Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2023 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **23-2198/1**	Introduction Number **AB-0265**

Description
a main street housing rehabilitation revolving loan fund and loan program

Fiscal Effect

State:

- ☒ No State Fiscal Effect
- ☐ Indeterminate
  - ☐ Increase Existing Appropriations
  - ☐ Decrease Existing Appropriations
  - ☐ Create New Appropriations
  - ☐ Increase Existing Revenues
  - ☐ Decrease Existing Revenues
  - ☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
  - ☐ Decrease Costs

Local:

- ☐ No Local Government Costs
- ☐ Indeterminate
  1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
  2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
  3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
  4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
  5. Types of Local Government Units Affected
     ☐ Towns ☐ Village ☐ Cities
     ☐ Counties ☐ Others
     ☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOA 6/14/2023

LRB Number 23-2198/1	Introduction Number AB-0265	Estimate Type Original
Description a main street housing rehabilitation revolving loan fund and loan program		

Assumptions Used in Arriving at Fiscal Estimate

2023 Assembly Bill 265 would establish a main street housing rehabilitation revolving loan fund to be administered by the Wisconsin Housing and Economic Development Authority (WHEDA).

The program would be supported by a revolving loan fund dedicated to providing loans for housing rehabilitation or rental housing units as described below. Additional allowable uses of the fund include actual and necessary expenses for administration as well as marketing, which the bill would require WHEDA to create a program to conduct. WHEDA would also be permitted to invest fund moneys not required for immediate use, subject to certain restrictions, all earnings from which must be credited to the fund.

Through a semiannual application process established by WHEDA, owners of rental housing units may apply for a loan under the program. Loans must be awarded only for eligible projects, which are defined as single-family or multifamily rental housing units that are: 1) located on the second or third floor of an existing two- or three-story building with commercial use on the main floor, if that commercial space is no more than two-thirds of the gross square footage of the building; 2) constructed at least 40 years prior to the application; 3) not significantly improved in the 20 years prior to the application; 4) is not subject of a claim for a state or federal historic rehabilitation tax credit nor has received financial assistance from tax increments generated by an active tax incremental district; 5) vacant or underutilized; and 6) fits the definition of workforce housing, which is defined in the bill.

Eligible rehabilitation activities include any of the following: 1) repairing or replacing a heating, electrical, or internal plumbing system, an interior wall or ceiling, roof, window, exterior door, or flooring; 2) repairing or replacing insulation or siding; or 3) remediating lead paint, mold, or asbestos.

Additional conditions that apply to the owner of the rental housing units and the political subdivision with jurisdiction include: 1) the owner has secured the necessary financial resources for the total cost of the project in excess of the loan amount; 2) all applicable permits or other approvals have been secured; 3) the political subdivision has reduced the cost of rental housing in connection with the project through revising zoning ordinances, subdivision regulations, or other land development regulations to increase development density, expedite approvals, reduce impact, water connection, and inspection fees, or reduce parking, building, or other development costs with respect to the project; 4) the political subdivision is in compliance with comprehensive planning requirements under s. 66.1001, Wis. Stats., housing affordability reports requirements under s. 66.10013, Wis. Stats., and new housing fee reports under s. 66.10014, Wis. Stats.; and 5) the political subdivision has updated the housing element of its comprehensive plan within 5 years preceding the date of the loan application.

The bill would require WHEDA to enter into an agreement with each owner receiving a loan that establishes the term and other conditions of the loan, which are to include: 1) that the full amount of the loan comes due upon the owner's sale of the rental housing rehabilitated under the program; 2) that all rental housing rehabilitated under the program remains within the definition of workforce housing 10 years following initial occupancy of all units rehabilitated; and 3) that, in order to ensure compliance with the above, the owner submits an annual certified rent roll to WHEDA for the same period to be recorded against the residential property with the applicable register of deeds.

Under the bill, WHEDA must follow certain additional guidelines in the administration of the program, which include: 1) the interest rate for any loan awarded must be at or below the market interest rate (i.e., no-interest loans are permitted); 2) no loan may exceed $20,000 per dwelling unit or 25 percent of the total cost of the project, whichever is less; 3) the authority must set aside 30 percent of all moneys deposited in the fund in the 2023-25 fiscal biennium for a period of not less than 4 years to be used specifically for projects in municipalities with a population of 10,000 or less; and 4) if there are insufficient moneys available in the loan fund to fund all eligible applications, WHEDA would be required to prioritize projects when the political subdivision with jurisdiction has reduced the cost of rental housing in the political subdivision as a whole and not merely the cost of rental housing connected with the project as described in the conditions above.

When awarding a loan, WHEDA would be required to take into account only the following in descending order of priority: 1) credit risk, collateral, and the need for a loan guarantee; 2) the estimated reduction in housing costs; and 3) the need for workforce housing in the area. WHEDA must also establish certain policies and procedures related to loan repayment and underwriting.

The bill would also require WHEDA to submit annual reports to the Joint Committee on Finance and relevant legislative committees related to the loan program and revolving loan fund that would be established under the bill.

The bill would require that any unused authority (i.e., not encumbered or expended for an eligible project) remaining 8 years after the effective date of the bill must be returned to the Secretary of Administration for deposit in the general fund. However, the operational impact on the Department of Administration (Department) to perform this function would be minimal. There is no fiscal impact to the Department anticipated under this bill.

Long-Range Fiscal Implications