ROB SUMMERFIELD
STATE REPRESENTATIVE • 67th ASSEMBLY DISTRICT

June 8, 2021

Representative Macco, Chair
Representative Wittke, Vice-Chair
Members of the Assembly Committee on Ways and Means

Testimony on 2021 Assembly Bill 156

Relating to: state workforce housing income and franchise tax credit and requiring the exercise of rule-making authority

Dear Chairman Macco, Vice-Chair Wittke, and Committee Members:

Thank you for providing me with the opportunity to testify at today's public hearing on Assembly Bill 156. I appreciate your time and consideration of this legislation.

At a recent informational hearing in the Senate Committee on Housing, Commerce and Trade, various experts painted the picture of a Wisconsin that is at risk of falling behind. Recent reports from the Wisconsin REALTORs Association, the Wisconsin Manufacturers and Commerce group, and several industry experts at UW-Madison have all identified a shortage in workforce housing units as one of the major challenges Wisconsin faces in the coming decades.

Assembly Bill 156 seeks to encourage the construction of new housing complexes by establishing a Wisconsin Workforce Housing Tax Credit. Specifically, it targets "missing middle housing" by requiring that a development have at least 25 percent of its rental units occupied by individuals whose income is between 61 and 100 percent area median income (AMI). Missing middle homes are multi-unit buildings in spacious neighborhoods that traditionally exist between the more crowded downtown high-rises and dispersed single-family homes. These designs are a great way to tackle the housing shortage as they are more economical for both producers and consumers, and they are attractive to younger professionals as they provide greater freedom while not committing them to a potentially risky long-term investment.

This program is modeled after and seeks to compliment Wisconsin's Low-Income Housing Tax Credit (LIHTC) Program's State Credit created during the 2017-18 session.

A workforce housing tax credit will be another tool in the tool box at our disposal to address Wisconsin's emerging housing shortage. I ask that you join me in supporting this bill and help move our state forward.

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STATE SENATOR KATHY BERNIER
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From: **Senator Kathy Bernier**

To: **The Assembly Committee on Ways and Means**

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

Date: **June 8, 2021**

Thank you Chairman Macco 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 the 61 to 100% band of area median income. 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.

I am aware there are still some technical changes that need to be addressed with this bill. I trust the committee process and your work today to discuss some of the ways to enhance this bill. However, as the bill was written, it would provide for up to $42 million in tax credits from WHEDA for rental properties in Wisconsin provided that at least 25% of the rental units are occupied by these members of the workforce. This is a laudable goal and I thank Representative Summerfield and his staff for all the work on this bill, and I thank you again for your committee's consideration.

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06/08/21

TESTIMONY: AB156-SB172
Assembly Ways and Means Committee
June 8, 10 a.m. 328 Northwest State Capitol

PRESENTED BY:
- WHEDA LEGISLATIVE PROGRAM AND POLICY ANALYST DEB SYBELL
- WHEDA CHIEF FINANCIAL OFFICER SHERRY GERONDALE

OVERVIEW: DEB SYBELL
- GREETINGS CHAIR MACCO, VICE CHAIR WITTKE AND MEMBERS OF THE ASSEMBLY COMMITTEE ON WAYS AND MEANS.
- I'M DEB SYBELL, LEGISLATIVE PROGRAM AND POLICY ANAYLST WITH THE WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY. WE APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY ON ASSEMBLY BILL 156.
- WHEDA SHARES YOUR COMMITMENT TO ADDRESSING THE STATEWIDE SHORTAGE OF HOUSING.
- FOR PEOPLE TO THRIVE, FOR COMMUNITIES TO FLOURISH, FOR EMPLOYERS TO COMPETE AND SUCCEED, AFFORDABLE WORKFORCE HOUSING IS A NECESSITY.
- AS PART OF ITS WORK TO CULTIVATE AN ECOSYSTEM OF GREATER EQUITY AND ECONOMIC OPPORUNITY, WHEDA IS SUPPORTING EFFORTS AT LOCAL, STATE AND NATIONAL LEVELS TO OVERCOME WISCONSIN'S HOUSING GAP.
- WE LOOK FORWARD TO WORKING WITH YOU TO ADDRESS THIS GAP AND WELCOME INNOVATIVE AND WORKABLE APPROACHES.
- WE VALUE OUR PARTNERSHIP WITH DEVELOPERS AND BUSINESS LEADERS ON TAX CREDIT PROJECTS AND HAVE ADVANCED PREVIOUS PROJECTS WITH GAP FINANCING. WE ALSO HAVE WORKED COLLABORATIVELY WITH THE LEGISLATIVE OFFICES AND LOOK FORWARD TO CONTINUING SHARED DIALOGUE ON HOUSING ISSUES.
- IN THIS SPIRIT, LET'S TAKE A CLOSER LOOK AT AB 156.
  - FROM OUR REVIEW, IT APPEARS THAT AB 156 WOULD UNFORTUNATELY CREATE RELATIVELY FEW UNITS AND LIKELY IN JUST A HANDFUL OF COMMUNITIES.
  - WHY DO WE SAY THIS? THE PROPOSED TAX CREDIT LACKS THE ABILITY TO PAIR WITH CRITICAL WHEDA GAP FINANCING AND OTHER FINANCING OFTEN USED TO COMPLETE THE DEALS.

- THE MAXIMUM RENTS PERMITTED UNDER THE BILL WOULD MAKE IT DIFFICULT, IF NOT IMPOSSIBLE, FOR ANYONE EARNING UNDER 100% OF AREA MEDIAN INCOME TO AFFORD RENTS IN THE UNITS. AS A RESULT, THIS PROPOSAL WOULD ACT AS A SUBSIDY OF MARKET RATE UNITS.
    - AS SUCH, THE RENT WOULD NOT BE AFFORDABLE FOR MANY WORKERS IN OUR COMMUNITIES, INCLUDING STARTING MANUFACTURING AND CONSTRUCTION WORKERS, ENTRY-LEVEL TEACHERS, RETAIL WORKERS AND OTHERS.
    - THE LIMITED INCOME BAND COULD LEAD TO WORKFORCE INSTABILITY WHEN RENTERS IN THESE UNITS DROP BELOW OR EXCEED THE INCOME RESTRICTION. THIS COULD BE ADDRESSED THROUGH AN AMENDMENT. WHEDA WOULD BE HAPPY TO PROVIDE SUGGESTED LANGUAGE TO ADDRESS THIS CONCERN.
    - WHEDA ALSO HAS CONCERNS THAT BECAUSE THESE STAND-ALONE STATE HOUSING TAX CREDITS WOULD NOT BE PAIRED WITH FEDERAL TAX CREDITS, THE BILL WOULD CREATE INEFFICIENCIES FOR DEVELOPERS AND INVESTORS TRYING TO GENERATE EQUITY FROM THE SALE OF THE CREDITS.
- BY COMPARISON, EXISTING STATE AND FEDERAL HOUSING TAX CREDIT PROGRAMS ARE EXTREMELY EFFECTIVE AND ARE MOVING THE NEEDLE ON AFFORDABLE WORKFORCE HOUSING.
- WITH INCOME AVERAGING, EXISTING STATE AND FEDERAL HOUSING TAX CREDIT PROGRAMS ALLOW DEVELOPERS TO PRODUCE UNITS THAT ARE AVAILABLE TO TENANTS WITH INCOMES UP TO 80% OF AREA MEDIAN INCOME. IN MANY COMMUNITIES THIS IS THE MARKET RATE.
- EXPANDING THE EXISTING STATE HOUSING TAX CREDIT PROGRAM AND CONSIDERING NEW PROGRAMS SUCH AS NOVEL APPROACHES TO SUPPORT SINGLE FAMILY REHABILITATION LIKELY WOULD OFFER THE MOST EFFICIENT AND BROADLY SUCCESSFUL PATH FORWARD.
- WHEDA IS COMMITTED TO SERVING AS A RESOURCE AS YOU AND OTHERS CONSIDER AB 156 AND WEIGH WHAT REPRESENTS THE BEST APPROACH TO ADDRESSING THE AFFORDABLE HOUSING NEEDS IN THE COMMUNITIES YOU REPRESENT.
- NOW, I'D LIKE TO TURN IT OVER TO WHEDA CHIEF FINANCIAL OFFICER SHERRY GERONDALE TO COMMENT ON SOME OF THE TECHNICAL CHALLENGES WITH THIS BILL.

TECHNICAL RECOMMENDATIONS: SHERRY GERONDALE

- THANK YOU DEB AND THANK YOU CHAIR MACCO, VICE CHAIR WITTKE AND COMMITTEE MEMBERS.
- TO ELABORATE ON DEB'S REMARKS, I WANT TO REITERATE THAT WHEDA IS INNOVATING FINANCIALLY AND EXTENDING SUPPORT TO THE PRIVATE SECTOR TO GET MORE HOUSING BUILT. BEYOND THE TAX CREDITS AND TRADITIONAL TAX-EXEMPT BOND FINANCING, WE ARE SUPPORTING ISSUANCE OF CONDUIT BONDS AND OTHER TOOLS TO SUPPORT THE PRIVATE SECTOR.
- AS FOR THE MERITS OF THIS BILL, OUR MODELING SHOWS THAT IN EXCHANGE FOR THE $42 MILLION REDUCTION OF STATE REVENUE, JUST 350 TO 550 UNITS LIKELY WOULD BE PRODUCED ANNUALLY. THIS IS BASED ON WHEDA'S

KNOWLEDGE OF EXISTING SOURCES OF FINANCING NEEDED TO BRING THESE DEALS TO COMPLETION.

- BY COMPARISON, UNDER THE 2021 ANNUAL ALLOCATION OF STATE AND FEDERAL 4% PAIRED CREDITS, 1,355 UNITS WILL BE CREATED.
- THIS IS WHY WHEDA FULLY SUPPORTS PROVISIONS IN GOVERNOR EVERS' BUDGET TO EXPAND THE ANNUAL STATE TAX CREDIT AUTHORIZATION TO $100 MILLION FROM THE CURRENT $42 MILLION. THE PROGRAM IS EFFECTIVE AND THERE ARE MORE DEALS THAT CAN BE DONE.
- CONSISTENT WITH THE EXISTING HOUSING TAX CREDIT PROGRAM, WHEDA APPRECIATES THE PROVISION IN AB 156 THAT WOULD ALLOW THE CREDITS TO BE ISSUED IN ACCORDANCE WITH A QUALIFIED ALLOCATION PLAN ESTABLISHED BY WHEDA.
- HOWEVER, OTHER ASPECTS OF THE LEGISLATION RAISE CONCERNS, INCLUDING THE VERY REAL LIKELIHOOD THAT THE PROPOSAL ALONE WILL NOT EFFECTIVELY CREATE UNITS. THIS IS DUE TO ANTICIPATED FUNDING GAPS.
- PROVISIONS IN THE BILL THAT ESTABLISH STATUTORY MINIMUM INCOME REQUIREMENTS RAISE ADDITIONAL CONCERNS.
    - ESTABLISHING STATUTORY MINIMUM INCOME REQUIREMENTS FOR TENANTS MAY CREATE UNINTENDED NEGATIVE CONSEQUENCE FOR RENTERS IN THE WORKFORCE HOUSING UNITS.
    - MANY TENANTS MAY EXPERIENCE A TEMPORARY REDUCTION IN INCOME YET CAN REMAIN IN PLACE AND PAY RENT BY USING SAVINGS UNTIL CIRCUMSTANCES IMPROVE.
    - THE INCOME FLOOR ALSO WOULD LIMIT MANAGEMENT FLEXIBILITY AND INCREASE THE REGULATORY BURDEN FOR PROPERTY MANAGERS.
- PROVISIONS IN THE BILL THAT REQUIRE WHEDA TO ALLOCATE AT LEAST 50% OF THE ANNUAL CREDIT TO DEVELOPMENTS IN COMMUNITIES WITH FEWER THAN 150,000 RESIDENTS FURTHER COMPLICATE THE FINANCIAL PROSPECTS FOR THESE PROJECTS AS FEWER SOURCES OF GAP FINANCING MAY BE AVAILABLE.
- IN CLOSING, I'D LIKE TO SHARE AN EXAMPLE OF HOW AFFORDABLE WORKFORCE HOUSING IS BEING BUILT NOW UNDER THE EXISTING STATE AND FEDERAL 4% PROGRAM.
- TODAY IN FITCHBURG THERE IS A GROUNDBREAKING FOR A PROJECT CALLED THE LIMERICK. IN ADDITION TO ITS 100 UNITS OF MUCH-NEEDED AFFORDABLE SENIOR HOUSING, THE LIMERICK INCLUDES 27 UNITS OF WORKFORCE HOUSING SPECIFICALLY DESIGNED FOR FAMILIES.
- THE LIMERICK'S WORKFORCE HOUSING UNITS FEATURE THREE BEDROOMS WITH TWO-AND-A-HALF BATHS. TO DATE, VERY FEW AFFORDABLE APARTMENTS OFFER THREE BEDROOMS, MUCH LESS TWO-AND-A-HALF BATHS. THESE TOWNHOME UNITS ARE AFFORDABLE AT UP TO 80% OF AREA MEDIAN INCOME, WITH SOME RESERVED FOR WORKING FAMILIES WITH INCOMES BELOW THIS LEVEL.
- WHEDA IS PROUD TO SUPPORT THIS PROJECT THROUGH THE AWARD OF STATE AND FEDERAL 4% HOUSING TAX CREDITS, WITHOUT WHICH IT WOULD NOT BE POSSIBLE.
- AGAIN, THESE EXISTING STATE AND FEDERAL TAX CREDITS – WHICH CAN BE PAIRED WITH WHEDA'S TAX EXEMPT BONDS AND GAP FINANCING – ARE AMONG

THE MOST EFFICIENT TOOLS WE HAVE FOR DEVELOPING AFFORDABLE AND WORKFORCE HOUSING.

- THANK YOU FOR THIS OPPORTUNITY TO SHARE INFORMATION.
- WE WOULD BE HAPPY TO ADDRESS YOUR QUESTIONS.

CONTACT: Jennifer Sereno, WHEDA public affairs program manager, Jennifer.Sereno@wheda.com, 608-770-8084

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06/08/21

Q&A: AB156-SB172

Q: Would it be possible to pair this credit with the federal 4% housing tax credit if the 60% floor is dropped?

A: Unfortunately, it's not that simple. Maximum rents would need to be imposed on units supported by the bill for units to be covered by both the new state and the federal program. The maximum income would have to be 80% of area median income assuming income averaging, but such units would already qualify for the existing state housing tax credit program. Further, because these proposed credits differ from the existing state housing credits, it would involve a different type of compliance at the project level.

Q: Please provide language about protection for tenants whose income rises above or falls below to 61 to 100% level.

A: Below please find language WHEDA proposed earlier to support technical remedies to the proposal and avoid unintended consequences for tenants.

- **Issue:** The amount of the credit that the owner may claim should be explicitly linked to "qualified basis." As drafted, "qualified basis" is only used to define a recapture event. It should also be referenced in determining the amount of credit initially awarded.
    - **Proposal:** The definition of "Allocation Certificate" should be amended as follows in each instance in the bill as follows:
        - "Allocation certificate" means a statement issued by the authority certifying that a qualified housing development is eligible for a credit under this subsection and specifying the amount of the credit that the owners of the development may claim for each taxable year of the credit period. <u>Such amount shall be proportionate to the qualified basis of the development</u>.
- **Issue:** As this tax credit program is not coupled to the federal LIHTC program, the bill should explicitly address how over-income and under-income tenants shall be addressed.
    - **Proposal:** Section 234.46 (8) should be revised as follows to address these issues explicitly.
        - (8) POLICIES AND PROCEDURES.
            - <u>(a)</u> The authority, in consultation with the department of revenue, shall establish policies and procedures to administer this section.

- (b) The authority shall adopt policies and procedures consistent with 24 USC 42(g)(2)(D) to address qualified units occupied by individuals whose tenant income exceeds 100 percent of area median gross income subsequent to occupancy.
- (c) Qualified units occupied by individuals whose tenant income drops below 61 percent of area median gross income subsequent to occupancy shall still be considered qualified units.

Q: How would we adjust the rent limit language to make these units more affordable for people closer to the 60% end of the spectrum.

A: WHEDA would respectfully suggest establishing the maximum rent at 30% of 75% of the area median income (or less).

Q: Is it possible to quantify the need for housing at 80% or less or area median income vs. 80% to 100% of area median income.

A: According to the National Low Income Housing Coalition, for the lowest-income households, an estimated 86% spend more than 30% of household income on rent. By comparison, for households earning between 80% and 100% of median income, less than 5% spend more than 30% of income on rent. Legislative Fiscal Bureau Paper 115 (2021-23 State Budget) provides additional insight: "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."

CONTACT: Jennifer Sereno, WHEDA public affairs program manager, Jennifer.Sereno@wheda.com, 608-770-8084

WISCONSIN STANDARD MULTIFAMILY TAX SUBSIDY PROJECT INCOME LIMITS
Estimated Maximum Rent Limits at 60% 2021 County Median Income
Effective April 1, 2021

BEDROOM SIZE:	EFF.	ONE	TWO	THREE	FOUR	FIVE	SIX
COUNTY:							
Brown	847	908	1090	1259	1405	1550	1695
Calumet	900	963	1156	1335	1489	1644	1798
Chippewa	840	900	1080	1248	1392	1536	1680
Columbia	874	936	1123	1298	1449	1598	1747
Dane	1083	1160	1392	1608	1794	1980	2166
Dodge	819	877	1053	1215	1356	1496	1636
Door	777	832	999	1155	1288	1421	1554
Douglas	802	859	1030	1191	1329	1466	1603
Dunn	775	831	997	1152	1285	1418	1551
Eau Claire	840	900	1080	1248	1392	1536	1680
Fond du Lac	792	848	1017	1175	1311	1446	1582
Grant	754	808	970	1120	1249	1379	1509
Green	847	908	1090	1259	1405	1550	1695
Green Lake	754	808	970	1120	1249	1379	1509
Iowa	856	917	1101	1272	1419	1565	1711
Jefferson	828	887	1065	1230	1372	1514	1656
Kenosha	856	917	1101	1272	1419	1565	1711
Kewaunee	847	908	1090	1259	1405	1550	1695
La Crosse	847	907	1089	1257	1402	1548	1693
Lincoln	769	824	988	1142	1275	1406	1537
Manitowoc	759	813	975	1126	1257	1387	1516
Marathon	834	893	1071	1237	1380	1523	1666
Milwaukee	886	950	1140	1317	1470	1621	1773
Monroe	769	824	988	1142	1275	1406	1537
Oconto	754	808	970	1120	1249	1379	1509
Oneida	760	815	978	1129	1260	1390	1521
Outagamie	900	963	1156	1335	1489	1644	1798
Ozaukee	886	950	1140	1317	1470	1621	1773
Pepin	763	818	982	1134	1266	1396	1527
Pierce	1102	1181	1417	1636	1825	2014	2203
Polk	754	808	970	1120	1249	1379	1509
Portage	844	905	1086	1254	1399	1544	1689
Racine	811	869	1042	1204	1344	1483	1621
Rock	766	821	985	1139	1270	1402	1533
St. Croix	1102	1181	1417	1636	1825	2014	2203
Sauk	789	845	1014	1172	1308	1443	1578
Sheboygan	808	866	1039	1201	1341	1479	1617
Trempealeau	771	825	990	1143	1276	1407	1540
Walworth	826	885	1063	1227	1369	1511	1653
Washington	886	950	1140	1317	1470	1621	1773
Waukesha	886	950	1140	1317	1470	1621	1773
Waupaca	781	837	1003	1159	1293	1427	1561
Winnebago	814	872	1047	1209	1348	1488	1627
Wood	754	808	970	1120	1249	1379	1509

Rent limits for the counties listed below are based on the 2021 Median Family Income for the Nonmetropolitan portions of the state.

Adams Ashland Barron Bayfield Buffalo Burnett Clark Crawford Florence Forest Iron Jackson Juneau Lafayette Langlade Marinette Marquette Menominee Price Richland Rusk Sawyer Shawano Taylor Vernon Vilas Washburn Waushara

BEDROOM SIZE:	EFF.	ONE	TWO	THREE	FOUR	FIVE	SIX
Rents:	754	808	970	1120	1249	1379	1509

WISCONSIN STANDARD MULTIFAMILY TAX SUBSIDY PROJECT INCOME LIMITS

Estimated Maximum Family Income Limits at 60% of HUD Estimated 2021 County Median Income

Effective April 1, 2021

FAMILY SIZE	ONE	TWO	THREE	FOUR	FIVE	SIX	SEVEN	EIGHT	NINE
COUNTY:									
Brown	33,900	38,760	43,620	48,420	52,320	56,220	60,060	63,960	67,800
Calumet	36,000	41,100	46,260	51,360	55,500	59,580	63,720	67,800	71,940
Chippewa	33,600	38,400	43,200	48,000	51,840	55,680	59,520	63,360	67,200
Columbia	34,980	39,960	44,940	49,920	53,940	57,960	61,920	65,940	69,900
Dane	43,320	49,500	55,680	61,860	66,840	71,760	76,740	81,660	86,640
Dodge	32,760	37,440	42,120	46,740	50,520	54,240	57,960	61,740	65,460
Door	31,080	35,520	39,960	44,400	48,000	51,540	55,080	58,620	62,160
Douglas	32,100	36,660	41,220	45,780	49,500	53,160	56,820	60,480	64,140
Dunn	31,020	35,460	39,900	44,280	47,880	51,420	54,960	58,500	62,040
Eau Claire	33,600	38,400	43,200	48,000	51,840	55,680	59,520	63,360	67,200
Fond du Lac	31,680	36,180	40,680	45,180	48,840	52,440	56,040	59,640	63,300
Grant	30,180	34,500	38,820	43,080	46,560	49,980	53,460	56,880	60,360
Green	33,900	38,760	43,620	48,420	52,320	56,220	60,060	63,960	67,800
Green Lake	30,180	34,500	38,820	43,080	46,560	49,980	53,460	56,880	60,360
Iowa	34,260	39,120	44,040	48,900	52,860	56,760	60,660	64,560	68,460
Jefferson	33,120	37,860	42,600	47,280	51,120	54,900	58,680	62,460	66,240
Kenosha	34,260	39,120	44,040	48,900	52,860	56,760	60,660	64,560	68,460
Kewaunee	33,900	38,760	43,620	48,420	52,320	56,220	60,060	63,960	67,800
La Crosse	33,900	38,700	43,560	48,360	52,260	56,100	60,000	63,840	67,740
Lincoln	30,780	35,160	39,540	43,920	47,460	51,000	54,480	58,020	61,500
Manitowoc	30,360	34,680	39,000	43,320	46,800	50,280	53,760	57,240	60,660
Marathon	33,360	38,100	42,840	47,580	51,420	55,200	59,040	62,820	66,660
Milwaukee	35,460	40,560	45,600	50,640	54,720	58,800	62,820	66,900	70,920
Monroe	30,780	35,160	39,540	43,920	47,460	51,000	54,480	58,020	61,500
Oconto	30,180	34,500	38,820	43,080	46,560	49,980	53,460	56,880	60,360
Oneida	30,420	34,800	39,120	43,440	46,920	50,400	53,880	57,360	60,840
Outagamie	36,000	41,100	46,260	51,360	55,500	59,580	63,720	67,800	71,940
Ozaukee	35,460	40,560	45,600	50,640	54,720	58,800	62,820	66,900	70,920
Pepin	30,540	34,920	39,300	43,620	47,160	50,640	54,120	57,600	61,080
Pierce	44,100	50,400	56,700	62,940	67,980	73,020	78,060	83,100	88,140
Polk	30,180	34,500	38,820	43,080	46,560	49,980	53,460	56,880	60,360
Portage	33,780	38,640	43,440	48,240	52,140	55,980	59,820	63,720	67,560
Racine	32,460	37,080	41,700	46,320	50,040	53,760	57,480	61,200	64,860
Rock	30,660	35,040	39,420	43,800	47,340	50,820	54,360	57,840	61,320
St. Croix	44,100	50,400	56,700	62,940	67,980	73,020	78,060	83,100	88,140
Sauk	31,560	36,060	40,560	45,060	48,720	52,320	55,920	59,520	63,120
Sheboygan	32,340	36,960	41,580	46,200	49,920	53,640	57,300	61,020	64,680
Trempealeau	30,840	35,220	39,600	43,980	47,520	51,060	54,540	58,080	61,620
Walworth	33,060	37,800	42,540	47,220	51,000	54,780	58,560	62,340	66,120
Washington	35,460	40,560	45,600	50,640	54,720	58,800	62,820	66,900	70,920
Waukesha	35,460	40,560	45,600	50,640	54,720	58,800	62,820	66,900	70,920
Waupaca	31,260	35,700	40,140	44,580	48,180	51,720	55,320	58,860	62,460
Winnebago	32,580	37,200	41,880	46,500	50,220	53,940	57,660	61,380	65,100
Wood	30,180	34,500	38,820	43,080	46,560	49,980	53,460	56,880	60,360

Income limits for the counties listed below are based on the 2021 Median Family Income for the Nonmetropolitan portions of the state.

Adams Ashland Barron Bayfield Buffalo Burnett Clark Crawford Florence Forest Iron
Jackson Juneau Lafayette Langlade Marinette Marquette Menominee Price
Richland Rusk Sawyer Shawano Taylor Vernon Vilas Washburn Waushara

FAMILY SIZE	ONE	TWO	THREE	FOUR	FIVE	SIX	SEVEN	EIGHT	NINE
Income:	30,180	34,500	38,820	43,080	46,560	49,980	53,460	56,880	60,360

Wisconsin Economic Development Association

Testimony on *Assembly Bill 156* before the

ASSEMBLY COMMITTEE ON WAYS AND MEANS

June 8, 2021

Wisconsin Economic Development Association

Good morning Chairman Macco and members of the committee. My name is Frank Roman, and I am an Economic Developer Advisor with Ehlers and Associates, a financial advisory firm providing public finance solutions to over 300 local governments in Wisconsin, and similarly maintains a strong presence in Minnesota, as well as being active in other markets throughout the Midwest. I am also a member of the Wisconsin Economic Development Association, a statewide professional association dedicated to advancing economic prosperity in Wisconsin.

Thank you for the opportunity to testify today in favor of Assembly Bill 156. This important legislation will create a critical tool to help spur the development of much-needed workforce housing in communities across the state.

As you know, Wisconsin has an inadequate, aging housing stock, and there simply is not enough new housing being built to meet demand, especially for younger workers and growing families. As advisors to these communities, we are constantly hearing frustration about this situation from local officials and staff. 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.

There are numerous reasons behind 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.

Assembly Bill 156 would create a state workforce housing tax credit modeled after Wisconsin's low-income housing tax 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 61 percent and 100 percent of area median income (AMI) . 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.

Let me give you an example: one of our clients is a higher-income demographic community in Southeast Wisconsin. They recognized that their workforce was priced out of living in the community where they work, sometimes requiring a significant commute to work. The client asked us to study the impact on market-rate apartment deals that were asking for financial assistance under the following circumstances: 1.) 10% of the units were set aside for renters earning 60% of AMI; 2.) another 10% of the units were set aside at 80% AMI; and 3.) the remainder of the units were set as full-market rent. The results were noteworthy.

Using data from an existing 150-unit market rate project –and adjusting only the rents for 20% of the units noted above – the effect of the lower 60% and 80% set-asides reduced net operating income by $200,000, which lowered project value by $3,200,000. This obviously lowers borrowing capacity and causes further stress in financing a project. The effect on project returns was also significant. The average cash-on-cash return, and internal rate of return, each reduced by more than 20%. The results were similar with other projects that were analyzed. It is clear additional resources are required to make up that decrease. Given the effects of the restricted rent structure, tax credits are critical to fill the financing gap, otherwise the project may not be economically feasible and therefore would not proceed.

Currently, the cost of construction has made it difficult to develop affordable modern 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. Like the state low-income housing tax credit program, this financing product can enhance the flow of private capital into much-needed workforce housing.

If passed into law, AB 156 would incentivize the development of the modern, affordable housing that younger workers and families are looking for, and which is located near employment centers, schools, critical services, and other amenities. Furthermore, provisions of the legislation require the project to remain as workforce housing for ten years.

From a broader economic development perspective, affordable housing is critical to business expansion and job creation. The availability of workforce housing helps businesses recruit and retain employees, which we know is already a challenge faced by most Wisconsin businesses. When companies consider opening a new location or relocating to a new state, they take into account the cost of housing in the 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 missed economic growth opportunities for communities throughout the state. Wisconsin simply cannot afford to continue to overlook our growing housing crisis.

While not a silver bullet, AB 156 could play a significant role in addressing Wisconsin's workforce housing shortage and provide local communities with an additional tool to spur new development. I would again encourage you to support this important legislation.

Thank you for your consideration.

Wisconsin REALTORS® Association

NAIOP COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION WISCONSIN CHAPTER

To: Members, Assembly Committee on Ways and Means

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

Date: June 8, 2021

Re: AB 156 – Workforce Housing Income and Franchise Tax Credit

---

The Wisconsin REALTORS® Association (WRA) and NAIOP-WI support AB 156, 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. <u>Wisconsin has not built enough homes to keep up with population and income growth.</u> 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. <u>Construction costs are rising faster than inflation and incomes</u>. 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.

AB 156 -- To help address Wisconsin's housing shortage and rising construction costs, 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, 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, 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, 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, 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, AB 156 requires the housing development to record a restrictive covenant requiring the workforce housing units to remain affordable for at least 15 years.

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

WISCONSIN **REALTORS**® ASSOCIATION

SPECIAL REPORT

FALLING BEHIND

Addressing Wisconsin's workforce housing shortage to strengthen families, communities and our economy.

ALL ACROSS WISCONSIN

communities and employers are recognizing the critical need to address Wisconsin's housing shortage.

WRA

SPECIAL REPORT

FALLING BEHIND

Addressing Wisconsin's workforce housing shortage to strengthen families, communities and our economy.

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ABOUT THE WISCONSIN REALTORS® ASSOCIATION

The WRA is one of the largest trade associations in the state, headquartered in Madison, Wis. The WRA represents and provides services to more than 16,500 members statewide, made up of practicing real estate sales agents, brokers, appraisers, inspectors, bankers and other professionals who touch real estate. The WRA is under the direction of a statewide board of directors, comprised of members from the top real estate firms around the state.

ABOUT THE AUTHOR

Kurt Paulsen, Ph.D., AICP, is a professor of urban and regional planning at the University of Wisconsin–Madison, where he teaches on and researches housing policy, land use planning and public finance. Professor Paulsen was born and raised in Wisconsin, and is a lifelong Badgers, Packers and Brewers fan. He lives in Middleton where he chairs the city's Workforce Housing Committee. His research has appeared in national academic journals; and he has conducted housing research and analysis for Dane County, Waukesha County, and the Wisconsin Housing and Economic Development Authority.

ACKNOWLEDGEMENTS AND DISCLAIMERS

All statements in this document are the opinion of Professor Paulsen himself and do not necessarily reflect the views of the University of Wisconsin, or any city, county or state agency.

Wisconsin REALTORS® Association

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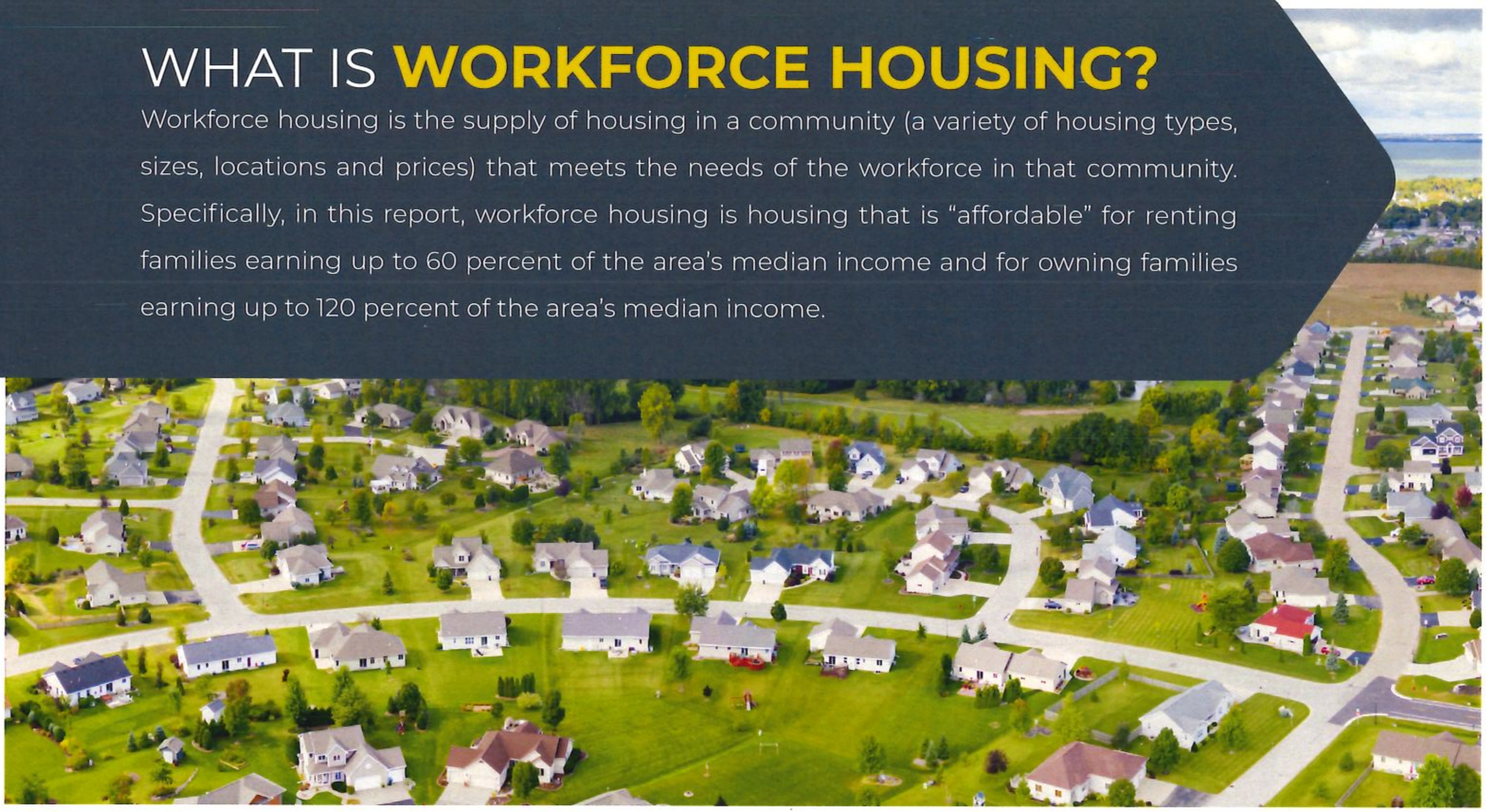
ABOUT THIS STUDY
EXECUTIVE SUMMARY

WHAT IS WORKFORCE HOUSING?

Workforce housing is the supply of housing in a community (a variety of housing types, sizes, locations and prices) that meets the needs of the workforce in that community. Specifically, in this report, workforce housing is housing that is "affordable" for renting families earning up to 60 percent of the area's median income and for owning families earning up to 120 percent of the area's median income.



Wisconsin has a workforce housing shortage. While the Wisconsin economy has returned to growth since the end of the Great Recession, our housing stock is falling behind. We are not building enough housing to keep up with demand for our growing workforce. Our existing housing stock is aging, and construction prices and housing costs are rising faster than inflation and incomes. This state has seen declining homeownership, particularly among younger families, first-time homebuyers, and African American and Hispanic families. Housing costs and rents are rising faster than incomes, too. Compared to our neighboring states, we have the highest rate of extreme rental cost burden for lower-income families and the second highest rate of extreme cost burden for lower-income homeowners.

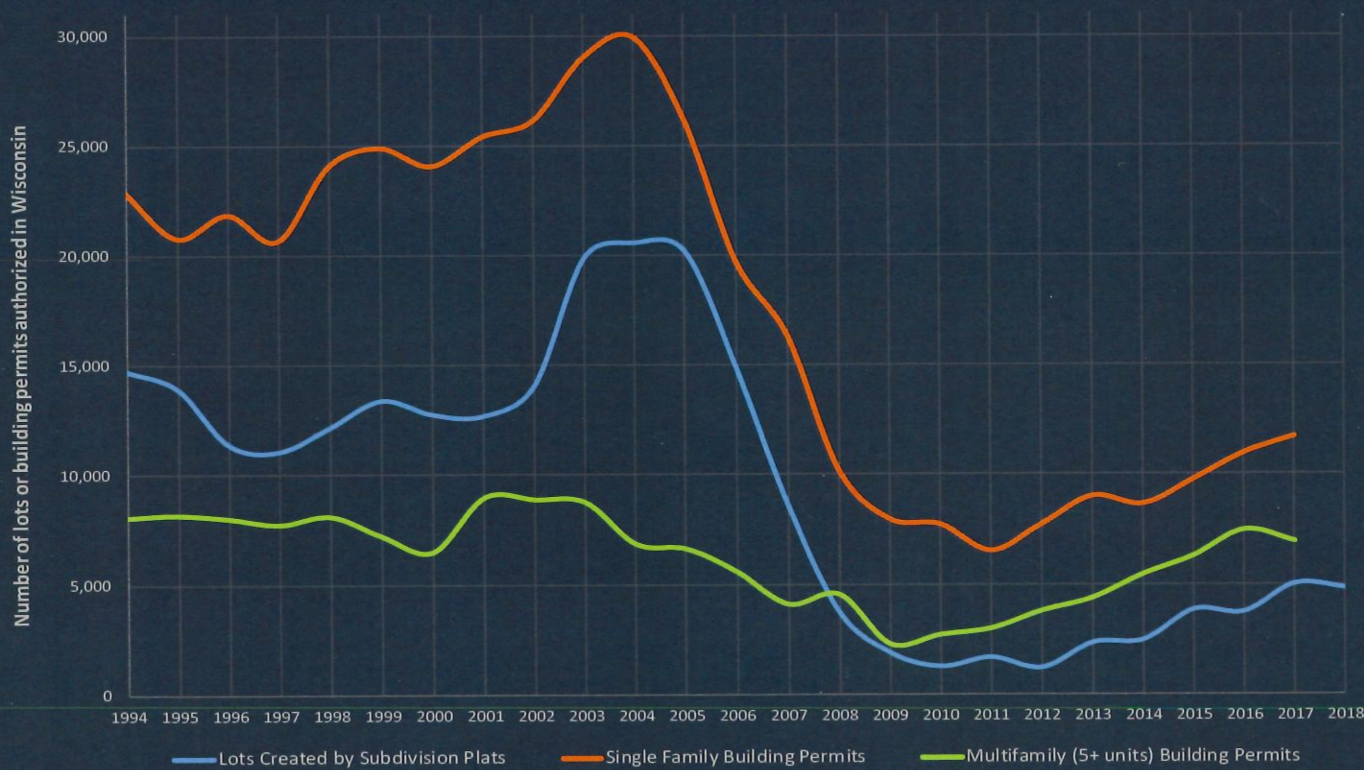
The purpose of this report is to document the significant workforce housing shortage in Wisconsin, and to explain the main causes (lack of supply, rising construction costs and outdated regulations) and main results (rising prices, decreasing homeownership and decreased affordability).

This report also outlines a roadmap to reform to meet our workforce housing challenges. Reforms and policies are focused on five key goals: building more housing, increasing housing choice through a diverse housing stock, rebuilding and strengthening homeownership, reinvesting in older housing and older neighborhoods, and making housing a priority. These reforms and policies can help Wisconsin address our workforce housing shortage; modernize our housing system; and ensure a more prosperous, equitable and sustainable future for all our residents.

CAUSES OF THE **WORKFORCE HOUSING SHORTAGE**

Cause 1: Wisconsin has not built enough homes to keep up with population and income growth. Housing units authorized by building permits and new housing lots are way down from pre-crisis levels, and we are creating about 75 percent fewer lots and 55 percent fewer new housing units than pre-recession averages. Our fastest-growing counties — such as Dane, Brown and Waukesha — have collectively under-produced 15,000 housing units in the past decade.

FIGURE **1**



Source: Subdivision Lots from Wis. Dept. Admin.; Building Permits Database, U.S. Census Bureau.

Cause 2: Construction costs are rising faster than inflation and incomes. In the past seven years, construction costs have risen substantially faster than inflation, and construction companies report severe labor shortages in Wisconsin.

Cause 3: Outdated land use regulations drive up the cost of housing. Large minimum lot sizes, prohibitions on non-single-family housing, excessive parking requirements, requirements for high-end building materials, and long approval processes do not protect public health and safety. They serve mostly to raise the cost of housing.

RESULTS OF **WORKFORCE HOUSING SHORTAGE**

Result 1: Housing costs are rising. The report demonstrates how housing costs are rising across Wisconsin. Housing prices for ownership now exceed pre-crisis (2007) levels. Rents are growing faster than incomes.

Result 2: Declining homeownership, especially among younger households and African American and Hispanic families. While homeownership rates across the United States declined from 2007-2017, Wisconsin was hit particularly hard. Compared to our neighboring states, Wisconsin has lower homeownership rates for 25-34 and 35-44 year-old households than all of our neighbors except Illinois. We have lower homeownership rates for African Americans than all of our neighbors except Minnesota, and have lower Hispanic homeownership rates than all of our neighbors.

Result 3: Declining housing affordability. Overall affordability of housing for our workforce, both owners and renters, has declined in the past decade in Wisconsin. This report presents new measures of workforce housing affordability for renters and owners for each of Wisconsin's counties. Entry-level housing affordability has declined from 2010 to 2017 in 57 of Wisconsin's 72 counties. There are 14 counties across the state where the typical renter household cannot afford the middle-priced rental unit, and another 37 counties where this typical renter household can just barely afford the middle-priced rental home. Over 158,000 renting households in Wisconsin pay more than half of their income for housing, and over 94,000 owning households pay more than half of their income for housing.

Roadmap to Reform:

Addressing Wisconsin's Workforce Housing Challenge. In this report, we present a number of strategies and policies based on our analysis of housing and zoning reform efforts in states such as Utah, New Hampshire, Oregon, New Jersey, Massachusetts and others. We present strategies organized under five goals.

Goal 1: Build more housing.
Strategies and policies under these goals include:

- Expedited permitting and development approval processes for housing at the state and local levels.
- Requiring all cities and villages to allow "missing middle" housing types in at least one residential zoning district.
- Requiring municipalities to allow accessory dwelling units (ADUs).
- Better enforcement of existing requirements.
- Establishing maximum/minimum lot sizes in sewer service areas.

Goal 2: Increase housing choices with a more diverse housing stock.
Strategies and policies include:

- Using tax incentives to reduce costs for workforce housing.
- Requiring municipalities to allow multifamily housing construction in at least one zoning district.
- Encouraging and/or incentivizing municipalities to plan for a better balance between jobs and housing.
- Analyzing statewide workforce housing data.
- Financing for workforce housing in rural areas and small communities.
- Providing additional incentives to local governments to approve workforce housing.
- Workforce housing tax increment financing districts (TID).

Goal 3: Rebuild and strengthen homeownership.
Strategies and policies include:

- Encouraging cities, villages and counties to make funding available for Down Payment Assistance Programs (DPAP).
- Creating a first-time homebuyer savings account program.

Goal 4: Reinvest in older housing stock and neighborhoods. Strategies and policies include:

- Expanding WHEDA's Transform Milwaukee Advantage program.
- Creating a state tax credit or other financial incentives for the rehabilitation of older housing in older neighborhoods.
- Expanding training and apprentice programs for displaced or underemployed workers.

Goal 5: Make housing a priority!
Policies and strategies include:

- Coordinating housing programs across state agencies, expanding financial incentives for development of new and rehabilitation of older housing in areas such as Opportunity Zones and rural areas.
- Providing technical and financial assistance to local governments.
- Providing financing incentives for innovative models, as well as providing pre-development funds for nonprofit and affordable housing providers.

FIGURE **3** **Homeownership Rates Declined in Wisconsin from 2007-2017 Across All Age Groups (except Seniors), with Largest Drop for Youngest Families**

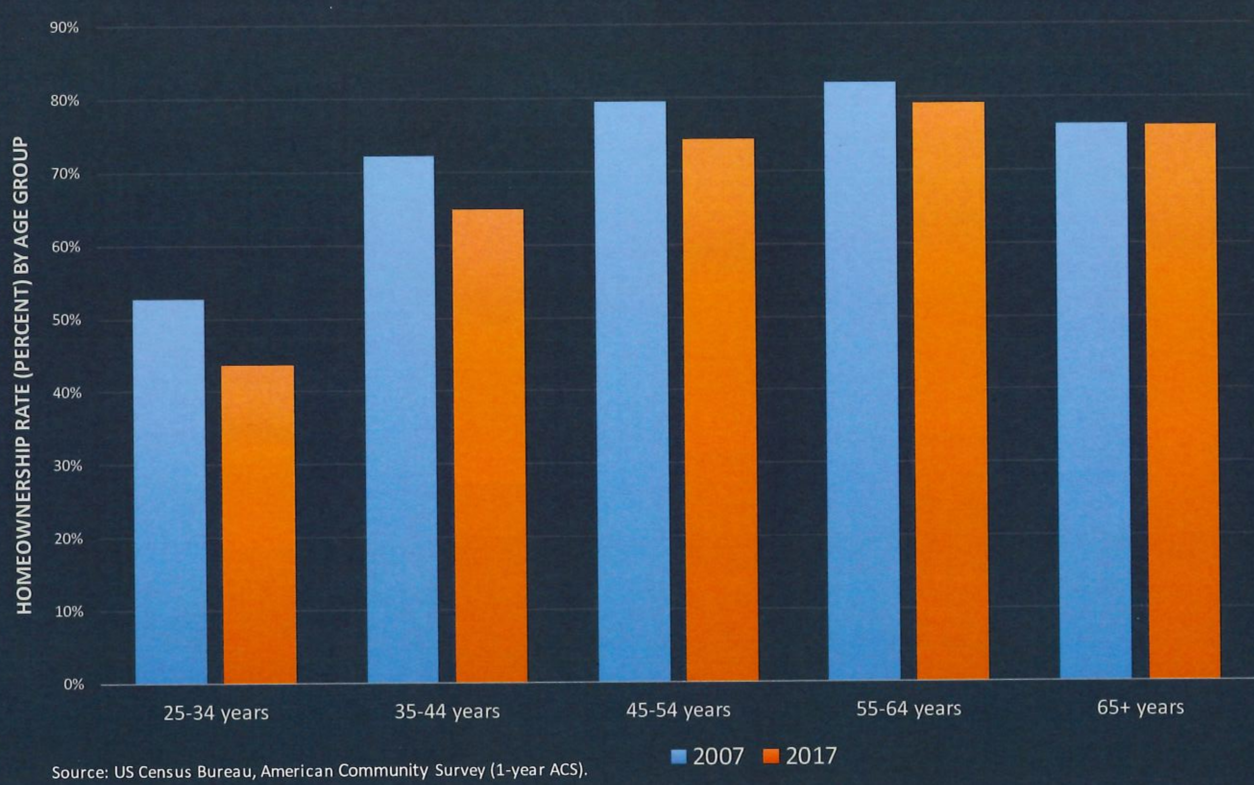
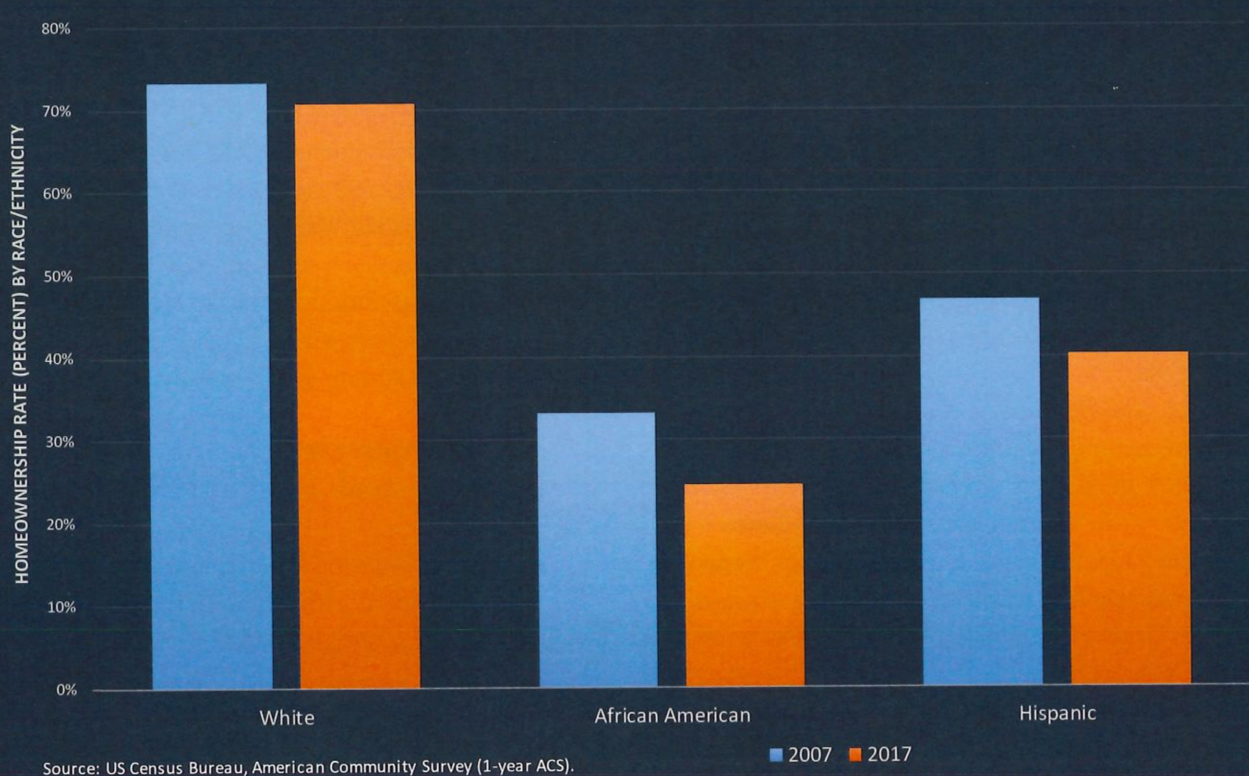


FIGURE **4** **Homeownership Rates Declined in Wisconsin from 2007-2017 Across All Racial/Ethnic Groups, with Largest Drop for African American Families**



INTRODUCTION

WHAT IS **WORKFORCE HOUSING?**

Workforce housing is the supply of housing in a community (a variety of housing types, sizes, locations and prices) that meets the needs of the workforce in that community. Specifically, in this report, workforce housing is housing that is "affordable" for renting families earning up to 60 percent of the area's median income and for owning families earning up to 120 percent of the area's median income.

All across this great state — cities, suburbs, small towns and rural areas — communities and employers are recognizing the critical need to address Wisconsin's workforce housing shortage, to expand housing opportunities for all, and to update our housing system to reflect 21st century needs.

Our business leaders recognize that workers need quality, affordable homes close to where they work or easily accessible to a reliable transportation system. Communities increasingly recognize that workforce housing is economic development because a home is where a job goes to sleep at night.

The Wisconsin economy has slowly returned to growth since the end of the Great Recession. From 2010-2017, Wisconsin experienced a 7.6 percent increase in real (adjusted for inflation) median household income, an 8.2 percent increase in the number of jobs, and a 1.2 percent increase in population.

Our economy is growing, but our housing stock is falling behind.

We are not building enough new housing units to keep up with demand, and we are not building enough housing for our growing workforce. Our existing housing stock is aging faster than most neighboring states.

Construction costs are rising faster than inflation, and regulations often drive up the cost of housing.

The result of this workforce housing shortage has been declining homeownership, particularly among younger-adults, first-time homebuyers and African American and Hispanic families. The result of this workforce housing shortage also has been rising housing costs, with rents rising faster than incomes. And the results of this workforce housing shortage have been particularly hard on workers at the lower end of the wage scale.

On most of the housing indicators presented in this report, we are falling behind neighboring states.

The shortage of workforce housing makes it harder for businesses to recruit or retain workers and harms our economic competitiveness. If workers are unable to find decent, affordable homes near where they work, they either have to live further away and travel long distances or pay a higher portion of their income for housing. Some workers might leave the state altogether, or never come here.

WISCONSIN ECONOMIC GROWTH

The Wisconsin economy has slowly returned to growth since the end of the Great Recession, but our housing stock is falling behind.

The purpose of this report is to document the significant workforce housing shortage in Wisconsin, and to explain the main causes (lack of supply, rising construction costs and outdated regulations) and main results (rising prices, decreasing homeownership and decreased affordability).

This report also outlines a roadmap to reform to meet our workforce housing challenges. Reforms and policies are focused on five key goals: building more housing, increasing housing choice through a diverse housing stock, rebuilding and strengthening homeownership, reinvesting in older housing and older neighborhoods, and making housing a priority. These reforms and policies can help Wisconsin address our workforce housing shortage; modernize our housing system; and ensure a more prosperous, equitable and sustainable future for all our residents.

1. WISCONSIN HAS NOT BUILT ENOUGH HOMES *TO KEEP UP WITH POPULATION AND INCOME GROWTH*

From 1994 through 2004 (before the housing bubble and subsequent crash), building permits for new housing units in Wisconsin averaged nearly 36,000 units per year, including about 24,500 single-family permits and nearly 8,000 multifamily units. During this time period, land divisions ("subdivisions") to create building lots averaged over 14,000 new lots per year.

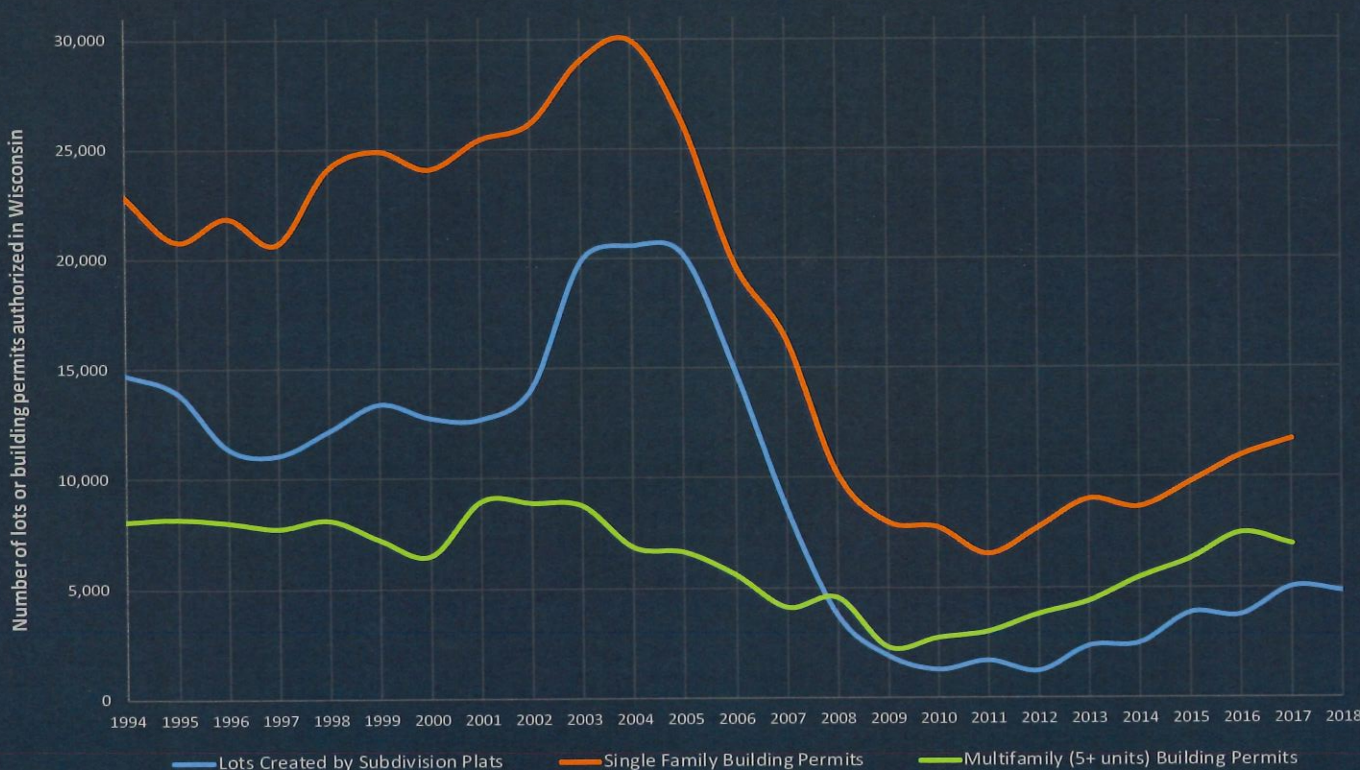
Like all states in the U.S., construction activity significantly declined in Wisconsin during the Great Recession and has not recovered to pre-crisis levels. From 2012 through the most recent data, annual lots created have averaged 3,375 lots per year, and building permits have averaged about 16,000 per year. Housing production is falling behind: we are creating approximately 75 percent fewer lots and 55 percent fewer new homes than pre-recession averages.

FIGURE 1

HOUSING CONSTRUCTION AND SUBDIVISION ACTIVITY IN WISCONSIN HAVE NOT RECOVERED FROM THE GREAT RECESSION AND REMAIN HISTORICALLY LOW

Figure 1 shows the dramatic decline of housing production in Wisconsin. Single-family building permits only climbed back over 10,000 per year in 2016 and remain well below historical levels. Likewise, multifamily building permits dropped off significantly duriang the recession, even as demand for apartments surged. The number of units authorized by multifamily permits are still thousands of units below permit levels in the 90s and early 2000s.

FIGURE 1



Source: Subdivision Lots from Wis. Dept. Admin.; Building Permits Database, U.S. Census Bureau.

1. WISCONSIN HAS NOT BUILT ENOUGH HOMES *TO KEEP UP WITH POPULATION AND INCOME GROWTH*

[CONTINUED]

The population of Wisconsin has increased faster than housing construction. When adjusted for population, building permits per capita and development lots per capita are less than half what they were in the 90s and early 2000s.

If the same rate of construction from 1994 through 2004 were applied to our most recent decade, Wisconsin would have created over 200,000 more new homes and more than 115,000 new building lots.

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. Families trying to save for a down payment fall further behind.

To create a lot or parcel where a home can be built, developers must first get subdivision approval from a local government, and then have that subdivision certified by the Wisconsin Department of Administration (DOA). Figure 1 (on page 11) shows the number of building lots approved in Wisconsin each year based on DOA data. In the past two years, 2017 and 2018, fewer than 10,000 buildable house lots were approved in Wisconsin, even though Wisconsin usually adds 10,000-20,000 net new households each year.

Future homes require buildable lots. The current supply pipeline of buildable lots is low, which only exacerbates the existing housing shortage. If we don't create more lots today, we will fall further behind in the future.

Although a shortage of new housing construction affects all areas of the state, the magnitude of the problem varies across different regions. In a balanced regional housing market, the rate of growth of housing units (supply) should be about the same as the rate of growth of households (demand).

However, 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."

THE THREE FASTEST-GROWING COUNTIES — DANE, BROWN AND WAUKESHA — ACCOUNTED FOR OVER HALF OF THE HOUSEHOLD GROWTH IN WISCONSIN, AND COLLECTIVELY UNDER-PRODUCED 15,000 HOUSING UNITS FROM FROM 2006-2017

TABLE **1**

Table 1 shows the growth in the number of households compared to the growth in net new housing units for Wisconsin's 20 largest counties from 2006-2017. Table 1 shows that the largest 20 counties in Wisconsin under-produced nearly 20,000 units of housing from 2006-2017. The three-fastest growing counties — Dane, Brown and Waukesha — accounted for over half of the household growth in Wisconsin, and collectively under-produced 15,000 housing units, more than three-quarters of the state total. Dane county alone was responsible for the most new households and most new housing units, while also contributing more than half of the statewide supply gap.

Wisconsin's 20 Largest Counties Underproduced Nearly 20,000 Housing Units from 2006-2017

	Growth in households (2006-2017)	Growth in housing units (2006-2017)	Ratio of household growth to housing unit growth	Housing "Underproduction"
Milwaukee County	206	10,754	0.0192	
Dane County	36,334	25,128	1.4460	11,206
Waukesha County	13,199	10,986	1.2014	2,213
Brown County	9,806	8,145	1.2039	1,661
Racine County	2,319	2,645	0.8767	
Outagamie County	5,727	6,249	0.9165	
Winnebago County	3,134	4,903	0.6392	
Kenosha County	3,737	3,922	0.9528	
Rock County	2,516	1,480	1.7000	1,036
Marathon County	3,183	3,231	0.9851	
Washington County	4,019	4,289	0.9370	
La Crosse County	3,402	3,859	0.8816	
Sheboygan County	1,772	1,440	1.2306	332
Eau Claire County	2,504	3,156	0.7934	
Walworth County	3,208	2,671	1.2010	537
Fond du Lac County	3,727	2,929	1.2724	798
St. Croix County	3,164	3,246	0.9747	
Ozaukee County	2,909	2,082	1.3972	827
Dodge County	1,311	1,354	0.9682	
Jefferson County	3,469	2,241	1.5480	1,228
20 Largest Wisconsin Counties	***109,646***	***104,710***	***1.0471***	***19,838***

Source: Author's calculations based on 2006 and 2017 1-year American Community Survey data, U.S. Census Bureau. Households are 1- or more persons who occupy a housing unit. Housing units include vacant structures for sale or rent.

2. CONSTRUCTION COSTS *ARE RISING FASTER THAN INFLATION AND INCOMES WISCONSIN*

Compounding the housing supply gap, construction costs have been rising faster than inflation and income in recent years. From 2010-2017, construction costs have increased by 14.7 percent in Madison, 14.9 percent in Milwaukee, and 16.2 percent in Green Bay. When construction costs go up, new housing becomes more expensive, but so too does existing housing due to increases in repair, remodeling and replacement costs.

The rise in construction costs is due to an increase in material prices, but also due to a severe labor shortage in the building and construction trades. According to the Association of General Contractors survey, 73 percent of Wisconsin construction firms reported labor shortages.

Rising construction costs mean that all forms of housing are becoming more expensive and less available. This creates barriers to homeownership and to rental affordability.

RISING CONSTRUCTION COSTS

Rising construction costs mean that all forms of housing are becoming more expensive and less available. This creates barriers to homeownership and to rental affordability.

3. OUTDATED LAND USE REGULATIONS *DRIVE UP THE COST OF HOUSING*

There is a growing bipartisan consensus that restrictive municipal land use regulations constrain housing supply and drive up the cost of housing. This bi-partisan consensus is seen in policy proposals to reduce regulations from HUD Sec. Ben Carson (Republican) and Sen. Cory Booker (Democrat). Major research publications from the National Association of Home Builders (NAHB) and the Obama Whitehouse call attention to the effects of zoning restrictions on housing prices. Proposals to reduce restrictive zoning regulations so that developers can supply a greater variety of housing at all price points have been presented by the American Enterprise Institute and the Metropolitan Milwaukee Fair Housing Council.

Academic research by economists like Harvard's Ed Glaeser demonstrates that restrictive zoning policies, such as large minimum lot sizes, excessive parking requirements, prohibitions on multifamily development, accessory dwelling units, townhouses or duplexes collectively reduce housing supply and variety and therefore drive up housing costs.

The NAHB regularly surveys developers of housing and estimates that regulations can drive up the cost of single-family homes by at least 24 percent and multifamily housing by 30 percent.

Of course, regulations to protect public health and safety — such as fire safety, building codes, stormwater management and protecting environmentally sensitive lands — are necessary and proper roles for local governments. But large minimum lot sizes, prohibitions on non-single-family housing, excessive parking requirements, requirements for high-end building materials, and long approval processes do not protect public health and safety. They serve mostly to raise the cost of housing.

Restrictive zoning regulations drive up the cost of housing in at least three ways. First, they lower the overall supply of housing units in an area. When supply is restricted but demand is increasing, more families chase fewer units, and prices go up. Second, for housing that is built, the underlying land is more expensive. For example, in the latest national survey of developers by the NAHB, the average price per square foot for a finished residential lot is \$8.22 ft². This would mean that a minimum lot size of 15,000 ft², about 1/3 of an acre, would cost \$123,300 while an 8,000 ft² minimum lot size would cost only \$65,760. In this example, public health and safety are not affected by smaller lot sizes, but the cost of the land for residential development is reduced nearly \$58,000. Third, when land is more expensive and larger lots are required, developers are forced to build more expensive and larger homes to recover their land costs. Large homes on large lots are not affordable to most of the workforce in a community.

LARGE MINIMUM LOT SIZES, PROHIBITIONS ON NON-SINGLE-FAMILY HOUSING, EXCESSIVE PARKING REQUIREMENTS, REQUIREMENTS FOR HIGH-END BUILDING MATERIALS, AND LONG APPROVAL PROCESSES DO NOT PROTECT PUBLIC HEALTH AND SAFETY. THEY SERVE MOSTLY TO RAISE THE COST OF HOUSING.

Across the country, there is a growing "YIMBY" (Yes In My Backyard) movement that is calling attention to the outdated zoning and land use regulations in municipalities as a counter to the prevalence of "NIMBY" (Not in My Backyard) residents.

What is the result of the workforce housing shortage?

RESULT 1

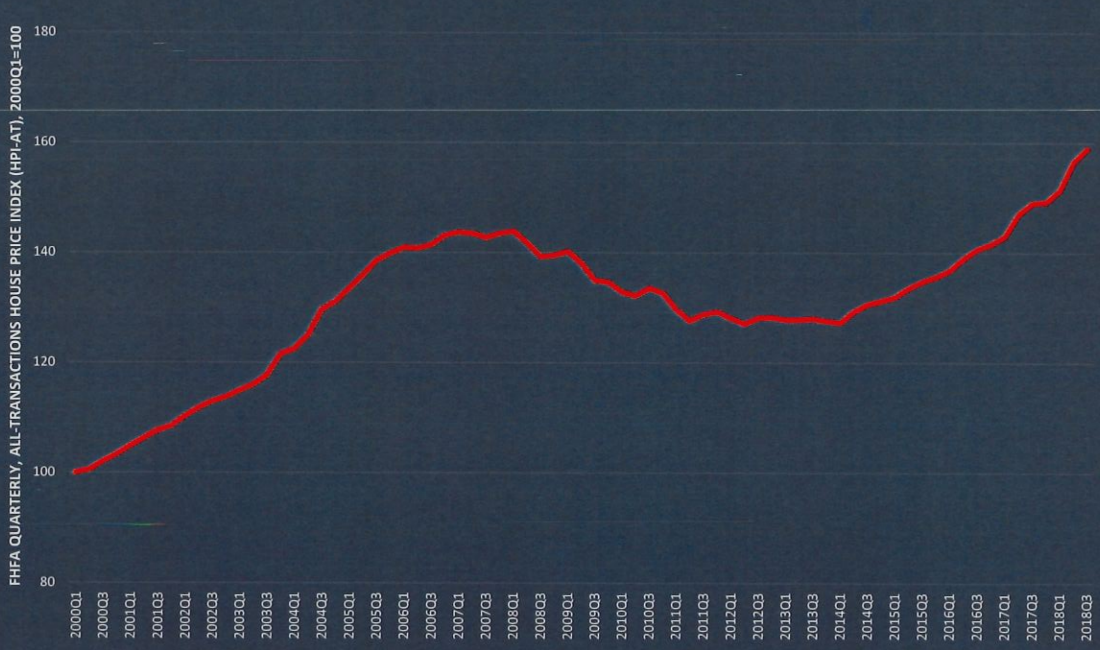
HOUSING COSTS ARE RISING

With housing demand growing but housing supply lacking, the cost of housing is rising. While price growth might be good for current homeowners, it can make it harder for first-time homebuyers to enter the market and for seniors to downsize. This can stifle the housing market as families are constrained from moving for job opportunities or are unable to adjust their housing consumption to meet their current lifestyle stage.

Homeownership costs are rising. Figure 2 shows the Federal Housing Finance Agency's (FHFA) House Price Index (HPI-AT) for Wisconsin. This House Price Index is the broadest measure of housing costs because it includes all mortgage transactions — purchase and refinance — and measures the price change for a "constant quality" house. Because newer homes are almost always priced higher than existing homes, the average sales price of new homes can overstate the costs for the average family.

We re-scaled the House Price Index so that the first quarter of the year 2000 equals 100 so the value of the index represents the percent change in housing costs since 2000. The most recent data for Wisconsin, third quarter 2018, shows a value of 158.9, which means that house prices in Wisconsin have increased 58.9 percent since 2000. House prices in Wisconsin now exceed pre-crisis (2007) levels.

FIGURE **2** **Wisconsin House Prices Now Exceed Pre-crisis (2007Q1) Levels**



Source: Federal Housing Finance Agency

AND RENTS HAVE GROWN **FASTER THAN INCOMES**

According to data from the U.S. Census, from 2000 to 2017, the median household income in Wisconsin grew 35 percent, not adjusted for inflation, while the median house price grew 59 percent, not adjusted for inflation. When housing costs are growing faster than incomes, fewer families can afford a home.

Rental costs are rising. Table 2 shows changes in median rents and median household income for Wisconsin and our neighboring Midwestern states from 2007 to 2017.

In Wisconsin and all neighboring states, rents grew faster than incomes, which makes workforce housing harder to find and decreases housing affordability.

In Wisconsin, for example, rents grew 21.7 percent while incomes only grew 17.3 percent, not adjusted for inflation.

In terms of rental prices, however, Wisconsin had the slowest rate of rent growth compared to our neighboring states and slower than the nation as a whole. While rents in Wisconsin have increased 21.7 percent since 2007, rents have increased over 28 percent nationwide and over 30 percent in neighboring states Minnesota and Iowa. The difference between the percent change in rents and percent change in income is the smallest in Wisconsin, at 4.4 percent, compared to our neighbors and the U.S. as a whole.

FROM 2000-2014, WISCONSIN PERMITTED MORE MULTIFAMILY UNITS ON A PER-CAPITA BASIS THAN DID ALL OF OUR NEIGHBORS, AND HAD SLOWER RENT GROWTH THAN OUR NEIGHBORING STATES. EXPANDING RENTAL HOUSING SUPPLY CAN IMPROVE RENTAL AFFORDABILITY.

TABLE **2**

Rents rose faster than household incomes in Midwestern states

State	*Increase median rent, 2007-2017*	*Increase median income, 2007-2017*
ILLINOIS	24.4%	16.4%
INDIANA	24.3%	14.2%
IOWA	34.0%	23.8%
MICHIGAN	22.3%	14.5%
MINNESOTA	32.1%	22.6%
WISCONSIN	21.7%	17.3%
U.S. AVERAGE	***28.3%***	***18.9%***

Source: US Census, 1-year American Community Survey (ACS) data, not inflation adjusted

The data from other states actually confirms the link between housing supply, rents and housing affordability. During the time period from 2000-2014, Wisconsin permitted more multifamily units on a per-capita basis than did all of our neighbors. Higher rates of production were associated with a slower increase in rents. Even though Wisconsin did not produce enough total units to meet overall demand, this data demonstrates that expanding rental housing supply can improve rental affordability.

RESULT 2

DECLINING HOMEOWNERSHIP IN WISCONSIN, ESPECIALLY AMONG YOUNGER HOUSEHOLDS AND AFRICAN AMERICAN AND HISPANIC FAMILIES

With housing prices now exceeding pre-crisis (2007) levels, housing prices and rents rising faster than incomes and inflation, and a shortage of new supply, the ability to attract new workers to Wisconsin or for existing workers to move into homeownership is constrained. Even though incomes and jobs in this state have recovered from the Great Recession, homeownership has not.

Younger adults entering prime homebuying years or families trying to re-enter homeownership face multiple barriers. Because home prices are more expensive, they need to save for a larger down payment, but higher rents make it harder to save for this down payment. Stagnant incomes, decreased credit availability, and higher levels of student loan debt also make it hard for many to transition into homeownership.

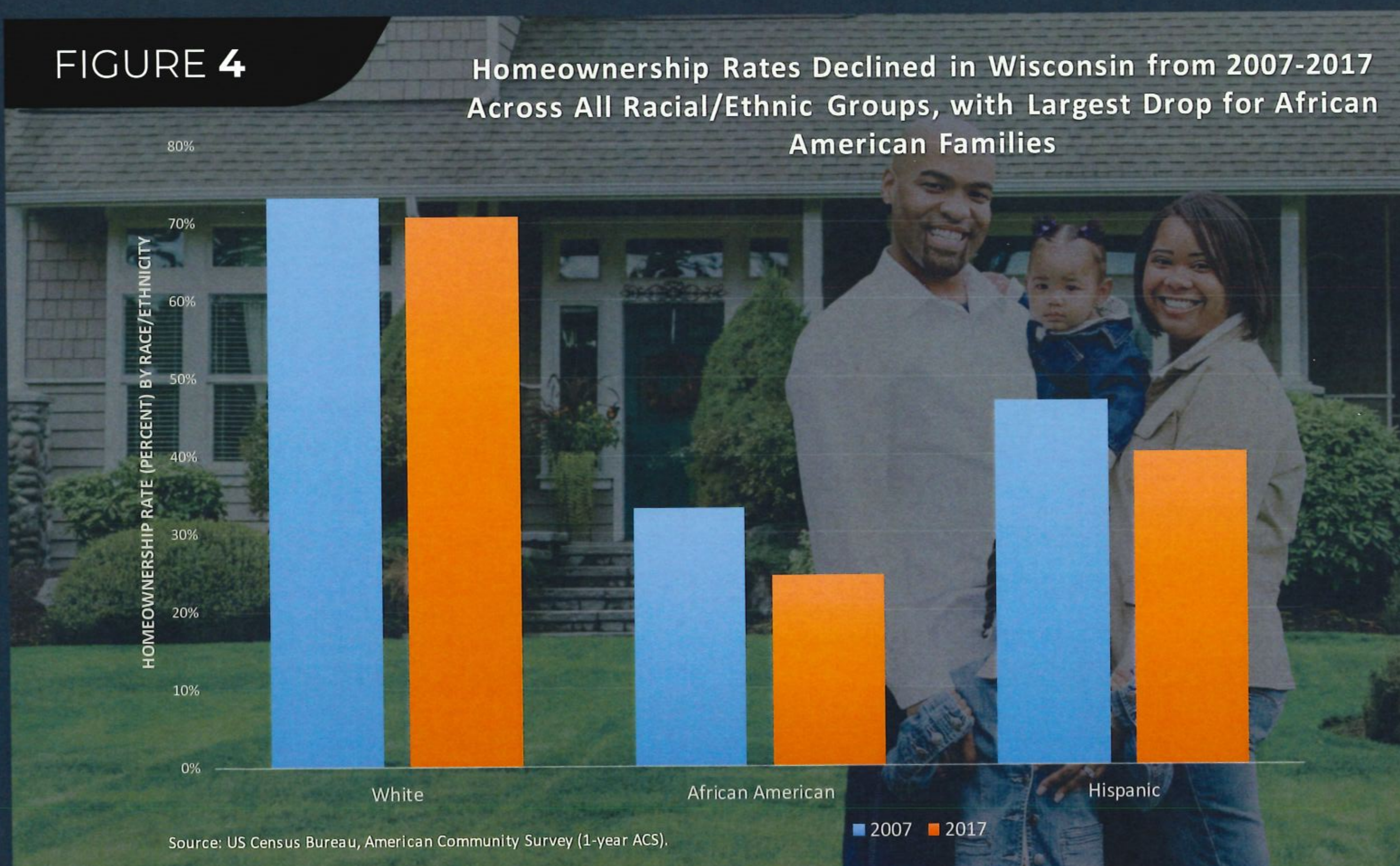
While homeownership rates across the United States declined following the Great Recession, Wisconsin has been hit particularly hard. Rebuilding homeownership is vital for economic development. Workers need to be able to find stable and affordable homes for purchase near where they work. Many businesses across the state are experimenting with down-payment assistance and homebuyer counseling programs in order to recruit and retain their workers.

If we are to rebuild and strengthen homeownership in Wisconsin, many of these new homeowners will come from demographic categories of workers not currently in the homeownership market: younger adults, first-time homebuyers, and African American and Hispanic families. Figure 3 shows changes in homeownership rates in Wisconsin across all age groups from 2007-2017, and Figure 4 highlights changes in homeownership rates for racial and ethnic groups. Homeownership rates declined for all age groups except seniors, with the largest declines seen in younger adults.

Among our neighboring states, Wisconsin has a lower homeownership rate for the two youngest age categories — 25-34 year-old households and 35-44 year-old households — than Indiana, Iowa, Michigan and Minnesota. Only Illinois has lower homeownership rates for these age groups. Among our Midwestern neighbors, only Minnesota has a lower rate of homeownership for African American families than Wisconsin. Wisconsin's homeownership rate for Hispanic families is now the lowest of all our Midwestern neighbors.

FIGURE **3**

FIGURE **4**



HOMEOWNERS BORROWING MORE IN WISCONSIN

Families respond to increasing housing prices and a housing shortage near where they want to work in one of three ways: renting, purchasing a less expensive home further away from work, or stretching to purchase a home with more mortgage debt. We see all three happening in Wisconsin.

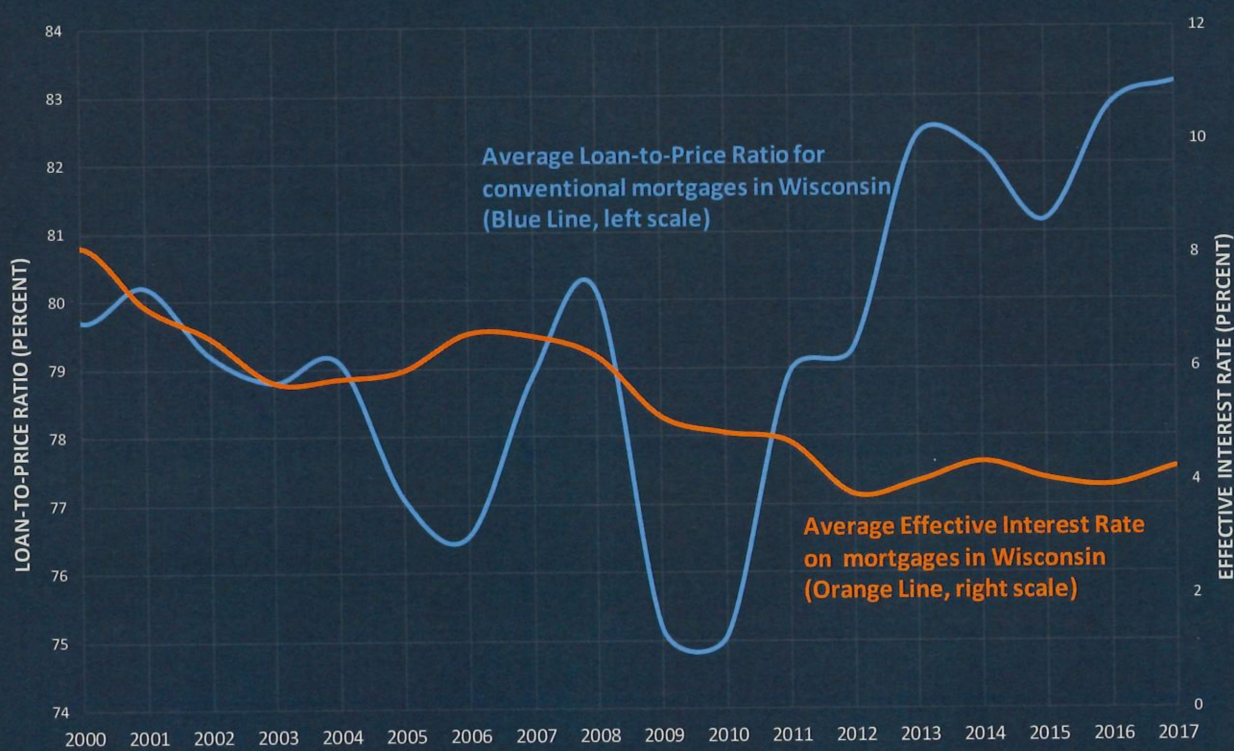
Despite historically low interest rates, homeowners who have been able to qualify for mortgages have been increasingly taking out larger loans compared to their home's value.

FIGURE **5**

WISCONSIN HOMEOWNERS ARE BORROWING A LARGER PERCENTAGE OF THEIR HOME'S VALUE WHILE INTEREST RATES ARE AT HISTORIC LOWS

Figure 5 shows changes in the loan-to-price ratio (also called loan-to-value ratio or LTV) for mortgages in Wisconsin since the year 2000. The loan-to-price ratio equals one minus the down-payment percentage. For example, an 80 percent loan-to-price ratio is the same as a 20 percent down payment. When average loan-to-price ratios exceed 80 percent, this indicates a higher percentage of homeowners utilizing lower down payment loan products. Since 2013, the average loan-to-price ratio for mortgages in Wisconsin has exceeded 80 percent and is over 83 percent in the most recent data (2017).

FIGURE **5**



Source: Federal Housing Finance Agency, Rates and Terms on conventional, single family, fully amortized, non-farm, mortgages, by state (purchase and refinance, new and existing houses). Effective interest rate amortizes fees and points. Loan-to-price ratio is the ratio of the loan amount to the house value. An 80% loan-to-purchase ratio is equivalent to a 20% downpayment.

RESULT 3
DECLINING HOUSING AFFORDABILITY

HOW IS AFFORDABILITY MEASURED?

"Affordability" measures whether a typical household, usually the median income household, can afford the housing in an area. Because this report focuses on workforce housing, we focus on affordability for entry-level homeownership, using a low-down-payment product, and affordability for rental homes.

We create two new indices for Wisconsin counties focusing on housing affordability at the county level. While many workers might live and work in different counties, these indices measure whether the typical household in a county can afford the housing in that county. Our data shows that housing affordability concerns encompass urban and rural areas across the state.

INDEX 1
ENTRY-LEVEL HOUSING AFFORDABILITY

Figure 6 shows the "entry-level" housing affordability index for Wisconsin counties. For this workforce housing ownership index, we focus on households utilizing a low-down-payment (3.5 percent down-payment) FHA-insured mortgage. For many first-time homebuyers without the savings for a down payment, FHA-type products are often the only way to become homeowners.

We first calculate what an FHA-insured low-down-payment mortgage would be for the median-priced house in the county. This calculation tells us the monthly mortgage payment that a homeowner would need to pay to purchase the median-priced home. We then calculate how much annual income a family would need to afford this FHA mortgage, assuming that for a mortgage to be affordable the principal and interest should be no more than 25 percent of a family's income. This 25 percent of income for principal and interest standard is used by the National Association of REALTORS® in its housing affordability research, leaving room in housing expenses to account for property taxes, homeowners insurance and utilities.

The index is then the ratio of the median household income to the income that would be needed to afford the median-priced home with a low down payment mortgage product. Another way to think about this is what percentage of the income needed for the median-priced home does the typical family have? A score of 150, for example, means that the median income household has 50 percent more income than would be necessary to afford the median-priced home with an FHA mortgage. A value of less than 100 means that the median income household in a county cannot afford the median-priced home in the county. Any value greater than 100 indicates that the median income household can afford the median-priced home.

Figure 6 shows that in four Wisconsin counties — Dane, Door, Sawyer and Vilas — the median income household cannot afford the median-priced home, even with a low down-payment FHA mortgage product. There are 31 counties where the index score is above 100 but below 120, meaning that the median income household has enough income to purchase the median-priced home, but just barely. These areas include the southeast — Milwaukee, Racine and Kenosha metropolitan areas — as well as the northwest rural areas.

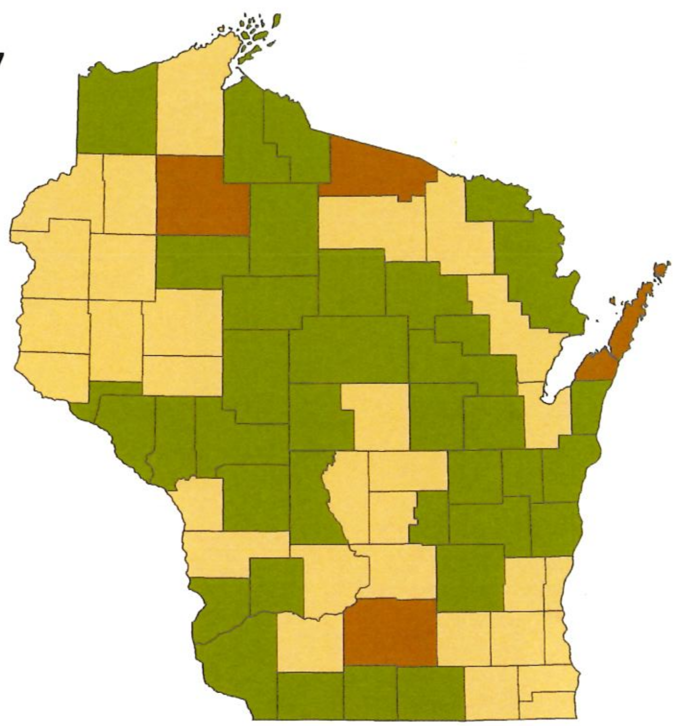
We can also calculate how this entry-level affordability index has changed over time. From the time period of 2010 through 2017, this index of affordability has declined in 57 out of 72 Wisconsin counties. In eight of those declining affordability counties — Vilas in the north; Marathon, Wood and Portage in the central; La Crosse in the west; and Richland, Grant and Iowa in the southwest — the declines were greater than 10 percentage points.

FIGURE **6**

Wisconsin Entry-level Housing Affordability Index by County, 2017

- Not affordable (less than 100)
- Barely affordable (100-120)
- Affordable (greater than 120)

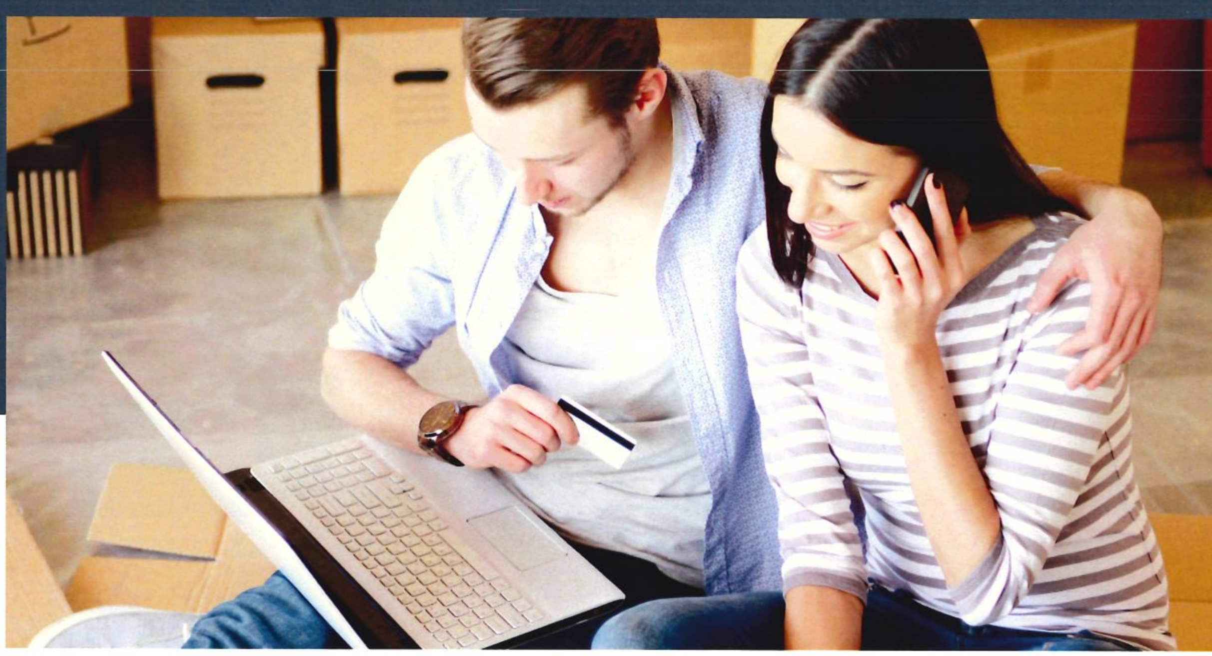
Note: A value of less than 100 means that the median-income household in a county cannot afford the median-priced home in the county. Any value greater than 100 indicates that the median-income household can afford the median-priced home.



RESULT 3
DECLINING HOUSING AFFORDABILITY
[CONTINUED]

INDEX 2
RENTAL AFFORDABILITY
(2017)

Our second index for workforce housing affordability focuses on rental housing. Figure 7 shows the "rental affordability index" for each county for the most recent year available, 2017. This index measures whether the median-income renting household can afford the median rental unit in the county by spending no more than 30 percent of income on rent. The index is the ratio of the actual county median-renter-household income to the income that would be needed to afford the median rental unit. Just like the entry-level affordability index above, a score less than 100 means that the median-income renting household cannot afford the median-priced rental unit, and a score above 100 means that the median-income renter household can afford the median-priced unit. Again, a score of 150, for example, means that the typical renting household has 50 percent more income than would be needed to rent the median-priced unit.

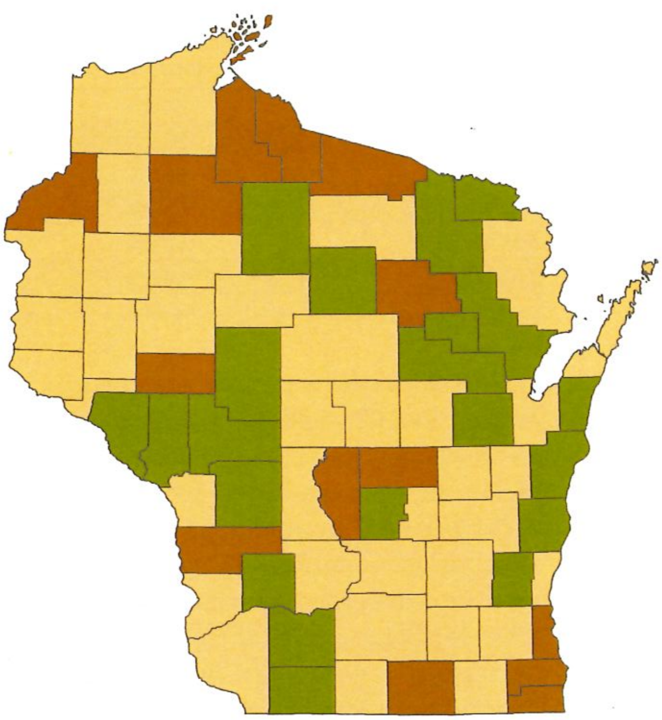


In Figure 7, there are 14 counties where the typical renting household cannot afford the middle-priced rental home: Kenosha, Racine, Milwaukee and Rock in the southeast; Burnett, Sawyer, Ashland, Iron and Vilas counties in the north; Vernon County in the southwest; and Adams and Waushara counties in the central part of the state. Finding adequate and affordable rental homes is thus a problem not only in larger cities and suburbs, but in small towns and rural areas of the state. There are 37 counties where the typical renter household can barely afford the median-priced rent, with scores between 100 and 120.

FIGURE 7
Wisconsin Renter Affordability Index by County, 2017

- Not affordable (less than 100)
- Barely affordable (100-120)
- Affordable (greater than 120)

Note: A value of less than 100 means that the median income renter-household in a county cannot afford the median rental unit in the county. A value greater than 100 indicates that the median income renter-household can afford the median rental unit.



RESULT 3
DECLINING HOUSING AFFORDABILITY
[CONTINUED]

Workforce housing affordability, of course, is more than whether the median-income families can afford housing opportunities. When there is a shortage of housing at all price points, the workers earning below median income as well as seniors can face significant affordability challenges. So, while the overall affordability indices in Figures 6 and 7 give a picture of the middle of the workforce housing market, it is also important to provide details at a wider range of income levels.

TABLE **3**
MANY LOWER-INCOME HOMEOWNERS **PAY MORE THAN 50 PERCENT OF THEIR INCOME ON HOUSING**

	Percent of homeowners "extremely cost-burdened," by income categoy				
State	0-30 percent of area income	30-50 percent of area income	50-80 percent of area income	80-100 percent of area income	above median area income
ILLINOIS	64.1%	32.6%	13.7%	5.3%	1.0%
INDIANA	56.1%	22.3%	6.3%	1.9%	0.3%
IOWA	51.9%	17.0%	4.5%	1.4%	0.3%
MICHIGAN	62.2%	27.4%	9.6%	3.1%	0.6%
MINNESOTA	56.0%	24.3%	8.1%	2.5%	0.5%
WISCONSIN	**63.5%**	**28.8%**	**10.4%**	**3.2%**	**0.6%**

Source: US. Dept. Housing and Urban Development, Comprehensive Housing Affordability Strategy Data, 2011-2015

Table 3 shows the percent of homeowners in Wisconsin and neighboring states by income levels who pay more than 50 percent of their income for housing, considered "extremely cost-burdened." Across all income categories, Wisconsin's proportion of homeowners with extreme cost burdens is worse than Indiana, Iowa, Michigan and Minnesota. Only Illinois among our neighbors fares worse. Of course, many of the homeowners with incomes below 50 percent of the median are likely seniors who are no longer in the workforce, but still bear significant housing costs due to an overall shortage of units and a particular shortage of units for downsizing. Households with incomes between 50 percent and 100 percent of median income are in the workforce but face significantly higher rates of cost burdens than similarly situated workers in other states.

Translating Table 3 into actual numbers, we see that in Wisconsin, currently over 94,000 homeowners whose income is below 50 percent of area median income spend more than half of their income on housing.

TABLE **4**

WISCONSIN LEADS THE MIDWEST WITH THE **HIGHEST PERCENTAGE OF LOWER-INCOME RENTERS WITH EXTREME COST BURDENS**

	Percent of renters "extremely cost-burdened," by income categoy				
State	0-30 percent of area income	30-50 percent of area income	50-80 percent of area income	80-100 percent of area income	above median area income
ILLINOIS	62.1%	25.2%	4.6%	1.4%	0.3%
INDIANA	63.3%	24.0%	3.1%	0.8%	0.5%
IOWA	60.6%	14.9%	3.0%	0.8%	0.6%
MICHIGAN	65.0%	28.9%	5.6%	1.6%	0.6%
MINNESOTA	58.7%	18.0%	3.9%	1.2%	0.3%
WISCONSIN	**65.3%**	**20.0%**	**2.9%**	**0.6%**	**0.3%**

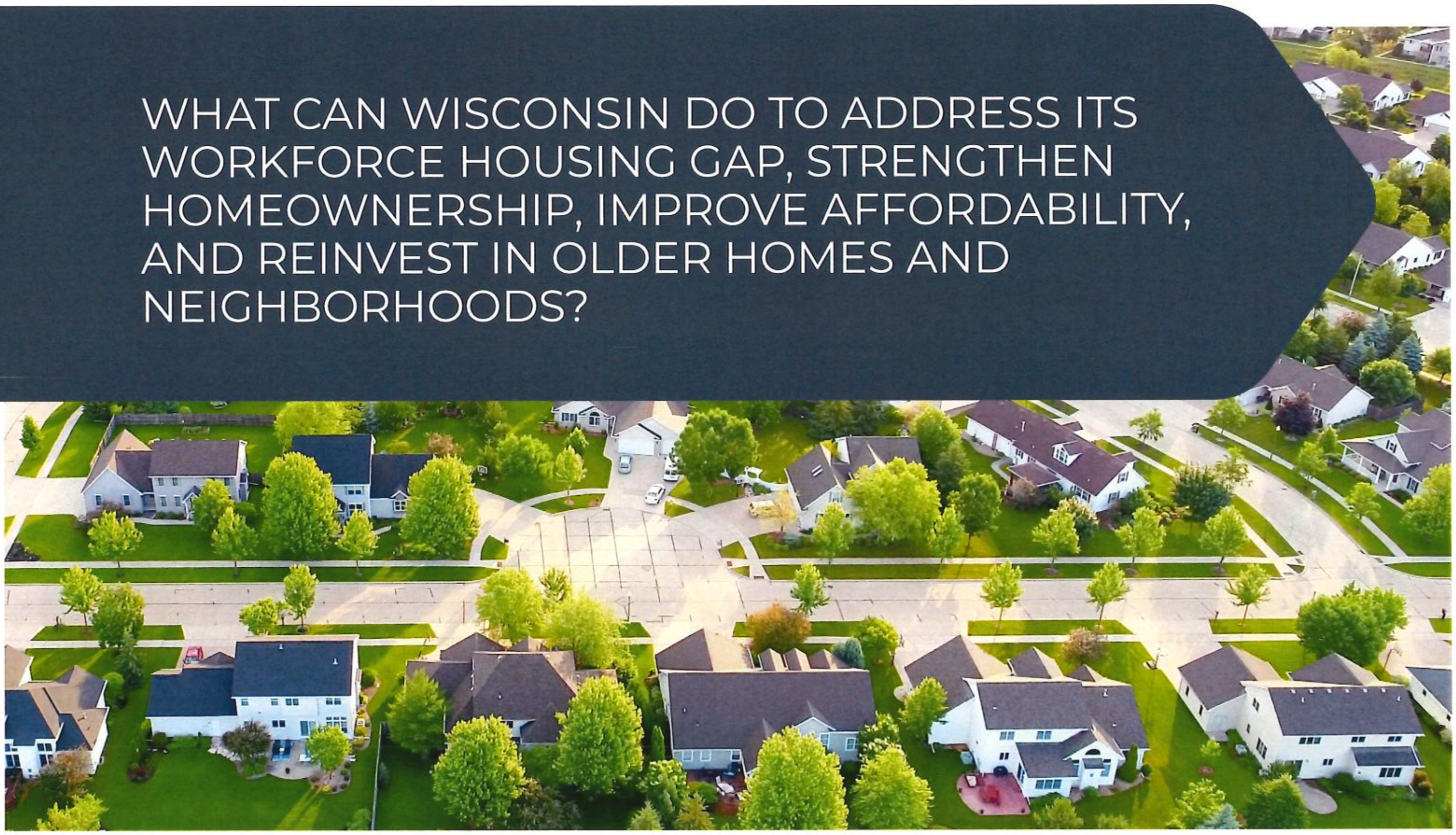
Source: US. Dept. Housing and Urban Development, Comprehensive Housing Affordability Strategy Data, 2011-2015

Table 4 now shows the same information for renting families, comparing the percent of renters by income category who are paying more than 50 percent of their income on rent in Wisconsin to our neighboring states. Wisconsin has the highest percentage of all of our neighbors of lower-income renters who are extremely cost-burdened, paying more than 50 percent of their income on rent.

Converting Table 4 into actual numbers, currently in Wisconsin, over 158,000 renting households with income below 50 percent of the area median income spend more than half of their income on housing.

The consequences of our workforce housing shortage, therefore, can be seen not only in rising prices and decreased homeownership opportunities, but also in decreased affordability for owners and renters. In the next section, we outline a series of reform possibilities to address our housing shortage and improve workforce housing affordability.

WHAT CAN WISCONSIN DO TO ADDRESS ITS WORKFORCE HOUSING GAP, STRENGTHEN HOMEOWNERSHIP, IMPROVE AFFORDABILITY, AND REINVEST IN OLDER HOMES AND NEIGHBORHOODS?



ROADMAP TO REFORM
ADDRESSING WISCONSIN'S WORKFORCE HOUSING CHALLENGE

Many states across the country are wrestling with these same questions. Many states are proposing or are implementing innovative policy, legal, planning and finance options for dealing with the housing crisis. In this section, we identify key goals and specific recommendations for Wisconsin based on analysis of reform proposals and actions in other states. In the past years, major housing reform efforts have been proposed in California, Connecticut, New Hampshire, Oregon, South Carolina, New Jersey, Utah, Massachusetts and others.

We highlight five key goals for Wisconsin in the coming years:

Goal 1: Build more housing
Goal 2: Increase housing choice with a more diverse housing stock
Goal 3: Rebuild and strengthen homeownership
Goal 4: Reinvest in older housing stock and older neighborhoods
Goal 5: Make housing a priority

ROADMAP TO REFORM: GOAL 1

BUILD MORE HOUSING

Wisconsin needs to reduce regulatory barriers to ensure an adequate housing supply. Local government elected officials and community leaders need to take leadership to ensure their city, village or town is providing adequate opportunities for housing supply and to build more housing where people want to live. This involves reforming and updating zoning and subdivision codes, removing regulatory barriers, providing financing, and helping to educate their community to overcome NIMBY opposition to new housing.

Wisconsin law currently requires cities, villages, towns and counties with zoning or subdivision ordinances to have plans to:

"provide an adequate housing supply that meets existing and forecasted housing demand in the local governmental unit." (Wis. Stat. 66.1001(2)(b))

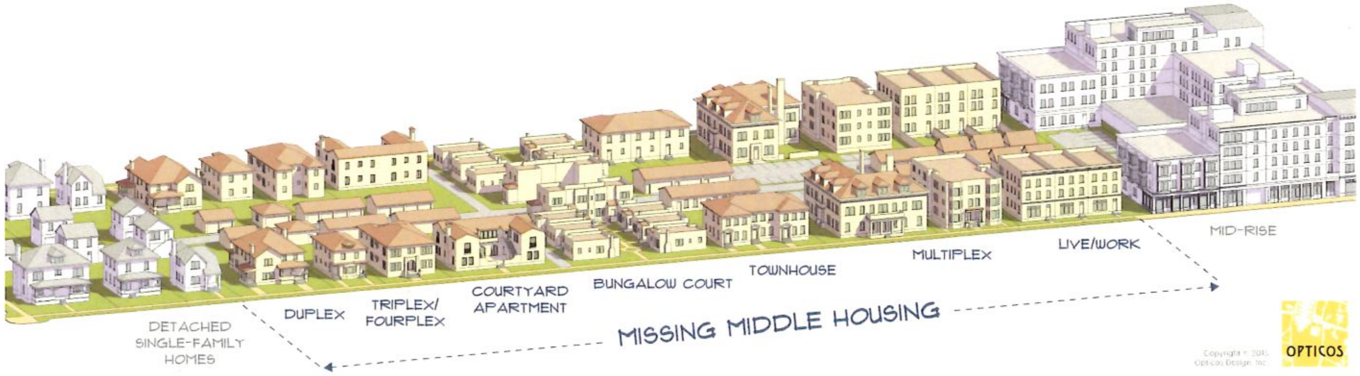
The data presented in this report clearly indicates that we are falling behind in providing an adequate housing supply and in meeting existing and forecasted housing demand.

Cities and states across the country are re-examining their zoning and other land use regulations to reduce unnecessary regulations that limit housing supply, limit housing diversity with different types and sizes of units, and impose unnecessary delays. Regulations that raise the cost of housing and limit housing choices for the workforce can limit the ability of businesses to hire workers, can force workers to drive long distances to their jobs, or can force residents to pay too much for their housing.

Cities and states across the country are also recognizing that restrictive zoning can be exclusionary and foster excessive segregation. Cities and states are increasingly realizing that separating land uses so that people have to drive everywhere and imposing large minimum lot sizes is expensive to service, causes excessive traffic and creates unhealthy communities.

Improving our housing supply and modernizing our regulations and zoning codes will create many economic and social benefits for our communities. Housing construction creates quality jobs and increases a community's tax base. Expanding choices and housing opportunities for families can improve schools and reduce traffic congestion. And building more housing overall will reduce upward pressures on prices and rents.

ROADMAP TO REFORM: GOAL 2
INCREASE HOUSING CHOICES WITH A MORE DIVERSE HOUSING STOCK



Demographics and housing demand are shifting. Average household size is declining. Baby Boomers are aging. Younger households are more diverse and have greater preferences for "walkable urbanism," smaller or more sustainable housing options, and a diversity of experiences. Families are increasingly looking for multigenerational options and flexible housing arrangements.

This goal recognizes the need not only to build more housing but to build a greater variety of housing that people want in places where they want to live. We need to update our housing delivery system to meet 21st century tastes and technologies.

Architects, developers and planners have successfully implemented a wider range of newer housing models across the country that allow developers and builders to respond to housing demand and changing demographics. These have included tiny houses, the "not-so-big" house, small lot houses, cottage clusters, "pocket neighborhoods," courtyard neighborhoods and live-work units. Innovative designs are available for multifamily structures that blend into neighborhoods and look like single-family houses. Cities across the country are trying to re-weave the urban fabric by permitting "missing middle" housing types, such as duplexes, 3- or 4-plexes, small garden apartments, courtyard apartments, townhouses and city-houses. This includes allowing flexibility in design standards, parking requirements, set-backs, frontage requirements and other regulations. Overwhelmingly, these new units add value to existing neighborhoods, re-weave the urban fabric, and are constructed with modern materials and methods.

Communities should provide a greater range of housing in every neighborhood that offers options for people at different life stages to stay in the same area. In fact, Wisconsin state law requires communities to provide both an adequate housing supply to meet forecasted needs and "a range of housing choices that meet the needs of persons of all income levels and of all age groups." (Wis. Stat. 66.1001(2)(b))

A wider variety of housing styles, types and sizes in each neighborhood will help meet changing market demands, reduce the workforce housing gap, and promote housing affordability.

Goal 2 Strategies: Increase housing choices with a more diverse housing stock

Based on our analysis of planning, zoning and regulatory reform efforts in other states, Wisconsin could consider any or all of the following menu of policies and strategies:

- **Expedited permitting and development approval processes for housing at the state and local levels:** New developments often take years to get through the local approval process, which increases the price of new housing units. Expedited approval processes reduce costs, time to develop and uncertainty, which will provide an incentive for developers and builders to create more workforce housing. Some states, for example, require municipalities to make final determinations on development applications that involve housing within 90 or 120 days.
- **Require all cities and villages to allow "missing middle" housing types in at least one residential zoning district as a permitted use by-right:** Missing middle could be defined as "attached townhouses, duplexes, triplexes or quads, and cottage clusters." Encourage communities to plan for "complete neighborhoods" and to allow "missing-middle" housing types in all neighborhoods, based on proposals in Oregon.
- **Require municipalities to allow accessory dwelling units (ADUs), sometimes called "granny flats" as a permitted use by-right in all residential zoning districts:** Consider developing a state-level "model ordinance" to be adopted by municipalities for ADUs, including reducing parking requirements and impact fees for ADUs. Consider a task force of design professionals — architects, landscape architects and interior designers — to develop "off-the-shelf" ADU building plans that meet state building codes and reduce design costs and uncertainty. Consider requiring that applications for ADUs that conform to state-approved building plans are automatically granted building and zoning permits.
- **Better enforcement of existing requirements:** Wisconsin law currently requires cities, villages, towns and counties with zoning or subdivision ordinances to have comprehensive plans that "provide an adequate housing supply that meets existing and forecasted housing demand in the local governmental unit." (Wis. Stat. § 66.1001(2)(b)) However, the evidence in this study demonstrates that local governments are not meeting this requirement. Stronger enforcement standards should be added to the law to ensure this requirement is being met.

  Many northeastern states including New Jersey, Connecticut, Massachusetts and New Hampshire, as well as the state of Washington, have created state appeals systems. If a municipality is not providing an adequate housing supply or not meeting its workforce housing needs, developers can appeal to a statewide board of housing and land use experts. Alternatively, Wisconsin could create an expedited appeals process to circuit court and require municipalities to approve workforce housing projects unless the municipality can demonstrate that the denial of a proposed project is necessary to protect community health or safety.
- **Establish maximum minimum lot sizes in sewer service areas:** Require municipalities with residential zoning districts in areas served by public water and sewer, "sewer service areas" under NR 121, to provide extraordinary justification for large single-family minimum lot sizes — for example, larger than 6,000 ft^2 or 8,000 ft^2; or consider prohibiting a municipality from enacting, amending or enforcing a zoning ordinance with a minimum lot size larger than 6,000 ft^2 or 8,000 ft^2 in sewer service areas.

[CONTINUED]

Goal 2 Strategies: Increase housing choices with a more diverse housing stock

- **Use tax incentives to reduce costs for workforce housing:** State and any county sales taxes, for example, can add 5 to 5.5 percent to the cost of the materials. Exempting building materials for workforce housing from state and local sales taxes would lower the construction costs for such housing.
- **Require municipalities to allow multifamily housing construction in at least one zoning district as a permitted use by-right:** This has the effect of prohibiting municipalities from outright bans on multifamily construction.
- **Encourage and/or incentivize municipalities to plan for a better balance between jobs and housing:** Provide incentives for high-employment cities or areas to expand nearby housing opportunities or transit service. Incentives could include financial benefits to the city and/or higher priority for state economic development and infrastructure investments; "pay for success." Encourage municipalities to reduce or eliminate minimum parking requirements in proximity to transit.
- **Analyze statewide workforce housing data:** Cities and villages with a population over 10,000 are required to prepare annual reports on implementation of the housing plans, progress toward meeting forecasted housing demands, and analyses of the cost of land development regulations on the price of housing. See 2017 Wis. Act 243. This data, however, is not required to be analyzed on a statewide basis to evaluate whether Wisconsin's workforce housing issues are being addressed at the local level. The state should prioritize analyzing these reports, providing educational materials to citizens, publishing best practices and innovative plans, and reporting on municipal compliance with reporting requirements.
- **Financing for workforce housing in rural areas and small communities:** The state should consider creating funds targeted toward support for new workforce housing construction and reinvestment in rural areas and small communities. Construction costs in rural areas and small communities are often as expensive as nearby cities, but rents and property prices would not support construction costs. Technical assistance and gap-financing to access USDA rural housing funds would help smaller communities respond to their housing challenges.
- **Provide additional incentives to local government to approve workforce housing:** For example, 2017 Wisconsin Act 243 allows municipalities that permit new housing on less than a quarter-acre lot and that sells for less than 80 percent of other new housing to increase levy limits for police, fire and EMS. The state could consider additional financial incentives to municipalities to produce workforce housing, including rental.
- **Workforce housing tax increment financing districts (TID):** Allow the use of tax-increment financing (TIF) for the construction of the infrastructure — roads, sewer and water — necessary to service new workforce housing developments. TIF uses the increase in property tax revenues generated from the new development to pay for infrastructure and other costs.

ROADMAP TO REFORM: GOAL 3
REBUILD & STRENGTHEN HOMEOWNERSHIP

Rebuilding homeownership by expanding homebuying opportunities to groups currently underserved in the market — younger families, first-time homebuyers, and African American and Hispanic households — is crucial to the long-term economic health of Wisconsin and our communities. Reducing racial disparities in homeownership will reduce racial disparities along other dimensions. In many of our cities and older neighborhoods, plenty of older houses for purchase exist, but there are not enough "purchase-ready" households.

In nearly every county in Wisconsin, a number of nonprofit and for-profit housing counseling organizations, homebuyer assistance programs, banks and financial institutions catering to first-time homebuyers currently exist. We already have the infrastructure of lenders and housing counselors, and state and federal programs to assist first-time homebuyers. But these programs need to be scaled up, promoted, coordinated and funded to achieve a statewide impact.

The African American homeownership rate in Wisconsin is currently at 24.5 percent, while the national African American homeownership rate is at 41.7 percent. If Wisconsin's black homeownership rate increased to the national average, which, of course, is still too low, the state would add at least 22,000 new homeowners.

Likewise, the Hispanic homeownership rate in Wisconsin is currently 40.2 percent, while the national Hispanic homeownership rate is 47.2 percent. If Wisconsin's Hispanic homeownership rate increased to the national average, which, of course, is still too low, the state would add nearly 8,000 new homeowners.

The homeownership rate for 25-34 year-old households in Wisconsin is 43.6 percent, while the average for our neighboring states is 48.8 percent. If Wisconsin's homeownership rates for 25-34 year-old households increased to the average of our neighbor states, we would add 18,000 new homeowners in this state.

Improving homeownership among these three underserved populations could result in about 48,000 new homeowners in Wisconsin. Such a goal is certainly within the financial and administrative capacity of the state.

Years of experience already tell us what works to move families into sustainable homeownership: mandatory housing counseling, including credit repair; plus financial assistance for down payments, either through down payment assistance programs or other savings vehicles; plus neighborhood property stability and neighborhood revitalization.

In short, we need to create more purchase-ready borrowers and purchase-ready homes. This connects to the next goal of reinvesting in our aging housing stock.

ROADMAP TO REFORM: GOAL 4
REINVEST IN OLDER HOUSING STOCK AND OLDER NEIGHBORHOODS

Wisconsin's aging housing stock and older neighborhoods provide great value and great places. But, like any physical infrastructure, homes need reinvestment and rehabilitation to maintain value. Many of our older homes are occupied by seniors, who may experience cash-flow difficulties in updating important house systems. Many older homes are not energy efficient, resulting in higher-than-needed electricity, heating and cooling costs for homeowners. Seniors in particular may live in older housing and may not be able to afford energy efficiency improvements, which can increase costs or leave them more vulnerable to extreme heat or cold events. For first-time homebuyers or buyers looking for housing in older neighborhoods, financing the necessary improvements along with the house purchase may be financially out of reach.

Wisconsin's older single-family housing stock can provide many opportunities for entry-level housing or move-down housing for seniors. However, over 60 percent of our single-family structures were built before 1980 and are often in need of substantial repair, modernization or energy-efficient investments.

Reinvesting in older housing stock and older neighborhoods pays off in the long run. Property values are stabilized, housing is made more efficient and sustainable, and communities are renewed. Although we clearly need to build more housing, as outlined in goal 1, the majority of our workforce and seniors in the next 20 years will live in already-built housing.

OVER 60 PERCENT OF OUR SINGLE-FAMILY STRUCTURES IN WISCONSIN WERE BUILT BEFORE 1980 **AND ARE OFTEN IN NEED OF SUBSTANTIAL REPAIR, MODERNIZATION OR ENERGY-EFFICIENT INVESTMENTS.**

Goal 3 Strategies: Rebuild and strengthen homeownership

- **Encourage cities, villages and counties to make funding available for Down Payment Assistance Programs (DPAP):** Statewide resources for DPAPs through WHEDA and the Federal Home Loan Bank of Chicago (FHLBC) already exist. Communities should design their programs to leverage and maximize these sources. For example, the FHLBC Downpayment Plus program provides matching funds, which could come from local banks, pools of employers, or a community development authority.

- **Create a first-time homebuyer savings account program:** Create incentives to help workers and families save enough money to purchase a home by providing a state tax deduction and a tax-advantaged savings vehicle for accumulation of a down payment for future homeowners. Matching contributions from employers, community organizations or financial institutions could be allowed. Currently, Colorado, Iowa, Minnesota, Mississippi, Montana and Wyoming offer some form of tax-advantaged first-time homebuyer savings accounts. The program could be enhanced by providing employers with financial incentives or tax credits for contributions to an employee's homebuyer savings account.

Goal 4 Strategies: Reinvest in older housing stock and older neighborhoods

- **Expand WHEDA's Transform Milwaukee Advantage program:** Expand WHEDA's Transform Milwaukee Advantage program to the entire city of Milwaukee and possibly expand to reinvestment in targeted areas in other older urban neighborhoods. WHEDA's Transform Milwaukee Advantage program partners with local housing counselors and community development groups to expand homeownership in underserved markets in a limited number of Milwaukee neighborhoods. Products like the Transform Milwaukee Advantage are particularly useful for acquisition and rehabilitation of single-family structures.

- **Create a state tax credit or other financial incentives for the rehabilitation of older housing in older neighborhoods:** Much of the workforce housing stock is located in older neighborhoods. Improvements to older, existing homes such as new windows or insulation add value to the house. Tax credits or low-interest loans could be provided to owners, including seniors, to rehab or improve their homes. Tax credits or other financial incentives could be directed to nonprofit housing agencies to acquire, rehabilitate, and then re-sell older housing at an affordable price.

- **Expand training and apprentice programs for displaced or underemployed workers:** Continue and expand partnerships with community colleges and the Department of Workforce Development (DWD) to expand training and apprenticeship programs for displaced or underemployed workers and at-risk youth to become skilled contractors in skilled trades in construction and rehabilitation of older housing. The shortage of construction workers for new construction also constrains rehabilitation and reinvestment in existing housing. Consider reduced tuition or financial incentives for students who take construction classes at technical college and enter the building trades.

ROADMAP TO REFORM: GOAL 5
MAKE HOUSING A PRIORITY!

Meeting Wisconsin's workforce housing challenge, expanding housing options for seniors and younger workers, and reinvesting in our communities will require leadership and effort at all levels. We need to think big — at a large enough scale to address the scale of our housing challenges.

Public statements from the governor and legislative leaders already indicate that making housing a priority is a bipartisan idea. Housing needs are present in all of our communities — big cities, small towns, suburbs and rural areas. Making housing a priority will mean legislative and administrative changes as well as new and expanded funding and financial incentives at the state level. But much of the implementation of strategies to meet our housing needs will mostly come from local governments and the private sector: developers, builders and lenders.

Making housing a priority will require a sustained partnership across all sectors, including leadership from statewide associations such as the Wisconsin REALTORS® Association, which has funded this report to highlight the critical housing needs in the state.

The proposals in this report are just a starting point for reform and modernization efforts, and we hope that ongoing conversations all across the state will continue to invent creative, innovative and flexible methods of expanding housing choices.

Goal 5 Strategies: Legislative, financial and administrative reforms

A key approach for these strategies is to leverage existing programs and structures for maximal advantage, and to provide opportunities for municipalities and the private sector to innovate and respond to new housing challenges.

Leverage, partnership and flexibility are important approaches to solving the housing crisis.

- **Target state incentives to build and preserve workforce housing in Opportunity Zones:** The state should leverage the Federal Opportunity Zone tax incentives from 2017 tax reform legislation to coordinate housing investments into designated Opportunity Zones in the state. The federal tax incentives will focus investment into new construction and new business creation in Opportunity Zones, but there will still be a need for preservation and reinvestment in existing rental and ownership housing. Preserving and upgrading the existing housing stock in these areas would benefit workforce housing, as workers in these new businesses can live near work.

  Specifically, the state could consider expanding the recently passed Affordable Housing Tax Credit (Act 176) to create a special pool of tax credits for investment preservation and/or rehabilitation of existing rental units in Opportunity Zones. These state credits would leverage federal tax credits and the housing bond program. Likewise, the state could target homebuyer assistance programs or loans to housing developers and/or nonprofits located within Opportunity Zones.

- **Expand state housing tax credit for rural areas:** The state could consider expanding the successful state housing tax credit program with additional funding designed for rural areas and small towns, including financial assistance and technical assistance to help deal with application and financing costs for many small buildings across a larger area. WHEDA's recent coordinated efforts in Barron County are a great example of this strategy.

- **Financial incentives for innovative models:** The state could consider special financing incentives for new or innovative models of housing supply and affordability. This could include, for example, lease-to-purchase programs, community land trusts, cooperative housing, and shared-equity programs. The state could also consider special financing incentives or programs for homeowners who want to develop an ADU on their property. Currently, it is difficult for existing homeowners to finance construction of an ADU on their property because of federal mortgage rules. State financing or credit guarantees could facilitate investment.

- **Coordinate housing programs:** Currently, many state housing programs and regulations are scattered across different state agencies. Executive and legislative action could bring all housing programs together in a centralized, coordinated way.

- **Technical and financial assistance for local governments:** Because local governments play such a critical role in shaping housing opportunities, the state should provide more technical assistance, training and grant funding to help communities plan for and meet their housing needs. This could take many forms, either through a state agency or through partnerships with the University of Wisconsin, UW-Extension or statewide associations.

- **Create a revolving loan fund for nonprofit and affordable housing developers:** Because land costs in many of our cities are so high, nonprofit and affordable housing developers often face difficulties in pre-development financing and land acquisition. The state should consider a revolving loan fund for these developers. California, Florida and the city/county of Denver all have financing programs worth considering.

- **Maintain and expand rental assistance programs:** Even though expanding housing choices and reducing regulatory barriers to supply will bring down housing costs, many working families, seniors and those with disabilities or special needs will continue to face housing affordability challenges in the private housing market. Maintaining and expanding rental assistance programs and fair housing enforcement will continue to be critical to meeting the needs of all our residents.

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