WHEDA: Federal housing tax credit changes, adaptations expected to create more affordable housing for Wisconsin

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MADISON – Improvements to the federal 4% housing tax credit program will allow WHEDA to recalculate and extend the value of state housing tax credits to fund some 500 additional affordable rental units when the awards are announced this spring.

“Wisconsin communities face a critical shortage of affordable rental housing and every additional apartment helps,” said WHEDA CEO Joaquín Altoro. “WHEDA’s skilled staff identified the opportunity to use changes in the federal program to increase the impact of state housing tax credits and make more housing projects possible.”

Shreedhar Ranabhat, commercial lending manager for WHEDA, said the change will allow WHEDA to provide awards to approximately 70% of the applications it received for the 2021 funding round, up from nearly half of applications it previously projected. For the 2021 round of allocations, applicants submitted projects seeking $16 million in credits for the $7 million available.

The anticipated increase in awards was made possible by a federal COVID relief package approved in late December 2020. The federal legislation included a provision allowing for low- to moderate-income multifamily housing financed with tax-exempt bonds issued after Dec. 31, 2020 to use a fixed 4% federal credit rate. Previously, a credit rate of 3.09% was in place for the federal credits paired with state housing tax credits and applicants for the 2021 round of awards submitted requests with this in mind.

Because the federal credit rate is now fixed at 4%, the credits provide a higher value when converted to equity by investors. To meet critical housing shortages throughout Wisconsin, WHEDA staff are using the new equity formula to recalculate the credits needed for each application. Read more about the process here.

With more equity now available under the 4% federal tax credit program, WHEDA will award only the necessary amount of state tax credits needed to support the submitted project budgets. The result will be a reduced state tax credit award that corresponds to the increased value of federal tax credit equity. Based on project rankings arrived at through WHEDA's Qualified Allocation Plan, the additional state tax credits will then be awarded to the next most-competitive projects.

WHEDA has allocated the state housing tax credits since the program's creation in 2018. The program does not subsidize rent directly; rather, it provides allocations of state housing tax credits to developments. Through the sale of the allocated credits to investors, equity is provided to the developers to create qualified affordable housing. Investors are then able to claim the value of the credits as a dollar-for-dollar reduction in taxes owed.

In exchange for receiving state housing tax credits, developers agree to reserve all or a portion of the housing units in the development for low- and moderate-income households; WHEDA currently requires a 30-year period. Any units that are not designated as affordable units may be rented at market rates.

Tax credit developments must meet high design and operating standards and Ranabhat said this will continue to be the case under this year's extended allocation. Criteria include strong management, excellent development quality, demonstrated market need, provision of supportive services and amenities, proximity to economic opportunities and proper local zoning. The 2021 applications will be reviewed and scored, with results released in spring.

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