

Increasing the Supply of Housing for Working Families through Off-Site Construction

Summary

A key barrier to the production of housing affordable to working families in Vermont is the inability to achieve economies of scale through traditional site-built construction. This is due to Vermont's relatively small population and the rural and small village settlement patterns in much of the state.

This bill provides the legislative authority and funding needed to help Vermont overcome this barrier through the use of off-site construction techniques like modular and manufactured housing. When implemented at scale, off-site construction can produce hundreds of homes per year from a single manufacturing facility, facilitating discounts in the purchase of materials and the establishment of reliable and resilient supply and labor chains.

Vermont already has some offsite construction capacity, but it is focused mainly on building custom homes, rather than at-scale production of homes for working families.

This bill includes three complementary components that, together, will facilitate the use of at-scale off-site construction to produce homes in Vermont affordable to working families and others:

- **Off-Site Construction Fund (Section 2).** This fund will invest \$15 million to create, restart or expand one or more off-site construction facilities in Vermont. This will create year-round well-paying jobs in Vermont while giving the state leverage to negotiate discounted pricing and ensure these publicly supported facilities address key housing types and price points that are not being adequately addressed by the private market. For example, a publicly supported facility could be used to rapidly produce housing for victims of flooding at affordable prices and to lower the costs of producing multifamily housing, enabling the state's Low-Income Housing Tax Credit to produce more homes each year.
- **Revolving Purchase Fund (Section 3).** To take maximum advantage of the cost-savings that is possible from off-site construction, funding is needed to support a bulk purchase agreement with an off-site construction company to purchase a large volume of homes at a steep discount. The Revolving Purchase fund will provide \$25 million for this purpose, enabling the discounted purchase of up to 200 homes at a time that will be distributed to partner agencies (such as the state's nonprofit homeownership network) who will install the homes and sell them to working families and others. The Fund will be replenished when homes are sold to ensure its ongoing use to benefit Vermont families.
- **Expanding Off-Site Construction Capacity in Vermont (Section 4).** Vermont ultimately needs multiple off-site construction facilities operating at scale to ensure an adequate supply of non-luxury housing, including facilities operated by market actors with minimal or no government investment. To help existing owners of offsite construction facilities, developers, and others plan to create or expand off-site construction capacity in Vermont, this section provides \$500,000 in planning assistance, along with a priority for existing economic development funding sources and technical assistance resources for these projects.

The bill also includes \$500,000 for planning to facilitate the **Off-Site Construction Fund** and **Revolving Purchase Fund**, \$2 million for a **Transitional Fund** to work up to the scale needed to fully implement the **Revolving Purchase Fund**, and the creation of an **Advisory Board** to help guide this work.

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Draft Legislative Text

1. Whereas:

- a. There is a significant shortage of housing affordable to working families in Vermont that contributes to high housing costs. This shortage negatively impacts affected families and inhibits the economic growth of Vermont businesses that need an adequate supply of housing to attract workers.
- b. There is a need for housing at a range of price points affordable to workers with different income levels. Workers also need a variety of housing types, including single-family, duplex, triplex and multifamily housing, for both purchase and rent.
- c. A key barrier to the development of housing affordable to working families in Vermont is an inability to achieve robust economies of scale through traditional site-built construction techniques.
- d. Off-site construction can facilitate the economies of scale needed to produce less expensive housing that would be affordable to working families. If conducted within Vermont, off-site construction can also create well-paying year-round jobs that contribute to the achievement of Vermont's workforce and economic development goals.
- e. Off-site construction can facilitate the production of homes that are highly energy-efficient and resistant to natural disasters. It can also facilitate the supply of low-cost homes needed to quickly help victims of future floods.
- f. There are multiple barriers to the establishment and scaling of off-site construction in Vermont including the high costs of purchasing factories, equipment and materials; risks associated with investigating and implementing new business models; and high financing costs.
- g. Initial investments by the state in offsite construction can provide lasting benefits to meet Vermont's need for housing affordable to its workforce.

2. Off-Site Construction Fund

- a. In Fiscal Year 2025, \$15 million is appropriated from the General Fund to the Vermont Housing Finance Agency ("Agency") to support the Off-Site Construction Fund.
- b. The Off-Site Construction Fund shall fund one or more investments to facilitate the establishment or expansion of off-site construction capacity within Vermont.
- c. As a condition of receiving an investment from the Off-Site Construction Fund, each recipient must enter into a long-term agreement with the Agency to produce housing at discounted prices to meet the state's needs for workforce and/or affordable housing. Such housing may include, but is not limited to, manufactured homes; modular single-family, duplex or triplex homes; or multifamily homes.

- d. In selecting among competing applicants, the Agency shall give a preference to the applicant(s) that provide the greatest benefit in producing affordable homes that address key unmet needs.

3. Revolving Purchase Fund

- a. In Fiscal year 2025, \$25 million is appropriated from the General Fund to the Agency to establish a Revolving Purchase Fund.
- b. The Revolving Purchase Fund shall be used to enter into one or more bulk purchase agreements with the owner(s) of an offsite construction facility to facilitate discounts in the purchase price of modular homes designed to meet the needs of first-time homebuyers. Such homes shall meet or exceed the standards for an ultra-efficient home set by the Department of Energy.
- c. The Agency shall make the homes purchased through the Revolving Purchase Fund available to one or more development partners who will secure the land needed to site the homes and arrange for the permitting, infrastructure, and installation of the homes on a permanent foundation. The development partners will also find, and sell the homes to, qualifying purchasers.
- d. The funds in the Revolving Purchase Fund shall be replenished once the homes are sold to the eventual homeowners. To ensure the Fund retains its buying power over time the amount paid to the Agency for each home shall consist of: (a) the amount the Agency paid for the home under the Bulk Purchase Agreement plus (b) an inflation factor intended to ensure the buying power of the Fund is maintained over time plus (c) a fee sufficient to cover the Agency's costs of administering the program. The replenished funds shall be used for the same purpose as the initial funds in the Revolving Purchase Fund.
- e. While the funds in the Revolving Purchase Fund may not be used for grants or loans to individual homeowners, nothing shall prevent the use of other funding sources to provide grants or loans to homeowners to make the homes provided through bulk purchases under the Revolving Purchase Fund affordable to households with lower incomes than would be possible without these grants or loans.
- f. If the prices of homes sold as a result of bulk purchases under the Revolving Purchase Fund are sufficiently below market levels to provide adequate incentive for purchasers to agree to long-term affordability restrictions, the homes shall be sold with such restrictions. The feasibility of long-term affordability restrictions shall be determined on a regional basis as they may be more feasible in some parts of the state than others. Any long-term affordability restrictions shall balance the state's interest in long-term affordability with homeowners' interests in building assets.
- g. If needed to achieve larger discounts, the Agency may enter into a multi-year bulk purchase agreement that relies on both the initial and expected replenished funds in the Revolving Purchase Fund.

- h. In selecting among otherwise similar proposals for a bulk purchase agreement, the Agency shall give a preference to proposals that involve the production of homes in Vermont.
4. Expanding Off-Site Construction Capacity in Vermont
 - a. In Fiscal Year 2025, \$500,000 is appropriated from the General Fund to the Agency for the purpose of making planning grants to business owners to study the potential to use the at-scale development of housing in Vermont through off-site construction to meet the housing needs of working families or other non-luxury segments of the housing market.
 - i. The Agency may use a portion of these funds to commission its own planning studies to better understand the challenges associated with the use of at-scale off-site construction techniques to meet the housing needs of working families or other non-luxury segments of the housing market and potential solutions to those challenges.
 - b. The Economic Development Authority, Agency of Commerce and Community Development, Small Business Development Center, and Procurement Technical Assistance Center are directed to include funding for the development or expansion of facilities in Vermont for at-scale off-site construction to produce housing targeted at working families or other non-luxury segments of the housing market as a priority within appropriate existing programs.
 - c. Within two years, the Agency, in partnership with the Economic Development Authority, shall produce a report documenting the use of funds under this subsection and describing whether existing federal or state programs are sufficient to provide the capital needed for the development or expansion of facilities in Vermont for at-scale off-site construction to produce housing targeted at working families or other non-luxury segments of the housing market. To the extent that the report determines existing funding sources are not adequate, the report shall describe the nature and amount of funding needed to achieve this goal.
 5. Planning and Transitional Support for the Offsite Construction Fund and Revolving Purchase Fund
 - a. In Fiscal Year 2025, \$500,000 is appropriated from the General Fund to the Agency for purposes of conducting one or more planning studies to support implementation of the Offsite Construction Fund and/or Revolving Purchase Fund. Among other issues, such study or studies shall help inform decisions about how development partners will be selected, how homes purchased at a discount will be allocated among development partners, how affordable land will be identified for siting the homes, and how to minimize costs associated with installing the homes in order to minimize the final purchase price to participating homeowners.
 - b. In Fiscal Year 2025, \$2 million is appropriated to the General Fund for the Vermont Housing Finance Agency for a Transitional Fund intended to facilitate the orderly transition to a fully operational Revolving Purchase Fund.
 - i. The Agency shall have discretion to decide how it wishes to spend the Transitional Fund. Among other potential purposes, the Transitional Fund could be helpful in the event that the Agency determines that a pilot is needed before expending the full

\$25 million in the Revolving Purchase Fund in order to test and work out any challenges related to the distribution of the homes to be purchased through a bulk purchase agreement. In such case, the Transitional Fund could provide grants to cover a portion of the home costs, allowing for the homes to be sold for a level similar to what is expected to be achieved through a bulk purchase agreement using the full amount of the Revolving Purchase Fund.

- ii. If the agency determines that a bulk purchase with the Revolving Purchase Fund can be implemented without a pilot, the Agency can use these funds for any other purpose consistent with the goals of delivering affordable homes to working families through the use of at-scale off-site construction.

6. Advisory Board

- a. The Agency shall establish an Advisory Board to guide its implementation of this Act. Among other roles, the Advisory Board will inform the development of the solicitations for the Off-Site Construction Fund and the Revolving Purchase Fund and the selection of entities proposed to receive this funding, The Advisory Board will also provide input into the expenditure of the Transitional Fund and the ongoing program of bulk purchases.

7. Reporting and Administrative Costs

- a. The Agency shall produce brief annual reports documenting its progress in implementing these programs, any obstacles encountered and how they were addressed, and whether additional funding or authorities are needed to achieve the purposes of this statute.
- b. The Agency is authorized to use up to 2 percent of the appropriated funding to administer the programs authorized under this statute.