

GAO Highlights

Highlights of [GAO-18-637](#), a report to the Chairman, Committee on the Judiciary, U.S. Senate

Why GAO Did This Study

LIHTCs encourage private investment in low-income rental housing and have financed about 50,000 housing units annually since 2010. The LIHTC program is administered by IRS and credit allocating agencies (state or local housing finance agencies). The program has come under increased scrutiny following reports of high or fraudulent development costs for certain LIHTC projects. GAO was asked to review the cost-efficiency and effectiveness of the LIHTC program.

This report examines (1) development costs for selected LIHTC projects and factors affecting costs, (2) allocating agencies' oversight of costs, and (3) factors limiting assessment of costs. GAO compiled and analyzed a database of costs and characteristics for 1,849 projects completed in 2011–2015 (the most recent data available when compiled) from 12 allocating agencies. The agencies span five regions and accounted for about half of the LIHTCs available for award in 2015. GAO also reviewed the most recent allocating plans and related documents for 57 allocating agencies and reviewed federal requirements.

What GAO Recommends

Congress should consider designating a federal agency to maintain and analyze LIHTC cost data. GAO also makes three recommendations to IRS to enhance collection and verification of cost data. IRS disagreed with the recommendations and said it lacked certain data collection authorities. GAO maintains the recommendations would strengthen program oversight and integrity and modified one of them to allow IRS greater flexibility in promoting data standards.

View [GAO-18-637](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garcia Diaz@gao.gov.

September 2018

LOW-INCOME HOUSING TAX CREDIT

Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management

What GAO Found

GAO identified wide variation in development costs and several cost drivers for Low-Income Housing Tax Credit (LIHTC) projects completed in 2011–2015. Across 12 selected allocating agencies, median per-unit costs for new construction projects ranged from about \$126,000 (Texas) to about \$326,000 (California). Within individual allocating agencies, the variation in per-unit cost between the least and most expensive project ranged from as little as \$104,000 per unit (Georgia) to as much as \$606,000 per unit (California). After controlling for other characteristics, GAO estimates that

- larger projects (more than 100 units) cost about \$85,000 less per unit than smaller projects (fewer than 37 units), consistent with economies of scale.
- projects in urban areas cost about \$13,000 more per unit than projects in nonurban areas.
- projects for senior tenants—nearly one-third of all projects—cost about \$7,000 less per unit than those for other tenants, potentially due to smaller unit sizes.

Allocating agencies use measures such as cost and fee limits to oversee LIHTC development costs, but few agencies have requirements to help guard against misrepresentation of contractor costs (a known fraud risk). LIHTC program policies, while requiring high-level cost certifications from developers, do not directly address this risk because the certifications aggregate costs from multiple contractors. Some allocating agencies require detailed cost certifications from contractors, but many do not. Because the Internal Revenue Service (IRS) does not require such certifications for LIHTC projects, the vulnerability of the LIHTC program to this fraud risk is heightened.

Weaknesses in data quality and federal oversight constrain assessment of LIHTC development costs and the efficiency and effectiveness of the program. GAO found

- inconsistencies in the types, definitions, and formats of cost-related variables 12 selected agencies collected.
- allocating agencies did not capture the full extent of a key indirect cost—a fee paid to syndicators acting as intermediaries between project developers and investors that IRS requires be collected.
- IRS does not require allocating agencies to collect and report cost-related data that would facilitate programwide assessment of development costs. Further, Congress has not designated any federal entity to maintain and analyze LIHTC cost data.

Even without a designated federal entity, opportunities exist to advance oversight of development costs. In particular, greater standardization of cost data would lay a foundation for allocating agencies to enhance evaluation of cost drivers and cost-management practices.