

1990 ALLOCATION PLAN

FEDERAL LOW INCOME HOUSING TAX CREDIT PROGRAM

STATE OF VERMONT

Final

D R A F T

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Joint Committee on Tax Credits

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FEDERAL LOW INCOME HOUSING TAX CREDIT PROGRAM

INTRODUCTION

The purpose of this Allocation Plan is to identify the criteria under which specific housing developments will be selected to receive the \$531,562 in federal tax credits authorization in 1990. In accordance with the requirements of the Omnibus Budget Reconciliation Act of 1989 this Allocation Plan ensures that the selected developments will produce housing that helps to reduce the most pressing housing needs of the state. The housing needs of Vermont have been assessed and are highlighted in the attached Housing Needs Statement.

The Agency of Development and Community Affairs was designated the State Housing Credit Agency by Governor Madeleine M. Kunin in March, 1987. DCA has sole responsibility and authority for the Low Income Housing Tax Credit Program's policies including the establishment of the state's Allocation Plan as approved and signed by the Governor.

DCA works in partnership with the Vermont Housing Finance Agency and the Joint Committee on Tax Credits to administer this program. The VHFA is under contract with DCA to issue credits to specific projects in accordance with DCA's Allocation Plan. In addition, DCA established a Joint Committee on Tax Credits which is advisory to DCA. It's functions are to draft policies, recommend procedures, recommend target percentages for tax credit allocation, serve as a resource on specific projects, and conduct periodic review of the local issuer's (VHFA) performance.

The Joint Committee is comprised of the Commissioner of Housing and Community Affairs, the Executive Director of the VHFA, the Executive Director of the State Housing Authority, the Director of Planning, Office of Policy Research and Coordination, and one additional member representing housing interests appointed by the Secretary of DCA.

HISTORY

The original LIHTC program was established by Congress as part of the Tax Reform Act of 1986. It offered a 10 year federal income tax credit to owners of rental housing who made certain percentages of their rental housing available for occupancy by low-income residents for at least 15 years. This incentive for the development, acquisition and rehabilitation of low-income housing allowed owners, developers, and/or investors to reduce their federal tax liability in exchange for the provision of eligible low-income rental housing.

NEW LAW

The LIHTC program was originally set to expire on December 31, 1989, but was extended for one year by Congress as part of the Omnibus Budget Reconciliation Act of 1989. The 1989 law made numerous changes to the LIHTC program, including the requirement to create a "qualified allocation plan." Some of these changes are discussed in the VHFA LIHTC Application Form. Knowledge of and compliance with the LIHTC program is ultimately the responsibility of the applicant/taxpayer. The State's Allocation Plan must set forth selection criteria that must include:

- a. project location
- b. housing needs characteristics
- c. project characteristics
- d. sponsor characteristics
- e. participation of local tax-exempt organizations
- f. tenant populations with special housing needs, and
- g. public housing waiting lists.

In addition, the states must give preference among selected projects to those serving the lowest income tenants and to those serving qualified tenants for the longest period. States must also give the highest priority to projects where "the highest percentage of the housing credit dollar amount is to be used for project costs other than the cost of intermediaries..." Please note that Congress did not define the term intermediaries.

States may include such other criteria as they deem appropriate, and, except for the specified preference items, there are no requirements as to the relative weight of the various factors. As part of the review for each selected project, the chief executive officer of the particular local jurisdiction within which the project is located is to be provided "a reasonable opportunity" to comment on the proposed allocation.

Additional new VHFA LIHTC responsibilities mandated by Congress include:

- 1) Assurance that the amount of tax credits allocated does not exceed the amount "necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the credit period."

- 2) Evaluation of all projects for consistency with the Allocation Plan and for credit need, including situations when the project is financed using tax exempt bonds.
- 3) Negotiation of "an extended low-income housing commitment" for every project. This agreement must be recorded as a restrictive covenant binding all successor owners, and must allow low-income individuals the right to enforce the commitment in state court. The commitment must require continued low-income occupancy for all tax credit units for at least an additional 15 years beyond the initial 15-year compliance period. However the law provides owners an alternative to the 30-year compliance period by offering the property for sale to or through the Housing Credit Agency (i.e., DCA or its assignee) at a below-market price using a formula set forth in the law after the 14th year.

APPLICATION PROCESS

Application forms should be obtained from the Vermont Housing Finance Agency and may be submitted at any time in 1990. There will be three eligibility cut-off dates for receipt of completed applications. All completed applications received by those dates, plus any completed applications deferred by VHFA from a previous cycle, will be considered for the cumulative amount of tax credits that can be allocated or reserved by that time period. Applicants are encouraged to submit their LIHTC applications as early in the year as possible. The closing dates for applications for each eligibility time period are as follows:

Eligibility Period	Deadline for Receipt of Reservation Applications	Cumulative Maximum Portion of Credits <u>That Can Be Allocated</u> Or Reserved
1	June 22, 1990	60%
2	August 15, 1990	90%
3	October 1, 1990	100%

After the third cycle, credit allocations of reservations of the remaining amounts will be made monthly, if necessary.

The LIHTC program revisions enacted by Congress now permit VHFA to carry-forward unused 1990 tax credit allocation authority until December 31, 1991. Under exceptional circumstances, VHFA may issue a preliminary credit reservation to a developer subject to the applicant's meeting additional requirements and/or requests for information.

By law, a minimum of 10% of Vermont's credit cap must be reserved for developments sponsored by nonprofit organizations.

1990 ALLOCATION PLAN

1. THRESHOLD CRITERIA

VHFA is required by the new law to assure that each project that receives a tax credit allocation substantiates its viability and its optimal credit need. An application must meet the following basic qualifications:

- a. The development must meet the basic occupancy and rent restrictions of the law;
- b. The applicant must establish the need and demand (i.e. market feasibility) for the type and cost of housing which is being proposed;
- c. Detailed development cost projections and expected sources and terms of financing must be provided;
- d. Detailed income and expense projections must be provided for the full term of the rental commitment (i.e. 30 years).
- e. The VHFA LIHTC Application Form must be complete, including payment of all processing fees.

Please note that project financial statements reflecting actual costs and sources of funds for the completed project, as well as financing commitment letters, will need to be submitted for final review prior to issuance of the actual tax credit allocation (IRS Form 8609).

2. PRIMARY EVALUATION CRITERIA

The following two criteria apply to all projects passing the threshold test, and constitute the primary evaluation criteria.

- a. The highest priority must be given to projects where the highest percentage of the housing credit dollar amount is to be used for project costs other than the cost of intermediaries.
- b. Preference must be given among selected projects to proposals serving the lowest income tenants and to projects serving qualified tenants for the longest period.

3. SECONDARY EVALUATION CRITERIA

The following items shall constitute the secondary guidelines, whose implementation must be consistent with the primary guidelines cited above. These secondary guidelines specifically address the selection criteria required by Congress and listed on page one of this Allocation Plan.

- a. Applications will be evaluated on the experience and capability of the project team.

- b. There will be no particular priority locations within Vermont, as nearly all areas of the state have need for additional units of affordable housing. This policy decision is based on the attached LIHTC Needs Assessment, compiled by VHFA to comply with the requirements of the new law.

4. PRIORITY SCHEDULE

Projects which pass the threshold test and meet the primary and secondary evaluation criteria shall be ranked in the following order of priority:

- 1) Acquisition and rehabilitation of existing federally subsidized projects, where the preservation of affordable housing is at risk. Examples include Farmers Home 515, Section 8, Section 23, Section 236, Section 221(d)3, etc.:
 - marketability
 - length of contract
 - prepayment potential
 - current ownership
 - nature of financing
 - condition of project
- 2) New construction, or acquisition and rehabilitation projects by nonprofit corporations (i.e., tax-exempt organizations). This shall include situations where a nonprofit is one partner in a general or limited partnership, so long as long-term ownership shall revert back to a nonprofit by year 31 at the latest at a purchase price that assures continued affordability by the existing tenants.
- 3) Any project that concentrates on special needs populations, including homeless shelters, single room occupancy housing (SRO's), the mentally handicapped, the physically challenged or families currently on public housing (State or local) waiting lists.
- 4) Any project that effectively combines federal, state, and local housing resources.
- 5) New construction, or acquisition and rehabilitation projects by for-profit developers, including individuals, partnerships and corporations.

VHFA reserves the right, as permitted by the LIHTC regulations, to issue less than the maximum credit allocation otherwise supportable by the project's eligible basis.

5. CARRY-OVER AND VHFA REVISION OR REVOCATION OF RESERVATION CERTIFICATES

VHFA is authorized to offer carry-over allocations to certain projects which will not be placed in service by the end of 1990, so long as a minimum of 10%

of the total development cost (which may include land and other otherwise non-depreciable costs) has been expended by December 31, 1990.

With regard to Allocation Reservation Certificates, VHFA shall retain authority to revise or retract the Allocation Reservation Certificate at any time if it is judged unfeasible for the developer to meet the agreed upon placed-in-service dates, or if financial information provided by the applicant indicates, in the opinion of VHFA, that a lesser or greater amount of tax credit allocation is needed for project feasibility.

COMPLIANCE

The new LIHTC amendments give some continuing responsibility to VHFA for monitoring compliance of owners with the tax credit laws. In order to implement this responsibility, all LIHTC recipients will be required to execute and record a Restricted Housing Covenant (the Covenant). The Covenant must be approved by VHFA. The Covenant will, at a minimum, require conditions wherein the developer and the development must continuously comply with Section 42 and other applicable sections of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued thereunder.

For the purposes of determining compliance, VHFA will, at a minimum, require a current (i.e., updated annually) list of all qualified tenants, their monthly rent, utility allowances, gross income, and certification as to their eligibility. The developer's property manager must maintain copies of the latest income certification for each tenant either on site or at a Vermont property management office known to VHFA.

VHFA may perform spot audits at least once annually, but must have access to all books and records relating to an LIHTC project at any reasonable time. The specific requirements will be enumerated in the Restricted Housing Covenant.

VHFA must report any cases of noncompliance to the IRS unless the owner corrects the situation within 60 days of receipt of written notice from VHFA.

CLARIFICATIONS

VHFA is charged with issuing no more tax credits to any given development than is required to make that development economically feasible. This decision shall be made solely at the discretion of VHFA, but VHFA in no way represents or warrants to any sponsor, investor, lender or others that the project is in fact feasible or viable, either before or after the final allocation decision.

VHFA's review of documents submitted in connection with this allocation is for its own purposes. DCA and VHFA make no representations to the owner or anyone else as to compliance with the Internal Revenue Code, Treasury regulations, or any other laws or regulations governing the LIHTC program.

No member, officer, agent or employee of DCA or VHFA shall be personally liable concerning any matters arising out of, or in relation to, the allocation and issuance of the LIHTC.

Please note that VHFA is under no obligation to necessarily reserve or allocate any part of Vermont's 1990 LIHTC allocation in 1990. The new law allows VHFA to carry-forward unused 1990 tax credit authority until December 31, 1991.

It is required that the housing credit dollar amount issued to a development shall not exceed the amount the issuing agency determines is necessary. In conjunction with establishing this, it is VHFA's prerogative to determine if a development is likely to be successful, (overall financially feasible) hence serving the population that the tax credits were created to serve. If this determination cannot be made, tax credits shall not be issued to the sponsor.

VERMONT HOUSING NEEDS ASSESSMENT REPORT

In 1989 Congress enacted changes to the Low Income Housing Tax Credit (LIHTC) program which require development of a statewide Allocation Plan. Designed to effectively serve state and local housing needs in Vermont, the 1990 LIHTC Allocation Plan was developed by the Agency of Development and Community Affairs utilizing the Housing Needs Assessment Report contained in this paper. Vermont's housing need through 1995 has been comprehensively analyzed in a study conducted by Applied Economic Research (AER). The data and conclusions from the AER study, titled "Vermont Housing Needs Analysis," combined with additional information as available, formed the basis for the development of VHFA's Housing Needs Assessment Report and ultimately the LIHTC Allocation Plan.

The AER study was commissioned by the Vermont Housing Finance Agency, the Vermont State Housing Authority, and the Department of Housing and Community Affairs. Completed in November 1986, the study focused on three major components of housing need: affordability, availability, and quality. The evaluation of housing need through 1995 identified the distribution and severity of housing need in the state's market areas.

The data and conclusions from the AER study, and other data pertinent to the LIHTC allocation plan, are summarized in the pages that follow.

AER SUMMARY FINDINGS

- The state needs to produce new housing units at the current level of production (approximately 3,800 units per year) for the coming decade to satisfy minimum household demand projected by population growth forecasts.
- To fully address the state's need for low and moderate income housing units in the form of either development of low-cost inventory or providing rental assistance to needy households, would require assistance to 2,000 additional households annually. This need vastly exceeds available resources.
- With dwindling federal aid and very limited state appropriations supporting housing-related assistance, the state will face a housing crisis which will continue to worsen even as economic conditions improve.
- Between 1985 and 1995, at least 7,000 additional rental housing units will be needed in Vermont, under very conservative growth assumptions. Approximately one-third of this demand will be oriented toward elderly households. Principal centers of demand appear to be in the Burlington and Barre-Montpelier areas.

The table below illustrates the estimated minimum levels of housing production needed to keep pace with household growth, adjusted for estimated pent-up demand calculated from 1980 vacancy rates.

Additional Rental Housing Units Needed

<u>Market Area</u>	<u>1985-1995</u>
St. Albans	260
Newport	290
Burlington	2,400
Morrisville	360
St. Johnsbury	340
Barre-Montpelier	870
Middlebury	270
Rutland	570
White River Junction	600
Springfield	490
Bennington	500
Brattleboro	500
TOTAL	7,450

The state's principal housing problems call for increased self-reliance in meeting the challenge of providing affordable housing. Even under the very favorable financing conditions prevailing today, overall housing production seems to be lagging behind demand in some parts of the state. The principal challenges to the state in addressing future housing needs will include:

- Encouraging community acceptance of affordable family housing and mobile homes;
- Providing adequate welfare shelter allowances;
- Increasing the supply of developable land for affordable housing close to centers of housing demand through regulatory change or infrastructure expansion;
- Providing maximum access to least-cost housing through:
 - stimulating the move-up ownership market;
 - preserving and improving the older housing stock;
 - sponsoring programs creating housing opportunities for moderate-income households;
 - supporting non-profit development of needed low to moderate-income housing, especially in the rental market;
 - assuring against the losses of the limited existing resource of older, low-income subsidized rental housing;
 - providing new market rental housing opportunities for moderate-income elderly households.

Vermont needs to integrate its housing, economic development planning, and resource distribution efforts. The availability and affordability of housing are essential elements in sustaining needed labor pools for economic growth.

The sheer number of households in need of housing assistance defines a serious economic burden for a significant proportion of the Vermont population. Declining federal support for housing programs will only enlarge this problem even further.

Creating public-private partnerships to provide for an adequate inventory of housing which responds to changing demographic demand is an important part of an overall strategy to address Vermont's housing needs.

AER STUDY METHODOLOGY

Substantial efforts were made by Applied Economic Research to use highly detailed but unpublished U.S. Census information relating to income need by income level, age, household size and housing tenure. It should be noted, however, that data are based on the most recent Decennial Census compiled by the federal government in 1980. The U.S. Census of Population and Housing is the only available source for many of these data items, which unfortunately will not be updated until the 1990 census figures become available.

It was felt that the most appropriate sub-state level to examine the state's housing need was at the labor market area level given the relationship between employment and the need for appropriate and affordable housing within a reasonable distance to the workplace. A labor market area is an area with a central community with economic interaction to an outlying area within which workers can generally change jobs without changing their residence. The labor market area thus approximates a housing market given that there is an internal working-living relationship between households and their employment destinations. The 12 labor market areas as defined for the AER study are outlined on the state map attached as Appendix 1.

The results of this study should not be used as a substitute for local housing market analysis oriented toward a particular product. This analysis was undertaken at the labor market area level to relate results to market areas representing a reasonable commuting distance from central work places. Numerous market factors occurring at the local and even regional level may not be apparent at this level of analysis.

FINDINGS OF FACT: STATEWIDE HOUSING MARKET

Rental Housing

- In 1980, Vermont renter households represented 31 percent of the state's households.
- Of the state's occupied rental units, 29 percent were in single family detached residences, only four percent of the state's renter households resided in mobile home units.
- Nearly 23,000 renter households in Vermont had a housing problem relating to affordability or substandard or overcrowded conditions, according to the 1980 Census; this represents 41 percent of all renters in the state of Vermont. Of the renter households with housing problems, 76 percent are under the age of 62 (non-elderly).
- The average two bedroom rent in the Burlington market is almost 30 percent higher than the statewide average; however, the distribution of renter household incomes in the Burlington market area is quite similar to that of the rest of the state.
- Of the twelve market areas in Vermont, the Morrisville labor market area in 1980 had the highest percentage of low income renters with a census-defined housing problem; the Barre-Montpelier area had the lowest percent of its renters in that category.
- In the St. Albans, Newport, Springfield and St. Johnsbury markets, a relatively high proportion of renter households having a housing problem are concentrated in larger households.
- Housing distress rankings suggest that housing distress among renters is the highest in Burlington and lowest in the Newport labor market area.

Current (1989) median rent cost figures have recently been compiled by the Vermont State Housing Authority in their publication "Characteristics of Vermont Rental Housing, Costs and Amenities in 1989." A summary of these data by county are provided as Appendix 2. Statewide, the median gross rent (including utilities) for a two bedroom unit was \$547 in 1989. That is an average annual increase of 8.4 percent since 1987. Statewide data on rent increases are provided as Appendix 3.

SPECIAL POPULATIONS

Female-Headed Households: In 1980 there were just over 9,300 households in Vermont headed by a female and having dependent children under the age of 18 residing with her. These households are at a substantial disadvantage in the housing market as the combined pressure of housing cost, child care expense and access to employment opportunities compound their difficulties.

Elderly: Approximately one-third of the demand for additional rental units over the next decade will come from the elderly population.

Publicly Assisted Units: The longevity of existing subsidized housing resources is not guaranteed indefinitely. Since 1980 rule changes have increased the tenant percent of income payment toward rent from 25 percent of income to 30 percent. At the same time eligibility income for new tenants in subsidized housing has been drastically reduced from a threshold level of 80 percent of median households income to 50 percent of median income. Housing units subsidized under older mortgage commitments such as through the FmHA 515 Program and HUD Section 236 are among those which may become subject to sale and conversion in the future. Over one half of the 1,300 FmHA 515 units built in Vermont, and nearly 600 Section 236 units, are not subject to mortgage pre-payment restrictions. Thus, a large portion of older publicly assisted rental units may be vulnerable to loss, depending upon market conditions, at a time when new rent-assisted inventory allocations are drying up.

Overall housing need for low to moderate-income housing and market opportunities are discussed below.

DEEP SUBSIDY HOUSING

Elderly: Assisted Rentals: Housing receiving a "deep subsidy" is generally that which allows low-income renter households to pay only 25 to 30 percent of household income toward an established rent, with the balance made up by a subsidy payment. Among renters, the principal problem identified statewide has been that of overpayment for rental housing, though overcrowding and substandard conditions remain problems.

In the table presented as Appendix 4, the distribution of elderly renter housing needs as of 1980 is contrasted to the distribution of assisted elderly units in the state. In 1980, Vermont had just under 5,300 elderly (age 62 and over) renter households meeting the "selected condition" criteria of the 1980 Census. That is, they either overpaid for their rental housing (30 percent or more of income), or were living in sub-standard or overcrowded conditions. While elderly homeowners as well may be in need of rental housing, the distribution of "high need" elderly households as defined above defines the distribution of those with critical housing needs.

It should be noted that many of the units assisted and in place were established prior to 1980. Therefore, the direct comparison between assisted units and 1980 need understates the total gap between need and supply. This occurs because the bulk of the need figure reports households spending 30 percent or more of their income on rent as of 1980. As of that year, any elderly households already receiving deep subsidy assistance would not be paying 30 percent or more of their income to rent, and though would not have been counted as part of the need figure. Nevertheless, the comparison of the distribution of units versus need is appropriate. Even measured in terms of 1980 needs, need exceeds supply by over 800 units in Vermont. Centers of relative remaining need are in Rutland, White River Junction, St. Johnsbury and Newport market areas.

Families: Assisted Rentals: A similar analysis of family rental needs, incorporating a need figure of non-elderly households under the age of 62 with selected housing conditions as of 1980, as compared with the supply estimated as described above, showed an unmet need of 13,500 family renter households. The vast majority of need for low-income rental assistance rests in the non-elderly age category. While 76 percent of the 1980 renter need is located within non-elderly households, only 45 percent of the assistance distributed has been to non-elderly households. The Burlington market area alone represents nearly one-third of the unmet need by the measures presented in the lower table presented in Appendix 4.

The percentages shown, which illustrate the distribution of the "need gap" for elderly or family assistance, offer one possible guide to the distribution of incoming deep subsidy resources. It should be noted, however, that program rules have changed since the 1980 Census. Households in many deep subsidy programs must now pay 30 percent of income rather than the former 25 percent of income to rent; new households entering deep subsidy housing must meet new eligibility criteria, now set at 50 percent of area median income compared to a former 80 percent of median area income under the older programs. This would also cause possible change in the ability to market low-income units simply because the definition has changed in a way which substantially reduces the number of eligible households. The map in Appendix 5 illustrates the distribution of assisted housing in Vermont.

MARKET OPPORTUNITIES ANALYSIS

The table presented in Appendix 6 contains a summary profile of the market potential for selected program areas. This table illustrates AER's best estimate of the practical level of the market potential to absorb a given number of units in certain programs on an annualized basis. The numbers are best used to estimate the feasibility of undertaking certain program directions in various parts of the state, and to help the agencies estimate the proportional distribution of program demand. Especially in the case of developing moderate-income programs, overall effective demand for a particular program is more important than a distributional goal estimated on percentage terms.

Low Income Renters: As has already been documented, there is more than ample demand for continued deep subsidy to low income renters. The table presented in Appendix 6 considers the demand of current housing condition to illustrate the distribution of low income households which pay an excessive proportion of their income to rent. If the sole criterion of assistance is overpayment for rent, the distribution shown in the table represents the appropriate proportional allocation. Needs vastly exceed available resources for subsidized construction or payment assistance to households.

Moderate Income Rental: FmHA 515: The Farmers Home Administration 515 program offers to for-profit and non-profit developers a long-term below market interest rate mortgage to generate new rental units of moderate market rents. These units are generally beyond the reach of those households which qualify for deep subsidy housing.

Again, the numbers shown are best used as distributional parameters as well as a guide to effective project size for certain market areas. For example, developers would generally need a market for at least 20-30 units to allow them to go ahead with a cost effective project. In smaller market areas, it may be possible to do small, scattered site projects using rehabilitation or new construction. Given these affordable rentals, a total market for 1,050 units might be absorbed in a year.

60/40 VHFA Mixed Income Rentals: State housing finance agencies have the potential to issue mortgage revenue bonds for mixed income projects in which 40 percent of the tenants are low to moderate income. 60 percent or less of occupancy may be to households with incomes capable of supporting somewhat higher rents to, in effect, internally subsidize the project to allow lower income tenancy. While there are numerous other market considerations in approaching such a project, the market area must have the potential for relatively high rent projects and have an adequate number of households with sufficient income and willingness to pay these market rents.

Overall, the most obvious market potential for this type of program exists within Burlington with other potential for this type of program being seen in the Barre-Montpelier, Rutland and Bennington market areas. Small projects could be supported in the other market areas, but VHFA would have to consider the cost effectiveness of issuing bonds for the small projects. The 60/40 program potential exists for both new construction as well as for substantial rehabilitation. Small projects for the elderly under a 60/40 financing package should also be considered in these markets.

CHANGING NEEDS

On a statewide basis, Vermont's housing agencies should be cognizant of the age shifts in the Vermont household distribution. The graph presented as Appendix 7 illustrates the dominance of the 35-44 year old and 45-54 year old groups during the 1985-1995 decade. Appendix 8 shows the housing tenure (owner versus renter) shares of future growth, assuming that 1980 proportions of ownership and rental, by age of household, remain constant. The trends indicated call for increased attention to market opportunities in the elderly, moderate-income rental markets, and working with non-profit developers to supply needed rental units for elderly and non-elderly markets, given changing tax laws and relative levels of demand.

RESOURCE ALLOCATION

Substantial federal cutbacks in housing assistance programs, a new federal tax reform package having substantial implications for housing development, and the problems and opportunities represented by a rapid increase in home prices and sales are among the issues of special concern to Vermont's housing agencies in responding to the shelter needs of Vermont citizens.

In the past, housing production programs were funded at significantly higher levels than they are today for low- to moderate-income households. Therefore, significant attention was paid to the distribution of resources related to housing need. In reality, despite the best theoretical allocation basis, production takes place at the

local level and while development of assisted housing has responded to market concerns, it also tends to follow the path of least resistance.

For example, significantly greater numbers of housing units have been built in recent programs for the purpose of housing for the elderly than for families, even though need among non-elderly households represents three quarters of the housing problem. Developers could ill afford to have costly delays in project approval take place when in competition for limited funding. Therefore, "housing for the elderly" may be proposed to reduce local fears of fiscal impacts, and thus improve the likelihood of success in the local approval process.

Allocation of assisted housing units may therefore not be matched to local or regional demand. For example, if an area had a high need for rental assistance to larger families with children, the construction of one or even two-bedroom apartments would be inappropriate to its actual needs, but more expedient and practical from the developer's viewpoint.

MARKET AREA INFORMATION

St. Albans Market Area: The St. Albans area has a relatively low average rent. 39 percent of the assisted rental units are for families, 61 percent for the elderly. The St. Albans area ranks number one among the state's market area as to the proportion of its renters who are in larger households, of lower income, having an affordability or structural housing problem. The area is receiving spillover growth from the Greater Burlington area thus influencing market area housing development, and is likely to feel increasing growth pressure in the future. The area currently has a limited sewage treatment capacity to accommodate future growth and the developable land supply is further limited by extensive prime agricultural land.

A report titled "Raising the Roof, The Search for Affordable Housing in Franklin and Grand Isle Counties," prepared in October 1989 under the supervision of the Franklin-Grand Isle Housing Advisory Committee, provides additional information on housing in these counties. The study assesses the type and quality of affordable housing opportunities needed for the 1990s, and provides strategies for encouraging the availability of affordable housing in Franklin and Grand Isle Counties.

Newport Market Area: The Newport area has some of the lowest rents in the state of Vermont and is estimated to be on a par with the Morrisville and St. Johnsbury markets. Consequently, since renter housing problems are principally those of affordability, it ranks 11th in proportion of renters who have a housing problem. It has a similar rank as to the percent of low income renters with overpayment problems. However, a relatively high percent of Newport area renters are larger low-income renter households. 60 percent of assisted rental units are for the elderly. While quality and condition of housing are the leading housing issues of the area, housing production does not appear to be keeping pace with the minimum number of units which would be needed even under the state's "low growth" population projections.

Burlington Market Area: Burlington is the state's economic growth center, and its market area characteristics differentiate it substantially from the balance of the state. While the Burlington area has the state's highest incomes, the distribution of renter household income is very similar to the rest of the state. Given rents which are 25 percent higher than the statewide average, the Burlington area renter faces severe affordability problems. The percentage of renters with a housing problem is significantly higher in the Burlington market area than it is in the balance of the state, where the problem level is more uniform. 52 percent of rent-assisted units were families, and 48 percent for the elderly.

The Burlington area has had substantial employment and housing growth in the past, but faces a lack of developable land within the city to expand its housing stock. Due to economic pressure, it is difficult to find rental housing sites within or outside the city in this market area which provide an opportunity to build within allowable costs which would provide housing units affordable to area renters. These economic and growth pressures, couple with a severe rental housing problem, mean that fair share distribution of multi-family rental units is a more pressing issue for this market area than it is for the rest of the state, as an inadequate supply of affordable rental housing is its principal problem.

For more comprehensive housing and economic information on Burlington and Chittenden County, the reader is advised to consult the publication "A Planning Guide, Housing the Workforce" prepared by the Chittenden Affordable Housing Committee. This publication includes information on population, wages and the housing market in Chittenden County, identifies the barriers that limit the development of affordable housing and lists strategies and resources to help municipalities create modest-priced housing.

Morrisville Market Area: Rents in the Morrisville area are comparable to those in the Newport and St. Johnsbury markets, which represent the lowest rents in Vermont. The percent of renters having a housing problem in the Morrisville area is about comparable to the statewide average, but the area ranked first in the state with respect to the percent of area renters having low incomes and high housing costs. 70 percent of rent-assisted units in the area are for the elderly.

St. Johnsbury Market Area: This area has been characterized by relatively high unemployment and low employment growth. St. Johnsbury rents are among the lowest in the state and the percent of renters having a housing problem is below the state average. This area also ranks at the state average in terms of the percent of its renter households who are low income and who overpay for their housing. It ranks fourth, however, in terms of the percent of its renters who are in large low income households with a housing problem. Both the statistical information and the interviews conducted suggest that the principal housing problems of this area are related to quality and condition rather than those of affordability. There is little, if any, exterior demand push from adjacent markets which would place additional pressure on rent from outside the market area, due to relatively low regional employment growth.

Barre-Montpelier Market Area: We expect that the area will be experiencing new market pressures emanating from the Greater Burlington market area's growth overflow. Expansion of the state office complex in Waterbury has already significantly increased that town's housing cost profiles. Proposed commercial expansion as well as local employment growth are expected to generate internal and external market pressure in the Montpelier area. This could mean rising rents. Rents in the Barre-Montpelier area are above the state average; however, the percentage of renters having a housing problem is significantly below the state average.

This market area ranks 12th on two need measures: the percent of its renters who have low incomes and high costs and the proportion of its renters which are large, low income renter households with a housing problem. The area appears to be producing less housing than it will need even under conservative population projections. In addition, external market pressure may be increasing from the Burlington area's growth. The area has difficulty converting large parcels of land into developable parcels due to the high cost of utility extensions and severe terrain. The need for family rental housing was judged to be acute by area participants in regional meetings, while the subsidized housing for the elderly located in Barre is now showing vacancies. There may, however, still be a good moderate income elderly market for conventional rental housing products.

Middlebury Market Area: Area rents are at approximately the statewide average, but the percentage of area renters having a housing problem is lower in Middlebury than all of the other labor market areas of Vermont. Middlebury ranks below the statewide average with regard to the percentage of low income households with a housing problems. The Middlebury area has a high concentration of active agricultural lands. This may limit overflow development from the Rutland and Burlington markets which might otherwise be attracted to the area by its lower prices. It appears that a relatively low percent of renters overall have a housing problem.

More comprehensive information on Middlebury and Addison County may be found in the publication "Present and Future Housing Needs in Addison County, Vermont, April 1989" prepared by the Addison County Regional Planning and Development Commission. This study documents local and regional demographics, describes household characteristics, and provides estimates of housing needs.

Rutland Market Area: Rents in the Rutland area are estimated at just below the statewide average, and the percent of area renters having a housing problem is somewhat below the state mean. In addition, Rutland ranks low among the state's market areas in its percent of low income renters having high housing costs and in the percentage of large renter households with a housing problem. The market area has demonstrated an elderly/retirement market at both low and moderate income levels for rental and homeownership. However, there continues to be a very high need for family housing; the area has had relatively high allocations for

assisted elderly housing in the past. The area needs transitional housing for the developmentally disabled and the mentally ill according to local respondents. The urban center of Rutland also has a capacity growth constraint related to availability of sewage treatment capacity to handle new growth.

White River Junction Market Area: The market area ranks second in the state in terms of the cost of housing relative to renter incomes needed for that housing. This border market to New Hampshire is influenced by New Hampshire employment growth as well as by increases on the Vermont side of the border. Rent levels in the White River area are estimated at just above the statewide average, while the percentage of renters having a housing problem is comparable to a number of market areas and is just below the statewide average. Low income renters with high housing costs represent a proportion of renter households in the market area only slightly greater than that of the state overall. Large, low income renter households with a housing problem represent a lower share of housing need than in the state at large.

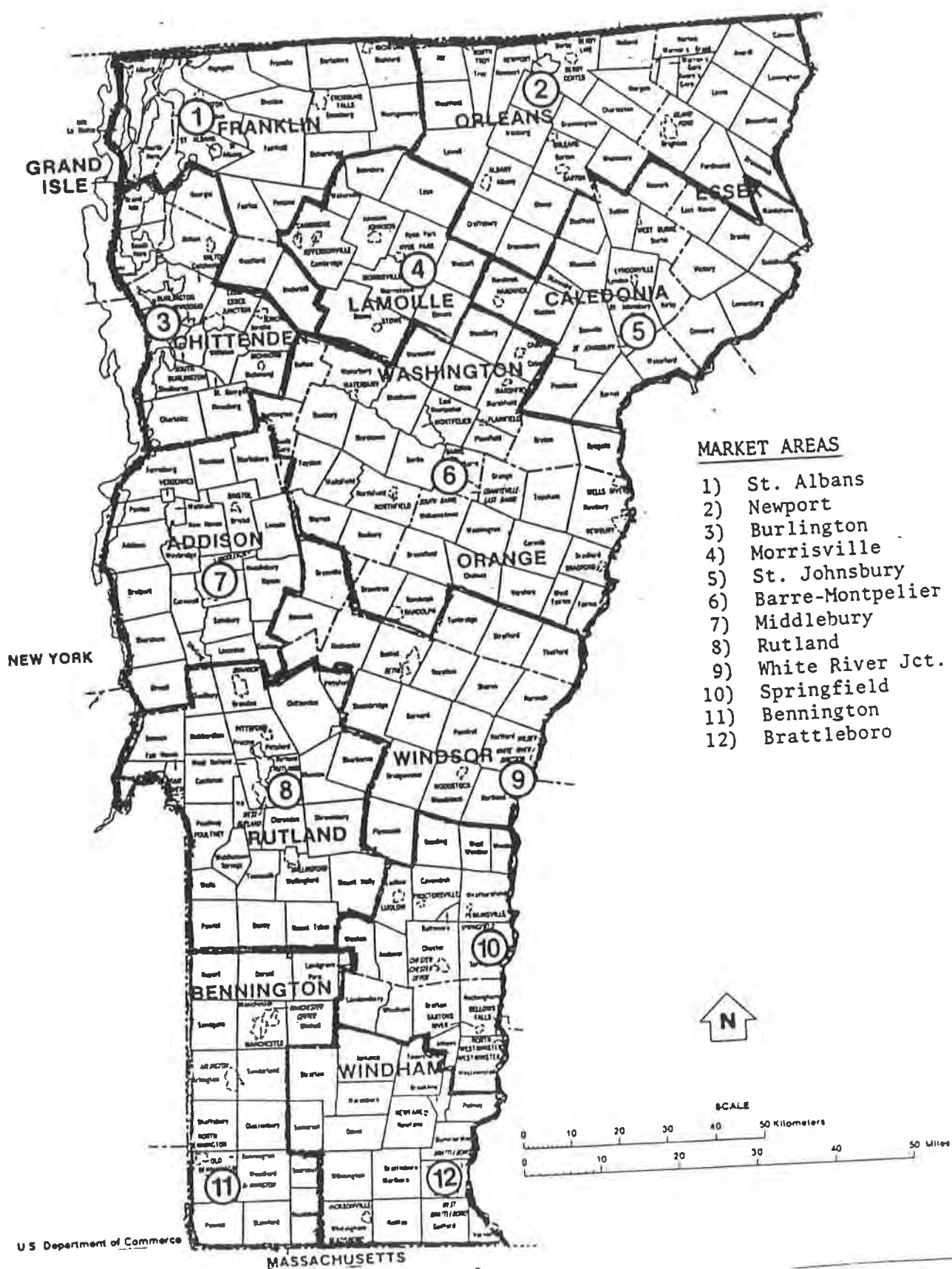
Much of the area's rental needs may be masked by the fact that the available rental stock is scattered in only a few towns within the region and widely dispersed as to cost and quality. Significant rental market pressure is now being felt from expanding employment in the region, mostly among non-professional workers. Pockets of very high rent occur within this large market area of typically low rents. There has been a relatively slow construction response to market demand as land availability in the area is limited by severe topography and by some reluctance to subdivide and sell by land owners who have held property for some time and who are reluctant to enter the Act 250 process. With growing regional demand, rents may be increasing beyond the means of local households.

Springfield Market Area: Both recent housing growth and recent employment growth have been extremely low. The market area appears to be operating below needed levels of housing production even under the low series population projections of the state. The lack of production is probably related to the uncertainty present in unemployment fluctuations and the lack of long-term employment growth. Estimated rents are below the statewide average, and Springfield ranks along with other market areas having just under 40 percent of its renters with a housing problem (slightly below the state average). The proportion of low income renters who have high housing costs is fifth highest in the Springfield area, but not significantly greater than the statewide average. It does, however, rank third in the state in terms of the percentage of area renters who are in large households and have housing problems. In addition to having renter housing problems concentrated in larger households, the area also shows a very high income disparity between female-headed households with children and total households in the area. Of total housing need, a relatively high percentage is related to elderly need, even though overall need is still dominated by family households. The area has good potential for expansion of the housing supply, with a relatively high percent of sewage treatment capacity uncommitted.

Bennington Market Area: AER, Inc. surveys indicated that Bennington has the second highest rents in the state after the Burlington market area; it ranks comparably with a number of other market areas and below the state average with respect to the percent of renters with a housing problem. A relatively low percent of the area's renters have low incomes and high housing costs and a relatively small proportion of its housing needs center on large low income renter households. Market area growth has been relatively slow but steady.

Readers may wish to refer to the "Bennington Housing Survey" report, prepared in 1988 by Rural Enterprise Development Associates (Concord, New Hampshire). This study covers economic characteristics, housing condition and affordability, housing demand, and affordable housing strategies.

Brattleboro Market Area: Brattleboro appears to be a supply-constrained market. The town of Brattleboro has ample sewage treatment capacity, but an inadequate supply of available, developable land. While rents are not among the highest in Vermont and in fact are somewhat below the state average, the Brattleboro area ranks second only to Burlington in the percent of area renters having a housing problem. Extreme affordability problems are therefore suggested. This is a tight housing market with demand exceeding supply for both ownership and rental units. While the economy has remained relatively stable, most employment growth has been in jobs of a very low wage scale. While ample water and sewer capacity exists in Brattleboro town, a developable land resource is scarce due to soil characteristics, topography and price agricultural land designation.



1989 VERMONT MEDIAN GROSS RENTS FOR 2 BEDROOM UNITS, BY COUNTY
(Gross rent includes utilities)

Source: Vermont State Housing Authority,
"Characteristics of VERMONT RENTAL HOUSING
Costs and Amenities in 1989"

VERMONT \$547 MEDIAN GROSS RENT - 2 Bedroom Units

ADDISON	\$ 502
BENNINGTON	\$ 567
CALEDONIA	\$ 427
CHITTENDEN	\$ 615
BURLINGTON MSA*	\$ 612
ESSEX	\$ 419
FRANKLIN	\$ 471
GRAND ISLE	\$ 635
LAMOILLE	\$ 580
ORANGE	\$ 501
ORLEANS	\$ 372
RUTLAND	\$ 542
WASHINGTON	\$ 509
WINDHAM	\$ 532
WINDSOR	\$ 612

* Towns within Burlington MSA

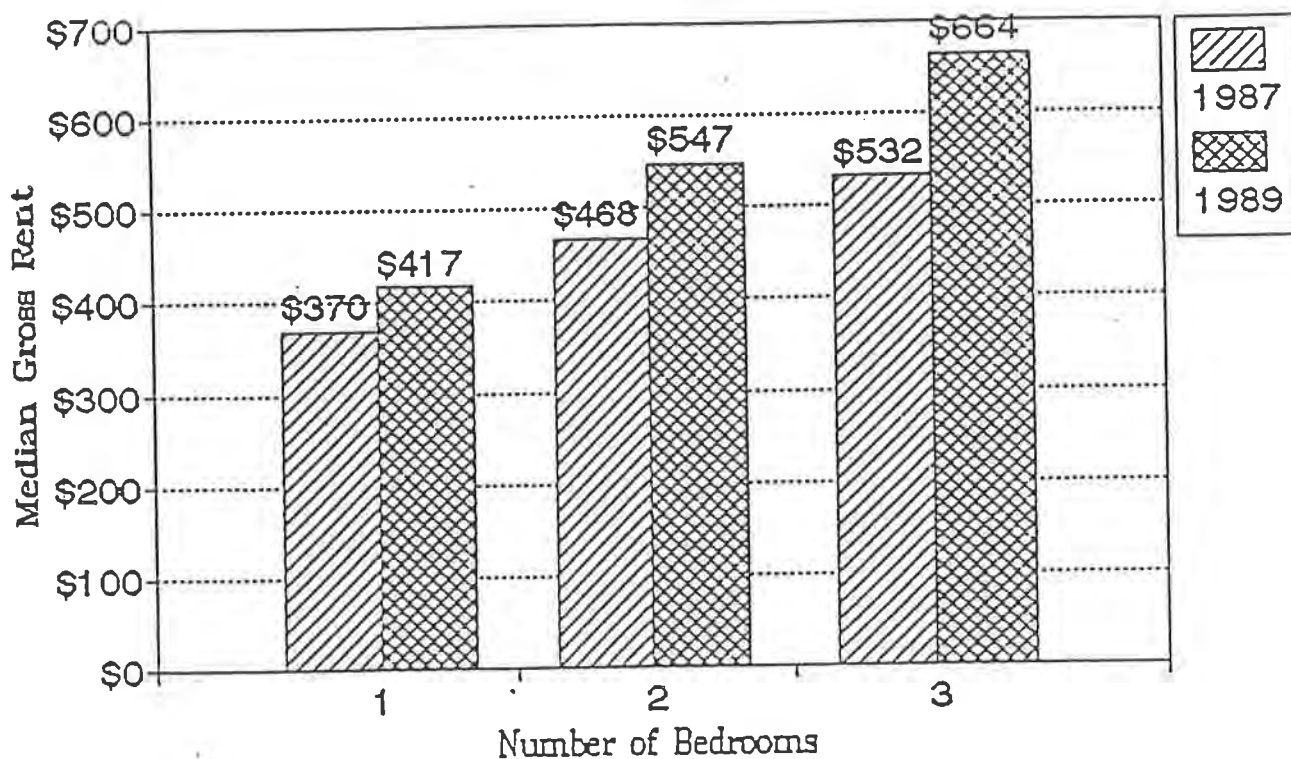
Chittenden County:

Burlington
Charlotte
Colchester
Essex
Hinesburg
Jericho
Milton
Richmond
St. George
Shelburne
South Burlington
Williston
Winooski

Franklin County:
Georgia

Grand Isle County:
South Hero
Grand Isle.

Change in Median Gross Rents for Vermont



Number of Bedrooms	Median Gross Rent Statewide	
	1987	1989
0	unk	362
1	370	417
2	468	547
3	532	664

Source: Vermont State Housing Authority,
 "Characteristics of VERMONT RENTAL HOUSING
 Costs and Amenities in 1989"

DISTRIBUTION OF NEED VS ASSISTANCE:
ELDERLY HOUSEHOLDS (AGE 62+)

RENTER

MARKET AREA	Elderly 1980 Need	Percent of 1980 Need	Elderly Assisted Units	Percent of Units Assisted	Need Gap	Percent Need Gap Distribution
ST ALBANS	354	6.68	340	7.48	14	1.69
NEWPORT	328	6.19	221	4.87	107	12.87
BURLINGTON	974	18.39	1016	22.36	0	.00
MORRISVILLE	178	3.36	142	3.13	36	4.35
ST JOHNSBURY	380	7.18	238	5.23	142	17.20
BARRE-MONTPELIER	738	13.94	772	16.99	0	.00
MIDDLEBURY	160	3.02	120	2.64	40	4.83
RUTLAND	707	13.35	506	11.14	201	24.28
WHITE RIVER JCT	337	6.36	157	3.46	180	21.69
SPRINGFIELD	444	8.38	434	9.54	10	1.25
BENNINGTON	357	6.74	298	6.56	59	7.13
BRATTLEBORO	339	6.40	300	6.60	39	4.71
STATE OF VERMONT	5296	100.00	4544	100.00	828	100.00

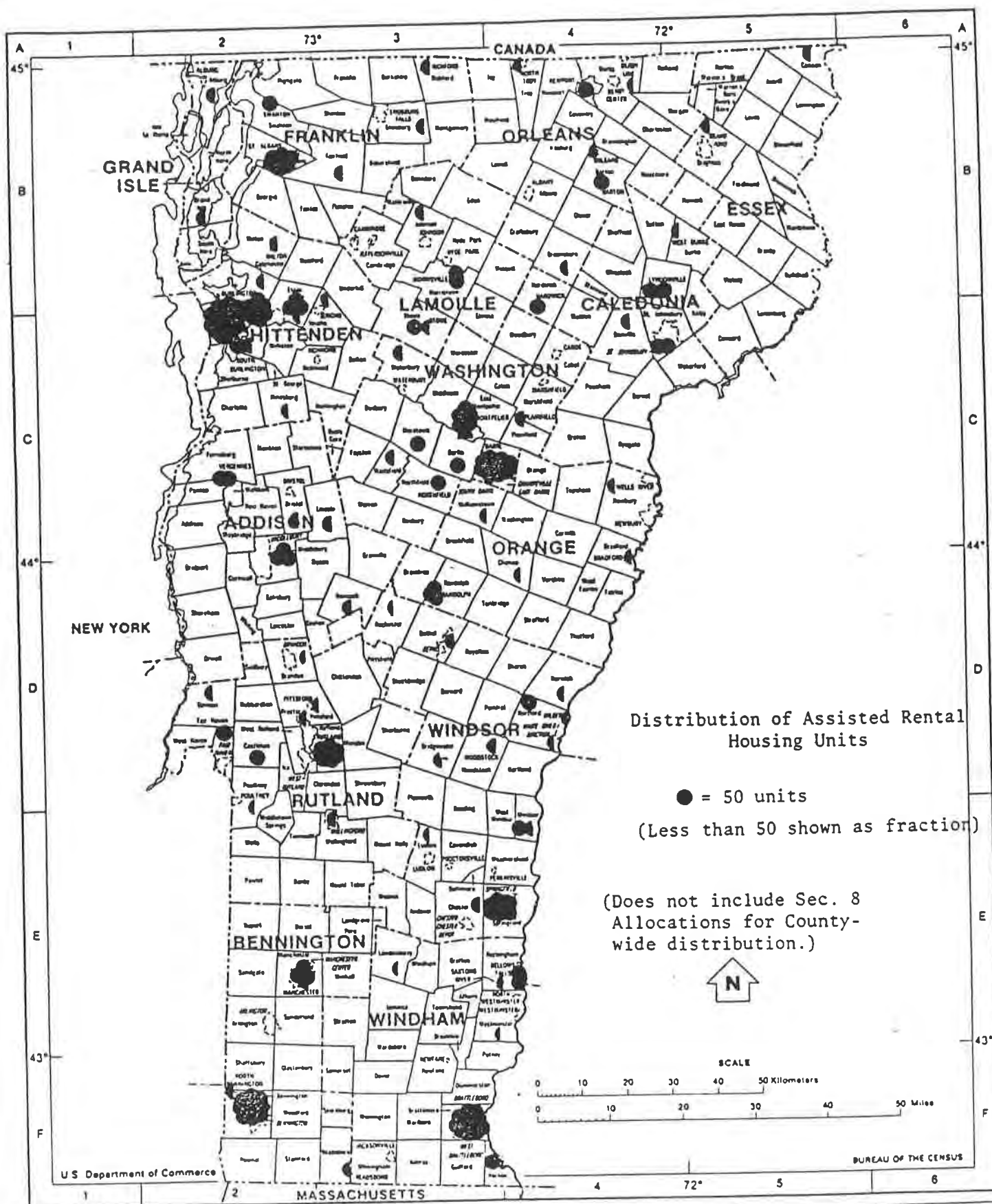
DISTRIBUTION OF NEED VS ASSISTANCE:
NON-ELDERLY (FAMILY) HOUSEHOLDS (UNDER 62)

MARKET AREA	Family 1980 Need	Percent of 1980 Need	Family Assisted Units	Percent of Units Assisted	Need Gap	Percent Need Gap Distribution
ST ALBANS	995	5.75	216	5.69	779	5.77
NEWPORT	629	3.63	147	3.86	482	3.57
BURLINGTON	5479	31.66	1090	28.71	4389	32.49
MORRISVILLE	548	3.17	60	1.58	488	3.61
ST JOHNSBURY	839	4.85	168	4.43	671	4.97
BARRE-MONTPELIER	1958	11.32	618	16.28	1340	9.92
MIDDLEBURY	635	3.67	95	2.50	540	4.00
RUTLAND	1845	10.66	302	7.96	1543	11.42
WHITE RIVER JCT	1209	6.99	150	3.95	1059	7.84
SPRINGFIELD	942	5.44	347	9.14	595	4.40
BENNINGTON	1053	6.09	302	7.96	751	5.56
BRATTLEBORO	1172	6.77	301	7.93	871	6.45
STATE OF VERMONT	17304	100.00	3796	100.00	13508	100.00

Source: Need basis: 1980 Census, STF 4, Renter
Households with "Selected
Conditions." Assisted units
from VSHA, 1983, plus Section 8
Existing units distribution 1985

applied
economic
research

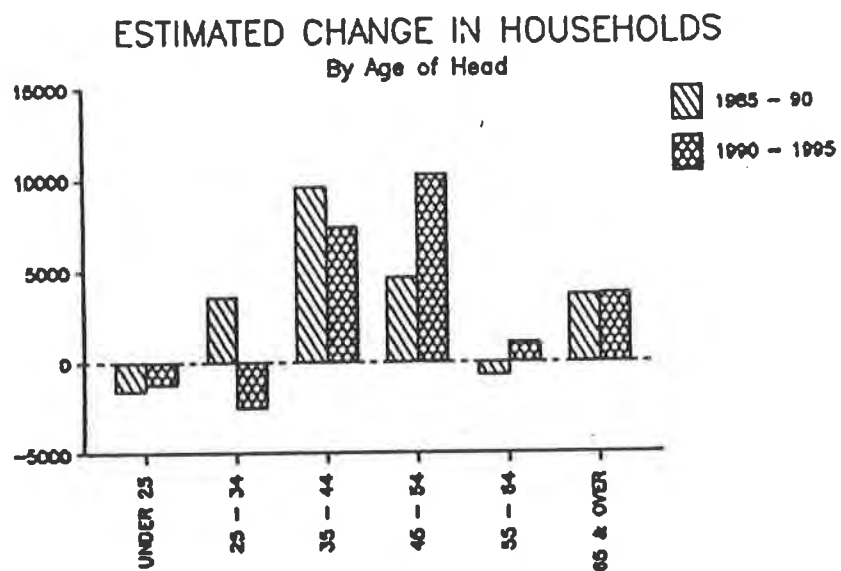
aer



MARKET OPPORTUNITIES & ESTIMATES OF MARKET POTENTIAL FOR SELECTED PROGRAM AREAS

	FIRST TIME BUYERS	MOVE-UP BUYERS	LOW INCOME RENTERS	MODERATE INCOME RENTAL NEEDS @ FmHA 515 RENTS	UPPER INCOME RENTERS	COMMUNITY CARE & CONGREGATE		
	Lower Income (FmHA 502)	Mod. Income (VHFA)	Mod. Income (VHFA)	Non- Elderly	Elderly	Total	80-20 VHFA High Rent Potential	Elderly Unmet Needs
MARKET AREA								
St. Albans	60	50	40	300	40	30	70	70
Newport	40	40	40	200	20	20	40	90
Burlington	300	160	70	1,500	330	20	350	230
Morrisville	30	30	40	200	10	10	20	45
St. Johnsbury	50	40	30	300	20	10	30	145
Barre-								
Montpelier	110	110	70	600	100	40	140	5
Middlebury	40	40	30	200	30	10	40	85
Rutland	110	90	50	600	90	30	120	130
Wht. River								
Jct.	70	60	40	350	60	10	70	240
Springfield	60	50	30	350	30	10	40	105
Bennington	60	60	40	300	50	20	70	130
Brattleboro	70	50	20	350	50	10	60	145
State of Vermont	1,000	780	500	5,250	830	220	1,050	1,420

With
Housing
Cost @
35% of
Income



STATE OF VERMONT

Source: Housing In Vermont - 1983 &
Applied Economic Research, Inc.

STATE OF VERMONT
HOUSEHOLD CHANGE AND TENURE SHIFT

<u>Period</u>	<u>HOUSEHOLD CHANGE</u>			<u>Owner Share of Growth</u>	<u>Average Annual Household Increase</u>
	<u>Owner</u>	<u>Renter</u>	<u>Total</u>		
1970 - 1980	31,300	15,000	46,300	68%	4,630
1980 - 1985	18,900	8,600	27,500	69%	5,500
1985 - 1990	15,300	4,000	19,300	79%	3,900
1990 - 1995	16,300	2,700	19,000	86%	3,800

ESTIMATED HOUSEHOLD GROWTH
IN VERMONT 1985 - 1995
BY AGE AND TENURE

	<u>OWNER</u>	<u>RENTER</u>	<u>TOTAL</u>
Elderly (Age 65 +)	5,300	2,200	7,500
Non-Elderly	26,300	4,500	30,800
Total	31,600	6,700	38,300

Source: Based on population and household projections in Housing In Vermont (1983). Applied Economic Research, Inc. projections of tenure change projected according to 1980 tenure by age of head of household, for Burlington Metro Area & balance of the state.