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Increase Capital Reserve Fund Bonding Authorization (Wisconsin Housing and Economic Development Authority)

[LFB 2023-25 Budget Summary: Page 693, #2]

CURRENT LAW

Under current law, WHEDA manages a capital reserve fund, which must maintain a balance sufficient to cover the maximum amount of debt service expected in one year for all bond issues backed by the fund. Bonds with the backing of the capital reserve fund generally receive more favorable credit ratings and result in a lower cost of financing for housing developments. The Authority may elect to exclude bond issues from backing by the capital reserve fund, an option it regularly exercises. As a result, the capital reserve fund currently only supports bonds issued to finance multifamily structures.

As WHEDA operates as an independent authority, bonds issued under its authority do not carry the general obligation of the state. However, the state has pledged its moral obligation to the capital reserve should it become deficient. No such deficiency has ever occurred.

DISCUSSION POINTS

1. 2019 Wisconsin Act 9, the 2019-21 biennial budget act, increased the limit on outstanding bonds secured by the capital reserve from $600 to $800 million. WHEDA anticipates reaching the maximum amount of outstanding bonds backed by the capital reserve fund by summer, 2023. As of March 1, 2023, $648 million in outstanding bonds for multifamily housing developments were backed by the capital reserve fund. WHEDA expects to issue an additional $131 million in June, leaving $21 million remaining under the current limit.

2. The need for an increase in the limit is due in part to demand for the state low-income housing tax credit under 2017 Wisconsin Act 176, as developments awarded state and certain federal

housing tax credits also utilize financing from bonding supported by the capital reserve. Further, demand for the federal low-income housing tax credit with which the state credit can be paired has grown since the implementation of a fixed rate (4%) instituted for the credit in 2021. Assembly Bill 43/Senate Bill 70 would increase the limit of outstanding bonds backed by WHEDA's capital reserve fund from $800 million to $1.2 billion. WHEDA estimates that under current law, the additional $400 million in bonding authority would provide three years of activity. As WHEDA bonds are not an obligation of the state, the provision would not have a direct state fiscal effect.

3. A separate provision of the bill would increase the limit on the total amount of state low-income housing credits that may be certified by WHEDA from $42 million to $100 million. In addition, the bill would increase the maximum number of years the credit may be claimed from six years to 10 years. WHEDA indicates this would be expected to further increase the demand for the credit. Therefore, if the Committee increases the limit on the state low-income housing credits, the Committee could consider increasing the capital-reserve backed outstanding bond limit by $400 million [Alternative 1].

4. As the $200 million increase under 2019 Act 9 provided four years before the Authority anticipated reaching the outstanding maximum bond limit, a similar increase of $200 million could be considered [Alternative 2]. However, while single-family construction has slowed recently, multifamily construction appears to be on the rise. Seasonally adjusted U.S. Census data show the number of new privately-owned single-family housing unit starts in February, 2023, was up 1.1% from January, 2022, while the number of new housing starts of units of five or more was up by 24.1%. Further, according to the National Association of Realtors, the current supply of multifamily units continues to fall below demand.

5. If no action were taken [Alternative 3], WHEDA indicates there would be no capacity for bond issues backed by the fund by summer, 2023. The anticipated total of $779 million issued by June, 2023, does not include all of the 2022 multifamily housing tax credit developments and includes none of the 2023 developments. WHEDA indicates issuing bonds without the backing of the fund would result in increased upfront costs for WHEDA to create a new bond resolution and increased interest rates due to less favorable credit ratings associated with a new bond resolution. Further, WHEDA indicates a potential need to draw upon reserve funds to create a new bond resolution, which would result in fewer funds available for other products offered by WHEDA, such as down payment assistance and gap financing products.

ALTERNATIVES

1. Increase the capital reserve fund limit from $800 million to $1.2 billion.

2. Increase the capital reserve fund limit from $800 million to $1 billion.

3. Take no action.

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