

# Highlights of Review of North Carolina Housing Finance Agency

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A presentation to the Joint Legislative  
Program Evaluation Oversight Committee

June 8, 2020

Jeff Grimes, Principal Program Evaluator

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# Our Charge

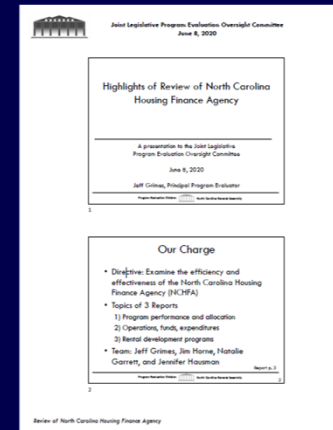
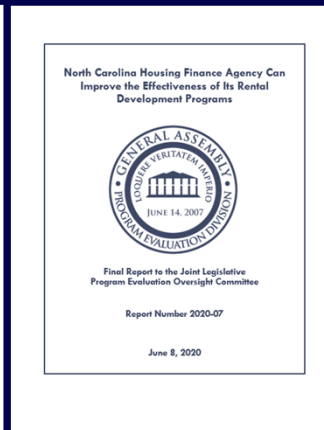
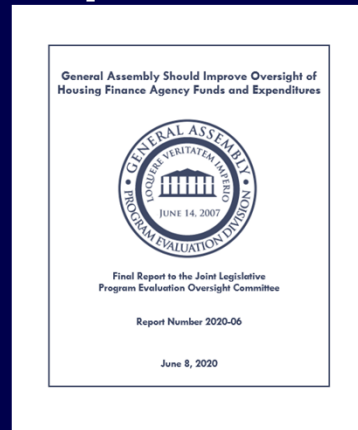
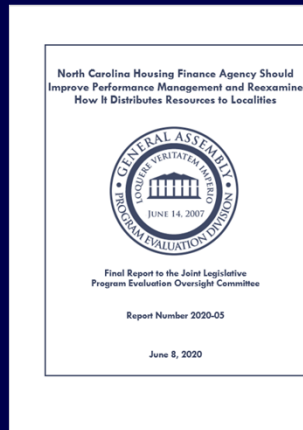
- Directive: Examine the efficiency and effectiveness of the North Carolina Housing Finance Agency (NCHFA)
- Topics of 3 Reports
  - 1) Program performance and allocation
  - 2) Operations, funds, expenditures
  - 3) Rental development programs
- Team: Jeff Grimes, Natalie Garrett, Jennifer Hausman, Jim Horne



# In Your Folder

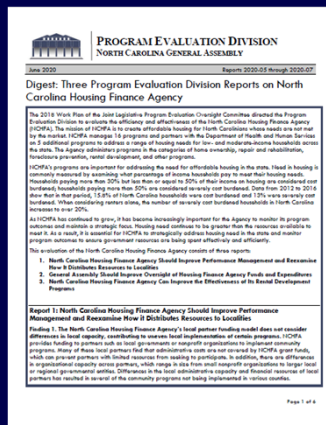
## 3 Reports

## Presentation Slides



## Report Digest

## Green Handout



Program Area	Program Name	Activities Provided	2019 Budgeted Program Amount
Homeownership Programs	HC Home Advantage Mortgage	30-year, fixed-rate mortgage provided through lending partners	Partner with mortgage lenders to provide mortgage
	HC Home Advantage Mortgage	Second mortgage program to provide additional mortgage for eligible home buyers of 30% or 35% of mortgage or \$4,000 with 18-year term	Partner with mortgage lenders to provide mortgage
	HC Home Advantage Tax Credit	Refund for state income taxes for eligible up to \$2,000 of mortgage interest	N/A
	Community Renewal Loan Fund	Up to \$100,000 per household for up to 10% of purchase price, up to 20% of renovation costs	\$10,000,000
Rental and Rehabilitation Programs	Rental Support Fund	Up to \$10,000 per household for rental assistance	\$10,000,000
	Urgent Repair Program	Up to \$10,000 per household for essential and critical home repairs	\$6,000,000
	Community Renewal Loan Fund	Up to \$10,000 per household for rental assistance	\$4,800,000
	Emergency Repairs	Up to \$10,000 per household for essential and critical home repairs	\$2,200,000
Rental Development Programs	HC RentSource	Revised fees, reduced costs for mortgage programs to reduce monthly payments	\$12,000,000
	State Home Forward	Partnership program to provide rental assistance to July 2019	\$12,000,000
	State Home Forward	Partnership program to provide rental assistance to July 2019	\$12,000,000
	LiveHome Housing Tax Credit	Partnership program to provide rental assistance to July 2019	N/A
Rental Development Programs	Workforce Housing Loan Program	30-year, fixed-rate loans for low-cost rental development	\$31,000,000
	Equity Financing Program	30-year, fixed-rate loans for low-cost rental development	\$31,000,000
	Indefinite Disposal	Partnership program to provide rental assistance to July 2019	\$17,244,000
	Community Housing Program	Partnership program to provide rental assistance to July 2019	\$10,000,000
Other Programs	Community Housing Program	Partnership program to provide rental assistance to July 2019	\$2,000,000
	Landlord Incentive Pilot Program	Partnership program to provide rental assistance to July 2019	\$100,000,000
	Community Housing Program	Partnership program to provide rental assistance to July 2019	\$10,000,000
	Key Rental Address	Partnership program to provide rental assistance to July 2019	\$2,000,000
DHHS Partner Programs	Equity Financing Program	Partnership program to provide rental assistance to July 2019	\$10,000,000
	Key Rental Address	Partnership program to provide rental assistance to July 2019	\$10,000,000

Source: Program Evaluation Division Digest of a March 2020 program evaluation report. For all amounts associated with the table, see Report 2020-05, North Carolina Housing Finance Agency Should Improve Performance Management and Reexamine How It Distributes Resources to Localities, p. 4.



# Background



Low-Income Housing Tax Credit Project in Mount Airy, NC



# NCHFA Has 16 Programs and 5 DHHS Partner Programs

See program description handout



Homeownership (4)

Home Advantage Mortgage, Home Advantage Tax Credit, Community Partners Loan Pool, Self-Help Loan Pool



Repair and  
Rehabilitation (4)

Displacement Prevention Partnership, Essential Single-Family Rehabilitation Loan Pool, Urgent Repair Program



Foreclosure  
Prevention (2)

State Home Foreclosure Prevention Project, NC Foreclosure Prevention Fund



Rental Development  
(4)

Low-Income Housing Tax Credits, Workforce Housing Loan Program, Rental Production Program, Carryover Loan Program



Other Programs (3)

Supportive Housing Development Program, Landlord Incentive Pilot Program, Construction Training Partnership



DHHS Programs (5)

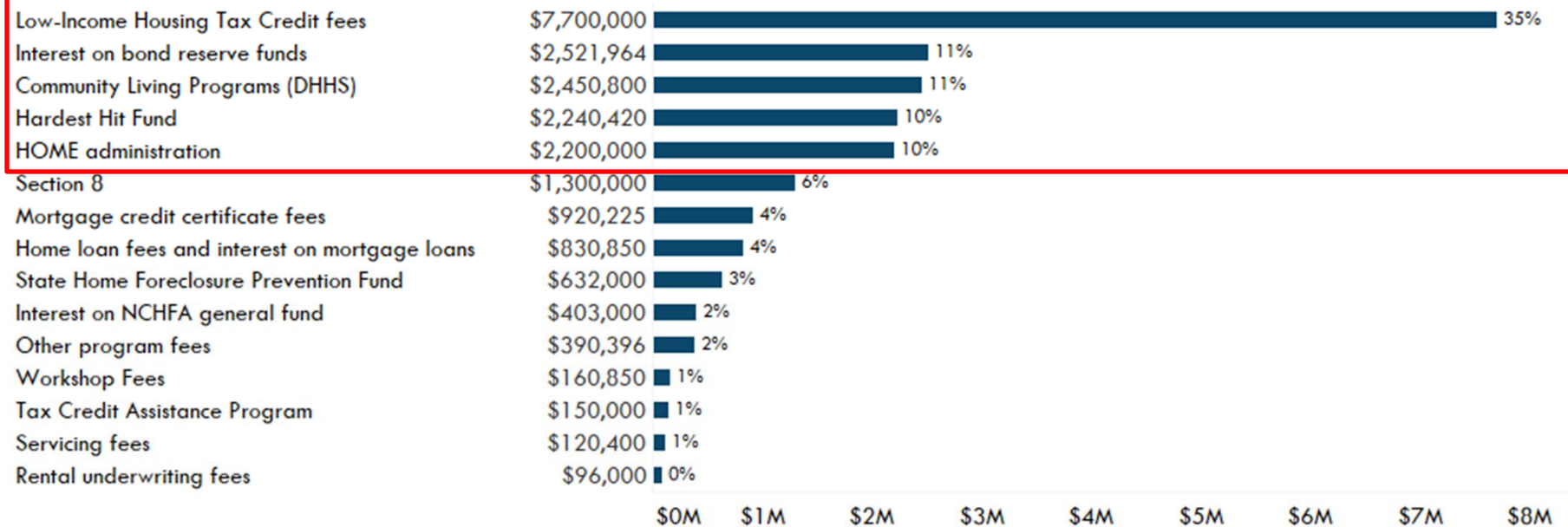
Integrated Supportive Housing Program, Key Rental Assistance, Transitions to Community Living Voucher, Back@Home, NC Housing Search



# NCHFA is Largely Dependent Upon Federal and State Programs for its Operations

(see handout for enlarged version)

**Low-Income Housing Tax Credit Fees from Developers Are the Largest Source of Support for NCHFA's \$22 Million Operating Budget**



Source: Program Evaluation Division based on Fiscal Year 2019–20 NCHFA Operating Budget Revenues.



# Highlighted Findings & Recommendations



Low-Income Housing Tax Credit Project in Morganton, NC

# Finding

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

*Report 2020-05: North Carolina Housing Finance Agency Should Improve Performance Management and Reexamine How It Distributes Resources to Localities, p. 13*





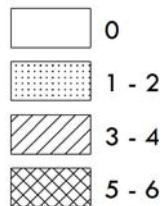
## Need Throughout State, But Gaps in Community Programs

- Community Partners Loan Pool, Self-Help Loan Pool, Urgent Repair Program, and Essential Single-Family Rehabilitation Loan Pool are all implemented by local partners
- Need throughout the state, but large gaps in some programs

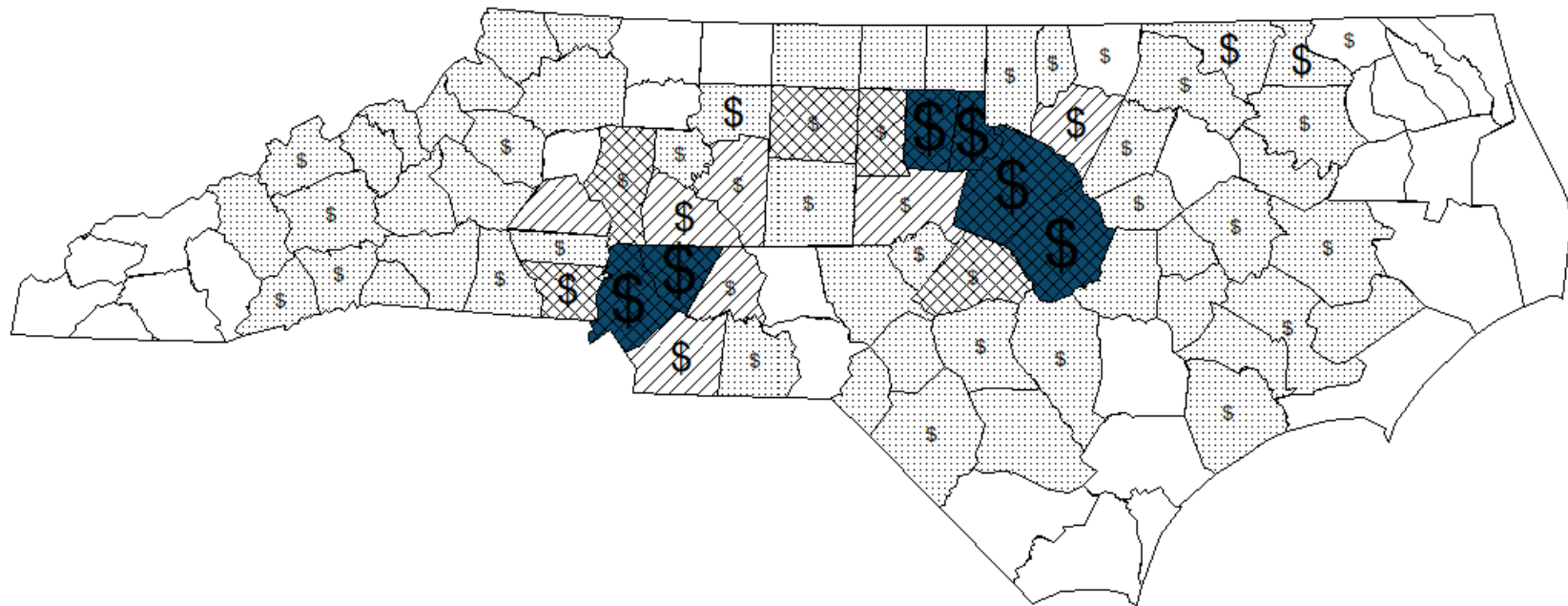
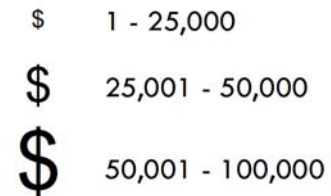


# Community Partners Loan Pool Activity Is Concentrated in a Handful of Counties

Number of Local Partners  
Serving County as of July 2019



Dollars Per 10,000 People,  
2013 – June 2019



# Twelve Counties Had No Urgent Repair Program Activity from 2008-2017



# Recommendation

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



# Finding

The North Carolina Housing Finance Agency's limited strategic planning and performance management efforts impede evaluation of Agency performance

*Report 2020-05: North Carolina Housing Finance Agency Should Improve Performance Management and Reexamine How It Distributes Resources to Localities, p. 17*



# NCHFA's Strategic Plan Is Inadequate

- Does not contain sufficient goals or objectives
- Single objective does not have measurable target or time period by which it is to be accomplished
- No broad environmental scan or SWOT analysis (strengths, weaknesses, opportunities, threats)



# NCHFA Performance Management Lacks Outcome Measures

- Focused primarily on outputs such as rental units funded, mortgages funded, and homes repaired
- Does not measure program outcomes or organizational outcomes
- Measures are not tied to objectives



# NCHFA's Use of Units as a Performance Measure

Program	FY 16	FY 17	FY 18	Target	Trend
Self-Help Loan Pool	233	222	182	None	
Community Partners Loan Pool	147	179	310	None	
NC Home Advantage Mortgage	4,392	6,066	4,358	None	
NC Home Advantage Tax Credit	2,283	1,856	1,752	None	
Essential Single-Family Rehabilitation Loan Pool	132	120	142	None	
Urgent Repair Program	805	618	607	None	
Displacement Prevention Partnership	400	464	355	None	
Low-Income Housing Tax Credit Rental Units	3,497	5,717	4,590	None	

- 3-year trends are mixed
- No annual target for these measures





# Recommendation

General Assembly should direct NCHFA to

- develop a strategic plan every three to five years
- contract with an independent expert with experience with state government strategic planning to assist in the development of its next strategic plan
- implement a performance management system that includes measurable annual objectives for each program and outcomes



# Finding

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

*Report 2020-06: General Assembly Should Improve Oversight of Housing Finance Agency Funds and Expenditures, p. 8*



# Federal Audits Identified Unnecessary Expenses Charged to Federal Grants

Name of Report	Date of Report	Questioned Expenses	Repaid by NCHFA
Unnecessary Expenses Charged to the Hardest Hit Fund	8/2017	\$107,578	\$59,094
Travel and Conference Charges to the Hardest Hit Fund That Violated Federal Regulations	3/2019	\$127,101	\$65,326
<b>Total</b>		<b>\$208,679</b>	<b>\$124,420</b>

Notes: Approximately \$26,000 of unnecessary expenses were duplicated in both reports and therefore total questioned expenses are adjusted to reflect that duplication.

Auditors characterized some expenses as wasteful, involving extravagant dinners, gifts, awards, and decorations.



## PED Identified Areas Where the Potential for Wasteful Expenditures Continues to Exist

- Nonprofit contributions
- Gift cards
- Meals when not in travel status
- Employee benefits

The State Budget Manual has some controls over how agencies expend funds, but NCHFA contends that it does not apply to them



# Contributions to Nonprofits

- PED reviewed nonprofit contributions from Fiscal Year 2014–15 through Fiscal Year 2018–19, a five-year period
- Grants with a legitimate programmatic purpose were excluded from review
- PED identified \$167,680 in contributions of questionable programmatic purpose
- NCHFA does not have an established policy governing contributions to nonprofits



# Examples of Questioned NCHFA Contributions

- NCHFA paid a total of \$40,000 to the North Carolina Housing Coalition (\$10,000 per year)
- NCHFA paid \$40,000 to the NC Association of Realtors' Housing Opportunity Foundation
- NCHFA paid \$2,500 to sponsor a 50<sup>th</sup> anniversary celebration for the Affordable Housing Group of North Carolina, Inc.



# Gift Cards and Meals

- NCHFA policy continues to allow for the purchase of meals for employees who are not in travel status
- NCHFA continues to allow the purchase of gift cards for employees; PED identified \$8,418 in gift cards purchased in December 2016
- Both types of expenditures are not generally permitted under the State Budget Manual



# NCHFA Offers Several Benefits Other State Agencies Do Not Provide at a Cost of over \$270,000 a Year

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	





# Recommendation

- General Assembly should clarify that NCHFA is not exempt from the State Budget Act and direct NCHFA to update its policies and procedures to comply with the State Budget Manual
- General Assembly 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

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

*From Report 2020-07: North Carolina Housing Finance Agency Can Improve the Effectiveness of Its Rental Development Programs, p. 6*

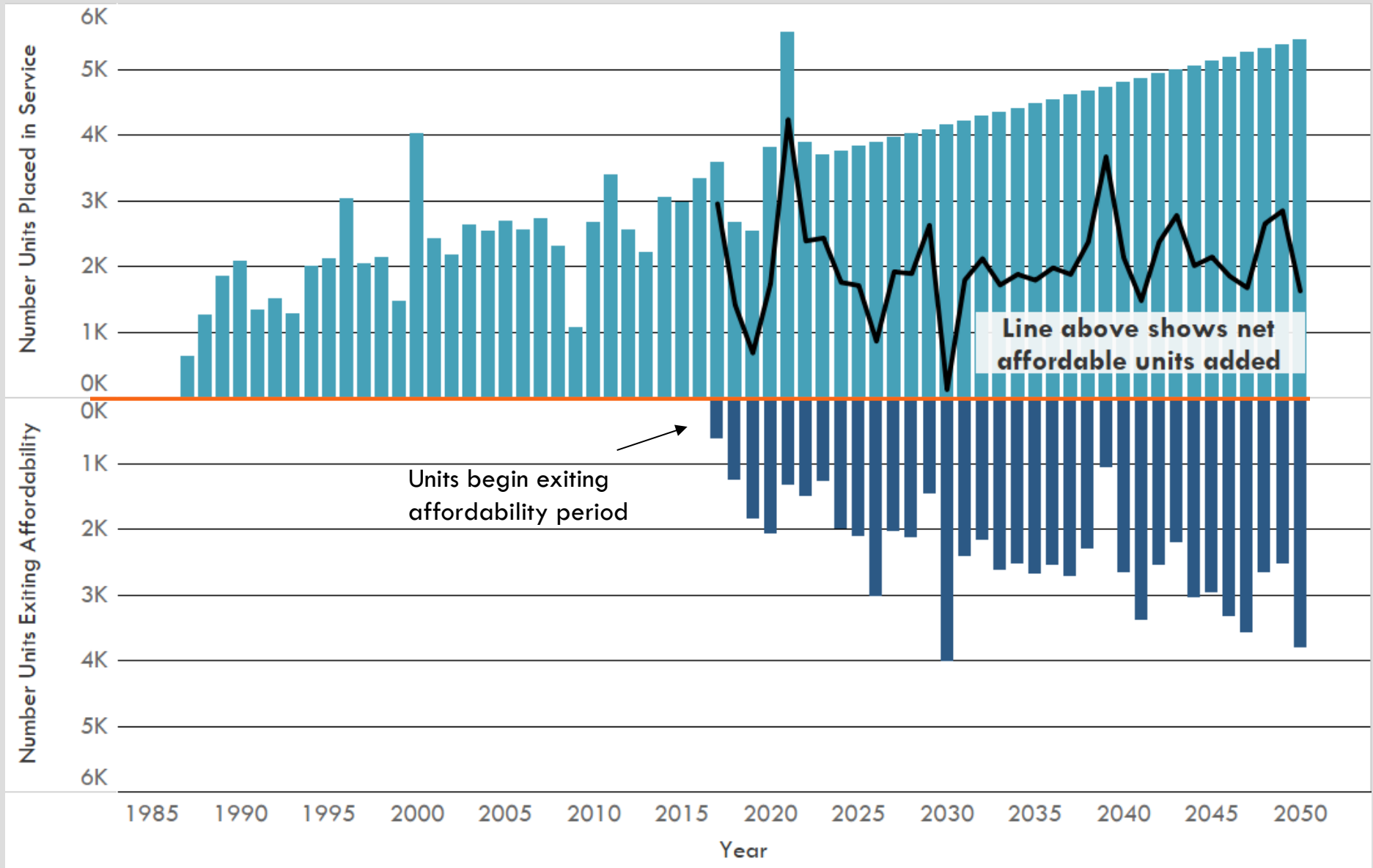


# Low-Income Housing Tax Credit (LIHTC)

- Federal tax credits allocated to states based on population
- NCHFA produces a Qualified Allocation Plan each year
- Rental units receiving tax credits must charge affordable rents for 30 years



# Growth in New LIHTC Units Dampened by Units Exiting Affordability



# Potential Strategies to Address Affordability

- Increase credits going to rehabilitation of existing affordable units
- Increase set-aside for nonprofit developers
- Award additional points to projects offering mission-focused owners right of first refusal when affordability ends
- Begin requiring longer affordability period for new projects



# Recommendation

The General Assembly should direct NCHFA to

- Study modifications to its strategy for preserving the affordability of Low-Income Housing Tax Credit units;
- Track what happens to housing units after they exit the affordability period
- report back on its strategy



# Finding

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

*Report 2020-07: North Carolina Housing Finance Agency Can Improve the Effectiveness of Its Rental Development Programs, p. 10*



# Project Location is Based Upon Amenity Scoring

- Proposed projects receive score based on proximity to amenities
- Points awarded based on driving distances in Google Maps
- Generally, projects need to achieve the maximum score possible in order to receive the type of credits that are competitive





# Distances for Primary Amenities to Receive Maximum Score

- Projects need to be within 1 mile of a grocery store, pharmacy, and specified shopping store
- For small towns with fewer than 10,000 people, amenities must be within two miles
- No provision to ensure residents do not need their own transportation—no requirement for sidewalks, walkable routes, or public transportation



# Rationale for Shopping Amenity Unclear

- Excludes many types of retail stores (e.g. clothing, department stores)
- Overlap with goods at many grocery and pharmacy stores

## Qualifying Shopping Stores:

- Big Lots
- Ollie's Bargain Outlet
- Dollar General
- Roses
- Dollar Tree
- Roses Express
- Family Dollar
- Target
- Fred's Super Dollar
- Super Target
- Kmart
- Walmart
- Maxway
- Walmart Supercenter



# Secondary Amenities

- Not required to have all secondary amenities
- Could not identify any literature that explains the relative importance NCHFA places on primary vs. secondary amenities

## Secondary Amenities:

- Other Primary Amenity
- Service
- Healthcare
- Public Facility
- Public School (family)
- Senior Center (senior)
- Retail

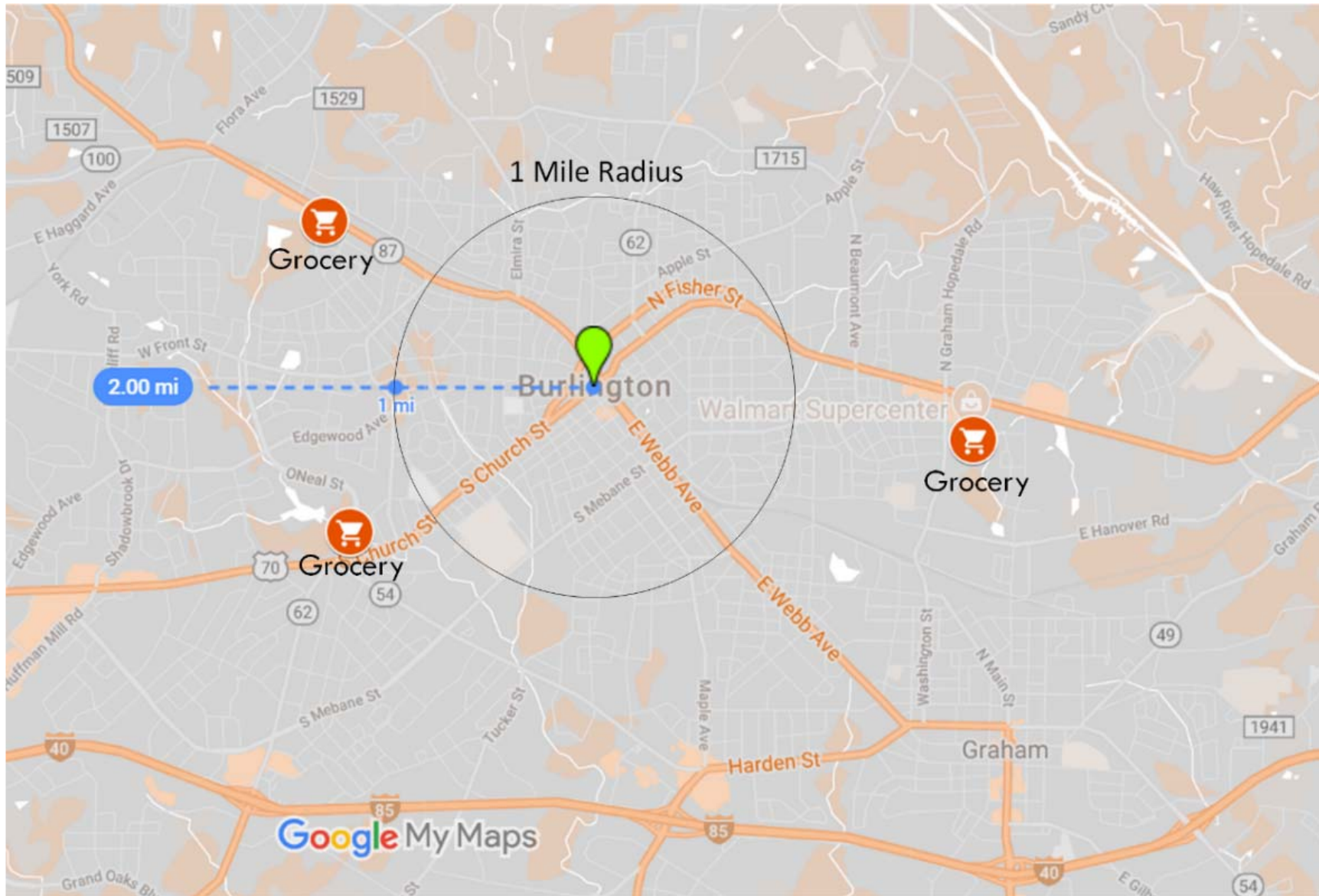


# Other Challenges with Amenities Policy

- Retailers can and have gone out of business
- Limited number of sites may be driving up cost of land
- Can preclude development in downtown areas that other state or local programs are trying to encourage



# Example: Downtown Burlington

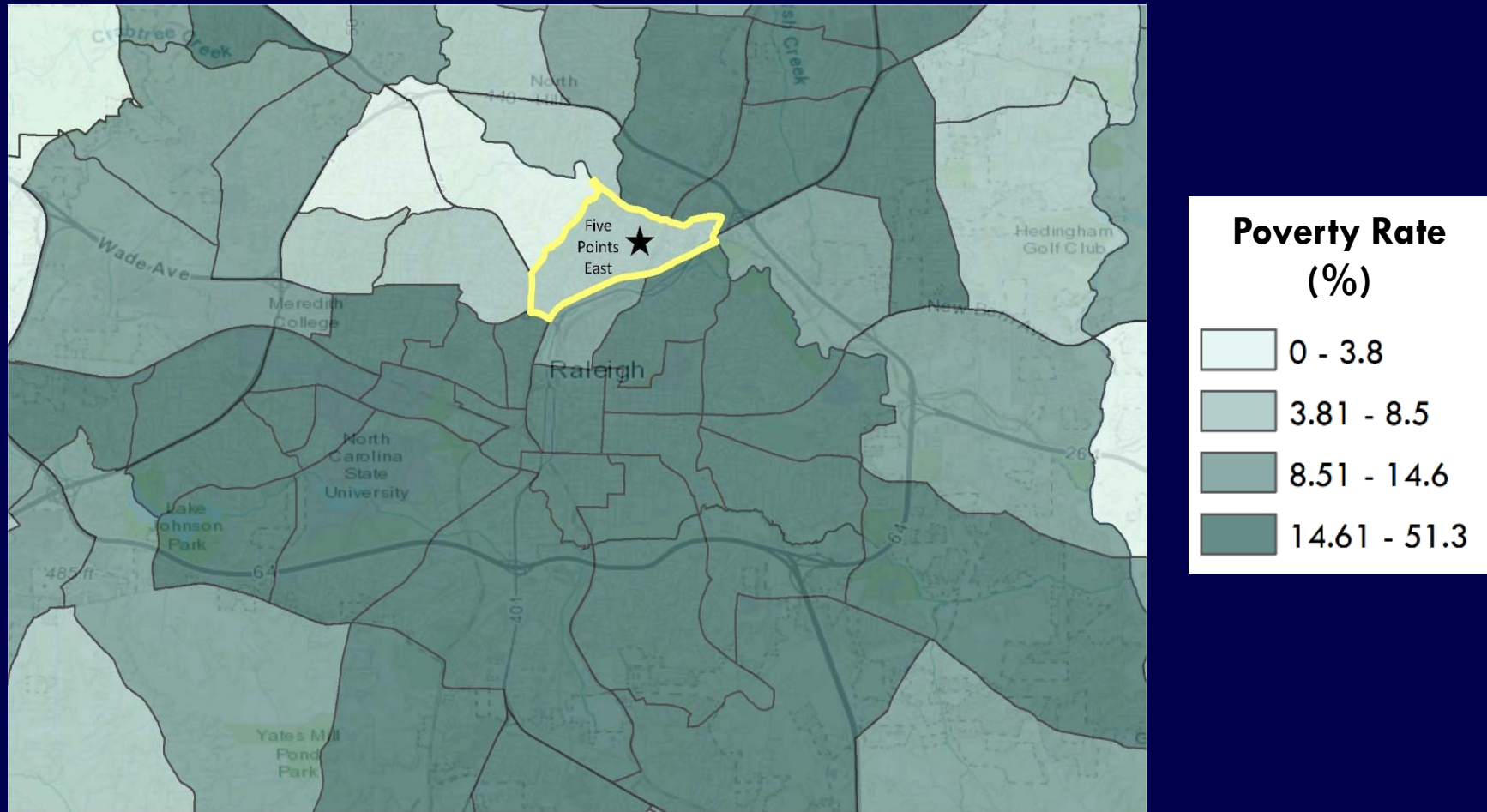


# Housing Sites in High-Opportunity Areas Can be Excluded

- Historically, LIHTC projects have been disproportionately concentrated in low-income neighborhoods
- Research shows that areas with low poverty rates, low crime rates, and high-quality schools can all lead to positive outcomes for residents
- Some high-opportunity neighborhoods may be lacking one of the required amenities within close enough proximity



# Example: High Opportunity Neighborhood That Would Be Unbuildable at Present



# Recommendation

General Assembly should direct NCHFA to study modifications to amenities policies in the Qualified Allocation Plan, including

- 1) eliminating the shopping category or deprioritizing and more broadly defining it
- 2) eliminating the distinction between primary and secondary amenities
- 3) creating a threshold score that includes amenities and measures of opportunity





# Review of Recommendations

General Assembly should direct NCHFA to:

- Examine modifications to the four community partner programs to ensure program access and activity throughout the state
- Develop a strategic plan and performance management system
- Clarify that NCHFA is not exempt from the State Budget Act, direct NCHFA to update its policies and procedures to comply with the State Budget Manual, and direct NCHFA's board to limit contributions to nonprofit entities, except in limited circumstances



# Review of Recommendations

General Assembly should direct NCHFA to:

- Adjust its strategy to preserve the affordability of Low-Income Housing Tax Credit units and begin tracking units after they exit the affordability period
- Study modifications to amenities policies in the Qualified Allocation Plan



Reports available online at  
[www.ncleg.net/PED/Reports/reports.html](http://www.ncleg.net/PED/Reports/reports.html)

*North Carolina Housing Finance Agency Should Improve Performance Management and Reexamine How It Distributes Resources to Localities*

*General Assembly Should Improve Oversight of Housing Finance Agency Funds and Expenditures*

*North Carolina Housing Finance Agency Can Improve the Effectiveness of Its Rental Development Programs*

