



# PERFORMANCE AUDIT REPORT

**Kansas Housing Resources Corporation:  
Reviewing the Section 42 Housing Tax Credit Program**

## ***Executive Summary*** ***with Conclusions and Recommendations***

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
August 2007**

# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

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LEGISLATURE OF KANSAS  
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August 24, 2007

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency response, from our completed performance audit, *Kansas Housing Resources Corporation: Reviewing the Section 42 Housing Tax Credit Program*.

This report includes a recommendation for the Corporation to compare all proposed housing development projects to their peer proposals in each round of tax-credit awards, as required by State regulation. We would be happy to discuss this recommendation or any other items in the report with you at your convenience.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton  
Legislative Post Auditor



## **EXECUTIVE SUMMARY**

LEGISLATIVE DIVISION OF POST AUDIT

### **Overview of the Kansas Housing Resources Corporation and the Section 42 Housing Tax-Credit Program**

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**Section 42 low-income housing tax credits help generate private funding to build low-income housing.** *Each year, the federal government gives states the authority to award a designated amount of 10-year federal income tax credits to spur the development of low-income housing. Since 2004, Kansas has been allowed to give out tax credits each year worth nearly \$50 million or more over a 10-year period.*

**The Kansas Housing Resources Corporation is responsible for administering the Tax-Credit Program in Kansas.** *To be eligible for tax credits, housing developers must agree to meet certain IRS regulations. Housing developers submit proposals to the Corporation, and officials evaluate them based on criteria outlined in State regulations. The Housing Resources Corporation evaluates proposed low-income housing developments against set scoring criteria, and then ranks them against other proposed developments. In addition to scored selection criteria, the Corporation can consider “non-point” criteria when evaluating proposed developments.*

*Once the Corporation awards the tax credits, the developer sells them to private investors to generate money to build the housing units. For the 2004-2007 tax credit allocations, private investors paid an average of 85 cents for each tax credit. The developer uses the money received from the sale of the tax credits to pay the cost of constructing or rehabilitating existing housing units. The Corporation monitors developers to ensure that they continue to comply with all requirements, including rent limits.*

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### **Question 1: How Many and What Types of Housing Developments Have Been Funded in Kansas Through the Section 42 Housing Tax-Credit Program?**

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**In all, 93 developments were awarded \$217 million in tax credits for 2004-2007.** *The developments provided slightly more than 3,200 tax-credit-financed housing units at a total cost of nearly \$316 million. The developers used the proceeds from the Section 42 tax credits to offset approximately \$184 million of the development costs.*

**About two-thirds of the approved developments were for new housing units.** *The Corporation receives about twice as many proposals to construct new housing as it does to rehabilitate existing housing. Even though it approved a higher percentage of the proposed rehabilitations, the net result still was more new units constructed with tax credits. On average, rehabilitated structures receiving tax credits tended to have more*

living units, cost less, and have lower rents than newly built structures. In recent years, the Housing Resources Corporation has taken steps to increase the number of rehabilitated developments receiving tax credits. Most housing units were constructed for families and the elderly.

**For 14 developments, the Corporation didn't compare the proposed development to other developments as required by State regulation.** For those developments, Corporation officials initially had scored the applications, compared them with other developments, and awarded them \$19 million in tax credits. After delays caused by such things as financing commitments falling through or delays in transferring paperwork from federal housing agencies, Corporation officials reassigned the \$19 million in tax credits to other developers. Once the developments originally awarded the credits were ready to proceed—on average about 18 months later—the Corporation gave them tax credits from the current year's tax-credit allocation without re-scoring them and comparing their applications to other applications up for consideration at the time, as required by State regulation.

**Recommendation.** We recommended that the Kansas Housing Resources Corporation follow State regulations and its written procedures for scoring projects and awarding tax credits.

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## **Question 2: Has the Program Resulted in the Location of Affordable Housing in Areas of the State Where It Is Most Needed?**

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**Federal requirements and State plans have identified a number of areas where low-income housing is most needed.** These and other sources suggested that affordable low-income housing was most needed in the following areas of the State:

- **Qualified census tracts:** the Internal Revenue Code, which governs the Section 42 Low-Income Housing Tax-Credit Program, requires that preference be given to locating tax-credit-financed housing in these tracts, which are census tracts with at least 50% of households earning 60% or less than the median income for the area.
- **Rural areas of the State:** rental housing outside the State's four major metropolitan areas was identified as a housing priority for the elderly and disabled in State plans used to administer Section 42 tax credits from 2004-2008 and rural housing for families was an identified priority for 2006 tax credits.
- **South central, north central, and northeast Kansas:** A market study that was part of the State's Consolidated Plan for 2004-2008, identified these regions as having the highest need for affordable low-income housing. Many of the public housing authorities we surveyed that reported large numbers of households waiting for public housing also were located in these same regions.

**Overall, 87% of the Section 42 housing approved for 2004-2007 was in one or more of these higher-need areas.** Overall, 81 of the 93 developments awarded credits for 2004-2007 were in one or more of the areas described above. The rest were primarily rural family housing units that received tax credits in 2004, 2005, or 2007, years in which such housing hadn't been identified in the Corporation's Plan as a priority need.

Public housing authorities from 35 communities reported having more than 50 families on their waiting lists for public housing or waiting times of at least seven months. Many of those communities have had one or more Section 42 tax-credit-financed housing developments approved in their areas within the past four years.

However, many of the smaller communities with waiting lists haven't had developments proposed. Housing Resources Corporation officials told us it can be difficult for developers to build financially viable developments in some small communities. To increase the likelihood of developments in smaller communities, the Corporation recently increased the number of points awarded to proposals in communities with populations of less than 5,000.

**Average rents charged for Section 42 Housing units were well below the maximum rents allowed under this Program.** In addition, the average rent rates for many Section 42 tax-credit housing units actually were lower than the rent limits set by the U.S. Department of Housing and Urban Development (HUD) for low-income housing.

**Conclusion.** The vast majority of developments approved for Section 42 low-income housing tax credits were in areas where needs were identified for affordable low-income housing. However, many smaller, mostly rural communities that have families waiting for affordable public housing-haven't had any proposed developments. The Corporation doesn't have any influence over where developments are proposed, but it recently has tried to increase the likelihood of locating developments in smaller communities by increasing the number of points awarded to proposals in communities with populations of less than 5,000. It also is assigning more points to proposed developments that agree to keep their rents below the low-income housing rates set by HUD.

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### **Question 3: How Does Kansas Compare to Other States in Its Efforts To Spur Construction of Low-Income Housing?**

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**Several states have additional programs or funding sources to supplement their low-income housing programs.** All states can participate in the Section 42 Housing Tax-Credit Program. To identify other programs and funding sources used, we obtained information from Colorado, Missouri, Oklahoma, Iowa, and Tennessee. Two of those states have state-level tax-credit programs to help spur the construction

*of low-income housing. Missouri has two and Tennessee has one. Each program provides \$11million to \$12 million per year in tax credits.*

*Four comparison states have housing trust funds like Kansas does, but their funds have anywhere from \$3 million to \$7 million available to spend each year, compared to about \$230,000 in Kansas.*

**All five comparison states have revolving loan funds to help finance low-income housing.** *Kansas doesn't have a revolving loan fund.*

**Conclusion.** *The available money to spur the construction of low-income housing in Kansas appears to be more limited than in the other states we contacted. If the Legislature decides to supplement Kansas' Section 42 Housing Tax Credit Program, there are a variety possible methods available. The most common methods we identified in other states included the creation of State-level tax credits, the creation of revolving funds for low-interest loans, the earmarking of certain fees (such as mortgage registration fees) for housing, and general fund appropriations.*

**APPENDIX A:** *Scope Statement*

**APPENDIX B:** *Developments receiving low-income housing tax credits*

**APPENDIX C:** *Agency Response*

*The agency generally concurred with the report's findings, conclusions, and recommendations.*

This audit was conducted by Laurel Murdie, Brad Hoff, and Felany Opiso-Williams. Leo Hafner was the audit manager. If you need any additional information about the audit's findings, please contact Laurel at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.