Digest: Three Program Evaluation Division Reports on North Carolina Housing Finance Agency

The 2018 Work Plan of the Joint Legislative Program Evaluation Oversight Committee directed the Program Evaluation Division to evaluate the efficiency and effectiveness of the North Carolina Housing Finance Agency (NCHFA). The mission of NCHFA is to create affordable housing for North Carolinians whose needs are not met by the market. NCHFA manages 16 programs and partners with the Department of Health and Human Services on 5 additional programs to address a range of housing needs for low- and moderate-income households across the state. The Agency administers programs in the categories of home ownership, repair and rehabilitation, foreclosure prevention, rental development, and other programs.

NCHFA's programs are important for addressing the need for affordable housing in the state. Need in housing is commonly measured by examining what percentage of income households pay to meet their housing needs. Households paying more than 30% but less than or equal to 50% of their income on housing are considered cost burdened; households paying more than 50% are considered severely cost burdened. Data from 2012 to 2016 show that in that period, 15.8% of North Carolina households were cost burdened and 13% were severely cost burdened. When considering renters alone, the number of severely cost burdened households in North Carolina increases to over 20%.

As NCHFA has continued to grow, it has become increasingly important for the Agency to monitor its program outcomes and maintain a strategic focus. Housing need continues to be greater than the resources available to meet it. As a result, it is essential for NCHFA to strategically address housing need in the state and monitor program outcomes to ensure government resources are being spent effectively and efficiently.

This evaluation of the North Carolina Housing Finance Agency consists of three reports:

1. **North Carolina Housing Finance Agency Should Improve Performance Management and Reexamine How It Distributes Resources to Localities**
2. **General Assembly Should Improve Oversight of Housing Finance Agency Funds and Expenditures**
3. **North Carolina Housing Finance Agency Can Improve the Effectiveness of Its Rental Development Programs**

Report 1: North Carolina Housing Finance Agency Should Improve Performance Management and Reexamine How it Distributes Resources to Localities

Finding 1. The North Carolina Housing Finance Agency's local partner funding model does not consider differences in local capacity, contributing to uneven local implementation of certain programs. NCHFA provides funding to partners such as local governments or nonprofit organizations to implement community programs. Many of these local partners find that administrative costs are not covered by NCHFA grant funds, which can prevent partners with limited resources from seeking to participate. In addition, there are differences in organizational capacity across partners, which range in size from small nonprofit organizations to larger local or regional governmental entities. Differences in the local administrative capacity and financial resources of local partners has resulted in several of the community programs not being implemented in various counties.

Recommendation 1. The General Assembly should direct NCHFA to examine modifications to the four community partner programs to ensure program access and activity throughout the state, particularly in those counties with fewer local resources to operate programs. In addition, the General Assembly should direct NCHFA to discontinue the $200,000 cap per partner for the Urgent Repair Program, which disincentivizes economies of scale and can serve as a barrier to expansion to underserved counties.

Finding 2. The North Carolina Housing Finance Agency's limited strategic planning and performance management efforts impede evaluation of Agency performance. This evaluation sought to assess how well NCHFA was achieving its strategic goals and objectives. However, shortcomings in both strategic planning and performance management prevented the Program Evaluation Division from being able to objectively gauge the success of NCHFA programs. NCHFA does not have defined measurable goals or objectives by which to assess its performance or a performance management system that provides data on programmatic outcomes. Performing proper strategic planning followed by developing an effective performance management system would provide a means for stakeholders such as the General Assembly to assess the effectiveness of NCHFA.

Exhibit: NCHFA's Use of Units as a Performance Measure without Associated Targets Makes Interpreting Performance Challenging

Program	FY 16	FY 17	FY 18	Trend
Self-Help Loan Pool	233	222	182	
Community Partners Loan Pool	147	179	310	
NC Home Advantage Mortgage	4,392	6,066	4,358	
NC Home Advantage Tax Credit	2,283	1,856	1,752	
Essential Single-Family Rehabilitation Loan Pool	132	120	142	
Urgent Repair Program	805	618	607	
Displacement Prevention Partnership	400	464	355	
Low-Income Housing Tax Credits	3,497	5,717	4,590	

Source: Program Evaluation Division based on performance management data from NCHFA.

Recommendation 2. The General Assembly should direct NCHFA to develop a strategic plan every three to five years, with the first plan due by June 1, 2021. NCHFA also should implement a performance management system that includes measurable annual objectives for each NCHFA program and performance measures that include outcomes. NCHFA should contract with an independent expert with state government strategic planning experience to assist in the development of its next strategic plan.

Finding 3. The North Carolina Housing Finance Agency's required reporting to the General Assembly is incomplete and fails to provide sufficient information for legislative oversight. The Program Evaluation Division analyzed seven reporting requirements for NCHFA and found the Agency is fully meeting its requirements for two reports, with three required reports being submitted but incomplete and two not being submitted. Further, these reports as they currently exist are of limited value in assessing whether the Agency has achieved its programmatic goals and objectives. The reporting structure could be made more efficient and effective by requiring fewer reports but ensuring that the reports that are required are more informative and include three-year performance data, including outcome data.

Recommendation 3. The General Assembly should eliminate reporting requirements that are no longer relevant and consolidate all other reports into a comprehensive annual report.

Finding 4. The North Carolina Housing Finance Agency's allocation of funds across programs could be enhanced through cost-benefit analysis. NCHFA does not have an evidence-based method for comparing need across programs. The Agency's current approach for determining funding allocation risks underinvesting in programs with a high return on investment and overinvesting in programs with a low return. Using cost-benefit analysis would allow NCHFA to gauge which programs provide the greatest impact and better determine program efficiency. However, NCHFA would first have to begin collecting outcome data for its programs.

Recommendation 4. The General Assembly should direct NCHFA to transition to incorporating cost-benefit analysis into its allocation of programmatic resources and requests for funding from the General Assembly. In order to do so, NCHFA should incorporate the goal of collecting outcome data in preparation for implementing cost-benefit analysis into its next strategic planning process.

Finding 5. The Construction Training Partnership program is outside of the North Carolina Housing Finance Agency's mission and is duplicative of other state training and workforce development efforts. The Construction Training Partnership, a workforce development program partially funded by NCHFA, does not directly advance NCHFA's mission. In addition, it is duplicative of construction training programs provided through North Carolina's community colleges.

Recommendation 5. The General Assembly should direct NCHFA to discontinue funding the Construction Training Program and either redirect funding to existing programs or transfer funding and oversight to a state entity with a mission of workforce development such as the Community College System or the Department of Commerce's Division of Workforce Solutions.

Report 2: General Assembly Should Improve Oversight of Housing Finance Agency Funds and Expenditures

NCHFA uses a complex array of funding sources to support its programs, including federal grants, state appropriations, and funds established by the General Assembly. NCHFA also distributes tax credits as part of two programs. The items that play a large role in NCHFA's revenues and expenses do not play the same proportional role in support of NCHFA's operations. Although the Agency maintains that it is self-supporting, the State supports NCHFA's operations in several ways. NCHFA also asserts that it is exempt from the State Budget Manual, which contains some controls over state agency expenditures.

Exhibit: NCHFA Offers Several Benefits State Agencies Do Not Typically Provide

Benefit Type	Description	NCHFA Employee Benefit	Standard State Agency Benefit
Health Insurance	Provides health insurance coverage through the State Health Plan	X	X
Wellness Incentive Program	Reimburses gym membership fees, up to $30/month	X	
Health Reimbursement Account	Reimburses medical expenses for co-pays, deductibles, co-insurance, and prescriptions. Annually funded at $1,000/employee	X	
Health Assessment Incentive Program	Provides employees $30/month for completing an online health assessment and agreeing to pursue its health recommendations	X	
Retirement Benefits	Defined benefit pension plan, retiree health care benefit, death benefit, and disability income plan	X	X
Optional Participation in Supplemental Retirement Plans (e.g. 401k)	401(k) and NC 457 plans overseen by the Supplemental Retirement Plan Board of Trustees	X	X
Employer Contribution 401(k)	Matches monthly employee contributions of at least $25 with a monthly employer contribution of $75	X	
Retirement Notification Program	Provides a bonus of $2,500 to $5,000 to employees based on the amount of retirement notice given	X	

Source: Program Evaluation Division based on NCHFA employee benefits in Fiscal Year 2018–19.

Finding 1. The North Carolina Housing Finance Agency's asserted independence from certain state government policies and controls over expenditures increases the risk of wasteful or unnecessary expenditures. Audits of the Hardest Hit Fund conducted in 2017 and 2019 by the Special Inspector General for the Troubled Asset Relief Program found waste, raising questions about certain NCHFA expenditures. As a result, the Program Evaluation Division reviewed NCHFA expenditures and found that although the Agency has made some policy changes intended to prevent waste, areas of concern still exist. The Program Evaluation Division did not conduct an audit of all NCHFA expenses but did identify ongoing areas of concern. Examples of specific expenditures include:

- additional employee benefits totaling $544,148 in Fiscal Years 2017–18 and 2018–19;
- questioned nonprofit contributions totaling $63,550 in Fiscal Years 2017–18 and 2018–19; and
- employee gift cards costing $8,418 in December 2016.

Several of these expenditures would not occur at other state agencies due to funding limitations or because they are not permitted in policy. This perceived operating independence, coupled with questionable observed expenditures, led PED to determine that there is continued risk for wasteful expenditures at NCHFA.

Recommendation 1. The General Assembly should clarify that nothing in the NCHFA statute should be construed as exempting the Agency from the requirements and limitations of the State Budget Act, and direct NCHFA to update its policies and procedures to comply with the State Budget Manual. The General Assembly also should direct NCHFA's board to limit contributions to nonprofit entities, except in circumstances that meet the criteria of a policy established by the NCHFA board and are individually approved by the NCHFA board.

Finding 2. Several NCHFA statutory funds totaling nearly $18 million have limited oversight, which led to an improper use of funds in one instance. The General Assembly created and statutorily granted NCHFA authority over several funds, including the Homeownership Assistance Fund. NCHFA uses the Homeownership Assistance Fund to support three programs. However, one of these programs, the Construction Training Partnership, is unrelated to the purposes of the Homeownership Assistance Fund, which include subsidizing loan payments and providing mortgage assistance and security for loans. Thus, NCHFA's use of the Homeownership Assistance Fund for this program does not meet the statutory purposes established by the General Assembly. Of the remaining statutory funds, only the Home Protection Program Fund requires some General Assembly oversight, but NCHFA has stopped administering that program and submitting required reports.

Recommendation 2. The General Assembly should modify statute to eliminate the statutory funds over which NCHFA currently has authority and direct NCHFA to transfer the full balance of these funds to the North Carolina Housing Trust Fund.

Finding 3. NCHFA's largest fund, the North Carolina Housing Trust Fund, is overseen by the North Carolina Housing Partnership, but oversight activity is limited. The General Assembly created the North Carolina Housing Partnership in 1987 as an entity to establish policy, promulgate rules and regulations, and oversee operations of the North Carolina Housing Trust Fund. The Housing Partnership has not actively fulfilled a number of these statutory duties, instead functioning more as an advisory board to NCHFA.

Recommendation 3. The General Assembly should improve oversight of the North Carolina Housing Trust Fund by directly appropriating funding from the North Carolina Housing Trust Fund to NCHFA programs and transitioning the Housing Partnership to an advisory board.

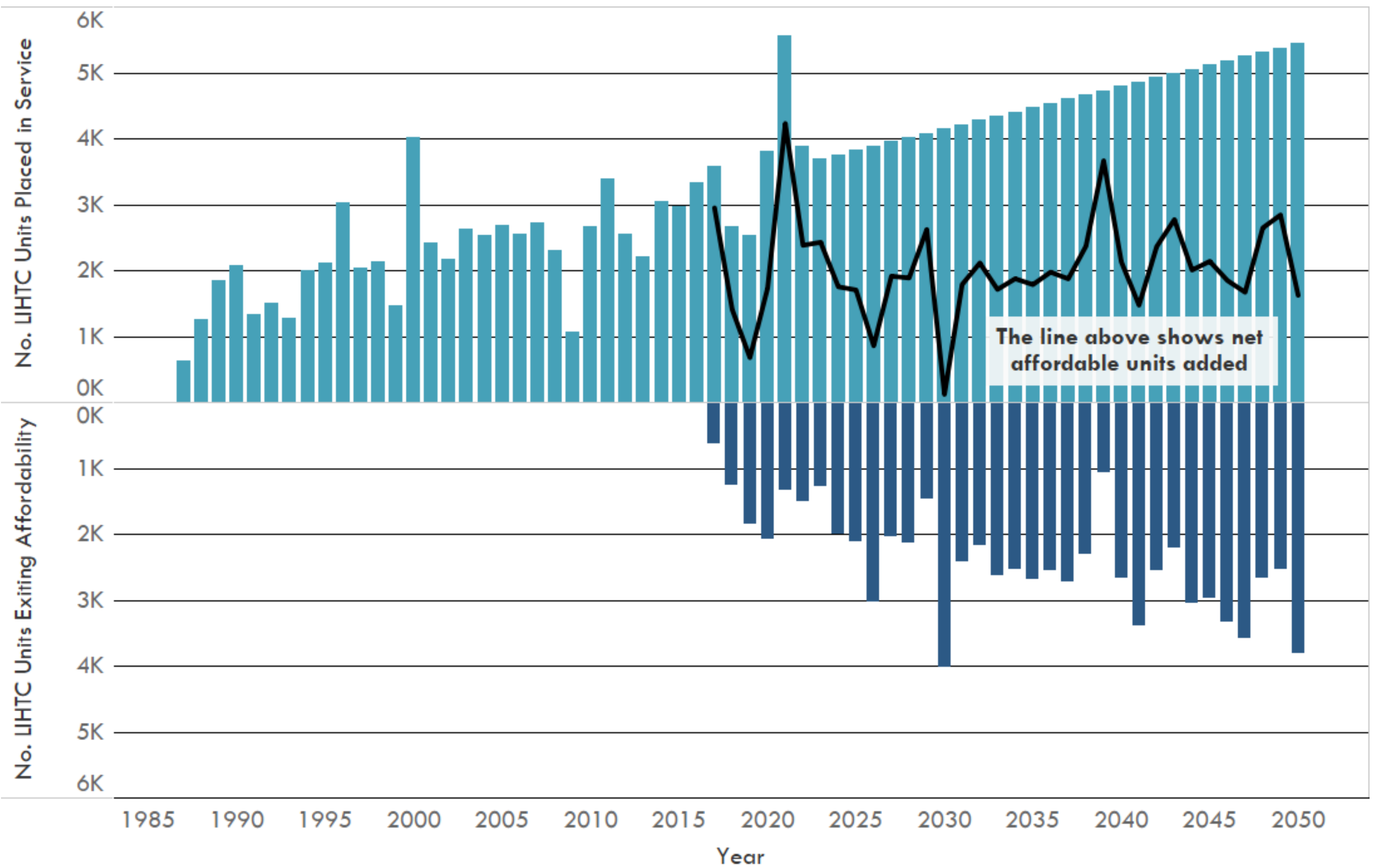
Finding 4. In violation of its own procurement policy, NCHFA did not have a contract with the private attorney that it pays to serve as general counsel to its board. The Program Evaluation Division determined that NCHFA has a private attorney who serves as general counsel to its board. NCHFA did not have a contract with the attorney serving in that role, but paid for hours billed at a rate of $400 per hour. These expenditures violate NCHFA's procurement policy, which requires a contract for services.

Recommendation 4. The General Assembly should direct NCHFA to review the need for a separate general counsel for its board. If NCHFA determines such a need exists, it should proceed with a full procurement process that results in a valid contract. If NCHFA determines that such a need does not exist, it should discontinue using a separate general counsel for its board.

Report 3: North Carolina Housing Finance Agency Can Improve the Effectiveness of Its Rental Development Programs

During the past five years, the North Carolina Housing Finance Agency's rental development programs annually created more than 4,000 units for low-income households and generated more than $7 million in operating revenue for the Agency last year. The centerpiece of the Agency's low-income rental development is the federal Low-Income Housing Tax Credit program (LIHTC), which awards tax credits to developers of multifamily rental units. Developers receiving credits must cap rents at levels affordable to households earning below the median income for their county. This tax credit equity allows developers to assume less debt in financing projects, enabling them to set rents below market rates. The rents that owners of LIHTC properties may charge are determined by the Median Family Income of the county where the development is located.

Exhibit: Projected Growth in Low-Income Housing Tax Credit Rental Units Constructed Will Be Dampened by Units Exiting the Program



Source: Program Evaluation Division based on NCHFA-provided data.

Finding 1. The Low-Income Housing Tax Credit program and associated rental development programs have created thousands of affordable rental units throughout the state, but NCHFA needs to adjust its strategy to address a rising number of units exiting the affordability period. Rental units developed in North Carolina using LIHTC must remain affordable for 30 years once they are placed in service. After that period, rental units exit the program and developers may charge market-rate rents, which may no longer be affordable to low-income households. The LIHTC program began in 1986, and units have begun to exit the affordability period in the last few years. Although projections show that North Carolina can still expect a net gain in affordable housing units through the construction of new LIHTC units, the gains will be smaller than in past years because they will be partially offset by units exiting the affordability period.

Recommendation 1. The General Assembly should direct NCHFA to study modifications to its strategy for preserving the affordability of LIHTC units and track housing units in the state that remain at affordable rents and those that are no longer affordable.

Finding 2. The local amenity policy for Low-Income Housing Tax Credits lacks a clear rationale and may prevent projects from being developed in otherwise advantageous locations. Due to intense competition for 9% Low-Income Housing Tax Credits, North Carolina's Qualified Allocation Plan generally requires projects to be located within very close proximity to a grocery store, pharmacy, and shopping amenity. This policy, though well-intentioned, limits where projects can be located despite there being little evidence in literature to support placing such a high degree of importance on these particular amenities. The rationale for the high priority placed on the shopping amenity in particular is unclear. The amenity policy can also prevent LIHTC projects from being sited in certain high-opportunity neighborhoods that are lacking one of the primary amenities within sufficiently close proximity. Research suggests that living in high-opportunity neighborhoods improves certain outcomes for residents.

Recommendation 2. The General Assembly should direct NCHFA to study modifications to amenities policies in the Qualified Allocation Plan. Potential modifications NCHFA should study include: 1) eliminating the shopping category or deprioritizing and more broadly defining it, 2) eliminating the distinction between primary and secondary amenities, and 3) creating a threshold score that includes amenities and measures of opportunity.

Finding 3. NCHFA does not always adhere to established policies and procedures in awarding Rental Production Program funding. The Rental Production Program (RPP) provides long-term loans at favorable interest rates to qualifying projects that receive LIHTC program awards. Despite this policy, the Program Evaluation Division found five awards made by NCHFA that bypassed policy and were made outside of the established process.

Recommendation 3. The General Assembly should direct NCHFA to develop policies and procedures governing when RPP loans may be awarded outside of the process contained in the Qualified Allocation Plan.

Finding 4. NCHFA does not follow its stated procedures in assigning income designations to counties for the Workforce Housing Loan Program and has excluded moderate-income Metro counties from accessing funding. NCHFA has not uniformly applied its criteria for designating counties as low-income, moderate-income, or high-income as part of its administration of the Workforce Housing Loan Program. According to its stated criteria, NCHFA has improperly designated at least two counties as high-income despite those counties having median incomes consistent with moderate-income counties. Incorrectly designating these counties limits the amount of Workforce Housing Loan Program funding and Rental Production Program funding for which they are eligible.

Recommendation 4. The General Assembly should direct NCHFA to update its stated criteria for Workforce Housing Loan Program income designations to ensure these criteria are specific, measurable and transparently and uniformly applied.

For more information on this report series, please contact the lead evaluator, Jeff Grimes, at jeff.grimes@ncleg.net.

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