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sHB-6646
AN ACT CONCERNING CRUMBLING CONCRETE FOUNDATIONS.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 22 $	FY 23 $
Department of Housing	HHF - Cost	175,000	None
CHFA	Various - See Below	See Below	See Below

Note: HHP=Healthy Homes Fund

Municipal Impact:

Municipalities	Effect	FY 22 $	FY 23 $	FY 24 $
Various Municipalities	Potential Revenue Gain	None	None	See Below
Various Municipalities	Precludes Revenue Gain	None	None	See Below

Explanation

The bill makes various changes related to the issue of crumbling concrete foundations that result in the fiscal impacts described below.

Section 1 prevents municipalities, once they have adjusted the assessment of a home with a defective concrete foundation, from reassessing that home until the foundation has been repaired or replaced. This precludes any revenue gain a municipality might experience if it chose to increase the assessment of a home with a defective concrete foundation prior to such foundation being repaired.

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4/20/21

Section 2 eliminates the June 30, 2022 sunset date for the captive insurer, Connecticut Foundations Solutions Indemnity Company Inc. (CFSIC), which allows the captive to continue operating using state funding already authorized for that purpose.[1] As the captive spends approximately $800,000 of its revenue annually on operating expenses, under the bill that operating cost is anticipated to continue in FY 23 and future years.[2]

Sections 3 and 4 require the State Geologist to receive certain reports and the Department of Consumer Protection (DCP), in consultation with the State Geologist, to write regulations regarding the testing of aggregates produced by quarries when producing concrete. These provisions result in no fiscal impact because DCP has the expertise to meet the requirements of the bill.

Section 5 authorizes the Connecticut Housing Finance Authority (CHFA) to issue revenue bonds based on revenues currently directed to the Crumbling Foundations Assistance Fund from the Healthy Homes Fund. To the extent that such bonds are issued, there would be a one-time increase in funds available (through loans allowed in the bill from CHFA to the captive insurer) to the Crumbling Foundations Assistance Fund at the time bonds were sold, followed by a decrease of funds available on an annual basis until the bonds were repaid.

As an example, if the maximum $100 million of bonds were issued for these purposes with a 20-year repayment term with level payments of $8 million annually, the Crumbling Foundations Assistance Fund would see a $100 million increase of funds available when sold, followed by an $8 million annual decrease in funds available for 20 years ($160 million total of debt repayment and foregone future

[1] CFSIC distributes financial assistance to homeowners with foundations crumbling due to the presence of pyrrhotite using state funds deposited in the Crumbling Foundations Assistance Fund. The state has authorized $100 million in bond funds and about 85 percent of the revenue from a $12 annual surcharge on homeowners' insurance policies (in place through 2029) to provide such assistance.

[2] Under current law, the captive or its successor is expected to continue minimal operations for up to 36 months after sunset to run off accumulated liabilities, so not all FY 23 operating expenses under the bill are additional.

revenue). Actual bond repayment terms would be subject to market rates and terms agreed upon within the bond covenant.

The bill does not specify the terms of bonds, nor require CHFA to issue the bonds at all. CHFA would bear the costs of issuing any bonds, which, as specified in the bill, could be repaid using bond proceeds. No ongoing costs are anticipated for CHFA, as it is not anticipated that CHFA would move forward with a bond issuance where expected revenues would be less than contractual debt service payments.

Section 6 facilitates the potential loans from CHFA to CFSIC but does not otherwise result in a practical fiscal impact in FY 22 or FY 23. Technically, it prevents the funds destined for the Crumbling Foundations Assistance Fund under current law from being deposited temporarily in the Healthy Homes Fund before being transferred to the Crumbling Foundations Assistance Fund within a month. Section 6 also extends the duration of the Healthy Homes Surcharge past 2029, as further described below.

Sections 7 and 8 result in a one-time cost to the Healthy Homes Fund of up to $175,000 in FY 22 to provide funding for CFSIC to research and report on the extent of crumbling foundations in nonresidential buildings. This will result in less funding being available for the lead removal, remediation and abatement program under the Department of Housing (DOH) that is funded from the same account.

The bill results in a revenue gain to municipalities associated with homeowners impacted by crumbling foundations to the extent that it allows more homeowners to have their foundations remediated. Under current law, as of September 2020, at least 845 properties in at least 10 communities have had their assessments reduced due to foundation problems. This has resulted in an estimated revenue loss to those municipalities of about $2.7 million cumulatively. The bill results in a revenue gain that would vary based on the assessments of such properties after foundation remediation. It is unknown how much of this revenue gain would occur in FY 23 and how much would occur in the out years.

The Out Years

The annualized ongoing fiscal impacts identified above would continue into the future subject to inflation and the terms of any bonds issued.

Additionally, **section 6** extends the final year of the $12 Healthy Homes Surcharge on homeowners' insurance policies from 2029 to 2041. This results in a revenue gain of approximately $12.5 million to the state for twelve additional years beginning in FY 31. The actual amount would depend on the number of eligible insurance policies each year. The total additional revenue gain over time is anticipated to be approximately $127 million for use by CFSIC and $22 million for the lead removal, remediation and abatement program under DOH.

Sources: Connecticut Foundation Solutions Indemnity Company, Inc. 2019 and 2020 Audited Financial Statements
Department of Housing Healthy Homes Fund Report