

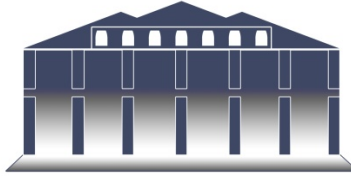
General Assembly Should Improve Oversight of Housing Finance Agency Funds and Expenditures



**Final Report to the Joint Legislative
Program Evaluation Oversight Committee**

Report Number 2020-06

June 8, 2020



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John W. Turcotte
Director

June 8, 2020

Senator Brent Jackson, Co-Chair, Joint Legislative Program Evaluation Oversight Committee
Representative Craig Horn, Co-Chair, Joint Legislative Program Evaluation Oversight Committee

North Carolina General Assembly
Legislative Building
16 West Jones Street
Raleigh, NC 27601

Honorable Co-Chairs:

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). This report is the second in a three-part series on the efficiency and effectiveness of NCHFA. This report focuses on NCHFA operations, NCHFA-related funds, expenditures, and issues related to oversight.

I am pleased to report that NCHFA cooperated with us fully and was at all times courteous to our evaluators during the evaluation.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Turcotte".

John W. Turcotte
Director

Mandatory Evaluation Components

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

Report 2020-06: General Assembly Should Improve Oversight of Housing Finance Agency Funds and Expenditures

Report 2020-07: North Carolina Housing Finance Agency Can Improve the Effectiveness of Its Rental Development Programs

N.C. Gen. § 120-36.14 requires the Program Evaluation Division to include certain components in each of its evaluation reports, unless exempted by the Joint Legislative Program Evaluation Oversight Committee. The table below fulfills this requirement and, when applicable, cross-references where the component is discussed in the report.

N.C. Gen. § 120-36.14 Specific Provision	Component	Program Evaluation Division Determination	Report Page
(b)(1)	Findings concerning the merits of the program or activity based on whether the program or activity		
(b)(1)(a)	Is efficient	The North Carolina Housing Finance Agency (NCHFA) could improve its operating efficiency by eliminating or reducing certain expenditures. In 2017 and 2019, the Special Inspector General for the Troubled Asset Relief Program found waste in NCHFA's administration of the Hardest Hit Fund, raising questions about certain Agency 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, including distribution of gift cards to employees, purchase of employee meals when not in travel status, contributions to nonprofit organizations, and additional employee benefits.	Report 2020-06, pp. 8–16
(b)(1)(b)	Is effective	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.	Report 2020-05, pp. 20–23
(b)(1)(c)	Aligns with entity mission	The mission of NCHFA is to create affordable housing opportunities for North Carolinians whose needs are not met by the market. NCHFA's programs generally fit within this mission except for the Construction Training Partnership, a workforce development program partially funded by NCHFA that does not advance the Agency's mission.	Report 2020-05, pp. 3–13 Report 2020-05, pp. 30–32
(b)(1)(d)	Operates in accordance with law	NCHFA generally operates in accordance with the law. However, the Program Evaluation Division determined that NCHFA has spent funds from the Homeownership Assistance Fund on the Construction Training Partnership, which is outside of the Homeownership Assistance Fund's statutory purpose. In addition, it is unclear whether NCHFA should comply with the State Budget Manual—	Report 2020-06, pp. 10–12 Report 2020-06, pp. 16–18

		NCHFA contends that it is exempt. The State Budget Manual, compiled by the Office of State Budget and Management (OSBM), contains standards for acceptable state agency expenditures. OSBM asserts that all state agencies are subject to the State Budget Manual. The Program Evaluation Division recommends the General Assembly clarify that NCHFA is subject to the State Budget Act and direct the Agency to begin complying with the State Budget Manual.	
(b)(1)(e)	Does not duplicate another program or activity	NCHFA programs are not generally duplicative of other state programs. The one exception is the Construction Training Partnership, which is duplicative of construction training programs provided through North Carolina's community colleges. There is overlap among some NCHFA programs, but where overlap exists, the programs serve different populations or utilize different funding sources. For example, the Displacement Prevention Program, Essential Single-Family Rehabilitation Loan Program, and Urgent Repair Program all fund repairs to qualified homeowners, but serve different populations, differ in the amount of funds provided, and in the case of the Essential Single-Family Rehabilitation Loan Pool utilize federal funds rather than state funds.	Report 2020-05, pp. 3–13
(b)(1a)	Quantitative indicators used to determine whether the program or activity		
(b)(1a)(a)	Is efficient	NCHFA's lack of an activity-based cost accounting system means that efficiency measures cannot be calculated.	Report 2020-05, p. 28 footnote
(b)(1a)(b)	Is effective	NCHFA does not track outcomes for its programs. The Program Evaluation Division's report identifies potential quantitative measures NCHFA could begin tracking as part of a performance management system.	Report 2020-05, pp. 20–23
(b)(1b)	Cost of the program or activity broken out by activities performed	NCHFA does not have an activity-based cost accounting system and budgets operations and programs separately and across different time periods. For example, NCHFA budgeted \$153.4 million for programs in calendar year 2019. Separately, NCHFA budgeted roughly \$22.1 million for its operations in Fiscal Year 2019–20.	Report 2020-05, p. 28
(b)(2)	Recommendations for making the program or activity more efficient or effective	The General Assembly should direct NCHFA to examine the funding model for its community partner programs to take into consideration differences in local capacity. NCHFA's scoring criteria for affordable housing projects based on proximity to certain amenities lacks a clear rationale and may prevent developers and municipalities from siting affordable housing in high-opportunity areas. The Program Evaluation Division recommends directing NCHFA to examine modifications to its amenity scoring policy. NCHFA awards Rental Production Program funding outside of its established policy for the program, preventing the Agency from ensuring funds go where they will be most effective. The Program Evaluation Division recommends NCHFA create a process for awarding funds to projects that may not fit the established process.	Report 2020-05, pp. 13–20 Report 2020-07, pp. 10–18 Report 2020-07, pp. 18–20
(b)(2a)	Recommendations for eliminating any duplication	The Construction Training Partnership is a workforce development program which duplicates community college construction education programs. The Program Evaluation Division recommends discontinuing the Construction Training Partnership or transferring the program to the Community College System.	Report 2020-05, pp. 30–32
(b)(4)	Estimated costs or savings from implementing recommendations	Eliminating the Construction Training Partnership would save \$130,000 per year.	Report 2020-05, pp. 30–32



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

June 2020

Report No. 2020-06

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

Highlights

IN BRIEF: The North Carolina Housing Finance Agency (NCHFA) is a public agency governed by a 13-member board. NCHFA's independence from certain state government policies and controls over expenditures increases the risk of wasteful or unnecessary expenditures. In addition, several NCHFA statutory funds have limited oversight, which led to an improper use of funds in one instance. The largest fund, the North Carolina Housing Trust Fund is overseen by the North Carolina Housing Partnership, but oversight activity is limited. Further, 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 General Assembly should clarify that NCHFA is subject to the State Budget Act, direct that statutory funds be transferred to the North Carolina Housing Trust Fund, and improve oversight of the North Carolina Housing Trust Fund.

BACKGROUND: The General Assembly created the North Carolina Housing Finance Agency in 1973 as a public agency and instrumentality of the State. NCHFA has grown well beyond its initial role of supporting the individual homebuyer market with its mortgage products and now administers 16 programs addressing a range of housing needs for low-income and moderate-income households in addition to partnering with the Department of Health and Human Services on 5 additional programs. NCHFA is a state agency, yet it operates with a greater degree of independence than most agencies. Although NCHFA asserts that it is a self-supporting agency, the State supports its operations in several ways.

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.

Federal audits conducted in 2017 and 2019 by the Special Inspector General of the Troubled Asset Relief Program questioned some NCHFA expenditures as part of the NC Foreclosure Prevention Fund, determining that some expenditures were wasteful. The Program Evaluation Division did not conduct an audit of all NCHFA expenses but did identify ongoing areas of concern including

- 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 because they are not permitted in the State Budget Manual. NCHFA contends that it is exempt from the State Budget Manual, though the Office of State Budget and Management has not provided an exemption to NCHFA.

Recommendation: The General Assembly should clarify that statute does not exempt 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 outside established grant programs, except in circumstances that meet the criteria of a policy established by the NCHFA board and are individually approved by the board.

Several NCHFA statutory funds have limited oversight, which led to an improper use of funds in one instance.

Five NCHFA funds created by the General Assembly collectively hold nearly \$18 million that NCHFA is able to expend at its discretion or with limited oversight. The Program Evaluation Division determined that NCHFA improperly used one fund, the Homeownership Assistance Fund, to provide annual funding of \$130,000 to the Construction Training Partnership, which exists outside the Homeownership Assistance Fund's statutory purpose. Consolidation of these smaller statutory funds into a larger fund could improve oversight.

Recommendation: The General Assembly should modify statutes to eliminate these statutory funds and direct NCHFA to transfer the balance of the funds to the North Carolina Housing Trust 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 Housing Partnership to perform oversight of the NC Housing Trust Fund, but the Housing Partnership lacks independence from NCHFA and the funds it oversees. A review of Housing Partnership activity shows little oversight in terms of the promulgation of rules and regulations or more generally in terms of policy matters related to implementation of programs using NC Housing Trust Fund dollars. The Housing Partnership has statutory authority to allocate funds from the NC Housing Trust Fund, but in practice the Partnership has ceded much of this responsibility to NCHFA.

Recommendation: 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.

Purpose and Scope

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). NCHFA is a public agency and instrumentality of the State that is governed by a 13-member board of directors. Its mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market.

This report is the second in a three-part series on the efficiency and effectiveness of NCHFA. This report focuses on NCHFA operations, NCHFA-related funds, expenditures, and issues related to oversight. The other reports focus more directly on NCHFA programs.

For this report, the Program Evaluation Division collected and analyzed data from several sources including

- statutes and regulations,
- audited financial statements,
- external and internal audits of NCHFA,
- NCHFA financial data and budgets,
- NCHFA's strategic plan,
- minutes and documents from meetings of the NCHFA board and the North Carolina Housing Partnership, and
- interviews with NCHFA staff and executive leadership, housing experts, NCHFA local partners, and stakeholders.

Background

Many states created housing finance agencies in the 1970s in order to issue tax-exempt bonds to finance rental housing development and mortgages to low-income and moderate-income households. The General Assembly created the North Carolina Housing Finance Agency (NCHFA) in 1973 as a public agency and instrumentality of the State. As shown in Exhibit 1, although NCHFA continues to support the individual homebuyer market with its mortgage products, the Agency has grown well beyond this initial role and now administers 16 programs related to homeownership, home repair and rehabilitation, foreclosure prevention, and rental development. NCHA also partners with DHHS on an additional five programs.

Exhibit 1

NCHFA Oversaw 16 Programs Across Five Areas and Partnered with DHHS on Another 5 Programs in 2019

Program Area	Program Name
Homeownership Programs	NC Home Advantage Mortgage, including Down Payment Assistance options NC Home Advantage Tax Credit Self-Help Loan Pool Community Partners Loan Pool
Repair and Rehabilitation Programs	Essential Single-Family Rehabilitation Loan Pool, including Disaster Recovery Urgent Repair Program Displacement Prevention Partnership
Foreclosure Prevention Programs	State Home Foreclosure Prevention Project NC Foreclosure Prevention Fund
Rental Development Programs	Low-Income Housing Tax Credits Workforce Housing Loan Program Rental Production Program, including Disaster Recovery Carryover Loan Program
DHHS Partner Programs	Integrated Supportive Housing Program Key Rental Assistance Transitions to Community Living Voucher Back@Home NC Housing Search
Other Programs	Supportive Housing Development Program Landlord Incentive Pilot Program Construction Training Program

Notes: More detail on each program is provided in Appendix A. The above list varies slightly from the list of programs provided by NCHFA, which includes the Targeting requirement and does not include the Carryover Loan Program. The Program Evaluation Division considers NCHFA’s Targeting requirement to be a part of the Low-Income Housing Tax Credit program and not a separate program. NCHFA stopped accepting new applications for the NC Foreclosure Prevention Fund in July 2019.

Source: Program Evaluation Division based on NCHFA program data.

NCHFA uses a complex array of funding sources to support these programs, including federal grants, state appropriations, and funds established by the General Assembly. NCHFA also distributes tax credits as part of two programs. In addition, mortgage-backed securities and mortgage revenue bonds fund NCHFA’s mortgage programs.

As the number of programs administered by NCHFA has grown, so too has its finances. Exhibit 2 shows changes in NCHFA’s key financial measures during the past decade.

Exhibit 2

NCHFA Experienced Financial Growth Between Fiscal Years 2008–09 and 2018–19

	Fiscal Year 2008–09	Fiscal Year 2018–19	Percentage Change
Total Revenues	\$326.1 million	\$416.8 million	28%
Total Expenses	\$296.3 million	\$362.5 million	22%
Agency Net Position	\$503.1 million	\$801.6 million	59%

Note: Totals presented above include revenues and expenses that NCHFA categorizes as non-operating revenues and expenses (state appropriations, grants, and state program expenses). Figures are presented in nominal, as opposed to inflation-adjusted, dollars.

Source: Program Evaluation Division based on NCHFA audited financial statements.

NCHFA also has maintained strong credit ratings for its home ownership revenue bonds. A March 2019 Credit Opinion from Moody's Investor Service rated the Agency's bonds as Aa1, stable, and noted that they continue to perform at a high level.¹ Aa1 is the second-highest rating awarded and indicates NCHFA's bonds are of high quality. Moody's also noted the favorable performance of NCHFA's whole loans and observed that the Agency's percentage of seriously delinquent whole loans (loans more than 90 days delinquent and those in foreclosure) was 2.92% as of the end of 2018, below the state average of 3.22% for fixed-rate Federal Housing Administration (FHA) mortgages.

NCHFA's revenues and expenses are dominated by a few items:

- NCHFA serves as administrator for Department of Housing and Urban Development (HUD) Section 8 Project-Based and Traditional Contract Administration. This role is administrative, with HUD making programmatic decisions and NCHFA sub-contracting its work. In Fiscal Year 2018–19, NCHFA received revenues of \$159.8 million for Section 8 contract administration, which represented roughly 38% of NCHFA's total revenues.
- The US Department of the Treasury created the Hardest Hit Fund in 2010 and has awarded NCHFA \$706.9 million in total to administer a series of foreclosure prevention programs, which NCHFA named the NC Foreclosure Prevention Fund. NCHFA closed the Fund to new applications as of July 31, 2019, and its associated programs are being sunset. In Fiscal Year 2018–19, NCHFA received \$41.5 million in revenue from the Hardest Hit Fund and expended \$42.1 million.² The Hardest Hit Fund has had a large impact on NCHFA revenues and expenses and has provided substantial support for NCHFA operations, but its impact will decrease going forward as the program winds down.
- NCHFA's home ownership bond programs play a large role in the agency's balance sheet. For example, in Fiscal Year 2018–19, NCHFA's bond programs contributed \$97.8 million in revenue and \$68.7 million in expenses. The home ownership bond programs have contributed \$421.7 million towards NCHFA's total net

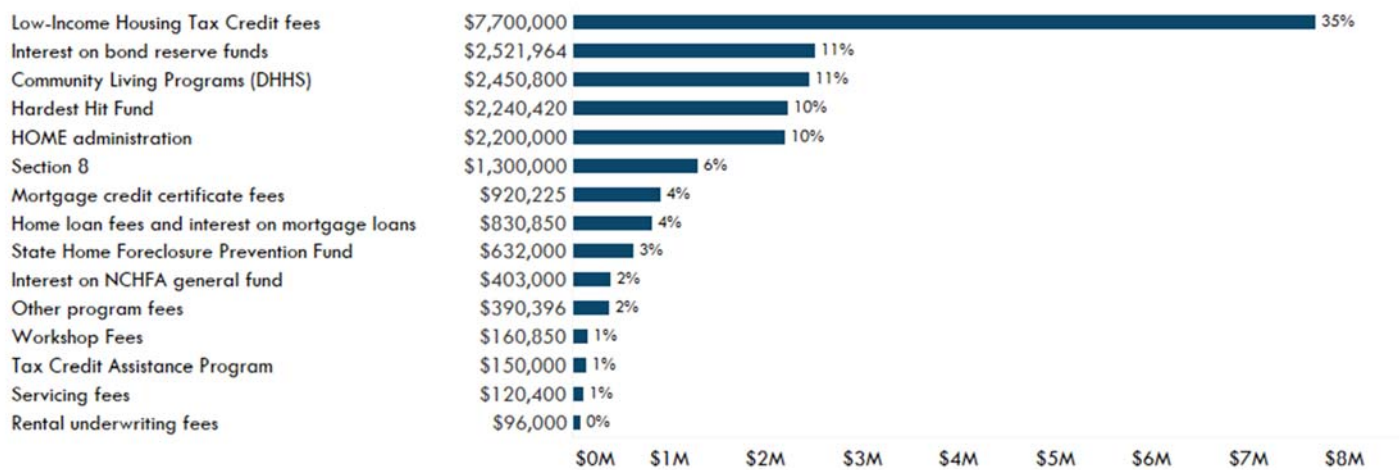
¹ The Moody's Credit Rating is specific to NCHFA's 1998 Trust Agreement Bonds.

² These expenditures were part of a multi-year grant, and expenditures exceeding revenues within one fiscal year is not unusual.

position of \$801.6 million at the end of Fiscal Year 2018–19. Though these programs are responsible for more than half of NCHFA’s net position, funds are restricted pursuant to the Agency’s agreements with its bondholders in order to meet required debt service and operating expenses.

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. NCHFA’s operations are supported by several different funding sources. Fees paid by developers who apply for and receive Low-Income Housing Tax Credits (LIHTC), including fees for compliance and monitoring, represent the largest contributor to the Agency’s operating budget, making up 35% of the total. Exhibit 3 shows that the top five sources (Low-Income Housing Tax Credit fees, interest on bond reserve funds, DHHS community living programs, the Hardest Hit Fund, and administration fees for the federal HOME Investment Partnerships Program) collectively contributed 77% of NCHFA’s Fiscal Year 2019–20 operating budget.

Exhibit 3: 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.

NCHFA’s operations are largely dependent on federal and state programs. Of NCHFA’s five largest operating sources, which collectively make up 77% of its budget, interest on bond reserve funds is the only funding source that is not derived from federal, state, or a combination of federal and state sources. NCHFA derives operating revenues from state and federal programs not as direct appropriations but as administrative allowances or fees. For example, NCHFA is able to charge fees to rental housing developers in order for them to apply for and receive valuable tax credits that NCHFA allocates as part of the Low-Income Housing Tax Credit program.

Although NCHFA states that it is a self-supporting agency, the State supports NCHFA’s operations in several ways. Unlike most state agencies that receive appropriations from the General Assembly for operating expenses, including salaries and benefits, NCHFA’s board

approves an annual operating budget drawn from several operating revenue sources. Exhibit 4 details ways in which NCHFA's ability to generate these revenues is supported by the State.

Exhibit 4: The State Supports NCHFA Operations in Several Ways

Revenue Source	Fiscal Year 2019–20 Operating Budget Revenue Amount	Description of State Support
Low-Income Housing Tax Credit fees	\$7,700,000	These fees are paid by developers who apply for or receive valuable tax credits awarded through a process that NCHFA administers. Each state is allocated tax credits by the IRS. The North Carolina Federal Tax Reform Allocation Committee has selected NCHFA as administrative agent for this program, which allows NCHFA to earn these fees.
Community Living Programs (DHHS)	\$2,450,800	This source of operating funding comes from a portion of state appropriations to DHHS Community Living Programs.
HOME Administration	\$2,200,000	This administrative fee is derived from the federal HOME Investment Partnerships Program. Since 1993, the General Assembly has appropriated funding that covers most of the HOME match. NCHFA would not receive HOME funding, thereby generating the administrative fee of \$2.2 million for its operations, without meeting the 25% state match requirement. In Fiscal Year 2018–19, the General Assembly appropriated \$3 million toward the total match requirement of \$3.4 million.
State Housing Foreclosure Prevention	\$632,000	The General Assembly created a fee of \$75 that is paid by mortgage servicers upon filing a pre-foreclosure notice. NCHFA receives these fees and collects an administrative fee to operate the program.
Servicing Fees	\$120,400	The NC Housing Trust Fund, to which the General Assembly appropriates funds, pays servicing fees to NCHFA for the portfolio of loans made through Trust Fund programs. In Fiscal Year 2017–18, NCHFA received \$76,321 from the NC Housing Trust Fund.

Note: Amounts listed in this table are revenues that fund NCHFA operations including salaries and benefits. The Federal Tax Reform Allocation Committee is comprised of the Secretary of the Department of Commerce, the State Treasurer, and the executive assistant to the Governor for budget management. It is housed within the Department of Commerce and one of its responsibilities is managing the State's allocation of Low-Income Housing Tax Credits.

Source: Program Evaluation Division based on NCHFA's Fiscal Year 2019–20 budgeted operating revenues, North Carolina session laws, and NCHFA program information.

NCHFA is governed by a 13-member board of directors that appoints an executive director subject to Governor approval. The board is comprised of four appointees of the Speaker of the House of Representatives, four appointees of the President Pro Tempore of the Senate, four appointees of the Governor, and one appointee who is independently elected by the other 12 members. The Governor designates the chair and vice chair of the board. NCHFA had 127 full-time equivalent staff in Fiscal Year 2018–19.

Although NCHFA is a state agency, it operates with a greater degree of independence than most state agencies. North Carolina General

Statutes exempt NCHFA's employees from the provisions of the State Human Resources Act.³ In addition, the salaries of NCHFA staff may exceed the limits that would otherwise be imposed under state salary schedules. Beyond its explicit exemption in statute from the State Human Resources Act, NCHFA also contends that it is exempt from state purchasing and contract laws and the State Budget Manual, which guides agencies in the preparation and administration of their budgets and contains policies and regulations regarding how funds can be expended.

Beyond this operating independence, many of NCHFA's information systems are not part of the centralized information systems used by the State. For example, NCHFA operates its own HR-payroll system and does not use the integrated HR-payroll system operated by the Office of the State Controller. As required in statute, NCHFA maintains its own books and financial records but does not use the North Carolina Accounting System as its primary accounting system. NCHFA does input general ledger account totals on a monthly basis into the North Carolina Accounting System, but only for funds that affect a state budget code.

Despite this independence, there are some oversight mechanisms established in statute. NCHFA is required to contract with an independent certified public accountant for an audit of its books and accounts on an annual basis. In addition, NCHFA must receive Local Government Commission approval to select and retain the financial consultants, underwriters, and bond attorneys associated with the issuance of any bonds. In practice, NCHFA works closely with the Local Government Commission on bond issuances and receives the approval of the Local Government Commission for each bond transaction.

NCHFA's relative independence compared to most state agencies increases the importance of independent review to ensure the Agency is operating effectively and efficiently. Given the growth in the size of the Agency's budget and the breadth of its activities, review of NCHFA's operations is timely.

Findings

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.

To summarize the finding below, 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, including distribution of gift cards to employees, purchase of employee meals when not in travel status, contributions to nonprofit organizations, and additional employee benefits. Several of these expenditures would

³ N.C. Gen. Stat. § 122A-4(f).

not occur at other state agencies due to funding limitations or because they are not permitted in policy. NCHFA contends that it is exempt from the State Budget Manual, which contains some controls on expenditures at state agencies. This perceived operating independence, coupled with questionable observed expenditures, led the Program Evaluation Division to determine that risk remains for wasteful expenditures at NCHFA.

Federal audits identified unnecessary expenses charged to federal grants intended for foreclosure prevention. NCHFA received \$706.9 million from 2010 to 2019 to administer a series of foreclosure prevention programs, which the Agency named the NC Foreclosure Prevention Fund, as part of the Troubled Asset Relief Program established by the US Department of the Treasury. As a result of this large grant award, the U.S. Department of the Treasury conducted compliance audits of NCHFA. In addition, the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) audited the use of TARP funds by the U.S. Department of the Treasury and the 19 state housing finance agencies that received Hardest Hit Fund dollars.⁴

As Exhibit 5 shows, a 2017 SIGTARP audit identified \$107,578 in expenses deemed to be unnecessarily charged to the federal grant. Under the grant terms, expenses were required to be “necessary” to facilitate the loan modifications funded through the grant. SIGTARP contended that NCHFA’s culture involved charging the federal grant for employee meals incurred while not in travel status, parties, gifts, gym memberships, and cash bonuses. SIGTARP noted an additional issue involving meals, specifically that the person approving the spending often had their own meal paid for with the funds they were approving. NCHFA reported repaying \$59,094 of the unnecessary expenses SIGTARP identified. In a second audit in 2019, SIGTARP identified \$127,101 in questioned expenses that it contended violated the terms of the grant and federal cost regulations. NCHFA reported repaying \$65,326 of these expenses.

⁴ The two audits discussed in this report reviewed expenditures at state housing finance agencies that received Hardest Hit Fund dollars. SIGTARP provided the U.S. Department of the Treasury with the opportunity to comment on and respond to these audits. However, NCHFA stated that it did not have an opportunity to respond to the audit reports or view them until they were made public.

Exhibit 5

Two Federal Audit Reports Found Unnecessary Expenses at NCHFA

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
Total		\$208,679	\$124,420

Notes: SIGTARP stated that approximately \$26,000 of unnecessary expenses were duplicated in both reports and therefore total questioned expenses are adjusted to reflect that duplication. Amounts repaid by NCHFA are rounded to the nearest dollar.

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

SIGTARP identified some of NCHFA’s expenses as waste. The U.S. Government Accountability Office defines waste as the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight. According to SIGTARP, NCHFA’s wasteful expenses involved extravagant dinners, gifts, awards, and decorations, which were not necessary or reasonable.

NCHFA reported taking corrective action as a result of the SIGTARP findings. For example, NCHFA updated its travel and meal expenses policy, developed a checklist to aid in the process of approving expense reports and credit card statements, and instructed its quality assurance specialist to conduct ongoing, periodic reviews of expense reports and credit card bills. Nevertheless, the SIGTARP audits raise questions about the potential for future wasteful expenditures at NCHFA.

The Program Evaluation Division identified several areas where potential for wasteful expenditures continues to exist. These areas include the use of gift cards, meals when not in travel status, nonprofit contributions, and employee benefits. Relevant standards for acceptable state agency expenditures in North Carolina can be found in the State Budget Manual, which is compiled by the Office of State Budget and Management and provided to all state departments, institutions, and agencies. As noted in the Background, NCHFA contends that it is exempt from the State Budget Manual. However, the Office of State Budget and Management contends that all state agencies are subject to the State Budget Manual.⁵ Further, the Office of State Budget and Management stated that it has not granted an exemption from the Manual to NCHFA. The Program Evaluation Division was unable to determine legislative intent in this case, as this question is not directly addressed in statute. Chapter 143C of the North Carolina General Statutes does not contain language that explicitly exempts NCHFA from the provisions of the State Budget

⁵ Specifically, the Office of State Budget and Management contends that the State Budget Manual applies to all entities defined as a state agency in N.C. Gen. Stat. § 143C-1-1(d)(24).

Act. The Agency's compulsion to adhere aside, the State Budget Manual provides a useful standard by which to compare NCHFA's expenditures with what expenditures are permitted at other state agencies.

NCHFA uses agency funds for the purchase of gift cards for employees. The 2017 SIGTARP audit was critical of NCHFA's purchase of gift cards for employees ranging in value from \$25 to \$75. NCHFA has a recognition program for employees called Housing Heroes. The Agency reports that, "The small recognition awards provided to staff are Housing Heroes Hammer and Nail Awards, which employees may redeem for a small gift card as a form of recognition." In addition to this award program, the Program Evaluation Division also identified the purchase of \$8,417.50 in gift cards as holiday gifts for staff in December 2016. The gift cards were purchased from a grocery store chain and provided to NCHFA staff in the amount of \$75 per staff member.

If NCHFA adhered to the State Budget Manual, this practice would likely not be permitted. In the section on employee wellness activities, the Manual states that, "Funds cannot be spent to purchase gift certificates or gifts for employees or contractors." Gift cards can be an administrative challenge because they require the same controls and security as the handling of cash. In addition, the Internal Revenue Service considers gift cards of any amount to be taxable wages from an employer that must be reported and subject to income and employment taxes. NCHFA's travel policy now prohibits gift cards as a reimbursable expense for employee travel, but NCHFA's current policy continues to permit the Agency to purchase gift cards for employees.

NCHFA still permits Agency payment of meals for employees who are not in travel status. In its 2017 audit, SIGTARP identified \$8,219 in expenses for employee holiday parties, celebratory dinners and lunches, an employee family picnic, and other celebratory events. The NCHFA policy for travel and meals continues to allow the Agency to purchase meals for employees. NCHFA policy states, "There may be times that a manager or director will purchase a meal for a group of employees. These meals should be limited to reasonably priced meals and cannot include alcohol. These meals should not be claimed as part of a per diem."

If NCHFA adhered to the State Budget Manual, this practice would be severely curtailed. The State Budget Manual states,

"State employees may not be reimbursed for meals in conjunction with a congress, conference, assembly, convocation or meeting, or by whatever name called, of employees within a single state department, institution or agency, or between the employees of two or more state departments, institutions or agencies to discuss issues relating to the employee's normal day-to-day business activities."

The only allowance in the Manual is that,

”A state employee may be reimbursed for meals, including lunches, when the employee's job requires his attendance at the meeting of a board, commission, committee, or council in his official capacity and the meal is preplanned as part of the meeting for the entire board, commission, committee or council. Such board, commission, committee, or council must include persons other than the employees of a single state department, institution, or agency.”

As shown in Exhibit 6, the Program Evaluation Division also identified several benefits that NCHFA provides to its employees that are not offered at most state agencies. These benefits are not expressly prohibited in the State Budget Manual. Nevertheless, they are not typically offered at state agencies because the General Assembly appropriates funds for salaries and benefits and would therefore have to appropriate funds for these additional benefits. The Program Evaluation Division estimates that these additional benefits (those not offered at other state agencies) cost \$271,204 in Fiscal Year 2018–19. Appendix B provides more detail on the cost of each benefit.

Exhibit 6: 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.

The Program Evaluation Division identified certain NCHFA contributions to nonprofit organizations as being potentially wasteful. NCHFA supports several nonprofit organizations throughout the state through grants made as part of its housing programs. Programmatic grants, which are made to support a specific objective and have corresponding terms and conditions, are common among state agencies.

However, the Program Evaluation Division observed NCHFA making several contributions to nonprofits outside of grant programs and for no apparent programmatic purpose. NCHFA generally characterizes these nonprofit contributions as being for purposes such as event sponsorships, membership dues, or advertising.

The Program Evaluation Division reviewed nonprofit contributions made by NCHFA from Fiscal Year 2014–15 through Fiscal Year 2018–19, a five-year period. The Program Evaluation Division identified \$167,680 in contributions that are of questionable programmatic purpose. A list of these contributions appears in Appendix C. Some specific examples of the contributions the Program Evaluation Division questions include the following:

- NCHFA paid a total of \$40,000 from 2015 to 2018 for membership dues to the North Carolina Housing Coalition (\$10,000 per year). The Housing Coalition’s website lists membership dues for an organization of NCHFA’s size as being \$1,000 per year. The NC Housing Coalition’s activities include lobbying the General Assembly, and the organization takes credit for increasing investment by the General Assembly in the NC Housing Trust Fund and Workforce Housing Loan Program, funds that go to NCHFA. A 2016 donor acknowledgement letter from the NC Housing Coalition to NCHFA states, “We’ll work hard during the current legislative session to increase opportunities for renters and homeowners and to secure adequate funding for the NC Housing Trust Fund and Workforce Housing Loan Program. The Coalition will continue to partner with advocacy and grassroots organizations to dramatically magnify our impact and further communicate the importance of affordable housing for North Carolina.”
- NCHFA paid \$40,000 over five years to the NC Association of Realtors Housing Opportunity Foundation for “membership dues and advertising.” The organization lists two “sponsors” on its website—NCHFA and the NC Association of Realtors. During the time that NCHFA made these contributions, an NCHFA manager served on the board of the NC Association of Realtors Housing Opportunity Foundation, the recipient entity.
- NCHFA paid \$35,250 over the five-year period to the NC Home Builders Association for sponsorships, exhibitor booths, and advertising. These expenditures did not include membership dues, which NCHFA pays separately. NCHFA made flat contributions of either \$7,500 or \$5,000 during each year in order to be a “Silver Level Business Partner Sponsor.” It also paid \$250 in 2015 to be a “hole sponsor” at a Builder Classic Golf Tournament.
- NCHFA paid \$1,000 in June 2017 to the Realtor Foundation of Wake County to sponsor the organization’s Realtor Reunion. The event honored a member of the NC Housing Partnership, the entity that allocates money from the NC Housing Trust Fund to NCHFA programs.

- NCHFA paid \$300 to the Choanoke Area Development Association in April 2017 to sponsor an event. The executive director of the organization receiving the contribution was also a member of the NC Housing Partnership, the entity that allocates money from the NC Housing Trust Fund to various NCHFA programs.
- NCHFA paid \$2,500 to the Affordable Housing Group of North Carolina, Inc, to sponsor its 50th anniversary celebration in 2016. The Affordable Housing Group competes with many other affordable housing developers for Low-Income Housing Tax Credits awarded by NCHFA. NCHFA's reputation for impartiality in awarding grant funds and tax credits can be harmed by such contributions which could create the appearance that the Agency favors certain individuals or organizations.
- NCHFA paid \$8,000 over five years for Habitat for Humanity of North Carolina conference sponsorships. NCHFA also donated \$2,000 in June 2016 to Asheville Area Habitat for Humanity for the "Bill Douse Day of Service" in recognition of a NCHFA manager and \$5,000 to Habitat for Humanity of Wake County in March 2017 for its CEO Build. NCHFA already supports Habitat for Humanity chapters through established grant programs, including the Self-Help Loan Pool, which participating Habitat for Humanity chapters throughout the state use to make loans to Habitat homebuyers.

Several of the organizations to which NCHFA made contributions are also organizations that lobby the General Assembly.⁶ For example, a document provided to the NCHFA board in June 2016 from NCHFA staff about "Habitat Lobby Day" stated, "25 Habitat for Humanity affiliates, led by Habitat of North Carolina and the Housing Coalition, conducted 80 visits with legislators to advocate for the state's Housing Trust Fund...Habitat's willingness to advocate on behalf of our appropriations is a direct reflection of the great working relationship we have with our partners." A photocopied note provided to the NCHFA board in May 2016 from an official at the North Carolina Home Builders Association to an NCHFA official stated, "I look forward to working with you in the short session."

NCHFA reported that it does not have an established policy governing contributions to nonprofits. These contributions were also made at the apparent discretion of the executive director or staff, as the NCHFA board does not approve individual contributions. Many NCHFA programs already support nonprofits with grant funds to repair homes, make loans, provide housing counseling, or construct rental units.

Economical use of resources by state agencies is important because dollars that are spent extravagantly or to no official purpose are dollars that cannot be used to further agency objectives, used elsewhere in government, or returned to taxpayers. In the case of

⁶ NCHFA, like other state agencies, has two staff members who serve as legislative liaisons and are registered with the North Carolina Secretary of State to lobby for legislative action.

NCHFA, reducing some of the aforementioned expenditures would mean more money could be available for affordable housing programs, potentially lessening the need for state appropriations for NCHFA programs or allowing NCHFA to lower some of the fees it charges, such as those paid by affordable housing developers. NCHFA could use additional program funding, as many of its programs have greater demand than available monetary resources.

The risk that NCHFA could expend resources wastefully is heightened because NCHFA develops its own operating budget, and the Agency has the ability to charge fees to those who access the federal and state resources it distributes. One affordable housing developer noted that the fees charged to receive Low-Income Housing Tax Credits have increased over time. This ability to increase its own revenue via fees to access government resources, coupled with NCHFA's contention that it is exempt from controls on expenditures such as the State Budget Manual, increases the risk of wasteful expenditures.

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. The NCHFA board should provide a copy of its nonprofit contributions policy to the Joint Legislative Oversight Committee on General Government within six months of the passage of legislation.*

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 has statutorily granted the NC Housing Finance Agency authority over several funds. The following four funds are established in N.C. Gen. Stat. §122A:

- Housing Mortgage Insurance Fund;
- Homeownership Assistance Fund;
- Adult Care Home, Group Home, and Nursing Home Fire Protection Fund; and
- Home Protection Program Fund.

A fifth fund, the Multi-Family Rental Assistance Fund, was created by Session Law 1983-1034 with a \$2 million appropriation. To summarize the finding below, NCHFA has not consistently followed statute in its establishment and maintenance of these funds, and in one case improperly used funds.

NCHFA uses the Homeownership Assistance Fund for a program outside its statutory purpose. NCHFA was given authority to establish

and administer the Homeownership Assistance Fund in 1983. Statute lists three allowable purposes for the fund:

- to provide additional security for eligible loans;
- to subsidize down payments, principal payments, and interest payments; and
- to provide any type of mortgage assistance NCHFA deems necessary.

NCHFA uses the fund to support three programs. However, support for one of these programs, the Construction Training Partnership, represents an inappropriate use of the fund. Through the Construction Training Partnership, NCHFA covers hard costs associated with classes conducted by the NC Home Builders Association to train unemployed and underemployed individuals in construction trades.⁷ Over the past five years, NCHFA has budgeted \$130,000 each year for the Construction Training Partnership. The program is unrelated to homeownership assistance and therefore exists outside the statutory purposes of the Homeownership Assistance Fund. By contrast, the other two programs supported by the Fund, the Community Partners Loan Pool and the Home Advantage mortgage down payment assistance program, support homeownership for low-income households and therefore represent appropriate statutory uses of the Fund. As of the end of Fiscal Year 2018–19, NCHFA recorded a net position of \$6 million in the Homeownership Assistance Fund.

The Home Protection Program Fund is the only one of the statutory funds with some General Assembly oversight, but NCHFA has stopped administering the program and submitting its required reports on that Fund. NCHFA is required to report on the effectiveness of the Home Protection Program on April 1 of each year. However, beginning in 2010, NCHFA stopped administering the Home Protection Program and began administering the NC Foreclosure Prevention Fund through the authority contained in the Home Protection Program and Fund statute. The NC Foreclosure Prevention Fund shared the Home Protection Program's goal of foreclosure prevention but was funded through federal Hardest Hit Fund dollars. Although the NC Foreclosure Prevention Fund largely met the statutory purposes of the Home Protection Program, NCHFA nonetheless did not report on the Home Protection Program after establishing the NC Foreclosure Prevention Fund. The Home Protection Program Fund had a net position of roughly \$944,000 at the end of Fiscal Year 2018–19, which NCHFA reports as resulting from loan repayments and interest.

NCHFA has closed the Adult Care Home, Group Home, and Nursing Home Fire Protection Fund, though it still exists in statute. Like the Homeownership Assistance Fund, the Adult Care Home, Group Home, and Nursing Home Fire Protection Fund does not have a designated funding source. This Fund was intended to assist the owners of adult care homes, group homes for developmentally disabled adults, and nursing homes through the purchase and installation of fire protection systems and

⁷ For more information on the Construction Training Partnership program, see the first report in this series, *North Carolina Housing Finance Agency Should Improve Performance Management and Reexamine How It Distributes Resources to Localities*.

emergency generators. NCHFA did establish this fund but has since closed it as the program it was established to support is no longer active.

Though established in statute, the Housing Finance Agency reports never establishing the Housing Mortgage Insurance Fund in fact. The Housing Mortgage Insurance Fund was intended to provide insurance against NCHFA’s mortgage loans. As established in N.C. Gen. Stat. §122A-5.2, NCHFA is granted the authority to insure mortgages and make advance commitments for residential mortgages for low-income households. However, NCHFA reported never establishing this fund in fact.

Whereas the other funds discussed in this finding were created in statute, the Multi-Family Rental Assistance Fund was created by session law and not added to NCHFA’s governing statutes. The General Assembly appropriated \$2 million to this fund in 1983, and stipulated that interest earned may not be used for administrative purposes without the prior approval of the General Assembly. NCHFA uses the fund to support a legacy program known as the Multi-Family Rental Assistance program, which supports low-income tenants in former Farmers Home Administration Section 515 properties, and to support the Landlord Incentive Pilot Program, which encourages landlords to take on riskier tenants. As a legacy program, the Multi-Family Rental Assistance program is not taking new applicants. At the end of Fiscal Year 2018–19, NCHFA recorded a net position of almost \$11 million in this fund.

As Exhibit 7 shows, these funds in total represent nearly \$18 million that NCHFA can expend at its discretion or with limited oversight from the General Assembly. In two cases NCHFA is not operating funds and in one case the Agency is using a fund for a program outside its statutory purpose.

Exhibit 7

North Carolina Housing Finance Agency Has Five Funds With Limited or No Oversight

Fund Name	Presently Exists	Ever Existed	Net Position as of 6/30/19
Housing Mortgage Insurance Fund	No	No	---
Homeownership Assistance Fund	Yes	Yes	\$ 6,049,248
Adult Care Home, Group Home, and Nursing Home Fire Protection Fund	No	Yes	---
Home Protection Program Fund	Yes	Yes	943,691
Multi-Family Rental Assistance Fund	Yes	Yes	10,980,536
Total			\$ 17,973,475

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

The State should remove the statutory language requiring the obsolete funds. The Housing Mortgage Insurance Fund was never established, and

the Adult Care Home, Group Home, and Nursing Home Fire Protection Fund has been shut down as its related program is no longer active. Both funds could be removed from General Statutes.

The State could improve oversight and efficiency of the remaining funds by consolidating them into the NC Housing Trust Fund. The NC Housing Trust Fund, established in 1987, is a flexible source of funding for many of NCHFA's programs. By consolidating the Multi-Family Rental Assistance Fund, Homeownership Assistance Fund, and Home Protection Program Fund into the Housing Trust Fund, the General Assembly could bring together several disparate funds and streamline oversight.

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.

To summarize the finding below, 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. The statutory structure of the Housing Partnership itself lacks independence from NCHFA, as it is housed within NCHFA and the NCHFA executive director is a voting member of the Partnership. To improve oversight, it may be necessary to consider alternative structures such as establishing a more independent Housing Partnership or performing oversight through the appropriations process.

The Housing Partnership consists of 13 members, with five appointed by the President Pro Tempore of the Senate and five appointed by the Speaker of the House of Representatives. The remaining three members are voting ex officio members—the executive director of NCHFA, the secretary of the Department of Commerce, and the State Treasurer. Housing Partnership members can receive reimbursement for travel and subsistence and a small per diem but are otherwise not compensated for what is essentially a voluntary role. As required by statute, many of the Partnership's members are employed full-time in a field related to affordable housing; among these requirements, there must be a representative of the homebuilding industry, a low-income housing advocate, a representative of the League of Municipalities, a representative of the real estate lending industry, and a representative of a non-profit housing development corporation. The Housing Partnership has generally met four times per year, often by telephone, with meetings typically lasting about 70 minutes. The Housing Partnership has operated at a low cost—\$1,099 in Fiscal Year 2018–19 for travel and per diems—though this cost does not include NCHFA staff time.

The Program Evaluation Division determined the Housing Partnership has allocated funding every year from the Housing Trust Fund to NCHFA but has not been active in performing its other duties. The General Assembly created the North Carolina Housing Partnership with four statutory powers and duties. These duties are

1. to promulgate rules and regulations governing all policy matters relating to the implementation of all programs for uses of the NC Housing Trust Fund and the Partnership's oversight of the Agency's administration of the Housing Trust Fund;
2. to promote the development of a coordinated state low-income housing plan;
3. to obtain necessary information from other state agencies concerning housing; and
4. to allocate monies contained in the Fund.

The first and fourth duties relate most directly to oversight. Outside of its statutory duties, the Housing Partnership has also taken on the role of advocating for more funding to the NC Housing Trust Fund, taking the view that housing need far exceeds existing resources and that affordable housing is critically important to the State.

A review of Housing Partnership activity shows the Partnership is not fulfilling its first statutory duty, to promulgate rules and regulations for policy matters related to the implementation of programs using NC Housing Trust Fund dollars. For example, the Housing Partnership has not promulgated specific rules for any of the current NC Housing Trust Fund-supported programs. Further, the most recent update to Housing Trust Fund rules, which involved the elimination of two rules deemed unnecessary, was performed by action of the NCHFA board in 2017, not by the Housing Partnership, which has the statutory authority.⁸ More generally, the Housing Partnership has not formally directed or approved changes in policy to NC Housing Trust Fund programs. For example, in 2019, NCHFA revised some Urgent Repair Program guidelines and changed the maximum Supportive Housing Development Program award amount without formal review and approval from the Housing Partnership despite these programs being funded with NC Housing Trust Fund dollars.

The Housing Partnership chair did note that members of the Housing Partnership provide feedback to NCHFA outside of Housing Partnership meetings through emails, conversations, and phone calls. However, this process appears more similar to the role an advisory board might play in providing non-binding, strategic advice to management, as opposed to the more direct oversight the Housing Partnership is statutorily instructed to conduct.

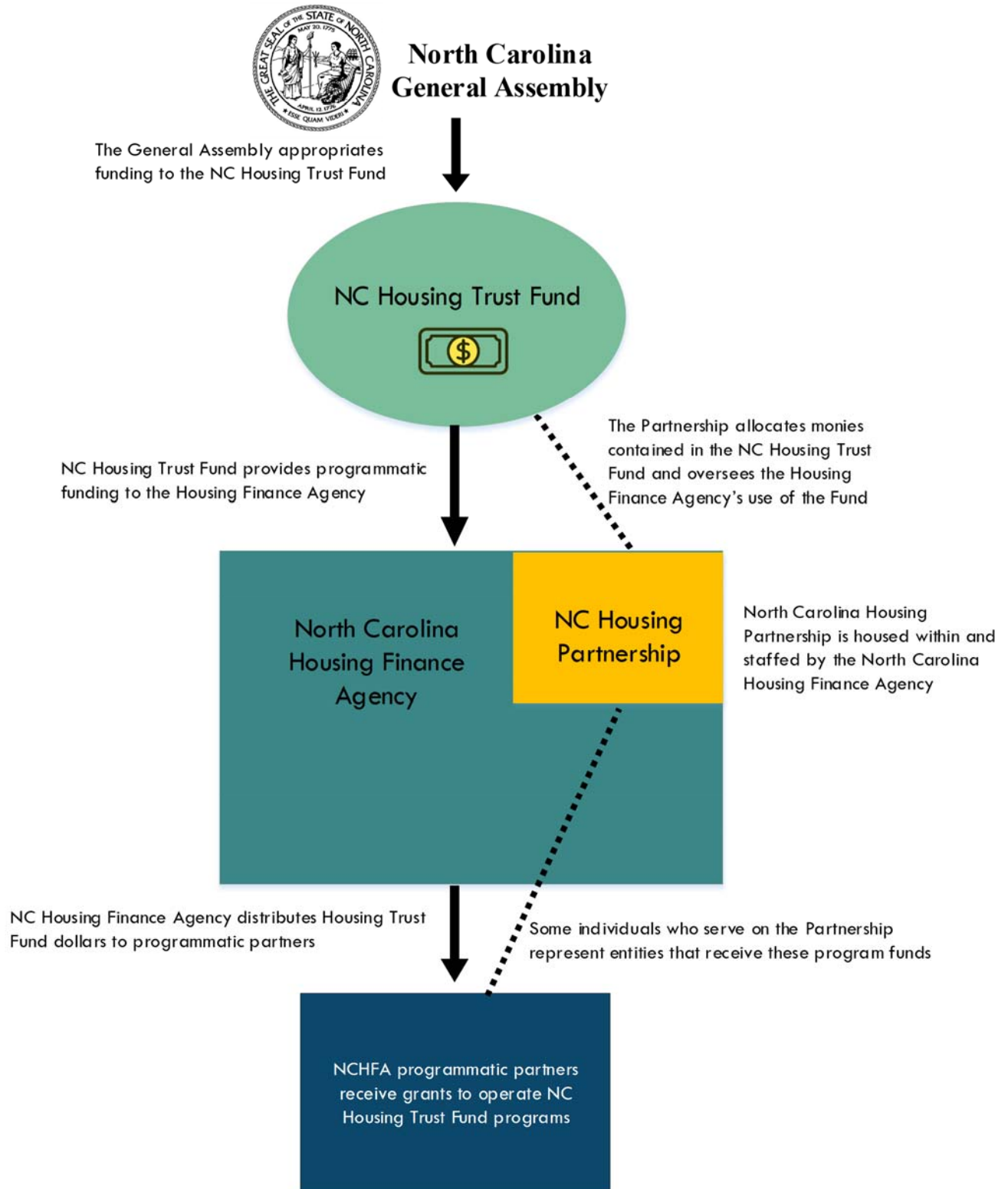
The Housing Partnership allocates funds from the NC Housing Trust Fund, but in practice the Partnership has ceded much of this responsibility to NCHFA. Each December, the Housing Partnership approves an allocation from the NC Housing Trust Fund to certain NCHFA

⁸ 24 N.C. Admin. Code 01M, which governs the North Carolina Housing Trust Fund, was revised in 2017 by vote of NCHFA's board, eliminating sections .0100 and .0200.

programs. This initial allocation is developed by NCHFA staff and approved by the Housing Partnership. At the end of the year, the Housing Partnership approves an amended allocation, which again is provided by NCHFA staff and varies from the initial allocation based on changes made by the NCHFA board during the year. As an example of this process, in 2017, the initial allocation from the Housing Partnership to the Urgent Repair Program was \$3.5 million. In June of that year, on the advice of staff, NCHFA's board awarded an additional \$275,000 to the program to meet increased demand. In December 2017, six months after the NCHFA board had already awarded the additional \$275,000 to Urgent Repair Program applicants, the Housing Partnership approved an amended allocation in that same amount. If the Housing Partnership had primary authority over allocating those funds, NCHFA would have been required to seek Housing Partnership authority prior to awarding these additional funds rather than having the Housing Partnership amend the allocation six months after NCHFA had awarded the funds.

The General Assembly created the Housing Partnership to oversee the NC Housing Trust Fund, but it lacks independence from NCHFA and the funds it oversees. The Housing Partnership is housed within NCHFA and currently reliant upon NCHFA for information and administrative support. In addition, statute establishes the executive director of NCHFA as a voting member of the Partnership. Further, many of the Housing Partnership's other members have relationships with NCHFA through their professions. As an example, at a meeting in 2017, 8 of the 10 members who were not ex officio members disclosed that they represented organizations that apply to NCHFA programs, participate in NCHFA programs, and/or have ongoing working relationships with NCHFA. Some members lead or are part of organizations that receive funding from NCHFA from Housing Trust Fund programs—the programs for which the Housing Partnership determines funding allocations. Exhibit 8 details the funding flows and relational structure involving the NC Housing Trust Fund, NC Housing Finance Agency, and Housing Partnership.

Exhibit 8: The Structure of the Housing Partnership Lacks Independence from the Entity it Oversees and the Programs it Funds



Source: Program Evaluation Division based on North Carolina General Statutes and NC Housing Partnership meeting minutes.

Options exist to address the limited oversight activity and independence of the Housing Partnership. The General Assembly could modify the structure of the Partnership and its relationship to NCHFA to ensure the former entity is more independent by

- removing the NCHFA executive director as an ex officio member of the Housing Partnership (the Housing Partnership could still get information from NCHFA and request information from NCHFA staff as needed);
- administratively housing the Partnership at another agency such as the Department of Commerce; and
- disallowing members of organizations that receive Housing Trust Fund dollars from serving on the Partnership.

The Housing Partnership also could be more functionally independent if it had its own staff, though that approach would increase administrative costs. Presently, with what is essentially a volunteer board, the Housing Partnership has limited capacity to conduct independent analysis of NC Housing Trust Fund programs and is reliant upon NCHFA staff. The Housing Partnership has existing statutory authority to hire an executive director but has never exercised that authority, choosing instead to put all Housing Trust Fund dollars directly into programs.

A second set of options would be to either abolish the Partnership altogether or maintain it as an advisory board to NCHFA while removing its oversight role, which would in turn be performed solely by the General Assembly. The General Assembly could appropriate dollars from the NC Housing Trust Fund through the existing annual appropriations process. At present, the General Assembly appropriates dollars to the NC Housing Trust Fund, but not from the Trust Fund to specific NCHFA programs. This option would be cost neutral.

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.

To summarize the finding below, the Program Evaluation Division determined that NCHFA has a private attorney who serves as general counsel to its board. NCHFA does not have a contract with the attorney serving in that role, but pays for hours billed at a rate of \$400 per hour. These expenditures violate NCHFA's procurement policy, which requires a contract for services. NCHFA's procurement manual makes clear why a written contract should exist, stating, "The purpose of a written contract is to serve as a reference document that records the terms of an agreement to prevent misunderstanding or conflict, and creates a legal, binding, and enforceable obligation."

Despite not having a contract with its board general counsel, NCHFA paid this attorney \$13,840 in Fiscal Year 2017–18 and \$8,200 in Fiscal Year 2018–19. The same individual has served as board general counsel since 1992. NCHFA stated that the board general counsel has extensive knowledge of the history of the Agency and addresses questions of ethics, conflicts of interest, and board procedures with the board chair. After the Program Evaluation Division questioned the lack of a contract, NCHFA signed an engagement letter with the law firm of its board general counsel in November 2019.

Though the lack of a contract was the primary issue, undertaking a procurement process may reveal that NCHFA could fulfill its need for counsel in a different way. The first step described in NCHFA's procurement manual is planning—defining the business need and researching the cost. It is possible that such planning could reveal that NCHFA no longer needs to procure the services of a board general counsel. In 2018, NCHFA created the position of agency general counsel after determining that its attorney and manager of legal services was fulfilling the majority of the responsibilities of a general counsel. It may be possible for NCHFA's general counsel also to serve in that same role for the NCHFA board, obviating the need to procure an external general counsel strictly to advise the board. According to the State Budget Manual, "It is the policy of the State that state agencies shall acquire contractual services only after it is determined that the services cannot be reasonably accomplished by employees of the agency seeking such services." As discussed in Finding 1, the Program Evaluation Division did not determine whether NCHFA is subject to the requirements of the State Budget Manual. However, prudent fiscal management practices would suggest an agency should not contract for a service if an existing employee can provide such services.

If NCHFA determines that it needs a separate general counsel for its board, it may want to consider, as part of its procurement process, using an attorney from the North Carolina Department of Justice.

Attorneys from the North Carolina Department of Justice (DOJ) serve as general counsel to some state agencies, boards, and commissions. One of the benefits of using DOJ attorneys is that they can tap into the department's accumulated experience and expertise on recurring issues that arise across state government agencies, such as questions of ethics or conflicts of interest. They also can help ensure consistency in legal positions and statutory interpretation across state government. Finally, attorneys from DOJ tend to be far less costly than private attorneys. The Fiscal Year 2019–20 DOJ rates for attorneys with paralegal support are \$71/hour for an Attorney II and \$102/hour for an Attorney Supervisor. These rates are far less expensive than the \$400/hour rate presently being paid by NCHFA for its board general counsel.

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.*

Appendix

Appendix A: North Carolina Housing Finance Agency Programs

Appendix B: NCHFA-Specific Employee Benefits

Appendix C: Questioned NCHFA Nonprofit Contributions, Fiscal Year 2014–15 through Fiscal Year 2018–19

Agency Response

The Program Evaluation Division submitted a draft of this report to the North Carolina Housing Finance Agency and the NC Housing Partnership for review. Their responses are provided following the Appendix.

Program Evaluation Division Contact and Acknowledgments

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

Natalie Garrett, Jennifer Hausman, and Jim Horne made key contributions to this report. John W. Turcotte is the director of the Program Evaluation Division.

Appendix A: Detailed List of North Carolina Housing Finance Agency Programs

Program Name	Eligibility	Assistance Provided
Homeownership Programs		
NC Home Advantage Mortgage	Home buyers earning up to \$89,500 with a credit score of 640 or higher and a conventional, FHA, USDA or VA-eligible first mortgage	30-year, fixed rate mortgage provided through lending partners
NC Home Advantage Mortgage Down Payment Assistance	Home buyers using the NC Home Advantage Mortgage program	Deferred, forgivable second mortgages of 3% or 5% of the first mortgage amount, with 15-year terms
NC 1st Home Advantage Down Payment	Qualifying first-time home buyers or qualifying military veterans	Deferred, forgivable second mortgage of \$8,000 with a 15-year term
NC Home Advantage Tax Credit	First-time home buyers, veterans, or prospective home buyers buying in a targeted census tract; can be combined with the NC Home Advantage Mortgage	Federal tax credit that reduces the federal tax liability by up to 30% of mortgage interest for existing homes or 50% of mortgage interest for new homes, not to exceed \$2,000
Community Partners Loan Pool	Home buyers earning up to 80% of area median income with sufficient credit purchasing a home through a loan pool member	Interest-free, deferred second mortgages up to 20% of purchase price when combined with a NC Home Advantage Mortgage or 10% of purchase price with other eligible mortgages, not to exceed \$30,000
Self-Help Loan Pool	Home buyers earning up to 80% of area median income and purchasing a home through a loan pool member	Up to \$35,000 (or up to \$50,000 in underserved counties) in financing that is combined with Self-Help Loan Pool member financing to create a single, interest-free amortizing loan with a 20- to 33-year term
Repair and Rehabilitation Programs		
Essential Single-Family Rehabilitation Loan Pool	Homeowners earning up to 80% of area median income who are elderly, disabled, a qualified veteran, or have a child under the age of six exposed to lead in the home	Up to \$30,000 per home for essential and critical home repairs
Urgent Repair Program	Homeowners earning up to 50% of area median income who are elderly, disabled, or have other eligible special needs	Up to \$10,000 per home for repairs to address imminent threats to health and safety
Displacement Prevention Partnership	Homeowners with permanent physical disabilities earning up to 50% of area median income	Up to \$8,000 per homeowner for repairs and modifications to improve accessibility
Foreclosure Prevention Programs		
NC Foreclosure Prevention Fund	Homeowners experiencing no-fault job loss or other temporary financial hardship, who are earning less after a financial hardship, or who are veterans transitioning to civilian life	Interest-free, deferred loans to make mortgage payments or to reduce monthly payments
State Home Foreclosure Prevention Project	All homeowners who have received a 45-day foreclosure filing notice	Access to free counseling through participating HUD-approved housing counseling agencies and to free legal services through Legal Aid of NC

Rental Development Programs

Low-Income Housing Tax Credits	Rental developers who apply through the State's Qualified Allocation Plan	Federal Low-Income Housing Tax Credits which reduce investors' tax liability by 4% or 9% of eligible project costs for 10 years
Workforce Housing Loan Program	Rental developers who apply through the State's Qualified Allocation Plan; funds are allocated alongside housing credits	30-year balloon loans for tax credit developments; awards are limited based on county income designation
Rental Production Program, including Disaster Recovery	Rental developers who apply through the State's Qualified Allocation Plan; funds are allocated alongside housing credits	Up to \$800,000 amortizing or deferred loans with an interest rate of 2% or lower
Carryover Loan Program	Rental developers who have been awarded tax credits	Financing for the acquisition of land for 9% new construction tax credit properties

DHHS Partner Programs

Integrated Supportive Housing Program	Rental developers with tax credit awards who agree to set aside 20% of units for persons with disabilities	Amortizing or deferred loans of up to \$625,000 per project, with 20-year terms
Key Rental Assistance	Households earning up to 50% of area median income and whose head of household is disabled	Pays the landlord the difference between the maximum allowable rent for the program, set by the State, and 25% of the tenant's income
Transitions to Community Living Voucher	Households who are part of the State's <i>Olmstead</i> settlement class	Pays the landlord the difference between the rent and the greater of \$100 or 25% of the tenant's income
Back@Home	Households impacted by Hurricane Florence who were not eligible for Federal Emergency Management Agency (FEMA) Individual Assistance	Provides move-in kits and financing to cover move-in costs, such as utility deposits, for families displaced by natural disasters
NC Housing Search	All households	Website with search features for households seeking affordable housing

Other Programs

Supportive Housing Development Program	Local government, nonprofits, and regional councils seeking to build emergency and permanent supportive housing	Amortizing or deferred loans of up to the lesser or \$700,000 or 70% of project costs with 20- to 30-year terms; limits drop to \$600,000 or 60% of costs in entitlement cities
Landlord Incentive Pilot Program	Nonprofits who place people experiencing homelessness with participating landlords	Up to \$25,000 in reimbursements to participating nonprofits for damages or losses caused by placed tenants
Construction Training Partnership	Local governments	Up to \$65,000 for hard costs associated with construction training classes

Appendix B: NCHFA-Specific Employee Benefits

Benefit Name	Description	Cost Per Employee	Total Cost
Wellness Incentive Program	Reimburses gym membership fees up to \$30 per month	\$30/month	\$ 4,787
Health Reimbursement Account	Reimburses expenses for employees and eligible dependents for co-pays, deductibles, co-insurances, prescriptions, and certain over-the-counter drugs	\$1,000 per year	114,172
Health Assessment Incentive Program	Pays employees for completing an online health assessment and attesting that they will pursue the recommendations	\$30/month	40,170
401(k) Match	Provides an employer contribution of \$75 to any employee who contributes \$25 or more to their 401(k)	\$75/month	102,075
Retirement Notification Program	Provides a bonus to employees based upon the amount of retirement notice given	\$2,500 - \$5,000	10,000
Total			\$271,204

Note: Total cost is cost to NCHFA for Fiscal Year 2018–19

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

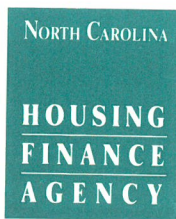
Appendix C : Questioned NCHFA Nonprofit Donations, Fiscal Year 2014–15 through 2018–19

Organization Name	Amount (\$)	Date	NCHFA Stated Purpose
IDA and Asset Building Collaborative	500	08/15/2014	Conference sponsorship
Professional Housing Rehabilitation Association of North Carolina	1,230	09/09/2014	Conference sponsorship
DHIC, Inc	500	10/03/2014	Event sponsorship
The Housing Partnership	500	10/03/2014	Event sponsorship
North Carolina Home Builders Association	7,500	12/12/2014	Conference sponsorship; exhibitor booth; advertising
North Carolina Community Development Association	1,000	12/19/2014	Conference sponsorship
North Carolina Community Development Association	1,500	03/13/2015	Conference sponsorship
Tammy Lynn Center for Developmental Disabilities	200	03/13/2015	Furniture or kitchen equipment
Cleveland County Rescue Mission	200	03/27/2015	Furniture or kitchen equipment
Samaritan Ministries	200	03/27/2015	Furniture or kitchen equipment
North Carolina Community Action Association	1,500	04/10/2015	Conference sponsorship
North Carolina Housing Coalition	10,000	04/17/2015	Membership dues
Kingdom Community Development Corporation	500	05/15/2015	Sponsorship and advertisement in program for 20 th anniversary
River City Community Development Corporation	250	05/29/2015	Event sponsorship
IDA and Asset Building Collaborative	500	06/01/2015	Conference sponsorship
North Carolina Home Builders Association	250	06/01/2015	Event sponsorship
Community Home Trust	250	07/10/2015	Event sponsorship
North Carolina Association of Realtors Housing Opportunity Foundation	10,000	08/07/2015	Membership dues; advertising
Professional Housing Rehabilitation Association of North Carolina	1,000	08/28/2015	Conference sponsorship
Habitat for Humanity of North Carolina	1,500	09/11/2015	Conference sponsorship
North Carolina Housing Coalition	500	11/02/2015	Event sponsorship
North Carolina Home Builders Association	5,000	12/11/2015	Conference sponsorship; exhibitor booth; advertising
North Carolina Community Action Association	1,000	02/26/2016	Conference sponsorship
North Carolina Housing Coalition	10,000	03/28/2016	Membership dues
Affordable Housing Group	2,500	04/08/2016	Event sponsorship
North Carolina Community Development Association	1,500	04/08/2016	Conference sponsorship
NC Association of Realtors Housing Opportunity Foundation	10,000	04/21/2016	Membership dues; advertising
Prosperity Unlimited	1,000	05/13/2016	Event sponsorship
IDA and Asset Building Collaborative	1,500	05/26/2016	Conference sponsorship
Asheville Area Habitat for Humanity	2,000	06/10/2016	Event sponsorship
Community Home Trust	250	08/05/2016	Event sponsorship
Habitat for Humanity of North Carolina	1,500	08/12/2016	Conference sponsorship
Professional Housing Rehabilitation Association of North Carolina	1,000	09/09/2016	Conference sponsorship

River City Community Development Corporation	750	11/18/2016	Event sponsorship
North Carolina Community Action Association	1,500	02/10/2017	Conference sponsorship
North Carolina Housing Coalition	10,000	03/10/2017	Membership dues
Habitat for Humanity of Wake County	5,000	03/24/2017	Habitat home sponsorship
Durham Community Land Trust	250	04/04/2017	Event sponsorship
North Carolina Community Development Association	2,500	04/09/2017	Conference sponsorship
IDA and Asset Building Collaborative	1,000	04/14/2017	Conference sponsorship
Choanoke Area Development Authority	300	04/21/2017	Event sponsorship
Realtor Foundation of Wake County	1,000	06/02/2017	Event sponsorship
Habitat for Humanity of Wake County	5,000	06/09/2017	Habitat home sponsorship
Habitat for Humanity of North Carolina	2,500	07/14/2017	Conference sponsorship
Community Home Trust	250	08/04/2017	Event sponsorship
North Carolina Association of Realtors Housing Opportunity Foundation	10,000	09/08/2017	Membership dues; advertising
Professional Housing Rehabilitation Association of North Carolina	1,400	09/15/2017	Conference sponsorship
North Carolina Bankers Association	1,500	02/23/2018	Conference sponsorship
North Carolina Community Action Association	2,000	04/27/2018	Conference sponsorship; exhibitor booth
North Carolina Community Development Association	2,500	04/27/2018	Conference sponsorship
North Carolina Home Builders Association	7,500	04/27/2018	Conference sponsorship; exhibitor booth; advertising
North Carolina Housing Coalition	10,000	06/30/2018	Membership dues
Habitat for Humanity of North Carolina	2,500	07/20/2018	Conference sponsorship
Professional Housing Rehabilitation Association of North Carolina	1,400	09/21/2018	Conference sponsorship
North Carolina Home Builders Association	7,500	02/01/2019	Conference sponsorship; exhibitor booth; advertising
North Carolina Community Action Association	2,000	02/22/2019	Conference sponsorship; exhibitor booth
North Carolina Community Development Association	2,500	04/22/2019	Conference sponsorship
NC Association of Realtors Housing Opportunity Foundation	10,000	06/03/2019	Membership dues; advertising
Total	\$167,680		

Notes: Purposes of donations were provided by NCHFA. Unless a donation is restricted to a specific purpose at the time it is made by the donor, the donation can be used for any legal purpose as determined by the nonprofit receiving the donation. The Program Evaluation Division reviewed all the donations provided by NCHFA over the five-year period, totaling \$395,986. The Program Evaluation Division did not question organizational memberships that appeared necessary to NCHFA's programs or operations. The Program Evaluation Division also did not question expenses that were strictly for advertising or an exhibitor booth but did question several donations where these items were bundled together as part of a larger lump-sum donation. In addition, the Program Evaluation Division did not question donations involving advertising or exhibitor booths that involved mortgage brokers, mortgage bankers, or realtors because these expenses could be related to efforts to recruit partners for the Home Advantage Mortgage Program.

Source: Program Evaluation Division based on a review of data compiled by NCHFA of nonprofit contributions from Fiscal Year 2014–15 through Fiscal Year 2018–19



May 5, 2020

A self-supporting
public agency

Scott Farmer
Executive Director

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Mr. John W. Turcotte, Director
Program Evaluation Division
300 N. Salisbury Street, Suite 100
Raleigh, NC 27603-5925

Dear Mr. Turcotte:

Thank you for the opportunity to comment on Program Evaluation Division's Report No. 2020-06. We appreciate that the report notes both the great and growing need for affordable housing in North Carolina while recognizing the challenges to deliver affordable housing across our state.

The North Carolina Housing Finance Agency (NCHFA) has a solid, successful record of stewardship of public funds. In the almost 50 years since its creation by the General Assembly, NCHFA has financed more than 293,000 homes and apartments worth \$25 billion, producing a significant return on investment for the state. This work has supported more than 256,000 jobs and generated \$2 billion in state and local tax revenue. For every dollar in state funds, the Agency leverages an additional \$8 in federal and private investments.

NCHFA has achieved this while keeping its operating costs to less than 2% of the housing financed and has a AA+/Aa1 bond rating. Our debts and obligations are independent of those of the state.

North Carolina's need for affordable and available housing is critical, with a shortage of over 191,000 units for low-income renter households.¹ In no county can a person earning minimum wage afford a two-bedroom apartment at the fair market rate set by HUD.² The situation is exacerbated by a significant population increase of 12.1% over the last ten years, compared to the relatively small amount of available funding.

In the last five years, the North Carolina Housing Finance Agency has managed \$178.4 million in state appropriations. In the same period, the Agency financed the purchase of 31,749 homes and the rehabilitation or construction of 23,920 apartment homes, with a real estate value of \$9.9 billion. The Agency's work prevented 16,429 foreclosures, including 137 veteran and military families, preserving \$2.1 billion of property values. These activities have sent \$3 billion of wages rippling through the economy, generating \$226 million in tax revenue for the state and supporting 75,300 jobs.

¹ National Low Income Housing Coalition. (2020). *The Gap: A Shortage of Affordable Homes*. Retrieved from: <https://reports.nlihc.org/gap/2018/nc>

² National Low Income Housing Coalition. (2019). *Out of Reach 2019: North Carolina*. Retrieved from: <https://reports.nlihc.org/oor/north-carolina>

Affordable housing doesn't just benefit the economy, it positively impacts health costs, health outcomes, educational achievement and local communities.³

Finding 1. North Carolina Housing Finance Agency's asserted independence from certain state government policies and controls over expenditures increases the risk of wasteful and unnecessary expenditures.

From 2014 through 2019, NCHFA had 52 third-party audits and reviews, and those audits showed an agency that continuously and successfully invests its limited resources to maximize outcomes for North Carolinians and the state's economy. We also continue to improve our processes through our internal audit functions.

NCHFA is neither a cabinet agency nor a council of state agency, but rather is managed by an Executive Director and governed by its Board of Directors⁴. Pursuant to its enabling legislation, NCHFA exercises all of its prescribed statutory powers and all management functions independently of any principal State Department⁵ except for certain reporting and budgeting functions required under the Executive Budget Act for appropriated funds⁶.

As stated in the North Carolina Housing Programs study published by the Office of State Budget and Management in 2014, NCHFA "is considered a semi-independent agency" which provides NCHFA the "ability to accommodate to changes in the housing and financing markets in an expedient manner. This flexibility as a semi-independent agency is critical...in raising funds and providing loans." The report goes on further to state that a majority of states "delegate the financing of housing programs to an independent finance agency similar to that of NCHFA."

The statutory history over the years, as outlined in the **Statutory History of the Housing Finance Agency** (attached), demonstrates the General Assembly continued to augment NCHFA's independence in an effort to create a more independent entity that could be self-supporting, more flexible and less bureaucratic than a traditional government agency. Special budgetary provisions govern state appropriations to NCHFA, and OSBM reporting requirements bear this out by its practice of reviewing NCHFA expenditures from the previous year, rather than prospectively.

NCHFA's longstanding success managing state and federal funds coupled with its classification as an independent entity were key reasons for its selection by the U.S. Department of the Treasury (Treasury) to manage \$707 million in Hardest Hit Funds (HHF) for the NC Foreclosure Prevention Fund (NCFPF) on behalf of the State of North Carolina. Specifically, Treasury required that the eligible entities receiving funds be independent agencies of their states. Discussions with both OSBM and Fiscal Research in 2010 resulted in concurrence that NCHFA was an eligible entity as an independent agency.

³ Taylor, L. (2018). "Housing And Health: An Overview Of The Literature, " Health Affairs Health Policy Brief. *Health Affairs*. <https://doi.org/10.1377/hpb20180313.396577>

⁴ North Carolina General Statute Chapter 122A-4(b)

⁵ North Carolina General Statute Chapter 122A-4(f)

⁶ North Carolina Senate Bill 571, 1981

With Treasury's assistance, the NCFPF was one of NCHFA's most successful programs and one of the most impactful on the state's economy. It saved more than 30,000 families from foreclosure, has a 92.5% success rate, and saved more than \$5 billion in property value.

It is important to note that the 2017 and 2019 reports issued by the Special Inspector General for the Troubled Asset Relief Programs (SIGTARP) were reviews of Treasury's oversight of the HHF program, not NCHFA, and focused on expenses incurred by all states participating in HHF from 2010 to 2017. While these reports identified a number of expenditures that SIGTARP deemed unnecessary, the reports were unclear that many of the questioned expenses stemmed from 2010 to 2013 as NCHFA was trying to build the program. To serve the number of homeowners the program was expected to help, NCHFA had to hire additional staff, lease additional office space, build a complex application portal and website and train hundreds of partners statewide. We believe some of the questioned expenses were necessary to retain this highly qualified staff, minimizing turnover and training costs to ensure smooth operation and optimal customer service. It should also be noted that Treasury completed its own review of the expenses questioned in these reports and disagreed with many of the SIGTARP findings. NCHFA has repaid all expenses identified by Treasury. It is unfortunate these reports have clouded the success of the NCFPF and that PED drew so heavily on them for their conclusions without asking NCHFA any questions about their context.

Since 2017, NCHFA has made numerous changes to its policies and procedures to ensure our commitment to being a good steward of funds received. In addition to those changes highlighted in the PED report, NCHFA continues to improve processes and procedures such as upgrading our financial systems and increasing internal controls to provide more checks and balances in the review of expenses and reduce the risk of errors.

We also believe that PED's characterization of certain expenses as being "contributions" to nonprofits is inaccurate. Most of the noted expenses were either membership dues or direct outreach and marketing opportunities for us to effectively reach home ownership partners who in turn connect consumers with our products. This practice provides a significant saving in the costs necessary to make consumers aware of the resources available to them.

As PED noted in the report, our largest lending activity is through our home ownership programs. NCHFA's Realtor, home builder and lender partners are the lifeblood of our mortgage business and play a key role in the public-private partnership model that we employ to better leverage state investments. By supporting organizations such as the NC Realtors, the NC Home Builders and the NC Housing Coalition, we are supporting the broader housing network.

Finding 2. Several NCHFA statutory funds totaling nearly \$18 million have limited oversight, which led to an improper use of funds in one instance.

NCHFA believed that the Construction Training Partnership (CTP) program was an appropriate use of the Homeownership Assistance Fund when allocated for this purpose beginning in 2011.

NCHFA leadership at the time was of the opinion it was allowable to use interest earnings from the Homeownership Assistance Fund for CTP as these funds were for hard costs to subsidize the construction of houses for low- to moderate-income persons and, therefore, reduced the

cost of the home. If NCHFA continues the CTP program, it will utilize a different source of funds.

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 current structure of the Housing Partnership (Partnership) and the process for allocating funds from the Housing Trust Fund into programs has served the state well for more than 30 years.

The Housing Trust Fund (HTF) is the state’s most flexible tool for meeting the state’s most challenging housing needs. It has a proven track record, leverages \$5 of housing for every \$1 appropriated, and every penny of the HTF can be accounted for. The Partnership provides excellent oversight, leadership, technical assistance, responsiveness and value.

The Housing Trust Fund and Housing Partnership originated from the 1987 Report of the Housing Trust Fund Study Commission and the 1988 North Carolina Housing Policy Report. In creating the Housing Trust Fund, the General Assembly recognized that expertise and cross collaboration, not only across state government, but also across housing activities, was necessary for North Carolina to effectively provide affordable housing solutions. Chapter 122E states:

“The Partnership shall consist of 13 members as follows: (1) The Executive Director of the North Carolina Housing Finance Agency shall serve ex officio; (2) The Secretary of the Department of Commerce or his designee shall serve ex officio; (3) The State Treasurer or his designee shall serve ex officio; (4) In accordance with G.S. 120-121, five members shall be appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate, provided that one member shall be a representative of the homebuilding industry, one member shall be a low income housing advocate, and one member shall be a representative of the League of Municipalities; (5) In accordance with G.S. 120-121, five members shall be appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives, provided that one member shall be a representative of the real estate lending industry; one member shall be a representative of a non-profit housing development corporation; and one member shall be a resident of low income housing.”

Additionally, the General Assembly anticipated that the expertise needed could raise the potential for conflicts of interest. This is a common tension for boards, especially in specialized areas, where the talent needed to effectively lead and oversee is also actively participating in the industry. A board needs those who understand on-the-ground implications of program design and funding regulations. The statute created the distance necessary with the language below:

“Members of the Partnership may not receive any direct benefit from, or participate in, the programs of the Fund. Members of the Partnership may be employed by, or serve as a board member of, a nonprofit entity participating in a program of the Fund if the member discloses the employment or the membership in the minutes of the Partnership and does not vote on any matter pertaining to the entity’s participation.”

As mentioned, many of the Partnership members work in the field of affordable housing, which has been extremely beneficial, and they are meticulous in stating actual and potential conflicts of interest and recusing themselves when appropriate. Additionally, there is a procedural barrier providing further separation by having the Partnership approve program allocations and program design while the NCHFA Board of Directors approve specific program awards to properties and projects.

NCHFA has always understood its role was to serve as staff to the Partnership to provide value to the state. NCHFA provides required and requested information in its quarterly meetings and in one-on-one discussions as program issues arise. Each meeting discusses the status and productivity of the programs funded with HTF. Discussions occurring since the last meeting are summarized, and suggested solutions and changes are discussed and then represented in the current or subsequent HTF Memo, which is a standing agenda item. This process has been very efficient and could not be duplicated by another entity that does not have detailed knowledge of affordable housing programs.

In the beginning, the Partnership was instrumental in the promulgation of rules and regulation as well as in setting policy and creating program designs. These original program designs still influence the programs in operation today. The Partnership continues to recommend changes and support new directions. The programs funded with HTF have evolved and changed over time, but no significant change in rules or policy has been necessary in recent years as HTF funding has been consistent.

When new money has been appropriated, the Housing Partnership has been responsive and insightful on how these funds are used as reflected in its response to Hurricane Matthew. The General Assembly appropriated \$20 million as part of the Disaster Recovery Act of 2016 (DRA16) to the Housing Trust Fund on December 14, 2016; the Partnership held a special board meeting on January 6, 2017, to discuss disaster recovery programs and allocate funds. The Partnership held five meetings in 2017, the time frame noted in the report.

The Partnership has provided the oversight envisioned by the General Assembly and enabled North Carolina to flexibly fill funding gaps to meet the needs of our most vulnerable citizens and to quickly address emerging and sudden housing needs, as evidenced by the DRA16 response. We cannot stress enough that changing to a system in which the General Assembly directly appropriates HTF dollars into programs during the annual appropriation process would only serve to make the programs less responsive and reduce the flexibility intended by those that sought to establish the fund. As PED has noted, programs have changed to adapt to the state's housing conditions. The HTF currently receives recurring appropriations so the Partnership and the programs are able to continue to work regardless of how long the budget process might take. In addition, if needs change during the year, the Partnership is able to reallocate funds to the most vital programs. Under the recommendation, this process would stall, negatively impacting thousands of citizens.

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.

NCHFA currently has an engagement letter in place with the Board Counsel. NCHFA's Board of Directors will review the role of Board Counsel as recommended by PED.

As the report indicates, Attorney Steel has served as counsel to NCHFA's Board of Directors since 1992. Attorney Steel is proficient in the laws and procedures governing boards of directors, particularly in conflicts of interests and open meetings. In addition, Attorney Steel's long history with NCHFA has provided a constant source of reliable advice to the Board and its chair, as well as providing outside counsel for NCHFA on other legal matters. During the time Attorney Steel has served as counsel to the board, he was partnered with different law firms. NCHFA did have an engagement letter with a previous firm; however, when Attorney Steel moved his practice to his current firm, Manning Fulton, NCHFA did not have an engagement letter. When PED questioned this as part of its review, NCHFA reached out to Attorney Steel and currently has an engagement letter in place.

Thank you for the opportunity to respond to this report. We will use your recommendations as appropriate to continue effectively and efficiently serving North Carolinians with their affordable housing needs.

Sincerely,



Scott Farmer
Executive Director

Attachment: Addendum

Addendum to Report 2020-06

Statutory History of the Housing Finance Agency

The North Carolina Housing Finance Agency (NCHFA) was originally established by the North Carolina General Assembly in 1969 under the North Carolina Housing Finance Corporation (Act). See, Sess. L. 169, c. 1235. Section 4 of the Act provided that the Housing Finance Corporation was established as a public agency and instrumentality of the State, and its affairs were to be administered by an executive director, subject to the policies, control, and direction of the [board of directors]. Among the powers given to board of directors was the power to hire and pay employees from the corporation's funds.

In 1974, H.B. 1720 substantially revised Chapter 122A. The name of the entity was changed to the North Carolina Housing Finance Agency, and section 18 of the bill placed NCHFA within the Department of the State Treasurer and made it subject to the general supervisions of the Treasurer; however, *approval of the Treasurer was not required* for the exercise by NCHFA of any of its statutory powers.

In 1977, NCHFA was transferred from the Department of the State Treasurer to the North Carolina Department of Natural and Economic Resources under a Type II transfer⁷. Sess. L. 1977, c. 973 at s. 1. A Type II transfer permits an agency to exercise its statutory powers independent of the principal department to which it is transferred.

In the 1981 Session of the General Assembly, Senate Bill 571 transferred NCHFA to the Office of State Budget and Management ***but provided in Section 1 that it was not a Type I or a Type II transfer as that is defined in G.S. §143A-6.*** (emphasis added) The stated purpose of the transfer was to permit NCHFA's board of directors to exercise the powers granted to the Agency by G.S.122A and all management functions of the Agency, as defined by G.S. 143A-6(c) (planning, organizing, staffing, directing, coordinating, reporting and *budgeting*), independently of the direction, supervision or control of the Office of State Budget and Management except for certain management reporting and budgeting functions required under the Executive Budget Act for appropriated funds (emphasis added).

Chapter 122A was amended again in 1985, 1987, 1991 and in 2004. Each of the amendments, one by one, augmented NCHFA's independence by removing the authority of the Advisory Budget Commission, the Governor's Office and General Assembly and placed that authority in the hands of NCHFA's Board of Directors. There is no language in G.S. 122A or other subsequent legislation that directly contradicts this. In fact, the Senate Bill confirms the Agency's independence by clarifying that the broad powers granted to the Agency permit the

⁷ G.S. §143A-6(a) provides that an agency transferred by a Type I transfer to a principal department has all of its prescribed duties, powers, and functions, including but not limited to rule making, regulation, licensing, and promulgations of rules, rates, regulations and standards, and the rendering of findings, orders, and adjudications transferred to the head of the department. Under G.S. §143A-6(b), an agency transferred by a Type II transfer retains the authority to exercise all of its prescribed statutory powers independently of the head of the principal department (to which the agency is transferred). The management function of the agency is, however administered under the direction and supervision of the department.

Agency's Board of Directors to expend funds earned by the Agency in a manner the Board of Directors, in its discretion, deem appropriate within the corporate purposes of the Agency.

This interpretation of NCHFA's independence is further supported by an August 1986 Memorandum of Law from attorney James L. Stuart addressing the legislative history of NCHFA. Mr. Stuart indicates that he participated in the 1981 amendments to the Act, and all subsequent legislation affecting the Agency, and states unequivocally "that the legislative intent underlining the 1981 amendments was to grant complete autonomy to the Agency with regard to its internal budget, expenditures, and personnel matters."⁸

Chapter 122A has always had a specific exemption of NCHFA employees from the State Human Resources Act and has always required NCHFA to pay its employees out of NCHFA funds, not state-appropriated funds.

While Chapter 122A does not specifically state that NCHFA is exempt from the State Budget Act such an interpretation is logical given the statutory history. The stated purpose of the State Budget Act is to establish procedures for preparing the recommended State budget (including funding for operations, salaries, and capital improvements), enacting the State budget and administering the State budget with funds appropriated by the General Assembly. Chapter 122A specifically conferred these functions to NCHFA's Executive Director and Board of Directors⁹.

⁸ Powe, Porter and Alphin Memorandum of Law to Edwin Caldwell, Jr. (then Deputy Executive Director of the Budget), August 18, 1986, Re: NCHFA Budget Process—Legislative History and Statutory Requirements.

⁹ "The Agency shall exercise all of its prescribed statutory powers independently of any principal State Department except as described in this Chapter....The Executive Director shall administer, manage and direct the affairs and business of the Agency, subject to the policies, control and direction of the members of the Agency Board of Directors." N.C.G.S. 122A-4(f)



NORTH CAROLINA GENERAL ASSEMBLY

Legislative Services Office

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John W. Turcotte
Director

June 8, 2020

Senator Brent Jackson, Co-Chair, Joint Legislative Program Evaluation Oversight Committee
Representative Craig Horn, Co-Chair, Joint Legislative Program Evaluation Oversight Committee

Honorable Co-Chairs:

As part of Program Evaluation Division (PED) protocol, agencies have the opportunity to respond to evaluation findings and recommendations; these responses are included as part of PED reports. The North Carolina Housing Finance Agency (NCHFA) disagreed with several of this report's findings and recommendations. Portions of NCHFA's response raised additional issues that warrant clarification.

PED Finding 1. North Carolina Housing Finance Agency's asserted independence from certain state government policies and controls increases the risk of wasteful and unnecessary expenditures.

There are reasons to believe NCHFA is subject to the State Budget Act.

In its response, NCHFA makes several references to the Agency's independence. However, the question being debated in this report is not a general determination of independence or semi-independence but a narrower one of whether the State Budget Act (and, accordingly, the State Budget Manual) applies to the Agency. Without taking a position on this question, it is important to note evidence exists that is contrary to NCHFA's position that it is exempt.

First, Chapter 122A of the North Carolina General Statutes is explicit in its exemption of NCHFA from the State Human Resources Act but does not specifically discuss any exemption from the State Budget Act. Thus, the argument that NCHFA is exempt from the State Budget Act relies on an interpretation of the intent of the General Assembly in Chapter 122A rather than any explicit exemption such as the one that is provided in the case of the State Human Resources Act. Further, Chapter 143C, the State Budget Act, does not provide any exemption and states:

*"The provisions of this Chapter shall apply to every State agency, **unless specifically exempted herein, and to every non-State entity that receives or expends any State funds.** No State agency or non-State entity shall expend any State funds except in accordance with an act of appropriation and the requirements of this Chapter."*
(Emphasis added by PED).

NCHFA is a state agency¹ and is not specifically exempted in the State Budget Act.

The General Assembly need not try to interpret the intent of past Assemblies; instead, it can clarify specifically whether NCHFA is subject to the State Budget Act.

On this matter, the Program Evaluation Division recommends that the General Assembly explicitly make NCHFA subject to the State Budget Act and direct NCHFA to update its policies and procedures to comply with the State

¹ See N.C. Gen. Stat. § G.S. 122A-4 and North Carolina Supreme Court: In Re Denial of Approval to Issue \$30,000,000.00, 307 N.C. 52. (1982)

Budget Manual. There is demonstrated risk of waste or excessive expenditure at NCHFA documented in both this report and in the 2017 and 2019 SIGTARP reports. The State Budget Manual, which all state agencies subject to the State Budget Act must follow, provides controls on expenditures including travel, meals, gym memberships, and gift cards that would help reduce some of this risk.

Audits of NCHFA have not demonstrated that the Agency “maximized outcomes for North Carolina.” Some audits, in fact, took issue with NCHFA practices.

NCHFA contends that third-party audits show an efficient and effective use of resources:

“From 2014 through 2019, NCHFA had 52 third-party audits and reviews, and those audits showed an agency that continuously and successfully invests its limited resources to maximize outcomes for North Carolinians and the state’s economy. We also continue to improve our processes through our internal audit functions.”

This statement mischaracterizes the nature and results of these audits of NCHFA, which PED has reviewed. These audits were limited in scope and none made the type of sweeping claim asserted by NCHFA. In fact, several of the audits were strictly limited to compliance with specific federal program requirements or contracts and were careful to point out that their opinions should not be interpreted as reflective of overall Agency performance or compliance.

For example, in a 2018 *Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and the Uniform Guidance*, the auditor specifically states, “The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance.”

NCHFA also neglects to mention that some of these 52 audits did find issues. For example, a March 2019 compliance review by the U.S. Department of the Treasury’s Office of Financial Stability made four critical observations involving 1) missing board member certifications, 2) untimely lien release, 3) incorrect repurchase amount of DPA loan, and 4) unsupported methodology for allocation of administrative expense.²

NCHFA’s eligibility to receive federal money from the Hardest Hit Fund is not confirmation of NCHFA independence from state fiscal controls.

In its response to PED, NCHFA introduces an argument that its independence was key to receiving \$707 million from the Hardest Hit Fund:

“NCHFA’s longstanding success managing state and federal funds coupled with its classification as an independent entity were key reasons for its selection by the U.S. Department of the Treasury (Treasury) to manage \$707 million in Hardest Hit Funds (HHF) for the NC Foreclosure Prevention Fund (NCFPF) on behalf of the State of North Carolina. Specifically, Treasury required that the eligible entities receiving funds be independent agencies of their states. Discussions with both OSBM and Fiscal Research in 2010 resulted in concurrence that NCHFA was an eligible entity as an independent agency.”

PED wishes to clarify that the issue of independence was not the reason NCHFA was selected to receive funding from the Hardest Hit Fund, and even if NCHFA had not qualified as an eligible entity, the State would still have been eligible to receive funding. As noted by a U.S. Department of the Treasury Hardest Hit Fund overview, “States were selected for funding either because they were struggling with unemployment rates at or above the national average or steep home price declines greater than 20 percent. Each state’s program was designed and is administered by that state’s housing finance agency (HFA).”³ Given this explanation of how Treasury determined

² This audit is different from the SIGTARP audits discussed previously.

³ The U.S. Department of the Treasury. *Hardest Hit Fund: Program Purpose and Overview*. Retrieved April 30, 2020 from <https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/hhf/Pages/default.aspx>

funding recipients, PED does not agree that NCHFA's participation in this program as an eligible entity is material to the narrow question of whether NCHFA is subject to the State Budget Act.

It is also important to note that had NCHFA not participated as an eligible entity, the Agency still could have participated indirectly. Treasury guidelines stated, "The Eligible Entity may be an existing entity or it may be newly-formed for the purpose of implementing the HFA Hardest Hit Fund." Thus, NCHFA could have created a nonprofit it controlled as an eligible entity. For example, the Arizona Department of Housing created the Arizona Home Foreclosure Prevention Funding Corporation (a nonprofit entity), which allowed the State of Arizona to participate in the Hardest Hit Fund. Likewise, the Michigan State Housing Development Authority (MSHDA) created the Michigan Homeowner Assistance Nonprofit Housing Corporation to design and oversee the distribution of Hardest Hit Funds in Michigan.

PED stands behind its characterization of certain NCHFA expenses as contributions to nonprofits; several recipients were already receiving grant funding separately.

In its response to this finding, NCHFA took exception to some expenditures being characterized as contributions to nonprofits:

"We also believe that PED's characterization of certain expenses as being "contributions" to nonprofits is inaccurate. Most of the noted expenses were either membership dues or direct outreach and marketing opportunities for us to effectively reach home ownership partners who in turn connect consumers with our products. This practice provides a significant saving in the costs necessary to make consumers aware of the resources available to them."

The Program Evaluation Division reviewed several acknowledgement letters NCHFA received from organizations to which it made these contributions. In these acknowledgement letters, the organizations themselves often thank NCHFA for their "contributions" and/or "gifts."

In the report, PED contrasted these contributions with grants that have corresponding terms, conditions, and deliverables. Many state agencies, including NCHFA, make grants to nonprofits to support specific objectives. Had these expenditures carried a clear programmatic purpose, they would not have been questioned.

Instead, it is difficult to ascertain a direct programmatic purpose or direct benefit from these contributions, and thus PED does question their necessity, particularly in light of the State's unmet housing need and the fact that several NCHFA programs have more demand than funding available. Several of the contributions went to organizations and constituencies that were already receiving programmatic grant funding, casting doubt on the need for general marketing or outreach. Furthermore, there are many examples of state agencies engaging with nonprofit organizations and conducting outreach in ways that do not necessitate sponsorships. As a large grantor of funding across the state to housing organizations, NCHFA could participate in events or conferences, as other state agencies do, without needing to sponsor the events.

With respect to the contributions that NCHFA argues should be characterized as memberships, PED does not agree. PED recognized a need for NCHFA to participate in certain organizations as a member, and thus only questioned two of the contributions characterized as memberships. As is noted in the report, NCHFA paid \$10,000 per year for a "membership" in the North Carolina Housing Coalition, which significantly exceeds the organization's highest stated membership fee of \$1,000 as stated on its website. NCHFA also contributed \$10,000 a year to the NC Association of Realtors Housing Opportunity Foundation. However, when PED reviewed the organization's publicly available 2016 and 2017 IRS Form 990 filings, they list no membership dues revenue. For example, in 2016 all revenue is listed under the classification of "contributions, gifts, grants, and similar amounts received."

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 Housing Partnership has not promulgated specific rules for any of the current NC Housing Trust Fund-supported programs.

NCHFA states in its response to PED:

“In the beginning, the Partnership was instrumental in the promulgation of rules and regulation as well as in setting policy and creating program designs. These original program designs still influence the programs in operation today. The Partnership continues to recommend changes and support new directions. The programs funded with HTF have evolved and changed over time, but no significant change in rules or policy has been necessary in recent years as HTF funding has been consistent.”

As noted in the report, the Housing Partnership has not promulgated specific rules for any of the current NC Housing Trust Fund-supported programs. Further, the most recent update to Housing Trust Fund rules, which involved the elimination of two rules deemed unnecessary, was performed by action of the NCHFA board in 2017, not by the Housing Partnership, which has the statutory authority. Policies for each of the programs supported by the Housing Trust Fund have continued to evolve and change as NCHFA updates them. If the Housing Partnership has recommended changes and supported new directions, it has not done so through any formal process of either issuing rules or formally adopting, amending, or approving policies. If the General Assembly transitioned the Housing Partnership to an advisory board, it could continue to provide informal advice or guidance to NCHFA.

NCHFA also argues in favor of the flexibility of the Housing Partnership.

“The Partnership has provided the oversight envisioned by the General Assembly and enabled North Carolina to flexibly fill funding gaps to meet the needs of our most vulnerable citizens and to quickly address emerging and sudden housing needs, as evidenced by the [Disaster Recovery Act of 2016] response.”

As discussed in the report, evidence of strong oversight by the Housing Partnership is lacking. The structure of the Partnership is not conducive to strong oversight, as it is housed within NCHFA, relies upon NCHFA staff for its administration, and includes NCHFA’s executive director as a voting member. In the example provided above of the Housing Partnership acting quickly to address housing needs in response to Hurricane Matthew, the General Assembly first appropriated the funds, which were then allocated by the Housing Partnership. If the General Assembly appropriated funds directly to NCHFA programs, as the Program Evaluation Division recommends, the process in the case of another disaster would be straightforward—the General Assembly would appropriate funds directly to NCHFA for disaster relief. The further step of having the Housing Partnership allocate funds would not exist.

PED’s recommendation that housing programs be funded through appropriations from the Housing Trust Fund would make the process of appropriating funding to housing programs similar to the process of appropriating funding to the myriad other state programs that are funded through the appropriations process.

In summary, the Program Evaluation Division recommends NCHFA be subject to the State Budget Act because requiring NCHFA to follow state policies governing expenditures as outlined in the State Budget Manual would reduce the risk of waste at NCHFA. With respect to the NC Housing Partnership, PED does not see evidence of strong oversight or independence from NCHFA in its allocation of funding from the Housing Trust Fund.

Sincerely,



John W. Turcotte
Director
Program Evaluation Division
Legislative Services Office

April 10, 2020

Mr. John W. Turcotte, Director
Program Evaluation Division
300 N. Salisbury Street, Suite 100
Raleigh, NC 27603-5925

Dear Mr. Turcotte:

I appreciate your time and effort with this endeavor and thank you for the opportunity to comment on Program Evaluation Division's Report No. 2020-05, specifically Recommendation 3, which states, "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."

The Housing Partnership Board has operated efficiently for many years. We believed there was no need to hire staff and create another layer of review with redundant rules and regulations. The NCHFA is staffed with experts who understand the daily process, requirements and guidelines for operating the agency and the funding it manages that benefits our communities.

The Board is selected based upon the criteria identified but more important, it includes individuals who have a keen sense of the practical needs and operations of the coordination between communities and state programs. A board of individuals without the expertise needed to properly advise NCHFA on the best use of program funds could damage the efficiency and effectiveness of operations. I believe you agree this is true since your thought is to instead have an advisory board. An advisory board should never consist of non-subject matter experts or members that do not have specific skills to support or guide an entity. In addition, the state benefits greatly from having a "volunteer" board who are not adequately compensated (\$15 per diem) for the benefits they deliver. The time away from their own employment and mission is a sacrifice, both monetary and in time lost, that many will not offer to fulfill for the state.

While an advisory board would need to include individuals with subject matter expertise, it would not be effective in managing the Housing Trust Fund because it would lack the authority that the NC Housing Partnership Board currently has. Remaining a board enables us to still act independently with expertise and authority.

Having the General Assembly directly appropriate funds is also not an ideal situation and could lead to the breakdown of an efficient process to get funding to those in need. If this suggestion was expanded to all other state functions then the GA would have no time left to govern but would become an accounting process with dubious outcomes.

Sincerely,

Brian Coyle,
Chair, NC Housing Partnership

cc: