



House of Representatives

General Assembly

File No. 940

January Session, 2009

Substitute House Bill No. 6585

House of Representatives, May 11, 2009

The Committee on Finance, Revenue and Bonding reported through REP. STAPLES of the 96th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING REGIONALISM.

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

1 Section 1. (NEW) (*Effective October 1, 2009*) (a) As used in this
2 section, "legislative body" means the council, commission, board, body
3 or town meeting, by whatever name it may be known, having or
4 exercising the general legislative powers and functions of a
5 municipality and "municipality" means any town, city or borough,
6 consolidated town and city or consolidated town and borough.

7 (b) Notwithstanding any provision of the general statutes or any
8 special act, municipal charter or home rule ordinance, the chief elected
9 officials of two or more municipalities that are members of the same
10 federal economic development district, established under 42 USC 3171,
11 may initiate a process for such municipalities to enter into an
12 agreement to promote regional economic development and share the
13 real and personal property tax revenue from new economic
14 development. Such agreement shall provide that the municipalities

15 agree not to compete for new economic development and shall specify
16 the types of new economic development projects subject to the
17 agreement. The agreement shall also have terms providing for (1)
18 identification of areas for (A) new economic development, (B) open
19 space and natural resource preservation, and (C) transit oriented
20 development, including housing; (2) capital improvements, including
21 the shared use of buildings and other capital assets; (3) regional energy
22 consumption, including strategies for cooperative energy use and
23 development of distributive generation and sustainable energy
24 projects; and (4) promotion and sharing of arts and cultural assets. The
25 agreement shall also include terms providing for at least three
26 municipal cooperative programs and at least three educational
27 cooperative programs, including, but not limited to, the following: (A)
28 Collective bargaining, (B) purchasing cooperatives, (C) health care
29 pooling with each other or the state, (D) regional shared school
30 curriculum and special education services, through regional
31 educational service centers, established under section 10-66a of the
32 general statutes, and (E) any other initiatives mutually agreed upon.
33 Each municipality that is party to the agreement shall participate in at
34 least one municipal cooperative program and one educational
35 cooperative program. The provisions of this section shall not be
36 construed to require each municipality that is party to the agreement
37 to participate in all municipal cooperative programs and educational
38 cooperative programs described in the agreement.

39 (c) The agreement shall be prepared pursuant to negotiations and
40 shall contain all provisions on which there is mutual agreement
41 between the municipalities. The agreement shall establish procedures
42 for amendment, termination and withdrawal. The negotiations shall
43 include an opportunity for public participation. The agreement shall be
44 approved by each municipality that is a party to the agreement by
45 resolution of the legislative body.

46 (d) The municipality in which real property with new economic
47 development is located that is subject to shared revenue pursuant to an
48 agreement under this section shall maintain a separate list describing

49 such properties. The mill rate used to determine the amount of taxes
50 imposed on such new economic development shall be the mill rate of
51 the municipality in which the development is located.

52 Sec. 2. (NEW) (*Effective October 1, 2009*) The board of directors of
53 each federal economic development district, established under 42 USC
54 3171, shall send a copy of the regional economic development plan for
55 such district to the Secretary of the Office of Policy and Management.
56 The secretary shall approve such plan not more than thirty days after
57 receipt of such plan.

58 Sec. 3. (NEW) (*Effective October 1, 2009*) The municipalities that are
59 parties to a regional economic development agreement entered into
60 and approved under the provisions of section 1 of this act shall send a
61 copy of such agreement to the Secretary of the Office of Policy and
62 Management. Not more than thirty days after receipt of such
63 agreement the secretary shall make a written determination as to
64 whether or not the agreement is consistent with the requirements of
65 said section 1. The secretary shall send a copy of the determination to
66 each municipality that is a party to the agreement and the
67 Commissioner of Revenue Services.

68 Sec. 4. (NEW) (*Effective July 1, 2010*) Notwithstanding the provisions
69 of the general statutes, the Commissioner of Revenue Services and
70 each municipality participating in an agreement entered into and
71 approved under the provisions of section 1 of this act that has been
72 determined by the Secretary of the Office of Policy and Management to
73 be consistent with said section 1 shall enter into a memorandum of
74 understanding to segregate a portion of the sales and use tax under
75 chapter 219 of the general statutes that is derived from items or
76 transactions occurring on or after July 1, 2010, in the municipalities
77 that are parties to the agreement. Such segregated funds shall be
78 allocated to the municipalities that are parties to the agreement on a
79 per capita basis, as established by the last annual population estimate
80 by the Department of Public Health for each such municipality, and
81 expended for such purposes as are jointly determined by the

82 municipalities.

83 Sec. 5. Section 4-124d of the general statutes is repealed and the
84 following is substituted in lieu thereof (*Effective October 1, 2009*):

85 The council shall consider such matters of a public nature common
86 to two or more members of the council as it deems appropriate,
87 including matters affecting transportation and the health, safety,
88 welfare, education and economic conditions of the area comprised by
89 its members. The council shall identify opportunities and obstacles to
90 interlocal agreements that promote regional cooperation. The council
91 shall promote cooperative arrangements, including regional economic
92 development agreements between towns entered into pursuant to
93 section 1 of this act, and coordinate action among its members and
94 make recommendations therefor to the members and such other public
95 agencies as exist or perform functions within the region or regions.

96 Sec. 6. (NEW) (*Effective July 1, 2010*) (a) As used in this section,
97 "hotel" and "lodging house" have the same meanings as provided in
98 section 12-407 of the general statutes.

99 (b) The municipalities that are parties to an agreement entered into
100 and approved under the provisions of section 1 of this act may, by
101 ordinance adopted by the legislative body of each municipality, or, in
102 the case of a municipality in which the legislative body is a town
103 meeting, by the board of selectmen, establish a tax upon the transfer of
104 occupancy of any room or rooms in a hotel or lodging house of not
105 more than one per cent of the total amount of rent for each such
106 occupancy occurring on or after July 1, 2010. Any tax imposed
107 pursuant to this section shall be in addition to any state tax imposed on
108 the same activity. Amounts collected from such tax shall be allocated
109 to the municipalities that are parties to the agreement entered into and
110 approved under the provisions of section 1 of this act on a per capita
111 basis, as established by the last annual population estimate by the
112 Department of Public Health for each municipality, and expended for
113 such purposes as are jointly determined by the municipalities.

114 (c) Any tax imposed under the provisions of this section shall be
115 collected and administered by the Department of Revenue Services, in
116 accordance with the provisions of a memorandum of understanding
117 entered into by the department and each municipality in which such
118 tax is imposed.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>October 1, 2009</i>	New section
Sec. 2	<i>October 1, 2009</i>	New section
Sec. 3	<i>October 1, 2009</i>	New section
Sec. 4	<i>July 1, 2010</i>	New section
Sec. 5	<i>October 1, 2009</i>	4-124d
Sec. 6	<i>July 1, 2010</i>	New section

FIN *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 10 \$	FY 11 \$
Department of Revenue Services	GF - Revenue Loss	See Below	See Below
Department of Revenue Services	GF - Cost	Significant	Significant

Note: GF=General Fund

Municipal Impact:

Municipalities	Effect	FY 10 \$	FY 11 \$
Various Municipalities	Revenue Gain	See Below	See Below
Various Municipalities	Cost/Savings	See Below	See Below

Explanation

The bill allows two or more municipalities that belong to the same federal economic development district to enter into mutual agreements to (1) promote regional economic development and (2) share the real and personal property tax revenue from new economic development.

This could result in a revenue impact to certain municipalities who are eligible to enter into such an agreement and choose to share property tax revenue with their partner municipality. The revenue impact is dependent on the stipulations of the agreement and the location and extent of new economic development in the participating municipalities.

In addition, the bill requires the Department of Revenue Services (DRS) to enter into a memorandum of understanding (MOU) with each municipality participating in an approved agreement to segregate a portion of the sales and use tax derived in the participating municipalities. This may result in a significant annual revenue loss to

the General Fund from the sales and use tax. The revenue loss to the General Fund will coincide with an equal revenue gain to municipalities participating in these agreements. The revenue loss to the General Fund is unknown because the bill does not specify an amount or a method of determining the amount.

Section 4 of the bill creates a fundamental change in the way sales and use tax is collected by both the DRS and retailers. DRS would have to make significant changes in their Integrated Tax Administration System (ITAS), their collection methods, and their audit procedures. The total cost to DRS is indeterminate but it is likely to be significant.

The bill also requires each municipality choosing to enter into an agreement to meet various requirements including participation in at least two cooperative programs with their partner municipality. These provisions may result in an impact on the costs incurred by the municipalities.

It is anticipated that the Office of Policy and Management can approve regional economic development plans and determine whether towns that enter mutual agreements are consistent with provisions of the bill within the agency's normal budgetary resources.

Section 6 of the bill allows municipalities that are parties to an approved agreement to adopt an ordinance to impose a 1% tax on the gross receipts from sales by any hotel or lodging house located within the municipality's boundaries. The total potential revenue gain to all municipalities is \$6 million to \$6.5 million per year beginning in FY 10.

Section 6 of the bill will require DRS to make significant changes to their ITAS and their collection methods that would cost approximately \$430,000 in FY 10.

The bill will result in a revenue gain to municipalities from federal Economic Development Administration (EDA) Funds to the extent; 1) the bill provides an incentive to municipalities to enter into Economic Development Districts (EDD), 2) the state approves the formation of

EDD, 3) the bill requires the state to approve EDD plans, and 4) the federal government provides funding for the EDD plans.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis

sHB 6585

AN ACT CONCERNING REGIONALISM.

SUMMARY:

This bill requires the board of directors of each federal economic development district to send a copy of the district's regional economic development plan to the Office of Policy and Management (OPM) secretary. The secretary must approve the plan within 30 days after receiving it.

The bill allows the chief elected officials of two or more municipalities that belong to the same federal economic development district to enter into mutual agreements to (1) promote regional economic development and (2) share the real and personal property tax revenue from new economic development. The agreement must (1) provide that the municipalities not compete for new economic development and (2) specify the types of projects subject to the agreement. The municipalities must send a copy of the agreement to the OPM secretary who must determine, within 30 days, whether it is consistent with the bill's requirements. The secretary must send his determination to the revenue services (DRS) commissioner.

The bill requires the DRS commissioner to enter into a memorandum of understanding (MOU) with each municipality participating in an approved agreement to segregate part of the sales and use tax derived from income, items, or transactions that occur in the participating municipalities after June 30, 2010. This money must be allocated to the member municipalities on a per capita basis, based on the Department of Public Health's (DPH) latest annual population estimate. The municipalities must use the money for the purposes they jointly determine.

The bill allows municipalities that are party to the agreement to impose a local hotel tax of up to 1%.

The bill requires regional councils of elected officials to identify opportunities and obstacles to interlocal agreements that promote regional cooperation and promote agreements between towns entered into under the bill.

EFFECTIVE DATE: July 1, 2010 for the sales tax segregation and local hotel tax; October 1, 2009 for the remaining provisions.

AGREEMENT AMONG MUNICIPALITIES

Under the bill, the agreement must provide for:

1. identification of areas for (a) new economic development, (b) open space and natural resource preservation, and (c) transit oriented development, including housing;
2. capital improvements, including the shared use of buildings and other capital assets;
3. regional energy consumption, including strategies for cooperative energy use and development of distributive (on-site) generation and sustainable energy projects; and
4. promotion and sharing of arts and cultural assets.

The agreement must also include terms providing for at least three municipal cooperative programs and at least three educational cooperative programs. These can cover such areas as:

1. collective bargaining;
2. purchasing cooperatives;
3. health care pooling with each other or the state;
4. regional shared school curriculum and special education services, through regional education service centers; and

5. any other mutually agreed upon initiatives. Each party to the agreement must participate in at least one municipal cooperative and one educational cooperative program. The bill explicitly states that the parties do not have to participate in all of these cooperative programs.

The agreement must be negotiated and contain all provisions on which the municipalities agree. The mill rate used to determine the amount of taxes imposed on the new economic development must be the mill rate of the municipality where the development is located. This municipality must maintain a separate list describing these properties.

The agreement must establish procedures for its amendment and termination and withdrawal of members. It must provide an opportunity for public participation. The legislative body of each participating municipality must adopt a resolution to approve the agreement. The legislative body is the council, commission, board, body or town meeting, or other body that has or exercises general legislative powers and functions in a municipality. A municipality is a town, city, or borough; consolidated town; and city or consolidated town and borough.

The participating municipalities must send a copy of such agreement to the OPM secretary. Within 30 days after receiving the plan, the secretary must make a written determination as to whether it is consistent with the bill's requirements. The secretary must send a copy of his determination to each participating municipality and the commissioner of revenue services.

OPTIONAL HOTEL TAX

The bill allows municipalities that are parties to an approved agreement to establish a hotel room occupancy tax up to 1% of the total amount of rent for each occupancy occurring on or after July 1, 2010. The ordinance must be adopted by the legislative body of each participating municipality. For town meeting towns, the ordinance

must be adopted by the board of selectmen. This local hotel tax is in addition to the state hotel tax. The money collected from the local tax must be allocated to the municipalities on a per capita basis, as established by the last DPH annual population estimate for each municipality. The money must be spent for such purposes as the municipalities jointly determine.

DRS must collect and administer the local tax according to a MOU between it and each municipality in which the tax is imposed.

BACKGROUND

Federal Regional Economic Development Districts

Federal law allows entities to designate districts, establish organizations to plan and implement strategies to develop them, and qualify for economic development dollars. It specifies the criteria the U.S. Department of Commerce (DOC) must use to approve a proposed district. DOC may approve a district if it:

1. contains at least one economically distressed area,
2. encompasses a sufficiently large area and have enough people and resources to foster economic development of more than one economically distressed area, and
3. has a DOC-approved comprehensive economic development strategy approved by a majority of the counties in the proposed district and the state or states within which the district is located.

An area is economically distressed if:

1. its per capita income is 80% or less of the national average,
2. its unemployment rate for the most recent 24-month period exceeded the nation's by at least 1%, or
3. the DOC secretary finds that it faces or will face special needs arising from severe unemployment or short- or long-term

economic changes (13 CFR § 302. 1).

Legislative History

On April 21, the House referred this bill (File 457) to the Finance, Revenue and Bonding Committee, which reported a substitute requiring the DRS commissioner to enter into an MOU with each municipality participating in an approved tax sharing agreement to segregate part of, rather than up to one-sixth of one percent of, the sales and use tax derived from income, items, or transactions that occur in the participating municipalities after June 30, 2010.

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable Substitute

Yea 17 Nay 1 (03/13/2009)

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 37 Nay 10 (04/27/2009)