

Report to: Charlotte Selectboard
From: Affordable Housing Ad Hoc Working Group*
RE: Revisions to Housing Trust Fund Policies
Date: May 29, 2018

The Housing Trust Fund was established in 2007. The stated purpose was to provide financial assistance “for the creation of affordable housing in accordance with a fund oversight policy to be adopted by the Selectboard.” Deposits of tax revenues were made annually from 2008 through 2013. They totaled \$220,000. Grants of approximately \$82,000 have been disbursed to date. The current Fund balance is just under \$140,000.

POLICIES AND PROCEDURES

The Fund’s policies and procedures, which were last ratified by the Selectboard in 2011, require all dwellings that receive grants to be “perpetually affordable.” There are specific requirements, application procedures, and penalties for failure to produce and sustain compliance with program rules. The program design also identifies a number of criteria for funding priority. For example, grant awards favor Charlotte residents, over housing nonprofits; smaller apartments for rent, over single-family homes for sale; renovation of existing structures, over new construction; and diverse locations around town, over village areas.

EXPERIENCE TO DATE

The rules governing the program were tightly drawn and directive. The drafters wanted to encourage projects with particular characteristics and standards of performance. So they set funding requirements that would hold applicants to task. The program anticipated competition that would result in the Fund being oversubscribed.

In reality, both interest in the program and the production of affordable housing units have been modest. Just one Charlotte property owner has actually completed and rented an apartment that met the priority criteria. Two additional units are scheduled for completion this year. On the other hand, nonprofit organizations—Habitat for Humanity and Champlain Housing Trust—have been slightly more productive. They have used grants to construct six single-family homes for sale to income-eligible purchasers.

WORKING GROUP’S ASSIGNMENT

In response to a request by the Selectboard in late-April, an ad hoc working group was assembled by the Town Administrator to explore why production has not been more robust. The group has also considered ways to improve the program’s design and operations. This report offers recommendations to revise policies that will increase the supply of affordable housing in Charlotte.

SHORTCOMINGS

We have contacted applicants of record to learn about their experiences with the Fund. We have also examined features of the current program design that impede use of the Fund. Four major findings have emerged.

1. **Publicity.** The Trust Fund has existed passively for the past ten years. The program has not been publicized or promoted, and the availability of housing grants is not well-known in town. Regional nonprofit developers, on the other hand, are aware of the Fund, and they have made occasional use of it.
2. **Private Owners, Rental Units, and Perpetual Affordability.** Current policies favor grants to individual property owners to create apartments. Owners must then rent them to income-qualified tenants *in perpetuity*. Consequently, the properties are encumbered, and owners must commit to being landlords, forever. There is reluctance to assume these burdens. This is not a problem for mission-oriented nonprofits; they are equipped to embrace perpetual use restrictions, be they for rentals or homes offered for sale.
3. **Grant Conditions.** Noncompliance with affordability rules requires full repayment of grants with interest charges and substantial financial penalties. These conditions are proscribed and posed with a tone of admonishment. Again, nonprofit developers are accustomed to public sector funding requirements, and they are not put off by them.
4. **Rigid Operating Procedures.** Though none of the handful of applicants criticized the Fund's application, disbursement, or reporting requirements, the written procedures convey bureaucratic systems. They may discourage others from pursuing the Fund.

When these shortcomings are put together with the relatively shallow subsidies—a maximum of \$10,000 per unit—it is understandable that property owners who might have an interest to create housing with help from the Fund would shrug and say, “Why should I bother?”

OVERALL RECOMMENDATIONS

We recommend that the Fund become more user-friendly and flexible. Policies should stimulate not discourage interest. Requirements should be less onerous, and maximum grant awards should be increased.

Individual property owners who produce apartments for lower-income households should not be required to sustain use restrictions in perpetuity. They should be allowed to repay grants if their ambitions change. If it appears in the future that people are taking inappropriate advantage of the Fund, financing rules may be tightened up. Furthermore, some eligible uses should be relaxed, enabling assistance for accessory dwellings and other forms of senior or workforce housing.

The involvement of nonprofit developers should be welcomed, and with enthusiasm that is equal to private owners. Other funding sources that are used by nonprofits typically have covenants that accomplish perpetual affordability for both rentals and sales. The town does not need to duplicate oversight in regulating compliance.

Following are overall recommendations for policy changes.

1. Purpose of the Fund

- **Current:** “The Trust Fund is designed to support the creation of perpetually affordable housing by Charlotte property owners on their properties located in Charlotte.”
- **Recommendation:** The context for the revised program should be anchored to the Town Plan:

The Town Plan recognizes that broad diversity of housing is necessary to preserve Charlotte's character and keep the community financially sound. These goals require support for more affordable and senior housing. Policies encourage the development of housing in locations that are convenient to public facilities and services, such as village areas. In addition, the adaptive reuse of existing structures is important. Consistent with these goals, the purpose of the Charlotte Housing Trust Fund is to assist in creating affordable housing—some in perpetuity—for residents with low and moderate incomes, including families, seniors, and workforce populations.

2. Eligible Uses of Grants

- **Current:** Grants are made for project feasibility studies and/or for construction projects. Feasibility studies may explore septic capacity or water availability, development of plans, and costs to obtain zoning permits. Construction grants may involve new construction or renovation of existing structures.
- **Recommendation:** *No change to these eligible uses. However, criteria that call out priority for renovations over new construction projects should be eliminated.*

3. Feasibility Grant Amounts

- **Current:** Grants for up to 90% of the cost of studies to a maximum of \$5,000. 10% must come from one or more other sources secured by the applicant.
- **Recommendation:** *No changes to feasibility grant amounts or the match requirement.*

4. Construction Grant Amounts

- **Current:** Grants for construction projects may be made for up to \$10,000 per housing unit. The maximum grant per project is \$30,000. A minimum one-to-one match by the grantee is required.
- **Recommendation:** *Retain the one-to-one match requirement, but consider increasing the maximum grant per housing unit. In addition, increase the maximum grant per project or applicant per year to as much as \$100,000.*

5. Unit Sizes

- **Current:** Policies encourage development of smaller dwellings, e.g., rental units that have two or fewer bedrooms.
- **Recommendation:** *Smaller units are less expensive to rent and/or own, although they are not accessible to larger families. Clarify the expectation that size and affordability matter by specifying a target maximum of 1,500 square feet of living space per unit.*

6. Affordability Duration

- **Current:** Perpetual affordability with a schedule of financial penalties for noncompliance.
- **Recommendation:** *After construction completion and initial occupancy, grants can be paid back with no penalties. While lower-income use restrictions would no longer apply, most dwellings would contribute workforce housing opportunities in Charlotte.*

7. Uses of Funds for Senior Housing

- **Current:** No provisions in the Policies and Procedures.
- **Recommendation:** *Enable grants to be used to create Accessory Dwellings (as defined in the Land Use Regulations), which may be suitable as senior housing. In addition, both nonprofit and*

for-profit developers may apply for larger grants. Projects could include developments that are approved by the Planning Commission for density bonuses, as allowed in the Land Use Regulations. The program should also encourage senior housing to be located within village areas.

CONCLUSION

With the flexibility offered in these changes, concerted efforts should be made to publicize and promote the Trust Fund. The Selectboard may choose to revive the Affordable Housing Committee to assist in soliciting and reviewing applications. Professional services could also be hired to help with project reviews. (The Fund could pay for outside consulting assistance.) Award decisions would continue to vest with the Selectboard.

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