

## 2020 Housing Tax Credit Program

Qualified Allocation Plan FAQs and Guidance

Updated: December 4, 2019



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This document will be updated periodically – please check our web site for updated FAQs and guidance.

### Credit Amounts

- A. In the General, Preservation and Supportive Housing set-asides, the Housing Tax Credit limit will be \$1,550,000 per application.
- B. Within the 9% Federal Housing Tax Credit program, a developer may receive up to \$2,500,000 of HTC's in any year, in either a) no more than two awards as lead developer and one award as co-developer or b) no more than one award as lead developer and two awards as co-developer or c) zero awards as lead developer and three awards as co-developer.
- C. Within the State Housing Tax Credit program, awards are limited to no more than \$1.4 million – with no more than two awards to any member of the Development team
- D. In 2019, Wisconsin received a 9% HTC per-capita credit allocation of approximately \$16 million – we don't anticipate a significant increase in that amount for 2020.
- E. Approximately \$8 million of State Housing Tax Credits will be made available.

### Application Process

- A. When will application materials be available, and when is the application deadline?
  - The 2020 online application (LOLA) is expected to be available for 9% applicants in late-October 2019
    - A sample 2020 Housing Tax Credit application is available on the web now.
  - 9% applications must be submitted to WHEDA by 5:00 PM (CST) December 6<sup>th</sup>, 2019
  - The application for 2019 4% federal & state Housing Tax Credits will be available on January 3<sup>rd</sup>, 2020.
    - 4% federal & state Housing Tax Credit applications must be submitted by 5:00 PM (CST) on January 17<sup>th</sup>, 2020
    - WHEDA will supply a 4% Excel attachment to be submitted with each 4% federal & state Housing Tax Credit application – that attachment will be available on <https://www.wheda.com/HTC/2020-Program/>
- B. What should applicants use for permanent loan terms/rates in their 2020 Housing Tax Credit application(s)?

- 9% applications should use WHEDA’s then-current Permanent Financing for 9% Housing Tax Credit projects with 35-year term & amortization on the date the application is submitted. However, an applicant may use other terms (lower interest rate, longer amortization, etc.) if a term-specific, executed financing commitment accompanies the application.
  - State Housing Tax Credit applications should use the Tax-Exempt Financing rate on the date the application is submitted
  - For those applicants utilizing a commitment with other terms other than those provided by WHEDA (lower interest rate, longer amortization, etc.), WHEDA will require that those financing commitments meet the following requirements:
    - Fully executed – including signatures from both the lender and the borrower
    - Minimum term of 10 years
    - The interest rate must be locked through October 1, 2020 – this is the approximate deadline date for the submission of Carryover materials for properties that receive 2020 Housing Tax Credit awards
      - Indicative interest rates, or rates tied to a floating index will not be accepted
    - Commitments may contain conditions or contingencies, but only those that are within control of the borrower, or those that are based upon the performance of the borrower
      - Example – receipt of Housing Tax Credits
    - Commitments that are subject to final underwriting, loan committee approvals or other similar requirements will not be accepted
    - Developer secured self-financing commitments will not be accepted.
  - WHEDA intends to make up to \$3 million in financing available for Rural Development Section 515 properties for the 2020 tax credit cycle, applicants should use a loan rate of 4%, with a term and amortization equal to or lesser than 30 years.
- C. Management Agent Certification process
- Management Agent Certification forms for 2020 applications were due to WHEDA no later than September 3<sup>rd</sup>, 2019
  - Approved Management Agents for 2020 have been posted on <https://www.wheda.com/HTC/2020-Program/>.
- D. When will 2020 Housing Tax Credit application appendices be available?
- All the 2020 appendices are currently available on the 2020 Housing Tax Credit Allocating page on our web site. Please see <https://www.wheda.com/HTC/2020-Appendices/>.
- E. WHEDA will continue to require that a minimum of 85% of projected funding sources be ‘committed’ at the time of application. For the purposes of this requirement, ‘committed’ funding sources include the following:
- The permanent loan amount based on WHEDA’s loan terms on the date of application (the applicant may use other terms if a term-specific, executed financing commitment accompanies the Housing Tax Credit application)
  - Other loans or grants with a firm commitment from the lender/grantor/government entity – identifying amount, interest rate, term, and amortization

- Historic tax credit equity (with a Letter of Intent from the Syndicator/Investor)
- The Housing Tax Credit equity amount calculated in LOLA
  - An LOI is not required if your Housing Tax Credit application pricing assumption is within the range noted below

F. Developer-Financed TIFs

- For those applications including developer-financed TIFs
  - Include evidence of Developer Agreement or Common Council approval
  - Include evidence of Annualized TIF Increment sizing methodology not limited to: Baseline Property Value, Forecasted Stabilized Property Value, Municipal Taxing Rate
- The developer-financed TIF loan amount should be calculated based on the following items:
  - Term and amortization not to exceed the Municipal TIF Developer Agreement term and amortization
  - Interest rate equal to WHEDA’s Permanent Financing rate for the WHEDA senior debt associated with Housing Tax Credit projects on the date of application
  - Loan sizing not to exceed 90% of net present value of the annual tax reimbursement, discounted by the current WHEDA posted financing rate that matches the WHEDA senior debt for the duration of the property tax reimbursement

G. What is WHEDA’s 2020 QCT, DDA and HFA Basis Boost policy?

- Section 9.a. of the 2019-2020 Qualified Allocation Plan (QAP) refers to an annual publication of WHEDA’s QCT, DDA and HFA basis boost policy.
- For 9% 2020 applications, properties in the Supportive Housing Set-Aside will be limited to 25% QCT, DDA or HFA and properties in the Rural Set-Aside will be limited to a 20% QCT, DDA or HFA basis boost - for all other set-asides, the QCT, DDA and HFA basis boost will be limited to 15%.
- 4% applications may request a 30% QCT or DDA basis boost – the HFA basis boost is not available for 4% Housing Tax Credit applications

H. What should applicants use for credit pricing assumptions in their 2020 applications?

- The ranges below should be used for 2020 applications:
  - Metropolitan Counties: \$0.89.5 - \$0.92
  - Rural Counties: \$0.865 - \$0.895
- For the purposes of tax credit pricing, find a list of Wisconsin Metropolitan Counties directly below. All other Wisconsin counties are considered Rural for the purposes of tax credit pricing.

Wisconsin Metropolitan Counties

Brown	Eau Claire	Outagamie	Sheboygan
Calumet	Kenosha	Ozaukee	St. Croix
Chippewa	La Crosse	Pierce	Washington
Dane	Marathon	Racine	Waukesha
Douglas	Milwaukee	Rock	Winnebago

- Assume a state housing tax credit price of \$0.65 - \$0.71.

- I. Qualified Census Tracts and Difficult Development Areas
  - Revised QCTs and DDAs are available at <https://www.wheda.com/HTC/2020-Appendices/>.
  
- J. Applications for the same parcel(s)
  - WHEDA will allow applicants to submit a 4% federal & state housing tax credit application and 9% federal housing tax credit application for the same parcel(s)
    - The 4% federal & state housing tax credit and 9% federal housing tax credit applications will be treated as distinct applications – the market study for each application should reflect the appropriate mix of units
    - In the event that both the 4% federal & state housing tax credit and 9% federal housing tax credit applications meet threshold requirements, and both applications receive a score that would qualify for a tax credit award, WHEDA will make an award to the 4% state & federal housing tax credit application, and will reject the 9% federal housing tax credit application
  - Applicants may not submit the same site as 2 distinct applications with different unit mix configurations in the same round 4% round or the same 9% round. Applicants may not submit the same site in different set-asides in the 9% round in the same cycle year.
  
- K. What information is required for a property utilizing Historic Tax Credits?
  - If you intend to utilize Historic Tax Credits, submit:
    - Written evidence that historic designation (Part I) has been applied for, or that the building is already deemed historic
    - Letter of interest by investor
    - Detailed calculation of the credit and equity amounts.
  
- L. Subordinate funding for 2020 4% State Housing Tax Credit applications
  - WHEDA intends to make subordinate financing available for 2020 4% state Housing Tax Credit applications
    - 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, and other relevant financial metrics
    - Subordinate loans will not be provided for properties with Locally-Issued or non-credit enhanced privately-placed tax-exempt bonds
    - ***A full term sheet entitled “State of Wisconsin Housing Tax Credit Subordinate Debt Financing” is available online at: <https://www.wheda.com/Financing/>***
  - Eligible areas
    - Rural areas
      - Properties located in areas meeting (a) USDA’s Rural Development Property Eligibility Criteria, and (b) the Census Bureau definition of non-metropolitan counties
        - (a) <https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=mfhc>

- (b) All Wisconsin Counties not contained in this list directly below are considered Rural per the Census Bureau definition of non-metropolitan counties.

Wisconsin Metropolitan Counties

Brown	Eau Claire	Outagamie	Sheboygan
Calumet	Kenosha	Ozaukee	St. Croix
Chippewa	La Crosse	Pierce	Washington
Dane	Marathon	Racine	Waukesha
Douglas	Milwaukee	Rock	Winnebago

- Sizing: No more than \$1 of subordinate loan proceeds for every \$6 of permanent tax-exempt bond debt
- The subordinate loan pool for nonmetropolitan counties will be limited to \$2 million
- ~~Limited to new construction. Adaptive Re-use and Acquisition/Rehabilitation projects are not eligible.~~ **New Construction, Adaptive Re-use and Acquisition projects are eligible.**
- All subordinate loans will need to be applied for and will require WHEDA Board approval
- Balance of State of Wisconsin
  - All remaining properties located in the State of Wisconsin outside of the areas defined above in the Rural areas definition
  - Sizing: No more than \$1 of subordinate loan proceeds for every \$8 of permanent tax-exempt bond debt
  - The subordinate loan pool for Balance of State of Wisconsin will be limited to \$4.0 million
  - Limited to new construction. Adaptive Re-use and Acquisition/Rehabilitation projects are not eligible.

M. Can 2019 9% Housing Tax Credit recipients apply for additional tax credits in 2020?

- WHEDA will allow 2019 tax credit recipients to apply for additional tax credits in 2020 – these applications do not receive priority over other applications
- Applicants will be required to include a deferred developer fee equal to the lesser of (a) 35% of the total developer fee, or projected cumulative cash flow during the first 13 years of operations
- WHEDA will calculate a Financial Leverage score that is based on the amount of credit awarded in 2019 and the new credit requested in 2020
- The credit pricing estimate within the 2020 application must be equal to the credit pricing included in the approved 2019 Carryover application

N. What construction style are stacked flats considered for the purposes of the Appendix M (WHEDA Design Requirements)?

- Townhome style construction

- O. ***My project contains a mix of elderly and family units. What PUPM Operating expense range is my project subject to? Is a weighted average approach acceptable?***
  - ***Yes***
  
- P. ***What is the minimum ownership interest I must maintain in the project for my developer score to count in the Development Team scoring section?***
  - ***If a developer would like to have their developer score included in the determination of Development Team points, that developer needs to maintain an ownership interest of 49% minimum in the General Partner/Managing Member and be listed as an applicant.***
  
- Q. ***My project contains a mix of family and elderly units. Am I eligible for handrail points in the Universal Design Scoring Section?***
  - ***To be eligible to select the points, the project must be majority elderly.***

R. What is the State Housing Tax Credit 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. Applications electing the Income Averaging option must be 100% low-income. Properties with market rate units will be required to select the 20% @ 50% CMI or 40% at 60% CMI set-aside option.
  - b. 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)
  - c. WHEDA requires that there be a reasonable distribution of unit sizes/bedroom sizes throughout the different CMI bands in the proposed income averaged unit mix.
- b) **State HTC Pricing.** Applications should include a state HTC price in the range of \$0.65 to \$0.71 per dollar of credit. Applications with a state HTC price below \$0.65 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. Applicants should Rates can be found on <https://www.wheda.com/Financing/Rates/>. Applications using an interest rate at variance with the WHEDA posted Tax-Exempt Financing Rate will be modified at WHEDA’s sole discretion to correct the interest rate and right size the debt.
- d) **WHEDA loan fees for tax-exempt bond-funded loans:**

- a. Origination fees
      - 1.0% for construction loans
      - 1.5% for perm loans
    - b. \$15,000 legal documentation fee
  - e) Applications will be required to maintain a Debt Coverage Ratio of 1.20 to 1.40 during the 15 year compliance period.
  - f) 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 2016, 2017 and 2018 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.
  - g) Commercial Income will not be considered when determining the Debt Coverage Ratio. WHEDA will continue to allow a maximum developer fee of no more than 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/2020-Appendices/>), a minimum of one-half of the developer fee must be deferred.
  - h) Applicants are encouraged to include detailed supporting documentation in support of the chosen operating expense figure for the project. Even with supporting documentation, at WHEDA's discretion, the operating expense assumptions submitted by the applicant may be modified by WHEDA staff to align with WHEDA's assumptions for operating expenses. This may result in a re-sizing of the amortizing debt/deferred developer fees and may have a negative consequence on the financial feasibility of the application.
  - i) WHEDA reserves the right to scrutinize the validity of financial commitments containing terms not consistent with the market.
- S. What parameters apply when after award of State Housing Tax Credits, the applicant opts to meet the 50% test requirement for 4% transactions outside of a WHEDA credit-enhanced tax-exempt bond-funded loan structure?
  - a) 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
    - Bonds must be issued in the same calendar year as the year the Housing Tax Credits were awarded
  - b) 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 each year
    - Private Placements Bonds must close by February 1, 2021. All additional non-WHEDA financing commitments in the capital stack must close by February 1, 2021.
    - 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
  - c) Volume cap used for construction loans only
    - WHEDA will not provide credit enhancement for construction-only loans with a

non- WHEDA perm debt source

- T. What was the cut-off score, average awarded score, and average applicant score for the 2019 State of Wisconsin 4% Housing Tax Credit round?**
- **Cut-off score 183**
  - **Average score of average of awarded deals: 211**
  - **Average score of all applications: 205**

### Scoring Categories

- A. How does WHEDA define the start point and measure distance in scoring categories that reference distances?
- Applicants may use any outside boundary of the site(s) as the starting point. The distance is measured as linear distances “as the crow flies”, not driving or walking distance. To measure the distance of a path or route between two points, Google Maps offers a distance calculator tool.
- B. Can I request points for a 50% CMI three-bedroom unit that has a subsidy such as project-based vouchers, NAHASDA, etc.?
- Yes. The units must be shown as a 60% CMI unit on the Unit Mix page, and if an award is made, the LURA will reflect those units as 60% CMI units
- C. Prior to the application deadline, can WHEDA send copies of my occupancy records that will be used for Development Team scoring?
- The Development Team scoring category includes up to three points based on the occupancy rate during the past three years for previously-developed Housing Tax Credit properties. WHEDA staff will not be providing historical occupancy records to developers for existing Housing Tax Credit properties in advance of the 2020 application deadline – that data is available through WHEDA’s MQOR system.
- D. My application may have scattered sites. How do I score this in Areas of Economic Opportunity or other location-based scoring categories?
- At least two-thirds of the sites must meet the scoring criteria to qualify for points.
- E. Can a Preservation Set-Aside application receive points in Areas of Economic Opportunity or other location-based scoring categories?
- Yes, Preservation set-aside applications can receive location-based points
- F. Can an elderly property score points in Areas of Economic Opportunity
- Yes, elderly properties are allowed to score points in this category
- G. I’m applying for Housing Tax Credits, and my property is neither 100% family nor 100% senior – how do I request points for Access to services and amenities in the Areas of Economic Opportunity category?
- The points available for Access to services and amenities is not identical for senior and family/supportive properties. Applications containing more than 50% senior units will



be allowed to request points in the senior categories – all other applications should use the Family or Supportive categories

- H. Is property-wide Wi-Fi eligible for provision of in-unit internet points in the Areas of Economic Opportunity category?
  - Property-wide Wi-Fi is allowable for acquisition/rehab properties.
  - New construction and adaptive reuse must provide hard-wired in-unit internet access to be eligible for points in the *On-Site Services and Amenities* portion of this category.
  
- I. Do counties that qualified for points in the Areas of Economic Opportunity Category – Rent Burden in the 2019 cycle still qualify for points?
  - Yes
  
- J. 4% State Housing Tax Credit applications – Readiness to Proceed scoring option
  - WHEDA will continue to award an additional 20 points for applications that include evidence that all items on the Credit Award Checklist have been completed – with two exceptions noted below.
    - A copy of the Credit Award Checklist can be found on <https://www.wheda.com/Forms/LIHTC/>. Evidence of all items on the checklist must be provided with the application.
  - The following items from the Credit Award Checklist are not required at the time of application:
    - Commitments for loans funded with tax-exempt bonds
    - Photocopy of HUD/RD or WHEDA approval for transfer of physical assets (TPA)

### **Set-Asides**

- A. Are new construction applications allowed in the Preservation Set-Aside?
  - New Construction and/or adaptive reuse projects are not allowed to apply within the Preservation Set-Aside
  
- B. Are there set-asides with the state Housing Tax Credit program?
  - No – all applications for state Housing Tax Credits will compete for a single pool of credits
  
- C. If a project is contemplating a RAD conversion, what will WHEDA require at time of application for a project to qualify for the Preservation Set-Aside?
  - HUD Letter- Receipt of Appendix N
  - Copy of Appendix N Items submitted to HUD
  - Copy of the Current HUD Subsidy Contract to be replaced
  - CHAP and all exhibits
  - Rent Rolls and any required relocation plan