# Assessment of the
# New Jersey Low Income Housing Tax Credit Program

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## Introduction

The New Jersey Housing and Mortgage Finance Agency (NJHMFA) is responsible for the administration and monitoring of the Low Income Housing Tax Credit (LIHTC) program in New Jersey. The LIHTC program awards tax incentives to developers in order to increase the availability of affordable housing in New Jersey.

The Qualified Allocation Plan (QAP) is the NJHMFA's methodology for awarding points to its applicants, in order to prioritize the projects and determine recipients. In 2013, the NJHMFA made extensive changes to its QAP, making project location a focal point of the ranking system for tax credit allocations. The QAP specifies that a maximum of 40 percent of tax credits can be awarded to projects located in cities with a poverty rate greater than 8.1 percent. The remaining tax credits should be awarded elsewhere in the state, including in more prosperous suburban municipalities. These changes were designed to avoid the further reinforcement of high concentrations of poverty and to steer low-income units to higher-opportunity areas, rather than distressed areas.

Because the LIHTC program is highly competitive, even small changes in the scoring criteria can have outsized effects on where the pool of applicants is drawn from, as applicants seek to check as many boxes as they can. Awarding additional points for avoiding already-distressed areas could thus be an effective way of steering low-income housing away from these areas and toward towns that present more promising environments for low-income households.

At the same time, we would like to see the awards continue to favor projects in areas that help residents of lower-income housing improve their economic situations, such as by being located near public transit or near major job centers. Avoiding the further concentration of poverty should not have to mean sacrificing many of the other characteristics that make a neighborhood a good place for a lower-income household to succeed.

## Study Methodology

The purpose of this project is to track the geographic locations of LIHTC recipients, to see if the changes to the project scoring criteria adopted by the NJHMFA in 2013 have led to noticeable changes in the geographic distribution of the tax credits. The primary unit of analysis is the project (or “recipient” or “applicant”), since it is the project that competes for the tax credits, not the individual people or entities who eventually redeem the credits. In addition to looking at the geographic distribution of awardee projects, we can also analyze the distribution of several project-level variables. We will use the following four measurement variables in assessing and describing where and how the LIHTCs have been awarded:

- Number of projects
- Total number of residential units
- Number of low-income units
- Dollar value of the credits

Since the NJHMFA’s scoring criteria are applied to projects, we must use the project as the unit of analysis when evaluating the scoring criteria. The other measurement variables, on the other hand, are useful in assessing the *impact* of the projects, since these other variables capture more clearly the differences in the sizes of the projects and hence what magnitude of change each project represents to the neighborhood in which it is built.

We will measure from a land-use perspective the extent to which each of these variables has been allocated to the “right” areas; specifically:

1. “smart growth” locations, defined (on p.11 of the QAP) as
    a. Planning Areas 1 and 2 as delineated in the State Plan;
    b. designated centers in other Planning Areas;
    c. growth areas identified by the land-use plans governing the Pinelands and Highlands (from the QAP: “In the Pinelands Area, Designated Center means a Regional Growth Area, Pinelands Village or Pinelands Town designated by the Pinelands Commission”)
2. within a half-mile radius around each of New Jersey’s transit stations (p. 14 of the QAP says “’Transit Oriented Development’ or ‘TOD’ means a mixed use development within walking distance (within 1/2 mile) of a rail, light rail, subway, ferry or major bus corridor station.”)

We will also measure the extent to which each of these measurement variables is present in the “right” areas from a *regional equity* perspective, where areas of higher opportunity are preferred to areas that already host a disproportionate share of lower-income households, with the goal being to avoid reinforcing concentrations of poverty. Areas considered to be of higher opportunity include:

1) “Job center” municipalities (QAP says “A project that is fully located within a municipality with public and private sector jobs that total at least 95 percent of the housing units shall receive two points.”)

2) Proficient school districts (QAP defines this as a district in which “66 percent of students scored as proficient or advanced proficient on the NJ ASK 4 standardized test in both math and language arts during either the most current calendar year available or the preceding year”)

Conversely, in terms of not furthering the concentration of poverty, we consider a project to be better from a regional equity standpoint if it is

3) not located in a “Qualified Census Tract” (QCT).[1] The QCT designation is meant to identify neighborhoods (census tracts) that already contain large proportions of poor households.

Since our goal is to assess the effects of the NJHMFA’s 2013 scoring changes, we will tally the measurement variables by the different land-use categories for two time periods: 2005 through 2012 and 2013 through 2015. Making the analysis more complex, however, is the fact that the post-2013 results may be complicated by the fact that the NJHMFA was one of the state agencies responsible for distributing federal aid in the wake of Hurricane Sandy, which struck New Jersey in October of 2012. In an effort to facilitate the federal government’s effort to disburse Sandy money in a timely manner, in 2013 the NJHMFA prioritized projects in a group of nine counties that were hardest hit by the storm. The particular nature of these nine counties’ development patterns means that the 2013 class of awardee projects may not be fully reflective of the effects of the 2013 rule changes; that is, it may not be representative in terms of transit access, job centers, etc., of the kinds of projects that would have received the awards in the absence of the special round of Sandy funding. Fortunately, the NJHMFA flags in its records those projects that received the credits specifically in connection to the goal of disbursing Sandy aid, so we can tally them separately to get an idea of the effects of the scoring changes without the additional impetus to get Sandy money out the door quickly.

We will thus break out our analyses by time period as follows:

- 2005 through 2012
- 2013 through 2015, with a further breakdown of whether the project’s award was:
  - Hurricane Sandy-related (in 2013) or
  - not Sandy-related

To the extent that our results indicate tax credits being given out to projects that are in higher-opportunity areas, we will investigate **what parts of the QAP process were responsible for the desirable distribution, so that the results can be replicated elsewhere**. We will seek to identify specific parts of the QAP’s scoring criteria that led to the highest-scoring projects (which ended up getting the credits)

[1] The main way that distressed or low-income places are defined by the QAP is the “Qualified Census Tract,” which the QAP defines as follows: “’Qualified Census Tract,’ as defined in Section 42(d)(5)(C) of the Code, means a census tract designated by the Secretary of HUD in which 50 percent or more of households have an income less than 60 percent of the area median gross income or in which there exists a poverty rate of 25 percent or greater.” The list of QCTs is updated annually by HUD and published in the Federal Register (see p.11 of the LIHTC application appendix).

being where they are. Of particular interest are the changes introduced in 2013, when the NJHMFA explicitly embraced the twin goals of avoiding the further concentration of poverty and actively promoting the location of affordable housing in higher-opportunity areas.

### When Smart Growth Locations and Equitable Outcomes Conflict

It is important to mention a natural tension that may sometimes arise, between being in the "right kind of place" from a land-use perspective vs. an equity perspective. We consider it a good thing (all other things being equal) for the tax credits to be given out in smart-growth areas and in TOD areas. We also consider it a good thing (all other things being equal) for the credits to be given out in stronger markets, because 1) we don't want to reinforce concentrated poverty by steering new lower-income housing into areas where it is already in oversupply and 2) we want the program to give lower-income households access to areas of higher opportunity (like places with high-performing schools). The tension arises when a project in a smart-growth or TOD area is also in a distressed or "weak" market, a situation that arises frequently in the state's older urban centers. A tax credit given in a lower-income TOD neighborhood would be good from a land-use angle but would be a negative from the equity angle because of the concentration of poverty issue.

In our analysis, it thus makes sense to sub-segment the TOD and smart-growth categories, to distinguish between projects in lower-income/distressed neighborhoods that have transit or are in smart-growth areas (bad, because of furthering the concentration of poverty) and those in higher-opportunity transit or smart-growth neighborhoods (good, because of creating access to high-opportunity areas). That is, we will do cross-tabulations of TOD x distress and smart growth x distress, to make clear that we believe credits in strong-market areas are better than credits in weak-market areas, after controlling for TOD or smart growth criteria.

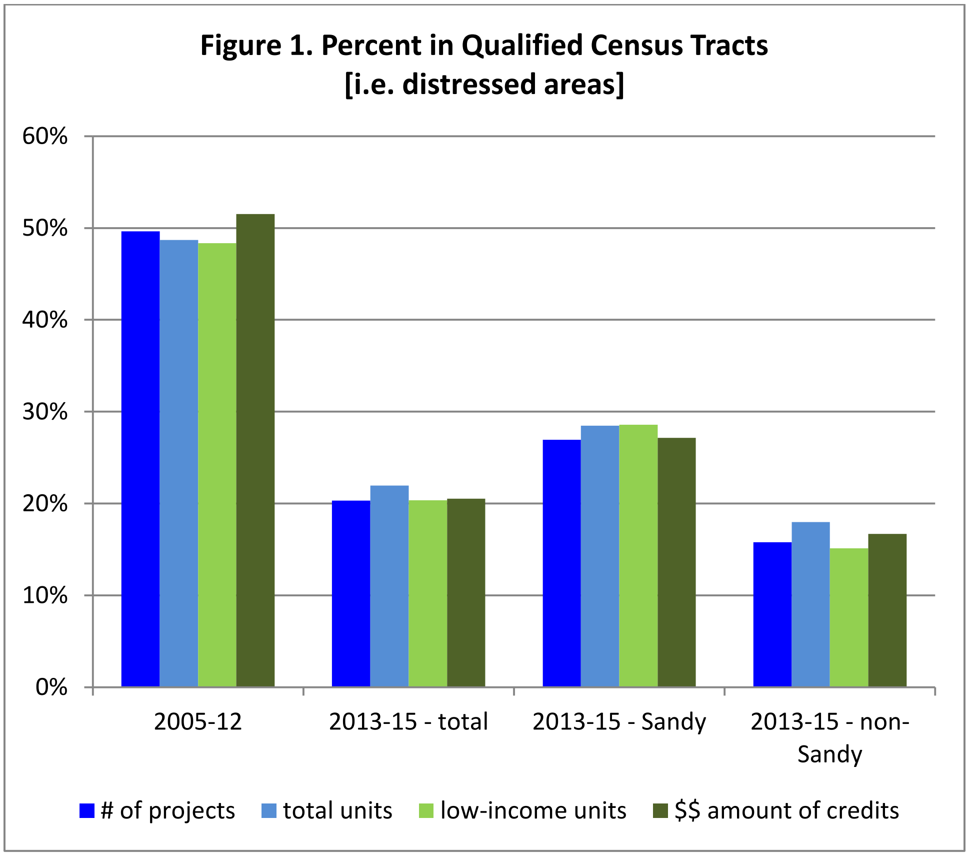
## Findings

Using data provided to us by the NJHMFA about individual LIHTC recipient projects, we were able to quantify the degree to which the NJHMFA's scoring criteria are steering lower-income housing into the "right" kinds of places, both from a land-use perspective and from a regional equity perspective. And we were able to compare and contrast these effects for the time periods before and after the 2013 changes to the project scoring criteria. What follows is a description of how the 2013 changes appear to have affected the distribution of LIHTC award recipients with respect to the various smart-growth and regional-equity considerations.

### Distressed areas (promoting regional equity)

With respect to avoiding reinforcing concentrated poverty by avoiding issuing awards in qualified census tracts (QCTs) (see Figure 1):

- ***Projects:*** The percent of awardee projects that were located in QCTs was:
    - Roughly half (49.6 percent) for the 2005-2012 time period, vs.
    - Only one-fifth (20.3 percent) from 2013 to 2015
    - 26.9 percent among 2013 projects that got the credits because of their location in Sandy-affected counties
    - Only 15.8 percent among post-2013 non-Sandy-related projects
- ***Total units***: Of all residential units created by all recipient projects, the percent that were created by projects located in QCTs was:
    - Almost half (48.7 percent) for the 2005-2012 time period, vs.
    - Only 22.0 percent from 2013 to 2015
    - 28.5 percent among 2013 projects that got the credits because of because of their location in Sandy-affected counties
    - Only 18.9 percent among post-2013 non-Sandy-related projects
- ***Low-income units***: Of all low-income units created by all recipient projects, the percent that were created by projects located in QCTs was:
    - Almost half (48.3 percent) for the 2005-2012 time period, vs.
    - Only one-fifth (20.3 percent) from 2013 to 2015
    - 28.6 percent among 2013 projects that got the credits because of because of their location in Sandy-affected counties
    - Only 15.1 percent among post-2013 non-Sandy-related projects
- ***Credit dollar amounts***: The percent of tax-credit dollar amounts that were awarded to projects located in QCTs was:
    - More than half (51.5 percent) for the 2005-2012 time period, vs.
    - Only one-fifth (20.5 percent) from 2013 to 2015
    - 27.2 percent among 2013 projects that got the credits because of because of their location in Sandy-affected counties
    - Only 16.7 percent among post-2013 non-Sandy-related projects

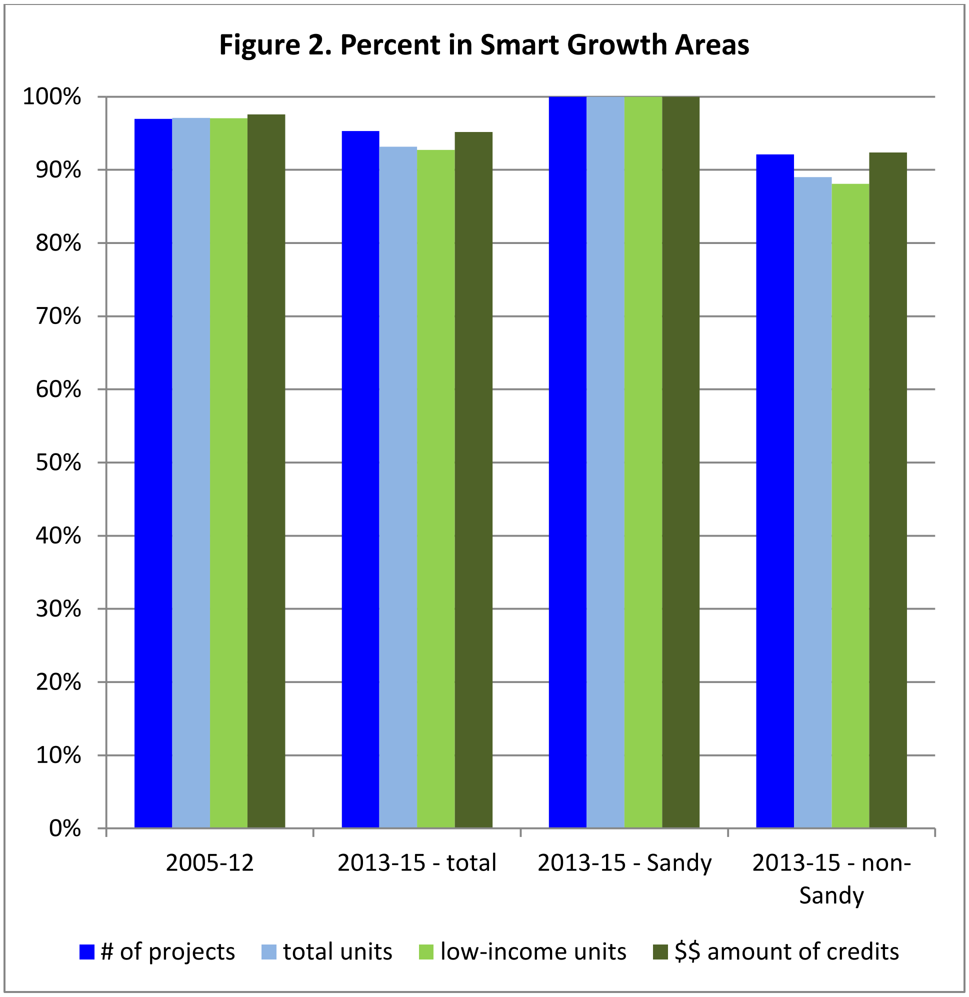



Summary: The NJHMFA's introduction of new scoring criteria in 2013 that were designed to steer low-income units away from areas that already had a lot of them was clearly successful. Using all four measurement variables, the percents of award recipients located in QCTs dropped dramatically after 2012, and in all cases would have dropped even more if the NJHMFA hadn't needed to prioritize projects in certain counties in order to allocate Hurricane Sandy aid money in a timely manner.

### Smart-growth areas

With respect to steering projects into "smart-growth" areas (the "centers" identified in New Jersey's regional land-use plans, as described earlier): Almost all tax-credit projects since 2005 have been located in smart-growth areas, as measured by all four measurement variables. (See Figure 2.) The 2013 changes to the scoring criteria do not appear to have had much of an effect in either direction on the share of tax-credit projects located in smart-growth areas. (Points were already being awarded for smart-growth locations prior to 2013.) The overall scoring process was doing a good job of steering projects into smart-growth areas prior to the 2013 changes and continued to do so afterward.

Summary: The LIHTC program has clearly been effective at steering growth into areas where the state's major regional land-use plans say it ought to go. None of the 2013 changes to the scoring criteria had any deleterious effects on the program's ability to encourage growth in smart-growth areas.



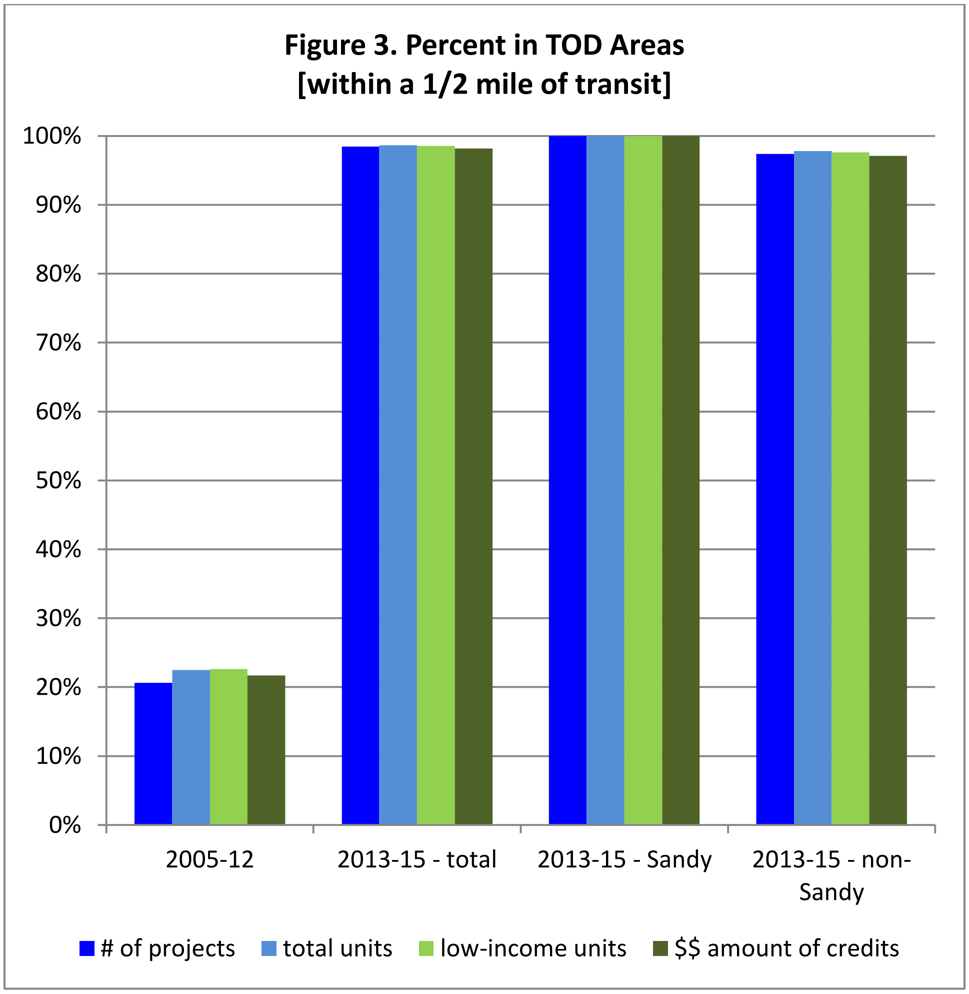

**TOD areas (defined as being within ½ mile of a transit station)**

With respect to the goal of putting lower-income housing near public transit (see Figure 3):

- ***Projects***: The percent of awardee projects that were located in TOD areas was:
    - Only one-fifth (20.6 percent) for the 2005-2012 time period, vs.
    - Almost all (98.4 percent) from 2013 to 2015. This was true both for projects that got the credits because of Sandy priority (a full 100 percent of which were in TOD areas) and non-Sandy-related post-2013 projects (97.4 percent)

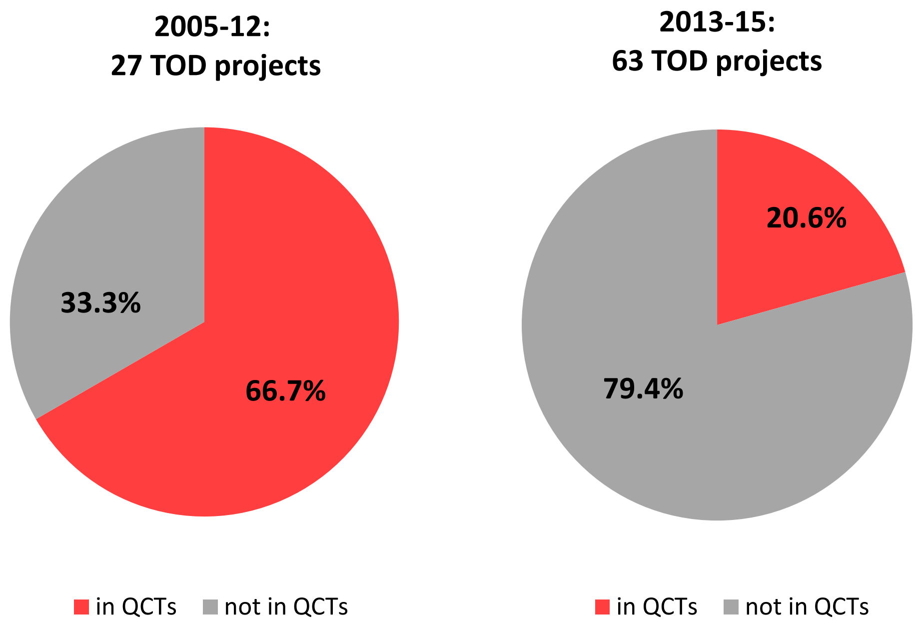
- ***Other variables***: The percentages are similar for total number of units, number of low-income units, and dollar amounts, with the other measurement variables displaying the same dramatic difference, pre- vs. post-2013, that is evident with the count of total projects:
    - Between one-fifth and one-quarter of the total for each measurement variable was attributable to projects in TOD areas from 2005-2012: 22.5 percent of all units, 22.6 percent of low-income units, and 21.7 of tax-credit dollar amounts
    - From 2013 to 2015, in contrast, nearly all units, both in total and low-income, and nearly all tax-credit dollar amounts were associated with projects in TOD areas: 98.6 percent of all units, 98.5 percent of low-income units, and 98.2 percent of the total dollar amount

of the credits. All of the corresponding percentages were 100 percent for Sandy-related projects (since all of those projects were located in TOD areas) and only slightly lower for non-Sandy projects.




Given the concern about TOD areas overlapping with distressed areas, how good a job have the NJHMFA's scoring criteria done at steering credits to *higher-opportunity* transit areas and away from transit areas with existing concentrations of lower-income households? As it happens, they did a much better job after 2013 than before (see Figure 4). From 2005 to 2012, prior to the scoring changes, two-thirds of all credit-receiving projects that were located in transit areas were also in a QCT (18 out of 27). But from 2013 to 2015, only about one-fifth (13 out of 63) of projects in transit areas were also in a QCT. And even this figure is slightly inflated by projects tied to Sandy funds. Among the 37 post-2013 transit-area projects whose tax-credit awards were not tied to Sandy prioritization, only six, or fewer than one in six, were also in QCTs.

Figure 4. Percent of TOD Projects Located in QCTs by Time Period



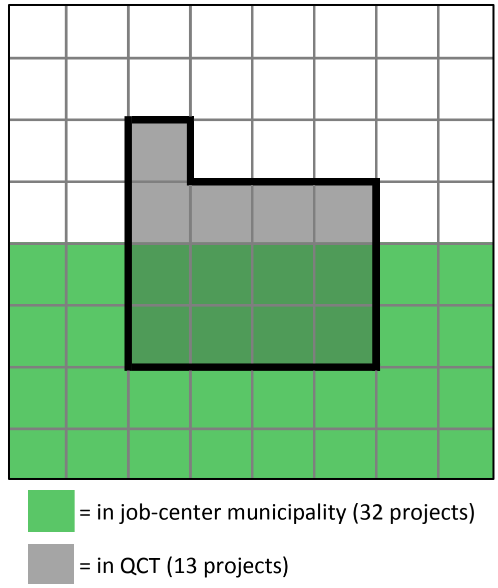

Summary: The share of LIHTCs going to projects in transit-accessible areas, and thence the number of units created in these areas, has increased dramatically since 2013, to the point where nearly all credits are now awarded to projects in TOD areas. Post-2013, TOD projects are also much less likely to be located in distressed transit areas, likely a side effect of the overall drop in the share of projects located in QCTs. The scoring process was already awarding points for being within half a mile of transit prior to the 2013 changes, but some of the changes may have put a new premium on transit proximity. We will investigate this in the next section.

### Job-center municipalities

With respect to the goal of steering low-income housing into areas with a lot of jobs: The job-center criterion was only introduced in 2013 and was not tracked in prior years. From 2013 to 2015, tax credits were awarded to 64 projects, and exactly half of them (32) were in job-center municipalities (see Figure 5). These 32 projects represented slightly less than half of the total residential units (47.5 percent) and the total number of low-income units (49.2 percent) created since 2013, and also slightly less than half (49.2 percent) of the dollar amount of the credits given out since 2013.

Of the 32 projects located in job-center municipalities since 2013, only eight are also in a QCT. So the 2013 changes to the scoring criteria appear to have helped steer lower-income housing into stronger-market job centers rather than distressed ones. And the eight job-center projects that are also in a QCT actually make up a majority of the 13 projects overall that were located in QCTs since 2013, so to the extent that the criteria are still allowing some projects to locate in QCTs, at least those QCTs tend to be ones that provide job opportunities.

**Figure 5. LIHTC Recipient Projects**
**2013-2015 (64 projects)**




**Proficient school districts**:
With respect to the goal of steering low-income housing into higher-performing school districts: Like the job centers, this criterion was only introduced in 2013 and was not tracked prior to that. This category is also excluded from the scoring process for projects consisting only of senior housing, since the quality of the school district is not a factor that affects the prospects of these households. Out of 48 non-age-restricted projects that were awarded LIHTCs from 2013 to 2015, 17 of them (35.4 percent) were in school districts labeled “proficient” by the NJHMFA (meaning that 66 percent of students scored as proficient or advanced proficient on the NJ ASK 4 standardized test in both math and language arts during either the most current calendar year available or the preceding year). These 17 projects represented 35.7 percent of all units and 36.6 percent of all low-income units created by non-age-restricted projects in this time period and received 33.5 percent of the tax-credit dollars awarded to non-age-restricted projects. The percentages are slightly higher if Sandy-related projects are taken out of the analysis, averaging closer to 40 percent in proficient school districts rather than 35 percent.

This criterion has likely served to diminish the chances of credits being awarded in distressed areas (QCTs), since those areas generally have poorer-performing schools.

<u>Summary</u>: The 35 percent – or 40 percent, discounting the effects of the need to get Sandy money out the door – of non-senior LIHTC projects/units that were created in proficient school districts serves as a benchmark against which to compare future results. If the percentage does not climb from here, it may be an indication that there are too many other ways for projects to run up their point scores, and that if steering low-income housing into higher-performing school districts is more of a priority than those other goals, the point score on this variable might need to be increased.

## Assessment of Scoring Criteria

Given that the NJHMFA's scoring criteria appear to be effective at avoiding the reinforcement of concentrated poverty and at steering lower-income housing into areas of higher opportunity – and that they have gotten more effective since changes in 2013 – it is worth taking a closer look at the scoring criteria to identify which specific land-use-related questions are most responsible for the geographic distribution of the projects.

With respect to "smart growth areas," the definition was expanded slightly in 2013 to include growth areas in the Pinelands, but otherwise the awarding of points for smart growth areas remained essentially unchanged. As noted above, the scoring criteria were already doing a good job prior to 2013 of steering low-income housing into areas targeted for growth by the state's major regional land-use plans, and none of the 2013 changes diminished this effect.

Regarding the other category of "good" places from a land-use perspective – places within half a mile of a transit station – the substantial improvement, noted earlier, in the share of projects being steered to transit-accessible areas appears to be traceable to a few 2013 changes that seem subtle at first. It is somewhat difficult to discern the operational effects of the changes, because both pre- and post-2013, the points for being within half a mile of a transit station competed with points for several other land-use characteristics for a limited supply of total land-use points. The differences arise in the number of competing land-use categories, the number of points for each category, and the total number of points available.

Prior to 2013, a project could receive one point for being within half a mile of a transit station, but being near transit was just one among six "positive land uses" that were each worth one point, with the further restriction that a given project could only amass a maximum of two points among all six, reducing public transportation's individual importance among the various options. With six land-use options available for scoring points, a project could afford to check only two of the six boxes and ignore the other four and still get the two-point maximum. If any one of the six factors could theoretically be safely ignored two-thirds of the time, this could explain why the percent of projects lying in TOD areas was so low prior to 2013, even though points were already in place for it.

As of 2013 , however, being within half a mile of a transit station is worth two points and competes with only three other factors (adaptive reuse/brownfield, proficient school district, and job center), each worth two points, and for an expanded maximum of six points among the four factors. So with reduced competition (only three other factors rather than five) for an expanded pool of points (six vs. two) and with each factor now worth two points rather than one, proximity to transit takes on greater importance. A project can now afford to ignore at most one of the four land-use factors and still hit the six-point maximum, substantially reducing the likelihood that transit proximity (or any other individual factor) will be disregarded. Also note that for senior projects, which don't consider proficient schools, being near transit is an automatic, unambiguous two-point win, since without it a project could only amass four of the six total available points among the three factors for which it is eligible; there is never any superfluous "wasted" effort associated with being near transit for senior projects. For all projects, and for senior projects in particular, being near transit is now much more critical to being able to garner all the available points in the land-use category.

From the regional equity point of view, we have no trend lines for two of the criteria examined here – location in a proficient school district and location in a job-center municipality – because the points awarded for these characteristics (two points for each) were only introduced in 2013. Hence there is no pre-2013 information on what percent of projects and what percent of low-income units were being steered to these areas. But the mere fact that these points exist is movement in the right direction, in terms of steering lower-income housing towards areas of higher opportunity, and the relatively robust shares of projects receiving the points just in the short period since 2013 (about half of all projects in the case of job centers and a little more than a third in the case of proficient school districts) are a clear sign that the incentives are working. Another important aspect of these two new criteria is that they, along with the transit-proximity factor, compete with only one other factor (the adaptive reuse of a non-residential building or the remediation of a brownfield site) for a total pool of six points. Given the relative scarcity of brownfield and adaptive reuse opportunities, this means that any project that can cross off any of the other three boxes in this land-use group is likely to receive the full two points for each of them, providing a clear incentive for satisfying as many of the three as possible.

For the third regional-equity criterion – steering new lower-income housing projects away from areas that already host high concentrations of lower-income households (using QCTs as the definition of such areas) – it is a bit harder to identify the scoring changes that have led to the results described earlier, with far fewer LIHTCs being given out in QCTs after 2013 than before. In fact, there is only one instance in which QCTs are mentioned explicitly in the requirements for a point-scoring category: A project that agrees to extend its compliance period for an additional 15 years gets 20 points if it is not in a QCT and 15 points if it is. The five-point preference for projects located outside of QCTs is new; in years past, projects both within QCTs and outside of them[2] were eligible for the same number of points.

Instead, much of the improvement is likely due to the 2013 introduction of the concept of what the NJHMFA calls Targeted Urban Municipalities (TUMs), which are a subset[3] of the list of distressed Urban Aid Municipalities maintained by the New Jersey Department of Community Affairs. Their effect on the LIHTC awarding process occurs not via incorporation into the actual awarding of points (none of the scoring questions mentions the TUMs) but via an upfront set-aside. As of 2013, the QAP stipulates that at most 40 percent of the tax credits in each housing category (Family, Senior and Supportive Housing)

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[2] Awarding any points to projects located in QCTs may appear counterproductive if the NJHMFA's goal is to avoid putting more lower-income housing in already-poor places, thereby reinforcing concentrated poverty. The contradiction arises because federal housing policy – which hasn't caught up with New Jersey policy – still sometimes rewards this practice. The NJHMFA, which actually wants the LIHTC projects to go into stronger-market places, attempts to counteract the negative impacts of the federal policy by also (seemingly counterintuitively, until you understand the reason for it) awarding points for not being in a Qualified Census Tract, and in the same section of the scoring criteria.

[3] The glossary of the QAP states that "'Targeted Urban Municipalities' means those Urban Aid Municipalities designated pursuant to N.J.S.A. 52:27D-178 plus Atlantic City, with a poverty rate greater than 8.1 percent."

can be awarded to projects located in TUMs, with the remaining credits to be allocated to the remainder of the state. If, once all projects are scored and ranked, the “urban” projects make up more than 40 percent of the list, then projects not in TUMs will be added until the 40/60 split is achieved.

The NJHMFA is effectively using the list of Targeted Urban Municipalities as an additional indicator of distress, superimposing it over the list of QCTs. The relationship between TUMs and QCTs is strong, since distressed census tracts tend to be located within distressed municipalities, with the TUMs being the broader definition of distress. It is not an exact correspondence, however, since many distressed municipalities will contain some healthier neighborhoods (Jersey City being the most obvious example), and in fact, some TUMs may not contain any QCTs at all, a situation that arises from the two definitions of distress originating from two different government agencies (one federal, one state). Conversely, it is also true that a few QCTs may be located in municipalities that are large and internally diverse enough not to qualify as distressed overall. It should also be noted that the lists of both QCTs and TUMs changes from year to year, as economic and demographic conditions change.

Of the 263 QCTs defined for 2015, 236 are in one of the 48 Targeted Urban Municipalities.[4] Thus being in a QCT usually, but not always, implies also being in a TUM. But the implication does not work the other way around: the 48 TUMs collectively comprise 609 census tracts, of which only 236 are QCTs. So more than half the time, being in a TUM does not imply being in a QCT. Furthermore, the 236 QCTs that are also in a TUM are not spread throughout the 48 TUMs; they appear only in 32 of them, meaning that the remaining 16 TUMs[5] – which together contain 97 census tracts – do not contain any QCTs at all. Thus being located in a TUM not only does not imply being in a QCT but may not even imply that there are any QCTs located anywhere within the host municipality.

Though it is possible to construct counterexamples, imposing a 40 percent cap on the share of credits that can be awarded to projects in TUMs is generally going to result in an even tighter ceiling on the share of credits that can be in QCTs. While technically the share of projects in QCTs could exceed 40 percent because some QCTs are not in TUMs and are therefore not subject to the set-aside cap, operationally the ceiling will generally be lower than 40 percent because some “urban” projects will be located in the less-distressed parts of the TUMs, thus occupying slots in the set-aside without

[4] The 27 non-TUM QCTs are distributed across 21 municipalities that contain pockets of distress (their respective QCTs) but are large and/or internally diverse enough not to qualify as distressed overall: Fairview, Woodlynne, Woodbine, Millville, Montclair, West Orange, Deptford, Paulsboro, Hamilton Township (Mercer County), Freehold Borough, Keansburg, Red Bank, Morristown, Berkeley Township, Toms River, Manchester Township, Totowa, Wildwood, West Wildwood, Plumsted Township, and Jackson Township. Two of the QCTs are tracts that span multiple municipalities. One tract straddles Wildwood and West Wildwood, neither of which contain any other QCTs. The other comprises Lakehurst Naval Air Station and contains parts of Manchester, Plumsted, and Jackson townships in Ocean County. Manchester contains other QCTs, while Jackson and Plumsted do not.

[5] The 16 Targeted Urban Municipalities that do not contain any QCTs are: Garfield, Lodi, Gloucester City, Lindenwold, Pennsauken, Winslow Twp, Vineland, Woodbury, Hoboken, Kearny, Weehawken, Carteret, Neptune City, Hillside, Rahway, and Roselle. These places are distressed enough at the macro level to meet the criteria defining the TUMs but do not contain any individual tracts that are acutely distressed enough to meet the definition of a QCT.

contributing to the count of QCT projects. There are a lot more non-distressed census tracts in TUMs (373 by the 2015 definitions) than there are QCTs that are not in a TUM (27 in 2015), so there are many more opportunities for a LIHTC recipient project to use up part of the 40-percent TUM allocation without adding to the tally of QCT projects than for a project in a QCT to find its way into the 60 percent remainder of the state once the 40-percent TUM allocation has been used up. The analysis in the previous section illustrates the net effect, with the percent of projects and housing units located in QCTs having dropped from around 50 percent prior to 2013 to only 20 percent in the wake of the imposition of the 40-percent TUM cap.

Using the list of TUMs as an additional screen for distress has several desirable effects. First, it places an upper bound of 40 percent on the percentage of credits that can be given out in the municipalities that together contain most (though not necessarily all) of the distressed census tracts, regardless of whether the projects are located in particularly distressed parts of their host municipalities. This has the effect of limiting the potential burden of additional low-income housing on municipalities that are already struggling. Yet capping the set-aside at 40 percent rather than zero does still allow for the possibility of new low-income housing projects being built in the more prosperous parts of those targeted urban municipalities that may not be uniformly distressed. This can be a hedge against the wholesale displacement of lower-income households from gentrifying sections of cities that are seeing their fortunes improve. Currently the revival has mainly been confined to Hoboken and the part of Jersey City close to the Hudson River, but as new demand for in-town living spreads to other older cities and towns, it is important to make sure the LIHTC program doesn't swing too far in the direction of disallowing any new lower-income housing from being built in revitalizing areas.

Finally, as an additional safeguard against exacerbating the concentration of low-income housing, to prevent a scenario in which the bulk of the 40-percent TUM set-aside gets directed into the most distressed parts of those municipalities, another 2013 scoring change precludes a project from receiving credits if it is proposed to be located in a census tract (which does not even necessarily have to be a QCT) in which the percent of units already constructed there under the LIHTC program exceeds a defined threshold, unless that project meets a fairly restrictive set of standards. From the NJHMFA's document "Positive Changes in NJ's QAP":

> The QAP now also includes a prohibition of new construction of LIHTC units in census tracts with major concentrations of low income housing. New construction projects located in census tracts where 30 percent or more of the existing housing units are LIHTC units are not eligible for funding unless the following criteria are met:
>
> 1. The project must be a redevelopment project;
> 2. The project does not add more low-income units to the census tract;
> 3. The project plan includes relocation options to higher opportunity areas and mobility counseling assistance for existing residents; and
> 4. The application includes a municipal resolution that supports the allocation of housing tax credits for the development.

## Conclusion

Based on the results of this investigation, we conclude that the New Jersey Housing and Mortgage Finance Agency's 2013 changes to its Qualified Allocation Plan have had a substantial positive effect in steering new lower-income housing away from neighborhoods already experiencing high concentrations of poverty and toward areas that provide better opportunities for lower-income households to improve their economic circumstances. Via changes both obvious and subtle, the NJHMFA has succeeded in reducing dramatically the share of projects that are awarded in already-distressed areas (as defined by HUD's list of Qualified Census Tracts, or QCTs), from nearly half prior to 2013 to about one in five since the changes were implemented. And of the projects that were still awarded in QCTs post-2013, a majority were also in job centers – a new point category that was added by the NJHMFA in 2013. So to the extent that the scoring criteria are still allowing some projects to locate in QCTs, at least those QCTs tend to be ones that provide job opportunities.

Part of the reduction in projects located in QCTs is likely due to the NJHMFA's 2013 introduction of its own concept of Targeted Urban Municipalities (TUMs), a group of municipalities which together contain most (though not necessarily all) of the QCTs in the state. The agency effectively uses the TUMs as an additional hedge against exacerbating concentrations of poverty by capping the number of projects that can be awarded in them, thus limiting the potential burden of additional low-income housing on municipalities that are already struggling, while still allowing some new low-income units to be directed into the healthier neighborhoods of the larger and more internally heterogeneous municipalities. Such a balanced approach can help guard against the wholesale displacement of lower-income households from gentrifying sections of cities that are seeing their fortunes improve.

At the same time that the share of projects in distressed areas declined, the share of projects awarded in transit-station neighborhoods rose to nearly 100 percent, compared to only about one in five prior to the 2013 changes. This happened despite the fact that a project had already been able to score points for being within half a mile of transit prior to 2013. What changed is that under the new criteria, proximity to transit has a higher point value and also has to compete with fewer other land-use criteria for a fixed pool of points, meaning that a project is now much less likely to receive the maximum points in the land-use category without being located near transit. What may initially look like a minor scoring change has had a major positive impact.

Furthermore, the improvements on these other measures have not come at a cost to the NJHMFA's goal of encouraging growth in areas that are designated as appropriate for new growth by various state and regional land-use plans. The share of projects awarded in these "smart growth areas" was already high before the 2013 changes and remained just as high afterward.

Another new scoring criterion added in 2013 was the awarding of additional points for being located in a "proficient school district." This change has likely served to further diminish the chances of credits being awarded in distressed areas (QCTs), since those areas generally have poorer-performing schools.

All of these results hold regardless of whether one considers the number of awardee projects, the dollar value of the credits, the number of low-income units, or the total number of residential units (including any market-rate units).

These results make clear that state implementing agencies have substantial latitude to use modifications in the LIHTC scoring criteria in pursuit of policy goals. Agencies in other states charged with implementing the LIHTC program could follow the example set by the NJHMFA by making targeted changes and additions to their own criteria in order to discourage concentrated poverty, expand transit access for lower-income households, or promote any number of other land-use or affordable-housing policies.

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