

# HAMDEN HOMEOWNERS FOR TAX RELIEF

## *A non-partisan appeal for fiscal justice*

September 4, 2006

Dear Legislative Council Members:

The Hamden Homeowners for Tax Relief (HHTR) is in receipt of a letter from the Mayor to Council Members regarding phase-in dated August 31, 2006. The purpose of this letter is to comment on impediments to phase-in suggested by the Mayor in his.

The principal thrust of the Mayor's Letter is an assertion that it is inadvisable to try to implement a phase-in after tax bills have gone out – a process referred to as a “mid-year phase-in”. By making alleged “mid-year” implementation challenges its focus, the administration has opened up a whole new front in the phase-in debate, and in doing so has undermined mayoral credibility. Specifically, the Mayor says:

*“Consideration of phase-in is well-suited to the budget process. It is ill-suited for discussion after the setting of the mill rate and passage of the budget . . . .”*

The HHTR was surprised by this position since prior to tax bills being sent out, the administration was singing a quite different tune. At that time, while meeting with an anxious member of the HHTR, the Mayor deflected calls to delay the transmission of tax bills until phase-in was debated by the Council by stating that although he opposed the concept, that phase-in would remain a legally and administratively viable option through the end of the 2006 calendar year. The HHTR took the Mayor at his word, and changed its focus and priorities in reliance on those statements. To now have phase-in opposed with a laundry list of presumed mid-year implementation hurdles is shocking and offensive, and undermines the basis of mutual respect that had characterized the parties' debate to this point. Regardless of the ultimate merits of a particular proposal, a citizen's group should, at a minimum, be able to trust they will not be “sandbagged” by the Town's chief executive.

The Mayor's reversal on the timing issue makes it plain that the administration's current agenda is an active search for excuses NOT to implement a phase-in. It is apparent that a political decision has been made about phase-in, and everything at this point is “backfilling”. The non-partisan HHTR calls upon the Legislative Council to exercise its independent judgment in assessing phase-in without politicizing this most important opportunity for true tax relief.

The HHTR asks that the Legislative Council consider the following comments when considering the assertions of the Mayor's Letter. On each point, the HHTR comment follows the indented and italicized passage from the Mayor's Letter.

*“ . . . implementation of a mid year phase-in would cause additional damage to the Town’s 2006-2007 budget. The State of Connecticut’s Office of Policy Management has confirmed that any effort to implement a mid-year phase-in would result in decreased State PILOT payments and grants, which are based upon appraised values townwide.”*

*“The impact of such an implementation on items such as state aid and elderly tax credits have not been effectively analyzed by phase-in proponents.”*

No doubt this is an area of legitimate concern since State aid constitutes a substantial portion of the revenue side of the Town’s budget. But with a serious allegation comes the responsibility to state with precision the basis for the concern. Otherwise, statements of this type betray themselves as just more smoke trying to screen and confuse the Council and public.

The HHTR’s independent analysis of the formulae for State PILOT and other grants reveals no basis for a claim that a phase-in under 12-62a(e) (2005) would alter the calculation of the amount of Hamden’s entitlement under these programs.<sup>1</sup> This conclusion also comports with common sense - why would the law penalize a town for taking advantage of a state tax relief remedy for its residents?

At the very least, the administration should be required to provide a great deal more specificity and back-up for this serious allegation. The following are just some of the questions suggested by the Mayor’s conveniently vague and general statements.

1. Who has spoken for OPM on these topics?
2. What specifically did the OPM official “confirm”?
3. What specific PILOT or other state grant programs does the administration claim are affected by a simple phase-in?
4. Explain with specific numerical examples the grant methodologies under which “appraised values townwide” is a critical variable and is affected by a phase-in of assessments.
5. What is the legislative principle under which a phase-in of assessments might logically trigger a re-formulation of state aid? As an example, why would a PILOT program dealing with compensation for exempt property be affected by a phase-in of reassessments of the Town’s *non*-exempt property?

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<sup>1</sup> The value of a key assessment-based variable in these formulae – the “equalized net grand list” – does not appear to change as a result of the assessment deferral inherent in a phase-in.

6. Even assuming that a phase-in-affected grant program exists, what is the basis for the administration's belief that an adjustment of state aid will occur in the current fiscal year, and thus impact a presently fixed budget? Most state grant programs are tied to lagging variables, *i.e.* they calculate current benefits on the basis of variable values in past years (*e.g.*, C.G.S. 10-261(a)(6) (3-year lag for "equalized net grand list")).

*"Homeowners with mortgages who pay their property taxes through funds escrowed with their mortgagor [sic] will be subject to the vagaries of that mortgagor's [sic] escrow analysis mechanisms, so the impact of a mid-year phase-in on these families cannot be effectively calculated and analyzed."*

Undoubtedly for a minority of phase-in beneficiaries, mortgage tax escrow mechanisms will cause some delay in accessing their phase-in savings. For example, a mortgage escrow agent's receipt of a homeowner's 2006 Hamden tax bill (and subsequent payment of the first half installment) will invariably trigger a call to the homeowner to augment the escrow account by lump sum payment and/or increased monthly payments. If these taxpayers are phase-in beneficiaries, they will likely over-fund their escrow accounts during the current fiscal year; and they may have to await the next scheduled escrow analysis date to actually realize those phase-in savings through lower monthly payments.

Despite this scenario, the phase-in savings of escrowing households are just as real and calculable as similarly-situated non-mortgage households. Extra money in an escrow account doesn't vaporize; it stands to the credit of the homeowner and accrues interest.

*"Hundreds of taxpayers who have paid their real estate property taxes in full will be due a refund with interest."*

The HHTR finds it somewhat incredible that "hundreds" of taxpayers engage in the counter-intuitive conduct of paying their entire real estate tax bill on the due date of the first installment. Even if true, this fact alone is not material to the phase-in debate since we concede that a mid-year phase-in will require a supplemental mailing to each Town taxpayer. Whether that envelope contains a refund check or a corrected bill seems fairly insignificant.

We strenuously challenge the notion that interest would be due on any refunds, and we call upon the administration to cite the authority compelling that result under these circumstances. How could interest be due when there is no basis for a refund until a phase-in resolution is passed?

*“Every motor vehicle owner will receive a supplemental bill.”*

The statement is certainly correct. This is one of several areas of cost and inconvenience that will be necessary to produce \$10+ million in tax relief for homeowners. If these administrative costs total several *million* dollars, then perhaps we would agree with the administration that the phase-in is not worth the effort. However, costs of that order of magnitude are inconceivable.

*“The cost of . . . mailings and manual re-processing of these and other unanticipated items will go far beyond what has been budgeted and likely require funds from the Town’s Emergency & Contingency account.”*

We anticipate that the costs of processing a mid-year phase-in will be slightly higher than the costs of initial billing in a Revaluation year. If such costs require tapping into emergency or “rainy day” funds, then so be it. The need for tax relief is indeed an “emergency”, and it is no doubt “raining” out there. . . hard.

*“After some analysis, the administration chose not to send the Legislative Council a Phase-In resolution because it did not offer the level of savings to property owners that would be expected. In fact, a number of middle-class homeowners (particularly families with more than one automobile) would pay more property taxes under a phase-in scenario.”*

As highlighted in the HHTR’s August 18, 2006 Memorandum to Legislative Council members, the administration’s class-based impact analysis is premised on a Ratio Phase-In (C.G.S. 12-62c), rather than the proposed Simple Phase-In (C.G.S. 12-62a(e)). It is disturbing that the administration continues to attempt to confuse the debate by comparing apples to oranges. For the reasons stated more fully in the August 18 Memorandum, the HHTR vehemently disputes the quoted statement. In a nutshell, Simple Phase-in will help most those who are in greatest need of tax relief.

*“Every individual who owns a motor vehicle would pay more in taxes for that vehicle, eating directly into any savings achieved on residential property. Any senior or recent college graduate who rents a unit would pay higher taxes to the town of Hamden under a phase-in.”*

The impact of the car tax was explained in detail in the HHTR’s August 18 Memorandum. Yet, for some reason, the administration keeps attempting to over-inflate its importance.

To the extent the quoted statement is saying that renters will pay higher taxes to Hamden than they did in 2005, it is inaccurate. In point of fact, *all* owners of automobiles will pay less car tax than they did in 2005, regardless of whether real estate assessments are phased in or not. The only real question is the degree to which a phase-in will affect the ultimate size of the motor vehicle tax *cut*.

In the aggregate, over the five-year Revaluation period, a phase-in would result in 6% less car tax relief than without phase-in. On an individual basis, the net impact of household motor vehicle(s) on the *first-year* savings under a simple phase-in is between \$6 and \$7 per \$1,000 of “Blue Book” value. How this savings offset affects a given household’s overall tax picture depends upon that homeowner’s unique combination of home and vehicle(s). When one considers the impact over the entire Revaluation period, the average annual negative impact of phase-in on car taxes is less than \$2 per \$1000 of “Blue Book” value.

Thank you for your consideration of these comments. We trust that you will maintain an open, independent mind in the course of your deliberation over the proposed phase-in. If you have any further questions concerning these issues, please do not hesitate to contact me at 506-8113.

Sincerely,

Mark D.G. Sanders  
Hamden Homeowners for Tax Relief