CONNECTICUT CONFERENCE OF MUNICIPALITIES

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May 15, 2006

CCM Analysis:

Adopted State Budget for FY 06-07

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For more information on the scheduled grant increases in the state budget and how it impacts your community, visit the CCM website at www.ccm-ct.org.

If you have questions, please call Adam Stern, Jim Finley, or Gian-Carl Casa of CCM at (203) 498-3000.

ADOPTED STATE BUDGET FOR FY 06-07:

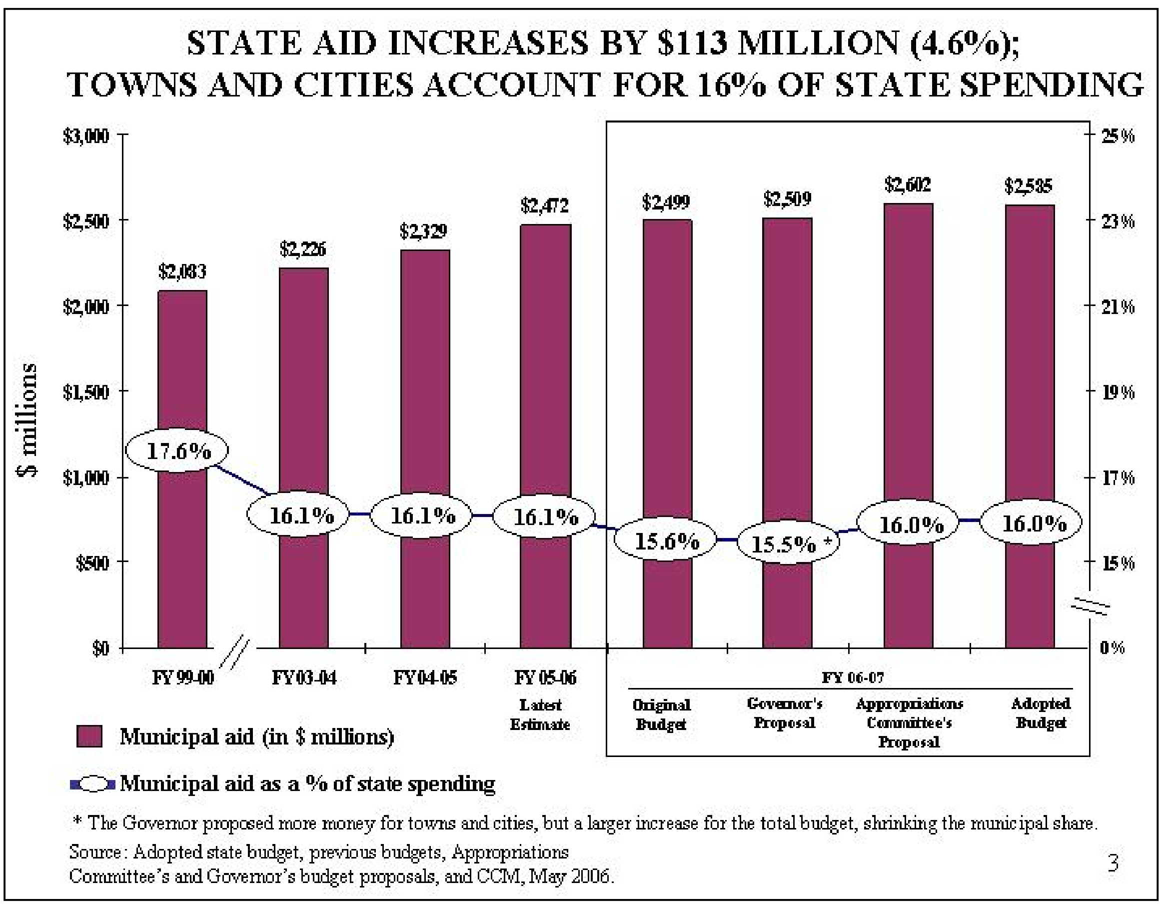
HEALTHY STATE AID INCREASES: NEW PROPERTY TAX RELIEF GRANT, AND HIKES FOR SPECIAL EDUCATION & PRIORITY SCHOOL DISTRICTS

➡ Impact on Municipalities

The Governor and the General Assembly reached an agreement on a revised state budget for next year (FY 06-07). ***The budget increases state aid to towns and cities by at least $113 million (4.6%) over the current year (FY 05-06)***. This amount includes a $52 million (12.1%) increase in general government aid and a $61 million (3.0%) increase in education aid.

The adopted budget directs ***$92 million more*** to towns and cities than the amount proposed by the Governor, and $15 million less than the amount proposed by the Appropriations Committee.

Towns and cities were among the major winners at the end of the budget process. The increase in state aid was significant given agreements to place $190 million of the state surplus into the rainy day fund and spend most of the remaining surplus on the Teacher's Retirement Fund, economic recovery notes (ERN's), and Medicaid expenses.



➡ Key Items for Municipalities

Property Tax Relief Grant:
The new $33 million, needs-based grant is paid to municipalities and is financed with FY 05-06 surplus funds. (see page 4)

Special Education funding:
Municipalities will receive larger special education reimbursements in FY 06-07. The budget increases funding for special education – excess cost grants by $18.8 million (20%). (see pages 9-10)

Expansion of the Property Tax Credit against State Personal Income Taxes:
The expansion increases the maximum credit from $350 to $500. (see page 19)

Phase-out of Property Taxes on Manufacturing Machinery & Equipment (MME):
Starting in FY 07-08 (*the year after next year*), the State will phase-in a property tax-exemption program for MME six years old (or older). The state will reimburse municipalities for 100% of the tax-loss. (see pages 6-7)

Clean Water Fund (CWF):
The not-yet-adopted bond package authorizes $50 million in CWF general obligation bonds, a $50 million (150%) increase over the original FY 06-07 budget. However, it is still not clear if the General Assembly will go into special session to adopt a bond package. If not, authorizations will return to $20 million. (see pages 13-14)

School Nutrition:
The General Assembly and Governor agreed to (1) ban the sale of soda in schools and (2) offer financial incentives to school districts that adhere to yet-to-be-determined State Department of Education nutrition guidelines. The budget includes $4.7 million in general fund money for the incentive program. (see page 15)

➡ Key Items Excluded From the Budget

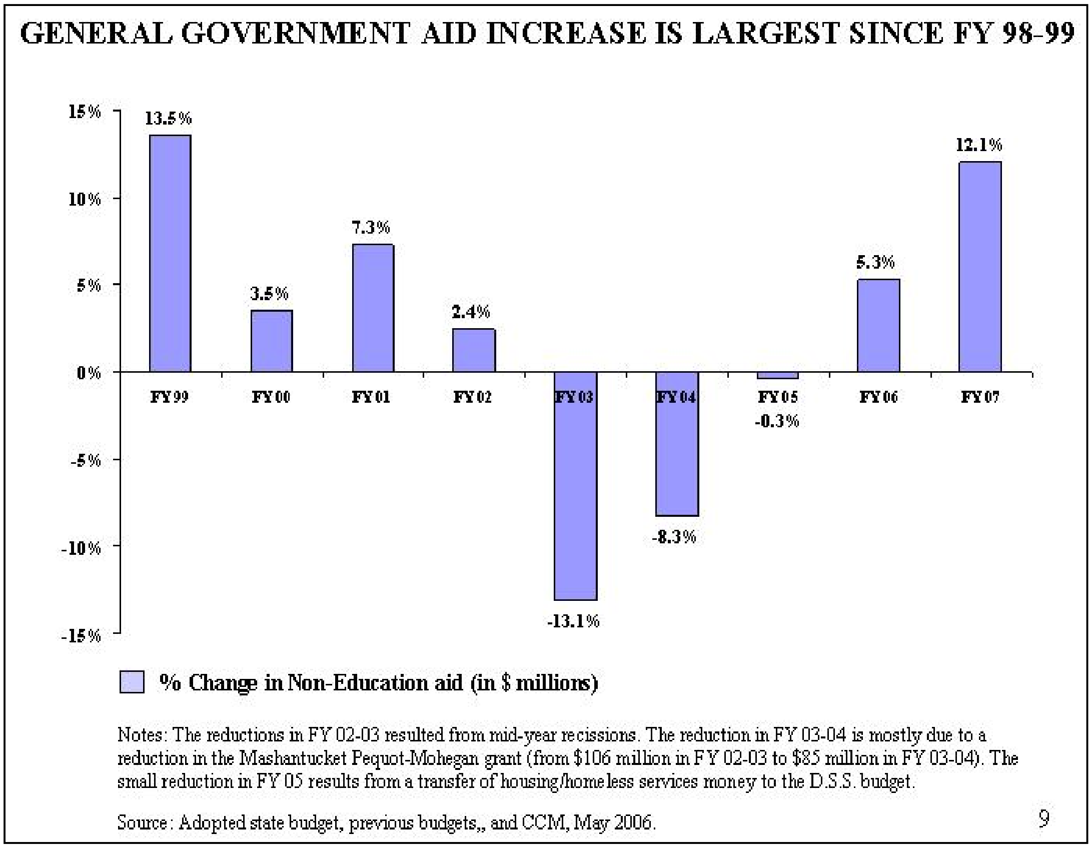
Governor's Car Tax Proposal:
The Governor's proposal to eliminate property taxes on most passenger cars did not pass. Towns and cities retain the car tax in its current form.

Earned Income Tax Credit/Refundable Property Tax Credit:
The Finance, Revenue, and Bonding Committee's proposal for a state earned income tax credit did not pass. The credit would have assisted taxpayers who qualify for, and claim, the federal earned income tax credit. The Committee's proposal for a "refundable" property tax credit for people who do not earn enough to pay income tax also did not pass.

Energy Assistance Grant for School Districts:
The Appropriations Committee's proposal for a $35 million energy assistance grant for school districts did not pass. Instead, $33 million of this funding was used to establish a new property tax relief grant to towns and cities.

➡ Summary of General Government Aid

The adopted budget increases general government aid by $52 million (12.1%) over the current year (FY 05-06). The increase is the largest since FY 98-99.



Property Tax Relief Grant

- The adopted budget includes a new, $33 million needs-based property tax relief grant for towns and cities in FY 06-07. The grant is distributed to municipalities based on the Property Tax Relief Fund formula outlined in a C.G.S. §7-528. The formula is used to calculate a portion of each municipality's Pequot-Mohegan grant.
  - The Governor proposed no such grant.
  - The Appropriations Committee had proposed a $35 million grant for school districts' energy costs. The Property Tax Relief grant is in-lieu of that proposal.

Town Aid Road (TAR) Grant

- The adopted budget provides $30 million for the Town Aid Road program in FY 06-07, an increase of $2 million (7%) over the current year (FY 05-06).

  Even with the increase in funding, the Town Aid Road grant is less than its FY 01-02 funding level of $35 million.

  - o The Governor's proposal was for $28 million, no increase over the current year (FY 05-06).

  - o The Appropriations Committee's proposal was for $35 million, a $7 million (25%) increase over the current year (FY 05-06).

<u>PILOT for Private Colleges and Hospitals</u>

- The adopted budget provides $120 million for the PILOT for private colleges and hospitals in FY 06-07, a $9 million (8%) increase over the current year (FY 05-06). Under the adopted budget, the reimbursement rate for this PILOT is 60% of lost *real estate* property tax revenue, less than the 77% minimum specified in statutes.

  The 60% reimbursement is up (slightly) from 59% this year. There is no PILOT reimbursement to municipalities for lost *personal* property taxes.

  - o The Governor's proposal was for $111 million, no increase over the current year (FY 05-06).

  - o The Appropriations Committee's proposal was also for $120 million, a $9 million (8%) increase over the current year (FY 05-06).

<u>PILOT for State-Owned Property</u>

- The adopted budget provides $81 million for the PILOT for State-owned property in FY 06-07, an increase of $3 million (4%) over the current year (FY 05-06).

  Under the adopted budget, the reimbursement rate for this PILOT is 36% of lost *real estate* property tax revenue, less than the 45% minimum (for most property) specified in statutes.

  The 36% reimbursement is down (slightly) from 37% this year. There is no PILOT reimbursement to municipalities for lost *personal* property taxes.

  - o The Governor's proposal was for $78 million, a $239,000 (0.3%) increase over the current year (FY 05-06).

  - o The Appropriations Committee's proposal was also for $81 million, a $3.2 million (4.2%) increase over the current year (FY 05-06).

<u>PILOT for Manufacturing Machinery and Equipment (MME)</u>

- The adopted budget provides $52 million for the PILOT for manufacturing machinery and equipment (MME) property in FY 06-07, a $0.4 million (1%) cut over the current year (FY 05-06).

This year (FY 05-06), all grants were made at the 80% level and no towns received a pro rata reduction. Next year (FY 06-07), the value of exempt machinery and equipment will fall, and OPM anticipates lower required reimbursements.

- The Governor's and Appropriations Committee's proposals were also for $52 million, a $0.4 cut (1%) over the current year (FY 05-06).

- **Phase-out of (*and reimbursement program for*) property taxes on MME**

SB 702 phases-out the property tax on MME and reimburses municipalities for the resulting tax-loss. *The phase-out begins the year after next year, FY 07-08.*

<u>What property is affected?</u>
"Old" MME: MME that is six years old – or older.

<u>Isn't MME already exempt?</u>
All <u>*new*</u> MME is eligible for an exemption for five years. The State's PILOT program currently reimburses municipalities for 80% of the lost tax revenue during these years. At present, municipalities may tax MME at its residual value, after five (5) years. This post-five (5) year property is now exempt, also.

<u>How does the phase-out work?</u>
SB 702 calls for the gradual exemption of "old" MME between FY 07-08 and FY 11-12. In FY 07-08, 20% of the "old" property will be exempt, in FY 08-09, 40% will be exempt, then 60%, then 80%, and by FY 11-12, 100% would be exempt.

Each year, the State will reimburse municipalities for the property taxes lost as a result of the phase-out. And for every year after FY 11-12, municipalities will receive the same reimbursement that they received in FY 11-12.

<u>Are there any foreseeable problems?</u>
Some municipalities may lose under the plan, even though the State will supposedly reimburse them for the revenue loss.

- The bill makes the statutory depreciation schedule for valuing MME for property tax purposes mandatory instead of optional for towns. It also makes the residual value of MME equal to 20% after eight years. Municipalities that depreciate equipment more slowly or require a residual value greater than 20% will receive a reimbursement that is less than their current collections.

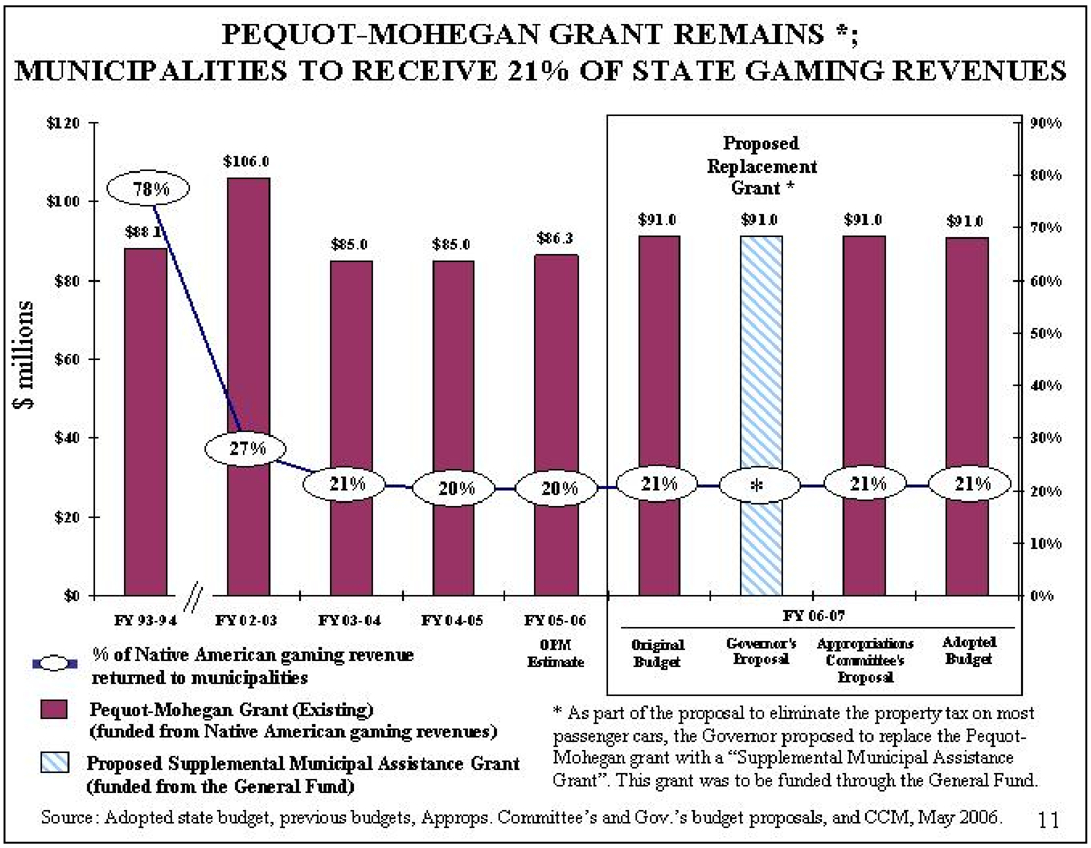
- Municipalities will lose the revenue-growth resulting from any increase in the post- FY 11-12 manufacturing equipment tax-base.

- Municipalities will not have the option of taxing the portion of property that is tax exempt but for which reimbursement is inadequate.

Mashantucket Pequot-Mohegan Grant

- The adopted budget provides $91 million for the Pequot-Mohegan grant in FY 06-07, a $4.8 million (6%) increase over the current year (FY 05-06).

  Under the adopted budget (and under the Appropriations Committee's and Governor's proposals), the distribution of the $4.8 million increase will not change from last year's FY 06-07 budget plan. The increase is weighted toward towns that are members of the Southeastern Connecticut Council of Governments and to distressed municipalities that are members of the Northeastern Connecticut Council of Governments or the Windham Area Council of Governments.



  The adopted budget for FY 06-07 provides municipalities with 21% of the State's Native American gaming revenue. As initially proposed, the Pequot-Mohegan grant was to provide municipalities with 100% of the State's Native American gaming revenue. In its first year (FY 93-94), municipalities received 78% of the gaming revenue.

  - The Governor's proposal was also for $91 million, but under the Governor's proposal, the grant would have been funded through the State's general fund and the name of the grant would change to the "Supplemental Municipal Assistance Grant". The funding source change and name change were required as part of the Governor's proposal to eliminate the property tax on most passenger cars.

  - The Appropriations Committee's proposal was also for $91 million, a $4.8 million (6%) increase over the current year (FY 05-06).

DECD Housing PILOT and Tax Abatement Programs

- The adopted budget provides $2.2 million for the PILOT and $1.7 million for the Tax Abatement program in FY 06-07, no increase over the current year (FY 05-06).

  These programs are presently financed through FY 06-07 with FY 04-05 surplus dollars.

  - The Governor's and Appropriations Committee's proposals were for the same amounts.

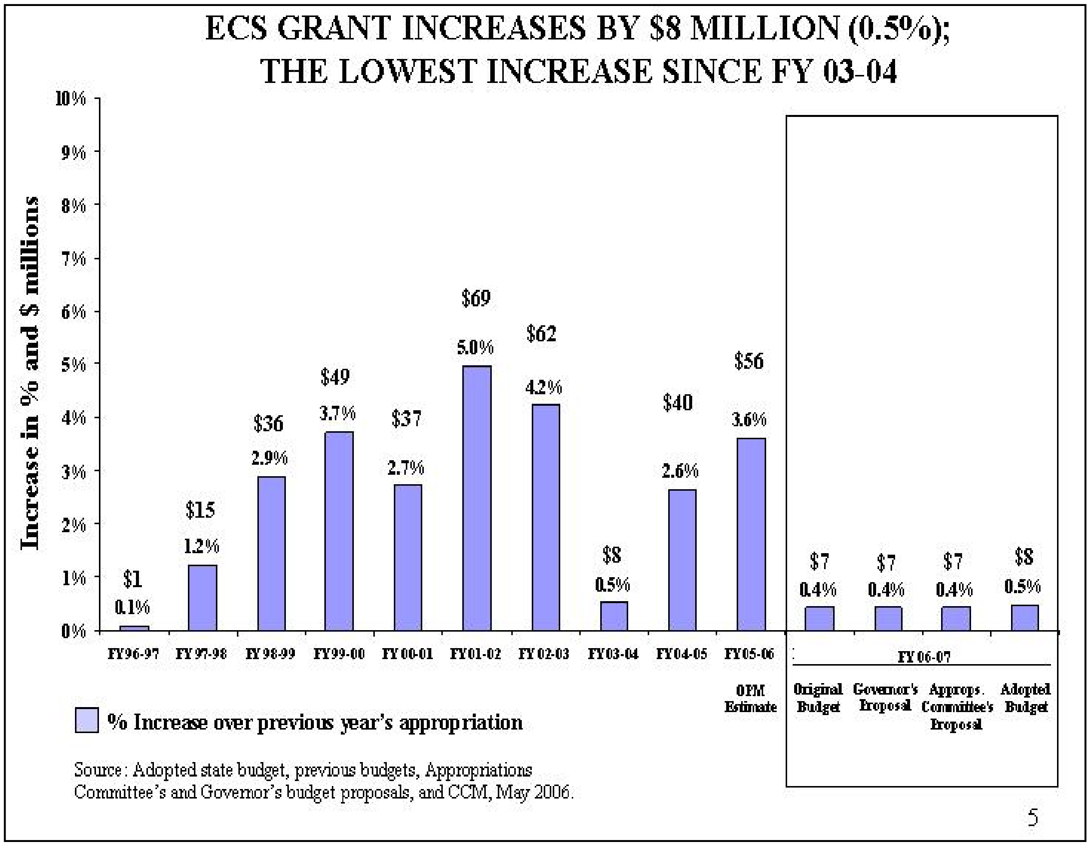
➡ Summary of Education Aid

ECS Grant

- The adopted budget provides $1.627 billion for ECS in FY 06-07. This is an ***$8 million (0.5%) increase*** over the current year (FY 05-06).

  The adopted increase matches the ***lowest ECS increase in the last 10 years***. In FY 05-06, ECS aid increased by $56 million (3.6%).

  - The Governor's and Appropriations Committee's proposals were for $1.626 billion, a $7 million (0.4%) increase over the current year (FY 05-06).



Special Education

Excess Cost Grant – Student-based:

- The adopted budget provides $106.6 million for the student-based grant in FY 06-07. This is a ***$17.8 million (20%) increase*** over the current year (FY 05-06).

  Municipalities will now receive larger reimbursements for special education costs that exceed 4.5 times the per student costs in their town. (Under current statutes, municipalities are supposed to be reimbursed for a special education student's costs once those costs exceed 4.5 times the average per student costs in that town, but such reimbursements have been capped at the appropriations level).

- The Governor's proposal was for $90.6 million, a $1.8 million (2%) increase over the current year (FY 05-06).

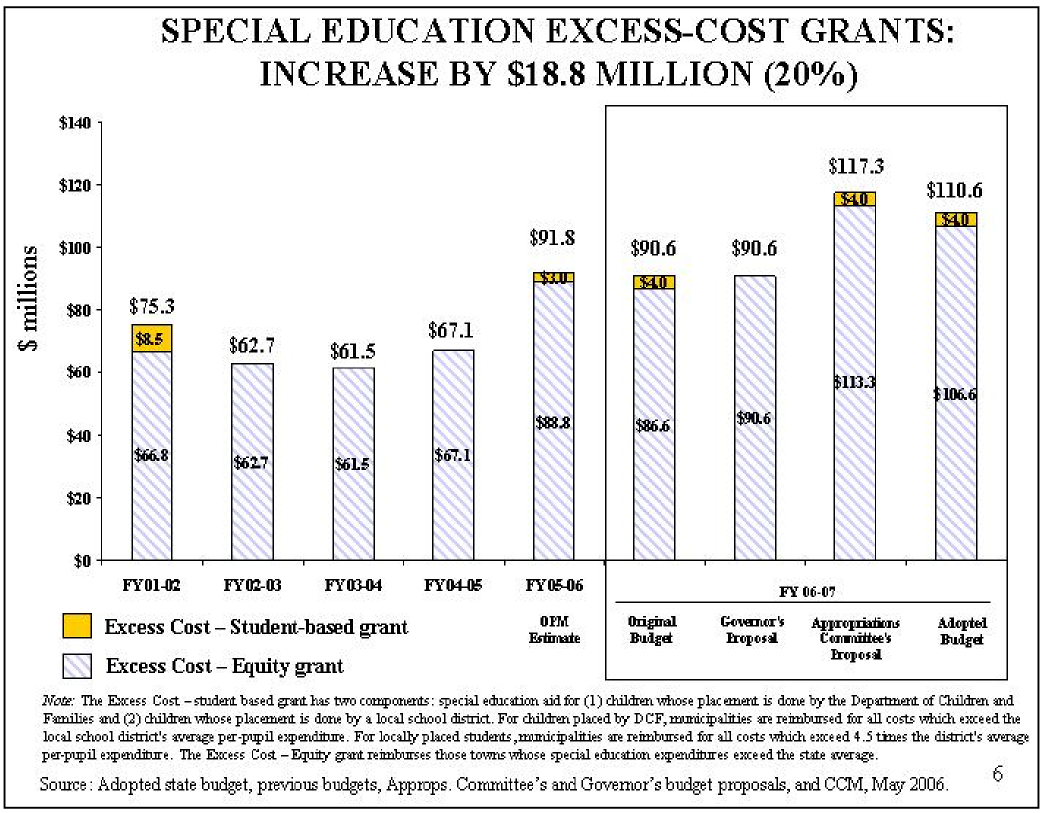
- The Appropriations Committee's proposal was for $113.3 million, a $24.5 million (28%) increase over the current year (FY 05-06).

Excess Cost Grant – Equity:

- The adopted budget provides $4 million for the equity grant in FY 06-07. This is a ***$1 million (33%) increase*** over the current year (FY 05-06).

    - The Governor's proposal would have eliminated funding for the equity grant in FY 06-07, a cut of $3 million.

    - The Appropriations Committee's proposal was also for $4 million, a $1 million (33%) increase over the current year (FY 05-06).



Magnet Schools

- The adopted budget provides $95.9 million for magnet schools in FY 06-07, a ***$10.8 million (12.7%) increase*** over the current year (FY 05-06).

  Magnet schools are now the fourth largest education aid program. Only the ECS grant, the priority school district grant programs, and the special education excess costs grants are larger.

- The Governor's proposal was for $94.9 million for magnet schools, a $10 million (11.5%) increase over the current year (FY 05-06).

- The Appropriations Committee's proposal was for $95.4 million for magnet schools, a $10.3 million (12.1%) increase over the current year (FY 05-06).

Public School Transportation

- The adopted budget provides $48 million for public school transportation in FY 06-07, ***no increase*** over the current year (FY 05-06).

  - The Governor's and Appropriations Committee's proposals were also for $48 million in FY 06-07.

Priority School District Programs

- The adopted budget provides $125 million for priority school district programs in FY 06-07, an ***increase of $15.8 million (15%)*** over the current year (FY 05-06).

  The five (5) Priority School District programs include: the Priority School District grant, the School Readiness program, Early Reading Success, Extended School Hours, and the School Year Accountability program.

  - The Governor's proposal was for $113.1 million, a $3.8 million (4%) increase over the current year (FY 05-06).

  - The Appropriations Committee's proposal was for $126.6 million, a $17.3 million (16%) increase over the current year (FY 05-06).

➡ Bonding

The State bond package is incomplete. The much-publicized transportation package includes $1 billion in general obligation bond authorizations, but SB 52, which includes an additional $451 million for a variety of purposes, did not pass.

It is unclear whether or not the Governor or General Assembly will call a special session to pass a bond package for FY 06-07. Key areas of the bond bills include:

Transportation
The General Assembly passed, and the Governor signed, HB 5844, which invests over $2 billion in Connecticut' transportation infrastructure. Transportation bonding authorization is included in the bill. HB 5844 includes the Governor's major proposal and other projects. The bill:

Authorizes $1 billion in general obligation bonds for transportation projects, and another $1.3 billion in revenue bonds that are "securitized" by the expectation of future Federal transportation funds.

Requires DOT to implement certain transportation projects, including:

- Commuter rail service on the New Haven-Hartford-Springfield line, including shuttle bus service from the line to Bradley airport;
- The New Britain-Hartford Busway, contingent on receipt of federal funds;
- Rehabilitation of railroad cars fro use on Shore Line East, New Haven-Hartford-Springfield, and branch lines off of the New Haven line;
- One new rail station between New Haven and Milford;
- Paying for the costs of capital improvements to the branch lines off the New Haven line as well as parking and rail station improvements on the New Haven line, its branches and Shore Line East;
- Paying for the local share of the Southeast Area Transit (SEAT) federal project;
- Completing of the Norwich Intermodal Transit Hub Roadway project;
- Doing environmental planning and assessment for expansion of I-95 between Branford and Rhode Island;
- Paying for capital costs of highway infrastructure "in support of economic development" in the greater Hartford region;
- Evaluating and planning for (i) improvements to Routes 2, 2A, and 32 in Ledyard and Norwich, (ii) an upgrade of the Pequot Bridge in Montville, (iii) a rail link for the port of

New Haven and other ports, (iv) the dredging of the ports, and (v) the development of a second passenger rail line between New Haven and New Milford; and

- Studying the feasibility of a variety of projects, including commuter rail between New London and Worcester, and improved rail freight in Southeastern, CT.

It also (1) requires the State work with neighboring states to explore opportunities for "regional commuter and freight mobility", (2) **provides three sources of grant and loan funding** for which municipalities can apply for "transit oriented development" projects, and (3) **makes OPM responsible for coordination** of state and regional transportation planning, including coordination between state agencies, and move the Transportation Strategy Board from DOT to OPM.

Funding for the bonding would come from the increases in petroleum products gross receipts tax that are already scheduled to go into effect – the bill anticipates that the tax will continue to generate more revenue than was anticipated when the increases were established last year (due to increased prices for petroleum products). Previously, "surplus" revenue from the tax would have been transferred to the state's General Fund. It is now dedicated to the purposes of the bill.

- o The Finance, Revenue, and Bonding proposal comprised the Governor's proposal and the recommendations of the Transportation Strategy Board (TSB).

- o The Governor's proposal was for $344 million in additional capital improvements over the next seven fiscal years. A centerpiece of that proposal was a $146 million commuter rail project for service between New Haven, Hartford, and Springfield, including transit-oriented development along the corridor.

School Construction

SB 52 authorizes an additional $50 million for school construction bonding, which would bring total school construction authorizations to $700 million for FY 06-07.

If passed, the authorization in SB 52 would be $120 million more than the authorization for the current year (FY 05-06).

- o The Governor proposed $650 million for school construction in FY 06-07, and the Finance, Revenue, and Bonding Committee proposed $768 million.

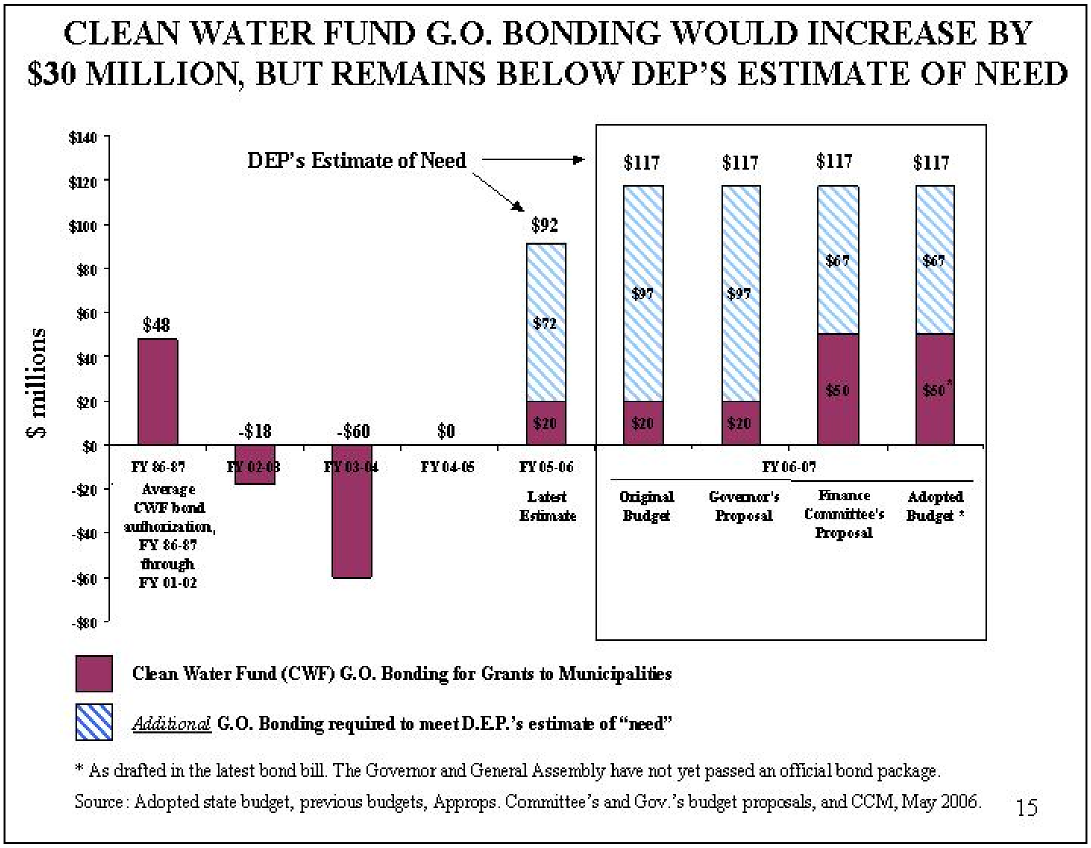
Clean Water Fund (CWF)

SB 52 would authorize $50 million in g.o. bonding for the CWF in FY 06-07.

If passed, the authorization in SB 52 would represent a $30 million (150%) increase over the amount in FY 05-06. Still, this amount is short of the State's estimate of need: $117 million

Between 1987 and 2002, general obligation bonding for the CWF averaged $47.9 million each year. From 2003 to 2007, general obligation bonding for CWF averaged (-$7.6) million. This average includes rescissions of $18 million in '03 and $60 million in '04. There was no general obligation bonding for the CWF in '05.

- The Governor proposed $20 million for the Clean Water Fund in FY 06-07, and the Finance, Revenue, and Bonding Committee proposed $50 million.



<u>Other Bond Programs of Note – (that were not enacted):</u>
<u>Urban Act</u>: $65 million, $20 million less than in FY 05-06.
<u>LoCIP</u>: $30 million, no increase over the FY 05-06 authorization.
<u>STEAP</u>: $20 million, no increase over the FY 05-06 authorization.
<u>Fire Training Schools</u>: $10 million, in addition to a prior authorization of $10 million.

[<u>Note:</u> None of these bond proposals have been enacted, as SB 52 has not passed. As discussed above, there would now have to be a special session to enact a bond package, and the prospects of such a session are presently unclear.**]**

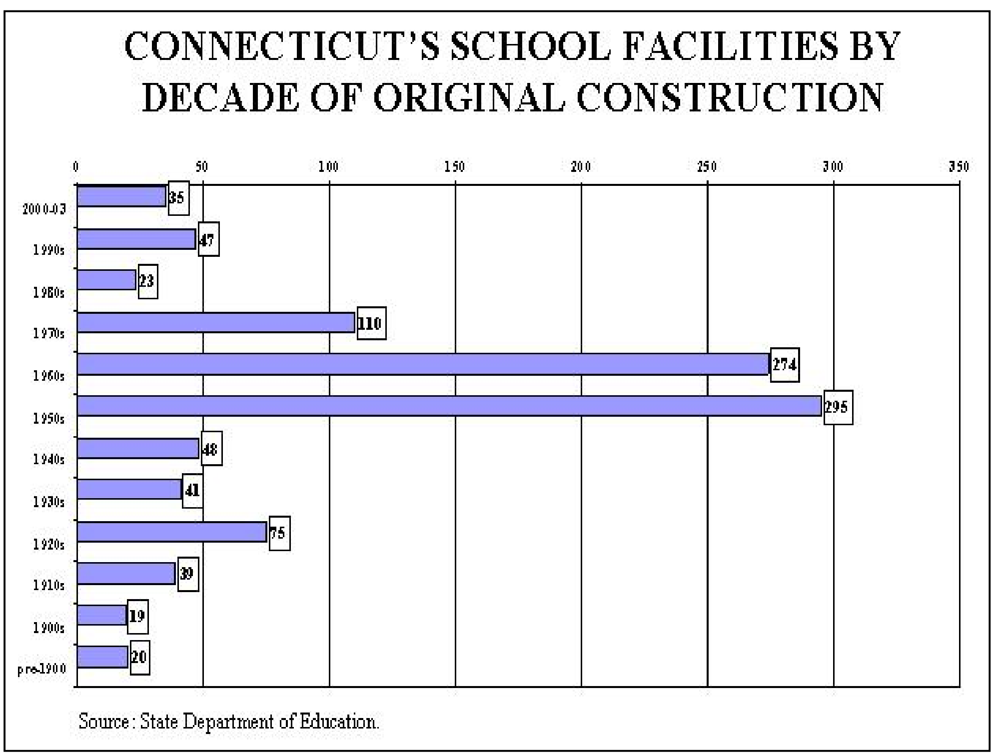
➡ Other Legislation of Interest to Municipalities

Discretionary Funds for the Governor and Legislative Leaders
Almost $9 million has been placed in discretionary accounts for the Governor and legislative leaders. In the past, this practice has been used to direct funding to projects in legislators' districts or to expedite funding for projects favored by legislative leaders. Approximately $3.5 million each has been earmarked for the House Speaker and Senate President. Another $2 million has been earmarked for the Governor.

Governor Rell has pledged to place the discretionary money in the Rainy Day Fund. It is unclear whether or not the Governor will release the $7 million earmarked for legislative leaders. All state spending requires the assistance of the Executive Branch, which controls the implementation of the budget.

School Nutrition (SB 373)
Among other requirements, SB 373 bans the sale of soft drinks in schools and offers financial incentives for schools to meet yet-to-be-determined nutrition requirements. The requirements will be established by the State Department of Education. In FY 06-07, $4.7 million has been set-aside for the incentive program, which pays 10 cents to a school district for each lunch served (in the prior school year) that meets the nutrition requirements.

New School Construction Requirements (SB 636)
SB 636 contains a number of administrative measures to slow the increase in school construction bonding. SB 636 places new burdens on school districts, the State Department of Education, and architects/construction managers.



Changes for School Districts

- Limits the number of legislative reauthorizations a project can receive for changes in scope or cost to *two* and bars inter-district magnet schools from receiving higher state reimbursement rates through reauthorizations.

- Halves state reimbursement rates for orders on school projects costing more than $10 million, if the change orders total more than 5% of the project's authorized cost.

- Imposes a 10% penalty against a project's state reimbursement grant if a school district's architectural services contract fails to comply with these standards.

Changes for the Department of Education

- Requires the State Department of Education (SDE) to approve plans and specifications for turn-key projects, under which a school district agrees to buy a completed building built by a third party.

- Requires SDE to develop a standard series of school construction contracts that districts may use as the basis for their own project contracts.

- Requires SDE to provide guidance and information to school districts in carrying out school construction projects.

Changes for Architects/Construction Managers

- Establishes standards for architectural services contracts used on state-reimbursed school projects, bars contracts from shifting liability for architectural errors and omissions away from architects, requires architects to keep confidential any information they obtain from a school district through a project, and gives the school district and the state ownership of a project's architectural plans, reports, and documents.

- Requires that architects and construction managers or construction administrators who work on vocational-technical school projects together have no controlling financial interest in one another nor be controlled by the same parent.

Jobs Initiative (SB 702)

General Assembly passed, and the Governor signed, SB 702 "An Act Concerning Jobs for the 21st Century". The act includes 13 different initiatives aimed at promoting job growth in Connecticut. SB 702's initiatives include new economic development programs, education-related incentive programs, organizational changes, and various tax breaks.

Economic Development Programs

- The bill establishes an "Early Stage Venture Capital" program to provide venture capital to newly established or expanding businesses in the early stages of developing new products and processes. CT Innovations will administer the program, which will offer pre-seed, seed, start-up, first-stage, and expansion financing.

- It creates a “Small Business Incubator Program”. It requires the DECD commissioner to award the grants, which can be used for operating funds.

- It authorizes matching assistance for micro businesses that receive federal funds under the Phase II Small Business Innovation Research or Business Technology Transfer programs.

Education-related Programs

- The bill requires UConn’s trustees to establish a program fro recruiting eminent faculty and their research staffs to the University. Among other things, the faculty must be interested in finding ways to commercialize their research.

- The bill establishes a “Center for Entrepreneurism” at UConn. Part of the center’s charge would be to help the state’s businesses by training faculty and student inventors in commercialization.

- It creates a student loan reimbursement program for certain engineers. Eligible engineers must have begun work in Connecticut after December 31, 2005.

- It creates a similar student loan reimbursement program for people with doctorate degrees in designated fields, typically science-related.

- It creates a pilot program that avails business-sponsored job shadowing to high school students and externship experiences to public school teachers.

- It requires the Department of Education to establish, within available appropriations, a “Future Scholars” pilot matching grant program under which supplemental math and science instruction would be made to qualifying high school students.

Organizational Changes

- It creates an office for a “business advocate” within the Office of Policy and Management.

Tax Breaks

- It provides tax credits to corporations that produce qualified films or other types of media entertainment content in Connecticut.

- It exempts all manufacturing, machinery, and equipment from property taxes (see page 4 for description).

Changing the Revaluation Process (SB 668)

SB 668 makes several important changes to the revaluation process. Among other things, the bill (1) allows assessors to use a questionnaire in the revaluation of certain properties, (2) creates a new penalty for non-compliance with the new methods, (3) changes requirements for notifying taxpayers about a revaluation, (4) extends the phase-in period for revaluations, and (5) establishes a working group to study the revaluation process and recommend improvements to it.

Questionnaire

- Assessors must inspect each property at least once every 10 years, but during any year when inspections are due, the assessor can update and verify existing data by sending questionnaires to each owner. After checking the responses to the questionnaire for accuracy, the assessor can limit his/her inspections only to those properties for which he/she received no response.

New Penalty

- Currently, when a municipality fails to conduct a timely revaluation, the law imposes a fine equal to 10% of the total annual grants a town receives under statutory formulae. SB 668 changes this penalty to 50% of the municipality's Mashantucket Pequot-Mohegan grant.

Notification of Taxpayers

- The bill specifies that the assessor must send the revaluation notice to each owner's last known address and indicate the property's value before and after the revaluation. The notification must also state that the owner has a legal right to appeal the new assessment and explain the process for doing so.

Phase-in Period

- In conjunction with another bill (HB 5093), SB 668 extends the phase-in period for revaluations from four to five years, allows towns to end the phase-in prior to the end-date of the phase-in, and allows for a new phase-in method whereby towns can phase-in different types of property at different rates. Under the new approach, each class of eligible property (residential, commercial, and vacant land) can be phased-in at the rate at which the assessment increased for that class. The new method works if there are sales records for each class or enough sales within each class to extrapolate a rate of increase.

Revaluation Working Group

- The bill establishes a 13-member working group to study the revaluation process and make recommendations toward its improvement. At a minimum, the group must study: (a) the development of a master contract municipalities can use to hire revaluation companies, (b) the development of a region-wide schedule for conducting revaluations and recommendations on how to implement it, and (c) consideration of the rules for implementing revaluations.

Pension Obligation Bonds and Other Post-employment Benefits (SB 533)

SB 533 makes changes (and additions) to existing rules for managing municipal retirees' benefits. The new rules affect communities that have issued (or plan to issue) pension obligation bonds or are searching for new ways to manage OPEB (other post-employment benefits). The rules mix increased investment flexibility for municipalities with restrictions and new reporting requirements. The changes:

- Allow municipalities to invest a larger portion of retiree benefit reserve fund assets in higher yield securities.

- Allow the transfer of assets in a municipal retiree benefit reserve fund to an OPEB trust fund (which yield higher returns, and thereby reduce annual funding requirements).

- Require municipalities issuing pension obligation bonds to meet their ARC (annual required contribution).

- Revise the definition of the ARC to reduce its year-to-year volatility, thereby making budgeting and ARC-compliance easier.

- Require municipalities issuing pension obligation bonds to submit information to OPM prior to the issuance of such bonds.

- Eliminate municipal authority to fund retiree benefit reserve funds with bond proceeds.

Expansion of the Property Tax Credit Program (in budget bill)
The adopted budget includes an expansion of the property tax credit program against the state personal income tax. The expansion increases the maximum credit from $350 (this year) to $500 in FY 06-07. Any taxpayer who currently qualifies for the credit program will receive some benefit – no matter his/her income level. Taxpayers who currently qualify for the program earn incomes below $125,000 per year (for single filers), $100,250 per year (for separate filers), and $190,500 per year (for joint filers).

The cost of the program expansion will be $70 million in FY 06-07.

- The Governor made no proposal regarding the property tax credit against state the personal income tax, and instead, proposed elimination of the property tax on most passenger cars.

- The Finance, Revenue, and Bonding Committee had proposed that the credit be refundable and that persons with higher adjusted gross incomes be eligible. These proposals did not pass.

Urban Youth and Violence (in budget bill)
As part of the budget agreement, the General Assembly and Governor approved $4 million for an Urban Youth Employment program. In addition, the budget agreement appropriates $300,000 for an urban violence task force (operated out of the Department of Public Safety).

- The Governor's FY 06-07 proposal would have provided $5.9 million in FY 06-07 for an over-arching urban violence initiative, with $4.3 million allocated to the Office of Policy and Management to provide grants to eligible municipalities to help prevent violent criminal activity involving young people in urban areas.

- The Appropriations Committee's proposal would have provided limited funding for the Governor's Urban Violence Initiative. The Committee would have funded $750,000 of the $5.9 million initiative, through two of the Governor's five proposed programs. However, the Committee also proposed the eventually adopted $4 million Urban Youth Employment program.

Energy (in budget bill)

As proposed by the Governor in her initial budget, the General Assembly agreed not to transfer $12 million from the Energy Conservation and Load Management Fund. An additional $30 million was appropriated to various state agencies for FY 06-07 energy costs.

The Governor's proposal for FY 06-07 would have created a new State Department of Energy to help formulate and implement a statewide energy policy. The Governor's proposed budget called for implementing a Public Utilities Tax cut, and adding $40 million to her Midterm Budget for state agencies with rising energy-related costs.

The Appropriations Committee's proposals would have provided no funding for the creation of a new State Department of Energy in FY 06-07. The Energy and Technology Committee had proposed creating a new Department of Energy Policy & Development and an Energy Authority, but movement on this bill never occurred.

Motor Vehicle Violation Surcharge for Municipalities (SB 537)

SB 537 imposes $10 per ticket surcharge for certain motor vehicle violations. The Superior Court's centralized infractions bureau will collect the surcharge and the State will remit the additional dollars the municipalities in which the violations occurred. The surcharge is expected to yield $1.5 million in revenue for towns and cities.

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For more information on the scheduled grant increases in the state budget and how it impacts your community, visit the CCM website at www.ccm-ct.org.

If you have questions, please call Jim Finley, Gian-Carl Casa of, or Adam Stern of CCM at (203) 498-3000.

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