What We Do and Don't Know About HUD Fiscal Year 2023 Income Limits

The U.S. Department of Housing and Urban Development (HUD) recently announced it would use 2021 American Community Survey data to determine fiscal year (FY) 2023 income limits, which are used to determine who can live in properties financed with low-income housing tax credits (LIHTCs). In this week's episode of Tax Credit Tuesday, Michael Novogradac, CPA, and Thomas Stagg, CPA, parse several types of information following the announcement: What stakeholders working in LIHTCs and community development know at this stage in the annual process of determining income limits, what they know they don't know and also how to best prepare for unknown challenges on the horizon.

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Transcript

Introduction

[00:00:12] **Michael Novogradac, CPA**: Hello, I'm Michael Novogradac, and this is Tax Credit Tuesday. This is the Tuesday, December 20th, 2022, podcast. A quick housekeeping note for our listeners here at the top of the show: this is the last episode of Tax Credit Tuesday for 2022. We'll be back with our first episode of 2023 on January 10th. I'll give you a preview of that episode a little later in the podcast.

For now, let's return to this week, when we'll discuss the announcement earlier this month by the U.S. Department of Housing Urban Development, or HUD, to use 2021 American Community Survey to determine fiscal year 2023 income limits, and there's a lot embedded in that sentence, so let's unpack some of what it means now.

First, since before the low-income housing tax credit was enacted back in 1986, HUD has annually set income limits. In fact, HUD was mandated to set income limits in the Housing Act of 1937, so it does go back a few years. These HUD income limits are used by owners of tax credit properties to determine the maximum income families can earn and still qualify to live in tax credit properties.

These income limits also apply to properties receiving taxes and bond financing. Now, the HUD-determined income levels are also used to calculate the maximum rent an owner can charge for a tax credit apartment. Now, technically, HUD does not release income limits. I mean, rent limits, they release income limits, and those income limits are used to determine what the rent limits are.

Now, every year when income limits are released by HUD, property owners with properties for which maximum income levels have increased are entitled to charge corresponding with higher rents. Rent increases have been particularly needed over the last couple of years as higher inflation has meant higher operating expenses for tax credit properties.

Now, many developers, owners, investors and lenders and others seek out not just the current income and rent limits, but they try to look into the future and seek estimates of future rent and income limits. This effort is particularly strong with respect to properties under development, be it new construction or acquisition/rehabilitation.

Developers, owners, investors and lenders want good estimates as to what level of gross income our property can generate and whether those amounts are likely to increase over the near term. These rent estimates are used to assist in assessing how much hard debt a project can support, which is a central part of evaluating financial feasibility during lease up and beyond.

Future rent and income limits are also important for property-level budgeting by property managers, owners and investors, as well as buyers and sellers of low-income housing tax credit properties. And we do, at Novogradac, have a product that does just that, which we'll talk about later in the podcast. Now, in recent years, the key ingredient used by HUD to determine income limits is data collected by the Census Bureau, namely the American Community Survey data.

Now I say in recent years, it's been a number of recent years, but it hasn't always used this data. Now, timing wise, HUD waits for the Census Bureau to collect and release the data for a given year. Then HUD analyzes that data and prepares and releases their estimates. This means there is a time delay between the year the data is collected and when HUD's work is complete.

And the time delay has been nominally referred to as a three-year delay, and three years sounds like a long time, but I want to take a moment to look at it more closely. It's not nearly as long as it sounds. So let's start, for example, with the Census Bureau collecting data for the 2019 calendar year. The Census Bureau won't actually receive all that data from those who are surveyed until 2020. It's a calendar-year survey, so they'll get the final forms in by early 2020. From there, the Census Bureau does their work. Now, let's assume for the moment that their work's completed by the end of 2020. Normally it's completed by, say, September, but for purposes of this example, and by the end of 2020, then in 2021 or late '20 spilling into 2021, HUD can do their work.

This means that income limits could be released in early 2022 if the work is done by HUD in 2021, and that has been the case in recent years. The general release date has been on or about April 1st. So just to repeat, census forms are completed during calendar 2019. Census Bureau analyzes the data and releases it by the end of 2020, and HUD can do their work starting maybe at the end of 2020, rolling into 2021, with income limits being released by HUD in early 2022. And this year, the 2022 increments were based on the 2019 census data, and they were released in late April.

Now with that as background, as you've noted in prior podcasts, the COVID-19 pandemic meant that or made 2020 data unreliable and the 2020 one-year ACS data was not released, which means that HUD could not rely on the 2020 ACS data to determine income limits for 2023.

After months of discussion, HUD has announced that they'll use the 2021 American Community Survey data, which means HUD will have less time to process the data than in the past. If they stayed on the recent release schedule, April 1st, that would've meant that they would have one year less time. However, HUD also announced that the 2023 income levels will not be released by the April 1 deadline. They would be, not be released until May 15th.

This does mean that they do have less time, but it means they have 10½ months less time than in the past. Now, of course, maybe they can get some data from the Census Bureau earlier than the past years, so maybe they won't have that much less time.

Now, some in the low-income tax credit community foresaw these challenges as they began to arise, such as us at Novogradac. When the Census Bureau announced in 2021 that the 2020 ACS was deemed unreliable, we at Novogradac and others knew immediately a problem existed. And that is why back in 2021, which isn't not that long ago, we founded our Novogradac Income Limits Working Group. This is a group that's specifically designed to do our part to help foster a community that could present suggestions to HUD as it contemplated how to navigate the difficulties with data collection.

The working group recommended to HUD to use the 2021 ACS data, at least in part, to calculate the 2023 income limits. As noted earlier, HUD announced earlier this month, they would indeed use 2021 ACS data, albeit in whole, not in part. Now, this current issue with unreliable 2020 ACS data and the need for HUD to alter the methodology for calculating income limits highlights how income limit calculations evolve over time. This means it's very important to stay engaged in watching how income limits evolve in the future and weigh in with HUD when needed.

Now today's guest on the podcast will help us look at this complicated process. Joining me is my partner, Thomas Stagg. Thomas works out of our metro Seattle office, and we at Novogradac, and many of our clients, like to think of Thomas as not just an expert, but the expert when it comes to rent and income limits, at least the expert outside of HUD. He's active in the affordable housing space, working with developers, investors, property managers and more. Thomas and his team are continuously examining the data that goes into rent and income limit calculations. Based on his work, his team projects what this data may mean for future rent and income limits, which is exactly why he's the ideal guest for this topic.

Now, additionally, Thomas heads up our rent and income limit estimator product, which has been updated with the new information for fiscal year 2023 and 2024. This is the product I mentioned earlier in the podcast. The rent and income estimator is used by many developers, syndicators and lenders to estimate rent and qualified income levels for tax credit properties for the next two years. Assessments are also used by sellers and buyers of existing tax credit properties.

Now, Thomas, no surprise here, runs the Novogradac Income Limits Working Group. And I do encourage you to reach out to Thomas if you're interested in becoming a member of the group, and I would encourage you to become a member of the group. We will include Thomas' email in the show notes for those who are interested in joining the working group.

Now, in today's podcast, we're going to look at two types of information. The first is what we do know today in terms of rent and income limits. I'd like to refer to these as the "known knowns," and then we're going to discuss what we know, we don't know, the "known unknowns." And then, toward the end of the conversation, we're going to discuss a third type of information, or maybe I should say unknown areas we don't know we lack information. In some ways, the 2019 ACS data collection issue is an example of an area where we didn't know what we, that we wouldn't have the information we needed. You might call this category "unknown unknowns."

So if you're ready, let's get started.

Known Knowns

[00:09:34] **Michael Novogradac, CPA**: Thomas, welcome back to Tax Credit Tuesday.

[00:09:37] **Thomas Stagg, CPA**: Thanks, Mike. It's good to be back. It's always nice to spend a Tuesday afternoon with you.

[00:09:43] **Michael Novogradac, CPA**: Always nice to have you joining me. So I talked a little bit in the introduction to this week's episode about what we do know, which is that HUD will use 2021 American Community Survey data to set 2023 income limits and thus indirectly rent limits. If you would, Thomas, please tell our listeners about how HUD came to this decision and some of what it means.

[00:10:08] **Thomas Stagg, CPA**: Yeah, so I think that HUD was very thoughtful and very pragmatic about coming to their decision. They definitely were very willing to interface and talk with the Income Limits Working Group. And I know that they heard from other stakeholders as well as they tried to inform this decision as to what to do. And I think they got the consistent message from everybody that we need the limits to be as accurate as possible and based on the most reliable information as possible. And HUD really came to a good answer here by using the 2021 ACS data.

And are we the first to applaud HUD for this? I know it means a lot more work for them. As you outlined, they typically have a lot longer leeway to kind of get the data, analyze it and put out their final product. They're going to have a very, very tight turnaround window this year. As you said, they give themselves six weeks extra, going from an April 1st target date to May 15th, but they're issuing the data at a much shorter window.

So HUD is going to have to do a very quick turnaround time to meet this, and I think we should applaud, applaud, HUD for making the choice to use such current data, and knowing that that made it their job much more difficult and much more of a tight turnaround window.

[00:11:17] **Michael Novogradac, CPA**: So thank you for that, Thomas. I definitely applaud HUD as well. It definitely makes our job a lot more challenging in terms of workflow, so I'm appreciative that they're willing to undertake that because it does generate a much better answer for all parties involved. So what are some of the ways that we know this decision will affect property managers and others working with low-income housing tax credit-financed properties?

[00:11:44] **Thomas Stagg, CPA**: If you remember back in early 2020 before we knew we were going to have bad ACS data for 2020, I was already out on the circuit warning people about 2023 income limits and telling them, "Hey guys, HUD uses an ACS that's being collected right now in 2020. That's going to be heavily impacted by COVID to inform our 2023 estimates. So we need to start thinking about this today."

We ended up not using 2020 data, but we are still using 2021 ACS data. And we have to remember that 2021 was still largely impacted by COVID and that the results that build this ACS are results that were received all through 2021, not just in January, February, but every month, they send out packets and get packets back and kind of collect data throughout the entire year.

So we're going to see that 2021 ACS data is still impacted by COVID. And so if we look at kind of the change in ACS data from 2019, the last year that we had a valid one-year sample, to 2021, we see that's only about a 6% increase across two years, which is much slower growth than we've seen kind of in the last few years at the ACS level.

We're still going to be feeling some impacts of COVID in this, and Mike and I did a podcast probably way back in early 2020 where we talked about the other shifting demographics here that we're going to see, that we're going to see is that the ACS data is collected based on where you live, not necessarily where you work.

And we've already seen it in looking at the ACS data. The Census Bureau on their website published this really interesting statistic that the number of people working primarily from home have tripled since 2019 to 2021. So I think we're also going to see some shifting in the demographics, which will also have an interplay on the income limits.

So that might be shifting to some of our known unknowns, but we know that we're going to use 2021 ACS data, and we know that COVID is going to have impacted that. And that we know that household movement of tenants is going to have some impact on that. We're still unpacking that, but we see some areas that historically were kind of, these rural areas were kind of a more steady income growth, have seen some income explosions, and we think that's likely because of people moving from, moving to work from home in these cities.

The other "known known" that we know right now is that area definitions will be updated for 2023 income limits. And so area definitions are what makes up a county, what makes up an MSA, and how those are grouped. And HUD has been using the 2018 definitions, but starting in the 2023 limits they'll start using the 2020 OMB area definitions. And of course this happened when they start using the 2018 definitions. Usually it's not a huge change. We're not saying that suddenly, you know, San Francisco and Mendocino County are going to be grouped together. It's that same area or you know, some, some crazy thing like that.

But usually there's some fringe areas that kind of see either a big increase or a big decrease because we have counties, either they're joining a higher-income county, so the lower income gets kind of moved up to join that county, or we see them splitting off and now they're on their own and they have a little bit of a decrease.

So we know that there's going to be some impact of area definitions on the income limits as well.

[00:15:09] **Michael Novogradac, CPA**: So, Thomas, when you talked about the impact of COVID and more people working from home, maybe you could unpack that or share some of your thoughts, because it is a median income level question. So it seems like it's a function as to how many are kind of above the traditional median that are sort of moving in, if you will, versus those that might be below the median that would be moving out or moving in. And any thoughts on the balance of that? I know we had this discussion in our podcast back in 2020.

[00:15:44] **Thomas Stagg, CPA**: I might answer this in a little different way that will kind of help inform the discussion as well because I think this way is a little easier for people to picture. I'd like to give the example of Seattle, Washington, where I live. Historically, our median income's been right around $100,000.

And so we look at $100,000 median income. And Seattle recently raised their minimum wage. I think it's now $20 per hour. And so I kept getting this question of "how is this going to have an impact on our median income and how soon are we going to see this?" And I tell people, well, our median income is $100,000, so raising the minimum wage to $20 an hour, that's $40,000 a year basically.

And I start to say I'm not sure that has impact. Obviously, that's going to have impact on your hourly employees that were making $42,000. They're probably going to need to be bumped up and so forth and so on. And does that bump reach all the way up to the median income level? And in Seattle, I'm not a statistician or anything like that by any stretch of the imagination, but I kind of made the determination that, you know what? That's probably not going to have much wage pressure at the $100,000 level.

But we kind of looked at that opposite and said, OK, but what happens if all these people who are making $200,000 a year in Seattle, suddenly they said I don't like living in the city during COVID? I need more space. And they move out to Spokane, Washington. I'll just pick that because I think that's a big town people know of – go Gonzaga basketball – and so all these people making $200,000 a year choose to work remotely in Spokane because they want a little more space. Well, Spokane's median income, and don't quote me on this, but it's much lower. I want to say it's between $60- and $80,000, but you could see if enough people took their $2,000 annual income – or $200,000 and moved out to Spokane, that that could start to have some impact on the median income in Spokane. And even more so if we picked a smaller area than Spokane, like Wenatchee. If they all moved to Yakima or Wenatchee, that you could have a much bigger impact, felt much quicker in those type of areas.

And that's what we're talking about. We're talking about the moving of the population depends who's moving and where they're moving. Whereas if everybody from Seattle moved to San Francisco, well, they're not going to feel anything, right? Because they're basically replacing like-kind for like-kind. And so it, it really depends on where we're moving.

[00:18:06] **Michael Novogradac, CPA**: And I would just note to continue with your example of Seattle, those higher income families moving to Spokane, it also, their moving out would put downward pressure on the median in Seattle.

[00:18:18] **Thomas Stagg, CPA**: That is correct.

[00:18:19] **Michael Novogradac, CPA**: And that shifting ends up sort of happening. And with Covid, one of the areas that was probably most impactful was the dislocation or the relocation of various families and the impact that ends up having on median income levels.

So let's move on. There's a lot to, we could talk about that and people can go back and listen to our podcast in 2020 where we were speculating on the impacts of that on various median income levels.

Known Unknowns

[00:18:40] **Michael Novogradac, CPA**: So let's move in to the next category. What I like to think of as the "known unknowns." What is it that we know we don't know? So if you could outline some of the information that we're waiting on and that HUD has to release it at some point, or it hasn't happened yet because it's something that's going to happen in the future that will influence the income limits. And maybe other issues that we're still researching to get a better grasp on whether or not it's a known unknown or a known knowable that we just don't know yet.

[00:19:30] **Thomas Stagg, CPA**: So the first unknown or known unknown that's knowable at some point is what trend factor HUD will use. So as we talked about, we're starting at the baseline 2021 ACS data, but we're publishing a 2023 income limit. So we have to somehow account for that time variance. And so HUD uses a trend factor to trend from 2021 to 2023. And historically they've used a CPI trend factor where they take the 2023 CPI divided by the 2021 CPI to generate trend factor and trend all areas using that same trend factor. It's a very reasonable, straightforward calculation.

But what we don't know yet is what the exact trend factor will be. Historically, HUD has used the Congressional Budget Office's estimate of CPI when doing that. But last year, we saw that the Congressional Budget Office did not release a CPI estimate earlier than HUD wanted to release their income limits. So HUD was not able to use the Congressional Budget office's estimate. They had to use a different estimate, and they ended up using, it's basically the CPI for February as their trend factor. And so we don't know what the final trend factor is going to be. We don't know if Congressional Budget Office will release a new trend factor if HUD will use something different.

But it's important to note that this trend factor plays a huge impact on income limits as of late when we see that CPI is still volatile. When we first starting to do these estimates five years ago, CPI wasn't very volatile. The estimate that Congressional Budget Office published stayed pretty consistent and it was a pretty strong estimate, but now we see that it's kind of much more volatile and so our limits are much more impacted by this.

If we kind of look, I don't want to bore people with numbers too much, but if we just look at the difference between using what OMB published back in May, we end up with the national median income changing by about 3.67% using the 2021 ACS. If we look at the October CPI, we see national median income increasing by 4.89%, so almost a percent and a quarter difference depending on which trend factor we're using. And obviously the trend factor is going to continue to change as either CPI goes up and down between now and when HUD publishes or the Congressional Budget Office issues a new CPI.

And so there's a lot to kind of unpack there with that trend factor. We know it's important. We're monitoring it. We're doing our estimates based on kind of our best guess of where CPI is, but that's obviously going to change, be a change between what we can estimate now and what the final number ends up being.

So that's the first big one. The second important one is what HUD is going to do about the cap methodology, and this was a big deal last year. I won't go into all the details on it. You can read our blog posts on it, et cetera, but HUD has a cap they apply to income limits that caps how much income limits can increase in any given year. And last year, HUD tweaked what they used as the baseline for that calculation and it ended up resulting in a cap that was about 50% of what it would've otherwise been.

If we used the old methodology last year, the cap would've been a 25% cap. So meaning you couldn't increase by more than 25%. Obviously, that's a huge increase in any given year. We weren't really complaining that we needed a 25% increase in all areas, but they capped it at 11% or 12% rounded, and so that was just such a big difference of what people were anticipating that that caused a little bit of consternation in our income limits and caused people to kind of question, well, what is HUD going to do in the future with caps? Is this another variable we need to be worried about?

And then, so those are the two unknowns that we're kind of -- and then we already touched a little bit on area definitions. We don't know how much that's going to impact. So that's kind of what we don't know about 2023.

But of course, obviously we want to kind of estimate as far into the future as we can. So we're already kind of thinking about, well, what does this mean for 2024? Normally, our 2021 ACS data is what would inform 2024, but this year, we're using 2021 for 2023. So what are we going to use for 2024? Have we already used up all of 2021? So we have to use something different? And we don't know what HUD's going to do with that. And HUD has kind of informally told us they haven't made a decision either yet. They're going to kind of look at how this year goes to see how this tight deadline works for them.

They're going to listen to feedback from all their income limit users, not just low-income housing tax credit projects, but Section 8 projects, HUD-financed mortgages, everything that's kind of using these limits, HOME projects, and want to hear back from their stakeholders about, you know, how does income limits come out later in the year impact them? How does using this data impact them? And so this is going to be an area where we're going to kind of watch and monitor, but also, that Income Limits Working Group, we're going to have discussions among the group to see what our stakeholders think of it, and obviously provide our feedback to HUD and let them know where our stakeholder group, how they feel about it and what they think the right answer should be.

[00:24:51] **Michael Novogradac, CPA**: So thank you for that, Thomas. I really appreciate your focus on the trend factor. And I like to think of the significance of the trend factor or the inflation adjustment, if you will, the CPI adjustment as when we were, and you can build out my observation here because you have a better way of saying it more that maybe I might be more accessible for a lot of the listeners, but I always thought how the year-over-year changes in income were a significant portion of the actual change in income relative to the trend factor because the trend factor itself was low enough that any changes in the trend factor weren't so significant relative to the median income levels that were being reported through ACS.

Now, with inflation where it's at, you look at the income changes every year and the inflation factors really dramatically changing that number, which then creates some oddities in subsequent years when the actual income limits come out because they've been inflated forward as to the CPI and which may or may not overstate what the actual income level growth is in that area and just creates a greater potential for variability, which is in the odd circumstance of making it harder to estimate income limits, but making those estimates all the more important.

[00:26:21] **Thomas Stagg, CPA**: So maybe I'll give an example that might help people understand this. So one of our suggestions for the Income Limits Working Group to HUD is to how to overcome this issue. We said, well, what if you took the 2019 and 2021 ACS data and average that to serve as your proxy for this 2020 ACS data that we didn't have?

It's interesting. If we took the national median income and prepared it that way using the same trend factor we talked about, but obviously now the trend factor would be three years because we're using a 2020 number. We're trending to 2023. We would end up with a higher national median income. And what that tells me is that the trend factor is trending faster than income limits are growing. So we would rather have three years of trend than one year of income limit growth and two years of trend.

Now, this is true on a national level, but what's interesting is it's likely a different answer in some areas of the country. Some areas of the country, your ACS data may be growing much faster than the trend, and you'd say, no, we'd rather have no trend at all. We want our true ACS data. And some other areas would say, oh, thank goodness for that trend factor because otherwise we would've been negative or flat. And so it's just interesting that dichotomy right now.

And we see this – a long time ago, I took this chart and I kind of overlaid CPI over ACS data and kind of looked at the percent change for the both. What's interesting is you look at the trend, they follow each other. But every once in a while, the gap will start to come and then they close back up. I think it just has to show the overall arching concept that CPI is not income growth and income growth doesn't always follow corporate profits, et cetera, that there's sometimes a lag there while that kind of works through the system. And I think right now we're seeing a little bit of a lag where CPI is growing faster than our ACS data.

And I think it's important to note that if that continues and that gap continues that eventually, especially if CPI slows down and income limits are slower still, there's going to be a course correction here. And we might have a year of very anemic growth, if not negative growth, which is not the right word. But decreases is the word I'm looking for.

[00:28:38] **Michael Novogradac, CPA**: So I also thought it was interesting that you mentioned the cap methodology, that this year is, in some ways, a known unknown. Last year, we assumed HUD wasn't going to change that methodology.

Unknown Unknowns

[00:28:53] **Michael Novogradac, CPA**: So it was what I'll call an "unknown unknown" that became a known unknown. So this is, as I said earlier, there's this third type of information with regard to rent and income limits. And that's what that's an example on. It's the sheer nature of rent and income limits evolving and changing.

And as I noted, sometimes those changes can be dramatic. Sometimes the changes are minor, and then oftentimes there is no change. But, oftentimes there are changes that at some point, we don't know them. They're unknown unknowns. Then at some point, obviously an unknown unknown becomes knowable, and then you have to deal with the consequences.

So I thought it'd be useful for our listeners to share some other instances in your experience where there were unforeseen issues that shaped rent and income limits. Now, as I noted, we've already mentioned the COVID and the fact that we had 2021 data that wasn't, or 2020 data that wasn't valid. So they didn't know it was coming. It was an unknown unknown. And then it happened and had to deal with it.

When HUD chose to change the cap on rents, that was something that wasn't known. And then became something that revealed itself and then you have to address it. But those aren't the only two. So maybe share a few more.

[00:30:13] **Thomas Stagg, CPA**: I think that a lot of times HUD is kind of changing things to react to either lack of data or better data. And I think the kind of the classic example of HUD kind of changing their methodology is looking back at what kind of happened with the old method. Back before we had American Community Survey, HUD used to publish, would get the data from the census that happens once every 10 years. And between those 10-year periods, HUD would not receive any sort of census data from areas at all, right? They'd be stuck with, it'd be 10 years, say, till they'd get new income data about a specific county.

And so what they would do is they have this very kind of complicated methodology of using a lot of inputs: BLS inputs, wage data. You can look back at the old documentation method. It's this long, lengthy list that you'd really have to be a very smart statistician to even be able to comprehend and it just kind of goes over my head completely. But I look and say that was a lot of work, and they're doing that to estimate it until the new census data came out.

We saw in 2020 that using this input that HUD had overestimated a lot of areas, had estimated that income limits had grown faster than they actually had when the next census came out. And we had this big issue where there was a gap between the published limit and what it was established by the census, and this led to HERA Special, et cetera. But it kind of caused, the outcome of that was we were looking at a lot of areas that were going to be flat for a very long time while the actual incomes caught up because they kind of re-benchmarked. Obviously, that wasn't a great answer and so therefore, HUD really embraced the American Community Survey as soon as it came out because they said we want data that we can get right away.

And so they started, they switched from census to the American Community Survey, but when they first did it, they used the five-year American Community Survey, which we've talked about. Five-year means you're kind of looking at data collected over a five-year period, so still not as accurate as a one-year. But they start out using the five-year because they knew that that was going to be more accurate than the 10-year census. And then once they were able to kind of prove out that the one year ACS data was accurate, they switched to using that. And so if you're somebody who wasn't falling along with HUD, these could be a lot of unknowns to you that, well HUD's changing their methodology as they do this. But realistically, HUD is trying to respond to use the best data that's available to them. Another example --

[00:32:41] **Michael Novogradac, CPA**: Just to comment that before we get into some of the other examples. I just wanted to kind of emphasize that back in 2010 when there was this rebenchmarking, because basically the census data showed that the estimates, the income estimates have been overestimated for gradually over a 10-year period, so there were some pretty significant changes.

That was obviously a dramatic result and very impactful to the LIHTC community. And it's great that HUD did shift to identify an alternative method that would be less likely to need a 10-year sharp re-benchmarking.

And I do want to emphasize that your point about HUD making the changes to get better data or deal with a lack of data, that HUD does a very admirable job of trying to improve the estimates every year. And we definitely respect the work that they do. But please talk about some of the other changes that were necessitated for one or both reasons.

[00:33:45] **Thomas Stagg, CPA**: So another big change people might remember is in 2009, HUD did away with their hold harmless policy. So prior to 2009, income limits would never decrease for an area. And in 2009, they did away with hold harmless so that, and I think it was 2010 was the first year that was published, where income limits went down. And so as part of that, so first they had that change in policy, it said income limits can now decrease. But HUD said, we need to have some sort of protection here because we don't want income limits to fall off the cliff by decrease by 15% a year, 20% a year.

And this is when the caps and floors got put into place. They said no area can decrease by more than 5%. And they said, well, if we're going to have a limit on decreases, it also seems to make sense that we should have a limit on increases because we're trying to get rid of huge outliers here.

And so that's when this cap first came into place as well, where they capped any changes in increases. I think there's one other change that we should mention because it's maybe very applicable to what we're looking at for 2024. It's that in 2011-12, so in 2011, the HUD published their income limits on May 31st of 2011.

But then HUD changed their policy and said, you know, We want our income limits to better align with the year end. So we're going to publish our income limits on December 1st every year. And so that change in kind of when they wanted to publish their limits now they said, well, wait, we're publishing limits December 1st. We don't have enough time to get new ACS data, analyze it and publish by December 31st. So for 2011 and '12, they actually used the same ACS data two years in a row with the calculation. And so we might see something like that again in 2024 where they used the same ACS data for two years in a row.

So there's a lot of examples. I thought of another one, but we'll move on and talk about other stuff. People don't want to hear us reminisce about HUD all day long.

[00:35:44] **Michael Novogradac, CPA**: No, no, no, no, no. And I just want to emphasize that these are all changes that are thoughtful and they'll project changes as much as they can. And just letting us know about May 15th and the rest. They have a momentous task they have to address every year. And like I said, the whole purpose of going, of reminiscing, going down memory lane with respect to various changes, both known knowns, known unknowns and unknown unknowns is just to remind listeners that the calculation of incomes by HUD and the corresponding derivative rent limits has always been changing. You know, sometimes, as I noted several times in the podcast, gradually, sometimes there could be a significant change.

And one thing for sure, they will continue to evolve. So I would like to encourage our listeners to join the Novogradac Income Limits Working Group. It is a great way to connect with others that are focused on the income and rent limits for their tax credit properties. It's also a way to gain insight in depending changes as well as to participate in developing and communicating the HUD recommended changes to the income limits determination process.

So Thomas, I know I'm going to be including your email in the show notes, but are there other ways people could reach out if they're interested in joining the working group?

[00:37:17] **Thomas Stagg, CPA**: We do have an Income Limits Working Group website that has an intake form there where you can go in and put your information and then we'll contact you about joining.

Or you can just email me directly. That's easy as well. And I'm always happy to meet new people who are interested about income limits.

[00:37:33] **Michael Novogradac, CPA**: Great. We will include a link to the webpage in our show notes as well, and maybe you could share some other resources that might be helpful for those that are interested in income and rent limits to know.

[00:37:45] **Thomas Stagg, CPA**: Yeah, of course. I think if you're interested in rent income limits, you probably know about our free rent-income limit calculator where you can look at historical data for an area, look at the current year limits. Obviously, that has not been updated for 2023 yet because that only fills in the data that HUD is already published.

So we have the income limit calculator, we also have the estimator where you can purchase 2023 and 2024 outlook. And of course, this will be discussed at our conference in Fort Lauderdale, Florida. I won't be there, but other people will be informed on the issue and able to talk to you about that.

If you really want to dig deep into income limits, HUD's website is actually really, really good about being able to look at specific areas, what they publish. You can read the brief materials and see how they derive income limits. I always like to call, it's an open secret. All the data's there for you. It's just very hard to parse and understand it first approach.

Exit

[00:38:42] **Michael Novogradac, CPA**: Great. Thank you, Thomas, and I will note that the Affordable Housing Developers Conference in Fort Lauderdale is January 11th and 12th. It's on

Wednesday and Thursday. Our typical days are Thursday-Friday. This year we're doing Wednesday-Thursday.

So thank you, Thomas. Thanks for joining me in today's podcast. Please do stick around for our Off Mike section where I get to ask you for some words of advice and professional wisdom.

So to my listeners, as I said at the beginning of the podcast, Tax Credit Tuesday is taking a brief two-week break, but we will return on Tuesday, January 10th, 2023, with our first episode of the new year. My guest will be Novogradac's director of public policy and government relations, Peter Lawrence. Peter will join me to discuss the legislative outlook for 2023. The 118th Congress is slated to begin January 3rd and will change the landscape in terms of the balance of power in its two chambers. As you most certainly know, Republicans won back control of the House during the recent midterm election for the first time since the beginning of the Trump administration.

And in the Senate, the Democratic Party effectively picked up a seat. So we will talk a little bit about how that's been complicated by recent announcements of one Democrat becoming a independent. We'll discuss what these changes might portend for community development in the low-income housing tax credit community.

We're also going to look at the various areas where the community development and affordable housing communities are seeking, as well as expecting regulatory guidance. As a teaser, 2023 is shaping up to be a landmark year when it comes to regulatory guidance.

Off Mike

[00:40:30] **Michael Novogradac, CPA**: And now we reach our Off Mike section where I get to ask our guests some off-topic questions to get their words of advice and words of wisdom.

So, Thomas, you've been a guest several times and you've been keeping us up to date about a personal goal, which was to run a thousand miles. You hadn't decided what your next goal might be. So maybe you can bring us up to date on your goal to run a thousand miles and if you've picked a goal for 2023, and if so, would you share it with us?

[00:41:04] **Thomas Stagg, CPA**: So I can report, I definitely far eclipsed a thousand miles. Actually eclipsed that back in August. But I did notice once I hit a thousand miles, my mileage level each day decreased a little bit. But it was good because I was able to focus on some other areas of physical strength that I'd become a little too single-minded.

But my next goal inspired not one that you should admit to your boss, but my goal for 2023 is to end the year with less PTO than I started the year. I've noticed that I've been not taking as much PTO as I should be. And so my goal is to actually try and have a little better balance this year and take those PTO days and try and do some more fun trips with my family this year.

So that's my goal. Maybe it's because it's around holiday time where I'm taking time off, but I feel like it's a good goal for 2023 for me.

[00:41:52] **Michael Novogradac, CPA**: Hear, hear. That is a good goal. And maybe you could share with us some of the things you take into consideration when you're setting goals, personal and professional.

[00:42:02] **Thomas Stagg, CPA**: So I try and think about what area of my life I want to focus on with my goal.

You know, you got your mental, your physical, your social, your emotional, and try and figure out what I want to focus on for the given year. And often I'll try and set a goal in kind of all four areas as I'm working through it to kind of help myself push toward something. My wife will laugh, but I tend to be kind of a goal-orientated person, although I don't always write down and share my goals.

I always have something that I'm kind of focused on and working on, and I try and think about what areas of my life need to have a little more focus. And I hope that the PTO will actually, probably hit all of those areas as I am able to be a little more balanced in the coming year.

[00:42:45] **Michael Novogradac, CPA**: Well, I think our listeners think that you're very balanced. But we can always be more balanced.

So thank you, Thomas. And to our listeners, I'm Mike Novogradac. Thanks for listening.

Additional Resources

Email

Thomas Stagg

Working Group

Novogradac Income Limits Working Group

Conference

Novogradac 2023 Affordable Housing Developers Conference

Rent and Income Limit Estimator

Novogradac Rent and Income Limit Estimator