VERMONT LEGISLATIVE
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Fiscal Note
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S.127 – An act relating to housing and housing development

As introduced by the Senate Committee on Economic Development, Housing, and General Affairs[1,i]

Bill Summary

This bill would fund and modify existing programs, create new ones, and establish various policy directives aimed at increasing the supply, affordability, and accessibility of housing in Vermont.

Fiscal Summary

The bill's total fiscal year 2026 General Fund cost is $50.45 million. Of that, $49.7 million is for appropriations for new and existing housing programs, staff positions, and studies.

Table 1. Summary of Fiscal Year 2026 Appropriations in S.127

Entity	Program	Appropriation Amount (General Fund unless otherwise specified)
DHCD	Middle-Income Homeownership Development Program	$15,000,000
	Rental Housing Revolving Loan Fund	$15,000,000
	Infrastructure Sustainability Fund (funds granted from DHCD to Vermont Bond Bank)	$9,100,000
	VHIP	$4,000,000
	MHIR	$2,000,000
	NeighborWorks America affiliated HomeOwnership Centers	$500,000
Treasurer's Office	Positive Rental Payment Credit Reporting Pilot	$100,000
Agency of Commerce and Community Development	Brownfield Revitalization Fund	$4,000,000
Total Appropriations		**$49,700,000**

The bill also proposes to create the First-Generation Homebuyer tax credit and extend the Down Payment

[1] *The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this fiscal note is meant to provide information for legislative consideration, not to provide policy recommendations.*

Assistance tax credit for five years, from fiscal year 2027 to fiscal year 2031. The total cost of both credits is $250,000 in fiscal year 2026. Total costs for the credits would increase each fiscal year until they reach $2,500,000 in fiscal year 2031 (see Table 2). As introduced, authorization for the Down Payment Assistance tax credit ends after fiscal year 2031. If the Down Payment Assistance Program tax credit is not extended at that time, the total annual cost of both credits will decrease by $250,000 per fiscal year until stabilizing indefinitely at $1,250,000 (the annual cost of the First-Generation Homebuyer tax credit).

Table 2. Summary of Affordable Housing Tax Credit Changes in S.127

Tax Credit	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Down Payment Assistance Program – Section 6	$0	$250,000	$500,000	$750,000	$1,000,000	$1,250,000
First Generation Homebuyer Program – Section 6	$250,000	$500,000	$750,000	$1,000,000	$1,250,000	$1,250,000
Total Cost	**$250,000**	**$750,000**	**$1,250,000**	**$1,750,000**	**$2,250,000**	**$2,500,000**

Section 18, which would change the tax treatment of resident costs at continuing care retirement communities, would cost the General Fund an estimated $500,000 per year.

The bill also proposes two programs that would have impacts on the statewide Education Fund:

- Sections 16 and 17 would create a new, project-based tax increment financing (TIF) program. The proposed program would allow municipalities to retain up to 100% of incremental municipal property tax revenues and 80% of incremental education property tax revenues for 20 years to support financing of local projects. There are too many unknowns to provide a fiscal estimate of the cost of this proposal to the Education Fund. The fiscal impact depends on the amount of debt incurred, the total size of project district, and future growth in property tax revenues that would occur under current law. The impact of the program would also depend on the number of projects that are made possible by Education Fund dollars versus projects that would have happened in some capacity anyway without the support of TIF.
- Section 20 would create a property tax exemption for the increase in appraisal value that results from improvements made with a grant or loan from the Vermont Housing Improvement Program (VHIP) in the past 12 months, or from the construction of a new accessory dwelling unit (ADU). The exemption would be in place for three years. This provision would result in forgone revenue to the Education Fund starting in fiscal year 2027, however data are not available to accurately estimate the cost of this exemption.

Background and Details

Section 1: VHIP

VHIP provides five-year grants or loans, and 10-year forgivable loans to rehabilitate existing vacant units or structural elements affecting multiple units, build accessory dwelling units (ADUs), build new residential units in an existing or new structure, and complete repairs necessary for code compliance. Under the current program, property owners are eligible to receive $30,000 per unit for rehabilitation of 0-2 bedroom units, and $50,000 per unit for 3+ bedroom units or creation of new units.

This section would remove tenant selection requirements and replace them with a requirement that rent payments including utilities shall not exceed fair market rent for the 10-year loans. It also creates the VHIP Revolving Fund, which would receive funds repaid or returned to the Department of Housing and

Community Development (DHCD) from VHIP grants or forgivable loans and allow DHCD to use these funds for program expenditures and administrative costs.

Section 2: Vermont Manufactured Home Improvement and Repair Program

The Vermont Manufactured Home Improvement and Repair Program (MHIR) provides funding to improve existing manufactured homes, incentivize new slab placement, and for infill of more new homes. Up to $20,000 can be awarded for small-scale capital needs to help infill vacant lots with new homes. Up to $15,000 per grant can be awarded to pay for approved slabs or other site preparation, skirting, tie-downs or utility connections. This program was originally funded through $4 million in ARPA funding. Section 2 would permanently place the program in statute.

Section 3: Vermont Infrastructure Sustainability Fund

Section 3 would create a revolving loan fund administered by the Vermont Municipal Bond Bank. Loans would be available to fund:

- Preliminary engineering and planning;
- Engineering design and bid specifications;
- Construction for municipal water and wastewater systems;
- Transportation investments; and
- Other eligible activities to be required.

Funded projects would create reserve capacity necessary for new housing unit development, have a direct link to housing unit creation, and be owned by a municipality throughout its useful life. The program would be capitalized by a $9.1 million appropriation in Section 21.

Section 4: Affordable Housing Tax Credits

Section 4 would extend two affordable housing tax credit programs administered by the Vermont Housing Finance Agency (VHFA): the Down Payment Assistance Program and the First-Generation Homebuyer Program. Authorization for the Down Payment Assistance Program currently expires at the end of fiscal year 2026. The bill would extend these tax credits through fiscal year 2031. Since the program was set to expire in fiscal year 2026, all credits awarded beginning in fiscal year 2027 represent a new fiscal cost to the State in the form of forgone revenue.

The bill would also fund the First-Generation Homebuyer Program through a permanent tax credit and establish a first-year credit allocation of $250,000. Since VHFA was not previously authorized to award these credits in fiscal year 2026 or beyond, this represents a new and recurring fiscal cost to the State in the form of forgone revenue.

Section 5: State Housing and Residential Services Planning Committee

Section 5 would create the State Housing and Residential Services Planning Committee to generate a State plan to develop housing for individuals with developmental disabilities. The Committee would create a plan that includes: a schedule for the creation of at least 600 additional units of service-supported housing, description of the support needs of individuals with developmental disabilities, anticipated funding needs, and recommendations for changes in State laws or policies that are obstacles to the development of housing for individuals with Medicaid-funded home and community-based services. The Committee would submit a report to various committees of jurisdiction by November 15, 2025. The cost for per diem compensation and expense reimbursement for legislative members is approximately $2,500 and would come from the budget of the General Assembly.

Section 15: Brownfield Funding

Section 15 would appropriate $4 million from the General Fund to the Brownfield Revitalization Fund in fiscal year 2026; of this, $2 million would be granted to regional planning commissions to conduct brownfield assessments.

Sections 16 and 17: Community and Housing Infrastructure Program

Sections 16 and 17 would create the Community and Housing Infrastructure Program, a TIF program that would allow municipalities to retain growth in incremental property tax revenues to finance affordable housing development. Municipalities would be able to retain 100% of the municipal increment, and 80% of the education property tax increment for 20 years after the first incursion of debt. Under current law, TIF districts can retain 70% of education property tax increment and 85% of municipal property tax increment.

As proposed, tax increment could be used for direct payment of financing incurred to support the project, and related costs, and for any direct costs of housing infrastructure. Use of increment for direct payments would be subject to the same public vote provisions as municipal debt incursion for the project. To qualify, projects would need to meet process, project, and location criteria:

- *Process:* The project must show it has created a project site, executed a housing infrastructure agreement with a developer or sponsor, and pledged incremental tax revenues to the project.
- *Project:* Includes housing that is affordable, defined as having a total cost of less than 30% of a household's annual gross income at 150% of median income.
- *Location:* The project would also need to be in a Tier 1A, 1B, or Tier 2 area as designed on state land use or development plans or located within ½ miles of an existing settlement area as defined in 10 V.S.A. § 6001(16).

The fiscal impact of this program to the Education Fund cannot be estimated at this time, since the scope of program utilization, the intended size of projects, and the amount of development that would occur absent the program is not known. The bullets below reflect several fiscal costs and considerations:

- As recommended, projects located in Tier 1A, 1B, or Tier 2 that include affordable housing would be able to retain incremental property tax revenues – the program does not include a "but-for" test to understand if the project would have happened absent the use of incremental property taxes. Without that but-for test, the program will incentivize developments that would have occurred anyway, resulting in forgone revenue to the Education Fund.
- The bill would expand the types of projects that would be eligible to retain property tax increment compared to current law for TIF districts. Under current law the definition of "improvements" means "the installation, new construction, or reconstruction infrastructure that will serve a public purpose … including utilities, transportation, public facilities and amenities, land and property acquisition and demolition, and site preparation." This bill would expand that definition to include "the installation or construction of infrastructure that will serve the public good," and add digital infrastructure, public recreation, commercial and industrial facilities, and flood remediation and mitigation to the above list of permitted infrastructure projects. This provision, along with a lack of a but-for test increases the number of projects that could qualify for this program and the potential amount of education property tax increment that could be retained.
- The program would retain a larger percentage of incremental education property tax revenues compared with the current tax increment financing program, which retains only 70% of incremental revenues. With a higher retention percentage, potential costs to the Education Fund are also higher.
- Statewide grand list growth is currently high. In fiscal year 2025 and 2026, equalized grand list growth is expected to be approximately 14%. If project sites are large enough to capture property value growth from adjacent parcels with existing development, the growth from those parcels would be retained in service of CHIP project costs instead of going to the Education Fund. This capture of existing growth would represent forgone revenue to the statewide Education Fund.

Section 18: Medical Expense Deduction and Continuing Care Retirement Communities

Section 18 would remove language that limits the medical expense deduction of entrance fees or payments to continuing care retirement communities regulated under 8 V.S.A. § 151 to limits established by the IRS on medical insurance products. Currently, Wake Robin, located in Shelburne, is the only continuing care retirement community in the state regulated under 8 V.S.A. § 151. Removing this language would allow continuing care retirement community costs to be treated as medical expenses on personal income taxes. JFO estimates that this would cost the General Fund $500,000 per year in reduced revenue.

Sections 19 and 20: Property Tax Exemption for ADUs and Certain Property Improvements

Sections 19 and 20 would create a property tax exemption for the increase in the appraisal value of a property resulting from rehabilitation or improvement using a grant from VHIP or construction of a new ADU. The exemption under this section would apply to municipal and education property taxes and would be in effect for three years. After the exemption period, the property would be valued at its most recently appraised grand list value.

JFO is not able to accurately estimate the cost of this provision as information about the appraisal value of qualifying construction financed through the VHIP program is not available. VHIP finances a wide variety of different activity, including code improvements, wholescale rehabilitation of units, and new construction, with a corresponding wide variety of changes in appraisal value that would result from these activities.

Section 21: Appropriations

Section 21 would appropriate $45.6 million **to DHCD from the General Fund in fiscal year 2026 for the following:**

- $30 million granted to the Vermont Housing Finance Agency (VHFA) for the Middle-Income Homeownership Development Program and the Rental Housing Revolving Loan Fund;
- $9.1 million to the Vermont Bond Bank to implement the Vermont Infrastructure Sustainability Fund;
- $4 million for VHIP;
- $2 million for MHIR; and
- $500,000 to DHCD to grant to five NeighborWorks America-affiliated homeownership centers for the purpose of providing homebuyer education, financial literacy counseling, and foreclosure prevention programs.

Section 21 also appropriates $100,000 to the State Treasurer to implement the Positive Rental Payment Pilot Program.

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[i] *The full fiscal note history is available on the fiscal tab of the bill page on the General Assembly website and can be pulled up through a bill number search on the JFO page.*