



# TaxCreditAdvisor

*News, Ideas and Information for  
Tax Credit Developers and Investors*

## **New Paper Updates Predicted Recovery Periods for Areas With Frozen LIHTC Tenant Income, Rent Limits**

A national accounting and consulting firm has issued a new white paper that provides revised predictions of how long it will likely take before tenant income and rent limits for low-income housing tax credit (LIHTC) units can be raised in the many parts of the country adversely affected by a change in the source of data used by the U.S. Department of Housing and Urban Development (HUD) in computing Fiscal Year 2007 estimates of area median income.

HUD switched to use of data from the American Community Survey (ACS) in preparing the FY 2007 estimates of area median income (AMI) for each metropolitan area and non-metropolitan county in the U.S. The result was a drop in many areas in the estimate of AMI from HUD's FY 2006 estimate.

HUD each year for each area also publishes a revised estimate of the income limit for a very low-income (VLI) household, defined as 50% of the estimated AMI. LIHTC tenant income and rent limits are based on this VLI amount, which may or may not exactly equal 50% of the estimated AMI for the area.

Under HUD's methodology, if a decrease in the revised estimate of AMI for an area would otherwise cause a decrease in the VLI amount, HUD first applies four tests, or exceptions, before finalizing its revised estimate of VLI for the area for the new fiscal year. The first three tests are: statewide median income for non-metropolitan areas; high housing costs (or Fair Market Rent, or FMR); and low housing costs. If an area fails these three tests, a fourth, or historical exception (also called the hold harmless exception) is

applied. If this is applicable, the VLI amount isn't reduced from the prior year's level but rather is kept the same. However, these affected areas are said to have "frozen" LIHTC tenant income and rent limits, which won't rise in the future until HUD's estimated AMI for the area catches up to and surpasses where it had been before the estimated AMI amount was decreased.

HUD's FY 2007 estimates of AMI and VLI for areas nationwide took effect 3/20/07; the FY 2008 estimates, 2/13/08. (To view: <http://www.huduser.org/datasets/il.html>)

### **Follow-Up White Paper**

Last year, the San Francisco-based firm of Novogradac & Company LLP issued a white paper that identified the number of areas in the U.S. under each of the four exception areas under the FY 2007 HUD estimates, and predicted how long it would take for the historical exception areas to fully recover, that is to no longer be an exception area or to migrate to one of the other exception areas such as because of a sufficient increase in the estimated AMI for the area.

The firm's new white paper reports on the number of historical and other exception areas under the HUD FY 2008 estimates and compares them to FY 2007; assesses the accuracy of last year's predictions about recovery periods; and provides revised recovery projections.

The new white paper notes 84.5% of counties and similar areas had a decrease in HUD's estimate of AMI in FY 2007 from FY 2006.

The publication notes the historical exception has had less impact – been applied to fewer areas

– in FY 2008 than in 2007. Meanwhile, the other three exceptions, and the percentage of all areas not falling under any exception (i.e. AMI areas), saw increases.

Of the 4,678 total areas (both exception areas and non-exception areas) in each of FY 2008 and FY 2007, the historical exception covers 1,895 areas (40.51% of all areas) in FY 2008, sharply down from FY 2007 (3,433, 73.39%). Changes from 2007 to 2008 in the other types of exception areas are: state median income, from 522 to 1,144 areas (11.16% to 24.45%); FMR, from 23 to 38 areas (0.49% to 0.81%); and low housing costs, from 1 to 32 areas (0.02% to 0.68%). The number of non-exception areas jumped from 699 to 1,569 areas (14.94% to 33.54%).

According to the new white paper, 1,000 areas that received the historical exception in FY 2007 had their AMI increase enough in the past year to close the “critical gap” and fully recover, and no longer fall under any exception category. Another 50 areas (1.02%) in other exception categories similarly recovered, while 643 areas (out of 4,678 total areas, or 13.75%) shifted from the historical to the state median income exception after moderate growth in state median income.

Novogradac’s predictions in last year’s white paper of the length of recovery period in years for historical exception areas for which it made predictions turned out, one year later, to be correct for 64.14% of the areas, according to the new white paper. Predictions for another 33.21% of areas were within a one-year margin of error.

### **Updated Recovery Periods**

The new white paper provides revised projections of recovery periods for FY 2008 historical exception areas.

“There are still quite a few markets that are

showing a recovery period of up to four years,” Novogradac & Company partner Blair Kincer told the *Tax Credit Advisor* in an interview on 5/6/08.

Last year, Novogradac’s best-case scenario predictions (assuming 3% annual growth in local and state AMI, and local FMR) were that 60.5% of the 3,433 historical exception areas would recover within one year; 38.7%, 2-5 years; and 0.7%, 6-10 years.

In the new white paper, updated best-case projected recovery periods for the 1,895 FY 2008 historical exception are: less than one year, 524 areas (27.65%); 1-4 years, 1,348 (71.13%); 5-9 years, 21 (1.11%); and 10 years, 2 (0.11%).

The new white paper contains color-coded maps of the U.S. that show, for FY 2007 and for FY 2008, which areas were or are exception areas, and the projected recovery periods for these areas. The maps show that Texas, Kansas, Alabama, North Carolina, and Florida experienced substantial recovery in the past year after being heavily comprised in FY 2007 of historical exception areas with predicted recovery periods of 2-5 years. The maps indicate a worsening during this period – moving from a heavy concentration of areas with projected recovery of one year or less, to a heavy concentration of areas with projected 1-4 year recovery – in Colorado, Michigan, and Vermont. Other states with a heavy concentration of areas with predicted recovery periods of 1-4 years in 2008 are Alaska, Washington, Missouri, Illinois, Indiana, Iowa, Georgia, South Carolina, Rhode Island, and West Virginia.

The new white paper, *2008 Effect of HUD’s Revised Income Calculations on Housing Tax Credit Properties: How Long Until Qualifying Incomes & Tax Credit Rents Rise?*, is available for purchase at <http://www.novoco.com> □