

# OFFICE OF FISCAL ANALYSIS

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sHB-6708

AN ACT CONCERNING THE SECURITY DEPOSIT GUARANTEE PROGRAM.

## **OFA Fiscal Note**

### **State Impact:**

Agency Affected	Fund-Effect	FY 24 \$	FY 25 \$
Department of Housing	GF - Cost	Up to 10 million	See Below
State Comptroller - Fringe Benefits <sup>1</sup>	GF - Cost	134,251	137,607
Department of Housing	GF - Potential Cost	Up to 50,000	None

Note: GF=General Fund

**Municipal Impact:** None

### **Explanation**

The bill makes changes to the security deposit guarantee program (SDGP) administered by the Department of Housing (DOH), including appropriating \$10 million for the program in FY 24 only. This results in a cost of up to \$10 million in FY 24 and an unknown cost in FY 25, associated with: 1) providing additional security deposit guarantees (“guarantees”) and/or grants, and 2) increased administration costs to DOH.

The bill's significant eligibility expansion and the appropriation are anticipated to result in a larger program. Consequently, it is anticipated that DOH will: (1) contract out the day-to-day operation of the program

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<sup>1</sup>The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 42.82% of payroll in FY 24.

to nonprofits or social service organizations and (2) hire at least one program manager at an annual cost of \$134,251 in FY 24 and \$137,607 in FY 25, for salary and fringe benefits, to monitor compliance and supervise the providers.

Partially offsetting the cost increase due to the program eligibility expansion, the bill reduces the size of the guarantee that DOH can provide and increases certain tenants' contribution to the security deposit. These and a few other aspects of the bill are likely to reduce average state costs per guarantee.

The total cost to the state under the new program rules will depend on: (1) the number of applicants that receive guarantees or grants, (2) the portion of guarantees on which the state must pay out claims (i.e., the default rate) and amount of grants, and (3) the average state cost per claim paid out.

Given that there are approximately 208,573 households in Connecticut that meet the bill's eligibility criteria of earning 80% of the state median income or less, and the average rental cost is currently \$1,512 per month, DOH is anticipated to see sufficient demand to spend the bill's full appropriation in FY 24. DOH could incur claims costs of \$11.8 million to \$23.7 million, for example, if eight percent of the eligible population (16,686 households) received 1.5 month guarantees and had an average total default rate between 25% and 50% for the year. DOH may choose to limit the number of guarantees to prevent overspending.

The bill does not permit the FY 24 appropriation to remain available to DOH in FY 25. When the guarantee to a landlord is made, it is not known when the landlord may make a claim, for example in two months or five years, because it depends on when the tenant leaves the unit. If DOH makes significantly more guarantees in FY 24 by expanding program participation, there will be costs to DOH in FY 25, and annually thereafter, associated with paying out claims to landlords for FY 24 guarantee recipients. Under the bill, DOH can also make security deposit grants for up to one month's rent.

The bill also results in a potential cost to DOH of up to \$50,000 for consultant services in FY 24, to the extent the agency requires outside assistance to modify program regulations as required by the bill.

***The Out Years***

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation. It is anticipated that state costs in the out years could be significant, depending on the amount of landlord claims against state guarantees.