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The Low-Income Housing Tax Credit And Multifamily Bond Financing: A Comparison Of State-Level Allocation Policies

EXECUTIVE SUMMARY

Introduction

This paper examines state housing agencies' use of the Low Income Housing Tax Credit (LIHTC) and multifamily bond financing allocation processes to direct housing development toward high-need areas, serve certain populations, and encourage the fulfillment of other policy objectives. Findings are based on an examination of the tax credit and bond finance allocation processes in Florida and in nineteen other states.

State Allocation Plans for LIHTC and Bond Financing

State housing agencies create an annual Qualified Allocation Plan (QAP) outlining the process by which developments will be selected to receive federal tax credits. Multifamily bond financing usually is allocated by the same agency as the tax credits, although a few states use a separate committee or authority to allocate bond financing. Most states under study use the QAP requirements as a threshold for selection of projects for bond financing; in a few cases, states use a separate preference system to select projects for bond financing or delegate the selection of projects to local authorities.

Sources of Information for Setting Priorities

States rely on the following sources of information to develop their priorities for tax credit and bond finance allocation:

? *Internal Revenue Code Section 42*. The federal law governing the tax credit program requires that states consider a number of policy-related criteria in their selection of projects, such as project location and housing needs characteristics.

? *Statute.* In several states, the statute authorizing the housing agency to award tax credits or bond financing also directs those resources to certain types of projects or locations.

? *Research and data analysis.* States may perform formal rental housing needs assessments or less formal, in-house data analysis to determine areas with the greatest need for housing units.

? *Staff and Board opinions and knowledge.* Most allocation policies are based heavily on staff's opinions and knowledge of housing trends and on Board members' priorities.

? *Public input*. States hold public hearings to accept comment on QAPs and may also convene meetings or advisory committees of housing professionals.

? *Consolidated Plan*. A number of states incorporate the needs assessment and priorities from their HUD Consolidated Plan into their QAPs.

? *Input from other state agencies*. Some housing agencies seek input from other state agencies to ensure that the housing projects selected meet other identified policy needs.

The Use of Research and Data in Allocation Plans

Housing Needs Assessments

Most states under study use some type of needs assessment as part of the basis for allocation of resources among geographic areas. The needs assessments typically compare one or several of the following variables across counties or regions of the state: cost-burdened households, households with low-incomes or in poverty, supply of affordable housing units, number of substandard housing units, and employment or population growth rate.

Use of Data to Fulfill Specific Policy Objectives

Several states formulate specific policy objectives and collect data to determine the location or type of development that would best meet those objectives. In many of these cases, the objective is to encourage affordable housing projects in areas of economic distress.

Market Studies for Individual Projects

All states require market studies for individual projects that provide demographic data and information about the neighborhood surrounding the housing site. By determining the demand for individual projects, site-specific market studies provide a useful supplement to states' determination of general areas of housing need.

Types of Policy-Related Selection Criteria

States' QAPs set aside tax credits or give additional ranking points to certain types of projects to fulfill policy priorities. The most common policy-related selection criteria include the following:

? *Family type and size*. Many states provide additional points to projects with units for larger families. Some states also favor projects with single room occupancy (SRO) units for individuals at risk of homelessness.

? *Location.* States may give preference to projects in areas with a high need for affordable housing, in places with few existing tax credit projects, or in areas of poverty or economic distress. Most states also give preference to rural projects to help them compete with projects in metropolitan areas.

? *Income targeting*. Most states award extra points to tax credit projects with units for households at or below 50 percent of the area median income.

? *Special needs*. All states give preference to special needs housing. The most commonly served populations are the elderly, homeless persons, persons with developmental or physical disabilities, and those with chronic mental or physical illnesses.

? *Local planning*. A number of states give preference to projects that meet local priorities.

Set-Asides and Scoring: Designing a Preference System

Set-Asides

Through set-asides, states reserve tax credit resources for projects of a particular type or location. Most states require a specified percentage of available tax credits to be allocated to a certain project type or location as long as projects selected meet threshold requirements.

Scoring

Scoring systems allow agency staff to rank applications based on their fit with policy objectives and measures of project quality. In some cases, states emphasize project quality measures heavily and award only a small number of points to projects for meeting policy objectives. In others, the number of points assigned to policy criteria is high enough to give applicants a strong incentive to design projects serving populations or geographic areas targeted by the housing agency.

Conclusion

There is no single process by which states choose populations and geographic areas to receive special emphasis in tax credit and multifamily bond finance allocation. Most states' allocation plans rely on data analysis, input from housing practitioners and other state agencies, and interpretation by agency staff members. Several elements are common to most selection systems, including preferences for large families, rural areas, neighborhoods undergoing revitalization, lower-income tenants, disabled tenants, homeless persons, and elderly tenants. The expanded use of needs assessments can help states pinpoint specific areas and populations where developments serving these groups will be most effective.

The Low-Income Housing Tax Credit And Multifamily Bond Financing:
A Comparison Of State-Level Allocation Policies

Introduction

This paper examines the process by which state housing agencies select developments to receive financing through the federal Low Income Housing Tax Credit (LIHTC) and multifamily bond financing. Specifically, it outlines the ways in which states use the allocation of these resources to direct housing development toward high-need areas, serve certain populations, and encourage the fulfillment of other policy objectives.

The paper seeks to answer four questions:

1) How do states arrive at the policy priorities that are reflected in their project selection processes?
2) How do states incorporate housing needs assessments and other types of data analysis into their selection processes?
3) What types of policy objectives do states incorporate into their project selection processes?
4) How do states design preference systems that ensure that developments meeting these objectives are selected?

Findings are based on an examination of the project selection processes in Florida and in nineteen other states: Arizona, California, Colorado, Georgia, Indiana, Massachusetts, Maine, Maryland, Michigan, Minnesota, New Mexico, North Carolina, New Jersey, New York, Oklahoma, Pennsylvania, Texas, Virginia, and Washington. Data sources include each state's Qualified Allocation Plan (QAP) for the selection of tax credit projects, similar plans or applications outlining each state's procedure for allocation of bond financing, interviews with state housing agency staff, and interviews with private housing developers who have participated in the tax credit or bond financing programs in multiple states.

As project selection processes change from year to year, the report is based on the most recent QAP available from each state under study. In most states, the most recent QAP was approved in 2001. For Maryland and Michigan, the most recent QAPs available were approved in 1999; for New York, the plan was approved in 1998. Finally, New Jersey's QAP is undated but appears to have been approved in 2000 or 2001.

This report begins with a brief description of state plans that guide the allocation of the LIHTC and multifamily bond financing. Next, it examines the processes by which states set priorities for the use of these resources. Third, it examines the use of housing needs assessments and other data collection in decision-making. Fourth, it lists the types of policy objectives that states seek to fulfill through their allocation of tax credits and bond financing. Finally, the paper discusses the types of systems that states have designed to ensure that the projects selected meet their policy objectives. Appendix 1 includes more detailed descriptions of each state's allocation process. As a supplement to the discussion of state-level allocation processes, Appendix 2 contains a description of the use of needs assessments by county-level housing finance agencies in Florida.

State Allocation Plans for LIHTC and Bond Financing

Most states receive far more applications for tax credits than they can fund. Section 42 of the Internal Revenue Code requires the state agencies responsible for allocating the tax credit to create an annual Qualified Allocation Plan (QAP) outlining the process by which developments will be selected. These plans establish the threshold requirements that all applications must meet, such as financial feasibility standards, site requirements, developer experience, and other measures of project quality. They may also establish set-asides of tax credit resources for projects located in high-need areas or serving priority populations and scoring systems by which competing projects will be ranked on measures of project quality and their accordance with policy objectives (US General Accounting Office, 1997).

Multifamily bond financing usually is allocated by the same state housing agency as allocates the tax credits. In a few cases, however, a separate state committee or authority is responsible for the allocation. Unlike under the LIHTC program, federal statute does not require states to draw up an allocation plan for multifamily bond financing. Moreover, competition for multifamily bond financing is not nearly as fierce in most states as it is for tax credits. Thus, most states under study have not developed separate, elaborate selection processes for bond financing. Instead, most states offer bond financing on a first-come, first-served basis to applicants presenting feasible projects that meet income-targeting requirements. These states usually require projects receiving "automatic" federal tax credits in conjunction with tax-exempt bond financing to meet minimum threshold criteria in their QAPs. Other states use the scoring system from their QAPs to select projects to receive bond financing, or they delegate the distribution of bond financing to local agencies. Table 1 below summarizes states' methods for allocating multifamily bond financing.

Table 1. Methods for Allocating Multifamily Bond Financing

	QAP	First Come, First Served; QAP as Threshold for Tax-Exempt Bonds	Preference System Other than QAP (See Below)	Local Authorities Responsible for Allocation
Arizona			✍	
California			✍	
Colorado		✍		
Florida			✍	
Georgia				✍
Indiana	✍			
Maine		✍		
Maryland		✍		
Massachusetts		✍		
Michigan		✍		
Minnesota		✍		
New Jersey		✍		
New Mexico		✍		
New York		✍[1]		
North Carolina				✍[2]
Oklahoma		✍		
Pennsylvania		✍		
Texas			✍	
Virginia		✍		
Washington			✍	

Four states under study—California, Florida, Texas, and Washington—do use preference systems separate from the QAP to select projects for bond financing. California's tax credits and bond financing are allocated by two different agencies. The agency responsible for allocating bond financing, the California Debt Limit Allocation Committee, has instituted its own system for ranking requests for funds with different priorities than those used in the QAP. In Florida, the Florida Housing Finance Corporation allocates both the tax credits and bond financing. The scoring and ranking system for selecting projects for bond financing is similar, but not identical, to the system outlined in the QAP for

[1] The New York State Housing Finance Agency, which allocates multifamily bond financing and a portion of the state's tax credits, develops its own QAP and applies its threshold requirements to tax-exempt bond financing requests. The main QAP for the state of New York is developed by the New York State Division of Housing and Community Renewal (DHCR), a separate agency.

[2] North Carolina Housing Finance Agency (NCHFA) does require that developers seeking tax-exempt bond financing from local authorities submit an application to the state in order to receive the associated "automatic" tax credits. These projects must meet the threshold requirements in NCHFA's QAP.

tax credit project selection. In Texas, the Texas Department of Housing and Community Affairs also allocates both resources, but uses a lottery system rather than the QAP to select projects for bond financing. Projects serving tenants with lower incomes receive priority in the lottery. In Washington, the Washington State Housing Finance Commission has established a separate scoring system to rank projects applying for bond financing. In addition to these states, Arizona uses a lottery to allocate bond financing but does not apply a preference system to applicants.

Because few states have separate policy criteria for selecting projects to receive bond financing, much of the discussion below of methods of priority-setting refers to the allocation systems reflected in the QAPs. A full discussion of each state's tax credit and bond allocation process is included in the Appendix.

Sources of Information for Setting Priorities

While states have a great deal of latitude in setting priorities in their QAPs, Internal Revenue Code Section 42 does require that states consider certain policy-related criteria in their project selection processes. As revised at the end of 2000, the Code includes the following requirements:

- States must give preference in their QAPs to "projects serving the lowest income tenants," "projects obligated to serve qualified tenants for the longest period," and "projects which are located in qualified census tracts…and the development of which contributes to a concerted community revitalization plan."[3]

- The QAP must establish selection criteria related to project location, housing needs characteristics, project characteristics, sponsor characteristics, special needs tenants, public housing waiting lists, families with children, and projects intended for tenant ownership.

[3] A qualified census tract (QCT) is one in which 50 percent of households have incomes below 50 percent of the area median income and the poverty rate is 25 percent or greater.

- States must require “a comprehensive market study of the housing needs of low-income individuals in the area to be served” for each project receiving an allocation.

In addition to meeting federal statutory requirements, most state housing agencies combine information and expressed priorities from a number of sources in order to develop criteria for the selection of projects to receive tax credits and bond financing. These sources include the following:

- *Statute.* In several states, the statute that authorizes a housing agency to award tax credits or bond financing includes requirements for the allocation of those resources. For example, the California statute that designates the California Tax Credit Allocation Committee as the agency responsible for housing tax credit allocations requires that the agency reserve 60 percent of tax credits for projects aimed at large families and 10 percent of credits for projects with single room occupancy (SRO) units. Similarly, the statute authorizing the Texas Department of Housing and Community Affairs to allocate multifamily bond financing requires that the department give first priority to projects with 100 percent of units affordable to households at 50 percent of the area median income and second priority to projects with 100 percent of units affordable to households at 60 percent of the area median income.

- *Research and data analysis*. States may base their selection criteria on a formal assessment of rental housing needs or on a less formal, in-house analysis of housing-related data. For example, the Georgia Department of Community Affairs commissioned a formal needs assessment in 1999 in order to quantify housing needs by county. Georgia’s tax credit project selection process gives preference to projects located in higher-need counties.

  The use of research and data analysis as a basis for the allocation of tax credits and bond financing is explored in more detail in the following section.

- *Staff and Board opinions and knowledge*. Most states rely heavily on agency staff’s opinions and knowledge of housing trends in the setting of allocation policies and on Board members’ discussion and decisions. For example, Pennsylvania's QAP emphasizes housing for the elderly, people moving from welfare to work, and those with physical or mental disabilities; these priorities were based on Board members' interests and discussions.

- *Public input*. States generally hold public hearings to accept comment before their QAPs are finalized. These hearings allow housing professionals, advocacy groups, and individuals to contribute their ideas on the tax credit allocation process.

  A number of states also convene meetings or advisory committees of affordable housing professionals to collect outside input into allocation priorities. FHFC's public workshops are one example of a mechanism for collecting outside input. Similarly, New Jersey convenes an advisory group of for-profit and non-profit developers, bankers, syndicators, and others involved in multifamily housing production and financing to collect their ideas about the tax credit allocation process. Virginia convened a daylong "stakeholders" forum including local and state government staff, non-profit and for-profit developers, and special interest groups to discuss the tax credit allocation process.

- *Consolidated Plan*. The Consolidated Plan that states produce for HUD includes an assessment of housing needs and sets forth the state's priorities. A number of states incorporate these priorities into their QAPs. In North Carolina, for example, the percentages of tax credits allocated to the West, Central, and East regions of the state correspond to population distributions found in the Consolidated Plan.

- *Input from other state agencies*. Some housing agencies actively seek input from other state agencies to ensure that the housing developed under tax credit or bond financing programs meets other identified policy needs. For example, New Jersey's QAP sets aside significant tax credit resources for special needs housing with services, including housing for public assistance recipients and for the developmentally disabled. The New Jersey Housing and Mortgage Finance Agency sought input from the state's Department of Human Services in setting these priorities. Similarly, after discussions with the state corrections department, the Arizona Office of Housing and Community Development agreed to set aside tax credit resources for projects located within 15 miles of state prisons, where affordable housing for prison workers is scarce.

Table 2 summarizes the sources of information on which states based their QAPs.

Table 2. Main Sources of Information Underlying QAP Priorities

	Statute	Research & Data Analysis	Staff and Board Opinions and Knowledge	Advisory Committee or Public Comment	Consolidated Plan[4]	Other State Agencies
Arizona		✍	✍			✍
California	✍	✍	✍	✍		
Colorado		✍	✍	✍		
Florida		✍	✍	✍		
Georgia		✍	✍	✍		
Indiana	✍		✍	✍	✍	
Maine		✍	✍		✍	✍
Massachusetts	✍[5]		✍			
Maryland	✍[6]		✍			
Michigan	✍	✍	✍			
Minnesota	✍	✍	✍			
New Jersey			✍	✍		✍
New Mexico		✍	✍		✍	
New York			✍		✍	
North Carolina			✍	✍	✍	✍
Oklahoma			✍	✍	✍	✍
Pennsylvania		✍	✍			
Texas	✍	✍	✍	✍	✍	
Virginia		✍	✍			
Washington		✍	✍	✍		

[4] The 1997 GAO analysis of the tax credit program found that state agencies who administer the tax credit "primarily relied on Consolidated Plans to define their housing priorities," with about two-thirds of the agencies surveyed reporting that the Consolidated Plan was the primary source of information about housing needs (US General Accounting Office, 1997). In this analysis, however, we identify only those agencies in which staff or the written QAP specifically referred to the Consolidated Plan as a major data source. Since many of the needs assessments cited in QAPs are based on U.S. Census data, they likely generate similar priorities to the Census-based Consolidated Plans.

[5] While Massachusett's QAP priorities are not set by legislation, the plan does give scoring preference to projects in compliance with the Governor's recent Executive Order 418, which requires "all communities to take steps to create housing for individuals and families across a broad range of incomes."

[6] All projects must be located in areas authorized by Maryland's Smart Growth legislation.

The Use of Research and Data in Allocation Plans

Housing Needs Assessments

Housing needs assessments allow states to translate a general policy goal—the distribution of multifamily housing resources among geographic areas based on their relative housing needs—into criteria for the selection of projects. Most states under study use some type of needs assessment as part of the basis for their allocation of tax credit resources among geographic areas. Table 3 at the end of this section summarizes states' needs assessment methods.

There is no single, agreed-upon indicator of housing need. Instead, states have designed studies that incorporate one or several of the following indicators:

- *Cost Burden*. The most common indicator measured by states in their housing needs assessments is the number or percentage of renters in a county, region, or other area paying more than 30 percent or 50 percent of their income for housing.

- *Poverty or Low-Income Status*. States may designate areas with large numbers of households with incomes below 50 or 60 percent of the area median or living in poverty as high-need areas for housing. Often, states combine the cost burden and low-income status variables. For example, they may measure the number of households in a county with incomes below 50 percent of the area median who pay more than 30 percent of their income for rent. States may further divide these households between families and elderly households to determine the housing needs of each of these groups.

- *Supply of Affordable Housing Units.* Often, states that measure the number of cost-burdened or low-income households compare this number to the supply of subsidized housing or housing units with low rents in each area. The supply of affordable housing units may also be divided into family and elderly units, particularly if the state measures only the supply of publicly subsidized housing.

✍ *Substandard Housing*. HUD provides U.S. Census data identifying the number of substandard housing units to each jurisdiction that completes a Consolidated Plan. HUD's definition of a substandard unit containing "physical defects" includes units lacking complete kitchen or bedroom facilities and those without electricity. States may designate areas with large numbers of substandard units as having a high housing need.

✍ *Growth Rate.* Areas in which employment or population are increasing rapidly often experience affordable housing shortages, as new workers or residents compete for limited available housing. States may use high growth rates in counties or regions to identify areas with current or future affordable housing needs.

Most states measure several of these indicators in their needs assessments. In Texas, for example, the state legislature enacted a statute in 1999 requiring the Texas Department of Housing and Community Affairs (TDHCA) to develop a formula for allocating tax credits across the state's 10 Uniform Planning Regions based on each region's relative need for housing. Over the course of several months, the agency sought input from the public, the Texas A&M State Data Center, housing practitioners, and local officials to determine the most appropriate method of measuring housing needs by region. TDHCA devised a formula that includes three indicators: the number of unassisted renters with incomes below 50 percent of the area median paying more than 50% of their incomes for rent, the number of total households living in severely substandard housing, and the region's percentage of the State's population in poverty.

Once states determine the relative need for housing in each area, they must translate these measurements into a system for allocating resources. In the case of Texas, TDHCA assigned a weighted score to each region by combining the three indicators measured in the needs assessment, with the percentage of the state's poverty population weighted twice as heavily as the number of households with a cost burden or living in substandard housing. In 2001, TDHCA will distribute tax credits among the regions based on their weighted scores.

Other examples of the use of needs assessments to determine allocation of resources include the following:

- The Florida Housing Finance Corporation (FHFC) commissioned a statewide rental market study in 1998. That assessment estimated current and future numbers of renter households, income levels and subsequent affordable rent, and the supply of affordable rental housing in each Florida county. Based on this assessment, FHFC divided its tax credits among groups of similarly sized counties according to each group's demonstrated housing need. The Corporation allocated 64 percent of tax credits to Large Counties, 26 percent to Medium Counties, and 10 percent to Small Counties. Florida's distribution of multifamily bond financing mirrors this formula.

- Georgia's QAP contains locational scoring maps for general multifamily housing and elderly housing. To create these maps, the Georgia Department of Community Affairs (DCA) calculated each county's total unmet need for housing, defined as the number of households in the county with incomes between 30 and 60 percent of the area median income minus the number of rental units affordable to households at that income level. To account for counties with small populations but high affordable housing needs within that population, the state also calculated each county's relative unmet need for housing, defined as the number of households at 30-60 percent of the area median income divided by the number of units affordable to those households. The calculations for the general multifamily map include all households and rental units falling within the income and rent boundaries; the calculations for the elderly housing map include only households headed by persons of at least 62 years of age and only housing units designated as elderly housing by DCA, HUD, and USDA.

  DCA assigned each county a general multifamily housing score and an elderly housing score based on its total and relative unmet needs for each type of housing. Rural counties were ranked separately from non-rural counties. Projects located in higher-need counties receive preference in project selection.

- Michigan State Housing Development Agency (MSHDA) calculates a "County Needs Index" with a score for each county based on its growth, income level, and assisted housing supply. MSHDA measures counties' growth in population, property values, and employment since 1990 to create the growth component of the score, with higher growth indicating more housing need. The income component is comprised of measures of current family median income, change in median family income since 1990, and the current average weekly wage for the county; higher income counties are assumed to have lower affordable housing needs. The assisted housing component is comprised of counts of existing subsidized housing units and tax credit units per capita; higher numbers of existing assisted units are assumed to indicate a lower need for new units. Projects in high-scoring counties receive additional points in the scoring of tax credit applications.

- The Washington Center for Real Estate Research (WCRER) created a statewide housing needs analysis for the Washington State Housing Finance Commission. As Georgia's study did, the Washington study includes measures of absolute and relative unmet need for low-income rental housing. First, for each county, WCRER determined the number of households below 50 percent of county median income and the maximum affordable rent that these households could pay. WCRER then subtracted the number of subsidized housing units, market units with rents below the maximum affordable rent, and low-income owner-occupied units from the number of low-income households to produce the absolute number of affordable rental units needed in each county. Second, for each county, WCRER calculated the absolute number of units needed as a percentage of the number of low-income households to produce a relative measure of unmet need. The state Housing Finance Commission combined the absolute and relative measures of unmet need to create a scoring preference for projects located in counties with higher needs identified in the WCRER study.

Note that in most cases, states balance absolute measures of need with relative need measures to ensure that the most heavily populated areas are not designated the neediest simply because they are likely to generate high numbers of households with affordable housing needs. A relatively wealthy urban area with a small pocket of low-income neighborhoods might contain far more households with housing needs than a rural community in which nearly all residents need housing assistance. By combining measures of the number of households needing assistance with measures of the percentage of households needing assistance as a share of the community's population, states can ensure that both large and small communities receive assistance.

Table 3. Needs Assessment Methods

	Uses Needs Assessment in QAP?	Unit(s) of Analysis Studied	Variables Studied	Resulting Allocation Preferences
Arizona	N			
California	Y	Counties	Percentage of the state's population paying more than 30% of income for rent	Ceiling on percentage of tax credits that each county can receive
Colorado	Y	Counties and Metropolitan Areas	Renter households below 51% AMI experiencing substandard housing or overcrowding or paying more than 30% of income for rent	Additional points for counties or metropolitan areas with high percentages or numbers of households experiencing these problems
Florida	Y	Counties	Number of renter households Renter incomes Supply of affordable rental units	Set-asides of 64% of credits to Large Counties, 26% to Medium Counties, 10% to Small Counties
Georgia	Y	Counties	General/elderly rental households at 30-60% AMI Supply of rental units affordable at 30-60% of AMI Supply of subsidized units for the elderly Rural (not within an MSA) vs. Non-rural	Assigned scores to each county based on level of unmet general and elderly housing needs
Indiana	N			

	Uses Needs Assessment in QAP?	Unit(s) of Analysis Studied	Variables Studied	Resulting Allocation Preferences
Maine	Y	State-designated labor market areas	Number of senior and family renter households with incomes below 50% of market area median according to 1997 Claritas data Supply of existing subsidized units for seniors and families	Assigns high, medium, and low ratings to each labor market area based on the ratio of subsidized units to renter households and awards higher points to projects in higher-rated areas. Separate ratings for senior, family, and assisted living projects.
Maryland	N			
Massachusetts	N[7]			
Michigan	Y	Counties	Change in population, 1990 to date Changes in overall and residential property values, 1990 to date Changes in employment by place of work and place of residence, 1990 to present Current median family income Change in median family income, 1990 to present Average weekly wage Supply of subsidized and tax credit units per capita	Scoring preference for projects in counties with higher growth, lower income and lower supply
Minnesota	N			
New Jersey	N			
New Mexico	N			
New York	N			
North Carolina	N			
Oklahoma	N			
Pennsylvania	Y	Multi-county Regions	Percentage of households at or below 50% of median income	Dollar amounts of credits for each region

[7] Massachusetts mentions a “annual needs evaluation” in its QAP but does not identify specific higher-need locations or populations.

	Uses Needs Assessment in QAP?	Unit(s) of Analysis Studied	Variables Studied	Resulting Allocation Preferences
Texas	Y	Multi-county Regions	Severe cost burden (Renters below 50% AMI paying more than 50% income for rent) Households in severely substandard units Share of state's poverty population	"Regional Allocation Formula" setting aside dollar amounts of credits by region
Virginia	Y	Regions	2000 households below 60% area median income from Claritas Supply of tax credit units	
Washington	Y	Counties	2000 household income by county from Claritas Households below 50% county median income Supply of private-market units affordable below 50% county median income Supply of subsidized housing units Low-income owner-occupied units	

Use of Data to Fulfill Specific Policy Objectives

Several states incorporate data into their allocation of resources in a different way: they formulate specific policy objectives, collect data to determine the location or type of development that would best meet those objectives, and then provide the data to applicants so that they can determine whether their projects fit the identified objective. Often, the data come from another state agency that is involved in planning.

In many of these cases, the policy objective is to encourage affordable housing projects in areas showing signs of economic distress. North Carolina's QAP, for example, includes a scoring preference for projects located in "economically distressed areas." The state's Department of Commerce divides counties into five tiers based on local employment opportunity data, with the most economically distressed counties designated as "Tier One" or "Tier Two." The North Carolina Housing Finance Agency provides applicants with a list of Tier One and Two counties so that the applicants can determine whether their projects meet this criterion.

Similarly, Michigan sets aside at least 30 percent of its tax credits for projects in "eligible distressed areas." The state develops a list of eligible areas, which must meet at least one of the following three criteria: 1) have negative population change between 1970 and the most recent census, real and personal property value growth below the state average, and poverty and unemployment rates higher than the state average; 2) be designated as a blighted area by local government; or 3) be designated a Neighborhood Enterprise Zone by the Michigan Enterprise Authority. The list of communities with eligible areas is included in Michigan's unified application for multifamily housing financing.

Market Studies for Individual Projects

A third way in which data is incorporated into the resource allocation process is the requirement for market studies to establish the feasibility of individual projects. As noted above, the federal Section 42 Code now requires that all projects undergo a market study before they can receive tax credits. These studies include demographic data, such as the number of area low-income households, along with other information about the neighborhood surrounding the proposed development. This requirement also applies to developments that receive tax credits as a result of receipt of tax-exempt bond financing.

In some states, the developer must include a market study as part of the initial application; in others, projects that are selected for ranking or underwriting must then undergo a market study. In general, either the state or the applicant must engage an independent analyst to perform the study.

Like the overall needs assessments performed by states, the market studies are intended to ensure that projects are placed in areas where there are sufficient numbers of income-eligible households seeking housing. However, they differ in that the statewide assessments determine the areas with the greatest unmet *need* for housing so that states can direct more low-income housing to these areas, while market studies seek to determine the *demand* for an individual project: whether there are enough households of the appropriate size with incomes low enough to qualify for rent-restricted housing but high enough to pay necessary rents. Thus, a project located in a high-need area still might have difficulty succeeding if there is not sufficient demand for the units. In this way, site-specific market studies provide a useful supplement to states' determination of areas of housing need.

Types of Policy-Related Selection Criteria

To varying degrees, states' QAPs set aside tax credit resources or give additional ranking points to certain types of projects in order to fulfill the policy priorities identified through the state's decision-making process. Many of these policy-related selection criteria are required by the Section 42 Code, with the states' own research and observation confirming and refining the applicability of federal criteria to state-level needs.

Table 4 at the end of this section summarizes each state's policy-related criteria for tax credit and bond financing allocation processes. The most common types of these criteria include the following:

- *Family type and size*. The Section 42 Code requires states to include selection criteria in their QAPs that address the needs of families with children. Most states meet this requirement by providing additional scoring points for projects that include units for larger families; that is, projects with a portion of units containing three or more bedrooms. For example, a project in Michigan receives additional scoring points if at least 10 percent of its units contain three or more bedrooms.

Of the states under study, only California explicitly sets aside tax credits for large family units.[8] California reserves 60 percent of its tax credits for projects in which at least 30 percent of units contain three or more bedrooms.

At the other extreme, California also sets aside 10 percent of its tax credits for projects comprised of single room occupancy (SRO) units. SRO units cater to single adults without children and are intended to provide small housing units at very low rent levels for those who might otherwise be at risk of homelessness. Similarly, Maine sets aside $300,000 in tax credits for SRO projects of 30 units or less, and Minnesota gives additional scoring points to projects that contain at least 50 percent SRO units.[9]

- *Location.* Nearly all states set geographic criteria for the selection of tax credit projects. Most commonly, states attempt to distribute tax credits among different areas based on each area's relative need for affordable housing. As noted earlier, states reserve credits and give additional scoring points for projects in areas that some type of statewide assessment designates as high-need. Some states use these same criteria in the selection of bond-financed projects.

  In other cases, states establish geographic criteria in order to ensure that tax credit resources are distributed equitably across a state. Several states give additional points to projects located in cities or counties with few existing tax credit projects. For example, the New Mexico QAP identifies groups of "targeted" and "underserved" counties. These counties are those that have not received tax credit developments during the past several years or that have received a lower percentage of the state's tax credit dollars than their percentage of the state's population. Another common way in which states ensure equity in the distribution of tax credit resources is by setting aside a portion of

[8] While it does not reserve a specific percentage of tax credits for large family projects, Minnesota also gives priority to these projects in its initial selection of projects. Metropolitan-area projects that are selected in the first round of tax credit funding must either be composed of at least 75 percent two bedroom units, with one-third of these units containing three or more bedrooms; be composed of single room occupancy (SRO) units, with 75 percent of units affordable for persons with incomes of 30 percent of the area median or lower; or include substantial rehabilitation in a neighborhood targeted for revitalization.

tax credits for rural projects, which otherwise might not rank as highly as projects in metropolitan areas. In several cases, this preference applies only to projects receiving federal Rural Housing Service subsidies.

Finally, several states give preference for tax credits to projects located in areas of poverty or economic distress. Texas, for example, gives extra points to tax credit applications for projects located in counties in which 10 percent or more of households are in poverty. Similarly, a number of states provide extra points in their tax credit selection processes for developments located in HUD-specified difficult development areas (DDAs) or qualified census tracts (QCTs).[10]

- *Income targeting*. In accordance with the Section 42 Code requirement that states give preference to "projects serving the lowest income tenants," most states award extra points to tax credit projects with units affordable to and reserved for households with incomes at or below 50 percent of the area median.[11] A number of these states give additional points to projects containing units for households with still lower incomes. For example, Indiana gives additional points to developments containing 5 percent or more units for households at or below 30 percent of the area median income or to developments containing 15 percent or more units for households at or below 40-50 percent of the area median income. Projects with larger numbers of lower-income units receive more points.

  Texas and Washington also establish separate income targeting for their bond financing projects. In Texas, projects that reserve all of their units for households at 50 percent or 60 percent of the area median income receive priority, while in Washington, projects reserving 30 percent of their units for those at 50 percent of the median income receive additional scoring points.

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[9] As noted above, projects predominantly composed of SRO units are one of the permitted uses of first-round tax credit allocations in Minnesota.

[10] DDAs are those areas with high construction, land and utility costs relative to the area median income. See note 1 above for the definition of a QCT. The Section 42 Code specifies that states must give preference to projects that are located in QCTs and are part of a community revitalization plan.

At the same time, a number of states—Arizona, Indiana, Massachusetts, Michigan and Minnesota—use income targeting in their project selection processes to encourage economic integration through mixed income developments. Each of these states provides additional points for developments that contain higher-income, market-rate units along with income-restricted units.

- *Special needs*. All states under study give some type of preference to special needs housing in their tax credit selection processes, as directed by the Section 42 Code. The most commonly served special needs populations are the elderly, homeless persons, persons with developmental or physical disabilities, and those with chronic mental or physical illnesses. In most cases, the project sponsor must provide appropriate supportive services for the population in order for the project to receive preferential consideration.

  Many states both set aside tax credit resources for projects serving persons with special needs and award extra scoring points to these projects. Maine, for example, sets aside $300,000 in tax credits for assisted living facilities (ALF) for the elderly and also awards extra points to ALF proposals. Applicants must receive a funding commitment for the services associated with the facility from the Maine Department of Human Services in order to fulfill the set-aside and receive extra points.

  Texas and Florida also give preference in their bond financing selections to housing for those with special needs. Florida reserves bond financing for one elderly housing development each year and gives additional scoring points to developments that provide services to special needs populations. Texas requires that five percent of units in each multifamily project receiving tax-exempt bond financing be designed for special needs populations.

- *Local planning*. Finally, a number of states give preference in their QAPs to projects that can demonstrate that they meet local priorities. Some states award extra points to applicants who can

[11] Nearly all of the states also give preference to projects that extend rent and income restrictions for tax credit units beyond the minimum 15-year compliance period. Some states require that rent and income restrictions remain in place for 30 years and give preference to projects that keep use restrictions in place even longer.

demonstrate that their projects fulfill a local community development or housing plan. Others give points to projects that can demonstrate local government support through a letter of support or a tax abatement (GAO, 1997).

Of the states under study, New Jersey places the greatest emphasis on local planning. In its urban projects cycle, New Jersey sets aside 25 percent of its tax credits for projects that are part of approved neighborhood plans. New Jersey also awards extra points to projects applying under its urban and suburban cycles if they are located in areas with a municipal, county, or regional plan endorsed by the State Planning Commission as consistent with the New Jersey State Development and Redevelopment Plan.

Table 4. Summary of Policy-Related Preferences

	Family Size	Geographic	Local Planning	Income Targeting	Special Needs
Arizona **(Tax Credits)**	3-4 bedroom units	Rural Border counties or prison communities Rural projects with US Rural Development (RD) subsidies Located on tribal lands Located in Governor's Action Community (designated for neighborhood revitalization) City, town, or county not receiving tax credits in past 5 years Qualified Census Tract (QCT)	City- or county-designated redevelopment project or area	Includes market-rate units 20-50% area median income (AMI)	Homeless, Alzheimer's, mentally ill, emotionally disturbed youth, AIDS/HIV, domestic violence, substance abuse Elderly

	Family Size	Geographic	Local Planning	Income Targeting	Special Needs
California (Bond Financing)	3+ bedroom units	Located within employment center	Located in a Community Revitalization Area	Below 50% AMI or 50-60% AMI	
California (Tax Credits)	3+ bedroom units SROs	Rural Distribution to counties by need		30-50% AMI	Elderly Developmental disabilities, physical abuse survivors, homeless, farmworkers, chronically ill, teen parents
Colorado (Tax Credits)	Families with children	County with high need	Community with identified housing priority	40-60% AMI Below 30% AMI and special needs	Homeless, assisted living for elderly, developmentally disabled, mentally disabled, AIDS, physical handicap
Florida (Bond Financing)	3+ bedroom units	Distribution to counties by size Urban In-fill			Elderly Farmworker Tenant Services
Florida (Tax Credits)	3+ bedroom units	Division among Small, Medium, and Large Counties Rural projects receiving RD subsidies QCT Urban In-fill Counties under 50,000 population		Commitment to provide set-aside units beyond the minimum set-aside selected	Elderly Farmworker or Fishing Worker
Georgia (Tax Credits)		Counties with high need Rural In-fill		Below 50% AMI	Elderly Homeless, disabilities, domestic abuse, alcohol/drug addiction, HIV/AIDS, farmworkers

	Family Size	Geographic	Local Planning	Income Targeting	Special Needs
Indiana (Tax Credits and Bond Financing)	2-3 bedroom units	Distribution to cities and counties by size Underserved area QCT or difficult to develop area (DDA)		30-50% AMI Includes market-rate units	Elderly People with disabilities Homeless
Maine (Tax Credits)	SRO	Rural projects receiving RD subsidies High-need market area	Part of local neighborhood revitalization plan	40-50% AMI	Assisted living for elderly Homeless, mental or developmental disabilities
Maryland	3+ bedroom units	Rural		30-60% AMI	Assisted living, homeless, families in welfare-to-work program
Massachusetts (Tax Credits	Families with children	Municipality with less than 10% subsidized housing	In community complying with Executive Order to create affordable housing Part of neighborhood revitalization effort	Below 40% AMI Includes market-rate units	Assisted living for frail elderly, developmental disabilities, homeless
Michigan (Tax Credits)	3+ bedroom units	Eligible distressed areas Rural projects with RD subsidies Counties or census tracts with high need Underserved county		20-50% AMI Includes market-rate units	Elderly Special needs (unspecified)
Minnesota (Tax Credits)	2-3 bedroom units SROs	Rural projects with RD subsidies High-growth, high-need cities and counties QCT or DDA Underserved city	Greater Minnesota projects that meet locally identified need Part of cooperatively developed plan	30-50% AMI Includes market-rate units	Mental illness, developmental disability, drug dependency, brain injury, physical disability

	Family Size	Geographic	Local Planning	Income Targeting	Special Needs
New Jersey (Tax Credits)	3+ bedroom units	Underserved municipality	Part of neighborhood plan Area with a municipal, county, or regional plan endorsed by the State Planning Commission Meets court-ordered fair share requirement		Welfare-to-work participants Developmentally disabled Elderly HIV/AIDS, homeless, mentally ill, frail elderly, alcohol or substance abusers, physical disabilities, developmental disabilities, pregnant teens or teen parents, domestic violence victims
New Mexico (Tax Credits)		Counties without recent tax credit projects QCT or DDA Native American trust lands		40-50% AMI	Elderly Homeless, physical or mental disabilities, mental illness
New York (Tax Credits)			Part of housing or community development strategy	30-50% AMI Additional low-income units	HIV/AIDS, alcohol or substance abusers, mentally ill, homeless, physical disabilities, domestic violence, developmental disabilities, elderly and frail elderly
North Carolina (Tax Credits)	3-4 bedroom units	Distribution to regions by population Rural projects with RD subsidies Economically distressed counties		50-60% AMI	Elderly, mobility impaired handicapped Mental illness, developmental disability, substance abuse Homeless Farmworkers

	Family Size	Geographic	Local Planning	Income Targeting	Special Needs
Oklahoma (Tax Credits)		Rural Rural projects receiving RD subsidies High job-growth area Empowerment Zone/Enterprise Community QCT Disaster area		50% AMI or less	Elderly Mental and physical disabilities
Pennsylvania (Tax Credits)		Rural projects receiving RD subsidies Distribution to regions by need QCT	Part of community revitalization plan	40-50% AMI or less	Elderly Welfare-to-work HIV/AIDS, homeless, farmworker, physical or mental disability
Texas **(Bond Financing)**				Below 50% of AMI or 50-60% of AMI	
Texas **(Tax Credits)**	3-4 bedroom units	Distribution to regions by need Rural High-need or high-poverty counties Underserved area, DDA, QCT, area targeted for economic development		50% of AMI or less	Elderly Transitional housing for the homeless
Virginia (Tax Credits)	3+ bedroom units Families with children	Regions with fewer existing tax credit units QCT, DDA, state enterprise zone		30-50% AMI	Elderly, homeless, physically or mentally disabled
Washington (Tax Credits)	3+ bedroom units	Rural Rural projects receiving RD subsidies QCT or DDA High-need counties	Local government targeted area for low-income housing	30-50% AMI	Elderly, persons with disabilities, transitional housing for homeless Farmworkers

	Family Size	Geographic	Local Planning	Income Targeting	Special Needs
Washington (Bond Financing)	3+ bedroom units	QCT or DDA Counties underserved by previous bond financing	Part of economic development or community revitalization effort	50% AMI	

Set-Asides and Scoring: Designing a Preference System

Once the states have identified their policy priorities, they must implement a system that gives preference to projects that fulfill these priorities. All states use set-asides and scoring systems to select tax credit projects that meet their priorities. Some also use the QAP scoring system or a separate scoring system to rank projects for multifamily bond financing, but none use set-asides for this purpose. Thus, the analysis that follows refers largely to tax credit preference systems.

Set-Asides

Through set-asides, states reserve tax credit resources for projects of a particular type or location that meets the state's policy objectives. Most states require that a specified percentage of the total available tax credits in that round be allocated to a certain project type or location as long as all projects selected meet threshold requirements. For example, several states set aside a percentage of tax credits for rural projects. The state may award the entire percentage to one project, or it may award credits to several rural projects with the sum of the awards reaching at least the designated percentage of that year's tax credit allocation.

Arizona and Florida are unusual in that, in addition to setting aside percentages of its credits based on location, they specify a target number of specific types of projects to be awarded credits before other projects are considered. FHFC sets aside credits for two elderly housing developments, one development for farmworkers or fishing workers, and three urban in-fill developments. The Arizona Office of Housing and Community Development sets aside credits for one project in each rural Council of Government region, one project in a border or prison community, at least one Rural Development-subsidized project, one project located on tribal lands, and one project in a neighborhood that has been designated for revitalization under the Governor's Action Community program.

Florida is also unusual in that it reserves set dollar amounts rather than percentages of its total credit amount for several types of projects: $3 million for HOPE VI or Front Porch Florida projects, $100,000 for projects receiving Rural Development 515 program funds, and $200,000 for federally subsidized projects for farmworkers or fishing workers. Of the other states under study, only Maine and Pennsylvania reserve set dollar amounts of tax credits for certain project types.

Scoring

Scoring systems allow agency staff to rank applications based on their fit with policy objectives as well as a number of measures of project quality: the economic feasibility of the development, the amenities offered, the developer's history of compliance with agency requirements for previous projects, and so forth.

Scoring systems vary widely in the extent to which they emphasize policy objectives versus measures of project quality. In some cases, the number of points granted for meeting policy objectives is very small. The points might provide an incentive for developers to modify their projects or provide a way to break a tie between two otherwise equal projects, but it is possible for projects that do not receive any points for meeting policy priorities to be selected. For example, New York's scoring system offers a limited number of points for developments that target families with incomes lower than the tax credit maximums or that fit local housing plans, but no additional points for meeting other types of policy priorities. The points for public policy criteria alone are not sufficient to affect project selections significantly.

In other states, however, scoring criteria provide strong incentives to design projects that meet the state's policy priorities. In Georgia, for example, projects receive anywhere from 15 to 50 points of a possible total 200 points depending on their location by county. Projects in higher need counties receive higher point totals. Because the county need score is such a large part of the total score, projects located in high-need counties are much more likely to be selected than those in low-need counties. At the same time, Georgia's system provides more flexibility than a geographic set-aside system would, because applicants with projects in lower scoring counties may be able to compensate somewhat for this disadvantage by seeking a higher number of points under other criteria.

Conclusion

In sum, there is no single process by which states determine which types of populations and which geographic areas will receive special emphasis in tax credit and multifamily bond financing. Most states' allocation plans rely on data analysis and on input from housing practitioners and other state agencies, combined with a great degree of interpretation by agency staff members. As competition for tax credit and bond financing resources increases, states may be moving toward project selection systems that are based more heavily on assessment. Representatives from several states without needs assessments in place mentioned that their agencies had commissioned or were considering creating such an assessment, and two states that do not currently allocate bond financing on a competitive basis are considering doing so.

Even states that do use needs assessments rely on varying definitions of a community or population that "needs" housing. Some states direct housing resources to those areas with the most low-income residents; others favor projects in areas with the greatest gap between the number of low-income residents and the supply of low-income housing. In addition, most states balance their preference for high-need areas with measures to ensure equitable distribution of resources throughout a state. Thus, states might designate rural areas or those without significant previous allocations of resources as automatic high-need areas.

Despite the variations in states' decision-making processes and definitions of housing need, their preference systems tend to be quite similar. Common elements include preferences for large families, rural areas, neighborhoods undergoing revitalization, lower-income tenants, disabled tenants, homeless persons, and elderly tenants. These preferences are encouraged by the federal tax credit legislation and by states' desire to use subsidized housing as a mechanism to support populations needing special assistance. Rather than replace these preferences, the expanded use of needs assessments can help states pinpoint those specific areas and populations where developments serving these groups will be most effective.

Appendix 1. Case Studies of State Allocation Procedures for LIHTC and Bond Financing

Arizona

Arizona's Office of Housing and Community Development allocates the federal tax credit. The Office also selects multifamily projects to receive bond financing through an annual lottery, although the bonds are issued by a separate authority.

Arizona's QAP contains numerous set-asides. Arizona sets aside 10 percent of its tax credits for projects in rural areas—counties with population less than 400,000 or Census County Divisions under population 50,000. The QAP also sets aside credits for one project in each of the four rural Council of Government regions, one project located in a border county or within 15 miles of a state prison community, one or more Rural Development 515 projects, one project located on tribal lands, one project in a Governor's Action Community revitalization neighborhood, and one special needs project serving homeless persons or families, Alzheimer's victims, seriously mentally ill persons, seriously emotionally disturbed youth, developmentally disabled persons, AIDS/HIV victims, domestic violence victims, or victims of chronic substance abuse. These set-asides must be met only if applications demonstrate demand for the projects in their market studies. Finally, the QAP reserves $600,000 for a discretionary allocation by the state Governor.

Arizona's scoring system for tax credit projects favors projects that contribute to community revitalization, with extra points for developments located in a HUD-designated Qualified Census Tract (QCT) or that are part of a locally-designated redevelopment project or area. The scoring system also favors projects containing 3-4 bedroom units for large families; projects located in cities or counties that have not received tax credit allocations in the past five years; projects in which at least 80 percent of units are reserved for the elderly; and projects in which 100% of units are reserved for the special needs populations identified in the special needs set-aside.

Arizona's set-asides and scoring system are based largely on internal decisions and discussions with other state agencies, including the Governor's Office and the Department of Corrections. A 1999 study provided a statewide overview of housing needs but did not include local area data. The Office of Housing and Community Development plans to commission a more extensive needs assessment that will include information about local needs.

California

California divides its housing resource allocation responsibilities among a number of entities. The California Tax Credit Allocation Committee (CTCAC) allocates federal and state housing tax credits. The California Housing Finance Agency (CHFA) offers tax-exempt and taxable bond financing, but the affordable rental projects it finances compete with those financed by local authorities in a process overseen by the California Debt Limit Allocation Committee (CDLAC). Finally, the Department of Housing and Community Development offers other types of permanent financing for rental and transitional housing developments through the state's Multifamily Housing Program.

CTCAC uses California's QAP to guide the allocation of both the federal and state housing tax credits. The QAP contains an unusually large number of set-aside provisions, although a single project may fulfill the requirements for more than one type of set-aside. Most prominently, the state reserves most of its tax credits for certain family and unit types. CTCAC sets aside 60 percent of tax credit resources for projects serving large families, in which at least 30 percent of units must have three bedrooms or more. It also sets aside 10 percent of tax credits for single room occupancy (SRO) projects serving individuals whose incomes do not exceed 45 percent of the area median.

In addition, the QAP reserves 5 percent of tax credits for projects in which at least 25 percent of units serve special needs populations with incomes at or below 45 percent of the area median. Special needs populations might include the developmentally disabled, physical abuse survivors, persons who are homeless or at risk of homelessness, farmworkers, persons with chronic illnesses including HIV and mental illness, and displaced teen parents or expectant teen parents. The QAP also reserves 15 percent of tax credits for projects in which all tenants are elderly, 20 percent of credits for projects in rural areas, and 10 percent of credits to preserve federally subsidized rental housing.

In addition to these set-asides, California places a ceiling on the distribution of tax credits in each county to ensure that tax credits are distributed equitably. A county's ceiling is equal to its percentage of population paying more than 30 percent of income for rent, as determined by the 1990 Census. Other set-asides take precedence over the geographic distribution.

California's tax credit scoring criteria largely mirror its set-aside provisions. Large family, at-risk federally subsidized housing, SRO, special needs, and elderly projects receive extra points. The QAP also includes a strong scoring advantage for projects that serve tenants with incomes between 30 and 55 percent of the median income; the lower the income targeting, the more points the project receives.

Many of the priorities reflected in California's QAP are mandated by statute, including the set-asides for large family units and SROs. Other decisions largely reflect agency staff experience and public comment.

Applications for multifamily bond financing undergo a two-step process. First, developers apply to the California Housing Finance Agency for bond financing, which CHFA offers in the form of a first mortgage. CHFA does not perform a selection process. Instead, CHFA applies to the California Debt Limit Allocation Committee on behalf of all of the applications it receives. CDLAC, in turn, ranks these projects against other applications for projects that are submitted by local jurisdictions.

The CDLAC selection system does not include specific set-asides, but CDLAC does divide applications into three pools: mixed-income projects, rural projects, and other projects. Mixed-income and rural applications are ranked only against other applications in the same category. If a mixed-income project is not funded, it is not eligible for consideration in the pool of other projects, but rural projects that do not receive funding in the rural pool may compete in the pool of general projects.

In general, CDLAC uses the same scoring preferences in each of the three pools. CDLAC places a high priority on targeting units toward lower income groups. Projects receive a large scoring advantage if they include a high percentage of units affordable to households at 50 percent of the area median income or less or a smaller scoring advantage if they include a high percentage of units affordable to households at 50-60 percent of the area median income. Mixed-income projects receive lower scoring advantages for including the lower-income units than do other projects. CDLAC gives additional points to projects that restrict rents to levels that are at least 20 percent below market rates for comparable developments.

In addition to income targeting, CDLAC offers points for projects that provide units of three or more bedrooms for large families, that are located within one mile of employment sites and in a sub-county area whose three-year employment growth exceeds the statewide average by at least 10 percent, and that are located in a Community Revitalization Area. To receive points under the Community Revitalization Area criterion, the housing program must be involved in community partnerships or programs that benefit the surrounding neighborhood, the project must be located in an area where funds have been expended for infrastructure improvements, or other residential and business development must be underway in the area.

Colorado

The Colorado Housing and Finance Agency allocates the federal housing tax credit, a new state tax credit, and multifamily bond financing. Projects receive bond financing on a first-come, first-served basis but are required to meet the minimum threshold criteria outlined in the QAP.

Colorado's QAP does not contain policy-related set-asides other than a set-aside for HOPE VI projects. Its scoring system gives preference to projects located in high-need areas, defined as counties or metropolitan areas with a high percentage of renters with incomes below 51 percent of the area median who are experiencing substandard housing, overcrowding, or a cost burden. The scoring system also favors projects for families with children; projects with a higher percentage of units affordable to tenants at 40, 50, and 60 percent of median income than required; projects that reserve at least one-third of units for the homeless, assisted living for the elderly, or supportive housing for persons with chronic disabilities; or projects in which 10-30 percent of units target residents at or below 30 percent of the area median income.

While the Housing and Finance Agency has not commissioned a formal needs assessment, it regularly consults the state's HUD economist to learn about local market conditions. The preference for supportive housing for special needs tenants was based on discussions with agencies providing services to the homeless.

Florida

The Florida Housing Finance Corporation (FHFC) allocates both the federal tax credit and multifamily bond financing. Unlike most other state housing agencies, FHFC has designed separate, although similar, selection criteria for each program.

FHFC uses set-asides to direct housing to specific areas and priority populations. In the QAP, FHFC sets aside 64 percent of its tax credit resources for large counties, 26 percent for medium-sized counties, and 10 percent for small counties. The QAP also sets targets for several types of developments: in each round, FHFC seeks to allocate tax credit resources to two elderly housing developments, one farmworker or fishing worker development, one urban infill development containing at least 75 percent high-rise units, and two other urban infill developments. These targets supercede the geographic set-asides. In addition, the QAP reserves specific dollar amounts of credits to meet various policy priorities: $3 million for HOPE VI or Front Porch Florida projects, $100,000 for projects receiving Rural Development Section 515 subsidies, and $200,000 for projects that reserve 100 percent of units for farmworkers or fishing workers and will receive Rural Development Section 514 or 516 subsidies.

Florida's tax credit scoring system rewards projects with family units of three bedrooms or greater; projects located in qualified census tracts (QCTs); projects located in counties with fewer than 50,000 residents; and projects that meet state, regional, and local housing needs. The scoring system also rewards projects that meet the targets listed in the set-aside section: elderly housing, farmworker or fishing worker housing, and urban infill projects.

In the allocation of multifamily mortgage revenue bond financing, Florida provides scoring points based on the number of "public policy criteria" that a development meets. These criteria include the provision of at least 20 percent family units with three or more bedrooms, the provision of various types of tenant services for families or elderly persons, the extension of rent restrictions beyond the minimum required by federal statute, and setting aside additional units for low income tenants. FHFC then targets the top-scoring projects for selection in the same categories it uses for tax credit projects: elderly, urban in-fill, rehabilitation, and farmworker developments. The bond allocation also follows the same geographic split as the tax credits: 64 percent to large counties, 26 percent to medium-sized counties, and 10 percent to small counties.

The division of tax credit and bond resources by county size is based on a 1998 needs assessment commissioned by FHFC. Other policy objectives are set by the FHFC Board based on staff and public input, particularly through a series of public workshops held by FHFC.

Georgia

The Office of Affordable Housing of the Georgia Department of Community Affairs allocates the federal LIHTC as well as a state tax credit. However, the department allocates its multifamily bond financing authority to local finance authorities, which are responsible for selecting projects for bond financing. Thus, the QAP addresses only the tax credits.

Georgia's QAP contains only one policy-related set-aside, which designates 30 percent of tax credits for projects located in rural areas. Instead, Georgia's scoring system serves to direct projects to counties with the greatest housing need. Each year, agency staff create two maps showing housing need by county: one applying to general multifamily projects and one applying only to elderly housing projects. For the general multifamily map, each county receives a score of 15 to 50 points depending on a formula that includes the county's total unmet need for housing (the estimated number of households with incomes between 30 and 60 percent of the area median income minus the number of rental units that are affordable to those households) and the county's relative unmet need for housing (the ratio of similarly low-income households to the number of units affordable to them). Total unmet need accounts for 75 percent of the county ranking decision, and relative unmet need accounts for 25 percent. Rural and non-rural counties are ranked separately; the rural ranking takes into account both need and the number of recent tax credit and HOME projects in the county, while the non-rural ranking is based on need only. The elderly housing map is determined in a similar way, except that only households headed by a person 62 years of age or older and only units that receive state or federal subsidies for elderly housing are counted. Because an applicant can receive up to 50 of 200 total points based on the location of the project, the geographic scoring system heavily influences which projects are selected, and projects are rarely selected in counties designated as the lowest-need areas.

In addition to the geographic scoring system, Georgia offers more limited incentives to projects that serve tenants with lower incomes or special needs. The QAP awards points to developments that reserve five percent or more units for households with incomes at or below 50 percent of the area median, projects that are completely reserved for elderly tenants, and projects that reserve at least 50 percent of units for special needs populations such as homeless persons, persons with disabilities, abused spouses and their children, alcohol- or drug-addicted persons, persons with HIV/AIDS, or migrant farmworkers. Special needs projects must provide supportive services in order to receive additional points. Finally, the QAP encourages certain development patterns, awarding extra points to infill developments and developments located adjacent to "stable, occupied residential development.

Georgia's geographic point system originally was based on a 1999 statewide housing needs assessment. Since that time, agency staff have revised and refined the scoring system annually. Other scoring priorities are based on staff knowledge and opinions as well as public input; for example, staff solicits comment on the QAP from the Georgia Affordable Housing Coalition, a group of for- and non-profit real estate developers, investors, and property managers.

Indiana

The Indiana Housing Finance Authority (IHFA) allocates the state's LIHTC resources and selects projects to recommend to the Indiana Development Finance Authority for multifamily bond financing. IHFA uses the QAP scoring criteria to select projects for bond financing as well as tax credit projects. Set-aside requirements apply only to tax credit projects.

Indiana sets aside a portion of its tax credits based on the size of the city or county in which the project will be located. Twenty-five percent of credits are reserved for large cities (population 25,000 +), 10 percent for small cities (population 10,000-24,999), and 15 percent for rural counties (population 9,999 or less). Indiana also sets aside 10 percent of its tax credits for developments reserving at least 80 percent of units for elderly tenants and 10 percent for units that provide housing for people with physical or mental disabilities.

Indiana's scoring criteria are divided into five categories: constituency served, development characteristics, financing, market, and other factors. The "constituency served" category awards points for meeting a number of policy objectives, including, in descending order according to the number of related points: offering resident services, mixing market-rate units in low-income projects, targeting households at 30 to 50 percent of area median income, and providing units for persons with disabilities or homeless persons. In the "market" category, developers may win extra points for locating in a town with less than 150 existing tax credit or bond-financed units in which a market study indicates an affordable housing shortage. The market category also includes points for development in a QCT or difficult to develop area (DDA). Finally, the "development characteristics" category includes points for the inclusion of two- and three-bedroom units for families.

Many of the priorities in the QAP are based on the Housing Needs Assessment of Indiana's Consolidated Plan. The QAP notes that this assessment identified needs for rental housing throughout the state, with a more pronounced shortage in urban areas; a shortage of units for single-parent families, low-income persons generally, the elderly, persons with disabilities, and large families; and a need for transitional housing for the homeless. IHFA translated these identified needs into the geographic set-asides, the set-aside for elderly housing, and higher point values for developments serving large families or homeless persons. Other sources of information leading to the policy objectives in Indiana's plan include agency staff's experience and feedback from developers.

Maine

The Maine State Housing Authority allocates the federal tax credit and multifamily bond financing. Bond financing is allocated on a first-come, first-served basis.

Based on its Consolidated Plan, Maine places a high priority on SRO housing for single adults and assisted living facilities (ALF) for the frail elderly. Maine holds a tax credit funding round for these types of housing outside of its normal allocation process, reserves $300,000 in credits each for SROs and ALFs, and gives a strong preference to ALF projects in its scoring system. ALFs must have a commitment of services from the Maine Department of Human Services in order to receive funding.

Maine gives scoring preferences to projects based on their location in high-need state labor market areas. The Housing Authority designated 35 labor market areas in the state, each grouped around economic activity in a particular city, county, or region. The Authority then determined each area's relative need for housing by dividing the number of subsidized units for families and seniors by the number of family and senior renter households with incomes below 50 percent of the labor market area's median, as determined by 1997 Claritas data. The Authority used these ratios to create two lists ranking each market area as high-, medium- or low-need for senior housing and family housing. The Authority also created a similar list of 31 regions for which it classified the need for ALFs.

Maine also sets aside $75,000 in credits for projects with a funding commitment from the Rural Housing Service and gives scoring preferences to projects that target households at 40-50 percent of the area median income, projects that are part of a local neighborhood revitalization plan, and projects that give preference in at least 20 percent of units to homeless or displaced persons, people with mental or developmental disabilities, or other special needs populations.

Maryland

The Maryland Department of Housing and Community Development allocates the federal tax credit and multifamily bond financing. Bond financing is allocated on a first-come, first-served basis, with projects required to meet the minimum threshold criteria in the QAP. However, as demand for bond financing increases relative to available supply, Maryland is considering instituting a competitive process for bond financing.

All projects seeking tax credits must be located in a "Priority Funding Area" under Maryland's Smart Growth Initiative. These areas include municipalities, areas inside the Baltimore and Washington beltways, state-designated Neighborhood Revitalization Areas, federal and state empowerment zones, county-designated priority areas such as rural villages, and certified heritage areas. Most other state spending is also restricted to these areas.

Maryland's QAP does not contain specific policy-related set-asides, but 10 percent of the annual credit ceiling is set aside as a "Secretary's Reserve" for special projects that are considered outside of the normal competitive process. These usually consist of projects that are high priorities for local governments.

Maryland's scoring preferences favor projects in rural areas, projects with units targeting families from 30 to 60 percent of the area median income, and special needs facilities such as assisted living, homeless shelters or transitional housing, three or more bedroom units for large families, and units serving families in a welfare-to-work program. The Department of Housing and Community Development based these decisions on staff knowledge and the federal tax credit legislation. The Department has not commissioned a formal needs assessment but is considering doing so.

Massachusetts

Massachusetts divides its allocation responsibilities between two agencies. The Massachusetts Department of Housing and Community Development (HCD) allocates the most of the federal tax credits and a new state housing tax credit. The Massachusetts Housing Finance Agency allocates multifamily bond financing and the federal tax credits associated with tax-exempt bonds. Applications for bond financing are approved on a rolling basis and are not ranked competitively.

Massachusetts' QAP does not set aside tax credits based on policy priorities but does provide a scoring system. Several of Massachusetts' scoring preferences favor projects that encourage economic integration. Projects receive extra points if they include market-rate units or if they provide housing for large families in a municipality with less than 10 percent subsidized housing. They receive a stronger scoring preference if they are located in communities that are certified by HCD as complying with Executive Order 418, which encourages "all communities to take steps to create housing for individuals and families across a broad range of incomes."

Scoring preferences also favor projects that reserve at least 10 percent of tax credit units for tenants with incomes at or below 40 percent of the median and projects that are part of a locally approved neighborhood revitalization effort. Finally, special needs projects with appropriate design and services receive extra points, including assisted living facilities for the frail elderly and housing for persons with developmental disabilities, the homeless, and families with children.

Michigan

The Michigan State Housing Development Authority (MSHDA) administers the tax credit and multifamily bond financing programs. As in many states, bond financing is allocated on a first-come, first-served basis to projects that meet underwriting standards or, in the case of projects that will also receive automatic tax credits, QAP threshold requirements.

MSHDA sets aside 30 percent of its tax credits for projects located in "eligible distressed areas." These are defined as areas that either 1) have experienced negative population change between 1970 and the most recent census, real and personal property value growth below the state average, and poverty and unemployment rates higher than the state average; 2) have been designated as a blighted area by local government; or 3) have been designated a Neighborhood Enterprise Zone by the Michigan Enterprise Authority. MSHDA also sets aside 10 percent of its credits for rural projects receiving Rural Development subsidies and 10 percent for elderly projects.

Michigan's scoring system for tax credits contain a number of policy-related criteria. The system gives preference to areas with higher need. Applicants receive points for locating a project in a high-need census tract and a lesser number of points for locating in a high-need county or in a central city. Scoring also gives preference for location in counties with fewer than 100 existing tax credits, for projects in a "renaissance" economic development zone, and for projects that can demonstrate local support through a tax abatement.

MSHDA also uses the scoring system to affect the incomes served in tax credit projects. Applicants can receive a large number of points by targeting lower-income residents. Michigan uses the statewide rather than area median income to evaluate project targeting, with projects receiving preference if they serve tenants with incomes between 20 and 50 percent of the statewide median. At the same time, MSHDA encourages mixed-income developments; applicants can receive a small number of extra points by including at least 20 percent market-rate units in a tax credit development.

Finally, MSHDA uses its scoring system to encourage housing that serves special needs populations or large families. An applicant can receive a large number of points for a project that is entirely devoted to special needs populations and a smaller number of points for projects that reserve some units for persons with special needs. All special needs developments must provide related services. Also, projects can receive a small number of points if at least 10 percent of its units are intended for large families and include three or more bedrooms.

MSHDA's geographic scoring preferences are based on a county-by-county needs assessment produced annually by the agency's marketing division. The assessment measures each county's population change, 1990 to date; changes in overall and residential property value, 1990 to date; employment by place of work and place of residence, 1990 to date; current median family income; change in median family income, 1990 to date; current average weekly wage; supply of subsidized housing units per capita; and existing LIHTC allocations per capita. Counties receive higher scores if they are experiencing high population, property value, and employment growth; if they have lower incomes; and if they have fewer subsidized units and LIHTC allocations. Other state agencies, including Michigan's Office of Management and Budget, Treasury Department, and Employment Security Administration, supply most of the data included in the needs assessment. MSHDA purposely chose indicators that would reflect more recent data than the 1990 Census.

Other bases of decision-making for Michigan's preference system include state statute, which mandates the set-asides for projects in distressed areas, rural projects, and elderly projects, and staff experience.

Minnesota

The Minnesota Housing Finance Agency (MHFA) allocates the federal tax credit and multifamily bond financing. However, MHFA allocates a portion of its credits to a number of city or county "suballocating" agencies, which select projects independently. Bond financing is available from MHFA on a first-come, first- served basis throughout the year. Bond-financed projects receiving automatic tax credits must meet the QAP's minimum threshold requirements but do not compete with tax credit projects in the selection process.

Minnesota's primary geographic set-aside is a split of tax credits between the Minneapolis-Saint Paul metropolitan area and the remainder of the state, known as Greater Minnesota. The allocation of tax credits is based on each area's share of the state's public assistance recipients. In practice, this yields a nearly even split of credits between the two areas. The set-aside applies both to credits that MHFA allocates itself and those distributed by suballocators.

Local governments may apply to MHFA to become suballocators of tax credits, and the suballocation amounts themselves are based on geographic formulas intended to reflect variation in housing needs. In Greater Minnesota, each suballocator receives an amount of credits based on its population relative to the entire Greater Minnesota region. MHFA also sets aside 25 percent of Greater Minnesota tax credits for small projects financed by Rural Development. In the metropolitan area, cities or counties with high growth and a shortage of affordable rental housing receive more credits. Specifically, the amount of credits is based on the suballocating jurisdiction's share of the region's households paying more than 50 percent of income for rent, 1988 employment, 1988 to 2000 employment growth, 1988 households, and 1988 to 2000 household growth. MHFA currently is updating this formula based on the results of the 2000 Census, with input from the State Demographer's office, the Minnesota Department of Trade and Economic Development, and the Minnesota Department of Human Services.

Minnesota's set-aside procedure also differs from that of the other states under study. MHFA requires a concurrent "first round" of competition for the tax credits it allocates and those distributed by suballocators. MHFA places strict limits on the types of projects that are eligible for selection during this first round, with all selections meeting specific policy objectives. In the metropolitan area, projects must: 1) contain at least 75 percent SRO units for households with incomes at or below 30 percent of the area median; 2) contain at least 75 percent family units with at least two bedrooms, with at least one-third of these units containing three or more bedrooms; or 3) involve "substantial rehabilitation" in a neighborhood "targeted by the city for revitalization." In Greater Minnesota, projects must be able to demonstrate that they "meet a locally identified housing need." In either region, projects are also allowed if they reserve a portion of their units for persons with a mental illness, developmental disability, drug dependency, brain injury, or physical disability; if they preserve federally subsidized housing at risk of deterioration or conversion to market-rate housing; or if they receive Rural Development financing.

MHFA does not assign a percentage of tax credits to each of these types of projects. If all tax credits available are not allocated to projects meeting these criteria, MHFA and the suballocators may hold subsequent allocation rounds, during which these set-asides do not apply.

MHFA applies its scoring system only to the projects it selects to receive tax credits. Suballocators may set their own ranking systems. MHFA's system includes preferences for projects that serve the same populations favored by the set-asides. Thus, projects with SRO units, large family units, or units reserved for persons with special needs receive additional points. The system also rewards developments targeted toward lower-income tenants, with extra points for projects with all or a portion of units affordable to those with incomes of 50 percent of the area median and additional points if the projects include units affordable to tenants at 30 percent of the area median income. At the same time, mixed-income developments with at least five percent market-rate units receive a slight scoring advantage. Finally, the scoring system includes a slight advantage for projects located in QCTs or DDAs, in areas previously underserved by the tax credit program, or in areas with a "cooperatively developed housing plan."

Minnesota's complicated suballocation and set-aside systems are largely mandated by statute. Decisions about the scoring system are based on MHFA senior staff's experience and input from a committee of local housing and economic development authorities, focus groups of developers, and public hearings on the QAP.

New Jersey

The New Jersey Housing and Mortgage Finance Agency (NJHMFA) allocates the federal tax credit and multifamily bond financing for the state of New Jersey. While bond financing is available on a first-come, first-served basis, with tax-exempt bond-financed projects receiving automatic tax credits subject to the minimum threshold requirements of the QAP, New Jersey has a highly complicated selection system for tax credit projects.

New Jersey divides its tax credit allocations into four concurrent "cycles": Urban Cycle, Suburban/Rural Cycle, HOPE VI Cycle, and Special Needs Cycle. The Special Needs Cycle includes housing with services for persons with HIV/AIDS, homeless persons, the mentally ill, frail elderly, alcohol or substance abusers, persons with physical disabilities, persons with developmental disabilities, pregnant teens or teen parents, participants in welfare-to-work programs, and victims of domestic violence. Developers apply for credits through the cycle that applies to their project type, and projects compete only with other applications in their respective cycles. NJHMFA may hold a final cycle in which any type of project can compete if all credits are not allocated in the four initial cycles.

Each cycle has a different set of set-aside criteria, with two of the cycles including policy-related set-asides. The Special Needs Cycle sets aside $210,000 in tax credits for projects that reserve 10 percent of units for participants in Work First or General Assistance welfare-to-work programs and an equal amount for projects that provide housing and services for developmentally disabled persons. The Urban Cycle sets aside 25 percent of credits for projects that are part of a neighborhood plan and 15 percent of credits for elderly housing projects.

The scoring criteria for the four cycles are largely the same, but the policy objectives included in each vary slightly. The Urban Cycle includes extra points for developments that provide units of three or more bedrooms as well as slight advantages for projects located in areas with few recent tax credit projects and those located in areas with state-endorsed plans. The Suburban/Rural Cycle also gives preference to large family projects and those located in areas with plans, but rewards more strongly those projects that help fulfill New Jersey's court-ordered "fair share" distribution of affordable housing among communities. Scoring in the Special Needs Cycle is designed to attract projects with a strong supportive service component; these projects must contain a minimum level of services and receive extra points if they offer additional services. Applicants also receive points if the developer or on-site service provider can demonstrate experience in special needs housing. Finally, the Special Needs Cycle provides extra points to projects that meet the state's set-aside for units serving Work First or General

Assistance participants and reserve all of the remaining units for tenants with incomes at or below 60 percent of the area median.

The New Jersey selection process is not based on a formal needs assessment. Rather, staff developed the system with input from other state agencies, the Governor's office, those commenting on the plan in the QAP public hearing, and an allocation advisory group comprised of for-profit and non-profit developers, bank representatives, tax credit syndicators, and other members of the affordable housing industry.

New Mexico

The New Mexico Mortgage Finance Authority (MFA) allocates the federal tax credit and half of the state's multifamily bond financing. The state Board of Finance allocates the remaining bond financing. MFA accepts bond financing applications on a rolling basis. Projects must receive at least half of the threshold score in New Mexico's QAP in order to receive bond financing.

The only policy-related set-aside in New Mexico's QAP is a 10 percent set-aside of credits for projects receiving Rural Development subsidies. New Mexico's tax credit scoring system favors projects in five "target" counties and four "underserved" counties. These areas either have not received a tax credit project in the previous seven years or have had a lower percentage of tax credit dollars allocated to them than their percentage of the state's population. New Mexico's scoring criteria also favor developments in a QCT or DDA, projects in which the average income is 40-55% of the area median, projects for the elderly, projects on Native American trust lands or owned by a Native American entity, and projects in which at least 25 percent of units are set aside for the homeless, people with physical or mental disabilities, or people with chronic mental illness.

MFA set its policy-related selection preferences based on public hearings, and, to a larger extent, informal input from constituencies concerned with housing; data from the Consolidated Plan showing needs for assistance to Native Americans; and data from the University of New Mexico predicting an increase in the state's elderly population.

New York

The New York State Division of Housing and Community Renewal (DHCR) is the main agency that allocates the LIHTC and a state housing tax credit. DHCR allocates some federal tax credits to three suballocating agencies: the New York State Housing Finance Agency, which also allocates multifamily bond financing; the New York City Department of Preservation and Development; and the Development Authority of the North Country. The State Housing Finance Agency develops its own QAP, which it uses to set threshold requirements for projects receiving federal tax credits in conjunction with tax-exempt bond financing and to set selection criteria for projects applying for federal tax credits along with taxable bond financing.

The DHCR QAP does not contain set-aside requirements. The scoring criteria give preference to projects that serve lower-income tenants. Applicants may receive points for targeting units toward households with incomes of 30, 40, or 50 percent of the area median and for including more low-income units than are required by the LIHTC program. The scoring system also gives extra points to projects that fit locally identified needs or are part of a local housing or community development strategy. Finally, the scoring system confers a slight advantage on projects that reserve at least 15 percent of units and provide services for special needs populations, including persons with HIV/AIDS, mental illness, physical disabilities, or developmental disabilities; substance abusers; homeless persons; the elderly and frail elderly; and those escaping from domestic violence.

The DHCR QAP is based on the state's Consolidated Plan, and all projects must show that they fit within that plan. Projects also must demonstrate that they fit within the local Consolidated Plan if one exists. The scoring advantages for projects serving lower-income tenants are based on the Section 42 requirement for this type of preference. In other policy-related areas, agency staff chose not to impose stringent scoring criteria to allow for flexibility in project selection.

North Carolina

The North Carolina Housing Finance Agency (NCHFA) allocates the federal LIHTC and North Carolina's state housing tax credit. The QAP's requirements and criteria apply to both state and federal tax credit allocations. Multifamily bond financing is issued by local authorities rather than NCHFA, although developers must submit an application to NCHFA and meet the QAP threshold requirements in order for a project receiving tax-exempt bond financing to receive the associated tax credits as well.

North Carolina's QAP contains one policy-related set-aside provision: an allocation of tax credits based on the state's regional population distribution, with 15 percent of tax credits reserved for the West region, 50 percent for the Central region, and 35 percent for the East region.

Scoring criteria favor projects located in rural areas and, to a lesser extent, projects located in economically distressed counties. The scoring system encourages applicants to include a portion of units for tenants with incomes below 50 percent of the county median, particularly in counties with higher median incomes. The scoring also rewards special needs projects that set aside at least 25 percent of units for the elderly, mobility-impaired handicapped, homeless persons, or farmworkers or that set aside at least 10 percent of units for persons with mental illness, substance abuse problems, or developmental disabilities. Applicants must provide a supportive service plan to receive points for a special needs project. Finally, North Carolina's scoring system offers a slight advantage to projects in which at least 25 percent of units contain 3-4 bedrooms. Applicants seeking points for these large family units must also provide a supportive service plan.

The demographic analysis contained in North Carolina's Consolidated Plan forms the basis of North Carolina's set-aside system. The scoring system is based on agency staff opinions and decisions, with input from the public and participating developers.

Oklahoma

The Oklahoma Housing Finance Agency (OHFA) allocates the federal tax credit and multifamily bond financing. Projects receive bond financing on a first-come, first-served basis, with bond-financed projects required to meet the minimum threshold criteria outlined in the QAP.

OHFA sets aside 15 percent of its tax credits for elderly housing, 10 percent for projects receiving subsidies from Rural Development, and 10 percent for other rural projects. Many of the scoring preferences in the QAP direct projects towards areas where housing might support economic health: areas with job growth, HUD- or Rural Development-designated Empowerment Zones and Enterprise Communities, QCTs, and disaster areas. Oklahoma also gives scoring preference to projects in which at least 10 percent of units are targeted toward families at or below 50 percent of the area median income and those that reserve units for the elderly, persons with mental or physical disabilities, and other special needs populations.

OHFA's current selection criteria are not based on a statewide needs assessment, but OHFA is in the process of creating an assessment. Many of the preferences stem from input solicited from developers, who encouraged OHFA to concentrate on elderly and rural developments. Other sources of information include the Consolidated Plan, which provided information about areas of job growth; the State Department of Commerce, which directed OHFA toward areas of economic growth and Empowerment Zone/Enterprise Communities; and discussions with staff from other OHFA divisions, who encouraged a greater emphasis on special needs housing.

Pennsylvania

The Pennsylvania Housing Finance Agency (PHFA) administers the federal tax credit and multifamily bond financing. Applicants for bond financing must satisfy the minimum threshold criteria in the QAP, and the Agency's Board occasionally considers other QAP scoring criteria in bond financing decisions to ensure that a project is needed.

Pennsylvania's QAP sets aside dollar amounts of its tax credits for each of six regional groups of counties. Regions receive tax credits in proportion to their percentage of households at or below 50 percent of the region's median income, as calculated by researchers at Penn State University. PHFA also sets aside up to $200,000 for projects receiving Rural Development subsidies.

The QAP gives scoring preference to a number of types of special needs projects: elderly housing, housing with services for people moving from welfare to work, housing for people with physical or mental disabilities, transitional or permanent housing for the homeless, and farmworker housing. Applicants for tax credits under these preferences must identify a service plan and service provider. Pennsylvania's QAP also gives scoring preference to projects located in a QCT, projects reserving at least 20 percent of units for tenants with incomes at 40 percent of the area median or less, projects with rents affordable to those at 50 percent of the area median, and projects that use existing housing as part of a community revitalization plan. Most of these scoring preferences are based on the federal tax credit legislation and internal Board decisions. PHFA also conducts an annual housing industry focus group to review Pennsylvania's tax credit program as a whole.

Texas

The Texas Department of Housing and Community Affairs (TDHCA) oversees selection of projects for the federal tax credit and multifamily bond financing programs. While TDHCA itself allocates the tax credits based on the QAP, the agency participates in a lottery administered by the Texas Bond Review Board to obtain the authority to issue bonds on behalf of projects.

The Texas QAP outlines a Regional Allocation Formula, which assigns a percentage of tax credits to each of Texas's eleven Uniform State Planning Regions. The formula incorporates three criteria: the region's share of the state's unassisted renters with incomes below 50 percent of the area median who pay more than 50 percent of their income for housing; the region's share of renter and owner households with incomes below 50 percent of the area median who live in severely substandard housing; and the region's share of the state's population in poverty. These numbers come from the 1990 Census and will be revised when 2000 Census figures become available. TDHCA combines these percentages, weighting the poverty population twice as heavily as the other two indicators, to create a percentage score for each region. The plan calls for each region to receive that percentage of tax credits as well as HOME and state housing trust fund dollars. In addition to the Regional Allocation Formula, Texas sets aside 15 percent of its tax credits for rural projects and 10 percent for elderly developments.

Texas supplements the allocation of tax credit resources by region with scoring preferences for high-need counties and localities. Projects located in counties with 10 percent or more of households in poverty or 20 percent or more of renter households paying more than 30 percent of their income for rent receive preference, as do projects located in QCTs, DDAs, counties targeted by the state for economic development, an Empowerment or Enterprise Zone, or a tax increment financing district.

The scoring system also places a priority on units aimed at particular subpopulations. It gives the greatest advantage to transitional housing and service programs for homeless persons. Projects that provide accessible housing and appropriate services for the elderly, that are comprised of at least 15 percent 3-4 bedroom units for families with children, and that include units for households with incomes at or below 50 percent of the area median also receive preference.

Recent state legislation required TDHCA to develop the Regional Allocation Formula, which will be used for the first time this year. Other bases for decisions about the plan's priorities include the Consolidated Plan, which places priority on transitional housing for the homeless and on housing for tenants with incomes below 50 percent of the area median, and agency staff experience.

As noted above, Texas uses a lottery rather than a scoring system to choose projects to receive bond financing. However, the state does give first priority for bond financing to projects in which rents on all units are affordable for tenants at 50 percent of median income, second priority to projects in which rents on all units are affordable for tenants at 60 percent of median income, and third priority to all other qualified projects.

Virginia

The Virginia Housing Development Authority (VHDA) allocates the federal tax credit and multifamily bond financing, while the state Department of Housing and Community Development allocates a state housing tax credit. Bonds are allocated on a first-come, first-served basis, although the state has discussed implementing a competitive process. Projects seeking bond financing must meet a slightly lower threshold score in the QAP than tax credit projects.

VHDA sets aside about two-thirds of its tax credits for allocation across various regions: 15.4 percent in Northern Virginia, 11.45 percent in the Richmond area, 14.69 percent in the Tidewater area, 10.68 percent for small metropolitan areas, and 17.78 percent for rural areas. These percentages represent each area's share of households below 60 percent of the area median income, as listed in year 2000 marketing data from Claritas, minus its share of existing tax credit units.

Virginia's QAP gives scoring preference to developments in which at least 20 percent of units contain three or more bedrooms; projects located in a locally identified area, DDA, state enterprise zone, or QCT; developments reserving units and restricting rents for tenants at 30, 40, and 50 percent of median income; and housing for the elderly, homeless, physically disabled, or mentally disabled. These scoring preferences are based largely on staff discussion and knowledge.

VHDA currently is developing a new needs assessment in cooperation with the Department of Housing and Community Development. As part of this needs assessment, the two agencies conducted a series of regional housing forums throughout the state to identify critical housing needs. VHDA also convenes an annual stakeholders forum to discuss ways to improve the tax credit program. The July 2000 forum included representatives from local governments, state government, non-profit developers, for-profit developers and special interest groups. Topics discussed included hard-to-do projects, geographic distribution and locality support, new construction versus rehabilitation, targeting mixed income and special needs populations, and balancing housing quality and quantity.

Washington

The Washington State Housing Finance Commission administers the federal tax credit program and multifamily bond financing. Unlike in most states, the Commission has developed separate project selection systems for the two programs.

Washington's QAP contains just one policy-related set-aside: 15 percent of tax credits for projects in rural counties, including projects receiving Rural Development subsidies. The QAP's scoring system strongly emphasizes the development of units at lower income levels than the 60 percent of median income allowed by the federal tax credit law. The strongest scoring preference is for projects reserving a high percentage of units for tenants at 30-50 percent of the area median income. The QAP also contains a geographic needs scoring system, with projects receiving various amounts of points depending on the county in which they are located. Projects must reserve at least 51 percent of housing units for tenants with incomes at or below 50 percent of the area median in order to qualify for geographic scoring points. Finally, the scoring system favors projects with at least 20 percent of units containing three or more bedrooms; projects in a DDA, QCT, or area targeted for low-income housing by local government; projects receiving Rural Development subsidies; projects located in certain rural counties; projects with all units reserved for the elderly; farmworker housing; and projects reserving at least 20 percent of units for persons with disabilities or for transitional housing for the homeless.

The county-by-county scoring system is based on the Statewide Housing Market Study/Housing Needs Analysis prepared by the Washington Center for Real Estate Research (WCRER) at Washington State University. WCRER's analysis estimates the gross need for affordable rental housing in each county as the county's number of households at or below 50 percent of the county median income, as indicated in year 2000 Claritas marketing data, minus the number of homeowner households at that income level. Based on a series of surveys of rental housing developments, WCRER estimated the number of market-rate, multifamily rental units that would be affordable to households at 50 percent of median income in each county. WCRER also performed a survey to determine the number of subsidized rental housing units in each county. Finally, WCRER calculated each county's absolute need for affordable rental units (gross need minus affordable market-rate units and subsidized units) and relative housing need (absolute need as a percentage of the county's total households). The Housing Finance Commission combined these two measures of need to rank counties and assign point values to each.

The Housing Finance Commission also scores multifamily bond financing applications in order to select projects. Most of the criteria are similar to those in the QAP, with preferences for projects in which 15 percent of units contain three or more bedrooms; projects located in a DDA, QCT, or area targeted by the local jurisdiction; projects reserving 30 percent of units for tenants at 50 percent of median income; and projects that are part of a local economic development or community revitalization effort. Projects seeking bond financing also receive points based on the county in which they are located. Unlike with tax credit projects, however, the Commission assigns points to counties based on their share of past bond financing resources, not on the gap between the number of low-income renters and affordable units.

Appendix 2. The Use of Housing Needs Assessments by County Housing Finance Agencies

As a supplement to the national comparison of state housing finance agencies' allocation policies, we surveyed county housing finance agencies (HFAs) in Florida to determine whether they base the allocation of multi-family bond financing on housing needs assessments.

We reached representatives of 16 of the 20 county HFAs identified by the Florida Division of Bond Finance as having issued multi-family bonds in the past 10 years:

? Alachua County Housing Finance Authority

? Charlotte County Housing Finance Authority

? Housing Finance Authority of Clay County

? Collier County Housing Finance Authority

? Duval County Housing Finance Authority

? Hillsborough Housing Finance Authority

? Housing Finance Authority of Lee County

? Housing Finance Authority of Manatee County

? Miami-Dade County Housing Finance Authority

? Orange County Housing Finance Authority

? Osceola County Housing Finance Authority

? Housing Finance Authority of Palm Beach County

? Pasco County Housing Finance Authority

? Pinellas County Housing Finance Authority

? Housing Finance Authority of Polk County

? Housing Finance Authority of St. Johns County

Of these 16, 10 HFAs were able to provide actual or estimated totals of the amount of bonds issued and the units produced under their multi-family bond financing programs. These 10 agencies had issued over $1.76 billion to finance approximately 32,745 multi-family units.

Extent of the Use of Needs Assessments

For the most part, county HFAs do not use needs assessments to guide their allocation of multi-family bond financing. Of the HFAs listed above, only the authorities in Miami-Dade County and Pinellas County use needs assessments as part of their allocation processes.

In many cases, allocation of multi-family bond financing proceeds on a "first-come, first-served" rather than competitive basis. In others, allocations are competitive, but project selections are not targeted toward the locations or populations experiencing particular housing needs that a needs assessment would reveal. In still other cases, this targeting does take place but is not based on a formal needs assessment.

Of the 14 HFAs surveyed that do not use needs assessments:

- ? Five (St. Johns County, Alachua County, Osceola County, Clay County, and Polk County) do not use a competitive process to allocate bond financing.

- ? Six (Palm Beach County, Lee County, Pasco County, Collier County, Duval County, and Manatee County) use a competitive selection process but do not target resources toward particular locations or populations.

- ? One (Charlotte County) directs bond financing toward developments for the elderly and large families in conjunction with FHFC's tax credit allocation preferences.

- ? One (Orange County) gives preference to developments in areas targeted by the IRS for bond financing or within five miles of an employment center, but these preferences are not based on a formal needs assessment.

- ? One (Hillsborough County) will give preference to developments for the elderly this year, but that preference is not based on a formal needs assessment.

Four of the HFA's that do not target bond financing resources toward particular locations or populations nevertheless indicated that they collaborate with the local planning department to ensure that housing is located appropriately. Collier County HFA consults housing studies produced by the County Department of Housing and Urban Improvement. St. Johns County HFA will consult a needs assessment to be completed by the County planning department. Osceola County HFA consults with the County planning department to determine the department's development priorities for various planning sectors. Duval County HFA consults with the Jacksonville planning department to ensure that developments meet requirements such as zoning and concurrency.

Contents of Needs Assessments

Miami-Dade County HFA commissioned a needs assessment for multi-family housing for very low- and low-income households, which was completed in February 2001. The study estimates the need for affordable apartments for households below 50 percent of the area median income and between 50 and 80 percent of the area median income for the periods 2000-2005 and 2005-2010. The study further breaks the need for housing for each of these groups into County Commission districts and income subgroups. Finally, the study estimates the need for large family units and elderly housing units in each of those time periods and districts.

Pinellas County HFA uses a needs assessment commissioned by the Pinellas County Community Development Department in 1995. The HFA plans to commission a new assessment when 2000 Census data becomes available. The existing needs assessment addresses multi-family housing as part of a larger study that also covers population growth, demographics, employment, the overall housing market, and ownership housing in the county. The rental housing section of the study examines the following:

? The current supply of rental housing units.

? Total forecasted rental housing demand for 1995-1999, 2000-2004, 2005-2009, and 2010-2014.

? Demand forecasts for these time periods by income level, County planning sectors, and household size.

? A comparison of rents and vacancy rates in five apartment submarkets in Pinellas County.

? The number of public housing, Section 8, and other subsidized housing units by County planning sector.

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