



QUALIFIED CAPITAL IMPROVEMENTS POLICY

I. ABOUT THIS CAPITAL IMPROVEMENTS POLICY

This Qualified Capital Improvements (QCI) Policy intends to balance the Madison Area Community Land Trust's (MACLT's) goals of preserving the long-term affordability of quality housing while encouraging the maintenance and improvement of the Homes, so that they remain attractive and functional for future qualified homebuyers. MACLT believes it is important to support homeowners in the upkeep of their homes as well as minimizing impediments to making capital improvements to the home. MACLT has developed this QCI Policy to provide clarity to homeowners about the process to make significant improvements to their homes.

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 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
- Improvement of 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 Improvement (QCI) Application (homeowner responsibility). As of the date of this Policy, the most current QCI Application is attached hereto. Complete 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 median income, on the one hand, and safe, decent, and quality housing options, on the other hand. MACLT will notify the submitting Homeowner within 30 days of receiving the QCI Application.

Appeals: In the event MACLT has rejected 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 notifying the Homeowner of its initial decision. If the MACLT Board of Directors reverses the MACLT staff decision, the Homeowner may proceed with the steps as follows. If the MACLT Board of Directors affirms the MACLT staff decision, the process is final and the Credit will not be awarded. The Homeowner may not re-apply for 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.** 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. Homeowner agrees to take “before” and “after” work photos of the condition of the home and proposed project and share with MACLT.
4. **Commence and Complete QCI.** After receipt of a letter confirming 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. On a case-by-case basis, MACLT will extend this timeline. However, the Homeowner must notify MACLT promptly of, and MACLT approval must be obtained for, any changes to the timeline or scope of the work. The Homeowner will retain and share with MACLT as necessary all documents related to the construction (construction contracts, drawings, plans and specifications, blueprints, building or other permits), and evidence of all expenses (constructions invoices, receipts of supplies).
5. **Notify MACLT of Completion & Schedule Walk-Through.** Within 7 days of completing the QCI, Homeowner must notify MACLT that the QCI is completed and provide MACLT with all QCI-related document, including: construction documents (construction contracts, drawings, plans and specifications, blueprints, building or other permits), and evidence of all expenses (constructions invoices, receipts of supplies). 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 Availability.** Within 30-days of completion of the QCI, MACLT will send to Homeowner either (a) a letter confirming the QCI is eligible for Credit at the time of resale of the Home (a "Final Determination of Credit" letter), which will include the Starting QCI Credit amount; 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 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 these steps. Even if MACLT issues a Final Determination of Credit, if MACLT later discovers the Homeowner violated either of the provisions of this QCI Policy, MACLT retains the right to reject the request for Credit.

7. Claiming Credit. Credit is only eligible to be claimed at the time of the Homeowner's sale of the Home, which must progress as outlined in the ground lease and/or other documents governing the resale process of the Home. At the time of resale, the credit will be added into the resale formula price detailed in the ground lease to reach 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 struggle to find an eligible buyer below 80% AMI).

IV. CALCULATION OF CREDIT

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

Starting QCI Credit

Starting QCI Credit refers to the credit that may be claimed at year zero, as soon as the Final Determination Letter is issued. Depreciation may apply between this point and the home sale to generate the Depreciated QCI Credit.

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

The following conditions apply:

- a. Projected Home Price Calculation: To estimate the Projected Home Price, the MACLT 1% fixed-rate resale formula approach will be used. The Projected Home Price will be estimated as the homeowner's original CLT purchase price multiplied by 1%, multiplied the total number of years the homeowners has lived in the home at the time of QCI Final Determination letter. That amount will be added to the original CLT purchase price to determine the Projected Home Price at time of the QCI.
- b. Labor: In the event MACLT approved a plan for Homeowner to provide the labor for the QCI, costs of labor shall be estimated based on amount of time spent multiplied by the prevailing wage for residential construction and remodeling.
- c. Tax incentives: For QCIs that involve tax credits and rebates (eg., for solar panels), only net costs will count for the QCI Credit, and the homeowner must provide MACLT documentation of the rebates or tax credits.
- d. QCI Credit Cap: The maximum Starting QCI Credit at year zero will be 20% of the calculated Projected Home Price, except in the case of QCIs for additions to the home (as described below).
 - i. Additions: In instances where permanent square footage is added to the property (either converting unfinished space to finished space or adding square footage such as building a garage or an addition), the QCI Credit will be the lesser of: the total costs expended for the QCI, or the percent (%) of square footage added relative to post-QCI total square footage multiplied by the Projected Home Price. QCIs where



square footage is added or made into finished space will not be depreciated.

- e. Multiple QCIs: Homeowners may request more than one QCI during homeownership. Each QCI would be calculated separately with a separate cap and depreciation timeline. No individual QCI may exceed the stated cap for the category of QCI. QCI projects that are reasonably understood to be separate projects (ie. they involve different components or rooms in a home) will be considered different QCIs for the purposes of receiving QCI credit according to this policy
- f. 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 Improvement Application.
- g. Appraisal-based QCI Credit: Homeowners who have received approval for a QCI prior to January 2024 retain the right to use the methodology and calculations provided in this QCI policy or 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

Depreciated QCI Credit is the final credit applied to the sales price. The Starting QCI Credit will be depreciated per year, starting with the QCI Final Determination Letter and MACLT’s calculation of the seller’s Purchase Option Price (prior to home sale) based on the type of QCI item and the depreciation table below. It is understood by both MACLT and the homeowner that certain improvements may depreciate over time and MACLT will recognize the depreciated value of the improvement based on the table below via a straight-line depreciation (equal pro rata amount reduced for each year) approach, as demonstrated below.

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)	(sq ft added / final total home sq ft) * Projected Home Price



EXAMPLE CALCULATION

The example below assumes homeowner owns their home for 25 years and replaces the siding (at a cost of \$30k) 12 years into their homeownership of the property. Then, 17 years into owning their home, the homeowner finishes 600 sq ft in the basement (at a cost of \$20k). After the basement is finished, the home now has 2,100 sq ft of finished space.

Homeowner initial CLT purchase price	\$125,000	<i>This is the price at which the homeowner bought their MACLT home 25 years ago.</i>
New siding Starting QCI Credit	+\$28,000	<p><i>While the actual cost of the siding was \$30,000, the Starting QCI Credit is 20% of the Projected Home Price.</i></p> <p><i><u>Projected Home Price: \$140,000</u></i> <i>At time of the QCI approval of the siding, the home could have sold for \$140,000</i> $\\$125,000 * 1\% * 12 \text{ years} = \\$15,000$ $\\$125,000 + \\$15,000 = \\$140,000$</p> <p><i><u>QCI Credit Cap: \$28,000</u></i> $\\$140,000 * 20\% = \\$28,000$ <i>Use the lower of the calculated QCI Cap or actual net cost.</i></p>
Depreciation of siding	-\$12,133	<p><i>The new siding depreciated over 30 years of use prior to sale, so the depreciated amount is subtracted from the Starting QCI Credit.</i></p> <p><i><u>Depreciation: \$12,133</u></i> $(\\$28,000/30) * 13 = \\$12,133$ $\\$28,000$ (QCI Cap) divided by 30 years (siding depreciation) = \$933 per year. This yearly depreciation is multiplied by 13 (years since siding was replaced)</p>
Credit for siding QCI at sale (i.e. Depreciated QCI Credit)	\$15,867	<i>Depreciated QCI Credit is the final total QCI Credit awarded for siding after subtracting depreciation.</i>
Cost of finishing basement	\$20,000	<p><i>The cost was \$20,000 per receipts provided to MACLT. Additions do not depreciate.</i></p> <p><i>The actual cost of finishing the 600 sq ft space in the basement was less than the QCI Cap for this addition:</i></p> <p><i><u>Projected Home Price: 146,250</u></i> $\\$125,000 * 1\% * 17 \text{ years} = \\$21,250$ $\\$125,000 + \\$21,250 = 146,250$</p>



		<p><u>QCI Credit Cap: \$41,786</u> $(600/2,100) * \\$146,250 = \\$41,786$ <i>The ratio of the new square footage divided by the total final square footage is multiplied by the Projected Home Price at the time of the addition. This cap applies in the event the actual cost is higher than this cap.</i></p>
MACLT resale increase per MACLT formula	\$31,250	<p><i>1% (simple) of \$125,000 purchase price over 25 years</i> $1% * \\$125,000 * 25 = \\$31,250$</p>
Future CLT Resale price (25 years after purchase)	\$192,117	<p><u><i>Sales price to next CLT buyer: \$192,117</i></u> $\\$125,000 + \\$15,867 + \\$20,000 + \\$31,250$</p>

**MADISON AREA COMMUNITY LAND TRUST
QUALIFIED CAPITAL IMPROVEMENT (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 of the below items 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**