WHEDA

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ECONOMIC
DEVELOPMENT
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Comments of Executive Director Antonio Riley
Special Committee on Tax Exemption for Residential Property
September 28, 2004

Chairman Fitzgerald, Representative Wieckert, and other members of the Committee, I am Antonio Riley Executive Director of the Wisconsin Housing and Economic Development Authority. Thank you for this opportunity to testify.

The Authority has been quite concerned about the ramifications of the Columbus Park Decision since it was decided by the Supreme Court. We have worked extensively with many of the stakeholders; including many in this room, to find common ground because this issue fundamentally affects WHEDA's ability, now and in the future, to carry out its primary mission of providing affordable housing.

Clearly the issue is complicated, but changes to the current statutes addressing property tax exemption would have significant and negative ramifications for affordable housing in Wisconsin. Its effect would be particularly felt with respect to preserving existing affordable housing.

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For the Committee's benefit, I want to give you a little background on the scope of effort preserving affordable housing in Wisconsin, WHEDA's efforts to accomplish this goal and how nonprofit housing owners are critical partners in accomplishing this goal.

Wisconsin has historically been a leader in providing and supporting quality affordable housing for its residents. Quality affordable rental housing has a positive impact on the stability of Wisconsin's residents and the continued sustained growth of Wisconsin's economy.

The problems trying to preserve affordable housing

The scope of this problem is huge. The Authority, working with a task force created by Governor Doyle to look at this problem, estimates that Wisconsin is potentially at risk of losing affordability of 831 rental properties located throughout the state, representing 35,135 units within the next seven years. The loss of even a portion of these at-risk rental properties may have a substantial negative impact on the quality of life of Wisconsin's residents, particularly its most vulnerable including the elderly and handicapped.

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There are several specific issues that make preservation of affordable housing such a difficult proposition.

First, a significant challenge facing the preservation of affordable housing properties is the "exit tax" issue. Under various federal housing programs, the owner is given the option after 15 years to keep his housing project as affordable housing or opt out of the program and convert the housing project to market-rate.

The exit tax issue is not unique to the State of Wisconsin. In fact, the exit tax issue is considered by many to be the greatest challenge facing the preservation of affordable housing in the nation.

Since the original economic benefit the owner received, the tax credits, for operating the project has also expired after 15 years, the owner's incentive to preserve the affordable housing is significantly diminished. The owner is forced either to sell the property often to new ownership that has no incentive to preserve it as affordable housing or is simply unable to sell the property.

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Second, if the Owner is unable to sell the property, they have an economic incentive to put as little money as possible into the property in order to maximize the owner's return. Repairs on the property are not undertaken and the property slides into decay and blight—an undesirable result for both the residents living in those projects and the municipalities that those projects are in.

The Solution and the role of Non-Profits in implementing the solution

To meet these issues head on, the Authority has implemented the Saving our Stock Initiative (SOS), a $10 million dollar initiative, to work with current owners, non-profits, and for-profit developers to maintain an adequate number of affordable housing units for the residents of Wisconsin.

Non-Profit Organizations must play a significant role in these preservation efforts. Thanks to their property tax exemption status, non-profits are well positioned to assist the state in solving the "exit-tax". As exempt entities, the non-profit owned housing projects will both be maintained as affordable housing while assuring that the quality of and services at the property are maintained.

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For decades in Wisconsin, property tax exemption has been an important, sometimes, essential tool for nonprofit housing owners. It allows non-profits to offer lower rents, better maintenance, and more services for their residents. With this help, residents are able to move up and out of poverty, become self-sufficient or at least maintain a level of self respect in safe and sanitary housing. Without the property tax exemption, residents living at these non-profit affordable housing projects generally will see a rent increase in the order $150 to $300 per month.

In recent years, Federal housing policy has also focused on the essential role of non-profit housing providers in efforts to preserve the existing stock of low-income housing throughout the nation; and the Authority has joined in that focus.

The basis for this preference is three fold; 1) the housing preserved will most likely remain affordable, 2) the non-profit is typically local and best attuned to the needs of the entire community that the project is located in; 3) it is believed that the non-profits can operate less expensively.

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It would be tragically ironic, at this very moment when both the Federal Government and the State of Wisconsin are moving together to assure that adequate affordable housing exists, that serious consideration would be given to remove the tax exemption for non-profits providing affordable housing. A change whose fall-out would fall squarely on the heads of Wisconsin's most needy citizens: the poor, elderly, handicapped and mentally ill.

Such a change would also have a direct negative effect on WHEDA's operations. A cursory review of the WHEDA financed, multifamily portfolio indicates that 145 developments, containing over 6,600 units are currently owned by not-for-profit entities or Public Housing Authorities. These entities are either currently exempt from property taxes or had negotiated a payment in lieu of taxes (PILOT) within their municipality under the existing Statute.

Throughout its entire history, the Authority has carried out much of its mission by relying heavily on non-profit organizations.

Since, by definition, these organizations are public charities, they exist for the purpose of relieving the poor and distressed

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and not for the purpose of making a profit. They carry out the work that government would otherwise feel obligated to do. They tend to serve the neediest, with housing that is well maintained and often supplemented with personal and healthcare services that residents need. The Authority has provided a very substantial amount of financing to these organizations with great success.

An analysis was completed to determine the potential effect on the financial stability of these developments should full taxation be implemented.

The results of that analysis indicated that the immediate annual cash need for the non-profit developments is approximately $3 million. This estimation would be expected to increase annually. This $3 million represents the financial loss that would be incurred by numerous affordable housing projects throughout the state. Losses of this magnitude would most likely force housing developments throughout the state to enter into foreclosure and over the long haul, shut their doors.

Clearly, this is an extremely complicated issue. It lies at the crossroads between the need to provide affordable housing and the need for municipalities to assure that they receive tax

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revenues in amounts to provide basic municipal services. But to travel down the path of removing the property tax exemption for non-profit affordable housing would have dire consequences. It would put many of the poorest of the poor at risk of losing access to quality housing, ironically, putting a greater burden on the backs of those same municipalities who might be collecting the additional property tax revenues.

Thank you for this opportunity to testify. Are there any questions that I can answer for you?