

March 4, 2024

Esteemed Chairs Felipe and Moore,
Members of the Housing Committee:

The Western Connecticut Council of Governments (WestCOG) appreciates the opportunity to comment on Committee Bill 6, *An Act Concerning Housing*. WestCOG **opposes** this bill due to the inclusion in Sections 13-15 of language similar to that of Raised Bill 207, *An Act Concerning Housing Authority Jurisdiction*. (WestCOG is supportive or neutral on the rest of the bill.)

Sections 13-15 – Expanded housing authority jurisdiction (opposed)

WestCOG supports legislation that facilitates intermunicipal collaboration on a range of subjects. This includes the services provided by housing authorities. However, this support is conditional on collaboration being voluntary and mutual on the part of interested municipalities.

Sections 13-15 would allow housing authorities, which are created and controlled by municipalities, to expand into other municipalities unilaterally. This is an approach the state has not used – and should not use. Enabling municipal departments and agencies to expand beyond the body politic that governs and funds them, without the mutual agreement of the communities they are expanding into, is a recipe for loss of accountability, service duplication, and conflict.

The approach the state should use for housing is the approach it already uses for public health. State law enables municipalities to unite into regional health districts (CGS chapter 368f). Regional health districts are not created by a local health department unilaterally deciding to expand into other municipalities. They are created when two or more municipalities vote to form a regional health district. The regional health district, in turn, does not just serve its members; it is also governed and funded by them.

Connecticut's regional health districts exemplify sharing – municipalities coming together, voluntarily and driven by data and need, to provide services. The success of the model is demonstrated by its diffusion: over time, the majority of municipalities in Connecticut (130 of 169) have voted to join a regional health district.

Housing is often called a social determinant of health. WestCOG suggests your Committee replace sections 13-15 with language, modeled on state law enabling regional health districts, to allow municipalities to come together voluntarily to form true regional housing authorities.

In addition to these sections, WestCOG also has comments on several other sections of the bill:

Section 2 – Housing Growth Fund (comments)

Under this section, the state would make grants from a Housing Growth Fund to municipalities to improve the availability of and promote the production of affordable housing and to develop residential, commercial, and leisure space in walking distance of transit.

This section refers to CGS §8-39a, which defines “affordable housing” as “housing for which persons and families pay thirty per cent or less of their annual income, where such income is less than or equal to the area median income for the municipality in which such housing is located, as determined by the United States Department of Housing and Urban Development.”

WestCOG **supports** this definition, which is consistent with federal programs and with those used in other states. Use of this definition – which should be extended to more state programs – improves alignment with federal programs and can be expected to result in increased production of affordable housing.¹

Grants from the Housing Growth Fund would, in part, be proportional to the number of units built in transit-oriented developments (TOD), as defined in CGS §7-339cc:

“Transit-oriented development” means the development of residential, commercial and employment centers within one-half mile or walking distance of a transit facility, including rail and bus rapid transit and services that meet transit supportive standards for land uses, built environment densities and walkable environments, in order to facilitate and encourage the use of those services. Transit-oriented development includes, but is not limited to, transit vehicles such as buses, ferries, vans, rail conveyances and related equipment; bus shelters and other transit-related structures; benches, signs and other transit-related infrastructure; bicycle lane construction and other bicycle-related improvements; pedestrian improvements such as crosswalks, crosswalk signals and warning systems and crosswalk curb treatments and the industrial, commercial, residential, retail and mixed-use portions of transit-oriented development projects.”

Homes that are built in places where a range of jobs and services can safely and comfortably be walked to, and where high-quality transit is available, enable households to live with no or few cars. The effect of this on household finances should not be underestimated: cars are expensive, accounting for over 20% of household income for lower income households. In other words, eliminating a car has the same impact on household finances as moving from a home that is affordable at 100% median income to one that is affordable at 80%.

Given the magnitude of financial relief transit-oriented development can provide households, transit-oriented development should be central to housing affordability strategies. Accordingly, WestCOG **supports** its inclusion in this bill.

Furthermore, WestCOG suggests integrating considerations of transportation cost into §8-30g. Given that a home in a TOD that is affordable at 100% median income is no less affordable than a home that is affordable at 80% but is not in a TOD, **a 100% unit in a TOD should earn the same number of housing unit-equivalent (HUE) points as an 80% units in the proverbial sticks**, and a 80% unit in a TOD the same number of HUE points as a 60% unit in the sticks.

¹ As compared to the definition under CGS §8-30g, which first takes the lesser of state or area median income; then regulation applies a further (and of unclear justification) 15% reduction. Homebuilding at this price point is uneconomic without large subsidy.

Section 5 – Conversion of commercial buildings to housing (support)

This section appears similar or identical to Raised Bill 270, *An Act Concerning Tax Credits for the Conversion of Commercial Properties*. WestCOG’s comments on that bill are reproduced below:

WestCOG **supports** this bill. Changes in the economy mean that Connecticut is suffering from a glut of commercial space. Much of this space, from business parks to shopping malls, sits vacant, with profound impacts to community vibrance and state and local economies.

WestCOG has commissioned an *Affordable Housing Financing Study*, to identify how the region can maximize the creation of quality affordable housing. The study, which is nearing completion, finds that the most cost-effective way to do so is to repurpose existing buildings. Such reuse mitigates the impact of rising costs in homebuilding:

- Construction projects that reuse existing buildings use less in the way of materials and are thus less exposed to inflation in the cost of building materials.
- Existing sites are already subdivided, graded, and have utilities, saving on site preparation.
- Decreases in business property values reduces the exposure of construction projects to increases in land values.

The benefits of reuse are not limited to commercial properties; they also include properties that served institutional uses (such as health care or education) as well as those that were designed for industrial uses but were later converted to commercial use. Many of these properties have also become underutilized. WestCOG therefore suggests that your Committee **expand the definition of “commercial building” in the bill to include structures that served institutional uses and structures that were converted to commercial uses.**

State support will enable more underutilized properties to return to productive use, providing homes in a way that is cost-effective, environmentally sound, and supportive of communities.

Section 6 – Conveyance tax on institutional buyers (comments)

This section appears similar or identical to Raised Bill 266, *An Act Increasing the Conveyance Tax for Certain Home Sales*. WestCOG’s comments on that bill are reproduced below:

First, in the last several years, the fraction of home sales that have gone to institutional buyers – i.e., real estate investors – has escalated. These buyers do not only increase demand on housing, driving up prices; many also pay cash, outcompeting typical homebuyers, who rely on mortgages to purchase a home. Growing treatment of homes as investment vehicles comes not only at the expense of these homebuyers; such financialization may also increase the magnitude of swings in the housing market. (The Great Recession likely would not have been as severe had housing not been financialized to the degree it was.)

Policies that disincentivize speculation in the housing market should reduce home price run-ups and smooth out cycles in home prices, limiting the boom and bust that left households underwater during the Great Recession and that has priced out so many today.

Second, the bill seeks to provide such a disincentive by increasing the conveyance tax on properties that are bought by institutional buyers. While the intent may be sound, the language here raises some questions:

- The conveyance tax is usually paid by the seller. In this case, it appears that on properties that are bought by a buyer who is not an individual, the conveyance tax would be paid by the buyer. Does this mean that the seller would pay no conveyance tax on these sales and, if so, would not this create a perverse incentive to sell to institutional buyers?
- This could complicate sales, as a seller would have to charge a higher price on property that is sold to an individual to cover the seller's conveyance tax liability. In other words, in agreeing to a sale, the seller would have to adjust the price based on whether the buyer is a firm or a person.
- The higher, buyer-side conveyance tax the bill proposes would apply to any sale that is not to an "individual." This language would seem to exclude groups of individuals, such as married and unmarried couples, or a parent and a child, from jointly buying a property, resulting in such groups having a higher conveyance tax liability. Is this the intent?
- Where would the additional conveyance tax go? Nationwide, conveyance tax revenues commonly flow into state and regional housing trust funds, which support the creation and preservation of affordable housing. WestCOG **supports** using conveyance tax revenues to fund affordable housing in this manner.

The aim in asking these questions is not to oppose the bill but to draw attention to areas where the language could be clarified.

WestCOG also suggests that your Committee consider expanding the conveyance tax local option to all 169 municipalities. State law currently enables some municipalities to add a small local surtax (¼%) to the conveyance tax; of the 19 with this authority, 17 have exercised it. These funds could also be used to support the creation of affordable housing and municipal infrastructure, without further burdening the property tax.

Section 7-8 – Reduced sales tax on large multifamily housing

These sections appear similar or identical to Raised Bill 269, *An Act Reducing the Sales and Use Taxes for Certain Goods Used in New Housing Construction*. WestCOG's comments on that bill are reproduced below:

In 2022, the National Association of Homebuilders reported that, as a national average, 60.8% of the sales price of a home results from construction costs (with 17.8% and 10.1% accounted for by finished lot costs and builder profit).² Typically, building materials account for approximately 50% of construction costs, with the remaining 50% consisting of labor. Using this cost allocation and a \$250 per square foot total cost, materials would cost \$150,000 for a 2,000 square foot home.

Reducing the sales tax on materials would help bring these costs down, but it would also create significant challenges for building materials suppliers, who would have to add a new sale tax rate,

² [Cost of Constructing a Home - 2022 \(National Association of Homebuilders\)](#)

to update their processes to accept documentation to qualify for that rate, and to apply that rate on a purchase-by-purchase basis. Questions this proposal raises include:

- Will the state provide documentation that purchasers can use to show that purchases should be taxed at a lower rate, and how long will issuance of these documents take? (Without such documentation, vendors may be reluctant to reduce the sales tax.)
- What will it cost the state to create this documentation? Unlike a sales tax exemption, which applies based on organizational status and thus must only be granted once, under this proposal, eligibility would need to be determined anew for each large housing project.
- How much effort will it take vendors to review and accept this documentation at sale?
- Can existing order and sale systems handle an additional sales tax rate and apply it on a purchase-by-purchase basis? If not, what will it cost to upgrade these systems?
- Is it expected that out-of-state vendors will modify their processes and systems to enable this new tax rate, even if the number of sales where it would apply is small?

Because of this complexity, many suppliers may either a) fail to grant the reduced sales tax rate or b) discount the cost of the product by an equivalent amount, without reducing the sales tax rate, thus eating into their own bottom line (which is not the intent of the proposal).

Instead of creating a new sales tax rate, WestCOG instead suggests that your Committee instead **allow homebuilders an annual refund on their state taxes equivalent to what their savings under the new sales tax rate would have been.** Such an arrangement would provide the same financial benefit as a lowered sales tax without creating new costs and compliance challenges for the state and for building material suppliers.

Should you have questions or require additional information, please do not hesitate to contact me. Thank you for your consideration.



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