TO: William Donlin, David Kluczwski
CC: Scott Ferguson
RE: SB 1: AAC TAX FAIRNESS AND ECONOMIC DEVELOPMENT
DATE: April 30, 2015

There is as yet no new language available for SB 1. The new bill is being written now. The information below is the information the Finance Committee had as they acted on the bill. I've highlighted in yellow the sections describing the new MV cap.

Please be sure to advise your members that the MV tax will continue to be collected locally under this plan. Instead of earlier proposals whereby the state would collect the MV revenue and then return it to the towns under various formulas, this plan simply caps the tax at a mill rate of 29.36.

Towns with mill rates below the cap are not required to make any changes or remit any funds. They are allowed, if they choose, to set a different mill rate for MV than for real property.

Towns with mill rates above the cap must set their MV rate no higher than 29.36. They will be compensated for revenue lost through PILOT funds that are distributed under a new formula, described below. $45.3 million will be distributed under this section of the new plan.

The Finance Committee also proposes significant changes to the State Sales Tax. It expands the tax to cover new services, like accounting and veterinary services, proposes a two-step lowering of the Sales Tax, resulting in a 5.35 % Sales Tax by July 1, 2017 and dedicates .5% as a new revenue stream for municipalities. This portion of the Sales Tax would be "diverted" into a Municipal Revenue Sharing Account and distributed through a different formula than the PILOT funds. Estimated new revenue is $ 294.2 million in FY 2016, $408.9 in FY 2017.

Perhaps the most complicated part of SB 1 is what they are calling Property Tax Base Sharing. Towns, working through the COGs, can agree to create a shared regional mill rate for Commercial and Industrial property. This too is described below.

I am sure people will have many questions as they review this new proposal. Except for the chart showing revenue projected for each town, the information below is literally all the information there is until the bill is actually written and we have that to review. For now, let's encourage people to submit their questions and we will seek answers directly from the Finance Committee co-chairs for any information we are lacking.

In other news, the Finance Committee also voted out a substitute for 12. H.B. No. 5945 (COMM) AN ACT CONCERNING THE SALE, VIA INTERNET AUCTION, OF

LICENSE PLATES ISSUED BY THE DEPARTMENT OF MOTOR VEHICLES. The bill now calls for a feasibility study to be conducted by DMV.

Detail on SB 1 follows.

3. **Substitute for S.B. No. 1 (COMM) AN ACT CONCERNING TAX FAIRNESS AND ECONOMIC DEVELOPMENT**. (PD,PD,FIN) (JFS)

FISCAL IMPACT:

The bill 1) changes the reimbursement rates, and the basis for determining those rates, for the State Property PILOT and College & Hospital PILOT grant programs; 2) caps the motor vehicle mill rate at 29.36; 3) distributes a portion of sales tax revenue to municipalities; and 4) establishes an optional commercial property tax revenue sharing system for regional councils of government. Below is a description of the fiscal impact of each section:

Changes to PILOT grants

This portion of the bill would cost approximately $45.3 million to implement

Municipality Affected	Fund-Effect	FY 16 $	FY 17 $
All Municipalities	Revenue Gain	None	Significant
Various Municipalities	Revenue Loss	None	Significant

in FY 15. It is not clear how payments under the bill's provisions would be impacted by future changes in municipal mill rates and grand lists.

Motor Vehicle Tax Cap

The bill caps the motor vehicle mill rate at 29.36. If this cap had been in place in FY 14, it is anticipated that 57 municipalities would have lost approximately $82.6 million in revenue.

Sales Tax Distribution

sSB 946 diverts a portion of sales tax revenue ($294.2 million in FY 16 and $408.9 million in FY 17) to the Municipal Revenue Sharing Account. sSB 1 distributes that revenue to municipalities and regional councils of government, beginning in FY 17.

Due to the timing of payments, this results in a FY 17 revenue gain of $264.8 million to municipalities and $29.4 million to regional councils of government. In FY 18, it is estimated that municipalities will receive $368.0 million and regional councils of government will receive $40.9 million.

The bill requires that the grant a municipality receives under this provision of the bill, in excess of the amount that offsets the revenue loss to that municipality resulting from the mill rate cap, be reduced in the event that municipal spending growth exceeds 2.5% based on the two prior years.

Grand List Growth Sharing

The bill allows each regional council of government to establish a property tax base sharing program under which its member municipalities share property tax revenues generated by the growth in their commercial and industrial property tax bases.

Under the bill's provisions, towns would remit a payment to their COGs equal to 20% (or less) of net commercial and industrial grand list growth, divided by 1,000, and multiplied by the regional mill rate. In other words, if a participating town's commercial and industrial grand list grew by $1 million, it could remit a payment of $6,000 to its COG (assuming a regional mill rate of 30).

The bill then establishes a formula for calculating the municipal commercial and industrial mill rate (for any participating municipality). The mill rate is intended to raise enough revenue to offset the payment to the COG.

SUMMARY OF SUBSTITUTE BILL: PAYMENTS IN LIEU OF TAXES (PILOT)

This bill (1) increases PILOT grants for certain municipalities, based on the percentage of certain tax-exempt real property on their grand lists, and (2) establishes a minimum funding level for all municipalities receiving PILOTs equal to the amount they received in FY 15.

By law, the state makes annual PILOTs to municipalities to reimburse them for a part of the revenue loss from (1) state-owned property, Indian reservation and trust land, and municipally owned airports and (2) private nonprofit college and hospital property. By law, these PILOTs are based on a specified percentage of taxes that the municipality would otherwise collect on the property (generally 45% for state, municipal, and tribal property and 77% for college and hospital property).

Under current law, PILOTs are proportionately reduced if the amount appropriated is not enough to fully fund them. The bill instead establishes a minimum funding level for the PILOTs that varies according to a three-tier ranking system. The bill requires the Office of Policy and Management (OPM) to rank each municipality based on the percentage of tax-exempt property on its grand list, except for correctional and juvenile detention facilities. It requires OPM to rank any municipality with a mill rate of less than 25 in the bottom tier. The bill sets a minimum PILOT rate for municipalities based on this ranking, as shown in Table 1.

Table 1: SB 1's Minimum PILOT Reimbursement Rates

Municipalities	College and Hospital Property	State-Owned Property
Ten municipalities with the highest percentage of tax-exempt property	42%	32%
Next 25 municipalities	37%	28%
All other municipalities	32%	24%

The bill also requires that all municipalities receive PILOTs that equal or exceed the amount they received in FY 15.

It requires OPM, beginning by July 1, 2017, to annually report for four years to the Finance, Revenue and Bonding Committee on the PILOTs and include its recommendations for changes.

EFFECTIVE DATE: July 1, 2016

MOTOR VEHICLE PROPERTY TAX CAP

Beginning with the 2015 assessment year (for taxes paid in FY 17), the bill modifies the way in which municipalities tax motor vehicles by (1) allowing them to establish a motor vehicle mill rate different than their rate for real and personal property and (2) capping motor vehicle mill rates at 29.36 mills.

EFFECTIVE DATE: October 1, 2015, and applicable to assessment years beginning on and after that date.

MUNICIPAL REVENUE SHARING ACCOUNT (MRSA) DISTRIBUTIONS

The bill establishes a mechanism for sharing sales tax revenues with municipalities and councils of government (COG), using sales tax revenue deposited in MRSA. (sSB 946 directs a portion of sales tax revenue to MRSA, beginning October 1, 2015.)

Beginning October 1, 2016, OPM must determine the total amount of funds accumulated in MRSA and distribute (1) 90% of the funds to municipalities, according to the formula described below, and (2) 10% to COGs, on a per capita basis.

Distribution to Municipalities

The bill requires OPM to calculate each municipality's MRSA distribution using a three step calculation.

First, OPM must calculate the amount each municipality would receive (1) on a per capita basis and (2) under a specified formula that gives more weight to municipalities with mill rates that exceed the state's average mill rate. Municipalities with a mill rate over 25 receive the greater of these two amounts, while those with a mill rate under 25 receive the lesser.

OPM must then use a specified formula to increase the payments for municipalities with a mill rate over 25.

Lastly, OPM must proportionately reduce the payments for all municipalities based on the total amount available for distribution. The bill caps the percentage of the total distributions that the following four municipalities may receive: New Haven (2%), Hartford (5.2%), Bridgeport (4.5%), and Stamford (2.8%).

Penalty for Exceeding Allowable Spending Growth. The bill requires OPM to reduce a municipality's distribution in any year following a year in which the municipality increased its spending by more 2.5% over the prior year or the inflation rate, whichever is greater. The penalty reduces the municipality's distribution by a specified percentage.

Distribution to COGs

The bill requires COGs to use the sales tax distributions to establish a cooperative program among member towns to create efficiencies in delivering services and reducing costs in the region. The COGs' members must unanimously agree on the program and any distributions made under it.

EFFECTIVE DATE: October 1, 2016

PROPERTY TAX BASE SHARING

The bill authorizes a COG to establish a property tax base sharing program under which its member municipalities share a portion of property tax revenues generated by the growth in their commercial and industrial property tax bases.

The bill requires each of the COG's member municipalities to agree to implement the program.

The bill establishes a (1) formula participating municipalities must use to calculate the mill rate on commercial and industrial property, based in part on the average mill rate in their regions, and (2) system for such municipalities to share up to 20% of their commercial and industrial property tax revenue with other municipalities in their regions.

Mill Rate for Commercial and Industrial Property

Under the bill, participating municipalities that have experienced growth in their commercial and industrial tax base since the 2013 assessment year must tax commercial and industrial property at a composite mill rate, rather than the mill rate that applies to all other property in the municipality. The bill establishes a formula for calculating the composite mill rate that is based on the (1) increase in the commercial and industrial tax base since 2013, (2) average mill rate in the municipality's planning region ("regional mill rate"), and (3) the municipality's general mill rate.

Property Tax Base Sharing

Participating municipalities must remit to their planning regions an amount equal to up to 20% of the property taxes paid on the growth in their commercial and industrial grand lists since 2013, based on the regional mill rate.

The planning regions must then distribute the property tax revenue to municipalities in the region according to a distribution index based on relative fiscal capacity. For each municipality, the index equals the municipality's population multiplied by a ratio measuring its fiscal capacity compared to that of other municipalities in its region.

If the municipality's fiscal capacity is the same as the regional average, its percentage share of the funds will be the same as its share of the region's population. If its fiscal capacity is above the regional average, its share will be smaller. If its fiscal capacity is below the regional average, its share will be larger.

EFFECTIVE DATE: October 1, 2015, and applicable to assessment years beginning on and after that date.