

# Department of Housing & Community Development

## Community Investment Package Summary

January 6, 2020

**WHAT:** The community investment package helps the state tackle its housing, revenue and demographic changes by aligning state and local regulations with new funding to increase housing quality, supply, and affordability within Vermont’s downtowns, villages, and neighborhoods.

**WHY:** Jobs are going unfilled, employees are driving farther and farther from work to find homes they can afford, and the most vulnerable among us are struggling to find or maintain the foundation to well-being – a decent, warm, dry, safe, and secure place to call home.

A recent study commissioned by the Department of Housing & Community Development, the Vermont Housing Finance Agency, and the Vermont Housing and Conservation Board found that high land and construction costs, unnecessarily complicated regulations (local zoning and Act 250), limited water and wastewater infrastructure, and too few tools or incentives to help cities and towns support new development have constrained the market’s ability to meet Vermont’s housing needs.

Aligning regulations and funding within Vermont’s walkable centers will create more housing opportunities, supercharge successful community revitalization efforts, help expand the workforce, and ensure the state’s economy can meet its full potential.

**WHO:** The proposal aims to help first-time homebuyers and renters; downsizing older adults; middle-income and workforce Vermonters (80–120% AMI); employers seeking workers and workforce housing; struggling downtowns, villages and neighborhoods; landowners and homebuilders; and state and municipal revenue.

**HOW:** The package takes a comprehensive approach to address Vermont’s housing, revenue and demographic challenges. Specifically, the proposal:

- Speeds permitting for new and rehabilitated housing units by exempting certain state designated centers from Act 250 and state water and wastewater connections permits.
- Provides new tools, funding and training to help municipalities adopt ‘housing ready’ bylaws.
- Trains the next generation of builders and landlords to help jumpstart housing investment in all counties.
- Makes rental housing in state designated Neighborhood Development Areas eligible for Downtown and Village Center Tax Credits.
- Offers new grants to bring unsafe, blighted, and vacant rental units up to code and back online.
- Eliminates the capital gains on the sale of improved homes located within federally designated Opportunity Zones.
- Establishes a framework to leverage funding from private foundations for ‘placemaking’ projects within state designated centers.

## **Stakeholders Consulted**

### **Committee Chairs**

Senator Sirotkin, Chittenden County  
Senator Cummings, Washington County  
Representative Marcotte, Newport  
Representative Kimbell, Woodstock  
Representative Stevens, Waterbury  
Representative Sheldon, Middlebury

### **Non-Profit Housing Developers**

Nancy Owens and Kathy Beyer, Housing Vermont  
Cindy Reid and Miranda Lescaze, Cathedral Square  
Ludy Biddle, Neighborworks of Western Vermont  
Jen Hollar, VHCB  
Andrew Winter, Twin Pines Housing  
Maura Collins, VHFA  
Chris Donnelly and Amy Demetrowitz, Champlain  
Housing Trust  
Erhard Mahnke, Vermont Affordable Housing  
Coalition

### **For-Profit Housing Developers**

Chris Snyder, Snyder Homes  
Erik Hoekstra, Redstone Development

## **Municipal and Regional Planners**

Sharon Murray, Front Porch Community Planning  
Charles Baker and Regina Mahony, CCRPC  
Meagan Tuttle, City of Burlington/VPA  
Peter Gregory and Kevin Geiger, TRORC  
Alex Weinhagen, Town of Hinesburg/VPA  
Catherine Dimitruk, NRPC  
Tasha Wallis and Seth Jenson, LCRPC  
David Snedeker, NVDA  
Steve Lotspeich, Waterbury  
Chip Sawyer, City of St. Albans  
Jeff Wennberg, City of Rutland  
Jessie Baker, City of Winooski

## **State House Advocates**

Vermont Mayors Collation  
Andrew Brewer, DRM  
Kelly Stoddard Poor and Philene Taormina, AARP  
Gwynn Zakov and Karen Horn, VLCT  
Nancy Lynch, Vermont Association of Realtors  
Tom Torti and Austin Davis, Lake Champlain  
Chamber of Commerce  
Adam Necrason, Necrason Group  
Brian Shupe, Jon Groveman and Kate McCarthy,  
Vermont Natural Resources Council  
Charles Martin, Vermont Chamber of Commerce  
Sandra Levine, Conservation Law Foundation

## **Sister Agencies**

Matt Chapman, Bryan Redmond, Rob Evans, and Billy  
Coster, ANR;  
Greg Boulbol and Evan Meenan, NRB

## 1. Remove Act 250 Review in State Designated Downtowns & Neighborhoods

- **WHAT:** Reduce double-permitting by eliminating state Act 250 review in state designated downtowns and neighborhoods; and transition existing Act 250 permits to municipal review in these locations.
- **WHY:** Encouraging development and reinvestment in our downtowns and adjoining neighborhoods helps revitalize our historic centers, supports small businesses, attracts private investment, employers and workers, improves access to jobs, increases property values and is responsive to the needs generated by the State's demographic shifts.

Municipalities that qualify for downtown and neighborhood development designation have demonstrated the capacity to guide development consistent with their community goals and standards. This can make Act 250 review redundant.

Exempting certain designated centers from Act 250 review means housing and commercial development within designated downtowns and neighborhoods will be less expensive and more predictable.

- **WHO:** When municipal planners were asked what state benefit (other than funding) would be most beneficial to state designated centers, the top response was to eliminate Act 250 review in those areas. Doing so would help level the playing field with greenfield developments and allow small-scale home builders, developers, and business to secure permits more efficiently.
- **HOW:** Update the Act 250 statute to eliminate the need for a permit and enhance municipal review in state designated downtowns and neighborhoods in the following ways:
  - No development will be subject to Act 250 permitting in state designated downtown and neighborhood development areas.
  - Update the local development review requirements for designated downtowns to ensure the local development review process adequately guides development.
  - Improve the requirements for designated neighborhood development areas to better address flood resilience in vulnerable places.
- **FUNDING:** No new funding needed. This will be part of a larger Act 250 reform package that may include a funding request to support other components of the bill.

## 2. One Stop State & Municipal Water/Wastewater Service Connections

- **WHAT:** Create a process for one stop, municipal permitting of new connections to municipal water and wastewater systems and statewide maps of municipal water and sewer systems.
- **WHY:** Currently a State issued Wastewater System and Potable Water Supply Permit is necessary for any new building that connects to a municipal sewer or water line -- in addition to obtaining a local approval, unless the municipality has undertaken a process to issue state permits through partial delegation. To date, only two municipalities have chosen delegation. The proposed change in statute allows municipalities to approve a sanitary sewer service line and a water service line from a building to the collection line or water main to reduce cost, time, and complexity in the permitting process. The proposed change would also result in statewide maps of water and sewer service area lines, facilities, and service areas.
- **WHO:** This will benefit landowners engaged in development within municipalities that choose to meet minimum standards for the safe regulation of sewer and water connections by eliminating the need for both local and state applications, reducing any additional time and cost caused by interaction with two separate review authorities, and mapping water and sewer lines, facilities, and service areas.
- **HOW:** This section proposes a change to statute, establishing a relatively simple process for the Secretary of the Agency of Natural Resources to grant municipalities, through registration rather than delegation, the authority to review and approve sanitary sewer service lines and water service lines. The legislation also requires that municipalities map water and sewer lines and service areas if/when they update their 8-year plans.
- **FUNDING:** No new funding will be requested.

### 3. Modernize Municipal Regulation for Inclusive Housing

- **WHAT:** Expand small-scale and ‘missing middle’ residential development opportunities in state designated downtowns and neighborhood development areas; provide technical assistance to municipalities to help them adopt zoning that welcomes housing; offer training for missing middle developers and landlords to grow the next generation of local housing providers.
- **WHY:** Vermont’s housing supply has become mismatched with demand. While high construction costs contribute to this mismatch, local land use regulations also create barriers to new housing opportunity, especially in Vermont’s existing settlements. Municipalities have limited resources to reform typical bylaws adopted in the 1970s and the state has diverted \$31.5M for these purposes since 2001. Many local bylaws continue to exclude small lots in areas served by water and sewer, require costly land area and parking requirements to create extra units, and subject small multi-unit projects to outsized reviews that increase the likelihood of failure. These constraints limit Vermont’s ability to grow the economy. State incentives for the inclusive treatment of housing is necessary to allow more housing starts in development ready places – places where transportation, public services, and utilities are present, affordable, and sustainable. Safe and conveniently located homes in areas with jobs and services protects the vulnerable and builds a foundation for personal and community resilience.
- **WHO:** This package builds a big tent of stakeholders ready to benefit from more homes -- from the 20-something looking to build their first small house near work, to the downsizing senior wanting a new downtown apartment, to the employer who can’t fill open jobs because of a lack of adequate housing. For municipalities, welcoming more homes grows the grand list, helps maintain population to support commercial and social vitality, and – most importantly -- improves the affordability and financial solvency of municipal infrastructure becoming increasingly harder to sustain without Federal support. Farmers, foresters, smart-growth advocates, and conservationists can also appreciate that encouraging more development in these areas eases development pressures on working lands and natural areas.
- **HOW:** Rental properties within Neighborhood Development Areas designation receive tax credits to improve the quality and habitability of units. Technical assistance would be provided to support additional funds for Municipal Planning Grants and Regional Planning Commission technical assistance. Further training would be made available through leveraged funding to grow the capacity of local landlords and small-scale developers in partnership with a consulting expert and non-profit partners.
- **FUNDING:** Since 2001, \$31.5M of statutory property transfer tax funds have been diverted from the municipal and regional planning fund, funds that could have kept Vermont’s Planning and Regulation responsive and current (\$9.6M for Municipal Planning Grants & \$19.3M for Regional Planning).

#### 4. Expand Tax Credits to Improve Rental Housing

- **WHAT:** Expand the successful [Downtown and Village Center tax credit program](#) to support the improvement of rental housing in Neighborhood Development Areas; strengthen community flood preparedness by providing tax credits to floodproof buildings within flood hazard areas.
- **WHY:** The downtown and village tax credits are a proven way to jump start the revitalization seen in Vermont's historic centers. These investments in community vitality support small businesses, attracts private investment, employers and workers, improves access to jobs, and increases property values. Expanding this existing program to improve rental housing would increase the supply, quality, and flood resilience of rental housing in around Vermont's historic centers.
- **WHO:** The proposal would help community supported enterprises, small businesses and employers, private and non-profit housing and commercial property developers. Enhancing the tax credits to increase private investment in existing housing stock, helps attract younger Vermonters seeking housing opportunities near work, downsizing older adults wanting to live closer to shops and services, employers struggling to fill open jobs because of a lack of adequate housing, and help qualified owners flood proof their property. For municipalities, stimulating rental housing investment increases the value of the grand list, improves flood readiness, helps maintain the population needed ensure their long-term vitality and viability, and makes the operation of schools and the repair and maintenance of municipal infrastructure more affordable.
- **HOW:** Amend the tax laws to enable rental properties within neighborhood development areas to qualify for downtown and village center tax credits; expand tax credit-eligible building improvements to include flood mitigation work within special flood hazard areas.
- **FUNDING:** Proposed funding will be announced during the Governor's Budget address.

## 5. Small Grants to Rehabilitate Rental Housing

- **WHAT:** The Vermont Housing Incentive Program (VHIP) aims to incentivize small-scale, private apartment owners to re-invest in rental units that have been closed due to housing quality concerns. By providing grants to be matched with private investments VHIP will allow for the owners of blighted and vacant units to make the necessary safety and weatherization improvements to increase the availability of affordable housing units to middle-income households. The program will be available to landlords with holdings of four or fewer units who agree to maintain affordable rental rates for at least five years after completion of the rehabilitation.
- **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, 80% is more than 40 years old; nearly half of these units are more than 80 years old.

Of Vermont's rental housing units, only 17% are subsidized or otherwise publicly supported. The remaining 83% of Vermont's rental housing stock is held by private landlords and has not benefited from recent investments made to increase our affordable housing stock. Many of these landlords are not professional property managers and are low-moderate income earners themselves.

In many areas of the state the cost of these important investments requires rental rates that are not affordable to households in the middle-income brackets. Offering small grants, coupled with attractive loan terms, has proven to be a cost-effective way to incentivize small-scale rental property owners to invest in underutilized and poor-quality housing stock. This not only adds quality rental units affordable to middle-income households but represents an important investment in the existing buildings in our communities.

- **HOW:** VHIP will be administered by the Department of Housing and Community Development (DHCD). Modeled after a successful pilot program undertaken in Bennington, owners of four or fewer rental units can apply for grants for necessary health, safety, and weatherization improvements on vacant rental units. Grants will require a two-to-one match of private funds and the improved units are to be rented at rates affordable to households making 80% or less of the area median income. Specific application parameters and monitoring is to be determined by DHCD in consultation with the Home Ownership Centers.
- **FUNDING:** Proposed funding will be announced during the Governor's Budget address.

## 6. Tax Incentives to Spur Housing Investment within Opportunity Zones

- **WHAT:** Expand the personal income tax exemption for any capital gain realized from the sale of a primary residence within Vermont's [17 federally designated opportunity zones](#) where the buyer intends to use it as their primary residence.
- **WHY:** Many communities with opportunity zones struggle with housing supply and quality issues. For example, employers struggle to recruit employees because of a lack of adequate and affordable housing, and municipalities struggle to find resources to reverse neighborhood disinvestment trends and promote socio-economic diversity in these low-income areas. This proposal would encourage investment in new and existing residential housing stock within these areas. Encouraging the improvement of Vermont's housing stock will spur economic growth in surveying, construction, and renovation. Exempting home improvement and construction would also enhance federal investment incentives that aim to expand economic opportunity and improve quality of life for residents.
- **WHO:** The primary beneficiaries are individuals with personal income tax obligations who sell new or improved housing to owner-occupants in opportunity zones. This is a benefit already enjoyed by Vermonters who sell their primary residence and expanding it will indirectly benefit new owner-occupants seeking housing opportunities within Vermont's 17 opportunity zones. For municipalities, stimulating housing investment within the opportunity zone increases the value of the grand list, helps maintain the population needed to ensure their long-term vitality and viability, and makes the operation of schools and the repair and maintenance of municipal infrastructure more affordable.
- **HOW:** Amend the tax laws to exempt any capital gain included in the taxpayer's adjusted gross income from the sale of real property located within a federally designed opportunity zone sold to a person who occupies the property, or a portion thereof, as his or her primary residence.
- **FUNDING:** There are just under 22,000 residential parcels in opportunity zones around Vermont. Of those parcels, only 310 went from non-owner occupied to a primary resident in 2018. Creating this exemption is expected to reduce personal income tax revenues from 300 existing real estate transactions.



## 7. Create Better Places Grant Program to Spark Community Revitalization

- **WHAT:** Establish a scalable, 50/50 matching community grant program that strategically coordinates the efforts of several funders supporting place-based economic development projects like walking and biking trails, public art, parks, and farmers markets.
- **WHY:** Existing grant programs have incompatible timelines and administrative requirements which often means it can take several years to secure the funding needed to launch projects. The Better Places proposal aims to simplify the funding process by creating a one-stop-shop for funders to collaborate and provide communities a more nimble, flexible source to quickly fund and launch local placemaking projects.
- **WHO:** This proposal supports local leaders across the state working on projects to improve the livability and quality of life in their communities. The new funding platform is aimed at smaller ‘quick build’ projects, that create a shared community focus and help build social capital and local leadership. Tackling small projects together can restore confidence, rebuild capacity, and renew local pride of place – critical elements proven to spark larger community transformations that attract businesses, new workers, residents, and visitors to Vermont.
- **HOW:** Through a partnership between state, nonprofit, and philanthropic organizations, the Better Places proposal utilizes an innovative ‘crowdgranting’ funding model to support community development efforts in Vermont’s downtowns, villages, and neighborhoods. Specifically, the proposal:
  - Establishes enabling legislation to create the Better Places program to accelerate local projects that improve streets and parks, walking and biking trails, and vacant properties.
  - Streamlines and integrates grantmaking of multiple funders so residents, businesses, and community organizations achieve more immediate results.
  - Empowers local leaders to play an active role in shaping their communities, building social capital, local pride, and community leadership.
- **FUNDING:** Proposed funding will be announced during the Governor’s Budget address.