

# PROPERTY COMPLIANCE REPORT

A MONTHLY PUBLICATION ON LOW-INCOME HOUSING TAX CREDIT COMPLIANCE

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## Promise of Amenities to Enhance Tax Credit Bid May Come Back to Haunt Operators

By Evelyn Danowitz, Simpson Housing Solutions, LLC

Any developer, housing nonprofit or other entity that has played the tax credit allocation game over the past several years knows how intensely competitive the process has become. In more and more cases, the difference between obtaining the highly prized credits and waiting for the next round comes down to a couple of points on the application scoring system.

As a result, applicants now look for any way to goose their score just enough to put them over the top. One of these ways is to promise a wide variety of on-site social programs and other nontraditional amenities. The programs now being offered include child care, after-school tutoring, literacy workshops, job training and classes in parenting skills. Low-income seniors might enjoy such amenities as an on-premises beauty salon, exercise classes or a van that provides transportation to appointments or group outings.

But what happens if you or your general partner aren't nonprofits, and have no idea what community-based resources might be available to your residents or what it might cost to deliver what you promised in your tax credit application? In those cases, it often falls to the property management company to figure everything out, design a budget and actually implement the programs.

Either way, developers and operators need to understand that promises made during the tax credit application process must be kept in order to maintain long-term compliance with requirements of the tax credit program. Failure to keep these promises—or attempting to fulfill the promise of a child-care center, for example, by putting in some play equipment and saying the rest is “on the way”—could come back to haunt you in the form of an unscheduled site audit.

State tax credit agency officials will want to see the amenities you offered in return for tax credits—both the “sticks and bricks” type, such as swimming pools and laundry rooms, as well as the “lifestyle” programs noted above. If such amenities aren't in place, you'd better be prepared to explain why, or else risk losing your tax credits due to noncompliance.

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## INSIDE REPORT

### HUD to Alter Income Limits

By Jennifer A. Hurley, Staff Writer

The U.S. Department of Housing and Urban Development (HUD) recently announced a change in its procedures for calculating income limits.

The old procedure, which modified income limits based on estimated rents in the area, artificially lowered income limits in close to 25 percent of all counties in 2000. Under the new procedure, HUD will only modify income limits in

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Does the New HUD Methodology Change How Managers Calculate Income and Limits?

# Promise of Amenities

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## Cost of On-Site Amenities

The other pitfall associated with on-site amenities is cost. You want to offer a pool? Fine—but how much will you have to pay to heat it year-round? If you want to provide a van for the residents of your senior community, that's wonderful—but you'll also need to hire a driver with a special license, as well as pay for insurance and other operating costs. Finally, how much time will the ongoing operation of all on-site programs and services require of your regular management team? If overseeing these programs diverts your staff from its regular day-to-day management duties, that constitutes a measurable cost.

## Advice

Aside from the standard "be careful what you wish for . . .," there are several pieces of advice I would offer to those thinking about throwing in a few extra amenities to improve their chances in the tax credit allocation process. One is to talk to your team of nonprofit partners, management companies and potential service providers *before* committing to on-site programs. Find out first what your team is capable of delivering and funding *before* making promises you may not be able to live up to later.

Even some well-staffed nonprofits lack the resources necessary to avoid incurring heavy program-related costs to the property. If you decide you *can* afford to pay for it all, you also need to determine whether your community will have sufficient physical facilities, such as meeting rooms or computer lab space, in which to house the programs.

## Forge Relationships

Second, forge relationships with existing resources in the community that could help provide the services you promised at little or no cost to you. For instance, you might not have \$50,000 to buy a specially-equipped van, or be able to finance the driver's salary and the van's upkeep—but your local senior center might already provide transportation services and other valuable programs for seniors. Local community colleges, clinics, libraries, performing arts groups and nonprofit educational organizations are among the many institutions you can enlist to provide the requisite personnel and expertise to operate your on-site programs in a more cost-effective manner.

## Outsourcing Options

Finally, you can investigate the option of outsourcing your amenity programs to third-party vendors, with the understanding that these come at a significantly higher (although quantifiable) cost than relying on your own

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## Promise of Amenities

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resources or bringing in local college students. The benefits of this approach include higher and more consistent program quality, dependability, the ability to more accurately measure costs vs. results, and less demand on your regular management staff's time and resources.

Several third-party resources are already available to low-income housing operators, including the Burbank, Calif.-based Western Services Foundation, which provides on-site programs and services exclusively for low-income seniors. There will undoubtedly be more such organizations in the future.

However you go about delivering the resident programs and benefits you promise in your tax credit application, you need to figure out *how* you will deliver them—and how you will pay for them—before seeking an allocation of credits. Failing to do so could lead to severe consequences, including the loss of the tax credits that made the project possible in the first place. ❖

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