ECONOMIC DEVELOPMENT
Vermont Housing Incentive Program (VHIP)

- **WHAT:** The Vermont Housing Incentive Program (VHIP) is a rental housing rehabilitation program to incentivize small private apartment owners to make significant improvements to both housing quality and weatherization through small grants and elimination of land gains tax. This program is intended for existing properties that are vacant or blighted and in need of substantial reinvestment.

- **WHY:** Vermont has some of the oldest housing stock in the country. This is especially true of our rental housing. Of Vermont's rental housing stock (79,899 units), 80% is more than 40 years old; almost 30,000 of these units (47%) are more than 80 years old.

  Of Vermont's rental housing units, 17% (13,566) are "Affordable Housing" (aka subsidized/publicly funded). According to the, 2018 Housing Budget and Investments Report , combined state and federal funding and private equity for Affordable Housing totaled approximately **$71.5 million**. This funding was used to support Affordable Housing development - both new unit creation and the rehabilitation of existing, in-portfolio units. Of this $71.5 million, only $355,000 was used to support one small scale private rental pilot program in Bennington This means that only **0.5%** of this $71.5 million went to assist the 83% of the rental housing stock - the same housing stock in which a vast majority of Rental Housing Health Code violations occur.

  This leaves 83% of Vermont's rental housing stock held by private landlords, many of whom are small-scale and low to moderate income earners themselves. Much of this privately-owned rental housing stock is poor in quality and in need of basic updating, including electrical, plumbing, and structural upgrades as well as energy improvements. Small grants coupled with attractive loan terms has proven to be one of the most cost-effective, expeditious, and impactful ways to incentivize small-scale rental property owners to invest in underutilized and poor-quality housing stock, adding quality middle-income ("workforce") housing to the market.

  Eliminating the land gains tax will support VHIP as well as new housing construction. Currently, the profit from the sale of land that was held for less than six years can be taxed. Because any profit must be allocated between the value of land and structural improvements, improvements to structures generally result in a taxable gain.

  This law, aimed at reducing real estate speculation, was enacted shortly after Act 250. An independent study published in 1980 showed that during the 1970s, the land gains tax accomplished the policy goals it was enacted to achieve. However, over the last 45 years, the land use regulations, including the statewide implementation of Act 250, have been strengthened and serve the purpose of reducing speculation and controlling unregulated growth. When the land gains tax was enacted in the early 1970s, very few municipalities had town plans or zoning. Now, 208 out of 266 Vermont municipalities have adopted zoning and 222 out of 266 have town plans that have been approved by regional planning commissions. In the current regulatory environment, this tax is no longer needed.

Moreover, the law has many exemptions and compliance is complicated for taxpayers. Preparation fees are estimated to exceed 50% of the tax revenue collected. A review of recent tax filings shows that of the 4,500+ land gains filings each year only 360 result in tax due and 2,175 show no evidence of a change to the acreage of the property. When assessed, the average liability is over $10,000 and has been frequently reported by the real estate community as preventing non-speculative transactions from occurring.

- **WHERE:** Statewide or scalable/targeted by region.

- **HOW:** VHIP will be administered by the Department of Housing & Community Development (DHCD), in partnership with the network of Home Ownership Centers (HOCs) that service all of Vermont.
  - The program will be modeled after a successful, first of its kind in Vermont pilot program with the Town of Bennington and NeighborWorks of Western Vermont. There are many examples of other similar programs across the country and Rental Rehabilitation programs are recognized as a best practice to deliver quality rental housing by national housing organizations.
  - DHCD would use existing program staff and resources to manage VHIP, with no additional administrative costs to the Department. By leveraging existing programs and funding, this small new investment in the privately-held housing stock can have a large impact.
  - DHCD would enter into new agreements with existing HOCs to ensure program integrity and administer the program at the local level. They will provide construction oversight (building codes met, permits received, etc.), help property owners secure construction loans, hold grant funds and private match in escrow, and verify outcome achievement. The partner organization can ensure the newly rehabilitated units are serving long-term rental housing needs (vs. short-term rental) and as workforce housing. They can also work with area partners to enhance funding, such as working with employers who are interested in providing housing incentives for their employees.
  - Partner organizations will provide small incentive grants ($5,000 -$7,000 per unit) to property owners who invest at least 200% above the incentive grant in their rental properties in exchange for making units available to Vermont residents seeking quality rental housing. Weatherization work completed as part of these grants will be reimbursed at a rate of up to 75% versus the up to 50% of other rehabilitation activity. Low interest loan funding would also be available to property

owners from existing regional affordable housing loan funds already capitalized by DHCD funding.
- VHIP can be used to leverage and attract other funding sources such as employer assisted housing incentives, weatherization programs, and other affordable housing incentives (i.e. local housing trust funds, the Vermont Housing Finance Agency's down payment assistance, local tax incentives, etc.).
- VHIP can be used to address recommendations in the legislative report made by the Rental Housing Advisory Board (created in 2017 through Act 188).
- The program will have a measurable impact: 125 formerly vacant or blighted rental housing units will be substantially improved and available as workforce housing.

- **FUNDING:** $1,000,000 in Governor's recommended budget.

- **DRAFT LEGISLATIVE LANGUAGE:**

* * * Housing Incentive Program * * *

Sec. X. 10 V.S.A. chapter 29, subchapter 3 is added to read:

Subchapter 3. Housing Incentive Program

§ 699. Housing Incentive Program

(a) Purpose. Recognizing that Vermont's rental housing stock is some of the oldest in the country, and that much of it needs updating to meet code requirements and other standards, this section is intended to incentivize private apartment owners to make significant improvements to both housing quality and weatherization by providing small grants that would be matched by the private apartment owner.

(b) Creation of Program. The Department of Housing and Community Development shall design and implement a Vermont Rental Housing Incentive Program to provide funding to nonprofit regional housing partner organizations to provide incentive grants to private landlords for the rehabilitation and improvement, including weatherization, of existing rental housing stock. Each grant shall be capped at a standard limit set by the Department per rental unit and shall be matched by the private landlord at least two-to-one.

* * * Land Gains Tax * * *

Sec. X. 32 V.S.A. § 10001 is amended to read:

§ 10001. TAX IMPOSED

There is imposed, in addition to all other taxes imposed by this title, a tax on the gains from the sale or exchange of land in Vermont occurring before July 1, 2019.

Sec. X. 32 V.S.A. § 9601 is amended to read:

§ 9601. DEFINITIONS

The following definitions shall apply throughout this chapter unless the context requires otherwise:

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(11)(A) “~~Principal residence” means principal residence as defined in 32 V.S.A. § 10002a, together with land that is beneath or directly contiguous to the dwelling and that is transferred with the dwelling~~ “Principal residence” means a dwelling which, within one year prior to sale, was occupied as the domicile of the seller or which, within one year from the date of sale, will be occupied as the domicile of the purchaser, together with land that is beneath or directly contiguous to the dwelling and that is transferred with the dwelling. As used in this section, a domicile is the principal dwelling of a person domiciled in the State of Vermont.

(B) “Principal residence” includes any multi-family dwelling, not exceeding four units, if:

(i) the seller used at the time of sale at least one unit within such dwelling as his or her principal residence; or

(ii) the purchaser will use at least one unit within such dwelling as his or her principal residence under the conditions of subdivision (A) of this subsection.

(C) “Principal residence” also means any dwelling used as the seller's principal residence, or which will be used by the purchaser as his or her principal residence under the conditions of subdivision (A) of this subsection, even though the resident also carries on or will carry on commercial activity in that dwelling. Commercial activity includes an office for the resident's business or profession or a retail store.

Sec. X. 32 V.S.A. § 435(b) is amended to read:

(b) The General Fund shall be composed of revenues from the following sources:

* * *

(10) 33 percent of the revenue from the property transfer taxes levied pursuant to chapter 231 of this title ~~and the revenue from the gains taxes levied each year pursuant to chapter 236 of this title~~;

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Sec. X. REPEALS

(a) 24 V.S.A. § 2793d(d)(3) (Vermont neighborhood incentives for municipalities and developers) shall be repealed on July 1, 2019.

(b) 24 V.S.A. § 2793e(f)(3) (neighborhood development area incentives for developers) shall be repealed on July 1, 2019.

(c) 32 V.S.A. chapter 236 (land gains tax) shall be repealed on July 1, 2025.

Sec. X. EFFECTIVE DATES

(a) This section and Secs. X-X (repeal of Land Gains Tax) shall take effect on July 1, 2019.

(b) Notwithstanding subsection (a) of this section, Sec. X, 32 V.S.A. § 435(b)(10) (General Fund) shall take effect on July 1, 2025.

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