
OLR Bill Analysis

sHB 6525

AN ACT CONCERNING THE CONTINUANCE OF THE MAJORITY LEADERS' JOB GROWTH ROUNDTABLE.

SUMMARY:

This bill establishes, reestablishes, or modifies a broad range of economic development initiatives. The new initiatives:

1. authorize the Department of Economic and Community Development (DECD) to finance the installation of solar heating systems in homes and apartments and facilities occupied by small businesses (§§ 9 & 10);
2. require the transportation commissioner to convert at least 25% of the state's heavy motor vehicle fleet to alternative fuels (§ 5); and
3. allow hybrid and electric motor vehicles, regardless of the number of occupants, to travel on limited access lanes reserved for high occupancy vehicles (§ 8).

The bill also establishes a temporary funding stream for regional tourism marketing (§§ 11, 12, & 19) and allows manufacturers to establish tax-deferred saving accounts for worker training and capital expenditures (§§ 13-15 and 19).

The bill temporarily reestablishes the sales tax exemptions for clean alternative fuels (§ 6) and hybrid vehicles (§ 7).

It modifies existing programs providing investment capital, student loan reimbursements, and tax credits for restoring historic property. Specifically, it:

1. lowers the minimum investment needed to qualify for angel investor tax credits from \$100,000 to \$25,000 and eliminates the

requirement that businesses seeking angel investments describe their proprietary technology or service (§ 4),

2. allows businesses to match state pre-seed financing with money they received from colleges and universities for commercializing university-owned technology (§ 2), and
3. allows insurers receiving insurance reinvestment tax credits to transfer them to their affiliates and adds a criterion insurance reinvestment funds must meet before DECD can certify them for the credits (§ 3).

The bill extends student loan reimbursements to residents receiving more types of science- and technology-related degrees and eliminates reimbursements for those receiving training certificates in specified fields (§ 1). Lastly, it extends historic preservation tax credits to more types of property, transfers the administration of the credits for rehabilitating nonresidential property from the Connecticut Commission on Culture and Tourism (CCCT) to DECD, and eliminates a provision specifying when taxpayers must repay the credits (§§ 16 & 17).

EFFECTIVE DATE: Various, see below

§ 1 — STUDENT LOAN REIMBURSEMENTS

PA 10-75 authorized reimbursements for student loans and training grants for Connecticut residents with educational backgrounds and jobs related to green technology, life science, or health information technology.

The bill expands eligibility to include residents receiving degrees in biomedical engineering and the manufacture of medical devices, by adding the study of such topics to the program's definition of life science. The law already includes in that definition the study of genes, cells, tissues, and the chemical and physical structures of living organisms.

But the bill eliminates reimbursement eligibility for those receiving

a training certificate in one of the fields specified above. Under the bill, the program remains open to students receiving a bachelor's or associate's degree.

By law, to be eligible for the program, a resident must graduate from a Connecticut institution of higher education on or after May 1, 2010 with a degree related to one of the fields mentioned above. Current law also conditions eligibility on the resident working for at least two years in the state after graduation in a job related to one of these fields. The bill requires that the student be employed by a business in one of these fields, rather than specifically in a job related to these fields.

The bill also changes the financial eligibility criteria. It provides that a resident qualifies for reimbursement if his or her federal adjusted gross income is no more than \$150,000 for the year before the initial reimbursement year. Under current law, to qualify for reimbursement, the individual's expected family contribution, as determined by the federal Free Application for Federal Student Aid, must be no more than \$35,000 for the most recent full academic year. (Income is one of the factors that affect family contribution.)

By law, the reimbursements apply to federal and state student loans. (No state loans are currently available.) A resident with a bachelor's degree qualifies for reimbursements of up to \$2,500 per year or 5% of the loan amounts, whichever is less, for up to four years. A resident with an associate's degree qualifies for the same amount, but only for up to two years. The law caps the total value of reimbursements a resident can receive under this and any other state program at \$10,000 for those holding a bachelor's degree and \$5,000 for those holding an associate's degree.

EFFECTIVE DATE: Upon passage

§ 2 — HIGHER EDUCATION FUNDS FOR CII PRE-SEED FINANCING PROGRAM

PA 10-75 required Connecticut Innovations, Inc. (CII) to create a program to provide eligible Connecticut businesses with up to

\$150,000 in financial assistance for developing new concepts and support services. Qualifying businesses must be located principally in the state, have at least 75% of their employees working here, and show that they received private investments equaling at least half the state funds they seek. The bill specifies that “private investments” include funds from a public institution of higher education that (1) are not state-appropriated funds or funds from student tuition and fees and (2) are used to help commercialize university-owned technology.

EFFECTIVE DATE: Upon passage

§ 3 — INSURANCE REINVESTMENT FUND PROGRAM

Fund Certification Criteria

The bill makes two changes to the insurance reinvestment fund program, which provides tax credits to insurers for investing in Connecticut-based businesses through state-certified investment funds. By law, the fund must apply to DECD for certification as an insurance reinvestment fund and a credit allocation. The fund may grant the credits to its insurance company investors only for the money it invests in companies meeting the law’s size, revenue, and operational criteria (i.e., credit eligible investments). The bill allows these investors to transfer their credits to their affiliates.

It also expands the investment criteria a fund must meet for certification. By law, the fund must show, among other things, that it commits to investing at least 3% of its credit-eligible funds in pre-seed investments within three years after the fund is fully capitalized by its insurance company investors. It must commit to making these investments in consultation with CII under its pre-seed investment program, which provides capital for developing a concept.

The bill also requires the fund to show that it commits to investing at least 3% of its credit eligible capital in seed-stage investments in consultation with CII under its Connecticut New Opportunities Fund, which provides capital to newly formed and emerging businesses.

EFFECTIVE DATE: Upon passage

§ 4 — ANGEL INVESTOR TAX CREDITS

PA 10-75 authorized nontransferable personal income tax credits for eligible people (see BACKGROUND) who invest at least \$100,000 in start-up, technology-based businesses in Connecticut meeting specified criteria. Each credit equals 25% of the cash investment, up to \$250,000. The bill lowers the minimum investment needed to qualify for the credits from \$100,000 to \$25,000.

By law, a business applying for placement on the list of companies that qualify for angel investments must provide CII with specified information. The bill eliminates the requirement that a company provide a description of its proprietary technology, product, or service.

EFFECTIVE DATE: July 1, 2011, and applicable to taxable years beginning on or after January 1, 2011.

§ 5 — HEAVY FLEET CONVERSION

The bill requires the transportation commissioner, by January 1, 2015, to convert at least 25% of the state's heavy motor vehicle fleet to liquefied natural gas and compressed gas fuel. It specifies that for this purpose, the heavy fleet includes any tri-axle and diesel powered vehicles.

EFFECTIVE DATE: July 1, 2011

§ 6 — CLEAN ALTERNATIVE FUEL SALES TAX EXEMPTION

The bill restores until June 30, 2013 the sales tax exemption for the sale, storage, use, or other consumption of (1) new motor vehicles exclusively powered by a clean alternative fuel; (2) conversion equipment incorporated into or used in converting motor vehicles to either use (a) a clean alternative fuel exclusively or (b) both a clean alternative fuel and any other fuel; and (3) equipment incorporated into or used in a compressed natural gas, hydrogen filling, or electric recharging station for vehicles powered by a clean alternative fuel. For purposes of the sales tax exemption, a clean alternative fuel is natural gas, hydrogen, electricity, or propane when used as fuel in a vehicle that meet federal and state emissions standards.

The sales tax exemption for these categories expired on June 30, 2008.

EFFECTIVE DATE: July 1, 2011, and applicable to sales occurring on or after that date.

§ 7 — HYBRID CAR SALES TAX EXEMPTION

The bill temporarily restores, from October 1, 2011 until September 30, 2013, the sales tax exemption for hybrid passenger cars, which expired on September 30, 2008. The exemption applies to cars having a U.S. Environmental Protection Agency (EPA) estimated highway gasoline mileage rating of at least 40 miles per gallon.

The bill is effective July 1, 2011, and applies to sales on or after that date. However, the bill also specifies that the exemption is restored starting October 1, 2011. Thus, it is unclear if sales between July 1, 2011 and September 30, 2011 qualify for the exemption.

For purposes of this exemption, current law defines a hybrid passenger car as a passenger car that draws acceleration energy from two onboard sources of stored energy, which are both (1) an internal combustion or heat engine using combustible fuel and (2) a rechargeable energy storage system. The bill adds fuel cells in addition to internal combustion or heat engines under (1) above.

By law, to qualify for the exemption, model year 2004 and later passenger cars and light trucks also must be certified to meet or exceed EPA's tier II bin 5 low emission vehicle classification. This classification is roughly equivalent to that of a "LEV II" vehicle (see BACKGROUND).

EFFECTIVE DATE: July 1, 2011, and applicable to sales occurring on or after that date (but see above).

§ 8 — HYBRID OR ELECTRIC VEHICLE HOV ACCESS

The bill allows hybrid or electric motor vehicles, regardless of the number of occupants, to be driven in state highway limited access lanes reserved for high occupancy vehicles.

EFFECTIVE DATE: July 1, 2011

§§ 9, 10 — SOLAR ENERGY FINANCING PROGRAM

The bill requires DECD to create a program that, in partnership with private banks and lending institutions, provides loans to small businesses and residential electric customers in the state for solar energy installations. DECD must develop the program by September 1, 2011, in consultation with the Department of Public Utility Control (DPUC), the Connecticut Development Authority, and the electric companies.

The program must include a mechanism allowing loan recipients to repay the loans through their monthly electric bills. The loans must be structured so the cost savings from the solar installations offset the monthly loan payback.

The bill requires DECD to set criteria for solar energy system installers to participate in the program. The criteria must consider an installer's experience, in-state location, and the number of jobs potentially created by the installer's participation. DECD must also set participation criteria for private banks and lending institutions.

The bill also requires DECD to include a summary of the program's activity in its annual report. The summary must include the (1) number of installations, (2) estimated number of jobs created, and (3) estimated energy savings.

EFFECTIVE DATE: Upon passage, except the reporting requirement takes effect July 1, 2011 and applies to the report due February 1, 2012.

§§ 11 & 12 — TOURISM MARKETING MATCHING GRANT PROGRAM

Funding Mechanism

The bill creates a temporary funding stream to capitalize grants to the state's three regional tourism districts for marketing. It does so by establishing the tourism supplemental revenue account and funds it with some of the increase in the annual sales tax revenue tourism businesses generate. It sets FY 11 as the base year for measuring the

increase in each of the subsequent fiscal years through FY 15. When the revenue in any of those years exceeds the FY 11 revenue by 3%, the revenue services commissioner must transfer to the account the amount of the increase or \$3 million, whichever is less.

Tourism Related Businesses

The bill identifies the businesses from which the revenue services commissioner must segregate sales tax revenue based on the Standard Industrial Classification (SIC) code (which has been replaced by the North American Industrial Classification System). The code groups businesses into categories and assigns a number to each one. The categories from which the commissioner must segregate sales tax revenue are:

1. eating places only (SIC 5811);
2. eating and drinking places (SIC 5812);
3. drinking places – alcoholic beverages (SIC 5813);
4. hotels, motels, and tourist courts (SIC 7010);
5. rooming and boarding houses (SIC 7020);
6. camps and trailer parks (SIC 7030);
7. trailering parks and campsites (SIC 7033);
8. organization hotels and lodging houses (SIC 7041);
9. producers, orchestras, and entertainers (SIC 7920);
10. commercial sports (SIC 7940);
11. miscellaneous amusement and recreation (SIC 7990);
12. boat and canoe rentals (SIC 7991);
13. public golf courses and swimming pools (SIC 7992);
14. amusement parks (SIC 7996);

15. tourist attractions (SIC 7998);
16. amusements not elsewhere classified (SIC 7999); and
17. botanical and zoological gardens (SIC 8420).

EFFECTIVE DATE: July 1, 2011

§§ 13-15 — MANUFACTURING REINVESTMENT ACCOUNT

Manufacturers

The bill allows manufacturers to establish corporation business tax-deferred savings accounts for worker training and capital investments. Manufacturers are businesses that change the form, composition, quality, or character of tangible personal property for retail sale or make a product for such sale.

Establishing the Account

Manufacturers that choose to defer the taxes on money saved for worker training and capital expenditures must establish a trust account in a Connecticut bank into which they can deposit up to \$250,000 or their “domestic gross receipts,” whichever is less, on a tax-deferred basis for up to five years.

The bank may act as the account’s trustee or custodian. Neither the bank nor the manufacturer can invest the money in the account in life insurance contracts or commingle it with other property. The bank must close the account five years after the manufacturer established it and return the balance to the manufacturer.

Withdrawals

Manufacturers may withdraw funds from the account and pay taxes on each withdrawal at a reduced rate of 3.5% if they use the money to train workers or purchase machinery, equipment, or manufacturing facilities. Machinery includes the basic machine and its component parts plus equipment and devices used or needed to control, regulate, or operate it. Equipment includes separate devices needed to manufacture, process, or fabricate things.

Closing the Account

The bank must close the account five years after the manufacturer established it and return the balance to the manufacturer. The manufacturer must pay taxes on the balance at 7.5% within 60 days.

EFFECTIVE DATE: July 1, 2011, with the provisions authorizing manufacturers to establish the accounts and deduct contributions to it from the corporation business tax applying to income years beginning on or after January 1, 2011.

§§ 16 & 17 — HISTORIC PRESERVATION TAX CREDITS

The law authorizes business tax credits for restoring certified historic property. Developers qualify for these credits based on the property's current or past use (e.g., commercial or industrial) and its intended reuse (e.g., residential or mixed use). The law authorizes these credits under separate statutes based on the use and the intended reuse.

§ 16 — *Historic Preservation Credits under CGS § 10-416a*

The bill expands the range of historic nonresidential property and eligible reuses that qualify for the credits. It extends the credits to projects converting vacant certified historic government property that was used for governmental purposes. Current law authorizes credits for converting historic commercial or industrial property to residential uses only. The bill also extends the range of eligible reuses for both types of property to mixed uses, which, by law, must be consistent with the property's or the district's historic character.

The bill prohibits taxpayers claiming credits under this statute from also claiming the other historic preservation credits for the same property. It also transfers the administration of the credits from the CCCT to DECD and makes many technical conforming changes.

§ 17—*Historic Preservation Credits under CGS § 10-416b*

Current law also authorizes credits for converting historic commercial and industrial property to mixed residential and nonresidential uses. The bill extends these credits to:

1. municipalities (who may, by law, assign them to taxpayers);
2. more types of certified historic property – institutional property, residences containing at least four units, and mixed residential and nonresidential property; and
3. projects converting property to nonresidential uses only.

The bill also allows developers to decide the proportion of residential and nonresidential space in mixed use projects by dropping the requirement that they set aside at least 33% of the square footage for residential use.

The bill eliminates the requirement that developers repay (recapture) 100% of the credits when they miss the deadline for completing the residential portion of a mixed use project. The deadline is specified in the project plan they must submit when applying for the credits.

Lastly, the bill prohibits taxpayers claiming credits under this statute from also claiming the other historic preservation credits for the same property and transfers the credits' administration from CCCT to DECD.

EFFECTIVE DATE: July 1, 2011, and applicable to income years beginning on or after January 1, 2011.

BACKGROUND

Angel Investors

Under PA 10-75, an angel investor is a person who qualifies as an “accredited investor” under Security and Exchange Commission rules, or a network of such people, who review new or proposed businesses for potential investment and who seek active involvement, such as consulting and mentoring, in a Connecticut business (accredited investors are typically high-income, high net worth individuals and entities). But angel investors do not include:

1. individuals or specified entities who control 50% or more of the

- business receiving the investment;
2. venture capital companies; or
 3. banks, bank and trust companies, insurance companies, trust companies, national banks, savings associations, or building and loan associations for activities that are part of their normal business operations.

The LEV II Program

Under the federal Clean Air Act, all new cars sold in the U.S. must comply with emission standards set either by the EPA or California (42 USC § 7507). Connecticut has adopted California's Low Emission Vehicle II (LEV II) emissions regulations (CGS § 22a-174g).

Related Bills

sSB 1, reported favorably by the Energy and Technology Committee, establishes several programs to promote solar energy, including ones that (1) provide incentives for people to install photovoltaic (PV) systems on their homes, (2) require electric companies to enter into long-term contracts with developers of large-scale PV systems, and (3) study the feasibility of installing PV systems on state facilities.

sSB 924, reported favorably by the Commerce Committee for a change of reference to the Finance, Revenue, and Bonding Committee, contains nearly identical provisions concerning (1) clean alternative fuel and hybrid vehicle sales tax exemptions and (2) hybrid and electric vehicle HOV lane access.

sSB 1023 makes the same changes to the historic preservation tax credits, extending them to more types of property. The Commerce Committee reported favorably the bill to the Finance, Revenue and Bonding Committee on March 8.

SB 1172, reported favorably by the Commerce Committee, allows angel investors to sell, assign, or otherwise transfer angel investment

tax credits and includes several other initiatives related to the state's technology industries and business financing.

SB 1173, reported favorably by the Commerce Committee, makes identical changes regarding higher education funds for CII's Pre-seed Financing Program.

HB 6397, reported favorably by the Commerce Committee for a change of reference to the Transportation Committee, contains a nearly identical provision converting 25% of the state's heavy fleet to liquefied natural gas and compressed gas fuel.

The law requires the Connecticut Health and Educational Facilities Authority (CHEFA) to establish the Green Connecticut Loan Guaranty Fund to help finance energy efficiency and renewable energy measures for individuals, nonprofit organizations, and small businesses. sHB 6544, reported favorably by the Energy and Technology Committee, (1) imposes various requirements on CHEFA in administering this program and (2) specifies the terms CHEFA's financial assistance must meet.

HB 6582, reported favorably by the Commerce Committee, also creates a solar energy financing program, and requires DECD to adopt implementing regulations.

sHB 6396 establishes an identical, although permanent, mechanism to fund the Culture and Tourism Commission's statewide tourism promotion program. The Commerce Committee reported the bill favorably to the floor on March 8.

sHB 6398 establishes a funding stream identical to the bill's for funding regional tourism marketing and activities. The Commerce Committee reported the bill favorably to the floor on March 8.

sHB 6584 establishes an identical manufacturing reinvestment account. The Commerce Committee favorably reported the bill on March 22.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute

Yea 19 Nay 0 (03/22/2011)