Senate

General Assembly **File No. 929**

January Session, 2019 Substitute Senate Bill No. 1141

Senate, May 20, 2019

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 MUNICIPAL CAPACITY AND PROPERTY TAX REFORM.

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

Section 1. (NEW) (*Effective July 1, 2019*) (a) There is established a fund to be known as the "Municipal Capacity Fund". The fund shall contain any moneys required by law to be deposited in the fund and shall be held in trust separate and apart from all other moneys, funds and accounts. Any balance remaining in the fund at the end of any fiscal year shall be carried forward in the fund for the fiscal year next succeeding. Moneys in the fund shall be expended by the Commissioner of Revenue Services in accordance with this section.

(b) The commissioner shall reserve five million dollars of the moneys in the fund to make grants under a capacity building grant program in accordance with the provisions of this subsection.

(1) The Secretary of the Office of Policy and Management shall

solicit grant proposals from regional councils of governments organized under the provisions of sections 4-124i to 4-124p, inclusive, of the general statutes, to provide to all members within a council's planning region: (A) A program, service or function that replaces a program, service or function currently performed by individual members; or (B) a new program, service or function to be offered to all members. Each member may elect to participate in such program, service or function and shall be given the opportunity to change its election at least annually while the program, service or function is in effect.

(2) The secretary shall establish requirements of and procedures and guidelines for the program, the amounts of the grants to be awarded and deadlines for proposal submissions and final selection of grant recipients.

(3) As used in this subsection, "planning region" and "member" have the same meanings as provided in section 4-124i of the general statutes.

(c) The balance remaining in the fund shall be distributed annually as municipal capacity grants in accordance with the following provisions:

(1) The Secretary of the Office of Policy and Management shall calculate and publish annually a municipal fiscal capacity gap metric for each municipality in the state. Such metric shall be calculated in accordance with the methodologies used in the May, 2015 New England Public Policy Center Research Report 15-1, multiplied by minus one.

(2) Municipalities with a negative fiscal capacity gap metric shall be eligible for a municipal capacity grant. For each eligible municipality, the secretary shall calculate a remaining gap figure by (A) multiplying the fiscal capacity gap metric of such municipality by the population of such municipality, as estimated in the most recent State Register and Manual published by the Secretary of the State, and (B) subtracting the

amount of noneducation municipal aid from the state for the fiscal year. Grants shall be apportioned from the balance remaining in the fund in proportion to each eligible municipality's remaining gap figure as a fraction of the total remaining gap figures of all eligible municipalities.

Sec. 2. (NEW) (*Effective July 1, 2019*) Any taxpayer that makes an investment in commercial or industrial real property that results in an increase in the property's assessed value that is attributable to such investment may choose one of the following options for property tax relief:

(1) The taxpayer may claim a credit in the amount of the increase in such property's assessed value that is attributable to such investment. Such credit shall be allowed against the taxpayer's property tax liability for the fiscal year in which such increase occurs. If the amount of the credit allowed pursuant to this subdivision exceeds the taxpayer's property tax liability for the fiscal year, the unused portion of the credit shall be carried forward to succeeding fiscal years until fully used;

(2) The taxpayer may elect to have the portion that is the fractional increase in such property's assessment that is attributable to such investment taxed at the rate of ten mills or at the rate of twenty-five per cent of the current mill rate, whichever is less, for a period of seven years; or

(3) The taxpayer may elect to have the portion that is the fractional increase in such property's assessment that is attributable to such investment excluded for three years from the calculation of property tax, with the property tax on such portion phased in up to one hundred per cent over the next four years in equal increments.

Sec. 3. (*Effective July 1, 2019*) For the fiscal years commencing July 1, 2019, and July 1, 2020, the Comptroller shall transfer one hundred million dollars in each fiscal year from the resources of the General Fund to the Municipal Capacity Fund established in section 1 of this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2019*	New section
Sec. 2	*July 1, 2019*	New section
Sec. 3	*July 1, 2019*	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 20 $	FY 21 $
Resources of the General Fund	GF - Revenue Loss	100 million	100 million
Office of Policy and Management	Municipal Capacity Fund - Revenue Gain	100 million	100 million

Note: GF=General Fund

Municipal Impact:

Municipalities	Effect	FY 20 $	FY 21 $
Various Municipalities	Revenue Gain	95 million	95 million
Various Municipalities	Potential Revenue Loss	See Below	See Below

Explanation

The bill establishes a Municipal Capacity Fund and transfers $100 million in General Fund revenues to it in FY 20 and FY 21. It specifies that $5 million of these funds be distributed to regional councils of government, and that $95 million be distributed to certain financially distressed municipalities. This results in a revenue loss of $100 million to the state and a corresponding $100 million revenue gain to councils of government and financially distressed municipalities.

The bill requires the Office of Policy and Management to determine the distribution of funding to municipalities by determining a fiscal capacity gap metric for each municipality, calculated in accordance with the New England Public Policy Center's 2015 research report.

This has no fiscal impact.

The bill also allows commercial property owners to choose among three different property tax relief options if they make an investment resulting in an increase in their property's assessed value. Each of these options results in a revenue loss to the municipality where the property is located. Such revenue loss would vary based on the option chosen, and the change in assessed value that occurs as a result of the investment.

The Out Years

The annualized ongoing fiscal impact identified above, as it relates to commercial property tax relief, would continue into the future subject to changes in municipal grand lists and mill rates

The provisions concerning the Municipal Capacity Fund have no fiscal impact in the out years, as the bill specifies a revenue source for the fund in FY 20 and FY 21 only.

OLR Bill Analysis
sSB 1141

AN ACT CONCERNING MUNICIPAL CAPACITY AND PROPERTY TAX REFORM.

SUMMARY

This bill establishes a new Municipal Capacity Fund to fund (1) annual grants to municipalities based on their relative fiscal capacities and (2) a capacity building grant program for councils of government (COGs). It requires the state comptroller to transfer $100 million each year in FYs 20 and 21 from the General Fund to the fund. The bill reserves $5 million of this amount for the capacity building grant program and requires the fund's balance to be used for the municipal capacity grants described below.

The bill also establishes three property tax relief options for taxpayers making investments in commercial or industrial real property that increase a property's assessed value. It gives such taxpayers discretion to choose from among the three programs.

EFFECTIVE DATE: July 1, 2019

MUNICIPAL CAPACITY FUND

The bill establishes the Municipal Capacity Fund as a separate, nonlapsing fund and authorizes the fund to receive any moneys the law requires to be deposited into it. It requires the Department of Revenue Services (DRS) commissioner to use the fund as described below (however, the bill does not specify a role for the DRS commissioner in dispersing the funds).

Municipal Capacity Grants

The bill requires the balance remaining in the Municipal Capacity Fund each year to be distributed to municipalities based on the Office of Policy and Management's (OPM) calculations.

Under the bill, the OPM secretary must annually calculate and publish a municipal fiscal capacity gap metric for each municipality calculated in accordance with the New England Public Policy Center's 2015 research report (i.e."Measuring Municipal Fiscal Disparities in Connecticut")(see BACKGROUND). OPM must calculate the metric in accordance with the report's methodologies, except that each metric must be multiplied by minus one.

Under the bill, municipalities with a negative fiscal capacity gap metric (i.e., those that lack sufficient revenue raising capacity to provide a common level of municipal services) are eligible for a municipal capacity grant. For each such municipality, the OPM secretary must calculate a "remaining gap figure" by:

1. multiplying the municipality's fiscal capacity gap metric by its population, as estimated in the most recent State Register and Manual, and

2. subtracting the amount of noneducational municipal aid it received from the state for the fiscal year.

The grants must be apportioned from the balance remaining in the Municipal Capacity Fund in proportion to each eligible municipality's "remaining gap figure" as a fraction of the total figures for all eligible municipalities.

Capacity Building Grant Program

The bill requires the OPM secretary to solicit grant proposals from COGs to (1) replace a program, service, or function currently performed by individual members of the COG's planning region or (2) establish a new program, service, or function. To qualify, the proposed program must be offered to all of a COG's member municipalities. Such municipalities may choose to participate in the program, service, or function and must be given the opportunity to change their election at least annually.

The OPM secretary must establish (1) requirements, procedures, and guidelines for the program; (2) grant amounts; and (3) deadlines for proposed submissions and final grant awards.

PROPERTY TAX RELIEF FOR COMMERCIAL AND INDUSTRIAL PROPERTY INVESTMENTS

Under the bill, any taxpayer making investments in commercial or industrial real property that increase the property's assessed value may choose one of the following forms of property tax relief:

1. The taxpayer may claim a credit equal to the amount of the increase in the property's assessed value that is attributed to the taxpayer's investment. The credit may be applied against the taxpayer's property tax liability for the fiscal year in which the assessment increase occurs and unused credits may be carried forward to future fiscal years until they are fully used.

2. The taxpayer may choose to have the portion of the property's increased assessment attributed to the investment taxed at the lesser of 10 mills or 25% of the current mill rate for a seven-year period.

3. The taxpayer may choose to have the portion of the property's increased assessment excluded from property tax for three years and phase in the tax on that portion over the next four years in equal increments.

BACKGROUND

"Measuring Municipal Fiscal Disparities in Connecticut"

The New England Public Policy Center's study measured the fiscal disparities across Connecticut's municipalities by calculating each municipality's "cost-capacity gap," or the difference between the cost of providing non-school public services in a given municipality and the economic resources available to pay for those services. Under the study, a positive gap indicates a municipality that lacks sufficient revenue-raising capacity to provide a given common level of municipal services, with larger gaps indicating a worse fiscal condition. A negative gap indicates that a municipality has a higher revenue-raising capacity to provide this common level of municipal services.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute				
Yea	32	Nay	17	(05/01/2019)