# Effect of QAP Incentives on the Location of LIHTC Properties

Multi-Disciplinary Research Team Report

U.S. Department of Housing and Urban Development | Office of Policy Development and Research

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**U.S. Department of Housing and Urban Development**
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## About MDRT

PD&R developed the Multidisciplinary Research Team (MDRT) vehicle to manage a team of qualified researchers. Researchers are selected for their expertise to produce an array of high quality, short-turnaround research. MDRT researchers use a variety of HUD and external data sources to answer research questions relating to HUD's priority policies and strategic goals.

## Disclaimer

# Table of Contents

# List of Tables

## Appendix A: Associated Tables List



## Appendix B: Detailed Description of QAP Changes

# 1. Introduction

Recent research has examined the siting patterns of Low Income Housing Tax Credit (LIHTC) developments, but the reality is that the LIHTC program is not one uniform, national program. Rather, the program is administered by state allocating agencies, each of which has considerable discretion over how to allocate tax credits. In particular, each state issues a Qualified Allocation Plan (QAP), which outlines the selection criteria the state will use when awarding its nine percent tax credits. Some criteria are required by the federal government, such as setting aside at least 10 percent of credits for nonprofit developers and using the minimum amount of tax credit financing feasible. However, states are also allowed to adopt additional criteria that further the state's housing policy and other goals, such as providing set-asides for developments with existing housing subsidies, including the HOPE VI Program, or awarding bonus points for locating developments in particular types of neighborhoods. As the competition for credits has increased, it seems likely that these criteria play a greater role in shaping where tax credit developments are built.

QAP features vary considerably across states and often change radically within a state over time. This analysis examines whether and how the features of QAPs shape siting patterns of tax credit developments. In particular, we study changes in the location criteria outlined in QAPs for 21 different states across the country between 2002 and 2010 and observe whether and how those modifications are associated with changes in the poverty rates of the neighborhoods where developments awarded tax credits are located.

Specifically, we address two key research questions:

1. Are changes in QAP priorities between 2002 and 2010 associated with changes in the poverty rates of the neighborhoods where LIHTC developments are built?
2. Do different priority structures appear to be more effective in driving the location of LIHTC developments?

# 2. Background and Literature Review

Established as part of the Tax Reform Act of 1986, the LIHTC Program is now the largest federal program supporting place-based, affordable rental housing in the United States. The LIHTC program includes both nine percent credits, which the Treasury Department allocates annually to states on a per capita basis, and four percent credits, which are not capped, and can be used to support low-income rental developments financed through tax-exempt bonds. Because developments with tax-exempt bond financing essentially receive four percent credits as of right, they do not go through the competitive process set forth in QAPs. Thus, our focus here is on the allocation of nine percent credits, which should be directly shaped by the QAPs.

When the LIHTC program first started, the state per capita allocation of nine percent credits was set at $1.25 per person residing in the state. Since 2002, the Internal Revenue Service (IRS) has periodically increased state allocation to take into account inflation. As of 2015, it stands at $2.30 per person, though small states are assured a minimum credit allocation, which was set at $2,680,000 in 2015.

Once allocated to a developer, the credits provide a dollar-for-dollar offset against federal income tax liability. Most developers monetize the credits by selling them to an investor at less than par and use the money they receive for the credits, along with debt financing, to build the project. In exchange, the investor receives a 10 year stream of tax credits so long as the project remains compliant. The total value of outstanding credits, including those allocated through the four percent credit, is estimated to reach close to $8 billion in 2016 (White House, 2015). By the end of 2012, the program had helped to create 2.5 million total rental housing units (U.S. Department of Housing and Urban Development, 2015).

States issue tax credits to developers to support the construction or rehabilitation of low-income rental housing developments in which at least 20 percent of units are occupied by tenants with incomes of less than 50 percent of area median income (AMI) or at least 40 percent of units are occupied by households with incomes of less than 60 percent of AMI. Rents for low-income units must be limited to levels affordable to households at these income levels. Projects must meet these requirements for a minimum of 30 years to qualify. Although the rules allow for a mix of rent-restricted and market-rate units, the overwhelming majority of LIHTC developments in practice contain only low-income, rent-restricted units. Moreover, many units are occupied by households earning incomes that are significantly less than the statutory AMI target (O'Regan and Horn, 2013).

As noted above, state housing agencies are required to issue QAPs, which are generally updated every year or every other year. A QAP outlines the criteria the agency will use to select developments to receive tax credits and provides guidance to developers applying for credits. Many of these criteria relate to neighborhood location, either directly or indirectly.

Some stated priorities incentivize the creation of housing in neighborhoods offering a rich set of opportunities for residents by providing developers with bonus points for providing access to certain amenities or by building units in neighborhoods with low-poverty rates. Some QAPs include language that describes opportunity broadly and others specifically mention amenities such as public transportation, public schools and employment centers. Similarly, some states focus on spreading out LIHTC developments across many neighborhoods, and provide priority for projects that are not near to other assisted housing.

Other policy priorities, such as neighborhood revitalization, encourage the creation of LIHTC housing in high-poverty neighborhoods. All states are required to give a preference to developments that are located in qualified census tracts (QCTs)—tracts with a poverty rate of at least 25 percent or in which at least half of the households have incomes of less than 60 percent of area median income—and which contribute to a community revitalization plan.[1] Much of the existing criticism of this requirement under the federal statute has focused on the fact that states have prioritized developments located in QCTs but have interpreted the community revitalization plan requirement so flexibly as to fail to make it a binding constraint (Orfield, 2005; Roisman 1998). As a result, states may be prioritizing areas with a concentration of poverty with no coincident attention paid to neighborhood revitalization. Most states delegate the designation of a community revitalization plan to the local government where the project will be built. Furthermore, while the federal statute requires that states give "preference" to projects that are located in QCTs subject to a community revitalization plan, it provides no specific guidance on what constitutes such a plan.[2] Some states provide a point bonus while others use set-asides to prioritize development in QCTs.[3]

State Housing Finance Agencies (HFAs) also designate set-asides and point bonuses for housing preservation and neighborhood redevelopment. One common example includes giving priority to projects that propose to use tax credits as part of a HOPE VI/public housing redevelopment, which can increase the share of tax credits allocated to developments in high poverty areas. Additionally, QAP policies that align tax credits with Community Development Block Grants (CDBGs) may influence the siting of LIHTC developments because CDBGs are generally allocated to areas in need of revitalization. Grantees can use CDBG funds either for activities that directly benefit low or moderate income residents or for activities that benefit areas of low or moderate income households.[4]

Other features of QAPs, which may not directly appear to be tied to specific neighborhood characteristics, could also influence siting decisions. For example, many QAPs give a priority to projects that obtain community and/or local government approval. Such local approval incentives, or in some case requirements, may indirectly drive tax credit developments to high-poverty neighborhoods as residents and community leaders in higher income neighborhoods may be more likely to reject LIHTC proposals (Khadduri, 2013). Many states also create rural set-asides or provide bonus points for siting in those areas or using Rural Housing Service funds. If rural developments are more likely to be sited in high-poverty neighborhoods, then this set-aside could indirectly lead to poverty concentration. Similarly, although states are required to have non-profit set-asides, some reserve larger than required percentages for non-profits.[5] It is

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[1] Statutorily Mandated Designation of Difficult Development Areas and Qualified Census Tracts for 2015, 79 Fed. Reg. 59,855 (Oct. 4, 2014).

[2] Colorado's HFA provides a poignant illustration of this lack of guidance, by noting in its 2010 QAP, that "Until such time as the Internal Revenue Service provides a definition of a 'community revitalization plan…'" Colorado Housing Finance Agency, 2010 Qualified Allocation Plan (2009).

[3] We include in Appendix C the full set of definitions for the states in our sample for community revitalization plans.

[4] http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/systems/idis/cdbg/nocdescriptions

[5] 26 U.S.C. § 42(h)(5) (requiring that states set aside at least 10 percent of the credits to projects where a non-profit is to own an interest in the project and will "materially participate . . . in the development and operation of the project throughout the compliance period.)

possible non-profit developers are more likely to develop projects in high-poverty neighborhoods, given their commitment to serve low-income neighborhoods and populations, and in this way the set-aside could indirectly lead to more poverty concentration.

One important policy change that occurred during our study period was the introduction of the Housing and Economic Recovery Act (HERA) in 2008. As a part of HERA, Congress amended the LIHTC statute to give states the flexibility to provide a 30 percent “basis boost” for projects where additional subsidy was required in order to make a project “financially feasible.” Prior to HERA, the basis boost had only been available to projects located in QCTs or Difficult Development Areas (DDAs).[6] On the one hand, insofar as this merely reflects a change in the size of the subsidy provided to each project rather than a change in the allocation priorities themselves, we would expect these changes to have only minor impacts on location outcomes, at least on the supply side of the credit allocation market. On the other hand, insofar as many states used locational criteria in determining eligibility for the HERA basis boost, these policies would likely affect the projects developers identify in their credit applications. Further, the availability of a potential basis boost outside of QCTs might have made developers less likely to apply for credits for projects in QCTs, weakening the effect of any priorities for QCTs.

Existing literature on the siting patterns of LIHTC developments shows that LIHTC units are located in neighborhoods with poverty rates that are higher than average for metropolitan areas and for the country as a whole but lower than those of the neighborhoods where public housing and other forms of project-based, subsidized rental housing are located (Newman and Schnare 1997; Cummings and DiPasquale, 1999; Rohe and Freeman, 2001; Freeman 2004; McClure 2006; Ellen et al, 2009). McClure (2006) shows that the relatively large proportion of LIHTC developments built in the suburbs appears to largely explain the greater share of LIHTC developments located in low-poverty neighborhoods as compared to other forms of assisted housing. McClure reports that between 1987 and 2002, roughly half of the LIHTC units built in suburban jurisdictions were located in census tracts with poverty rates of less than 10 percent.

For the program as a whole, the neighborhood patterns appear to be relatively stable. Ellen et al. (2009) find little change in siting patterns between the start of the program and the early 2000s. They show that in each decade, roughly one third of LIHTC units placed in service in metropolitan areas were built in low-poverty census tracts (defined as tracts with poverty rates of less than 10 percent) and just over 20 percent were located in high-poverty census tracts (defined as tracts with poverty rates greater than 30 percent).

That said, there is considerable variation across states. For example, our analysis shows that only 2.3 percent of LIHTC units in developments allocated tax credits between 2011 and 2013 in Arizona were located in low-poverty neighborhoods, while more than 40 percent were located in

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[6] Difficult development areas are defined as areas designated by HUD “which has high construction, land, and utility costs relative to area median gross income.” 26 U.S.C. § 42(d)(5)(iii).

low-poverty neighborhoods in neighboring Nevada. It is possible that the locational priorities outlined in the QAPs of the two states underlie these stark differences in siting patterns.

To date there has been no empirical exploration of how QAPs shape siting patterns of LIHTC developments. This report fills this gap in our knowledge through an examination of how changes in state QAPs correlate to changes in the types of neighborhoods where tax credit projects are sited within the state.

# 3. Data and Sampling

Our key aim is to assess how changes in the priorities for different neighborhood attributes stated in QAPs are associated with changes in neighborhood siting patterns. To do so, we rely on three sources of data: the text of QAPs to capture changes in state priorities; LIHTC project allocation data from states to examine changes in siting patterns; and census data on census tract poverty rates to characterize neighborhoods.

## QAPs

To assess how different state priorities are shaping the neighborhoods where LIHTC developments are located, we review state QAPs for the years 2002 and 2010, largely available through Novogradac.[7] We focus on changes between the 2002 and 2010 QAPs to avoid studying how QAP features affect allocations during the middle years of the 2000s, when the market for tax credits dramatically contracted as developers were unable to secure the private financing required to take advantage of the program. In many states, we also use "change" documents detailing the changes between QAPs in two consecutive years from 2003 to 2010 that are posted on the Novogradac's web site and state HFA's web sites.

## Allocation Data

To capture siting patterns in the early part of the last decade, which would have been guided by the 2002 QAP, we focus on developments receiving nine percent credits between 2003 and 2005. We rely on HUD's "LIHTC Developments Placed in Service" dataset, though we supplement in several cases with data from individual state HFAs.[8] To track siting patterns in more recent years, after the 2010 QAP was adopted, we examine siting patterns for projects allocated nine

[7] In a few cases, where QAPs are missing from the Novogradac website, we obtained these from individual state housing finance agencies. Occasionally, we needed to refer to a 2009 QAP if a state did not issue a 2010 QAP. Specifically, we looked at the following URLs: http://www.novoco.com/low_income_housing/lihtc/qap_2002.php and http://www.novoco.com/low_income_housing/lihtc/qap_2010.php. Maryland and Washington did not include many of the siting policies in the QAP itself, but rather in a supplementary document. Washington's policies are found in "Exhibit D" Policies Tax Credit Application, which can be accessed at this URL: http://www.novoco.com/low_income_housing/resource_files/qap/washington_policies_10.pdf. We received Maryland's policy documents directly from the Maryland HFA.

[8] As the HUD data was not always complete, missing some allocation years, we relied on the state lists to fill in gaps. Specifically, we supplement HUD data on allocations between 2003-2005 in Georgia, Indiana, Mississippi, New Jersey, Massachusetts, and Wisconsin.

percent credits from 2011–2013. Because HUD's LIHTC project placed-in-service database does not have sufficient coverage for recently allocated projects, we instead use allocation data for 2011–2013 from the websites of state HFAs.[9,10]

## Neighborhood Poverty Rates

We use 2000 decennial census data to describe the poverty rate of the neighborhoods (or census tracts) with tax credit allocations between 2003 and 2005. We use 2006–2010 American Community Survey (ACS) data to describe the poverty rate for neighborhoods receiving tax credit allocations between 2011 and 2013. For each state, in each time period, we calculate the average neighborhood poverty rate for LIHTC units.

We also examine the share of tax credit units in low-poverty, moderate-poverty, high-poverty, and extremely high-poverty census tracts. Low-poverty census tracts have poverty rates of less than 10 percent, moderate-poverty tracts have poverty rates between 10 and 30 percent, high-poverty tracts have poverty rates between 30 and 40 percent, and extremely high-poverty tracts have poverty rates of more than 40 percent. For each state, we also calculate the census tract distribution of rental housing units more generally across these categories to test if LIHTC units are more or less concentrated in high-poverty neighborhoods compared to the rental stock as a whole. To construct these measures of the distribution of the broader rental housing stock within a state, we use the 2000 Census and the 2009-2013 ACS.

## Sample

To arrive at our final sample of states, we prioritize those with more units funded by the LIHTC program and those with more QAP change documents available between 2002 and 2010. We omit states for which 2002 or 2010 QAPs are missing and states without publicly available award and reservation information for 2013. Our sample includes 21 states: Arizona, California, Colorado, Connecticut, Florida, Georgia, Indiana, Kentucky, Maryland, Massachusetts, Mississippi, Nevada, New Jersey, New Mexico, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, Washington, and Wisconsin.

We omit a few states with large LIHTC programs because of missing information. We omit New York, Illinois and Minnesota because we were not able to obtain comprehensive data on allocations, in part due to the existence of multiple allocation agencies in all three states. We omit Ohio because changes in the QAP were ambiguous. (The state shifted from including quantitative to non-quantitative allocation criteria in its QAP between 2002 and 2010.)

Table 1 includes a description of the units allocated during both our time periods in each of these states. For the most part states allocate a similar volume of tax credits in both time periods. As

[9] For Massachusetts and Pennsylvania we needed to contact the state directly to fill in gaps of missing data.

[10] These data do not have information on the number of bedrooms in each unit and thus we cannot attempt to separate out family developments from elderly developments.

expected, the two largest states in our sample, California and Texas, allocated the most tax credits during this period.

# 4. Methodology and Analysis

As noted above, there are many stated priorities in QAPs that might guide developers' neighborhood choices. We focus on five major categories of priorities states use to decide on how to allocate their credits: (1) high-opportunity neighborhoods, (2) proximity to amenities, (3) approval by the community, (4) furthering investment in blighted neighborhoods, and (5) avoiding concentrations of affordable housing. These categories were chosen because they appeared—in some form—in most of the states we reviewed. Furthermore, we expect all of these criteria to be correlated with neighborhood attributes and to thereby affect a developer's decision about where to propose and build a project. We did not complete the analysis for non-profit or rural set asides, as these categories are not as clearly tied to the poverty rates of a neighborhood, and there is a lot of missing data in both these categories.[11]

The various priorities that states use illustrate different approaches to balancing the competing objectives of locating housing in neighborhoods that provide tenants with access to beneficial amenities such as good schools and jobs with furthering new investment in blighted neighborhoods.[12]

Table 2 includes a summary of our five categories and the predicted relationship between changes in these priorities and changes in the neighborhoods where tax credit projects are sited.

## Categories of QAP Allocation Priorities

<u>(1) High-Opportunity Neighborhoods</u>: States are increasingly prioritizing high-opportunity neighborhoods directly. For example, the Massachusetts 2010 QAP includes a policy that rewards the siting of a development in an "opportunity area" with 14 points (approximately 7.5 percent of the total possible number of points). In Massachusetts, an "opportunity area" is defined as one in which less than 10 percent of the municipality's housing stock is subsidized and less than 15 percent of the population is below the poverty line.[13] Similarly, the Texas 2010 QAP provides a 30 percent increase in qualified basis to developments in high-opportunity areas.[14] In Texas, a high-opportunity area is defined as one located in a census tract that has Area Median Gross Household Income higher than that of the county or place in which it is located, is

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[11] For non-profit allocations, we do not have complete data on which projects were built by non-profits, and therefore could not assess how changes in QAP priorities for non-profits affected siting. For rural set asides, we do not have data from the states indicating whether an allocation is a rural or an urban allocation, and would have had to make assumptions about which areas states consider rural vs. urban to complete the analysis.

[12] Most of the locational priorities adopted appear to either support location in high-poverty or low-poverty neighborhoods, which may have had the intended effect of reducing LIHTC development in moderate poverty neighborhoods.

[13] Massachusetts QAP 2010, p. 38.

[14] Texas QAP 2010. P. 6-7.

located within a census tract with a poverty rate of 10 percent or less, has good access to public transit, or is located in a school attendance zone with an 'Exemplary' or 'Recognized' rating.[15] Neither Massachusetts's nor Texas's incentives for high-opportunity areas existed in 2002.

To be clear, a basis boost will not increase the chance that a proposed development receives an allocation of credits from the state. Such a boost may, however, encourage more developers to propose projects in high-opportunity neighborhoods because the basis boost makes the potential tax credits more valuable.

Some states encourage development in high-opportunity areas in more subtle ways. For example, the Mississippi QAP provides a schedule of points given to developments located in each county in the state. In 2002, the state provided the most points for development in the most impoverished counties,[16] but by 2010, the state provided the most points to developments in counties that had the highest per capita incomes.[17]

Although each of the states we identify as prioritizing high-opportunity neighborhoods defines these target areas differently, they are often defined with respect to the level of poverty (low-poverty rates being demonstrative of high-opportunity), and they all aim to reach higher income or lower poverty neighborhoods. Thus, we would expect that the average neighborhood poverty rate for tax credit units would decline in states that increase their prioritization of high-opportunity neighborhoods.

<u>(2) Access to Amenities</u>: Many states, instead of broadly defining opportunity, specifically take into account a project's proximity to particular amenities when allocating tax credits. States prioritize proximity to amenities because of the benefits that tenants could receive from those amenities. Good schools especially can provide better educational opportunities which may lead to improved life outcomes (Krueger and Card, 1990; Deming, 2011; Deming et al, 2014; Jennings et al, 2015). Specifically, states give priority to projects built near high-performing schools, employment centers, public transportation and away from environmental hazards such as industrial uses.

A few states in our sample shifted their prioritization of employment centers. For example, Connecticut's HFA created a transit-oriented category, which provided developers with 10 points for providing good transit access to job centers.[18] Pennsylvania added priorities for areas that are in close proximity to employment centers.[19]

Many states prioritize proximity to transit, which serves two broad policy goals: enhancing employment opportunity for residents on the one hand and discouraging driving and promoting

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[15] Texas QAP 2010. P. 18-19.

[16] Mississippi QAP 2002, p. 22-23.

[17] Mississippi QAP 2010, p. 20.

[18] Connecticut QAP 2010, p. 21-22

[19] Pennsylvania QAP 2010, p. 25.

environmental sustainability on the other. As an example, Arizona created a new category in its 2008 QAP that provided ten points for transit-oriented design. As of 2010, the state increased the value of this bonus to 20 points (slightly more than nine percent of the total possible number of points).[20] The category is split into three parts: five points are provided for quality bus transit; five points are awarded for being within half a mile from a mixed-use center; and 10 points are awarded for being located near high capacity transit, such as light rail, commuter rail, or streetcars. In 2002, Arizona did not provide points for any transit amenities.

North Carolina provides an example of a state that increased its prioritization for projects that are far from environmental hazards. It increased the point value, by 20 points, of a suitable site location for residential units.[21] This 60-point (out of 150 points) section sets a preference for locating developments away from the "[e]ffect[s] of industrial, large-scale institutional or other incompatible uses, including but not limited to: wastewater treatment facilities, high traffic corridors, junkyards, prisons, landfills, large swamps, distribution facilities, frequently used railroad tracks, power transmission lines and towers, factories or similar operations, sources of excessive noise, and sites with environmental concerns (such as odors or pollution)".[22] In 2002, distance from such environmental disamenities was valued at 40 out of 470 points.

Because the value of neighborhood amenities is likely to be incorporated into the prices of market-rate housing, neighborhoods with greater access to amenities are likely to have lower poverty rates. Therefore, we expect that a change in a QAP which further prioritizes proximity to amenities would likely result in units being sited in neighborhoods with a lower average poverty rate. Our expectations about access to transit are somewhat less clear, as transit-friendly neighborhoods are often located in dense, lower-income central city neighborhoods. For example, Been et al (2010) found that in both the Seattle and New York metropolitan areas, the areas with below median levels of crime and above median quality schools as well as job access tended to be suburban areas that were below the metropolitan area with respect to walkability and transit access.[23]

<u>(3) Approval by the Community:</u> The development of affordable housing in a neighborhood may be seen as imposing a burden on existing residents, and so the federal statute requires that agencies provide notice to the local government and provide a reasonable opportunity for comment.[24] Many states go beyond that requirement and provide incentives to developers who engage with the community. In some states, the developers are only required to secure "resident

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[20] Arizona QAP 2010, p. 35.

[21] North Carolina QAP 2010, p. 11.

[22] North Carolina QAP 2010, p. 11.

[23] As our theoretical priors on the impacts of transit are unclear, we have also estimated results for amenities without including transit and our results are unchanged. For ease of presentation we show results only for the combined amenity category.

[24] 26 U.S.C. § 42(m)(1)(A)(ii).

participation"[25] while others only prioritize a project if it receives an affirmative approval. Some states require engagement with the local governmental body while others look to communications with the public more broadly. For example, the Maryland Department of Housing and Community development made community approval as well as a local contribution a threshold requirement as opposed to a point bonus, which could, in effect, prevent affordable housing in any jurisdiction that opposes it.[26]

While on its face this requirement seems neutral with regard to location, and may aim to encourage community engagement, multifamily housing developments are less likely to conform to the neighborhood character in lower-poverty neighborhoods and so might engender greater opposition (Schuetz 2013). Furthermore, higher-income residents are more likely to be able to mount a more effective defense of their neighborhood. Thus, we expect that an increase in the importance given to community approval is likely to result in developments being sited in a neighborhood with higher poverty rates.

<u>(4) Furthering Investment in Blighted Neighborhoods</u>: Under the LIHTC statute, states are required to include a "preference" for projects which are located in a QCT and which contribute to a "concerted community revitalization plan."[27] States have, however, considerable leeway about how to incorporate this preference into their QAPs. Some states have increased prioritizing QCTs, while many others have decided to do away with the category (except for the statutorily required 30 percent boost in qualified basis). For example, Tennessee created a 20 percent set-aside for QCTs,[28] but the Tennessee HFA also deleted the point category in the selection criteria.[29] Other state HFAs, such as Texas's, made decisions that had the effect of diminishing the importance of the 30 percent qualified basis bonus advantage that developments in QCTs received from the federal statute by allowing other kinds of developments, or developments outside of QCTs or DDAs, to receive the same bonus.[30] These changes were made possible by the Housing and Economic Recovery Act of 2008,[31] which allowed states to have more flexibility in determining which kinds of projects will have the 30 percent qualified basis boost.

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[25] Connecticut 2010, p. 29.

[26] Maryland Department of Housing and Community Development, Multifamily Rental Financing Program Guide (Oct. 24, 2008), p. 18. Maryland has since eliminated this requirement.

[27] 26 U.S.C § 42(m)(B)(ii)(III).

[28] Tennessee QAP 2010, p. 2.

[29] Tennessee QAP 2002, p. 13.

[30] Texas QAP 2010, p. 6-7.

[31] 26 U.S.C. § 42(d)(5)(B)(v) ("BUILDINGS DESIGNATED BY STATE HOUSING CREDIT AGENCY.—Any building which is designated by the State housing credit agency as requiring the increase in credit under this subparagraph in order for such building to be financially feasible as part of a qualified low-income housing project shall be treated for purposes of this subparagraph as located in a difficult development area which is designated for purposes of this subparagraph. The preceding sentence shall not apply to any building if paragraph (1) of subsection (h) does not apply to any portion of the eligible basis of such building by reason of paragraph (4) of such subsection.").

Many states use the credits to incentivize investment in blighted neighborhoods by prioritizing projects that preserve existing affordable units. For example, Wisconsin has consistently included a preference for the preservation of affordable housing, but has lowered their incentives for these types of developments. Wisconsin used to have a 35 percent set-aside devoted to preservation of affordable housing in 2002,[32] but, by 2010, this set-aside was lowered to 30 percent.[33] Another way in which states create incentives for furthering redevelopment is preferences for public housing redevelopments funded by the HOPE VI Program. For example, in 2008, Florida added a set-aside for at least one HOPE VI Program project; this set-aside did not exist in 2002.[34] Other states, such as Maryland, have added priorities for projects that are sited on brownfields, which tend to be located in higher poverty areas.[35] In some ways, these policy decisions allow states to use the federal LIHTC subsidy to complement existing redevelopment efforts or further goals that they would have had to fund through other expenditures.

<u>(5) Avoiding Concentrations of Affordable Housing</u>: Some states exhibit concern about the overall distribution of the subsidized housing stock, and provide preferential treatment for projects that are not located near other existing or proposed projects. In Texas in 2010, an application could receive six points for being located in a census tract in which there are no other tax credit-financed developments serving the same kind of household.[36] No such points were available in the 2002 QAP. As much of the existing affordable housing stock is located in high poverty neighborhoods, this incentive could lead to a decrease in the share of developments built in high poverty neighborhoods.

### Coding Changes in QAP Allocation Priorities

To code these changes in QAPs we first read and annotated each QAP from 2002 and 2010 and identified whether there were changes made to the priority given to features in any one of these five categories (high-opportunity neighborhoods, proximity to amenities, approval by the community, furthering investment in blighted neighborhoods, and avoiding concentrations of affordable housing) during this time period. We then create an index of change for each category, by assigning the change a number ranging from -3 to +3. Changes that received a positive number were those that should, theoretically, lead to either a decline in siting in high-poverty neighborhoods or an increase in siting in low-poverty neighborhoods. Conversely, changes that received a negative number were those that we believe to be associated with increases in siting developments in high-poverty neighborhoods or decreases in siting

[32] Wisconsin QAP 2002, p. 2.

[33] Wisconsin QAP 2010, p. 2.

[34] Florida QAP 2008, p. 11.

[35] Maryland Department of Housing and Community Development, Multifamily Rental Financing Program Guide, October 24, 2008. P. 44

[36] Texas QAP 2010, p. 55.

developments in low-poverty neighborhoods. The scale illustrates the magnitude of the change. Changes that we deemed as small, less than a five percentage point change in the value of the priority,[37] received a code of one.[38] Changes that we believed to be of a moderate size, between a five percentage point and a ten percentage point change, received a two. Finally, changes that we believed to be large, greater than a 10 percentage point change, received a code of three. If more than one change was made in a given category, we separately rated each change and then summed the values together, capping the maximum value at a +3 and the minimum value at a -3.

We coded changes in points allocated for a given priority, changes in set-asides, changes in threshold requirements, changes in tie-breakers, the creation of new categories or deletion of categories and changes in basis-boosts[39]. To code the percent change in points, we calculated the percent of points allocated to a given priority in 2002 and in 2010 and then calculated the difference. Changes in set-asides were never the only factor moving within a given category that changed from 2002 to 2010. Therefore, a change in set-asides that would encourage more siting in high opportunity areas would receive a +1; whereas, a change in set-asides that would encourage more allocation in high poverty areas would receive a -1. For other types of changes, where calculations were not possible, such as the creation of a new category or allocation goal, and tiebreakers, we estimated the weight of the change through a careful read of the QAP text.

In our empirical analysis we separately look at the correlation between changes in each of these five categories and the changes in siting patterns of LIHTC developments, which is described in more detail below.

We also create an aggregate index of opportunity by summing together all of the category-specific indices. In our empirical analysis we then look at the correlation between changes in this overall index and the changes in siting patterns of LIHTC developments.

We present our classification scheme of changes to state QAPs in Table 3. We see here that every state, other than Kentucky, made some change to its QAP in one of these categories. Many states have reduced their preferences for blighted areas and a few states have adopted large increases in their prioritization of opportunity areas. The final column of this table represents the aggregate index of opportunity, which is the sum of all five of the presented categories. Overall we see that Massachusetts has the highest score, with +7 shift in the QAP towards areas of opportunity, and no state exhibiting such a strong shift away from opportunity. For details on each of the changes listed, see Appendix B: Detailed Description of QAP Changes, Tables 1 through 5 included at the end of this report.

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[37] As states often changed both the scores given to each of these categories as well as the overall points allocated, we calculated the share of points allocated to a priority in each time period and looked at the percentage point change.

[38] We have also conducted sensitivity analyses, where we coded changes as only 0/1, and then also only coded large changes with a 1. Results are not significant when we limit our analysis to 0/1 for all changes, but when we include 1 only for large changes (2 or 3) then results are consistent. Thus it seems that the states with dramatic changes to one of these categories are the states driving these results.

[39] We also re-ran our analysis without changes in basis-boosts and results remain unchanged.

To test whether these coded changes are associated with increased prevalence of developments in high- and low-poverty neighborhoods, we conduct a series of descriptive analyses, in which we compare the poverty rates in neighborhoods where LIHTC units were built for each state in the two time periods. We examine whether the states adopting changes to their QAPs saw expected changes in the characteristics of neighborhoods where LIHTC units are located.

### Empirical Analysis

We rely on a series of different dependent variables to characterize neighborhood siting. First, we calculate the change in the share of LIHTC units that are located in high-poverty neighborhoods (those census tracts with poverty rates greater than 30 percent) as well as the change in the share allocated in low-poverty neighborhoods (those census tracts with poverty rates of less than 10 percent). While ideally we would look separately at LIHTC developments that were new construction vs. rehabilitation projects, we did not have access to complete data on this, so we instead rely on aggregate data which includes both new construction and rehabilitation projects. We present these data in Table 4.

We can see that there is wide variation across states in the types of neighborhoods where tax credit units are sited. We also see that in some states the distribution across neighborhood types has remained relatively consistent over this time period and in some states the distribution has changed dramatically. On average, the allocation of tax credits during this period shifted away from high-poverty neighborhoods in these states and towards moderate- and low-poverty neighborhoods. During the 2003-2005 period, 35 percent of units were located in high-poverty neighborhoods. Eight years later, that share fell to 27 percent.

We also calculate the change in the exposure to poverty of the tax credit units during our study period, using the exposure index. The exposure index captures the extent to which units with tax credits are located in census tracts with poor individuals. This measure captures the tract poverty rate of the average unit with tax credits in each state (Duncan and Duncan, 1955). Rather than focusing on the share of developments in each neighborhood type, the exposure measure is able to detect a change in the overall distribution of tax credit allocations across a state. These data are presented in Table 5. We see here that exposure to poverty of tax credit units did change over this time period, more in some states than others. We observe the largest changes in New Jersey and Indiana, and large, but slightly smaller, changes in Texas, Kentucky and Georgia.

In order to test for correlation between QAP features and the geography of allocations, we then run the following descriptive regression:

$$Pov_s = \alpha + \beta_1 QAP_s + \beta_2 Rental_s + \varepsilon_s$$

- ‘$Pov_s$’ represents our three dependent variables in state *s*: change in the share of units built in neighborhoods with less than 10 percent poverty, change in the share of units built in neighborhoods with more than 30 percent poverty, and change in exposure to poverty of units.

- ‘$QAP_s$’ represents a set of variables capturing index changes in each of our five areas (opportunity areas, access to amenities, community approval, investment in blighted areas, as well as avoiding concentrations of poverty) as well as a summary measure of the change in all of these areas, in state *s*. Each regression we run includes only one of these five measures, plus one for our index measure. As our sample is quite small, we do not have the statistical power to include all of these measures in one regression.
- ‘$Rental_s$’ represents a control for the change in the location of the overall rental stock in state *s*. We create three measures, one for each of our key dependent variables. The first is the change in the share of rental stock located in neighborhoods with less than 10 percent poverty. The second is the change in the share of rental stock located in neighborhoods with more than 30 percent poverty. The third is the change in exposure to poverty of the full rental stock.

## Results

### Part 1: Changes in QAP Priorities and Neighborhood Poverty

We present coefficients on the key QAP variable from these eighteen descriptive regressions in Table 6. With only 21 states, and only some of them adopting changes in specific areas, we do not expect to see much statistical significance. Overall, however, we do find a statistically significant relationship between changes in QAP priorities and the poverty rate of neighborhoods where tax credit developments are built.

(1) Change in Share of Units Sited in Neighborhoods with <10% Poverty

Focusing on the first column of Table 6, the strongest association is between our aggregate opportunity index measure and the share of credits allocated towards projects in low-poverty neighborhoods. We find a positive and statistically significant relationship, showing that overall states which increased the priority given for siting in high opportunity areas also experienced increases in the share of units which were built in low poverty neighborhoods.

When looking at the individual measures of QAP priority changes, none of the coefficients on the individual measures are statistically significant at traditional levels. Still, we find a marginally statistically significant (at the 15 percent level) association between increases in the prioritization of opportunity neighborhoods and increases in the share of tax credits that were built in neighborhoods with less than 10 percent poverty. The states driving this association are Massachusetts, New Jersey, Pennsylvania, and Texas, which all increased the priority given to developments in opportunity neighborhoods and saw increases in the share of units built in low poverty neighborhoods, with New Jersey and Texas exhibiting the largest increases in our sample.

We also find that avoiding concentrations of affordable housing is associated with increases in allocations in low-poverty neighborhoods. Again, though it is not statistically significant at conventional levels, it is significant at the 15 percent level, with a magnitude quite similar to that of the index of high opportunity. The states driving this association are Georgia, Pennsylvania, and Texas, which have made significant efforts to avoid concentrations of affordable housing, and also experienced increased siting in low-poverty areas. We find no significant or marginally significant results for the remaining indices.

(2) Change in Share of Units Sited in Neighborhoods with >30% Poverty

The second column reveals a negative and statistically significant relationship (at the 10 percent level) between the overall opportunity index measure and the share of units located in high-poverty neighborhoods. States that increased the priority given to developments in higher opportunity areas as compared to high-poverty areas also experienced declines in the share of units sited in high-poverty areas.

This relationship is exemplified by Massachusetts, New Jersey, and Texas, all of which made a concerted effort in their QAP to increase priorities placed on high opportunity areas as well as avoid concentrations of affordable housing and saw a corresponding reduction in the share of LIHTC units located in high-poverty areas. Although North Carolina also has a high aggregate opportunity index score, it did not exhibit similar declines in the share of units built in high-poverty areas, though increases are relatively small.

We also see that states receiving strongly negative index scores, particularly Washington and Indiana, experienced increases in the share of units built in high-poverty areas. In both of these states the only change observed was an increased priority placed on investments in blighted areas. Interestingly, Tennessee has a strongly negative index score as well, but developments shifted away from high-poverty neighborhoods during this period, and towards moderate poverty neighborhoods.

We do not see any statistically significant or marginally statistically significant relationships between each of the individual index measures and changes to siting in high-poverty neighborhoods.

(3) Change in Poverty Exposure

In our final column of Table 6 we again find a statistically significant correlation between changes in our overall index of opportunity and our outcome measure – here the weighted average poverty rate in neighborhoods where tax credit units are located. These results are driven primarily by changes in New Jersey and Texas, where the average poverty rate of neighborhoods where tax credit units were built fell sharply, and to a lesser extent by Massachusetts, which made large changes to its QAP to preference developments located in more advantaged neighborhoods, but experienced a smaller decline in the average poverty rates in neighborhoods where tax credit units are located.

When looking at the individual index measures we find no statistically significant relationships between each of these and changes to poverty exposure of tax credit units. We do, however, find a marginally significant (at the 15 percent level) relationship between community approval and exposure to poverty. Overall, states that increased their requirements and/or prioritization of community approval also exhibited increases in the overall exposure to poverty of LIHTC units recently allocated credits. This relationship is primarily driven by results in Maryland, which made community support a threshold determination and experienced increasing exposure to poverty of their newly sited tax credit units. Texas, on the other hand, also increased their prioritization of community approval, but experienced large declines in the exposure to poverty of tax credit units. This is likely driven by the fact that many other changes in the Texas QAP prioritized higher opportunity neighborhoods.

### Part 2: Form of QAP Priority Changes

Our second research question aims to look at whether particular types of changes in QAP priorities may have more of an influence on siting outcomes. We do not have enough variation to answer this question through formal quantitative analysis. We try to address this question qualitatively, however, by recording detailed information on the specific lever used to change priority structures in each of our key categories. We have separately documented whether the change was implemented through a change in the point structure, a set-aside change or a different change (which includes threshold determinations, tiebreakers or basis boosts).

We present a summary of the types of changes implemented by each state in Table 7. Most states in our analysis rely on more than one different type of preference change. Eighteen of our 21 states utilize point changes and 12 of our 21 states rely on set-aside changes. Only two of the states in the sample rely on only one type of preference change, with Florida relying on only set-aside changes and New Mexico relying only on point changes.

Although no clear relationship emerges about which policy lever is more effective, we find that states experiencing the largest declines in exposure to poverty of tax credit units utilize more than one of these policy levers.

## 5. Conclusion

Overall we find evidence suggesting that QAPs matter. Even with a small sample size of 21 states we find statistically significant relationships between changes in QAPs and the locations of tax credit allocations. We find that overall states which increased priorities towards higher opportunity areas exhibited increases in the share of tax credits allocated for projects in low poverty areas, decreases in the share of tax credits allocated for projects in high poverty areas as well as decreases in the overall exposure to poverty of projects allocated tax credits.

Based on these results it is not clear whether developers have changed their behavior in response to QAP changes, or whether states are changing the mix of developments that they choose. If developers do ‘chase points’ as suggested by Khadduri (2013) then it is possible that these changing priorities are shifting the composition of applications for tax credits. Alternatively, these changing preferences could instead lead to a reordering of a similar set of applications. It is possible that both are happening, and perhaps to a different extent in each state.

Additional work is needed to understand why QAP changes appear to matter less in some states, such as North Carolina, than they do in others like Massachusetts, New Jersey and Texas. We were not able to explain these differences through simply reading the QAPs or examining the policy levers used in these QAPs, and thus additional data is needed. As these results are correlations and not causal estimates, it is possible that there are other policy changes occurring simultaneously that are driving these correlations. Perhaps in North Carolina changing the QAP was not sufficient incentive to increase construction in low poverty areas given other forces. It is possible that states need to do more than change their QAPs to change the types of developments for which they receive applications. It may be necessary to recruit developers and developments in high opportunity neighborhoods to create the types of changes we observe in Massachusetts, New Jersey and Texas.

Overall, though there are still unanswered questions, this report highlights that changes observed in QAP documents do, for the most part, correlate with changes in the ultimate location of tax credit developments.

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# Appendix A: Associated Tables List

Table A-1. Sample of Tax Credits Allocated by State

| State | Total Units Allocated | |
|---|---|---|
| | 2003-2005 | 2011-2013 |
| Arizona | 3,322 | 2,585 |
| California | 13,846 | 17,421 |
| Colorado | 2,788 | 2,571 |
| Connecticut | 1,561 | 1,231 |
| Florida | 10,089 | 7,714 |
| Georgia | 9,287 | 6,679 |
| Indiana | 5,860 | 3,558 |
| Kentucky | 2,307 | 2,504 |
| Massachusetts | 4,708 | 2,443 |
| Maryland | 4,095 | 2,574 |
| Mississippi | 3,518 | 3,024 |
| North Carolina | 6,018 | 6,798 |
| New Jersey | 3,222 | 4,184 |
| New Mexico | 1,410 | 1,079 |
| Nevada | 1,072 | 1,615 |
| Pennsylvania | 5,875 | 4,258 |
| South Carolina | 3,854 | 2,301 |
| Tennessee | 6,039 | 5,349 |
| Texas | 19,516 | 15,424 |
| Washington | 3,380 | 2,983 |
| Wisconsin | 4,143 | 3,958 |
| All 21 States | 115,910 | 100,253 |

Table A-2. Change in QAP Classification Scheme

| | Increased Siting in Low Poverty Areas |
|---|---|
| High Opportunity Areas | + |
| Access to Amenities | + |
| Approval by the Community | - |
| Investment in Blighted Areas | - |
| Avoiding Concentrations of Affordable Housing | + |

Table A-3. Coded Changes in QAPs

| State | High Opportunity Areas | Access to Amenities | Approval by the Community | Investment in Blighted Areas | Avoiding Concentrations of Affordable Housing | Aggregate Index of Opportunity |
|---|---|---|---|---|---|---|
| Arizona | 0 | 2 | 0 | 1 | -1 | 2 |
| California | -2 | 1 | 0 | 3 | 0 | 2 |
| Colorado | 0 | 1 | 0 | -1 | 1 | 1 |
| Connecticut | 0 | 2 | -1 | -3 | 0 | -1 |
| Florida | 0 | 0 | 0 | -2 | 0 | -2 |
| Georgia | 0 | 1 | 1 | -2 | 2 | 2 |
| Indiana | 1 | 0 | 0 | -3 | 0 | -2 |
| Kentucky | 0 | 0 | 0 | 0 | 0 | 0 |
| Massachusetts | 3 | 1 | 1 | 1 | 1 | 7 |
| Maryland | 0 | 1 | -3 | 1 | 0 | -2 |
| Mississippi | 1 | 0 | -1 | -3 | 0 | -3 |
| North Carolina | 1 | 2 | -1 | 3 | 1 | 6 |
| New Jersey | 2 | 0 | 0 | 3 | -1 | 4 |
| New Mexico | 0 | 0 | 0 | 2 | 0 | 2 |
| Nevada | 0 | 0 | 0 | -1 | 1 | 0 |
| Pennsylvania | 3 | 0 | 0 | -3 | 2 | 2 |
| South Carolina | 0 | 0 | 0 | -2 | 1 | -1 |
| Tennessee | 0 | 0 | 0 | -2 | -1 | -3 |
| Texas | 2 | 2 | -2 | 1 | 2 | 5 |
| Washington | 0 | 0 | 0 | -3 | 0 | -3 |
| Wisconsin | 0 | 0 | 0 | 2 | 0 | 2 |

Table A-4. Poverty Rates in Neighborhoods with Allocated Tax Credits

| | 2003-2005 | | | 2011-2013 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| State | ≤10% | 10-30% | > 30% | ≤10% | 10-30% | > 30% | ≤10% | 10-30% | > 30% |
| Arizona | 11.4% | 55.1% | 33.4% | 2.3% | 61.0% | 36.7% | -9.1% | 5.8% | 3.3% |
| California | 13.3% | 44.0% | 42.8% | 18.8% | 51.6% | 29.6% | 5.5% | 7.6% | -13.1% |
| Colorado | 30.1% | 45.9% | 24.0% | 26.0% | 55.5% | 18.5% | -4.1% | 9.6% | -5.6% |
| Connecticut | 34.1% | 14.5% | 51.4% | 27.4% | 24.0% | 48.6% | -6.8% | 9.6% | -2.8% |
| Florida | 14.4% | 44.3% | 41.3% | 7.9% | 67.7% | 24.5% | -6.6% | 23.4% | -16.8% |
| Georgia | 14.5% | 53.0% | 32.5% | 23.4% | 50.5% | 26.1% | 9.0% | -2.5% | -6.4% |
| Indiana | 50.3% | 41.6% | 8.1% | 9.2% | 58.5% | 32.3% | -41.1% | 16.9% | 24.1% |
| Kentucky | 31.7% | 53.0% | 15.3% | 3.9% | 65.7% | 30.4% | -27.8% | 12.8% | 15.0% |
| Massachusetts | 23.7% | 17.4% | 58.9% | 32.1% | 27.2% | 40.6% | 8.4% | 9.9% | -18.3% |
| Maryland | 43.7% | 42.5% | 13.8% | 26.7% | 50.8% | 22.5% | -17.0% | 8.3% | 8.7% |
| Mississippi | 1.4% | 32.1% | 66.5% | 0.0% | 32.7% | 67.3% | -1.4% | 0.6% | 0.8% |
| North Carolina | 32.1% | 55.1% | 12.8% | 29.9% | 52.3% | 17.8% | -2.2% | -2.8% | 5.0% |
| New Jersey | 12.4% | 45.9% | 41.7% | 46.7% | 41.4% | 11.9% | 34.4% | -4.5% | -29.9% |
| New Mexico | 0.0% | 76.9% | 23.1% | 9.0% | 70.3% | 20.8% | 9.0% | -6.6% | -2.4% |
| Nevada | 36.4% | 57.8% | 5.8% | 40.4% | 50.0% | 9.5% | 4.1% | -7.8% | 3.8% |
| Pennsylvania | 24.2% | 41.8% | 34.0% | 30.3% | 34.7% | 35.0% | 6.1% | -7.1% | 1.0% |
| South Carolina | 13.6% | 60.5% | 25.8% | 27.0% | 52.9% | 20.0% | 13.4% | -7.6% | -5.8% |
| Tennessee | 21.3% | 34.5% | 44.2% | 22.8% | 56.6% | 20.6% | 1.5% | 22.1% | -23.6% |
| Texas | 13.1% | 47.5% | 39.4% | 33.4% | 44.5% | 22.1% | 20.3% | -3.0% | -17.2% |
| Washington | 16.3% | 60.4% | 23.3% | 20.4% | 46.5% | 33.1% | 4.1% | -14.0% | 9.9% |
| Wisconsin | 34.2% | 35.1% | 30.7% | 27.5% | 51.6% | 20.8% | -6.6% | 16.5% | -9.9% |
| All 21 States | 20.3% | 45.1% | 34.6% | 23.1% | 50.3% | 26.6% | 2.8% | 5.2% | -8.0% |

### Table A-5. Poverty Exposure of Tax Credit Units

| State | 2003-2005 | 2011-2013 | Change |
|---|---|---|---|
| Arizona | 25.8% | 29.7% | 3.9% |
| California | 27.5% | 23.6% | -3.8% |
| Colorado | 18.8% | 20.7% | 1.8% |
| Connecticut | 24.2% | 25.6% | 1.4% |
| Florida | 26.8% | 23.6% | -3.2% |
| Georgia | 27.3% | 20.9% | -6.4% |
| Indiana | 12.8% | 26.5% | 13.8% |
| Kentucky | 19.1% | 25.8% | 6.7% |
| Massachusetts | 27.4% | 24.2% | -3.3% |
| Maryland | 15.9% | 20.3% | 4.5% |
| Mississippi | 31.6% | 35.7% | 4.1% |
| North Carolina | 16.4% | 19.5% | 3.1% |
| New Jersey | 27.1% | 15.6% | -11.5% |
| New Mexico | 26.0% | 21.3% | -4.7% |
| Nevada | 14.4% | 14.9% | 0.5% |
| Pennsylvania | 22.6% | 23.4% | 0.8% |
| South Carolina | 21.9% | 18.3% | -3.6% |
| Tennessee | 27.3% | 23.3% | -4.0% |
| Texas | 26.5% | 18.3% | -8.2% |
| Washington | 21.8% | 23.7% | 1.8% |
| Wisconsin | 20.9% | 19.4% | -1.5% |
| All 21 States | 24.4% | 22.4% | -2.0% |

Table A-6. Regression Adjusted Means: Neighborhood Poverty Rates and Changes in QAPs

| | Change in Share of Units Sited in Neighborhoods with <10% Poverty[1] | Change in Share of Units Sited in Neighborhoods with >30% Poverty[2] | Change in Poverty Exposure[3] |
|---|---|---|---|
| High Opportunity Area Index | (1)<br>0.0405~<br>(0.0253) | (7)<br>-0.0273<br>(0.0252) | (13)<br>-0.00513<br>(0.0103) |
| Access to Amenities Index | (2)<br>-0.000540<br>(0.0393) | (8)<br>-0.00623<br>(0.0381) | (14)<br>-0.000906<br>(0.0151) |
| Approval by the Community Index | (3)<br>0.0424<br>(0.0341) | (9)<br>-0.0460<br>(0.0346) | (15)<br>-0.0211~<br>(0.0133) |
| Investment in Blighted Areas Index | (4)<br>0.0120<br>(0.0141) | (10)<br>-0.0139<br>(0.0135) | (16)<br>-0.00654<br>(0.00548) |
| Avoiding Conc. of Affordable Housing Index | (5)<br>0.0549~<br>(0.0319) | (11)<br>-0.00761<br>(0.0335) | (17)<br>-0.0119<br>(0.0130) |
| Opportunity Index Measure (Sum of all changes) | (6)<br>0.0219**<br>(0.00932) | (12)<br>-0.0167*<br>(0.00947) | (18)<br>-0.00713*<br>(0.00373) |

*Note*: Table includes results for 18 separate regressions, where each regression includes one of the listed independent variables, a control for the rental housing stock, and one of the dependent variables. Each regression includes a sample of 21 states. Standard errors are in parentheses. *** p<0.01, ** p<0.05, * p<0.1, ~ p<0.15

[1] Includes control for change in the share of rental housing stock located in neighborhoods with =<10% poverty

[2] Includes control for change in the share of rental housing stock located in neighborhoods with >30% poverty

[3] Includes control for change in the exposure to poverty of the rental housing stock

Table A-7. Type of Policy Change Utilized by Each State

| State | Points Change | Set Aside Change | Other Change |
|---|---|---|---|
| Arizona | X | X | |
| California | X | | X |
| Colorado | X | X | X |
| Connecticut | X | | X |
| Florida | | X | |
| Georgia | X | X | |
| Indiana | X | X | X |
| Kentucky | | | |
| Massachusetts | X | | X |
| Maryland | X | | X |
| Mississippi | X | | X |
| North Carolina | X | | X |
| New Jersey | X | X | |
| New Mexico | X | | |
| Nevada | X | | X |
| Pennsylvania | X | X | X |
| South Carolina | | X | X |
| Tennessee | X | X | |
| Texas | X | X | X |
| Washington | X | X | |
| Wisconsin | X | X | |

# Appendix B: Detailed Description of QAP Changes

Table B-1. Description of Changes to 'High Opportunity' Priority

| State | Score | Type | Description |
|---|---|---|---|
| California | -2 | Points | Removed 8 points which were previously allocated for "balanced communities." |
| Indiana | 1 | Basis Boost | Added basis boost for projects located in high cost areas that contain high land costs because of being in a desirable or commercially valuable location. |
| Massachusetts | 3 | Points & New Category | Added a fair housing narrative and allocated 14 points to areas of "opportunity." |
| Mississippi | 1 | Points | Added 4 points towards higher income counties. |
| New Jersey | 2 | Points | Added 10 points for projects that satisfy voluntary COAH (Council on Affordable Housing) obligation, which is a New Jersey government agency responsible for ensuring all NJ municipalities provide their fair share of affordable housing. These points replaced a previous 6 points for suburban locations. |
| North Carolina | 1 | Basis Boost | Added basis boost for projects in areas with high land costs because of being in a desirable or commercially valuable location. |
| Pennsylvania | 3 | Points & Set Aside Change & Basis Boost | Added a 20 percent set-aside and 30 point category for community impact, which includes building in high opportunity areas. Added a basis boost for developments in areas with high homeownership. |
| Texas | 2 | Points & New Category & Basis Boost | Created a new category which includes prioritization and basis boost for high opportunity areas. Applications which meet these criteria are eligible to receive an additional 4 points. |

Table B-2. Description of Changes to Access to Amenities

| State | Score | Type | Description |
| --- | --- | --- | --- |
| Arizona | 2 | Points | Added 20 points for Transit-Oriented development. |
| California | 1 | Points | Added 2 additional points for locating near public transportation. |
| Colorado | 1 | Points | Added transit amenities as an additional component to the project location category, which includes a maximum award of 5 points. |
| Connecticut | 2 | Points | Added 2 points for the protection/creation of natural resources including open space/community gardens and 2 points for locating near a public park or community center. |
| Georgia | 1 | Points | Added 3 points for being 1/2 mile walking distance to rapid rail transit. Added access to public bus transportation as an additional component in the desirable activity category, which includes a maximum award of 8 points. Added 2 points for offsite improvements that will benefit project's residents such as road access, parks, etc. |
| Massachusetts | 1 | Points & New Category | Added new 6 point category for proximity to transit. |
| Maryland | 1 | Points | Added 5 points for Transit-Oriented development. |
| North Carolina | 2 | Points | Added 20 points for good site location, which includes positive amenities, such as parks, and the lack of disamenities like negative environmental factors. |
| Texas | 2 | Points & New Category | Additional 4 points for developments serving children which are located near high performing schools. Deduct 6 points for developments near disamenities such as highways and manufacturing plants. |

Table B-3. Description of Changes to Community Approval

| State | Score | Type | Description |
|---|---|---|---|
| Connecticut | -1 | Points | Added 10 points for resident participation in the planning and implementation process. |
| Georgia | 1 | Points | Removed 3 points for local government resolution of support. |
| Massachusetts | 1 | Points | Removed 2 points for official local support. |
| Maryland | -3 | Points & Threshold Determination | Made community support a threshold determination, rather than a point allocation. Added 10 points for family projects and 5 points for elderly projects if a letter of local support is provided. |
| Mississippi | -1 | Deleted Category & Threshold Determination | Removed 5 point category for community support, and instead added a requirement for community support. |
| North Carolina | -1 | Points | Additional 10 points awarded for projects with funds from the local community. |
| Texas | -2 | New Category | Added category to require prior approval of the development from the local government body and notification of local elected officials and neighborhood organizations, such as school districts and homeowner associations. |

Table B-4. Description of Changes to Removal of Blight/Neighborhood Revitalization

| State | Score | Type | Description |
|---|---|---|---|
| Arizona | 1 | Points & Set Asides | Removed HOPE VI set aside. Reduced points allocated for historic preservation by 10 points. Reduced priority placed on community revitalization plan by 10 points. Added 3 points for projects in QCTs, DDAs or outside of an MSA. |
| California | 3 | Tie Breaker | Removed QCT from tiebreaker and replaced with funding criteria. |
| Colorado | -1 | Set Aside | Added a 1.25 million set aside for redevelopments that are in an area with high poverty. |
| Connecticut | -3 | Points & Set Aside & New Policy Goal & Basis Boost | Added a goal of serving areas with the highest priority placed on rehabilitation and revitalization. Added higher share of points for preservation and 10 points for brownfields redevelopment. Also added 10 percent set aside for revitalization. Added basis boost for projects in an area of residential adaptive reuse or environmental remediation. |
| Florida | -2 | Set Aside | Added set aside for preservation and development of HOPE VI. |
| Georgia | -2 | Points & Set Asides | Added set aside for preservation of existing affordable housing. Removed 1 point previously awarded for projects in QCTs and DDAs. |
| Indiana | -3 | Points & Set Asides & Basis Boost | Increased set aside for preservation by 10 percent. Added 2 percent more points to preservation and 3 percent more points to community revitalization. Added basis boost for preservation projects or those in areas of chronic economic distress which are not QCTs. |
| Massachusetts | 1 | Points | Reduced prioritization of projects in a neighborhood revitalization effort by 4 points. |
| Maryland | 1 | Points | Reduced prioritization of projects in QCTs/DDAs with a community revitalization plan by 15 points. Added 5 points for brownfields redevelopments. Added that projects which involve scattered sites must include a revitalization plan. |
| Mississippi | -3 | Points | Added 5 points to the preservation of existing affordable housing, 15 points for HOPE VI developments, and 5 points for general preservation. |
| North Carolina | 3 | Points | Removed 10 points previously allocated for community revitalization and removed provisions about extra points awarded for economically distressed counties. |
| New Jersey | 3 | Points & Set Asides | QCT priorities have changed in many components of the New Jersey QAP. Overall fewer points are awarded for QCTs. Also set-asides for preservation and HOPE VI were reduced by 13 percent. |
| Nevada | -1 | Basis Boost | Added basis boost for projects in targeted high foreclosure areas. |
| New Mexico | 2 | Points | Removed 10 points previously allocated for conversion and rehabilitation. |
| Pennsylvania | -3 | New Category & Points | Creation of new 30 point category for revitalizing neighborhoods. |

Table B-4. Description of Changes to Removal of Blight/Neighborhood Revitalization (continued)

| State | Score | Type | Description |
|---|---|---|---|
| South Carolina | -2 | Set Aside & Tie Breaker | Moved preferences for QCTs and community revitalization from preference to tie breaker. Added set asides for developments participating in rehabilitation. Removed preference for developments located in federally designated empowerment zones or enterprise communities. |
| Tennessee | -2 | Points & Set Asides | Added 28 percent set aside for QCTs and removed 10 point category for QCT/DDA. |
| Texas | 1 | Points | Removed points awarded for QCTs. Stated Preference for QCTs removed from the definition of QCT. |
| Washington | -3 | Points & Set Asides | Added 20 percent set aside for HOPE VI. Removed additional 2 points awarded for projects in targeted areas that also have a community revitalization plan. Lowered points allocated for rehabilitation of affordable housing by 5 points. |
| Wisconsin | 2 | Points & Set Asides & Deleted Category | Deleted 45 point category for rehabilitation of affordable housing. Lowered preservation set aside by 5 percent. Changed a 14 point category which included QCTs and rural developments to only prioritize QCTs. |

Table B-5. Description of Changes to Avoiding Concentrations of Affordable Housing

| State | Score | Type | Description |
|---|---|---|---|
| Arizona | -1 | Deleted Category | Removed 20 points previously allocated towards cities, towns or counties which have not received an allocation in past five years |
| Colorado | 1 | New Policy Goal | Increased priority for developments not near other low income housing projects |
| Georgia | 2 | Points & Language Change | Added language allowing state to limit the number of projects in certain geographical areas, and language explaining that the state will not fund projects unless senior and family projects are placed a sufficient distance apart. Removed 1 point from previous category where developments could earn points for locating in areas with no previous awards. |
| Massachusetts | 1 | Points | Removed 5 points for locating near concentration of affordable housing developments. |
| North Carolina | 1 | Points | Moved clustering of low-income developments from separate category into the neighborhood characteristics category, essentially increasing the priority placed on not concentrating affordable housing developments by 1 percent. |
| New Jersey | -1 | Deleted Category | Deleted 1 point category previously allocated for locating projects in areas with fewer than five subsidized housing projects. |
| Nevada | 1 | New Category & Points | Added category (worth 10 points) for developments not near other subsidized housing, but removed previous language about market saturation. |
| Pennsylvania | 2 | Basis Boost | Added basis boost to places underserved by affordable housing. |
| South Carolina | 1 | Set Aside | No longer exclude counties where HOPE VI tax credit awards are located, instead preferences are given to developments located in counties where there have not been tax credit awards in the past 2 years. |
| Tennessee | -1 | Deleted Category | Deleted 25 point category which prioritized allocating to places with the fewest previous allocations. |
| Texas | 2 | New Category | Added a category awarding 6 points to developments in census tracts with no other existing developments supported by tax credits. |

## Appendix C: State Community Revitalization Plan Descriptions

This appendix lists excerpts providing the definition of a Community Revitalization Plan (or any other text that describes what a community revitalization plan is) from each Qualified Allocation Plan included in our study. The federal government has never provided a definition for a Community Revitalization Plan, so each state has discretion in determining what would count as a Community Revitalization Plan. All of the text below is taken verbatim from the Qualified Allocation Plans or other State HFA issued documents. Certain states, those with no definition of the Community Revitalization Plan in their QAPs, mention the plan, but do not elaborate.

**Arizona**

- 2.7(B)(24)(a)Applicants claiming points for projects located in community revitalization areas, the applicant must enclose the information and materials described in Section 2.9(D)(8).
- 2.7(B)(24)(b) Insert Form 23, signed by an authorized representative of the municipality or county, stating that the project is within the boundaries of the designated housing priority area.
- 2.27(B)(24)(c) Insert a local government ordinance or resolution, planning document excerpts.
- 2.7(B)(24)(d) Insert a map showing boundaries of the housing priority area and the location of the project within that area. The map must clearly show the names of the roads, streets or other boundaries of the housing priority area and also clearly reflect the location of the project on such roads or streets.[40]

**California**

The project is located within a Qualified Census Tract (QCT) and the development would contribute to a concerted community revitalization plan as demonstrated by a letter from a local government official. The letter must delineate the various community revitalization efforts, funds committed or expended in the previous five years, and how the project would contribute to the community's revitalization.[41]

**Colorado**

Until such time as the Internal Revenue Service provides a definition of a "community revitalization plan," CHFA defines such a plan as a published document, approved and adopted by the local governing body by ordinance or resolution, that targets local funds to specific geographic areas (the geographic area cannot be the entire town or city that has adopted the plan) for both commercial/retail and low income residential projects (serving residents at, or below, 60 percent AMI, with additional consideration given to residents with children).[42]

**Connecticut**

No definition.

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[40] Arizona QAP 2010, pp. 23-24.

[41] California QAP 2010, p. 34.

[42] Colorado QAP 2010, p. 43.

**Florida**

- Projects which are located in qualified census tracts [as defined in subsection (d)(5)(C)], and the development of which contributes to a concerted community revitalization plan,[43] and
- Project characteristics including whether the project involves the use of existing housing as part of a community revitalization plan,[44]
- Developments which address revitalization through the use of HOPE VI funding will be targeted.[45]
- This criterion is addressed in the Universal Application Package which is incorporated in FHFC rules by reference.[46]

**Georgia**

Local Redevelopment Plan: One (1) point will be awarded if there is an adopted redevelopment plan/community revitalization plan adopted and formulated by the Local Government that clearly targets the specific neighborhood in which the project is located. The Plan must have been adopted on or before January 1, 2010. (For the purposes of this category, in rural counties a neighborhood may be as large as one county.) In order to receive these points, the documentation must conclusively prove that the Plan is current, ongoing and directly affects the site of the proposed project.

The Community Redevelopment/Revitalization Plan must include the following:

- a discussion of potential sources of funding for the plan;
- a clearly delineated target area that includes the proposed project site;
- detailed policy goals (one of which must be the rehabilitation or production of affordable rental housing);
- Implementation measures along with specific time frames for the achievement of such policies and housing activities. The timeframes and implementation measures must be current and ongoing;
- the proposed development project must support at least one of the goals of the redevelopment or revitalization plan; and
- an assessment of the existing physical structures and infrastructure of the community
- The following plans are not eligible for points:
- Plans formulated by the Owner of the project and submitted to a local government for approval;
- short-term work plans;
- comprehensive plans, consolidated plans, municipal zoning plans or land use plans; and
- Plans that are outdated and do not reflect the current neighborhood conditions
- (Plans that are more than four years old will be presumed outdated unless documentation regarding the continued viability of the plan is submitted with the Application.)
- Documentation**:**

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[43] Florida QAP 2009, p. 2

[44] Florida QAP 2009, p. 2.

[45] Florida QAP 2009, pp. 21-22.

[46] Florida QAP 2009, p. 27.

- The DCA Neighborhood Redevelopment Certification Form
- Documentation of the process the government used for developing and adopting the plan
- Details regarding community input and public hearings held prior to the adoption of the plan must be included in the Application
- A copy of the entire plan must be included in the Application.
- Evidence of adoption
- Map of area targeted by plan identifying location of project[47]

**Indiana**

No definition.

**Kentucky**

No definition.

**Massachusetts**

Some proposals for tax credit projects are part of neighborhood plans prepared and endorsed by municipal officials. DHCD will award up to two points for 2010 applications that include some or all of the following features:

- Evidence that the proposed project is part of a formal neighborhood plan approved by the chief elected official of the municipality. The formal plan must be written plan with the neighborhood delineated; target properties identified; proposed demolition, rehabilitation, and new construction identified; etc.
- The plan also must include reliable information on local housing need, including current characteristics of the neighborhood's housing stock; supply and demand for affordable rental and ownership units within the neighborhood, etc.
- The plan must indicate how the neighborhood revitalization effort incorporated and coordinates housing related amenities such as transit, employment, community services, and affordable homeownership opportunities.
- Evidence that the proposed project is located in a qualified census tract.
- If the funding application seeks tax credits for a project with expiring use restrictions, the neighborhood plan must address the importance of the project, the need for preservation of the units, and the other housing options available to residents if the preservation effort is not successful.[48]

**Maryland**

A community revitalization plan is a plan that is consistent with Maryland's Smart Growth Initiative and established to prevent or reverse the decline or disinvestment in the community. The plan must be local in nature with defined geographic boundaries. To be acceptable, a plan also should include evidence of a concerted planning process including consultation with and input from major stakeholders, particularly community residents and businesses. Plans will be evaluated and scored based on the evidence and the extent of the endorsement of the plan by either local government or by established community based organizations. The plan should

[47] Georgia QAP 2010, pp. 16-17.

[48] Massachusetts QAP 2010, p. 37.

include discussions of the types of development that will be encouraged, the potential sources of funding, services to be offered to the community, participants in the revitalization effort, or outreach and marketing efforts to be undertaken. The plan should include more than a mapping of where housing, commercial, industrial and other development will be allowed. A County or municipal zoning or land use plan or consolidated plan prepared as required by HUD does not qualify unless it meets the standards for community revitalization plans as described above.[49]

**Mississippi**

In municipalities with a revitalization plan, documentation must include a letter from the city/county, signed by the subject area's verifiable authority, which verifies that the development is a part of the community revitalization plan and provides a detailed description of the contribution to the Revitalization Plan. This documentation must accompany the application. Additionally, the applicant must submit a copy of the relevant information from the area's plan regarding its housing goals/objectives including the document's title page OR the locality's letter must reference the title, adopted date, and information on how a complete copy of the plan may be accessed.[50]

**North Carolina**

(a) the project is within the geographic area identified by a community revitalization plan (CRP), which does not include basic local land use plans unless there is a specific revitalization component;
(b) the project is in a Qualified Census Tract or the CRP is primarily focused on an existing residential neighborhood;
(c) completion of the project would contribute to one or more of the goal(s) stated in the CRP; and
(d) the CRP either (i) was officially adopted or amended by a local government between January 1, 2003 and the preliminary application deadline or (ii) is actively underway.

Only documents or information included in the officially adopted CRP will be considered in evaluating the criteria in this subsection. The CRP must be included with the preliminary application to be eligible for points in this subsection.

**New Jersey**

An adopted redevelopment plan, as defined at N.J.S.A. 40A:12A-3, or an approved neighborhood revitalization plan, as defined at N.J.S.A. 52:27D-491, that includes a subject LIHTC project within its boundaries. For purposes of this subchapter, a community revitalization plan shall include, either within the adopted redevelopment plan or the approved neighborhood revitalization plan, or as a separate document, the following criteria:

1. A tax map that delineates revitalization area boundaries and locates the subject LIHTC project within the boundaries;
2. A description of the community revitalization planning process;
3. A list of stakeholders that developed the community revitalization plan;

[49] Maryland Department of Housing and Community Development, Multifamily Rental Financing Guide (October 24, 2008), p. 37.

[50] Mississippi QAP 2010, p. 27.

4. A parcel map that delineates land uses and vacant buildings and lots in the target area;
5. Demographic, social and economic profiles of the revitalization area;
6. A narrative describing the revitalization area and the long-term vision and objectives for the area;
7. A description of the subject LIHTC project and how it furthers the community revitalization plan; and
8. An implementation strategy that contains:
   i. A list of organizations participating in the implementation phase of the community revitalization plan; and
   ii. A list of projects, programs and steps identified in the community revitalization plan to revitalize the area.[51]

**Nevada**

No definition.

**Pennsylvania**

A critical circumstance is the development's forming an important part of a broader or comprehensive program of neighborhood improvement which has the capability of changing fundamentally the character of that neighborhood or enhancing the lives and amenities available to residents of the community. Such improvement should include the provision of mixed income housing. A program of neighborhood improvement includes municipal support articulated in a publicly approved community plan or in the form of significant funding commitments, or evidence of substantial major investment in the area that is consistent with an existing comprehensive plan for neighborhood improvement. Such funding commitments or major investments cannot be derived solely from the development of Tax Credit properties and may include proposals participating in: Main Street, Elm Street, Neighborhood Partnership or other programs of the Pennsylvania Department of Community and Economic Development; the Agency's Homeownership Choice Programs; the Healthy Village Initiative of the Local Initiatives Support Corporation; the Blueprint Communities Initiative of the Federal Home Loan Bank or similar community support programs. Additionally, the plan should generally include municipal support, private investment and/or private sector commitments to the area. The Agency will consider in its evaluation of community impact the use of existing housing or buildings if the development is not located in a qualified census tract.[52]

**South Carolina**

The CRDP must have been adopted not later than January 1, 2010. Evidence of such must be verified in writing by a City/County official and submitted with the Tier One application submission. The proposed development must be part of an existing and ongoing revitalization of the area.[53]

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[51] New Jersey QAP 2009, p. 3.

[52] Pennsylvania QAP 2010, p. 25.

[53] South Carolina QAP 2010, p. 9.

**Tennessee**

The Initial Application must propose a development located completely and entirely in a Qualified Census Tract (identified on **Exhibit 4**, excluding Difficult to Develop Areas), the development of which contributes to an approved concerted community revitalization plan, as certified in the form of **Attachment 23**, by the City Mayor, County Mayor, or head of the planning department for the jurisdiction within which the development is located.[54]

**Texas**

A published document under any name, approved and adopted by the local Governing Body by ordinance, resolution, or vote that targets specific geographic areas for revitalization and development of residential developments.[55]

**Washington**

An additional 2 points will be awarded if rehabilitation is part of a Community Revitalization Plan. A Community Revitalization Plan must:

1. Be a published document, approved and adopted by a governing body, by ordinance, resolution, or other legal action; and
2. Target funds or tax incentives to specific geographic areas for either of the following:
   i. economic development, including economic related initiatives; and/or
   ii. commercial/retail development, including infrastructure and community facility improvement.[56]

**Wisconsin**

No definition.

[54] Tennessee QAP 2010, pp. 9-10. While the 2010 Attachment 23 was not available online, we have been able to find the 2011 Attachment 23 regarding Community Revitalization Plans: https://www.novoco.com/low_income_housing/resource_files/qap/tennessee_attachment_23_ab_revised_11.pdf.

[55] Texas QAP 2010, p. 5.

[56] Washington Housing Finance Agency, "Exhibit D" Policies Tax Credit Application, p. 64. http://www.novoco.com/low_income_housing/resource_files/qap/washington_policies_10.pdf.