**2018 4% Federal and State Housing Tax Credit Program**

FAQs and Guidance

Updated: June 14, 2018

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This document will be updated weekly through late-June 2018 – please check our web site for updated FAQs and guidance.

## Application Process

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

B. What changes have been made for the new state 4% tax credit
   - In May of 2018, WHEDA's Member's Loan Committee approved a modification to the 2017/2018 QAP which describes the process for the new 4% state tax credit
   - That modification to the 2017/2018 QAP can be found on https://www.wheda.com/LIHTC/2018-program/.

C. When will application materials be available, and when is the application deadline?
   - The online application (LOLA) is currently available for use
   - At this time, LOLA does not accommodate requests for state tax credits. Applicants should complete the LOLA application for their federal tax credit request (as has been done for many years). WHEDA has created a state tax credit Excel application attachment (available on www.wheda.com) that will calculate state tax credit equity, total rental income for low income units at 70% or 80% CMI and other calculations required for the state tax credit. Applicants will be required to submit an electronic and printed copy of that Excel file with their other application materials.
   - The application deadline is 5:00 PM on Friday, June 29th.

D. What should applicants use for permanent loan terms/rates in their 2018 4% tax credit application?
   - Use WHEDA's Tax-Exempt Financing rate on the date the tax credit application is submitted.
   - Rates can be found on https://www.wheda.com/Financing/Rates/.

E. Management Agent Certification process
   - o Management agent certification forms are available on [www.wheda.com](http://www.wheda.com)
   - o Management Agent who were certified for the 2018 9% tax credit round will be accepted for the 2018 4% round
   - o Those management agents that have not yet been approved for 2018 must submit certification forms no later than June 1, 2018. WHEDA will complete the review of the submitted materials by June 15, 2018.

F. WHEDA will continue to require that a minimum of 85% of projected funding sources be ‘committed’ at the time of application. For the purposes of this requirement, ‘committed’ funding sources include the following:
   - o The permanent loan amount based on WHEDA’s Tax-Exempt Financing terms on the date of application (the applicant may use other terms if a term-specific, executed financing commitment accompanies the tax credit application)
      - ▪ Properties intending to include some short-term tax-exempt bond debt for construction should use a rate of 3.75% (term of 24 months or less)
      - ▪ Preservation Plus funding cannot be utilized with the 4% federal and state housing tax credit
   - o Other loans or grants with a firm commitment from the lender/grantor/government entity – identifying amount, interest rate, term, and amortization
   - o Historic tax credit equity (with a Letter of Intent from the Syndicator/Investor)
   - o The tax credit equity amounts calculated in LOLA
      - ▪ An LOI is not required if your tax credit application pricing assumption is within the range noted below
   - o Flow of funds expectation for WHEDA-financed properties
      - ▪ WHEDA Long Term Tax Exempt Bonds
      - ▪ WHEDA Short Term Tax Exempt Bonds (If applicable)
      - ▪ WHEDA subordinate debt source(s)
      - ▪ All Non-WHEDA sources

G. Developer-Financed TIFs
   - o Include the full amount of the property taxes on the Operating Expense page in LOLA
   - o Include the reimbursement of tax payments to the property as another source of income on the Cash Flow page in LOLA
   - o The amount of the TIF loan will be equal to 90% of the present value of the annual property tax reimbursement, discounted by the current WHEDA Tax-Exempt Financing rate for the duration of the property tax reimbursement
      - ▪ The applicant may use other terms if a term-specific, executed financing commitment accompanies the tax credit application
   - o Applications which follow the steps above will be allowed to include the TIF loan as a committed source for the 85% requirement noted in item E above

H. Subordinate Financing

- WHEDA intends to make subordinate financing available for 2018 4% tax credit transactions - in specific geographic areas
- Repayment of the loans will be made from available cash flow from operations
- Subordinate loans will not be provided for properties with locally-issued or privately-placed tax-exempt bonds
- Subordinate loans will have an expected rate of 2.5% (rural areas) and 3.0% (southeast Wisconsin), with a term of 17 years (two years interest only). Minimum total DCR on all debt of 1.05.
- Eligible areas
  - Rural areas
    - Properties located in areas meeting (a) USDA's Rural Development Property Eligibility Criteria, (b) the Census Bureau definition of non-metropolitan counties
      - see maps: USDA RD-Eligible and Nonmetro Counties
    - Sizing: No more than $1 of subordinate loan proceeds for every $6 of permanent tax-exempt bond debt
    - The total 2018 subordinate loan pool for nonmetropolitan counties will be limited to $2 million
  - Southeast Wisconsin
    - Defined as any property in:
      - Kenosha County
      - Racine County
      - The Milwaukee County communities of Franklin, Oak Creek, Hales Corners, Greenfield, Greendale, St, Francis, Cudahy and South Milwaukee.
      - The Waukesha County communities of Big Bend, Muskego, New Berlin, the Village of Mukwanago and the Town of Vernon
      - Note: All Walworth County communities are eligible for the Rural subordinate debt option described above
    - Sizing: No more than $1 of subordinate loan proceeds for every $10 of permanent tax-exempt bond debt
    - Total 2018 subordinate loan pool for Southeast Wisconsin will be limited to $3 million
    - Limited to new construction of non age-restricted housing
- Subordinate debt payments to be made after annual investor fee, but before deferred developer fee
- Applicants requesting subordinate debt must request the full 20% developer fee available to 4% transactions, with a minimum of one-half of the fee deferred (see Developer Fee Policy later in this document).
- Applications which follow the steps above will be allowed to include the subordinate loan as a committed source for the 85% requirement noted in item E above
- For scattered-site properties in which some, but not all, of the sites qualify for subordinate debt – the subordinate debt amount will be based on the percentage of the sites within the qualifying subordinate debt target area

I. What is WHEDA's 2018 QCT, DDA and HFA Basis Boost policy?
   - Section 9.a. of the 2017-2018 Qualified Allocation Plan (QAP) refers to an annual publication of WHEDA's QCT, DDA and HFA basis boost policy.
   - Eligible 4% tax credit applications may request a 30% QCT or DDA basis boost – the HFA basis boost is not available for 4% tax credit applications

J. What should applicants use for credit pricing assumptions in their 2018 applications?
   - 2018 tax credit applications should include a tax credit sale price of $0.84 – $0.92 for federal credits, and a sale price of $0.60 - $0.68 for state credits.

K. Operating Expense Ranges
   - WHEDA has revised the expected operating expense ranges for family properties and single family home/duplex properties for the 2018 application:
     - Elderly: $365 to $450
     - Family: $440 to $540
     - Single Family Homes/Duplexes: $475 to $550

L. *UPDATED* Market Studies, Capital Needs Assessments and Appraisals
   - WHEDA will accept supporting materials that have been completed within the following time-frames:
     - Market Studies
       - Studies will be considered "stale" after 6 months, but may be updated by the provider to meet requirements
       - Studies over 12 months old will not be accepted
     - Capital Needs Assessments
       - Completion Date within the past 24 months
     - Appraisals
       - Date of Report must be within the past six months
   - If a developer is re-submitting an application from the 2018 9% tax credit round, WHEDA will allow market studies and appraisals from the original 9% application to be submitted with the 4% application – if the Unit Mix is the same in original 9% application and the new 4% application.

M. Qualified Census Tracts and Difficult Development Areas
   - On September 11, 2017, HUD revised the lists of Qualified Census Tracts (QCTs) and Difficult Development Areas (DDAs). The revised QCTs and DDAs were effective on January 1, 2018.
   - The current list of QCTs and DDAs can be found within 2018 Appendix E on https://www.wheda.com/LIHTC/2018-Appendices/

N. Developer Fees
   - WHEDA's Developer Fee Policy (found within Appendix J on https://www.wheda.com/LIHTC/2018-Appendices/) contains provisions that specifically apply to 4% tax credit applications – those provisions will be followed for the 2018 4% tax credit round
   - The proposed cash flow model for the property must show that the deferred developer fee is repaid during the 15-year tax credit compliance period

O. Income Averaging
   - The Consolidated Appropriations Act of 2018 created a third minimum set-aside option for tax credit properties. In addition to the existing options to set-aside a minimum of 20% of units for households at or below 50% of County Median Income or a minimum of 40% of units for households at or below 60% of County Median Income, the Internal Revenue Code now allows an option to set-aside a minimum of 40% of units for households with an average income of no more than 60% of CMI. The new provision allows households as high as 80% CMI to qualify as a low-income household. WHEDA will accept 4% federal and state tax credit applications that include low income units from 20% CMI to 80% CMI, provided that the average does not exceed 60% of CMI
   - Applications electing the Income Averaging option must be 100% low-income properties. Properties with market rate units will be required to select the 20% @ 50% CMI or 40% at 60% CMI set-aside option.

**Scoring Categories & Requirements**

A. Minimum Score for 4% Applications
   - Properties located in areas meeting (a) USDA's Rural Development Property Eligibility Criteria, (b) the Census Bureau definition of non-metropolitan counties, and (c) located within a Treasury-designated Opportunity Zones will be required to score a minimum of 110 points
   - Properties located in areas meeting (a) USDA's Rural Development Property Eligibility Criteria, (b) the Census Bureau definition of non-metropolitan counties will be required to score a minimum of 120 points
   - Properties located in areas meeting USDA's Rural Development Property Eligibility Criteria will be required to score a minimum of 130 points
   - Properties outside of the cities of Milwaukee and Madison that do not meet any of the previous criteria will be required to score a minimum of 140 points
   - Properties in the cities of Milwaukee and Madison will be required to score a minimum of 155 points

B. Scoring Changes for the 2018 4% application round
   - WHEDA has modified a handful of scoring categories for the 4% tax credit application round – a description of the changes can be found in the document linked in section B of *Application Process* on the first page of this document

C. How does WHEDA define the start point and measure distance in scoring categories that reference distances?
   - Applicants may use any outside boundary of the site(s) as the starting point. The distance is measured as linear distances "as the crow flies", not driving or walking distance. To measure the distance of a path or route between two points, Google Maps offers a distance calculator tool.

D. I'm requesting points for Serves Large Families (scoring category 4), can my property contain senior units?
    - Yes. The requirement for the scoring category include the following: "the market study and the LIHTC application must clearly identify the development as "Family" to claim points". If the property includes family units located in a separate building (or buildings) on the same site as elderly units, the market study will not be required to identify the development as a "Family" property.
    - The elderly and family units are expected to be in separate buildings, rather than a condo structure that divides one building into a family condo and an elderly condo

E. Can I request points for a 50% CMI three-bedroom unit that has a subsidy such as project-based vouchers, NAHASDA, etc.?
    - Yes. The units must be shown as a 50% CMI unit on the Unit Mix page, and if an award is made, the LURA will reflect those units as 50% CMI units

F. Readiness to Proceed (category 12)
    - WHEDA will award an additional 20 points for applications that include evidence that all items on the Credit Award Checklist (with the exception of the loans funded with tax-exempt bonds) have been completed. A copy of the Credit Award Checklist can be found on https://www.wheda.com/Forms/LIHTC/. Evidence of all items on the checklist – with the exception of the tax exempt bond commitment – must be provided with the application.

G. Do rehab units need to meet the minimum unit square footage requirement in the Credit Usage scoring category (scoring category 13)?
    - The Credit Usage scoring category includes minimum unit sizes for tax credit properties in the 2018 cycle. Rehab of existing residential units will not be subject to the minimum unit size requirement.

H. I'm considering submitting a new construction or adaptive reuse application for a property that contains a variety of sizes for 1-BR and 2-BR units. Does every unit need to meet the minimum unit square footage requirement in the Credit Usage scoring category (scoring category 13)?
    - No, each unit does not need to meet the minimum square footage requirement, but the average unit size must meet the minimum square footage for 1-BR and 2-BR units listed in scoring category 13

I. My application may have scattered sites. How do I score this in Opportunity Zones (category 14) or other location-based scoring categories?
    - At least two-thirds of the sites must meet the scoring criteria to qualify for points.

J. Can an elderly property score points in Opportunity Zones (scoring category 14)?
    - Yes, elderly properties are allowed to score points in this category

K. I'm applying for tax credits, and my property is neither 100% family nor 100% senior – how do I request points for Access to services and amenities in the Opportunity Zones category (scoring category 14)?
    - The points available for Access to services and amenities is not identical for senior and family/supportive properties. Applications containing more than 50% senior units will

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

L. Is property-wide Wi-Fi eligible for points in the Opportunity Zones category (scoring category 14)?
   - Property-wide Wi-Fi is allowable for acquisition/rehab properties.
   - New construction and adaptive reuse must provide hard-wired in-unit internet access to be eligible for points in the *On-Site Services and Amenities* portion of this category.

**Set-Asides**

A. There are no credit set-asides for the $7 million of state tax credits available in 2018.

**Other Items**

A. Some 4% state and federal HTC application may also be intending to submit an FHLB-AHP application in June 2018. For WHEDA to issue a "confirmation of intent to issue bonds", a complete loan application and loan application fee must be submitted to WHEDA no later than Friday, June 8th. As this date is before the tax credit application deadline, a loan addendum (typically submitted with a tax credit application) will not be sufficient – a complete loan application is required.

B. *UPDATED* Developer Fee. 4% applications may request a developer fee of up to 20%, provided that a minimum of one-half is deferred. In those cases in which deferred fee equal to one-half of the 20% total fee cannot be repaid from cash flow within 15 years, the deferred fee should be reduced to an amount that can be repaid within 15 years – this will likely require that an applicant request a total developer fee of less than 20%.