

# Homeownership Development Pilot Proposal

Proposal to appropriate \$5 million through Budget Adjustment Act to support construction and rehab of for sale homes.

## Existing Markets:

- Homes sold in Vermont have appreciated 37% over the past three years, a troubling trend worsening as costs rise.
- Vermont builders are facing unprecedented labor and material shortages, causing delays and cancelled developments, as reported in the [State of Development report](#).
- Cost pressures are far outside their control of developers, stemming from labor, lumber and steel market volatility.

## Existing Funding:

- Since 2009, VHFA has awarded \$14.4 million for the creation of 452 homes for purchase through Vermont’s State Homeownership Affordable Housing Tax Credit. \$7.8 million created 263 new manufactured homes and \$6.6 million supported 180 stick built homes/condos in 25 different locations.

## Structure of Proposal:

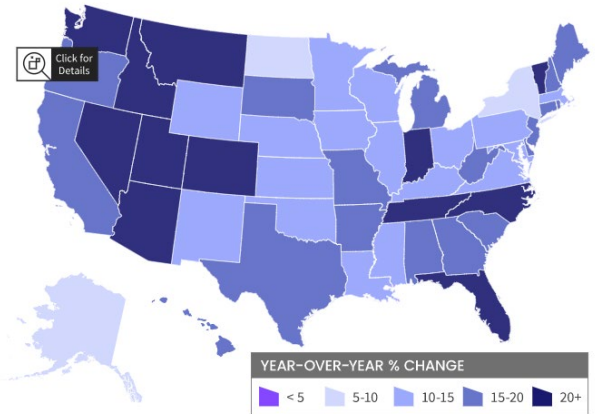
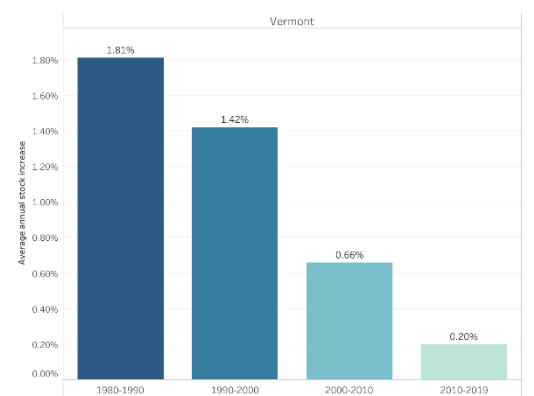
- New financial subsidies to build or substantially rehabilitate modest owner-occupied homes.
- Homes could include 1-4 unit stick-built homes, condominiums (including a percentage of overall units in a larger development), co-operative housing, modular, and manufactured housing.
- Target modest homes for households between 80-120% Area Median Income (earning roughly \$47,000 to \$115,000).
- Subsidy will cover up to 35% of eligible development costs, modeled off [Neighborhood Homes Investment Act](#), a proposed federal tax credit that could supplement this funding if passed.
- Limits would be set annually to specify eligible homes to help limit size, price per square foot, and builder profit.

## Program Example:

The example below shows how this funding could be used to address:

1. The gap between the high cost of construction and the sales price based on an appraisal (called “value gap”); and
2. The “affordability subsidy” between the sales price (due to an overheated housing market) and the amount a household earning the area’s median income can afford. Median income is about \$75,000 for a family of three in most the state, and \$11,000 higher in northwest Vermont.

Estimated rate of change in occupied housing supply



Source: Corelogic, U.S. Home Price Insights, 11/2/2021

Total construction costs to build or acquire/substantially rehabilitate home	\$425,000
LESS: Market rate sales price for a modest home	– \$375,000
<b>Value gap subsidy</b>	<b>\$50,000</b>
Market rate sales price for modest home (set by appraisal)	\$375,000
LESS: Affordability target for those earning median income	– \$315,000
<b>Affordability subsidy (available to future buyers as well)</b>	<b>\$60,000</b>

*A total subsidy of \$110,000 in this example results in a home that sells for \$315,000 to an income-eligible buyer. Buyer obtains a mortgage and may use other existing homebuyer resources. Subsidy covenant will remain on the home to maintain the affordability subsidy for future sales of the home.*

To: Vermont State Legislature  
From: Maura Collins  
Date: December 6, 2021  
Re: Need to swap ARPA for General Funds

In Act 74 of 2021, the Vermont State Legislature supported the Governor's request for the Vermont Housing Finance Agency (VHFA) to pilot a new weatherization program focused on low- and moderate-income Vermonters. Through discussions with the legislature, energy efficiency experts, and Vermont's utilities, this initiative grew into an on-bill repayment program now called the Weatherization Repayment Assistance Program, or WRAP.

VHFA was appropriated \$9 million to support the design, startup, and implementation costs for the pilot. Additionally, we expect there to be sufficient funding to serve approximately 1,500 households in 2022 and 2023 with weatherization activities.

In the program, income-eligible property owners receive a free home energy audit, and if the results predict at least a 10% home heating savings as a result of the proposed weatherization activities, the entire upfront cost of the project can be provided through a combination of incentive (grant) funds provided by one of the energy efficiency utilities and the remaining could be covered by WRAP.

With up to half of the project (up to \$5,000) paid for by Efficiency Vermont, VT Gas Systems, or Burlington Electric, the remainder will be funded with WRAP funds as a loan *to the utility meter* of the home. Under this pilot whoever is responsible for paying the utilities for that meter will assume the responsibility of repaying the loaned WRAP funding over a time period designed to ensure the customer saves more as a result of the weatherization efforts than they pay back to WRAP.

Over the course of 2021 VHFA, in partnership with the energy efficiency utilities and many individual electric companies like Green Mountain Power, VT Public Power Supply Association, and others, have worked to design a single tariff that – should it be approved by the Public Utilities Commission – will be available to all utilities for statewide implementation. This pilot was a recommendation of the recently released [Vermont Climate Action Plan](#) to meet Vermont's Global Warming Solutions Act requirements.

In July the US Treasury released a Frequently Asked Questions response saying that loaned State Fiscal Recovery Funds from the American Rescue Plan Act (ARPA) could not be used as capital for a loan with a maturity beyond 2026. Therefore, any WRAP funding to pay for weatherization that is repaid after 2026 is not an eligible use of ARPA State Fiscal Recovery Funds, as the legislature appropriated. We have explored a number of creative solutions with Guidehouse to see if there is a way around this but have not found a solution.

The Governor and VHFA jointly request the legislature to swap the appropriated ARPA funding with general funds so we can continue the development of this exciting model and bring it to Vermont customers statewide as soon as possible.