STATE SENATOR KATHY BERNIER
TWENTY-THIRD SENATE DISTRICT

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From: **Senator Kathy Bernier**

To: **The Senate Committee on Financial Institutions and Revenue**

Re: **Testimony on Senate Bill 172/Assembly Bill 156**
Relating to: state workforce housing income and franchise tax credit and requiring the exercise of rule-making authority.

Date: **March 3, 2022**

Thank you Chairman Kooyenga and committee members for holding a hearing on this important bill to incentivize the construction and availability of Wisconsin's critical housing stock.

We in Wisconsin continue to face a workforce housing shortage. It is a classic example of the chicken and the egg – how do we grow our economy if there is nowhere for our citizens to live? And, how do we incentivize the growth of housing stock if there is no commitment to jobs? This bill will not be *the* answer, but it certainly will be *an* answer.

Wisconsin has seen a steady decline of house construction since 2004, concludes a 2019 report released by the Wisconsin REALTORs Association in conjunction with UW-Madison professor Dr. Kurt Paulsen. Another report, 2020's "Revitalizing Rural Wisconsin" from the WMC Foundation's Future Wisconsin Project, identifies a lack of new housing as one of the major challenges facing rural Wisconsin.

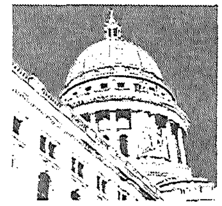
We have a successful model of a state Low-Income Housing Tax Credit (LIHTC). This would be another great state-level innovation, aimed specifically at those making more than 60% but less than 100% of Area Median Income (AMI). These are people who make up the backbone of any community. There is precious little in the way of housing units available for the workforce community anywhere statewide.

There are a number of amendments that were attached to this bill during the Assembly committee process and floor session. Assembly Subsitute Amendment 1, with its Amendments 2 and 3, accomplish shared goals of WHEDA, DOR, stakeholder groups, and the 95 Representatives who voted in favor of the final product.

Under the bill as amended and passed by the Assembly, WHEDA may award up to $42 million in income tax credits each year for projects where 25% of the rental units are occupied by people in that aforementioned income band. Half of the credits must be awareded in municipalities with populations under 150,000. This program sunsets after five years. I am attaching a memo from Legislative Council that explains the amendments in greater detail.

We need new workforce housing in every community around the state. I thank Representative Summerfield and his staff for all the work on this bill and I thank you again for your committee's consideration.

Wisconsin Legislative Council
AMENDMENT MEMO



Memo published: October 27, 2021

Contact: Scott Grosz, Principal Attorney

2021 Assembly Bill 156 | **Assembly Substitute Amendment 1 as Amended by Assembly Amendments 2 and 3**

2021 ASSEMBLY BILL 156

2021 Assembly Bill 156 would create a state income tax credit program for workforce housing, to be administered by the Wisconsin Housing and Economic Development Authority (WHEDA). Under the bill, WHEDA may award up to $42 million in credits each year, including all amounts each person is eligible to claim for each year of the credit. Generally, WHEDA may certify a person to claim the credit if the following conditions are satisfied:

- The person has an ownership interest in a qualified housing development, defined as residential rental property in the state wherein at least 25 percent of the rental units are occupied by individuals whose income is between 61 percent and 100 percent of the area gross median income. Rent for such units may not exceed 30 percent of area median income.
- A finding that the credit is necessary for the financial feasibility of the development.
- Presence of a restrictive covenant requiring operation of the development as a qualified housing development for at least 10 years.
- Issuance of the certification in accordance with a qualified allocation plan established by WHEDA.

In its award of credits, the bill directs WHEDA to give preference to developments in municipalities with populations below 150,000, provides for increase of the annual allocation limit for unused or revoked credit allocations, and requires WHEDA to submit an annual report on the program to the Legislature.

ASSEMBLY SUBSTITUTE AMENDMENT 1

Assembly Substitute Amendment 1 makes several changes to the administration of the tax credit program created by the bill, including:

- Revision of the length of the restrictive covenant requirement to 15 years.
- Revision of the preference for developments in small communities to a requirement that 50 percent of credits must be awarded in municipalities with populations under 150,000.
- Revision of the allowed increase in annual allocation limit to account for credits that go unused by small communities.
- Amendment of the existing low-income housing tax credit as applied to insurers. Under the substitute amendment, an insurer that is a partner or member of a partnership or limited liability company that directly or indirectly owns a qualified housing development may claim the low-

income housing tax credit in proportion to the insurer's interest or in accordance with the allocation of credits pursuant to a timely written agreement among the partners or members.

Assembly Amendment 2 to Substitute Amendment 1

Assembly Amendment 2 to Substitute Amendment 1 makes several changes to the substitute amendment, including:

- Calculation of credit qualifications using the term "eligible basis" as defined for purposes of the federal low-income housing tax credit, rather than "adjusted basis."
- Revision of the definition of qualified tenant income to be "greater than 60%" rather than "at least 61%" of area median income.
- Revision of limits on the allowable rent of a rent-restricted unit to refer to imputed income, rather than area median income. The amendment specifies that WHEDA may establish an imputed income limit on each qualified unit in its allocation plan, but that the authority may not use the composition of imputed income limitations as scoring criteria.
- Elimination of limits on claiming the workforce housing credit while also claiming income tax credits related to historic rehabilitation.
- Creation of a provision relating to shifts in income, which specifies the circumstances in which a rental unit may remain a qualified unit for purposes of the credit following changes in income of the unit's occupants.

Assembly Amendment 3 to Substitute Amendment 1

Assembly Amendment 3 to Substitute Amendment 1 sunsets the tax credit program by specifying that WHEDA may not issue an allocation certificate after the first day of the 61^{st} month after the effective date of the bill.

Bill History

Representative Summerfield introduced Assembly Bill 156 on March 10, 2021, and offered Assembly Substitute Amendment 1 to the bill on May 10, 2021. On October 11, 2021, Representative Summerfield offered Assembly Amendment 2 to the substitute amendment. On October 12, 2021, the Assembly Committee on Ways and Means recommended adoption of Assembly Amendment 2 to Assembly Substitute Amendment 1 on a vote of Ayes, 13; Noes, 0; and recommended adoption of the substitute amendment on a vote of Ayes, 12; Noes, 1. The committee then recommended passage of Assembly Bill 156, as amended, on a vote of Ayes, 10; Noes, 3.

On October 21, 2021, Representative Brooks offered Assembly Amendment 3 to Assembly Substitute Amendment 1. On October 26, 2021, the Assembly adopted Assembly Amendments 2 and 3 to Assembly Substitute Amendment 1, adopted Assembly Substitute Amendment 1, and passed Assembly Bill 156 on a vote of Ayes, 95; Noes, 0.

SG:jal

Wisconsin REALTORS® Association

NAIOP COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION WISCONSIN CHAPTER

To: Members, Wisconsin Senate Committee on Financial Institutions and Revenue

From: Tom Larson, WRA Executive Vice President and NAIOP-WI lobbyist

Date: March 3, 2022

Re: SB 172/AB 156, as amended – Workforce Housing Income and Franchise Tax Credit

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The Wisconsin REALTORS® Association (WRA) and NAIOP-WI support SB 172/AB 156, as amended, legislation that seeks to attract and retain workers necessary to grow Wisconsin's economy by providing $42 million annually in income and franchise tax credits for the creation of new workforce housing.

Background -- Wisconsin employers are having difficulty recruiting workers to fill thousands of job openings due to a shortage of affordable housing options for workers. With statewide housing inventory levels at historic lows, median home prices continuing to rise, and apartment rent increases outpacing wage growth, Wisconsin has a major workforce housing shortage problem. Unless this workforce housing problem is fixed, Wisconsin will be unable to keep and attract the skilled workers necessary for our economy to thrive.

In a 2020 report titled "Falling Behind: Addressing Wisconsin's Workforce Housing Shortage," authored by Professor Kurt Paulsen, UW-Madison, several causes of Wisconsin's workforce housing shortage were identified, including (1) a significant under production of new housing, and (2) rising construction costs. Specifically, the report indicates that:

1. Wisconsin has not built enough homes to keep up with population and income growth. Compared to pre-2009 recession levels, Wisconsin is creating 75% fewer lots and 55% fewer new housing units since 2012. When adjusted for population, building permits per capita and new lots per capita are less than 50 percent of what they were in the 90s and early 2000s.

2. Construction costs are rising faster than inflation and incomes. Between 2010 and 2020, construction costs increased by approximately 20-30 percent throughout Wisconsin. Since 2020, construction costs have risen an additional 25 to 35 percent. Also, builders across Wisconsin are reporting shortages in framing lumber, appliances, plywood, windows, doors, and other building materials.

SB 172/AB 156, as amended -- To help address Wisconsin's housing shortage and rising construction costs, SB 172/AB 156 provides $42 million annually in income and franchise tax credits to be allocated by WHEDA to incentivize the creation of workforce housing. Specifically, SB 172/AB 156 will help create more housing for Wisconsin's workforce by:

Targeting the tax credits to housing for Wisconsin's workforce – Most existing federal and state rental housing tax credit programs are aimed at housing for individuals with an annual income of 60% or below the area median income. However, SB 172/AB 156 is aimed specifically at creating housing for working individuals with incomes between 61% and 100% of the area median income.

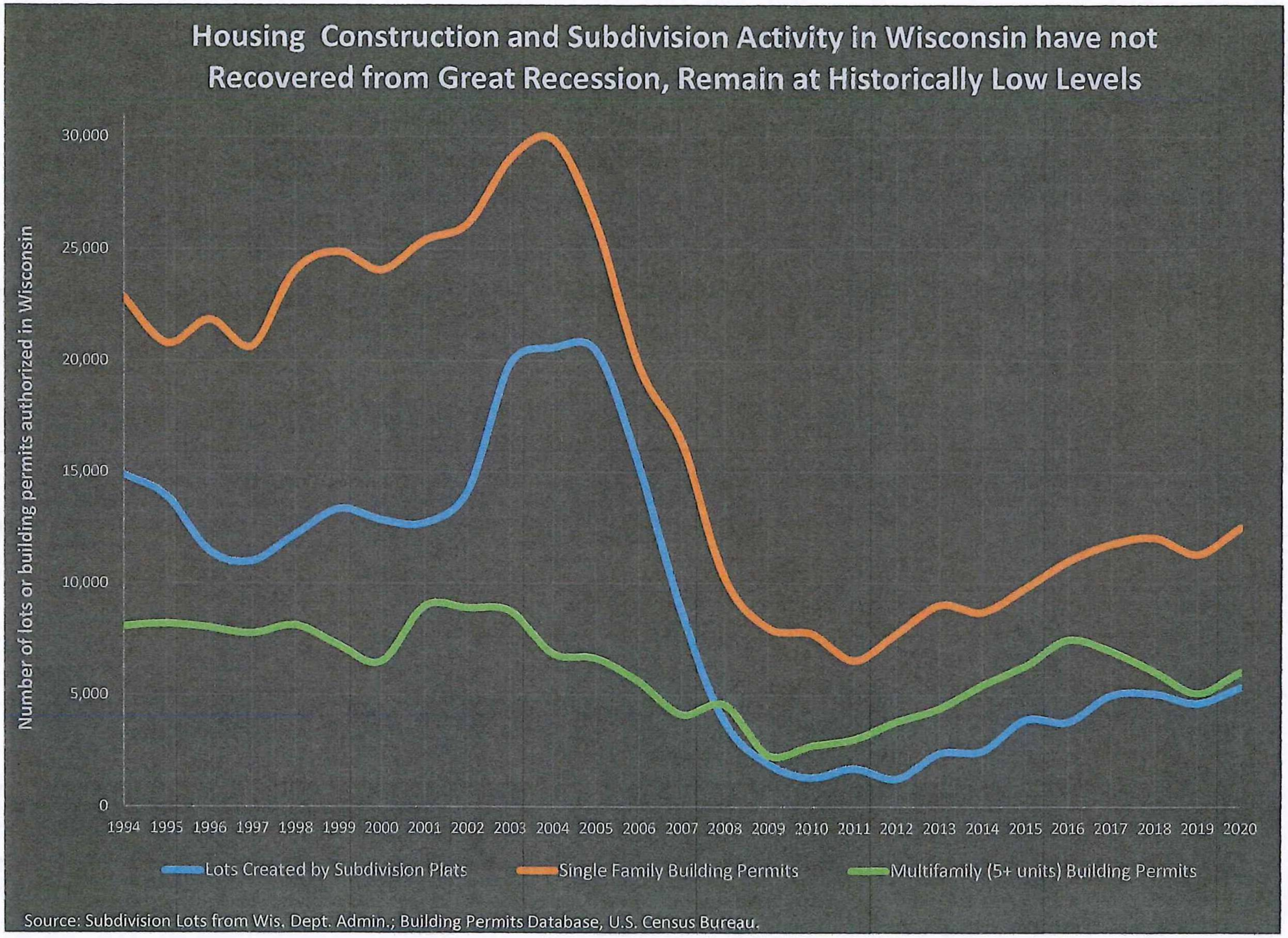
Encouraging the integration of mixed-income housing – To prevent workforce housing from being centralized within specific areas of a community, SB 172/AB 156 encourages the integration of workforce housing into larger developments by making such developments eligible for the tax credit if at least 25% of rental units within the development are designated for workforce housing.

Ensuring smaller communities will receive fair share of tax credits – To prevent the allocation of tax credits from being centralized to one or two major metropolitan areas, SB 172/AB 156 requires at least 50 percent of the annual tax credits to be allocated to local communities with a population of less than 150,000.

Keeping workforce housing affordable for reasonable time – To help ensure the workforce housing created through these tax credits remains affordable into the future, SB 172/AB 156 requires the housing development to record a restrictive covenant requiring the workforce housing units to remain affordable for at least 15 years.

Limits duration of tax credit to 5 years – To help address Wisconsin's immediate workforce housing shortage, SB 172/AB 156 limits the duration of the proposed workforce housing tax credit program to 5 years.

We respectfully request your support for SB 172/AB 156, as amended. If you have questions or need additional information, please contact us.



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Despite uptick in construction and subdivision lots (2018-2020), new housing production remains <u>less than half of historic trends.</u>

Wisconsin Building Permits and Subdivision Lot Summary

	1994 - 2004	2012 - 2017	2018 - 2020
Avg. Lots (by subdivision), per year	14,255	3,120	4,996
Avg. Building permits, per year	35,908	16,070	18,733
Avg. building permits per 1,000 population	6.78	2.79	3.21

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Declining Housing Affordability
in Nearly All Wisconsin Metro Regions

Median-Price to Median-Income Ratio (Wis. Metros)	2015	2020	Change
Milwaukee-Waukesha-West Allis, WI	3.89	4.24	9.0% ↑
Madison, WI	3.68	4.03	9.5% ↑
Racine, WI	2.69	3.08	14.5% ↑
Green Bay, WI	2.57	2.99	16.3% ↑
Oshkosh-Neenah, WI	2.45	2.94	20.0% ↑
La Crosse-Onalaska, WI-MN	2.85	2.93	2.8% ↑
Sheboygan, WI	2.46	2.80	13.8% ↑
Appleton, WI	2.32	2.79	20.3% ↑
Janesville-Beloit, WI	2.38	2.60	9.2% ↑
Eau Claire, WI	2.83	2.58	-8.8% ↓
Wausau, WI	2.54	2.41	-5.1% ↓
Fond du Lac, WI	2.17	2.28	5.1% ↑
Chicago-Naperville-Elgin, IL-IN-WI	3.39	3.70	9.1% ↑
Minneapolis-St. Paul-Bloomington, MN-WI	3.11	3.69	18.6% ↑
Duluth, MN-WI	2.70	2.66	-1.5% ↓
United States	**3.97**	**4.37**	**10.1%** ↑

Source: Joint Center for Housing Studies, Harvard University: State of the Nation's Housing, 2021

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Many Wisconsin Counties Have More Jobs than Housing Units

County	Jobs/Housing Ratio 2019
Waukesha	1.48
Dane	1.42
Brown	1.39
Outagamie	1.38
La Crosse	1.34
Eau Claire	1.28
Sauk	1.23
Winnebago	1.20
Sheboygan	1.19
Marathon	1.16
Milwaukee	1.15
Ozaukee	1.12
Monroe	1.06
Portage	1.06
Fond du Lac	1.04
Wood	1.04

Source: BLS QCEW (jobs); Census (housing units)

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WEDA
Wisconsin Economic Development Association

Testimony on *Senate Bill 172* before the

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND REVENUE

March 3, 2022

Wisconsin Economic Development Association

Good morning, Chairman Kooyenga and members of the committee. My name is Michael Welsh, and I am the Legislative Affairs Director for the Wisconsin Economic Development Association. Thank you for the opportunity to testify today in favor of Senate Bill 172 and its Assembly companion bill (AB 156), which will create a critical tool to help spur the development of much-needed workforce housing in communities across the state.

I would like to thank Chairman Kooyenga for holding a public hearing on this bill, as well as Sen. Bernier and Rep. Summerfield for introducing the legislation. WEDA certainly appreciates their efforts to address the state's housing shortage.

By way of background, WEDA is a statewide association representing over 400 public and private sector economic development professionals. We are dedicated to advancing economic prosperity in Wisconsin and providing our members with the necessary tools to encourage business expansion, promote private investment, and attract much-needed talent to the state.

As I am sure you have heard repeatedly from local businesses in your districts, one of the biggest – if not the biggest – challenge facing Wisconsin employers today is their inability to find enough workers to fill open jobs. In fact, the shortage has reached a crisis point for businesses in nearly every sector and is threatening Wisconsin's future economic growth.

There are numerous reasons behind the state's labor crunch, but there is no question our housing shortage is a key contributing factor. Without the construction of new housing that appeals to young professionals and working families, it will remain difficult to keep and attract new workers to Wisconsin.

As you know, Wisconsin has an inadequate, aging housing stock, and there simply is not enough new housing being built to meet demand. This lack of affordable housing for middle-income workers, such as nurses, teachers, and firefighters who are overqualified for traditional affordable housing but cannot afford market-rate housing is a growing crisis that must be addressed by policymakers.

Of course, there are several causes driving Wisconsin's housing crunch, including the rising cost of construction and excessive land use regulations, but effective solutions are harder to identity. Fortunately, I believe the legislation before you today can play a key role in addressing our workforce housing shortage, which is threatening the economic vitality of local communities in every corner of Wisconsin.

Senate Bill 172 would create a state workforce housing tax credit modeled after Wisconsin's low-income housing t ax credit passed into law during the 2017-19 session. The difference with this legislation is that it focuses on the so-called "missing middle" of the housing spectrum – housing for working individuals and families earning between 60 percent and 100 percent of area median income. The bill would authorize the Wisconsin Housing and Economic Development Authority (WHEDA) to allocate up to $42 million per year in tax credits for eligible multi-family workforce housing developments.

Currently, the cost of construction has made it difficult to develop affordable housing, especially in rural parts of the state. In fact, it is almost impossible for home builders to financially justify new housing developments without incentives such as tax credits.

If passed into law, SB 172 would incentivize the development of modern, affordable multi-family housing projects that meet the demands of younger workers and families and that are located near employment centers, schools, critical services, and other amenities.

From a broader economic development perspective, affordable housing is essential to business expansion and job creation. The availability of workforce housing helps businesses recruit and retain employees. When companies consider opening a new location or relocating to a new state, they consider the availability and cost of housing in that community. If an employer believes their employees would be priced out of the local housing market, they are likely to consider a different location to expand.

Without question, the shortage of affordable workforce housing brings with it many missed opportunities for economic growth. Wisconsin simply cannot afford to continue to overlook our growing housing crisis.

SB 172 could significantly boost workforce housing development and provide Wisconsin communities with an effective new housing tool. I encourage your support for this important legislation and would ask you to pass it out of committee as amended by the Assembly.

Thank you for your consideration.

Wisconsin Bankers ASSOCIATION

<u>Testimony of the Wisconsin Bankers Association</u>

Senate Committee on Financial Institutions and Revenue
Senate Bill 172

March 3, 2022

Chairman Kooyenga and members of the Senate Committee on Financial Institutions and Revenue,

The Wisconsin Bankers Association appreciates the opportunity to testify today in support of Senate Bill 172, legislation creating a new workforce housing tax credit program.

WBA commends Senator Kathy Bernier and Representative Rob Summerfield for bringing this important legislation forward.

Take an economics course and you are bound to learn about factors of production – generally land, labor, and capital – as the inputs required for the creation of goods and/or services. Banks, through their lending and expertise, are uniquely positioned to help their business customers successfully harness and harmonize these factors, and others, as they work to sustain and grow our state's economy.

But at this current juncture, ask a banker what challenge is top of mind for their business customers and the answer will be one legislators are becoming more and more accustomed to hearing: labor and workforce. Whether it is having to forgo growth opportunities, or as dire as not having personnel to execute core functions, labor shortages are negatively impacting businesses across the state both explicitly and implicitly.

Though one certainly cannot isolate it as the only cause, a key contributor to the workforce shortages we are experiencing is the lack of affordable housing, or housing altogether. We cannot expect local economies to succeed if the workforce necessary to power it is priced out or unable to find housing.

SB 172 takes a concrete step toward addressing this problem by incentivizing the development of workforce housing in a meaningful and targeted way. Therefore, WBA respectfully urges you to support SB 172.

Questions? Please contact John Cronin at jcronin@wisbank.com or 608-441-1215

Founded in 1892, WBA is the state's largest financial industry trade association, representing over 200 banks and savings institutions, their branches, and over 21,000 employees. The Association represents banks of all sizes in Wisconsin, and over 98% of banks in the state are WBA members.

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WHEDA

TO: Members of the Senate Committee on Financial Institutions and Revenue

FROM: WHEDA

RE: Senate Bill 172/Assembly Bill 156 (Workforce Housing Tax Credit)

DATE: March 3, 2022

The Wisconsin Housing and Economic Development Authority (WHEDA) appreciates the opportunity to testify on Senate Bill 172 and Assembly Bill 156, companion bills creating a workforce housing tax credit to be administered by WHEDA.

For people to thrive, for communities to flourish, for employers to compete and succeed, affordable workforce housing is a necessity. Yet a growing number of individuals are unable to live in the communities in which they work due to a lack of affordable housing options. COVID-19 has only made things worse. The supply of homes and rental units has not kept up with population growth and income growth has lagged behind the rate at which rental costs have increased. The cost of construction is increasing at a rapid pace. Rising rents are eating up more and more of families' budgets.

We know that it will take all of us working together to make an impactful difference in our communities when it comes to affordable housing. Building on the federal and Wisconsin Housing Tax Credit programs, which have proven to be extremely effective and efficient in creating and preserving affordable housing, is one strategy. Exploring other innovative solutions is another approach. The legislation before you today, SB 172 and AB 156, provides WHEDA with another tool in the toolbox to incentivize the development of affordable workforce housing.

As AB 156 moved through the Assembly, WHEDA collaborated with stakeholders and the bill's authors on amendments to enhance the functionality of the proposed workforce housing tax credit and address administrative issues. WHEDA would like to express its appreciation to Sen. Bernier and Rep. Summerfield and their staff for engaging WHEDA on these issues and adopting these amendments which are reflected in AB 156 as passed by the Assembly.

WHEDA looks forward to continuing to work with elected officials, developers, lenders, housing group and community leaders to leverage our collective strengths and develop innovative solutions to help address Wisconsin's ever-changing housing landscape.

If you have any questions, please contact Kim Plache, WHEDA Interim Executive Director, at Kim.Plache@WHEDA.com or at (262) 412-4123.