House of Representatives

General Assembly

File No. 260

January Session, 2005

Substitute House Bill No. 6727

House of Representatives, April 11, 2005

The Committee on Commerce reported through REP. BERGER of the 73rd Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING THE GOVERNOR'S COMPETITIVENESS COUNCIL RECOMMENDATIONS.

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

Section 1. (*Effective from passage*) Not later than December 31, 2006, the Commissioner of Economic and Community Development shall prepare a report (1) indicating any amount of funds allocated by the Department of Economic and Community Development during the fiscal year ending June 30, 2006, for economic and industry cluster initiatives, and (2) including recommendations concerning the adequacy of such funds, and shall submit such report to the Governor and the joint standing committees of the General Assembly having cognizance of matters relating to commerce, finance, revenue and bonding and appropriations, in accordance with the provisions of section 11-4a of the general statutes.

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 Subsection (j) of section 32-9t of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from* *passage*):

(j) The credits allowed by this section may be claimed by a taxpayer who has made an investment (1) directly only if such investment has a total asset value<u>, either alone or in conjunction with other taxpayer investments in an eligible project,</u> of not less than **[**twenty**]** <u>five</u> million dollars <u>or, in the case of an investment in an eligible project for the preservation of an historic facility and redevelopment of the facility for mixed uses that includes at least four housing units, a total asset value of not less than two million dollars</u>; (2) through a fund managed by a fund manager registered under this section only if such fund: (A) Has a total asset value of not less than sixty million dollars for the income year for which the initial credit is taken; and (B) has not less than three investors who are not related persons with respect to each other or to any person in which any investment is made other than through the fund at the date the investment is made; or (3) through a community development entity.

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 Subsection (n) of section 32-9t of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

(n) Any taxpayer allowed a credit under this section may assign such credit to another taxpayer **[**, provided such other taxpayer may claim such credit only with respect to a taxable year for which the assigning taxpayer would have been eligible to claim such credit and such other taxpayer may not further assign such credit**]** <u>or taxpayers</u>. The taxpayer <u>or taxpayers</u> allowed such credit, the fund manager or the community development entity shall file with the Commissioner of Revenue Services information requested by the commissioner regarding such assignments, including, but not limited to, the current holders of credits as of the end of the preceding calendar year.

Sec. 4. (NEW) (*Effective from passage*) The Commissioner of Economic and Community Development may establish, within available appropriations, a program to increase the entrepreneurial potential in the inner cities and provide successful role models that will further demonstrate to students and residents the value of market-based strategies to increase wealth and income.

Sec. 5. (NEW) (*Effective from passage*) The Commissioner of Economic and Community Development may establish, within available appropriations, a next generation manufacturing competitiveness enhancement program with the goal of increasing the ability of Connecticut's small and medium-sized manufacturers to compete in the world economy. The program may include, but shall not be limited to: (1) Continued expansion of the use of progressive manufacturing techniques and advanced technology; (2) workforce development activities; (3) identifying new markets and opportunities both in the United States and abroad; and (4) creating a virtual center to assist manufacturing clusters in their product design and development efforts.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*from passage*	New section
Sec. 2	*from passage*	32-9t(j)
Sec. 3	*from passage*	32-9t(n)
Sec. 4	*from passage*	New section
Sec. 5	*from passage*	New section

Statement of Legislative Commissioners:
In section 4, "motivate" was changed to "demonstrate to" for clarity.

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 06 $	FY 07 $
Department of Economic & Community Development	Various - Cost	See Below	See Below
Department of Revenue Services	GF - Revenue Loss	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill will result in a General Fund revenue loss for the Corporation Tax to the extent that reducing the direct investment threshold for the Urban and Industrial Site Reinvestment tax credit from $20 million to $5 million, or $2 million in the case of a project for the preservation of a historic facility, increases the number of projects that are eligible to receive the credits. To the extent that the provisions of the bill enhance the ability of companies to sell and assign credits, then there is a greater likelihood that the credits will be claimed and not go unused.

Currently the total number of credits that can be granted under the program is $500 million and not more than $100 million per project. A total of three active projects have received approval of $67 million worth of credits.

The bill could result in a cost to the Department of Economic and Community Development (DECD) because the agency is required to: (1) obtain an independent financial analysis for each application, which is estimated to be $10,000 to $20,000 per analysis, and (2) perform an annual study over a 10-year period for each project that is approved. The impact on DECD will depend upon: (1) the number of projects outsourced for financial analysis, (2) the number of computer simulations run, and (3) whether these costs are reimbursed under the provisions of CGS Sec. 32 9t(g) (3). There have been 7 applications submitted to date.

The bill allows the DECD, within available appropriations, to establish a program to increase the entrepreneurial potential in distressed municipalities. Since implementation of the program is discretionary, it is anticipated it will be undertaken when resources permit. The bill does not specify the scope of the program. Therefore, it is unclear what resources will be needed to establish the program.

The bill also allows the DECD, within available appropriations, to establish a next generation manufacturing competitiveness enhancement program. This program is also discretionary, so it is anticipated that any increased costs due to implementation would be incurred when resources permit. Section 12 of PA 04-1, MSS, provided that $5 million of the funds authorized to the Manufacturing Assistance ACT (MAA) can be used for this program. The unallocated balance for MAA as of March 31, 2005 is $48.6 million. To the extent that expanding the use of the funds will increase funding requirements, there could be a need for additional GO bond authorizations and an increase in future debt service costs to the General Fund.

OLR Bill Analysis
sHB 6727

AN ACT CONCERNING THE GOVERNOR'S COMPETITIVENESS COUNCIL RECOMMENDATIONS

SUMMARY:
This bill makes several changes to the Urban and Industrial Sites Reinvestment Program, which provides up to $100 million in corporate tax credits to businesses that build, expand, or rehabilitate facilities. It makes it easier for businesses to invest in smaller projects and transfer credits to other taxpayers.

The bill allows the economic and community development commissioner to establish, within available appropriations, two new programs. One must increase the entrepreneurial potential of inner cities and show their residents and students how market-based strategies can increase their wealth and income. The other must help small and medium-sized manufacturers become productive and competitive.

The bill requires the commissioner to report on the amount of funds he allocated during FY 2006 for the economic and industry cluster initiative and recommend adquate funding levels. He must submit the report to the Appropriations; Commerce; and Finance, Revenue and Bonding committees by December 31, 2006.

EFFECTIVE DATE: Upon passage

URBAN AND INDUSTRIAL SITES REINVESTMENT PROGRAM

Investment Thresholds

The bill makes it easier for businesses to invest directly in smaller projects. The law allows them to invest on their own or through a state-registered investment fund.

The bill lowers the threshold for direct investments from $20 million to $5 million and lowers it even further, to $2 million, for investments in projects that preserve and redevelop historic facilities for mixed uses that include at least four housing units. The bill makes businesses that jointly invest in these projects eligible for credits if their total investment is above the applicable threshold.

The bill still allows a business to qualify for the credits if it invests any amount in a fund whose total asset value is at least $60 million in the year the business claims the credit.

Assigning Credits

The bill removes restrictions on reassigning credits. Current law allows the business to assign a credit to one taxpayer, but prohibits that taxpayer from reassigning the credit to a third taxpayer. It also requires the taxpayer to which the credit is assigned to claim the credit only during the year in which the business would have been eligible to claim it.

By removing these restrictions, the bill allows businesses to assign a credit to more than one taxpayer and allows these taxpayers to reassign the credit to other taxpayers. It also allows taxpayers to claim the credits at any time.

NEXT GENERATION MANUFACTURING COMPETITIVENESS PROGRAM

The bill requires the economic and community development commissioner to establish, within available appropriations, a program to help small and medium-sized manufacturers compete in the world economy. The program must continue current efforts to help these manufacturers adopt progressive manufacturing techniques and advanced technologies. It must also help them train their workers and identify new national and international markets and opportunities. Lastly, the program must create a virtual center to help groups of manufacturers design and develop products.

BACKGROUND

Economic and Industry Cluster Initiative

Developed by the Governor's Council on Economic Competitiveness and Technology, the Industry Cluster Initiative joins state officials, academic leaders, and business executives in identifying, developing, and implementing policies and programs that support the state's major business clusters—groups of industries that use similar technologies to create products or deliver services. The current clusters are aerospace, bioscience, metal manufacturing, maritime, software and information technology, plastics, and tourism.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute
Yea 25 Nay 0