



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>

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Joint Committee on Finance

Paper #117

Housing Quality Standards Grants (Administration -- Housing and Homelessness)

[LFB 2021-23 Budget Summary: Page 30, #3]

CURRENT LAW

The U.S. Department of Housing and Urban Development (HUD) requires rental units to pass housing quality standard (HQS) inspections to qualify for federal housing assistance. In November, 2018, the Wisconsin Interagency Council on Homelessness recommended the creation of a state-funded program to help landlords address quality deficiencies in order to increase the supply of housing units eligible for federal assistance. Funds for this purpose were reserved in the Joint Committee on Finance's supplemental appropriation under 2019 Act 9 but have not yet been transferred to the Department of Administration (DOA).

DISCUSSION POINTS

1. All federally-funded housing programs require rental units to be "decent, safe, and sanitary" and to pass housing quality standard inspections. Examples of criteria considered by the HQS inspectors include acceptable sanitary facilities, food preparation, thermal environment, water supply, lead-based paint, and smoke detectors. The U.S. Census Bureau indicates that the presence of hot and cold running water, a bathtub or shower, a sink with a faucet, a stove or range, and a refrigerator serve as indicators of housing quality.

2. The U.S. Census Bureau estimates that 24% of renters in Wisconsin have a severe housing problem, defined as incomplete kitchen facilities, incomplete plumbing facilities, an occupancy greater than 1.5 people per room, or a cost greater than 50% of income. An estimated 10,000 Wisconsin households lack complete plumbing facilities and 20,600 lack complete kitchen facilities. In addition, approximately 64% of renter-occupied units in the state were built before 1980; of these, HUD indicates that 75% are likely to have lead paint.

3. According to the Census Bureau, the estimated rental vacancy rate is 4.9% in Wisconsin, compared to 6.0% nationwide, meaning that 4.9% of rental units are unoccupied. A rate of 5% is considered to be stable; a lower rate indicates a shortage of housing supply. In Wisconsin, 38 counties have rental vacancy rates below 5%, and nine counties have a rate below 3% (Douglas, Marathon, Marinette, Menominee, Shawano, Sheboygan, St. Croix, Vernon, and Washington counties).

4. Recent surveys of housing providers, conducted by DOA, identified the lack of available and affordable units, especially for the most vulnerable, as the "greatest impediment to housing currently facing Wisconsin." According to the National Low Income Housing Coalition, there is a shortage of 119,100 homes for extremely low-income renters in Wisconsin (those earning between 0% and 30% of area median income).

5. 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, including affordable housing development. The one-time allocation must be used prior to December 31, 2024, and therefore would not provide ongoing program support.

6. Under 2017 Act 74, the Interagency Council on Homelessness was established to coordinate statewide policies to address homelessness. The Council began meeting in February, 2018, and, in November, 2018, published a plan with recommendations to prevent and end homelessness. Former Lieutenant Governor Kleefisch was appointed as chairperson of the Council prior to its inaugural meeting and served until the end of her term. Governor Evers now serves as chairperson.

7. The Council's report concluded, "One of the highest barriers to affordable housing is a lack of available, quality housing units. The problem is especially acute in rural areas due to the age of existing dwellings coupled with a low proportion of rental units." According to the report, rental supply has been limited by property owners' financial inability to make improvements and achieve HQS compliance. The Council recommended the creation of a state-funded program, allocated \$500,000 annually, to make forgivable loans to landlords to address quality deficiencies and increase the number of units that qualify for federal programs.

8. It should be noted that the Council recommended that the HQS program be structured as a forgivable loan program to ensure compliance with program goals. Under the Council's plan, by accepting the loan, each unit would be required to pass an annual HQS inspection. The loans would be forgiven after the landlord rented the unit to a low- or moderate-income household for an unspecified number of years.

9. The administration has recommended creating a grant program rather than a forgivable loan program to reduce landlords' need to recover improvement costs from tenants, thereby increasing long-run affordability. In addition, the grant structure could increase participation because landlords would not need to secure capital to begin improvement projects. The grant structure would also match existing programs administered by DOA's housing division, thereby minimizing the administrative burden. The Department indicates that technical requirements, including the compliance measures recommended by the Council, would be determined and implemented

administratively once the program is enacted.

10. Under 2019 Act 9, \$500,000 annually was reserved in the Joint Committee on Finance's supplemental appropriations for the program. The funds have not yet been transferred to DOA and will lapse to the general fund if not transferred by June 30, 2021.

11. The administration recommends that the housing quality standards (HQS) grant program be provided \$2.0 million GPR annually during the 2021-23 biennium. Grants would be awarded to landlords to finance upgrades to existing rental units to comply with federal assistance requirements. The Department indicates that it would limit awards to \$25,000 per unit with an initial limit of \$200,000 per landlord to ensure funds are available for projects across the state.

12. The recommended funding amount is based on a similar program in Washington. In 2018, Washington created a program to reimburse landlords for upgrades to rental units. To date, the program has provided \$4.4 million to rehabilitate 1,900 units at an average cost of \$2,300 per unit. Participating landlords must rent the upgraded units to tenants receiving rental subsidies. If the Wisconsin program averages a similar cost-per-unit, an estimated 870 units would be rehabilitated each year. To help increase the supply of rental housing units, the Committee could provide \$2.0 million GPR annually for grants to landlords. [Alternative 1]

13. The current proposal is greater than the amount of \$500,000 per year recommended by the Council in 2018. The Committee could implement the Council's recommendation to provide \$500,000 annually for the HQS grant program. [Alternative 2] At an average cost of \$2,300 per unit, this amount would support upgrades for 217 units per year.

14. It should be noted that AB 68/SB 111 would not limit the amount of funds that could be allocated to a landlord or for a unit. In addition, the legislation would not specify compliance measures. The Department indicates it would set technical requirements administratively if the program is enacted. However, based on DOA's indication of program specifications identified above, statutory language could be created related to compliance and award amounts. This alternative may be selected in addition to Alternative 1 or Alternative 2. [Alternative 3]

15. Alternatively, the Committee could decide to take no action with regard to the creation of a housing quality standards program. As under current law, landlords could continue to self-fund any necessary improvements to properties to qualify for federally-funded programs. [Alternative 4]

ALTERNATIVES

1. Create a housing quality standards grant program and provide \$2,000,000 annually. Grants would be awarded to owners of rental housing units to satisfy housing quality standards.

ALT 1	Change to Base
GPR	\$4,000,000

2. Create a housing quality standards grant program and provide \$500,000 annually. Grants would be awarded to owners of rental housing units to satisfy housing quality standards.

ALT 2	Change to Base
GPR	\$1,000,000

3. Specify that awards be limited to \$25,000 per unit and \$200,000 per landlord. In addition, require that each unit be required to pass an annual HQS inspection and be rented to a low- or moderate-income household for the number of years specified by DOA in the application process. [This alternative may be selected in addition to Alternative 1 or Alternative 2.]

4. Take no action.

Prepared by: Angela Miller