

Fiscal Estimate Narratives

DOA 6/14/2023

LRB Number	23-2199/1	Introduction Number	AB-0268	Estimate Type	Original
Description commercial-to-housing conversion revolving loan fund and loan program					

Assumptions Used in Arriving at Fiscal Estimate

2023 Assembly Bill 268 would establish a commercial-to-housing conversion revolving loan fund and program to be administered by the Wisconsin Housing and Economic Development Authority (WHEDA).

The program would be supported by a revolving loan fund dedicated to providing loans for eligible projects, including demolition and conversion of vacant commercial buildings to new residential developments that consist of workforce or senior housing and contain a minimum number of dwelling units. Additional allowable uses of the fund include actual and necessary expenses for administration as well as marketing, which the bill would require WHEDA to create a program to conduct. WHEDA would also be permitted to invest fund moneys not required for immediate use, subject to certain restrictions, all earnings from which must be credited to the fund.

Through a semiannual application process established by WHEDA, housing developers may apply for a loan under the program. Loans must be awarded only for eligible projects, which are defined as “construction projects for the conversion of a vacant commercial building to a new residential housing development that consists of workforce housing or senior housing”, both of which are defined in the bill. The building must have been vacant for over a year or has been underutilized and its zoning must permit residential use. In order to be eligible, the building must also not have been the subject of a claim for a state or federal historical rehabilitation tax credit or have received financial assistance from tax increments generated by an active tax incremental district.

Additional conditions that apply to the housing developers and the political subdivision with jurisdiction include: 1) the developer has secured the necessary financial resources for the total cost of the project in excess of the loan amount; 2) all applicable permits or other approvals have been secured; 3) the political subdivision has reduced the cost of residential housing in connection with the project through revising zoning ordinances, subdivision regulations, or other land development regulations to increase development density, expedite approvals, reduce impact, water connection, and inspection fees, or reduce parking, building, or other development costs with respect to the project; 4) the political subdivision is in compliance with comprehensive planning requirements under s. 66.1001, Wis. Stats., housing affordability reports requirements under s. 66.10013, Wis. Stats., and new housing fee reports under s. 66.10014, Wis. Stats.; and 5) the political subdivision has updated the housing element of its comprehensive plan within 5 years preceding the date of the loan application.

The bill would require WHEDA to enter into an agreement with each developer receiving a loan that establishes the term and other conditions of the loan, which are to include: 1) that the full amount of the loan comes due upon the developer’s sale of all residential housing constructed under the program; 2) that all rental housing rehabilitated under the program remains within the definition of senior or workforce housing for 10 years following initial occupancy of the residential housing constructed; 3) that, for residential housing intended for rent, the owner of the residential housing submits an annual certified rent roll to WHEDA for the same period to be recorded against the residential property with the applicable register of deeds; and 4) that, for residential housing intended to be owner-occupied, the housing remains owner-occupied for a 10-year period following the closing on the sale of the housing and may not be sold for a price that exceeds the price charged by the developer to the initial owner-occupier, allowing for an annual adjustment of the average compounded annual percentage increase of sale prices of residential housing in the county as determined by WHEDA. This requirement is to be recorded against the residential property with the applicable register of deeds.

Under the bill, WHEDA must follow certain additional guidelines in the administration of the program, which include: 1) the interest rate for any loan awarded must be at or below the market interest rate (i.e.,

no-interest loans are permitted); 2) no loan may exceed \$1,000,000 per eligible project or 20 percent of the total cost of the project, including any land purchase, whichever is less; 3) the authority must set aside 25 percent of all moneys deposited in the fund in the 2023-25 fiscal biennium for a period of not less than 4 years to be used specifically for senior housing, which the bill defines, and 30 percent over the same period for projects in municipalities with a population of 10,000 or less; and 4) if there are insufficient moneys available in the loan fund to fund all eligible applications, WHEDA must prioritize projects when the political subdivision with jurisdiction has reduced the cost of residential housing for the political subdivision as a whole and not merely the cost of residential housing connected with the project as described in the conditions above.

When awarding a loan, WHEDA would be required to take into account only the following in descending order of priority: 1) credit risk, collateral, and the need for a loan guarantee; 2) the estimated reduction in housing costs; and 3) the need for workforce or senior housing in the area. WHEDA must also establish certain policies and procedures related to loan repayment and underwriting.

The bill would also require WHEDA to submit annual reports to the Joint Committee on Finance and relevant legislative committees related to the loan program and revolving loan fund that would be established under the bill.

The bill would require that any unused authority (i.e., not encumbered or expended for an eligible project) remaining 8 years after the effective date of the bill must be returned to the Secretary of Administration for deposit in the general fund. The operational impact on the Department of Administration (Department) to perform this function would be minimal. Therefore, there is no anticipated fiscal impact on the Department under this bill.

Long-Range Fiscal Implications