



## Existing Barriers to Housing Development

Reducing the barriers to spur investment in infrastructure and improve Vermont's housing stock is largely an economic issue. Throughout the meetings with the Steering Committee and other stakeholders, as well as the survey of municipal officials and housing developers, we heard common threads about existing barriers as well as best practices, regulatory reform, alternative strategies, potential incentives, and other ideas to increase investment in housing and infrastructure.

A large majority (72%) of the 29 municipal respondents to the survey agreed that the existing housing stock in their communities is not adequate to meet the needs of their current and projected populations. Most municipalities felt the quality of the existing rental housing was in decline and several noted that their city or town lacks the type of housing needed to accommodate an aging population. Many municipalities identified affordability as a major obstacle to meeting their population's housing needs.

When municipalities were asked to identify the barriers to housing development or rehabilitation from a list of often cited barriers, the top three responses were: Inadequate Incentives (54%), Lack of or Inadequate Infrastructure (50%), and Zoning Restrictions (31%). The barriers identified most often by housing developers included "Permitting Process/Time" and "Zoning Restrictions," followed by "Permitting Requirements", "Inadequate Incentives", and "Local Opposition," although no single barrier was identified by more than three of the 12 developers who responded to the survey.

Regarding infrastructure, the cost of water supply and stormwater systems, access roads, sidewalks, lighting, and other amenities are increasingly falling to the developers of housing. Concurrently, the requirements around the specifications of such systems are steadily expanding. For instance, including bike paths and sidewalks on each side of new roads, street lighting, and modern stormwater mitigation to ensure our waters stay clean are all desirable elements of development but add to overall cost. Many municipalities are reluctant to pay for these elements up front, even when there is a desire to support more housing development, and developers find it

very difficult to secure financing for these types of improvements. Conventional banks are reluctant to lend for infrastructure construction because of the risk involved at the early stages of a development.

Many federal and state funding sources for infrastructure are no longer available. Tax Increment Financing (TIF) Districts are capped statewide and there are few other resources communities can access or can afford to finance infrastructure. Many communities around the state do not have the necessary infrastructure (especially stormwater and wastewater) to support new development.

Most critical infrastructure cannot be seen – water, sewer and culverts – and therefore it is easier to overlook their maintenance when funds are limited. Vermonters are concerned that their taxes are too high and consequently elected officials are reluctant to bond for long-term infrastructure improvements.

Municipalities have looked to the private sector to build needed infrastructure to support housing and economic development, but housing developers consistently told us that the cost to build or improve infrastructure is difficult to privately finance, adds to construction costs, and increases the price of housing that does get built.

When asked to identify ways to overcome the infrastructure financing challenge, the top suggestion from municipalities was increased tax credits for investors who invest in housing related-infrastructure. A second suggestion was to increase the State's bonding capacity, but this proposal was not supported by the State's Treasurer. Third was to create a revolving loan fund for infrastructure. Several specific recommendations to finance infrastructure include expanding the availability of TIF financing, developing a simpler method to dedicate property tax revenues to infrastructure projects in smaller communities, expanding the Downtown Transportation Fund, and creating a Revolving Loan Fund for housing infrastructure development.

It is worth noting that the municipal respondents' proposals for increasing the supply of housing did not focus on infrastructure financing. Rather, their top suggestions included additional tax credits to improve the quality of rental housing, tax credits for the purchase and restoration of existing housing that needs major rehabilitation, and enhanced Act 250 benefits for projects located within state-designated areas.

The top suggestions from developers for increasing the supply of housing were enhanced Act 250 benefits for projects located within state-designated areas, increasing the number of communities eligible for Tax Increment Financing, increasing state bonding capacity, and offering developers impact fee rebates for new housing units. Developers also supported tax credits for the purchase and restoration of existing housing that needs major rehabilitation. Except for impact fee rebates, all of these ideas are included in the Steering Committee's recommendation in the next section of the report.

Through our meetings and the survey, we heard that state agency goals and development review can sometimes be inconsistent or undermine each other. These conflicts can delay approvals and result in missed opportunities to use limited staff resources efficiently and effectively.

Similarly, we heard from developers that local development review can be slow, unpredictable, and inconsistent. As with the state permitting process, this adds cost to development. Developers indicated that local appeals or the threat of appeal can delay or substantially reduce the number of units proposed in a housing development (although municipalities did not share that view).

Both developers and municipalities suggested that “improving the Act 250 benefits” for housing projects in designated development areas would create a positive effect on housing development by reducing the cost and time it takes to build housing in areas designated for growth. Developers noted that Vermont’s short building season makes delays especially costly. When that is combined with the narrow profit margins on affordable and workforce housing projects, the potential for delays associated with permitting can prevent projects from going forward. In a similar vein, developers and others commented that the cost to hire a licensed designer and complexity of the state and local water and wastewater permit process has discouraged smaller developers from creating new units in existing buildings.

Several recommendations to address these concerns about permitting-related costs and delays include expanding the Priority Housing Project Act 250 exemption, creating a single point of contact to coordinate and accelerate state permitting for large projects, and encouraging municipal control over water and wastewater permitting. Developers also noted that outdated local requirements (zoning bylaws) for more parking than is necessary, overly-wide streets, impact fees, and low densities add to the cost of development (in some cases several thousand dollars per housing unit) and result in underutilized land. On the flip side of the same issue, municipalities noted that there are too few resources to help them modernize their regulations. To address these concerns, the Steering Committee recommends creating model bylaws and linking new housing incentives to updates in local regulations.

Existing housing in and around many state-designated downtowns and villages is often in need of repair and would benefit from weatherization, energy efficiency upgrades and general modernization. Concentrated development in places with existing infrastructure is cost effective and it reduces long-term infrastructure maintenance costs. Towns and developers alike identified the existing Downtown and Village Center Tax Credits as highly effective implementation tool to create new housing opportunities in vacant or underused upper floors and increase Grand List values in communities.

Municipalities and property owners also cited the need for loans, grants and incentives to help small scale landlords re-invest in their rental properties; improving the safety, energy efficiency and general habitability of the housing stock.