CONNECTICUT GENERAL ASSEMBLY

Office of Fiscal Analysis Office of Legislative Research

TO: Members of the Finance, Revenue and Bonding Committee

FROM: OFA & OLR Staff

RE: Items for April 5, 2022 Agenda

BILLS FOR REVIEW

1. S.B. No. 382 (RAISED) AN ACT CONCERNING A CONNECTICUT NEW MARKET TAX CREDIT PROGRAM. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill establishes a Connecticut new markets tax credit program, administered by the Connecticut Health and Educational Facilities Authority (CHEFA) Community Development Corporation (CDC), to stimulate economic development in low-income communities. Under the program, private investors and businesses making qualified low-income community investments through a community development entity (CDE) may receive state tax business credits equal to 39% of their investment, which they may claim over a seven-year period.
- The credit-eligible investments must be made during the 2023 and 2024 calendar years, subject to a $25 million per calendar year aggregate cap. The credit applies against various business taxes, including the corporation business and insurance premiums taxes, and must be claimed over a seven-year period. Taxpayers may carry forward unused credits for up to five years and may sell, assign, or transfer the credits up to three times.
- EFFECTIVE DATE: July 1, 2022

Fiscal Impact:

- General Fund revenue losses of up to:
  - $1.3 million in FY 24
  - $2.5 million in FY 25-FY 26
  - $2.8 million in FY 27
  - $3 million in FY 28-FY 30
  - $1.5 million in FY 31

2. S.B. No. 383 (RAISED) AN ACT INCREASING THE APPLICABLE PERCENTAGE OF THE EARNED INCOME TAX CREDIT. (FIN) **Proposed Action: JF to the Floor**

Summary:

- Beginning with the 2022 tax year, this bill increases the state earned income tax credit from 30.5% to 41.5%.
- EFFECTIVE DATE: July 1, 2022, and applicable to tax years beginning on or after January 1, 2022.

Fiscal Impact:

- $49 million General Fund revenue loss annually beginning in FY 23.

3. S.B. No. 385 (RAISED) AN ACT CONCERNING THE AMOUNT OF THE DIGITAL MEDIA TAX CREDIT. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill increases, from 78% to 92%, the value of film and digital media production tax credits claimed against the sales and use tax. Existing law allows eligible production companies and other taxpayers (i.e., transferees) to claim these credits against the sales and use tax only if there is at least 50% common ownership between the transferee and eligible production company that transferred the credit.
- EFFECTIVE DATE: Upon passage

Fiscal Impact:

- $2.7 million General Fund revenue loss annually beginning in FY 23.

4. S.B. No. 443 (RAISED) AN ACT CONCERNING THE TAX INCIDENCE REPORT, TAX INCIDENCE ANALYSES AND THE DISCLOSURE OF RETURNS AND RETURN INFORMATION. (FIN) **Proposed Action: JFS to the Floor**

Summary:

- This bill (1) resets the deadline for the next tax incidence study, from February 15, 2024, to December 15, 2023, and (2) expands the study's required elements to include, among other things, incidence projections for each covered tax and specific demographic information for each income class.
- The bill also authorizes the Finance Committee cochairpersons to request the DRS commissioner to prepare an incidence impact analysis of any bill or proposal that OFA projects will increase or decrease tax revenue, or redistribute the tax burden, by more than $20 million.
- EFFECTIVE DATE: July 1, 2022

Fiscal Impact:

- The bill, which adjusts the deadline and content for the biennial tax incidence study by DRS, does not result in any fiscal impact. (Under both current law and the bill the study would next be due in FY 24, with an associated cost of $375,000 assuming it is produced by a third party).

5. S.B. No. 463 (RAISED) AN ACT CONCERNING AN ANALYSIS OF THE AVENUES TO MAXIMIZE THE VALUE OF CERTAIN STATE-OWNED REAL PROPERTY. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill requires the Capital Region Development Authority (CRDA) to conduct an analysis concerning the redevelopment of the Brainard Airport property, which must include identifying:
    - governmental obstacles to redevelopment, ways to address the obstacles, and any associated costs;
    - environmental obstacles to redevelopment, including any required testing, and the possible ways and costs to render the property environmentally developable; and
    - the property's commercial, residential, and recreational development opportunities.
- The bill requires (1) CRDA to use consultants with expertise best suited to accomplishing the analysis and (2) the Connecticut Airport Authority (CAA) to assist and collaborate with CRDA. It also prohibits

CAA from entering into and agreements or incurring obligations that would further encumber the property. The bill appropriates $1.5 million to CRDA in FY 23 for the analysis, which CRDA must submit to the Finance Committee by January 1, 2023.

- EFFECTIVE DATE: July 1, 2022

Fiscal Impact:

- The bill appropriates $1.5 million to support the study.

6. S.B. No. 464 (RAISED) AN ACT CONCERNING THE FAILURE TO FILE FOR CERTAIN GRAND LIST EXEMPTIONS. (FIN) **Proposed Action: JFS to the Floor**

Summary:

- This bill allows taxpayers in seven municipalities (Danbury, Groton, Manchester, Middletown, Watertown, West Hartford, and Windsor Locks) to claim a property tax exemption, for specified property and grand lists, even though they missed the November 1 filing deadline.
- EFFECTIVE DATE: Upon passage

Fiscal Impact:

- Allows taxpayers in certain towns to receive exemptions for which they would have qualified if they did not miss the filing deadline
- Revenue loss to impacted towns, or cost to reimburse taxpayers, in an amount equal to the exemption they receive

7. S.B. No. 480 (RAISED) AN ACT CONCERNING THE ESTABLISHMENT AND CERTIFICATION OF COMMUNITY DEVELOPMENT CORPORATIONS IN THE STATE. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill establishes a new Office of Community Economic Development Assistance within the Department of Economic and Community Development (DECD) to provide technical, investment, and grant assistance to eligible community development corporations (CDC). Under the bill, the new office must, among other things:
    - identify eligible target areas in the state (areas in which the unemployment rate exceeds the state rate by at least 25% or in which the mean household income is at or below 80% of the state's);
    - certify new and existing CDCs that serve these areas and meet other specified criteria;
    - provide various types of assistance to these CDCs, within available appropriations; and
    - administer a grant program for projects that certified CDCs undertake in the targeted areas.
- The bill authorizes $100 million in state general obligation (GO) bonds to fund the new office's operations and the CDC grant program.
- It also establishes a new corporation business tax credit for investors making cash investments in the certified CDCs. The credit equals 50% of the cash investment, up to $25,000 per investor and $5 million in the aggregate.
- EFFECTIVE DATE: July 1, 2022

Fiscal Impact:

- Bonding – The bill authorizes $100 million to fund the new office's operations and the CDC grant program. Expected GF debt service cost of $143 million.
- Tax Credits - The bill establishes a new corporation business tax credit and caps the aggregate amount of all tax credits at $5 million.
- DECD administration:
  - It is anticipated that DECD would require at least three positions at a cost of $360,000 ($260,000 in personal services and $100,000 in fringe) plus $15,000 in computers and miscellaneous expenses to administer the programs under the bill.
  - The administrative expenses are funded by the bond authorizations provided in the bill.

8. S.B. No. 482 (RAISED) AN ACT ESTABLISHING THE FINTECH REGULATORY SANDBOX PROGRAM AND THE INSURTECH REGULATORY SANDBOX INITIATIVE. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill establishes a Fintech Regulatory Sandbox program to allow eligible companies to make innovative products or services and temporarily offer them to consumers without the companies having to obtain any required licenses or other authorization to do so. It establishes (1) an 11-member Innovation Council with the Department of Banking to oversee the program and (2) the program's criteria and requirements.
- The bill also requires the insurance commissioner, in consultation with CTNext's board of directors, to establish an Insurtech Regulatory Sandbox initiative to help develop new technologies and types of insurance for start-up insurance companies that lack the capital and labor resources to comply with the state's insurance laws and regulations.
- EFFECTIVE DATE: July 1, 2022

Fiscal Impact:

- Cost of approx. $179,500 to Insurance Fund for new position at the Insurance Department to oversee the program ($90,000 salary, $89,500 fringe benefits).
- Cost of approx. $180,163 to Banking Fund for new position at the Department of Banking (DOB) to oversee the program ($90,203 salary, $89,960 fringe benefits).
- To the extent there are fewer licenses issued, DOB will have a potential revenue loss.

9. S.B. No. 484 (RAISED) AN ACT CONCERNING EMISSIONS AND DECIBEL LEVEL TESTING FOR MOTOR VEHICLES AND THE TAXATION OF CERTAIN MOTORCYCLES AND MOTORCYCLE MUFFLERS. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill eliminates the emissions test exemption for motorcycles, thus requiring that they be tested. It requires (1) all motor vehicles, at the time of emissions inspection, to have their noise level tested to ensure it does not exceed the maximum level set in law and (2) DEEP and DMV to develop the testing program's specifications, requirements, and penalties.
- The bill also increases the sales and use tax rate to 50% for sales of (1) motorcycles that exceed the maximum allowable noise level and (2) aftermarket motorcycle mufflers that would cause a motorcycle to exceed this level.
- EFFECTIVE DATE: October 1, 2022; the sales and use tax provisions are applicable to sales occurring on or after that date.

Fiscal Impact:

- The bill results in upfront costs to both DMV and DEEP to establish the new noise inspection test for all motor vehicles. Specifically, DEEP is expected to need consultant services and new staffing of approximately $200k in each of FY 23 and FY 24, while DMV would need between $2 million - $2.5 million in one-time costs to purchase the requisite decibel testing equipment and make associated IT changes.
- The bill provides for new fees including (1) a fee of up to $20 for each motorcycle emissions test, resulting in a revenue gain of up to $80k annually to the emissions account; (2) an additional fee of up to $20 for each noise inspection, resulting in a revenue gain of approximately $1.8 million annually; and (3) a $20 fee for late motorcycle emissions reinspection, resulting in a revenue gain of up $120k annually.
- The bill creates new infractions for violating certain provisions and subjects the motorcycle and noise inspection provisions to DEEP civil penalties, resulting in potential minimal revenue gain from fines/penalties.
- The sales tax impact of this bill is uncertain. To the extent the new rate does not affect sales of affected items, there is a revenue gain to the GF and STF. To the extent the increased tax rate results in lower sales volume, there is a revenue loss to the GF and STF.

10. S.B. No. 485 (RAISED) AN ACT AUTHORIZING BONDS OF THE STATE FOR CAPITAL IMPROVEMENTS TO INTERDISTRICT MAGNET SCHOOLS OPERATED BY THE CAPITOL REGION EDUCATION COUNCIL. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill authorizes $20 million in GO bonds for grants to the Capitol Region Education Council (CREC) for capital improvements to buildings or structural components of the magnet schools CREC operates.
- It also requires CREC to (1) maintain a rolling three-year capital improvement plan and a long-range capital improvement plan that meets the bill's requirements and (2) periodically report on these plans to the Finance and Appropriations committees.
- EFFECTIVE DATE: July 1, 2022

Fiscal Impact:

- Bonding – The bill authorizes $20 million to fund capital repairs at CREC schools. Expected GF debt service cost of $29 million.

11. S.B. No. 487 (RAISED) AN ACT ESTABLISHING THE INFANT AND TODDLER EARLY CARE AND FAMILY SUPPORT INITIATIVE. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill requires the Office of Early Childhood (OEC) to establish the Infant and Toddler Early Care and Family Support Initiative. The initiative must provide grants to child care service providers and staffed family child care networks to subsidize infant and toddlers spaces in high-need areas throughout the state. It allows OEC to enter into five-year contracts with providers, giving priority to accredited centers that are (1) located in towns with the lowest median incomes and greatest early care availability deficits, (2) creating new spaces, and (3) licensed to individuals who reflect the demographics of the community. The bill sets conditions and requirements for the grants and contracts.

- Beginning in FY 24, the bill transfers an amount equal to the percentage of revenue remaining after the revenue cap is calculated in order to fund the program. It also allows existing Smart Start accounts and early childhood-related bond authorizations to be used for the program.
- Lastly, it repeals the procedural requirements for exceeding the revenue cap.
- EFFECTIVE DATE: July 1, 2022, except that the repeal of the procedural requirements for exceeding the revenue cap is effective July 1, 2023.

Fiscal Impact:

- Beginning in FY 24, the bill diverts to the newly established early care and family support account within the Office of Early Childhood General Fund revenues equivalent to the budgeted surplus requirements calculated for the General Fund under CGS Section 2-33c. Estimated transfers are provided below.

Source	FY	Max appropriations as a % of revenues	Budgeted surplus requirement %	Budgeted surplus requirement amount in $ millions
FY 20 – FY 21 Budget	2020	99.50%	0.50%	92.0
	2021	99.25%	0.75%	140.2
FY 22 – FY 23 Budget	2022	99.00%	1.00%	210.2
	2023	98.75%	1.25%	272.6
January 2022 Consensus	2024	98.50%	1.50%	321.2
	2025	98.25%	1.75%	385.0
	2026	98.00%	2.00%	452.5

- The policy results in additional staffing costs to the OEC of at least $164,000 annually (with associated fringe of $66,500) to administer the Infant and Toddler Early Care and Family Support Initiative.

12. H.B. No. 5403 (RAISED) AN ACT ESTABLISHING A CHILD TAX CREDIT AGAINST THE PERSONAL INCOME TAX. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill establishes a child tax credit (CTC) that resident taxpayers with qualifying incomes may claim against the personal income tax. Taxpayers may claim the credit for up to three children (age 16 or younger) that they validly claimed as dependents on their federal income tax return for the applicable tax year. They may claim either a nonrefundable or refundable credit, as shown in the following table; the credit phases out at a rate of 10% for every $1,000, or fraction of $1,000, of AGI exceeding the income thresholds shown in the table.

Filing Status	Credit Amount (per child)		Maximum Credit Threshold	No Credit
	Refundable	Nonrefundable	Federal AGI ≤	Federal AGI >
Single or Married Filing Separately	$420 or 4.5% of the filer's federal AGI, whichever is less	$600	$100,000	$110,000
Head of Household			$160,000	$170,000
Joint Filers or Surviving Spouse			$200,000	$210,000

- EFFECTIVE DATE: July 1, 2022, and applicable to tax years beginning on or after January 1, 2022.

Fiscal Impact:

- $300 million General Fund revenue loss annually beginning in FY 23.

13. [H.B. No. 5405] (RAISED) AN ACT IMPLEMENTING THE TREASURER'S RECOMMENDATIONS CONCERNING THE INVESTMENT ADVISORY COUNCIL AND RELATED STATUTES. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill authorizes the state treasurer, in consultation with the Investment Advisory Council (IAC), to set the compensation of investment officers and other personnel that assist the chief investment officer. It does so by exempting these officers and personnel from the requirement that salaries of Executive Branch employees not set by law be determined by the administrative services commissioner and approved by the OPM secretary. Under current law, this exemption applies only to the chief, deputy, and principal investment officers' compensation.
- The bill eliminates the prohibition on public members of the IAC, as well as their business organizations or affiliates, directly or indirectly contracting with or providing services for the investment of state trust funds during the time they serve on the council and for one year after. (By law, the public members are subject to the State Ethics Code, including its postemployment restrictions.) But the bill requires the members to recuse themselves from discussions or votes related to these contracts.
- The bill eliminates the requirement that contracts for investment-related services (i.e., investment manager contracts) be reviewed by the IAC. Under the bill, if any contract deviates from the investment policy statement, the treasurer must notify the IAC at a council meeting of his selection of the service provider and may award the contract after a 45-day waiting period.
- The bill also requires the treasurer to submit quarterly reports to the IAC on investment manager contracts awarded each quarter. The first report must cover the quarter ending September 30, 2022, and include contracts awarded and in effect on July 1, 2022. Each report must include the name of the contracted service provider and contract's value.
- EFFECTIVE DATE: Upon passage

Fiscal Impact:

- No impact to appropriated funds. Various investment funds could be impacted by both the potential increased personnel costs and potential revenue change from investment returns.

14. [H.B. No. 5408] (RAISED) AN ACT CONCERNING THE QUALIFYING INCOME THRESHOLDS FOR CERTAIN PERSONAL INCOME TAX DEDUCTIONS FOR MARRIED INDIVIDUALS FILING JOINTLY. (FIN) **Proposed Action: JF to the Floor**

Summary:

- Beginning with the 2022 tax year, this bill increases, from $100,000 to $150,000, the income threshold under which joint filers qualify for (1) a 100% income tax exemption for their Social Security benefits and (2) the pension and annuity income tax exemption.
- EFFECTIVE DATE: July 1, 2022, and applicable to tax years beginning on or after January 1, 2022.

Fiscal Impact:

- General Fund revenue losses of:
    - $76.8 million in FY 23
    - $88.3 million in FY 24

- $103 million in FY 25
- $110.7 million in FY 26

15. H.B. No. 5476 (RAISED) AN ACT CONCERNING THE PROVISION OF PARTIAL FEE REDUCTIONS BY MUNICIPAL STORMWATER AUTHORITIES AND THE INCLUSION OF HEATING, VENTILATING AND AIR CONDITIONING SYSTEMS IN SCHOOL BUILDING PROJECT GRANT PAYMENTS. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill requires stormwater authorities to provide partial fee reductions, in the form of a credit proportional to the reduction in stormwater runoff, for properties where the owner (1) has a stormwater management system that complies with state and local stormwater standards and effectively reduces, retains, or treats stormwater or (2) has installed infrastructure that reduces, retains, or treats stormwater onsite and exceeds any applicable state or local requirements. It also eliminates the requirement that authorities consider grand list valuation in setting fees.
- The bill also makes installing, replacing, or repairing heating, ventilation, or air conditioning systems eligible for school building project grants
- EFFECTIVE DATE: July 1, 2022

Fiscal Impact:

- Revenue loss to municipal stormwater authorities. It is anticipated that such revenue loss would be offset by increases in fees assessed to users who do not receive the credit under the bill's provisions.
- Potential cost/ potential revenue gain to the local and regional school districts based on cost of HVAC projects school districts opt to replace that would have otherwise been ineligible under the school construction program,
- Significant cost to the state for increased future GF debt service. Expansion of the school construction program to include HVAC replacement as non-priority list projects will necessitate increased GO bond authorization, based on number/amount of district projects.

16. H.B. No. 5477 (RAISED) AN ACT CONCERNING SALES TAX REMITTANCE FOR CERTAIN MARKETPLACE FACILITATOR TRANSACTIONS. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill specifies that marketplace facilitators who facilitate motor vehicle rentals on behalf of rental companies are not required to collect and remit sales tax on the rental company's behalf.
- EFFECTIVE DATE: Upon passage

Fiscal Impact:

- No fiscal impact.

17. H.B. No. 5502 (RAISED) AN ACT CONCERNING THE OPERATIONS OF THE STATE TREASURER AND THE BONDING AUTHORITY OF THE CONNECTICUT MUNICIPAL REDEVELOPMENT AUTHORITY. (FIN) **Proposed Action: JFS to the Floor**

Summary:

- This bill limits the Connecticut Municipal Redevelopment Authority's (MRDA) bonding authority by, among other things:

- repealing the provision requiring that the state assume liability of and make payment for MRDA debt in the event that the authority cannot pay for its bonds, notes, or other obligations;
- authorizing the authority to establish one or more special capital reserve funds to secure the principal and interest payments on bonds issued; and
- capping at $50 million the aggregate amount of bonds secured by the special capital reserve fund.

- The bill requires state employees, officers, agencies, boards, and commissions (including the John Dempsey Hospital Finance Corporation), or their agents, to notify the state treasurer of certain financial obligations that must be reported under federal law. It applies to any financial obligation exceeding $1 million or encumbering property or rights of the state material to its operations.
- The bill explicitly requires that certain property sales, leases, or other dispositions receive the state treasurer's prior approval. It applies to sales, leases, or other dispositions to, or uses by, a nongovernmental entity of all or a portion of a project financed by tax-exempt state bonds if doing so would cause the bonds to be treated as private activity bonds.
- The bill also eliminates obsolete statutory references to the Tax-Exempt Proceeds Fund, which no longer exists.
- EFFECTIVE DATE: Upon passage, except that the provisions concerning the Tax-Exempt Proceeds Fund and the treasurer's approval for certain property sales, leases, and dispositions are effective July 1, 2022.

Fiscal Impact:

- Changes existing MRDA bonding authority to require use of special capital reserve funds (SCRF) and Treasurer oversight of state-backed bonds, which reduces the already minimal impact associated with quasi-public bonds

18. H.B. No. 5503 (RAISED) AN ACT CONCERNING THE BUSINESS OPERATING LOSS CARRY-OVER PERIOD. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill extends, from 20 to 40 years, the period that corporations may carry forward net operating losses (NOL) for corporation business tax purposes. It applies to NOLs incurred beginning with the 2023 income year. By law, unchanged by the bill, the NOL deduction may not exceed 50% of a corporation's pre-NOL income.
- EFFECTIVE DATE: October 1, 2022

Fiscal Impact:

- The bill results in significant revenue losses beginning in FY 44.

19. H.B. No. 5504 (RAISED) AN ACT CONCERNING THE REMOVAL OF AN ENTERPRISE ZONE DESIGNATION. (FIN) **Proposed Action: JF to the Floor**

Summary:

- This bill prohibits the DECD commissioner from removing an enterprise zone designation for an area that no longer meets the law's eligibility criteria if the number of residents in the area with incomes below the poverty level has not been reduced by at least 75% from the date the zone was originally approved.

- EFFECTIVE DATE: Upon passage

Fiscal Impact:

- Precludes any loss in state aid that a municipality might experience as a result of losing Distressed Municipality designation
- Results in a potential cost to fully fund the Distressed Municipalities grant program within OPM, to the extent that makes municipalities eligible to receive the grant that would otherwise not be eligible.