

Senate Finance Committee

Deb Martone 271-4980

SB 231-FN, establishing a historic housing tax credit and making appropriations for workforce housing and affordable housing.

Hearing Date: February 21, 2023

Time Opened: 1:00 p.m.

Time Closed: 2:17 p.m.

Members of the Committee Present: Senators Gray, Innis, Bradley, Birdsell, Pearl, D'Allesandro and Rosenwald

Bill Analysis: This bill establishes a historic housing tax credit; makes appropriations to the department of health and human services to support emergency shelter programs; and makes appropriations to the housing finance authority and the department of business and economic affairs to support workforce housing and affordable housing.

Sponsors:

Sen. Innis

Sen. Bradley

Sen. Rosenwald

Sen. Watters

Sen. Birdsell

Sen. Lang

Sen. Chandley

Sen. Prentiss

Sen. Whitley

Sen. Perkins Kwoka

Sen. Soucy

Rep. Alexander Jr.

Rep. S. Gould

Who supports the bill: See Committee Aide for extensive sign-in sheets.

Who opposes the bill: See Committee Aide for extensive sign-in sheets.

Who is neutral on the bill: Keen Wong, NH Department of Revenue Administration.

Summary of testimony presented in support:

Senator Innis, Prime Sponsor:

- We have a housing problem in our state. We have a large homeless population that seems to be increasing. It is difficult to find affordable housing, particularly for those just getting started in their career. SB 231-FN helps to address some of this problem.
- This bill is a \$75 million package, spread across a couple of years. It provides \$25 million additional to the Affordable Housing Fund. It provides another \$10 million to deal with the homeless issues. The bill also includes a tax credit of up to 65 percent of the contribution of converting historic structures to expanded housing options.

- The amount of funding in SB 231-FN moves us forward in a positive direction. It provides communities with the help they need.
- Ideally, this will help to get some individuals off the street and into good housing that works for them and their families.

Taylor Caswell, Commissioner, NH Department of Business and Economic Affairs:

- SB 231-FN is a tremendous move forward. It continues many of the unprecedented investments we have put into this housing issue in this state over the last couple of years.
- The housing challenge in New Hampshire remains our top economic challenge, from an economic development and community development standpoint.
- We continue to see significant population increases in this state over the last several years; a very positive trend. Businesses, however, are still short of the manpower they need. That is due almost exclusively to a lack of adequate and affordable housing.
- With regards to that population growth demographic, roughly 42 percent is in the 25-34 age bracket. That is an important trend.
- As we see much revitalization in communities, we're also subsequently making investments in broadband that provides the ability for individuals to live and work remotely in more smaller, rural communities. These components play into our future success economically, and our ability to house and provide a full slate of housing.
- Regarding the InvestNH provision in the bill of \$30 million in state funding, that program started with federal resources in the amount of \$100 million. Fifty million has gone towards the development of privately owned, nonprofit, and for-profit developments to accelerate the process of getting those units on line. That resulted in almost 1,000 new, affordable, rental housing units in multi-family developments. Those are slated to be completed within 18 months. BEA provided awards to approximately 30 projects under that program. There were over 150 eligible applicants. Round Two will put these proposed resources to good use in a very short period of time.
- The proposed state historic tax credit in the bill speaks to another need around the state with regard to housing that currently exists. Many times there is not the same amount of attention and resources paid in the funding category to preservation or reuse of existing projects, to make use of existing infrastructure that could be converted to affordable housing.
- Senator Rosenwald inquired if the \$25 million the Governor has put in his budget for affordable housing is the same \$25 million addressed in SB 231-FN. Commissioner Caswell indicated the \$25 million the Governor proposed is for New Hampshire Housing Finance Authority and their Affordable Housing Fund. Additional appropriations have been made over the last couple of years to increase New Hampshire Housing's ability to address affordable housing. The \$30 million appropriation in the bill is separate for the InvestNH program. Senator Rosenwald again asked if the \$25 million in Section 3 of the bill to the Housing Finance Authority is the same amount in the Governor's budget. Commissioner Caswell agreed.

- Senator Rosenwald inquired about language in the bill referring to affordable, workforce housing. She wondered if it was affordable housing or workforce housing. Commissioner Caswell remarked that sometimes those terms are interchanged in conversation. With regard to the InvestNH program they have used the standard of 80 percent of AMI or below as being the required level of commitment from developers that receive funds under the InvestNH program.
- Senator Rosenwald asked about the 1,500 units referenced in the Governor's letter of support as compared to 2,500 units. Commissioner Caswell stated it is 1,500 units total; roughly 1,000 are affordable units. The remaining were market rate units that were part of a combined property where there were both affordable and market rate units. Commissioner Caswell agreed to check on the total number of units.
- Senator Innis inquired as to why the private sector doesn't take care of this. Why do we need state money to help get this going? Commissioner Caswell indicated we are in the midst of an economic housing crisis in this state. The resources they've been using under the InvestNH program are for projects that are "shovel ready". They focus these resources on the fact they are seeing inflationary cost increases, cost of capital increases and cost of labor and supplies, all increasing at a time when we need to see these units come on line. The funds are an accelerant.
- Senator D'Allesandro asked Commissioner Caswell to explain the process of the InvestNH program. Commissioner Caswell stated they had an online application portal, and explained there were eligibility requirements for for-profits and nonprofits; there were targets in those categories as well. These are for projects that are effectively "shovel ready". Developers must make those units affordable for a period of time. Applications were then reviewed. If the BEA were to receive the funding proposed under this bill, they would most likely use an identical process.
- Senator D'Allesandro inquired about housing that is subsidized currently with rental assistance, i.e., those living in hotels that will be out in April. Is the Rooms and Meals Tax that is being paid on these facilities being paid out of the grant? Commissioner Caswell confirmed those hotels do continue to pay the Rooms and Meals Tax. Senator D'Allesandro reiterated that federal money is paying a state tax at 8.5 percent. We could have a problem figuring out how much of that is nonrecurring as we start to project our income for the future.
- Senator Rosenwald stated workforce housing in New Hampshire is defined as 100 percent of median income. Are we really talking about affordable housing? Should we strike the word "workforce" in this bill? Or are we talking about both? Commissioner Caswell indicated that even at 80 percent AMI those paying rent at that level are very much a part of our workforce. Eighty percent of AMI in Portsmouth is approximately \$2,000 per month for rent. It is a degree of relativity. Commissioner Caswell agreed he is really looking for affordable housing money.

Jessica Margeson, Granite State Organizing Project:

- Ms. Margeson assists tenants that have gone through renovation evictions. She shared with committee members the story of a client who looked for affordable

housing and finally found an apartment 9 months later. There is a lack of truly affordable housing in this state.

- When you are looking at 30 percent AMI, for one person that equates to \$525 per month in rent. There are no such apartments available at that rate. At 50 percent AMI, that equates to \$875 per month in rent. Those apartments don't exist either. They were wiped out in renovation evictions.
- 100 percent AMI is the beginning of low income, but the true low income really starts at 80 percent AMI, which is \$1,399 per month for one person to qualify for an apartment. Those rents are achievable. Individuals at 30 percent and 50 percent AMI have many less options, less availability, and will continue to sit in hotels and continue to be evicted.
- Many individuals signed on for higher rent due to receiving money from the New Hampshire Emergency Rental Assistance Fund. They now have higher rents they cannot afford. Those will be evicted with nowhere to go.
- Ms. Margeson is hoping SB 231-FN will be able to offer some assistance to those at 30 percent and 50 percent AMI, and especially those apartments with more than 1 or 2 bedrooms. There is a huge lack of affordable 3 or 4-bedroom apartments. Many of the refugee families need these larger apartments. If you are a family of 5 at 30 percent AMI, you are having a tough time finding a 3-4 bedroom apartment at \$933 per month. It won't happen.

Rob Dapice, Executive Director, New Hampshire Housing Finance Authority:

- Mr. Dapice distributed to committee members a fact sheet on the New Hampshire Affordable Housing Fund.
- Re Senator Rosenwald's questions on affordable and workforce housing, in state statute workforce housing is defined differently for rental housing than for housing intended for purchase and ownership. The threshold for rental housing is 60 percent of Area Median Income (AMI) for a family of 3. The threshold for home ownership is 100 percent of AMI.
- There are missed opportunities around the state with buildings that have the character of our communities. However, developers often have trouble "penciling out" rehabilitation projects. There is a federal historic tax credit, but 39 states have elected to carve out their own state historic tax credit as it is more cumbersome to work with the federal tax credit, particularly for smaller projects, and partly because the federal credit is not as powerful as it used to be. These state level historic tax credits can be a powerful incentive to leverage the additional use of the federal historic tax credit.
- Regarding the Affordable Housing Fund, it was established with an initial appropriation of \$4 million in 1988. Since FY 2020 the fund receives an annual \$5 million from the Real Estate Transfer Tax. The \$25 million in SB 231-FN would be in addition to the \$5 million appropriation.
- When the Legislature created the Affordable Housing Fund, it was structured as a true revolving loan or trust fund. It is capitalized with appropriations, repayments and payments on the loans New Hampshire Housing has made since the inception of the fund. It's been allowed to go considerably further, being coupled with federal resources. It can be used for loans and grants and for profit and nonprofit sponsors.

Brian Hansen, Board Member, Families in Transition:

- In the last few years, Mr. Hansen has logged approximately 200 hours working on the floor of the homeless shelter in Manchester. The monies they use and the resources they have are stretched really thin. The money proposed for emergency housing in the bill would go a long way in helping to elevate the experience of people who are homelessness in this state.

Maria Devlin and Stephanie Savard, Families in Transition/NH Coalition to End Homelessness:

- Families in Transition operate three emergency shelters in the state for individuals and/or families experiencing homelessness, a specialty shelter and multiple transitional shelters.
- Their Wolfeboro program serves 7 families. At this time the shelter is 100 percent funded by private donors, at an average of about \$500,000 per year. They are very reliant on these donors who have been generous. They currently do not receive any state funding for this program. They need a better funding mix to maintain their services.
- The Manchester family shelter currently serves 11 families. They have struggled with a 55-family waiting list. Families are living in cars. Sometimes children are separated from their parents. Many families are living in campgrounds in season. In 2021 and 2022 they expanded their capacity at this shelter and added 3 additional family units. In spite of current state and city funding for the operation of this program, they still need to raise well over \$300,000 from private donors to maintain operations. This year they asked the City of Manchester for additional funding; they are now asking the state to do the same. Without annual city and state funding they are forced to rely on philanthropic dollars to bridge any gap.
- The adult emergency shelter in Manchester is the largest of its kind in the state. It serves 138 men and women each day and night. Currently, the state provides \$8 per day per bed, with an actual cost of approximately \$45 per day per bed to operate the facility. They have one federal grant set to sunset this fall. They may have to decrease their capacity.
- Homelessness is complex and requires a wide range of resources, such as quality, trained staff, an array of best practices, and nonprofits to continue to step up to support the state's most vulnerable. It also needs the state to contribute more to ensure the delicate network of sheltering is sustainable and secure for the next person who experiences homelessness.

Erin George-Kelly, Director of Youth and Young Adult Services, Waypoint:

- The bill proposes to allocate \$8 million to the Department of Health and Human Services for emergency homeless shelters, and an additional \$2 million for housing stabilization and eviction prevention.
- Homelessness in the State of New Hampshire has reached crisis levels. More is needed in the way of crisis response in housing stabilization services.
- National estimates from a research study entitled, "Missed Opportunities, Youth Homelessness in America," indicate approximately 15,000 youth ages 13-25 experience homelessness in New Hampshire each year. That is one in every 30 ages 13-17, and one in every 10 young adults ages 18-25. Most of these

young people are couch-surfing, sleeping on someone's floor, living in unstable situations, or living in transitional housing. It is estimated 5,000 of these young people experience literal homelessness in New Hampshire communities every year; sleeping in their cars, sleeping on the street, and in places not meant for human habitation.

- In the State of New Hampshire there are a total of 20 shelter beds specific to youth and young adults. Fourteen beds for young adults are in Waypoint's emergency shelter in Manchester; six are in Claremont's transitional shelter.
- Waypoint's emergency shelter opened on October 31, 2022. The shelter has been full every night since November 4, 2022. On an average night they have 32 young adults ages 18-25 on the waiting list for their 14 beds.
- During a recent arctic cold spell, Waypoint expanded to a warming center to prevent fatalities on the street. They provided overflow beds for an additional 10 young people each night throughout that weekend.
- If we have any hope of ending chronic and literal homelessness in this state, we must expand access to emergency shelter beds.

Freeman Toth, Community Action Program, Belknap and Merrimack Counties:

- Mr. Toth's work is largely spent in encampments. There is a need for more space for people. We can't have people dying because we have no place to put them.

Andrew Winter, Executive Director, Twin Pines Housing Trust:

- Twin Pines Housing Trust develops workforce housing for a range of incomes in Vermont and New Hampshire.
- Mr. Winter shared with the committee details of a 60-unit rental project in New London they are currently working on. It is located across the street from New London Hospital. The President of the hospital, Tom Manning, has stated 285 out of their 450 hospital employees would income-qualify for that housing. They include physician assistants, custodians, and childcare center workers. This funding is vitally important to filling those positions.
- Like many developers, Twin Pines needs to put together a variety of funding resources to do housing projects. These proposed funds are essential to moving things forward.

Elissa Margolin, Director, Housing Action NH:

- In both the Affordable Housing Fund and the InvestNH proposal there is the opportunity to distribute capital to incentivize developers to go in the more affordable direction.
- Ms. Margolin suggested a change for the affordability period from 5 years to 20 years. Five years is rather short to keep rents at 80 percent AMI. That lends to "flipping" in the real estate industry. Preservation is a very important part of affordable housing. Let's keep the ones we have and develop new ones. Extending the affordability period would be very helpful.
- She is also suggesting project readiness requirements or "shovel-ready" be reviewed, as permitting processes differ from municipality to municipality.
- Housing Action NH recommends doubling the \$5 million Real Estate Transfer Tax appropriation to incentivize affordable housing development.

- The Department of Health and Human Services has asked for a more sustainable model for homeless services across the state, asking for \$24 million. That would be \$20 million for homeless contracts and \$4 million for eviction prevention and housing stabilization. SB 231-FN proposes a total of \$10 million, resulting in an increase of 573 beds. The bill's numbers should be closer to what was requested by the Department, which would provide an additional 853 beds. It should be clarified the dollars in SB 231-FN are in addition to the flat funding that is proposed in the Governor's budget.

Jennifer Goodman, Executive Director, New Hampshire Preservation Alliance:

- As a statewide nonprofit, the New Hampshire Preservation Alliance works with all kinds of property owners, investors, and civic leaders on all kinds of historic preservation projects.
- "This is an exciting new tool for the toolbox."
- Ms. Goodman asked committee members to picture a vacant old mill building, a historic school, or perhaps an empty commercial building in their community. This tool will provide needed housing with the rehabilitation of these structures, by both nonprofit and for-profit developers. It will help maintain and enhance the character of small communities across the state, while contributing to the vitality of our local economy.
- A state rehab tax credit has a really strong return on investment. It increases the amount of rehabilitation in the state, leverages private investment, conserves resources, has good sustainability measures, and benefits a wide range of communities.
- Nearly 40 states around the country have used versions of this tool to help accelerate the revitalization of old buildings for new uses like housing.
- This tool can also help us draw those old building redevelopment dollars from other places.
- Having a state-level tool like this will help leverage the federal level historic preservation investment tool that is underutilized in this state.

Aaron Sturgis, Preservation Timber Framing:

- Mr. Sturgis is a small business owner in Maine, as well as owning property in New Hampshire. He is a board member of both the New Hampshire and Maine Preservation Alliances.
- He works on many old buildings in both states and has seen the benefits to Maine's substantial tax credit in tandem with the federal tax credit. They work well together.
- Mr. Sturgis is involved in historic preservations. Adapting historic houses, buildings and schools are great ways to create suitable housing, which is what we are currently talking about. Suitable housing is both affordable and workforce housing. Adaptation creates better housing.
- SB 231-FN is visionary legislation recognizing the incredible potential for historic resources that already exist to solve not only the housing crisis, but in tandem with workforce issues. "One begets the other."
- Senator D'Allesandro wonders about the cost of rehabbing. Is its cost sometimes prohibitive which would make new construction the better alternative? Mr.

Sturgis explained in doing historic preservation he works with local sawmills and materials. We're all aware of the skyrocketing increase in the cost of materials. You cannot even get certain materials. New Hampshire has the luxury and privilege of having great building materials at its doorstep. When we utilize local sawmills and good timber that exists all across the state we can do it for less.

- Adaptive reuse of historic buildings is long-term and sustainable. We're solving the problem with housing that is affordable, beautiful and economical.

Chris Norwood, NH Association of Realtors:

- Mr. Norwood is also on the Board of the New Hampshire Housing Finance Authority.
- There is no "silver bullet" to the housing crisis we find ourselves in,
- The median sales price for a single-family home peaked at \$440,000. We still find ourselves in an inventory crunch. We have approximately 1,200-1,300 units on the market currently. We are at a 13-year lull in terms of the number of home units sold.
- Something definitely needs to be done on the apartment side. Regarding vacancies, we're under one percent, and have been for some time.
- This bill goes a long way towards the supply issue.
- Building permits have never really picked up since the Great Recession, although they did increase during 2019-2021. But we need to get back to producing 4,000-5,000 building permits per year to get us out of the current crisis.
- There is a lot of economic stimulus occurring around every one of these pieces of construction.
- Homelessness is not just a downtown urban issue. So many homeless people are in these industrial and commercial retail areas. These are large parcels of land where you see tents and signs of residency. There is very little an owner or the local police jurisdiction can do. If they are pushed out of one area, they go somewhere else. We need a long-term solution. Homelessness has gotten into rural communities. It is everywhere, and very alarming to see.

Will Arvelo, Executive Director, Crossroads House:

- Crossroads House is the second largest shelter in the state with 96 beds. They serve both Rockingham and Strafford Counties.
- They are a private, nonprofit. In 2022 they served 427 individuals.
- They are seeing the largest increase in the elder population, 60+ years. Many of these are first time homeless, being pushed out of their homes. Their rent doubles or triples, and they are on fixed incomes. They end up at places such as Crossroads House.
- Seventy percent of their funding is through private sources. This is unsustainable, and costs are increasing significantly. They only receive 11 percent of their funding from the state.
- Crossroads is much more than a shelter. They give individuals a bed, serve meals, and work with these individuals throughout their stay on case management, getting the wraparound services they need, as well as preparing them to be rehoused.

- In 2019 Crossroads was able to rehouse 51 percent of their residents in permanent housing. That decreased to 38 percent in 2022. They are unable to find affordable housing.
- The area of 30 percent and 50 percent AMI needs much more attention. Most cannot afford an apartment at those percentages. Mr. Arvelo suggested adding additional language to the bill regarding same.

Rebecca Sky, Executive Director, New Hampshire Commission on Aging:

- The availability and affordability of housing is a priority concern for the Commission on Aging as it impacts older adults on fixed incomes and the direct care workforce in communities and nursing homes.
- Housing is one of the top two concerns identified by older adults in surveys conducted across the state.
- They are hearing from older adult service providers in rural areas that these providers are seeing older adults becoming homeless in their communities.
- Older adults care about the direct care workforce because that is who provides short- or long-term services and supports, both in the community and nursing facilities. There is a shortage in the direct care workforce, and housing is definitely part of the issue.
- Workforce housing must be affordable housing.
- According to PHI, the nation's leading authority on the direct care workforce, the median income for direct care workers in New Hampshire was \$21,500 in calendar year 2020. In the same year, 28 percent of our state's direct care workforce lacked affordable housing.

Melissa Hatfield, Bureau Chief, Bureau of Homeless Services, Department of Health and Human Services:

- Senator Rosenwald inquired as to the funding in the proposed budget. Was it flat funded from FY 2021 or FY 2020? Bureau Chief Hatfield explained it was their efficiency budget. It looked at FY 2022, which was a continuation of FY 2021. It was the lower amount that Senator Rosenwald referenced.
- Senator Rosenwald surmised unless a change is made, we're still looking at a \$1.6 million cut to homeless shelter funding. Bureau Chief Hatfield did not know the exact dollar amount. Their budget is approximately \$2.9 million for emergency shelters.
- Senator Rosenwald asked what the appropriation in SB 231-FN would allow the Bureau to pay for a daily rate versus the current \$8 per day. Bureau Chief Hatfield did her calculation based on \$20 per bed per night. She looked at the efficiency budget plus the proposed addition of the SB 231-FN funding, which Housing Action NH referenced previously. That would allow the Bureau to fund an additional 573 beds at \$20 per day.
- Senator D'Allesandro reiterated the additional money would go from \$8 to \$20. Bureau Chief Hatfield agreed. If the funding was added to their budget they could increase that rate and still fund additional beds. Senator D'Allesandro sought confirmation on the number of beds Bureau Chief Hatfield was talking about. She stated it was an additional 573 on top of 900+.

Jane Haigh, Manchester Housing Alliance:

- We obviously have a need for affordable housing.

- If the state is going to use state money towards these programs, it is important to maintain affordability.
- We need housing at every level, especially for economic development and workforce housing.
- There are approximately 1,900 apartments coming to Manchester. Although not right away, perhaps in the next two years. Some of our local developers are stepping up to the plate, converting their offices to housing.
- There are developers who have figured out how to develop affordable housing. Most of the affordable housing is being built by nonprofits.
- We can't ignore any segment of this issue. We need to build for individuals in the 50 percent AMI category and less.

Neutral Information Presented:

Keen Wong, Tax Policy Analyst, NH Department of Revenue Administration:

- The Department takes no position on this bill, except to say they will administer the historic tax credit.
- Mr. Wong is suggesting additional specific language regarding the BPT and BET statutes, adding language to RSA 77-A and RSA 77-E.
- Senator Rosenwald inquired about taxes imposed by RSA 400-A, the Insurance Premium Tax, administered by the Insurance Department. Are these developers paying the Insurance Premium Tax? Mr. Wong was unable to provide an answer. Melissa Robbins, Legislative Budget Analyst, indicated it appears the historic tax credit was modeled after the CDFA tax credit.

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Date Hearing Report completed: February 23, 2023