TO: Members of the Finance, Revenue, and Bonding Committee

FROM: OFA & OLR Staff

RE: Items for March 25, 2014 Agenda

BILL FOR JF CONSIDERATION

1. S.B. No. 367 (RAISED) AN ACT CONCERNING THE GIFT AND ESTATE TAX. (FIN)(JFS)

Fiscal Impact: Uncertain

The bill alters the taxable base under the Estate Tax by: 1) excluding certain Connecticut taxable gifts, and 2) including certain Connecticut gift taxes paid during the three years prior to the decedent's death. It is uncertain whether the fiscal impact of the narrowing of the base under the former provision is entirely offset by the expansion of the base under the latter provision.

According to the Executive Committee of the Estates & Probate Section of the Connecticut Bar Association, fewer than five estates within the last year would have been impacted by the provisions narrowing the base, while at least one estate would have been impact by the provisions expanding the base.

The actual impact of the bill is dependent on the magnitude of the taxable base exclusions and inclusions that would occur in the future.

Summary of Substitute Bill:

This bill modifies the starting point (i.e., Connecticut taxable estate) for calculating the estate tax for those who die on or after January 1, 2015. It does so by (1) excluding any Connecticut taxable gifts that are includible in the decedent's gross estate for federal estate tax purposes and (2) including the amount of any Connecticut gift tax the decedent or his or her estate paid during the three years preceding the decedent's death.

The bill also gives such estates a tax credit for any gift taxes the decedent's spouse paid for Connecticut taxable gifts made on or after January 1, 2005 that are includible in the decedent's gross estate. It limits the total credits to no more than the gift tax imposed.

EFFECTIVE DATE: Upon passage, and applicant to estates of those dying on or after January 1, 2015

2. S.B. No. 369 (RAISED) AN ACT CONCERNING CHANGES TO DEPARTMENT OF REVENUE SERVICES STATUTES. (FIN)(JFS)

Fiscal Impact: Various

Sections 1, 2 & 7 have no fiscal impact because the Department of Revenue Services has the knowledge and resources to carry out these duties within the normal course of business.

Section 3 results in a potential revenue gain to the extent that access to more accurate and timely bank asset information increases collection activity related to delinquent accounts. **Section 3** also results in a cost of less than $10,000 annually to DRS to contract with banks and other financial institutions.

Section 4 results in an uncertain revenue gain from the inclusion of certain lump sum distributions in the taxable base on trust and estate income prior to applying allowable deductions. The magnitude of the revenue gain is uncertain as it is dependent on the prevalence of such lump sum distributions occurring in trusts and estates.

Section 5 results in a potential revenue gain to the extent that there are tax filers affected by the federal repatriation of certain off-shore income who are no longer Connecticut residents.

Section 6 results in an uncertain revenue impact from extending the state income tax to certain nonresident gains or losses related to real property in Connecticut. The actual revenue impact is dependent on whether this extension actually encompasses income gains or losses, and their respective magnitude.

Section 6 also results in an uncertain revenue impact from apportioning sales by pass-through entities to Connecticut based on the location of the customer rather than the origin of the sale. The actual revenue impact is dependent on the prevalence of Connecticut-based customers versus sales.

Summary of Substitute Bill:

§ 1—Listings of Denied or Revoked Licenses and Delinquent Taxpayers

The bill authorizes the DRS commissioner to create a public list of people who applied for and were denied a DRS license, permit, or certificate or whose license, permit, or certificate was revoked, suspended, or not renewed. The commissioner must arrange the list by tax type and may add the date on which he took the action.

The bill also requires the DRS commissioner to indicate, when a taxpayer is removed from DRS' annual list of delinquent taxpayers, whether the delinquency was (1) resolved by a negotiated settlement or payment in full or (2) designated as uncollectible.

EFFECTIVE DATE: July 1, 2014

§§ 2 & 7—Weekly Sales Tax Remittance for Delinquent Taxpayers

The bill moves up the deadline for remitting the sales tax and filing sales tax returns from the last day to the 20th day of the month following the monthly period.

The bill specifically allows the DRS commissioner to require delinquent taxpayers to remit the tax weekly, by the Wednesday following the end of the weekly period. The commissioner must notify these taxpayers in writing, specifying how they must remit the tax. He may require weekly remittance for one year, starting on the notice's date. Taxpayers that must remit taxes weekly must still submit monthly or quarterly returns.

EFFECTIVE DATE: October 1, 2014

§ 3—Data Match System

The bill requires the DRS commissioner to contract with banks and other financial institutions to match information about taxpayers who owe state taxes. Under the contract, the commissioner must provide (1) these taxpayers' names, social security numbers, or other taxpayer identification numbers and (2) the taxes due and payable for which every administrative or judicial remedy has been exhausted or lapsed. The financial institution must provide the commissioner with a list of each account holder who appears on the commissioner's list, along with the social security or taxpayer identification number and a statement about whether the account exceeds $1,000.

Under the bill, financial institutions are not liable to anyone for disclosing this information to the commissioner or anything they do in good faith to comply with the bill.

EFFECTIVE DATE: Upon passage

§ 4—Personal Income Tax on Trusts and Estates

When calculating the tax from trust and estate income, the bill requires trusts and estates to include lump sum distributions that were not included in their federal taxable income before they claimed any applicable deductions.

EFFECTIVE DATE: Upon passage and applicable to income years beginning on or after January 1, 2014

§§ 5-6 — Nonresident Taxpayer Connecticut Source Income

Income from Certain Nonqualified Deferred Compensation Plans. The bill extends the state income tax to nonresidents' income from nonqualified deferred compensation plans attributable to services performed in Connecticut, including such income that is taxable for federal income tax purposes.

Gains or Losses from the Sale or Disposition of Certain Entities. The bill extends the state income tax to nonresidents' gains or losses from the sale or disposition of an interest in an entity (i.e., partnership, limited liability company, or S corporation) that owns certain real property in Connecticut.

Apportioning Nonresident Business Income. The bill modifies how nonresidents' business income is apportioned to Connecticut for income tax purposes by changing the way in which certain sales are sourced to Connecticut.

EFFECTIVE DATE: Upon passage; the provisions concerning gains or losses from the sale or disposition of certain entities and apportioning business income are applicable to tax years starting on or after January 1, 2014.

3. H.B. No. 5464 (RAISED) AN ACT CONCERNING PAYMENTS DISTRIBUTED BY THE MUNICIPAL REVENUE SHARING ACCOUNT. (FIN)

Fiscal Impact:

Agency Affected	Effect	FY 14 $	FY 15 $	FY 16 $
Department of Revenue Services	General Fund Revenue Loss	12.7 Million	None	None

Municipality Affected	Effect	FY 14 $	FY 15 $	FY 16 $
Various	Revenue Gain	12.7 Million	None	None

The bill claims a portion of the projected FY 14 surplus, which is approximately $500 million, to reimburse towns for the revenue they lost inadvertently when the Municipal Revenue Sharing Account was terminated effective June 30, 2013. This termination date precluded the deposit of revenue received after the close of the fiscal year but counted toward FY 13 because the revenue was earned in that period. The Account received funds from the Conveyance Tax, Luxury Tax and Sales and Use Tax.

Summary:

If the comptroller determines there is an unappropriated surplus in the General Fund at the end of FY 14, this bill requires the Office of Policy and Management secretary to distribute $12.7 million in surplus funds to provide (1) manufacturing transition grants to municipalities and (2) any remaining funds according to a specified municipal revenue sharing formula.

EFFECTIVE DATE: Upon passage

4. H.B. No. 5466 (RAISED) AN ACT CONCERNING DEPARTMENT OF REVENUE SERVICES' PROCEDURES FOR BACKGROUND CHECKS FOR JOB APPLICANTS, APPLICABILITY OF THE ESTATE TAX AND TAXATION OF MOTOR FUEL IN GASEOUS FORM. (FIN)(JFS)

Fiscal Impact:

Agency Affected	Effect	FY 14 $	FY 15 $	FY 16 $
Department of Revenue Services	Special Transportation Fund- Revenue loss	None	Up to 150,000	Up to 150,000

Section 1 does not result in any fiscal impact as it codifies current agency practice.

Section 2 is a technical change that does not result in any fiscal impact.

Section 3 requires the Department of Revenue Services in consultation with the Department of Energy and Environmental Protection to issue information concerning reconfiguring the tax on motor vehicle fuels concerning natural gas. This information will be used to calculate the liquid gallon conversion factor on natural gas, and will result in a revenue loss to the Special Transportation fund of up to $150,000 annually.

Summary of Substitute Bill:

§ 1 — Background Check of Department of Revenue Services (DRS) Employees

This bill requires each prospective DRS employee to state in writing whether he or she has ever been convicted of a crime or whether criminal charges are pending at the time of the application. If so, the applicant must identify the charges and court in which they are pending. The bill also requires each applicant to be fingerprinted and submit to state and national criminal history records checks, in accordance with Connecticut's uniform criminal record check procedure. DRS must conduct these inquiries subject to state law governing employer inquiries regarding erased criminal records and prohibiting discrimination on the basis of these records or provisional pardons.

EFFECTIVE DATE: Upon passage

§ 2 — Estate Tax

The bill makes provisions in the estate tax law specifying how the tax is calculated applicable to the estates of those dying prior to, on, or after January 1, 2013. PA 13-247 amended these provisions to conform the law to DRS practice, but made the changes applicable to deaths on or after January 1, 2013.

EFFECTIVE DATE: Upon passage

§ 3 — Calculating the Natural Gas Conversion Rate

Beginning by June 15, 2014, and annually thereafter, the bill requires the DRS commissioner, in consultation with the Department of Energy and Environmental Protection commissioner, to issue information concerning the calculation of motor vehicle fuels tax on compressed natural gas. The conversion factor must (1) be consistent with applicable federal standards and (2) apply for the 12-month period beginning on the following July 1.

EFFECTIVE DATE: Upon passage

5. H.B. No. 5467 (RAISED) AN ACT CONCERNING PROCEDURES FOR DEBT CERTIFICATIONS AND THE TAX EXPENDITURE REPORT. (FIN)(JFS)

Fiscal Impact: None

The bill clarifies responsibility for requesting a debt certification from the Office of the State Treasurer prior to the approval of any bill which authorizes the issuance of General Obligation bonds, notes or other evidences of General Fund indebtedness. The bill also delays by one month publication of the biennial Tax Expenditure Report by the Office of Fiscal Analysis. The bill moves the deadline for the publication from January 1 to February 1. These procedural changes have no fiscal impact.

Summary of Substitute Bill:

This bill requires the Senate president pro tempore or House speaker, or their designees, to notify the state treasurer before considering in the first chamber any bill authorizing the issuance of any bonds, notes, or other evidences of indebtedness. By law, such bills must include a certification by the treasurer that the amount of authorizations within the bill will not cause the state's debt limit to exceed the statutory limit.

The bill also delays by one month, from January 1 to February 1, the biennial deadline by which the Office of Fiscal Analysis must prepare and submit a tax expenditure report to the Finance, Revenue and Bonding Committee.

EFFECTIVE DATE: October 1, 2014, except that the tax expenditure report provision is effective upon passage

6. H.B. No. 5471 (RAISED) AN ACT CONCERNING THE LEGISLATIVE COMMISSIONERS' RECOMMENDATIONS FOR TECHNICAL AND MINOR CHANGES TO TAXATION AND RELATED STATUTES. (FIN)

Fiscal Impact: None

The bill makes a number of technical changes that do not result in any fiscal impact to the state or municipalities.

Summary:

This bill makes technical changes to statutes concerning various taxes and the Bioscience Innovation Advisory Committee.

EFFECTIVE DATE: October 1, 2014

7. H.B. No. 5472 (RAISED) AN ACT CONCERNING FAILURE TO FILE FOR PROPERTY TAX EXEMPTIONS. (FIN)(JFS)

Fiscal Impact: Municipal Revenue Loss

The bill allows taxpayers who qualified for certain property tax exemptions in certain past grand list years, but missed the deadline to file for such exemptions, to receive such exemptions regardless. The bill results in a loss of revenue to effected municipalities.

Summary of Substitute Bill:

This bill allows taxpayers in seven towns to receive MME property tax exemptions for particular grand list years even though they missed the statutory deadline for filing necessary documents with the tax assessor. It applies to taxpayers in Berlin, Danbury, Farmington, East Haven, Monroe, New Haven, and Seymour.

The bill waives the filing deadlines if taxpayers file the necessary documents by August 1, 2014. In each case, the local assessor must (1) verify eligibility for and approve the exemption and (2) refund any excess taxes paid on the exempt property.

The bill also allows a nonprofit organization (i.e., an organization organized exclusively for scientific, educational, literary, historical, or charitable purposes or to preserve land for open space) to receive an exemption for real property on Middletown's 2013 grand list even though it missed the deadline for filing the required property tax exemption statement (November 1, quadrennially). The organization must apply for the exemption by August 1, 2014 and pay the statutory late fee to be considered to have filed the statement in a timely manner.

Middletown’s assessor must (1) approve the exemption after confirming the fee payment and the property’s eligibility for the exemption and (2) refund any excess taxes, interest, and penalties paid on the exempt property.

EFFECTIVE DATE: July 1, 2014

8. S.B. No. 447 (RAISED) AN ACT CONCERNING A LOCAL OPTION PROPERTY TAX RELIEF FOR BUSINESSES. (FIN)(JFS)

Fiscal Impact:

Agency Affected	Effect	FY 14 $	FY 15 $	FY 16 $
Department of Revenue Services	Cost	None	Approximately 30,000	None
Department of Revenue Services	Revenue Loss	None	None	Less than 1.0 Million

Municipality Affected	Effect	FY 14 $	FY 15 $	FY 16 $
Hartford; Various Municipalities	Grand List Reduction	None	None	Revenue Loss

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 to the City of Hartford, and any other municipalities that choose to participate.

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 the City of 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 in the City.

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

Summary of Substitute Bill:

This bill 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. It authorizes the Office of Policy and Management to choose up to five municipalities in different regions and of varying sizes to participate in the program. Qualifying municipalities may then select up to three businesses to receive the alternative assessment method, but only if the property's owners and occupants agree on the assessment method.

The bill also establishes state and local tax incentives to boost homeownership in areas where relatively few people own and occupy homes. It specifies criteria for determining these areas and sets thresholds for terminating the incentives. The bill also allows municipalities to assess maximum three-family owner-occupied homes at lower rates than investor-owned residential property if they, under existing law, annually adjust the assessment ratios for these types of property. (Hartford is the only municipality that does so (CGS § 12-62r)).

Lastly, the bill modifies the way in which Hartford's assessor must calculate the annual adjustment to residential property assessments. Existing law requires the assessor to calculate an annual adjustment to the city's residential assessment ratio to reflect the growth in property taxes levied over the previous fiscal year, adjusted for inflation. The bill (1) requires the assessor to adjust the previous fiscal year's tax levy for inflation, rather than the current year's levy, and (2) specifies that he use the consumer price index for urban consumers in the northeast region that is generally reported in February for the year-over-year January index.

EFFECTIVE DATE: July 1, 2014 and applicable to assessment years starting on or after October 1, 2014

9. S.B. No. 449 (RAISED) AN ACT CONCERNING THE USE OF CERTAIN REVENUES TO PROVIDE FUNDS FOR THE BUDGET RESERVE FUND, CAPITAL DEBT PAYMENTS AND PENSION PAYMENTS. (FIN)(JFS)

Fiscal Impact: None

There is no fiscal impact to the Department of Revenue Services to perform the calculations that the bill requires.

Summary of Substitute Bill:
This bill requires DRS, for 2015 and 2016, to calculate the average amount of personal income tax paid to the state on capital gains, dividend, and interest income.

EFFECTIVE DATE: July 1, 2014

10. S.B. No. 470 (RAISED) AN ACT CONCERNING A STUDY OF THE ADMINISTRATIVE COSTS TO COLLECT TAXES AND FEES. (FIN)(JFS)

Fiscal Impact: None

There is no fiscal impact to Department of Revenue Services or any other state agency to catalog the taxes levied and fees charged, and to study the administrative costs of collecting and enforcing such taxes and fees because these agencies are currently administering the taxes and fees.

Summary of Substitute Bill:
This bill requires the DRS commissioner to conduct a study that examines the

administrative costs of collecting and enforcing state taxes. It requires state agencies authorized to charge fees to conduct similar studies that examine the administrative costs of collecting the fees. The studies must, for each tax or fee, (1) list the amount of revenue it raises and (2) provide the costs the agency incurs in administering, collecting, and enforcing it. DRS' study must also estimate the percentage of delinquent tax revenue.

By January 1, 2015, each agency's department head must report his or her findings to the Finance Committee and include (1) an analysis of the administrative costs and revenue for each tax or fee and (2) recommendations for statutory changes to increase administrative efficiencies.

EFFECTIVE DATE: July 1, 2014

11. H.B. No. 5546 (RAISED) AN ACT IMPLEMENTING CERTAIN RECOMMENDATIONS OF THE AUDITORS OF PUBLIC ACCOUNTS. (FIN)

Fiscal Impact: No state or municipal fiscal impact

Sections 1, 3 and **4** make procedural changes which have no fiscal impact.

Section 2 allows the University of Connecticut Health center (UCHC) to recoup bad debts from individuals who are owed state income tax refunds. This will result in additional operating revenue for the John Dempsey Hospital, which is not generally supported by state funding. The extent of this revenue is dependent upon the extent to which those who owe for uncompensated care also are due tax refunds, which is not known. For the calendar year 2012, UCHC incurred $5.6 million in unpaid medical care. **Section 2** does not result in any revenue impact to the state.

Summary:
This bill:

1. authorizes the Department of Revenue Services commissioner to disclose certain tax information to the Auditors of Public Accounts for purposes of their auditing duties and reviewing whistleblower complaints;

2. requires the state to withhold the state income tax refund of any taxpayer who has a delinquent patient account at the UConn Health Center; and

3. requires the Auditors to conduct biennial compliance audits, rather than annual financial audits, of the Capital Region Development Authority and Rentschler Stadium Enterprise Fund.

EFFECTIVE DATE: October 1, 2014

12. H.B. No. 5545 (RAISED) AN ACT CONCERNING A COMPREHENSIVE STUDY OF THE STATE'S TAX STRUCTURE. (FIN)(JFS)

Fiscal Impact:

Agency Affected	Effect	FY 14 $	FY 15 $ - FY 16 $
Office of Legislative Management	Cost	None	100,000 - 500,000

The bill authorizes the chairs and ranking members of the Finance, Revenue and Bonding Committee to convene a panel of experts to conduct a thorough review of the state's tax structure. Given the scope and probable complexity of the study, it is anticipated that outside or contracted expertise would be required at a total cost ranging from $90,000 to $490,000. In addition, the Office of Legislative Management would incur costs of up to $10,000 to cover mileage reimbursements and publication costs.

Summary of Substitute Bill:

This bill requires the Finance, Revenue and Bonding Committee's leadership to convene an expert panel to (1) study the state's tax structure and (2) develop revenue-neutral policy options to modernize the system and increase its simplicity, fairness, economic competitiveness, and affordability. The panel must, by February 1, 2016, report its findings and its recommendations for further action to the Finance Committee.

The panel must examine all major state taxes and the property tax and consider specific policy questions for certain taxes and tax credit programs. The panel must consult with the OPM, DRS, and other financial experts it deems necessary. It must also meet with a broad cross-section of interest groups, including business associations, labor and regional organizations, public interest groups, accountants, and attorneys.

EFFECTIVE DATE: July 1, 2014

13. S.B. No. 467 (RAISED) AN ACT CONCERNING STATE GRANTS IN LIEU OF PROPERTY TAXES. (FIN)(JFS)

Fiscal Impact:

Agency Affected	Effect	FY 14 $	FY 15 $	FY 16 $
Office of Policy and Management	Cost	None	None	31.0 Million

Municipality Affected	Effect	FY 14 $	FY 15 $	FY 16 $
All Municipalities	Revenue Gain	None	None	31.0 Million

The bill: 1) combines the State Property and College & Hospital PILOT grants; 2) increases the reimbursement rates for such property above the current effective reimbursement rates for each grant; 3) removes language allowing the Office of Policy and Management to prorate the grants in the event that the appropriation is insufficient to fund the grants; 4) phases in these changes from FY 16 to FY 21.

There is a significant cost to the state, and a significant revenue gain to municipalities, associated with increasing the reimbursement rates for taxes that would have been paid on state, college, and hospital property. The bill requires the new reimbursement rates to be phased in. In FY 16, municipalities would be paid 20% of what they would receive based on the new reimbursement rates, and 80% of what they would receive under current statute. This would result in an additional state grant cost of $31 million in FY 16 (based on original FY 15 appropriations for each grant).

The cost of the bill would increase each year until FY 20, when it would reach $157.8 million to reflect payments to municipalities of 100% of what they are owed under the proposed bill.

Summary of Substitute Bill:

This bill changes the statutory formula for payments in lieu of taxes (PILOTs) reimbursing municipalities for the property taxes they would have collected from tax-exempt state-owned property, private colleges and hospitals, and other specified types of property. Under current law, PILOTs are based on a specified percentage of taxes that the municipality would otherwise collect on the property and the amount the state appropriates for these payments. The bill instead bases the payments on the amount of tax-exempt property in the municipality, phasing in the new reimbursement rates over five years, from FY 16 to FY 20. It eliminates the requirement that the payments be proportionately reduced if the state appropriation for the grants is not enough to pay the full amount to every municipality.

Under the bill, the 20 municipalities with the greatest percentage of tax-exempt property receive a PILOT equal to 50% of the property taxes that would have been paid on state-owned property and private colleges and hospitals. The next 20 municipalities receive a 45% PILOT and the remaining municipalities receive a 40% PILOT. The bill also sets specific PILOT grant amounts, ranging from 75% to 40%, for specified types of property.

Over the phase-in period, municipalities must receive a PILOT that is equal to or greater than the amount received in FY 15. OPM must annually report, starting by July 1, 2016, to the Finance Committee on the PILOT grants distributed under the bill and recommend changes.

EFFECTIVE DATE: July 1, 2014

14. S.B. No. 469 (RAISED) AN ACT CONCERNING TELEVISION COVERAGE OF STATE GOVERNMENT DELIBERATIONS AND DISTRIBUTION OF PROCEEDS FROM NEW LOTTERY GAMES. (FIN)(JFS)

Fiscal Impact:

Section	Agency Affected	Effect	FY 14 $	FY 15 $	FY 16 $
1	Department of Revenue Services	General Fund Revenue Loss	3.5 Million	3.5 Million	3.5 Million
2	Department of Revenue Services	General Fund Revenue Loss	None	7.5 Million to 18.9 Million	15 Million to 26 Million
-	Total	General Fund Revenue Loss	3.5 Million	11.0 Million to 22.4 Million	18.5 Million to 29.5 million

Municipality Affected	Fund	Effect	FY 14 $	FY 15 $	FY 16 $
All	None	Revenue Gain	None	13.5 Million	26.0 Million

Television Coverage of State Government Deliberations

Section 1 increases, from $2.5 million to $6.0 million, the annual General Fund revenue diversion from the Public Service Tax to provide television coverage of state government deliberations and public policy events. The increase applies to the current fiscal year and each fiscal year thereafter. In FY 14, expenditures are anticipated to be $2.75 million including the use of up to $250,000 of carry forward appropriations to the Office of Legislative Management.

Approximately $3.23 million of the additional funds would be used to pay for capital expenditures in 2015 and 2016, including the purchase of equipment. Staffing levels would increase from 29.5 Full Time Equivalents to 80.0 FTEs over the next three fiscal years. In addition, significant increases are planned in management, production and education/outreach. See the table below.

Planned Operating Budget Increases

CT-N Public Hearing Testimony, 3/13	**2014 $**	**2017 $**	**% Change**
Salaries and Benefits	2,100,000	4,700,000	124
Management Expenses	225,000	440,000	96
Production Expenses	89,000	350,000	293
Education and Outreach	110,000	260,000	136
Other Expenses	60,000	250,000	317
TOTAL	**2,584,000**	**6,000,000**	**132**
CT-N Revised, 3/21	**2014 $**	**2017 $**	**% Change**
Salaries and Benefits	2,100,000	4,230,000	101
Management Expenses	225,000	358,000	59
Production Expenses	89,000	350,000	293
Education and Outreach	110,000	188,000	71
Other Expenses	60,000	60,000	0
TOTAL	**2,584,000**	**5,186,000**	**101**

Management expenses are based on the number of employees, so the growth in that line is tied to the hiring of additional employees as described above:

particularly, new computers, office furniture, etc. for new employees. Growth in production expenses is driven by the cost of cloud storage of newly-produced programming going forward.

Keno Gambling Revenue

Section 2 diverts from the state to municipalities the anticipated operating revenue from Keno gambling, which is estimated to be $26 million annually. Under the bill, the diversion would take place after the transfer of funds to the tribes per agreement, but before accounting for operating costs incurred by the Connecticut Lottery Corporation (CLC). It is uncertain whether or not the Connecticut Lottery Corporation would pass along its operating costs to the General Fund in the form of reductions to special revenue transfers.

Current law will distribute (after the transfer to the tribes) annual operating revenue from Keno gambling to the Connecticut Lottery Corporation to cover its costs, estimated to be $11 million including commissions, marketing and other CLC overhead, and $15 million to the state's General Fund.[1] The annual revenue loss to the state under the bill therefore ranges from $15 million to $26 million if the CLC decides to reduce its special revenue transfers in order to recoup its costs.

The estimated FY 15 municipal revenue gain is approximately ½ of the annual amount indicated above i.e. $13.5 million because the implementation of Keno is not anticipated until January 1, 2015. The associated FY 15 revenue loss to the state could range from $7.5 million to $18.9 million, including CLC's ongoing and start-up costs ($5.4 million) to implement Keno.

Summary of Substitute Bill:

This bill requires the Keno operating revenues that remain after subtracting the amounts shared under the state's revenue agreement with the Mashantucket Pequot and Mohegan tribes, to be distributed to municipalities. Half of the revenues must be distributed to municipalities on a per capita basis, as determined by the most recent federal census, and half to distressed municipalities.

---

[1] The estimated, total $27 million state revenue from gambling includes: 1) $15 million from Keno sales; and 2) $12 million in additional lottery sales attributable to Keno.

The bill also increases, from \$2.5 million to \$6 million, the amount the comptroller must set-aside from the cable television companies tax each fiscal year for the Office of Legislative Management to defray the costs of providing Connecticut Television Network (CTN) coverage of state government deliberations and public policy events.

EFFECTIVE DATE: July 1, 2014, except for the CTN funding, which is effective upon passage.