ROB SUMMERFIELD

STATE REPRESENTATIVE • 67th ASSEMBLY DISTRICT

February 6, 2018

Representative Jagler, Chair
Representative Allen, Vice-Chair
Members of the Assembly Committee on Housing & Real Estate

Testimony on 2017 Assembly Bill 869

Relating to: an income and franchise tax credit for the development of low-income housing

Good Morning Chairman Jagler, Vice-Chairman Allen, and Committee Members:

Thank you for the opportunity to testify on Assembly Bill 869 today. This legislation, modeled after similar successful programs currently underway in other states, would create a Wisconsin Low Income Housing Tax Credit program (WILIHTC).

This program would be implemented and overseen by the Wisconsin Housing and Economic Development Authority (WHEDA) and would create a 4% state match to the 4% Federal credit offered through the current LIHTC program administered by WHEDA. In short, the state program would mirror the Federal program – creating added incentive for low-income housing to be built throughout Wisconsin without the need for additional bureaucracy.

It's also important to note that the credits are only allocated post-construction; the property must have reduced rents for at least 15 years to qualify; there is a recapture provision; and the program has a sunset and a cap.

Just the other week, I participated in a Poverty Simulation held at a high school in my district. One of the biggest challenges during the simulation was finding affordable housing. While this especially affects rural, working class, and elderly Wisconsinites, it's nonetheless a problem that affects us all in some way.

Nationwide, states are experiencing housing shortages, and Wisconsin is no exception. In addition to providing current residents with a place to live, we will need to provide housing for our projected growing population. With new businesses like Mills Fleet Farm in Chippewa Falls and Foxconn in Mount Pleasant opening, Wisconsin will need to be prepared for the growth that will bring.

AB 869 might not be a panacea for Wisconsin's housing shortage; however, it's good government, and a great step in the right direction.

Thank you all again for your time and consideration of this common-sense legislation.

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Wisconsin State Senate
24th Senate District

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PATRICK TESTIN

STATE SENATOR

DATE:	February 6, 2018
RE:	**Testimony on 2017 Assembly Bill 869**
TO:	The Assembly Committee on Housing and Real Estate
FROM:	Senator Patrick Testin

Mr. Chairman and fellow Committee Members, thank you for allowing me to testify today on behalf of Assembly Bill 869.

Assembly Bill 869 would establish a Wisconsin Low Income Housing Tax Credit program administered by the Wisconsin Housing and Economic Development Authority (WHEDA) that would mirror the Federal Low Income Housing Tax Credit program also administered by WHEDA. Currently, 43% of renters in working households are not able to find affordable housing in Wisconsin. Access to affordable housing helps to attract and keep business in the state and studies have shown that having a stable home improves educational outcomes and creates significant health benefits.

In Wisconsin, we have access to a federal 9% program and a 4% program. The 9% program is allocated to each state based on population and is fully subscribed, which means the entire amount is used up on an annual basis because the incentive is significant enough. The 4% credit is underutilized because the incentive is often too low to make it workable for organizations and the developers hoping to build low-income housing throughout the state. This legislation would create a state match of 4% to the federal 4% credit, bringing the total to 8%. This would align incentives to drive more affordable housing stock to the state.

Under the state program, WHEDA may certify a person to claim a one-time nonrefundable income and franchise tax credit for each development if all of the following conditions are satisfied:

- The person has an ownership interest in a qualified development;
- The tax credit is necessary for the financial feasibility of the qualified development;
- The development is maintained and operated as a qualified development for 15 years;
- The tax credit certification is issued in accordance with a qualified allocation plan that WHEDA is required to establish under the Federal Low-Income Housing Tax Credit program.

Additionally, WHEDA must give preference to qualified developments located in a city, village, or town of fewer than 150,000.

This legislation is modeled on successful state programs that exist in Missouri, Georgia and Oklahoma, among others and leverages the benefit of the Federal Low Income Housing program. Thank you again for hearing my testimony and I hope that you will join me in supporting this bill.

whpc

Testimony for Public hearing on AB 869 State Tax Credits for housing

Mary Wright, President, WHPC and Dan O'Connell, Vice President, Astar Capital Management, Inc.
2 E. Mifflin Street, Suite 401, Madison, WI 53703, www.whpccorp.org

- WHPC is a private non-profit housing corp. with a AA- S&P rating who preserves, develops, renovates affordable rental housing throughout the State of WI. We are headquartered in Madison, WI and work statewide.

- We own 140 properties in 57/72 counties in the State representing over 8,200 units. Most of this housing is rented to residents that on an average, earn less than $12,000/yr. including working adults, families, seniors, and disabled residents.

- Over our 20-year history, we have encountered many challenges in obtaining adequate resources to acquire, renovate or construct affordable rental housing. Many communities get shut out of an adequate supply of affordable rental housing due to the economics of the project. It takes considerable sources of capital/equity to develop this housing. Small, rural areas simply cannot provide the capital resources such as CDBG, TIF, or grants to assist our efforts and with the rental rates typically lower than urban markets, but with similar operational expenses, the financial constraints for the operators become infeasible.

- WHPC has experienced the inability to proceed with development/renovation of affordable rental housing in communities with populations of less than 150,000. For example, we own and need to renovate 111 units in Rhinelander, WI. The state credit could bring in needed equity/resources to rehab $20-40,000/unit in needed repairs. We have similar needs in other communities such as Hales Corners, Port Washington, Superior, and many smaller communities.

- We are currently working in a small rural community in Green County to provide workforce and special needs housing – the state credit combined with federal credits and bond financing would be an excellent source to provide new housing and serve adults with autism and social service programming.

- The state credit could also be helpful with attracting equity to several communities in WI when combined with a portfolio of properties. WHPC has direct experience with this, allowing us to complete rehabilitation at a larger scale.

- We have found the private/public partnership to be mutually beneficial which accomplishes good public policy – creating an incentive to attract capital to areas in need of development, providing tax base to the municipality, offering residents an affordable place to live, strong management oversight, financial audits and controls, and compliance for the investor.

- In addition, the economic drivers are important to understand and assess - It is a top production sector for our national economy, producing jobs, purchasing of supplies, providing inventory for workforce populations (whose employers need affordable housing for their workers), and supporting communities with solutions for their residents. More specifically, this valuable tool provides thousands of jobs in the major core industries of mining, manufacturing, transportation and construction and ultimately generates more tax revenue for the government than the program costs.

WHPC, It's Board of Directors, are supportive of this bill to create state tax credits that can be used in combination with tax-exempt bonds and 4% credits to promote more affordable housing development in cities with populations < 150,000.

Good Morning

My name is Bill Boerigter. I am a Senior Manager at Baker Tilly Virchow Krause. I specialize in the financing of affordable housing developments. Previously, I served 8 years as the manager of LIHTC allocation and multifamily lending at WHEDA. I support Bill 869.

Based on my experience at WHEDA and Baker Tilly, I am certain this bill will stimulate (perhaps even double) the construction of quality workforce rental housing in the state. It will do this by unleashing $2 billion in unused tax exempt bond authority, a federal resource allocated to WI but underused due to certain limitations.

First, some background: There are two main tools used to finance affordable rental housing: 1) the federal 9% Housing Credit, and 2) the federal 4% Housing Credit (which always must be paired with tax exempt bonds, by IRS rule). The 9% Credit, a fixed annual amount, generates a large equity investment by investors and reliably produces about 25 WI developments per year (approx. 1000 units). Unfortunately, the federal 4% Credit is too small (even when paired with bonds) to fully finance most developments. Many projects remain "waiting in the wings". WHEDA historically has financed only about five 4% Credit projects a year, because most lack a final "gap filler" to complete the financing. Every year my office reviews several WI projects that are effectively stalled due to a lack of gap financing. The proposed WI State Housing Credit will be the critical "gap filler" which will complete the financing for dozens of projects across the state that are on hold, yet sorely needed.

To illustrate the volume of unused housing resources in the state, I note that in 2016 WI received $577 million in tax exempt bonding authority, but WHEDA was only able to use $50.9 million for multifamily activity. Including "carryforward" from unused bonds in previous years, approximately <u>$2 billion of federal tax exempt bond authority remains unused</u>.

And here is a key point: because the bonds are unused, so are millions of 4% federal Credits triggered by the bonds. The Credit investors are going elsewhere. Wisconsin misses out not only on the housing, but also the economic boost from the investor capital infusion.

There is demand for this housing. In 2015, 44% of all WI renters were cost-burdened, paying more than 30% of their income for housing. <u>Twenty-two percent (an incredible 169,000 households) were severely rent over-burdened (paying more than 50% of their income for housing</u>).

If this bill passed, WI can start to tap into unused bond authority <u>and</u> the linked federal 4% Credit, which are completely under-utilized in the state. If the bill is passed, I am certain it will leverage dozens of quality affordable developments in all corners of the State. This will:

- Create or rehabilitate 1000's of units and reduce financial stress on renters and renting seniors
- Reduce rent over-burdens and free up millions of dollars per year in local consumer spending power
- Create 1000's of construction jobs
- Create hundreds of millions of new bond lending by WHEDA, strengthening their balance sheet and increasing dividends for other housing programs, or for the WI General Fund
- Attract hundreds of millions of new federal 4% Credit investor capital into the state

All of this can be leveraged by Bill 869. I encourage you to support it. Thank you

Good morning.

My name is Don Bernards. I am a CPA and partner at Baker Tilly and have worked in the affordable housing industry for 20 years. I have worked on structuring affordable housing transactions in more than 20 states, and have worked with state housing credits in states such as Missouri, Georgia, California and Nebraska.

This bill is very timely as a report by national CPA firm Novogradac & Company addressed the impact of the new tax bill on overall projected loss of affordable rental units, jobs and federal, local and state taxes over the next 10 years. For Wisconsin, the Novogradac report projects 2,090 fewer affordable units produced, 2,370 fewer jobs and over $76MM fewer national, state and local taxes collected as a result of the fewer affordable units produced.

We are currently working with 5 developers on multi-family projects where they are attempting to use the federal 4% Credit and tax-exempt bond financing through WHEDA. WHEDA has been very creative with what they can do with their bonds and subordinate debt, but it just not enough. These projects are virtually shovel ready, but each are stalled due to a financing gap.

Adding in the State Credit in our underwriting moves all 5 projects into a feasible position. These 5 projects alone would create 585 units and would bring in $31MM of outside investment to WI just from the sale of the 4% federal credit. To re-emphasize, the 4% Federal Credit is going unused, and $31 MM inflow of investment is not occurring because the projects are stalled due to funding gaps. The State Credit would, on average solve for about 12.5% of total projects costs and close the funding gaps.

Extrapolating this to just $7MM of the State Credit , WI could add 1,199 units, $220 MM of development and construction activity, and leverage $63MM of outside investment equity brought in to WI from the currently unused 4% federal credits.

There are so many benefits to the state and citizens from this development. One ancillary benefit of this is the additional lending WHEDA would originate because more tax-exempt bonds would be issued by WHEDA. Again, extrapolating an assumed $7 MM of the State Credit are paired with WHEDA bonds, the resulting development could generate $85MM of WHEDA bond lending and $2.7MM in WHEDA loan fees that wouldn't otherwise exist.

For comparison, WHEDA generated a little over 400 units per year over the last 5 years. The State Credit would leverage far greater WHEDA unit production and lending activity.

I have discussed this credit with several larger investors in the state tax credit industry, and they note there will be strong demand for the credit. This credit is currently structured very similarly to the Colorado LIHTC credit, and based on recent projects, the pricing is going for around 70 cents or a little higher.

Benefits of Colorado's state credit, in talking with Tasha Weaver, Colorado Housing Finance Agency's tax credit manager and reviewing their 2017 allocation report, include 19,105 jobs supported and $1.57 billion of economic impact over the 3 years of the program. They also saw their first tax-exempt bond deals outside the Denver metro area since before the recession.

With 44% of Wisconsin households paying more than 30% of their income on housing (306,000 households), there is great demand for affordable housing and the state LIHTC has proven to increase rural and overall affordable housing development in Colorado and other states, and in a sample of 5 properties, the credit as proposed would allow each of these projects to move forward.