



# **PERFORMANCE AUDIT REPORT**

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

**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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August 17, 2007

To: Members, Legislative Post Audit Committee

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This report contains the findings and conclusions from our completed performance audit, *Kansas Housing Resources Corporation: Reviewing the Section 42 Housing Tax Credit Program*.

This report also 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.

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

## Get the Big Picture

Read these Sections and Features:

1. **Executive Summary** - an overview of the questions we asked and the answers we found.
2. **Conclusion and Recommendations** - are referenced in the Executive Summary and appear in a box after each question in the report.
3. **Agency Response** - also referenced in the Executive Summary and is the last Appendix.

### *Helpful Tools for Getting to the Detail*

- In most cases, an “**At a Glance**” description of the agency or department appears within the first few pages of the main report.
- **Side Headings** point out key issues and findings.
- **Charts/Tables** may be found throughout the report, and help provide a picture of what we found.
- **Narrative text boxes** can highlight interesting information, or provide detailed examples of problems we found.
- **Appendices** may include additional supporting documentation, along with the audit **Scope Statement** and **Agency Response(s)**.

**EXECUTIVE SUMMARY**  
LEGISLATIVE DIVISION OF POST AUDIT

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

**Section 42 low-income housing tax credits help generate private funding to build low-income housing.** ..... page 3  
*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.** ..... page 3  
*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.*

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

**In all, 93 developments were awarded \$217 million in tax credits for 2004-2007.** ..... page 8  
*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.** ..... page 10  
*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. .... page 13

**Recommendation** ..... page 14

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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: ..... page 15

- **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.

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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.

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**Conclusion** ..... page 22

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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.

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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.*** ..... page 25

**Conclusion** ..... page 25

**APPENDIX A: *Scope Statement*** ..... page 26

**APPENDIX B: *Developments receiving  
low-income housing tax credits*** ..... page 28

**APPENDIX C: *Agency Response*** ..... page 33

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](mailto:LPA@lpa.state.ks.us).

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

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As part of the Tax Reform Act of 1986, Congress authorized housing tax credits designed to generate private equity capital for the development of low-income rental housing. The amount of credits each state receives is based on its population. Each year, Kansas can give out tax credits worth about \$50 million over a 10-year period to developers who want to build or renovate multi-family housing for low-income families.

The Housing Tax Credit Program moved from what was the Department of Commerce and Housing to the Kansas Development Finance Authority in 2003 when the Governor issued an executive order moving all housing programs to the Authority. The Legislature directed the Department of Commerce and Housing to adopt rules and regulations setting forth an objective scoring matrix for awarding housing tax credits for fiscal year 2004, and authorized the Kansas Development Finance Authority to amend or supplement those rules and regulations thereafter.

Recently, legislators have expressed an interest in knowing what has been accomplished by the Section 42 Housing Tax Credit Program under current rules and regulations. In addition, they want to know whether the rental units provided under the program have been located in areas of the State where the highest needs exist. Finally, they want to know how Kansas compares with some other states in the amount of assistance they provide to developers constructing low-income housing units.

This performance audit answers the following questions:

- 1. How many and what types of projects have been funded through the Kansas Housing Tax Credit Program under current State law and regulations?**
- 2. Has the program resulted in the location of affordable housing in areas of the State where it is most needed?**
- 3. How does Kansas compare to other states in its efforts to spur construction of affordable housing?**

To answer these questions, we reviewed federal program requirements, State regulations, and the State's plan for allocating low-income housing tax credits. We interviewed Kansas Housing

Resources Corporation officials, and reviewed and analyzed developers' low-income housing tax credit applications, the criteria the Corporation uses to evaluate those applications, and vacancy-rate data maintained by the Corporation. We also toured a number of local housing units that were built using the housing tax credits.

In addition, we surveyed Kansas' public housing agencies to determine whether they had families waiting for low-income housing units, and looked at whether projects had been proposed or approved in those areas. A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in *Appendix A*.

In conducting this audit, we followed all applicable government auditing standards set forth by the U.S. Government Accountability Office. Although we detected some inaccuracies in the electronic data the Housing Resources Corporation uses for scoring proposed low-income housing developments, those inaccuracies were too small to affect our findings and conclusions.

In addition, we didn't try to verify the accuracy of the information public housing agencies reported to us on their surveys regarding the number of families waiting for public housing, or the average length of their wait. If there are significant inaccuracies in the reported data, that could affect some of our conclusions about whether projects were located in areas of need. Our findings begin on page 8, following a brief overview.

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

***Section 42 Housing Tax Credits Help Generate Private Funding To Build Low-Income Housing***

Brought about by the Tax Reform Act of 1986, these low-income housing tax credits replaced previous housing tax credits allowed by the Internal Revenue Service. Named after Section 42 of the Internal Revenue Code, the tax credits are used to generate funds from private investors to encourage the development of low-income rental housing.

Figure OV-1 Section 42 Housing Tax Credits Available to Kansas (a) Calendar Years 2004-2008		
Year	10-Year Value of Tax Credits Available	Annual Amount of Tax Credit That Can Be Taken
2008	\$53,859,460	\$5,385,946
2007	\$53,859,460	\$5,385,946
2006	\$51,149,050	\$5,214,905
2005	\$50,606,780	\$5,060,678
2004	\$49,023,120	\$4,902,312

Source: Kansas Housing Resources Corporation data.  
(a) National pool credits are excluded.

**Each year, the federal government gives states the authority to give out federal income tax credits to spur the development of low-income housing.** The amount of credits each state receives is based on a formula that multiplies a set dollar amount times the number of people in the State. States also can receive an allotment of additional credits from a pool of credits unused by other states in previous years.

*Figure OV-1* shows that, 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 Administers the Housing Tax Credit Program In Kansas***

The Corporation is a subsidiary of the Kansas Development Finance Authority. Among other things, the Authority was created by the Legislature to arrange bond financing for State agency projects, as well as financing for healthcare and educational facilities. The Corporation generally is responsible for housing programs in Kansas, including the Section 42 Housing Tax Credit Program.

**To be eligible for Section 42 housing tax credits, housing developers must agree to meet certain IRS regulations.**

Developers must agree to designate all or a portion of the proposed development's housing units for low-income tenants, and rents for those units must meet federal requirements. In addition, those housing units must remain in the program for at least 15 years.

Developers must submit a package of required information to the Corporation, including details on the proposed development, documentation of community support for the development, detailed cost information, a market study of the site location, and required fees. The Corporation gets about 39 applications in each award round. Credits are awarded in two rounds each year—one in the spring and one in the fall.

**The Housing Resources Corporation evaluates proposed low-income housing developments against set scoring criteria, and then ranks them against other proposed developments.**

Because these are federal tax credits, the Internal Revenue Code is the overall authority governing the Section 42 Housing Tax Credit Program.

The Code requires states to develop a plan—called a “Qualified Allocation Plan”—that describes the selection criteria and the process used to award the tax credits. State regulations specify seven broad areas to be considered when awarding low-income housing tax credits in Kansas and assign a number of points to each category. Additional and more detailed criteria under each category are spelled out in Kansas’ Qualified Allocation Plan, which is approved by the Governor. *Figure OV-2* shows the scoring criteria in place for the 2008 tax credit allocations.

Although the total number of points awarded hasn’t changed over the years, the Corporation has periodically adjusted the number of points assigned to individual selection criteria. For example, for the 2006 allocation, 10 fewer points were made available to developments with at least one housing unit being reserved for the homeless, and 10 more points were given for developments proposing rehabilitation of existing structures.

Some more significant changes were made for the 2008 allocations, primarily to give even more points to those projects that rehabilitate existing housing, serve special needs clients, or are located in rural areas. These changes are discussed in more detail in Questions 1 and 2.

**In addition to scored selection criteria, the Corporation can consider “non-point” criteria when evaluating proposed developments.** Non-point criteria can include such things as whether the developer is experienced, the reasonableness of the proposed development costs, comments from neighborhood groups and organizations, the suitability of the site, including environmental conditions and the economic state of the neighborhood, and the size of the project relative to the overall demand and distribution of tax credits across the State.

A proposed development application may be accepted or rejected based on these non-point criteria. Our review showed that, when non-point criteria were used, they most often were used to reject development applications.

**Figure OV-2  
Selection Criteria Outlined in Kansas Administrative Regulations (a)  
and Specific Criteria Used To Evaluate Proposed Section 42 Housing Tax-Credit Developments**

<b>Development location</b>	<b>50</b>
Property is located in a "qualified census tract" or difficult development areas as defined by the U.S. Department of Housing and Urban Development (HUD).	10
Property is located in a county with a median income below the State non-metro average	10
Property is located outside a Metropolitan Statistical Area.	10
Community acceptance, neighborhood consistency, and site usability, accessibility, and marketability.	20
<b>Housing needs characteristics for the market area in question</b>	<b>45</b>
At least 20% of the units are 3-bedroom units (up to 10 points)	10
At least one unit is reserved for temporary housing for the homeless.	5
Existing low-income housing is preserved that otherwise was subject to foreclosure or default.	10
Development would provide rehabilitation of existing, structurally sound, energy efficient, low-income housing or building (up to 20 points)	20
<b>Development characteristics, including whether the project will use existing housing as part of a community revitalization plan and whether the project is intended for eventual tenant ownership</b>	<b>80</b>
Low intermediary costs, including attorney fees, engineering fees, and architect fees.	15
Amenities, up to one point for each. For example, green areas, bike racks, washer/dryer hook-ups, carports, playgrounds, swimming pools, safe rooms.	10
Provides for services, such as credit counseling, home buyer education, literacy or language training.	15
Readiness to proceed. For example, proper zoning in place, deed to property is recorded.	10
Single family housing intended for eventual tenant ownership.	10
Development is part of a community revitalization plan.	20
<b>Developer characteristics</b>	<b>10</b>
Applicant is a local tax-exempt organization	10
<b>Development was designed to serve tenant populations with special housing needs, including households with children , tenants 55 years and older, or tenants with special needs</b>	<b>75</b>
100% of units are targeted to tenants 55 years and older, or to tenants with special needs.	20
Development is designed to serve the lowest-income tenants.	35
Development provides market rate units.	10
Development serves individuals with children.	10
<b>Development will accept referrals of tenants who are on public housing waiting lists</b>	<b>5</b>
Developer has entered into an agreement with a public housing agency or local governing units to accept referrals of tenants on the public housing agency waiting list.	5
<b>Development will be located in a community that has not previously received housing tax credits <u>or</u> the developer provides an independent, site specific market study of the community</b>	<b>45</b>
Placing a development in a community with less than 5,000 population,	15
Preserving housing with a U.S. Housing and Urban Development Section 8 or U.S. Department of Agriculture Payment contract.	15
Providing housing for special needs populations, including, but not limited to homeless families and individuals with disabilities.	15
Offering gross rent for all living units at a rate that is below the fair market rent for the area in which the property is located. Fair market rents are based on those set by the U.S. Department of Housing and Urban Development.	15
<b>TOTAL</b>	<b>310</b>

Source: Kansas Housing Resources Corporation Qualified Allocation Plan for awarding 2008 Tax Credits. Points shown are maximums.

(a) Selection Criteria shown in gray sections of the Figure OV-2 are from Kansas Administrative Regulations. Categories shown below each of those (in the white sections of the Figure) are the specific criteria outlined in the Kansas Housing Resources Corporation's Qualified Allocation Plan.

**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 of those tax credits.

This means that investors would pay developers about \$42.5 million to get a total of \$50 million in tax credits. And for every 85 cents investors spent to buy the tax credits, they could reduce the amount of federal income tax they owe by \$1. The investors are allowed to take one-tenth of the total value of the tax credits each year over a 10-year period.

The developer uses the money received from the sale of the tax credits to pay the cost of constructing or rehabilitating existing housing units. According to records maintained by the Housing Resources Corporation, the amount of money a developer receives from the sale of the credits on average covers more than 58% of the housing development's costs. As a result, the development's construction or rehabilitation costs can be less than half what they otherwise would have been, which should allow rents to be set at a lower level.

**The Corporation monitors developers to ensure that they continue to comply with all requirements.** Once a low-income housing development is built using Section 42 housing tax credits, the Corporation monitors it to ensure that gross rents don't exceed federal limits and that units are rented only to eligible tenants. Tenants living in housing units built with tax credits must earn 60% or less of the median income for the area. Reviewing the effectiveness of this monitoring function wasn't part of the scope of this audit.

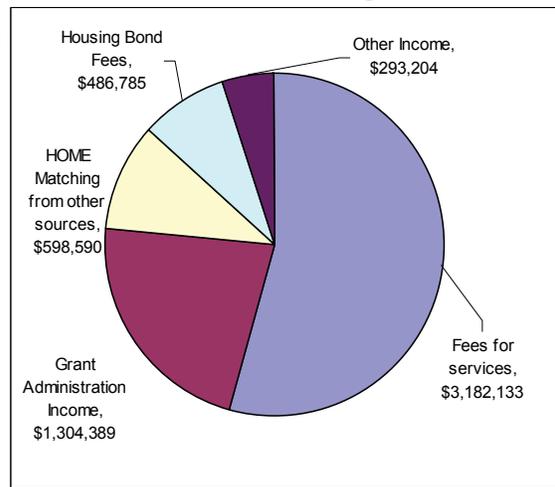
## Kansas Housing Resources Corporation AT A GLANCE

- Authority:** Created by K.S.A. 74-8904(v) to be a subsidiary of the Kansas Development Finance Authority.
- Staffing:** The Kansas Housing Resources Corporation has 42.3 full-time-equivalent positions. Of the 42.3 positions, 6 full-time positions are dedicated to the Section 42 Tax Credit program.
- Budget:** The Corporation's major funding comes from fees for services that are related to providing affordable housing programs. The Corporation also receives funding from administering grants and receives matching funds for the HOME program.

### FY 2006 Expenditures by Program

Type	Amount	% of Total
HOME Program	\$1,780,683	34%
Asset Management	1,260,718	24%
KAMP <sup>a</sup> and ERP <sup>b</sup>	819,806	16%
Low Income Housing Tax Credit	438,646	8%
CSBG <sup>c</sup> , ESG <sup>d</sup> and HMIS <sup>e</sup>	291,456	6%
DOE-WAP <sup>f</sup>	224,182	4%
Other Expenses	216,132	4%
WARM Kansas	99,390	2%
Low Income Energy Assistance	76,582	2%
<b>Total Expenses:</b>	<b>\$5,207,595</b>	<b>100%</b>

### FY 2006 Funding Sources



**Total Funding: \$5,865,101**

Source: The Kansas Housing Resources Corporation, which in addition to the Section 42 Housing Tax Credit Program also administers these programs: (a) Kansas Accessibility Modification Program (b) Emergency Repair Program, (c) Community Services Block Grant, (d) Emergency Shelter Grant Program, (e) Homeless Management Information Systems, (f) Department of Energy-Weatherization Assistance Program.

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

**ANSWER IN BRIEF:**

*In all, 93 developments were awarded \$217 million in tax credits through the Program between 2004 and 2007. These developments provided slightly more than 3,200 housing units. About two-thirds of the developments were newly constructed, and one-third were rehabilitations. These rehabilitated structures tended to have more living units, cost less, and have lower rents. Recently, the Housing Resources Corporation has taken steps to increase the number of rehabilitated developments receiving tax credits, primarily by increasing the number of points awarded to proposed rehabilitation projects. Overall, about two-thirds of the housing units were for families, one-third were for the elderly, and less than 2 percent were specifically for the disabled. However, the total number of living units accessible to disabled tenants is likely much higher because new, ground-floor housing units must comply with accessibility requirements in the Fair Housing Act. For 14 of the developments given tax credits for 2004 to 2007, the Corporation didn't appear to follow State regulations requiring each proposed development to be compared to its peers in each particular round of tax-credit awards. These and other findings are discussed in the sections that follow.*

***In All, 93 Developments Were Awarded \$217 Million in Tax Credits for 2004 to 2007***

As **Figure 1-1** shows, these 93 developments provided slightly more than 3,200 tax-credit-financed housing units at a total cost of nearly \$316 million. To offset those costs, developers received \$217 million in Section 42 housing tax credits. They reported selling these credits to investors for an average of 85 cents on the dollar, which netted an estimated \$184.3 million to help offset construction costs.

**Figure 1-1**  
**Number of Developments and Units Awarded Credits for 2004-2007 (a)**  
(all dollars shown in millions)

Year	Housing Developments	Tax-Credit Housing Units	Total Cost	10-year Value of Tax Credits	Annual Tax Credits	Estimated Funds from Sale of Credits	Estimated % of Total Costs Funded by Credits
2007	20	712	\$79.8	\$50.6	\$5.0	\$46.1	58%
2006	21	739	\$76.1	\$51.8	\$5.2	\$43.5	57%
2005	28	883	\$80.9	\$56.8	\$5.7	\$48.2	60%
2004	24	877	\$78.7	\$57.8	\$5.8	\$46.5	59%
Total/ Avg.	93	3,211	\$315.5	\$217	\$21.7	\$184.3	58%

Source: LPA analysis of Kansas Housing Resources Corporation data.  
(a) Annual tax credit amounts shown above exclude developments that received only "additional" credits from 2004-2007, therefore the 10-year value and annual tax credit amounts shown above won't equal those amounts shown in Figure OV-1. Those additional credits totaled slightly more than \$1 million.

**Figure 1-2** shows the counties where developments were approved for 2004-2007 tax credits, the number of living units, and the amount of Section 42 housing tax credits awarded. **Appendix B** lists more detailed information for each development.



**About Two-Thirds of the Approved Developments Were for New Housing Units**

Legislators requesting this audit were interested in knowing whether most of the developments funded with tax credits were new construction or rehabilitated structures. As **Figure 1-3** shows, of the developments receiving Section 42 tax credits from 2004-2007, nearly two-thirds (64%) were new construction.

**Figure 1-3**  
**Number of Applications for Section 42 Tax Credits, and Developments Receiving Credits Comparing New Construction Developments and Rehabilitated Developments Calendar Years 2004-2007**

	Applications Received for Tax Credits		Applications Approved for Tax Credits		% of Applications Approved	10-Year Value of Tax Credits Awarded (in millions)
	#	%	#	%		
<b>New Construction</b>	130	69%	59	64%	45%	\$140.9
<b>Rehabilitations</b>	58	31%	33	36%	57%	\$71.6
<b>Total</b>	188	100%	92 <sup>(a)</sup>	100%		\$212.5 <sup>(a)</sup>

Source: LPA analysis of Kansas Housing Resources Corporation data.  
(a) In total from 2004-2007, 93 developments received tax credits. One development was excluded from this analysis because it had a mix of new and rehabilitated living units and we had no reasonable basis for dividing the costs. Therefore, the total number of approved developments and the 10-year value shown in this figure won't match Figure 1-1.

The figure also shows that, although the Corporation received about twice as many applications to construct new housing units as it did to rehabilitate existing housing units, it actually approved a higher percentage of the rehabilitation applications it received (57% vs. 45% for new construction).

**Figure 1-4** shows the locations of the developments with new and rehabilitated living units.

**Figure 1-5** shows some additional comparisons between the new and rehabilitated housing units approved for 2004-2007 tax credits.

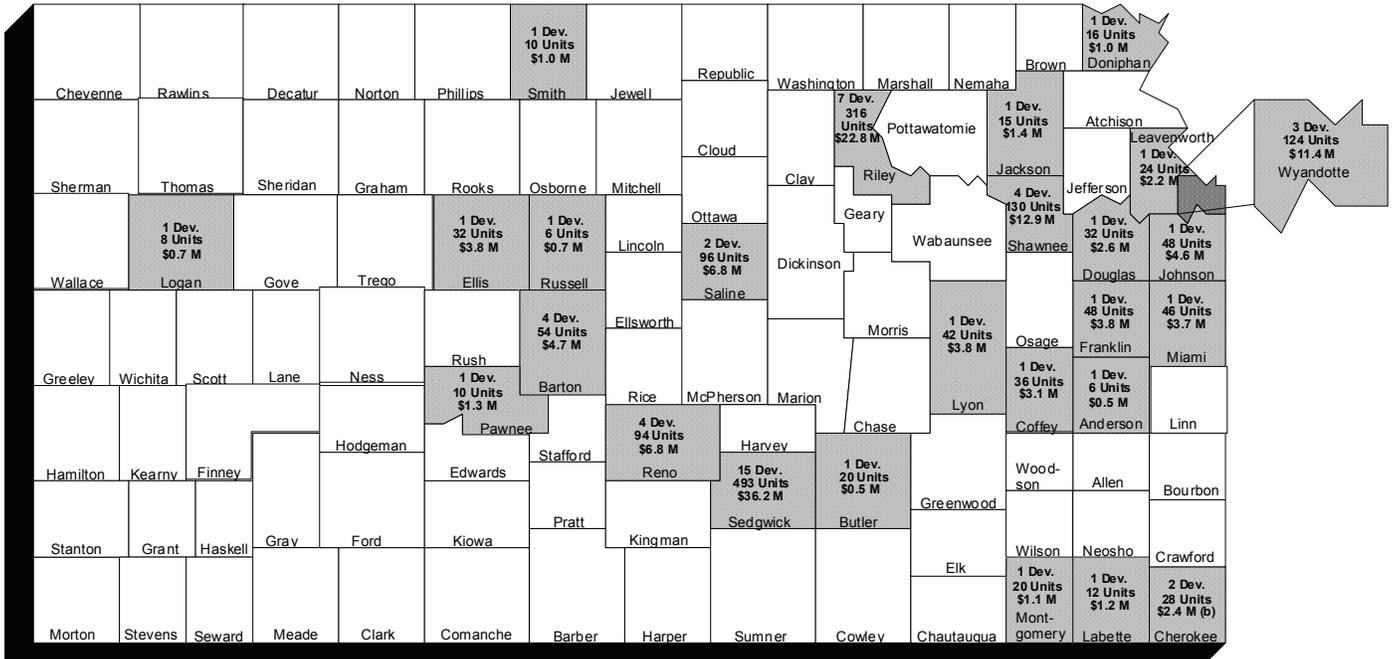
**Figure 1-5**  
**Comparing Units in New Construction Developments to Rehabilitated Developments Calendar Years 2004-2007**

	# Developments Receiving Tax Credits (a)	# of Tax-Credit-Financed Housing Units	Avg # Units / Project	Avg Cost Per Unit	Avg Tax Credit Awarded / Unit	Average Rent / Unit		
						1BR	2BR	3BR
<b>New</b>	59	1,766	30	\$112,351	\$79,799	\$492	\$569	\$662
<b>Rehab</b>	33	1,397	42	\$80,509	\$51,221	\$424	\$516	\$579

Source: LPA analysis of Kansas Housing Resources Corporation data.  
(a) In total from 2004-2007, 93 developments received tax credits. One development was excluded from this analysis because it had a mix of new and rehabilitated living units and we had no reasonable basis for dividing the costs.

As the figure shows, on average rehabilitated structures receiving tax credits tended to have more living units, cost less, received less tax credits per unit, and have lower rents.

**Figure 1-4**  
**New Developments Receiving Section 42 Tax Credits, by County (a)**  
**2004-2007**  
**Tax Credits shown in Millions**



**The Housing Resources Corporation has taken steps to increase the number of rehabilitated developments receiving tax credits.** As *Figure 1-6* shows, in recent years the Corporation has twice increased the number of points that can be awarded to developments seeking to rehabilitate existing housing units. In 2006, it changed its scoring criteria to award 10 additional points to developers proposing to rehabilitate existing structures. For the 2008 tax- credit allocations, it added another 25 points for developments involved in rehabilitating housing units.

<b>Figure 1-6 How Scoring Criteria Have Changed Over Time To Increase the Number of Rehabilitation Developments Awarded Section 42 Tax Credits Calendar Years 2004-2008</b>					
<b>Scoring Category</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Preserves existing affordable housing that would be subject to foreclosure or default if tax credits aren't available	10	10	10	10	10
Provides rehabilitation of existing, structurally sound, energy efficient, affordable housing.	10	10	20	20	20
Involves the use of housing as part of a community revitalization plan, including the adaptive use of a registered historical building.	10	10	10	10	20
Preserves housing with a U.S. Department of Housing and Urban (HUD) Section 8 or U.S. Department of Agriculture assistance payment contract	-	-	-	-	15
Total points possible to award to rehabilitated structures	30	30	40	40	65
% of Maximum Points (310)	10%	10%	13%	13%	21%

Source: Kansas Housing Resources Corporation Qualified Allocation Plans.

As *Figure 1-7* shows, these changes appear to have resulted in more rehabilitation projects being approved. The full impact of the changes made for 2008 is yet to be determined because the Corporation has awarded only about 68% of the credits it has available for the year. So far, 43% of the developments approved for 2008 tax credits involved rehabilitated housing units.

<b>Figure 1-7 Percent of New and Rehabilitated Developments Awarded Credits (a) 2004—First Round of Awards for 2008 Tax Credits</b>				
	<b>New Developments Approved</b>		<b>Rehab Developments Approved</b>	
Year	#	% of total	#	% of total
2008 (b)	8	57%	6	43%
2007	11	58%	8	42%
2006	14	67%	7	33%
2005	18	64%	10	36%
2004	16	67%	8	33%

Source: LPA analysis of Kansas Housing Resources Corporation data.  
 (a) In total from 2004-2007, 93 developments received tax credits. One development was excluded from this analysis because it had a mix of new and rehabilitated living units and we had no reasonable basis for dividing the costs.  
 (b) Includes only the first round of awards for 2008 tax credits.

**Most housing units were constructed for families and the elderly.** Of the nearly 3,200 housing units constructed or rehabilitated using 2004-2007 tax credits, almost two-thirds—or nearly 2,100—were categorized as being for families. The rest were primarily for the elderly. *Figure 1-8* breaks this information down by new and rehabilitated housing units.

**Figure 1-8**  
**Characteristics of Housing Developments Receiving Section 42 Tax Credits,**  
**by Type of Construction and by Tenant Type**  
**2004-2007**

Tenant Type	# of Developments Awarded Tax Credits (a)	# of Tax-Credit Housing Units	% of Total Units	Total Cost (in millions)	10-Year Value of Tax Credits (In millions)
<b>Housing Units for Families</b>					
New	27	961	30.4%	\$112.5	\$74.1
Rehabilitated	25	1,090	34.4%	\$78.7	\$53.1
<b>Subtotal Family</b>	<b>52</b>	<b>2,051</b>	<b>64.8%</b>	<b>\$191.2</b>	<b>\$127.2</b>
<b>Housing Units for the Elderly</b>					
New	28	752	23.8%	\$80.2	\$62.4
Rehabilitated	8	307	9.7%	\$33.7	\$18.4
<b>Subtotal Elderly</b>	<b>36</b>	<b>1,059</b>	<b>33.5%</b>	<b>\$113.9</b>	<b>\$80.8</b>
<b>Housing Units for the Disabled (b)</b>					
New	4	53	1.7%	\$5.8	\$4.5
Rehab	0	0	0%	\$0	\$0
<b>Subtotal Disabled</b>	<b>4</b>	<b>53</b>	<b>1.7%</b>	<b>\$5.8</b>	<b>\$4.5</b>
<b>TOTAL (All Units)</b>	<b>92</b>	<b>3,163</b>	<b>100%</b>	<b>\$310.9</b>	<b>\$212.5</b>

Source: LPA analysis of Kansas Housing Resources Corporation data.  
(a) In total from 2004-2007, 93 developments received tax credits. One development was excluded from this analysis because it had a mix of new and rehabilitated living units, and we had no reasonable basis for dividing the costs.  
(b) Although only about 2% of the units were designated specifically for disabled tenants, the actual # of accessible units is likely higher because new, ground-floor housing units must comply with accessibility requirements in the Fair Housing Act.

***For 14 Developments, The Corporation Didn't Compare the Proposed Development To Other Developments As Required by Regulation***

A State regulation governing the Section 42 Housing Tax Credit Program requires that each proposed development be compared to its peers in each round of tax-credit awards. As mentioned in the Overview, Corporation officials then have the option of using non-point criteria to select a lower-scoring development over a higher-scoring development.

These requirements can help ensure that the process is fair and that developments aren't arbitrarily awarded tax credits. For several developments awarded 2004-2007 tax credits, the process wasn't followed. We've summarized those instances below.

- For 14 housing developments, the Corporation initially had scored the applications, compared them with other developments applying at the time, and awarded them tax credits totaling about \$19 million. However, the construction or rehabilitation of these 14 projects was

delayed for a number of reasons (e.g., financing commitments falling through, delays in transferring paperwork from federal housing agencies). Corporation officials reassigned the original \$19 million in tax credits to other developers. When these 14 developments were finally ready to proceed (the average delay was slightly more than one and one-half years), the Corporation gave them tax credits from the current year's tax-credit allocation without re-scoring them and comparing their applications to the other applications up for consideration at the time, as required.

Some of those other applications actually received higher scores than the scores initially assigned to these 14 developments. We don't know how these 14 developments might have compared if the Corporation had re-scored them based on the criteria then in effect, or whether the Corporation would have used non-point criteria to approve them.

We aren't questioning the need for these developments, but following State regulations and the Corporation's own process—including documenting the basis used to approve lower-scoring developments—would better maintain the integrity of the tax-credit award process.

***Recommendation***

To help ensure that all developers who propose housing developments are treated equitably and that the proposed developments with the highest merit are awarded tax credits, the Kansas Housing Resources Corporation should follow State regulations and its written procedures for scoring projects and awarding tax credits.

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

### **ANSWER IN BRIEF:**

*Federal requirements and State plans for the Section 42 Low-Income Housing Tax-Credit Program identify a number of areas where low-income housing is most needed, including qualified census tracts, rural areas (primarily for the elderly and disabled), and north central, south central, and northeast Kansas. Current waiting lists maintained by public housing authorities pointed to needs in these same regions. Overall, 87% of the housing developments financed with Section 42 tax-credits for 2004 to 2007 were located in one of these identified areas. The rest were primarily rural family housing units, which hadn't been identified as a priority need in three of the four years we reviewed. Over the past four years, Section 42 tax-credit-financed housing has been proposed and approved in many communities with large waiting lists for public housing, but developers hadn't proposed any developments for many smaller communities across the State. Corporation officials say it can be difficult to build financially viable developments in such communities. Average rents charged for many of the housing units receiving Section 42 tax-credits were well below federal rent limits for the Program, and in most regions were below rent limits set for HUD-administered, low-income housing. These and other findings are summarized in the sections that follow.*

### ***Federal Requirements And State Plans Have Identified a Number of Areas Where Low-Income Housing Is Most Needed***

To identify areas of the State where affordable low-income housing was most needed, we reviewed federal requirements related to the Program, the Housing Resources Corporation's annual Qualified Allocation Plans for the Tax-Credit Program, and the State's 5-year Consolidated Plan for program years 2004-2008. The Consolidated Plan included the results of a low-income housing market study conducted in 2003 that became part of that Plan.

We also surveyed public housing authorities to gather information about the number of low-income families on their waiting lists for public housing as of May 2007. Public housing officials completed and returned 85 of the 105 surveys we sent out.

The tenants served by tax-credit-financed housing and public housing aren't necessarily the same. People eligible for Section 42 housing must earn at or below 60% of the household median income in the area, while people eligible for public housing generally are poorer—their earnings limits are at or below 50% of the household median income for the area. Nonetheless, this information can provide a broad indicator of where affordable low-income rental housing may be most needed.

These 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 Low-Income Housing Tax-Credit Program, requires that preference be given to locating tax-credit-financed housing in something called “qualified census tracts.” Qualified census tracts are the same as census tracts recognized by the U.S. Census Bureau, but are designated as “qualified” by the U.S. Department of Housing and Urban Development (HUD) because at least 50% of the households in the tract earn 60% or less than the median income for the area. There are 62 qualified census tracts in Kansas, ranging from isolated small neighborhoods to larger areas covering several tracts. In total, two-thirds of the census tracts are in Wyandotte and Sedgwick Counties.

**Rural areas of the State**—rental housing in rural areas (defined by the Corporation as being outside the State’s four major metropolitan areas of Wichita, Kansas City, Topeka, and Lawrence) was identified as a housing priority need for the elderly and disabled in the Corporation’s Qualified Allocation Plans for 2004-08 tax credits, and for families in the Plan for 2006 tax credits.

**South central, north central, and northeast Kansas**—the Corporation commissioned a consultant to conduct a market study assessing the regions of the State that had the highest need for affordable low-income housing. The results of that 2003 study were included in the State’s Consolidated Plan for 2004 to 2008. (The Consolidated Plan is required by the U.S. Department of Housing and Urban Development (HUD) to help coordinate various federal housing programs administered at the state level.) This study excluded the major metropolitan areas of the State.

**Figure 2-1**  
**Households in Need of Affordable Housing by Region (a)**  
**(excludes large metropolitan areas)**

Region	Statewide	NW	NC	NE	SW	SC	SE
Number	86,624	6,293	22,922	12,068	12,274	20,042	13,025
Percent	43%	38%	45%	42%	39%	48%	39%

Source: Consultant’s 2003 market study included in Kansas’ Consolidated Plan 2004-2008.  
(a) Household numbers are based on 2000 Census.

As **Figure 2-1** shows, although the study found that affordable low-income housing was needed in all parts of the State, it identified south central, north central, and northeast Kansas as having the highest need for affordable low-income housing.

In addition, our survey of public housing authority officials showed the greatest numbers of households waiting for public housing were in the larger cities within these same three regions, including Wichita, Topeka, and Kansas City. (That information is shown in **Figure 2-4** on page 19.)

**Overall, 87% of the Section 42 Housing Approved for 2004-07 Was in One or More of These Higher-Need Areas**

Of the 93 housing developments awarded Section 42 housing tax credits for 2004 to 2007, a total of 81 developments were located in one or more of the areas described above. That information is summarized in **Figure 2-2**.

The 12 other developments were located throughout the State—seven in northwest Kansas, three in southeast Kansas, and two in southwest Kansas. Most of these were family housing units located in

**Figure 2-2  
Number and Percent of Developments and Housing Units Meeting Federal or State Identified Priorities  
2004-2007**

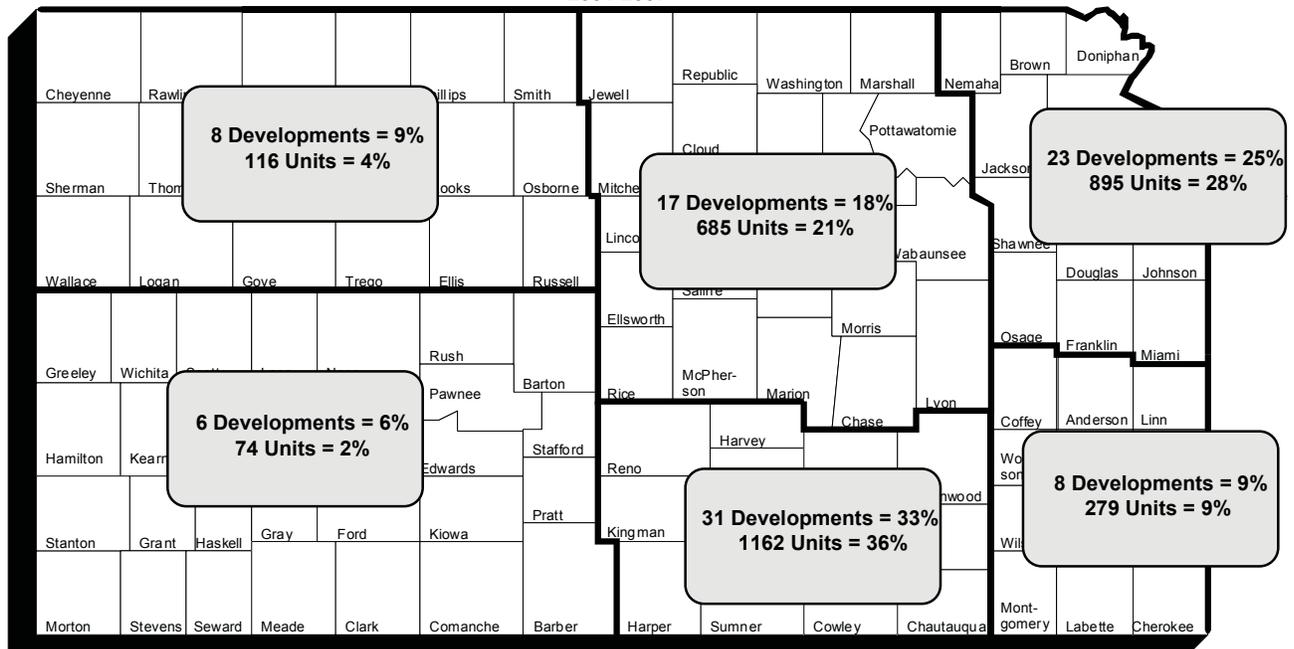
Identified Priorities:	# of Developments meeting this need, out of 93 total developments	% of total	# of Tax-Credit Housing Units meeting this need, out of 3,211 total units	% of total
Housing in a Qualified Census Tract	21	23%	878	27%
Housing in Rural Areas for the Elderly	18	19%	449	14%
Housing in Rural Areas for Families (a)	6	6%	278	9%
Housing in Rural Areas for the Disabled	2	2%	18	1%
North Central Kansas	17	18%	685	21%
South Central Kansas	31	33%	1,162	36%
Northeast Kansas	23	25%	895	28%
Total Meeting One or More Priorities	81	87%	2,931	91%

Source: LPA Analysis of Kansas Housing Resources Corporation data.  
(a) Housing in rural areas for families was an identified priority only for 2006 low-income housing tax credits.

rural areas of the State. They weren't included in *Figure 2-2* because they were awarded tax credits in years when rural family housing units weren't identified as a priority need.

*Figure 2-3* shows the number of developments and living units receiving Section 42 low-income housing tax credits for 2004-07, divided up by the six regions of the State.

**Figure 2-3  
Number and Percent of Total Developments and Living Units Receiving  
Section 42 Low-Income Housing Tax Credits  
2004-2007**



Source: LPA analysis of Kansas Housing Resources Corporation data.

**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.** That information is summarized in *Figure 2-4*.

Of the 35 communities listed in the figure, the top eight communities (in terms of numbers of households waiting for public housing) were in south central, north central, or northeast Kansas—the same regions identified earlier as having the greatest needs for affordable, low-income housing. As the figure shows, many of these communities have had one or more Section 42 tax-credit-financed housing developments approved in their area within the past four years.

*Figure 2-4* also shows that many of the communities with 15 or fewer households on the waiting list for public housing were scattered across the State in mostly rural areas. Developments for Section 42 tax-credit-financed housing have been proposed in only a few of those communities.

**Housing Resources Corporation officials told us it can be difficult to build financially viable developments in some small communities.** They indicated that, with smaller housing developments, developers don't get the savings they might when building a multi-unit development in a more heavily populated area. They said such economies of scale help keep rents lower, so the development will more likely be financially viable.

Corporation officials also told us that, unless developers receive additional funding subsidies, higher-level rents usually are needed to cover the cost of new construction in smaller communities, and those rents are higher than typical rents paid in those communities—another factor affecting the financial viability of a development. 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.

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***Average Rents Charged For Section 42 Housing Units Were Well Below the Maximum Rents Allowed Under This Program***

Maximum rents for housing units built with Section 42 housing tax credits are established by federal requirements. Those rents are based on two factors: the renters' household income, and the number of bedrooms in the housing unit.

As noted earlier, the maximum income a family can have and still qualify for housing under the Section 42 Housing Tax-Credit Program is based on the number of people in the family, but generally has to be 60% or less than the median income for the area

**Figure 2-4  
Kansas Communities Reporting Having More Than 50 Families Waiting for Public Housing or  
Families Waiting More than Seven Months  
May 2007**

Region	County	City	Max # Households Waiting May 2007 (a)	Max # Months Waiting May 2007	# Dev. Proposed 2004-2007	Housing Units Proposed 2004-2007	# Dev. Approved 2004-2007	# Units Approved 2004-2007
SC	Sedgwick	Wichita	1,483	30	23	1,224	12	528
NE	Johnson	Olathe	500	60	1	40		
NE	Douglas	Lawrence	435	24	1	58	1	58
NE	Shawnee	Topeka	200	9	14	723	6	268
NC	Saline	Salina	147	12	6	353	3	157
NE	Wyandotte	KS City	115	2	9	496	3	116
NC	Geary	Junction City	100	12	2	76	1	32
NC	Riley	Manhattan	95	6	10	470	8	376
SW	Ford	Dodge City	75	3	1	22		
NW	Ellis	Hays	65	12	1	32	1	32
SE	Allen	Iola	35	12				
SW	Stafford	Stafford	35	12				
NC	Dickinson	Herington	25	12				
SE	Labette	Parsons	25	12	2.33	25	1.33	16
NC	McPherson	Moundridge	25	12				
NC	Pottawatomie	Wamego	25	12				
SC	Butler	Augusta	20	12	1	20	1	20
NC	Rice	Lyons	20	12				
NC	Rice	Sterling	20	12				
SE	Allen	Humboldt	15	12				
SW	Barton	Great Bend	15	12	3	42	3	42
SE	Cherokee	Columbus	15	12	1.33	20	1.33	20
SE	Crawford	Girard	15	12				
NC	Marion	Marion	15	12				
SE	Montgomery	Cherryvale	15	12				
SE	Crawford	Frontenac	10	12				
NC	Dickinson	Solomon	10	12				
SW	Finney	Garden City	10	12				
SC	Harper	Anthony	10	12				
NC	Marshall	Blue Rapids	10	12				
NC	Chase	Strong City	5	12				
NW	Cheyenne	St. Francis	5	12				
NC	Dickinson	Chapman	5	12				
NW	Graham	Hill City	5	12				
NE	Jefferson	Valley Falls	5	12				
Total			3,610	470	76	3,601	42	1,665

Source: Survey of Public Housing Agencies, May 2007. LPA Analysis of Kansas Housing Resources Corporation data on applications and approved developments, 2004-2007.

(a) Includes only households waiting for public housing. Households waiting for Section 8 rental assistance vouchers were excluded with the exception of Junction City, Hays, and Great Bend. For those locations, we couldn't differentiate from households waiting for public housing and those waiting for Section 8 vouchers, therefore the number of households waiting includes families waiting for either program.

in which they live. Taking this allowable income into account, federal tax regulations outline the maximum allowable rents that can be charged, and adjust it, depending on number of bedrooms in the unit. In general, the maximum rents are set at 30% of the income of people qualifying to live in Section 42 housing units.

To assess the affordability of rents charged for the Section 42 housing units we reviewed, we obtained and compared current information for 1-, 2-, and 3-bedroom units for the following:

- the actual rental rates charged for Section 42 tax-credit-financed housing units
- the maximum rents allowed by federal regulations for Section 42 Housing Tax-Credit Program
- the maximum rents allowed by HUD for low-income housing, which pegs the maximum rent limits at the 40<sup>th</sup> percentile of the available rents in the area. [The 40<sup>th</sup> percentile means that 60% of the rents in the areas are higher, and 40% are lower.]

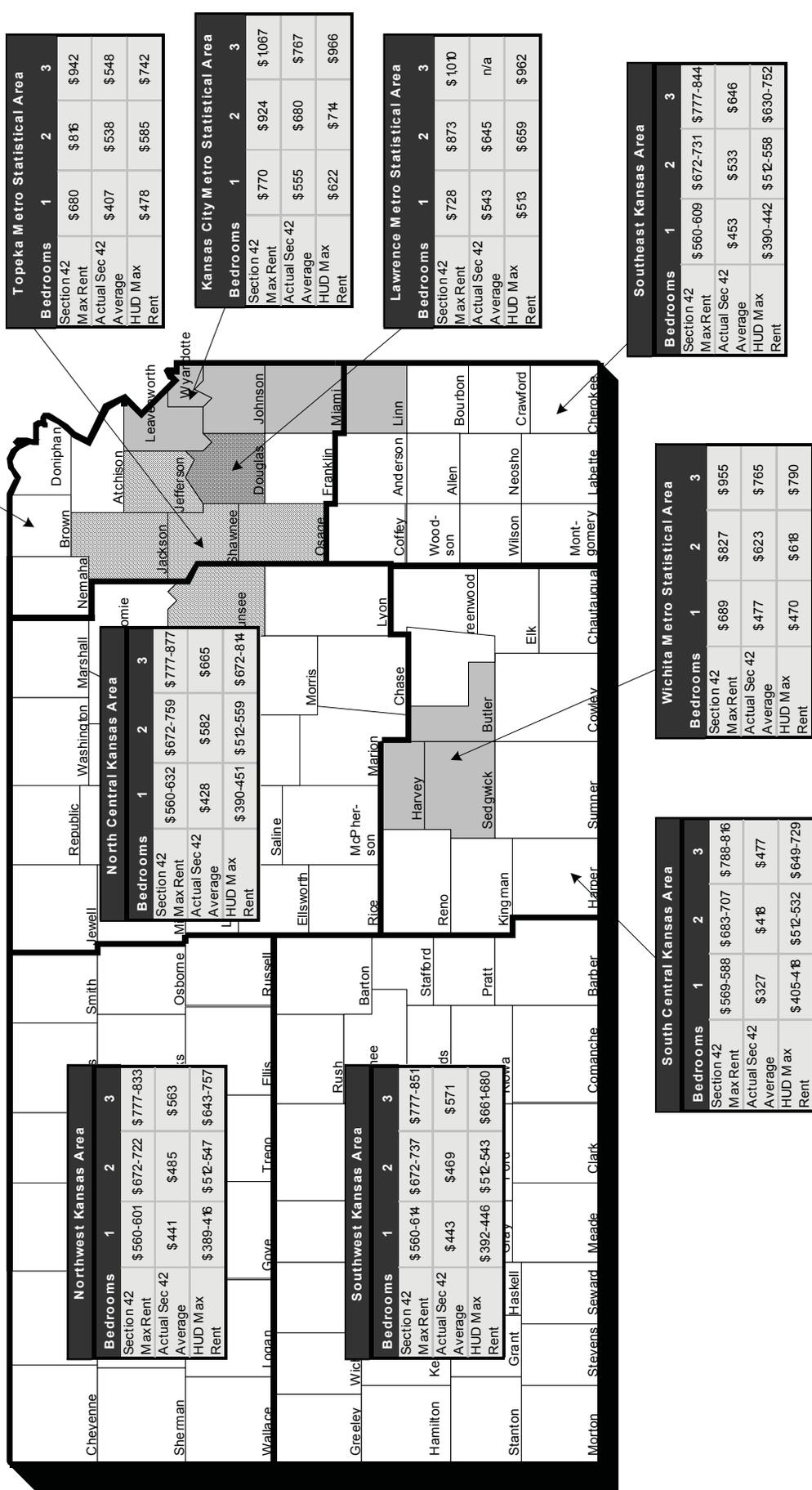
**Current average rents for Section 42 housing generally were much lower than the program’s rent limits.** For example, maximum rental rates allowed under the Section 42 housing program for the counties in northwest Kansas ranged from \$560 to \$601 per month for a 1-bedroom housing unit. That compared with an average rental rate of \$441 per month for the Section 42 housing units in those areas that received tax credits. The results of all our comparisons are summarized in *Figure 2-5*.

Several Section 42 housing developments had very low rental rates. For example, two developments—one in Manhattan and one in Hutchinson—rented some of their 1-bedroom units for just \$147-\$160 per month. Our analyses showed that these developments had 83% and 86% of their total costs funded by the sale of Section 42 housing tax credits. That compares with an average of 58% for all developments receiving Section 42 tax credits for 2004-2007.

**The average rent rates for many of the Section 42 housing units actually were lower than the rent limits set by HUD for low-income housing.** As *Figure 2-5* shows, for example, the average Section 42 housing rental rate in the Topeka area for a 3-bedroom housing unit was \$548 per month, compared with HUD’s \$742 maximum rent rate for low-income housing.

A more detailed analysis showed that 47% of the 1-bedroom units, 64% of the 2-bedroom units, and 87% of the 3-bedroom units in the Section 42 housing developments we reviewed had rents that were lower than the limits set by HUD for low-income housing.

**Figure 2-5**  
**Comparing Current Average Rents for Section 42 Housing Units to**  
**Section 42 Program Limits and to HUD Rent Limits for Low-Income Housing**



The Housing Resources Corporation recently adjusted its criteria to give priority to proposed developments with rents lower than limits established for public housing. In its Qualified Allocation Plans for awarding 2007 and 2008 tax credits, the Corporation changed its scoring criteria to give higher scores to proposed developments offering gross rents (base rent plus utilities) at rates below the rent limits set for HUD-administered, low-income housing in the area.

***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 control 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 the U.S. Department of Housing and Urban Development (HUD).

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

**ANSWER IN BRIEF:**

Compared to Kansas, several other states we contacted have additional programs or funding sources to supplement their low-income housing programs. Both Missouri and Tennessee have state-level tax-credit programs to help spur the construction of low-income housing. Four comparison states we contacted have housing trust funds like Kansas does, but their funds have significantly more money available to spend each year. Kansas Housing Resources Corporation officials told us they likely could generate additional revenues from issuing mortgage revenue bonds (a type of private-activity bond) if they were allowed to handle these bonds and the resulting mortgages the way most other states do. Finally, all five comparison states have revolving loans funds to help finance low-income housing. Although the Corporation makes a limited number of low-interest loans to developers, those loans are financed by operating funds rather than a revolving fund dedicated for that purpose. These and other findings are discussed in the sections that follow.

**Several States Have Additional Programs or Funding Sources To Supplement Their Low-Income Housing Programs**

All states can participate in the federal Section 42 Low-Income Housing Tax Credit Program (discussed in Question 1) or other federal programs to help provide affordable housing to low-income tenants.

To find out what additional programs or funding individual states have available to supplement their low-income housing programs, we contacted officials in our four neighboring states, Iowa, and Tennessee. Nebraska officials didn't respond to our inquiries. **Figure 3-1** on the next page summarizes the information we gathered for Kansas and the five states that responded.

**Both Missouri and Tennessee have state-level tax-credit programs to help spur the construction of low-income housing.** As **Figure 3-1** shows, Missouri has two different programs, each which can offer up to \$11 million in state tax credits a year. One works just like the federal Section 42 Housing Tax Credit Program only at the state level. The other allows investors to make donations to non-profit housing organizations in exchange for a state tax credit equal to 55% of their donation.

Under Tennessee's state-level tax-credit program, banks that make loans, grants, or investments in certain housing entities can get a one-year credit on the taxes they owe to the state. The maximum amount of credits allowed statewide in a single year is \$12 million.

**Figure 3-1  
How Kansas Compares to Other States' Programs and Funding Used To Encourage Low-Income Housing**

	Kansas	Colorado	Iowa	Missouri (a)	Oklahoma	Tennessee
<b>State-Level Tax Credits</b>	none	none	none	<p><u>\$11 million in 10-year state-level tax credits</u></p> <p><b>Source:</b> housing agency awards tax credits to developers, who sell them to investors &amp; use the equity to help build low-income housing.</p> <p><u>\$11 million in annual tax credits</u> to people who make donations to non-profit housing organizations. They receive a credit on the state tax based on 55% of the value of the donation.</p> <p><b>Source:</b> Value of the cash, service, or property donated.</p>	none	<p>\$12 million in one-year, state-level tax credits to banks that loan, grant, or invest in housing entities.</p> <p><b>Source:</b> bank loans, grants, or investments.</p>
<b>Housing Trust Funds</b> <small>(Dollars shown are FY 2006 Spending for low-income housing (b))</small>	<p>\$222,000</p> <p><b>Source:</b> fees earned from issuing housing-related private-activity bonds (2006 fees = \$500,000).</p>	none	<p>\$3.1 million</p> <p><b>Source:</b> annual \$2.5 million legislative appropriation, and revenues from issuing housing-related private-activity bonds (2006 fees = \$820,000).</p>	<p>\$5 million</p> <p><b>Source:</b> \$3 recording fee on real estate filings.</p>	<p>\$4.7 million</p> <p><b>Source:</b> annual legislative appropriation (was \$4.7 million in FY 2006).</p>	<p>\$7 million</p> <p><b>Source:</b> revenues earned from issuing housing-related private-activity bonds (2006 fees = \$3.3 million).</p>
<b>Revolving Loan Funds</b>	none (c)	<p>\$3.25 million</p> <p><b>Source:</b> legislative appropriation.</p>	<p><b>Two Programs:</b> \$6.4 million total</p> <p><b>Source:</b> one loan program was funded by a legislative appropriation (\$3.4 million); the other was funded with earnings from issuing housing-related private-activity bonds (\$3 million).</p>	<p>\$ 7 million</p> <p><b>Source:</b> \$7 million in earnings from issuing housing-related private-activity bonds.</p>	<p>\$25 million</p> <p><b>Source:</b> moneys administered by the State Treasurer's Office</p>	<p>\$5 million</p> <p><b>Source:</b> \$5 million in earnings from issuing housing-related private-activity bonds.</p>
<b>State Population</b>	2,764,075	4,753,377	2,982,085	5,842,713	3,579,212	6,038,803

(a) Each year, Missouri's state-level low-income housing tax credits are equal to its federal low-income housing tax-credits.  
 (b) Some moneys deposited into or spent from states' Housing Trust Funds may be for purposes other than encouraging low-income housing. For example, about \$2.6 million was deposited in Kansas' Housing Trust Fund in FY 2006, nearly \$1.8 million of which was for the Kansas Accessibility Modification Program and the Emergency Repair Program. These moneys aren't reflected in this table.  
 (c) However, annually the Corporation makes about \$230,000 in low-interest loans to developers from its operating funds.  
 Source: Kansas Housing Resources Corporation, and other states, as listed. State Population data is from the U.S. Census Bureau, showing 2000 data projected to 2006.

**Four comparison states have housing trust funds like Kansas does, but their funds have significantly more money available to spend each year than Kansas' Fund has.** Housing Trust Funds may provide funding for a variety of programs or purposes. We asked agency officials to provide us with information related only to those moneys used to spur construction or rehabilitation of low-income housing. What they reported is shown in *Figure 3-1*, and is summarized below:

- In Kansas and Tennessee, Housing Trust Fund moneys spent for low-income housing primarily come from fees and revenues earned from issuing housing-related "private-activity" bonds. [The federal government authorizes states to issue a certain amount of tax-exempt private-activity bonds each year, typically to provide financing for first-time home buyers, multi-family housing units, student loans, and certain municipal projects.] In fiscal year 2006, those bonds generated about \$500,000 in revenues for Kansas' Housing Resources Corporation, and about \$3.3 million for Tennessee's housing agency.

- In Iowa and Oklahoma, moneys in these Funds primarily come from annual legislative appropriations, which totaled several million each in fiscal year 2006.
- In Missouri, moneys in the Housing Trust Fund come from a \$3 fee that's charged on each real estate transaction recorded in the state. That fee generated about \$5 million in fiscal year 2006.

Kansas Housing Resources Corporation officials told us they could generate additional revenues from issuing mortgage revenue bonds (a type of private-activity bond) if they were allowed to handle these bonds and loans to home buyers the way most other states do.

In most states, the housing finance authority issues the mortgage revenue bonds, then loans the proceeds of those bonds out to first-time home buyers at a higher interest rate. The authority gets to keep the bond issuance fees and any difference between the interest it's paying on the bonds and the interest it receives on the loans, and can use those moneys to help finance low-income housing developments. (Some limits may apply to those earnings.)

Kansas' situation is different. By law, only Sedgwick and Shawnee Counties are authorized to issue mortgage revenue bonds and loan the proceeds out to first-time home buyers. The only revenue the Corporation receives from such transactions is the bond issuance fee.

**All five comparison states have revolving loan funds to help finance low-income housing.** These funds were separately financed by those states' legislatures or from their other low-income housing programs—such as their trust funds—and range in size from \$3.25 million to \$25 million. Typically, these funds are used to make short-term, low-interest loans to developers. As developers pay off the loans, the states' housing agencies re-loan the funds to other developers.

According to Corporation officials, they make a limited number of low-interest loans to developers (about \$230,000 annually), but those loans are financed by the Corporation's operating funds rather than from a revolving fund dedicated for that purpose.

## 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

This appendix contains the scope statement approved by the Legislative Post Audit Committee for this audit on March 13, 2007. The audit was requested by Representatives Wilk and Wolf.

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

As part of the Tax Reform Act of 1986, Congress authorized housing tax credits designed to generate private equity capital for the development of affordable rental housing. The amount of credits each State receives is based on its population. Kansas is allocated about \$50 million in tax credits annually to give to developers who want to build or renovate multi-family housing for low-income families.

The Kansas Housing Resource Corporation, a subsidiary of Kansas Development Finance Authority, is the entity responsible for the program in Kansas. The Corporation accepts project proposals from developers, scores them according to a standardized ranking system, and awards a share of the available tax credits to each developer whose project is selected.

The developers typically sell those tax credits to an investor for \$.75 - \$.80 on the dollar. They use the proceeds from the sale to cover part of the costs of constructing the housing units. According to documents from the Corporation, the proceeds typically cover about 55%-60% of the developer's eligible project costs. Investors who buy the credits get to take a proportional share of those credits on their income taxes over the next 10 years.

The Tax Credit Program moved from what was the Department of Commerce and Housing to the Kansas Development Finance Authority in 2003 when the Governor issued an executive order moving all housing programs to the Authority. The Legislature directed the Department of Commerce and Housing to adopt rules and regulations setting forth an objective scoring matrix for awarding housing tax credits for fiscal year 2004, and authorized the Kansas Development Finance Authority to amend or supplement those rules and regulations thereafter.

Recently legislators have expressed an interest in knowing what has been accomplished by the Housing Tax Credit Program under current rules and regulations. In addition, they want to know whether the rental units provided under the program were constructed in areas of the State where the highest need exists. Finally, they want to know how Kansas compares with some other states in the amount of assistance they provide to developers constructing low-income housing units.

A performance audit of this topic would address the following questions.

1. **How many and what types of projects have been funded through the Kansas Housing Tax Credit Program under current State law and regulations?** To answer this question, we would review State statutes and regulations related to the program. We would review information maintained by the Kansas Housing Resources Corporation about the projects they've funded since the program was moved in 2003. We would gather information such as, the number and types of applications received, the amounts of funding provided by project and in total, how much went for new construction and for renovating existing housing units, the number of new and renovated units produced, and where the units are located across the State.
2. **Has the program resulted in the location of affordable housing in areas of the State where it is most needed?** To answer this question, we would consult sources such as Census data, Realtor Associations, local housing authorities, or the Department of Housing and Urban Development to determine where the most critical shortages of affordable housing are in Kansas. We would map the housing tax credit projects that have been approved by the Kansas Housing Resources Authority over the past few years to determine whether projects are being constructed in areas where the greatest need exists.
3. **How does Kansas compare to other states in its efforts to spur the construction of affordable housing?** To answer this question, we would identify what programs or sources of funding Kansas has available in addition to the Housing Tax Credit Program to spur the construction of affordable housing units for low income individuals. For comparison purposes we would contact a sample of other states to determine what programs or sources of funding they have provided to spur the construction of low income housing units.

**Estimated Time to Complete:** 7-8 weeks

**Appendix B  
Developments Awarded Section 42 Low-Income Housing Tax-Credits, 2004-2007**

County	City	Development Name	Developer	Tax Credit Year	Const. Type	Tenant Type	Tax Credit Units	Rent (a)			Total Dev. Cost	Tax Credits	
								1 BR	2 BR	3 BR		Applied For	Awarded
<b>NORTHWEST REGION</b>													
Decatur	Oberlin	Parkview Apartments	RAH Investments, LLC	2005	Rehab	Family	16	\$487	\$532	\$583	\$1,015,945	\$245,420	\$441,880
Ellis	Hays	Hidden Prairie Apartments	Overland Property Group, LLC	2007	New	Family	32	n/a	\$529	\$525-\$600	\$4,079,174	\$3,816,750	\$3,816,750
Logan	Oakley	Ivory Street Apartments	Mesner Development Company	2005	New	Family	8	n/a	\$421-\$532	n/a	\$892,643	\$731,660	\$668,660
Phillips	Phillipsburg	Harvest Woods Apartments	RAH Investments, LLC	2005	Rehab	Family	12	\$476	\$532	n/a	\$632,507	\$195,890	\$461,770
Russell	Russell	NWKHI/Russell Single Family Housing	Northwest Kansas Housing, Inc.	2006	New	Family	6	n/a	n/a	\$513-\$563	\$942,343	\$776,030	\$665,550
Sherman	Goodland	D'Lao Apartments	Schwager Development, LLC	2004	Rehab	Family	16	n/a	\$421	\$490	\$821,647	\$265,810	\$265,810
Smith	Smith Center	CenterView Place	Northwest Kansas Housing, Inc.	2007	New	Family	10	n/a	\$421-\$461	\$581	\$1,238,316	\$989,950	\$981,670
Trego	WaKeeney	Apple Junction Apartments	RAH Investments, LLC	2005	Rehab	Family	16	\$428	\$472	\$519	\$1,162,354	\$270,830	\$469,580
Subtotal, Northwest							116				\$10,984,929	\$7,292,340	\$7,771,670
<b>SOUTHWEST REGION</b>													
Barton	Great Bend	CreekSide Place	Mesner Development Company	2007	New	Elderly	18	n/a	\$430-\$510	n/a	\$2,176,530	\$1,775,950	\$1,716,750
Barton	Great Bend	Walnut Creek Apartments	Housing Opportunities, Inc.	2005	New	Elderly	12	n/a	\$504-\$559	n/a	\$1,428,764	\$993,720	\$1,088,400
Barton	Great Bend	Walnut Glenn Apartments	Housing Opportunities, Inc.	2006	New	Elderly	12	n/a	\$430-\$485	n/a	\$1,301,967	\$1,053,500	\$1,010,520
Barton	Hoisington	Wheatridge	Housing Opportunities, Inc.	2004	New	Elderly	12	n/a	\$394-\$434	n/a	\$1,187,149	\$929,390	\$888,060
Ness	Ness City	Wheatland Manor	RAH Investments, LLC	2006	Rehab	Family	10	\$443	\$481	n/a	\$717,364	\$170,600	\$392,430
Pawnee	Larned	Street of Dreams	Housing Opportunities, Inc.	2007	New	Single Family	10	n/a	n/a	\$532-\$597	\$1,435,534	\$1,151,750	\$1,276,000
Subtotal, Southwest							74				\$8,247,308	\$6,074,910	\$6,372,160
<b>NORTH CENTRAL REGION</b>													
Geary	Junction City	Bartell House Senior Residences	Homestead Affordable Housing, Inc.	2007	Rehab	Elderly	32	\$382-\$392	\$449-\$469	n/a	\$5,158,000	\$2,543,800	\$2,322,340
Lyon	Emponia	Wyndam Place Senior Residences	Farnam Group Resources, Inc.	2004	New	Elderly	42	\$336-\$503	\$403-\$604	n/a	\$4,064,020	\$3,883,610	\$3,791,140
Mitchell	Beloit	Beloit Center Apartments	RAH Investments, LLC	2006	Rehab	Family	12	\$461	\$610	n/a	\$797,716	\$168,830	\$442,920
Mitchell	Beloit	Porter House Apartments	Continental Real Estate, Inc.	2004	Rehab	Elderly	30	\$378	n/a	n/a	\$3,401,125	\$2,140,020	\$2,087,160

NORTH CENTRAL REGION (continued)														
County	City	Development Name	Developer	Tax Credit Year	Const. Type	Tenant Type	Tax Credit Units	Rent			Total Dev. Cost	Tax Credits		
								1 BR	2 BR	3 BR		Applied For	Awarded	
Ottawa	Minneapolis	Pheasant Run	RAH Investments, LLC	2005	Rehab	Family	12	\$462	\$522	n/a	\$798,750	\$187,400	\$335,920	
Riley	Manhattan	Brookfield Homes	R & J Investment Group, LLC	2004	New	Disabled	6	n/a	\$515	\$661	\$820,570	\$624,370	\$609,510	
Riley	Manhattan	Brookfield Homes Phase II	Manhattan Area Housing Partnership, Inc.	2005	New	Elderly	6	n/a	\$515	\$667	\$787,166	\$670,460	\$592,560	
Riley	Manhattan	Brookfield Residences	Investment Resources Corporation	2006	New	Family	112	n/a	\$598	\$683	\$8,918,600	\$6,414,880	\$6,414,460	
Riley	Manhattan	Flint Hills - Rehab	R & J Investment Group	2007	Rehab	Family	60	\$147-\$347	\$229-\$529	\$266-\$616	\$3,571,370	\$3,530,770	\$3,413,080	
Riley	Manhattan	Gardens at Flint Hills	Manhattan Area Housing Partnership, Inc.	2005	New	Family	48	n/a	\$485-\$625	\$551-\$691	\$4,389,350	\$3,879,600	\$4,288,410	
Riley	Manhattan	Highland Ridge Apartments	Overland Ventures, LLC	2006	New	Family	48	n/a	\$654	\$699-\$754	\$10,887,512	\$3,348,980	\$3,307,630	
Riley	Manhattan	Highland Ridge Apartments Phase II	Overland Ventures, LLC	2007	New	Family	48	n/a	\$642	\$699-\$754	\$12,557,682	\$3,905,310	\$3,857,690	
Riley	Manhattan	Pheasant Hill Apartments	Garrison Development Co.	2004	New	Elderly	48	\$450-\$500	\$548-\$598	n/a	\$4,009,200	\$3,452,620	\$3,680,380	
Saline	Salina	Pioneer Presidents' Place	Pioneer Presidents' Place, L.P.	2005	Rehab	Elderly	61	\$328-\$508	\$414-\$584	n/a	\$8,639,603	\$5,113,510	\$5,071,490	
Saline	Salina	The Reserves at P rairie Glen	Overland Ventures, LLC	2004	New	Family	48	n/a	\$621	n/a	\$4,205,657	\$2,689,470	\$3,120,970	
Saline	Salina	The Reserves at P rairie Glenn II	Overland Ventures, LLC	2006	New	Family	48	n/a	\$651	\$686-\$711	\$4,607,526	\$3,208,830	\$3,690,630	
Washington/Republican	Mahaska/Mund	Mahaska Rural High School Housing	Allied Development, LLC	2007	Rehab	Family	24	\$336-\$356	\$391-\$406	\$458-\$473	\$2,530,040	\$1,586,000	\$1,569,680	
Subtotal, North Central								685				\$80,143,887	\$47,348,460	\$48,595,970
NORTHEAST REGION														
Johnson	Gardner	Bethel Estates of Gardner Phase II	KFG Wheatland, LC	2006	New	Elderly	48	\$512-\$677	\$824	n/a	\$5,584,690	\$4,181,020	\$4,648,820	
Doniphan	Troy	Troy Apartments	J.R.E., LLC	2005	New	Elderly	16	\$491	\$544	n/a	\$1,430,130	\$1,440,000	\$1,031,520	
Douglas	Baldwin	Baldwin City Villas	Commercial Group	2005	New	Elderly	32	\$565	\$602-\$662	n/a	\$3,580,729	\$2,547,300	\$2,621,310	
Douglas	Lawrence	Vermont Tower	Investment Resources Corporation	2006	Rehab	Elderly	58	\$540	n/a	n/a	\$2,540,934	\$1,173,130	\$1,085,090	
Franklin	Ottawa	Ottawa Plains Apartments	Commercial Group, Inc.	2005	New	Family	48	n/a	\$408-\$674	\$469-\$707	\$5,145,850	\$3,971,140	\$3,829,310	
Franklin	Ottawa	Ottawa Senior Housing	Allied Development, LLC	2005	Rehab	Elderly	21	\$413-\$525	\$497-\$648	n/a	\$3,610,214	\$1,780,810	\$1,968,090	

NORTHEAST REGION (continued)													
County	City	Development Name	Developer	Tax Credit Year	Const. Type	Tenant Type	Tax Credit Units	Rent			Total Dev. Cost	Tax Credits	
								1 BR	2 BR	3 BR		Applied For	Awarded
Franklin	Ottawa	Ottawa Senior Housing, II	Allied Development, LLC	2007	Rehab	Elderly	23	\$419-\$531	\$503-\$654	n/a	\$3,653,394	\$1,873,610	\$1,931,100
Jackson	Mayetta	Prairie Village Garden Apartments	Prairie Band Pottawatomie Nation Sy Overland park Investors, LP	2004	New	Elderly	15	n/a	\$318	n/a	\$2,350,319	\$1,475,200	\$1,440,070
Johnson	Overland Park	Overland Park Estates	Overland Park Investors, LP	2005	Rehab	Family	60	n/a	\$683	\$722	\$4,244,427	\$2,211,280	\$2,156,040
Leavenworth	Leavenworth	Eisenhower Ridge Apts	Pioneer Group, Inc.	2006	Rehab	Family	48	\$513-\$560	\$594-\$634	n/a	\$6,794,780	\$3,210,760	\$3,472,380
Leavenworth	Tonganoxie	Tonganoxie Sundance Apartments	Cohen-Esrey Development, LLC	2004	New	Elderly	24	n/a	\$532	n/a	\$2,826,243	\$2,246,330	\$2,192,840
Miami	Louisburg	Wea Creek Apartments	Commercial Group, Inc.	2007	New	Elderly	46	\$579	\$614-\$709	n/a	\$5,186,562	\$3,797,910	\$3,720,500
Shawnee	Auburn	Auburn Plains Apts.	Neighborhood Renaissance Foundation	2004	New	Family	36	n/a	\$633	\$669	\$4,009,831	\$2,910,200	\$2,910,200
Shawnee	Topeka	Glen Oaks City Center	Housing Plus, Inc.	2005	Rehab	Family	36	\$411	\$534	n/a	\$2,785,857	\$734,830	\$2,446,960
Shawnee	Topeka	Paradise Plaza Townhomes	LATH, LLC	2004	Rehab	Family	76	n/a	\$434	\$465	\$4,940,262	\$3,858,480	\$4,056,310
Shawnee	Topeka	Pioneer Adams Towne Homes	Pioneer Group, Inc.	2007	New	Family	47	\$381	\$501	\$579-\$704	\$6,689,000	\$5,311,320	\$5,000,000
Shawnee	Topeka	Rosehill Apts II	Continental Real Estate, Inc.	2004	New	Elderly	36	n/a	\$661-\$696	n/a	\$5,813,778	\$3,302,200	\$3,301,000
Shawnee	Topeka	Asbury-Mt. Olive Apts	Asbury-Mt. Olive United Methodist Church	2004	New	Family	11	n/a	\$595	\$686	\$1,683,314	\$1,465,750	\$1,656,950
Shawnee	Topeka	Paradise Plaza II	Danny Jackson	2006	Rehab	Family	62	n/a	\$440	\$465	\$4,781,600	\$4,401,090	\$4,293,740
Wyandotte	Bonner Springs	Bonner Highlands Apts. II	Garrison Development Company	2005	New	Family	36	\$513-\$624	\$616-\$694	\$712-\$780	\$3,683,696	\$2,403,300	\$2,346,100
Wyandotte	Kansas City	Historic City Hall Lofts	City Vision Ministries, Inc.	2004	Rehab	Family	28	\$493-\$582	n/a	n/a	\$6,551,671	\$3,291,710	\$3,213,330
Wyandotte	Kansas City	Parkway Pointe Senior Residences	Manchester Development, Inc.	2006	New	Elderly	48	\$455-\$597	\$561-\$714	n/a	\$4,951,695	\$4,509,600	\$4,503,550
Wyandotte	Kansas City	Villas at RidgePointe	Ridge Pointe Partners, LLC	2004	New	Elderly	40	n/a	\$611-\$716	n/a	\$4,787,708	\$4,155,120	\$4,535,680
Subtotal, Northeast							895				\$97,626,684	\$66,252,090	\$68,360,890
SOUTHEAST REGION													
Anderson	Garnett / Greeley	Heritage Oak Townhomes	Manske & Associates, L.L.C.	2005	New	Elderly	6	n/a	\$445	n/a	\$438,900	\$483,120	\$483,120
Cherokee	Columbus	Cherry Creek Townhomes	Columbus Housing, Inc.	2007	New	Elderly	16	n/a	\$430-\$470	n/a	\$1,740,325	\$1,365,670	\$1,334,360
Coffey	Burlington	Burlington Apartments	Neighborhood Renaissance Foundation	2007	New	Family	36	\$456	\$463-\$614	\$726	\$4,006,485	\$3,094,320	\$3,094,320

SOUTHEAST REGION (continued)													
County	City	Development Name	Developer	Tax Credit Year	Const. Type	Tenant Type	Tax Credit Units	Rent			Total Dev. Cost	Tax Credits	
								1 BR	2 BR	3 BR		Applied For	Awarded
Crawford	Arma	Arma Meadows	Red-Wood Development, Inc.	2007	Rehab	Elderly	49	\$440	\$505	n/a	\$2,524,706	\$886,080	\$854,720
Crawford	Pittsburg	North Joplin Apts.	Investment Resources Corporation	2005	Rehab	Family	128	\$480	\$575	\$660	\$4,563,000	\$2,726,670	\$4,500,000
Crawford & Cherokee	Pittsburg & Columbus	Class Homes I	Class, LTD	2006	New	Disabled	12	n/a	\$424-\$519	n/a	\$1,410,900	\$1,085,620	\$1,088,000
Labette	Parsons	Crown Homes of Parsons	Parsons Public Housing	2005	New	Single Family	12	n/a	n/a	\$471-\$521	\$1,573,640	\$1,243,280	\$1,210,160
Montgomery	Coffeyville	Bella Rose	John & Ethel Jones	2006	New	Elderly	20	\$429	\$499	n/a	\$1,376,022	\$1,061,800	\$1,061,800
Subtotal, Southeast							279				\$17,633,978	\$11,946,560	\$13,626,480
SOUTH CENTRAL REGION													
Cowley	Winfield	Canterbury Village Apts.	Central States Development	2004	Rehab	Family	100	\$298-\$308	\$350-\$361	\$400	\$3,424,158	\$2,284,990	\$2,237,960
Butler	Augusta	Augusta Heights	Red-Wood Development, Inc.	2005	New	Family	20	\$410-\$430	\$490-\$510	\$550-\$565	\$1,493,696	\$441,040	\$462,860
Cowley	Winfield	Mundinger Hall, Phase II	MetroPlains Development, LLC	2007	Rehab	Family	12	\$379-\$418	\$464-\$500	n/a	\$2,068,926	\$1,003,500	\$970,050
Reno	Hutchinson	Crown Homes of Hutchinson	Manske & Associates, LLC	2006	New	Single Family	10	n/a	n/a	\$504-\$554	\$1,251,700	\$1,022,000	\$931,120
Reno	Hutchinson	Maplewood Townhomes	Jack Manske & Associates	2004	New	Elderly	16	n/a	\$458	n/a	\$1,615,500	\$1,215,060	\$1,186,130
Reno	Hutchinson	Porter Commons Apartments	Little River Development Company	2005	New	Family	48	n/a	\$404-\$529	\$467-\$623	\$4,152,695	\$3,171,110	\$3,095,610
Reno	Hutchinson	Sentney Lofts	Garrison Development Company	2006	Rehab	Elderly	33	\$356-\$461	\$428-\$488	n/a	\$4,198,760	\$3,259,480	\$3,104,260
Reno	Hutchinson	Tierra Verde Apartments	New Beginnings, Inc.	2007	New & Rehab	Family	48	\$160	\$403	n/a	\$4,608,210	\$4,711,320	\$4,543,060
Reno	Hutchinson	Walnut Court Apartments	Manske & Associates	2004	Rehab	Family	24	\$276	\$303-\$363	n/a	\$2,797,700	\$2,791,980	\$2,814,510
Reno	South Hutchinson	Friendship Place I	Menonite Friendship Manor, Inc.	2007	New	Elderly	20	n/a	\$458-\$483	n/a	\$1,995,300	\$1,612,880	\$1,555,280
Sedgwick	Cheney	Cheney SunPrairie Apartments	Cohen-Esrey Development, LLC	2004	New	Elderly	24	n/a	\$580	n/a	\$2,704,930	\$2,213,690	\$2,160,990
Sedgwick	Cleanwater	Cleanwater Senior Residences	Mark Cox and Don Mertens	2006	New	Elderly	18	n/a	\$651-\$681	\$746	\$2,042,350	\$1,622,060	\$1,574,590
Sedgwick	Goddard	Goddard Senior Apartments	Medicloges Inc	2006	New	Elderly	10	n/a	\$695	n/a	\$1,226,220	\$876,120	\$921,150
Sedgwick	Haysville	Bridgewater Apartments	Zimmerman Properties, LLC	2005	New	Family	48	n/a	\$604	\$701	\$3,920,140	\$2,844,950	\$2,818,860
Sedgwick	Haysville	Main Street Residences	Homestead Affordable Housing	2005	New	Elderly	59	\$479	\$549	n/a	\$4,401,290	\$3,615,300	\$3,280,320
Sedgwick	Maize	Fieldstone Apartments	Zimmerman Properties, LLC	2006	New	Family	48	n/a	\$686-\$711	\$766-\$851	\$4,262,000	\$2,818,400	\$2,818,290

SOUTH CENTRAL REGION (continued)													
County	City	Development Name	Developer	Tax Credit Year	Const. Type	Tenant Type	Tax Credit Units	Rent			Total Dev. Cost	Tax Credits	
								1 BR	2 BR	3 BR		Applied For	Awarded
Sedgwick	Maize	Westbrooke Villas	Westbrooke Villas, LLC	2005	New	Elderly	30	n/a	\$645-725	n/a	\$3,772,873	\$2,397,080	\$2,606,210
Sedgwick	Valley Center	Brookfield Apartments	Zimmerman Properties, LLC	2004	New	Family	48	n/a	\$599	\$668	\$3,731,969	\$2,704,380	\$2,639,990
Sedgwick	Valley Center	Sunflower Gardens II	Menonite Housing Rehab. Services, Inc.	2004	New	Elderly	18	n/a	\$534	\$671-\$691	\$1,339,936	\$970,100	\$960,480
Sedgwick	Wichita	Elizabeth Estates Phase II	Menonite Housing Rehabilitation Services, Inc.	2005	New	Family	36	n/a	n/a	\$653-\$863	\$4,163,711	\$3,018,610	\$3,053,950
Sedgwick	Wichita	H.O.P.E. Village Apartments	H.O.P.E., Inc.	2005	Rehab	Family	22	\$505	\$595	n/a	\$2,276,025	\$1,626,110	\$2,011,160
Sedgwick	Wichita	H.O.P.E. Apartments	H.O.P.E. Development	2004	Rehab	Family	50	\$497	n/a	\$584	\$3,963,392	\$1,543,580	\$2,576,970
Sedgwick	Wichita	Inter-Faith Villa Courts	Inter-Faith Development Corporation	2006	New	Family	40	\$443-\$458	\$531-\$535	\$610	\$4,506,105	\$4,313,980	\$3,954,880
Sedgwick	Wichita	Kouri Place Apartments	Starkey, Inc.	2005	New	Disabled	15	\$443-\$483	n/a	n/a	\$1,691,785	\$1,268,630	\$1,268,630
Sedgwick	Wichita	Mesa Verde Homes	Community Economic Resources, Inc.	2005	New	Family	19	n/a	n/a	\$741-\$895	\$4,023,788	\$2,491,690	\$2,196,920
Sedgwick	Wichita	Old English Court Apartments	Transitional Residence Company, LLC	2006	Rehab	Family	36	\$425	\$531	\$631	\$3,014,143	\$2,655,870	\$2,388,790
Sedgwick	Wichita	Parklane Gardens Apartments	Builders, Inc.	2004	Rehab	Family	69	\$526	\$680	\$791	\$1,593,575	\$1,063,440	\$1,028,710
Sedgwick	Wichita	Prairie Villa at Beacon Hill	Investment Resources Corporation	2004	New	Elderly	60	n/a	\$630	n/a	\$6,036,986	\$3,866,940	\$4,482,960
Sedgwick	Wichita	Richmond Place	Mark Cox and KETCH	2007	New	Disabled	20	n/a	n/a	n/a	\$1,879,635	\$1,532,390	\$1,481,320
Sedgwick	Wichita	Windridge Apartments	The Michaels Development Company	2007	Rehab	Family	136	\$484	\$632	\$754	\$9,225,851	\$4,873,930	\$4,711,430
Sedgwick	Wichita	Mullen Court Apartments	ICDC, LLC	2007	Rehab	Family	25	\$439	n/a	n/a	\$3,482,570	\$2,564,590	\$2,460,590
Subtotal, South Central		31					1,162				\$100,855,919	\$72,395,200	\$72,298,030
<b>TOTAL</b>		<b>93</b>					<b>3,211</b>				<b>\$315,492,705</b>	<b>\$211,309,560</b>	<b>\$217,025,000</b>

(a) "n/a" or not applicable means the development doesn't offer this type of housing unit.

## **APPENDIX C**

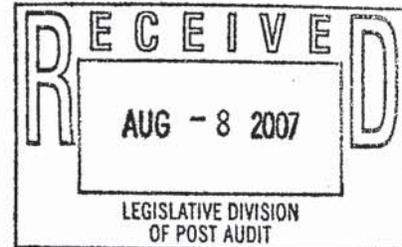
### **Agency Response**

On July 26th we provided copies of the draft audit report to the Kansas Housing Resources Corporation. Its response is included as this Appendix.

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

August 8, 2007

Barbara J. Hinton  
Legislative Post Auditor  
Legislative Division of Post Audit  
800 SW Jackson, Suite 1200  
Topeka KS 66612-2212



Dear Ms. Hinton:

My staff and I appreciate the opportunity of working with your staff in its review of the Section 42 Housing Tax Credit Program. We also appreciate you and your staff's willingness to make revisions after a candid discussion. We agree with the majority of the report and are taking this opportunity to make comments and observations.

Relative to Legislative Post Audit's (LPA's) finding and recommendation on pages 13-14: LPA cited 14 developments which applied for and received a tax credit allocation. For various reasons, primarily related to permanent financing, these developments were unable to use the tax credit in the year allocated and the allocation was moved to a subsequent year.

In the administration of this IRS program, KHRC prepares and disseminates a Qualified Allocation Plan each year which provides details of the criteria to be applied in evaluating applications. KHRC and its predecessors have occasionally made exceptions to its internal rules and regulations that govern the program in order to assist and ensure the success of difficult developments. The authority to make exceptions is granted generally in the Qualified Allocation Plan.

KHRC contends that the 14 developments cited by Legislative Post Audit had unique characteristics and circumstances that KHRC believed to be exceptional and needed to be treated that way to be successful. In fact, six of these developments were a rural finalist in the Rural Renewal category of best practices in *Affordable Housing Finance* in 2007, and another was nominated for an Ad Astra Award for Excellence in Housing and Community Development for the 2007 Kansas Housing Conference.

Several of the applications would have scored high enough to be approved in any round in which they would have been considered. The remaining applications were approved because the amount of credit was too small to be used by competing applications.

Those states which allocate all of their annual credit receive a distribution from a national pool of unused credits. Moving developments from one year to another is a method KHRC occasionally employs to accomplish this purpose. Additional credits equate to additional affordable units for qualified individuals and families.

The LPA recommendation states that KHRC should have followed state regulations, internal regulations and written procedures by scoring these 14 developments in the subsequent years. KHRC believes that it did in fact provide the consideration required by state regulation [K.A.R.11010-1(b)], but recognizes the documentation of that consideration could be improved.

*KHRC believes a degree of flexibility and application of administrative discretion is in the best interest of creating affordable housing. Staff will better demonstrate and document the consideration given, should similar exceptions be necessary in the future.*

In a manner of clarifying the “answer in brief” on page 8, LPA correctly identified that less than 2 percent of the housing developments were targeted specifically for persons with disabilities. We would point out, however, that approximately 1,170 units were constructed that were accessible and adaptable for persons with disabilities from 2004 through 2007. Kansas’ Qualified Allocation Plan requires that developments follow the requirements of the Fair Housing Act regarding accessibility.

Legislative Post Audit’s analysis of the third question, on pages 23-25, identifies a substantial impact on KHRC’s ability to provide affordable housing. The greatest challenge facing KHRC in the administration of the tax credit program is the need to provide affordable housing to the income-eligible population. There is significant housing need in Kansas that falls outside the financing ability of the corporation. In most development proposals, soft financing is needed to ensure the success of the development and to make the housing affordable. KHRC has very limited sources of funds from which to make soft loans. These sources consist entirely of earned income from the operations of the corporation and a portion of the HOME allocation that is assigned to rental housing.

Even though the LPA report looked at only five other states, the findings are representative of the entire country: most states have greater sources of funding from which they can make loans and grants to supplement the tax credit equity and lower the rents in markets where affordability is a crucial issue.

Most states have been long-term participants in issuing Mortgage Revenue Bonds from the Private Activity Bond authority provided to each state from the federal government. State housing finance agencies (HFAs) were created as early as the 1960s, and those that were established in the late 1970s earned significant income by issuing mortgage revenue bonds at low tax-exempt bond rates when market interest rates were very high and then selling the paper in the secondary market. HFAs have accumulated so much money from this source over the years that some state legislatures have used it to reduce budget deficits.

In Kansas the state is prohibited by statute from issuing Mortgage Revenue Bonds and has missed the opportunity to fund its housing agency and programs. This limits KHRC to the funding provided by federal programs that are limited and have income restrictions. For KHRC to provide greater and broader housing opportunities and better affordability to address the needs in the difficult-to-development areas of the state, the sources of funding must be strengthened.

Again, we appreciate the opportunity of working with you and your staff.

Sincerely,



Gary Allsup  
Executive Director