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## OLR Bill Analysis

### sSB 6

#### **AN ACT CONCERNING HOUSING.**

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*Requires DOH to take certain actions related to its administration of RAP and other housing voucher programs*

**SUMMARY**

This bill, among other things, makes various changes to laws related to state housing assistance programs, housing authorities, and certain state taxes. It also establishes (1) a Housing Growth Fund administered by the Department of Economic and Community Development and (2) a Department of Housing tax credit program for owners that convert commercial buildings into residential developments. A section-by-section analysis follows.

EFFECTIVE DATE: Various, see below

**§§ 1-4 — HOUSING GROWTH FUND**

*Establishes the Housing Growth Fund administered by DECD; requires DECD to use the fund to give annual grants to eligible municipalities based on a scoring system for certain types of housing units municipalities approved during the previous fiscal year*

The bill establishes the Housing Growth Fund, which the Department of Economic and Community Development (DECD) must develop and administer. The fund's purpose is to give grants to eligible municipalities for the following:

1. increasing affordable housing availability (i.e., that for which households earning no more than the federally determined area median income pay 30% or less of their annual income);
2. promoting housing production affordable to low- and moderate-income households (i.e., those lacking the income needed to rent or purchase moderate cost housing without financial assistance, as determined by the housing commissioner); and
3. maximizing residential, commercial, and leisure space within walking distance of transit facilities.

The bill requires DECD to annually allocate \$50 million to the fund, within available appropriations. Under the bill, the department must annually calculate a housing growth score for the state and each municipality, and use the scores to proportionally award annual grants to municipalities meeting certain eligibility requirements.

The bill allows DECD to adopt related regulations and requires it to

post them on the department’s website.

EFFECTIVE DATE: October 1, 2024

### ***Housing Growth Scores***

The bill requires DECD, by March 1, 2025, and then annually before March 1, to calculate a “housing growth score” for each municipality based on the number of dwelling units approved for construction (i.e., permitted) in the municipality during the previous fiscal year. Specifically, DECD must calculate (1) each municipality’s housing growth score by totaling assigned point values for certain types of approved dwelling units, as described in the table below, and (2) a statewide housing growth score by totaling each municipality’s score. The bill requires DECD to post the scores on its website.

**Table: Municipal Housing Growth Score Point Values**

<b><i>Type of Dwelling Unit Approved for Construction by the Municipality During the Previous Fiscal Year</i></b>	<b><i>Point Value</i></b>
Dwelling unit	1.0
Dwelling unit in a mixed-use development (i.e., that also contains at least one commercial, public, institutional, retail, office, or industrial use)	1.5
Dwelling unit in a mixed-income development (i.e., a portion of units qualify as affordable housing, as defined above)	1.5
Dwelling unit in a transit-oriented development (i.e., generally those within ½ mile or walking distance of a transit facility, such as bus and train stations)	2.0
Dwelling unit in a multi-family housing building (i.e., that contains at least two dwelling units)	2.0
Dwelling unit in a housing authority development (i.e., that is owned, acquired, or developed by a housing authority, which also includes any state entity providing funds for affordable housing or an affordable housing program)	2.0
Dwelling unit in a set-aside development (i.e., one in which, for at least 40 years after initial occupancy, at least 30% of the units are deed restricted based on specified household income limits)	3.0
Dwelling unit that is or will be sold or rented at or below a cost equal to no more than 30% of the annual household income of those earning 30% of the state median income	3.0

Under the bill, dwelling units are not eligible for a point value if they are in an affordable housing development completed after a successful

court appeal under CGS § 8-30g. By law, an “affordable housing development” is either a set-aside development (see above) or certain government-assisted housing or housing occupied by people receiving rental assistance (i.e., assisted housing).

The bill requires each municipality, by December 1, 2024, and then annually before December 1, to give DECD any documentation the department needs to calculate these scores. A municipality that fails to do so is ineligible for assistance from the fund. Under the bill, DECD may request, inspect, and audit certain information needed to calculate a municipality’s score (i.e., reports, books, records, and other financial or project-related information).

### ***Municipal Grants***

***Eligibility.*** The bill requires DECD, by June 1, 2025, and then annually before June 1, to award grants from the Housing Growth Fund to each eligible municipality. To be eligible, a municipality must have approved during the previous fiscal year:

1. at least 2% of the total housing permits that were approved statewide (or have a poverty rate greater than the state’s based on the most recent decennial census);
2. at least three times more new housing permits than demolition permits; and
3. dwelling units that will be sold or rented at a price that results in the rent or mortgage payments equaling no more than 30% of the annual household income of those earning 30% of the state median income, provided these units make up at least 10% of the total units the municipality permitted.

***Grant Calculation.*** To calculate annual municipal grant amounts, the bill requires DECD to divide an eligible municipality’s housing growth score by the statewide score; the resulting percentage is equal to the percentage of the available annual funding that the municipality will receive. (Because the statewide housing growth score equals the total of each municipality’s score, rather than the total of only eligible

municipalities, the bill's formula for calculating annual grants may result in unallocated moneys remaining in the fund.)

## **§ 5 — TAX CREDIT PROGRAM FOR COMMERCIAL CONVERSIONS**

*Requires DOH, by January 1, 2025, to establish a tax credit program for owners that convert commercial buildings into residential developments*

The bill requires the Department of Housing (DOH), by January 1, 2025, to do the following:

1. establish a program to administer tax credit vouchers for (a) owners that convert commercial buildings into residential developments with at least one dwelling unit or (b) taxpayers that make “qualified conversion expenditures” toward these projects and
2. develop standards for approving the vouchers that account for whether the proposed conversion will create or preserve affordable housing units.

Under the program, a “commercial building” is one primarily designed or used for non-residential purposes (e.g., hotels and retail or office spaces) but not an industrial building (e.g., warehouses, factories, and storage facilities) that is used primarily for an industrial activity and generally not open to the public.

Under the bill, “qualified conversion expenditures” include construction costs of at least \$15,000, excluding the cost of (1) the owner's labor; (2) site improvements, unless to provide access to people with disabilities; (3) new additions, unless required to comply with the state building code or fire safety code; (4) converting an outbuilding, unless it contains at least one dwelling unit; and (5) architecture fees, legal fees, financing fees, and other non-construction costs.

The bill specifies information an owner must give DOH both before and after a conversion and establishes a process by which an owner may claim a tax credit. It allows eligible owners to apply for a tax credit voucher equal to 10% of their total qualified conversion expenditure. It caps (1) owners' tax credits under the program at \$30,000 per dwelling

unit or \$50,000 per unit for nonprofits and (2) the total amount of tax credits that DOH may reserve per fiscal year at \$3 million.

Additionally, the bill allows DOH, in consultation with the Department of Revenue Services (DRS), to adopt regulations related to the program.

EFFECTIVE DATE: July 1, 2024, and applicable to tax years beginning on or after this date.

### ***Pre-Construction Application***

Under the bill, before starting work on a conversion, the owner must submit to DOH the following:

1. a construction plan and specifications for the proposed conversion that includes enough detail for DOH to evaluate compliance with its conversion standards and any related program regulations (i.e., a “conversion plan”);
2. as estimate of qualified conversion expenditures; and
3. any other information DOH requires.

The bill requires DOH to determine whether an application meets its conversion standards and any related regulations within 60 days after receiving the information described above. If so, DOH must reserve a tax credit for the owner.

### ***Post-Construction Process***

The bill requires owners to notify DOH when the conversion is completed, give the department documentation of work done, and certify the conversion cost. After DOH verifies compliance with the conversion plan, it must issue a tax credit voucher to the owner (or taxpayer that contributed to the conversion) in an amount that equals the lesser of (1) the reserved tax credit or (2) 10% of the qualified conversion expenditures.

### ***Issuance of Tax Credits***

The bill requires owners holding a tax credit voucher to file it with

their state tax return. It allows (1) nonprofit corporations to claim the credits against the unrelated business income tax and (2) all other taxpayers to claim them against the personal income tax. Credits applied against the income tax are refundable for any amount of the credit that exceeds that taxpayer's liability. Nonprofits applying them against the unrelated business income tax may carry forward any unused credits for up to four income years. The bill requires DOH to give DRS a copy of the voucher upon request.

Under the bill, owners are Connecticut taxpayers or nonprofits with title to a commercial building (or prospective title in the form of a purchase agreement or option to purchase a commercial building to be converted into a residential development).

## **§ 6 — REAL ESTATE CONVEYANCE TAX**

*Increases state real estate conveyance tax rates for conveyances of residential dwellings to buyers that are not individuals*

Under current law, all conveyances of residential dwellings are subject to the state real estate conveyance tax at the following marginal rates:

1. 0.75% on the first \$800,000 of the sales price;
2. 1.25% on any portion of the sales price that exceeds \$800,000, up to \$2.5 million; and
3. 2.25% on any portion of the sales price that exceeds \$2.5 million.

Beginning October 1, 2024, the bill increases the tax rate for conveyances of residential dwellings where the buyer is not an individual. Specifically, it sets a tax rate for these conveyances of (1) 1.75% on the first \$800,000 of the sales price and (2) 2.25% on any portion of the sales price that exceeds \$800,000. By law, the seller pays the tax when he or she conveys the property (CGS § 12-495). The bill also appears to limit the conveyance tax credit against the income tax so that it applies only when the seller conveys the property to an individual (see *Background*).

The bill also makes a technical change.

EFFECTIVE DATE: October 1, 2024, and applicable to conveyances occurring on or after that date.

**Background — Conveyance Tax Credit Against the Income Tax**

Existing law allows taxpayers who pay the conveyance tax at the 2.25% marginal rate to claim a property tax credit against their state income tax liability based on the amount they paid in conveyance tax at this rate (CGS § 12-704c(d)). Taxpayers may use this basis for the property tax credit for three years, beginning in the third year after the year in which they paid the conveyance tax.

**§§ 7-9 — REDUCED SALES AND USE TAX RATE FOR CERTAIN DEVELOPMENTS**

*Decreases, to 3%, the sales and use tax rate for tangible personal property purchased for constructing certain new residential development projects*

Existing law imposes a 6.35% sales and use tax, with some exceptions, on tangible personal property and select services purchased in the state or purchased outside the state for use in Connecticut. The bill decreases the sales and use tax rate to 3% for tangible personal property purchased for constructing a new residential development project that has at least 50 dwelling units of affordable housing (see below). It also makes a conforming change.

Under the bill, the 3% rate does not apply to projects that qualify for a sales and use tax exemption under existing law. For example, the law exempts from the sales and use tax personal property incorporated into, or used and consumed in the operation of, housing for low- and moderate-income individuals if a nonprofit housing organization or housing authority sponsors the construction and owns and operates the facilities (CGS § 12-412(29)).

Under existing law, “affordable housing” is housing for which households earning no more than the host municipality’s area median income, as determined by the U.S. Department of Housing and Urban Development, spend 30% or less of their annual income on it (CGS § 8-39a).



EFFECTIVE DATE: July 1, 2024, and applicable to sales occurring on or after this date.

**§ 10 — DOH STUDY OF ADVANCE RENTAL PAYMENTS**

*Requires DOH to study the impacts of allowing landlords to accept advance rental payments and report its findings and recommendations to the Housing Committee by January 1, 2025*

The bill requires DOH, within available appropriations, to study the potential impacts of allowing landlords to accept advance rental payments from residential tenants. It requires the study to examine the following:

1. the likelihood that prospective tenants whose rental applications have been denied would get approval if they were allowed to provide advance rental payments in addition to a security deposit,
2. potential reasons a landlord might require advance rental payments,
3. potential financial burdens for tenants due to allowing advance rental payments, and
4. the effect of advance rental payments on housing availability.

Under the bill, DOH must report its findings and any legislative recommendations to the Housing Committee by January 1, 2025.

EFFECTIVE DATE: Upon passage

**§ 11 — PROPERTY TAX EXEMPTION**

*Exempts from the property tax real property belonging to, held in trust for, or leased to a municipality and used for workforce housing or affordable housing*

The bill exempts from the property tax real property belonging to, held in trust for, or leased to a municipality and used for workforce housing (presumably, a “workforce housing development project”) or affordable housing (see above definition).

By law, a “workforce housing development project” is one to construct or substantially rehabilitate rental housing meeting the

following criteria:

1. 50% of the units are market rate units (i.e., set at the rate the unit would probably command on the open market based on comparable units in the same area);
2. 40% are rented to the workforce population designated by the developer in consultation with the host municipality; and
3. 10% are affordable housing (CGS § 8-395(a)(3)).

EFFECTIVE DATE: October 1, 2024, and applicable to assessment years on or after October 1, 2024.

### **§§ 12-24 — HOUSING AUTHORITY JURISDICTION**

*Allows housing authorities to exercise their powers outside of their municipal boundaries, with certain exceptions, subject to the other municipality's approval*

The bill allows housing authorities to exercise their powers (e.g., developing and operating affordable housing projects) outside of their municipal boundaries by adopting an expanded area of operation that may include any other municipality, subject to the other municipality's approval. Specifically, the other municipality's governing body must adopt an agreement authorizing a housing authority's expanded area of operation within its borders, after evaluating its housing needs and the housing authority's qualifications. Under the bill, a municipality that opts not to enter into this agreement does not violate state law, including the affordable housing land use appeals procedure under CGS § 8-30g.

Current law limits housing authorities' areas of operation to (1) within the boundaries of the municipality in which they were created and (2) neighboring municipalities whose governing bodies have approved it.

The bill gives housing authorities the same powers in an expanded area of operation that they may exercise in their area of operation, subject to certain limitations. Specifically, it prohibits housing authorities, in an expanded area of operation, from (1) establishing or maintaining a housing authority police force or (2) acquiring property

by eminent domain.

Under existing law, the governing bodies of two or more municipalities may create a regional housing authority. The bill also appears to allow a regional housing authority to adopt an area of operation outside the boundaries of its municipalities, but with that other municipality's approval by resolution and adoption of an agreement. (It is unclear whether this provision applies to a regional housing authority's adoption of an expanded area of operation or the formation of a regional housing authority.)

Finally, the bill makes numerous technical and conforming changes, including reorganizing statutes and eliminating redundant and obsolete definitions.

EFFECTIVE DATE: October 1, 2024

***Background — Related Bill***

sSB 207 (File 40), reported favorably by the Housing Committee, has similar provisions; however, in the case of a housing authority's expanded area of operation, it does not require approval from the other municipality.

**§ 25 — DOH ADMINISTRATION OF HOUSING VOUCHER PROGRAMS**

*Requires DOH to take certain actions related to its administration of RAP and other housing voucher programs*

The bill requires DOH to take certain actions related to its administration of the Rental Assistance Program (RAP) and other housing voucher programs (including the federal Housing Choice Voucher program). Specifically, the bill requires DOH to do the following:

1. administer RAP and any other housing voucher program to promote housing choice for program participants and encourage racial and economic integration (under current law, this requirement already applies to RAP);
2. inform participants in these programs that their housing

assistance may be used in any municipality, and to the extent it is feasible, help them find housing in the municipality of their choice (under current law, this requirement already applies to RAP);

3. do an annual assessment to determine if maximum rent amounts under these programs give participants housing opportunities in all of the state's municipalities and zip codes (based on statistically representative rental housing survey data it selects);
4. adjust the maximum rent levels for these programs accordingly; and
5. post the assessment on its website.

The bill also specifies that RAP certificates and housing vouchers may be used for housing in any municipality to the extent federal law allows (as is the case for RAP certificates under current law). Additionally, it requires DOH to administer RAP in a way that ensures no participant is displaced if the program is not funded.

Lastly, the bill requires DOH to adopt regulations to implement these provisions.

EFFECTIVE DATE: October 1, 2024

### ***Background — Related Bills***

sHB 5336 (§ 1), reported favorably by the Housing Committee, requires DOH to assess housing assistance payments under the federal HCV program and attempt to equalize housing assistance payments under state housing voucher programs to the HCV standards.

sSB 146 (§ 2), reported favorably by the Housing Committee, has nearly identical provisions to § 25 of this bill.

### **COMMITTEE ACTION**

Housing Committee

Joint Favorable Substitute

Yea 10 Nay 5 (03/07/2024)