Legislative Fiscal Bureau

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Wisconsin Housing Rehabilitation Loan Program (Wisconsin Housing and Economic Development Authority)

[LFB 2023-25 Budget Summary: Page 692, #1]

CURRENT LAW

The Wisconsin Housing and Economic Development Authority (WHEDA) offers the Home Improvement Advantage loan program (housing rehabilitation loan program) commonly referred to as HILP, to support financing for improvements to existing homes. Eligible improvements include: (a) remodeling; (b) home repair; (c) making a home accessible to persons with disabilities; (d) energy-efficient appliances; and (e) energy efficiency improvements. Under current law, WHEDA is authorized to establish an interest rate below market levels if a substantial portion of the loan proceeds will be used for any of the following: (a) energy conservation improvements; (b) the repair or replacement of a heating system, electrical system, plumbing system, foundation or roof, or other necessary structural repairs; or (c) the authentic renovation of a property listed on the national register or state register of historic places. Beginning in January, 2023, WHEDA has specified that loans may be for up to $50,000 and have a maximum term of 15 years.

In addition, 2021 Wisconsin Act 221 created a workforce housing rehabilitation loan program. Eligible rehabilitation activities include removal of lead paint or the following types of structural improvements: (a) repairing or replacing a heating system, electrical system, plumbing system, roof, window, or exterior door; (b) repairing the foundation; and (c) repairing or replacing insulation or siding. Under the workforce housing rehabilitation loan program, the applicant's home must be a single-family residence occupied by the owner and constructed before 1980. The applicant must also meet certain income requirements and agree to pay the loan upon selling or otherwise transferring title to the residence to another person, or upon the applicant and their family vacating the residence. WHEDA is authorized to establish an interest rate below market levels or charge no interest for these loans.

By statute, both programs have a general maximum income limit of 120% of area median income (AMI). Borrowers under both programs do not need to have a WHEDA-issued first mortgage on the property to be eligible for a loan.

DISCUSSION POINTS

Background

1. According to a 2020 Legislative Council Symposia Series presentation by UW-Madison professor of urban planning Kurt Paulsen entitled "The State of Workforce Housing in Wisconsin," the term "workforce housing" is a somewhat new and flexible term. Paulsen notes that the housing industry and state and local governments have used the term in three interrelated ways. First, as a general workforce development or economic development concept, the term is used to identify workforce participants and whether they can afford to live in communities near their place of employment in a housing product that meets their needs. This conception holds that a sufficient supply of stable, good quality, affordable homes is necessary to recruit a workforce. Second, the term can be used more narrowly to identify a segment of the housing market where a household's income is above the threshold to qualify for most federal or state housing programs, but below the level necessary to afford homes currently available in the area housing market. Another way the term is used is to identify a segment of the property and lending markets. For rental properties, Paulsen points to older properties with fewer amenities that are sometimes referred to as naturally occurring affordable housing. These housing products may also include smaller homes on smaller lots, accessory units, townhomes, small multifamily rentals, or duplex or triplex properties.

2. According to a 2019 Wisconsin Realtors Association report, also authored by Professor Paulsen, Wisconsin's housing stock has not recovered since the Great Recession and Wisconsin faces a workforce housing shortage. For the purposes of the report, Paulsen defines workforce housing as "housing that is "affordable" for renting families earning up to 60% of the AMI and for owning families earning up to 120% of the AMI." The report identifies lack of supply, rising construction costs, and outdated regulations as the three main causes of this shortage and points to rising prices, decreasing homeownership, and decreased affordability as the results. According to the report, from 2006 to 2017, the three fastest growing counties in Wisconsin for net new housing units were Dane, Brown, and Waukesha. These counties contributed to over half of the household growth, but "under-produced" 15,000 housing units, attributable to higher material prices and labor shortages, meaning the growth in households rose faster than the growth in housing units. Construction costs also rose at a faster rate than inflation and income, which Paulsen notes compounded the housing supply gap. From 2010 to 2017, construction costs increased by 14.7% in Madison, 14.9% in Milwaukee, and 16.2% in Green Bay. The report recommends reinvesting in older housing stock and older neighborhoods to address Wisconsin's workforce housing challenge.

A. Workforce Housing Rehabilitation Loan Program Statutory Changes

3. Housing rehabilitation loans are funded by the home improvement loan fund. As of June 30, 2022, the fund had a balance of $10.7 million, with assets of $11.5 million, liabilities of $0.8 million, and program encumbrances of $10.7 million. WHEDA is required to transfer annually any unencumbered excess balance to the Wisconsin Development Reserve Fund. On the basis of the fund

condition as of June 30, 2022, WHEDA determined no transfer to the WDRF was required. WHEDA is also authorized to issue bonds for program loans and may have up to $100 million outstanding at any time. However, WHEDA has not issued any such bonds since 1992, and none remain outstanding.

4. The predecessor program to HILP made 15,212 loans totaling $102.8 million between the program's inception in 1979 and its suspension in April, 2008. In 2009, the program resumed under new branding and its current name. Since resuming, HILP has made 101 loans totaling $1,213,500 through June 30, 2022, as shown in the following table. As of June 30, 2022, for loans made under the current program and its predecessor combined, there were 31 loans outstanding totaling $265,000.

Home Improvement Advantage/HILP Loans
Calendar Year 2009 thru 2022

	Loans	Amount
2009	5	$37,190
2010	3	25,500
2011	5	41,368
2012	6	39,884
2013	12	95,113
2014	18	221,436
2015	9	145,871
2016	13	160,152
2017	11	229,432
2018	9	101,306
2019	8	90,442
2020	2	25,850
2021	0	0
2022	0	0
Total	101	$1,213,544

5. As shown in the table, no loans were made in calendar years 2021 and 2022. According to WHEDA staff, demand for the program has waned in recent years due to the loan maximum, which was generally $15,000 prior to January, 2023, although loans were offered up to $50,000 for certain census tracts. WHEDA is actively marketing the current program with the recently increased maximum loan of $50,000 in an effort to increase program demand.

6. WHEDA has not begun offering loans under the workforce housing rehabilitation loan program created under 2021 Act 221. According to WHEDA staff, feedback from participant lending institutions indicated the HILP program is a more useful product for homeowners than the workforce housing rehabilitation program. However, WHEDA indicates that the program could be more useful with some changes. For example, Assembly Bill 43/Senate Bill 70 would require that, to be eligible for a workforce housing rehabilitation loan, the applicant's home must be the primary residence of the applicant and remove the requirement that it was constructed before 1980. WHEDA staff note that the current housing supply constraints created by single family homes in need of renovations is not

limited to housing constructed prior to 1980. According to U.S. Census 2021 American Community Survey data, 57.6% of Wisconsin housing units were built prior to 1980, while 79.7% were built prior to 2000. Nationwide, the data show 50.5% of housing units were built prior to 1980, and 75.8% were built prior to 2000.

7. In addition, the bill would clarify that workforce housing rehabilitation loans may be made for safety improvements, as determined by WHEDA, in addition to structural improvements as provided by current law. Further, it would specify that the applicant must agree to the terms of the loan, as determined by WHEDA, and that such loan terms may include a requirement to repay the loan by making monthly principal and interest payments so that the loan is fully repaid within a given term. It would also specify that WHEDA may defer the repayment or forgive the outstanding balance of any workforce housing rehabilitation loans according to criteria established by the Authority.

8. If the proposed statutory changes were made, the workforce housing rehabilitation loans would be substantially similar to the current HILP program, with a main difference being that WHEDA would have broader authority over loan repayment terms for the workforce housing rehabilitation loan program. WHEDA would also have more flexibility regarding interest rates for the workforce housing rehabilitation loans, as the HILP loans have certain interest rate requirements because the program was designed to be funded with bond proceeds. WHEDA staff indicate that implementing these provisions would allow WHEDA to offer more flexible loan terms than conventional loans to provide moderate- to low-income homeowners with increased access to renovation loans, spurring increased housing renovation. The Committee could consider making these programmatic changes [Alternative A1].

B. Workforce Housing Rehabilitation Loan Program Funding

9. Assembly Bill 43/Senate Bill 70 would establish a new workforce housing rehabilitation fund, under the jurisdiction and control of WHEDA, for the purpose of providing workforce housing rehabilitation loans and provide $100 million GPR in a new, continuing appropriation for the workforce housing rehabilitation loan program. The bill would specify that workforce housing rehabilitation loans be made from this fund rather than the housing rehabilitation loan fund. It would specify that the workforce housing rehabilitation fund consist of all of the following: (a) all moneys appropriated under the new workforce housing rehabilitation loan program appropriation; (b) all moneys received from repayment of workforce housing rehabilitation loans; (c) all income from the investment of moneys in the fund; and (d) all moneys received by WHEDA for the fund from any other source. While the program does not have a statutorily specified maximum loan, providing $100 million would provide funds for 2,000 loans of $50,000, assuming a loan maximum consistent with that under the housing rehabilitation loan program. However, WHEDA does not have an estimate of projected demand for the workforce housing rehabilitation program loans.

10. Given that WHEDA is authorized up to $100 million in outstanding revenue bonds for the HILP program, it could be argued that WHEDA has access to sufficient funds for that program. Further, existing home improvement loan funds could be utilized to support the workforce housing rehabilitation loan program, as provided under current law, and therefore no additional funds should be provided [Alternative B3].

11. However, WHEDA indicates revenue bonds are not utilized because the balance in the

revolving loan fund has provided adequate funds to meet demand. Therefore, as noted, WHEDA has not issued revenue bonds since 1992. It also is not known to what extent new bonds for a housing rehabilitation program would be marketable, or at what interest rate bond-financed loans could be issued to borrowers participating in the program. Providing cash for a program fund would allow WHEDA to issue loans at interest rates that may better align with the Authority's purposes of reaching low- to moderate-income borrowers that cannot obtain adequate financing through other means.

12. Given recent increases in construction costs, continued demand for workforce housing, and Wisconsin's relatively older housing stock age, the Committee could consider a new workforce housing rehabilitation fund to provide specified funds for the program [Alternative B1] or could consider providing an additional amount in the existing housing rehabilitation loan fund which could be utilized for either the HILP program or the workforce housing rehabilitation loan program [Alternative B2].

ALTERNATIVES

A. Workforce Housing Rehabilitation Loan Program Statutory Changes

1. Adopt any of the following changes to the workforce housing rehabilitation loan program:

a. Require that, to be eligible for a workforce housing rehabilitation loan, the applicant's home must be the primary residence of the applicant.

b. Remove the requirement that it was constructed before 1980.

c. Clarify that workforce housing rehabilitation loans may be made for structural or safety improvements, as determined by the Authority.

d. Specify that the applicant must agree to the terms of the loan, as determined by the Authority, and that such loan terms may include a requirement to repay the loan by making monthly principal and interest payments so that the loan is fully repaid within a given term.

e. Specify that the Authority may defer the repayment or forgive the outstanding balance of any workforce housing rehabilitation loans according to criteria established by the Authority.

2. Take no action.

B. Workforce Housing Rehabilitation Loan Program Funding

1. Create a new, continuing appropriation for the workforce housing rehabilitation loan program. Establish a workforce housing rehabilitation fund, under the jurisdiction and control of WHEDA, for the purpose of providing workforce housing rehabilitation loans. Specify that workforce housing rehabilitation loans be made from this fund rather than the housing rehabilitation fund. Specify that the workforce housing rehabilitation fund consist of all of the following: (a) all moneys appropriated under the new workforce housing rehabilitation loan program appropriation; (b) all

moneys received from repayment of workforce housing rehabilitation loans; (c) all income from the investment of moneys in the fund; and (d) all moneys received by WHEDA for the fund from any other source. Further, specify that WHEDA may use moneys in the fund to cover actual and necessary expenses of the fund and the loan program. In addition, specify that, at its discretion, the Authority may also use the fund to pay costs associated with marketing its programs and services to the public, including by use of housing navigators. Provide funding of one of the following amounts:

a. $5,000,000

ALT B1a	Change to Base
GPR	$5,000,000

b. $10,000,000

ALT B1b	Change to Base
GPR	$10,000,000

c. $25,000,000

ALT B1c	Change to Base
GPR	$25,000,000

d. $50,000,000

ALT B1d	Change to Base
GPR	$50,000,000

e. $75,000,000

ALT B1e	Change to Base
GPR	$75,000,000

f. $100,000,000

ALT B1f	Change to Base
GPR	$100,000,000

2. Transfer the amount under Alternative B2 to the housing rehabilitation loan fund. (Funding would be available for the HILP program and the workforce housing rehabilitation program.)

3. Take no action.

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