

2021 4% STATE AND FEDERAL CREDIT RATE MEMO

Feb. 15, 2021



BACKGROUND

Year-end legislation signed on Dec. 27, 2020 enacted the minimum 4% housing tax credit rate. This provision allows for building allocated acquisition housing credits after Dec. 31, 2020 and for buildings financed with tax-exempt bonds issued after Dec. 31, 2020 to use the minimum 4% federal credit rate.

The 2021 state housing tax credit applications were submitted assuming the December 2020 credit rate of 3.09%, both for the federal and state housing allocation requests. Because the credit rate is now fixed at 4%, it allows for additional equity infusion into these projects. To meet the critical housing shortages throughout Wisconsin, the additional equity generated by the increase in the federal 4% rate is best used to reduce the state housing tax credits to match the total equity needed at the time of the application. This approach will result in allocating these state credits into more projects, ultimately producing more housing in Wisconsin.

NEXT STEPS

Based on the new equity formula, WHEDA will recalculate the credits needed for each application, using the updated federal 4% credit rate and the inputs provided on the original applications. As more equity is now available under the 4% federal tax credit program, WHEDA will award only the necessary amount of state tax credits needed to support the project budgets as identified in the competitive round. The result will be a reduced state tax credit award that corresponds to the increased value of federal tax credit equity. Both the federal and state credit allocation amounts will be communicated to those applicants that are successful in receiving the 2021 awards.

POSITIVE IMPACT ON HOUSING

Administering fewer state tax credits to each individual project will allow WHEDA to award credits to more projects. Based on historical experience with same amount of allocation each year since 2018, WHEDA expected to provide awards to around 40% of the 2021 state and federal tax applications. The recent change to the 4% federal credit rate will allow WHEDA to provide awards to nearly 70 to 80% of the applications. WHEDA anticipates this change will result in the addition of another 500-600 affordable units to Wisconsin's housing stock from the 2021 state tax credit round. Awarding more projects will improve the quality of life for Wisconsin residents by providing more affordable housing while also stimulating local economies.