OFFICE OF FISCAL ANALYSIS

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sSB-6
AN ACT CONCERNING HOUSING.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 25 $	FY 26 $
Department of Economic & Community Development	GF - Cost	50.2 million	50.2 million
Department of Revenue Services	GF - Revenue Gain	Up to 25 million	Up to 34 million
Department of Revenue Services	GF - Revenue Loss	None	Up to 3 million
Department of Revenue Services	GF - Cost	Up to 300,000	None
Department of Revenue Services	Various - Revenue Loss	2 million	2 million
Department of Housing	GF - Cost	417,000 - 867,000	390,000 - 790,000
State Comptroller - Fringe Benefits[1]	GF - Cost	160,000	213,000
Department of Housing	GF - Potential Cost	Potential Significant	Potential Significant

Note: GF=General Fund; Various=Various

Municipal Impact:

Municipalities	Effect	FY 25 $	FY 26 $
All Municipalities	Revenue Gain	50 million	50 million
All Municipalities	Potential Cost	See Below	See Below
Various Municipalities	Grand List Reduction	None	See Below

[1]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 41.25% of payroll in FY 25.

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Explanation

The bill makes various changes related to housing that result in the fiscal impacts described by section below.

Sections 1–4 result in an annualized cost of $50.2 million to the Department of Economic and Community Development (DECD) by establishing the Housing Growth Fund. The bill requires $50 million to be allocated to the Housing Growth Fund annually.

The Department would require 2.5 full-time equivalent (FTE) staff at an approximate cost of $250,000 in FY 25 to begin and administer the Housing Growth Fund program ($168,750 salary, $70,000 fringe benefits, and $10,000 in other expenses to promote the program). The ongoing annualized cost is approximately $330,000 ($225,000 salary for 2.5 FTEs, $93,000 fringe benefits, and $10,000 in other administrative expenses to promote the program).

These sections also result in an annual revenue gain of up to $50 million to all municipalities aggregately beginning in FY 25 associated with grants from the Housing Growth Fund. The grant amount for each municipality is dependent on its housing growth score and the total available funds.

There is also a potential cost to municipalities beginning in FY 25 for providing documentation to DECD for the purpose of calculating the housing growth score. Any impact will be dependent on what information and documentation is requested by DECD.

Section 5, which establishes a tax credit for qualified conversions of commercial buildings to residential developments, results in a revenue loss of up to $3 million annually beginning in FY 26. This section also results in a one-time cost of up to $75,000 to the Department of Revenue Services in FY 25 associated with programming updates to the CTax tax administration system and myconneCT online portal, and form modification.

Section 5 requires the Department of Housing to establish the new commercial conversion tax credit program by January 1, 2025. The department would require approximately 3.5 FTE staff to administer the program at an approximate state cost of $307,000 in FY 25 ($217,000 salary and $90,000 fringe benefits, reflecting nine months of costs). The ongoing annualized cost is approximately $410,000 ($290,000 salary and $120,000 fringe benefits) beginning in FY 26.

Section 6, which increases real estate conveyance tax rates for conveyances of residential dwellings to non-individual buyers, results in a General Fund revenue gain of up to $25 million in FY 25 (partial year impact) and up to $34 million in FY 26 and annually thereafter.[2] This is based on data from CoreLogic and *Stateline* indicating that approximately 14% of home sales in Connecticut are by investors.

Section 6 also results in a one-time cost of up to $75,000 to the Department of Revenue Services in FY 25 associated with programming updates to the CTax tax administration system and myconneCT online portal, and form modification.

The Department of Housing (DOH) and Connecticut Housing Finance Authority (CHFA) subsidize approximately 17 housing projects per year that are likely to face higher costs as a result of this change.

Sections 7–8 result in an estimated $2 million annual revenue loss beginning in FY 25 by lowering the sales tax rate from 6.35% to 3% on construction materials for new residential facilities with at least 50 units of affordable housing. The actual revenue loss is dependent upon the (1) cost of materials and (2) number of qualifying construction projects, both of which may fluctuate annually based on market conditions.

Based on data provided by the Department of Housing and the Connecticut Housing Finance Authority, it is anticipated that five to ten

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[2] CGS Sec. 12-494(d) specifies that, on and after July 1, 2026, any real estate conveyance tax revenue received each fiscal year in excess of $300 million (adjusted annually for inflation) is to be transferred from the General Fund to the Housing Trust Fund. Consequently, if this section results in revenues exceeding that threshold, the excess of the revenue gain would be deposited in the Housing Trust Fund.

facilities may qualify for the 3% sales tax rate annually with an average revenue loss of $200,000 per housing facility.

These sections also result in a one-time cost of up to $150,000 to the Department of Revenue Services in FY 25 associated with programming updates to the CTax tax administration system and myconneCT online portal, form modification, and the development of an exemption certificate and guidance to retailers.

Section 10 results in a one-time cost of approximately $100,000 to the Department of Housing (DOH) in FY 25 to conduct a study related to advance rental payments. DOH is anticipated to hire a consultant to conduct a survey and analyze the relevant data, as the agency lacks the necessary expertise and staff capacity to do so.

Section 11 exempts certain workforce housing and affordable housing from property tax.[3] This results in a grand list reduction to various municipalities beginning in FY 26.[4] A grand list reduction results in a revenue loss given a constant mill rate, however, it is likely that a municipality will adjust its mill rate to offset any predicted revenue loss. The impact for each municipality will be dependent on the number and value of qualified properties within each municipality.

Sections 12-24 make changes related to housing authority jurisdiction that have no fiscal impact.[5]

Section 25 results in higher annual costs to the Department of Housing (DOH) beginning in FY 25 associated with the Rental Assistance Program (RAP). DOH will incur costs of between $100,000 and $500,000 in FY 25 and annually thereafter, to assess if the maximum allowable rents for RAP are set high enough for RAP participants to have housing opportunities in every zip code. It is anticipated that DOH

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[3] This applies to real property owned by, held in trust for, or leased to a municipality.
[4] In FY 24, exempt property that was owned, held in trust for, or leased to a municipality, made up approximately 5.8% of the total gross Grand List.
[5] Housing authorities are autonomous public corporations that are primarily funded by the U.S. Department of Housing and Urban Development (HUD) but may also receive state funding.

will need to hire a vendor to conduct an extensive rental market survey each year, unless up-to-date, statistically representative rent data becomes available at zip code level. DOH's RAP vendor conducts ad hoc rent studies in single towns at a cost of $30,000 to $50,000 each; this section requires a more comprehensive analysis.

The section results in a potential, significant cost annually to DOH for higher RAP subsidies, to the extent DOH: (1) raises the MAR schedule rents based on the annual assessment's findings higher than it otherwise would have, and (2) cannot offset higher per-certificate costs by reducing the number of certificates through attrition. Because RAP is not an entitlement and operates within available funding, the cost increase will be temporary unless annual inflation pressures continuously exceed the value of turnover RAPs (from families leaving the program) that DOH can eliminate.[6] For reference, the program supported 6,530 RAP certificates totaling $73,485,912 in FY 23 and the average annualized state cost of a RAP certificate was approximately $12,300 in January 2024 including administrative fees.

As an example of the potential cost, if the allowable rents increased by $100 per month on average (approximately 10%) because of the assessment, annualized subsidy costs could be more than $7.5 million higher per year.[7] DOH would incur higher per-voucher costs both for new RAP certificates and a large portion of existing certificates as leases are renewed over time. Actual costs will depend on how DOH's MAR schedule compares to current rental market conditions and how many leases take advantage of the higher maximum allowable rents.

The section also appears to require DOH to set the payment standard for the federal Section 8 Housing Choice Voucher (HCV) program at the same assessment-determined level as RAP. It is not clear if or how this

[6] The program is likely to require additional funding during periods of higher rent inflation, if operating at full capacity.

[7] RAP participants pay 40% of their adjusted gross income (or 30% of adjusted gross income if the participant is elderly or disabled) toward rent and utilities and the DOH rental subsidy pays the remainder of the contract rent directly to the landlord. Given this structure, changes to contract rent are fully borne by the state, all else equal.

could be achieved given several factors: (1) the payment standard for HCV is lower than RAP for many locations; (2) DOH receives a set amount of federal funding to support HCV vouchers; and (3) DOH spends all or nearly all available program funding annually.[8]

It is not clear to what extent the bill creates a new entitlement for existing RAP certificate holders to continue receiving rental assistance even when no funding is appropriated to the program. In recent years, funding has been sufficient to continue assistance for current participants of RAP and the federal vouchers that DOH administers.

The section requires DOH to adopt implementing 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.

The Out Years

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

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[8] HUD Housing Choice Voucher (HCV) Data Dashboard. https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/dashboard