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## New 2006 Income Limits and HUD's Hold-Harmless Policy

By Thomas A. Stagg, Novogradac & Company LLP

The U.S. Department of Housing and Urban Development (HUD), in an effort to conform to the Office of Management and Budget (OMB) metropolitan statistical area definitions based on 2000 Census data, has changed its metropolitan area definitions used to calculate median income estimates. Due to the change in the methodology, some counties will experience sharp increases in the area median income as defined by HUD and some counties will experience a decrease in the income limit. In the past, HUD has adopted a hold-harmless policy that prevented income limits from decreasing from one year to the next; however, this year HUD has not applied the same blanket hold-harmless policy.

### Background

For many years, HUD has been using outdated data to define its income areas. It has been using the OMB definitions from the 1990 Census, and has been under pressure from Congress and the private sector to update its antiquated area definitions. Starting in 2006 HUD adopted the new OMB definitions, which were released in 2003 and were based on the 2000 Census. The new method better reflects commuting patterns and economic integration. Also, the OMB metropolitan area definitions are used on a widespread basis throughout the federal government for data collection and program administrative purposes.

### Consequences

The adoption of the new OMB definitions has led to significant changes in the boundaries that HUD uses in determining an area's income limit, which has led to sharp increases and decreases in the income limit for some areas of the country. For example, Heard County, Ga. had more than a 50 percent increase in the applicable income limit, and Irion County, Texas had an almost 15 percent decrease in its applicable income limit. These changes will affect low-income housing tax credit (LIHTC) properties the most, since the amount of rent that can be charged to ten-

ants is tied directly to the income limits. The chart on page nine lists the largest decreases in area median incomes by county. (Please see the April 2006 issue of the *Property Compliance Report* for more information and charts concerning the changes in median income limits.)

### Hold-Harmless

In the past, HUD has adopted a hold-harmless policy (which was applied to all areas of the country) that did not allow income limits to decrease from one year to the next; this was otherwise known as the "historical exemption." If the actual income data decreased, the HUD income limit was held at the prior year's level, creating an artificially high income limit. However, in 2006 the historical exemption hold-harmless policy was modified and is no longer being applied to all counties. HUD has changed its hold-harmless policy to apply only to the largest part of the new metropolitan area definition, known as the Primary Area Hold-Harmless Policy. Under this policy, when two areas are combined the new area will take the income limit of the area that has the largest population. Under this system, less populated areas will have decreases or increases but the larger area will always stay the same. Two examples help illustrate this point.

**Example 1:** A county of 40,000 people with a 50 percent one-person income limit of \$30,000 for 2006 is combined with a 60,000-person metropolitan area with a 50-percent one-person income limit of \$50,000; the income limit of the new metropolitan area would be set at \$50,000.

**Example 2:** A county of 40,000 people with a 50 percent one-person income limit of \$50,000 in 2006 is combined with a 60,000-person metropolitan area with a 50 percent one-person income limit of \$30,000, the income limit of the new metropolitan area would be set at \$30,000.

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# New 2006 Income Limits

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In announcing the new strategy, HUD said it believes that the Primary Area Hold-Harmless Policy will best serve to protect the integrity of the income limits. In a December 16, 2005 *Federal Register* notice proposing the change, HUD states that applying a blanket hold-harmless policy would result in "income limits (that) would be so much higher than if based on the area's true median family income estimates that its income limits would need to remain frozen for several years. In such instances area income limits would be much higher than income limits permitted in other areas of the country with similar economic and demographic characteristics."

## Some Relief

There is limited relief for LIHTC projects. Under Internal Revenue Code (IRC) §42(g)(2)(A), the rent limit can not decrease lower than the rent limit in the month the building was placed in service or the month of the carryover allocation, depending on the election. This will most likely not be beneficial to properties that have been placed in service for many years. However, it will likely provide relief for projects that were placed in service in the last few years in areas that saw a sharp decrease in the current year. For example, in Irion County, Texas the 2006 income limit dropped lower than the 2003 income limit. If a project was placed in service in 2003, the project would be able to use the 2003 income limits as the current year limit. Income limit data back to 1999 can be found at <http://www.novoco.com/rilc.shtml>. Pre-1999 income limit data can be found at <http://www.huduser.org/datasets/il/il06/index.html>.

## Conclusion

When HUD adopted the new OMB area definitions, some areas saw drastic income changes even with HUD applying a primary area hold-harmless policy. There is limited relief to LIHTC projects if the new limit is lower than the placed-in service income limit for the project. ❖

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Address all correspondence and editorial submissions to:

Jane Bowar Zastrow  
Property Compliance Report  
Novogradac & Company LLP  
246 First Street, 5th Floor  
San Francisco, CA 94105  
Telephone: 415.356.8034  
E-mail: [cpas@novoco.com](mailto:cpas@novoco.com)  
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For reprint information and  
prices, contact Alex Ruiz at  
415.356.8088;  
or e-mail  
alex.ruiz@novoco.com

# New 2006 Income Limits

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State	County - 2006	2006 AMI	2005 AMI	\$ Changes	% Changes
TX	Irion County	46,800	54,800	(8,000)	-14.60%
CO	Elbert County	71,700	83,100	(11,400)	-13.72%
IL	Kendall County	75,400	87,000	(11,600)	-13.33%
MA	Worcester County	71,700	82,700	(11,000)	-13.30%
CO	Gilpin County	71,700	81,700	(10,000)	-12.24%
HI	Kalawao County	59,900	67,800	(7,900)	-11.65%
CT	Litchfield County	82,000	92,800	(10,800)	-11.64%
MA	Bristol County	73,200	82,700	(9,500)	-11.49%
MA	Norfolk County	73,700	82,700	(9,000)	-10.88%
MA	Plymouth County	73,700	82,700	(9,000)	-10.88%
ME	Cumberland County	57,800	64,400	(6,600)	-10.25%
SD	Union County	55,700	61,600	(5,900)	-9.58%
ME	Penobscot County	49,300	54,400	(5,100)	-9.38%
GA	Monroe County	55,000	60,500	(5,500)	-9.09%
TX	Carson County	51,800	56,500	(4,700)	-8.32%
ME	Waldo County	50,100	54,400	(4,300)	-7.90%
VA	Franklin city	49,700	53,900	(4,200)	-7.79%
KY	Spencer County	58,900	63,400	(4,500)	-7.10%
KY	Shelby County	58,900	62,600	(3,700)	-5.91%
OH	Union County	64,400	68,400	(4,000)	-5.85%
VT	Chittenden County	70,500	74,800	(4,300)	-5.75%
ME	York County	60,800	64,400	(3,600)	-5.59%
NV	Storey County	63,700	67,400	(3,700)	-5.49%
IA	Grundy County	57,600	60,800	(3,200)	-5.26%
DE	New Castle County	72,100	75,900	(3,800)	-5.01%
MD	Cecil County	72,100	75,900	(3,800)	-5.01%
LA	West Feliciana Parish	56,200	59,100	(2,900)	-4.91%
NC	Henderson County	50,400	52,800	(2,400)	-4.55%
OH	Butler County	64,600	66,400	(1,800)	-2.71%
AR	Cleveland County	45,600	46,700	(1,100)	-2.36%
TN	Jefferson County	45,300	46,300	(1,000)	-2.16%
UT	Morgan County	61,400	62,700	(1,300)	-2.07%
OH	Ottawa County	58,900	60,000	(1,100)	-1.83%
MN	Carlton County	55,700	56,700	(1,000)	-1.76%
TX	Bandera County	53,100	53,500	(400)	-0.75%
MA	Bristol County	73,200	73,700	(500)	-0.68%

Prepared by Jim Kroger at Novogradac & Company LLP