February 12th, 2021

To: Vermont Senate Committee on Economic Development, Housing & General Affairs

Dear Members of the Senate Committee on Economic Development, Housing & General Affairs:

My testimony is on behalf of the Vermont Housing Finance Agency (VHFA) to support the request for additional resources to serve Vermont's Manufactured Home Communities (MHC). Manufactured homes are our state's largest source of unsubsidized affordable housing. As detailed in the "Sustainability Assessment of Affordable Mobile Home Parks in Vermont", we have reached a critical mass of need in our state's MHCs that calls for a higher level of dedicated investment and a formally coordinated approach to ensure this form of naturally occurring affordable housing continues to help meeting our state's housing needs.

Following the national trend, MHCs in Vermont continue to convert from private ownership to co-operative and, in some cases, to non-profit owned housing communities. Co-operatives and non-profits often inherit these communities with significant infrastructure needs that exceed any amount of funding that could reasonably be raised from increases to rents. In the past 24 months, VHFA has supported $9.2 million in financing for MHC co-operative conversations, impacting a total of 262 manufactured home sites. The MHCs are highly leveraged with debt. Those new co-operatives are inheriting known long-term capital needs of roughly $1.7 million for infrastructure. Our state is in need of dedicated tools to keep the debt service payments as low as possible to ensure these communities can contribute to maintenance and replacement reserve accounts on an annual basis, while preserving affordable rents. We are specifically writing in support of interest rate and financing subsidies.

Infrastructure Investment:

Since we came before you in January of 2020, the team at Agency of Natural Resources (ANR) has put forward strong ideas for ways to support MHC infrastructure needs. The proposed activities in the Act 179 report are viewed by VHFA as great steps forward. We are also willing to support and assist with any pilot program changes that would help meet the needs of MHCs seeking to utilize Clean/Drinking Water Revolving Loan Funds.

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Financing Subsidies:

Lowering the cost of capital for MHCs is critical to their long-term success and sustainability. Traditional low-cost affordable housing capital such as tax-exempt bond financing or government enhanced loans with long terms/amortizations are not readily available for MHCs. Providing resources for financing subsidies and interest rate reductions would help in three prominent scenarios we currently see across Vermont:

1. When a privately owned MHC is offered for sale in Vermont, the Right of First Refusal granted to the residents to form a co-operative ownership structure is a powerful opportunity for residents of MHCs to have an ownership stake in the future of their community. There is a limited window for community members to make the decision to become a co-operative, analyze the capital needs for the property, and put together financing resources to conduct the purchase. While MHCs can often support much of the co-operative conversion through debt, they would greatly benefit from subsidized interest rates. Vermont's housing resources are already stretched and highly competitive. Without a dedicated pool of funding to buy-down interest rates we lack a reliable tool to ensure MHCs get preferred debt terms that result in better financial sustainability.

2. There are co-operative and non-profit owned MHCs that are carrying high interest rate loans from both governmental and commercial lenders. Since MHCs do not fit neatly into underwriting and risk categories, the terms available to the MHCs are often sub-optimal (higher rates, shorter terms, shorter amortizations) that result in higher payments. Financing subsidies would allow for refinance transactions to improve the terms and make community budgets more sustainable.

3. Both co-op and non-profit owned MHCs may require loans for infrastructure or other capital needs that do not fall under other state/federal programs. In cases where communities have general capital needs that are unmet by other state/federal infrastructure programs, these communities need a source of low-rate loans.

Additional resources dedicated to these communities now and into the future will ensure that we can establish funding patterns with strategic leveraging of existing state/federal funds to ensure the sustainability of Vermont's Manufactured Home Communities.

Sincerely,

Seth Leonard, Managing Director of Community Development