

Testimony to the House Committee on General and Housing
Friday, Jan 24th, 2025
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Developer
Village Ventures

Bio:

- 4th generation Fairlee native
- Owns/operates two businesses that develop and build small-scale real estate projects in the Upper Valley — Village Ventures and Réal Hazen Construction
- Focus on developing buildings with <20 units that fit scale of our rural communities
- 30 units of housing and retail developed since 2020
- 60 units / \$18m of for-sale and rental housing (mix of affordable, workforce, and market) currently in various stages of pre-development across Fairlee and Bradford

Impediments I've seen to small-scale development:

1. Limited access to funding for for-profit developers. Finding sites is easy in our area — our biggest hurdle is paying for the development. Construction costs are high and rents are lower compared to more populated areas around, making the financials difficult to pencil. 80% of projects that we do require subsidy to make possible, either in the form of grants or below-market debt. Funds are extremely competitive, and for-profit developers are prevented from applying to some funding sources. One that comes to mind is VHCB's general fund (only available to nonprofit developers). If the average nonprofit is building for \$400k-\$500k/unit but we're able to build for \$250k-\$350k/unit, it seems logical from a resource allocation perspective to allow for-profits into the mix.

2. New QAP rule for 2025 eliminates funding eligibility for most small-scale developers. Low Income Housing Tax Credits (LIHTCs) are one of the largest sources of funding for affordable housing. VHFA administers LIHTCs and maintains a Qualified Allocation Plan (QAP) that outlines rules, scoring criteria, and eligibility requirements for developers/projects. The latest QAP update last fall now requires developers to have experience with the LIHTC program in order to be eligible. The vast majority of small-scale developers do not have experience with the program and will therefore never be eligible to apply. This is a huge blow to rural communities like Fairlee that have never had a true affordable housing project (i.e. LIHTC) ever built and likely never will given the regional nonprofit developers have enough on their plates building in the more populated towns. Thankfully, we put our application in for our first LIHTC project prior to this going into effect, but others are not so lucky.

3. Income tax liability on grants is enough to cause insolvency for small-scale developers. In 2017, the Tax Cuts and Jobs Act removed the ability to write off grants against basis. Since then, grants received by for-profit developers are largely considered taxable income. On a recent project where I received \$1m in grants, I had to come up with \$500k to pay income taxes on that amount (by way of an interest-bearing loan that I'll be paying off for 30 years). This almost sent me into bankruptcy. I wrote an article about it here. There are several things that can be done here: a. Work with our VT Reps and Senators in DC to fix the IRS portion of the tax code that was altered as a part of the TCJA. Federal income tax on the grants is the lion's share.

b. Work with VT Dept of Taxes to fix the state income tax portion of this. Of the \$500k I owed, \$90k is to the state.