# LEGISLATIVE REPORT

VERMONT
AGENCY OF NATURAL RESOURCES
Department of Environmental Conservation

## Title: Increasing Affordability of Vermont's Clean Water and Drinking Water Revolving Loan Funds for Mobile Home Parks

**Year:** 2021 **Prime Contact:** Terisa Thomas and Eric Blatt

**Date Reported:** 1/15/2021 **Committees:** Senate Economic Development, Housing and General Affairs and Senate Institutions and House General, Housing, and Military Affairs and House Natural Resources, Fish, and Wildlife and house Corrections and Institutions

**Authorizing Law #:** Act 179 of 2020 **Section #:** 5

## Executive Summary

Act 179 promotes affordable housing and includes provisions requiring the Department of Environmental Conservation (DEC) to assist Mobile Home Parks (MHPs) with improving their drinking water, wastewater and stormwater infrastructure and report on actions taken and recommended statutory or programmatic changes that will reduce the cost of financing MHP water infrastructure. The specific provisions in Section 5 are outlined as follows:

(1) assist the Town of Brattleboro and the Tri-Park Cooperative in the implementation of the Tri-Park Master Plan and Deerfield River & Lower Connecticut River Tactical Basin Plan, including through restructuring debt service on water infrastructure loans awarded by DEC;

(2) provide similar assistance to the extent possible to similarly situated MHPs that also have infrastructure needs; and

(3) identify statutory and programmatic changes necessary to assist in the implementation of the plans and to improve access and terms for MHPs to the Clean Water Revolving Loan Fund, Water Infrastructure Sponsorship Program and the Drinking Water State Revolving Fund.

## Key Takeaways

- Tri-Park Cooperative is paying annual debt service totaling ~ $254K on three loans administered by DEC, and due to recent changes in federal and state law, the term of those loans could be extended by up to ten years, substantially lowering the annual debt payments.
- Given the financial resources and subsidy provisions of the SRFs, opportunities exist to target lower cost financing for MHPs.

## Discussion

**Assistance to the Town of Brattleboro and the Tri-Park Cooperative:** Pursuant to Act 179, DEC is directed to assist Brattleboro and the Tri-Park Cooperative with implementation of the Tri-Park Master Plan and Deerfield River & Lower Connecticut River Tactical Basin Plan, including through restructuring debt service on water infrastructure loans awarded by DEC. Act 179 refers to two loans from the Drinking Water and Clean Water State Revolving Funds (DWSRF and CWSRF, respectively). However, there are three loans administered by the Department of Environmental Conservation (DEC) associated with the Tri-Park Cooperative. Two of the loans (RF1-104 and RF3-163) were made to the Town of Brattleboro and the Town created a special assessment district for this debt service known as the Mountain Home Park Special Assessment District. The third loan (RF3-107) was made directly to Tri-Park Cooperative. Based on the current loan rates, terms, and loan forgiveness, the aggregate annual payment is approximately $254,000, and by extending each loan by 10 years, that aggregate payment could be reduced by roughly 30%.

DEC will work with all the involved parties to the three loan agreements, the Town of Brattleboro, Tri-Park Cooperative, Vermont Bond Bank and Vermont Economic Development Authority, to review options and actions required to restructure the loans.

**Provide similar assistance to the extent possible to similarly situated mobile home parks that also have infrastructure needs:** Vermont DEC is currently undergoing an analysis of MHPs that may need similar assistance with debt service reduction as well as future infrastructure investment needs. The analysis includes completing an inventory of existing SRF loans with MHPs to determine current outstanding debt. Additionally, information will be obtained from DEC's River Program, other relevant DEC resource programs, Vermont Housing Finance Agency, Vermont Housing & Conservation Board, Vermont Emergency Management, and the Agency of Commerce and Community Development to identify MHPs located in a historically vulnerable floodplain or river corridor, or that have other risk factors related to their water infrastructure. This information will be used to identify infrastructure needs of the MHPs, funding opportunities, and coordination with organizations with intersecting interest in MHP needs.

A significant barrier to MHPs' access to funds for their infrastructure needs is a core environmental justice issue: the funding programs can be difficult and confusing for the parks to access. Each funding program (e.g., SRFs, USDA, Community Development Block Grant or CDBG, Federal Emergency Management Agency or FEMA). have individual funding requirements and each with their own cycle of when applications are accepted. MHPs often lack the knowledge necessary to navigate the entire financing process from application to award of funds.

Infrastructure funders in past years have attempted to bridge this gap with increased staff assistance and coordinated funders meetings to bring together these opportunities. However, the degree of assistance needed greatly exceeds resources.

Solutions Under Consideration:

- Immediate restructuring of existing MHPs' SRF debt: A simple solution would be for DEC to conduct a similar review of other MHPs' debt to explore whether restructuring would provide those entities with immediate relief. The program will work on this over the 1st Quarter of 2021, including outreach to eligible entities to execute these changes.

- Creation of a "Linked Deposit" for MHPs: The immediate solution for the administrative capacity gap is to propose the investment of additional state or nonprofit resources to provide this assistance. However, this would need additional funding not available under the SRFs and may not be the most cost-effective approach. Under a linked deposit program, the CWSRF would deposit funds into a financing institution as an investment. As interest is generated on this investment, the financing institution would use these earnings to "buy down" the interest rate for these MHP water infrastructure loans. In this scenario, the MHPs can work directly with a traditional underwriting process to receive a subsidized loan and none of the programmatic requirements would apply. This provides a great savings to the MHP in terms of extra costs of time and materials to comply with federal requirements, saves state employee resources, and revolves the funds to make a potentially continual source of funds for these types of projects.

- Creation of an "Emergency Match Program" for MHPs under the CWSRF Intended Use Plan (IUP): Often, these properties are eligible to be bought out with FEMA funds, but require a 25% match. In a compounding environmental *injustice*, these MHP owners would have to lose a quarter of the value of their home to move. The CWSRF views buy out of homes located in a floodplain that would allow the reconnection of a floodplain to be included under the umbrella of natural resources projects. If an Emergency Match Program were to be adopted as part of the CWSRF that offered up to the full 25% match with full loan forgiveness, the owner would receive 100% compensation for removal of their mobile home. In determining whether or not to advance this proposal, the environmental benefits would need to be weighed against other initiatives competing for the limited amount of CWSRF subsidy (i.e. loan forgiveness) that is available each year. The method used to make this determination is the annual IUP process, which is a public process. However, it should be noted that the CWSRF has, to date, reserved loan forgiveness to municipal applicants only. This is not required in statute but is internal policy to always prioritize municipal projects over private entities. This may require an exception to this practice, either by requiring the local municipality to take on the forgivable loan, or the municipality passing a resolution of approval for the project itself. It should be noted that these are examples of projects that most definitely have a municipal benefit.

- Utilization of the Water Infrastructure Sponsorship Program (WISPr) for Floodplain Restoration: The cost of removal of mobile homes located in a floodplain is eligible for funding under WISPr as a Natural Resources (NR) project. WISPr is set up to incentivize a municipality undertaking a CWSRF loan to sponsor a natural resources project, by effectively providing loan forgiveness for the natural resources project. WISPr is a program that would allow for projects that advance State priorities that to date have had difficulty receiving funding under the existing Federal FEMA grant programs. Specifically, utilizing WISPr funds would allow for the acquisition of homes located in river corridors. This would allow the State to identify and promote state specific strategies for advancing environmental justice goals as they intersect with climate change and flood resilience. One benefit of this program is that the WISPr funds can be combined with other State and Federal funding programs, and can be used as match for Federal grants, such as the FEMA hazard mitigation grants.

  The WISPr Program has been challenging to implement as it is currently structured due to significant staff resources required to coordinate between the municipality and a proposed sponsored project. WISPr could become a more reliable and effective funding source if changes were made to simplify the process of matching NR projects with municipal infrastructure projects. The Department is exploring potential approaches that would streamline the process and thereby encourage funding of more WISPr projects by the CWSRF. Depending upon the extent of any changes identified, statutory revision to the governing law at 24 VSA Chapter 120 may be required for implementation. The Department will more fully evaluate the benefits of any such statutory change over the coming year.

- Special Loan Rates for MHPs where there is an environmental justice (EJ) issue: It should be noted that the SRFs are and will always be, primarily loan programs. They are designed to lend out funds that will be repaid back into the fund, to be loaned out again. There is not enough federal allowance for loan forgiveness (funds that are not repaid to the program) that would offer "free" solutions to all water quality needs. Both SRFs have significant flexibility in determining loan rates. Frequently, these project types will receive a 0% loan under the DWSRF. However, the CWSRF offers a standard administrative fee rate (similar to interest rate) of 2% for municipalities and 3% for private entities. Although no current provisions are in place to consider offering a lower rate specifically to address EJ, the SRFs could develop and implement EJ criteria that could be used as the basis for a reduced loan rate. This is currently being explored.

**Coordination with Funding Partners to Assist MHPs:** In 2021, the SRF will engage in coordinated efforts with organizations that support affordable housing, climate change and resiliency, emergency management and environmental justice. The SRF will look for opportunities such as a FEMA buyout offer in a floodplain, where the SRF could provide the match for the buyout as well as funding for the conservation and/or restoration of the floodplain, with CDBG potentially assisting with relocation expenses.