



Senate

General Assembly

File No. 432

February Session, 2014

Substitute Senate Bill No. 447

Senate, April 8, 2014

The Committee on Finance, Revenue and Bonding reported through SEN. FONFARA of the 1st Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT CONCERNING A PILOT PROGRAM TO PROVIDE
PROPERTY TAX RELIEF FOR BUSINESSES AND HOMEOWNERSHIP
INCENTIVE PROGRAMS.***

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

1 Section 1. (NEW) (*Effective July 1, 2014, and applicable to assessment*
2 *years commencing on and after October 1, 2014*) (a) The Secretary of the
3 Office of Policy and Management shall establish a pilot program for
4 not more than five municipalities of varying sizes and in different
5 regions of the state to allow for the assessment of a commercial
6 property based on the net profits of the business or businesses
7 occupying such property. Municipalities shall apply to said office in
8 the manner and form directed by the secretary for inclusion in the pilot
9 program.

10 (b) Notwithstanding any provision of the general statutes, any
11 municipal charter, any special act or any home rule ordinance, each
12 municipality selected to participate in the pilot program shall, by

13 ordinance, provide for the assessment of not more than three
14 commercial properties based upon the net profits from the previous
15 calendar year of the business or businesses occupying each commercial
16 property or, if such commercial property was vacant, on the net profits
17 anticipated by a new business tenant of such commercial property. A
18 participating municipality shall include in the ordinance adopting
19 such assessment method (1) a description of commercial properties
20 that are eligible for such assessment method, (2) a requirement that all
21 parties affected by the use of such assessment method, including the
22 owner or owners of the commercial property, the business or
23 businesses occupying such property and the municipality, agree to the
24 use of such assessment method, (3) a description of how the rate of
25 assessment for such commercial properties will be determined, based
26 upon such net profits or anticipated net profits, (4) provision for an
27 application process, including documentation required from the owner
28 of a commercial property to demonstrate the benefits to the
29 municipality and such commercial property of such assessment
30 method, and (5) provision for the phase-out of such assessment
31 method on individual commercial properties, so such properties may
32 be returned to the assessment method otherwise required by chapter
33 203 of the general statutes.

34 (c) The Secretary of the Office of Policy and Management shall, not
35 later than January 1, 2015, and annually thereafter, report in
36 accordance with the provisions of section 11-4a of the general statutes,
37 to the joint standing committee of the General Assembly having
38 cognizance of matters relating to finance, revenue and bonding,
39 regarding the program established by this section. Such report shall
40 include a description of (1) efforts made by the office to inform
41 municipalities about the program, (2) the application process
42 developed by the office, (3) inquiries and applications received from
43 municipalities regarding participation in the program, and (4)
44 legislative changes that may be considered to improve the program.

45 Sec. 2. (*Effective July 1, 2014*) The Office of Policy and Management
46 shall provide information about the program established pursuant to

47 section 1 of this act, and how a municipality may apply for inclusion in
48 said program, to various state-wide organizations, including, but not
49 limited to, the Connecticut Association of Assessing Officers, the
50 Connecticut Economic Development Association and the Connecticut
51 Tax Collectors Association, Inc.

52 Sec. 3. (NEW) (*Effective July 1, 2014*) (a) For purposes of this section,
53 "owner-occupied home" means a building containing three or fewer
54 dwelling units, one of which units is occupied as a primary residence
55 by the owner of the building or, with respect to a common interest
56 community, as defined in section 47-202 of the general statutes,
57 "owner-occupied home" means a dwelling unit occupied as a primary
58 residence by the owner of the unit, within a common interest
59 community containing three or fewer dwelling units.

60 (b) A municipality where thirty per cent or less of its dwelling units
61 are owner-occupied homes shall, and any other municipality may, by
62 vote of its legislative body or, in a municipality where the legislative
63 body is a town meeting, by vote of the board of selectmen, institute a
64 program to promote homeownership in certain areas of such
65 municipality. Such program shall abate property taxes and provide an
66 exemption from personal income taxes for the owners of owner-
67 occupied homes within certain census blocks that have owner-
68 occupied home rates of fifteen per cent or less. For purposes of this
69 subsection, "census block" means the smallest geographic unit used by
70 the United States Census Bureau.

71 (c) A municipality required, or choosing, to proceed under this
72 section shall determine which of the census blocks within such
73 municipality have a number of owner-occupied homes equaling fifteen
74 per cent or less of the dwelling units in such census block, and shall
75 designate two or more of such census blocks as a homeownership
76 incentive block. The municipality shall abate one hundred per cent of
77 the property taxes on any owner-occupied home within a
78 homeownership incentive block.

79 (d) The Department of Revenue Services shall exempt each owner of

80 an owner-occupied home within a homeownership incentive block
81 from the taxes due under chapter 229 of the general statutes, other
82 than the liability imposed by section 12-707 of the general statutes,
83 provided such owner shall continue to be eligible for the credit under
84 section 12-704e of the general statutes. The municipality shall provide
85 the department with any information needed by the department to
86 allow such exemption.

87 (e) The tax abatements and exemptions offered to owners of owner-
88 occupied homes within a homeownership incentive block pursuant to
89 this section shall continue until the number of owner-occupied homes
90 within such block meets or exceeds forty-nine per cent of the dwelling
91 units in such block. Upon reaching such percentage, the municipality
92 shall notify such owners, and the abatement and exemptions allowed
93 pursuant to this section shall phase out over a five-year period. (1) The
94 municipality shall charge the owner of each owner-occupied home
95 within such block twenty per cent of the property tax otherwise owing
96 during the first assessment year commencing after the forty-nine-per-
97 cent goal is reached, and an additional twenty per cent each year
98 thereafter, until the owner is liable for all property tax owed on such
99 owner-occupied home. (2) Owners of an owner-occupied home within
100 such block shall be liable for twenty per cent of the income tax
101 otherwise due, as described in subsection (d) of this section, in the first
102 taxable year commencing after the forty-nine-per-cent goal is reached,
103 and shall be liable for an additional twenty per cent each year
104 thereafter, until such owner is liable for all income taxes owed. The
105 municipality shall provide the department with any information
106 needed by the department to process such phase-out.

107 Sec. 4. Section 12-62r of the general statutes is repealed and the
108 following is substituted in lieu thereof (*Effective October 1, 2014*):

109 (a) For the purposes of this section:

110 (1) "Apartment property" means a building containing four or more
111 dwelling units used for human habitation, the parcel of land on which
112 such building is situated, and any accessory buildings or other

113 improvements located on such parcel;

114 (2) "Residential property" means a building containing three or
115 fewer dwelling units used for human habitation, the parcel of land on
116 which such building is situated, and any accessory buildings or other
117 improvements located on such parcel;

118 (3) "Base year" means the assessment year commencing October 1,
119 2010; [and]

120 (4) "Adjusted tax levy" means the total amount of taxes raised by
121 taxation in a fiscal year by a municipality; [.] and

122 (5) "Owner-occupied residential property" means a dwelling unit in
123 a residential property that is occupied as a primary residence by the
124 owner of the property or, with respect to a common interest
125 community, as defined in section 47-202, "owner-occupied home"
126 means a dwelling unit occupied as a primary residence by the owner
127 of the unit, within a common interest community containing three or
128 fewer dwelling units.

129 (b) Notwithstanding any provision of the general statutes or any
130 special act, municipal charter or any home rule ordinance, any
131 municipality in which the provisions of section 12-62n were effective
132 for the assessment year commencing October 1, 2010, shall make
133 annual adjustments to the assessment rate charged to apartment and
134 residential property in accordance with the provisions of this section,
135 but in no event shall the assessment rate for any class of property be in
136 excess of seventy per cent.

137 (c) For the assessment year commencing October 1, 2011, in any
138 municipality that adopts the property tax system under this section,
139 apartment property shall be assessed at a rate of fifty per cent. For
140 assessment years commencing on and after October 1, 2012, the
141 assessor shall determine a rate of assessment for apartment property
142 that will have the effect of phasing in proportionate increases in the
143 rate so that, by the assessment year commencing October 1, 2015, the

144 assessment rate for apartment property shall be seventy per cent.

145 (d) In any municipality that adopts the property tax system under
146 this section, for the assessment year commencing October 1, 2011, and
147 only for said assessment year, the assessor shall determine a rate of
148 assessment for residential property that will have the effect of
149 increasing the average property tax for residential property as a result
150 of revaluation by three and one-half per cent over the property tax for
151 such property class in the base year, but in no event shall the
152 assessment rate be less than twenty-three per cent. For assessment
153 years commencing on and after October 1, 2011, the assessor shall then
154 calculate an adjustment to the rate of assessment for residential
155 property in accordance with subsection (e) of this section.

156 (e) Not later than January thirty-first or the completion of the grand
157 list, whichever is later, the assessor shall annually calculate the
158 [difference in the adjusted tax levy by such municipality in the current
159 fiscal year and the prior fiscal year. The assessor shall then adjust the
160 adjusted tax levy for the current fiscal year in accordance with any
161 change in the consumer price index for all urban consumers in the
162 northeast region in the preceding fiscal year] residential assessment
163 ratio. The assessor shall first adjust the adjusted tax levy for the
164 preceding fiscal year in accordance with any change in the consumer
165 price index for all urban consumers in the northeast region in the
166 preceding fiscal year, as reported generally in February for the year-
167 over-year January index. If, after such adjustment, (1) the adjusted tax
168 levy in the current fiscal year exceeds the adjusted tax levy in the prior
169 fiscal year by more than one hundred per cent of the rate of inflation,
170 as determined in accordance with such consumer price index, the
171 assessor, in his or her calculation of the assessment ratios for the next
172 grand list, shall increase the rate of assessment for residential
173 properties from the prior grand list year by five per cent; (2) the
174 adjusted tax levy in the current fiscal year exceeds the adjusted tax
175 levy in the prior fiscal year by more than fifty per cent, but not more
176 than one hundred per cent, of such rate of inflation, the assessor shall
177 increase such rate of assessment by three and one-half per cent; (3) the

178 adjusted tax levy in the current fiscal year exceeds the adjusted tax
179 levy in the prior fiscal year by not more than fifty per cent of such rate
180 of inflation, the assessor shall increase such rate of assessment by two
181 and one-half per cent; (4) the adjusted tax levy in the current fiscal year
182 is equal to the adjusted tax levy in the prior fiscal year, or is less than
183 one-half per cent less than the adjusted tax levy in the prior fiscal year,
184 the assessor shall increase such rate of assessment by one and one-half
185 per cent; and (5) the adjusted tax levy in the current fiscal year is less
186 than the adjusted tax levy in the prior fiscal year by at least one-half
187 per cent, the assessor shall make no change in such rate of assessment.

188 (f) For assessment years commencing on and after October 1, 2016,
189 any municipality that adopts the property tax system under this
190 section may, by vote of its legislative body, enact an ordinance to
191 establish a program to encourage homeownership by adjusting the
192 annual assessment rate for nonowner-occupied residential properties
193 so that, while the annual assessment rate for owner-occupied
194 residential properties shall be calculated at all times in accordance with
195 subsection (e) of this section, the annual assessment rate for nonowner-
196 occupied residential properties shall be calculated at a rate that shall
197 keep the annual assessment rate for owner-occupied residential
198 properties lower than that of nonowner-occupied residential
199 properties. Any ordinance enacted pursuant to this subsection may be
200 amended only in a year in which such municipality conducts a
201 reevaluation of real property pursuant to section 12-62.

202 [(f)] (g) Not later than June fifteenth in any year in which the
203 adjusted tax levy in the current fiscal year increases by more than two
204 and six-tenths per cent over the adjusted tax levy in the prior fiscal
205 year, one per cent of the total number of electors of such municipality
206 may petition in writing for a referendum on the budget establishing
207 such increase. Any such referendum shall be held not more than ten
208 days after receipt of such petition by the town clerk and shall be
209 conducted in accordance with the provisions of chapter 90. Such
210 budget shall not become effective unless a majority of the electors
211 voting in such referendum vote in favor thereof. Only one referendum

212 may be held, and, if the vote is against the budget, such municipality
 213 shall so adjust the budget as to limit any increase to be equal to or less
 214 than two and six-tenths per cent.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2014, and applicable to assessment years commencing on and after October 1, 2014</i>	New section
Sec. 2	<i>July 1, 2014</i>	New section
Sec. 3	<i>July 1, 2014</i>	New section
Sec. 4	<i>October 1, 2014</i>	12-62r

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 15 \$	FY 16 \$
Revenue Serv., Dept.	GF - Cost	Approx. \$30,000	None
Revenue Serv., Dept.	GF - Revenue Loss	None	Less than \$1 million

Municipal Impact:

Municipalities	Effect	FY 15 \$	FY 16 \$
Hartford	Grand List Reduction	None	Potential
Various Municipalities	Grand List Reduction	None	Potential

Explanation

The bill establishes a full income and property tax exemption for homeowners living in certain neighborhoods of the City of Hartford, and makes such exemptions optional in other municipalities. This results in a revenue loss to the state, and a grand list reduction in Hartford, and any other municipalities that choose to participate. Such grand list reductions result in a loss of tax levy, given a constant mill rate.

The magnitude of the impact depends on: 1) the actual areas designated for the exemption under the bill, and 2) the number of homeowners living in those areas. It is estimated that there are less than 12,000 owner-occupied housing units in Hartford and that the median income in areas impacted by the bill is less than \$30,000 annually. Depending on filing status, the income tax due on \$30,000 in income ranges from approximately \$45 to \$609. The bill does not

impact filers' eligibility for the earned income tax credit.

The new exemption for homeowners results in a one-time cost to the Department of Revenue Services of approximately \$30,000 in FY 15 associated with updates to the online Taxpayer Service Center (\$20,000) and printing costs (\$10,000).

The bill allows the City of Hartford to assess owner-occupied residential units at a lower rate than non-owner-occupied residential units. This shifts the property tax burden from owner-occupied residential units to other types of property.

The bill also establishes a pilot program for eligible businesses to have their property assessed for taxes based on their net income instead of the property's assessed value. The municipal impact depends on the net income of businesses chosen by selected municipalities.

The Out Years

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

Sources: U.S. Census Bureau

OLR Bill Analysis**sSB 447*****AN ACT CONCERNING A PILOT PROGRAM TO PROVIDE PROPERTY TAX RELIEF FOR BUSINESSES AND HOMEOWNERSHIP INCENTIVE PROGRAMS.*****SUMMARY:**

This bill authorizes several tax relief measures for homeowners and businesses in specific areas. It requires municipal property tax abatements and state income tax exemptions in municipalities and census blocks meeting specified homeownership criteria until homeownership rates reach specified levels.

The bill establishes an Office of Policy and Management (OPM)-administered pilot program under which municipalities may offer to tax commercial businesses based on their net profits instead of the fair market value of the buildings they occupy.

The bill allows Hartford to provide property tax relief to residents who own and reside in their homes by keeping the assessment ratio for their homes lower than the ratio for nonowner-occupied residences.

Lastly, the bill changes how the Hartford assessor must measure the change in the city's total tax levy between the current and prior fiscal year when adjusting the assessment ratio between one- to three-unit dwellings and apartments with four or more units.

EFFECTIVE DATE: July 1, 2014, except for the profit-based municipal assessment program, which takes effect July 1, 2014 and is applicable to assessment years beginning on or after October 1, 2014, and the change in the method for calculating residential property assessment adjustments, which takes effect October 1, 2014.

HOMEOWNERSHIP INCENTIVE PROGRAM

Municipal Participation

The bill allows, and in some cases requires, 100% municipal property abatements and state income tax exemptions for homeowners living in sections of a municipality with relatively low homeownership rates until those rates increase to a specified level, after which the exemptions are phased out over five years. A municipality must provide these benefits if 30% or less of its one- to three-unit dwellings (eligible units) are owned and occupied by their owners as their primary residences. Other municipalities may choose to do so, but in both cases, their legislative bodies must vote to provide the abatements and exemptions as the bill specifies.

The bill does not specify the data municipalities must use to determine their homeownership rate, but it appears to be the 2010 census.

Designating Homeownership Incentive Areas

Under the bill, a municipality adopting the program must identify census blocks where the homeownership rate for one- to three-unit dwellings is 15% or less. These dwellings include units in a condominium association with three or fewer units. In order to provide the abatements and exemptions, the municipality must choose at least two blocks where the homeownership rate is below this threshold.

Tax Exemptions

The municipality and the state must exempt the people who own and occupy eligible units from property and income taxes, respectively. Those eligible for the earned income tax credit may continue to claim it. The bill specifies that the income tax exemption does not apply to amounts an employer withholds from a paycheck for state income taxes. The municipality must provide the Department of Revenue Services (DRS) any information it needs to implement the income tax exemption.

Exemption and Abatement Phase-Out

The exemptions and abatements last until the ownership rate in a designated census block reaches or exceeds 49%. At that point, the municipality must notify the owners that the abatements and exemptions will be phased out over five years. The phase-out must reduce the value of the abatements and the exemptions by 20% per year until the owners are liable for 100% of the property and income taxes owed. The municipality must provide DRS with any information it needs to phase out the income tax exemption.

PILOT PROGRAM FOR MUNICIPAL PROFIT-BASED TAX ASSESSMENTS

Purpose

The bill authorizes an OPM-administered pilot program under which municipalities may offer a limited number of commercial businesses and property owners the option of paying taxes based on the business' net profits instead of the property's fair market value, as current law requires. (One of the ways the law allows tax assessors to determine the fair market value of leased property is to determine the amount of income it generates.)

Under the bill, the method a participating municipality must use to determine the tax rate for these properties must be agreed on by the municipality, the affected property owner, and the commercial businesses occupying the property.

Participating Municipalities

The bill allows OPM to institute the pilot by accepting applications from municipalities requesting authority to assess the net profits of commercial business owners on the bill's limited basis. Interested municipalities must apply in the form and manner the OPM secretary requires. The secretary may choose municipalities of varying sizes in different regions to participate in the pilot.

OPM must disseminate information about the program to the Connecticut Association of Assessing Officers, the Connecticut Economic Development Association, the Connecticut Tax Collectors

Association, Inc., and various other statewide organizations. The information must explain how a municipality may apply to participate in the pilot program.

Implementing Profit-Based Tax Assessments

Municipalities participating in the pilot program must adopt ordinances allowing up to three commercial properties to be assessed based on the net profits of the business that owns or occupies each property for the previous calendar year. For a business moving into a vacant property, the municipality may base the assessment on the property's anticipated profits.

An ordinance implementing a profit-based tax assessment method must:

1. describe the properties eligible for this type of assessment;
2. describe how the tax rate for the net profits or anticipated net profits will be determined,
3. require agreement between the municipality and the property's owners and tenants on the assessment method before the municipality can institute it,
4. specify how property owners or tenants may apply to have the tenants' net profits taxed instead of the property's fair market value,
5. require property owners seeking this assessment method to show how it would benefit the property and the municipality, and
6. provide for a phase-out of the method and a return to an assessment based on fair market value.

Annual Report

Starting January 1, 2015, the OPM secretary must report annually on the pilot's status to the Finance, Revenue and Bonding Committee. The

report must describe:

1. efforts OPM made to inform municipalities about the pilot program,
2. the application process,
3. inquiries and applications OPM received regarding the pilot, and
4. legislative recommendations for improving it.

PROPERTY TAX ASSESSMENT ADJUSTMENTS FOR OWNER-OCCUPIED RESIDENCES

Hartford Assessment Ratio Adjustments

The law generally requires municipalities to assess all property at 70% of its fair market value (assessment ratio), but allows Hartford to adjust the ratio for residential property. The bill allows Hartford to adjust the ratio for owner-occupied residences so that it stays below the ratio for nonowner-occupied property.

Adjustment Method

Under the bill, Hartford may, by ordinance, (1) divide residential property between owner-occupied dwelling units, including condominium units in maximum three-unit associations, and nonowner-occupied residential property and (2) adjust the assessment ratio for the latter so that it does not fall below the rate for owner-occupied property. Hartford may begin to adjust residential assessments in this manner starting on or after the October 1, 2016. It may amend the ordinance only during the years Hartford revalues property.

If Hartford chooses to adopt this program, it must determine the annual assessment rate for residential property largely using the statutory method under which it already adjusts the assessment ratios for residential and apartment property to reflect the growth in property taxes over the previous fiscal year. As explained in the next

section, the bill modifies that method.

HARTFORD PROPERTY TAX RATIO ADJUSTMENTS

The bill modifies the way the Hartford assessor currently adjusts the assessments for one- to three- unit residential property. Under current law, the assessor must calculate an annual adjustment to the city’s residential assessment to reflect the growth in property taxes levied over the previous fiscal year, adjusted for inflation.

The bill (1) changes the fiscal year for which the assessor must adjust the tax levy for inflation from the current to the prior one and (2) specifies the source he must use when doing so. Under current law, he must use the change in the consumer price index for all urban consumers in the north-east from the preceding fiscal year. Under the bill, he must use the change reported in the year-over-year January index that is generally reported in February.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 50 Nay 0 (03/25/2014)