Preserving Wisconsin's Quality Affordable Rental Housing

Report of the Governor's Task Force for Housing Preservation

Submitted to: The Honorable James Doyle
115 East State Capitol
State of Wisconsin
Madison, WI: October 15, 2004

Table of Contents Page

Executive Summary

Preservation of affordable rental housing is a national priority being studied by states and affordable rental housing advocates around the country. Wisconsin has historically been a leader in providing and supporting quality affordable rental housing for its residents. Preserving quality affordable rental housing in Wisconsin plays a major role in the future success of Wisconsin as a whole and will have a positive impact on the stability of Wisconsin's residents and the continued sustained growth of Wisconsin's economy. Much of Wisconsin's existing affordable housing stock serving low-income residents has been developed by both For Profit and Not-For-Profit organizations using federal programs with very deep subsidies or discounts for the residents. More and more owners of the housing stock have the option to opt out of the subsidized programs. Additionally, many owners have reduced financial ability to maintain the affordable rental housing units resulting in the possible loss of affordable housing and displacement of households in need of quality affordable housing. In fact, Wisconsin is potentially at risk of losing affordability of 831 rental properties located throughout the State of Wisconsin, representing 35,135 units within the next seven years. The loss of even a portion of these at risk rental properties would have a substantial negative impact on the quality of life of Wisconsin's residents.

The Honorable James Doyle created the Governor's Task Force for Housing Preservation (Task Force) and charged the Task Force to develop a multifamily rental housing strategy that is intended to identify and preserve those units at greatest risk of loss or deterioration where the resident's housing is most threatened. The Task Force established the following mission statement:

> **"to identify and preserve those affordable rental housing units at greatest risk of loss where the tenant's residency is most threatened in order to maintain a positive impact on the stability of Wisconsin's residents and the continued sustained growth of Wisconsin's economy and to make recommendations on how to best preserve those units."**

The Task Force established an effective strategy based on the following critical questions:

1. **What affordable housing units are at risk?**
2. **What funding resources are available to assist in the preservation of affordable housing?**
3. **What methodology should be established in order to evaluate the needs and likelihood of success of preservation efforts for existing affordable rental housing?**
4. **What are the legislative/regulatory barriers impacting preservation of affordable rental housing?**

What affordable housing units are at risk?

This question is best answered by identifying the universe of potential properties at risk of losing their affordability during various future time intervals. The initial step was to obtain data from Wisconsin Housing and Economic Development Authority (WHEDA), the United States Department of Housing and Urban Development (HUD), and United States Department of Rural Development (RD) with respect to all affordable housing units that have expiring use restrictions. All data was carefully crosschecked in an attempt to eliminate redundancy that occurs due to the layering of subsidy programs and financing.

Through cooperation and data sharing by WHEDA, HUD and RD, the Task Force created a list of potentially at risk properties in jeopardy of losing their affordability over the next seven years due to the applicable affordability restriction being lifted.

The initial list of potentially at risk properties in jeopardy of losing their affordability over the next seven years identified 831 properties, containing 35,135 units. The scope was then limited to three years in order to manageably identify those properties most at risk. Key findings include the following:

- Approximately 25,000 existing affordable housing units could potentially lose affordability in the next 3 years
- Of these 25,000 units, 60% serve the elderly population
- 73% of the properties are owned by For Profit entities

What funding resources are available to assist in the preservation of affordable housing?

The initial step in answering this question was to identify potential partners including public, private and Not-for-Profit organizations, who could participate in preservation efforts in order to leverage resources and to identify potential hurdles that would inhibit financing from the various sources. This is not to suggest that each of the resources identified are needed or appropriate for every property. Rather, it is to identify the universe of resources that should be considered when reviewing targeted properties for the unique characteristics that make those targeted properties eligible for a property-specific mix of financing options.

Preserving affordable rental housing is not a "one size fits all" concept. Virtually every residential rental real estate development has two key components of sources of funds. Those sources include debt, (in the form of mortgage loans), and equity. Existing affordable rental housing has generally one to five common primary debt sources, (primarily government agencies), and literally thousands of equity sources (the investors – owners). In some limited preservation transactions, the debt and equity partners remain the same, but the amounts of their respective financing changes. However, in most situations, the equity partner changes, and there is new additional debt brought into the transaction. Attempting to identify some key sources for the new additional debt and suggest ways to fund the equity transfer was a major goal of the Task Force.

Preserving affordable rental housing requires significant investments. This includes funds needed to upgrade the interior and exterior of the buildings in their current form, or to modernize the structures to bring them up-to-date with current market conditions, or to simply pay for the soft costs associated with the transfer of ownership between equity and/or debt sources. Identifying and/or creating adequate resources is a critical component of preserving affordable rental housing in Wisconsin now and into the future.

What methodology should be established in order to evaluate the needs and likelihood of success of preservation efforts for existing affordable rental housing?

To ensure the best use of available scarce resources, the Task Force created benchmarks and framework to evaluate the needs and likelihood of success of preservation efforts for existing affordable housing. The benchmarks and framework establish a priority system for preserving particular properties taking into account various attributes including the property owner's cooperation, the existing affordable housing's financial leverage, financial soundness, quality of the housing, appropriateness of the affordable housing, market strengths and the physical integrity (capital needs) of the project. Additionally, other factors including municipal support and the risk of losing the existing affordable housing's affordability status were considered. Major findings of the Task Force include the following:

- Owner participation is critical;
- More projects will need funding than existing funding available;
- Some projects will not be feasible to preserve;
- Preservation programs must incorporate a public/private participation component in funding the continued preservation of affordable housing; and
- Continued success in preserving affordable housing must include the following: municipal support, quality of housing, sufficient need for the specific type of affordable rental housing, appropriateness of property location and related market strength, and the owner's or buyer's commitment to preserving the affordability of the housing.

What are the legislative/regulatory barriers impacting preservation of affordable rental housing?

Legislative action directly impacts preservation of affordable rental housing through either enhancing or hindering the continued feasibility of the at risk affordable rental housing.

The Task Force was responsible for identifying legislative issues to enhance the continued feasibility of at risk affordable rental housing and attention was focused on those issues for which there is a reasonable likelihood of a meaningful solution.

Exit Taxes

The exit tax issue is not unique to the State of Wisconsin. In fact, the exit tax issue is considered by many to be the greatest challenge facing the preservation of affordable rental housing in the nation. Exit taxes are the income taxes payable by the owner upon the sale of a property. The exit taxes that an owner must pay upon the sale of a property are based on the capital gain the owner recognizes on the sale. The issue is that an owner's tax basis in an affordable rental housing property is often negative (especially projects developed before 1986 which had the benefit of accelerated depreciation), and the purchase price required to pay exit taxes and any existing mortgage debt is often greater than the fair market value of the property. Thus, unless a buyer is willing to pay more for a property than its fair market value, the owner may not sell. If an owner cannot sell due to excessive exit taxes, the owner will have an economic incentive either to convert the property to market-rate housing (given the greater rents) or, if the property cannot be converted to market-rate housing, to put as little money as possible back into the property for needed repairs in order to provide a return on the owner's investment. If a buyer is willing to overpay for the property, the buyer has less money to make any required repairs, replacements or upgrades to the property.

Property Tax Assessments

Another challenge facing the preservation of affordable rental housing is generating sufficient cash flow to make affordable rental housing properties viable. The rents generated by affordable rental housing properties are restricted and at times are less than the rents generated by market-rate properties. However, the expenses associated with maintaining affordable rental housing properties are often the same as, if not more than, the expenses associated with maintaining market-rate properties due to the administrative burdens. One of the biggest expenses payable in connection with any apartment property is real estate taxes.

Material inconsistencies exist among the taxing authorities in the State of Wisconsin as to how affordable rental housing properties are assessed for real estate tax purposes.

Administrative Issues

The complexity associated with the rules and regulations related to various federal, state and local affordable rental housing programs is an additional challenge facing the preservation of affordable rental housing. Many owners of existing affordable rental housing properties do not want to maintain their projects as affordable rental housing, even if existing or new subsidies are available, because of the administrative burden and complexity associated with these affordable housing programs. This is especially true where properties have various layers of subsidy.

To address the varied needs of this housing stock, its residents and its owners, public policy initiatives must be undertaken. On the following page are the substantive recommendations of the Task Force. Supporting documentation is embodied throughout the report.

Task Force Recommendations

Immediate Action Items

1. Governor Doyle to direct WHEDA to continue a preservation set-aside for Affordable Housing Tax Credits (AHTC) competitive tax credit cycle.

   In 2004, the Wisconsin set-aside was set at 40%, the highest percentage set-aside in the country. The Qualified Allocation Plan (QAP) for 2005 and 2006 proposes a 35% set-aside for preservation. In addition, 10% is set aside for rural properties, which could include preservation.

2. Governor Doyle to direct WHEDA and BOH to continue to streamline the reporting requirements related to various housing programs and secure waivers in order to mitigate the administrative burden and duplicate reporting for both the agencies and the owners. This often results in increased operating costs and duplication of efforts for all parties thus discouraging preservation.

   In order to facilitate the preservation of a property it is often necessary to utilize several funding sources that have various administrative and reporting requirements that conflict and/or overlap. With cooperation of WHEDA, BOH, HUD, and RD there are several Memoranda of Understandings (MOUs) and waivers to help alleviate some of the duplication.

3. Governor Doyle to encourage Wisconsin Housing and Economic Development Authority (WHEDA), Department of Commerce through the Bureau of Housing (BOH), Milwaukee office of United States Department of Housing and Urban Development (HUD), Rural Development (RD), and local communities to continue to share information on housing units at risk of losing their affordability, available funding, and adoption of the provided benchmarks and framework to promote the consistent evaluation of properties.

   Currently, quarterly meetings are held with representatives from WHEDA, BOH, HUD, and RD, to discuss issues with affordable housing. As the State of Wisconsin continues with its efforts of preservation it is critical that all parties continue to share information on preservation activities to date and funding levels available.

   The Task Force has recommended a model to be used to address the most at risk properties. If this model is adopted WHEDA will assume the responsibility to implement and administer the model and process to identify the most at risk properties.

4. Governor Doyle to direct WHEDA to establish the Wisconsin Housing Council.

   The Wisconsin Housing Council will focus on the affordable housing industry in Wisconsin and will encompass preservation of affordable rental housing. The Wisconsin Housing Council will provide housing advocacy, evaluate and promote legislation affecting affordable housing, and provide a well-rounded perspective on affordable housing. The Wisconsin Housing Council will be comprised of individuals and housing industry leaders involved in all aspects of affordable housing including owners, managers, developers, investors, non-profit groups, local elected officials, lenders, accountants and consultants.

5. Governor Doyle to direct BOH and WHEDA to contact local funding sources and government-sponsored programs like the Federal Home Loan Bank to encourage priorities for affordable housing preservation.

   Many allocated resources tend to be used primarily for homeownership, and as a result do not serve very low-income households who are paying a disproportionate part of their income for rent.

6. Governor Doyle to direct WHEDA to continue to explore the creation of an Affordable Housing Trust Fund and the pooling of private resources from state financial institutions with public sector contributions to create a preservation fund without raising taxes.

   Over the course of the last several months, WHEDA has contacted community banks to discuss the ability to fund short-term loans for affordable rental housing. These pooled funds could be used by Not-For Profits that play a significant role in the continued affordability of properties, however, due to the complexity of the transactions there are often substantial up-front costs. It is often difficult for Not-For Profits to devote funds to these costs prior to permanent financing. In addition, these funds could be used to provide bridge financing for tax credit properties. By delaying the infusion of tax credits until the rehabilitation is complete, smaller properties could achieve more equity for the same amount of tax credits allowing limited resources to stretch further.

7. Governor Doyle to direct Department of Revenue to consult with WHEDA to establish consistent guidelines for real estate tax assessments based on the use restrictions associated with the property and ensure the assessments are uniformly calculated throughout the state for affordable rental housing properties which are subject to real estate taxes.

   There is currently guidance provided on the calculation of real estate taxes for properties that have affordability use restrictions but they are not applied uniformly by local assessors often resulting in financial hardship for the properties.

State Legislation

1. State of Wisconsin to pass Assembly Bill that calls to increase WHEDA's bonding ability to $475,000,000. Under current law, the outstanding principal amount of bonds and notes that WHEDA may issue for its corporate purposes may not exceed $325,000,000 in the aggregate.

   With very limited resources available, the passage of this bill would increase WHEDA's ability to address preservation needs.

Federal Legislation

1. State of Wisconsin take an active role in promoting exit tax relief at the federal level. Such a role would include supporting legislation, such as H.R. 3485, or other legislation that would address the issue.

    The legislation is intended to address the problem of owners who are hesitant to sell to preservation purchasers because of the capital gains tax burden they would face upon the sale. Passage of this bill would assist in the preservation of valuable affordable housing stock.

2. State of Wisconsin take an active role in supporting the proposed Federal Legislation that provides States the flexibility to award a higher level of tax credits to properties providing deeper income targeting.

    Currently the amount of tax credits does not take into account the income level of the residents. Currently the credit amount is the same for all set-aside units regardless of the population they serve. By providing a higher level of credit to developers who serve residents earning 30% and 40% of county median income there would be an incentive for the developers to serve this population.

3. State of Wisconsin take an active role in supporting Federal Legislation for streamlining various administrative and reporting requirements that overlap between federal, state, and local programs.

    It is recognized that there are several key areas of conflict (i.e. set-aside standards, definitions, frequency of inspections) among federal, state, and local housing programs. It is anticipated that efforts will be taken on a national level to encourage legislative changes to remove these obstacles.

I. Prelude

Preservation of affordable rental housing is a national priority being studied by states and affordable rental housing advocates around the country. However, various experts define the "universe of at risk affordable rental housing" in various ways – some more broadly than others. The Task Force determined that defining "preservation" and "Affordable Rental Housing" was necessary to adequately present the facts and establish meaningful recommendations. The definitions of preservation and affordable rental housing for the purpose of this report are:

> **Preservation** Safeguarding and modernizing existing affordable multi-family rental housing stock in Wisconsin.
>
> **Affordable Rental Housing** Properties serving a minimum of 20% of the residents at or below 50% of the county median income or 40% of the residents at or below 60% of the county median income as determined by the U.S. Department of Housing and Urban Development for the county in which the property is located.

In the next seven years owners of 35,135 of affordable rental housing units in the State of Wisconsin will be eligible to terminate their participation of the affordability requirements and convert them to market rate units. It is clear that the data presented shows the immediate need for action by all parties identified later in this report. With 71% of the units (24,907) identified at risk to convert to market rate within the next three years, it is crucial that action be taken immediately. Over time, a significant number of properties may no longer be targeted for lower-income families in need of low-cost housing and many of these properties will require modernization and financial recapitalization just to remain viable. Access to effective financial tools, combined with sufficient private, federal, state and local resources that are tied to extended affordability covenants are necessary to keep these affordable rental housing units in the affordable market portfolio well into the future.

While the data presented indicates the potential universe of at risk properties, the key missing piece of the equation is motivation of the owner. This fact is alarming since nearly 73% of the properties are owned by For Profit entities that do not necessarily share the mission. To understand the ownership characteristics significance of this fact it is important to understand the difference between "For Profit" and "Not-For-Profit" and their likely motivation.

For Profit Ownership

> Many developers own and manage multifamily properties throughout Wisconsin. Typically, the ownership structure of the For Profit entities consists of partnerships between general (controlling) partners and limited (investment) partners. Their commitment has been important in getting these properties built and continuing the operations. For Profit motivations are largely based on cash flow and investment opportunities. Limited partners are usually expected to exit after the use restrictions expire on the properties, tied to the "life cycle" of the investment. However, this decision is becoming more complicated due to several key financial issues that will be addressed in this report. The following is a list of several of the important issues that currently

influence the For Profit owners and their decision to retain properties with expiring use restrictions:

- Uncertainty of ongoing federal funding
- Exhausted and/or declining tax benefits
- Rehabilitation needs
- Administrative costs associated with low income compliance requirements
- Tax consequences
- Increased costs/suppressed rents resulting in reduced operating income
- Changing regulations/uncertainty
- Reluctance to "lock in" low income usage for additional years

Not-For-Profit ownership

The capacity of Not-For Profits to acquire, update and manage affordable rental housing could be a significant factor in preserving Wisconsin's affordable rental housing stock. Both the Low Income Housing Tax Credit (LIHTC) and USDA 515 programs identify specific roles and options for Not-For Profits in acquiring properties that are reaching the end of their mandatory affordability periods. The capacity of Not-For Profits to acquire, update and manage these properties is imperative if Wisconsin is to maintain its inventory of affordable rental housing.

The challenges are different but the advantages are great. Some of these advantages include:

1. Not-For Profits have access to federal funds that are only available to Not-For Profits.
2. Not-For Profits are more likely to have the capacity to provide other services (either in-house or with other Not-For Profits) that enhance the quality of life for the residents.
3. Many Not-For Profits were organized with a mission of developing and managing affordable rental housing.
4. Fees earned either as a result of development or management stay in the community either to pay the Not-For-Profit's operating expenses or to develop additional affordable rental housing.

Purpose of Report

Preservation of affordable rental housing can be facilitated but not forced. The ability to adapt and react to preservation housing situations is the key factor in the success of preservation efforts. However, identifying and responding to those dynamic needs is one of the hardest obstacles facing the affordable rental housing inventory.

The actual number of properties and residents that would be affected by market rate conversions is difficult to predict. However, if only half of the affordable rental housing properties currently operating under affordability restrictions that are set to expire within three years were converted to market rate units, the impact on the supply of affordable rental housing in some markets would be financially devastating on housing alternatives for many Wisconsin families of all ages and family sizes. The possibility of these affordable rental housing units converting to market rate rents in some of the strongest, most expensive rental housing markets in Wisconsin could result in a significant displacement of income-eligible residents or result in non-affordable housing where the resident pays more than 35% of their household income for rent.

To address the varied needs of this housing stock, its residents and its owners, public policy initiatives must be undertaken. Ideally, the initiatives should be wide ranging and include both financial and non-financial components. Financial initiatives must include identifying additional sources of funds for preservation and strategies for using those funds to encourage retention, rehabilitation or new ownership when appropriate. Additionally, both For-Profit and Not-For-Profit owners deserve a reasonable rate of return for their preservation activities. Non-financial initiatives must include strategies to reduce administrative burdens and build the capacity of Not-For Profits to assume ownership. While the challenge is enormous, it is not insurmountable.

Through this report we present the facts to support the need to have both public and private funding sources as well as governmental agencies working in partnership to preserve this at risk affordable rental housing that could be permanently lost.

II. What Affordable Housing Units Are At Risk?

Why Units Are at Risk

Wisconsin agencies administer various programs and funding sources that require a certain number of units remain affordable for stated periods of time. These programs include:

- Tax Exempt Bond Financing (including WHEDA)
- Low Income Housing Tax Credit
- HUD – Project Based Section 8, 202, 221(d)(3), 221(d)(4), 236
- Rural Development – USDA 515 properties

Definitions for terms used throughout this report are included in Appendix A.

Affordable rental housing properties funded with state or federal subsidies have restrictions that require the properties to be maintained as affordable rental housing for a certain period of time. It is not uncommon for these properties to need repairs, replacements and/or upgrades at the time, or prior to, when the affordability restrictions expire. Once the affordability restriction on a property has expired, the owner has a number of options. These options include (a) maintaining the property as affordable rental housing, (b) converting the property to market-rate housing or (c) selling the property.

The Extent of the Problem

This section identifies the universe of potential properties at risk of losing their affordability during various future time intervals.

It is important to point out the analysis includes only "at risk" from a programmatic or financing use restriction perspective. It is likely that additional affordable sites are at risk because of financial or physical deficiencies.

It should also be noted that this analysis <u>excludes</u> HUD's Public and Indian Housing (PIH) inventory. There are currently 13,661 units of public housing in Wisconsin. These are not considered at risk of being removed from the PIH inventory from a "use restriction" perspective. However, a Public Housing Authority (PHA) may elect to reduce its total number of affordable units to improve conditions/concentrations. Usually the PHA will replace demolished units but not always at a 1:1 ratio. If a PHA proposes to remove units permanently it requires approval from HUD.

There currently are 27,299 housing choice HUD vouchers administered within Wisconsin by PIH Authorities which are not tied to a property and therefore are not a part of the scope of this report.

Evaluation Approach

To determine the universe of potential properties as risk, the Task Force collected data from WHEDA, HUD, and RD for all affordable rental housing units that have expiring or no continuing use restrictions for the next seven years. Through this cooperative effort the Task Force created a list of potentially at risk properties in jeopardy of losing their affordability over the next seven years. All data was carefully crosschecked in an attempt to reduce redundancy that occurs due to the layering of subsidy programs and financing.

In addition to identifying at risk properties, the Task Force was charged with collecting important data on each of the sites. The data pertaining to each at risk site included:

- Name of property
- Year of potential affordability loss
- Type of unit – family, elderly, or special needs
- City and county in which property is located
- Owner contact information
- Current program type(s)
- Number of units
- For Profit / Not-For-Profit ownership

The initial list of potentially at risk properties in jeopardy of losing their affordability over the next seven years identified over 800 properties, containing in excess of 35,000 units. In order to provide a more comprehensive view, the following parameters were used:

- Report would focus on the initial three years (2004-2007)
- Overall data would be provided for the seven years(2004-2011)

Properties with Layered Subsidies

In many instances, the properties identified in the original universe have various subsidies with various lengths of affordable restrictions that could extend the loss of affordability to periods beyond the scope of the seven-year universe being used.

> i.e. : Housing Assistance Contract (HAP) expires within the next 3 years but the property also has tax credits issued Post-1990 with a Land Use Restriction Agreement (LURA) which restricts the affordability (as defined herein) for an additional 15 years which would place it outside of the universe.

Due to the parameters used by this Task Force, these properties were omitted from the data. The property would still be considered affordable under the definition used in this report. In this example, it is understood that the property may not continue to serve the Section 8 residents after the tenant protection time has elapsed but would still be providing affordable housing. However, the affordable "bar" would be raised and extremely low-income renters would no longer be able to afford the unit.

While the main focus is to provide a universe of potentially at risk affordable rental housing units, additional information was gathered to provide insight as to the populations being served by the affordable rental housing.

Average Income of Residents Living in Wisconsin's Affordable Rental Housing

	Wisconsin Average Elderly Household Income	Wisconsin Average Family Household Income
Tax Credit Properties	$14,850	$17,616
Section 8 Properties	$10,825	$9,959
Section 515 Properties	$ 9,765	

Sources: WHEDA and RD; Additional detail by county of the information provided by WHEDA is presented in Appendices F and G.

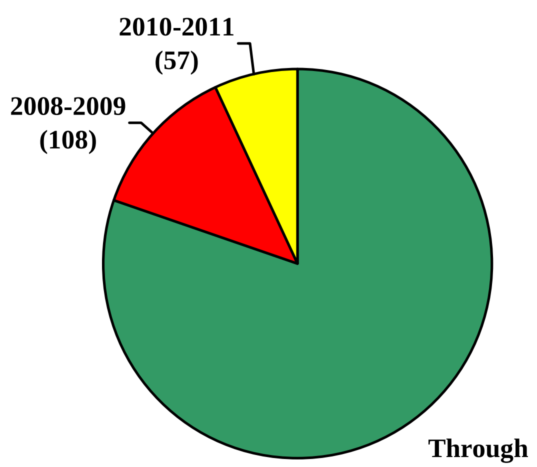
Summary of Universe Identified as at Risk

The following information provides insight on the total universe of properties utilized in the analysis.

Total Universe – 7 years

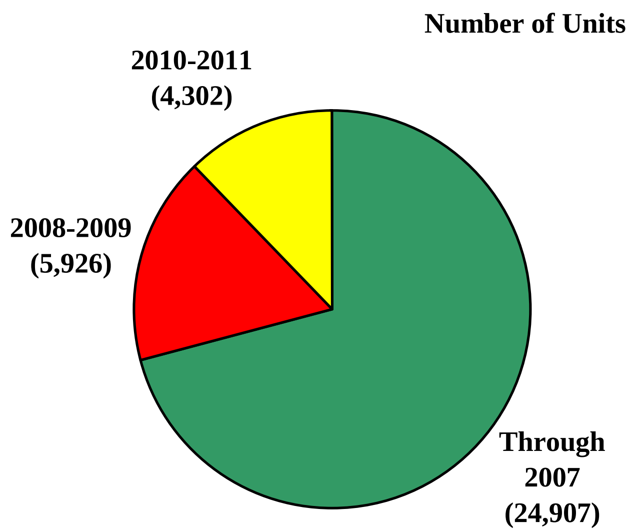
As noted earlier, the original focus was for a 7-year period, which resulted in 831 properties, representing 35,135 units that are potentially at risk.

Inventory of At Risk Affordable Rental Properties in Wisconsin by Year



Source: WHEDA

Inventory of At Risk Affordable Rental Units in Wisconsin by Year



Source: WHEDA

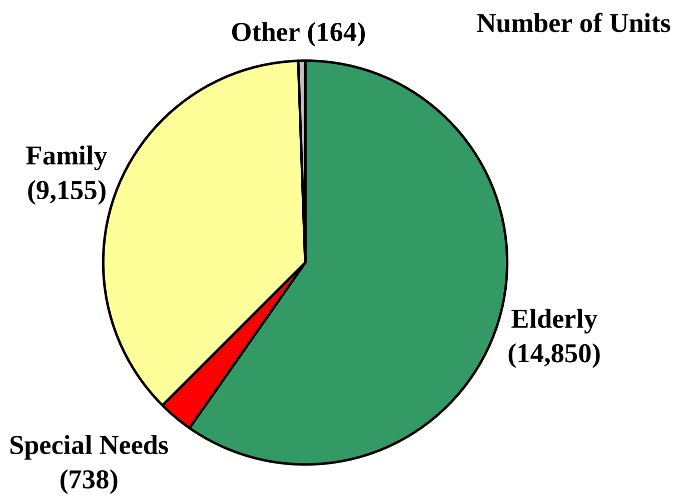
Key Finding

- 24,907 units could potentially lose affordability in the next 3 years

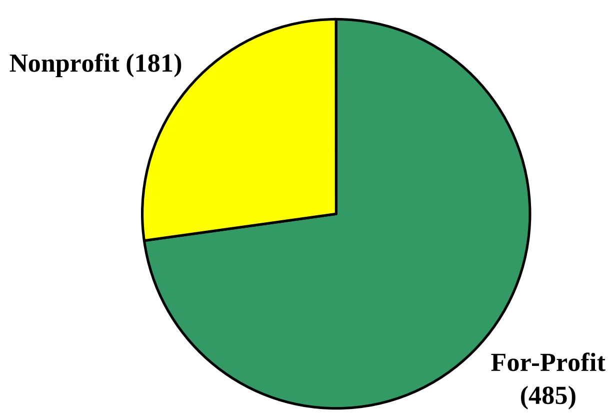
In an effort to provide solid recommendations to build the foundation of a preservation initiative this data was further divided into properties and units that potentially could lose their affordability in the next three years.

3 Year Outlook

Inventory of At Risk Affordable Rental Units in Wisconsin for the Next Three Years



Inventory of At Risk Affordable Properties by Ownership Type in Wisconsin for the Next Three Years



Source: WHEDA

Key Findings:

- Of the 24,907 units, 60% serve the elderly population
- 73% of the properties are owned by For Profits

Note:

Properties owned by Not-For Profits with a mission of providing affordable rental housing are normally not considered to be at risk from being removed from the affordability universe and converting to market rate units. However, they could be considered at risk from a physical or financial standpoint and therefore are included in the analysis. Additional inclusions are those properties with a limited term Housing Assistant Payment (HAP) contract. They are at risk as renewals of HAP are subject to annual appropriations from Congress and the properties may also suffer from physical or financial needs.

III. What funding resources are available to assist in the preservation of affordable rental housing?

The Need for Funding

Another objective of the Task Force was to identify potential partners, including public, private and Not-for-Profit organizations, who could participate in preservation efforts in order to leverage resources and to identify potential hurdles that would inhibit financing from the various sources. This is not to suggest that each of the resources identified are needed or appropriate for every property. Rather, it is to identify the universe of resources that should be considered when reviewing targeted properties for the unique characteristics that make those target properties eligible for a property-specific mix of financing options.

Preserving affordable rental housing is not a "one size fits all" concept. Virtually every residential rental real estate development has two key components of sources of funds. Those sources include debt, (in the form of mortgage loans), and equity. Existing affordable rental housing has generally one to five common primary debt sources, (primarily government agencies), and literally thousands of equity sources (the investors – owners). In some limited preservation transactions, the debt and equity partners remain the same, but the amounts of their respective financing changes. However, in most situations, the equity partner changes, and there is new additional debt brought into the transaction. Attempting to identify some key sources for the new additional debt and suggest ways to fund the equity transfer was a major goal of the Task Force.

Preserving affordable rental housing requires significant investments. This includes funds needed to upgrade the interior and exterior of the buildings in their current form, or to modernize the structures to bring them up to date with current market conditions, or to simply pay for the soft costs associated with the transfer of ownership between equity and/or debt sources. Identifying and/or creating adequate resources is a critical component of preserving affordable rental housing in Wisconsin now and into the future.

This section includes a brief analysis of the estimated amount of financial resources needed to adequately preserve appropriate affordable rental housing properties now and in the future. Summaries of actual preservation developments and the financial resources assembled to preserve the housing are included in Appendix I.

Several key elements can be noted from the summaries provided. First, the bulk of the new funds used for the rehabilitation were funded by the sale of low income tax credits, a competitive and finite annual resource. Secondly, new soft debt, both HOME loans and Federal Home Loan Bank grants, played significant roles in providing needed "gap" financing (defined as the amount of funding needed to balance the sources and uses after subtracting the principal, WHEDA and Rural Development debt and the low income tax credit equity). Also, existing property reserves were left in place to provide for operating and rehabilitation cost cushions both now and in the future. It was important to allow enough reserve funding to remain in place to afford future stability to the property operations.

Without: 1) the cooperation of HUD and Rural Development to allow their respective tenant based support to remain in place, 2) the use of the several sources of “gap” financing, and 3) the allocation of low income rental housing tax credits by WHEDA, preservation and redevelopment of these properties would not have been possible.

What Funding is Available

The initial step in the process was to create a complete listing of potential funding resources and to identify potential hurdles that would inhibit financing from the various sources. The chart on the following page identifies potential funding sources:

Summary of Existing Wisconsin Preservation Funding				
Source	**Allocator**	**Target Area**	**Uses**	**Issues**
Affordable Rental Housing Program	FHLB of Chicago	Regional (WI, IL)	Acquisition, Rehabilitation And Site Acquisition	Competitive
Bond Financing	Not-For Profits	Statewide	Acquisition And Rehabilitation	Bond Issuance Process Costly
Community Development Block Grant (CDBG)	HUD	Bureau of Housing And 21 CDBG Entitlement Communities	Rehabilitation And Site Improvements	Only 2% Set Aside For Rental Purposes
Competitive 9% tax credits	IRS/WHEDA	Statewide	Acquisition And Rehabilitation	Highly Competitive
Conventional Financing	Private Lenders	Statewide	Preservation	Financial Feasibility
Foundations	LISC, McArthur and Enterprise Foundations	Statewide	Predevelopment and Short-Term Bridge Loans	Highly Competitive
Gov. Sponsored Enterprises	FNMA, FHLMC	National	Variety Of Housing Related Resources	Highly Competitive
HOME	HUD	Bureau of Housing and 11 Local Participating Jurisdictions	Acquisition, Rehab And Credit Enhancement	Only 22% Set Aside for Rental Purposes
Housing Preservation Program	USDA Rural Development	Eligible Rural Areas	Rehabilitation	Competitive, No Grantee Can Be Awarded More Than 50% Of Allocation
Local Governments/PHAs	Local Bonds/ Reserves	135 Local PHAs	Reserves, Rent Assistance, Bonding	Not Widely Used
Low Income Weatherization	Wisconsin Department of Administration (DOA)	Statewide	Energy Conservation	Low-Income Eligibility Restrictions
Private activity bonds with 4% credits	IRS/WHEDA	Statewide	Acquisition And Rehabilitation	Financial Feasibility
Rental Housing Program	HUD	HUD Assisted Units	Rehabilitation, Extend Affordability, Section 8	Complex
Rural Housing and ED	HUD	Rural Communities Under 2,500 Owned By Or Being Purchased By Not-For Profits	Acquisition, Rehabilitation And Site Improvements	Highly Competitive
Saving Our Stock (SOS)	WHEDA	Statewide	Preservation	Limited Resource
Section 515 Program	USDA Rural Development	Existing 514 And 515 Properties In Rural Wisconsin	Acquisition, Equity Loans, Rehabilitation, Extend Terms	Limited Resource And Highly Competitive
Trust Fund Loans	Board of Commissioners of Public Lands	Statewide	Varied	Local Government Sponsorship

Competitive 9% tax credits

Low-income housing tax credits are a valuable resource for rental housing production and preservation. Credits are used to bring equity into a property reducing the level of debt. The resulting lowered debt service allows the development to offer below market rents. Annually, each state receives an allocation of credits based on the population of the state. In 2004, Wisconsin received $1.80 for each resident of the state or approximately $10 million. This can be leveraged to provide equity to over 1,000 units of affordable rental housing each year. Because the resource is limited, each state administers a competitive program that is defined in a Qualified Allocation Plan (QAP). States implement state housing policy through set-asides and scoring criteria defined by the QAP.

The most common preservation strategy employed by states is a special preservation set-aside for competitive 9% low income housing tax credits. This set-aside places preservation properties on equal footing with other preservation properties and does not require them to compete with new construction or adaptive reuse properties. Like many other states, Wisconsin has created a set-aside of low-income housing tax credits exclusively for preservation. In 2004, the Wisconsin set-aside was 40%, the highest percentage set-aside in the country. In 2004, 21 applications were received for this funding. WHEDA was able to provide $3.9 million tax credits to 13 projects. Even with this large set-aside, Wisconsin was unable to provide 9% tax credits for the 8 additional applications because tax credit funding for preservation fell short by almost $2 million. While the set-aside strategy is effective, the set-aside alone cannot satisfy the demand for preservation funding. Additionally, many of the projects that received an allocation of credits had to rely on other funding sources to achieve a financially feasible development.

Private activity bonds with 4% credits

Tax-exempt bonds provide low interest debt financing for affordable rental housing. Each state receives bonding volume cap based on population and allocates the volume cap for industrial development, low-income rental and homeownership housing. In Wisconsin, volume cap is allocated by the Department of Commerce. In 2004, the allocation was almost $438 million of which some $231 million was earmarked for WHEDA housing activities (single-family home ownership and multifamily rental housing). WHEDA bonding authority for rental housing is limited by state statute to an aggregate amount of $325 million. Increasing this cap would allow WHEDA to fund more preservation activity without placing any general obligation on the State of Wisconsin.

When tax-exempt bonds are used to finance low-income rental housing, the property qualifies on a non-competitive basis for 4% low income housing tax credits. Because the value of the 4% credit combined with a tax exempt below market rate mortgage provides less financial support to a project than 9% credits, it is used less frequently for preservation, and must be combined with other resources to make it effective in projects with lower targeted rents.

Most states use private activity bonds with 4% credits as a part of their preservation strategy.

Federal, state, and local and funding sources

The two major HUD programs for communities, HOME and Community Development Block Grant (CDBG), cover a wide range of housing and development financial gaps in rental housing projects, including preservation. HOME and CDBG funds are available from the state Bureau of Housing and from 21 CDBG entitlement communities and 11 HOME Participating Jurisdictions (major municipalities and counties in the state). HUD provides annual formula grants to these entities with policies and priorities governed by comprehensive consolidated plans. Communities across the state also receive program income and recycled funds from previous participating properties. Local agencies determine the subsidy terms within the HUD eligibility and affordability guidelines. In Wisconsin, neither of these sources is specifically earmarked for preservation and homeownership initiatives are often favored over rental options. Yet, a third of the renter households in the state pay more than 30% of their income for rent.

The Department of Administration, Division of Energy, provides funding through local weatherization operators for residential units occupied by very low-income persons. Energy conservation measures include insulation, furnaces, and water heaters.

Local governments can access state trust fund loans for various public purpose projects including housing preservation initiatives. The funds are available for up to 20 years at 3-5% interest through the Board of Commissioners of Public Lands.

For HUD properties the following tools available are 1) Section 8 enhanced vouchers, 2) Section 8 Mark up to Market, 3) Section 236 interest reduction program (IRP) decoupling to fund improvements and extend affordability.

For USDA Section 515 properties the following tools are available: 1) equity loan funds to existing/new owners, 2) additional Rental Assistance (RA) through the potential transfer of unused RA from prepaid 515s to other properties needing preservation, 3) increased return on investment, 4) interest rate reduction on loans via interest credit provisions, 5) release of excess reserves, 6) subordination to third party loans, 7) equity loan at time of transfer, 8) the ability to extend terms and reduce interest rates. The Agency will transfer an existing property at debt or market value whichever is less.

Several national foundations including the LISC, McArthur and Enterprise Foundations provide funding for Not-For-Profits for the acquisition and rehabilitation of housing to preserve low-income usage. These funds are primarily available for predevelopment and short-term bridge financing to help in assembling properties prior to securing long term financing or receiving tax credits. Fannie Mae, through the American Communities Fund, provides lines of credit financing for similar uses. The American Communities Fund can be accessed by local communities.

The Federal Home Loan Bank (FHLB) through the Affordable Rental Housing Program (AHP) can provide longer term, secondary financing for preservation. This financing is forgiven if the development maintains affordability restrictions for the term of the loan. These funds are available competitively through the Federal Home Loan Bank of Chicago. The FHLB also provides 15 year fixed rate financing through the Community Investment Program (CIP). These loans are available through private banks who are members of the FHLB system.

Other Wisconsin resources

WHEDA has loaned project reserves for equity take-out loans to encourage owners to extend the low-income usage beyond the current use restrictions. Project reserves are also loaned at below market rates to cover immediate capital needs when a property is acquired for preservation and extended low-income use.

Through its Dividends Plan, WHEDA provides grants and interest subsidies for a variety of housing needs. For example, WHEDA created the $10 million Saving Our Stock (SOS) program. This program directs very low cost financing resources to preserve affordable rental housing properties.

Private lenders

Private first-mortgage lenders have been hesitant to make loans to projects with short-term Section 8 contracts. Section 8 rental subsidy is not an easy source of funds for banks and lending institutions to underwrite given the lack of long-term contracts that are subject to annual appropriations by the U. S. Congress. Private first-mortgage lenders need to be challenged to think creatively about financing projects with short-term Section 8 contracts. However, the amount of private financing that can be used is typically limited by low net operating income.

Potential Hurdles

Prior to making a commitment to participate in preservation lending, lenders and investors make certain requirements on properties to ensure they maintain viability, marketability and affordability for the long term. In order to obtain interest in participating in preservation, their issues and the financial cost must be addressed.

> **Scope of Rehabilitation**. New investors or lenders will require that the owner provide a capital needs assessment, detailing the work to be completed on a unit-by-unit basis and also a replacement reserve study, showing how and when major components that are not being replaced now will be replaced and paid for to ensure long-term financial viability.
>
> **Section 8 Subsidy**. Many preservation projects have long-term Section 8 or Rural Housing rental subsidy contracts. As those subsidy contracts expire, HUD and RD are providing only short-term renewals, subject to annual appropriations by Congress. This can make it difficult for investors and lenders to rely on “out year” operating statements, especially if subsidized rents are above the area’s market rate rent. Some lenders will agree to provide financing, but only if the property is

financially feasible without a rent subsidy, which may not be possible. This would require the owner to rent to higher income individuals though still remaining as affordable housing.

Market/Amenity Issues. While the goal of preservation programs is to preserve the inventory of affordable rental housing, these properties often represent the oldest housing inventory in their markets. As these properties continue to age, additional investment must be made to both maintain the property and keep the amenity packages current with what is available in the marketplace.

Estimated Need of Financial Resources

The Task Force estimates approximately 25,000 existing affordable rental housing units in the next three years will be vying for the limited existing resources available to preserve the existing housing stock.

To evaluate the potential financial resources needed the Task Force reviewed the past funding mixes used to preserve several affordable rental housing properties. Based on WHEDA's experience the cost of preservation can vary greatly.

The following table indicates various funding needs:

Funding Levels Needed Based on % of Units that Participate in Preservation (3 year universe)

		25%	50%	75%	100%
		6,227 Units	12,453 Units	18,680 Units	24,907 Units
Level of Funding Needed to Preserve Per Unit / Total Funding Needed	$10,000	$62,270,000	$124,530,000	$1,88600,000	$249,070,000
	$15,000	$93,405,000	$186,795,000	$282,900,000	$373,605,000
	$20,000	$124,540,000	$249,060,000	$377,200,000	$498,140,000
	$25,000	$155,675,000	$311,325,000	$471,500,000	$622,675,000
	$30,000	$186,810,000	$373,590,000	$565,800,000	$747,210,000
	$40,000	$249,080,000	$498,120,000	$754,400,000	$996,280,000
	$50,000	$311,350,000	$622,650,000	$943,000,000	$1,245,350,000

Source: WHEDA

Other State's Initiatives To Preserve Affordable Rental Housing

The Task Force also researched tools developed by other states to address affordable rental housing preservation.

Several states have created a set aside of tax exempt volume cap for preservation or other preferences for preservation, but few, if any, have been successful in employing this resource effectively.

Illinois uses the 4% program and tax-exempt financing for acquisition and rehabilitation of Section 8 properties. Illinois uses a bifurcated mortgage structure and state housing trust funds to preserve Section 8 housing that is not currently financially constrained by Section 8 rent levels. WHEDA is currently evaluating this model to determine its applicability to Wisconsin.

The District of Columbia sets aside $1.5 million of its CDBG/HOME entitlement for preservation of properties with expiring use and awards points in their tax credit scoring process for properties with expiring Section 8 contracts.

Minnesota devotes $37 million in General Fund appropriations to preserve federally assisted housing. This may be the only state that devotes general tax dollars to preservation.

The City of Portland requires owners to provide a 210-day notice of intent to opt out of a Section 8 contract. The City may issue condemnation proceedings to pay the owner fair market value to preserve the property. The City provides a short-term line of credit so transactions can be completed within 120 days. The City also prioritizes use of its HOME, CDBG and tax incremental financing dollars for preservation of Section 8 housing. The City is now considering using regional real estate transfer taxes for preservation capital.

Virginia created its own Community Development Financial Institution (CDFI) to attract private sector funds for small grants, bridge or predevelopment loans.

The State of Washington provides seed capital for the "Impact Capital Partnering – Leveraging Capital for Preservation" fund. The fund is used for predevelopment and bridge loans for federally assisted properties with expiring use. Private banks, Not-For-Profits, foundations, and local governments have contributed $18 million to the fund.

Several states have established trust funds as described below.

Housing Trust Funds

There are at least 257 housing trust funds across the country, including 13 state funds that have been created from a number of funding sources. Sources include real estate transfer tax, recording fees, unclaimed lottery winnings and other unclaimed property. On average, for every dollar committed to a housing project by a housing trust fund, another $5 to $10 is leveraged in other public and private resources.

Examples of housing trust funds from other states include the following:

Illinois created a housing trust fund that receives an estimated $35 million annually from its real estate transfer tax. These funds can be used in conjunction with other funds to refinance existing mortgages to facilitate preservation. In general, due to the demand for these funds, properties receive a limit of $750,000 each. They also have been used for technical assistance for tenants living in HUD assisted properties to ensure protection of the low-income units. Illinois also has a state corporate donation tax credit. Corporations can contribute real estate or financial resources and receive a state corporate tax credit of 50 cents on a dollar.

Montgomery County, Maryland used its tax-funded Housing Initiative Fund to preserve the county's entire stock of expiring Section 236 housing by providing loans to the local housing authority to purchase these properties and maintain affordability.

Ohio has a $37 million housing trust fund that was derived from unclaimed funds at the Department of Commerce. These funds are being used to provide bridge financing until equity from tax credit investors are made available to a project. By delaying the equity contribution, the tax credits are bought at a higher price, which helps to create lower debt service for properties increasing their financial viability.

Utah's housing trust funds prioritizes gap financing to preserve at-risk federally-subsidized properties. Not-For-Profit developers are funded to buy and manage properties where owners are opting out or prepaying mortgages of project-based Section 8 properties.

Wisconsin currently lacks a state housing trust fund. Housing advocates in Milwaukee, however, have proposed creating a $15 million affordable rental-housing trust fund. In Madison, a housing trust fund has been created in conjunction with the new inclusionary zoning ordinance.

IV. What methodology should be established in order to evaluate the needs and likelihood of success of preservation efforts for existing affordable rental housing?

The Need for Benchmarks and Framework to Determine Priority

During the three-year period ending December 31, 2007, approximately 25,000 existing affordable rental housing units will be vying for limited resources to preserve the existing housing stock. To ensure the best use of these scarce resources, it is critical to develop benchmarks and the framework to evaluate the needs and likelihood of success of preservation efforts for existing affordable rental housing. The benchmarks and framework must establish a priority system for preserving particular properties taking into account various attributes including the existing affordable rental housing's financial leverage, financial soundness, quality of the housing, appropriateness of the affordable rental housing, market strengths and the physical integrity (capital needs) of the property. Additionally, other factors including municipal support and the risk of losing the existing housing's affordability status must be considered.

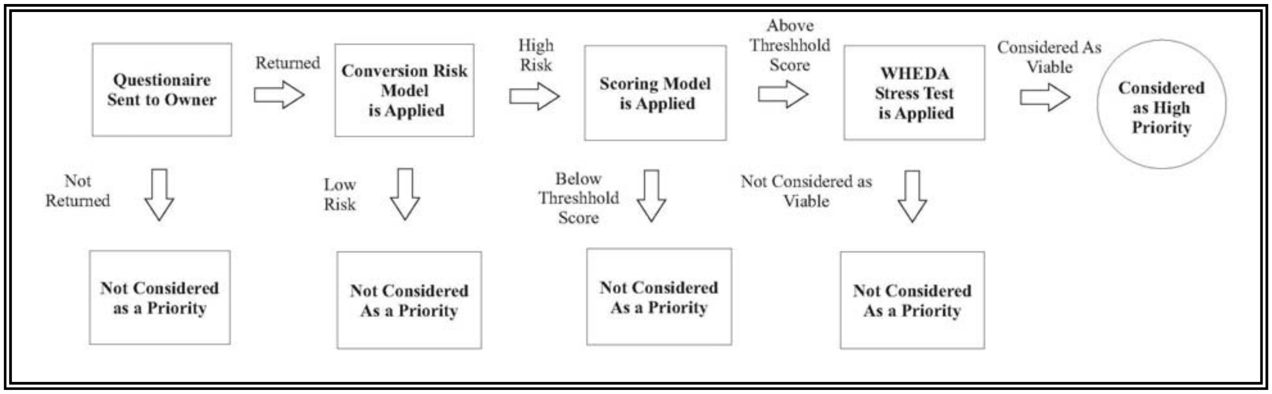
The most important challenge identified in the evaluation process is to establish ownership participation. Additional challenges include identifying those existing affordable rental housing developments with the highest need utilizing an equitable, consistent and systematic (easily replicable) evaluation process. An additional goal is to filter the developments with the potential for preservation assistance into a manageable population.

Evaluation Approach

The initial step in the evaluation of the proprieties at risk of losing their affordability is to identify those owners or property managers who choose to participate in the evaluation process. A conversion risk model analysis will be prepared for the potential proprieties at risk of losing their affordability for those owners who elect to participate in the initial evaluation.

The Process

Outline of the Evaluation Process



Questionnaire

An owner's questionnaire will be created that will include those attributes that are used to identify potential existing affordable rental housing developments at risk of losing their affordability. Attributes on the questionnaire will include the following: project operating expenses, debt service and economic ratios, subsidized rents as compared to market rents, age of development, remaining term of subsidy, term of Land Use Restriction Agreement, likely capital needs of the development, and the owner's cash needs upon exiting. Attention will be given to ensure that all owners or property managers are contacted in this process. The questionnaire will be designed to be completed as simply as possible while providing sufficient information to complete the conversion risk model analysis.

The questionnaire will be sent to owners or managers of existing affordable rental housing developments at risk of losing their affordability using the 3-year baseline period.

As questionnaires are returned, each property will be scored electronically through a conversion risk model analysis. An example of the conversion risk model analysis is included as Appendix H.

Existing affordable rental housing developments at risk of losing their affordability will be ranked on risk of conversion. The results will create groupings of those affordable rental housing developments at greatest risk.

If an owner fails to respond to the questionnaire, the corresponding property will be eliminated from further analysis for preservation efforts.

Prioritization Process

Those existing affordable rental housing developments at risk of losing their affordability that were identified at greatest risk will then proceed to the next step in the prioritization process. At this point, it is assumed the universe of properties will have narrowed significantly to allow for a more detailed evaluation as to the needs and likelihood of success of the existing affordable rental housing developments being preserved.

The owners or managers will be notified of their results and those developments at greatest risk will be asked to complete an additional detailed questionnaire that will also include a Project Self-Scoring Exhibit. Funding resources will be looked at for appropriateness and availability.

The prospective properties will be grouped by risk status and will be competitively scored. Ranking of the properties will be accomplished through a consistent allocation of points based on the following eight categories:

1. **Municipal support**

   A key element in allocating scarce resources among properties for preservation is the value of that development to the community of which it is a part. If, for example, there were two rental properties in the same community that sought funds from preservation resources, and there was not sufficient funding for both, it would be appropriate to factor into the funding decision the value the community places on each respective property. The applicant will be expected to provide a statement by an appropriate representative of the community. The community must address the following factors: (a) Does the property act as a catalyst for the improvement of a neighborhood? (b) Is the property part of a larger plan adopted to re-develop or improve an area? (c) Does the community support the preservation of this property as affordable rental housing? (d) Is the community willing to support the preservation of this property as affordable rental housing by providing funds for that purpose? If so, how much? Are the funds committed? (e) Are there other factors that impact the value of this property, in its current function, to the community? (f) Is the community willing to support the preservation of this property in some other fashion, such as providing services to residents? If so, how?

   Points in this category will be allocated based, in part, on the ability to measure and quantify community support. Factors will include: the dollar value per housing unit of municipal support as well as the portion of the total cost of preservation provided by the municipality.

2. **Housing replication**

   The level of difficulty to replicate an affordable rental property is a significant factor in prioritizing preservation resources. If, for example, an affordable property is located on the periphery of a community with abundant land that could be re-zoned to allow additional housing to be built, it would be of lower priority than a property that may be located in an infill location next to the municipal library and senior center. The latter, if lost to the affordable rental housing inventory, would be difficult, if not impossible to replicate. To receive points in this area, the applicant must describe, with as much factual support as possible, why it would be difficult to replicate the subject property. Evaluation will be based on the extent to which the applicant can substantiate supporting information such as lack of available land, cost of replication, and linkages that would be difficult to replicate.

3. Housing need and supply

The proper evaluation of housing need and supply is crucial in the determination of the continued success of the affordable rental housing. Within this category, various ratios will be measured including:

> **Penetration rate.** The (number of units in the property) divided by (number of age and income-qualified households in the property's market area).
>
> **Saturation rate.** The (number of units in the property + comparable pipeline units + existing comparable units) divided by (number of age and income-qualified households in the property's market area).

Additional factors including the property's occupancy history in relation to competing properties' occupancy history will be evaluated as well as the overall housing need in the property's community.

This is a pass / fail category, as the development either will have sufficient need or not be considered as a priority for preservation.

4. Loss of affordability

Points will be awarded to developments with a minimum percentage of units reserved for households with incomes of 50% or less of the county median income (CMI). Additional points will be awarded for providing units in two or more of the CMI categories.

Calculate appropriate percentages and points:

Set-aside Percentage of CMI:	Number of Units	Percentage of Total, Must be equal to or exceed 5%	Percent Multiplied by Factor	Total Points
50%	**# of units/Total Units =**	**___________%**	**.25**	
40%			**.30**	
30% or Lower			**.40**	
			Blending bonus	
			Total points	

Total Points:

5. Risk of losing existing subsidy

Points will be awarded based on expiration date of affordability restriction and/or subsidy contract. The maximum points will be awarded in that instance where the contract is expiring within the current calendar year. Points will be awarded as follows:

Expiration within current calendar year	Most Points
Expiration in 2nd calendar year	↓
Expiration in 3rd calendar year	
Expiration in 4th calendar year	
Expiration after 5th calendar year	No Points

6. Risk of losing the property

The purpose of this scoring category is to recognize how financially feasible it would be for a property to convert to market with only realizing a slight or, possibly no, reduction in gross rent potential.

Points will be awarded based on the property's affordable rents measured against market rents that could be realized from comparable units in the same market. Points will be awarded as follows:

At or below market	Most Points
Current rents less than 110% of market	↓
Current rents 110 -119% of market	
Current rents 120 -129% of market	
Current rents 130 -139% of market	
Current rents 140 -149% of market	
Current rents 150% + of market	No Points

7. Market strength based on property location

The property's location including the market strength by location based primarily on range by site linkages will be evaluated and measured. Attributes to be considered as site linkages include the following:

> **Site analysis** considers issues such as: accessibility, visibility from transportation routes, topography, contiguous uses, and nuisances. Site analysis should consider population preference issues (e.g., senior vs. family).
>
> **Location analysis** considers issues such as: linkages and proximity to services (public and private transportation, neighborhood issues, fire/police protection, schools, shopping, employment, recreation, medical services, and applicable special-needs services), general comparability to nearby rental stock, and other related miscellaneous issues.

Points will be allocated based on the appropriateness of the property's location including the market strength by location based primarily on range by site linkages.

8. Ownership mission statement/commitment to affordable rental housing

This category assesses the owner's long-term commitment to affordable rental housing in general and how this will specifically affect the subject property. This should include an explanation from the owner regarding their mission and/or commitment to the production and/or preservation of affordable rental housing in Wisconsin, a copy of their mission statement, what they have done in affordable rental housing and accomplishments so far, preservation activities, and staff experience and qualifications.

A list of services, if any, that are currently provided to the residents and a similar list of project amenities that they consider to be valuable to continued marketability or amenities that the owner feels should be added to improve marketability must be submitted.

A minimum threshold of points will be required in order for a potential property under the scoring mode to qualify for an allocation of resources.

Final Determination

The final determination in the allocation of the limited resources to preserve the affordable rental housing will include an additional financial analysis to determine the long-term viability of the property with the new allocated resources. This financial analysis will encompass the attributes and results that have been historically applied in the WHEDA stress test financial performance analysis in an "as-is" and "restructured" basis.

Key Considerations and Findings

- More properties will need funding than existing funding available.
- It is necessary to have a methodology to equitably rank existing affordable rental housing developments at risk of losing their affordability due to the scarce resources available.
- Some properties will not be feasible to preserve because needs exceed available resources.
- Owner participation is critical.
- Program must incorporate a public/private participation component in funding the continued preservation of affordable rental housing.
- Continued success in preserving affordable rental housing needs to include the following: municipal support, quality of housing, sufficient need for the specific type of affordable rental housing, appropriateness of property location and related market strength, and the owner's or buyer's commitment to preserving the affordability of the housing.

V. What are the legislative/regulatory barriers impacting preservation of affordable rental housing?

Legislative action directly impacts preservation of affordable rental housing through either enhancing or hindering the continued feasibility of the at risk affordable rental housing.

The Task Force was responsible for identifying legislative issues to enhance the continued feasibility of at risk affordable rental housing and attention was focused on those issues for which there is a reasonable likelihood of a meaningful solution. The following discussion identifies those issues:

Exit Taxes

A significant challenge facing the preservation of affordable rental housing properties is the "exit tax" issue. Exit taxes are the income taxes payable by the owner upon the sale of a property. The exit tax issue, and its relationship to the preservation of affordable rental housing, is described below.

Background

Once the affordability restriction on a property has expired, the owner may not desire to continue operating the property as affordable rental housing. The original economic benefit the owner received for operating the property as affordable rental housing is gone, and the owner may be unwilling to continue operating the property as affordable rental housing even if a new subsidy is available to the owner. Owners who are not interested in maintaining their properties as affordable rental housing will want to convert their properties to market-rate housing or sell their properties. If an owner desires to convert a property to market-rate housing, there is little that can be done to prevent the conversion other than passing legislation that prohibits the owner from doing so. On the other hand, if an owner is willing to sell a project to a third party, the project can be maintained as affordable rental housing provided two conditions are met.

1. The owner must find a buyer who is willing to acquire the property and can financially operate it as affordable rental housing.
2. The owner must find a buyer who is willing to pay the owner an acceptable price for the property.

Exit Tax Financial Impact

The exit taxes that an owner must pay upon the sale of a property are based on the capital gain the owner recognizes on the sale. The gain is the difference between the purchase price and the owner's tax basis in the project. The issue is that an owner's tax basis in an affordable rental housing property is often negative (especially projects developed before 1986 which had the benefit of accelerated depreciation), and the purchase price required to pay exit taxes and any existing mortgage debt is often greater than the fair market value of the property. Thus, unless a buyer is willing to pay more for a property than its fair market value, the owner may not sell. If an owner cannot sell due to excessive exit taxes, the owner will have an economic incentive either to convert the property to market-rate housing (given the greater rents) or, if the property cannot be converted to market-rate housing, to put as little money as possible back into the property for needed repairs in order to provide a return on the owner's investment. If a buyer is willing to overpay for the property, the buyer has less money to make any required repairs, replacements or upgrades to the property.

The exit tax issue is not unique to the State of Wisconsin. In fact, the exit tax issue is considered by many to be the greatest challenge facing the preservation of affordable rental housing in the nation. A number of organizations in the housing industry have been promoting legislation to address the issue, and there currently is a bill before Congress to provide exit tax relief at the federal level (H.R. 3485).

Impact of Exit Tax Issues

(a) Owner cannot sell at fair market value due to high exit taxes.
(b) If buyer pays inflated price to owner to cover exit taxes, buyer has fewer resources to renovate the property and lenders face loan to value issues.
(c) If owner cannot sell they may have reluctance/inability to renovate property because of limited cash flow/lack of financing resulting in substandard housing.

Property Tax Assessments

Another challenge facing the preservation of affordable rental housing is generating sufficient cash flow to make affordable rental housing properties viable. The rents generated by affordable rental housing properties are restricted and at times are less than the rents generated by market-rate properties. However, the expenses associated with maintaining affordable rental housing properties are often the same as, if not more than, the expenses associated with maintaining market-rate properties due to the administrative burdens. One of the biggest expenses payable in connection with any apartment property is real estate taxes.

Material inconsistencies exist among the taxing authorities in the State of Wisconsin as to how affordable rental housing properties are assessed for real estate tax purposes. For affordable rental housing properties that are subject to real estate taxes, assessments and/or Payments in Lieu of Taxes (PILOTs) should be calculated uniformly throughout the state and not left to the discretion of the local assessor.

Impact of Property Tax Assessments

(a) Taxes stress cash flow given restricted rents.
(b) Inconsistency in assessments among municipalities.
(c) Inconsistencies in Payments in Lieu of Taxes (PILOTs) among municipalities.

Administrative Issues

Another challenge facing the preservation of affordable rental housing is the complexity associated with the rules and regulations related to various federal, state and local affordable rental housing programs. Many owners of existing affordable rental housing properties do not want to maintain their projects as affordable rental housing, even if existing or new subsidies are available, because of the administrative burden and complexity associated with these affordable housing programs. This is especially true where properties have various layers of subsidy.

Impact of Administrative Issues

(a) Reporting requirements – multiple programs/reports.
(b) Lack of understanding of how different housing programs function together.
(c) Uncertainty over future of housing programs.

VI. Conclusion

Facts

1) Total number of affordable rental housing developments - 831 properties containing 35,135 units could lose affordability in the next 7 years.
2) 666 of those developments containing 24,907 units reach the end of their contracted affordability periods over the next three years.
3) Limited financial resources available.
4) Competition for resources from other interest groups.
5) Lack of widespread political will to allocate a greater proportion of scarce resources to preservation.
6) Once this housing is lost, it is lost forever.

Result

A looming crisis exists in Wisconsin that affects residents, advocates, lenders and owners of affordable rental housing properties. While the actual number of properties and residents that would be affected by market rate conversions is difficult to estimate, if only half of the properties (333 properties) currently operating under affordability restrictions expiring in three years (666 properties) were converted to market rate units, the impact on the supply of affordable rental housing in some markets would be devastating on housing alternatives for many Wisconsin families of all ages and family size. The possibility of these units converting to market rate rents in some of the tightest, most expensive housing markets in Wisconsin would virtually guarantee a displacement of low-income residents.

To address the varied needs of this housing stock, residents, and its owners, one or more public policy initiatives must be undertaken. Ideally, the initiatives should be wide ranging and include issues both financial and non-financial. Financial initiatives must include not only identifying additional sources of funds for preservation, but strategies for using those funds to encourage retention, rehabilitation and new ownership when appropriate. This includes providing both For Profit and Not-For-Profit owners a reasonable rate of return for their preservation activities. Non-financial initiatives must include strategies to reduce paperwork, and build the capacity of Not-For Profits to assume ownership when appropriate. While the challenge is enormous, it is not insurmountable.

A complete list of the recommendations of this Task Force is included in the Executive Summary.

Appendix A: Glossary of Terms and Acronyms

Capital needs assessment (CNA). A report, usually made by an independent inspector (architect, engineer, or specialized assessor) of a property's future capital improvement needs and the total dollar cost which must be set aside, either today or over the upcoming years, to fund the capital investment backlog.

Exit tax. The seller tax due upon sale of a property. In many cases, because of earlier tax benefits received by the owners, the exit tax is greater than the cash proceeds of the sale. This often discourages owners from selling to preserving entities

Fair Market Rents (FMRs). HUD's estimate of the actual market rent for a comparable apartment in the conventional marketplace. Every year, HUD develops and publishes FMRs for every MSA and every apartment type.

HAP. Housing Assistance Payment

Interest reduction payment (IRP). The federal write-down of the interest payments due on Section 236 loans, typically reducing the effective interest rate to 1%.

IRP Decoupling or IRP Strip. A transaction whereby the actual Section 236 loan is repaid, but the stream of IRP funds that would have been used to write down the interest payments if the loan had remained in place are separated from the original debt and used to support a new loan on the property.

Limited dividend (LD). The maximum annual cash flow which an owner is entitled to distribute; money earned above this ceiling is retained in the property in the residual receipts account. Limited dividends are normally set when the property was originally developed and are generally not adjusted for inflation or appreciation.

Low-Income Housing Tax Credit (LIHTC). A federal tax credit created in the 1986 Tax Reform Act to stimulate production of affordable rental housing. States receive a per-capita allocation which they use to leverage private capital. LIHTC properties must meet affordability requirements set by the state allocating agencies.

Mark-to-market. The process of reducing above-market rents to true market levels, and absorbing whatever further financial consequences follow from this: in HUD's case, this means recognizing defaults in FHA-insured mortgages, paying the mortgage claims, and restructuring the remaining available debt service into a new mortgage(s).

Metropolitan Statistical Area (MSA). The basic census unit for defining urban areas and rental markets. Section 8 FMRs are set for each MSA.

Net Operating Income (NOI). A property's rents minus all its costs of operations, Net Operating Income represent the maximum amount available for debt service and the owner's cash flow.

Operating Cost Adjustment Factor (OCAF). A methodology used to increase the rents for project-based Section 8 contracts. The OCAF attempts to gauge the typical operating costs increases incurred in a given region and applies the factor to the rents to compensate for those increases

Opt out. The owner decision to decline to renew a project-based contract and a precursor to converting a property to conventional use. Owners must file a notice of their intention to opt out and must comply with notification and other requirements imposed by HUD and RD.

Phantom income. Refers to a partnership that is generating net taxable income to its partners greater than the distributable cash flow they receive. Phantom income arises from two principal sources: (1) as properties age, their mortgage amortization increases and their depreciation decreases, and (2) many properties generate cash flow above their limited dividend.

PMA. Property's market area.

Property-based Section 8 assistance. A form of resident rental assistance attached to specific apartments: if the resident moves, the assistance remains behind so that the next applicant gains the benefit.

Recapitalization. The financial restructuring of a property to bring in capital, improve operations, and enhance performance. It may or may not involve new debt or a change in ownership. Mark-to-market is a form of recapitalization

Rental Assistance. A tenant subsidy attached to specific properties. If the resident moves, the subsidy remains with the property to used by the next eligible resident.

Replacement reserve. A segregated property cash account used to fund costs beyond normal operations (typically, the replacement of items that have useful lives longer than one year). Owners make monthly deposits into the replacement reserve and withdraw funds only with permission to pay for specifically enumerated replacements (such as appliances, carpeting, and roofs).

Resident-based Section 8 assistance. Section 8 certificates or vouchers, both of which are portable: if the resident moves, the subsidy travels.

Section 8. The predominant form of resident rental assistance, but in reality an umbrella term that covers many distinctly different varieties, as follows:

Type	Attached To	Budget-based or Adjustment Factor	Mortgage programs commonly used	Typical contract length
LMSA	Property	Budget-based	221(d)(3), 236	15
Certificates	Resident	N/A	N/A	3-5 years
Vouchers	Resident	N/A	None	3-5 years
New Construction	Property	Adjustment Factor	221(d)(4)	20, 30 or 40 years
Substantial Rehab	Property	Adjustment Factor	221(d)(4)	20, 30 or 40 years
Moderate Rehab	Property	Adjustment Factor	221(d)(4)	20 years

Section 202. A federal program that makes capital grants to qualified Not-For-Profit developers to provide for supportive affordable rental housing for the elderly. Section 202 properties also receive Section 8 assistance, which covers the difference between the amount paid by residents and the property's operating cost. Because of the initial capital grant, the Section 8 assistance need not cover any debt service. Before 1990, the Section 202 program made direct loans, rather than grants. Older 202 properties therefore have debt service payments and require greater Section 8 assistance.

Section 221(d)(3). The oldest multifamily mortgage insurance program relevant to mark-to-market, active from 1963 through 1970 in either of two forms:

- In the **Below Market Interest Rate (BMIR)** version, FHA provided loans at the Federal government's direct borrowing cost (ranging from 3% to 3.875%).
- In the **Market Rate/Rent Supplement (MR/RS)** version, FHA provided loans at a market rate and provided rent supplement to all residents.

Section 236. A mortgage insurance program, active from 1968 through 1975, under which HUD also provides interest reduction subsidy payments (IRP) in a fixed amount equal to the difference between the debt service actually being paid and the debt service that would have been required if the mortgage bore interest at 1%.

Section 515. A direct federal loan program that makes loans to qualified developers to build affordable housing in rural communities. These properties may also receive Rental Assistance which pays the difference between 30% of a tenant’s adjusted monthly income and the approved rent of the property.

Section 811. A federal program that makes capital grants to stimulate production of affordable rental housing with supportive services for persons with disabilities. Section 811 properties receive Section 8 assistance, which covers the difference between the amount paid by residents and the property's operating cost. Because of the initial capital grant, the Section 8 assistance need not cover any debt service.

Volume-cap bonds. Also called private activity bonds. These tax-exempt securities are issued by state and local housing authorities to raise capital for affordable rental housing, among other purposes. Each state has an annual limit to the bonds it may issue, called a volume cap, which is calculated on a per capita formula.

Voucher. Portable Section 8 assistance with a fixed rent: the monthly resident subsidy equals the difference between HUD's estimated market rent and the family's affordable rent (30% of income).

WHEDA. Wisconsin Housing and Economic Development Authority

Appendix B: Members of Governor's Preservation Task Force

Task Force Members	Affiliated Organization
Mike Ash	WHEDA
Bill Cummings	Reinhart Boerner Van Duren, S.C.
Sherry Engel	Rural Development
Marty Evanson	Bureau of Housing
Gary Gorman	Gorman and Co.
Michael Hershberger	Hersh Group, Ltd.
Kym Johnson	WHEDA
Tom Landgraf	Landgraf Consulting, LLC
Laura Morris	WHEDA
Michelle Norris	National Church Residences
Rae Ellen Packard	WHEDA
Karl Pnacek	CAP Services
Jim Poehlman	WI-CARH
Karen Przypyszny	National Equity Fund, Inc.
Sharon Rambadt	WHEDA
Tim Sherry	Suby Von Haden and Associates
Doug Strub	Meridian Group, Inc
Mary Zins	WHEDA

Advisors:

David Lierman	HUD
Joe Thibedeau	HUD
Antonio Riley	WHEDA
Louise Bartlett	WHEDA
Dorothy Ruff	WHEDA
Dave Ginger	WHEDA
Joe Durow	WHEDA

Appendix C: Three-year Universe by County

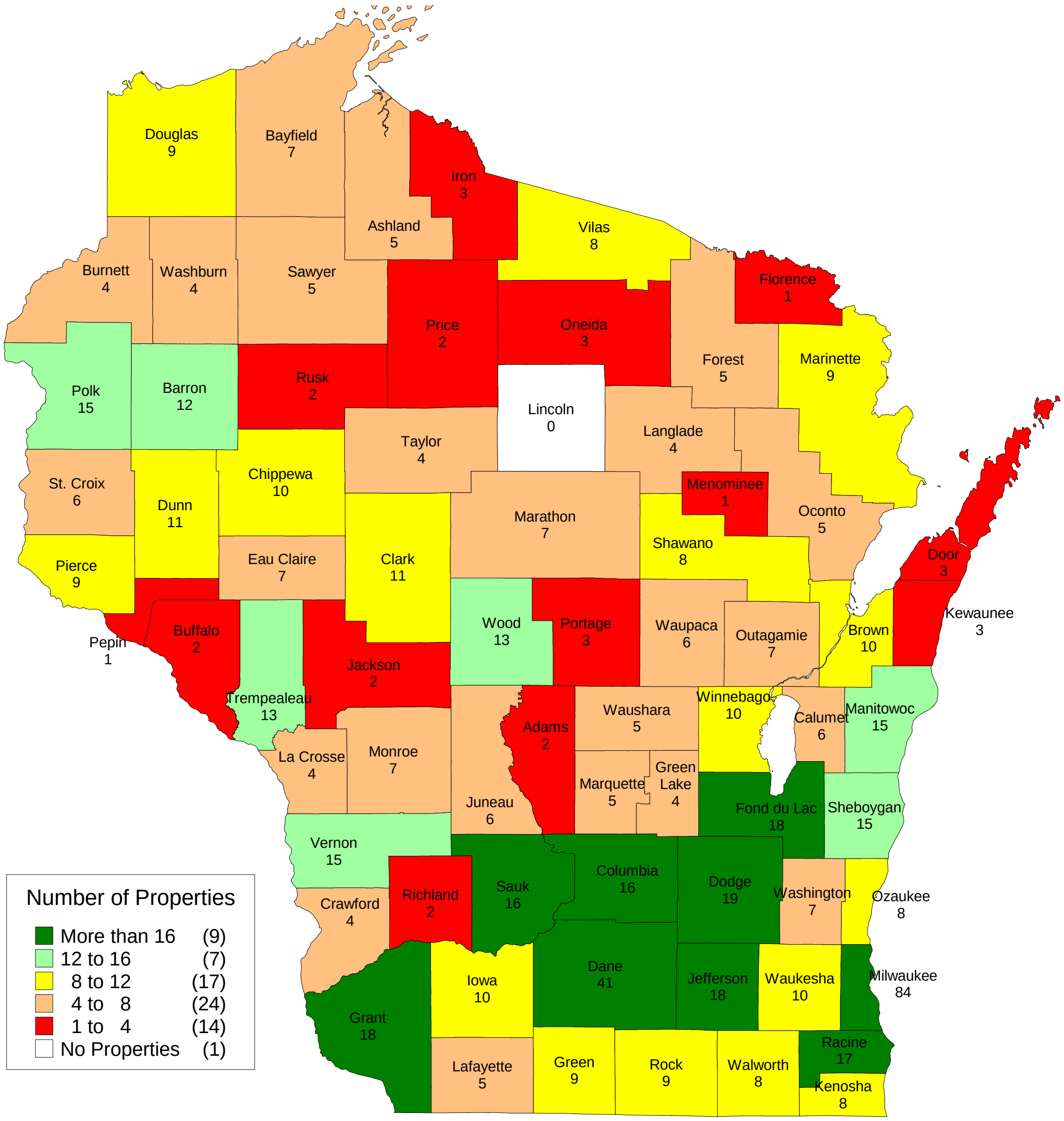
County	Region	Elderly Units	Family Units	Special Needs Units	Mixed Units	Total Units	Total Projects
Adams	Central	91	8	0	0	99	2
Ashland	Northern	91	0	0	0	91	5
Barron	Northern	121	154	6	16	297	12
Bayfield	Northern	108	20	0	0	128	7
Brown	East Central	467	76	0	0	543	10
Buffalo	West Central	104	10	0	0	114	2
Burnett	Northern	63	0	0	0	63	4
Calumet	East Central	103	0	0	0	103	6
Chippewa	West Central	173	35	0	0	208	10
Clark	Central	62	76	0	16	154	11
Columbia	South Central	233	126	0	0	359	16
Crawford	West Central	46	32	0	0	78	4
Dane	South Central	862	1,101	44	0	2,007	41
Dodge	South Central	300	240	0	0	540	19
Door	East Central	110	0	0	0	110	3
Douglas	Northern	477	92	6	0	575	9
Dunn	West Central	228	64	52	0	344	11
Eau Claire	West Central	156	12	0	0	168	7
Florence	Northern	45	0	0	0	45	1
Fond du Lac	Central	204	442	89	0	735	18
Forest	Northern	36	12	0	0	48	5
Grant	South Central	270	100	0	0	370	18
Green	South Central	122	72	0	0	194	9
Green Lake	Central	24	48	0	0	72	4
Iowa	South Central	56	98	0	0	154	10
Iron	Northern	49	0	0	0	49	3
Jackson	West Central	8	8	0	0	16	2
Jefferson	South Central	312	426	0	0	738	18
Juneau	Central	137	64	0	0	201	6
Kenosha	Southeastern	405	81	0	0	486	8
Kewaunee	East Central	54	16	0	0	70	3
La Crosse	West Central	128	105	22	0	255	4
Lafayette	South Central	57	28	0	0	85	5
Langlade	Northern	24	74	0	0	98	4
Lincoln	Northern	0	0	0	0	0	0
Manitowoc	East Central	363	124	0	0	487	15
Marathon	Central	92	110	0	0	202	7
Marinette	Northern	168	112	9	0	289	9
Marquette	Central	48	8	0	0	56	5
Menominee	East Central	20	0	0	0	20	1
Milwaukee	Milwaukee	3,909	2,309	434	0	6,652	84
Monroe	West Central	128	63	0	0	191	7
Oconto	East Central	58	16	0	0	74	5
Oneida	Northern	50	0	0	0	50	3
Outagamie	East Central	190	111	0	8	309	7
Ozaukee	Southeastern	148	151	5	0	304	8
Pepin	West Central	78	0	0	0	78	1
Pierce	West Central	272	0	32	0	304	9
Polk	Northern	117	24	0	60	201	15
Portage	Central	90	16	0	0	106	3
Price	Northern	0	32	0	0	32	2
Racine	Southeastern	528	227	0	0	755	17

(Continued)

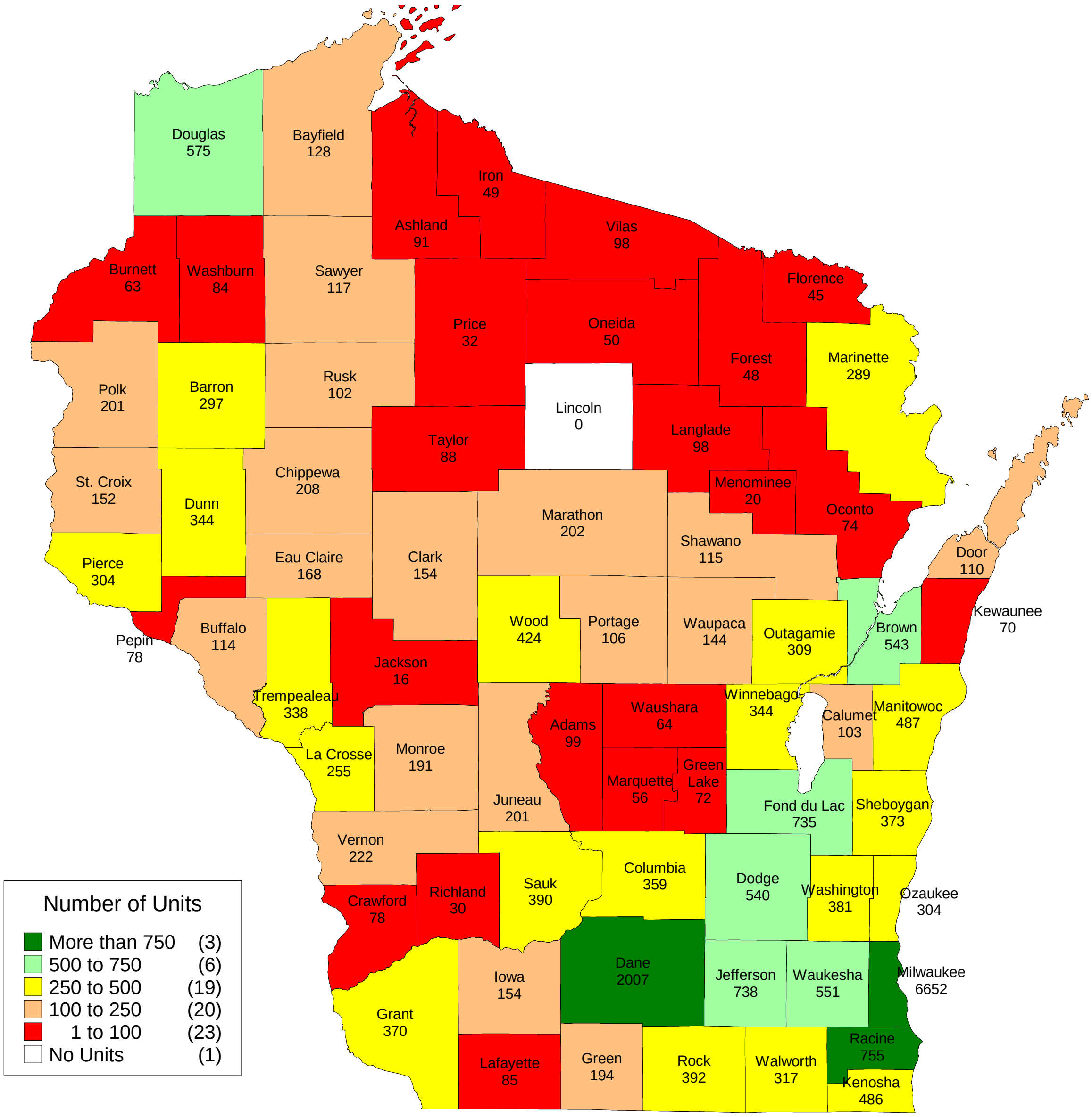
County	Region	Elderly Units	Family Units	Special Needs Units	Mixed Units	Total Units	Total Projects
Richland	South Central	0	24	6	0	30	2
Rock	South Central	227	165	0	0	392	9
Rusk	Northern	48	54	0	0	102	2
Sauk	South Central	91	278	5	16	390	16
Sawyer	Northern	117	0	0	0	117	5
Shawano	East Central	44	71	0	0	115	8
Sheboygan	East Central	201	164	8	0	373	15
St. Croix	West Central	48	56	0	48	152	6
Taylor	Northern	12	76	0	0	88	4
Trempealeau	West Central	164	162	12	0	338	13
Vernon	West Central	142	80	0	0	222	15
Vilas	Northern	84	14	0	0	98	8
Walworth	Southeastern	42	275	0	0	317	8
Washburn	Northern	52	32	0	0	84	4
Washington	Southeastern	243	138	0	0	381	7
Waukesha	Southeastern	390	161	0	0	551	10
Waupaca	Central	58	86	0	0	144	6
Waushara	Central	36	28	0	0	64	5
Winnebago	East Central	281	55	8	0	344	10
Wood	Central	187	237	0	0	424	13
Scattered		398	76	0	0	474	5
Total		**14,850**	**9,155**	**738**	**164**	**24,907**	**666**

Region	Elderly Units	Family Units	Special Needs Units	Mixed Units	Total Units	Total Projects
Central	1,029	1,123	89	16	2,257	80
East Central	1,891	633	16	8	2,548	83
Milwaukee	3,909	2,309	434	0	6,652	84
Northern	1,662	696	21	76	2,455	102
South Central	2,530	2,658	55	16	5,259	163
Southeast	1,756	1,033	5	0	2,794	58
West Central	1,675	627	118	48	2,468	91
Scattered	398	76	0	0	474	5
Total	**14,850**	**9,155**	**738**	**164**	**24,907**	**666**

Appendix D: State Map of Properties with Potential of Loss of Affordability in Next Three Years



Appendix E: State Map of Units with Potential of Loss of Affordability in Next Three Years



Appendix F: Resident Profiles by County for Tax Credit Properties

WHEDA Monitored Tax Credit Developments

Occupied Units Only - As of the Last Unit Status Report Received
Elderly/Family Breakdown Calculated Using # of Targeted Units

Reported As of 03/31/2004 - 67% of Units
Reported As of 06/30/2003 - 33% of units
Source: Trackpro Monitoring Database

9/9/2004

County / Type	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
ADAMS						
Family	22	48	2.2	48	2.2	$8,998.82
ASHLAND						
Family	37	70	1.9	77	2.1	$10,132.00
BARRON						
Elderly	27	29	1.1	39	1.4	$14,414.15
Family	156	319	2.0	303	1.9	$14,610.16
CLARK						
Elderly	28	30	1.1	34	1.2	$9,798.96
Family	31	65	2.1	61	2.0	$7,430.71
COLUMBIA						
Elderly	116	135	1.2	152	1.3	$16,571.29
Family	194	323	1.7	315	1.6	$14,817.49
CRAWFORD						
Elderly	22	22	1.0	19	0.9	$12,274.00
Family	29	57	2.0	68	2.3	$10,940.62
DODGE						
Elderly	223	261	1.2	324	1.5	$15,030.25
Family	284	577	2.0	537	1.9	$17,745.52
DOOR						
Elderly	15	16	1.1	18	1.2	$11,399.40
Family	22	49	2.2	47	2.1	$16,654.00
DUNN						
Family	133	248	1.9	264	2.0	$15,760.83
EAU CLAIRE						
Elderly	110	119	1.1	160	1.5	$13,803.03
Family	115	255	2.2	261	2.3	$17,325.99
FOND DU LAC						
Elderly	191	229	1.2	304	1.6	$15,969.71
Family	277	632	2.3	573	2.1	$14,522.49
FOREST						
Elderly	14	18	1.3	14	1.0	$12,393.57
Family	51	101	2.0	108	2.1	$8,151.25

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Page 1 of 6

WHEDA Monitored Tax Credit Developments

Occupied Units Only - As of the Last Unit Status Report Received
Elderly/Family Breakdown Calculated Using # of Targeted Units

Reported As of 03/31/2004 - 67% of Units
Reported As of 06/30/2003 - 33% of units
Source: Trackpro Monitoring Database

County / Type	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
GRANT						
Elderly	28	31	1.1	32	1.1	$13,901.68
Family	32	60	1.9	75	2.3	$12,595.47
GREEN						
Elderly	21	22	1.0	32	1.5	$15,469.57
Family	43	84	2.0	84	2.0	$18,008.49
GREEN LAKE						
Family	33	51	1.5	50	1.5	$12,654.09
IOWA						
Elderly	13	14	1.1	13	1.0	$10,247.46
Family	34	50	1.5	53	1.6	$13,577.56
IRON						
Elderly	10	10	1.0	11	1.1	$11,196.40
Family	25	37	1.5	49	2.0	$9,861.72
JACKSON						
Elderly	46	49	1.1	59	1.3	$11,824.65
Family	79	147	1.9	152	1.9	$11,382.47
JEFFERSON						
Elderly	102	125	1.2	147	1.4	$16,482.37
Family	177	316	1.8	299	1.7	$16,258.29
JUNEAU						
Family	85	154	1.8	166	2.0	$11,157.68
KEWAUNEE						
Family	45	65	1.4	70	1.6	$11,252.00
LAFAYETTE						
Elderly	8	8	1.0	9	1.1	$10,883.88
Family	18	28	1.6	38	2.1	$9,093.94
LANGLADE						
Elderly	40	46	1.2	44	1.1	$11,856.20
Family	70	154	2.2	139	2.0	$13,679.96
LINCOLN						
Family	59	110	1.9	108	1.8	$17,818.86

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MANITOWOC

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	83	93	1.1	106	1.3	$13,819.36
Family	120	243	2.0	241	2.0	$18,327.87

MARATHON

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	47	50	1.1	58	1.2	$14,268.60
Family	137	274	2.0	283	2.1	$19,707.19

MARINETTE

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	33	39	1.2	54	1.6	$13,220.30
Family	149	248	1.7	253	1.7	$12,896.05

MARQUETTE

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	27	33	1.2	37	1.4	$13,406.15
Family	23	56	2.4	51	2.2	$16,683.13

MONROE

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Family	36	95	2.6	80	2.2	$13,327.31

MSA Appleton-Oshkosh-Neenah

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	529	650	1.2	907	1.7	$9,503.54
Family	721	1,641	2.3	1,540	2.1	$16,292.73

MSA Duluth-Superior

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Family	228	298	1.3	310	1.4	$11,211.67

MSA Eau Claire

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	61	69	1.1	84	1.4	$14,291.07
Family	209	325	1.6	326	1.6	$13,123.21

MSA Green Bay

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	376	452	1.2	634	1.7	$8,319.91
Family	232	522	2.3	480	2.1	$16,302.62

MSA Janesville-Beloit

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	388	452	1.2	514	1.3	$14,170.32
Family	351	716	2.0	637	1.8	$16,060.02

MSA Kenosha

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	317	347	1.1	392	1.2	$14,388.75
Family	427	1,021	2.4	874	2.0	$13,959.91

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
MSA La Crosse						
Elderly	116	215	1.9	224	1.9	$18,494.30
Family	348	587	1.7	593	1.7	$15,172.12
MSA Madison						
Elderly	1,002	1,149	1.1	1,474	1.5	$17,827.60
Family	2,136	5,015	2.3	4,473	2.1	$20,319.36
MSA Milwaukee-Waukesha						
Elderly	3,334	3,846	1.2	4,773	1.4	$15,402.54
Family	2,892	6,522	2.3	5,650	2.0	$19,920.46
MSA Minneapolis-St Paul						
Elderly	122	150	1.2	169	1.4	$21,537.81
Family	528	1,146	2.2	1,156	2.2	$24,942.87
MSA Racine						
Elderly	245	286	1.2	338	1.4	$17,190.71
Family	301	695	2.3	581	1.9	$16,814.44
MSA Sheboyan						
Elderly	173	197	1.1	228	1.3	$15,835.95
Family	500	930	1.9	997	2.0	$16,918.58
OCONTO						
Family	25	40	1.6	50	2.0	$8,745.68
ONEIDA						
Elderly	73	77	1.1	100	1.4	$14,247.15
Family	84	145	1.7	169	2.0	$13,607.46
PEPIN						
Family	6	10	1.7	13	2.2	$10,399.83
POLK						
Family	103	242	2.3	202	2.0	$19,341.71
PORTAGE						
Elderly	77	96	1.2	136	1.8	$17,107.82
Family	86	168	2.0	185	2.2	$20,258.87
PRICE						
Elderly	25	28	1.1	27	1.1	$10,631.32
Family	10	14	1.4	22	2.2	$12,684.90

WHEDA Monitored Tax Credit Developments

Occupied Units Only - As of the Last Unit Status Report Received
Elderly/Family Breakdown Calculated Using # of Targeted Units

Reported As of 03/31/2004 - 67% of Units
Reported As of 06/30/2003 - 33% of units
Source: Trackpro Monitoring Database

9/9/2004

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
RICHLAND						
Elderly	19	20	1.1	19	1.0	$10,253.89
Family	40	102	2.6	92	2.3	$15,615.43
RUSK						
Family	24	36	1.5	54	2.3	$3,696.42
SAUK						
Elderly	75	85	1.1	100	1.3	$12,899.19
Family	242	463	1.9	457	1.9	$16,379.10
SAWYER						
Elderly	20	21	1.1	20	1.0	$11,309.10
Family	16	33	2.1	35	2.2	$13,731.56
SHAWANO						
Elderly	32	34	1.1	58	1.8	$15,706.75
Family	30	112	3.7	84	2.8	$23,962.30
TREMPEALEAU						
Elderly	17	17	1.0	27	1.6	$12,497.24
Family	111	216	1.9	215	1.9	$10,099.87
VERNON						
Family	37	67	1.8	75	2.0	$16,283.73
VILAS						
Family	67	245	3.7	219	3.3	$24,468.73
WALWORTH						
Elderly	152	174	1.1	223	1.5	$12,727.84
Family	265	839	3.2	607	2.3	$19,075.20
WASHBURN						
Family	33	75	2.3	76	2.3	$9,573.85
WAUPACA						
Elderly	35	42	1.2	56	1.6	$16,576.54
Family	151	287	1.9	282	1.9	$14,240.01
WAUSHARA						
Elderly	22	23	1.0	22	1.0	$9,598.32
Family	12	12	1.0	12	1.0	$10,941.67

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Page 5 of 6

WOOD

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Elderly	53	64	1.2	70	1.3	$14,651.32
Family	318	562	1.8	577	1.8	$15,586.04

TAX CREDIT DEVELOPMENTS SUMMARY:

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income
Projects: 594	**21,516**	**37,875**	**1.8**	**38,157**	**1.8**	**$16,528.08**
Elderly Units:	8,467	9,873	1.2	12,261	1.4	$14,850.33
Family Units:	13,049	28,002	2.1	25,896	2.0	$17,616.71

Appendix G: Resident Profiles by County for Section 8 Properties

WHEDA

WHEDA and HUD Contract Section 8 Developments
Data As Reported by Management Agents for 8/1/2004 HAP Voucher - Occupied Units Only
Elderly defined as Head of Household Age 62 and older/ Family includes all other units

9/8/2004
Source: HDS database

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
ASHLAND							
Elderly	59	63	1.1	60	1.0	$10,855.14	80.9
Family	24	41	1.7	39	1.6	$9,897.46	41.8
BARRON							
Elderly	182	188	1.0	182	1.0	$10,034.42	79.2
Family	78	157	2.0	139	1.8	$9,967.59	39.5
BAYFIELD							
Elderly	14	14	1.0	14	1.0	$10,358.14	84.9
BURNETT							
Elderly	1	2	2.0	2	2.0	$13,557.00	62.0
Family	20	61	3.1	52	2.6	$9,523.35	33.8
CLARK							
Elderly	74	76	1.0	74	1.0	$10,316.77	80.9
Family	33	54	1.6	46	1.4	$8,454.67	40.6
COLUMBIA							
Elderly	183	200	1.1	200	1.1	$10,632.28	76.6
Family	105	143	1.4	142	1.4	$9,663.10	45.6
CRAWFORD							
Elderly	72	74	1.0	73	1.0	$9,870.07	79.2
Family	43	63	1.5	58	1.3	$10,624.95	43.5
DODGE							
Elderly	180	191	1.1	193	1.1	$10,615.16	78.0
Family	89	139	1.6	142	1.6	$9,888.49	42.1
DOOR							
Elderly	47	49	1.0	49	1.0	$10,063.13	80.4
Family	39	73	1.9	67	1.7	$10,277.10	41.4
DUNN							
Elderly	59	61	1.0	65	1.1	$9,685.22	77.3
Family	85	97	1.1	118	1.4	$8,238.91	37.1

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MSA counties as per HUD FMRs for 2004

{PPVCHHST.PAYMENTDT} = DateTime (2004, 08, 01, 00, 00, 00) and

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
FLORENCE							
Elderly	18	20	1.1	21	1.2	$9,185.11	79.4
Family	26	43	1.7	40	1.5	$9,028.42	42.2
FOND DU LAC							
Elderly	354	369	1.0	382	1.1	$10,595.88	79.1
Family	220	449	2.0	411	1.9	$9,810.05	41.3
FOREST							
Elderly	23	23	1.0	23	1.0	$10,244.04	76.0
Family	17	22	1.3	21	1.2	$8,057.53	47.1
GRANT							
Elderly	113	123	1.1	118	1.0	$10,303.96	78.4
Family	81	134	1.7	128	1.6	$9,169.17	36.2
GREEN							
Elderly	44	47	1.1	44	1.0	$10,319.52	77.0
Family	11	12	1.1	11	1.0	$10,027.27	48.3
GREEN LAKE							
Elderly	74	77	1.0	76	1.0	$9,999.85	80.4
Family	51	80	1.6	77	1.5	$9,293.00	39.1
IOWA							
Elderly	41	41	1.0	44	1.1	$10,408.44	78.3
Family	68	146	2.1	144	2.1	$11,320.54	35.3
IRON							
Elderly	32	33	1.0	32	1.0	$11,245.19	79.9
Family	3	5	1.7	3	1.0	$13,632.00	50.3
JACKSON							
Elderly	69	75	1.1	71	1.0	$9,582.13	79.5
Family	14	14	1.0	19	1.4	$8,949.21	45.3
JEFFERSON							
Elderly	251	267	1.1	282	1.1	$11,798.78	77.9
Family	291	650	2.2	585	2.0	$10,362.44	37.1

County	Type	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
JUNEAU	Elderly	70	75	1.1	73	1.0	$10,332.04	75.4
	Family	208	363	1.7	280	1.3	$8,277.51	27.3
KEWAUNEE	Elderly	16	16	1.0	16	1.0	$10,437.00	78.4
	Family	11	14	1.3	18	1.6	$9,161.18	37.5
LAFAYETTE	Elderly	26	26	1.0	27	1.0	$9,776.85	81.0
	Family	3	6	2.0	5	1.7	$6,633.67	44.0
LANGLADE	Elderly	29	29	1.0	30	1.0	$9,471.31	83.1
	Family	14	31	2.2	29	2.1	$6,989.79	35.9
LINCOLN	Elderly	146	159	1.1	166	1.1	$11,218.15	80.9
	Family	35	78	2.2	67	1.9	$9,609.17	37.9
MANITOWOC	Elderly	220	231	1.1	229	1.0	$10,725.87	77.6
	Family	191	422	2.2	417	2.2	$9,226.51	39.3
MARINETTE	Elderly	164	170	1.0	180	1.1	$11,022.15	79.3
	Family	75	117	1.6	120	1.6	$8,304.49	41.0
MARQUETTE	Elderly	8	8	1.0	8	1.0	$12,912.75	78.0
	Family	2	2	1.0	2	1.0	$7,540.50	48.5
MENOMINEE	Elderly	17	17	1.0	19	1.1	$9,671.53	73.2
	Family	2	2	1.0	2	1.0	$7,923.00	57.5
MONROE	Elderly	99	103	1.0	101	1.0	$10,402.59	76.9
	Family	59	116	2.0	105	1.8	$8,785.58	40.6

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MSA counties as per HUD FMRs for 2004

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WHEDA and HUD Contract Section 8 Developments
Data As Reported by Management Agents for 8/1/2004 HAP Voucher - Occupied Units Only
Elderly defined as Head of Household Age 62 and older/ Family includes all other units

9/8/2004
Source: HDS database

MSA APPLETON - OSHKOSH - NEE

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	714	741	1.0	762	1.1	$10,699.85	78.4
Family	617	1,236	2.0	1,135	1.8	$9,844.63	40.3

MSA DULUTH - SUPERIOR

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	326	345	1.1	348	1.1	$11,425.49	79.3
Family	236	457	1.9	443	1.9	$9,113.38	39.4

MSA EAU CLAIRE

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	564	587	1.0	574	1.0	$10,338.54	78.5
Family	403	622	1.5	605	1.5	$9,399.71	40.0

MSA GREEN BAY

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	471	480	1.0	477	1.0	$10,341.82	77.8
Family	356	574	1.6	535	1.5	$9,392.75	42.7

MSA JANESVILLE - BELOIT

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	471	496	1.1	492	1.0	$10,541.61	76.5
Family	360	576	1.6	523	1.5	$8,913.00	40.8

MSA KENOSHA

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	676	705	1.0	696	1.0	$11,613.92	76.2
Family	489	879	1.8	808	1.7	$10,425.82	42.8

MSA LA CROSSE

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	265	283	1.1	279	1.1	$11,204.72	78.6
Family	205	351	1.7	329	1.6	$9,570.86	40.9

MSA MADISON

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	892	974	1.1	1,002	1.1	$11,141.37	76.9
Family	1,031	2,166	2.1	1,900	1.8	$11,379.28	39.3

MSA MILWAUKEE - WAUKESHA

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	6,101	6,512	1.1	6,298	1.0	$10,888.41	76.6
Family	3,995	7,443	1.9	6,695	1.7	$10,193.93	39.8

MSA MINNEAPOLIS - ST PAUL

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	169	173	1.0	171	1.0	$11,166.43	77.8
Family	84	169	2.0	151	1.8	$11,234.37	39.8

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WHEDA and HUD Contract Section 8 Developments
Data As Reported by Management Agents for 8/1/2004 HAP Voucher - Occupied Units Only
Elderly defined as Head of Household Age 62 and older/ Family includes all other units

9/8/2004
Source: HDS database

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
MSA RACINE							
Elderly	774	809	1.0	804	1.0	$11,347.79	77.7
Family	500	881	1.8	785	1.6	$10,766.12	41.9
MSA SHEBOYGAN							
Elderly	220	230	1.0	236	1.1	$11,119.83	77.5
Family	229	482	2.1	450	2.0	$9,797.23	37.5
MSA WAUSAU							
Elderly	234	252	1.1	259	1.1	$10,813.20	79.7
Family	108	200	1.9	190	1.8	$8,776.58	41.9
OCONTO							
Elderly	51	53	1.0	60	1.2	$9,628.35	78.8
Family	36	55	1.5	49	1.4	$7,884.67	42.9
ONEIDA							
Elderly	159	165	1.0	166	1.0	$11,127.25	79.2
Family	61	107	1.8	117	1.9	$10,559.21	38.4
PEPIN							
Elderly	26	27	1.0	31	1.2	$9,662.69	80.2
Family	29	57	2.0	59	2.0	$8,333.48	37.9
POLK							
Elderly	68	70	1.0	68	1.0	$10,089.00	79.8
Family	30	49	1.6	45	1.5	$10,305.50	44.0
PORTAGE							
Elderly	138	142	1.0	139	1.0	$10,602.33	79.4
Family	70	160	2.3	138	2.0	$7,866.11	34.1
PRICE							
Elderly	53	56	1.1	57	1.1	$10,676.15	82.2
Family	23	34	1.5	37	1.6	$8,331.43	43.6
RICHLAND							
Elderly	108	115	1.1	114	1.1	$9,603.81	80.8
Family	81	183	2.3	168	2.1	$10,325.10	40.9

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County		Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
RUSK	Elderly	63	67	1.1	63	1.0	$9,486.56	81.2
	Family	24	53	2.2	45	1.9	$9,033.63	39.7
SAUK	Elderly	48	50	1.0	50	1.0	$10,595.73	76.8
	Family	49	88	1.8	83	1.7	$9,506.43	40.9
SAWYER	Elderly	43	47	1.1	51	1.2	$10,481.28	77.5
	Family	41	88	2.1	81	2.0	$8,865.63	34.3
SHAWANO	Elderly	1	1	1.0	2	2.0	$8,994.00	68.0
	Family	10	16	1.6	18	1.8	$8,128.70	39.4
TAYLOR	Elderly	57	60	1.1	59	1.0	$9,941.32	79.2
	Family	41	69	1.7	64	1.6	$10,801.95	39.5
TREMPEALEAU	Elderly	18	18	1.0	20	1.1	$8,829.39	78.9
	Family	33	33	1.0	35	1.1	$9,175.52	43.2
VERNON	Elderly	57	60	1.1	57	1.0	$8,553.61	78.8
	Family	22	23	1.0	23	1.0	$9,575.55	48.0
VILAS	Elderly	38	40	1.1	43	1.1	$10,587.45	82.2
	Family	16	34	2.1	28	1.8	$10,625.63	41.9
WALWORTH	Elderly	258	265	1.0	266	1.0	$11,403.19	77.9
	Family	219	362	1.7	343	1.6	$8,839.93	36.7
WASHBURN	Elderly	15	15	1.0	15	1.0	$11,360.00	78.9
	Family	20	42	2.1	36	1.8	$8,479.95	33.9

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MSA counties as per HUD FMRs for 2004

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WAUPACA

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	120	127	1.1	127	1.1	$9,659.86	78.1
Family	93	164	1.8	153	1.6	$9,888.90	43.5

WAUSHARA

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	40	42	1.1	42	1.1	$9,693.43	78.0
Family	33	51	1.5	49	1.5	$7,931.94	44.1

WOOD

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Elderly	224	233	1.0	236	1.1	$10,635.85	79.1
Family	177	348	2.0	335	1.9	$8,834.33	35.3

SECTION 8 DEVELOPMENTS SUMMARY:

	Units	Residents	Avg Household Size	Total Bedrooms	Avg Bedrooms	Avg Household Income	Avg Age
Projects 589	**27,761**	**38,653**	**1.4**	**36,660**	**1.3**	**$10,464.84**	**61.7**
Elderly Units:	16,147	17,067	1.1	16,724	1.0	$10,825	77.6
Family Units:	11,619	21,586	1.9	19,653	1.7	$9,959	39.8

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MSA counties as per HUD FMRs for 2004

{PPVCHHST.PAYMENTDT} = DateTime (2004, 08, 01, 00, 00, 00) and

Appendix H: Risk Model Analysis

CAUTION: INPUT PROPERTY CASH ASSETS
AS A NEGATIVE NUMBER, FORMULA NETS IT FROM NEEDS

A:/Model 1.1.xls

ABC PROPERTY		**Conversion risk**		**270**	**Very high**	10/04/04
HUD No.	Type	*Section 8*	New debt	Conventional	Apartments:	64

A:/Model 1.1.xls

Current Regulated Operations — Rent schedule effective *01/01/04*

Operations After Prepayment (in *2004*). — *Date* *115.0%*

	Type	Number	Current	Annualized income	Section 8 FMR's	Market rents	Residents with Sec 8 vouchers	Remaining residents at market	Market rent GPR
	0 BR			0		*$0*		0	0
0	*1 BR*	*0*	*$0*	0	*$0*	*$0*	*0*	0	0
104	*2 BR*	*52*	*$825*	514,800	*$711*	*$818*	*0*	52	510,432
36	*3 BR*	*12*	*$991*	142,704	*$986*	*$1,134*	*0*	12	163,296
0	*4 BR*			0		*$0*		0	0
140	Averages	64	$856		$763	$877	0	64	

Gross potential rental income		657,504	Gross potential rental income		673,728
Vacancy	*2.0%*	-12,840	Vacancy	*5.0%*	-33,686
Other income		*16,198*	Other income		*16,198*
Effective gross income		660,862	Effective gross income		656,240

Operating expenses	Per apt	*2003*	**Operating expenses**	Reason	Per apt	Change	Market
Administration	70	*4,778*	Administration		70	0%	*4,778*
Management fee	480	*30,560*	Management (and asset)	*estimate*	520	8%	*33,043*
Utilities	810	*51,738*	Utilities		810	0%	*51,738*
Main/ operations	1,500	*96,079*	Adj. main/ operations	*estimate*	1,200	-20%	*76,863*
Real estate taxes	1,010	*64,438*	Real estate taxes		1,010	0%	*64,438*
Hazard insurance	270	*17,332*	Hazard insurance		270	0%	*17,332*
Other taxes/ insurance	60	*3,528*	Other taxes/ insurance		60	0%	*3,528*
Replacement reserve	180	*11,756*	Replacement reserve		180	0%	*11,756*
Total expenses	4,380	280,209	Total expenses		4,120	-6%	263,476

Net Operating Income	380,653	Net Operating Income	6,140	392,763
Debt service (on WHEDA mtg. Plus service fee)	*311,436*	Debt service (on Conversion loan)	2,140	137,246
Annual limited dividend	*24,282*	Net cash flow	3,990	255,518
Cash flow above (below) dividend	44,934	286% coverage on Conversion loan		

Property Physical Attributes

Non-recurring HUD expenses	-2,483	Year built	*1982*	Utilities
Revised NOI after non-recurring	378,170	Layout		Who pays
(Backup provided on page 3)		Exterior		R E taxes

Page 1

ABC PROPERTY			**Conversion risk**		**270**	**Very high**	10/04/04
	HUD No.	Type	*Section 8*	New debt	Conventional	Apartments:	64
						A:/Model 1.1.xls	

Current Regulated Mortgage		
1,469,503	Remaining principal balance	*8/31/2004*
13.41%	Interest rate	
95	Remaining term (months)	
No	Section 236 (Yes or No)?	
302,210	Annual debt service (net of Sec 236)	
Conversion Loan Assumptions		
15,000	Application fees and costs (third party)	
1.5%	Origination fees	
192,000	Capital improvements (and soft costs)	
2.53%	Loan quote rate (above 10 yr T-bill)	8.50%
5.97%	Projected 10 year T bill	Constant:
8.50%	Conversion loan interest rate	9.23%
3	month Debt Service Reserve	
Conversion Loan Sizing		
1,469,503	Pay off HUD first mortgage	
400,000	Initial equity takeout (generally zero)	
192,000	Capital improvements (and soft costs fee)	
25,811	Debt service reserve at	3 months
18,220	Origination fees at	1.5% of loan
15,000	Transaction costs	
0	Minus outside equity (such as LIHTC's)	
-505,881	Minus property cash assets to owner	
1,614,653	Conversion loan based on eligible cost	-400,000
1,614,653	**Resulting Conversion Loan**	
(equal to	49% of permanent loan)	
2	Financing option (1=Affordable, 2=Conventional)	
Conversion Loan Debt Service Coverage Ratios		
At current operations (before Op Ex adjustments)		277%
Current operations (after Op Ex adjustments)		276%
After prepayment (and 60-day lag)		286%
Analysis	Date	Done by whom
Initial estimate	*10/04/04*	*SR*
Revised on market data		
Final closing		

Permanent Loan Sizing (in		**2004)**		
392,763	Stabilized Net Operating Income (in	2004)		
125%	Stabilized debt service coverage			
314,211	New debt service			
8.60%	Constant at	*7.75%*	*30* years	
3,654,910	Permanent loan based on coverage			
392,763	Stabilized Net Operating Income			
9.50%	NOI capitalization rate			
4,134,351	Implied property value			
80%	Maximum takeout loan to value			
3,307,480	Permanent loan based on loan-to-value (LTV).			
3,307,480	Permanent loan			
-1,614,653	Pay off Conversion loan		Cash flow	
1,692,827	Owner's equity takeout		New NOI	392,763
25,811	Release of debt service reserve		New DS	284,342
1,718,639	Distributable proceeds		Cash flow	108,421

Sources and Uses	Conversion	Permanent
New financing	1,614,653	3,307,480
Outside sources of equity	0	*0*
Debt service reserve	*0*	25,811
Property cash	505,881	*0*
Total sources of funds	**2,120,534**	**3,333,292**
Retire existing financing	1,469,503	1,614,653
Cash to owner	400,000	1,718,639
Capital improvements (and soft costs)	192,000	*0*
Debt service reserve funding	25,811	*0*
Transaction and soft costs costs	33,220	*0*
Total uses of funds	**2,120,534**	**3,333,292**

Page 2

ABC PROPERTY			Conversion risk		270	Very high		10/04/04
HUD No.		Type	Section 8	New debt	Conventional		Apartments:	64
							A:/Model 1.1.xls	

HUD Expenses Not Recurring as Conventional		
Contingency reserves released and expensed		0
RR/painting decorating releases expensed in 1997		0
Management fee in excess of market		-2,483
(Market is 5.0% , which is	33,043)	
		0
		0
Total non-recurring expenses		-2,483

Capital Improvements Detail		
Per apartment allowance	3,000	192,000
	0	0
Soft costs	0	0
	0	0
	0	0
	0	0
Total capital improvements		192,000

Data Sources	
Rents	Proposal
Operating expenses	Proposal/Audit
Rehabilitation costs	Proposal

Conversion Risk Evaluation		Guideline	Subject	Score
Initial coverage of		50%	277%	25
Adjusted initial coverage		75%	276%	25
Fixup per apartment		4,000	3,000	10
Economic coverage		135%	286%	100
Loan to stabilized value		65%	39%	50
Takeout per apartment		7,500	26,900	50
Local market		Good	good	0
Physical condition		Good	good	0
Owner credentials		Good	good	0
Other?	Reserves	Good	Great	10
Aggregate score		Very high		270

Sensitivity Table		Cell Address						
Variable 1:	115%	H7	Market rents as a percentage of FMR			To run this sensitivity table, please see the instructions at "Data"-"Table"		
Variable 2:	3,000	E86	Renovation costs per apartment					
Very high	15,000	13,000	11,000	9,000	7,000	5,000	3,000	1,000
95.0%	None	None	None	None	None	None	None	None
100.0%	None	None	None	None	None	None	None	Slight
105.0%	None	None	None	None	None	None	Slight	At risk
110.0%	None	None	None	None	None	Slight	At risk	Very high
115.0%	None	None	None	None	Slight	**At risk**	Very high	Very high
120.0%	None	None	None	Slight	At risk	Very high	Very high	Very high
125.0%	None	None	Slight	High	Very high	Very high	Very high	Very high
130.0%	None	Slight	High	Very high	Very high	Very high	Very high	Very high
135.0%	At risk	High	Very high	Very high	Very high	Very high	Very high	Very high

Page 3

ABC PROPERTY			**Conversion risk**		**270**	**Very high**		10/04/04
	HUD No.	Type	*Section 8*	New debt	Conventional		Apartments:	64

A:/Model 1.1.xls

Supporting calculations, rents and expenses ***(Modify at your peril, except for the blue colored cells in Financing Alternatives.)***

Gross Potential Rent

FMR's	Market	Income at Market
0	0	0
0	0	0
443,664	510,432	510,432
141,984	163,296	163,296
0	0	0
585,648	673,728	673,728

First mortgage (Sec. 236)

Original	With 236
2,242,747	2,242,747
13.4%	*1.0%*
480	480
302,210	68,051

Financing alternatives

	Affordable	Market
	1	*2*
Coverage	*110%*	*125%*
Rate	*6.50%*	*7.75%*
LTV	*90%*	*80%*
Term	*40*	*30*
Guideline	*110%*	*135%*

Loan sizing by formula

1,469,503	HUD first
192,000	CIP
15,000	Application fees and costs
-505,881	Property cash assets
1,170,622	Hard costs
96.4%	Gross-up fraction
1,214,653	Total conversion loan

Prepayment viability evaluation

	Weight	Max Weight	Overall	Viability	Evaluation	Score
25	*25%*	*25*	*-1,000*	None	*Bad*	*-20*
25	*25%*	*25*	*-45*	Slight	*Fair*	*-10*
10	*-0.01%*	*75*	*0*	At risk	*Good*	*0*
100	*100%*	*100*	*30*	High	*Great*	*10*
50	*-200%*	*50*	*60*	Very high	*Outstanding*	*20*
50	*0.01%*	*50*				
0					Steps	*10*
0						
0					Months	Multiplier
10					***12***	*100*
270	Very high	Outstanding				

Appendix I: Summary of Sources and Uses in Preservation Developments

Example #1 – Preservation of 36 units (two buildings one with 16 units, a second with 20 units) located in two cities in Marathon County.

Current financing was HUD 202 funding which needed to be prepaid in order to introduce the Affordable rental housing Tax Credit (9% credit). The buildings are occupied by older adults. The buildings are both single story, with mostly one-bedroom units. There were also a number of efficiency units. They were built in the early 1980's and have had no major rehabilitation done to them since construction.

Sources of Funds:

WHEDA SOS – New Debt		$1,148,403
Soft Debt: Sponsor		$ 401,455
Tax Credit Equity		$1,468,319
Existing Property Reserves		$ 70,000
Total Sources	$3,088,177	

Uses of Funds:

Rehabilitation – Unit interiors / exteriors		$1,504,077
Soft Costs – including Sponsor Dev. Fee		$ 442,100
Refund Existing Reserves		$ 70,000
Total Uses	$3,088,177	

The total cost of rehabilitation of the units, excluding acquisition cost, was $56,005, which included a sponsor development fee. This was funded from three major sources: 1) tax credit investor equity, 2) soft financing from the Not-for-Profit sponsor and the Federal Home Loan Bank, and 3) WHEDA – SOS in the form of new debt to replace the existing HUD 202 loans and a smaller amount of new debt to assist with the costs of rehabilitation. The buildings are occupied by older adults all of whom have access to project based Section 8 financing. The unique nature of this rehabilitation allowed the Section 8 financing to remain in place even though the HUD 202 debt was prepaid. The HUD 202 debt had an initial interest rate of about 9.2% so prepayment of it and replacement with lower cost WHEDA debt was (approximately 6%) allowed the development to fund a portion of the rehabilitation without the need to increase the Section 8 rents. The sponsor is a Not-for-Profit organization that will remain the Managing Member of the tax credit development and will reacquire the buildings at the conclusion of the 15-year tax credit compliance period.

Example #2 – Preservation of 32 units of project based Section 8 family housing Rock County

The sale of 23-year-old property originally financed by WHEDA, utilizing allocation of Low Income Housing Tax Credits. Two and three bedroom townhouse units in a highly desirable location with Section 8 contract rents slightly higher than Fair Market Rents.

Rehabilitation of buildings/grounds included new windows, siding, concrete, asphalt and dumpster enclosures. Individual units received new cabinets, furnaces, central air conditioning (new feature), appliances, entrance doors, flooring, and plumbing fixtures.

Sources of Funds:

WHEDA – New Debt		$1,368,000
Tax Credit Equity		$ 712,500
Weatherization Grant		$ 50,000
Existing Property Reserves		$ 32,000
Deferred Development Fee		$ 5,530
Total Sources	$2,168,030	

Uses of Funds:

Property Acquisition		$1,260,480
Rehabilitation		$ 505,120
Soft Costs		$ 216,430
Reserves		$ 186,000
Total Uses	$2,168,030	

The total cost to preserve these housing units, including acquisition and rehab, was $67,751. A working capital reserve was established to offset the lack of rent increases anticipated during the next five years given the current rent levels being slightly higher than Fair Market Rents. Physical upgrades to the property have repositioned it as quality housing for the next 15 years.

Example #3 – Preservation of 246 units of Section 236 family housing with project based Section 8 contract in Dane County

Sale of 27-year-old HUD insured property to a Not-For-Profit organization whose mission is to purchase, renovate and foster of low-income housing. The property includes one and two-bedroom apartments as well as three-bedroom town homes and a neighborhood center. The property is located in an affluent neighborhood adjacent to middle and high schools. The Section 8 contract rents are lower than Fair Market Rents.

Sources of Funds:

First Mortgage – Private Lender		$3,826,041
Second Mortgage – Private Lender		$3,000,000
CDBG Funds		$1,500,000
Sponsor Provided Soft Financing		$ 651,459
Total Sources	$8,977,500	

Uses of Funds:

Property Acquisition		$7,214,118
Rehabilitation: Unit Interiors		$1,200,000
Soft Costs		$ 277,500
Reserves Funds		$ 285,882
Total Uses	$8,977,500	

Rehabilitation funding came from a Community Development Block Grant. Over $250,000 was spent on accessibility features in the units and common areas. All other monies spent were focused on the interior of the units for appliances, cabinets, flooring, furnaces, and plumbing fixtures.

Sponsor provided financing consisted of contributions from area corporations supporting the Not-For-Profit entity. A consortium of local financial institutions made the first and second mortgage loans with very favorable financing terms.

The average per unit cost, including acquisition and rehabilitation was $36,494. The owner has made a commitment to spend $250,000 per year on property improvements going forward.

Example #4 – Preservation of 178 units of WHEDA financed Section 8 elderly housing located in 10 Wisconsin communities.

The acquisition of 178 housing units by a Not-For-Profit whose mission is to preserve affordable rental housing in the State of Wisconsin. This property was the first project based Section 8 property in the country and is approaching the expiration of its Section 8 contract. There are 168 one-bedroom apartments with one two-bedroom apartment at each of the 10 sites. Contract rents are significantly higher than the Fair Market Rents in the rural communities where the buildings are located.

Sources of Funds:

WHEDA – Existing Debt		$1,242,020
WHEDA – Second Mortgage		$1,800,000
Federal Home Loan Bank		$ 240,000
Total Sources	$3,282,020	

Uses of Funds:

Property Acquisition		$2,442,020
Soft Costs		$ 140,000
Reserves		$ 700,000
Total Uses	$3,282,020	

The total cost per unit of this acquisition was $18,438. The Not-For-Profit owner intends to continue to offer affordable rents to existing and future residents after expiration of the existing HAP contract.