NAHMA
NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

**A Business Case Study for
Standardizing Electronic Data Submissions within the
Low Income Housing Tax Credit Community**

I. BACKGROUND

A. Housing Credits

The U.S. Congress created the federal Low Income Housing Tax Credit program ("Housing Credit") in 1986 to encourage the construction and rehabilitation of apartments that are affordable to low-income families by offering a credit or reduction in federal tax liability for 10 years for the owners or developers of such housing. Under the program, Housing Credits are allocated by states based on criteria (known as the "Qualified Allocation Plan, or QAP), which each state develops. The QAP helps each state evaluate and select which competing apartment developments will best meet state and local housing needs and thus earn the Housing Credit financing. Each year the Housing Credit infuses several billion dollars worth of private investment to produce nearly 125,000 apartments that are affordable to low-income families, the elderly, and other special needs populations. Under the program's current terms, these new units of housing will remain affordable for a minimum of 30 years.

B. State Housing Finance Agencies

There are currently 55 State Housing Finance Agencies (HFAs) that administer the Housing Credit program on behalf of state governments. The HFAs are state-chartered authorities established to help meet the affordable housing needs of the residents of their states. Although they vary widely in several key ways, such as their relationship to their state government, most HFAs are independent entities that operate under the direction of a board of directors appointed by each state's governor. HFAs typically administer a wide range of affordable housing and community development programs. The HFAs not only allocate the Housing Credits but also administer and monitor the performance of the program as a whole in their state.

Since HFAs are independent entities, their administrative procedures and compliance requirements for the Housing Credit program vary from state to state. Although the HFAs are guided in implementing Housing Credits by a combination of two key authoritative documents – the Department of Housing and Urban Development (HUD) Occupancy Handbook (4350.3), and Section 42 of the Internal Revenue Code as promulgated by the Internal Revenue Service (IRS) – the interpretation of these documents also varies widely and affects how the Housing Credit program is implemented in each state.

In many cases, equity providers, owners and management agents conduct business in several states, and they must adapt to the different requirements established by the HFAs in each of the states in which they have properties operating under the Housing Credit program.

C. HFA State Reporting Requirements

Every HFA establishes its own compliance reporting requirements within the Housing Credit program. Some HFAs require submission of compliance data on an annual basis while others may require it on a quarterly or even monthly basis. Some HFAs allow for the submission to be reported electronically while others may require a paper report. In some cases HFAs are requiring owners and management agents to manually type in the compliance data by using Internet based web-portals managed by the HFA.

Owners and management agents that use compliance software applications expect to meet *all* of their reporting requirements through their software application. However, if they manage Housing Credit properties in different states, there is the strong likelihood they will need to meet different reporting formats and/or reporting cycles in each state. For owners and management agents with large portfolios across many states, this can be an exceptional additional expense in software modifications and staff training. In particular, reporting via manually typing into HFA web-portals is the least attractive option because it duplicates the work already performed on owner/agents' own software applications, and it also reduces the quality of data due to human error in retyping the data.

As a result, this business case study, prepared by industry stakeholders, advocates for the adoption of an industry-wide electronic Housing Credit data submission standard that will resolve the costs and challenges of the various state reporting requirements while still empowering each HFA to set its own administrative procedures and compliance requirements to meet its unique state's goals for the Housing Credit program.

II. THE BUSINESS CASE

The following examples are some of the many ways in which standardizing the reporting submission nationwide will benefit the Housing Credit industry.

A. The Benefits of Standardization for the HFAs:

1) *Flexibility.* The electronic submission file will include both a universal data set containing all related data that is considered to be universal in nature, as well as a specific state section for unique data requirements that a state may require. HFAs will be able to choose the data they import and/or use from the universal section of the document plus their own section.

2) *Accountability.* Federal agencies such as the IRS and HUD have already adopted standardization models for electronic submissions such as TRACS, PIC and the IRS-1040 submissions. The agencies will certainly look favorably on the Housing Credit industry's effort to do the same.

3) *Accuracy and Efficiency.* As HFAs update their information technology infrastructure, their capacity to receive information electronically increases. By having a national electronic submission standard, more owners and management agents will be encouraged and able to use compliance software applications and therefore report electronically using the new submission standard. Manual

reporting, which is a time burden and results in data errors, will be phased out, resulting in more accurate and efficient data and processing by the HFAs.

B. The Benefits of Standardization for Owners and Management Agents:

1) *Simplicity.* Owners and management agents will be able to use the same version of their compliance software application across their entire portfolio, regardless of which HFAs they must report to.

2) *Cost.* Various costs – including maintaining the compliance software application as modified for reporting differently to various states, training staff on the various software modifications and different state data submission requirements, and typing in data manually – will be eliminated or greatly reduced.

3) *Accuracy and Efficiency.* Owners and management agents will definitely be encouraged to switch to the electronic submission standard instead of reporting manually on a state-by-state basis. This will make their data more accurate, and their reporting and administrative processes more efficient.

C. The Benefits of Standardization for the Industry as a Whole:

There are many benefits to the entire Housing Credit industry by adopting an electronic submission standard. We believe the greatest benefit is that for the first time, nationwide, the Housing Credit industry will have a common process, based on an open source community, that anyone and everyone will be able to understand, use and leverage without a major investment. It will demonstrate to federal agencies and the U.S. Congress that the Housing Credit community respects the resources devoted to the Housing Credit program, understands the importance of a common submission standard, and is willing to provide the equity and transparency that a program of this scope and importance should have.

III. PROPOSED PATH FORWARD

A. Stakeholder Group Formed

A taskforce representing all the major stakeholders in the industry – including the National Council of State Housing Agencies (NCSHA), the National Affordable Housing Management Association (NAHMA), owners and management agents (both for-profit and nonprofit), HFAs, and software providers to owners/agents and the HFAs – has been created to develop an electronic submission standard that will universally fulfill all the data elements required today by the HFAs in the United States and the Caribbean.

B. Implementation Method Identified

1) Once the task force identifies the universal set of data elements, these will then need to be reviewed by HFAs to ensure that every state's needs are met.

2) The taskforce has initially recommended the use of Extensible Markup Language (XML) as the key technology to help both HFAs and owners/agents manage the flow of information generated via the electronic submissions.

3) The data schema and definition of the data points will be maintained as an open source asset and available to anyone in the industry that requests it.