



Senate

General Assembly

File No. 556

February Session, 2006

Substitute Senate Bill No. 701

Senate, April 19, 2006

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING PROPERTY TAX ASSESSMENTS FOR RESIDENTIAL PROPERTY AND FOR SOLAR PHOTO VOLTAIC SYSTEMS, AND INSTITUTING AN INCENTIVE PROGRAM FOR THE PROVISION OF REGIONAL SERVICES.

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

1 Section 1. Section 12-62c of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective October 1, 2006, and*
3 *applicable to assessment years commencing on or after October 1, 2006*):

4 [(a) Any municipality may, with respect to the assessment list in
5 such municipality in a year in which a revaluation becomes effective,
6 as required under section 12-62, for the assessment years commencing
7 on or after October 1, 1987, by vote of its legislative body provide for a
8 gradual increase in assessed values of real property for purposes of
9 property tax, commencing with the year in which such revaluation
10 becomes effective and continuing for a certain number of years as
11 elected by such municipality, not exceeding three years immediately
12 following the year of such revaluation. Such gradual increase in

13 assessed values shall be the result of incremental increases in the rate
14 of assessment of real property, to be added as provided in subsection
15 (b) of this section to the assessment ratio determined under section 10-
16 261a for the year immediately preceding revaluation in such
17 municipality.

18 (b) Upon electing to increase assessed values in the manner allowed
19 in this section, there shall be determined, with respect to said
20 assessment ratio for the year immediately preceding such revaluation,
21 the difference between the assessment rate at seventy per cent of
22 present true and actual value, as required under subsection (b) of
23 section 12-62a, and said ratio of assessed value of real property to fair
24 market value in the year immediately preceding revaluation for such
25 municipality. Such difference shall represent the portion of the
26 assessment rate at seventy per cent to be added to said ratio for such
27 municipality in attaining the required assessment rate of seventy per
28 cent of present true and actual value. Such amount shall be added to
29 said ratio in equal increments, as determined in accordance with this
30 subsection, over the number of years elected by such municipality,
31 provided the total number of years for such purpose may not exceed
32 four years including the year of such revaluation. For the purposes of
33 this subsection, increments shall be considered equal if such
34 increments are equal (1) in terms of the absolute amount of the
35 increase in the assessment ratio for each of the years of such gradual
36 increase in assessed value or (2) in terms of the percentage of increase
37 in the assessment ratio from year to year which is applicable to such
38 gradual increase in assessed value, for each year of the term of such
39 gradual increase in assessed value.

40 (c) In a municipality which has adopted the assessment procedure
41 allowed in this section, new construction which is first assessed for
42 purposes of property tax, after the assessment date on which such
43 revaluation becomes effective but before the assessment rate has been
44 increased to seventy per cent of present true and actual value, shall be
45 assessed initially at the rate applicable in the procedure as adopted by
46 such municipality at the time of such initial assessment, and thereafter

47 at the rate of assessment applicable with respect to all real property on
48 the assessment list in such municipality.]

49 (a) (1) A municipality implementing a revaluation of all real
50 property may phase-in a real property assessment increase resulting
51 from such revaluation, by requiring the assessor to gradually increase
52 the assessment or the rate of assessment applicable to all such property
53 or to any of the classes of real property listed in subdivision (3) of
54 subsection (b) of this section which has increased in value by fifty per
55 cent or more in the assessment year preceding that in which the
56 revaluation is implemented, in accordance with one of the methods set
57 forth in said subsection (b). The legislative body of the municipality
58 shall approve the decision to provide for such phase-in, the method by
59 which it is accomplished and its term, provided the number of
60 assessment years over which such gradual increases are reflected shall
61 not exceed five assessment years, including the assessment year for
62 which the revaluation is effective. If the legislative body is a town
63 meeting, the board of selectmen shall approve such decision, method
64 and term. Whenever used in this section, "municipality" means any
65 town, borough, consolidated town and city, consolidated town and
66 borough or any city not consolidated with a town.

67 (2) The legislative body or board of selectmen, as the case may be,
68 may approve the discontinuance of a phase-in of real property
69 assessment increases resulting from the implementation of a
70 revaluation, at any time prior to the completion of the phase-in term
71 originally approved, provided such approval shall be made on or
72 before the assessment date that is the commencement of the
73 assessment year in which such discontinuance is effective. In the
74 assessment year following the completion or discontinuance of phase-
75 in, assessments shall reflect the valuation of real property established
76 for such revaluation, subject to additions for new construction and
77 reductions for demolitions occurring subsequent to the date of
78 revaluation and on or prior to the date of its completion or
79 discontinuance, and the rate of assessment applicable in such year as
80 required by section 12-62a.

81 (b) A municipality shall use one of the following methods to
82 determine the phase-in of real property assessment increases resulting
83 from the implementation of a revaluation:

84 (1) The assessment of each parcel of real property for the assessment
85 year preceding that in which such revaluation is effective shall be
86 subtracted from the assessment of each such parcel in the effective year
87 of said revaluation, and the annual amount of incremental assessment
88 increase for each such parcel shall be the total of such subtraction
89 divided by the number of years of the phase-in term;

90 (2) The ratio of the total assessed value of all taxable real property
91 for the assessment year preceding that in which a revaluation is
92 effective and the total fair market value of such property as
93 determined from records of actual sales in said year, shall be
94 subtracted from the rate of assessment set forth in section 12-62a, and
95 the annual incremental rate of assessment increase applicable to all
96 parcels of real property shall be the result of such subtraction divided
97 by the number of years of the phase-in term;

98 (3) The ratio of the total assessed value of all taxable real property in
99 each of the following property classes for the assessment year
100 preceding that in which a revaluation is effective and the total fair
101 market value of such property in each class as determined from
102 records of actual sales in said year, shall be subtracted from the rate of
103 assessment set forth in section 12-62a, and the annual incremental rate
104 of assessment increase applicable to all parcels of real property in each
105 such class shall be the result of such subtraction divided by the
106 number of years of the phase-in term: (A) Residential property; (B)
107 commercial property, including apartments containing five or more
108 dwelling units, industrial property and public utility property; and (C)
109 vacant land. In the event the assessor determines that there are no
110 records of actual sales of real property in any such property class in
111 said year or that the number of such actual sales is insufficient for
112 purposes of determining a rate of increase under this subdivision, the
113 annual incremental rate of assessment increase determined under

114 subdivision (2) of this subsection shall be used for said property class.

115 (c) The assessment of any new construction that first becomes
116 subject to taxation during an assessment year encompassed within the
117 term of a phase-in shall be determined in the same manner as the
118 assessment of all other comparable real property in said assessment
119 year, such that the total of incremental increases applicable to such
120 other comparable real property are reflected in the assessment of such
121 new construction prior to the proration of such assessment pursuant to
122 section 12-53a.

123 (d) Not later than thirty business days following the date a
124 municipality's legislative body or board of selectmen, as the case may
125 be, votes to phase-in real property assessment increases resulting from
126 such revaluation, or votes to discontinue such a phase-in, the chief
127 executive officer of the municipality shall notify the Secretary of the
128 Office of Policy and Management, in writing, of the action taken. Any
129 chief executive officer failing to submit a notification to said secretary,
130 as required by this subsection, shall forfeit one hundred dollars to the
131 state for each such failure.

132 Sec. 2. Subsection (a) of subdivision (63) of section 12-81 of the 2006
133 supplement to the general statutes is repealed and the following is
134 substituted in lieu thereof (*Effective October 1, 2006*):

135 (63) (a) Subject to authorization of the exemption by ordinance in
136 any municipality and to the provisions of subparagraph (b) of this
137 subdivision, any solar energy electricity generating system which is
138 not eligible for exemption under subdivision (57) of this section, any
139 cogeneration system, or both, installed on or after July 1, 1981, [and
140 before October 1, 2006.] The ordinance shall establish the number of
141 years that a system will be exempt from taxation, except that it may
142 not provide for an exemption beyond the first fifteen assessment years
143 following the installation of a system. The ordinance shall prohibit the
144 exemption from applying to additions to resources recovery facilities
145 operating on October 1, 1994, or to resources recovery facilities
146 constructed on and after that date and may prohibit the exemption

147 from applying to property acquired by eminent domain for the
148 purpose of qualifying for the exemption.

149 Sec. 3. (NEW) (*Effective July 1, 2006*) (a) For purposes of this section,
150 "regional council of governments" means any such council organized
151 under the provisions of sections 4-124i to 4-124p, inclusive, of the
152 general statutes.

153 (b) There is established a regional performance incentive program
154 that shall be administered by the Secretary of the Office of Policy and
155 Management. On or before December 1, 2006, any regional council of
156 governments may submit to said secretary a proposal for provision of
157 a service that is currently provided by one or more municipalities
158 within such council's region. If such proposal is approved as provided
159 in this section, funding shall be provided for the regionalized service
160 beginning in fiscal year 2008.

161 (c) The proposal shall (1) describe a service currently provided by a
162 municipality or municipalities within such council's region, (2) provide
163 a description of how such service would be delivered on a regional
164 basis, including consideration of what entity would be responsible for
165 such service, and how the same population would continue to be
166 served, (3) describe the amount and the manner in which each
167 municipality will reduce its mill rate as a result of the savings realized
168 through the switch from a municipal service to a regional service, (4)
169 include a cost benefit analysis both of the municipal provision of such
170 service and of regional provision of such service, (5) set out a plan of
171 implementation for such regional service, (6) estimate the savings that
172 will be realized by each municipality, and (7) any other items
173 requested by said secretary. Each proposal shall have attached to it a
174 resolution by the legislative body of each municipality affected by the
175 proposal endorsing such proposal. Such proposal shall be submitted
176 on a form prescribed by said secretary.

177 (d) (1) Not later than February 1, 2007, said secretary shall submit to
178 the joint standing committee of the General Assembly having
179 cognizance of matters relating to finance, revenue and bonding a

180 prioritized list of the submissions received pursuant to this section.
 181 The list shall be prioritized based upon the money saved by each
 182 municipality in the region, the quality of the service to be offered on a
 183 regional basis, the number of municipalities included within a
 184 proposal, any increase in the number of persons served, the ability to
 185 implement the proposal in a timely manner, the need for the proposed
 186 regional service, and the quality and thoroughness of the proposal.

187 (2) Along with the list submitted pursuant to subdivision (1) of this
 188 subsection, said secretary shall submit information on the amount of
 189 funding needed for each proposal, and the potential of the proposals
 190 for leveraging other public and private investments.

191 (e) There is established an account to be known as the "regional
 192 performance incentive program account" which shall be a separate
 193 nonlapsing account within the General Fund. The account may contain
 194 any moneys required by law to be deposited in the account. The
 195 moneys in said account shall be used for the funding of regional
 196 performance incentive programs established pursuant to this section.

197 Sec. 4. (*Effective July 1, 2006*) The sum of \$5,000,000 shall be
 198 transferred from the resources of the General Fund to the regional
 199 performance incentive program account established pursuant to
 200 section 3 of this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>October 1, 2006, and applicable to assessment years commencing on or after October 1, 2006</i>	12-62c
Sec. 2	<i>October 1, 2006</i>	12-81(63)(a)
Sec. 3	<i>July 1, 2006</i>	New section
Sec. 4	<i>July 1, 2006</i>	New section

FIN *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 07 \$	FY 08 \$
Policy & Mgmt., Off.	GF - See Below	See Below	See Below
Comptroller Misc. Accounts (Fringe Benefits)	GF - Cost	30,680	75,790
None	GF - Revenue Loss		(5,000,000)

Note: GF=General Fund

Municipal Impact:

Municipalities	Effect	FY 07 \$	FY 08 \$
Various Municipalities	Savings	None	Potential Significant

Explanation

Section 1 of the bill allows municipalities to perform a gradual phase-in of real property revaluation assessment increases over a time period not exceeding five years if they choose on property which has increased more than 50% in value since the last revaluation. The bill also allows a subsequent revaluation of real property during the phase-in of the initial incremental revaluation assessment or discontinues such adjustments, if the municipality chooses to do so. Therefore, municipalities opting to perform a gradual phase-in of incremental assessment values would see their grand list increase accordingly over the same time period of the phase-in. Also, the bill will result in properties not eligible for the phase-in to carry a greater portion of the tax burden.

Section 2 of the bill extends a 15-year, municipal-option property tax exemption for certain solar energy electricity generating systems and cogeneration systems installed after July 1, 1981. Under current law, the exemption expires on October 1, 2006. A municipality electing

to extend the exemption for certain solar energy equipment beyond 10/1/06 will forgo an increase in their grand list.

Sections 3 and 4 of the bill establishes a regional performance incentive program, administered by the Office of Policy and Management (OPM). It is anticipated that only interested municipalities would prepare a proposal for the program if it were within their normal budgetary resources. OPM will require two staff with a combined annual salary of \$130,000 ¹ beginning in FY 07 to review the proposals and determine the savings to be achieved by each municipality; determine the quality and need of the regional service and evaluate the ability to implement the proposal in a timely manner. Beginning in FY 08, the state must provide funds for proposals that have been approved. The bill directs \$5 million from the General Fund to a separate non-lapsing account established by the bill for this purpose, thereby earmarking what is currently unrestricted General Fund revenue. It is unknown whether these funds will be sufficient to fund any proposals that have been approved. Any municipality where a proposal has been approved and funded by the state, will experience a cost savings.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation for OPM. Costs to the state, and any savings to municipalities is contingent on the approval of these programs in the out years.

¹ The fringe benefit costs for state employees are budgeted centrally in the Miscellaneous Accounts administered by the Comptroller. The estimated first year fringe benefit rate as a percentage of payroll is 23.6%, effective July 1, 2005. The first year fringe benefit costs for new positions do not include pension costs. The state's pension contribution is based upon the prior year's certification by the actuary for the State Employees Retirement System (SERS). The SERS 2005-06 fringe benefit rate is 34.7%, which when combined with the non pension fringe benefit rate would total 58.3%.

OLR Bill Analysis**sSB 701*****AN ACT CONCERNING PROPERTY TAX ASSESSMENTS FOR RESIDENTIAL PROPERTY AND FOR SOLAR PHOTO VOLTAIC SYSTEMS, AND INSTITUTING AN INCENTIVE PROGRAM FOR THE PROVISION OF REGIONAL SERVICES.*****SUMMARY:**

This bill:

1. allows municipalities to phase in the effects of property revaluations over up to five years instead of up to four, and allows them to phase in property revaluations for a single class of property if the assessed value for the class increased by 50% or more in the year before the revaluation is implemented;
2. makes a municipal-option property tax exemption for certain solar electricity generating and cogeneration systems apply to all such systems installed on or after July 1, 1981, instead of only to systems installed between that date and October 1, 2006; and
3. establishes an incentive program to encourage regional councils of governments to provide services regionally that are currently provided individually by their member municipalities.

EFFECTIVE DATE: Various, see below

§ 1 – PROPERTY TAX REVALUATION PHASE-IN***Phase-In Length and Applicability***

The bill allows municipalities to phase in the effects of town-wide property revaluations over up to five years instead of only up to four. It also allows a municipality to adopt a phase-in that applies only to properties in any or all of three classes of property, if the assessed

value for the property class increased by 50% or more in the year before the revaluation is implemented. The property classes that could be phased-in individually under the bill are (1) one-to-four-unit residential property; (2) five-or-more unit apartment buildings, other commercial property, industrial property, and utility property; and (3) vacant land.

Implementation Options

Under current law, a phase-in must be based on the property's assessment ratio, which is the relationship between its assessed value and its fair market value. It must bring the assessment ratio up to the statutorily required ratio (70%) in equal increments over the phase-in term. The annual increments can be equal in terms of the absolute increase in the assessment ratio or in percentage increase in this ratio. Under the first method, the assessment ratio for affected properties could be 50% in the first year of the phase-in, 60% in the second, and 70% in the third. Under the second, the assessment ratio could increase by 10% (as opposed to 10 percentage points) each year.

The bill allows municipalities a choice of three, instead of two, phase-in methods. One phases in the increase in dollar amounts of assessed value pre- and post-revaluation and the other two phase in percentage differences in assessment ratios.

The first method subtracts the assessed value, in dollars, of each property in the pre-revaluation year from its assessed value in the revaluation year and spreads the difference in equal amounts over the length of the phase-in. For example, a property assessed at \$200,000 before revaluation and \$250,000 afterwards, has an increased assessment of \$50,000. If the municipality used a five-year phase-in, this property's assessed value would increase by \$10,000 in each year.

The second method divides the total assessed value of all taxable property in a town in the year before the revaluation by the total fair market value of the property (based on actual sales records) in the revaluation year, subtracts that amount from the required 70% ratio,

and phases in the difference. For example, if the total assessed value of all property in a municipality was \$650 million in the pre-revaluation year and the fair market value for the revaluation year was \$1 billion, the 5% difference between the pre-revaluation ratio of 65% and the 70% statutory assessment ratio would be phased in. If a municipality opted for a five-year phase-in, the assessment ratio would increase by one percentage point per year.

The third method is the same as the second but is done on a class-by-class basis. The bill allows the class phase-in to be used for any or all of three property classes: (1) one- to four-unit residential property; (2) five or more unit residential, other commercial, industrial, and utility property; and (3) vacant land. It can only be used when the assessed value of property in a class increases by at least 50% in the year before the revaluation is implemented.

If the assessor determines that there were no records of sales in any of these classes or that the number of sales was not sufficient to determine the rate of increase, he must use the number calculated under the first implementation method to determine the increase for that class.

Discontinuing a Phase-In

The bill allows a town legislative body or board of selectmen to discontinue a phase-in before it finishes its originally approved term. They must do so on or before the beginning of the assessment year in which the discontinuance takes effect. In the year following the discontinuance, or the end of a phase-in, assessments must reflect 70% of the fair market value of property as determined by the revaluation.

Assessment of Property Built During Phase-In

The bill modifies how property that is built during a phase-in is assessed.

Under current law, new construction first assessed during a phase-in period must be initially assessed at the rate applicable to the phase-in method the municipality has chosen (percentage point or percentage

increase) at the time of the initial assessment. Afterwards, such property is subject to the assessment rate applicable to all real property on the municipality's assessment list.

Under the bill, the assessment of new construction must be determined in the same way as comparable property is assessed, so that the total of incremental increases that apply to the comparable properties are reflected in the assessment of the new construction, prior to the prorating required by law. By law, a property that gets its certificate of occupancy, or that is first used for its intended purposes six months into an assessment year is subject to half of the tax that would apply to a comparable property on the assessment list on the first day of the assessment year.

Other Implementation Requirements

The bill requires a municipality's legislative body not only to choose whether to authorize a phase-in and establish its length as is currently required, but also to select an implementation option. It assigns these responsibilities to the board of selectmen in town-meeting towns.

The bill requires the municipality's chief elected official to notify the Office of Policy and Management (OPM) secretary within 30 days of the legislative body's decision to implement or discontinue a phase-in or face a \$100 fine.

EFFECTIVE DATE: October 1, 2006, and applicable to assessment years beginning on or after that date.

§ 2 – PROPERTY TAX EXEMPTION FOR SOLAR ELECTRICITY GENERATING AND COGENERATION SYSTEMS

Current law allows municipalities, by ordinance, to exempt certain solar energy electricity generating systems and cogeneration systems installed after July 1, 1981 and before October 1, 2006 from property taxes for the first 15 years after installation. The bill removes the October 1, 2006 expiration date, thus allowing systems installed after that to be eligible for an exemption.

By law, the local ordinance must exclude from the exemption (1) any system that is eligible for a property tax exemption for class I renewable energy sources and hydropower facilities, (2) additions to resources recovery facilities operating on October 1, 1994, and (3) resources recovery facilities built on or after that date. A local ordinance may also exclude any property acquired by eminent domain in order to qualify for the exemption.

EFFECTIVE DATE: October 1, 2006

§§ 3 & 4 – REGIONAL PERFORMANCE INCENTIVE PROGRAM

Program Established

The bill establishes an incentive program administered by the OPM secretary. The program allows regional councils of governments, by December 1, 2006, to submit to the secretary proposals to provide any service on a regional basis that is currently provided by one or more towns in its region. If the proposal is approved, the state must provide funding for the regionalized service starting in FY 08.

Requirements for Proposals

Each proposal must:

1. describe the service and how it would be delivered on a regional basis, including the entity responsible for it and how the same population would continue to receive the service;
2. describe how and by how much each participating municipality will reduce its mill rate as a result of the savings from the regionalized service;
3. provide a cost-benefit analysis of municipal and regional provision of the service;
4. include a plan to implement the regional service;
5. estimate the savings to be realized by each participating town;
6. include any other information the secretary requests.

Proposals must include a resolution from the legislative body of each affected municipality endorsing the proposal and must be on a form the OPM secretary provides.

Prioritized List Submitted to Finance Committee

By February 1, 2007, the OPM secretary must submit a list of the proposals to the Finance, Revenue and Bonding Committee. He must prioritize the proposals according to (1) savings by each municipality in the region, (2) the quality of the regional service, (3) the number of municipalities included, (4) any increase in the number of people served, (5) ability to implement the proposal in a timely way, (6) need for the proposed regional service, and (7) the proposal's quality and thoroughness. When he submits the priority list, the secretary must also submit information on the funding needed for each proposal and the proposals' potential for leveraging other public and private investments.

Special Account and Appropriation

The bill establishes a nonlapsing General Fund account to fund the incentive program and transfers \$5 million to it from the General Fund.

EFFECTIVE DATE: July 1, 2006

BACKGROUND

Related Bills

sSB 211 (File 74), favorably reported by the Energy and Technology; Commerce; and Finance, Revenue and Bonding committees, has a similar change in the municipal option property tax exemption for solar electricity generating and cogeneration systems.

sSB 531, favorably reported by the Planning and Development and Finance, Revenue and Bonding committees, limits tax shifts attributable to property tax revaluations. The bill applies only to Hartford.

Section 1 of sSB 535 (File 302), favorably reported by the Planning

and Development Committee, is virtually identical to the property tax revaluation phase-in provisions of § 1 of this bill.

sSB 668, favorably reported by the Finance, Revenue and Bonding Committee, consolidates statutes specifying how towns may phase in a revaluation and allows towns to phase in the difference in the assessment rates for different classes of property before and after revaluation.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 46 Nay 3 (04/03/2006)