AUDIT PROPOSAL

Evaluating Monitoring Requirements and Processes for the Federal Low-Income Housing Tax Credit Program

SOURCE
This audit proposal was requested by Representative Sean Tarwater.

BACKGROUND
The Kansas Housing Resources Corporation (KHRC) administers the federal low-income housing tax credit program in Kansas. The program encourages the development and rehabilitation of affordable rental housing. It does that by providing developers with tax credits they can use to offset construction costs in exchange for reserving some rent-restricted units for low-income households. The tax credits are provided over a 10-year period and subsidize up to 30% or 70% of projects' construction costs depending on whether the development is new construction or a rehabilitation project.

The process of allocating, awarding, claiming, and monitoring the tax credit is complex and involves several entities. Each year, the federal government allocates each state a certain amount of low-income housing tax credits based on its population. KHRC then allocates credits to developers. Developers submit applications to KHRC to apply for the credit. Property owners and managers manage the housing development. KHRC is then responsible for monitoring the resulting developments for compliance. KHRC creates and annually revises a plan to meet federal requirements. States have discretion when developing their plans to set their own allocation priorities and additional requirements for developers and owners based on their states' specific needs.

KHRC requires developers, owners, and property managers of housing projects that have received awards to comply with numerous requirements to continue receiving tax credits. For example, housing projects must meet certain requirements for things like the percentage of units occupied by low-income individuals and the percentage of rents below the area's median gross income. Additionally, owners must do things like submit ongoing compliance reports, undergo regular lease and rent reviews and approvals, maintain certain operating and capital reserves for routine maintenance and operating income shortfalls, and sign land use restriction covenants.

Legislators have expressed concern that KHRC's requirements for owners of low-income housing projects may be overdeveloped and create inefficiencies and inconsistencies.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY
The audit objectives listed below are the questions we would answer through our audit work. The steps listed for each objective convey the type of work we would do. These may change as we learn more about the audit issues.

Objective 1: How do KHRC's requirements and monitoring processes for compliance reports, lease approvals, and rent approvals for the Low-Income Housing Tax Credit program compare to federal and state law? Our tentative methodology would include the following:

- Review federal and state law to understand what the requirements are for compliance reporting and lease and rental reviews and approvals for housing developments awarded low-income housing tax credits. This could include things like what information is required and how often it's required.

- Talk to KHRC staff and review their compliance policies, qualified allocation plans, and other relevant documents to understand what their requirements are for reporting and lease and rental reviews. Also work with them to understand what processes they use to monitor and enforce those requirements.

- Compare KHRC's requirements to federal and state law to identify differences and areas where KHRC's requirements and associated processes exceed what's required by law.

- Collect information on the timeliness of KHRC's monitoring and enforcement requirements (e.g., length of time to approval, backlogs in processing) and use the results of the above comparison to law to determine whether KHRC's monitoring and enforcement processes could be improved.

- Review relevant data, if available, for a selection of low-income tax credit housing developments to determine if KHRC applied monitoring and enforcement requirements consistently across projects.

- Talk to housing development owners, management companies, and other relevant stakeholders to get their opinions about KHRC's requirements and processes and ways to improve.

- Talk to KHRC staff about any identified differences, process inefficiencies, or inconsistencies to understand why they established the requirements and processes they did. Also talk to KHRC about potential improvements to their processes to understand their opinions on the feasibility and impacts of such changes.

Objective 2: Are KHRC's requirements for reserves and land use restrictions covenants consistent across low-income tax credit housing developments? Our tentative methodology would include the following:

- Talk to KHRC staff and review their compliance policies, qualified allocation plans, and other relevant documents to understand what their requirements are for land use restriction covenants and operating and capital reserves.

- Review a selection of low-income tax credit housing developments to determine if KHRC's application of the above requirements was consistent across projects. Also compare KHRC's capital and operating reserve requirements to federal law and other low-income housing programs to understand if they're in line with those expectations.

- Talk to KHRC staff about any identified inconsistencies to understand why they occurred and identify potential solutions.

ESTIMATED RESOURCES

We estimate this audit would require a team of **4 auditors** for a total of **4 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).