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

Final Report to the Joint Legislative
Program Evaluation Oversight Committee

Report Number 2020-05

June 8, 2020

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Director

June 8, 2020

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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 first in a three-part series on the efficiency and effectiveness of NCHFA. This report focuses on issues related to the overall effectiveness of NCHFA, including how NCHFA allocates resources throughout the state and how NCHFA manages performance.

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

Sincerely,

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. 2020-05

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

Highlights

IN BRIEF: The North Carolina Housing Finance Agency (NCHFA) manages 16 programs and partners with the Department of Health and Human Services on 5 additional programs to address a range of housing needs for low- and moderate-income households. NCHFA uses a local partner funding model for some of these programs, which contributes to uneven implementation across the state. Beyond this programmatic issue, NCHFA has a limited strategic planning process and performance management system, hampering evaluation of the Agency's programs. NCHFA is required to report to the General Assembly on several topics, but the required reports are incomplete and could be improved to provide more instructive information.

BACKGROUND: The General Assembly established the North Carolina Housing Finance Agency in 1973. NCHFA initially focused on issuing tax-exempt bonds to finance rental housing development and mortgages for low-income and moderate-income households. Since then, NCHFA has grown to include programs concentrated on affordable rental development, home ownership, repair and rehabilitation, foreclosure prevention, and programs administered in partnership with DHHS. It is important to ensure all of the Agency's programs are operating effectively and efficiently and are serving NCHFA's mission.

NCHFA's local partner program funding model contributes to uneven local implementation of certain programs.

Implementation of four NCHFA programs (Community Partners Loan Pool, Self-Help Loan Pool, Urgent Repair Program, and Essential Single-Family Rehabilitation Loan Pool) relies on local partner organizations such as regional councils of government, cities, counties, and nonprofits. However, not every county has a local partner for every program. Further, some local partners struggle to cover administrative costs of certain programs that are not paid with grant funds from NCHFA. As a result, program implementation is uneven; several counties lack local partners or have limited program operations.

Recommendation: The General Assembly should direct NCHFA to examine modifications to community partner programs that will ensure program activity in counties throughout the state, particularly those with fewer local resources to operate programs.

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

NCHFA completed a strategic plan in November 2018. However, the plan is limited because it lacks detailed programmatic goals and objectives, which are essential for accountability. Partly due to the inadequacy of its strategic plan, NCHFA's performance management system also is lacking. NCHFA cannot objectively gauge the success of its programs because the Agency fails to track program outcomes and set program objectives. Proper strategic planning and an effective performance management system would provide a means for stakeholders, including the General Assembly, to assess the effectiveness of NCHFA.

Recommendation: The General Assembly should direct NCHFA to develop a strategic plan every three to five years and implement a performance management system that includes measurable annual objectives for each NCHFA program and performance measures that include outcomes. NCHFA should contract with an independent expert with strategic planning experience to assist in the development of its next strategic plan.

Required reporting to the General Assembly is incomplete and fails to provide sufficient information for legislative oversight.

The Program Evaluation Division reviewed seven reporting requirements that NCHFA must meet on a yearly or twice-yearly basis. Currently, NCHFA is fully meeting requirements for two of these seven reports. Other reports are either not being submitted or are incomplete due to a lack of data or context. Consolidating the seven reports into one comprehensive report that contains detailed performance and financial data would ease the reporting burden on NCHFA and improve the quality of reported information.

Recommendation: The General Assembly should eliminate reporting requirements that are no longer relevant and consolidate all other reports into a comprehensive annual report that is submitted to the Joint Legislative Commission on Governmental Operations, Joint Legislative Oversight Committee on General Government, Fiscal Research Division, Office of State Budget and Management, and Local Government Commission by October 1 of each year.

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 first in a three-part series on the efficiency and effectiveness of NCHFA. This report focuses on issues related to the overall effectiveness of NCHFA, including how NCHFA allocates resources throughout the state and how NCHFA manages performance.

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

- statutes and regulations,
- NCHFA programmatic data,
- audited financial statements,
- NCHFA financial data and budgets,
- NCHFA's strategic plan, and
- interviews with NCHFA staff and executive leadership, housing experts, NCHFA local partners throughout the state, and stakeholders.

Background

The mission of the North Carolina Housing Finance Agency is to create affordable housing for North Carolinians whose needs are not met by the market. NCHFA was established in 1973. Its early activities included financing mortgages and rental housing development by issuing tax-exempt bonds. Since then, the number of NCHFA programs has grown. NCHFA now works to achieve its mission not only through several homeownership programs and rental development programs but also through repair and rehabilitation programs for low-income homeowners, foreclosure prevention programs, and housing programs for people with disabilities.

The Program Evaluation Division identified 16 Agency programs across five areas and an additional 5 DHHS partner programs. These programs are summarized in Exhibit 1.

Exhibit 1: NCHFA Oversaw 16 Programs Across Five Areas and Partnered with DHHS on Another 5 Programs in 2019

Program Area	Program Names	2019 Budgeted Program Amount
Homeownership Programs	NC Home Advantage Mortgage, including Down Payment Assistance options	Funded based on production with mortgage revenue bonds and mortgage-backed securities
	NC Home Advantage Tax Credit	N/A
	Community Partners Loan Pool	$10,000,000
	Self-Help Loan Pool	$10,000,000
Repair and Rehabilitation Programs	Essential Single-Family Rehabilitation Loan Pool	$8,000,000
	Urgent Repair Program	$4,500,000
	Displacement Prevention Partnership	$2,250,000
Foreclosure Prevention Programs	NC Foreclosure Prevention Fund	$15,000,000
	State Home Foreclosure Prevention Project	$1,182,500
Rental Development Programs	Low-Income Housing Tax Credits	N/A
	Workforce Housing Loan Program	$21,000,000
	Rental Production Program, including Disaster Recovery	$31,334,000
	Carryover Loan Program	$10,000,000
Other Programs	Supportive Housing Development Program	$2,500,000
	Landlord Incentive Pilot Program	Initial funding of $100,000 provided in previous year
	Construction Training Partnership	$130,000
DHHS Partner Programs	Integrated Supportive Housing Program	$2,500,000
	Key Rental Assistance	$15,000,000
	Transitions to Community Living Voucher	$10,000,000
	Back@Home	$10,000,000
	NC Housing Search	N/A

Notes: This list varies from the list of programs provided by NCHFA, which includes the Targeting requirement as a separate program and does not include the Carryover Loan Program. PED considers NCHFA's Targeting requirement to be a part of the Low-Income Housing Tax Credit program. NC Home Advantage Tax Credits and Low-Income Housing Tax Credit programs award federal tax credits, not dollars. The Essential Single-Family Rehabilitation Loan Pool had a special pool of funds for Hurricane Matthew that was fully awarded prior to 2019. The NC Foreclosure Prevention Fund stopped accepting applications in 2019 and program funding is winding down. Also in 2019, the Rental Production Program included $10 million in one-time funding for Hurricane Florence disaster recovery. NCHFA also administers a legacy program not listed above, the Multi-Family Rental Assistance Fund. In 2019, this program provided rental assistance to two properties that had been financed under an old U.S. Department of Agriculture program, the Farmer's Home Administration Section 515 program.

Source: Program Evaluation Division based on NCHFA program data and 2019 program allocation budget data.

NCHFA's mortgage programs each serve different consumer needs. As shown in Exhibit 2, NCHFA administers several different mortgage programs and associated down payment assistance offerings to meet the needs of eligible home buyers throughout the state.

Exhibit 2

NCHFA's Mortgage Programs Assist Different Types of Home Buyers and Needs

Program	Eligibility	Assistance Provided
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	First-time homebuyers, veterans, or homebuyers purchasing in Qualified Census Tracts using the NC Home Advantage Mortgage program	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
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. This financing is combined with Self-Help Loan Pool member financing to create a single, interest-free amortizing loan with a 20-to-33-year term
Community Partners Loan Pool	Home buyers earning up to 80% of area median income who meet program lending standards	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

Source: Program Evaluation Division based on NCHFA program data.

- **The Home Advantage Mortgage** and associated down payment assistance programs are administered through a network of lenders in the State that make Home Advantage mortgages according to NCHFA program guidelines. NCHFA has contracted with a master servicer that purchases the loans from the lenders and converts them into mortgage-backed securities, which are either sold to private investors or held by NCHFA when its mortgage revenue bonds are the funding source. NCHFA also offers down payment assistance to help prospective home buyers who meet income requirements but do not have sufficient funds for a down payment. NCHFA believes its down payment assistance options are a major factor in attracting lenders to offer NCHFA mortgage products because few, if any, other organizations offer such assistance.

- **The NC Home Advantage Tax Credit** is a federal tax credit known as a mortgage credit certificate for first-time home buyers and veterans who qualify. The credit reduces federal tax liability by up to 30% of the mortgage interest for existing homes or up to 50% of mortgage interest for new construction. The maximum annual credit is $2,000. NCHFA issues the credits for mortgages originated through its network of participating lenders.

NCHFA has two loan pool programs which support homeownership for low-income households through local partnerships. The Community Partners Loan Pool and Self-Help Loan Pool both offer financing through loan pool members.

- **The Community Partners Loan Pool** is a down payment assistance program for low-income and moderate-income home buyers. The partners for this loan pool may be nonprofits or local governments. Community partners ensure that home buyers receive mandatory home buyer education and counseling.
- **The Self-Help Loan Pool** offers interest-free mortgages through nonprofits that build or rehabilitate homes using a self-help model. There are 64 participating Habitat for Humanity affiliates that select home buyers and ensure that participants receive home buyer education and counseling. In 2020, NCHFA updated the Self-Help Loan Pool to encourage partner organizations to work in counties NCHFA had designated as underserved and increased the loan amount that partners can receive in those counties from $35,000 to $50,000 for up to three loans.

NCHFA helps current homeowners through its repair and rehabilitation programs. As shown in Exhibit 3, all three repair and rehabilitation programs work through partner organizations.

Exhibit 3

NCHFA's Repair and Rehabilitation Programs

Program	Eligibility	Assistance Provided
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 homeowner 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

Source: Program Evaluation Division based on NCHFA program data.

The Urgent Repair Program and Essential Single-Family Loan Pool are open to local governments, nonprofits, and regional councils. Interested organizations apply to NCHFA for funding and administer the program locally. The organizations then oversee repairs to homes for eligible homeowners.

Although the two programs have a similar structure and share a focus on home repair, they meet different needs in the community.

- **The Essential Single-Family Loan Pool** will pay up to $30,000 and seeks to bring homes up to a minimum property standard. Homes repaired through the Essential Single-Family Loan Pool must meet federal standards, as the program is funded through federal HOME funds.
- **The Urgent Repair Program** makes repairs to address specific urgent home needs that threaten health and safety without regard to whether the entire house will meet local, state, or federal housing quality standards. The goals of this program are to alleviate housing conditions that pose an imminent threat to the life or safety of very low-income homeowners with special needs, such as frail elderly homeowners or persons with disabilities, and also to provide accessibility modifications and other repairs necessary to prevent displacement of these homeowners. NCHFA funds the Urgent Repair Program through the NC Housing Trust Fund.
- **The Displacement Prevention Partnership** is also funded through the NC Housing Trust Fund but focuses solely on accessibility modifications rather than repairs or rehabilitation. The goal of the program is to provide repairs and modification to improve home accessibility for people with mobility issues. The program offers assistance through DHHS's Independent Living Rehabilitation Program and funds may be used for accessibility modifications such as constructing wheelchair ramps or widening doorways.

The Housing Finance Agency has two foreclosure prevention programs, both of which help current homeowners regardless of income level. Exhibit 4 details the two foreclosure prevention programs. As in the case of NCHFA's repair programs, the two foreclosure prevention programs share a common goal but serve different needs in the community.

Exhibit 4

NCHFA's Foreclosure Prevention Programs

Program	Eligibility	Assistance Provided
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
NC Foreclosure Prevention Fund (stopped accepting new applications in July 2019)	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

Source: Program Evaluation Division based on NCHFA program data.

- **The State Home Foreclosure Prevention Project** was created by the General Assembly in 2008 and is open to all homeowners who have received a 45-day foreclosure filing notice, regardless of income. The program provides these individuals with access to free counseling and legal services with the goal of preventing foreclosure.
- **The North Carolina Foreclosure Prevention Fund** consisted of a series of programs aimed at foreclosure prevention but stopped accepting new applications in July 2019. Funded with federal Hardest Hit Fund dollars, programs in the Fund helped homeowners affected by the Great Recession make mortgage payments while looking for new employment or restructure mortgages for a more affordable payment on a reduced income. Unlike the State Home Foreclosure Prevention Project, which offers only access to counseling and legal services, the Foreclosure Prevention Fund offered direct financial assistance to eligible homeowners.

In addition to helping homeowners and prospective home buyers, NCHFA helps low- and moderate-income renters through its rental development programs. Exhibit 5 details these programs. The central program is the Low-Income Housing Tax Credit program (LIHTC), an important source of affordable rental housing in the United States. LIHTC has produced over 2 million units of affordable rental housing across the country since its inception in 1987, and in recent years has provided funding for about one-third of all new multi-family rental housing in the U.S.

Exhibit 5

NCHFA's Rental Production Programs

Program	Eligibility	Assistance Provided
Housing Credits	Rental developers who apply through the State's Qualified Allocation Plan	Federal Low-Income Housing Tax Credits which reduce investors' tax liability by roughly 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	Rental developers who apply through the State's Qualified Allocation Plan; funds are allocated alongside housing credits	Up to $800,000 in amortizing or deferred loans with an interest 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

Source: Program Evaluation Division based on NCHFA program data.

- **The Low-Income Housing Tax Credit Program** provides two types of credits—9% credits and 4% credits. The 9% credits are awarded competitively through the State's Qualified Allocation Plan (QAP), an annual document that details the selection criteria and application requirements for housing credits. These credits provide a subsidy equal to 70% of a project's qualified basis over 10 years. Developers must also follow the Qualified Allocation Plan for the 4% credits, but these credits are not as competitive as the 9% credits and in fact their supply has always exceeded demand. The 4% credits provide a subsidy equal to 30% of a project's qualified basis and are combined with tax-exempt bond financing.

The Housing Finance Agency has three loan programs to supplement tax credit financing.

- **The Workforce Housing Loan Program** is a statutory program funded through state appropriations.[1] This program helps further subsidize Low-Income Housing Tax Credit projects by providing interest-free loans. According to NCHFA, this is particularly necessary in low-income and moderate-income counties, where the rents that developers can charge with Low-Income Housing Tax Credits are much lower than what they could charge in high-income counties. Projects in high-income counties may receive up to $250,000, whereas projects in moderate-income counties may receive up to $1.5 million and projects in low-income counties may receive up to $2 million. By statute, NCHFA designates counties as low-, moderate-, or high-income. Currently, NCHFA primarily bases these designations on a county's median family income according to the U.S. Department of Housing and Urban

[1] There was no General Assembly appropriation to the Workforce Housing Loan Program in 2019; as a result, there was no Workforce Housing Loan Program availability in the 2020 Low-Income Housing Tax Credit allocation cycle.

Development. In 2019, NCHFA awarded $21.2 million in Workforce Housing Loan Program funds.

- **The Rental Production Program** is another NCHFA gap financing program for Low-Income Housing Tax Credit projects. Like the Workforce Housing Loan Program, Rental Production Program loans are awarded through the Qualified Allocation Plan. The program is funded with a combination of federal and state HOME funds and Housing Trust Fund dollars. NCHFA awarded $15.9 million in Rental Production Program funds in 2019.
- **The Carryover Loan Program** provides a bridge loan for land acquisition for 9% tax credit developments. The maximum loan is the lesser of $1 million or 95% of the project's land cost. Developers who are awarded tax credits may access loan funds through this program.

The Housing Finance Agency and state Department of Health and Human Services (DHHS) partner to provide housing assistance through five programs. Several of these programs leverage the Low-Income Housing Tax Credit program and are important to the State's compliance with the terms of the *Olmstead* settlement. Exhibit 6 outlines these partner programs.

Exhibit 6

NCHFA and DHHS Partner Programs

Program	Eligibility	Assistance Provided
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, which is set by the state, and 25% of the tenant's income
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
Transitions to Community Living Voucher	Households who are part of the State's *Olmstead* settlement class	Pays the landlord the difference between the rent and the greater of $100 or 25% of the tenant's income
NC Housing Search	All households	Website with search features for households seeking affordable housing
Back@Home	Households impacted by Hurricane Florence that 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

Note: NCHFA includes the Targeting requirement as a DHHS partner program. The Program Evaluation Division classifies the Targeting requirement as part of the Low-Income Housing Tax Credit Program.

Source: Program Evaluation Division based on NCHFA program data.

The Integrated Supportive Housing Program, Key Rental Assistance, Transitions to Community Living Voucher program, and NC Housing Search website are all part of the State's plan for complying with the terms of the *Olmstead* settlement. The *Olmstead* settlement between the federal government and the State of North Carolina requires the State to develop and implement measures to prevent the unnecessary institutionalization of individuals with serious mental illness or serious and persistent mental illness. Per the settlement agreement, North Carolina must provide housing to at least 3,000 individuals by July 1, 2020.

NCHFA leverages the Low-Income Housing Tax Credit program to create housing for people with disabilities, including members of the state's *Olmstead* settlement class.

- **Key Rental Assistance** is a program that provides a subsidy to families living in Targeting units. One of the requirements for Low-Income Housing Tax Credit projects is that developers set aside at least 10%, and no more than 20%, of units as Targeting units for persons with disabilities.
- **The Integrated Supportive Housing Program** builds on the Targeting requirement and requires developers to set aside the full 20% of units for people with disabilities. In return, developers are eligible for supplemental financing. The units set aside through this program are intended for tenants referred by local management entities/managed care organizations who earn less than 50% of area median income.
- **The Transitions to Community Living Voucher program** provides rental assistance to members of the state's *Olmstead* settlement class, with the goal of helping them live in integrated community settings. NCHFA administers these vouchers for DHHS, which can be used in any rental housing, not just Targeting units.
- **NC Housing Search** is a website that contributes to the Olmstead settlement by making it easier for households to find housing that meets their needs. This free website lets families search for housing and includes filters for housing vouchers and senior/disability housing, allowing households with those needs to more easily find suitable housing.
- **Back@Home** is a program to rapidly re-house individuals and families affected by Hurricane Florence that had no clear path to housing. The program provides assistance to find and move into housing as well as short-term rental assistance in some cases. The program is winding down, but with the intent that it could be used in the event of a future natural disaster. Rehousing agencies provided direct services, but NCHFA developed the system for administering reimbursement, served as the fiscal agent, and coordinated housing inspections.

NCHFA supports renters, rental development, and workforce development through its remaining programs. These three miscellaneous programs are detailed in Exhibit 7.

Exhibit 7

NCHFA's Other Programs

Program	Eligibility	Assistance Provided
Supportive Housing Development Program	Local governments, 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 that 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

Source: Program Evaluation Division based on NCHFA program data.

- **The Supportive Housing Development Program** finances the construction of supportive housing primarily by local governments, nonprofits, or regional governmental organizations. The program provides loans with terms of 20 to 30 years and units must be affordable to households earning up to 50% of area median income. Supportive Housing Development Program projects are typically smaller than housing projects funded through the Low-Income Housing Tax Credit.
- **The Landlord Incentive Pilot Program** is based on the risk mitigation tools in the Key Rental Assistance Program and the Transitions to Community Living Voucher program. The program is intended to encourage landlords to take on tenants perceived to be higher risk, such as people experiencing homelessness.
- **The Construction Training Partnership** is a workforce development program administered by the NC Home Builders Association that partners with cities. Through this program, the Home Builders Association provides training in construction trades for people experiencing unemployment. In recent years, the NC Home Builders Association has received funding from Burlington and High Point to administer and teach the classes, which include working on a rehabilitation or construction project in the city. NCHFA funds go to the cities for hard costs associated with these projects.

In addition to these programs, NCHFA administers the federal project-based Section 8 rental assistance program for the US Department of Housing and Urban Development. NCHFA contracts out these duties to a third party. As NCHFA's role is solely administrative, project-based Section 8 is not considered an NCHFA program.

The Housing Finance Agency's programs are important for addressing the need for affordable housing in the State. Need in housing is commonly measured by examining what percentage of income households pay to meet their housing needs. Households paying more than 30% but less than or equal to 50% of their income on housing are considered cost burdened; households paying more than 50% are considered severely cost burdened. Data from 2012 to 2016 show that in that period, 15.8%

of North Carolina households were cost burdened and 13% were severely cost burdened. When considering renters alone, the number of severely cost burdened households in North Carolina increases to over 20%.

As NCHFA has continued to grow, it has become increasingly important for the Agency to monitor its program outcomes and maintain a strategic focus. Since its establishment, NCHFA has grown to tackle not just affordable homeownership but foreclosure prevention, low-income rental development, and housing repair and rehabilitation. The Agency manages millions of dollars in state and federal resources. However, need continues to be greater than the resources available to meet it. As a result, it is essential that NCHFA strategically addresses housing need in the state and monitors program outcomes to ensure government resources are being spent effectively and efficiently.

Findings

Finding 1. The North Carolina Housing Finance Agency's local partner funding model does not consider differences in local capacity, contributing to uneven local implementation of certain programs.

To summarize the finding below, NCHFA provides funding to local partners such as local governments or nonprofit organizations to implement certain community programs including the Community Partners Loan Pool, Self-Help Loan Pool, Urgent Repair Program, and Essential Single-Family Rehabilitation Loan Pool. Many of these local partners find that administrative costs exceed the funding provided by NCHFA, which can prevent partners from seeking to participate in administering NCHFA programs. In addition, there are differences in organizational capacity across partners, which range in size from small nonprofit organizations to larger local or regional governmental entities. Differences in local administrative capacity and financial resources of local partners contributes to the uneven implementation of programs.

The Community Partners Loan Pool, Self-Help Loan Pool, Urgent Repair Program, and Essential Single-Family Rehabilitation Loan Pool are all implemented by local partners. These nonprofit or government partners apply to NCHFA to administer each program for a certain geographical area, such as a county or several counties. Local partners need to have a high level of organizational capacity to implement programs. In the case of the Community Partners Loan Pool and Self-Help Loan Pool, members have to

- perform outreach in their service area,
- determine eligibility for the program,
- ensure participants complete home buyer education,
- assemble all loan documentation required,
- review property condition, and
- facilitate communication among a large number of involved parties.

In the case of the Urgent Repair Program and Essential Single-Family Rehabilitation Loan Pool program administration means

- establishing a system for selecting applicants that meets the program's criteria,

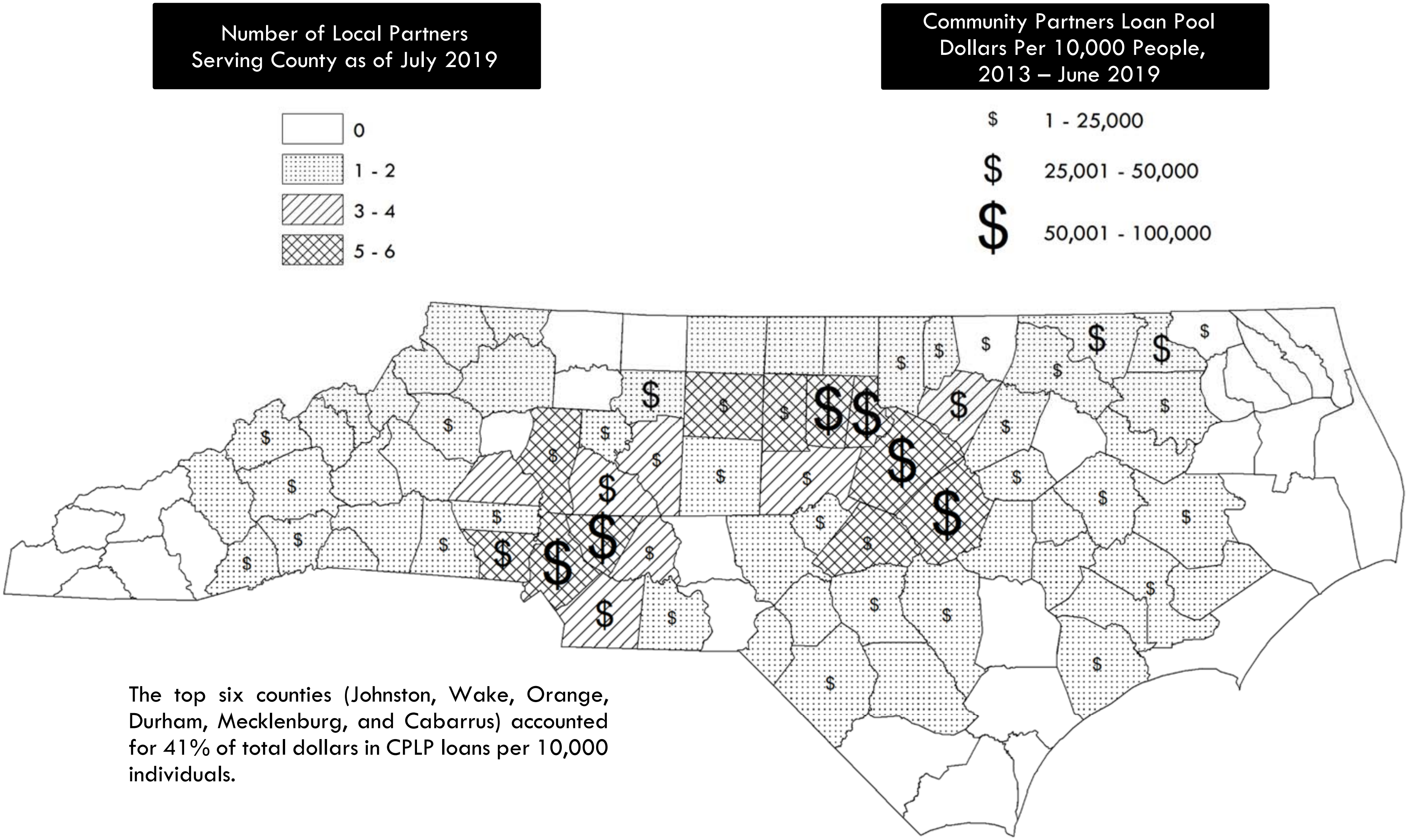
- assessing homes for repair,
- procuring services and materials,
- overseeing repair work by contractors and ensuring work is done to repair program standards including a final inspection,
- accounting for all funds,
- maintaining records such as financial records and case files,
- conducting project reporting to NCHFA, and
- properly closing out the grant.

Access to certain programs is dependent on the capacity of local partners. Residents within a given county can access the community programs only if there is an established local partner to administer the program. Otherwise, regardless of need, residents of some counties do not have access to certain programs. Even with the presence of local partners, however, program activity can sometimes be limited.

The Community Partners Loan Pool (CPLP) provides an example of how program implementation can vary across the state. CPLP provides down payment assistance in the form of interest-free, deferred second mortgages to home buyers earning up to 80% of area median income who meet the established program lending standards. The Program Evaluation Division reviewed expenditure data from CPLP's inception in 2013 through June 30, 2019. During this time, partners made loans in just 46 of North Carolina's 100 counties. Part of the explanation for this uneven implementation is that CPLP local partners were only present in 70 counties during this time, though some counties with two or more local partners (e.g. Catawba, Lenoir, Martin) nonetheless had no CPLP loans during the timeframe.

Among the counties where partners made loans, activity was highly varied. Even after accounting for differences in population (higher population counties would be expected to have more loans), the top six counties accounted for 41% of the total dollars in CPLP loans made per 10,000 individuals. These counties, in order of highest to lowest dollar amounts were Johnston, Wake, Orange, Durham, Mecklenburg, and Cabarrus. Heavily shaded counties in the map in Exhibit 8 have as many as six local CPLP partners, whereas unshaded counties have no CPLP partners. Larger dollar signs ($) indicate counties with greater total loan amounts per 10,000 individuals.

Exhibit 8: Community Partners Loan Pool Activity is Concentrated in a Handful of Counties; Some Counties Did Not Have Any Local Partners Offering Loans



The top six counties (Johnston, Wake, Orange, Durham, Mecklenburg, and Cabarrus) accounted for 41% of total dollars in CPLP loans per 10,000 individuals.

Source: Program Evaluation Division based on July 2019 NCHFA CPLP partners list and CPLP funding data from 2013 to June 30, 2019.

Uneven implementation is not a problem exclusive to the Community Partners Loan Pool. Exhibit 9 shows that for all four of the local partner-involved programs, there were counties without activity.

Exhibit 9

Several Counties Had Zero Program Dollars Distributed Over a 10-Year Period

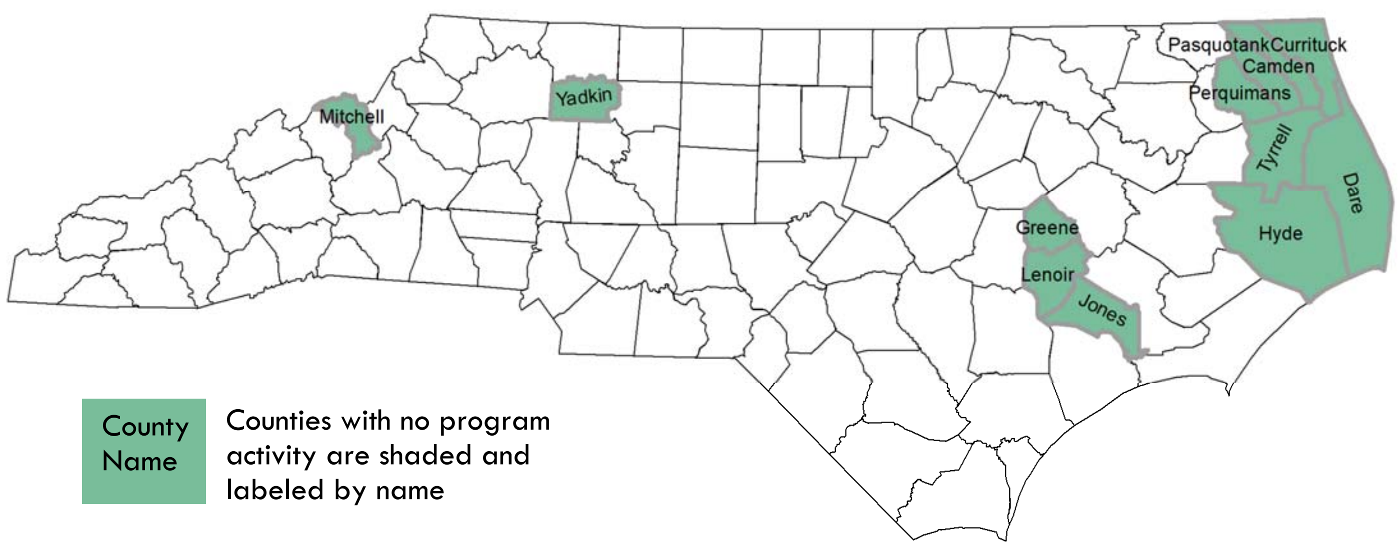
Program Name	Counties with $0 Distributed
Community Partners Loan Pool	54
Self-Help Loan Pool	41
Urgent Repair Program	12
Essential Single-Family Rehabilitation Loan Pool	9

Notes: The 10-year period varies slightly by program based on data availability. Self-Help Loan Pool data is 2009-2018 and Urgent Repair Program data is 2008-2017. Essential Single-Family Rehabilitation Loan Pool data is 2009-2018 but the program did not distribute any dollars in 2009 and 2010. The Community Partners Loan Pool started in 2013, so the program has not yet been in existence for 10 years and therefore data is based on six and a half years (2013- June 30, 2019).

Source: Program Evaluation Division based on NCHFA program data.

As an additional example, the map in Exhibit 10 shows counties with no Urgent Repair Program activity from 2008 to 2017. Counties with no activity are named and shaded.

Exhibit 10: Twelve Counties Had No Urgent Repair Program Activity from 2008-2017



Source: Program Evaluation Division based on Urgent Repair Program data from NCHFA, 2008-2017.

The financial structure of programs is one reason why some areas do not have much activity. Exhibit 11 details how local partners are compensated for each of the four programs. Several local partners stated that NCHFA's program model required partners to pay for some portion of the administrative costs of programs with their own funds. One local partner stated more bluntly that the Urgent Repair Program is, "designed to lose money" for the local partners implementing the program. As an example, a partner using the Urgent Repair Program noted having to administer application processes and assess potentially hundreds of homes to determine whether they fit within the parameters of the program, yet only earning a small fee for the actual homes the partner repairs. NCHFA considers this model to be an example of leveraging local funding sources, though the Agency also acknowledges that some partners have difficulty finding operating funding sources outside of NCHFA programs. From an efficiency perspective, this approach allows NCHFA to keep costs low per repair project or loan because local partners may be covering some portion of administrative costs, but it also affects which local partners are willing or able to operate these programs.

Exhibit 11

NCHFA Programs Provide Some Funding to Local Partners to Operate but None Directly Cover Administrative Costs

Program Name	Funding to Local Partner
Community Partners Loan Pool	$2,000 fee for home buyer readiness services provided, including home ownership education and pre-purchase counseling as well as submitting the application. Local partners also can earn between $4,000 and $6,000 for homes built or rehabilitated to the NCHFA SystemVision standard and $1,000 if the home meets a recognized green building standard.
Self-Help Loan Pool	$1,500 home buyer preparation and documentation fee. Local partners can also earn between $4,000 and $6,000 for homes built or rehabilitated to the NCHFA System Vision standard and $1,000 if the home meets a recognized green building standard.
Urgent Repair Program	Minimum of $200 and maximum of $1,000 per URP-assisted units. The amount varies based on the total "hard cost" of the repair.
Essential Single-Family Rehabilitation Loan Pool	"Soft costs" are paid on a unit-by-unit basis and cannot exceed $10,000 per project. These costs may include outreach and advertising, environmental review, asbestos testing/clearance, radon testing, lead-based paint inspection/risk assessment and clearance, loan document execution, pre-rehab inspection, work write-ups, cost estimates, project construction management, flood insurance, and post-rehab value certification. No funds may be used for administrative expenses.

Source: Program Evaluation Division based on 2020 CPLP Participation Guidelines, 2020 SHLP Participation Guidelines, 2020 URP Administrator's Manual, and 2019 ESFRLP Administrator's manual.

One challenge in leveraging local funds to cover administrative costs is that not all nonprofits and local governments are equally resourced. One former partner in eastern North Carolina cited unmanageable administrative costs as a reason for discontinuing program participation. Another partner in eastern North Carolina stated, "The key thing to keep in mind with all the [NCHFA] programs is making sure there are adequate administrative dollars." In the partner's view, rural parts of the state face greater constraints in administering NCHFA programs.

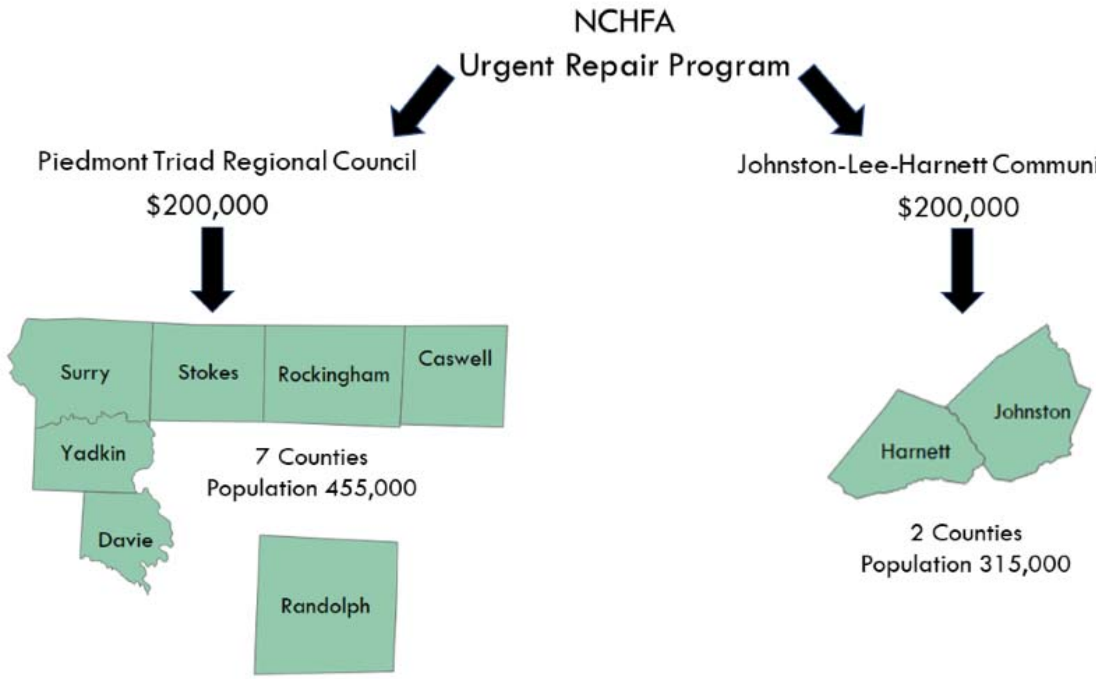
Data on program activity show certain areas of the state that are more rural and/or economically distressed experience less participation in certain programs. For example, as previously shown in Exhibit 8, broad swaths of eastern North Carolina counties and far western counties have experienced no Community Partners Loan Pool activity. A similar trend exists for the Self-Help Loan Pool. Further, 10 eastern NC counties had no Urgent Repair Program projects from 2008 to 2017. Rural areas may lack the institutional infrastructure or local tax base needed to support the programs and contribute administrative funds.

Beyond administrative costs, other local partners cited additional issues or concerns that may limit program participation. With the Essential Single-Family Rehabilitation Loan Pool, which requires that homes be rehabilitated to a minimum standard but limits repair costs per home to $30,000, there is a fear among local partners of "getting stuck" in a project. Local partners are concerned that once repairs begin, they may discover that a home cannot be brought up to the minimum standard without spending thousands of dollars beyond the $30,000 maximum. Other NCHFA partners mentioned challenges with hiring contractors for repair programs, particularly with respect to competitive bidding requirements in a tight labor market. Partners that serve both rural and urban areas for the repair programs noted an acute shortage of contractors and competition to keep contractors.

Some of the repair programs appear to function better at scale. For example, Piedmont Triad Regional Council has a robust rehabilitation program infrastructure, serving 14 counties with the Essential Single-Family Rehabilitation Loan Pool and 7 counties with the Urgent Repair Program. Serving a large number of counties means administrative processes can be scaled, and with more frequent projects, networks of contractors can be established and maintained. Because of its program infrastructure, Piedmont Triad Regional Council has been able to provide the Essential Single-Family Rehabilitation Loan Pool in Person, Ashe, and Wilkes Counties, which are outside of its regional council service area but needed an entity to operate the program.

An Urgent Repair Program funding policy acts as a disincentive for local partners wishing to operate the program at scale to help underserved areas. With the Urgent Repair Program, a partner can receive a maximum funding amount of $200,000 for serving two or more counties. However, serving more than two counties does not increase Urgent Repair Program funding. Some Urgent Repair Program partners such as Piedmont Triad Regional Council serve several counties but receive no more program resources than other partners that serve exactly two counties. NCHFA argues that this cap helps the Agency serve a larger geographic service area, but as shown in Exhibit 12, this funding structure can lead to inequities in dollars distributed across counties. It also disincentivizes capable local partners already serving two counties from serving additional counties because they would receive no additional funding beyond the $200,000 cap. As previously mentioned, 10 counties had no program activity from 2008 to 2017, suggesting a need for partners that could serve these counties.

Exhibit 12: Funding Distributed to Local Partners with A $200,000 Cap Leads to Inequities in Urgent Repair Program Funding



Note: Population is based on American Community Survey five-year estimates, 2013-2017.

Source: Program Evaluation Division based on Urgent Repair Program data.

The Community Partners Loan Pool program structure does not provide any incentive to make loans in underserved counties. Each member of the Community Partners Loan Pool receives an allocation of loans it may reserve each quarter. Each member receives the same allocation of loans and the fee structure is the same regardless of which counties the local partner serves or where they make loans. This structure has likely contributed to loans being concentrated in a small number of counties. Even though a partner may serve multiple counties, it may be more economical to concentrate activity in a single, highly populated area. For example, one partner with a service area of eight counties (Cabarrus, Catawba, Gaston, Iredell, Lincoln, Mecklenburg, Rowan, and Union) made 78% of all its loans in Mecklenburg County.

NCHFA could adopt different funding models that help better support local partners where needed. For repair programs, NCHFA could take into account the fact that certain counties in the state have less capacity to operate these programs or provide local funding to cover administrative expenses. NCHFA could adopt a tiered system of reimbursing administrative or "soft" costs based on an estimate of a county's relative capacity to cover such costs. NCHFA also could discontinue caps on Urgent Repair Program funding at $200,000, a practice which disincentivizes nearby partners from providing additional repair services in underserved counties. For the Community Partners Loan Pool, NCHFA could pay fees to local partners for making loans based on a tiered model that would better incentivize activity in counties with few or no loans. NCHFA also may have to consider a cap on Community Partners Loan Pool activity in certain counties that presently have several local partners and very high loan activity.

Recommendation 1: *The General Assembly should direct NCHFA to examine modifications to the four community partner programs to ensure program access and activity throughout the state, particularly in those counties with fewer local resources to operate programs. In addition, the General Assembly should direct NCHFA to discontinue the $200,000 cap per partner for the Urgent Repair Program. NCHFA should report on its actions addressing this issue to the Joint Legislative Oversight Committee on General Government one year after passage of legislation.*

Finding 2. The North Carolina Housing Finance Agency's limited strategic planning and performance management efforts impede evaluation of Agency performance.

To summarize the finding below, strategic planning and performance management are intertwined; strategic planning sets the overall roadmap and establishes objectives for an organization whereas performance management involves putting a system in place to measure progress and ensure goals are being met. This evaluation sought to assess how well NCHFA was achieving its strategic goals and objectives. However, shortcomings in both strategic planning and performance management prevented the Program Evaluation Division from being able to objectively gauge the success of NCHFA programs. NCHFA does not have defined measurable goals or objectives by which to assess its performance or a performance management system that provides data on programmatic outcomes. Performing proper strategic planning followed by developing an effective performance management system would provide a means for stakeholders such as the General Assembly to assess the effectiveness of NCHFA.

NCHFA's strategic plan is inadequate because it does not contain sufficient goals or objectives or a broad environmental scan. NCHFA completed a strategic plan in November 2018, yet this plan lacks detailed programmatic goals or objectives. As defined by the Office of State Budget and Management,

- goals are broad statements concerning what an agency wants to achieve over a long period of time
- objectives are often narrower, focus on a shorter time period, and include targets for specific actions.

NCHFA's strategic plan includes only one goal: "To use HOME, HOME Match, the state Housing Trust Fund, national Housing Trust Fund, Workforce Housing Loan Program, and the Community Living Housing Fund to meet the affordable housing needs of North Carolinians." This goal does not stretch or challenge the Agency. It simply lists current funding sources, then restates part of the Agency's mission: to increase affordable housing opportunities in North Carolina. Appendix A contains the full text of NCHFA's strategic plan.

NCHFA's strategic plan also contains only one objective, which is "to finance the acquisition, development, rehabilitation, or provide rental assistance to increase the supply of affordable housing." Objectives follow from goals and because NCHFA has only one broad goal, its single objective is also broad and lacks specificity. This objective also contains no target for which the Agency is accountable and no time period by which NCHFA seeks to accomplish it.

The final piece lacking in NCHFA's strategic plan is an environmental scan, often called a SWOT (strengths, weaknesses, opportunities, threats) analysis. This omission represents a missed opportunity for the Agency to address how the housing market is changing in North Carolina, including issues of supply and affordability. NCHFA is also experiencing change itself as the NC Foreclosure Prevention Fund, a major program activity and large funding source for the Agency, is winding down.

Performance management systems stem from strategic planning. Effective organizations operationalize their strategic goals or objectives in a more short-term feedback system typically known as a performance management system. Performance management systems help make organizations more efficient and effective by providing incentives to change behavior in order to achieve goals and by providing information to improve organizational decision making. Absent a strategic plan's clear vision of where the organization seeks to go, it is difficult for managers to develop a performance management system that aligns with goals and helps an organization understand where it is performing well and where it is falling short.

NCHFA provided the performance measures it uses for its programs. For the majority of its programs, NCHFA tracks four measures:

- units,
- real estate value,
- tax revenue, and
- jobs.

For some programs, NCHFA tracks just two measures:

- units and
- households assisted.

Developing and assessing performance measures is difficult when they are not tied to goals and objectives. Without this link between performance management and strategic planning, it is challenging to discern if an organization is using the correct measures. For example, NCHFA measures tax revenue and jobs, which is logical if the goals and objectives of NCHFA's programs are to create jobs and tax revenue but may not be reasonable if goals and objectives are related to addressing affordable housing issues. In addition, measuring items such as real estate value, tax revenue, and jobs would need to be done carefully to ensure NCHFA is capturing a program's actual outcomes. The Congressional Research Service notes that Low-Income Housing Tax Credit development likely displaces some housing development by the private market, though estimates of the extent of this effect vary.[2] Thus, it would be important to attempt to isolate the actual benefit from the program as a true outcome.

Without objectives, many of NCHFA's performance measures are difficult to interpret. For example, it is difficult to derive meaning from the fact that the Urgent Repair Program, which provides emergency repairs to address imminent threats to health and safety for low-income homeowners, made repairs to 607 units in Fiscal Year 2017–18. Interpretation of that measure is challenging because there is no indication of how many units NCHFA was seeking to repair during the year.

Exhibit 13 shows performance of certain NCHFA programs across an existing performance measure. Without targeted objectives for these activities, however, it is difficult to understand which programs may be performing well and which are falling short.

Exhibit 13: NCHFA's Use of Units as a Performance Measure Without Associated Targets Makes Interpreting Performance Challenging

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

Note: Units vary by program. NCHFA measures units for several additional programs, but for the sake of simplicity only a select number of programs are presented in this exhibit.

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

Some performance measures should track outcomes. Outcomes are effects of programs—changes produced that affect people outside the organization. Measuring outcomes helps to ensure programs are effective and that program activities are achieving some result. NCHFA's State Home Foreclosure Prevention Program (SHFPP) offers an example of the importance of measuring outcomes. SHFPP provides free counseling and legal services to homeowners facing foreclosure. Assuming that helping homeowners avoid foreclosure is a goal of the program, it would be important to have objectives and performance measures in place that are connected to this outcome. However, NCHFA's performance measure for this program is "households assisted," which is an activity, not an outcome. NCHFA reported providing assistance to 1,224 households in Fiscal Year 2017–18 through SHFPP. The number of households assisted captures an important activity of the program but does not demonstrate that

[2] Congressional Research Service. (2019, October 17). *The Low-Income Housing Tax Credit: Policy Issues.* https://crsreports.congress.gov/product/pdf/IF/IF11335.

households receiving assistance are benefitting from the program. In addition, simply measuring the number of households assisted does not provide sufficient context such as how many households were assisted out of the total number of households eligible for the program or how much need was met.

In the case of SHFPP, it is possible to have objectives and associated performance measures that relate to program activities as well as to outcomes. For example:

Example activity-based objective:

- "Within the next year, SHFPP will provide counseling services to 75% of all homeowners who have received a 45-day pre-foreclosure notice."

Example outcome-based objectives:

- "60% of counselees are able to obtain a mortgage remedy within one year."
- "50% of counselees are able to become current on their mortgages within 18 months."

A common model for performance management systems is an input/outcome model, which divides potential measures into three categories—inputs, activities, and outcomes. Inputs and activities are helpful to internal agency operations, but outcomes are the most important measures to external stakeholders such as the General Assembly because they measure what a public agency is doing for the public. Appendix C provides a sample input/outcome model developed by the Program Evaluation Division for some NCHFA programs. This sample is intended to show what such a model *could* look like, though for it to be most effective it should be informed by the specific goals and objectives of NCHFA that would stem from a more effective strategic planning process.

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

Finding 3. The North Carolina Housing Finance Agency's required reporting to the General Assembly is incomplete and fails to provide sufficient information for legislative oversight.

To summarize the finding below, the Program Evaluation Division analyzed seven reporting requirements and found NCHFA is fully meeting its requirements for two reports, with three of its required reports being incomplete and two not being submitted. Further, these reports as they currently exist are of limited value in assessing the outcomes of NCHFA and whether the Agency has achieved its programmatic goals and objectives. The reporting structure could be made more efficient and effective by requiring fewer reports but ensuring that the reports that are required are more informative and include outcomes.

NCHFA is required to report on eight items in total. NCHFA has five required reports covering the following programs:

1) State Home Foreclosure Prevention Project and Fund
2) Home Protection Program and Fund
3) Workforce Housing Loan Program
4) HOME Program, and
5) Fair Bluff Housing Complex.

In addition to the five program reports, NCHFA is required to submit three other reports:

1) an annual report of its activities for the preceding year to the Governor, the Office of State Budget and Management, the State Auditor, the Finance Committees of the House of Representatives and the Senate, and the Local Government Commission.
2) a semiannual activity report to the Joint Legislative Commission on Governmental Operations, and
3) an annual report of budget expenditures by line item to the Joint Legislative Commission on Governmental Operations.

The Program Evaluation Division requested copies of these reports for 2016, 2017, and 2018 and reviewed them for compliance with the reporting requirements. Because construction of the Fair Bluff Housing Complex was not complete, NCHFA has not yet begun reporting on it, and therefore it was excluded from analysis. Exhibit 14 lists the seven required reports and categorizes their status as either submitted and complete, submitted but incomplete, or not submitted.

Exhibit 14

NCHFA is Fully Meeting Requirements for Two of Seven Reports

Report Requirement	Status
Workforce Housing Loan Program	Report Submitted and Complete
State Home Foreclosure Prevention Project	Report Submitted and Complete
Home Protection Program and Fund	Report Not Submitted
Budget Expenditures by Line Item	Report Not Submitted
HOME Program	Report Submitted but Incomplete
Semiannual Activity Report	Report Submitted but Incomplete
Annual Report	Report Submitted but Incomplete

Source: PED Based on Housing Finance Agency-submitted reports, 2016-2018.

Among NCHFA's reports, only the Workforce Housing Loan Program report both meets all minimum statutory requirements and contains detailed, complete information. NCHFA is required to report annually on the Workforce Housing Loan Program by February 1 and must including the following items in its report:

- number of loans made,
- amount of each loan, and
- whether supported developments are in a low-, moderate-, or high-income county, as designated by NCHFA.

NCHFA presents this data in a table in the report, which allows the General Assembly to assess how much funding is going to each county and to each category of income designation by county.

Although NCHFA's reports on the State Home Foreclosure Prevention Project and Fund meet minimum statutory requirements, they lack data regarding the program's effectiveness. NCHFA is required to report annually on this program by May 1 and is required to present the information in an aggregated form. NCHFA meets these requirements in its reports on this program. However, statute states that NCHFA may include other information in the report, including

- number of clients helped,
- effectiveness of funds in preventing home foreclosure, and
- recommendations for further efforts needed to reduce foreclosures.

NCHFA chose to include the number of clients helped over the life of the program in each report. In addition, NCHFA included an explanation of program operations and some data on its economic impact. However, NCHFA has not presented evidence for the program's effectiveness in preventing home foreclosures, nor has it presented recommendations for further reducing foreclosures. Therefore, the information presented in the report does not allow for a full understanding of the program's effectiveness nor of how much foreclosure prevention need it is meeting each year.

NCHFA did not submit reports on the Home Protection Program during the period reviewed by the Program Evaluation Division. The Home Protection Program and Fund were added to the NCHFA's statutory program requirements in 2008. Beginning in 2010, NCHFA ceased operating the Home Protection Program but used the Home Protection Program statute as an enabling law to implement the NC Foreclosure Prevention Project. At the same time, NCHFA stopped reporting on the Home Protection Program, and therefore the Agency submitted no reports on the program during the reviewed time period.

NCHFA is not submitting its required report on budget expenditures by line item. Per N.C. Gen. Stat. §122A-16, NCHFA must submit a "written report of its budget expenditures by line item" to the Joint Legislative Commission on Governmental Operations. NCHFA has stated that it includes the budget report in its annual report. However, the budget information included in this report is not a report of budget expenditures by line item and therefore does not meet the statutory requirement. In past years, most recently in 2011, NCHFA did include its operating budget with its semiannual activity reports to the Joint Legislative Commission on Governmental Operations but has stopped submitting this budget information to the Commission.

NCHFA's reports on the HOME program do not explain how the program is meeting its priorities nor do they specify how much funding is allocated to each priority. The HOME program is a federal block grant program for which states are required to provide a 25% match of funds. NCHFA is required to report annually on the HOME program. The report must be submitted to the General Assembly by April 1 of each year and include the following information:

- priorities met,
- types of activities funded, and
- types of activities not funded.

In all three reports, NCHFA lists the priorities of the HOME program, as set in the State's Consolidated Plan, and the combined percentage of financing that the highest priorities received. The report does not state how the priorities were met, how much funding went to each high-priority need, or how much funding went to low-priority needs.

The report provides a partial list of activities supported with HOME funds as well as a separate table showing activities supported using the HOME match funds. These activities are listed in broad categories such as "housing units financed" and "people with disabilities who received rent assistance." No information is provided on the types of activities not funded.

NCHFA has submitted annual reports and semiannual activity reports, but neither meet all statutory requirements.

- NCHFA has been submitting an annual report by the end of each fiscal year, but that report does not include a complete operating and financial statement as required. Instead, it gives an overview of program investment by category, with categories like "homeownership" and "supportive housing." The report also highlights programs by funding source. The Program Evaluation Division reviewed three years of reports. For each year, the report included the same two exhibits: an organizational chart and a program summary.
- The semiannual activity reports submitted by NCHFA match the annual reports in content and form, including the exhibits. Statute requires this written report of NCHFA's activities be submitted on January 1 and July 1 of each year. However, NCHFA reports only submitting the report once per year to meet the January 1 deadline.
- Program data are presented opaquely in both the annual report and semiannual activity report; neither report includes data on outcomes, nor do they specify performance goals or targets. NCHFA includes a table of "Investment: All Programs" and a series of highlighted programs in each report. The highlighted programs do not align with the program summary provided with each report. Further, for each highlighted program NCHFA presents a measure, such as total units, total households, or total loans, but does not explain what these terms mean or why the different programs have different measures. This absence of explanation for discrepancies exists even when activities align across programs. For example, in the Fiscal Year 2018 annual report the supportive housing activity in the North Carolina Housing Trust Fund table is reported in total units, whereas the supportive housing activity in the State HOME Match table is presented in total households. This

lack of clarity hinders analysis of the effectiveness of NCHFA's programs.

The reported information is of limited value. NCHFA reports program data for the current year or for the lifetime of the program. Neither approach allows for analysis of change in year-to-year performance. Reports often track funding and activities but NCHFA is not required to track outcomes or other performance measures and does not track these items. NCHFA's Fiscal Year 2018–19 annual report, for example, lists "total households" and "total funding" for the State Home Foreclosure Prevention Project. These measures are insufficient for determining if the program is staying within its budget, determining if it is reaching more or fewer households this year compared to previous years, or for assessing how many households in need of foreclosure prevention services it has helped this year. There is also no information on goals or benchmarks for the program. The information presented does not allow for determining if NCHFA is, or should be, satisfied with the program's performance. The same issues are found throughout NCHFA's reports.

Another challenge with the current reporting structure is that many of NCHFA's programs are interrelated. Reviewing a report on a single program provides a less complete picture than having data that is more comprehensive across programs. As an example, the Workforce Housing Loan Program helps to produce affordable rental units throughout the state in association with the Low-Income Housing Tax Credit program and Rental Production Program. Reviewing a report on the Workforce Housing Loan Program alone does not provide an understanding of how the Workforce Housing Loan Program, the Low-Income Housing Tax Credit program, and the Rental Production Program all work together to finance rental housing units in the state, with many rental units using all three sources of financing for the same unit.

The current reporting structure is inefficient. NCHFA is required to report three times per year on its activities, submit five separate reports on specific programs or funding sources, and annually report on its budget expenditures by line item. Requiring the Agency to instead submit one comprehensive annual report could lessen the burden on NCHFA and make the information easier to access and analyze. Such a report could include both agency-level and program-level information.

NCHFA could incorporate its strategic plan, including agency-level and program-level strategic goals and objectives, into this annual report. This annual report could also include

- management discussion and analysis, including a discussion of the prior year's performance;
- reasons for not achieving prior year strategic goals or objectives, if applicable;
- any changes to strategic goals or objectives for the upcoming year; and
- the rationale behind those changes.

At the program level, NCHFA could report on

- goals for every program;

- objectives for every program; and
- performance measures associated with every program, including input, activity, and outcome performance measures. Performance could be benchmarked against the same measures for the previous three fiscal years.

Appendix B contains sample input, activity, and outcome performance measures by program that NCHFA could include in its annual report. By incorporating goals and objectives in the annual report, NCHFA would provide the information needed to assess program effectiveness and necessity.

Finally, the annual report also could include financial data such as:

- consolidated financial statements for the most recent fiscal year;
- budgeted-to-actual expenditures for the most recently completed fiscal year in line item detail, for both operations and programs;
- program expenditures by funding source; and
- current Agency credit ratings and reasons for any changes in those ratings.

This financial and budget data would allow the General Assembly to assess NCHFA's fiscal health and its management of state funds.

Recommendation 3: *The General Assembly should eliminate reporting requirements that are no longer relevant and consolidate all other reports into a comprehensive annual report as described above that is submitted to the Joint Legislative Oversight Committee on General Government, the Fiscal Research Division, the Office of State Budget and Management, and the Local Government Commission by December 1 of each year.*

Finding 4. The North Carolina Housing Finance Agency's allocation of funds across programs could be enhanced through cost-benefit analysis.

To summarize the finding below, the North Carolina Housing Finance Agency does not have an evidence-based method for comparing need across programs. Instead, the board of NCHFA annually approves a funding allocation for Agency programs. This funding allocation is based on NCHFA's production results from the previous year with adjustments made after reviewing demand and considering NCHFA's intent to address a range of housing needs. The current approach risks underinvesting in programs with a high return on investment and overinvesting in programs with a low return on investment. Using cost-benefit analysis would allow NCHFA to gauge which programs provide the greatest impact and better determine program efficiency. However, NCHFA would first have to collect outcome data for its programs.[3]

[3] Potential efforts to measure program efficiency are also hampered by NCHFA's lack of an activity-based cost accounting system. An activity-based costing system assigns costs to key activities based on the resources used to carry out the activities. All direct costs (materials and labor directly involved) and indirect costs (overhead) are recorded as they occur or through a formula. NCHFA budgets for and tracks programmatic and operational expenses separately and across different time periods; operations are budgeted according to the state fiscal year ending June 30, whereas programs are budgeted by calendar year.

Affordable housing need is greater than what NCHFA can address through its existing programs. Across the state, 15.8% of homeowners and renters are cost-burdened; 13% are severely cost-burdened. The State recognizes the high demand for affordable housing, stating in its 2016–2020 Consolidated Plan that it "cannot meet all of the housing need, but it can strategically invest its limited resources to alleviate important housing problems for North Carolina's households." With resources being limited in comparison to demand, the NCHFA should be investing in the programs shown to be most effective.

NCHFA does consider the economic impact of some programs, but economic impact is a narrow measure that does not consider all benefits and costs. For example, research has shown that access to quality affordable housing can lead to better school performance and improved health and well-being as well as increased economic activity. Economic impact can measure economic activity generated by project spending but may not measure the value of the outcomes the project or program is intended to produce.

NCHFA has performed a cost-benefit analysis of its Urgent Repair Program. The Urgent Repair Program (URP) provides financing through community partners for repairs to address housing conditions that pose imminent threats to health and safety or cause imminent threats of displacement. The program targets low-income households with special needs, such as households with members who are 62 years of age or older, households with handicapped or disabled members, or single-parent households. Loans are structured as interest-free loans of up to $10,000, forgiven at a rate of $2,000 per year. In its analysis, NCHFA found that in a best-case scenario in which every Urgent Repair Program participant aged in place rather than moved into institutional care, the state of North Carolina would save more than $550 million. In such a scenario, the State would save up to $19 in Medicaid/Medicare spending for every $1 in Urgent Repair Program funding, an example of the type of benefit that is not necessarily captured in measures of economic impact.

NCHFA does not track long-term outcomes for its programs, limiting its ability to conduct such an analysis. NCHFA was able to perform a cost-benefit analysis of URP by combining data from a survey of homeowners who received URP assistance between 2005 and 2015 with industry data on the cost of care in North Carolina. If NCHFA tracked outcome data for all of its programs, it would be able to compare the costs and benefits of the different programs. These data could help inform where more or fewer public dollars should be invested so NCHFA could maximize the impact of its resources. However, NCHFA would need to begin tracking long-term outcomes for all of its programs before it could conduct such analysis. Presuming NCHFA begins collecting outcome data after undergoing a comprehensive strategic planning process, it would be several years before cost-benefit analysis could be used to help allocate funds.

Recommendation 4: *The General Assembly should direct NCHFA to transition to incorporating cost-benefit analysis into its allocation of programmatic resources and requests for funding from the General Assembly by no later than January 1, 2025. In order to do so, NCHFA should incorporate the* *goal of collecting outcome data in preparation for implementing cost-benefit analysis into its next strategic planning process.*

Finding 5. The Construction Training Partnership program is outside of the North Carolina Housing Finance Agency's mission and is duplicative of other state training and workforce development efforts.

To summarize the finding below, the Construction Training Partnership, a workforce development program partially funded by NCHFA, does not directly advance NCHFA's mission. In addition, it is duplicative of construction training programs provided through North Carolina's community colleges. North Carolina has made efforts over the past decade to streamline workforce development programs. NCHFA could redirect Construction Training Partnership funding to existing programs that more directly advance NCHFA's mission.

The Construction Training Partnership program is a workforce development program funded by NCHFA and administered by the North Carolina Home Builders Association (NCHBA) and partner cities. NCHBA trains underemployed and unemployed individuals in construction skills through this program, which is structured as two eight-week construction classes with classroom and hands-on training in each class. About 40 students enroll in the program each year.

Partner cities host the training program, provide up to $65,000 to NCHBA for training costs, and select rehabilitation or new construction projects for students to work on during the class. For the past five years, the cities of Burlington and High Point have been the partner cities for the program.

NCHFA contributes up to $65,000 to each city for hard costs related to the rehabilitation or new construction activities of the training program. These costs may include the cost of building materials and supplies used in the project, the cost of subcontracted trades, costs associated with the rental of specialty tools, and the cost of contractor profit and overhead as approved by NCHFA.

The Construction Training Partnership does not serve NCHFA's mission. The mission of NCHFA is "to create affordable housing for those whose needs are not met by the market." NCHFA states that the goal of the Construction Training Partnership is to train unemployed persons in the construction trades. Although students in the training program work on new construction or rehabilitation projects for homeowners earning up to 80% of area median income, this aspect of the program is secondary to the program goal. In its 2014 study of North Carolina housing programs, the Office of State Budget and Management found the Construction Training Partnership to be marginal to NCHFA's mission and recommended moving the Construction Training Partnership to the Department of Commerce's Division of Workforce Solutions.

The Construction Training Partnership duplicates training programs found at North Carolina community colleges. The community college system offers a wide variety of construction training programs and instructs students across the state in construction trades through both degree and non-degree programs.

Construction-related programs at North Carolina community colleges include curriculum programs and continuing education programs.[4] Three curriculum programs cover topics related to those covered by the Construction Training Partnership: building construction technology, carpentry, and construction management technology. As Exhibit 15 illustrates, many community colleges offer one or more of these curriculum programs. Since 2016, 1,907 students have graduated from these programs.

Exhibit 15

Community College Construction-Related Programs Are Found Throughout the State

North Carolina Community College Curriculum Programs

Program	Available Locations
Building Construction Technology	Central Carolina CC, Fayetteville TCC, Haywood CC, Isothermal CC, Pitt CC, Sampson CC, Western Piedmont CC, Wilkes CC
Carpentry	Alamance CC, Cape Fear CC, Central Carolina CC, Cleveland CC, Fayetteville TCC, Forsyth TCC, Guilford TCC, Mayland CC, McDowell TCC, Pamlico CC, Piedmont CC, Southwestern CC, Surry CC, Vance-Granville CC
Construction Management Technology	Asheville-Buncombe TCC, Cape Fear CC, Central Piedmont CC, Guilford TCC, Rowan-Cabarrus CC, Surry CC, Wake TCC

Source: Program Evaluation Division based on information from the North Carolina Community College System.

Community colleges in North Carolina offer many related continuing education courses as well. Courses identified by the community college system as closely related to the core courses of the building construction technology, carpentry, and construction management technology programs have enrolled over 2,000 students each year for the past four years. Since 2016, 12,428 students have taken these courses. These construction-related programs are offered at community colleges throughout the state, whereas NCHFA's Construction Training Partnership has been located in Burlington and High Point since 2015 and only enrolls about 40 students each year.

The NC General Assembly has made efforts to reduce overlap and duplication in the workforce development system in North Carolina. In 2012, the General Assembly enacted Session Law 2012-131, which streamlined the workforce development system. The existence of the Construction Training Program at the NC Housing Finance Agency runs counter to the goal of streamlining workforce development programs in the state, as it duplicates programs offered by community colleges and does not conform to NCHFA's mission.

Viewed as a rehabilitation program instead of a workforce development program, the Construction Training Partnership nonetheless remains duplicative. NCHFA already maintains two rehabilitation and repair programs, the Urgent Repair Program (URP) and Essential Single-Family Rehabilitation Loan Pool (ESFRLP). Both programs

[4] In curriculum programs, students earn associate degrees, diplomas, or certificates. Students must take general education courses in addition to technical and program major courses. In continuing education or short-term workforce training programs, students are not required to take general education courses. These programs may result in a recognized credential such as a license or certification.

provide financing to local partners for home repairs. Both programs also operate throughout the state, whereas the Construction Training Partnership has only operated in two cities for the last five years. Further, both the URP and ESFRLP have established criteria and an application process for local partners as well as criteria for what homes qualify for repair and for what repairs are permitted. By contrast, the Construction Training Partnership does not have an established process for municipalities to apply for funding. Further, partner cities choose the dwellings for the hands-on training portion of the class and are only restricted to households earning 80% or less of area median income, adjusted for family size.

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

Appendix

Appendix A: Full Text of NCHFA's 2019-21 Strategic Plan

Appendix B: Sample Input, Activity, and Outcome Performance Measures by Program

Agency Response

The Program Evaluation Division submitted a draft of this report to the North Carolina Housing Finance Agency. Its response is provided following the appendices.

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: Full Text of NCHFA's 2019-2021 Strategic Plan

The North Carolina Housing Finance Agency is a self-supporting agency. Since its creation in 1973 by the General Assembly, as of December 2017, the Agency has financed nearly 268,940 affordable homes and apartments totaling more than $21.2 billion in real estate value. The Agency provides financing through NC Home Advantage, the Federal HOME Program, the state Housing Trust Fund, and other programs, in addition to the management of the federal Low Income Housing Tax Credit program.

The North Carolina Housing Finance Agency will use HOME, HOME Match, the national Housing Trust Fund, the state Housing Trust Fund, Workforce Housing Loan Program, and the Community Living Housing Fund to meet the affordable housing needs of North Carolinians.

North Carolina Housing Finance Agency Vision, Mission, and Values

Vision

We will lead the nation in creating sustainable housing opportunities that people can afford.

Mission

The Agency's mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market.

Values

We are committed to these values:

<u>We Care</u>

We respect all people.

We listen to understand.

We support employees.

We have passion for our work.

<u>We Act</u>

We work with integrity and professionalism.

We manage resources wisely.

We do what we say we will do.

We promote cooperation and teamwork.

We forge strong partnerships.

<u>We Lead</u>

We invest to improve lives and communities.

We seek long-term solutions.

We pursue new capital to solve housing problems.

We innovate to respond to needs.

We strive for excellence.

North Carolina Housing Finance Agency Goals, Objectives, and Measures of Success

Goal - To use HOME, HOME Match, the state Housing Trust Fund, national Housing Trust Fund, Workforce Housing Loan Program, and the Community Living Housing Fund to meet the affordable housing needs of North Carolinians.		
Objective - To finance the acquisition, development, rehabilitation, or provide rental assistance to increase the supply of affordable housing.		
Performance Measure - Households assisted	**Strategy**	Use funding to support the programs that assist homeowners, home-buyers, and renters.
	Using the resources mentioned above, the North Carolina Housing Finance Agency will continue to offer low-cost mortgages and down payment assistance to qualified home buyers; finance affordable homes and apartments; finance the development of supportive housing for people with disabilities; finance the rehabilitation of substandard owner-occupied homes to prevent displacement and aid in disaster recovery efforts; provide foreclosure prevention services; and administer rent assistance contracts to increase the supply of affordable housing in North Carolina.	

Appendix B: Sample Input, Activity, and Outcome Performance Measures by Program

Mortgage Lending Programs	
Inputs	• Amount of funding spent • Number of participating partners
Activities/Outputs	• Number of applications received • Number of mortgages financed • Cost per mortgage • Percent of mortgages meeting underwriting standards
Outcomes	• Percent of single-family mortgage volume in state • Early payment default rate • Foreclosure rate among borrowers, compared to foreclosure rate of FHA borrowers
Repair and Rehabilitation Programs	
Inputs	• Amount of funding available • Number of participating partners
Activities/Outputs	• Number of applications received • Number and percent of applications accepted • Number of homes repaired • % of repairs requiring further work after closeout • Total cost per home repair (administrative and hard costs)
Outcomes	• Estimated annual energy savings as a result of repairs • Number of homes made accessible to occupant as a result of repair • Homeowner's length of stay in home post-repair
Rental Development Programs	
Inputs	• Amount of credits or value of credits • Amount of state subsidies
Activities/Outputs	• Number of applications reviewed • Number/amount of awards made • Total cost per unit • State subsidy per unit • Average time from award to placed in service • Number of units placed in service • Percent of properties inspected in previous year • Percent of properties receiving a file review in previous year

Outcomes	• Number of affordable units in service and meeting affordability requirements statewide • Percent of properties in compliance • Percent of tenants from very low-income and low-income households • Average energy costs per month
State Home Foreclosure Prevention Program	
Inputs	• Amount of funding spent • Number of counseling partner organizations
Activities/Outputs	• Percent of eligible households receiving assistance • Cost of program per household receiving assistance
Outcomes	• Percent of households able to receive a mortgage remedy within 1 year • Percent of counselees able to become current on their mortgage within 18 months
DHHS Partner Programs	
Inputs	• Amount of funding spent • Number of eligible households
Activities/Outputs	• Number of households receiving assistance • Percent of eligible households receiving assistance
Outcomes	• Average length of stay in unit • Percent of target population in need of affordable housing living in program units • Percent of targeted units or ISHP units occupied by a resident who meets the criteria
State Home Foreclosure Prevention Program	
Inputs	• Amount of funding spent • Number of counseling partner organizations
Activities/Outputs	• Percent of eligible households receiving assistance • Cost of program per household receiving assistance
Outcomes	• Percent of households able to receive a mortgage remedy within 1 year • Percent of counselees able to become current on their mortgage within 18 months

Note: This sample input, activity, and output list is provided solely for the purpose of illustrating potential inputs, activities, and outcomes that NCHFA could try to measure. Performance measures should be based on program goals and objectives, which should stem from a robust strategic planning process.

Source: Program Evaluation Division based on performance management literature, a review of housing program evaluations, and a review of housing program performance management systems.

NORTH CAROLINA

HOUSING FINANCE AGENCY

May 5, 2020

A self-supporting public agency

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Mr. John W. Turcotte, Director
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Dear Mr. Turcotte:

Thank you for the opportunity to comment on the Program Evaluation Division's Report No. 2020-05. 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, preserving $2.1 billion

[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

of property values. These activities have sent $3 billion of wages into the economy, generating $226 million in tax revenue for the state and supporting 75,300 jobs.

Affordable housing doesn't just benefit the economy, it positively impacts health costs, health outcomes, educational achievement and local communities.[3] [4] Recognizing that housing is a primary social determinant of health, Medicaid has approved North Carolina to create a pilot program to pay for non-medical expenses such as rent, security deposits and minor rehabilitation activities.[5] A study of our Urgent Repair Program found that every $1 spent could save the state $19 in Medicaid expenses.[6]

Finding 1. The North Carolina Housing Finance Agency's local partner funding model does not consider differences in local capacity, contributing to uneven local implementation of certain programs.

Housing production and rehabilitation is best overseen and administered through local partners who have connections with and understand their local communities.

We acknowledge that the capacity across the state is uneven, a fact that has been further exposed during the recent responses to disaster recovery following Hurricanes Matthew and Florence. As a result, NCHFA has structured our programs to serve as many people in as many communities as possible, while recognizing there are not enough resources to reach all counties every year. Need is everywhere, capacity is not.

As noted, the housing activities, capacity and local support of our partners varies widely. Much of this variance can be tied to reductions in funding over the last 10 years as well as the loss of consultants and technical assistance that supported many of the local organizations. Many of our partners have had to combine different sources of funding to accomplish their mission, and the funding sources have not kept pace with the cost or the need.

Finding 2. The North Carolina Housing Finance Agency's limited strategic planning and performance management efforts impede evaluation of Agency performance.

NCHFA recognizes the importance of planning and performance management. To ensure that we are maximizing our potential, we will engage a consultant to help strengthen our overall Agency strategic planning process.

NCHFA has engaged a variety of strategic planning processes and performance measures over the last 30 years. What has been learned is our business model and mission does not lend itself well to traditional strategic planning. We have found external environmental factors tend to highly influence what is needed as well as what is possible, namely levels and types of

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[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] Brennan, M., Reed, P., & Sturtevant, L. (2014). *The Impacts of Affordable Housing on Education: A Research Summary (2014 Update)*. (November). Retrieved from http://www.nhc.org/Education_Insights_finalv4_web.pdf

[5] NCDHHS. (2020). Healthy Opportunities Pilot. https://www.ncdhhs.gov/about/department-initiatives/healthy-opportunities/healthy-opportunities-pilots

[6] North Carolina Housing Finance Agency. (2017). *Urgent Home Repair: Quality of Life and Cost Impacts*. Available at https://www.nchfa.com/sites/default/files/page_attachments/URPPolicyBrief.pdf

funding, as well as market and economic fluctuations. These factors can vary significantly from year to year and even within a year.

NCHFA does have detailed performance metrics at the program level. NCHFA is an outcome-driven organization and reports on outcomes in ways that are outside of the more traditional planning and performance formats.

Finding 3. The North Carolina Housing Finance Agency's required reporting to the General Assembly is incomplete and fails to provide sufficient information for legislative oversight.

NCHFA is committed to providing information that is meaningful to the General Assembly and would welcome the opportunity to consolidate reporting into a more uniform single report that would provide more value.

We would respectfully request the deadline for the annual report recommended by PED to be extended to February 15th to allow time for our year-end data collection and summarization.

NCHFA has diligently provided information to the General Assembly to meet all of the reporting requirements as outlined for the various programs and has provided additional information in a timely manner when requested by Members and staff. If at any time we had been advised that any of these reports were not meeting the needs of the Members of General Assembly, we would have taken immediate steps to address it.

Finding 4. The North Carolina Housing Finance Agency's allocation of funds across programs could be enhanced through cost-benefit analysis.

NCHFA annually assesses value and performance of each program to make sure that it best meets the needs of the state. As the report states, the unmet housing needs of the state far outweigh the resources we have to meet the challenge.

All available funding sources and the unique requirements of each are reviewed and allocated across the different housing activities (home owner rehabilitation, home buyer support, rental development, supportive housing and foreclosure prevention) to ensure efficient and timely use in North Carolina communities. Funding sources are carefully matched to specific programs to better support our partners in their ability to comply with the layered regulations associated with each.

It is gratifying that PED highlighted the cost-benefit analysis NCHFA conducted on the URP program and the associated Medicaid savings that it generates. This analysis involved a significant investment in time and capital that, to date, has not resulted in any additional resources for this activity.

Tracking long-term housing outcomes is expensive and labor intensive over an extended period. However, to ensure that we are maximizing our potential, we will explore additional ways that we can continue to conduct meaningful cost-benefit analyses.

Finding 5. The Construction Training Partnership program is outside of the North Carolina Housing Finance Agency's mission and is duplicative of other state training and workforce development efforts.

NCHFA believes that the Construction Training Partnership (CTP) is within the scope of its mission.

The CTP program is a successful public-private partnership between NCHFA, the NC Home Builders and local government partners. CTP is designed to increase the workforce in the affordable housing construction industry, while preserving existing housing and creating new affordable housing.

In creating the NCHFA, the General Assembly found that private enterprise and investment have not been able to produce, without assistance, the needed construction of decent, safe and sanitary residential housing at low prices or rentals which persons and families of lower income can afford, or to achieve the urgently needed rehabilitation of much of the present lower income housing (Chapter 122A-2).

To assist in alleviating this lack of construction, the General Assembly provided that the NCHFA has the power to provide technical and advisory services to sponsors, builders and developers of residential housing (Chapter 122A-5 (13)). Lack of a skilled construction workforce, particularly in the rehabilitation field, impedes construction of housing for low- to moderate-income persons and families, and addressing this issue relates to NCHFA's overall purpose and supports its mission. Additionally, the actual work produced by this program directly benefits low-income homeowners by constructing and repairing affordable homes.

We also do not consider CTP to be duplicative of community college programs as the majority of the individuals trained by CTP are unlikely to avail themselves of the community college programs. With the critical construction labor shortage North Carolina is facing, the state should be looking for opportunities to expand training and capacity of the affordable housing network rather than reducing or eliminating it.

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