Senate

General Assembly **File No. 739**

January Session, 2001 Substitute Senate Bill No. 1210

Senate, May 10, 2001

The Committee on Finance, Revenue and Bonding reported through SEN. LOONEY of the 11th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING TAX CREDITS FOR HOUSING PROGRAMS SERVING SPECIAL POPULATIONS OR WITHIN NEIGHBORHOOD REVITALIZATION ZONES.

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

Section 1. Section 8-395 of the general statutes is repealed and the following is substituted in lieu thereof:

(a) As used in this section, (1) "business firm" means any business entity authorized to do business in the state and subject to the corporation business tax imposed under chapter 208, or any company subject to a tax imposed under chapter 207, or any air carrier subject to the air carriers tax imposed under chapter 209, or any railroad company subject to the railroad companies tax imposed under chapter 210, or any regulated telecommunications service, express, telegraph, cable, or community antenna television company subject to the regulated telecommunications service, express, telegraph, cable, and community antenna television companies tax imposed under chapter

211, or any utility company subject to the utility companies tax imposed under chapter 212, and (2) "nonprofit corporation" means a nonprofit corporation incorporated pursuant to chapter 602 or any predecessor statutes thereto, having as one of its purposes the construction, rehabilitation, ownership or operation of housing and having articles of incorporation approved by the executive director of the Connecticut Housing Finance Authority in accordance with regulations adopted pursuant to section 8-79a or 8-84.

(b) The Commissioner of Revenue Services shall grant a credit against any tax due under the provisions of chapter 207, 208, 209, 210, 211 or 212 in an amount equal to the amount specified by the Connecticut Housing Finance Authority in any tax credit voucher issued by said authority pursuant to subsection (c) of this section.

(c) The Connecticut Housing Finance Authority shall administer a system of tax credit vouchers within the resources, requirements and purposes of this section, for business firms making cash contributions to (1) housing programs developed, sponsored or managed by a nonprofit corporation, as defined in subsection (a) of this section, which benefit low and moderate income persons or families which have been approved prior to the date of any such cash contribution by the authority, or (2) housing programs developed, sponsored or managed by a nonprofit corporation, as defined in subsection (a) of this section, which have been approved prior to the date of any such cash contribution by the authority, when such programs benefit (A) artists or craftspersons, (B) employees of businesses located in an enterprise zone designated pursuant to section 32-70, (C) persons or families who also require supportive services, such as job training, credit counseling or housekeeping services, or (D) persons with psychiatric disabilities or persons with substance abuse disabilities, as those terms are defined in section 17a-458. Such vouchers may be used as a credit against any of the taxes to which such business firm is subject and which are enumerated in subsection (b) of this section. For income years commencing on or after January 1, 1998, to be eligible for approval a housing program shall be scheduled for completion not more than three years from the date of approval. Each program shall submit to the authority quarterly progress reports and a final report upon completion, in a manner and form prescribed by the authority. If a program fails to be completed after three years, or at any time the authority determines that a program is unlikely to be completed, the authority may reclaim any remaining funds contributed by business firms and reallocate such funds to another eligible program.

(d) No business firm shall receive a credit pursuant to both this section and chapter 228a in relation to the same cash contribution.

(e) Nothing in this section shall be construed to prevent two or more business firms from participating jointly in one or more programs under the provisions of this section. Such joint programs shall be submitted, and acted upon, as a single program by the business firms involved.

(f) No tax credit shall be granted to any business firm for any individual amount contributed of less than two hundred fifty dollars.

(g) Any tax credit not used in the period during which the cash contribution was made may be carried forward or backward for the five immediately succeeding or preceding income years until the full credit has been allowed.

(h) In no event shall the total amount of all tax credits allowed to all business firms pursuant to the provisions of this section exceed **[**five**]** ten million dollars in any one fiscal year.

(i) No organization conducting a housing program or programs eligible for funding with respect to which tax credits may be allowed under this section shall be allowed to receive an aggregate amount of such funding for any such program or programs in excess of four hundred thousand dollars for any fiscal year.

(j) Nothing in this section shall be construed to prevent a business firm from making any cash contribution to a housing program to which tax credits may be applied which cash contribution may result in the business firm having a limited equity interest in the program.

(k) The Connecticut Housing Finance Authority, with the approval of the Commissioner of Revenue Services, shall adopt written procedures in accordance with section 1-121 to implement the provisions of this section. Such procedures shall include provisions for issuing tax credit vouchers for cash contributions to housing programs based on a system of ranking housing programs. In establishing such ranking system, the authority shall consider the following: (1) The readiness of the project to be built; (2) use of the funds to build or rehabilitate a specific housing project or to capitalize a revolving loan fund providing low-cost loans for housing construction, repair or rehabilitation to benefit persons of very low, low and moderate income; (3) the extent the project will benefit families at or below twenty-five per cent of the area median income and families with incomes between twenty-five per cent and fifty per cent of the area median income, as defined by the United States Department of Housing and Urban Development; (4) evidence of the general administrative capability of the nonprofit corporation to build or rehabilitate housing; (5) evidence that any funds received by the nonprofit corporation for which a voucher was issued were used to accomplish the goals set forth in the application; [and] (6) <u>the extent to which evidence is provided by the applicant that the project will further the revitalization goals of the municipality or region; (7) the use of the funds to support housing for persons or families with special needs; and (8)</u> with respect to any income year commencing on or after January 1, 1998: (A) Use of the funds to provide housing opportunities in urban areas and the impact of such funds on neighborhood revitalization; and (B) the extent to which tax credit funds are leveraged by other funds.

(l) Vouchers issued or reserved by the Department of Housing under the provisions of this section prior to July 1, 1995, shall be valid on and after July 1, 1995, to the same extent as they would be valid under the provisions of this section in effect on June 30, 1995.

(m) The credit which is sought by the business firm shall first be claimed on the tax return for such business firm's income year during which the cash contribution to which the tax credit voucher relates was paid.

Sec. 2. (NEW) (a) As used in this section, the following terms shall have the following meanings unless the context clearly indicates another meaning:

(1) "Authority" means the Connecticut Housing Finance Authority established pursuant to chapter 134 of the general statutes;

(2) "Eligible building" means a structure that contains one to six dwelling units and is located in a neighborhood revitalization zone created pursuant to section 7-600 of the general statutes;

(3) "Owner" means any taxpayer filing a state of Connecticut tax return who possesses title to an eligible building, or prospective title to an eligible building in the form of a purchase agreement or option to purchase, or a nonprofit corporation incorporated pursuant to chapter 602 of the general statutes, that possesses such title or prospective title;

(4) "Qualified rehabilitation expenditures" means any costs incurred for the physical construction involved in the rehabilitation of an eligible building, but excludes: (A) The owner's personal labor, (B) the cost of site improvements, unless to provide building access to persons with disabilities, (C) the cost of a new addition, except as may be required to comply with any provision of the State Building Code or the State Fire Safety Code, (D) any cost associated with the

rehabilitation of an outbuilding, and (E) any nonconstruction costs, such as architectural fees, legal fees and financing fees;

(5) "Rehabilitation plan" means any construction plans and specifications for the proposed rehabilitation of an eligible building in sufficient detail to enable the authority to evaluate compliance with the standards developed under the provisions of subsections (b) to (d), inclusive, of this section.

(b) The authority shall administer a system of tax credit vouchers within the resources, requirements and purposes of this section for owners rehabilitating eligible buildings or taxpayers making contributions to qualified rehabilitation expenditures. For tax years commencing on or after January 1, 2001, any owner shall be eligible for a tax credit voucher in an amount equal to fifty per cent of the qualified rehabilitation expenditures, provided such expenditures exceed twenty-five thousand dollars. The maximum amount for a tax credit voucher shall be thirty thousand dollars per dwelling unit in an eligible building.

(c) The authority shall develop standards for the approval of rehabilitation of eligible buildings for which a tax credit is sought. Such standards shall include, but not be limited to, the type of rehabilitation proposed, the need for such rehabilitation and the impact of such rehabilitation upon the tenants and the neighborhood. Any eligible building that is a deteriorated property, as defined in section 7-600 of the general statutes, shall be given priority for tax credit vouchers.

(d) The authority may, in consultation with the Commissioner of Revenue Services, adopt written procedures, in accordance with the provisions of section 1-121 of the general statutes, to carry out the purposes of this section.

(e) (1) Prior to beginning any rehabilitation work on an eligible building, the owner shall submit a rehabilitation plan to the authority and shall also submit to the authority an estimate of the qualified rehabilitation expenditures.

(2) If the authority certifies that the rehabilitation plan conforms to the standards developed under the provisions of subsections (b) to (d), inclusive, of this section, the authority may reserve for the benefit of the owner an allocation for a tax credit equivalent to fifty per cent of the projected qualified rehabilitation expenditures.

(f) Following the completion of rehabilitation of an eligible building, the owner shall notify the authority that such rehabilitation has been completed. The owner shall provide the authority with documentation of work performed on the eligible building and shall certify the cost incurred in rehabilitating such building. The authority shall review such rehabilitation and verify its compliance with the rehabilitation plan. Following such verification, the authority shall issue a tax credit voucher to either the owner rehabilitating the eligible building or to the taxpayer named by the owner as contributing to the rehabilitation. The tax credit voucher shall be in an amount equivalent to the lesser of the tax credit reserved upon certification of the rehabilitation plan under the provisions of subsection (e) of this section or fifty per cent of the actual qualified rehabilitation expenditures, but in no event shall a credit allowed under this section exceed thirty thousand dollars per dwelling unit for an eligible building. In order to obtain a credit against any state tax due that is specified in subsection (g) of this section, the holder of the tax credit voucher shall file the voucher with the holder's state tax return.

(g) (1) The Commissioner of Revenue Services shall grant a tax credit to a taxpayer holding the tax credit voucher issued under this section against any tax due under chapter 207, 208, 208a, 209, 210, 211 or 212 of the general statutes in the amount specified in the tax credit voucher. Such taxpayer shall submit the voucher and the corresponding tax return to the Department of Revenue Services.

(2) The tax credit issued under subdivision (1) of this subsection shall be taken by the holder of the tax credit voucher in the same tax year in which the voucher is issued. Any unused portion of such credit may be carried forward to any or all of the four taxable years following the year in which the tax credit voucher is issued.

(h) The aggregate amount of all tax credits which may be reserved by the authority upon certification of rehabilitation plans under subsections (b) to (d), inclusive, of this section shall not exceed two million dollars in any one fiscal year.

HSG	*Joint Favorable Subst. C/R*	PD
PD	*Joint Favorable Subst. C/R*	FIN
FIN	*Joint Favorable Subst.*	

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact: Revenue Loss, Minimal Cost

Affected Agencies: Department of Revenue Services, Connecticut Housing Finance Authority

Municipal Impact: None

State Impact:

The bill: (1) increase the annual cap on the total amount of Housing Contribution tax credit that be claimed in any one-income year from $5 million to $10 million, and (2) authorizes up to $2 million tax credits to businesses contributing funds for rehabilitating homes in Neighborhood Revitalization Zones. Therefore, the bill results in an annual revenue loss of up to $7 million beginning in FY 02.

The Connecticut Housing Finance Authority (CHFA) allocated $3.2 million in tax credits for 1999 and $5 million (the full amount under the current cap) in 2000 for the Housing Contribution Program.

CHFA will incur additional costs to oversee the operations of new tax credit program for certain projects located in Neighborhood Revitalization Zones. These costs are expected to be minimal.

OLR BILL ANALYSIS

sSB 1210

AN ACT CONCERNING TAX CREDITS FOR HOUSING PROGRAMS SERVING SPECIAL POPULATIONS OR WITHIN NEIGHBORHOOD REVITALIZATION ZONES.

SUMMARY:
This bill authorizes up to $2 million in tax credits to businesses that contribute funds for rehabilitating one- to six-family homes in locally designated Neighborhood Revitalization Zones (NRZs). The credit amount equals 50% of the total eligible rehabilitation costs, but cannot exceed $30,000 per unit. The total rehabilitation cost must exceed $25,000 before a contributor can claim a credit. The Connecticut Housing Finance Authority (CHFA) must administer the credits based on the procedures and criteria the bill specifies.

The bill increases, from $5 million to $10 million, the annual limit on the total amount of tax credits CHFA can approve under the low-income housing tax credit program. The program grants dollar-for-dollar credits to businesses contributing to nonprofit organizations developing housing for low- and moderate-income people. The bill expands the range of eligible projects to include those for specified groups and adds more factors CHFA must consider when ranking projects for credits.

EFFECTIVE DATE: October 1, 2001

NRZ HOUSING REHABILITATION TAX CREDIT PROGRAM

Business Tax Credits

The bill authorizes up to $2 million per year in business tax credits for contributions toward rehabilitating housing in NRZs. Insurance companies, medical services corporations, air carriers, railroad companies, cable and community antenna companies, utilities, and any business paying corporate business taxes qualify for credits. Nonprofit organizations paying taxes on income they derive from activities unrelated to their tax-exempt purposes also qualify for credits.

Accessing the Credits

Organizations can obtain the tax credits by contributing to individuals or nonprofit organizations that applied to CHFA for tax credit vouchers. They receive the vouchers after CHFA certifies that the housing was rehabilitated and must attach them to their tax returns in order to claim the credit. Organizations can begin to do this after December 31, 2000.

CHFA may, in consultation with the revenue services commissioner, adopt written procedures to issue the vouchers.

Property Eligibility Requirements

Contributors qualify for credits if the building is located in an NRZ and contains no more than six dwelling units. NRZs are designated under a statutory process that allows residents, property owners, business organizations, and municipal agencies to jointly develop a strategic plan to revitalize a distressed neighborhood (see BACKGROUND).

Owner Eligibility Requirements

Individuals and nonprofit organization qualify for tax credit vouchers, which they give to contributors after CHFA certifies the completed rehabilitation. An individual qualifies if he pays income taxes and possesses title to the property or has a purchase agreement or option to purchase the property. A nonprofit qualifies if it possesses or has a purchase agreement or option to purchase the property.

Eligible Rehabilitation Expenditures

CHFA issues the tax credit vouchers for the rehabilitation costs, which must exceed $25,000. These costs do not include the owner's personal labor; site improvements unrelated to making the property handicapped accessible; new additions that are not needed to satisfy building and fire safety code requirements; rehabilitation of out buildings; and architectural, legal, and financing fees, and other nonconstruction costs.

Credit Amount

The amount in the credit voucher must equal 50% of the eligible rehabilitation costs, but cannot exceed $30,000 per dwelling unit.

Applying for Vouchers

The bill specifies the process for obtaining vouchers. Owners must submit rehabilitation plans and cost estimates to CHFA before they can begin the work. The plan must be a construction plan and specifications detailing the proposed rehabilitation. It must provide enough detail so that CHFA can determine if the work complies with the standards it adopts for reviewing plans. The standards must include the type of rehabilitation proposed, the need to rehabilitate the property, and the impact the rehabilitation would have on the tenants and the neighborhood.

CHFA must give priority for vouchers to owners submitting plans to rehabilitate deteriorated properties in serious noncompliance with state and local health and safety codes and regulations.

If a plan meets the standards, CHFA must calculate the credit amount based on 50% of the eligible rehabilitation costs and may reserve that amount for the owner.

Owners must notify CHFA after completing the work, document that fact and certify the costs. CHFA must review the work and verify that it complies with the approved rehabilitation plan. It must then issue a voucher to the owner or the taxpayer the owner cited as contributing funds toward the rehabilitation. The credit must equal the lesser of the amount CHFA initially reserved for the owner or 50% of the eligible costs actually incurred. As stated above, the credit amount cannot exceed $30,000 per unit.

Taxpayers claiming the credit must file their vouchers with their tax returns. They must claim the credit in the same tax year CHFA issued the voucher. Taxpayers can carry any unused portion of the credit forward for any or all of the four tax years following the year it was approved.

LOW-INCOME HOUSING TAX CREDIT PROGRAM

Beneficiaries

The bill expands the groups of people projects must benefit before their contributors can qualify for tax credits. Under current law, the projects must provide housing for low- and moderate-income people, who generally earn 80% or less of the area's median income. Under the bill, projects can provide housing for artists and craftspeople; employees of businesses located in the state's 17 enterprise zones; people with psychiatric or substance abuse disabilities, as defined by law; and individuals and families requiring support services, including job training, credit counseling, and housekeeping.

Selection Criteria

The bill adds more factors CHFA must consider when ranking projects for approving tax credits. Currently, CHFA must consider:

1. the extent to which a project is ready to begin;

2. whether the contribution will be spent on building or rehabilitating a specific project or used to capitalize a revolving fund providing low-cost loans for constructing, repairing, or rehabilitating housing for income groups within the low- and moderate-income range;

3. the extent to which a project benefits specific families within these ranges;

4. evidence that the nonprofit organization is capable of developing the housing;

5. evidence that the contribution helps the nonprofit meet the goals specified in its application for tax credits;

6. whether the nonprofit will use the contribution to provide housing in urban areas and the extent to which it will revitalize neighborhoods in these areas; and

7. the extent to which other funds help leverage the contribution.

The bill requires CHFA to also consider the extent to which the:

1. nonprofit provides evidence showing that the project will further the town's and region's revitalization goals and

2. contribution will be used to support housing for individuals and families with special needs, which the bill does not specify.

BACKGROUND

NRZs

The law allows towns to set up a process through which neighborhood groups can plan strategies to revitalize a distressed area and work with local, state, and federal officials to implement them. The NRZ designation allows developers to seek waivers from state and local building codes. It also allows towns to take property in the zones by eminent domain and ask courts to appoint rent receivers to bring deteriorated properties up to health and safety standards.

The following towns have designated NRZs: Bridgeport, (3) Colchester (1) East Hartford, (2) Groton, (1) Hamden, (2) Hartford, (16) Middletown (1), New Britain (3), New Haven, (7) New London (1) Norwich, (2) Stamford, (2) Waterbury, (7) and Windham (1).

Related Bills

sHB 6745 (File 595) raises, from $5 million to $10 million, the annual limit on the total amount of credits available under the low-income housing tax credit program and makes nonprofit organizations eligible for credits when they pay business taxes on income they receive from activities unrelated to their tax-exempt purpose. It raises other limits, imposes new ones, and lengthens the time period for claiming unused credits. The Finance, Revenue and Bonding Committee reported the bill favorably to the floor on April 19.

sHB 6720 creates a revolving loan program for repairing deteriorated properties within NRZs. It authorizes the Office of Policy and Management (OPM) to provide technical assistance grants to NRZs within available appropriations and authorizes $12 million in bonds for grants to help NRZs implement their strategic plans. The Appropriations Committee reported the bill favorably on April 23.

COMMITTEE ACTION

Select Committee on Housing

Joint Favorable Substitute Change of Reference
Yea 12 Nay 0

Planning and Development Committee

Joint Favorable Substitute Change of Reference
Yea 15 Nay 2

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 37 Nay 8