2017/2018 Qualified Allocation Plan – Amendment #1
State Housing Tax Credit
May 2018

WHEDA

A. Introduction

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

The Wisconsin 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 housing tax credit program. However, there are some key differences between the state and federal programs:

a) The state HTC will have a six-year credit period, versus the 10-year federal credit period
b) The state HTC includes a preference for properties located in a city, town or village with a population of 150,000 or less
c) 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.
d) The state HTC ceiling will be limited to $7 million per year

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

B. Process and Procedures for the Remainder of 2018

The items below describe changes being implemented for applications requesting 4% federal and state HTCs in 2018. Applicants requesting only the federal 4% HTCs will follow the earlier-approved 2017/2018 Qualified Allocation Plan, and must submit applications no later than December 1, 2018.

Unlike the competitive 9% tax credit program, there will be no credit set-asides within the $7 million of state HTCs available in 2018.

The items described in this document will create a competitive 4% federal and state HTC application process for the remainder of 2018. Those applications meeting threshold requirements will then receive an application score. WHEDA will allocate state HTCs to the highest-scoring applications until a total of $7 million of awards have been made. WHEDA does not intend to make partial awards of state HTCs during this application round.

As the process is competitive, WHEDA will be reacting to the proposals we receive – applicants should not expect to be allowed to submit additional materials after the application deadline. However, WHEDA may contact applicants to provide clarification for applications materials that have been submitted. Incomplete applications will be rejected during WHEDA's threshold review process.

Unless amended below, all processes, timelines, threshold requirements, scoring options, etc. listed in the 2017/2018 Qualified Allocation Plan will remain in place.

C. Application Process

WHEDA will accept applications for 4% federal and state HTCs from Monday, May 21st, 2018 through Friday, June 29th, 2018. All applications must be submitted via the LOLA system by 5:00 PM on June 29th, 2018. The paper copy of the application, nonrefundable fee(s) and required additional documentation will be accepted by mail, postmarked no later than the submittal due date, or hand-delivery, received in WHEDA's Madison office by 5:00 PM on June 29th, 2018.

No application may include a request for more than $1,400,000 of state HTCs (20% of the $7 million of Wisconsin Housing Tax Credits to be allocated in 2018). Additionally, 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% tax credits that may be requested. WHEDA intends to award state HTCs that are less than or equal to the federal HTC amount for each application.

At this time, the on-line tax credit application (LOLA) does not accommodate requests for state HTCs. Applicants should complete the LOLA application for their federal HTC request (as has been done for many years). WHEDA will be sharing a state HTC application attachment on www.wheda.com that will calculate state HTC equity, total rental income for low income units at 70% or 80% CMI (see Income Averaging reference below) 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.

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

WHEDA expects to complete the threshold and scoring review described below by early-August 2018.

D. Threshold Requirements

Amendments to current application threshold requirements:

a) Minimum Score
    1. 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 be required to score a minimum of 110

points to be eligible for 4% federal and state HTCs. USDA Rural Housing Eligibility Criteria can be determined by visiting https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=mfhc, and the Census Bureau metropolitan county definition can be found on https://www2.census.gov/geo/maps/metroarea/stcbsa_pg/Feb2013/cbsa2013_WI.pdf.

2. 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 to be eligible for 4% federal and state HTCs.
3. Properties located in areas meeting USDA's Rural Development Property Eligibility Criteria will be required to score a minimum of 130 points to be eligible for 4% federal and state HTCs.
4. Properties outside of the cities of Milwaukee and Madison that do not meet any of the criteria in (1-3) above will be required to score a minimum of 140 points to be eligible for 4% federal and state HTCs
5. Properties in the cities of Milwaukee and Madison will be required to score a minimum of 155 points to be eligible for 4% federal and state HTCs

b) Within Appendix M (WHEDA Design Requirements), the 100% visitable unit requirement will be reduced to 50%. 20% visitability will continue to be required for single-family, duplex and townhome style construction.

Applications meeting the threshold requirements will then be assigned an application score based on the scoring categories in the 2017/2018 QAP, subject to the changes described below.

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

E. Amendments to Current Scoring Options

Amendments to current application threshold requirements:

a) Financial Participation (category 9)
   1. Points will not be awarded for tax-exempt bond financing
b) Readiness to Proceed (category 12)
   1. Currently, points are awarded in the Readiness to Proceed category for "permissive zoning in place for the type of development proposed". Those points will remain as-is.
   2. WHEDA will 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.
c) Credit Usage (category 13)
   1. The calculation of 'Credit per Unit' will include the sum of federal and state HTCs
d) Location Points (new scoring option)

1. 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
2. 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
3. Properties located in areas meeting USDA's Rural Development Property Eligibility Criteria will receive 15 points
4. 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

F. Underwriting Criteria

The following criteria will be used to underwrite applications for federal and state 4% tax credits:

a) 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% federal and state HTC applications that include low income units from 20% CMI to 80% CMI, provided that the average does not exceed 60% of CMI.
    a. Low Income units at or above 60% of CMI may not exceed 95% of the LIHTC rent limit, and may not exceed 90% of estimated market rents (as listed in the market study)
b) State HTC Pricing. Applications should include a state HTC price in the range of $0.60 to $0.68 per dollar of credit. Applications with a state HTC price below $0.60 will be rejected.
c) 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/.
d) Applications will be required to maintain a Debt Coverage Ratio of 1.20 to 1.40 during the 15 year compliance period.
e) 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.
f) Commercial Income will not be considered when determining the Debt Coverage Ratio
g) 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 (see Appendix J on https://www.wheda.com/LIHTC/2018-Appendices/), a minimum of one-half of the developer fee must be deferred.

G. 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.

Upon completion of threshold and scoring reviews, WHEDA will announce the 2018 federal and state HTC awards and issue Reservation letters for the federal and state tax credits. 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 will receive a loan commitment in early-October.

The Reservation letter for all 2018 LIHTC 4% awards will require that all items necessary to complete the Tier One letter (see the Credit Award Checklist referenced in Section E above) 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.

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 and state HTC applications may be accepted later in 2018. Later applications would be processed as they are received by WHEDA – those meeting threshold requirements would receive a federal and state HTC award.

H. Fees for the 2018 4% Round

The following fees will be assessed for the 2018 4% application round:

- a) $2000 application fee for the combined federal and state HTC application
- b) 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
- c) 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
- d) There will be no fee for the Tier 2 letter, but WHEDA will collect the applicable 8609 issuance fees
- e) WHEDA loan fees for tax-exempt bond-funded loans
    1. Origination fees
        a. 1.0% for construction loans
        b. 1.5% for perm loans
    2. $15,000 legal documentation fee

Document reissuance fees noted in the 2017/2018 QAP will apply to the 2018 4%federal and state HTC round.

I. HTC Applications that do not Include a WHEDA Tax-Exempt Bond Loan Request

Federal and state HTC projects 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:

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

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

c) Volume cap used for construction loans only
   1. WHEDA will not provide credit enhancement for construction-only loans with a non-WHEDA perm debt source

J. Looking Ahead to 2019

WHEDA will be publishing a draft 2019/2020 Qualified Allocation Plan in mid-May 2018. At this time, we anticipate recommending an identical early-December 2018 deadline for 2019 9% HTC applications and 4% federal and state HTC applications.