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Local Housing Investment Fund (LHIF)

Issue: There is a widespread housing shortage in Wisconsin, and housing costs are rising faster than incomes. As a result, there is also an affordability problem that is statewide. State, federal and local programs that support affordable housing have proven inadequate in addressing the gap in low income housing, and available resources have been insufficient in meeting growing demand from earnest developers of this category. Additionally, the legislature is actively exploring the creation of a workforce housing tax credit program to spur housing development for low-to-moderate income households. However, WHEDA testified at a recent legislative hearing that the absence of a federal funding complement to state workforce housing tax credits will severely deter workforce housing projects advancing unless other supplemental financing is found. A viable local funding mechanism supporting housing could fill these gaps.

One such program already exists. The allowance of one year's increment of TIF proceeds to support housing before a TID closes out is a useful housing support tool currently allowed by state law. While helpful, it is not a panacea for the dearth of supportive housing funds, and the mechanism has a few shortcomings. These are namely that TIDs are not uniformly utilized in all communities, they do not reach their financial end of life with regularity or in a timely fashion, and some may not be financially viable to support housing when they reach their statutory deadlines. As a result, there is a uniformity problem and a potential feast or famine problem surrounding its use for housing. A more stable and consistent local funding tool should be added to this existing housing resource.

Request: Establish the legislative mechanism to create a Local Housing Investment Fund (LHIF) law.

A Local Housing Investment Fund (LHIF) would use increased property tax revenue received from an assortment of created housing in communities including: housing conversions; newly constructed rental complexes, condominiums and single/two-family housing; and, publicly-owned housing acquired through in rem foreclosure that is upgraded and sold to private parties. Under LHIF, during the LHIF applied year ("improved year"), a single year of tax revenue growth for any completed housing conversion, constructed home, condo, or apartment complex, or the resale of an upgraded publically sold home, following completion, occupancy and upgraded tax valuation, would go to a housing trust fund or segregated housing account to support defined local housing

activities in that municipality. In that same year, each of the other local property taxing jurisdictions would receive its typical share of property tax proceeds based upon the pre-improved value of the property established in the year prior to a housing project's completion or upgrade ("base year"). Following the LHIF-applied year, the full property tax revenue from the housing development will be shared by all local taxing jurisdictions.

Suggested provisions of the LHIF bill includes:

If a community elects to enact a LHIF ordinance, LHIF generated tax dollars would be deposited into a segregated LHIF housing account or local housing trust fund. Need and usage of housing fund proceeds from LHIF account resources would be at the discretion of the affected local government based on the defined guidelines for expenditure outlined below:

LHIF housing proceeds could be applied to households up to 120% of the Area Gross Median Income (AMGI) level, with a requirement that at least 60% of local LHIF housing supported funds be used toward households with incomes of up to 100% of the AMGI level.

Allowable expenditures of LHIF housing funds should include:

- **Incentivizing the creation of new affordable or workforce housing units for households with incomes up to 60% or 100% respectively of the AMGI level. If funds are used to capitalize housing under state LITC or Workforce supported housing tax credits, rents for affordable or workforce units would need to mirror respective state requirements for the defined duration of the tax credit guideline.**

- **Funding improvements to municipal owned housing stock or providing funds to raise condemned municipally owned properties. The goal of the former is to update depilated foreclosed housing acquired by a municipality and make them sellable or rentable to private households with incomes up to 100% of AMGI.**

- **Providing down payment funding support to buyers with incomes up to 120% of the AMGI for newly constructed condominium units, or single or two-family housing.**

- **Providing down payment funding support for the purchase of existing housing for first time home buyers with incomes up to 100% of the AMGI level. Note, that usage LHIF funds for of this purpose would not allow a reinvestment rollover of new LHIF increment unless the property being purchased is a municipally owned in rem foreclosed home.**

- **Support of local home buying program/counseling initiatives for first time home buyers.**

LHIF funds could not be employed if the housing being created is part of a TID or falls within a currently active TID boundary. As a result, there would be no double dipping on the front and back end from local property taxing districts.

LHIF would require a LHIF segregated special housing fund account or housing trust fund be established to hold and allocate future funds. These funds could not be used or employed as general municipal revenue.

For determining tax base for purposes of the LHIF, and particularly to clarify for housing projects that may take over a year to construct, the "base year" would be the last full taxing year before construction work commenced, and the "improved year" would be the first tax year after the new or renovated home or housing complex is fully assessed after occupancy has been obtained.

If a newly created housing development is part of a mixed-use building, the full portion of the land value, along with the segmented valuation of the property's residential component shall be utilized for determining property tax revenue growth for the "improved year" calculation of the property.

A hold harmless provision would need to be included whereby the increased revenue used in the LHIF would still be calculated for purposes of factoring a local community's "net new growth" for determining annualized increases to levy limits.

Examples of LHIF in Action:

1. Pre-development base year - vacant land generating $200 in property taxes shared by the local taxing jurisdictions. A newly completed home is built on the land with a corresponding increase (for land and improvements) of total property taxes growing to $5,200. During the first taxing year ("improved year") following the completion of the new home, local taxing units of government would receive and share the base year revenue of $200 in property taxes and the remaining $5,000 of new taxing revenue would go into a local housing account for purposes established via the LHIF. Starting year two, following the LHIF applied "improved year", and thereafter, all local taxing jurisdictions will receive their typical share of the full value of property tax proceeds from the property. With use of the LHIF, the impacted local community has $5,000 that is deposited into its housing trust fund which can be reinvested into still more housing and added tax base growth.

2. Pre-redevelopment base year - vacant former retail store generating $20,000 in local property taxes. The property is converted into a 30-unit apartment housing complex and the property taxes for the completed building rises to $85,000. During the "improved

year" following completion of the apartment complex, all local taxing jurisdictions will receive their typical share of the "base year" portion of $20,000 in property tax proceeds and the increased revenue of $65,000 in newly created tax proceeds would go into a housing account for local housing purposes established under the LHIF.

3. Pre-redevelopment base year - in rem foreclosed home owned by a municipality which has been taken off the tax rolls. The owning municipality invests local housing trust funds to assist in upgrading the property and the house is made sellable for private use. During the "improved year" following the restoration and sale of the home, the house generates $2,750 in property taxes which all would go into the local LHIF account for future housing purposes established under the LHIF. No funds are shared during the "improved year" between the other local property taxing jurisdictions. Starting year two following the LHIF applied "improved year", all local taxing jurisdictions will share the full proceeds of property taxes from the property.

4. Pre-development base year - vacant land generating $4,000 in local property taxes. A developer creates a workforce housing unit development supported by an awarded state workforce tax credit and aided by local funds provided through the community's LHIF. An 80-unit apartment complex is developed and 20-units in the building have workforce rents established at workforce levels for the next 15-years. During the "improved year" following completion of the apartment complex, the property taxes on the developed property rises to $225,000. That year, $4,000 in property tax proceeds will be shared proportionally by all local taxing jurisdictions and the increased property tax revenue of $221,000 would go into the LHIF account for future purposes established under the LHIF. (This example could also be applied and used for a LITC development).

Like with investment, where it takes money to make money, with LHIF you are using tax growth from newly created housing in a community to assist in the construction or creation of even more housing. This, in turn, creates newly added LHIF revenues to support even more housing construction and adds new tax base for all local taxing jurisdictions to share. LHIF, therefore, creates a continuous support system of new revenue for affordable and workforce housing. With LHIF, not only are you answering the supply-side issue in housing by investing local revenues to augment new housing development, but you are helping control costs around affordability for families in need through use of those funds. And, unlike with the use of Tax Incremental Districts (TID), you are not waiting 20, 25 or 27 years for incremental property tax proceeds to benefit local property taxing districts. With LHIF, the delay applies only to tax growth for a single year and those tax funds will be used to leverage an expanded local tax base through further housing creation. Additionally, because new or converted housing will likely be created on an annual and ongoing basis, the LHIF funding mechanism will avoid drawbacks of the TID housing law described above in that it would be applicable to all communities whether they have a TID or not, and funding would be consistently augmented so long as there is any level of added housing in a community.