OFFICE OF FISCAL ANALYSIS

Legislative Office Building, Room 5200
Hartford, CT 06106 ◇ (860) 240-0200
http://www.cga.ct.gov/ofa

sHB-5336
AN ACT IMPLEMENTING THE RECOMMENDATIONS OF THE CONNECTICUT HOUSING AND SEGREGATION STUDY.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 25 $	FY 26 $
Department of Housing	GF - Potential Cost	See Below	See Below
Department of Housing	GF - Cost	Potential	At least 1 million
CHFA	FF - Revenue Loss	None	Potential

Note: GF=General Fund; FF=Federal Funds

Municipal Impact: None

Explanation

The bill makes significant changes to state rental assistance programs which are anticipated to result in various costs and potential costs to the Department of Housing (DOH) beginning in FY 25. The bill could also jeopardize the state's allocation of federal Low Income Housing Tax Credits (LIHTC) in FY 26, administered by the Connecticut Housing Finance Authority (CHFA).

Elderly Rental Assistance Program Cost

The bill requires DOH to amend regulations to ensure that Elderly Rental Assistance Program (ERAP) participants' rent contributions are increased no more frequently than once every two years. Assuming it takes DOH approximately one year to adopt such regulations, this results in a cost that could exceed $1 million to DOH beginning in FY 26

Primary Analyst: MP
Contributing Analyst(s):
Reviewer: JS
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and biennially thereafter.

Currently, annual increases to the cost of operating the state-assisted elderly rental housing developments are split between DOH (in the form of higher grants) and ERAP tenants' contributions, which reflect increases to their income (e.g., from inflation adjustments or Social Security benefits). Since most program participants' incomes would have been reexamined in FY 25 under the current process, the state would bear nearly the full cost of inflationary increases in FY 26 when those tenants' contributions cannot be updated. DOH can control costs in the program to some extent by not allowing new participants into the program when existing tenants stop receiving rental assistance, but the savings generated are unlikely to cover the biennial cost resulting from the bill.

For reference, in FY 23, there were 952 tenants receiving rental assistance through ERAP at properties managed by 28 housing authorities and non-profits.

Rental Assistance Program Impacts

Assessment. The bill requires DOH to conduct an assessment of housing assistance payments (HAP) under the federal Housing Choice Voucher (HCV) program by January 1, 2025 and annually thereafter. To the extent this requirement is limited to the HCV program administered by DOH, there is no cost. If DOH must assess HAP across all Connecticut public housing authorities (PHA), there could be a cost of up to $75,000 annually beginning in FY 25 for a vendor to collect and analyze such data.

Equalization. The bill is anticipated to result in significant Rental Assistance Program (RAP) subsidy changes beginning in FY 25, to the extent DOH implements the requirement to equalize HAP under RAP with payments under the federal HCV program (also known as Section 8). DOH administers RAP and is one of 45 PHA administering HCV in Connecticut. Subsidy amounts in both programs depend on: (1) the rent of the chosen unit and (2) the share of the tenant's income that must be contributed towards rent, among several other factors. For reference, the average annualized RAP rental subsidy in January 2024 was $11,750 per certificate and DOH funds approximately 6,500 RAP certificates.

Equalizing HAP across the two programs DOH administers will result in significantly different costs for RAP as described below; however, the program is generally managed within available funding (including administration costs) by restricting the turnover of certificates to new households if there is insufficient budgeted funding.

Cumulative Impact to RAP

Because RAP is not an entitlement program and is currently operating near full capacity, the impacts to per-voucher and administrative costs described below are not anticipated to result in a permanent cost or savings to DOH. It is not clear which impacts will prevail, so the bill may result in a significant DOH temporary cost in FY 25 or FY 26 until the number of certificates can be reduced to match the available funding.

Lower Maximum Allowable Rents (MAR)

Under current law, DOH allows RAP tenants to select units with the same or higher maximum allowable rent amounts as the U.S. Department of Housing and Urban Development (HUD) allows for the HCV program. This means RAP tenants can generally rent a more expensive apartment than DOH's federally subsidized voucher holders.

Equalizing the payment standards by unit size and location as required by the bill will significantly reduce the value of RAP certificates for most current and future recipients. This will correspondingly lower per-voucher costs to DOH, since changes in rent are fully incurred by the state if tenant income and other family attributes remain the same. Lower RAP values may also reduce certificate utilization rates if recipients struggle to find units offered at the lower allowable rents. The savings to DOH could offset higher per-certificate costs described below or be used to issue additional lower-value certificates.

As an example, the DOH maximum allowable rent for a one-bedroom unit in Guilford is $1,885 per month. HUD gives the public housing authority administering the HCV program some flexibility in setting payment standards for their allotment of vouchers, which DOH utilizes by setting its HCV payment standard at 110% of HUD-calculated Fair Market Rents (FMR).[1] This equates to an allowable monthly rent of $1,511 for the same one-bedroom unit in Guilford for DOH HCV voucher holders, which is $374 (20%) less per month.

Lower Tenant Contribution for Some

Another difference between the programs' subsidies is the share of the family's income that must be contributed towards rent. RAP families that are not elderly or disabled must contribute 40% of their adjusted household income towards rent, while HUD rules require tenants to contribute 30% of their adjusted income for HCV.[2] As most RAP recipients are disabled or elderly, the estimated cost to DOH to reduce tenant contributions for those RAP recipients impacted is between $1 million and $3 million per year for existing RAP voucher holders.

Less Frequent Recertification of Income

The bill results in a potentially significant cost to the RAP program beginning in FY 26, to the extent the bill prohibits the current requirement in DOH regulations for certificate holders to notify them about income increases that occur between recertifications. If tenant contributions are not increased as frequently, DOH will incur higher subsidy costs for those families.

Administrative Costs

The bill may result in an administrative savings for RAP beginning

[1] DOH increases HCV rents up to 120% of FMR with HUD approval on a case-by-case basis. The bill is not likely to standardize payment standards across all tenant-based rental assistance programs in Connecticut, as other public housing authorities operating the HCV program within their own jurisdictions also have some flexibility to set payment standards for their allotted vouchers.

[2] There is also an adjustment for utilities.

in FY 26, due to the change from annual to biennial recertification. RAP is currently administered by a vendor at cost to the state of $48 per unit per month. Administrative costs will be rebid for FY 25.

Potential Cost to Adopt Regulations

The bill requires DOH to modify ERAP and RAP regulations. To the extent the agency requires outside assistance to do so, there is a potential cost to DOH in FY 25 of up to $50,000 for legal services.

Qualified Allocation Plan (QAP) Changes

The bill requires DOH to make certain changes to the state's QAP, which governs the way CHFA distributes Connecticut's allocation of federal Low Income Housing Tax Credits (LIHTC). To the extent CHFA adopts a QAP that conflicts with federal Internal Revenue Code requirements, there is a risk of CHFA not receiving such tax credits to allocate beginning in FY 26.

Moderate Rental Housing Program

There is no fiscal impact to the state or municipalities for biennial reexamination in the Moderate Rental Housing Program because any related tenant rent and administrative cost changes will not be incurred by the state or municipalities. Housing authorities, which operate many such properties, are autonomous public corporations.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

Sources: *Department of Housing, Annual Report 2022-2023*
Department of Housing, RAP Maximum Allowable Rent Schedule 2024
Department of Housing, Section 8 HCV Payment Standards 2024