# Wisconsin Housing Tax Credit

Spring 2018

# Background

- On March 28, 2018, Governor Scott Walker signed Wisconsin 2017 Act 176, which created the Wisconsin Housing Tax Credit (HTC) program.  A copy of Act 176 can be found at https://docs.legis.wisconsin.gov/2017/related/acts/176

- The state Housing Tax Credit was designed to be complement to the federal 4% Low Income Housing Tax Credit, and follows the vast majority of rules that are currently in place for the federal tax credit program

- WHEDA will allocate the state HTC, and will provide necessary allocation and compliance monitoring information to the Wisconsin Department of Revenue.

# Differences: Federal and State Credit

- The Wisconsin HTC will have a six-year credit period, rather than the 10-year federal credit period
- The Wisconsin HTC includes a preference for properties located in a city, town or village with a population of 150,000 or less
- If a development consists of more than one building – for the state HTC, the development is placed in service in the taxable year in which the last building of the qualified development is placed in service. For the federal HTC – each building is assigned a specific placed-in-service date.
- The state HTC ceiling will be limited to $7 million per year

# Process & Procedures: 2018

- There are no credit set-asides within the $7 million of state HTCs available in 2018

- The state HTC application process will be competitive
  - Applications meeting threshold requirements will then receive a WHEDA score.
  - WHEDA will allocate HTCs to the highest-scoring applications until a total of $7 million of state HTC awards have been made.

- WHEDA does not intend to make partial awards of state HTCs during this application round.

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# 2018 Application Process

- As the 4% application process will be competitive, we will be reacting to the proposals we receive – applicants should not expect to be allowed to submit additional materials after the application deadline
- Unless amended, all processes, timelines, threshold requirements, scoring options, etc. listed in the 2017/2018 Qualified Allocation Plan will remain in place
- Applications for state HTCs must also include an application for federal 4% HTCs
- WHEDA does not intend to include an opt-out option in the LURA for 4% transactions

# 2018 Application Process

- WHEDA will accept applications for 4% federal and state HTCs from Monday, May 21st, 2018 through Friday, June 29th, 2018

- Like the 9% process, applications must be submitted via the LOLA system no later than 5:00PM on the application deadline

- The paper copy of the application, nonrefundable fees and required additional documentation will be accepted by mail, postmarked no later than the submittal due date, or hand-delivered, received in WHEDA's Madison office by 5:00 PM on June 29th, 2018.

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# 2018 Application Process

- State HTC requests will be limited to $1.4 million per application

- No member of the development team – applicant and/or co-applicant – may receive more than two awards of 2018 state HTCs

- There is no limit on the amount of federal 4% HTCs that may be requested.  However, intends to award  state HTCs that are less than or equal to the federal HTC amount for each application.

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# 2018 Application Process

- At this time, LOLA does not accommodate requests for state HTCs
  - We hope to have this remedied for the 2019 application round

- Applicants should complete the LOLA application for their federal HTC request.  WHEDA will be sharing a state HTC application attachment on www.wheda.com that will calculate state HTC equity, scoring, and other calculations required for the state HTC
  - Applicants will be required to submit an electronic and printed copy of that Excel file with their other application materials.

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# 2018 Application Process

- Management Agents that were certified for the 2018 9% application round will be accepted for the 2018 4% application round

- Management agents who were not certified for the 2018 9% round must submit materials noted on the "Management Agent Certification Process" portion of https://www.wheda.com/LIHTC/2018-program/ by Friday, June 1st, 2018.

- WHEDA will complete the Management Agent certification review by June 15th, 2018.

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# 2018 Application Threshold Requirements

- Minimum Score
  - Properties located in areas meeting (a) USDA's Rural Development Property Eligibility Criteria, (b) the Census Bureau definition of non-metropolitan counties, and (c) located within a Treasury-designated Opportunity Zones will be required to score a minimum of 110 points to be eligible for state HTCs
  - Properties located in areas meeting (a) USDA's Rural Development Property Eligibility Criteria, (b) the Census Bureau definition of non-metropolitan counties will be required to score a minimum of 120 points

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# 2018 Application Threshold Requirements

- Minimum Score (continued)
  - Properties located in areas meeting USDA's Rural Development Property Eligibility Criteria will be required to score a minimum of 130 points
  - Properties outside of the cities of Milwaukee and Madison that do not meet any of the previous criteria will be required to score a minimum of 140 points
  - Properties in the cities of Milwaukee and Madison will be required to score a minimum of 155 points

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# 2018 Application Threshold Requirements

- Within Appendix M (WHEDA Design Requirements), the 100% visitable unit requirement will be reduced to 50% for state HTC applications

- 20% visitability will continue to be required for single-family, duplex and townhome style construction

- In the event that WHEDA does not receive more than $7 million of state HTC applications that meet the threshold requirements – all applications meeting threshold requirements, including minimum score, will receive a federal and state HTC award

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# 2018 Scoring Amendments

- With the exception of those items identified on the following slides, all 2018 scoring options remain as they are today

- For the 4% state WHTC program, a handful of categories have been modified

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# 2018 Scoring Amendments

- Financial Participation (category 9)
  - Points will not be awarded for tax-exempt bond financing

- Readiness to Proceed (category 12)
  - Currently, points are awarded in the Readiness to Proceed category for "permissive zoning in place for the type of development proposed"
  - WHEDA will also award an additional 20 points for applications that include evidence that all items on the Credit Award Checklist (with the exception of the loans funded with tax-exempt bonds) have been completed.  A copy of the Credit Award Checklist can be found on https://www.wheda.com/Forms/LIHTC/
  - Proportional points will not be awarded

# 2018 Scoring Amendments

- Credit Usage (category 13)
  - The calculation of ‘Credit per Unit’ will include the sum of federal and state HTCs

- Location Points (new scoring option)
  - Properties located in areas meeting (a) USDA’s Rural Development Property Eligibility Criteria, (b) the Census Bureau definition of non-metropolitan counties, and (c) Treasury-designated Opportunity Zones will receive 35 points
  - Properties located in areas meeting (a) USDA’s Rural Development Property Eligibility Criteria, (b) the Census Bureau definition of non-metropolitan counties will receive 25 points
  - Properties located in areas meeting USDA’s Rural Development Property Eligibility Criteria will receive 15 points
  - Properties outside of the cities of Milwaukee and Madison that do not meet any of the criteria in (1-3) above will receive 10 points

# 2018 Underwriting Criteria

- Income Averaging
  - The Consolidated Appropriations Act of 2018 created a third minimum set-aside option for tax credit properties.
  - In addition to the existing options to set-aside a minimum of 20% of units for households at or below 50% of County Median Income or a minimum of 40% of units for households at or below 60% of County Median Income, the Internal Revenue Code now allows an option to set-aside a minimum of 40% of units for households with an average income of no more than 60% of CMI.
  - The new provision allows households as high as 80% CMI to qualify as a low-income household.
  - WHEDA will accept 4% HTC and WHTC applications that include low income units from 20% CMI to 80% CMI, provided that the average does not exceed 60% of CMI.
  - Low Income units at or above 60% of CMI may not exceed 95% of the HTC rent limit, and may not exceed 90% of estimated market rents (as noted in the market study)

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# 2018 Underwriting Criteria

- State HTC Pricing.
  - Applications should include a price in the range of $0.60 to $0.68 per dollar of state HTC.
  - Applications with a WHTC price below $0.60 will be rejected.

- Applicants should use the WHEDA Tax-Exempt Financing Rate on the day that the application is submitted to establish the rate for their permanent debt.
  - Rates can be found on https://www.wheda.com/Financing/Rates/.

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# 2018 Underwriting Criteria

- Applications will be required to maintain a Debt Coverage Ratio of 1.20 to 1.40 during the 15 year compliance period

- Vacancy rate
  - WHEDA will continue to use a vacancy rate of 7% for new properties.
  - Existing properties with a vacancy rate of 5.0% or less in 2015, 2016 and 2017 will be allowed to include a vacancy rate of 5% in the application - copies of operating statements for each of the three years noted above must be included with the tax credit application.
  - In the absence of those operating statements, a vacancy rate of 7% will be used by WHEDA.

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# 2018 Underwriting Criteria

- Commercial Income will not be considered when calculating the Debt Coverage Ratio

- WHEDA will continue to allow a maximum developer fee of no more that 20% for applications utilizing the 4% federal and state HTC.  In those cases in which the Developer Fee exceeds the standard WHEDA Developer Fee policy, a minimum of one-half of the developer fee must be deferred.

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# 2018 Timeline

- Approval of a 4% federal and state HTC application does not constitute a loan approval by WHEDA.
    - Tax-exempt bond loan applications will follow WHEDA's typical loan approval process

- WHEDA expects to complete the threshold and scoring review in early- to mid-August, and will issue Reservation letters at that time

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# 2018 Timeline

- For those tax credit applications that included a WHEDA loan addendum, WHEDA will begin the loan approval process at that time

- We intend to complete loan underwriting and request loan committee approvals by October 1, 2018

- Approved loans would then receive a loan commitment in early- to mid-October

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# 2018 Timeline

- The Reservation letter for all 2018 4% HTC awards will require that all items necessary to complete the Tier One letter (see the Credit Award Checklist on www.wheda.com) be submitted to WHEDA no later than December 1, 2018
- There will be no extensions of the December 1, 2018 deadline for Tier One items - failure to submit the required Credit Award Checklist items will lead to a revocation of the HTC Reservation
- WHEDA intends to mail all Tier One letters by December 15, 2018, with an owner response deadline prior to year-end

# 2018 Timeline

- Developers pursuing other providers for tax-exempt debt will be required to meet the December 1, 2018 Tier One deadline described above.

- In the event that WHEDA does not receive a sufficient number of qualifying applications to fully-utilize the 2018 state HTC ceiling of $7 million, additional 2018 federal ad state 4% HTC applications may be accepted later in 2018.

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# 2018 Fees

- $2000 application fee
- At the time of award and issuance of the Reservation letter, a fee equal to the sum of 5% of the federal HTC amount and 2.5% of the state HTC amount will be assessed
- Upon issuance of the Tier One letter, a fee equal to the sum of 5% of the federal HTC amount and 2.5% of the state HTC amount will be assessed
- There will be no fee for the Tier 2 letter, but WHEDA will collect the applicable 8609 issuance fees
- WHEDA loan fees for tax-exempt bond-funded loans
  - Origination fees
    - 1.0% for construction loans
    - 1.5% for perm loans
  - $15,000 legal documentation fee
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# HTC Applications that do not include a WHEDA tax-exempt bond loan request

- Federal and state HTC properties will require the issuance of volume-cap tax-exempt bonds to meet the 50% test for 4% transactions
- In those cases in which WHEDA is not providing a credit-enhanced tax-exempt bond-funded loan, the following parameters will apply:

  - Local Issuance
    - The Volume Cap allocation will be limited to 60% of the property's expected Aggregate Basis
    - Volume cap amounts may be limited by WHEDA's "Volume Cap Allocation to Local Issuers" policy

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# HTC Applications that do not include a WHEDA tax-exempt bond loan request

- Private Placement with no Credit Enhancement
  - The Volume cap allocation will be limited to 60% of the property's expected Aggregate Basis
  - Bonds will only be issued in May and November of each year
  - Fees will be equal to the greater of (a) 1.5% of the loan amount or (b)$125,000; plus the cost of bond issuance

- WHEDA will not provide credit enhancement for construction-only loans with a non-WHEDA perm debt source

# WHEDA Subordinate Financing

- WHEDA intends to make subordinate financing available for 2018 4% HTC transactions
  - Repayment from available cash flow from operations
  - WHEDA expects to receive repayment, so the loan amounts below may be reduced subject to financial feasibility, DCR, etc.
  - Subordinate loans will not be provided for properties with Locally Issued or Privately-Placed tax-exempt bonds

- Properties located in areas meeting (a) USDA's Rural Development Property Eligibility Criteria, (b) the Census Bureau definition of non-metropolitan counties
  - Sizing: No more than $1 of subordinate loan proceeds for every $6 of permanent tax-exempt bond debt
  - Total subordinate loan pool for Nonmetropolitan counties will be limited to $2 million

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# WHEDA Subordinate Financing

- Southeastern Wisconsin
  - Sizing: No more than $1 of subordinate loan proceeds for every $10 of permanent tax-exempt bond debt
  - Total subordinate loan pool for Southeast Wisconsin will be limited to $3 million
  - Limited to new construction of non age-restricted housing

- In the event that we receive more than $2 million of subordinate loan requests in Nonmetropolitan areas, or $3 million of subordinate loan requests in southeast Wisconsin, the tax credit score will determine the properties that receive subordinate debt

# Looking Ahead to 2019

- WHEDA recently published a draft 2019/2020 Qualified Allocation Plan
  - The final QAP will be presented to WHEDA's Board for approval in June 2018

- The 2019/2020 QAP includes an identical early-December 2018 deadline for 2019 federal 9% HTC applications and 4% federal and state HTC applications.

- Awards for both programs will likely be announced in March of 2019

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