,057,254,828
Vacant	$ 207,781,200	2.415	$ 86,037,764	$ 60,226,435

To update taxable personal property and motor vehicle values, CCEA applied the percent change in each of these categories between 1997 and 1998 (+3.90%) to the 1998 net grand list figures for these categories to get a conservative estimate of the current value. Because taxable personal property and motor vehicles are reassessed yearly based on current market value (as determined by book value for cars and depreciation schedules for other property), they are effectively revalued every year. Thus, we expect to see a much smaller change in their assessed values than in other real estate categories after the revaluation. However, this does not mean that the tax burden of this property category will not change. The tax burden will depend on the new mill rate and the change in the assessed value of personal property as compared to that in the other property categories. The tax burden on personal property can, and in this case will, increase significantly because other property categories have decreased in value.

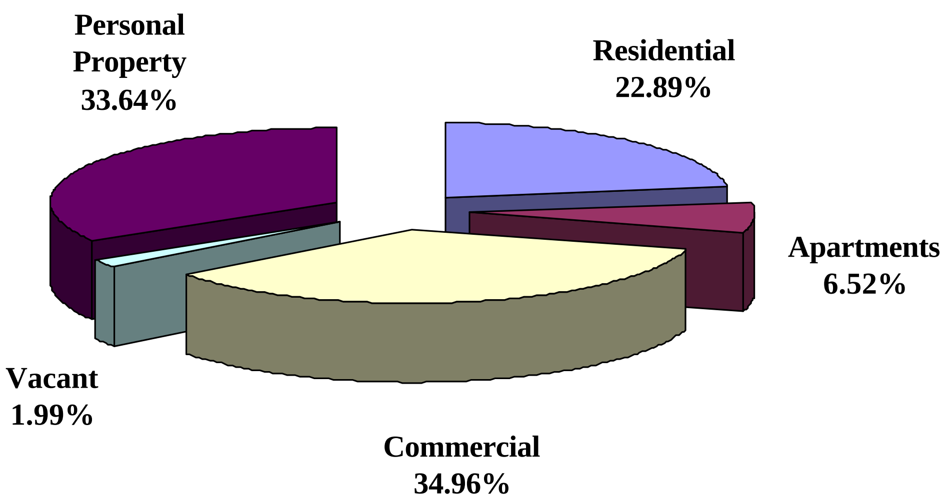
Figure 4 on the next page summarizes the estimated 1999 net grand list after revaluation is completed, and compares it to the 1998 net grand list as reported by the Hartford Assessor's Office.

FIGURE 4: NET GRAND LIST TOTALS FOR 1998 (ACTUAL) AND 1999 (CCEA ESTIMATES)

Property Category	1998 Assessed Value	1999 Assessed Value	Difference	Percent Change in Assessed Value
Residential	$ 1,514,102,530	$ 692,226,421	$ (821,876,109)	- 54.28%
Apartments	$ 591,486,610	$ 197,293,354	$ (394,193,256)	- 66.64%
Commercial	$ 2,666,513,510	$ 1,057,254,828	$ (1,609,258,682)	- 60.35%
Vacant Land	$ 207,781,200	$ 60,226,435	$ (147,554,765)	- 71.01%
Personal Property (incl. motor vehicles)	$ 978,967,668	$ 1,017,147,407	$ 38,179,739	+ 3.90%
Total	**$ 5,958,851,518**	**$ 3,024,148,445**	**$ (2,934,703,073)**	**- 49.25%**

As illustrated in figure 4, the values for each category have changed dramatically. In addition, the values have changed in both directions and by different magnitudes. As a result, the composition of the 1999 net grand list is very different from that of 1998. Figure 5 on the next page contains the percentage of the 1999 total net grand list accounted for by each property category.

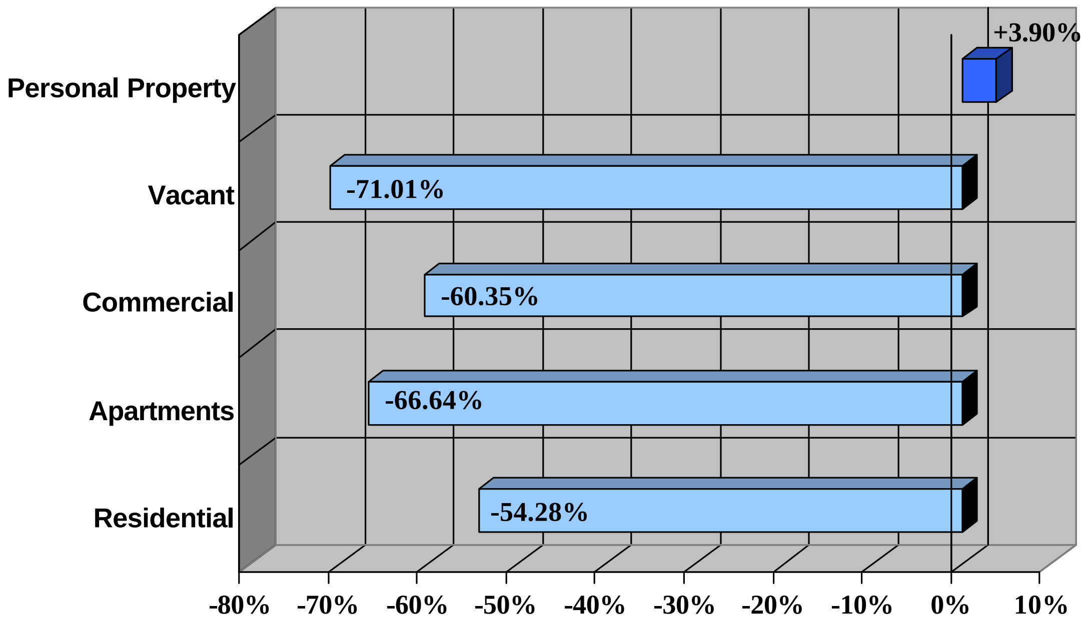
FIGURE 5: HARTFORD PROPERTY CATEGORIES AS A FRACTION OF 1999 NET GRAND LIST



This estimated post-revaluation 1999 net grand list is a different and more accurate portrayal of Hartford's property values than the net grand list in effect in 1998. The percentage of the total for which each category accounts has changed, drastically in some cases. In the estimated 1999 net grand list, commercial property still accounts for the largest share, at nearly 35%, but this is 10% less than its percentage in 1998. Personal property, accounting for just over 16% of the total property value in 1998, more than doubles its share to nearly 34% in 1999. The pie chart shows that the increase in personal property values offsets decreases in the values, and thus the shares, of commercial property, residential property, apartments, and vacant land. Residential property's share decreases from 25.41% to 22.89%; the share of apartments decreases from 9.92% to 6.52%; vacant land decreases from 3.49% to 1.99% of the total net grand list.

The actual dollar amount changes in expected assessed property values after the revaluation are equally striking. As figure 4 showed and figure 6 below summarizes, property values themselves have changed dramatically since the last revaluation.

FIGURE 6: PERCENT CHANGE IN TOTAL ASSESSED VALUE BY PROPERTY CATEGORY



I C: TAX BURDEN

To analyze the impact of the current revaluation we must understand that the direct effect of a revaluation is to update, or revalue, the listed value of every piece of property in the City of Hartford. The indirect effect, however, which is perhaps more important from the taxpayer's point of view, is usually an adjustment in the amount of tax each property owner pays. This new amount of tax will more accurately reflect the value of their property. In the case of a revenue-neutral revaluation, once the revaluation is complete, the City recalculates the mill rate so that the same total dollar amount of taxes is collected. Under the revenue-neutral scenario, then, we have a "zero-sum game": some tax bills will be higher, and some will be lower, but the net effect, or total amount of tax dollars collected, will not change.

To see the impact of the revaluation on the tax burden of each category, the CCEA calculated the new mill rate and total amount of taxes to be paid by each property category under an assumption of revenue neutrality. The total assessed value of all taxable property in 1998 was $ 5,958,851,518, and the mill rate was 29.88. The total tax bill from straight property taxes was therefore $ 178,050,483. (The cap and surcharge structure, which is discussed later in this report, affects relative tax burdens but does not affect the amount of total tax revenue to the City). Assuming revenue neutrality, CCEA projects the new mill rate by asking what mill rate, applied to the newly estimated grand list, would generate the same revenue. The projected mill rate is 58.88 — a 97% increase over the old mill rate of 29.88. Figure 7 illustrates the expected effects of the revaluation on property taxes if the mill rate were applied uniformly to all property categories.

As figure 7 illustrates and figure 8 summarizes, the percent change in the tax burden by property category varies dramatically from one category to another, due to the

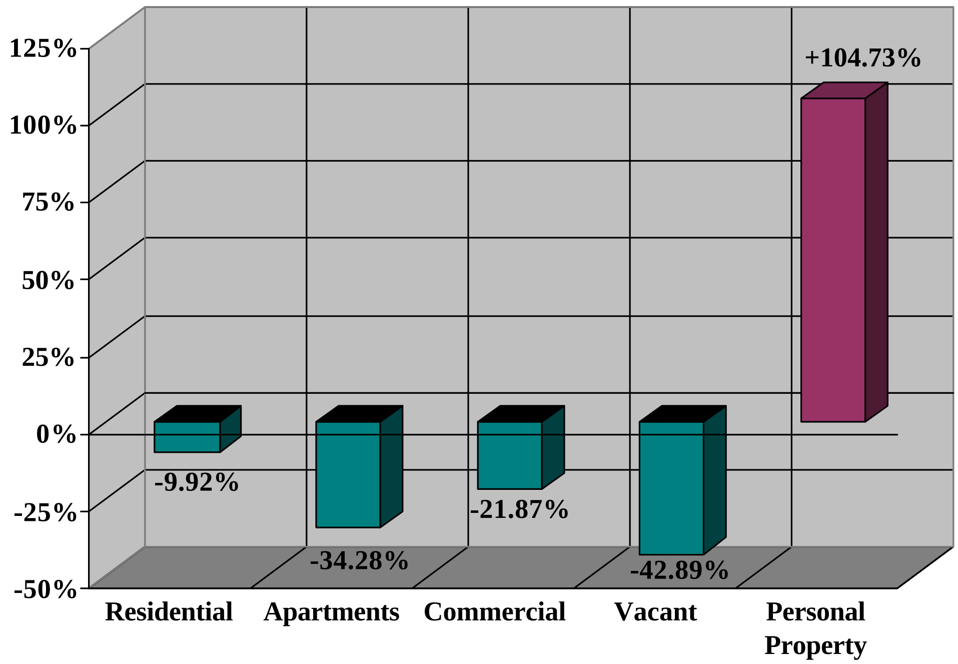
FIGURE 7: TOTAL TAX BURDEN BY PROPERTY CATEGORY

(ASSUMES MILL RATE APPLIED UNIFORMLY – DOES NOT INCLUDE CAP OR SURCHARGE)

Property Category	Total Tax 1998	Total Tax 1999	Difference	% Chg.
Residential	$ 45,241,384	$ 40,755,687	$ (4,485,697)	-9.92%
Apartments	$ 17,673,620	$ 11,615,890	$ (6,057,730)	-34.28%
Commercial	$ 79,675,424	$ 62,247,187	$ (17,428,237)	-21.87%
Vacant	$ 6,208,502	$ 3,545,906	$ (2,662,596)	-42.89%
Personal Property (incl. motor vehicles)	$ 29,251,554	$ 59,885,813	$ 30,634,259	+104.73%
Total	$ 178,050,483	$ 178,050,483	$ 0	0.00%

different directions and magnitudes of changes in property values. The total tax burden of all real estate property categories (again, without the cap or surcharge) would be expected to decrease by amounts ranging from 9% to 43%, indicating that these categories are currently overburdened relative to their values because their market value has fallen considerably compared to their 1989 assessment. The most overburdened categories are apartments and vacant land, followed by commercial property and finally residential property. The tax burden of the personal property category, on the other hand, is expected to more than double after revaluation. Revaluation would fairly redistribute the tax burden according to current, not 1989, values.

FIGURE 8: CHANGE IN TOTAL TAX BURDEN BY PROPERTY CATEGORY
(ASSUMES MILL RATE APPLIED UNIFORMLY – DOES NOT INCLUDE CAP OR SURCHARGE)



In summary, the aggregate impact of revaluation on each category of property in the City of Hartford will most realistically be to decrease the average tax burden on vacant land, residential, commercial and apartment properties, while increasing the average tax burden on taxable personal property. The added effects of renewing or discontinuing the cap and surcharge system are discussed later in this report.

SECTION II: SHIFT IN VALUES BY PROPERTY CATEGORY AND LOCATION

II A: ESTIMATED SALES RATIOS BY CATEGORY AND LOCATION

As noted earlier, CCEA analyzed sales data for the period 7/1/97 through 3/1/99 to estimate sales ratios for the City of Hartford as a whole, as well as for various subsets of property classified by criteria such as location, size and type. The sales ratios illustrated throughout this study are the ratio of the assessed value currently on record at the Hartford Assessor's Office to the market value of the property as determined by the probable sale price of the property. Because properties are assessed at 70% of market value, if a property sells for exactly its market value of record, the sales ratio will be .7. If the sales ratio is less than .7, the property has sold for more than its estimated market value of record. If the sales ratio is greater than .7, the property has sold for less than its estimated market value. Finally, if a property sells for less than its assessed value, the sales ratio will be greater than 1.0.

As an example, assume that the $100,000 market value (and hence, $70,000 assessed value) home described in section one sells today for $120,000. The sales ratio will be .56, indicating that the home sold for more than its estimated market value at the time of the last revaluation. Conversely, if the same $100,000 market value house sold for only $60,000 (not that unusual, as we will see), the sales ratio would be 1.17.

These values are not equal over different geographic areas or different property classes. Some areas become more popular, some less, and these changes influence market values of properties located within each area. To analyze the shift in values of different classes of commercial and residential properties in different geographic areas of the city, CCEA segmented the property data by location and property classification.

To establish location, CCEA followed the framework that the Department of Assessment uses in pinpointing property location, one that divides the city into six main geographic areas. Figure 9 on the next page illustrates these divisions.

These six areas of the City of Hartford are referred to in the remainder of this study as the Southwest, Southeast, Central-West, Central-East, Northwest and Northeast. These are the main separations of the location-classification system for properties used by the Hartford Department of Assessment. As figure 9 illustrates, the Southwest area embraces the commonly identified neighborhoods of Southwest and Behind the Rocks. The Southeast area includes neighborhoods such as South Meadows, the South End and Barry Square. The Central-West includes the West End and Parkville neighborhoods, as well as the western parts of the Frog Hollow and Asylum Hill neighborhoods. The Central-East section includes the Downtown area, Sheldon-Charter Oak, and the South Green area, as well as the eastern parts of the Frog Hollow and Asylum Hill neighborhoods. The Northwest section captures Blue Hills and the western part of Upper Albany. Last, the Northeast section is comprised of the neighborhoods of the Northeast, North Meadows, Clay Arsenal and the eastern part of Upper Albany. (For an editorial description of each of these neighborhoods, see *The Hartford Courant*, February 28, 1999, p. C1)

FIGURE 9: GEOGRAPHIC DIVISION OF HARTFORD

NW NE

CW CE

SW SE

In addition to geographical divisions, CCEA divided the properties into five categories: residential, apartment, commercial, vacant, and personal property. Commercial property was further divided into four categories by size to capture the effects of revaluation on different size businesses. The small commercial property category includes properties with a market value less than $200,000; medium commercial property includes properties with a market value of $200,000 to $2,000,000; large commercial property includes properties with a market value of $2,000,001 to $10,000,000; super commercial property includes properties with a market value of greater than 10 million dollars.

For the residential and apartment property categories, CCEA calculated sales ratios from valid sales data for the period 7/1/98 through 3/1/99 obtained from the Hartford Department of Assessment. This is the most current, and therefore most relevant, data available. For the commercial property categories, CCEA calculated sales ratios from valid sales data for the period 7/1/97 through 3/1/99. CCEA used the additional year of sales data (7/1/97-6/30/98) because the number of commercial sales occurring in the eight-month period used for residential and apartment sales was too small for significant analysis.

The sales ratios are important to the estimate of the effects of revaluation because the current sales prices of properties are a good indicator of the market value of similar properties, and hence the market value that will be assigned to those properties during a contemporary revaluation. Revaluation is essentially an updating of assessed values to reflect 70% of current market values, rather than 70% of old (in this case, 1989) market values. Therefore, these sales ratios can be used to estimate revalued assessed values of properties, and hence changes in property values, in the City of Hartford, since the last revaluation.

The sales ratio average for the entire city is 1.582. This means that on average, a piece of property with an assessed value of $70,000 in 1989 will have an assessed value of approximately $31,000 in 1999, reflecting a loss in value of almost 56% in the ten years from 1989 to 1999.

Figure 10 shows the change in average property value from 1990 to 1998, calculated from sales ratios, for each category of property by location. Average changes by category and location as described below and illustrated in figures 11 and 12 are also included for ease of comparison.

FIGURE 10: CHANGES IN PROPERTY VALUE BY CATEGORY AND LOCATION, 1990-1998

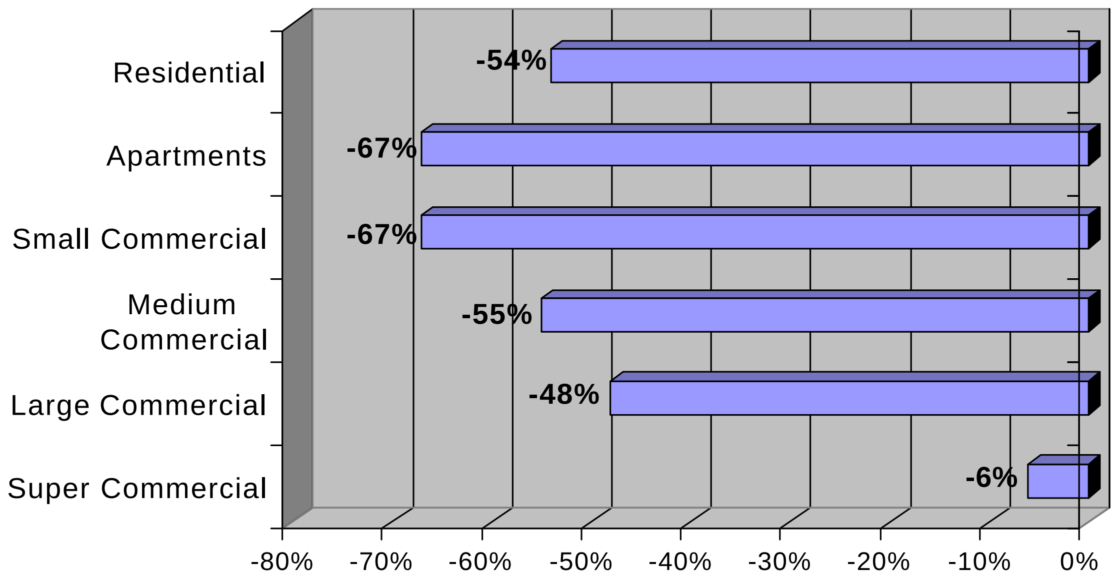
	SW	SE	CW	CE	NW	NE	Average Change by Category
Residential	- 43 %	- 58 %	- 58 %	- 70 %	- 34 %	- 54 %	-54%
Apartments	- 58 %	- 65 %	- 71 %	- 74 %	n/a	- 57 %	-67%
Small Commercial	- 40 %	- 73 %	- 60 %	- 65 %	- 22 %	- 80 %	-67%
Medium Commercial	n/a	- 48 %	- 42 %	- 65 %	n/a	- 54 %	-55%
Large Commercial	n/a	- 40 %	+ 16 %	- 75 %	n/a	- 11 %	-48%
Super Commercial	n/a	n/a	n/a	- 6 %	n/a	n/a	-6%
Average Change By Location	-58%	-59%	-59%	-65%	-34%	-64%	

n/a: sales data not available for the period analyzed.

Note that in some categories, for example, large commercial properties in the Southwest, no sales occurred in the period from 7/1/97 through 3/1/99, so CCEA could not calculate sales ratios or percentage changes in property values.

For further comparisons, CCEA calculated the citywide sales ratios by category alone and then for all categories within a single area, using these figures to calculate changes in property values as above. Figure 11 presents the change in average property value from 1990 to 1998 for each category for all of Hartford.

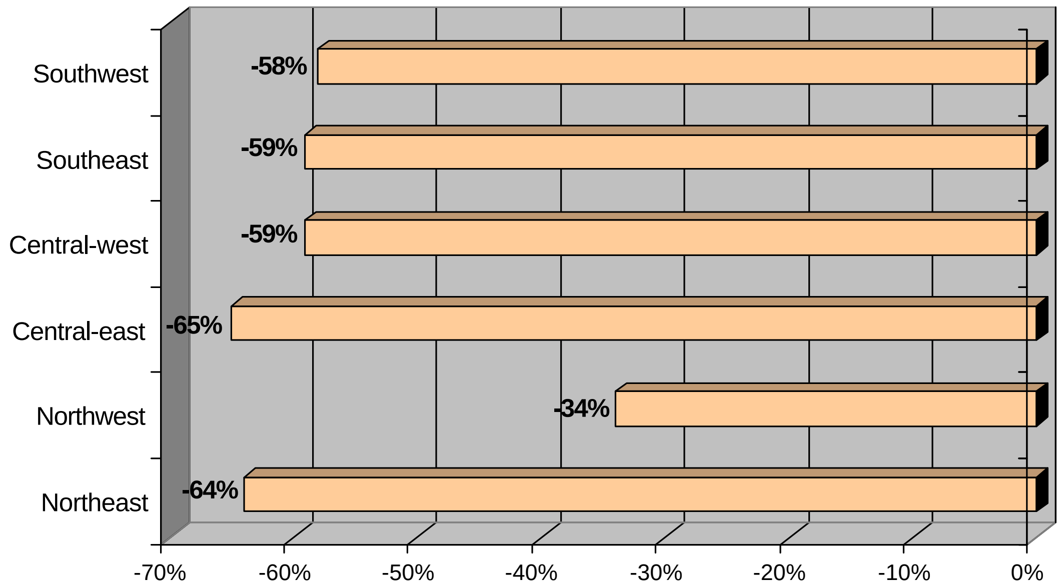
Figure 11: Loss in Property Value by Property Category, 1990-1998



Note that the changes in property values illustrated here are not the average of the changes in each category as illustrated in figure 10: the ratios in figure 11 have been determined by calculating average changes from all sales occurring within each property category, citywide. (The percent change in property value for each individual sale has been calculated and then averaged to avoid weighting that would otherwise occur due to sale values). Because a different number of sales occurred in each area, this figure is a more accurate representation of the changes in property values for each category than an average of the individual percentage changes within each category would be.

Figure 12 illustrates the average percent change in property value for each area. Again, note that these percentages are not equal to the average of the percentage changes for each area in figure 10, for the same reason.

FIGURE 12: LOSS IN PROPERTY VALUE BY LOCATION OF PROPERTY, 1990-1998



<u>II B: ANALYSIS OF EFFECTS</u>

The sales ratios calculated provide a means for estimating the probable effects of the revaluation on the assessed values of properties, and more importantly, the tax bills of individual property owners.

If all property values moved in the same direction and with the same magnitude, revaluation would have no effect on the amount of taxes each individual property owner pays. However, a quick look at the percent changes in property values in Figures 10-12 tells us that this is not the case. Property values in Hartford have not all moved at the same rate; in fact, they have not even moved in the same direction. Some property has diminished in value since the last revaluation in 1989, while some property has increased in value. The second case is much less common in the City of Hartford for the period under evaluation; it can only be seen in large commercial building sales in the Central-West area (see Figure 10).

Revaluation, under the assumption of revenue-neutrality, is a "zero-sum game," one in which any increased tax payments from some are offset by decreases in payments from others. Who will pay less and who will pay more as a result of revaluation depends on how relative values have changed, an effect which sales ratios reveal. Using the old and new mill rates, CCEA calculated the sales ratio that would result in no change in property taxes following a revenue-neutral revaluation: it is 1.379. This corresponds to a loss in value of 49%. Therefore, those areas and property classifications with an average loss in value greater than 49% will experience a *decrease* in average property taxes after a revenue-neutral revaluation, while areas and categories with an average loss in value of less than 49% will experience an *increase*. (Those properties that have experienced an increase in value will also experience an increase in property taxes after a revenue neutral revaluation).

Given this, it appears that, for the City of Hartford as a whole, revaluation will cause average property taxes on residential property, apartments, and small to medium commercial properties to decrease, while average property taxes on large and super-large commercial properties will likely increase. By areas, it appears that revaluation will cause average property taxes to decrease in all areas except for the Northwest, where they will likely increase. The most overvalued properties, and hence those that will benefit the most from revaluation, are in the Central-East area: downtown and the near surrounding area. In this area, only the super-large commercial properties have sold for prices even approaching their market value as determined by the last revaluation in 1989.

Figure 10 provides an even more detailed look at which properties are expected to experience a tax decrease, and which are expected to experience a tax increase, after revaluation. Small commercial properties in the Northeast are the most overvalued, and hence would benefit the most from the revaluation. Residential properties in the Central-East, apartments in the Central-West and Central-East, small commercial properties in the Southeast, and large commercial properties in the Central-East are also substantially overvalued. Finally, residential properties in the Southeast, Central-West, and Northeast, apartments in the Southwest, Southeast, and Northeast, small commercial properties in the Central-West and Central-East, and medium commercial properties in the Central-East and Northeast are also overvalued and would also benefit from the revaluation.

Figures 13-15 on the next page summarize the average property tax effects of the current revaluation by property category and location. Please note that these are average results: the fact that residential properties in the Southeast are listed as experiencing a tax decrease means that, *on average*, these properties will experience a decrease, not that *all* of them will – some may experience an increase. In addition, note that these estimates operate under the assumptions of revenue and tax policy neutrality: If the budget or taxing policy is changed, the results will change. Also, because these estimates leave out the effects of the cap/surcharge structure, even if the budget and tax policy remain the same residential properties in the Southwest and Northwest may, on average, actually experience a decrease in taxes when the cap is accounted for.

FIGURE 13-15: PROJECTED AVERAGE EFFECTS OF REVALUATION ON TAX BURDEN

FIGURE 13: BY PROPERTY CATEGORY AND LOCATION

	SW	SE	CW	CE	NW	NE
Residential	+	–	–	–	+	–
Apartments	–	–	–	–	?	–
Small Commercial	+	–	–	–	+	–
Medium Commercial	?	+	+	–	?	–
Large Commercial	?	+	+	–	?	+
Super Commercial	?	?	?	+	?	?

FIGURE 14: BY PROPERTY CATEGORY

Property Category	*Tax Change*
Residential	–
Apartments	–
Small Commercial	–
Medium Commercial	–
Large Commercial	+
Super Commercial	+

FIGURE 15: BY LOCATION

Location	*Tax Change*
Southwest	–
Southeast	–
Central-West	–
Central-East	–
Northwest	+
Northeast	–

SECTION III: BUSINESS PROPERTY SURCHARGE TAX ISSUE

III A: HISTORY

During the State legislative session of May 1988, the State adopted a "residential property tax relief" statute (CGS Section 12-62d), allowing cities and towns the option of utilizing non-uniform tax rates for different categories of property. The statute had two parts: a limit on residential property taxes coupled with a surcharge on non-residential properties. According to the statute, the tax rate for one-, two-, and three-family houses could be capped at as low as 1.5% of the full market value (2.143% of the assessed value) of the property, regardless of the mill rate. In addition, up to a 15% property tax surcharge could be added on top of the property tax bill for all property categories except for one-, two-, and three-family houses, single family condominiums, and motor vehicles.

In its second year, the statute was modified to exempt large apartment buildings from the surcharge, but did not include them in the "1.5% cap law", that is, their property taxes were not limited to 1.5% of their full market value. In the third year, rooming houses were also exempted from the surcharge.

This system of property tax surcharges and credits was made available, but not mandatory, to all municipalities in the state. Hartford decided to implement the statute, and did so at the time of the last revaluation. It will remain in effect until May of 2000, at which time it will need to be re-enacted, or it will expire. If allowed to expire, it cannot be re-enacted until a subsequent revaluation is performed.

Additional details of Hartford's cap and surcharge property taxation system are as follows: If the 15% surcharge is inadequate to cover the tax deficiency arising from the cap, additional tax burden is "passed back" to the capped properties to make up the difference, so that total tax revenue to the City is the same as if there were a uniform tax system. Conversely, if the savings on the capped properties are less than the revenue from a 15% surcharge, then the surcharge percentage is appropriately reduced. The chart below summarizes Hartford's property tax classifications.

Hartford's Property Tax System Summarized

1.5% CAP	One-, Two- and Three-Family Houses and Condominiums
	Pay 1.5% of market value (2.143% of assessed value), with the maximum savings capped at 250% of the average savings. (May pay more if surcharge revenue does not completely cover the savings due to the cap.)
REGULAR	Apartments, Rooming Houses, and Non-Commercial Personal Property such as private motor vehicles
	Pay 100% of the simple mill rate.
15% SURCHARGE	All commercial property (both real estate and personal such as equipment and supplies), and all vacant land (regardless of classification as residential, commercial, etc.)
	Pay 115% of the simple mill rate. (May pay less if total capped savings at 1.5% are less than the total surcharge revenue.)

III B: EFFECTS OF PROPERTY SURCHARGE TAX

Assume that the piece of property discussed earlier, with a market value of $200,000 in 1989 and hence an assessed value of $140,000, is a commercial building. This building would then be subject to the surcharge tax as it currently stands. The total property tax bill, with the surcharge included, would be the original tax bill (calculated as the mill rate times one-thousandth of the assessed value of the property) plus up to an additional 15%. Explicitly, this would be equal to:

$$[(29.88) * (140,000/1,000)] * [1.15] = 4,810.68$$

This is 15%, or $627.48, higher than without the surcharge tax.

Of course, because the cap and surcharge system is intended to be revenue-neutral, that is, its total effect on Hartford's tax revenue is to be zero, either the surcharge amount will not be exactly 15% or the cap will not be exactly 1.5%. Using the 1998 grand list figures, the 1998 cap is calculated to have been 1.5% of market value, with a subsequent surcharge of 11.8%. For 1999, based on the projected 1999 grand list and assuming tax revenue neutrality, the cap is expected to be 2.434% of market value, with a subsequent surcharge of 15%.

The surcharge tax is not a permanent item in the city code. It will expire with the current revaluation if it is not re-enacted. So what are the benefits and costs of such a surcharge tax? Tax revenue may be the quickest answer to come to mind, but it is not the correct one. In effect, the surcharge issue does not depend on how much money the City of Hartford needs to collect in taxes at all – with or without a surcharge the mill rate can be adjusted to ascertain that the needed amount of property tax revenue will be collected. The answer to the surcharge issue depends on who exactly the City wants to collect those taxes from, both now, and in the future.

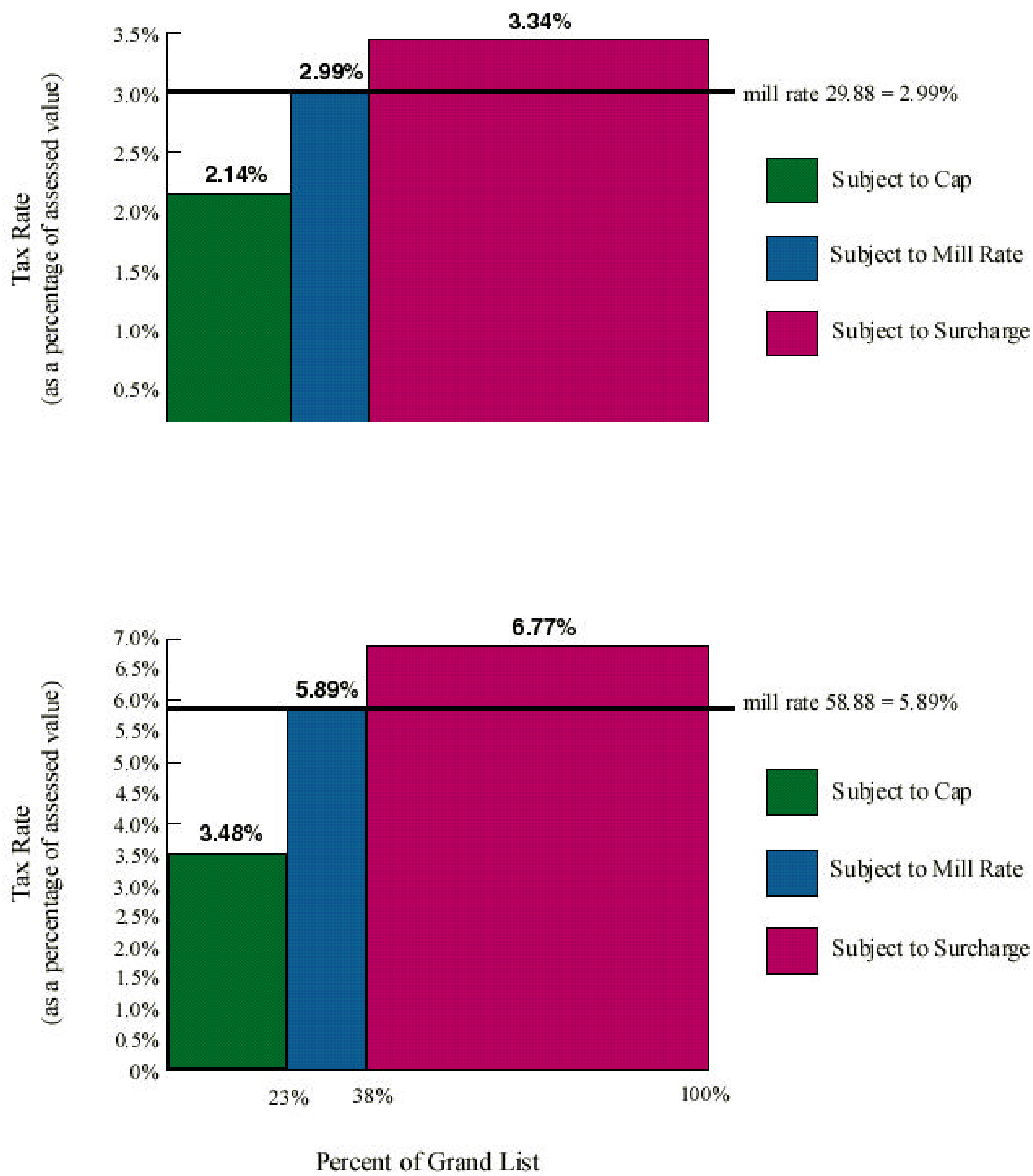
The short and long term effects of a surcharge tax are complex. The most obvious and immediate short-term effect is that the effective property tax rates paid by owners of different types of property will not be uniform. Adding up to a 15% surcharge on top of the regularly calculated tax bill is the same as adding up to 15% of the mill rate onto the mill rate for specific categories of property owners. For example, using the mill rate of 29.88, a property-owner subject to the 11.8% surcharge in 1998 was really paying a 33.41 mill rate, as compared to the capped mill rate of 21.43. After revaluation, the difference between the capped tax rate and the effective surcharged tax rate will be even more pronounced: the effective mill rate for the surcharged properties will jump to 67.71, while the effective capped rate will only increase to 34.77. Figure 16 on the next page illustrates the effective property tax rates in 1998 (pre-revaluation) and 1999 (post-revaluation) under the cap/surcharge system.

It is critically important to note here that the scenarios illustrated in Sections I and II ignore the tax burden effects of the tax cap and the surcharge, a structure that has been in effect in Hartford since the last revaluation. Thus, the tax *would have gone down* for most real property owners after the current revaluation *if* Hartford had used a simple tax system that applied the same mill rate to all property classes. However, because Hartford chose to implement the cap and surcharge structure during the last revaluation, those protected property owners currently subject to the tax rate cap (owners of one-, two-, and three-family residences) will in fact experience a tax *increase* post-revaluation if the cap structure is discontinued. On the other hand, if the cap structure is left in place, these property classes will experience a significant *decrease* in their taxes. This will occur because the cap is based on market property values, which have declined enormously since the last revaluation. In fact, market values have dropped so significantly that a 1.5% cap would force property taxes on protected categories down to barely one-quarter of the level they would face without the cap.

FIGURE 16: EFFECTIVE PROPERTY TAX RATES UNDER THE CAP/SURCHARGE SYSTEM

TOP: 1998 (PRE-REVALUATION)

BOTTOM: 1999 (POST-REVALUATION)



In addition, the fact that the tax *will go down* for residential property owners (but go up for other categories that must make up for the lost revenues) after the revaluation if the cap and surcharge structure is left in place, does ***not*** argue that the current cap and surcharge structure is economically beneficial to the City of Hartford. In fact, it seems to have been economically damaging, creating a hostile environment for businesses by distorting the tax burdens of different classes of property in Hartford. It almost certainly contributed to a dramatic loss of apartments and a decline in small businesses (see figure 20). Retaining the cap and surcharge after the new revaluation will only make matters significantly worse. Figure 17 illustrates the tax changes expected for typical properties after revaluation under multiple scenarios. Note that many commercial properties in the super commercial category appealed their assessments since the last revaluation, resulting in a reduction of their assessed values, and hence their taxes, in recent years. As a result, assessed values for super commercial properties will not decrease by as much as other categories after the current revaluation, causing taxes on super commercial properties to increase post-revaluation. Figure 18 then illustrates the total tax burdens by property class, again before and after revaluation, under alternate taxation policies.

FIGURE 17: TAX CHANGES FOR TYPICAL PROPERTIES AFTER REVALUATION…
. . . IF THERE HAD NEVER BEEN A CAP/SURCHARGE SYSTEM

Property	Assessed Value 1998	Estimated Assessed Value 1999	% Change in Assessed Value	**Total Tax 1998**	**Total Tax 1999**	**% Change in Total Tax**
One-Family House	$100,000	$53,480	- 46.5%	**$2,988**	**$3,149**	**+ 5.4%**
Condominium	$65,000	$18,402	- 71.7%	**$1,942**	**$1,083**	**- 44.2%**
Apartment Building	$225,000	$75,060	-66.6%	**$6,723**	**$4,420**	**- 34.3%**
Small Commercial	$100,000	$32,930	- 67.1%	**$2,988**	**$1,939**	**- 35.1%**
Medium Commercial	$1,000,000	$452,800	- 54.7%	**$29,880**	**$26,661**	**- 10.8%**
Large Commercial	$5,000,000	$2,610,000	- 47.8%	**$149,400**	**$153,677**	**+ 2.9%**
Super Commercial	$20,000,000	$18,868,000	- 5.7%	**$597,600**	**$1,110,948**	**+ 85.9%**

n.b. 1998 assessed values are averages for each property type, 1999 values are based on recent sales ratios.

For the following two figures:

1998 taxes are based on a calculated cap of 1.5% of market value and a subsequent surcharge of 11.8%.

1999 taxes are based on a calculated cap of 2.434% of market value and a surcharge of 15%.

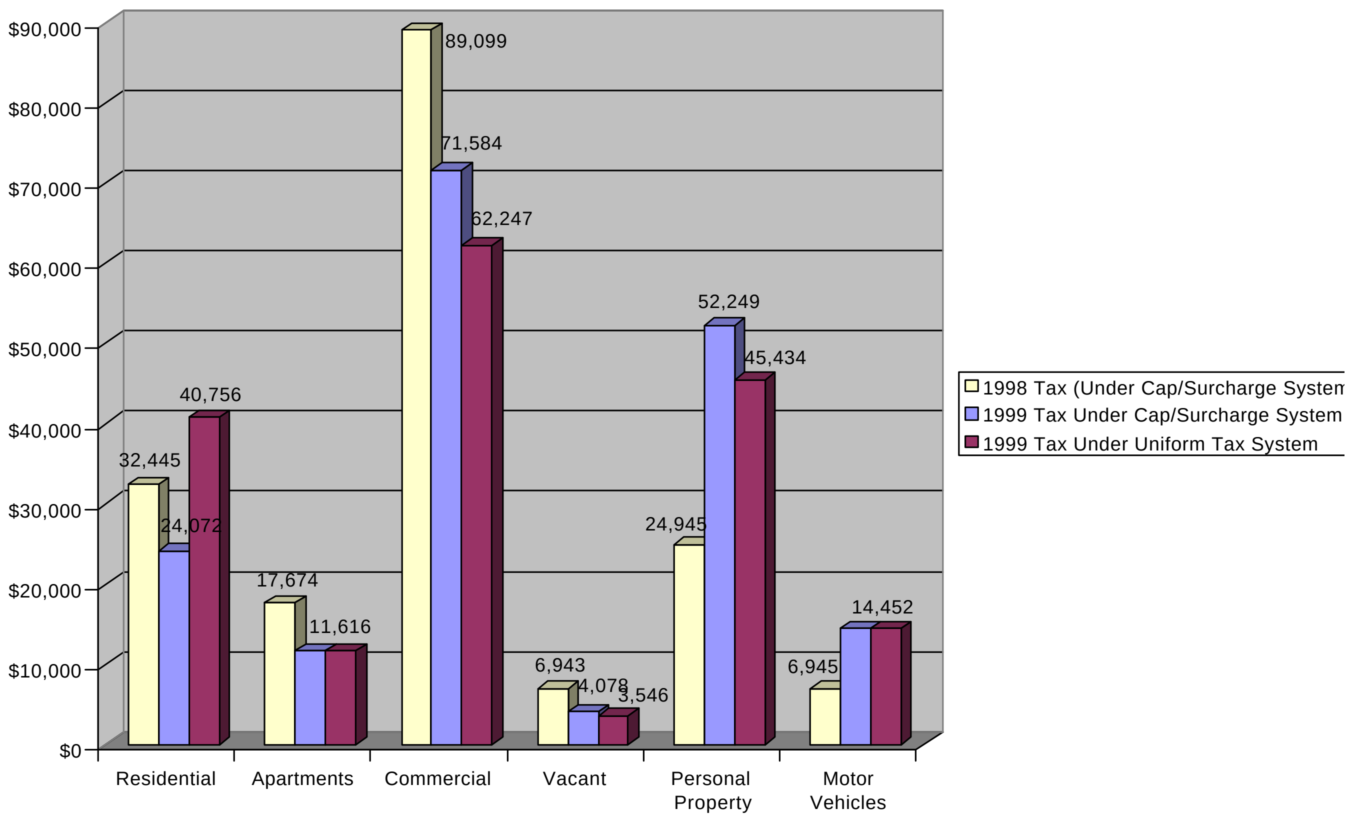
. . . If Hartford Discontinues The Current Cap/Surcharge System

Property	Assessed Value 1998	Estimated Assessed Value 1999	% Change in Assessed Value	**Total Tax 1998**	**Total Tax 1999**	**% Change in Total Tax**
One-Family House	$100,000	$53,480	- 46.5%	**$2,143**	**$3,149**	**+ 46.9**
Condominium	$65,000	$18,402	- 71.7%	**$1,393**	**$1,083**	**- 22.2%**
Apartment Building	$225,000	$75,060	-66.6%	**$6,723**	**$4,420**	**- 34.3%**
Small Commercial	$100,000	$32,930	- 67.1%	**$3,341**	**$1,939**	**- 42.0%**
Medium Commercial	$1,000,000	$452,800	- 54.7%	**$33,410**	**$26,661**	**- 20.2%**
Large Commercial	$5,000,000	$2,610,000	- 47.8%	**$167,050**	**$153,677**	**- 8.0%**
Super Commercial	$20,000,000	$18,868,000	- 5.7%	**$668,200**	**$1,110,948**	**+ 66.3%**

. . . If Hartford Keeps The Current Cap/Surcharge System

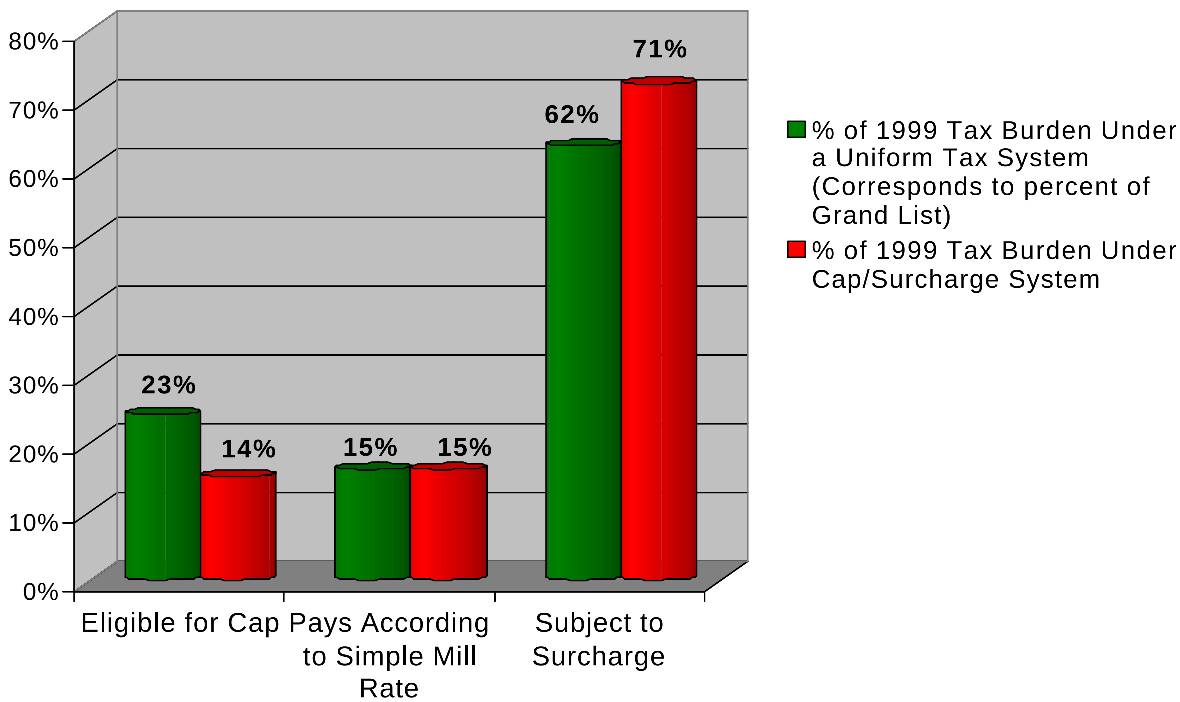
Property	Assessed Value 1998	Estimated Assessed Value 1999	% Change in Assessed Value	**Total Tax 1998**	**Total Tax 1999**	**% Change in Total Tax**
One-Family House	$100,000	$53,480	- 46.5%	**$2,143**	**$1,859**	**- 13.2%**
Condominium	$65,000	$18,402	- 71.7%	**$1,393**	**$640**	**- 54.1%**
Apartment Building	$225,000	$75,060	-66.6%	**$6,723**	**$4,420**	**- 34.3%**
Small Commercial	$100,000	$32,930	- 67.1%	**$3,341**	**$2,230**	**- 33.3%**
Medium Commercial	$1,000,000	$452,800	- 54.7%	**$33,410**	**$30,660**	**- 8.2%**
Large Commercial	$5,000,000	$2,610,000	- 47.8%	**$167,050**	**$176,728**	**+ 5.8%**
Super Commercial	$20,000,000	$18,868,000	- 5.7%	**$668,200**	**$1,277,590**	**+ 91.2%**

FIGURE 18: 1998 AND 1999 PROPERTY TAXES BY CLASS



To illustrate further the aggregate impact of the cap and surcharge structure on tax burdens, CCEA calculated the percentages of the Grand List subject to each of Hartford's three property tax categories: cap, simple mill rate, and surcharge. CCEA calculations indicate that 23% of the 1999 Grand List will be eligible for the cap and 62% will be subject to the surcharge. Under a simple tax structure, (i.e., without the cap and surcharge), the former would be responsible for 23% of the tax burden, and the latter would be responsible for 62%, commensurate with their portions of the grand list. However, by introducing the cap and surcharge structure, the tax burdens of these entire groups of properties become distorted; the tax burdens are no longer proportionate to the property values. Figure 19 illustrates the tax burden of each taxation group with the cap/surcharge structure in place.

FIGURE 19: 1999 TAX BURDENS
SIMPLE TAX STRUCTURE VS. CAP/SURCHARGE STRUCTURE



As figure 19 illustrates, *the cap/surcharge structure leads to distortions in aggregate tax burdens*. If 23% of the grand list is eligible for the cap in 1999, at the mill rate of 58.88, that 23% will only pay 14% of the total tax bill under the cap/surcharge system. Under the same circumstances, the 62% of the grand list subject to the surcharge would be responsible for 71% of the total tax bill. This tax burden distortion increases as the mill rate increases (which it must in order to account for declining property values); if the mill rate ends up higher, the tax burden distortion will become even worse.

There is no justification for preserving these kinds of distortions, especially as many of the benefits go to absentee landlords. The only reasonable tax breaks are for homeowners and "quality of life" businesses: owner-occupied housing contributes to neighborhood stability and owner participation in the neighborhood, while access to small retail businesses is critical to creating attractive neighborhoods. Hartford's current system distorts the tax burden, but fails to support specifically owner-occupied housing and penalizes small retail businesses.

An alternative exists: for owner-occupied housing, Massachusetts (which requires revaluation at full market value every three years) currently permits communities to provide a flat dollar exemption for owner-occupied homes or condominiums. For example, Brookline (a Boston suburb) exempts nearly the first $70,000 in assessed value. This flat rate exemption provides owner-occupied residential properties with tax relief similar to that of the cap, and focuses the relief on the lower end of the market, while still allowing flexibility in determining the mill rate and budget. On the other hand, if Hartford maintains the 1.5% cap, any increases in the mill rate or budget must be absorbed almost entirely by the non-capped property owners, making their burden even worse. Further, under a cap/surcharge system, residential property is the only category that will experience a tax reduction when property values go down. This is a drastic divergence from the purpose of an *Ad Valorem* tax.

The second effect of the surcharge tax is an indirect, and yet long-term one. In the immediate term, when a firm is deciding on a place to locate, they may look at the readily available mill rates of equally attractive business sites to estimate their property tax burden. If the firm knows about the surcharge, they will enter this into their calculations, which may make the City of Hartford look like a less attractive location. Over time, this will result in fewer businesses choosing to locate in the City of Hartford. Alternatively, the firm may not know that this surcharge tax is in effect. In that case, Hartford may look more attractive and a business may choose to locate here. However, once the tax bill comes, with the additional surcharge, businesses may think twice about staying in the long run, because the effective tax rate they pay is higher than expected. Because businesses are not as tied to the communities in which they operate as homeowners are, it is relatively easier for a business owner to relocate. In this case, Hartford's ability to retain its businesses may be reduced. The long-term effects of a surcharge tax on attrition and retention of businesses may therefore be more important, and lasting, than the short-term effects.

CCEA calculated the change in the number of real estate properties in each category between 1990 and 1998 using data obtained from the Hartford Assessor's Office. Figure 20 illustrates the number of properties in Hartford, by category, in 1990 and 1998, and the raw and percentage change in each.

FIGURE 20: CHANGE IN NUMBER OF PROPERTIES BY CATEGORY FROM 1990-1998

CATEGORY	1990	1998	CHANGE	% CHANGE
RESIDENTIAL	**16,020**	**16,015**	**- 5**	**- 0.03 %**
3 units or less	12,984	13,012	+28	+0.22 %
Condominiums	3,036	3,003	- 33	- 1.09 %
COMMERCIAL	**1,785**	**1,717**	**- 68**	**- 3.81 %**
Regular	1,205	1,159	- 46	- 3.82 %
Condominiums	157	178	+21	+13.38 %
Industrial	364	344	- 20	- 5.49 %
Utilities	59	36	- 23	- 38.98 %
APARTMENTS	**2,057**	**1,859**	**- 198**	**- 9.63 %**
VACANT	**965**	**1,078**	**+113**	**+11.71 %**
Residential	282	291	+9	+ 3.19 %
Commercial	580	683	+103	+17.76 %
Industrial	103	104	+1	+0.97 %
TOTAL	**20,827**	**20,669**	**- 158**	**- 0.76 %**

The total number of properties in Hartford decreased by 158 buildings, or less than 1%, from 1990 to 1998. However, this figure is not the result of a small, even decrease in real estate property across all categories. In fact, the number of properties in all major real estate categories decreased (residential: –5, commercial: –68, apartments: –198), while the number of vacant properties increased by 113. Within the residential category, dwellings of 3 units or less increased slightly (+28), while condominiums decreased (-33). Interestingly, the number of commercial condominiums increased by 21 units, nearly two-thirds of the residential condominium loss. In addition, 103 out of 113 additional vacancies in the period are commercial properties (including apartments).

Most striking, however, is the clear difference between the nearly imperceptible decrease in residential properties (-0.03%), and the significant decrease in commercial properties and apartments (-3.81% and -9.86%, respectively). *Hartford has lost nearly 4% of its businesses, and nearly 10% of its apartments, in only eight years.* In addition, vacancies have increased by nearly 12%, and 158 properties have disappeared altogether.

It is evident that Hartford's ability to attract and retain businesses is not what it could be. This could be the result of many factors, some unrelated to the surcharge tax. However, it is important to recognize that the added tax burden of the surcharge is a strong economic disincentive for businesses looking to locate and remain in the City of Hartford. This should be seriously considered when deciding whether to re-enact the surcharge tax. Increasing taxes on a shrinking tax base is not a solid foundation for economic growth; it is a recipe for economic trouble.

SECTION IV: SIGNIFICANCE OF REGULAR REVALUATION

IV A: NEED FOR REGULAR REVALUATION

Regular revaluation is important and necessary. Property taxes are *Ad Valorem* taxes, meaning that the amount of tax owed is directly linked to the value of the item being taxed. (The sales tax is also an *Ad Valorem* tax). Economic cycles and other factors cause market values to change over time, in different directions and with different magnitudes. In order to keep current tax burden in sync with current values, revaluation of property must be performed on a regular basis. But how regular is “regular”?

Most states in the U.S. have revaluation periods shorter than Connecticut’s. According to the Connecticut Public Expenditure Council’s report: “Reforming Connecticut’s Property Tax,” in 1988 forty-five states had revaluation periods of five years or less; Connecticut and Rhode Island were the only two with periods as long as ten years. Some states even require annual revaluations. Other states use “rolling revaluations,” in which a fraction of the properties are physically revalued each year, and the rest are revalued statistically. For example, 20% of the properties may be physically revalued each year with statistical revaluation of the remaining properties, so that the actual revaluation period is five years, but the assessor’s office does not have to do it all at once. This is perhaps easiest on the assessing departments themselves.

IV B: NEED FOR MORE FREQUENT REVALUATION

Two issues are central to the question of whether Hartford should reduce its revaluation period: Is it necessary? And is it possible? Given the volatility of economic conditions in recent decades, the revaluation period desperately needs to be shortened. There are two main reasons for this. The first reason involves the analysis discussed in Section II: real estate values do not change by the same magnitude or even in the same direction for different property categories or areas. As time passes between revaluations, assessed property values become progressively less correlated with current market values, and hence, tax burden becomes less correlated with true property value. This is in direct contrast to the goal of an *Ad Valorem* tax, resulting in an unfair distribution of property taxes. The second reason involves the method for revaluing property as discussed in Section I: taxable personal property and motor vehicles are effectively revalued each year, while real estate is revalued only once every revaluation period. This means that personal property taxes are always based on current values, while real estate taxes are based on market values that are up to twelve years old.

On the issue of feasibility, we are faced with two limitations: time and money. Years ago, when all of Hartford's property data was stored on cards covered with handwritten notes, as many other Connecticut towns still use, the time and money involved in revaluation were formidable obstacles to reducing the revaluation period. However, today all Hartford property data is stored in an easily accessible computerized database system at the Hartford Assessor's Office. This eases and speeds up the revaluation process considerably, making it possible to revalue much more often than once every twelve years.

Shortening the time between revaluations is therefore not only necessary, but also quite possible. Given the ability of the Assessor's Office to do it, possibly with partial revaluation every year, it is unacceptable that the period remains at twelve years. Regular, frequent revaluation will allow assessed real estate property values to move in sync with current market values. This is good for the taxpayer, who will know that their property taxes are based on the true value of their property. It is also good for the City, as regular, reliable revaluation can lead to greater retention and less attrition of businesses.

Two options stand out as attractive: perform a full physical revaluation every 4 to 5 years, or physically revalue 20% to 25% of the property each year, statistically revaluing the rest. The second option would mean a revaluation period for the Assessor's Office of 4 to 5 years, but would effectively mean an annual revaluation for the taxpayer. It currently takes the Hartford Assessor's Office approximately two years to complete a full physical revaluation, so either of these options is feasible.

SECTION V: ALL THINGS CONSIDERED

In general, Connecticut property values had reached their peak in the late 1980s, and then began a descent that lasted into the mid-1990s. Since then, these values have begun to increase again, though they still have not reached their peak values. Hartford is no exception: current market values are still lower than those recorded during the last revaluation. This means that, in general, Hartford residents and businesses are paying taxes on real estate property values that exceed their true values, and will continue to do so until revaluation is completed.

The drastic changes in property taxes the City of Hartford can expect after revaluation clearly illustrate the consequences of infrequent revaluation. The revaluation period clearly needs to be shortened. This is not a new issue: more frequent revaluation has indeed been recommended again and again for all of Connecticut. The driving force behind such recommendations is the *Ad Valorem* basis of the property tax: the tax is intended to represent directly current property value. Currently, Hartford's property taxes are directly linked to current property values only once every twelve years. Real estate property values can change dramatically in a decade. Revaluing once every ten or twelve years does not result in a fair tax, and is not conducive to attracting and retaining residents and businesses. However, if a more frequent revaluation schedule is adopted and adhered to, tax bills will change less drastically each time property is revalued, creating stability for the City as a whole.

The decision whether to re-enact the surcharge tax may also have a major effect on Hartford's ability to create and sustain economic growth in the new millenium. During the last revaluation in 1989, property values were much higher than they had been assessed at during the previous revaluation. Therefore, drastic *increases* in property tax bills for homeowners were a major concern. In Hartford, these increases were dampened through adoption of the residential property tax relief statute. It afforded residential property owners a lower effective tax rate while increasing the effective tax rates on other categories of property, including businesses. While this was meant to help residential property owners, it may also have led to Hartford's reduced ability to attract and retain businesses in the last decade.

The peculiar impact of the 1989 revaluation at the peak of a real estate boom, coupled with the adoption of the surcharge tax, seems to have combined to result in a tax environment in Hartford that is particularly hostile to both businesses and apartments alike. In addition, approximately 54% of Hartford's property is tax-exempt, magnifying the effect of any tax changes on non-exempt properties. It will be to Hartford's long run economic benefit to revalue more often and discard the surcharge tax in the new revaluation period. Infrequent revaluation leads to instability, and a declining tax base cannot sustain economic growth. The results of this can be seen in the drastic changes in Hartford's real estate property values and the disproportionate losses in both business and apartment properties.

The Massachusetts model of flat-rate exemptions for owner-occupied housing is a superior alternative to Hartford's current taxation system. Such a policy focuses specifically on home ownership, a clearly justifiable objective because of its connection to neighborhood stability, engagement, and political involvement. It does not simply redistribute tax burdens between different groups of (largely absent) residential property owners and businesses. But any policy that is only a local initiative will inevitably redistribute the tax burden; far better for the State of Connecticut to pursue policies that encourage and support owner-occupied housing, especially for lower-income families and individuals.

Whatever policy objectives the City of Hartford chooses to pursue through the property tax in the future, it ought to be alert to the dynamic consequences of such tax policies. The choice made in the 1980s clearly injured the health of the city, its businesses, and its residents in the long run.