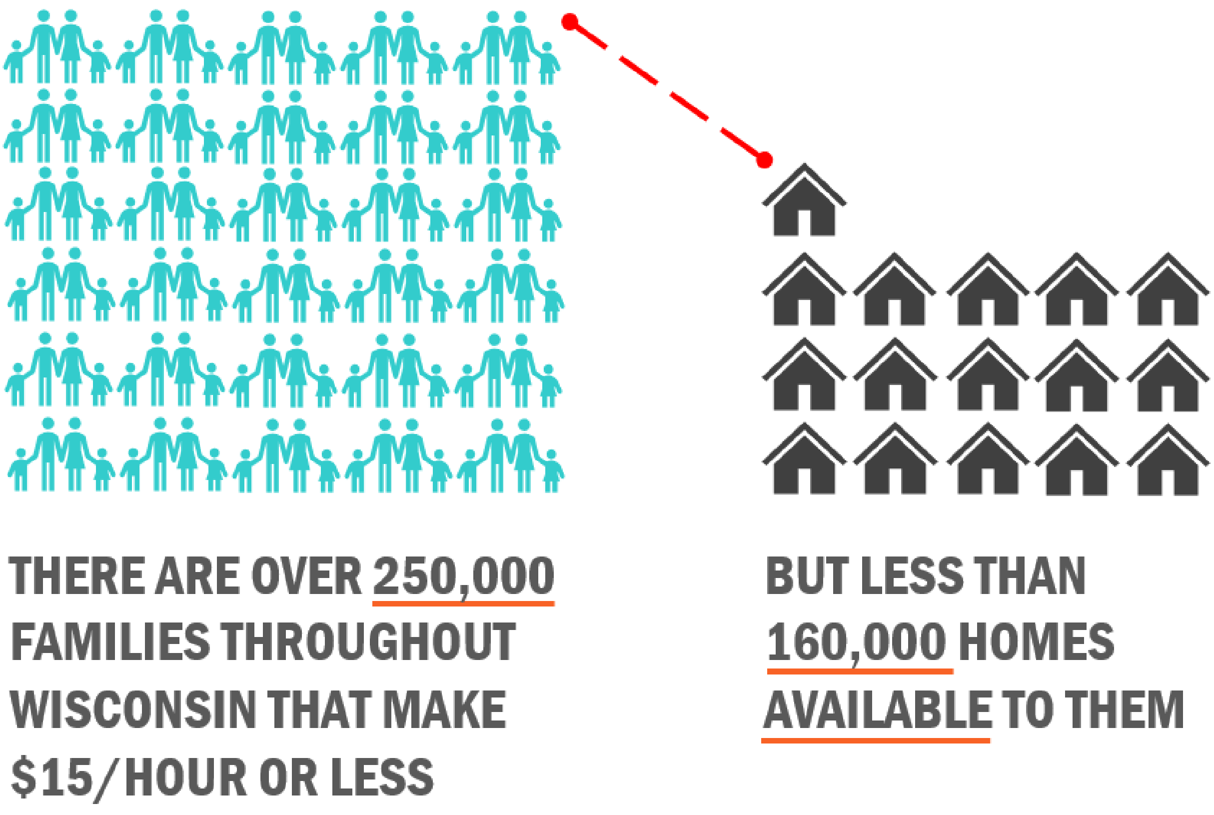
MEMORANDUM

TO: Emily Francis, Tax Credit Program Manager
Wisconsin Housing & Economic Development Authority (WHEDA)
FROM: Community Development Alliance (CDA)
RE: QAP Changes for Working Families Making $15 per Hour
DATE: April 26, 2022

Together we can close the gap of the 90,000 working families in Wisconsin without available housing by ensuring that 90% of WHEDA rental resources go to these families. We need to act now because there are 250,000 working families in Wisconsin that are making $15/hour or less,[1] but only 160,000 rental homes available to them.[2] These families represent 100% of the demand for WHEDA rental resources,[3] but 80% of the resources are allocated toward higher income families.[4] Please allocate 90% of WHEDA rental resources to the 90,000 working families without available affordable housing ("90 for 90,000"). When housing is available to all Wisconsinites, families are more stable, and Wisconsin is stronger.



WHEDA QAP SCORE CARD

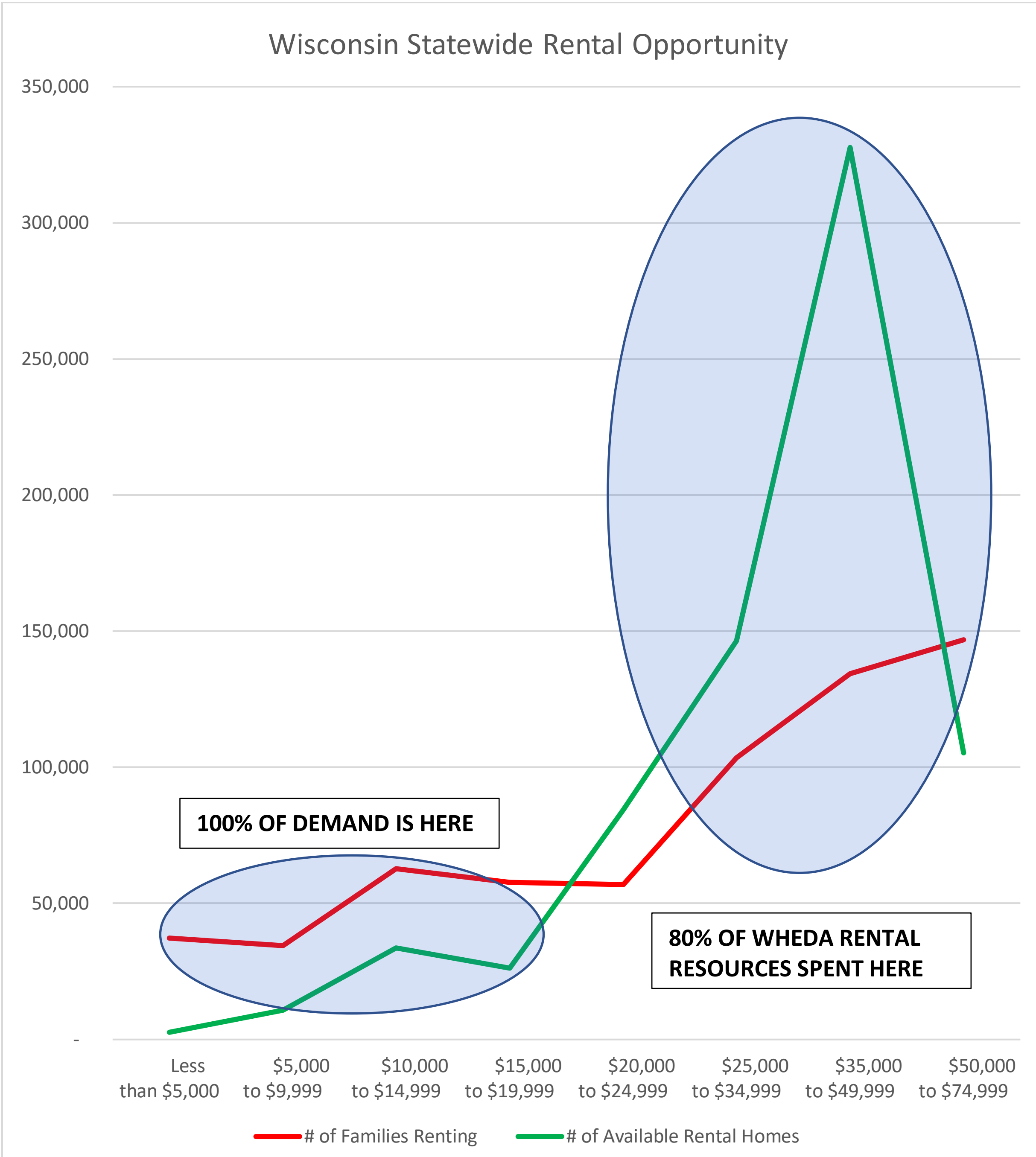
WHEDA could make 90% of resources available for where 100% of the demand is by making the following changes which are further detailed in this memo.

	Existing QAP	New QAP
Primary Issues		
Remove Scoring Penalty for Workforce Housing (i.e. $650/month)		
Remove Credit Penalty for Workforce Housing (i.e. $650/month)		
Additional Issues		
Remove Single Family Home Cap		
Remove Single Family Home Penalty		
Remove New Construction Penalty		
Remove Duplex Penalty		
Focus Category 5 on demand for Workforce Housing (i.e. $650/month)		
Focus Category 13 on demand for Workforce Housing (i.e. $650/month)		
Modernize Market Rate Calculation		
Modernize Credit Utilization Calculation		
Remove Charter School Penalty		
Publish Unit Mix Data		
Modernize Debt-to-Income Calculation		
Results		
Match Rental Resources to Statewide Demand (i.e. "90 for 90,000")		

We have a once in a lifetime opportunity to serve working families in Wisconsin. The allocation of American Recovery Plan Act (ARPA) dollars into the housing ecosystem allows us to create new ways of building affordable housing, and systems that will produce affordable housing long beyond the 3-year ARPA window. These opportunities, however, will be lost unless the Qualified Allocation Plan (QAP) is modernized to support working families. Despite overwhelming statewide data illustrating the need of families making $15/hour, the current QAP is structured so that 80% of the resources are used for families making well above $15/hour (see Figure 1.0). **It is time to be bold and reprioritize the QAP to serve working families.**

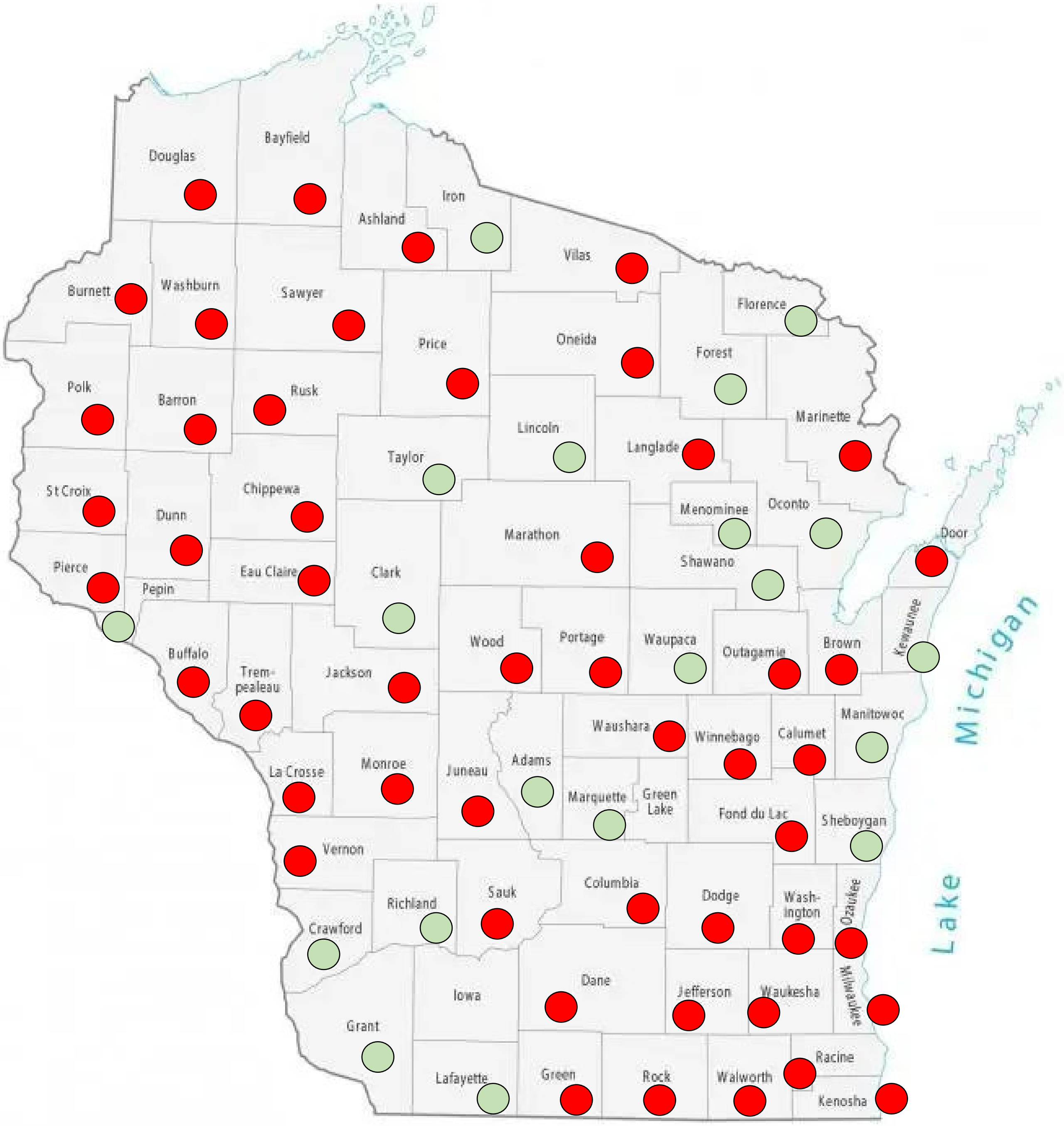
Recent data shows that the average rent throughout Wisconsin is $856 per month, which is unaffordable to over 250,000 Wisconsin families that are making $15/hour or less.[5] These families are spread out in 51 of Wisconsin's 72 Counties (see Figure 2.0). The appropriate rent for families that are making $15/hour is $650 or less per month.[6] Despite a demand for these rental homes created by these 250,000 families, there are only 160,000 of these rental homes available throughout the state,[7] resulting in a shortage of 90,000 affordable rental homes.

Figure 1.0 – Income compared to available units



Source: Census Data 2019 ACS 1-year Average: Table B25118 Tenure by Household Income, and Table B25063 Gross Rent.

Figure 2.0 – Geographic Distribution of Need



Families making less than $15/hour **>** Available units to rent at $650/month

Families making less than $15/hour **<** Available units to rent at $650/month

Source: Census Data 2019 ACS 5-year Average: Table B25118 Tenure by Household Income, and Table B25063 Gross Rent.

<u>The most expeditious and equitable way to serve working families would be to give full points in Scoring Category 10 to developments that have 80% or more of homes with rents that are less than $650/month</u>. Below is a detailed list of additional systematic barriers in the QAP that are a barrier to producing the 90,000 affordable rental homes that are needed for families making $15/hour or less.

1. *<u>Category 10 – Financial Leverage</u>*. The goal of Category 10 is honorable as it attempts to limit the Housing Tax Credit (HTC) that is allocated to any one project, so that credits can be spread among a broader number of projects. Unfortunately, the net result is more units that are renting at $800 - $1,000 per month, and less units that are renting at $400 - $650 per month. Without this category, a typical allocation for a $10 million would be as follows (See Figure 1.1). A $10 million project that receives a 9% credit would be allocated a $900,000 annual tax credit for 10 years, or $9 million in tax credits. These tax credits are then sold to investors. The current price is around $0.85 per credit, which in this example would result in $7,650,000 of equity.

Figure 1.1 - Standard LIHTC Calculation

Total Project Costs		$	10,000,000
LIHTC Percentage	x		9%
Annual LIHTC		$	900,000
Number of Years	x		10
Total LIHTC		$	9,000,000
Price per Credit	x	$	0.85
Total Equity		$	7,650,000

Many communities that serve families making $15/hour or less are located in a Qualified Census Tract (QCT), and under federal rules a QCT entitles those areas to an additional 30% of credits. If the $10 million project described above is in a QCT the allocation would result in 30% more credits ($2,700,000 additional credits over 10 years) and about 25% more equity ($2,295,000 additional equity). See Figure 1.2 for more details.

Figure 1.2 - QCT LIHTC Calculation

Total Project Costs		$	10,000,000
LIHTC Percentage	x		9%
Annual LIHTC		$	900,000
Number of Years	x		10
Total LIHTC		$	9,000,000
30% Bonus for QCT	+		30%
LIHTC After Bonus		$	11,700,000
Price per Credit	x	$	0.85
Total Equity		$	9,945,000

This federal entitlement, however, is obliterated by the inclusion of scoring Category 10 (“Credit Penalty for Workforce Housing (i.e. $650/Month)”). The point criteria for Category 10 is listed in Figure 1.3. Most developments in the 9% set aside need to score at least 30 of the points available in this category,[8] which would mean that the credit percentage would have to be 59% or lower.[9] In our $10 million example, this would have a large impact on the equity calculation (See Figure 1.3). Instead of receiving $11,127,000 of credits over 10 years if project were in a QCT, it would have to self-select down to $6,903,000 of credits over 10 years. This would mean a loss of $4,077,450 in equity.

Figure 1.3 - Category 10 Loss

Total Project Costs		$10,000,000
LIHTC Percentage	x	9%
Annual LIHTC		$900,000
Number of Years	x	10
Total LIHTC		$9,000,000
30% Bonus for QCT	+	30%
LIHTC After Bonus		$11,700,000
Multiplier for Category 10	x	59%
LIHTC After Category 10		$6,903,000
Price per Credit	x	$0.85
Total Equity		$5,867,550

There are several ways for a proposal to compete and be viable even when loosing 30% of its equity. All of these strategies, however, are counter to the goal of maximizing the number of units that are affordable to families making $15/hour or less. One strategy that is being deployed by developers is to request local resources. Again, on its face this not a bad outcome, however in communities that serve families making $15/hour or less it means that these resources are tapped out because the non-HTC subsidy per unit is extremely large at $62,000 per unit to replace the lost equity.

Another strategy is to include higher income units (and even market rate units) and borrow more money. A unit charging $400 per month does not allow for any mortgage to be taken out. But change that unit to an eligible unit that charges $1,000 a month for rent, and you now have an additional $600 per unit per month to pay a mortgage. In our $10 million example, if 80% of the units were converted in this way a $4.3 million mortgage could be afforded, wiping out the gap, but making the units no longer affordable for families making less than $12/hour. Income integration is an honorable goal, but would be better achieved by the location of affordable units in market rate communities; not over subsidizing units serving families with higher incomes.

In reviewing changes to scoring Category 10 there are three additional policy considerations that should be addressed. First, it appears that market rate units are included in the calculation of total development cost, artificially bringing down the credit usage calculation. Second, the Annualized Adjustment Factor used in the calculation is the same for State and Federal Credits, even though the State Credit is lower pricing and for less years. This artificially penalizes projects utilizing the 4% state credit. Finally, there are different calculations for Rural Projects, presumably because projects are harder to do because of low rents. If low rents are the policy driver, then this favorable calculation should be extended to projects across the state that are also achieving low rents. **("Modernize Credit Utilization Calculation")**

There are several equitable ways to administer this category. **The most expeditious and equitable way to do this would be to give full points in Scoring Category 10 to developments that have 80% or more of rental homes with rents that are below $650/month with landlord paid utility allowances.** An alternative would be to give full points to projects that have both 50% or more units that are at 30% AMI, and 30% of units that are at 40% AMI. Another option would be to create a different credit multiplier to rental homes renting at $650/month vs. $800/month or higher. Also, the same multiplier for rural developments could be applied to all hard to develop locations across the state. Also, state credits could be removed from the calculation, or at least a multiplier should be applied reflecting the difference between the 6-year state credit and the 10-year federal credit. Finally, market rate units could be taken out of the calculation. **Although the additional options would be helpful, only the full points option, without credit reduction, would have a meaningful impact on meeting the demand for units serving 30%-40% AMI. ("Remove Scoring Penalty for Workforce Housing (i.e. $650 per Month)")**

2. *Category 5 – Serves Lowest Income Residents*. This is perhaps the most beneficial category in the QAP for serving families earning less than $15/hour. It is the largest point category at 60 points. The category, however, could benefit from 2 major improvements. The first is that the category currently allows for 50% AMI units to gain points. In most areas of the state that means rents for a 3-bedroom rental home would be above $730, which is affordable only to families making $18/hour or higher, and far above the target range of $650 per month in rent or less. The second is that you can easily get the points with less than half of your units being less than 60% AMI. This category could be more equitable if it did not allow points for 50% units, and only allowed maximum points if 80% of rental homes in the project serve families earning less than $15 per hour. **("Focus Category 5 on demand for Workforce Housing (i.e. $650/month)")**

3. *Category 2 – Mixed Income*. Again, the goal of this category is honorable. There are dozens of studies that support that low-income families do better when they are in market rate neighborhoods. It is unclear, however, if this scoring category is having that impact. Based on stakeholder input it could also be having a negative impact on lower-income neighborhoods by artificially increasing the rent and causing gentrification. For example,

the scoring category gives up to 12 points if you have up to 15% of market rate units. But the category also requires that a market rate unit be rented out for “at least 5% greater than the 60% CMI gross rent limit,” which for most areas in Wisconsin is $964/month.[10] This is above the affordability for many people living in Wisconsin neighborhoods where these projects are located. Also, data on the actual income of tenants is not tracked in the aggregate, so it may be likely that these units are not attracting higher income family, but rather forcing a lower income family to pay a higher rent; either out of their own pocket or with housing vouchers that are no longer available for new units. A more equitable way to handle this category would be to allow scoring based on the market rate for the neighborhood project is located in, not the market of the entire county. If the market rate in the neighborhood still qualifies for LIHTC they should not be penalized. **(“Modernize Market Rate Calculation”)**

4. _Category 8 – Neighborhood Stabilization_. With a few tweaks this could be a very valuable category for serving families earning less than $15/hour. This category gives 20 points to rehab and new construction scattered site projects. The primary limitation is that taking points in this category excludes the applicant from taking points in Category 13 – Areas of Economic Opportunity, which is worth 28 points. Another, limitations include the limitation of 1 project per city per year. Finally, there is a limitation that half of the units must be reconstruction. The reconstruction requirement is becoming more and more obsolete as the number of available tax foreclosures are dwindling in most communities.

   Single family homes are attractive to renters and provide long term homeownership options. A more equitable way to handle this category would be to have it be additive, not subtractive from Category 13, eliminate the reconstruction requirement **(“New Construction Penalty”)**, and remove the 1 project requirement (and **“Single Family Home Cap”)**, provided of course, the resulting units are affordable to families making $15/hour or less.

5. _Category 9 - Universal Design._ This category is welcomed by our stakeholders, but again could be achieved more equitably. Single family homes and duplexes represent a valuable strategy. However, these projects are not allowed to achieve the maximum score even if they are completely accessible, because receiving a full score requires an apartment building with common areas. A more equitable way to handle this category would be to rebalance the points so that it is feasible to gain the maximum points with a single family or duplex project. **(“Single Family Home Penalty”)**

6. *Category 11 - Eventual Tenant Ownership.* This category is also welcomed as a strategy to house families making less than $15/hour. The category, however, requires 50% of the units to be single family. As we work to solving the affordable housing crisis in Wisconsin, we are going to need more dense options. A more equitable way to handle this category would be to allow for duplexes and townhomes to be included, both as a homeownership opportunity for each unit, or for one of the units with the other remaining low-income rental long term. This would provide lower construction per unit costs. In the future, multi-family should be considered as a homeownership option as well. **("Duplex Penalty")**

7. *Category 13 – Areas of Economic Opportunity*. Currently, neighborhoods with the highest number of families making less than $15 per hour are not able to reach maximum points in this category for two reasons. First, there are 5 points awarded for developing in census tracts at/or above 120% of the County Median Income. For many areas that means a census tract where the average income is $29/hour. For communities doing this well economically, rarely do they have neglected properties. This means that acquisition and replacement costs make projects expensive, and less likely to include units that serve families making less than $15/hour.

   Note, that there is not a requirement to get these points that the units offered are affordable for families earning less than $15/hour. Thus, a unit with $1,000 in rent in a high-income area is seen as providing more economic opportunity than a $650 unit in a neighborhood that is a 10-minute commute from thousands of jobs.

   The second limitation is that there are 5 points offered for communities with a school district in the top 25% of Overall Accountability Score **("Charter School Penalty").** Although many communities do not meet this from a public-school standpoint, in many communities most kids may attend a private or charter school that does.

   A more equitable way to administer this category would be to (a) only allow for neighborhoods with 120% County Median income if the units are below $650 in rent; and (b) allow points for any school district that has a public or charter school in the top 25% within 20 miles of the project. **("Focus Category 5 on demand for Workforce Housing (i.e. $650/month)")**

8. *Other QAP Issues*. There are a few other areas that would support families earning less than $15/hour. First, the unit mix and rents for every project going forward should be part of the information that is released to the public for tracking purposes **("Publish unit mix data")**. Second, with units serving families at $15/hour there is only minimum debt that can be supported. With mandatory expense inflation of 3% and Income of 2% annually, there

needs to be an extraordinarily high debt to income ratio in year 1 –sometimes higher than 5.0—to hit a 1.2 in year 15. This should be accommodated for in the application. **("Modernize Debt to Income Calculation")**

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[1] 2019 Census Data American Community Survey (ACS) 1-Year Estimate Table B25118 Tenure by household Income. Tabulation of income categories of families making less than $25,000. 2019 Census Data used in lieu of 2020 data given reported issues with 2020 ACS data related to pandemic.

[2] 2019 Census Data ACS 1-Year Estimate Table B25063 Gross Rent. Tabulation of rental units with gross rent of less than $650, which is what is deemed affordable for a family making $25,000 by federal housing standards (e.g. 30% of income or less on housing costs).

[3] See Figure 1.

[4] 2020 Housing Tax Credit Results – Federal 9% Program, Slide 21 (Sept. 2020) available at 2020-925-htc-results.pdf (wheda.com).

[5] Supra note 1.

[6] Supra note 2.

[7] Id.

[8] Supra Note 4.

[9] Scoring for each successful applicant is not publicly available. Based on an average cost of $200,000 per unit total development cost, it appears that every development in the general and non-profit-set-aside scored in this category, with an average credit usage of 69%.

[10] See rent limits at 2021Sec42IncLimits-PDF.xlsx (wheda.com). See Utility allowance at 2020-utility-allowance.pdf (wheda.com). For a 3-bedroom unit in Milwaukee County, rent limit for 60% AMI unit is $1,317, and utility allowance is $202.