Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

May, 2021 Joint Committee on Finance Paper #115

Affordable Workforce Housing Grants (Administration -- Housing and Homelessness)

[LFB 2021-23 Budget Summary: Page 29, #1]

CURRENT LAW

The Department of Administration (DOA) administers a number of programs designed to address homelessness and ensure residents have access to affordable housing. The Wisconsin Housing and Economic Development Authority (WHEDA) seeks to improve access to housing for low- to moderate-income households in Wisconsin by offering financing for single- and multifamily properties.

DISCUSSION POINTS

1. Workforce housing is designed to meet the needs of low- to middle-income households who have difficulty securing affordable housing near employment opportunities. Generally, the term workforce housing refers to units that are affordable for families earning from 80% to 100% of median income ($49,400 to $61,700 in Wisconsin). Under state law, housing is considered affordable if it costs no more than 30% of a household's gross income.

2. Demand for housing in Wisconsin is greater than the supply of housing available, which has led to higher prices and a shortage of affordable homes. A 2019 report for the Wisconsin Realtors Association (WRA), written by Dr. Kurt Paulsen at the University of Wisconsin-Madison, analyzed the supply shortage as follows:

> "If housing is not produced to meet demand, housing prices go up and families have difficulty finding housing they can afford in communities where they want to live. If an area adds more households than housing units, vacancy rates decline, prices rise, and families have difficulty accessing housing. If developers and builders are unable to secure building sites and

> permission to meet the increased housing demand in an area (supply constraint), housing is being 'under-produced,' resulting in a 'housing gap.'"

3. In 2020, the Legislative Council convened a study group on workforce housing. According to the study group, Wisconsin home prices have increased by 25% in the last five years, in part because construction has not kept pace with population growth. The average number of building permits issued each year is approximately half what it was prior to the 2008 recession (about 16,600 per year, a decrease from 35,900 per year). Since 2010, the state has added 107,100 households, but only 99,700 housing units. Meanwhile, data from the U.S. Census Bureau shows that commute times have increased, indicating that residents are living further from work.

4. Housing supply has been suppressed in part because of escalating construction costs and restrictive local land use regulations. Nationwide, construction costs for new homes increased by 40% between 2005 and 2020, compared to a 33% price increase for all consumer goods and services over that same period. The rise in costs is attributed to an increase in material prices, such as the price for lumber, and a labor shortage in the building trades. In addition, local restrictions, such as large minimum lot sizes and prohibitions on non-single-family developments, may reduce the supply of available land and new multifamily housing units.

5. An analysis by the National Low-Income Housing Coalition, using U.S. Census Bureau data, concluded that Wisconsin's housing shortage disproportionally impacts the lowest income households. Wisconsin has an estimated 188,100 households earning less than 30% of median income, but only 69,000 homes are considered affordable for those families. For the lowest-income households, an estimated 86% spend more than 30% of household income on rent. On the other hand, for households earning between 80% and 100% of median income, less than five percent spend more than 30% of income on rent.

6. The federal American Rescue Plan Act of 2021 provides $2.5 billion in direct payments to Wisconsin. On May 10, 2021, the U.S. Department of the Treasury indicated that funds may be used for investments in housing and neighborhoods, such as services to address individuals experiencing homelessness, affordable housing development, housing vouchers, and residential counseling and housing navigation assistance to facilitate moves to neighborhoods with high economic opportunity. Funds must be used prior to December 31, 2024.

7. Assembly Bill 68/Senate Bill 111 would create an affordable housing grant program and provide one-time funding of $50 million GPR in 2021-22. Grants would be awarded to municipalities to increase the availability of affordable workforce housing. The Department of Administration would be authorized to establish eligibility requirements and program guidelines.

8. According to DOA, the recommended $50 million allocation was sized to make a significant impact for municipalities across the state. The Department indicates it would use federal rates, promulgated by the U.S. Department of Housing and Urban Development for its mortgage insurance program, to establish per-unit subsidy rates. Given an average federal subsidy rate of $82,000 per unit, a one-time appropriation of $50 million would construct approximately 600 units. The funding level was based on similar efforts in other states, such as a $40 million affordable housing initiative implemented in Minneapolis in 2019. The Minneapolis initiative includes funding for the

city's affordable housing trust fund, rental assistance, and rental rehabilitation loan program.

9. The bill would authorize DOA to award grants to municipalities "for the purpose of increasing the availability of workforce housing." The Department intends to prioritize funding for projects that provide capital subsidies for affordable housing developments; acquire and operate moderate-cost rental units; and create, preserve, and expand the supply of lower-cost housing in resource-rich areas. These projects would be aligned with the WRA report, which recommended the state build more housing, diversify the types of housing available, and rehabilitate older housing stock to increase supply. Given that the program would offer municipalities flexible resources to address the housing shortage, the Committee could consider providing $50 million GPR in 2021-22 to DOA to provide grants to municipalities to support the development of workforce housing [Alternative 1]. If, instead, the Committee provided $25 million GPR in 2021-22 for workforce housing grants, funding would support the construction of approximately 300 units [Alternative 2].

10. WHEDA provides financing for low- and moderate-income single- and multifamily properties primarily through issuance of mortgage revenue bonds, which are repaid with principal and interest payments received from WHEDA lending program participants. Bond issuance for authorized single-family programs is generally unrestricted, and WHEDA issues additional bonds as necessary to meet demand for its single-family mortgage products. WHEDA loans for single-family housing include borrower income limits that vary by program or loan type, but generally specify a limit of 115% of state or area median income.

11. In the case of multifamily financing, WHEDA issues bonds that typically require participating properties to set aside 20% of units for persons at or below 50% of county median income, or 40% of units for persons below 60% of county median income. Bonds are supported by WHEDA's capital reserve fund, which allows WHEDA to issue bonds of up to $800 million with backing from the fund. As of June 30, 2020, the amount of outstanding bonds backed by the capital reserve totaled $633 million.

12. WHEDA also administers the state low-income housing tax credit, under which WHEDA awards $7 million in state housing tax credits annually. Credits are claimable for six years, for total cost of $42 million annually once the program is fully implemented. (The program was created in 2018 and is phasing in over six years.) Credits are awarded through a competitive application process, and awards are limited to $1.4 million per project. Developments receiving awards must set aside 20% of units for persons at or below 50% of county median income, or 40% of units for persons below 60% of county median income.

13. Annually, WHEDA develops a "Dividends for Wisconsin" plan, which outlines how surplus funds accruing from Authority revenues in excess of operations costs during the previous fiscal year will be allocated among its programs for single-family and multifamily housing, economic development, and emergency and transitional housing. Under its 2019-20 Dividends for Wisconsin plan, the Authority allocated $5 million to support workforce housing in rural counties, and has committed to allocating an additional $5 million in subsequent Dividends cycles.

14. WHEDA's $10 million allocation of funding will support WHEDA's three-pronged approach to address workforce housing issues. First, the Authority has modified its single-family

rehabilitation loan program to offer second mortgages of up to $50,000 to support rehabilitation of existing homes and improve moderate-income housing stock in urban and rural areas. Second, the Authority has modified its allocation criteria for federal and state low-income housing tax credits to increase allocation of credits to rural areas, and has targeted available multifamily funding to support financing of these rural housing tax credit projects.

15. Finally, the Authority is conducting a pilot project with the communities of Door County, Marinette County, and the greater Chequamegon Bay area. Under the pilot project, WHEDA is working with these communities to identify and address issues impacting access to and affordability of workforce housing in Wisconsin. WHEDA is currently analyzing findings from its first engagement sessions with Door County lenders, developers, school districts, local governments, employers, and affordable housing experts, and developing several pilot project proposals tailored to address the challenges identified. As WHEDA continues to work with each community, it intends to develop a statewide rural workforce housing strategy consistent with its findings and successful pilot programs.

16. Given WHEDA's ongoing efforts to address workforce housing issues through engagement with local communities, identification and analysis of current workforce housing challenges, design and implementation of pilot programs to address these challenges, and provision of financing for single-family and multifamily housing to improve access and affordability of low- to moderate-income housing, the Committee could consider allocating funds to support WHEDA workforce housing initiatives. Under such an alternative, the Committee could match WHEDA's existing allocation by reserving $10 million GPR in the Committee's supplemental appropriation and directing WHEDA to submit a proposal to the Committee for use of these funds [Alternative 3]. As implementation of the workforce housing pilot is ongoing, WHEDA could submit a request to the Committee for release of funding once it has completed evaluation of pilot projects and identified strategies ready for statewide implementation.

17. The Committee could also consider directing WHEDA to allocate additional funding from its surplus reserves to support continued program development and financing related to its workforce housing initiatives. As of February 28, 2021, preliminary year-to-date financial statements estimate approximately $10.7 million in surplus reserves has accrued for use in the Authority's 2021-22 Dividends for Wisconsin plan. However, this amount could fluctuate substantially based on market, operational, or other factors. A final year-end surplus amount will not be determined until several weeks after the 2020-21 fiscal year ends.

18. Allocation of Dividends funding allows WHEDA to create new programs and provide additional funding necessary to maintain existing programs across its single-family, multifamily, and economic development programs. To ensure availability of Dividends funding for other ongoing Authority needs, the Committee could consider requiring the Authority to allocate 50%, or an additional $7.5 million, whichever is less, of its surplus under the 2021-22 Dividends for Wisconsin plan to continue implementation efforts and support single-family and multifamily financing related to its workforce housing initiative [Alternative 4].

19. Depending on the findings and resulting program proposals from WHEDA's pilot program efforts, WHEDA may likely be able to issue bonds under existing program authority to

implement such programs and finance development of additional workforce housing statewide. Further, WHEDA is expected to continue to reserve a portion of state affordable-housing tax credits for rural areas. Given WHEDA's existing authority to issue bonds to support single- and multifamily housing, and the Authority's continuing allocation of housing tax credits, the Committee could take no action [Alternative 5]. It should be noted AB 68/SB 111 includes a provision to increase the state low-income housing tax credit program's allocation to $10 million per year and make the credit claimable for up to 10 years. Changes to the state low-income housing tax credit could be considered in a subsequent Committee executive session.

ALTERNATIVES

1. Provide $50 million in 2021-22 to the Department of Administration for grants to municipalities supporting the development of workforce housing. Authorize DOA to establish eligibility requirements and program guidelines for the program.

ALT 1	Change to Base
GPR	$50,000,000

2. Provide $25 million in 2021-22 to the Department of Administration for grants to municipalities supporting the development of workforce housing. Authorize DOA to establish eligibility requirements and program guidelines for the program.

ALT 2	Change to Base
GPR	$25,000,000

3. Allocate $10 million in 2021-22 to the Committee's supplemental appropriation and direct the Wisconsin Housing and Economic Development Authority to submit a proposal for use of funding consistent with its findings from its ongoing workforce housing pilot program.

ALT 3	Change to Base
GPR	$10,000,000

4. Direct the Wisconsin Housing and Economic Development Authority to allocate $7.5 million, or 50%, whichever is less, of its surplus under the 2021-22 Dividends for Wisconsin plan to support additional program development and single- and multifamily financing related to workforce housing. (This alternative may be selected independently or in addition to Alternatives 1, 2, or 3.)

5. Take no action.

Prepared by: Angela Miller and Rory Tikalsky