



STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT
OFFICE OF THE SECRETARY

February 3, 2010

The Honorable M. Jodi Rell
Governor
Room 202, State Capitol
Hartford, CT 06106-1591

Re: Annual Report on the Incentive Housing Zone Program

Dear Governor Rell:

Pursuant to Section 46 (b) of Public Act 07-4, AN ACT IMPLEMENTING THE PROVISIONS OF THE BUDGET CONCERNING GENERAL GOVERNMENT, Sections 38 to 50 inclusive and Section 11-4a of the Connecticut General Statutes, I am pleased to submit to you OPM's second annual report on the Incentive Housing Zone Program (a.k.a HomeConnecticut).

This report summarizes program activities that occurred during FY 09 including an attachment that provides summary data on the applications received to date.

There is a considerable interest in the creation of affordable housing across the State as evidenced by the 54 municipalities that have applied for Technical Assistance grant funds to assist them with assessing the need for affordable housing and creating the Incentive Housing Zones (IHZ) within their communities. Towns of Wallingford and Old Saybrook have already submitted an application for funding for the zone adoption phase of the program. I expect that few more of these approved communities will be submitting applications for zone adoption payment grants by the summer of 2010.

Should you have any questions, please call me or Dimple Desai, of my staff, at (860) 418-6412 or email him at dimple.desai@ct.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Genuario".

Robert L. Genuario
Secretary

OFFICE OF POLICY AND MANAGEMENT

ANNUAL REPORT

TO

THE GOVERNOR
AND
THE GENERAL ASSEMBLY

ON

INCENTIVE HOUSING ZONES

In accordance with Section 8-13u of the Connecticut General Statutes



ROBERT L. GENUARIO
SECRETARY

JANUARY 2010

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- A. List of Applicants to date

Authorizing Legislation

Public Act 07-4 of the June Special Session, AN ACT IMPLEMENTING THE PROVISIONS OF THE BUDGET CONCERNING GENERAL GOVERNMENT, Sections 38 to 50 inclusive (Connecticut General Statutes Sec. 8-13m through Sec. 8-13x)

Section 46 (b) of this Act stipulates that each year, on January 1, 2009, and annually thereafter, the Secretary of the Office of Policy and Management shall submit an annual report on the program to the Governor and the General Assembly in accordance with section 11-4a of the Connecticut General Statutes (C.G.S). This is the second such annual report.

Section 33 of this Act also created a Blue Ribbon Commission on Housing and Economic Development to study housing affordability needs of the state and the impact of such needs on economic growth and development. The Commission filed its final report on January 12, 2009, which included the following findings concerning the affordable housing situation in Connecticut:

- The most recent Out of Reach report by the National Low Income Housing Coalition indicates that rents continue to rise in Connecticut, making it increasingly difficult for low income households to afford rental units. The 2007-2008 report shows that the state's housing wage, the hourly wage needed to afford the typical two-bedroom apartment, rose to \$21.11/hour, up from \$20.42 in 2006 and \$19.30 in 2005. A person earning minimum wage would need to work 110 hours a week to earn enough to afford the typical two-bedroom apartment.
- 72% of the jobs projected by the State Department of Labor to be created through 2014 in Connecticut pay less than \$40,000.
- As of 2007, 26% of Connecticut households earned 80% of the median income or less and spent 30% of that income or more on housing.
- Almost a fourth of the estimated 396,271 renting households in Connecticut earn 50% of median income or less and spend at least half that meager income on housing according to 2007 Census data.
- A 2007 study by the Federal Reserve Bank of Boston New England Public Policy Center indicated that there is only one affordable and available housing unit for every three low income households in Connecticut that need one.
- A 2007 study by the HOMEConnecticut Campaign found that a household earning the median income would not qualify for a mortgage for the median sales priced home in 142 of Connecticut's 169 towns. This indicates that despite the downturn in the housing market, prices still remain high for many of Connecticut's households.

Program Overview

Incentive Housing Zones (IHZ) established under Connecticut's Housing for Economic Growth (HEG) Program help municipalities of all types and sizes plan for and create mixed-income housing that is critical to attracting and retaining young professionals, working families, retirees, and people in critical professions, such as firefighters, police officers, teachers and nurses.

Public Act 07-4 provides incentives for municipalities to create IHZs in eligible locations, such as near transit facilities, an area of concentrated development or an area that because of existing, planned or proposed infrastructure is suitable for development as an IHZ. Developable land excludes public and privately owned property slated for public uses, parks, recreation areas, dedicated open space land, other land where restrictions prohibit development, wetlands or watercourses and areas exceeding one-half or more acres of contiguous land where steep slopes or other topographic features make it unsuitable for development.

Incentive Housing Development (IHD) means a residential or mixed-use development that meets the following criteria: (A) is located within an approved IHZ, (B) is eligible for financial incentive payments, and (C) sets aside lower cost units for a minimum of 20% of the households earning 80% or less of area median income (AMI) for 30 years. A unit is affordable if it costs no more than 30% of a person's annual income to live there.

The town's zoning commission must establish the IHZ as an overlay zone. The town receives the incentives only for IHDs that are developed in a state-approved IHZ.

Program Status

The State of Connecticut will continue to face difficult economic and fiscal challenges for the foreseeable future. As a result, no additional funds were made available for the HEG program in the 2009-2011 biennial budget.

Furthermore, the HEG program is on the list of programs facing potentially significant cuts as part of the latest deficit mitigation plan. Due to this uncertainty regarding available funding for the HEG program, OPM suspended its review of new municipal Technical Assistance (TA) Grant applications for an undetermined period. OPM continues to process all existing TA Grants, as detailed in the Funding Incentives section of this report.

Aside from the overall budget uncertainty, the TA grant portion of the HEG program has been so well received that it is straining the balance of program

funds for the two remaining implementation stages – the Zone Adoption Grants and Building Permit Grants. In order to improve the likelihood that some meaningful level of funding will be available for the implementation stages of the program, OPM proposed a minor amendment to the IHZ Statute that relates to the incentive payments, which was approved by the legislature in 2009. This amendment allows for OPM discretion in providing grant amounts “up to” \$2,000 per unit for the zone adoption phase. For the building permit phase, OPM can award grants “up to” \$2,000 for multifamily units and “up to” \$5,000 for single family units. This amendment allows OPM to stretch its scarce dollars and still reward municipalities that create IHZs and affordable housing.

Therefore, in the best interest of the overall program, OPM has developed policy changes for managing the program going forward on a significantly reduced budget. Obviously, if additional State or Federal funds become available we would be willing to revisit these new funding policies. These policy changes are discussed in greater detail in the Funding Incentives section.

Federal Coordination and funding availability

In October 2009, OPM staff met with Deputy Secretary Ron Sims of the US Department of Housing and Urban Development (HUD) to discuss Connecticut’s Housing for Economic Growth program and HUD’s Livable Communities Act and Partnership for Sustainable Communities program.

The proposed Livable Communities Act of 2009 would provide the following:

(1) Incentives to Plan for Livable Communities – The Comprehensive Planning Grant Program will help communities develop comprehensive regional plans that incorporate transportation, housing, community and economic development and environmental needs. The bill authorizes \$400 million in competitive grant money over four years;

(2) Funding to Implement Projects identified in the Comprehensive Plan – The Challenge Grant Program will enable communities to implement cross-cutting projects according to their comprehensive regional plans. With \$3.75 Billion authorized for competitive grants over three years, these projects will help communities create and preserve affordable housing, support transit-oriented development, improve public transportation, create pedestrian and bicycle thoroughfares, redevelopment brownfields, and foster economic development.

Deputy Secretary Sims has informed OPM that Connecticut is well positioned to apply for these funds, since it has already provided planning funds to 50 municipalities and has a structure in place for managing these funds. Also, these 50 municipalities are actively working on establishing these incentive zones and will be ready for the Challenge Grant funds for implementation of projects.

OPM is committed to applying for these federal funds to supplement State funds and continue with this important program.

Incentive Housing Zone Requirements (must satisfy 1-7 below)

1. The zone shall be consistent with the State Plan of Conservation and Development and be located in an eligible location
2. Regulations of the zone shall permit, as of right, incentive housing development
3. The zone must comply with minimum allowable density requirements
 - 6 units/acre for single-family housing
 - 10 units/acre for duplex or townhouse housing
 - 20 units/acre for multifamily housing
 - For smaller communities, lower densities of 4/6/10 units are allowed but must have OPM approval
 - OPM may waive density requirements for land "owned or controlled" by a municipality, land trust, housing trust fund, or non-profit housing agency, provided development will be 100% set aside at 80% of AMI
4. The minimum as of right density allowed by the zone must increase the density allowed by the underlying zone by *at least 25%*
5. Zone requirements are subject to site plan or subdivision procedures, but not subject to special permit or special exception procedures/requirements/standards
6. The IHZ may consist of one or more sub-zones
7. The land area of an IHZ shall not exceed ten per cent of the total land area in the municipality. The aggregate land area of all IHZs and subzones in a municipality shall not exceed twenty-five per cent of the total land area in the municipality.

Other considerations

- In order to support the requirements of the IHZ, the zoning commission may modify, waive or delete dimensional standards contained in the zones that underlie the IHZ
- The regulations of an IHZ may allow for a mix of business, commercial or other nonresidential uses provided that these uses comply with the

requirements of PA 07-4, and are consistent with the density requirements

- An IHZ may overlay all or any part of an existing historic district or districts
- An applicant for site plan or subdivision approval may exceed the minimum requirements of the IHZ
- A zoning commission, at the time of its adoption of regulations for an IHZ, may adopt design standards for the IHD

Funding Incentives

Technical Assistance Grants

The Secretary may make technical assistance grants to municipalities for planning of IHZs, the adoption of IHZ regulations and design standards, and the review and revision, as needed, of applicable subdivision regulations and applications.

A total of 35 applications have been approved for a maximum of up to \$50,000. Another 15 applications were received by OPM before the indefinite suspension of the TA phase of the program, and OPM decided to approve them for a maximum of \$20,000. OPM will work with these municipalities to identify resources such as draft sample regulations, design standards, housing needs assessment, etc., to accomplish the tasks within the reduced grant amount. Four (4) applications were received after the suspension and will not be reviewed for funding.

Zone Adoption Grants

Subject to availability of funds, the zone adoption payment will be up to \$2,000 per unit. The projects will be prioritized and funding amounts will be determined on a case by case basis meeting responsible growth goals in addition to the statutory requirements. Examples of such goals include, but are not limited to:

- Location of the proposed zone
- Readiness of the project
- Proximity to transportation facilities
- Regulations/project meeting responsible growth goals
- Payments will be limited to the number of units that can physically be constructed in the overlay zones as a matter of right

The applicant will submit the proposed incentive housing zone or zones, the draft IHZ regulations and the draft design standards (if applicable) and other required information as per the Zone Adoption Application and

Instructions Form. Any required information missing from the application will delay the application approval and may result in the loss of funding, regardless of the date the application was submitted to OPM.

Building Permit Grants

Subject to availability of funds and municipal compliance with PA 07-4, sections 38-49, the Secretary shall issue a one-time building permit payment for each building permit issued for a residential housing unit in an approved IHD as follows:

- The amount shall be up to \$2,000 for each multifamily housing unit, duplex unit or townhouse unit
- The amount shall be up to \$5,000 for each single-family detached unit
- Such payments shall be made no later than 60 days after receipt of proof as required by the statute
- Residential units related to housing for older persons permitted by the federal Fair Housing Act, or sections 46a-64c and 46a-64d of the C.G.S., shall not be eligible for payments under this statute

Application Process

Technical Assistance Grants

- Since April 1, 2008, OPM has been accepting applications for technical assistance from interested municipalities. Grant awards were limited to a maximum of \$50,000 per community prior to March 2009. OPM has since limited the technical assistance funds to \$20,000 per community, and is not seeking any new TA applications. OPM has reduced the funds because of the budget deficit and the fact that no new funds have been budgeted for this program. Towns can use the funds for planning of IHZs, the adoption of IHZ regulations and design standards, the review and revision, as needed, of applicable subdivision regulations. Towns can also use the funds to prepare applications to the Secretary for preliminary determination and/or final approval.

Zone Adoption Application Process

The funding for the zone adoption phase and permit phase is on hold for now until the legislature decides whether to eliminate or reduce the program funding.

- On or before June 30, 2017, a municipality may file an application for **preliminary determination** of eligibility for a zone adoption payment
- An applicant shall meet the requirements of PA 07-4, Sec. 41
- 60 days after receipt, OPM issues in writing, a preliminary determination of the eligibility of the municipality for the financial incentive payments
- 30 days before such determination, the Secretary shall electronically give notice of the application to all persons who have provided the Secretary with a current electronic mail address and a written request to receive such notices
- If a determination is made that the application is not eligible, incomplete, etc., the Secretary must notify the municipality of the reasons for such determination within 60 days
- A municipality may reapply after addressing the reasons for ineligibility
- The Secretary's failure to issue a written response within 60 days of receipt shall be deemed to be a disapproval, and the municipality may reapply
- After receipt of the preliminary letter of eligibility, the zoning commission may adopt the IHZ regulations and design standards
- Within 30 days after receipt from the municipality of a written statement that its zoning commission has adopted the proposed regulations and standards, the Secretary shall issue a **letter of final approval** of the IHZ
- **Amendments** to the regulations or design standards – the municipality shall notify the Secretary of any amendments and the Secretary shall approve or disapprove such amendments within 60 days

Annual Report on the program:

Section 46 (b) of the Act requires OPM to report on the following program accomplishments for the period ending the last day of the prior fiscal year:

(1) Identify and describe the status of municipalities actively seeking letters of eligibility;

Two municipalities (Old Saybrook and Wallingford) had sought letters of eligibility before the legislature proposed elimination of the program funds during March 2009. Due to the fact that the program funds were proposed to be eliminated, the OPM Secretary did not provide any written response as required by the Act. Therefore, the lack of a

written response from the OPM Secretary within the required 60 day period effectively meant these applications were disapproved.

The Towns of Wallingford and Old Saybrook re-submitted its zone adoption grant application on November 23, 2009, and on January 5, 2010 respectively. It is our understanding that a couple more municipalities may be seeking letters of eligibility during this fiscal year.

Approval of these applications is put on hold due to the budget crisis.

(2) Identify approved incentive housing zones and the amounts and anticipated schedule of zone adoption and building permit payments under section 44 of this act during the prior and current fiscal year;

Due to the current fiscal crisis, OPM has not approved any incentive housing zones even though two municipalities have applied for zone adoption application approval to OPM.

(3) Summarize the amount of land area zoned for particular types of development in both proposed and approved zones and the number of developments being reviewed by zoning commissions under section 45 of this act, including the number and type of proposed residential units, the number of building permits issued, the number of completed housing units and their type;

The Town of Wallingford is proposing to zone about 22.73 acres for its IHZ and to create about 361 units when the IHZ is fully developed. The Town of Old Saybrook is proposing to zone about 5.6 acres and to create 16 units for the first phase of its project, which is being undertaken by a non-profit housing developer. There are a couple of municipalities that are close to proposing zones but have not submitted applications because OPM has put a hold on reviewing the zone adoption phase applications. Therefore, it is too early to provide any numbers on building permits issued and completed housing units.

(4) State the amount of zone adoption and building permit payments made to each municipality; and

Due to the budget crisis, OPM has not approved any IHZs. Therefore, OPM has not made any zone adoption or building permit payments. If the two projects as proposed were approved by OPM, the potential payments to Wallingford would have been \$722,000 and payments to

Old Saybrook would have been \$32,000 based on the \$2,000 per unit maximum limit.

(5) For the current and immediately succeeding fiscal years, estimate (A) the anticipated number and size of proposed new incentive housing zones over such time period; (B) the number and size of new incentive housing zones that may be approved over such time period; (C) the potential number of residential units to be allowed in such new and proposed incentive housing zones; and (D) anticipated construction of housing over such time period.

Based on Wallingford's application for zone adoption, it is estimated that about 361 units may be created. However, the time frame for construction of these units cannot be determined, since OPM is not aware of a potential developer that is ready and able to build affordable housing in Wallingford at this time. Construction time frames cannot be estimated unless there is an actual project that is proposed within an approved IHZ.

Based on Old Saybrook's application for zone adoption, it is estimated that about 16 units will be created. The non-profit developer is in the process of securing local permits and construction funding. It is anticipated that the construction may begin in Spring of 2011, after OPM approves the IHZ.

Appendix A provides a summary of the municipalities that have been approved for Technical Assistance grants as of the close of FY 09. OPM is no longer actively seeking Technical Assistance (TA) grant applications from municipalities. As discussed earlier, 35 municipalities have been approved and are under contract for TA funding and 15 municipalities have been issued approval letters. Four municipalities submitted TA grant applications after OPM suspended the program, and there are no current plans to review those applications.

Currently, municipal grant recipients are working on various tasks such as identifying appropriate Incentive Housing Zone locations, drafting regulations and preparing design standards. It is expected that in the summer of 2010, many municipalities will actively start seeking letters of eligibility from OPM and subsequent zone adoption grants. As a result, OPM should be in a better position to report on the program accomplishments with details as required by the Act during the next reporting year.

