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Fiscal Note
May 3, 2022 Patrick Titterton

S.226 – An act relating to expanding access to safe and affordable housing

As recommended by the House Committee on Ways and Means Draft 1.1

URL to House Committee on Ways and Means Amendment
https://legislature.vermont.gov/Documents/2022/WorkGroups/House%20Ways%20and%20Means/Bills/S.226/W~Ellen%20Czajkowski~S.226%20Ways%20and%20Means%20Amendment~5-3-2022.pdf
URL to Bill
URL to House Committee on General, Housing, and Military Affairs Amendment
https://legislature.vermont.gov/Documents/2022/WorkGroups/House%20General/Bills/S.226/Drafts,%20Amendments%20and%20other%20Legal%20Documents/S.226~David%20Hall~Draft%203.1,%204-28-2022,%20Stevens%20Amendment~4-28-2022.pdf
URL to Bill
https://legislature.vermont.gov/Documents/2022/WorkGroups/House%20General/Bills/S.226/Drafts,%20Amendments%20and%20other%20Legal%20Documents/S.226~David%20Hall~%20Draft%202.1,%204-15-2022~4-15-2022.pdf

Bill Summary

This bill makes many changes to existing programs and introduces new programs with the goal of increasing access to housing, primarily by increasing the housing stock and making existing homes more affordable to homebuyers.

Programs that are established or altered that are expected to have a fiscal impact include:

- Manufactured Home Relocation Incentive Program
- Community Partnership for Neighborhood Development
- Missing Middle Income Home Ownership Development Program
- Residential Construction Contractors Registry and Certification

Fiscal Summary

This bill is expected to impact State resources in two ways: appropriations for new or existing programs and fee revenues. The total impact of these is $5.0 million in FY 2022 and $15.4 million dollars in FY 2023 appropriations and $120,000 in increased revenues in FY 2023 (see Table 1).

Background and Details

The bill appropriates $20.4 million dollars for new programs. Of these, $5 million in appropriations occur in FY 2022, and the remaining $15.4 million occur in FY 2023. This includes:

- $20.0 million in appropriations using American Rescue Plan Act State Fiscal Recovery (ARPA SFR) funds, $5 million of which is appropriated in FY 2022 and $15.0 million of which is appropriated in FY 2023.

- $200,000 in General Fund appropriations in FY 2023.
- $200,000 in special fund appropriations in FY 2023.

In addition to these appropriations, of the total amounts appropriated to the Vermont Housing Conservation Board (VHCB) in the FY 2023 budget, this bill states that $5 million is authorized to fund the Community Partnership for Neighborhood Development.

New fees from the Residential Construction Contractor Registrations will generate new revenues of $120,000 in FY 2023, growing to $325,000 in FY 2025 for the Professional Regulatory Fund.

Table 1.

Appropriations	FY 2022	FY 2023	FY 2025
ARPA SFR Appropriations	$5,000,000	$15,000,000	N/A
General Fund Appropriations	$0	$200,000	N/A
Special Fund Appropriations	$0	$200,000	N/A
Total Appropriations	**$5,000,000**	**$15,400,000**	

Fee Revenues	FY 2022	FY 2023	FY 2025
Professional Regulatory Fund	$0	$120,000	$325,000
Total Revenues	**$0**	**$120,000**	**$325,000**

Appropriations and Spending

Manufactured Home Improvement and Replacement Program

The bill appropriates $5.0 million in ARPA SFR funds in FY 2023 to the Department of Housing and Community Development (DHCD) in coordination with Vermont Housing Conservation Board to assist with:

- removing abandoned homes,
- building U.S. Housing and Urban Development Compliant concrete pads,
- addressing smaller scale capital needs of parks for rehabilitating 300 to 400 poor quality homes,
- providing leadership in financing programs to assist buyers to finance and upgrade units,
- providing commonly needed home repairs,
- addressing existing program gaps,
- adding funds to supplement Flood Resilient Community Funds,
- and providing down payment assistance for new or used high energy-efficient mobile homes.

Of the $5.0 million in funds allocated, the bill stipulates that $3.0 million is for small scale capital grants, $1.0 million is for home repair grants, and $1.0 million is for new manufactured home foundation grants.

Community Partnership for Neighborhood Development

The bill allocates $5.0 million of the amounts appropriated to VHCB in the FY 2023 budget to explore new approaches for the State to support creating housing. These funds will be used to provide grants to large employers who create housing for employees and for commercial property to residential property conversion projects. The bill establishes the Community Partnership for Neighborhood Development, through which DHCD will lead a cross-agency program to encourage and support local partnerships between municipalities, nonprofit and for-profit developers, VHCB, and local planning officials.

The funds will be used for matching grants not to exceed $50,000 or 20 percent of the employer cost per unit for large employers with 50 or more FTE employees that create new housing for their employees. The funds will also be used for grants for matching grants for converting commercial property to residential use are not to exceed the lesser of $50,000 or 20 percent for costs not covered by other funding or financing sources.

Missing Middle Income Home Ownership Development Program

The bill appropriates $15.0 million in ARPA SFR dollars to DHCD for a grant to VHFA to establish a Missing Middle Income Home Ownership Development Program, which targets priority housing projects. $5 million of this is appropriated for FY 2022 and $10 million is appropriated in FY 2023.

For the purposes of this program, an "Income-eligible homebuyer" is defined as a Vermont household with annual income that does not exceed 120 percent of the area median income. The Agency can use funds to provide direct project subsidies for up to 35 percent of eligible development costs for developers. The amount of the subsidy cannot exceed the value gap of the difference between the development costs and the resulting assessed value (difference between the cost to build and the value of the finished product).

Any funds left over from the developer subsidy shall go to the buyer to help reduce the costs of purchasing the home. In the instance when the homebuyer receives assistance, the Agency includes conditions in the subsidy to ensure continued affordability of the home, or the subsidy is subject to a housing covenant that preserves affordability of the home for 99 years or longer. The Agency will allocate no less than 33 percent of the funds available through the Program to projects that include a housing subsidy covenant.

Consumer Assistance Program

The bill appropriates $200,000 in General Funds in FY 2023 to the Office of the Attorney General to create one classified, two-year full-time limited-service position within the Consumer Assistance Program. The employee will assist with consumer complaints concerning residential construction projects valued at less than $10,000, provide education, outreach, and mediation to contractors and consumers, and to coordinate and facilitate information sharing concerning complaints with the Office of Professional Regulation.

Down Payment Assistance Program

The bill gives the Vermont Housing Finance Agency (VHFA) the discretion to reserve funding and adopt guidelines to provide grants to first-time homebuyers who are also first-generation homebuyers. Of the funds appropriated to DHCD in Act 74 of 2021, $1.0 million is to be transferred to VHFA to provide grants to first-generation homebuyers. Providing this assistance in the form of grants rather than loans would remove the requirement that they be paid back by the grantee, which could result in fewer available funds over time. The extent to which this would draw down available funds is uncertain and would be dependent on how many first-generation homebuyers are in the State; that information is not readily available because it is not asked on mortgage applications currently.

To qualify as a first-generation home buyer an individual must have parents or legal guardians that do not currently own residential property, whose spouse or partner has not owned a home prior to purchasing the home, or if the individual has at any time been placed in foster care. First-generation homebuyers would be a subset of people in the first-time homebuyers group.

From 2015 through March of 2022, the Down Payment Assistance Program has provided $7,474,098 in loans to 1,565 borrowers. Under current conditions, if the fund does not experience any losses, just over $10 million in VHFA's revolving loan fund will be available in total to loan out through 2026. First-generation homebuyers would likely make up a very small subset of this population, but because they would receive their awards as grants, the amount of funds that can be loaned out by VHFA could decrease.

Impacts on State Revenues

Residential Construction Contractors Registry and Certification

The bill proposes to establish a residential construction contractor registration program to be administered by the Office of Professional Regulation (OPR). Contractors performing construction work valued at more than $10,000 would be required to be registered with the State. OPR would also be directed to establish a voluntary certification system for contractors to signify competence in subfields and specialties. OPR would manage contractors under the advisor model with two appointed persons to serve as advisors.

Contractor registration fee

The structure of the registration program would require an initial application fee along with a biennial renewal. The fees would be as follows:

- $75 per individual
- $250 per business organization
- $75 for a first State certification and $25 for each additional State certification

Contractor data from six states was used to analyze the potential revenue that Vermont would collect from contractor registration fees. Four of the states have a contractor registration program: Connecticut, Iowa, Minnesota and Montana. The other two states have a contractor licensing program: Alaska and Nevada. There are additional states with contractor registration laws, most notably Massachusetts and Rhode Island in New England. However, many states either do not have contractor information readily available, or it is not available in a format suitable for fiscal analysis.

Contractor data for the six states was scaled to Vermont by population. Additionally, three of the states differentiated between individuals and businesses, and this data was used to estimate the number of individual registrations and business registrations in Vermont. Using the methodology outlined above, the total number of potential estimated contractor registrants in Vermont is as follows:

Individuals: 1,300 - 1,500
Businesses: 2,100 - 2,500

For the purposes of generating a revenue estimate, JFO assumed that of the total number of contractors about 5 percent would opt not to join the registry because their work typically falls below the $10,000 threshold. It is likely that more contractors fall below this threshold, but because they want to be able to take on jobs over $10,000 would still register. Further, the registry may be viewed as something of a certification of quality, so many below the threshold may still opt to register for that reason. JFO assumed that 50 percent of the remaining estimated contractor population listed above would register in the initial registration cycle (2022-2024). All registrants in the initial cycle would pay the reduced fees. In the following cycle, the entire estimated contractor population would be registered and would pay the normal fee amount.

2023-2025 estimated revenues: $220,000 - $260,000 (fees collected over two years)
2025-2027 estimated revenues: $590,000 - $705,000 (fees collected over two years)

The bill provides a $200,000 appropriation in FY 2023 from the Professional Regulatory Fee Fund to cover the annual costs for the two new positions required for administration and enforcement. JFO assumed that fee revenue would be spread evenly across the two-year cycle so half would be realized in FY 2023 and half in FY 2024; the same split would occur in FY 2025 and FY 2026. After accounting for both the new fee revenue and the appropriations, the net fiscal impact is expected to be a net decrease in State resources of

$80,000 in FY 2023 but shift to an increase in revenues of approximately $125,000 by FY 2026 as fee revenue increases.

Tax Credits

Downtown and Village Center Tax Credit Program

The bill expands eligible projects for the Downtown and Village Tax Credit to include those in Neighborhood Development Areas (NDA). Projects in NDA's will be eligible to receive credits until July 1, 2025. After that date, specific funds will need to be appropriated for the purpose of funding credits for qualified NDA projects.

The bill also expands eligibility to include Flood Mitigation Projects which are defined as being location in a flood hazard area as mapped by the Federal Emergency Management Agency (FEMA) and reduce or eliminate flood damage. The bill will allow credits for these types or projects to be claimed against individual income tax, corporate income tax, or bank franchise or insurance premium taxes up to the lesser of 50 percent of qualified expenditures or $75,000. The bill does not change the total annual value of credits that can be awarded under the program and will therefore not have a fiscal impact. This being said, allowing for a wider scope of projects to be eligible for the credits may lead to more demand and further oversubscription of the program.