



# Senate

General Assembly

**File No. 267**

February Session, 2004

Substitute Senate Bill No. 504

*Senate, March 25, 2004*

The Committee on Commerce reported through SEN. LEBEAU of the 3rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT REQUIRING INDEPENDENT FINANCIAL ANALYSIS FOR URBAN REINVESTMENT ACT PROJECTS THAT REQUIRE LEGISLATIVE OVERSIGHT.***

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

1 Section 1. Subsection (f) of section 32-9t of the general statutes is  
2 repealed and the following is substituted in lieu thereof (*Effective from*  
3 *passage*):

4 (f) (1) The commissioner shall determine whether the project in  
5 which the proposed investment is to be made is an eligible urban  
6 reinvestment project or an eligible industrial site investment project,  
7 whether the project is economically viable only with use of the urban  
8 and industrial site reinvestment program, the effects of the project on  
9 the municipality where the investment will be made, and whether the  
10 project would provide a net benefit to economic development and  
11 employment opportunities in the state and whether the project will  
12 conform to the state plan of conservation and development. The

13 commissioner may require the applicant to submit such additional  
14 information as may be necessary to evaluate the application.

15 (2) [The] For any project that would result in the granting of a tax  
16 credit of not less than five million dollars and not more than twenty  
17 million dollars for a single investment, the commissioner shall prepare  
18 a revenue impact assessment that estimates the state and local revenue  
19 that would be generated as a result of the project [The] and the  
20 commissioner shall prepare an economic feasibility study relative to  
21 such project. Such study and assessment shall include, but not be  
22 limited to, a description of the plans for such project and the parties  
23 involved in such project and shall be provided to the joint standing  
24 committees of the General Assembly having cognizance of matters  
25 relating to commerce and finance, revenue and bonding. The  
26 commissioner may retain any such persons as the commissioner deems  
27 appropriate to conduct such revenue impact assessment or economic  
28 feasibility study. In the case of a project that would result in the  
29 granting of a tax credit in excess of twenty million dollars in total for a  
30 single investment, the commissioner shall retain the services of an  
31 independent financial analyst who shall conduct an independent  
32 financial analysis of such project and prepare a certified report  
33 including, but not limited to, findings on the state and local revenue  
34 that would be generated as a result of the project and the economic  
35 feasibility of the project.

36 Sec. 2. Subsection (q) of section 32-9t of the general statutes is  
37 repealed and the following is substituted in lieu thereof (*Effective from*  
38 *passage*):

39 (q) Any tax credits approved under this section that would  
40 constitute in excess of twenty million dollars in total for a single  
41 investment shall be submitted by the Commissioner of Economic and  
42 Community Development to the joint standing committee of the  
43 General Assembly having cognizance of matters relating to finance  
44 prior to the issuance of a certificate of eligibility for such investment.  
45 Said commissioner shall make a recommendation to the president pro

46 tempore of the Senate and to the speaker of the House of  
47 Representatives regarding approval or disapproval of such project not  
48 later than thirty days after receiving such submission and shall include  
49 a copy of any certified report prepared by an independent financial  
50 analyst, pursuant to subdivision (2) of subsection (f) of this section, as  
51 part of said commissioner's recommendation. If such submission is not  
52 disapproved by the House of Representatives or the Senate, or both,  
53 within sixty days of the submission date, the commissioner may issue  
54 such certificate.

55 Sec. 3. Subsection (g) of section 32-9t of the general statutes, as  
56 amended by section 77 of public act 03-6 of the June 30 special session,  
57 is repealed and the following is substituted in lieu thereof (*Effective*  
58 *from passage*):

59 (g) (1) The commissioner, upon consideration of the application, the  
60 revenue impact assessment and any additional information that the  
61 commissioner requires concerning a proposed investment, including  
62 but not limited to, any applicable independent financial analysis  
63 prepared pursuant to subsection (f) of this section, may approve an  
64 investment if the commissioner concludes that the project in which  
65 such investment is to be made is an eligible urban reinvestment project  
66 or an eligible industrial site investment project. If the commissioner  
67 rejects an application, the commissioner shall specifically identify the  
68 defects in the application and specifically explain the reasons for the  
69 rejection. The commissioner shall render a decision on an application  
70 not later than ninety days from its receipt. The amount of the  
71 investment so approved shall not exceed the greater of: (A) The  
72 amount of state revenue that will be generated according to the  
73 revenue impact assessment prepared under this subsection; or (B) the  
74 total of state revenue and local revenue generated according to such  
75 assessment in the case of a manufacturing business with standard  
76 industrial classification codes of 3999, 2099, 2992 and 2834 which is  
77 relocating to a site in Connecticut from out-of-state, provided the  
78 relocation will result in new development of at least seven hundred  
79 twenty-five thousand square feet in a state-sponsored industrial park.

80 (2) The approval of an investment by the commissioner may be  
 81 combined with the exercise of any of the commissioner's other powers,  
 82 including, but not limited to, the provision of other forms of financial  
 83 assistance.

84 (3) The commissioner shall require the applicant to reimburse the  
 85 commissioner for all or any part of the cost of any revenue impact  
 86 assessment, economic feasibility study, independent financial analysis  
 87 or other activities performed in the exercise of due diligence pursuant  
 88 to subsection (f) of this section.

89 (4) There is established an account to be known as the "Connecticut  
 90 economic impact and analysis account" which shall be a separate,  
 91 nonlapsing account within the General Fund. The account shall  
 92 contain any moneys required by law to be deposited in the account  
 93 and shall be held separate and apart from other moneys, funds and  
 94 accounts. There shall be deposited in the account any proceeds  
 95 realized by the state from activities pursuant to this section.  
 96 Investment earnings credited to the account shall become part of the  
 97 assets of the account. Any balance remaining in the account at the end  
 98 of any fiscal year shall be carried forward in the account for the next  
 99 fiscal year. Amounts in the account may be used by the Department of  
 100 Economic and Community Development to fund the cost of any  
 101 activities of the department pursuant to this section, including  
 102 administrative costs related to such activities.

This act shall take effect as follows:	
Section 1	<i>from passage</i>
Sec. 2	<i>from passage</i>
Sec. 3	<i>from passage</i>

**CE**      *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

**OFA Fiscal Note**

**State Impact:**

Agency Affected	Fund-Effect	FY 05 \$	FY 06 \$
Department of Economic & Community Development	GF - Cost	See Below	See Below

Note: GF=General Fund

**Municipal Impact:** None

**Explanation**

Requiring the Department of Economic and Community Development (DECD) to obtain an independent financial analysis for projects whose business corporate tax credit would exceed \$20 million, could increase costs to the state. It is estimated that this would result in a cost of \$10,000 to \$20,000 per study. There have been 7 tax credit applicants thus far. There are multiple simulation runs conducted on each project. Each approved tax credit project must also undergo an annual study for the 10-year period. This could potentially further increase the costs of a project. The exact impact would depend upon the number of projects outsourced, the number of simulations run, if the costs are reimbursed per Sec. 32-9t(g)(3) CGS and cannot be determined at this time.

**OLR Bill Analysis**

sSB 504

***AN ACT REQUIRING INDEPENDENT FINANCIAL ANALYSIS FOR URBAN REINVESTMENT ACT PROJECTS THAT REQUIRE LEGISLATIVE OVERSIGHT*****SUMMARY:**

This bill requires independent financial analysts to assess the economic impact of certain proposed urban and industrial site reinvestment projects for which investors may qualify for corporate business tax credits. By law, investors must apply to the economic and community development commissioner for the credits, the value of which, for most projects, cannot exceed the total amount of state tax revenue the project expects to generate.

The bill requires an independent analyst to determine the project's fiscal and economic impact if the credit request exceeds \$20 million. Current law requires the commissioner to determine these impacts, but lets him decide whether to do so himself or hire outside analysts. He must submit the analyst's report to the legislature.

For credit requests between \$5 million and \$20 million, the commissioner can still decide whether to determine the impacts himself or hire outside analysts. But the bill drops the requirement for requests under \$5 million. For requests in the \$5 million to \$20 million range, the bill requires the analyses to describe the project's plan and identify the parties involved with it. It also requires the commissioner to submit these analyses to the Commerce and Finance, Revenue and Bonding committees. Current law does not require him to submit analyses for requests under \$20 million.

EFFECTIVE DATE: Upon passage

**INDEPENDENT ANALYST**

The bill requires the commissioner to hire an independent analyst to determine a project's fiscal and economic impact if the investor requests over \$20 million in tax credits. By law, the commissioner must submit requests above that amount to the legislature, which has

60 days to act on them. The bill requires the commissioner to submit the analyst's report along with the request. The report, which must be certified, must determine the project's economic feasibility and the state and local revenue it may generate. The commissioner can charge the investors seeking the credits for the analyst's costs.

The commissioner must consider the report when he acts on the request, which he may do only if the House or Senate did not reject it.

## **BACKGROUND**

### ***Urban and Industrial Sites Reinvestment Program***

This program authorizes up to \$100 million in tax credits to businesses that invest in projects to build, expand, or rehabilitate facilities. The law caps the total amount of available credits at \$500 million. Businesses can invest their money in a project directly or through a state-registered fund manager or a community development entity (CDE). The latter can be a corporation, partnership, or limited liability company that uses federal tax credits to leverage private investment for community development projects.

The minimum required investment depends on how the business invests its funds. Those making direct investment qualify for credits only if the project totals at least \$20 million. (Projects above this threshold require legislative approval.) There is no minimum per-project investment for investments made through a fund or a CDE. But investments made through a fund qualify only if they have at least three investors and total assets over \$60 million.

### ***Related Bills***

sSB 257, which the Commerce Committee favorably reported to the Finance, Revenue and Bonding Committee on March 9:

1. earmarks \$150 million of the \$500 million in credits available under the program for projects relating to state-designated economic clusters or renewable energy technology,
2. allows several businesses to invest in a project and apportion the credit among themselves based on their shares of the total investment,
3. reduces the minimum required investment for direct investments

- from \$20 million to \$5 million, and
4. makes it easier for businesses to sell (i.e., assign) credits to another business and for that business to subsequently claim them.

The bill takes effect upon passage.

HB 5647, which the Finance, Revenue and Bonding Committee heard on March 15, also makes many changes to the program. It:

1. disqualifies projects for tax credits if they would relocate a facility from one Connecticut town to another,
2. requires the commissioner to notify the legislature when he receives a request for over \$10 million in credits,
3. requires him to determine if Connecticut residents are likely to be hired to construct or rehabilitate the facility,
4. bans businesses from transferring or assigning the credits, and
5. lowers the threshold for legislative approval from \$20 million to \$10 million.

HB 5647 takes effect upon passage.

**COMMITTEE ACTION**

Commerce Committee

Joint Favorable Substitute

Yea 26    Nay 0