VERMONT LEGISLATIVE
Joint Fiscal Office
1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • https://ljfo.vermont.gov
Fiscal Note
March 16, 2022 Patrick Titterton

S.226 – An act relating to expanding access to safe and affordable housing – As recommended by the Senate Committee on Economic Development, Housing & General Affairs

URL for bill:
https://legislature.vermont.gov/Documents/2022/WorkGroups/Senate%20Economic%20Development/Bills/S.226/Drafts,%20Amendments%20and%20Legal%20Documents/S.226~David%20Hall~As%20Recommended%20by%20the%20Senate%20Commmittee%20on%20Economic%20Development,%20Housing%20and%20General%20Affairs~3-9-2022.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
- Large Employer Housing, Commercial Property Conversion and Community Partnership for Neighborhood Development
- Vermont Rental Housing Investment Program
- Municipal Bylaw Grants
- Missing Middle Income Home Ownership Development Program
- Residential Construction Contractors Registry and Certification
- Affordable Housing Tax Credits
- Downtown and Village Tax Credits Program
- Down Payment Assistance Program operated by the Vermont Housing Finance Agency

Fiscal Summary

This bill is expected to impact State resources in two ways: appropriations for new or existing programs and changes in tax and fee revenues. The total impact of these is **$5.0 million in FY 2022 and $15.9 million dollars in FY 2023 appropriations and $2.1 million in net tax expenditures in FY 2023 (see Table 1).**

The bill appropriates $20.9 million dollars for new programs. Of these. $5 million in appropriations occur in FY 2022, and the remaining $15.9 million occur in FY 2023. This includes:

- $20.0 million in appropriations using American Rescue Plan Act (ARPA) funds, $5 million of which is appropriated in FY22 and $15.0 million of which is appropriated in FY23.
- $650,000 in General Fund appropriations in FY23
- $200,000 in special fund appropriations in FY23

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

The bill also adds a stipulation on the $20 million in ARPA funds proposed to be appropriated to the Department of Housing and Community Development (DHCD) in S.210 of the 2022 legislative session as passed by the Senate. At this point, S.210 has not been enacted into law. The stipulation says that 25 percent of the $20 million in funds in S.210 be used for accessory dwelling unit (ADU) projects.

Finally, the bill on net decreases State revenues by $2.1 million in FY 2023. In FY 2023, expansions of tax credits will reduce revenues by $2.25 million in General Fund revenues, growing to $3.25 million by FY 2027. New fees from the Residential Construction Contractor Registrations will partially offset the expanded credits and generate new revenues of $125,000 in FY 2023, growing to $340,000 in FY 2027.

Table 1.

Appropriations	FY22	FY23	FY27
ARPA Appropriations	$5,000,000	$15,000,000	$0
General Fund Appropriations	$0	$650,000	$0
Special Fund Appropriations	$0	$200,000	$0
Total Appropriations	**$5,000,000**	**$15,850,000**	**$0**

Tax Expenditures	FY22	FY23	FY27
Downtown and Village Center Tax Credit	$0	-$2,000,000	-$2,000,000
Affordable Housing Tax Credit	$0	-$250,000	-$1,250,000
Total Tax Expenditures	**$0**	**-$2,250,000**	**-$3,250,000**
Fee Revenues	**FY22**	**FY23**	**FY27**
Professional Regulatory Fund	$0	$125,000	$340,000
Total Revenues	**$0**	**$125,000**	**$340,000**
Total Net Revenue Impact	**$0**	**-$2,125,000**	**-$2,910,000**

Details and Analysis

Appropriations and Spending

Manufactured Home Relocation Incentive Program:
The bill appropriates $5.0 million in ARPA 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,
- 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 common needed home repairs,
- addressing existing program gaps,
- funds to supplement Flood Resilient Community Funds,
- and 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.

Large Employer Housing, Commercial Property Conversion, and Community Partnership for Neighborhood Development:
The bill reallocates $5.0 million of the amounts appropriated to VHCB in FY 2023. The funds are to be used for grants for large employer housing, commercial property conversions, and a multi-agency coordination plan for neighborhood development. Funding for matching grants for Large Employer Housing shall not exceed $50,000 or 20 percent of the employer cost per unit for large employers with 50 or more FTE employees. Grants for matching grants for converting commercial property to residential use are not to exceed the lesser of $50,000 or 20 percent of the developer cost per unit.

Vermont Rental Housing Investment Program:
This bill amends Sec. 15(b)(3) of S.210 of 2022 legislative session as passed by the Senate. Note that this bill, S.210, has not yet been enacted and the proposed language of S.226 amends S.210.

S.210 bill would require DHCD to establish the Vermont Rental Housing Investment Program (VRHIP) to provide funding to landlords in order to rehabilitate and weatherize eligible rental housing. This program is funded with $20 million in ARPA funds. The bill would also require DHCD to establish a VT Homeownership Revolving Loan Fund to provide funds for home ownership or home improvement to households that may otherwise not be able to afford these expenses.

S.226 amends Sec. 15(b)(3) of S.210 to stipulate that the DHCD shall allocate 25 percent of the $20 million in funds for accessory dwelling units (ADU). 20 percent of this would be to facilitate a statewide education and navigation system to assist homeowners with designing, financing, permitting and constructing ADU's. The remaining 5 percent would be allocated to financial incentives or other supports for ADU projects.

Municipal Bylaw Grants:
The bill appropriates $650,000 in General Fund dollars for additional funding for the Municipal and Regional Planning Fund. This fund allows for a broad array of projects that range from developing a town plan to adopting new permanent or temporary bylaws or updating bylaws. The Fund receives ongoing funding from the property transfer tax, of which it receives 17 percent of revenue. Of this, 70 percent is disbursed to the Secretary of Commerce and Community Development for performance contracts with regional planning commissions to provide regional planning services, 10 percent is disbursed to the Vermont Center for Geographic Information, and 20 percent is disbursed to municipalities. DHCD is allowed to use up to 6 percent of funds to administer the grant programs with the rest to be used for awarding grants.

Missing Middle Income Home Ownership Development Program:

The bill appropriates $15.0 million in ARPA dollars to DHCD to 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 leftover 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 perpetual affordability of the home or the Agency uses a shared equity model in which the Agency retains not less than 75 percent of any increased equity in the home.

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 $5,000 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 as an advisor profession with two appointed persons to serve as advisors.

<u>Contractor registration fee</u>
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 certification and $25 for each additional certification for State certifications

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 are as follows:

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

For the purposes of generating a revenue estimate, it was assumed that 50 percent of the 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: $230,000 - $270,000 (fees collected over two years)
2025-2027 estimated revenues: $620,000 - $740,000 (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. After accounting for both the new fee revenue and the appropriations, the net fiscal impact is expected to be a net increase in State resources of $50,000 in FY 2023 and increasing to approximately $480,000 by FY 2027 as fee revenue increases.

Affordable Housing Tax Credit:
The bill increases the total first-year credit allocations for loans or grants for owner-occupied unit financing or down payment loans by $250,000 from $425,000 to $675,000. This increases the aggregate annual limit by $1.25 million. For any given year, the credits are awarded for five years. This means that in FY 2023 the fiscal impact of this increase will be $250,000 but will increase each year until it reaches $1.25 million in FY 2027 (see table 2). From FY 2027 and beyond, the annual expenditure cost of the expansion would remain at $1.25 million. These financing or down payment loans are for new construction and manufactured housing, which are awarded over a period of five years.

Table 2. Annual Increase in Affordable Housing Tax Credit Expenditure

Fiscal Year	Status	FY23	FY24	FY25	FY26	FY27
2023 credits	Proposed	-$250,000	-$250,000	-$250,000	-$250,000	-$250,000
2024 credits	Proposed		-$250,000	-$250,000	-$250,000	-$250,000
2025 credits	Proposed			-$250,000	-$250,000	-$250,000
2026 credits	Proposed				-$250,000	-$250,000
2027 credits	Proposed					-$250,000
Net Fiscal Impact		**-$250,000**	**-$500,000**	**-$750,000**	**-$1,000,000**	**-$1,250,000**

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. 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 there are in the State which is not readily available because it is not asked on mortgage applications currently.

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 there will be just over $10 million in VHFA's revolving loan fund to loan out in total through 2026. First-generation homebuyers would likely makeup a very small subset of this population, but because they would receive their awards as grants, that could decrease the amount of funds that can be loaned out by VHFA.

Downtown and Village Tax Credits:
The bill increases the total maximum annual credits that can be awarded for the Downtown and Village Center Tax Credit Program by $2.0 million (from $3.0 million to $5.0 million). It allows projects in Neighborhood Development Areas (NDA) to receive credits if they meet the same project criteria and sets aside $1.0 million of the $2.0 million increase in the overall Downtown Tax Credits Program for NDA projects. There is a sunset provision for the inclusion of NDA projects in the credit set for July 1, 2027. The bill also expands eligibility to include Flood Mitigation Projects, which may receive credits valued up to $75,000 per project under the program.