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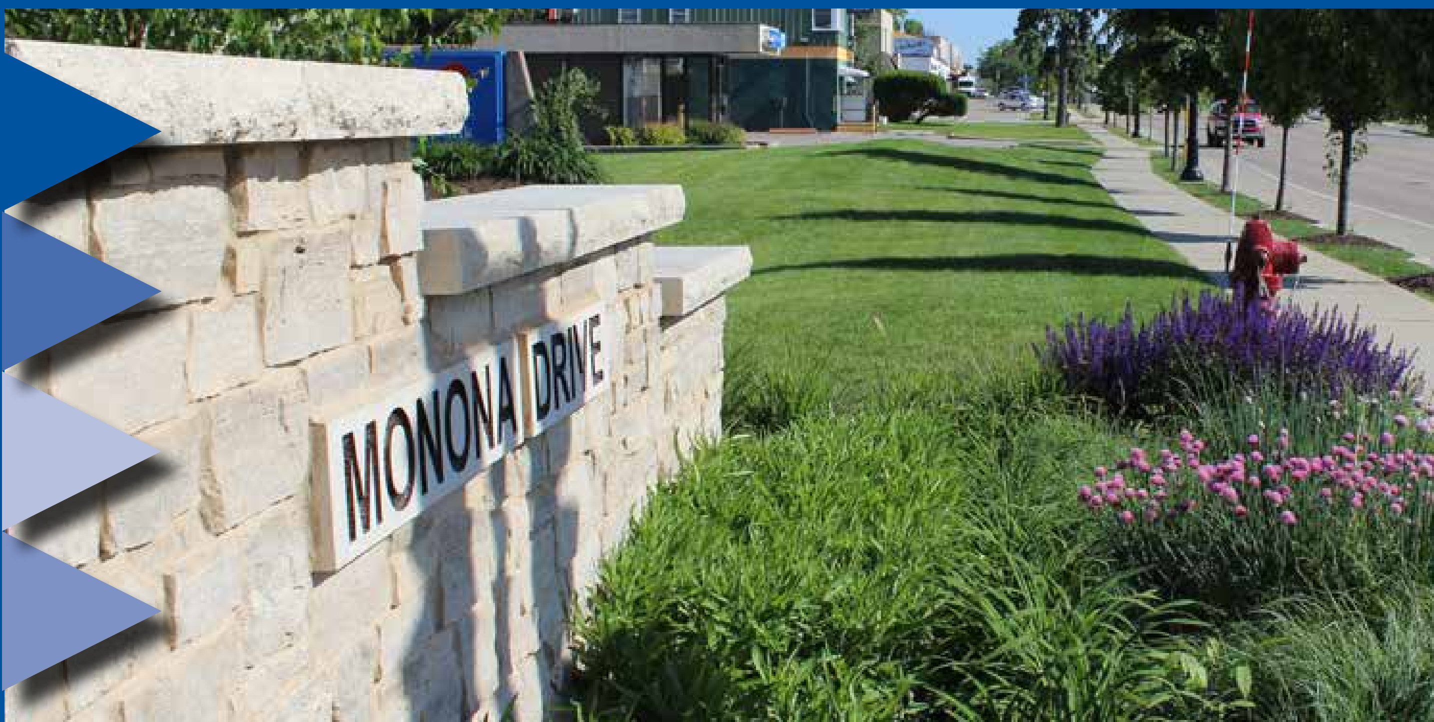
FINANCING OPTIONS TO ACHIEVE HOUSING GOALS



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URBAN AND REGIONAL PLANNING 844: HOUSING & PUBLIC POLICY

SPRING 2017

UNIVERCITY BETTER PLACES TOGETHER

MONONA

June 9, 2017

Supplement to "Draft Strategic Housing Plan Update": Renew Monona Evaluation and Possible Uses of TID 2 Affordable Housing Extension Amendment.[1]

Prepared for: City of Monona Plan Commission and City of Monona Community Development Authority.

The purpose of this report is to build on our previous "Draft Strategic Housing Plan Update" with additional information and recommendations regarding the "Renew Monona" loan program as well as the "Affordable Housing TIF Extension" for the soon-closing TID #2 in 2018.

Evaluation of Renew Monona Loan Program.

The Renew Monona loan program was created in 2010 as a result of Monona's 1-year extension of TID 3 under the "Affordable housing amendment." For this section, we reviewed application and loan information since 2010. Our purpose was to evaluate how the loans were used as well as the proposed improvements for loans which were not be funded.

When a homeowner wishes to undertake home improvements or remodeling activities under Renew Monona, they must submit an application to the city describing the upgrades they intend to make. Applicants are not required to submit a qualified bid from a contractor to show the likely cost of the improvements.

Program guidelines indicate that loan funds may be used to upgrade home systems such as electrical, plumbing, or mechanical; for window replacement or energy-efficiency enhancements such as insulation. Funds may be used to increase living space through remodeling or additions, or for the construction of a garage. Funds may not be used to replace or maintain home components regularly expected to be replaced periodically, such as roofing, fixtures, or water heaters.

When an applicant submits a request for loan funds within a specific round of funding, those applications are scored by city staff and members of the CDA. In each of the application periods we reviewed, more applicants requested funds than could be funded.

If a homeowner scores high enough on the scoring rubric, they are offered a loan up to $10,000 or 50 percent of the estimated project costs, whichever is less. If the loan is executed, the homeowner and the city record a promissory note as with any other mortgage. The Renew Monona loan is considered a "second" mortgage on the property. The term of the loan is 10 years, and a 0% interest rate is charged for the life of the loan. The entire loan amount is paid off when the house is sold, the primary mortgage is refinanced, or the 10 year term expires. This structure of a 0% interest loan that must be repaid after 10 years is a common type of loan structure for home improvement loans funded by municipalities.

The requirement that only 50 percent of the improvement costs be funded by Renew Monona loans requires the homeowner to contribute additional monies from savings or to seek additional loan

[1] This report was prepared by students and faculty from the class Urban and Regional Planning 844: Housing and Public Policy as part of the UniverCity Program between UW Madison and the City of Monona. It builds upon the work of the URPL Workshop report prepared in December 2016. The professor/advisor was Kurt Paulsen and the students were: Anna Brunner, Elizabeth Doyle, Anna Feltham, Jocelyn Friedman, Tsung-Lun Hsu, Nicole Lehr, Emily Lutz, Ruanda McFerren, Matthew Miller, Ken Smith, Jake Swenson, Ryan Thompto, and Jessie Wright.

funds from financial institutions. As a city strategy, this is important because financial institutions exercise their own underwriting and monitoring of loan performance to make sure borrowers are credit-worthy and able to repay. If a homeowner is offered a Renew Monona loan but is unable to secure additional financing from a bank or credit union, they would likely refuse the Renew Monona loan. In this way, the city does not need to undertake the same level of credit underwriting because the financial institution has already done so.

Renew Monona Round One: (deadline in August 2010). The city received 17 applications requesting $116,165 reflecting total project costs of $261,550. The city ranked the applicants, and the first round funding was for loans totaling $34,550 on project costs of $84,740. Projects funded included: an addition and remodeled kitchen, insulation, new windows and doors, upgraded electrical systems, and decks. Of the 5 funded loans, 3 involved replacement of old windows with energy-efficient windows, 2 replaced doors with more energy efficient modern doors, and 1involved insulation of house walls.

Replacement of windows seemed to be the most popular Renew Monona activity in this round. Given that many of the houses in Monona were built in the 1950s, window replacements both add value to the house and improve its energy profile. From a city policy and strategy viewpoint, these investments pay returns in improved livability and affordability of the housing stock and improved property values.

Applications which were not funded proposed projects to replace windows with energy efficient windows (8 applications), add insulation/crack sealing (4 applications), electrical upgrades (3 applications), basement remodeling (2 applications). Some applications also requested funds for high-efficiency furnace upgrades.

Renew Monona Round Two: (deadline in April 2011). The city received 15 applications requesting $115,850 for projects totaling $307,949. The city was able to fund 5 loans totaling $46,000 for total projects costing $124,499. Of the 5 funded loans, 3 involved window replacements, 3 involved adding insulation, 2 involved replacing/adding siding, 2 involved adding/rebuilding an attached garage. Projects also included electrical upgrades, door replacement, and adding living space. 3 applicants in round two had previously submitted an application for round one, with 1 of those applicants receiving funding in round two.

As with round one, the most common improvement projects in applications which were not able to be funded focused on windows (5 applications), insulation (3 applications), adding rooms (3 applications), along with electrical upgrades, roof alterations, and various furnace/heating systems.

Renew Monona Round Three: (deadline in May 2012). The city received 7 applications for $42,500 for projects costing $124,300. The city was able to fund all of the applications for total loans of $37,500. Projects funded included replacing furnace with an energy-efficient one (3 applications), adding insulation (3 applications), adding living space (3 applications), electrical improvements (2 applications), as well as window replacement, plumbing improvements, and garages. 1 applicant who was denied funding in round two was funded in round three.

Renew Monona Round Four (deadline in May 2105). The city had $25,000 in funds available and received 29 applications requesting $228,833 in loans for projects totaling $772,850. The city was able to fund 3 loans, which involved adding living space (2 applications), and replacing windows (1 application.) There was no information available on improvement request areas for non-funded loans.

Observations:
- The large number of applications for the most recent round of funding (2015) indicates that there remains continued strong demand for these types of loan products.
- Although the program guidelines stated that "home components that are expected to be replaced periodically such as roofing, water heaters, and fixtures will not be funded," energy efficient furnaces were funded. Future program guidelines should be more specific about which home components are included.
- Compared to Rounds One and Two, Rounds Three and Four focused more on adding living space (remodeling/additions), and less on window replacements and energy enhancements (insulation, furnaces, etc.).

Evaluation: Scoring Rubric.
The scoring rubric for current Renew Monona loans contains 10 categories, each assigned up to 10 points. However, a number of the categories appear to represent threshold criteria rather than differential scoring categories. For example, criteria 1 states, "Proposed improvements follow what have been identified as eligible uses of program loan funds." It is unclear how an evaluator should score this other than 0 points for not eligible and 10 points for eligible. Likewise, criteria 9 states, "Applicant is in good financial standing and is a reliable candidate to meet the repayment terms of the loan." Again, this should be a threshold criteria rather than a scoring criteria.

We recommend that the scoring rubric be modified to include fewer scoring criteria. There should be a two-part scoring sheet. The first section should include threshold criteria (meets program criteria, financial standing of applicant). This area of the score sheet should rely on objective criteria, and indicate whether the application meets or does not meet the criteria. If an application does not meet threshold criteria, it should be disqualified and not scored.

For the scoring criteria, we recommend separate criteria of each of the three subcategories of Renew Monona described below (sustainability, upgrade, expansion). Criteria should focus on assessment of the need for the loan (current state of the house), the likely property value impact, the impact on neighborhood aesthetics, and the cost-effectiveness of the renovations. Based on our discussion below, we also recommend additional criteria: to what extent has the homeowner sought additional funds (loans, grants) from other sources; and what percent of total project costs would be covered by the loan.

As described in our draft update to the strategic housing plan, we did not find evidence to suggest that the city should target specific neighborhoods or areas of the city. Therefore, we recommend removing current criteria 4 ("…is in an area in need of improvements or is in an identified preference area.") The house price limit effect would appropriately target city resources. If the city did identify specific areas in need of improvement, they could conduct focused educational efforts in that area to make homeowners aware of the loan program.

Affordable housing amendment for TID 2.
As described in our draft strategic housing plan update, the City of Monona has indicated a potential interest in utilizing the "affordable housing amendment[2]" process for TID 2. According to the Wisconsin Department of Revenue TIF Manual (Section 2.2):

> **Affordable Housing Amendment**
> Under sec. 66.1105(6)(g), Wis. Stats., a TID that has paid off all of its project costs may extend their life by one year if:
> 1. the municipality adopts a resolution extending the life of the TID for a specified number of months[3] and specifies how they intend to improve its housing stock.
> 2. the municipality forwards a copy of the resolution to DOR.
> DOR will then authorize the allocation of tax increment for one additional year.

Wisconsin Statutes 66.1105(6)(g) describes how these additional tax increments may be used by the city: "the city shall use at least 75 percent of the increments received to benefit affordable housing in the city. The remaining portion of the increments shall be used by the city to improve the city's housing stock."

This law does not require that these increments be spend only in the TID which generates them, but rather can be spent in the city at large. Further, the only definition of "affordable housing" provided is "housing that costs a household no more than 30 percent of the household's gross monthly income."

Extension of TID 2 for one year would generate $1.6 million, of which $1.2 million must be spent to "benefit affordable housing" and $400,000 could be used to "improve the city's housing stock."

Definition of "affordable." The law can be construed in the broadest terms because neither "benefit" nor "affordable" are strictly defined.[4] However, we recommend that city policies consider specifying definitions of affordable consistent with other state and federal programs. Specifically, we recommend that the city consider directing funding to benefit households who make less than 80 percent of AMI (area median income). The city could implement this with strategic policy language referencing the determination of income limits for each fiscal year as reported by HUD and/or WHEDA.

The following table illustrates the current "income limits" for various federal and state programs for Fiscal Year 2017.

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[2] The process of extending the life of an expiring TID for one year and using the proceeds for housing is referred to as the "affordable housing amendment" by Wisconsin Dept. of Revenue "TIF Manual," Section 1.5
[3] This phrase could be construed to mean that the City could extend the life of the TID for fewer than 12 months.
[4] A graduate student in Urban Planning, Ms. Abby Jackson, wrote a research paper in 2015 where she surveyed a number of municipalities in Wisconsin which had used the "affordable housing extension" under TIF. Definitions of "benefit" and "affordable" were very inconsistent across municipalities.

Dane County FY 2017 Income Limits

	Persons in Family			
	1	**2**	**3**	**4**
Low Income Limits (80% of AMI)	$47,600	$54,400	$61,200	$68,000
Multifamily tax subsidy limits (60% of AMI)	$35,820	$40,920	$46,020	$51,120
Very Low Income Limits (50% of AMI)	$29,850	$34,100	$38,350	$42,600
Extremely Low Income Limits (30% of AMI)	$17,900	$20,450	$23,000	$25,550

Source: HUD, Office of Policy Development and Resesarch, Income Limits Briefing Materials, http://www.huduser.org/portal/datasets/il.html
Additional data are released for family sizes larger than 4, but are not reported here for space considerations.

Possible Uses of Funds.
Two important strategic principles should be adopted for use of these funds:

1. Leverage: to the maximum extent possible, funds should leverage additional funding sources from state, federal, county, private, and non-profit existing programs and should encourage partnership with financial institutions. The city should aim to be a contributing partner in funding projects, not the main source of finance.

2. Recapture of funds: to the maximum extent possible, funds should be in the form of loans to be paid back into housing funds managed by the CDA so that monies could be recycled to additional housing investments in future years. Repayments of loans should not accrue to the general fund. This would create a long-term source of housing funds.

In this section, we outline possible uses for up to $1.6 million in tax increment due to the extension of TID 2.

In terms of ***affordable homeownership*** opportunities, we propose three possible uses of these funds.
1. Low/zero interest loans for improvements for existing homeowners (such as in Renew Monona).
2. First-time Homebuyer[5] Down Payment Assistance Programs to help younger families purchase homes in Monona.
3. Acquisition/Rehab loans for older houses in need of major repairs/upgrades and or for rental de-conversion.

In terms of ***affordable rental*** opportunities, we propose two possible uses of funds.
1. Loans for affordable rehabilitation of older multifamily properties to leverage low-income housing tax credits (LIHTC).
2. Gap financing for construction of new affordable rental units utilizing LIHTC tax credits.

We discuss the specifics, including costs and financing models for each option below.

Improvement Loans for Existing Homeowners (Renew Monona).
The city already has a program for existing homeowners, Renew Monona. Under the TID extension described above, the city could allocate up to at least $400,000 (general housing stock improvement) to a continued Renew Monona program, or additional funds if desired. If funds in addition to the

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[5] In many first-time homebuyer programs, "first-time homebuyers" are those who haven't owned a home for 3 years.

$400,000 (general housing stock improvement) are allocated, the city would need to continue to target funds for house values below 120 of median and/or adopt a homeowner income limit requirement in order to continue to comply with law on affordability.

In order to accomplish many of the goals of the draft strategic housing plan update, we recommend the city consider dividing the Renew Monona loan program into 3 separate pools of funds. This would reflect the different types of loans homeowners have requested and would maximize impact with other existing programs. The city could allocate different amounts of funds to each pool to reflect changing priorities in each round of funding. These three pools would be:

1. Renew Monona - sustainability. These would be smaller loans focused on energy efficiency enhancements such as crack sealing, insulation, energy efficient furnaces, and window replacement. Many of these projects were funded in the Rounds One and Two and the small loan size cap ($10,000) as well as program guidelines directed homeowners to these types of improvements. We propose that this pool of funds could increase the maximum loan amount to $15,000. However, we recommend that applicants to this pool of funds strongly encourage/require homeowners to work through the Focus on Energy – Trade Ally program.

Focus on Energy is a partnership of Wisconsin utilities, and the main utility servicing Monona (MG&E) is a participant. The Sustain Monona program could require that homeowners contract with a certified "Trade Ally" – contractors who have been certified by Focus on Energy and who are familiar with the range of tax and other incentives available to homeowners. A homeowner would contract with a certified Trade Ally who would conduct a home energy inspection and audit, and would make recommendations for upgrades and improvements. If a homeowner utilizes a certified Trade Ally, their investments would potentially qualify for Focus on Energy rebates and incentives. Requiring homeowners to use the Focus on Energy – Trade Ally program would ensure that homeowners are maximizing their financial benefits from the program, would leverage city investments, and would ensure that qualified and experienced contractors are conducting the work.

2. Renew Monona – modern upgrades. Many of the loan requests and funded loans focused on upgrades to home systems such as electrical and plumbing. Housing surveys for the 2007 plan as well as interviews by our students showed there is a strong demand to bring many of Monona's older homes up to modern standards. Research shows that electrical and plumbing upgrades are important considerations for buyers and have a slower payback period than do energy efficient upgrades.

We recommend that a dedicated pool of funds be set aside for home system upgrades with maximum loan amounts of $7500.[6]

3. Renew Monona –expansion. Based on our review of Round Four applications and stated city policies to increase the value of homes through additional living space and/or attached garages, this pool of funds would be focused on larger projects. We recommend increasing the maximum loan amount for these projects up to $20,000.

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[6] This loan amount was based on estimated costs of electrical and plumbing requests in previous Renew Monona applications.

The following table shows the number of loans which could be made in a round of Renew Monona loans with an initial allocation of about $200,000. The purpose of this table is to show the various options available, and the city could consider any variation in funding and or loan amounts.

Hypothetical Allocation of approx. $200,000 in Renew Monona Loan funding

	Loan Cap	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Sustainability	$15,000	3	6	5	10
Upgrade	$7,500	10	4	4	2
Expansion	$20,000	4	4	5	2

First Time Homebuyer Downpayment Assistance Program (DPAP).
Many communities across Dane County (including Middleton and Madison) offer assistance to potential first-time homebuyers. In addition, there are a number of federal, state and private downpayment assistance programs. The Dane County Homebuyer's Roundtable is a partnership of area lenders and nonprofits and provides a detailed matrix of all of the programs available in Dane County.[7]

Many cities and counties have found that they can maximize the impact of their DPAP programs if they offer assistance in combination with other programs. In Dane County, that would include programs offered by the Federal Home Loan Bank of Chicago (FHLBC, available through participating lenders) and WHEDA (through participating lenders). Many city DPAP loans can be "stacked" with WHEDA or FHLBC downpayment assistance programs.

Our review of common DPAP programs in the area show that the loan amounts generally range between $5000 and $10,000. Most are structured as zero-percent interest second mortgages to be repaid upon sale or refinance of the house. The FHLBC downpayment program is a 5-year forgivable loan, and Movin' Out has a 5-year forgivable loan for families with a disabled member. But most are structured for repayment at the time of sale or refinancing. WHEDA's loan is repayable after 10 years.

We recommend that Monona consider establishing a DPAP program for households whose income is at 80 percent of area median income or below. The program should be structured to encourage potential homeowners to participate in other available DPAP programs with Monona funds as a supplement. If Monona establishes a DPAP program without the requirement that homeowners participate in other DPAP programs, the city should consider contracting with a third-party that has experience administering DPAP programs in the area. For example, the Wisconsin Partnership for Housing Development (WPHD) ran the Middleton and FHLBC DPAP programs. At a minimum, the city should follow standard protocol in requiring DPAP recipients undergo Homebuyer Education Counseling. Loans should be structured as zero-interest loans to be repaid upon sale of the house or refinance of the principal mortgage. We recommend that DPAP loans be capped at $10,000.

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[7] Most recent version available at:http://www.homebuyersroundtable.org/wp-content/uploads/2017/03/Matrix-Feb-27-2017.pdf.

Because DPAP loans would be limited to households with incomes below 80 percent of area median income, they would fit under the "affordable" definition above.

Acquisition/Rehab Loans for Major Repairs. The purpose of this proposed program is to help potential homeowners purchase older properties that need a lot of repair. Unlike DPAP programs which are targeted towards first-time homebuyers, this program would not be limited to first-time homebuyers but would be limited to owner-occupiers (not investors). We propose this program modeled after the City of Madison's "Homebuyer's Assistance" Program.[8] This loan product combines the elements of a DPAP (including closing costs) with a Renew Monona-type loan. Madison's HBA loan is capped at $40,000.

A potential homebuyer would need to make substantial rehabilitation to a property, to be verified by the CDA or a third-party. Loans would be zero-interest, repayable upon refinancing or sale of the house. The advantage to homebuyers is that they would not have to take out expensive construction or home-equity loans to rehabilitate an older property.

This program has the potential to provide a significant impact in improving the housing stock and creating affordable homeownership opportunities in the City. However, such larger loans introduce risk for the city, which would need to take extra care that underwriting is appropriate and would have to conduct regular inspections to verify the work is completed adequately. The city would need to develop detailed policy guidance on what types of repairs are eligible.

In order to qualify under the TID extension requirement of "affordable" we recommend that the city impose either house price caps or income limits for these homeowners. However, given the higher level of costs involved in acquisition and rehab, income limits could be extended to 100 percent of area median income. House price limits could be the same as Renew Monona (120 percent of median house price before rehab.)

We recommend that the city only make available 2 or 3 of these loans at a time and consider contracting with third parties that have experience managing these programs.

Alternative:
1. Dane County CDBG funds (Community Development Block Grant) currently fund a limited number of home improvement loans through Project Home. Project Home's "Major Home Repair" program (similar to Renew Monona) offers zero-interest loans to qualified homeowners for between $5,000 to $23,000. In order to comply with CDBG requirements, there are income limits (less than 80 percent of AMI) and maximum house price limits (currently $233,000).

However, Dane County funds are extremely limited, and there is often a long waiting list for Project Home. Dane County only is able to fund between 6 and 8 of these loans in the entire county per year.

Monona could use some of the money it allocates to the Renew Monona program to fund Project Home loans specifically for Monona residents. Monona could contract with Project Home to utilize

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[8] Detailed program information available at:
https://www.cityofmadison.com/dpced/economicdevelopment/documents/HBAsummary1116(1).pdf

their expertise and experience, with the loans being funded by Monona rather than Dane County. If we assume that homeowners use up to the maximum loan amount of $23,000, Monona could itself fund 5 loans for $115,000. We recommend that the city explore possible partnership with Project Home.

Acquisition/Rehab for Older Multifamily Rental Housing.

Using data from the Census, we estimate that Monona's housing stock contains at least 487 rental units in smaller, older buildings.[9] There are also about 400 older rental units in large buildings (more than 20 units in structure). This source of money targets smaller rental buildings, because owners of small rental units have a more difficult time financing rehabilitation of their properties. These older, smaller rental units would be the target for this pool of funding. Our proposal is modeled after a similar Madison program, the Rental Rehabilitation Program.[10]

For non-owner occupied (investor-owned) smaller rental buildings, the city could offer a below market interest rate (Madison's is currently 2.75 percent) for a 15- or 20-year period to owners of rental units who make significant rehabilitation investments in their properties. In exchange for the lower-than-market interest rate, owners agree to keep rents at or below the Fair Market Rents for the duration of the loan and to comply with appropriate inspections. Owners would also agree not to displace lower-income tenants during or after construction phase. By having a source of funds available for construction draws, smaller property owners could conduct rehab work on vacant units and move existing tenants into rehabbed units.

We recommend that the city consider offering up to $20,000 per unit in rehab loans, modeled after the term and rate structure in Madison.

Current Fair Market Rents for Dane County (FY 2017) are $673 for an efficiency, $813 for a 1-bedroom, $964 for a 2-bedroom, and $1342 for a 3-bedroom unit.

For larger multifamily buildings in need of substantial rehab (greater than 20 units in structure), there are a number of options, many of which might be financially impracticable from the City's standpoint. A private property owner could refinance the debt on the property with a low-interest loan from the FHA (Federal Housing Administration), which would not carry with it any affordability restrictions. Alternatively, the developer could apply for Low-Income Housing Tax Credits (LIHTC), which does carry with it affordability restrictions. However, as detailed below, many of the scoring criteria currently used by WHEDA make the competitive tax credits difficult to obtain in Monona. The alternative would be to encourage developers to apply for the 4-percent tax-credit (non-competitive) programs, which would require significant city subsidy to make the deals work.

However, there may not be a need within Monona to utilize LIHTC for rehabilitation of older rental housing. For rental units built before the year 2000, median gross rents range from $669 to $882,

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[9] We consider a building to be "older" if it was constructed before 1980 and "smaller" to be if it is not a single-family unit and contains less than 20 units in a structure.

[10] Program details can be found at: https://www.cityofmadison.com/dpced/economicdevelopment/documents/RRBsum-0116(1).pdf

which is often near or below the Fair Market Rents. Although market-rate rents in new construction in Monona would not be considered "affordable" to lower-income households, many of the older rental units are already within the affordability range.

Gap Financing for New LIHTC Construction.
The LIHTC competitive tax credit program is the largest construction program for new affordable units in the US. Many Dane County communities have been successful in attracting tax credit developments with significant contribution of city financing (often TIF.) "Gap financing" refers to the difference between the total project costs for construction and the combined sources of a primary mortgage and the equity from the sale of tax credits. Most LIHTC developments mix multiple sources of financing, often between 7 and 10 different sources. When cities contribute gap funding to LIHTC developments (whether as loans or grants), this increases the chances of projects receiving the tax credits.

In Wisconsin, the LIHTC application process is highly competitive with many high-quality projects not scoring sufficiently high on WHEDA's scorecard to receive the credits. As part of the research into the viability of Monona supporting a LIHTC development, we examined the WHEDA scorecard.[11] Many of the scoring criteria are outside of the control of the city, other than category 9 (financial participation) and category 14 (opportunity zones.) Each of these categories is worth a maximum of 25 points out of a total of 284 possible points. Oftentimes, the difference between successful applications and unsuccessful applications is only a few points, so every point matters.

From WHEDA's rules, examples of financial participation from local governments that add points are:

- The local government funds on-site project costs by providing HOME, CDBG funds or other financial resources in the form of loans, grants, or a combination thereof.
- The local government creates a quantifiable reduction of on-site project development costs specifically for this project. Examples of quantifiable reduction of on-site development costs include:
    a) waiver of water or sewer fees, waiver of building permit fees or other government development fees, waiver of impact fees, donation or waiver of project specific assessment or infrastructure costs, reduction of purchase price for land or buildings as compared to assessed or appraised value, or
    b) demolition and removal of existing structures at no/reduced cost. Note: If using demolition of existing structures for points, then no points for reduction of purchase price will be included.
- Cash donations or grants from any of the above named entities.
- Tax-exempt bond financing
- TIF financing in form of a grant or loan. Provide copy of Developer Agreement or Common Council approval

Under Category 14 (opportunity zones), the current rules are not particularly advantageous for Monona. An applicant can score up to 15 points for various categories denoting "opportunity zones." Applying the WHEDA scoring criteria ("high need areas," "median income,"

[11] The scoring criteria our outlined in WHEDA's Qualified Allocation Plan (QAP), available at: https://www.wheda.com/lihtc/

"unemployment," "school district"), we estimated the likely points added for proposals in the two census tracts in Monona (103 and 104). For census tract 103, we estimate that a development would be awarded 9 out of 15 possible points, and a development proposed in census tract 104 would be awarded 6 out of 15 possible points.

10 additional points can be awarded based on proximity to facilities such as full-service grocery stores, public schools, senior centers, hospitals/medical centers, libraries, public parks, and community colleges.

In order to illustrate for Monona the potential for using these additional increments as gap financing for a LIHTC project, we examined a number of recently completed and awarded LIHTC deals in other communities in Dane County.[12] We modeled a 65-unit building with total development costs per unit of $165,000.[13] We modeled a development where 20 percent of the units would be market rate (not eligible for tax credit equity.)

We found that for this hypothetical $10.8 million dollar project, there would be a gap financing need of $1.7 million. Assuming that this project could access Dane County's Affordable Housing Development Fund and HOME Funds, as well as the FHLBC's Affordable Housing Program (AHP), we estimate a gap of between $500,000 and $750,000. A low-interest loan from the City's additional tax increment could be used to cover this gap.

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[12] Additional assumptions: We used current tax-credit percentages from Novogradic company (7.43 percent). We estimated tax credits sold for 0.90 per $1 credit, and a target debt-service coverage ratio of 1.2. We used WHEDA's current LIHTC lending rate of 5.9 percent to calculate maximum mortgage amount. Rents were targeted towards 50 percent of median income limits.

[13] This excludes land costs which are not eligible as costs under LIHTC.

ABOUT THE UNIVERCITY YEAR

UniverCity Year is a year-long partnership between UW-Madison and one community in Wisconsin. The community partner identifies sustainability and livability projects that would benefit from UW-Madison expertise. Faculty from across the university incorporate these projects into their courses with graduate students and upper-level undergraduate students. UniverCity Year staff provide administrative support to faculty, students and the partner community to ensure the collaboration's success. The result is on-the-ground impact and momentum for a community working toward a more sustainable and livable future.

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