



QUALIFIED CAPITAL IMPROVEMENTS POLICY

I. ABOUT THIS CAPITAL IMPROVEMENT POLICY

The Madison Area Community Land Trust (MACLT) has developed this Qualified Capital Improvements (QCI) Policy to balance the goal of preserving the long-term affordability of quality housing with encouraging the maintenance and improvement of its affiliated homes so that they remain attractive and functional for current and future qualified homebuyers. MACLT believes it is important to support homeowners in the upkeep of their homes and to minimize impediments to making desirable capital improvements. MACLT has developed this QCI Policy to provide clarity to homeowners about the process of receiving QCI credit ("Credit") at the time of sale of the home for having made significant capital improvements.

II. DEFINITION OF QUALIFIED CAPITAL IMPROVEMENTS

Below are general categories and specific examples of capital improvements that are likely to be approved or not approved as QCIs. These are examples only; approval of any proposed improvement is at the sole discretion of MACLT. MACLT homeowners are encouraged to contact MACLT staff early in the home improvement process to discuss the scope of proposed work. Each individual QCI Application should comprise one total project, unique from other projects.

General framework of proposed capital improvements likely to be approved:

- Improvements that accommodate the changing needs of the household, such as increasing family size
- Improved accessibility or usability for handicapped persons
- Improvements that increase efficient use of energy and resources
- Necessary updates to home systems and structures

Examples of proposed capital improvements likely to be approved:

- Finishing basement or attic, or additions that include bedroom(s) and/or a bathroom
- Adding a garage, carport, or paved off-street parking space
- Wheelchair ramp
- Adding wall/ceiling insulation
- Upgrading to more efficient windows
- Furnace or water heater upgrades (when increasing energy efficiency)
- Central air conditioning
- Deck, porch
- Gut-remodel
- New Roof
- Solar panel system
- Significant Kitchen Upgrade/Renovation

Examples of proposed capital improvements NOT likely to be approved:

- Any addition or alteration that would adversely impact long-term affordability
- Improvements that are solely cosmetic in nature, such as wall painting
- Swimming pool, hot tub
- Luxury items
- General maintenance and repair is important, but these are not considered capital improvements. Homeowners are encouraged to apply for home maintenance and repair funds from MACLT if funds are available.



III. APPROVAL PROCESS / CHECKLIST OF STEPS

To be eligible for Credit, a proposed capital improvement project must go through the following steps:

1. Apply. Contact MACLT staff for the most up-to-date version of the MACLT Qualified Capital Improvements (QCI) Application (homeowner responsibility). As of the date of this Policy, the most current QCI Application is attached hereto. Complete the QCI Application in its entirety and submit it, with supporting documentation, to MACLT staff. Submission instructions are included on the QCI Application.
2. Staff Review: Approval or Denial. MACLT staff or another designee of the Board of Directors will review the QCI Application and make a determination on whether Credit will be awarded. Key considerations MACLT will evaluate in making a determination include: the scope of the proposed improvements, how the homeowner intends to pay for the improvement, and who will be performing the proposed improvement. The decision will be based on the spirit of this Policy; however, no Credit will be awarded to a proposed capital improvement that would adversely affect the balance between affordability for persons at or below 80% of Dane County area median income (AMI) on the one hand, and safe, decent, and quality housing options on the other. MACLT will notify the submitting Homeowner within 30 days of receiving the QCI Application.

Appeals: In the event MACLT's initial determination is to reject the QCI Application, in part or in whole, the Homeowner may appeal the decision to the MACLT Board of Directors. The Homeowner must notify MACLT in writing of its decision to appeal within 60 days of MACLT notification to the Homeowner of its initial determination. If the MACLT Board of Directors reverses MACLT's initial determination, the Homeowner may proceed with the following steps as outlined in this document. If the MACLT Board of Directors affirms MACLT's initial determination, the decision is final, the Credit will not be awarded, and the Homeowner may not re-apply for QCI consideration of the same proposed improvements. However, subject to other restrictions on the Home, the Homeowner may be permitted to complete the proposed improvement, irrespective of the Credit decision.

3. Pre-Construction Walk-Through; "Before" and "After" Photos. If MACLT approves the QCI Application, **MACLT may elect to** schedule a walk-through of the Home within 10 days of receiving the notice that the QCI Application was approved. In all cases, the Homeowner agrees to take "before" and "after" work photos of the condition of the home and proposed project and share them with MACLT.
4. Commence and Complete QCI. After receipt of confirmation that the proposed project is a QCI (the "Initial Confirmation Letter"), the Homeowner may commence the QCI project, which must be completed within one year of the date of the Initial Confirmation Letter. MACLT may agree to extend this timeline on a case-by-case basis. However, the Homeowner must notify MACLT promptly of, and MACLT approval must be obtained for, any changes to the timeline or scope of work. The Homeowner will retain and share with MACLT as necessary all documents related to the project (including construction contracts, drawings, plans and specifications, blueprints, and building or other permits), and evidence of all expenses paid (constructions invoices, receipts of purchased supplies).
5. Notify MACLT of Completion & Schedule Walk-Through. Within 7 days of completing the QCI, the Homeowner must notify MACLT of completion and provide MACLT with all QCI-related project documents, including: construction documents (construction contracts, drawings, plans and specifications, blueprints, building or other permits), and evidence of all paid and proposed expenses (constructions invoices, receipts of supplies, contributed labor hours). MACLT may elect to schedule a walk-through of the Home to review the completed work within 30-days of the completion of the QCI.



6. Final Determination of Credit. Within 30 days of completion of the QCI project, MACLT will send to the Homeowner either (a) a “Final Determination of Credit” letter confirming the project is eligible for Credit at the time of resale of the Home, which will include the Starting QCI Credit amount (before any depreciation); or (b) a revocation letter, indicating that the QCI is ineligible for Credit at the time of resale. A revocation letter under this section will be sent only if the improvements completed do not reflect the QCI project approved in the QCI Application.

MACLT will be deemed to have automatically rejected any request for Credit if (i) the Homeowner commences construction or other work prior to obtaining approval from MACLT in accordance with this Section III; or (ii) the Homeowner fails to strictly comply with the steps outlined in this section. Even if a Final Determination of Credit letter has been issued, MACLT retains the right to reject the request for Credit if MACLT later discovers the Homeowner has violated either of these provisions.

7. Claiming Credit. Credit is only eligible to be claimed at the time of the Homeowner's sale of the Home, which must proceed as outlined in the ground lease and/or other documents governing the resale process of the Home. At the time of resale, the Final Depreciated QCI Credit(s) will be added to the resale formula price detailed in the ground lease to calculate the final Purchase Option Price, which is the maximum price at which the homeowner may sell their home. (Note: this price is not guaranteed to the seller if they are unable to find an eligible buyer below 80% AMI).

IV. CALCULATION OF CREDIT

MACLT shall calculate the Starting QCI Credit in the Final Determination of Credit letter, and shall apply the Final Depreciated QCI Credit to the Purchase Option Price prior to home sale.

Starting QCI Credit

Starting QCI Credit refers to the credit at the time the Final Determination of Credit letter is issued (“Year Zero”). Depreciation may apply between this point and sale of the Home to generate the Final Depreciated QCI Credit.

Starting QCI credit may be claimed for the net cost to the homeowner for a QCI project based on receipts sent to MACLT and contributed homeowner labor spent on the QCI project, not to exceed the QCI Credit Cap calculated at the time of QCI project completion, as calculated below. **The Homeowner must submit receipts** for all QCI-related costs and self-reported documentation of labor hours spent on the project **within 14 days** of completion of the QCI project.

The following conditions apply:

- a. QCI Credit Cap: Except in the case of additions (see below), the maximum Starting QCI Credit for a project (at “Year Zero”) will be 20% of the calculated Projected Home Price (PHP) at that time.
- b. Projected Home Price Calculation: To estimate the PHP at the time of a QCI project, the MACLT 1% fixed-rate resale formula will be used. The PHP will be the Homeowner’s original CLT purchase price plus an increment calculated by multiplying 1% of that purchase price by the total number of years the Homeowner has lived in the home at the time the QCI Final Determination of Credit letter is issued.
- c. Labor: In the event MACLT has approved a plan for the Homeowner to contribute labor for the QCI project, the cost of that labor shall be calculated based on documented Homeowner labor hours spent on the QCI project multiplied by the prevailing wage for residential construction and remodeling.
- d. Tax incentives: For QCIs that involve tax credits and rebates (e.g., for solar panels), only net costs to the Homeowner will count for the QCI Credit, and the Homeowner must provide MACLT documentation of rebates and/or tax credits.



e. Additions:

- i. The maximum Starting QCI Credit at Year Zero for additions (such as building a garage or addition) or remodels in which permanent livable square footage is added to the home (by converting unfinished space to finished space) will be the lesser of: the total cost of the QCI project or the percent (%) of square footage added relative to post-QCI total square footage multiplied by the Projected Home Price (see example below).
 - ii. QCI Credit for projects in which such additions or remodels are done will not be depreciated.
- f. Multiple QCIs: Homeowners may request more than one QCI for a qualifying project during Homeownership. Each QCI will be calculated separately with a separate QCI Credit Cap and depreciation timeline. No individual QCI project may exceed the calculated QCI Credit Cap for the category of QCI. The QCI Credit Cap for a later project will not be increased by the value of earlier QCI projects. QCI projects that are reasonably understood to be separate projects (i.e. they involve different components or rooms in a home) will be considered different QCIs for the purposes of receiving QCI credit, even if they overlap in time.
- g. Condominium homeowners: Your condominium bylaws require Condominium Association Board of Directors approval for certain improvements. It is the Homeowner's responsibility to get such approval and submit it with your Qualified Capital Improvements Application.

Appraisal-based QCI Credit: Homeowners who have received approval for a QCI project prior to January 2024 retain the right to use the methodology and calculations provided in this QCI policy or to revert to the previously approved appraisal-based QCI policy. In these instances, Homeowners must use the same methodology for all approved QCIs.

Depreciated QCI Credit

It is understood by both MACLT and the Homeowner that certain home improvements may depreciate over time. Depreciated QCI Credit is the final QCI Credit applied to the selling price of the Home at final sale. The Starting QCI Credit will be depreciated starting from issuance of the QCI Final Determination of Credit letter until sale of the Home, using straight-line depreciation (equal pro rata amount reduced for each year) based on the following Depreciation Table:

DEPRECIATION TABLE

QCI Item	Depreciation Timeline	QCI Credit Cap
New Siding	30 years	20% of Projected Home Price
Roof (Asphalt or similar)	30 years	20% of Projected Home Price
Windows	30 years	20% of Projected Home Price
Solar panels	30 years	20% of Projected Home Price
Furnace	20 years	20% of Projected Home Price
Air Conditioner	20 years	20% of Projected Home Price
Hot Water Heater	20 years	20% of Projected Home Price
Significant Kitchen Upgrade/Renovation	20 years	20% of Projected Home Price
All other capital improvements unless otherwise noted	20 years	20% of Projected Home Price
Addition of space or finishing unfinished space	∞ (does not depreciate)	Projected Home Price multiplied by the ratio of square footage added to total home square footage after project completion

EXAMPLE CALCULATION OF FINAL RESALE PRICE OF MACLT HOME AFTER TWO QCI PROJECTS

This example assumes the Homeowner owns their home for a total of 25 years. Thirteen years before they finally sell their home, they replace the siding at a cost of \$30,000. A few years later, the Homeowner finishes 600 square feet in the basement of the home at a cost of \$20,000. After the basement is finished, the home now has 2100 sq. ft. of finished space.

Initial CLT purchase price	\$125,000	<i>The price at which the Homeowner bought their MACLT home 25 years ago.</i>
New siding Starting QCI Credit	+\$28,000	<i>While the actual cost of the siding was \$30,000, the Starting QCI Credit is the lower of the actual project cost or 20% of the Projected Home Price at the time. <u>The QCI Credit Cap for this project is \$28,000, as calculated below.</u></i> <i>At time of the QCI siding project, the Projected Home Price (the price the home could have sold for) was \$140,000 (Initial CLT purchase price + increment). Increment: $\\$125,000 * 1\% * 12 \text{ years} = \\$15,000$ PHP at time of project: $\\$125,000 + \\$15,000 = \\$140,000$ QCI Credit Cap: $\\$140,000 * 20\% = \\$28,000$</i>
Depreciation of siding at time of final sale of Home	-\$12,133	<i>The new siding depreciates at a rate of $1/30^{\text{th}}$ of its Starting QCI Credit per year up to the time of home sale. The QCI Cap of \$28,000 is divided by thirty years to get the yearly depreciation. This yearly depreciation is multiplied by the number of years the siding was in use (13 years). <u>The siding depreciation at time of home sale was \$12,133, as calculated below.</u></i> <i>Yearly depreciation: $\\$28,000/30 = \\933 Siding Depreciation: $\\$933 * 13 \text{ years} = \\$12,133$ Depreciation is subtracted from the Starting QCI Credit for the siding QCI.</i>
Siding QCI Credit at time of home sale (i.e. Depreciated QCI Credit)	\$15,867	<i>Depreciated QCI Credit is the final total QCI Credit awarded for siding after subtracting depreciation. <u>The Depreciated QCI Credit is \$15,867:</u></i> <i>$\\$28,000 - \\$12,133 = \\$15,867$</i>
Starting QCI for finished basement project	\$20,000	<i><u>The actual basement project cost was \$20,000 as documented by receipts. This was less than the QCI Credit Cap of \$41,786 for this project, calculated below.</u></i> <i>QCI Credit Cap for additions/remodels that add square footage is the PHP at the time of the project multiplied by the ratio of square footage added to total square footage after the project is completed.</i> <i>Increment: $\\$125,000 * 1\% * 17 \text{ years} = \\$21,250$ PHP at time of project: $\\$125,000 + \\$21,250 = \\$146,250$ QCI Credit Cap: $(600 \text{ sf} / 2100 \text{ sf}) * \\$146,250 = \\$41,786$. This cap applies in the event the actual cost is higher than this cap.</i>
Depreciation of finished basement	-\$0	<i>Additions or remodels that add livable square footage do not depreciate.</i>
Allowed MACLT resale increment per MACLT formula	\$31,250	<i>The MACLT resale formulas allows for 1% (simple) appreciation per year of the \$125,000 purchase price over the 25 years that the home was owned. <u>For this home, the allowed resale increment is \$31,250.</u></i> <i>Increment: $\\$125,000 * 1\% * 25 = \\$31,250$ The increment is added to the purchase price & QCI Credit at the time of sale.</i>
Final CLT Resale price (25 years after purchase)	\$192,117	<i>The final selling price of the home at resale is equal to the initial purchase price plus the allowed resale increment plus allowed QCI Credits. <u>The sales price to next CLT buyer is \$192,117.</u></i> <i>Sales Price: $\\$125,000 + \\$15,867 + \\$20,000 + \\$31,250 = \\$192,117$</i>

**MADISON AREA COMMUNITY LAND TRUST
QUALIFIED CAPITAL IMPROVEMENTS (QCI) APPLICATION**

Name: _____ Application Date: _____

Address: _____

Contact Phone: _____ Email: _____

Scope / Description of Proposed Improvement: _____

Estimated Work Start Date: _____

Estimated Work Completion Date: _____

BUILDING PERMITS: Building permits are required by law for many home improvements. Permits are applied for in person at the City of Madison Building Inspection Office located in the Madison Municipal Building at 215 Martin Luther King Jr. Blvd., Suite LL 100, Madison, WI 53703. If you have permit-related questions, call the City at (608) 266-4551, or see their website at <https://www.cityofmadison.com/development-services-center/permits>.

Items needed to begin application process (please attach):

MACLT staff will review your QCI application once all items below are received.

____ Detailed Improvement Plans (including list of permits required for proposed QCI)

____ Detailed Budget (including sources of how homeowner will pay for proposed QCI and any construction estimates or bids)

____ Credentials and/or construction experience of who will be performing the proposed work

____ Copy of Condominium or Homeowner Association's Letter of Approval (if required)

*****Please note, if you begin work before receiving approval from MACLT,
you will not receive QCI credit for your improvement.*****

To submit this QCI Application, you may mail, hand deliver, or e-mail the fully completed version to:

**MACLT
902 Royster Oaks Ln Ste 105
MADISON, WI 53714
info@maclt.org**