CHIP FAQs - Housing Development & Housing Development Site

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CHIP supports certain housing projects and the infrastructure improvements that enable them. Understanding what qualifies as a housing development and the housing development site is important when planning a project and applying for CHIP assistance. The information below explains these terms and how they are used within the CHIP program.

VEPC's CHIP webpage may have additional FAQs related to this topic.

What type of housing can be created with CHIP?

Primary residences only. This can include single or multifamily family homes or rental housing.

Can the housing created be used as a rental property?

Yes, if the rental property is used as a primary residence by the person renting the property.

Can the housing created be used as a short-term rental, such as an Airbnb?

Housing created using CHIP infrastructure financing cannot be used as a short-term rental until the CHIP debt has been retired. It must be used as a primary residence during the CHIP debt period.

What is the difference among Affordable Housing, Moderate-Income Housing, and Workforce Housing?

Affordable housing in the context of CHIP refers to housing that doesn't cost more than 30% of the household's total income at 120% of certain thresholds (see Definitions). This type of housing often needs substantial government subsidies to be viable.

Moderate-Income housing in the context of CHIP refers to housing for households earning 150% or less of Area Median Income (AMI). This type of housing may need some government subsidies to be viable.

Workforce housing typically refers to housing for people who work. Workforce housing often is designed to serve middle-income households earning between 60% and 120% of the Area Median Income (AMI). It targets workers such as teachers, nurses, police officers, firefighters, and service sector employees. It also can be referred to as "missing middle" housing.

How much land does it take to create a "Housing Development"?

There is no set amount of land required to create a "housing development". A housing development can be as small as two units, such as a duplex.

How is a Housing Development Site defined?

A Housing Development Site is defined by identifying its boundaries and the properties within it.

For the purposes of a CHIP application, the Housing Development Site must be titled "Proposed Housing Development Site [municipal name], Vermont"

When is a Housing Development Site officially created?

At 12:01 AM on April 1st of the calendar year in which VEPC approves use of the tax increment for a housing infrastructure project.

Can we change the boundaries of our CHIP Housing Development Site once VEPC approves it?

No. Once established, the boundaries of the Housing Development Site cannot be changed.

What are the required components of a Housing Development Plan?

A Housing Development Plan must include:

- A description of the proposed Housing Infrastructure Project.
- The proposed housing development, including the anticipated floor area dedicated to housing.

    - If less than 60%, a narrative about how the projected housing development meaningfully addresses the purpose of the CHIP program.
- The proposed housing development site.
- Identification of a Sponsor.
- A tax increment financing plan, including;
    - a statement of costs and sources of revenue;
    - estimates of assessed values within the housing development site;
    - the portion of those assessed values to be applied to the Housing Infrastructure Project;
    - the resulting tax increments in each year of the financial plan and the lifetime education property tax increment retention;
    - the amount of bonded indebtedness or other financing to be incurred;
    - estimates of necessary principal, interest, costs of improvements, and related costs and in the event of municipal financing the amount anticipated to be approved by voters;
    - other sources of financing and anticipated revenues; and
    - the duration of the financial plan.
- A pro forma projection of expected costs of the proposed Housing Infrastructure Project.
- A projection of the tax increment to be generated by the proposed housing development.
- A development schedule that includes a list, cost estimate, and a schedule for the proposed Housing Infrastructure Project and proposed housing development.
- A determination by the Legislative Body of the municipality that the proposed housing development furthers the purpose of the program.

What is a Pro Forma?

A pro forma is a financial model that projects a project's future income, expenses, and profitability to determine its financial viability. Developers and investors use the pro forma to analyze whether the proposed development will generate sufficient returns and to secure financing.

A typical pro forma includes development costs (land, soft and hard costs), revenue projections (unit mix, rents, and sales), financing terms, and operating expenses. It calculates key metrics like internal rate of return (IRR), return on investment (ROI), and cash flow projections from construction through stabilization. While both for-profit and not-for-profit developers rely on pro formas, details are likely to differ owing to how each type operates and how their financing is structured.

What is a Sources and Uses Statement?

A Sources and Uses Statement lays out exactly where all the money for a project is coming from (sources) and exactly how that money will be spent (uses). The total Sources must equal Uses.

A well-prepared development budget includes clear equity line items, documentation from the source of that equity, and a pro forma showing the developers contribution relative to debt and subsidies. This document helps you evaluate feasibility – it helps you understand if the project is fully funded, whether the developer is contributing equity, whether costs are reasonable and complete, and whether the financing structure makes sense. A Sources and Uses Statement is usually paired with a development pro forma, a construction budget, evidence of equity, loan term sheets, and grant or subsidy commitments.

What evidence should the municipality request from a developer to demonstrate that a project can be privately financed?

If the developer proposes private financing, it is common to require a commitment letter from a financial institution which demonstrates that the bank is familiar with the project and will provide financing if the CHIP plan is approved. This letter may be conditioned upon final loan approval and subject to typical loan documentation.

How can a developer demonstrate their ability to make an equity contribution?

There are several ways a developer can demonstrate their ability to make an equity contribution.

- **Bank statements or proof of funds** - Bank statements typically should be no more than 2-3 months old. A financial institution may provide a “proof of funds” letter. Statements from money market accounts or cash-equivalent holdings.
- **Audited or reviewed financial statements** – For established developers, CPA-prepared financials can be used as evidence. The balance sheet should show cash and equity. The income statement should demonstrate ongoing financial strength. Notes should describe liquidity or available capital. This is especially important for larger or multi-phase housing projects.
- **Line of Equity or Equity Commitment Letters** – A developer can provide a committed line of credit, a letter from an investor or parent company committing capital or a partnership agreement showing capital contributions. These should be signed, specific about the amount, and from a credible financial partner.
- **Land Contribution** – If the developer already owns the land, it can be equity. To document this, the developer should provide a current appraisal, provide a deed or proof of ownership, and who that the land is unencumbered or disclose any liens.
- **Investor Equity** – If the project includes outside investors, the development can provide signed investor commitment letters, partnership or operating agreements, and capital call schedules.
- **Tax Returns Demonstrating Financial Strength** – Developers sometimes use personal or corporate tax returns, which can demonstrate net worth, liquidity, and the ability to inject capital when needed.

What municipal body is authorized to create a CHIP “Housing Development Plan”?

The Legislative Body is the only body eligible to create a Housing Development Site. The Legislative Body must make a determination that the proposed housing development furthers the purpose of CHIP. Other municipal bodies, such as the Planning Commission, may be involved in planning a Housing Development Site's location.

Do we need to run a competitive process to select the projects for which we will submit CHIP applications?

No. Neither the CHIP Guidelines nor Vermont law requires a municipality to run a competitive process. Municipalities may submit applications for as many CHIP Housing Development Sites as your municipality chooses to support. However, if the land on which the Housing Development Site is owned by the municipality, the municipality should follow its own purchasing or procurement policy to select a housing developer.

When choosing to work with a developer, municipalities should also keep Vermont's Municipal Code of Ethics in mind. A good practice is to create a local policy that explains the municipality's goals and priorities to apply for CHIP on behalf of a housing infrastructure project.

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