PROGRAM EVALUATION DIVISION
NORTH CAROLINA GENERAL ASSEMBLY

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

Highlights

IN BRIEF: The rental development programs of the North Carolina Housing Finance Agency (NCHFA) have created thousands of affordable rental units throughout the state. However, NCHFA does not have a strategy in place to address the increasing number of affordable housing units that may no longer be affordable upon exiting the Low-Income Housing Tax Credit (LIHTC) program at the end of the 30-year affordability period. In addition, the amenity policy that helps determine where LIHTC projects are located lacks a clear rationale and may prevent projects from being developed in otherwise high-opportunity locations. The Program Evaluation Division also identified administrative issues with two loan programs that help fund development projects—the Rental Production Program and the Workforce Housing Loan Program.

BACKGROUND: The North Carolina Housing Finance Agency's (NCHFA's) rental development programs annually create more than 4,000 rental units for low-income households. NCHFA's central rental development program is the federal Low-Income Housing Tax Credit (LIHTC) program. Through LIHTC, developers receive credits on their federal tax liability in exchange for constructing multi-family rental housing units and setting rents at affordable levels. Developers must apply to NCHFA for the tax credits and must follow federal and state requirements for the program. North Carolina also supports LIHTC developments with supplemental loan programs, including the Rental Production Program and the Workforce Housing Loan Program.

The Low-Income Housing Tax Credit and associated 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.

NCHFA requires LIHTC developments to maintain affordable rents for 30 years as a condition of receiving tax credits. The first LIHTC developments were placed in service soon after the program's establishment in 1986 and therefore units have begun to exit the affordability period. Developments that exit the affordability period may reposition as market-rate units, thereby partially offsetting potential gains from new affordable rental construction. NCHFA needs to adjust its strategy to address the increasing number of affordable units reaching the end of the 30-year affordability period.

Recommendation: The General Assembly should direct NCHFA to research options to modify its strategy for preserving the affordability of LIHTC units; track LIHTC units in the state that remain affordable and those units that have been repositioned as market-rate housing; and report on its updated strategy to the Tax Reform Allocation Committee.

The local amenity policy for Low-Income Housing Tax Credits lacks a clear rationale and may prevent the siting of projects in otherwise advantageous locations.

Although two exceptions exist, developments applying for 9% tax credits generally need to be located within one to two miles (depending on the size of the town) of specific grocery stores, pharmacies, and shopping amenities to be competitive, per the State's Qualified Allocation Plan. There is no empirical research supporting the heavy emphasis the Qualified Allocation Plan places on these specific amenities. The strict distance limitation and short list of acceptable stores mean some otherwise amenity-rich or high-opportunity sites are excluded from receiving tax credits.

Recommendation: The General Assembly should direct NCHFA to study modifications to the amenity policy in the Qualified Allocation Plan and report the study results to the NC Tax Reform Allocation Committee.

NCHFA does not always adhere to established policies and procedures in awarding Rental Production Program funding.

Through the Rental Production Program, NCHFA provides low-interest or zero-interest loans to LIHTC projects with state and federal funds. This program is administered as part of the LIHTC award process. NCHFA made five awards during a five-year period that did not adhere to established policy and were made outside of the competitive process.

Recommendation: The General Assembly should direct NCHFA to develop policies and procedures dictating when, if ever, Rental Production Program loans may be made outside of the Qualified Allocation Plan.

The Agency does not follow its stated procedure in assigning income designations to counties for the purpose of allocating Workforce Housing Loan Program funding.

The Workforce Housing Loan Program is a state program that supplements LIHTC financing. The authorizing legislation for the program caps loan amounts based on whether a development is located in a low-income, moderate-income, or high-income county as designated by NCHFA. The Agency uses median family income to make these designations, but NCHFA has improperly designated counties in each of the last four years as high-income despite those counties having median family incomes consistent with moderate-income counties. This misclassification reduced the amount of Workforce Housing Loan Program funding available to projects in those counties by $1.25 million.

Recommendation: The General Assembly should direct NCHFA to update its stated criteria for income designations to ensure the criteria are specific, measurable, and transparently and uniformly applied.