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ABSTRACT

This paper provides a general overview of U.S. housing policy, with emphasis on state and local programs. Despite the focus on local programs we also discuss the broader national policy environment. This broader context is necessary because national policies play a crucial role in shaping the country's housing markets. We briefly trace out some of the key features of the housing market, highlighting tenure distributions, housing conditions and costs. Particular emphasis is given to the role of increasing housing costs and the housing opportunities of the poor. The paper also describes: (1) the nation's housing finance and tax systems, focusing on the different ways the government uses the tax code to subsidize homeowners and renters; and (2) state and local government programs, often implemented in the close collaboration of nonprofit organizations. A final section provides a brief overview of the strengths and weaknesses of U.S. housing policy and the evolving role of sub-national governments.

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# Housing Policy in the U.S.: The Evolving Sub-national Role

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## I. Introduction.

This chapter provides a general overview of U.S. housing policy, with a particular emphasis on state and local programs and policies that subsidize housing for low-income households. The emphasis on the state and local dimension of housing policy is of course consistent with the perspective of this volume. However, more than that, it is also consistent with the increasingly important role that state and local governments play in the formulation and execution of housing policy. Nevertheless, and in contrast to the other chapters, we spend a considerable amount of space describing the broader national policy environment. This broader context is necessary because national policies have played a crucial role in shaping operations and outcomes in the country's housing markets. In our view, it is only possible to understand the evolving state and local policies if they are seen through the prism of national policy.

The chapter is divided into five sections.[i] The next section sets the context by summarizing key trends and patterns in the housing market. It briefly traces housing trends and some of the key features of the housing market, highlighting tenure distributions, housing conditions and costs. Particular emphasis is given to the role of increasing housing costs and the housing opportunities of the poor, as these costs have become an increasingly important rationale for assisting lower income families with their housing needs.

Section 3 focuses on national housing policy. It summarizes changes in federal housing assistance, and describes how the nation's housing finance and tax systems have evolved. It also focuses on the different ways the government uses the tax code to subsidize homeowners and, to a much lesser degree, renters. Among other topics, it shows the extent to which tax subsidies for homeownership have benefited affluent homeowners far more than they have households of more modest means. It also looks at a variety of subsidies for low income housing: the Low-Income Housing Tax Credit, which is the largest active subsidy program for rental housing today; as well as recent efforts to reform and rebuild public housing through the HOPE VI program for the revitalization of extremely distressed

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developments. Then it discusses the main federal program to subsidize housing for lower-income families: demand-side subsidies – called vouchers -- which have been increasingly adopted in the U.S. and Europe. The focus of this and the subsequent section is on housing for the general population, including low-income renters and home owners. [ii]

Section 4 focuses on programs designed and administered by state and local governments, often with the close collaboration of nonprofit organizations. The section discusses how states and localities utilize federal block grants and tax-exempt bond financing for housing and how they are increasingly using housing trust funds and inclusionary zoning to fund the development of affordable housing. It also summarizes the role of community development corporations and other nonprofit organizations as partners to state and local government in delivering housing assistance.

A final section summarizes and provides a brief overview of the strengths and weaknesses of U.S. housing policy and the evolving role of sub-national governments.

## II. Housing in the United States: An Overview

Few things influence as many aspects of life as does housing. Housing provides far more than just shelter from the elements. As a home, housing is loaded with symbolic value. It is valued for its location, its style and its access to schools, parks, and other amenities.[iii] It is also a major form of wealth for homeowners, the most widespread and largest single form of household wealth. On the other hand, inadequate housing increases vulnerability to a wide range of troubles, such as health hazards. Residential location can influence the quality of education because of the access housing provides to the best or worst schools. Moreover, vulnerability to crime is strongly influenced by residential location. People who live in distressed neighborhoods often face a far greater risk of being robbed or assaulted.[iv] Finally, one of the most widespread problems for low income families is the high cost of housing.

**Housing's Role in the Economy.** From 1975 to 2008 the housing industry produced an average of 1.7 million new residential units each year. Although its production has been cyclical, housing output trended upwards almost every year for the past 20 years, and when it did decline it did so only slightly. The mortgage crisis and subsequent collapse of the housing market proved that the increasingly held view that housing finance innovations had conquered housing's pronounced cyclicality was wrong. Housing starts plummeted in 2007, 2008, and 2009. The 554,000 total starts recorded in 2009, were a 73-percent decrease from 2005, the lowest level achieved since World War II. [v]

For the past 25 years, residential construction has been dominated by single-family homes which accounted for 78 percent of the total in 2005, up from less than 56 percent in

1980. As will be discussed later, changes in the mortgage finance system and the federal income tax code greatly reduced investment in rental housing and favored homeownership. In addition, as Glaeser shows, local regulations in many areas have also placed severe constraints on multifamily housing development with the result that multifamily starts remain well below the volume of the early 1980s.

Housing has become larger and considerably more luxurious. The median size of owner-occupied homes increased steadily from 1,535 square feet in 1973 to 2,277 in 2007 so that the average American has almost 1000 square feet of living space more than double the average living space consumed in Great Britain, France and Germany. [vi] Multifamily units have also become larger, but not to nearly the same degree as single-family homes. Indeed, by almost any imaginable standard, America is very well-housed even if many have to pay excessive amounts for it. To mention just a few dimensions of the scale of improvement: Incomplete plumbing and other severe physical problems that were endemic at midcentury characterize only a tiny percentage of the housing stock today. Indeed, the 2000 Census stopped asking the question of whether a house lacked sewerage or a septic connection because in the previous Census only 1 percent of houses had this problem.[vii] Similarly, the quality of the nation's housing stock has improved to the point that only a small portion is physically deficient.

This is a far cry from the time when the first building code and land use reforms were introduced in the late 19th and early 20th centuries. President Franklin D. Roosevelt did not exaggerate when, in his second Inaugural Address, he spoke of "one third of a nation ill housed." In 1940, fully 45 percent of households lived in homes without complete plumbing, especially in rural and southern areas. Unquestionably, housing conditions improved dramatically in the second half of the 20th century, and by international or historical standards America is indeed very well housed.

**Tenure.** Given current perceptions, it is somewhat surprising that majority of the nation's households were renters as recently as 1940. Over the next 20 years the national homeownership rate shot up from 44 to 62 percent, an increase driven by a variety of forces, not least the creation of the 30-year, self-amortizing, fixed rate mortgage under the auspices of the Federal Housing and Veterans Administrations. During this post war period, homeownership, became the dominant form of tenure. The homeownership rate peaked at over 69 percent in 2004 and has shifted downward since, reflecting both the run-up of housing prices of the housing bubble, and the surge in foreclosures after the bubble burst in 2007.

**Characteristics of Homeowners and Renters.** One fundamental difference across tenures is the relative affluence of homeowners and the increasing discrepancy. The median household income of homeowners in 2007, at $61,700, was more than double that of renters, while it was only 75 percent greater in 1991. The differences are starker with regard to wealth. In 2007 the median net wealth of renters of $5300 amounted to just 2 percent of the median for homeowners of $234,200.

Owners and renters also diverge in many other respects. Owners are far more likely to reside in detached single-family homes –85 percent of them do -- and far less likely to live in multifamily housing, as 85 percent of dwellings with more than three units are rented. They are more likely to reside in the suburbs or outside metropolitan areas than in the central city. They are more likely to be white and less likely to be from a minority racial or ethnic group. Both tenure forms are equally likely to have children under 18, but owners are far more likely to be married couples and renters to be single-female households. Homeowners are more likely to be elderly, but less likely to live alone. They are far less likely than renters to live in poverty, and they spend a substantially smaller percentage of their income on housing-related expenses. Almost all homeowners have a car; nearly one fifth of renters do not. Finally, even though the decline in the number living in "severely inadequate housing" fell from almost 11 percent of renter households in 1975 to less than 3 percent at present, renters are still more than twice as likely to reside in homes with moderate or severe physical deficiencies.

**Affordability** of housing is of far greater concern than physical condition or crowding. While less than 2 percent of all households now reside in severely deficient housing and less than 4 percent confront overcrowded conditions, more than 16 percent spend half or more of their income on housing expenses, including 24 percent of renters. Unlike the physical aspect of housing, affordability is not exclusively a housing problem. Rather, it encompasses both housing costs and income. Housing, in other words, is more or less affordable because of changes in either housing expenses or income. To measure trends in affordability, the most common standard in the United States is 30 percent of income. Households spending 30 percent or more of their pre-tax income on housing are viewed as having a housing affordability problem. When housing cost burdens exceed 50 percent of income they are defined as being severe.

By these measures, more than 30 percent of all homeowners and more than 45 percent of all renters had a housing affordability problem in 2007. Moreover, for many of them the problem is severe and they do not receive any government assistance: half of all very low-income renters without any housing subsidy pay more than half of their income on rent or live in severely deficient housing, a problem not experienced by higher income families. For example, if we focus on the highest and lowest income levels we find that the bottom quartile of the income distribution accounts for 91 percent of all renters with severe cost burdens and 57 percent of all homeowners. The top two quartiles, in contrast, account for less than 1 percent of all renters and 16 percent of all homeowners with severe cost burdens. As would be expected from their lower incomes, renters confront severe cost burdens far more often than substandard housing.

**Explaining the Affordability Problem.** The pervasiveness of an affordability problem among poor renters is due to a variety of reasons, some related to the functioning of the housing market and others to broader economic trends such as changes in income distribution. As for the market's workings, perhaps the most important factor has been the apparent lack of responsiveness to the demands of low income families which in turn is fundamentally related to both the way we have chosen to distribute subsidies -- which Quigley describes as being similar to a sweepstakes in which only a limited number of eligible recipients in fact receive benefits -- and the way housing market regulations constrain the functioning of the market.[viii] Of course one of the obvious reasons for the diminishing real incomes of renters is that many of the more affluent renters have purchased homes over the past two decades, thus reducing the average income of renters. But, it is important to remember that these shifts within the housing market have taken place within a context of the nation's widening economic inequality.

Some manifestations of the growing affordability problem are shown by DiPasquale and Murray who show that across large metropolitan cities, real rents increased by 9 percent between 2000 and 2005 while at the same time that renter household income fell by about 5 percent, magnifying longer term trends observed by Harvard's Joint Center for Housing Studies which show that median renter income decreased, after inflation, by 2.4 percent from 1998 to 2008, the median gross rent increased by 8 percent.[ix] Similarly, while the lowest income renters have increased in number, they face a shrinking supply of affordable housing. For example, while the number of extremely low income renters increased by nearly 1.6 million households from 1991 to 2005 (or 18 percent), the number of units that were affordable to these renters decreased by more than 400,000 (6 percent). There is a severe shortage of units that are affordable *and* available to the lowest income renters. Of the 6.3 million rental units that were affordable (at 30 percent of income or less) to extremely low income renters in 2009, 2.6 million were occupied by higher income households, leaving only 3.7 million actually available. As a result, the 9.96 million extremely low-income renters in 2009 faced a shortfall of more than 6.2 million affordable and available units. Expressed differently, only 36 units were affordable and available for every 100 extremely low-income renters. At the same time those with incomes above the median enjoy a surplus of affordable and available units. Cumulatively, only renters with incomes above 73 percent of area median have a surplus of housing that is both affordable and available.

Similarly, Harvard's Joint Center for Housing Studies found striking decreases in the supply of older housing that was affordable to low-income families. From 1997 to 2007, about 30 percent of all housing renting for $400 or less that was built before 1940 was torn down or otherwise removed from the stock, converted to owner occupancy or temporary usage, or shifted upwards to a higher rental category.[x] These trends are especially alarming since older units account for the lion's share of the nation's affordable housing stock.

Also contributing to the shortage of affordable housing for low-income renters are reductions in the federally subsidized housing stock. The public housing inventory decreased by nearly 250,000 units or18 percent, from 1991 to 2007, largely reflecting the widespread demolition of distressed projects. Many of these projects have been replaced with much mixed-income developments, but the result is a net loss of subsidized units. In addition, more than 150,000 units of privately owned but federally subsidized housing have been lost since 1997 as owners decide against renewing their subsidy contracts.

Finally, at least part of the market's failure to provide housing affordable to low-income renters stems from government regulations that govern the size, quality, and density of housing that can be built. Building code and zoning standards, for example, impose minimum size requirements on all new housing—standards that have questionable bearing on health and safety. Such size standards can simply price new housing out of reach of many low-income families; families may be able to afford, say, 500-square foot homes, but units of this size may fall below the minimum requirement.

Suburban land use restrictions also inflate the cost of housing. Large-lot zoning, for example, increases land costs per unit. Glaeser, for example, shows that restrictions on multifamily housing severely limits the supply of these forms of lower cost housing, increasing their costs and sharply reducing their availability.[xi] Ultimately, while the rapid growth in severe cost burdens among homeowners since the mid-1990s is not well understood, it is, nevertheless, clear that neither policies nor trends in income distribution have had a benevolent effect on the housing costs faced by lower income families.

**Homelessness.** No housing problem is as profound as is homelessness. Being homeless puts one at the mercy of the elements, the kindness of family and friends, and the workings of a variety of social welfare agencies. Without a home, it is extremely difficult to find a job or to keep one. Homelessness makes it difficult for children to attend school regularly and perhaps even more difficult to study and learn. It places people at higher risk of illness, mental health problems, substance abuse, and crime. Unlike other housing problems, homelessness is by its nature extremely difficult to quantify. Nevertheless, careful analysis of all the available data implies that the central explanatory factors in explaining homelessness are the availability and cost of housing.[xii] The study shows that when housing is expensive and less available, homelessness increases. In short, it shows that despite the complexities involved at its core homelessness is yet another manifestation of housing affordability problems.

The U.S. government has issued annual reports since 2005 on the extent of homelessness in the nation. The report for 2009 found that on a single night in January, more than 643,000 people were homeless, including those in shelters and on the street. The report also found that more than twice as many people, nearly 1.6 million, stayed in a homeless shelter or transitional housing over a 12 month period ending on September 30, 2009. This latter figure does not include people who were homeless but did not stay in shelters.[xiii]

## III. Federal Housing Programs.

Given the complexity and pervasive effects housing has on basic living conditions it is perhaps not surprising that policy is seldom just about housing. Nearly every housing program initiated since the 19th century has been motivated by concerns that go beyond the provision of decent and affordable housing. For example, the regulatory reforms of the late 19th and early 20th centuries proscribing minimum standards for light, ventilation, fire safety, and sanitation derived at least as much from a desire to stem the spread of infectious disease and curb antisocial behavior, as from a wish to improve living conditions for their own sake . Similarly, in passing the original public housing legislation in 1937, Congress was more interested in promoting employment in the construction trades than in providing low-income housing. Policies also differ in the extent to which they rely on government agencies for program implementation. Some, such as public housing and rental vouchers, rely almost exclusively on government agencies; others involve partnerships with for-profit or nonprofit developers.

From the 1930s when the government instituted the first national housing programs (FHA mortgage insurance, public housing), to the mid 1970s, the federal government devised, funded, and implemented virtually all housing programs. Programs were categorical, providing minimal latitude to states and localities. Cities and counties established public housing authorities (PHAs) to develop and manage public housing and subsequently administer the voucher program. But PHAs have very little autonomy. They were created in response to a court ruling that the federal government lacked constitutional authority to exercise powers of eminent domain to acquire sites for public housing. Local governments created PHAs to acquire land for public housing. They acquired sites for public housing and issued bonds to finance construction. The federal government paid the debt service on the bonds and issued rules and regulations regarding tenant eligibility standards, rent levels, construction and design standards, and virtually all other aspects of public housing. PHAs acted essentially as an arm of the federal government.

States and localities began to play a larger role in U.S. housing policies in the mid-1970s when the government created the first block grant program, and in the years since, most of the government's new housing programs followed this approach. These include the Community development Block Grant program, the HOME Investment Partnership program, and block grants for Native Americans, Homeless housing, and others. In addition, the Low Income Housing Tax Credit, the nation's largest active rental housing subsidy program, is analogous to a block grant, as will be discussed below.

Today, the federal government continues to fund the vast majority of the country's subsidy programs, but it does not dictate the terms of these programs to the same extent as before. States and localities now have considerably more say in deciding what kinds of housing should be subsidized, the kinds of households who should receive priority, where the housing should be built, the extent to which nonprofit or for-profit developers should be involved, and even over the type of subsidy provided.

Importantly, the shift to block grant based funding does not mean that there are no longer federal expenditures for housing assistance. Indeed far from it. However, with the exception of the voucher program and some much smaller programs, federal programs have not grown in decades.  Indeed, the total inventory of housing in these programs has diminished steadily over the years, reflecting the demolition and redevelopment of public housing, and the loss of federally subsidized privately owned housing due to prepayment of federally insured mortgages, and expiration of federal subsidy contracts. From a budgetary standpoint, the government's "legacy" housing programs accounted for more than one-third of HUD's total budget in fiscal 2010. Vouchers account for another 42 percent. Block grants represented about 19 percent.[xiv]

In the rest of this section we put particular emphasis on the four major types of national housing subsidies: tax and financial subsidies; the Low Income Housing Tax Credit;

Public Housing, and housing vouchers. Again**,** this broad brush approach to federal programs means that many of the smaller programs are not covered here.[xv]

Although most people probably associate housing policy in the United States with public housing, the federal government provides a much larger housing subsidy for the affluent in the form of tax benefits for homeownership. Whereas about 7 million low-income renters benefited from federal housing subsidies in 2008, more than 50 million homeowners received the benefits of the tax free income on the imputed rental income on their homes. Many of them also took mortgage interest and property tax deductions on their federal income taxes. Federal expenditures for direct housing assistance totaled less than $40.2 billion in 2008; at the same time, mortgage-interest deductions and other homeowner tax benefits approach $200 billion. Moreover, the lion's share of these benefits is regressively distributed to households with incomes above $100,000. Indeed, Poterba and Sinai show that households with incomes more than $250,000 per year receive more than ten times as much in such subsidies as do households with incomes between $40,000 and $75,000.[xvi]

In addition to the mortgage-interest deduction, other tax expenditures for homeownership include the deductibility of property tax payments, reduced taxes on the sale of residential properties, the lack of tax on the imputed income from housing, and low-interest mortgages for first-time homebuyers financed by tax-exempt bonds. The primary tax incentives for investing in rental housing consist of the low-income housing and historic rehabilitation tax credits and low-interest mortgages financed by tax-exempt bonds. In short, even without considering the assistance provided through the financial system, by Fannie Mae and Freddie Mac, two government-sponsored credit agencies, housing assistance is overwhelmingly targeted on homeowners, and to a considerable degree on wealthier households. [xvii]

The federal agency responsible for most of the nation’s housing programs is the U.S. Department of Housing and Urban Development. It oversees federal expenditures which cover about 7.3 million low-income households.[xviii] The single largest category, accounting for nearly 2.2 million units, consists of rental vouchers. Privately owned subsidized housing with 1.8 million units is the next largest category. Public housing is the third largest category, with about 1.2 million units. Finally, on the order of 700,000 people are assisted through various programs for the homeless. The Low-Income Housing Tax Credit, tax-exempt multifamily bonds, and the HOME program account for the remaining 1.9 million units of subsidized rental housing. Most of this housing is subsidized by multiple funding sources. For example, the Low-Income Housing Tax Credit has contributed to the development of more than 1.8 million rental units; however, more than 300,000 units of this housing were also financed with tax-exempt bonds, and other tax-credit projects also received funding through the HOME program.

**The Low-Income Housing Tax Credit.** One of the single largest subsidies for low-income rental housing is an item in the Internal Revenue Code. The Low-Income Housing Tax Credit (LIHTC) provides financial incentives to invest in low-income rental housing, and it now accommodates more households than public housing. The LIHTC allows investors to reduce their federal income taxes by $1 for every dollar of tax credit received. Investors receive the credit for 10 years; and the property must remain occupied by low-income households for at least 15 years. The amount of the credit depends on the cost and location of the housing development and the proportion of units occupied by low-income households. Unlike other tax breaks associated with real estate, the LIHTC is not awarded automatically. Tax credits are assigned to individual housing developments usually by state housing finance agencies, (HFAs). The total dollar amount of credits available is determined by state population. In 2010, states could allocate two dollars per capita per year in tax credits, with the amount adjusted for inflation thereafter. Developers apply to HFAs for tax credits. At least 10 percent of a state's tax credit allocations must go to housing developed by nonprofit organizations. Tax law generally limits the market for LIHTC to corporate investors. In a sense, the tax-credit program is analogous to federal block grants, in that each state is allocated a fixed amount of tax credits and has considerable discretion over how the tax credits should be used.

Rental housing developments are eligible for the tax credit if at least 20 percent of their units are affordable to households earning up to 50 percent of the metropolitan area's median family income or if at least 40 percent of the units are affordable to households earning 60 percent of the median. Most developers designate most if not all of the units in tax-credit projects for low-income occupancy, to maximize the amount of credit they can receive and to have the option of marketing the units to households with somewhat higher incomes. The maximum allowable rent is set at 30 percent of 50 or 60 percent of median family income, depending on the proportion of tax-credit units within the development. It is important to note that, unlike other federal housing programs in which renters pay no more than 30 percent of their adjusted income on rent and the government makes up the difference, residents of tax-credit housing with incomes below the program's maximum limit can face a rent burden well above 30 percent.

The most recent assessment of housing financed through the LIHTC comes from a national study of more than one million units, by Ernst and Young.[xix] The study tracks financial performance of 14,000 developments from 2000 through 2005. It found that the properties performed relatively well. The median occupancy rate was 96 percent, and the properties generated a positive cash flow of $240 per unit. On the negative side, the study found that 18 percent of the properties reported an occupancy rate below 90 percent in 2005 and 34 percent reported a hard debt-coverage ratio of less than 1.0 and/or a negative cash flow. However, the study also notes that "underperformance is often a temporary condition," as relatively few properties repeat subpar results from one year to the next. Only about 2 percent of the properties underperformed in each year of the study in terms of occupancy and 4 percent in terms of debt-coverage ratio and cash flow. The study also found that the properties in the sample showed a very low annualized foreclosure rate of 0.03 percent.

The LIHTC has avoided many of the problems that had afflicted its predecessors. It has been sufficiently flexible that states can tailor their programs to their individual needs and priorities, and it has been virtually devoid of scandal or impropriety. Until the recent financial crisis, the program's major issues concerned its complexity and inefficiency, and the prospects for continued affordability and physical viability of the housing beyond its first 15 years of operation. However, the financial crisis raises new questions about the program's sustainability and the wisdom of relying on tax credits and other incentives for private investment to produce low-income housing.

Originally, the LIHTC was criticized chiefly for its complexity and inefficiency. For example, Michael Stegman, one of the nation's most prominent housing policy experts, criticized the program for making the underwriting of low-income housing unduly complicated and cumbersome.[xx] Besides being complicated the program is inflexible, providing no incentive for developers to create mixed-income developments. As noted previously, the credit applies only to units slated for households with incomes less than 50 or 60 percent of the area median; units occupied by higher income renters receive no tax credit. Moreover, the tax credit's regulatory requirements make the management of mixed-income tax-credit developments especially burdensome.

Second, rents in housing financed with tax credits are fixed at a set amount, so the percentage of income that tenants spend on housing may increase if their incomes decline and they may start out spending more than 30 percent of their income on rent. Consequently, while the increased effectiveness of the program enables developers to target more households with lower incomes than before, extremely low-income families can seldom afford tax-credit housing unless they also receive federal housing vouchers.

Third, the program does not provide for the long-term sustainability of the housing it helped finance. Some tax-credit housing is at risk of converting to market-rate rents after the expiration of the initial 15-year affordability period. More importantly, such developments lack the funding to replace major building systems. Federal and state governments have modified the tax-credit program to extend the minimum affordability period beyond 15 years, and state and local governments are providing additional resources, including new tax credits, to help pay for capital improvements. However, such efforts would not have been necessary if the program had been designed differently.[xxi]

In total, the Low-Income Housing Tax Credit has evolved from an esoteric financial instrument to the single most important source of equity for low-income rental housing in the country.  It has replaced virtually all previous tax incentives for investing in rental housing. Not surprisingly, because this was a novel, untested tax incentive facing an uncertain future, investors initially purchased tax-credit properties at a steep discount. As a result, developers of tax-credit housing in the early years of the program were often forced to piece together multiple sources of debt and equity to supplement the tax-credit equity and the maximum attainable market-rate mortgage.

However, as the market grew accustomed to the LIHTC and Congress lifted the program's "sunset" provisions, investors have paid increasingly more for tax-credit properties. As a result, tax credit equity has covered a growing share of total development costs, reducing the need for additional gap financing and allowing the housing to accommodate lower income households. The LIHTC, in short, has become more efficient. Much more of the tax credit goes directly into bricks and mortar and much less is diverted to the investors' financial return or to syndication costs—although some of these gains have been reversed by the financial crisis of 2008-9.

The financial crisis of 2008-09 has highlighted other weaknesses in the program. It revealed that the program was highly dependent on the investments of a small number of large financial institutions. These institutions' demand for tax credits collapsed in 2008 as they racked up billions of dollars in mortgage-related losses and some were closed down or taken over by the government. Looking ahead, the LIHTC will probably not produce as much equity for low-income housing has it had, which will mean that developers will need additional sources of subsidy and may need to charge higher rents.

**Public Housing** originated in 1937 in one of the last major pieces of legislation passed during the New Deal. The legislation was revised many times and took several years to gain Congressional approval. The program replaced a much smaller New Deal initiative that financed the development of low-income housing as part of a broader effort to support public works. The legislation authorized local public housing authorities (PHAs) to issue bonds to finance the development costs of public housing. The federal government was to pay the interest and principal on these bonds. The cost of operating public housing was to be covered by tenant rental payments.

In the past quarter century, however, far more resources have gone to the preservation and redevelopment of public housing than to the expansion of the program. The stock of public housing reached its peak of 1.4 million units in 1994; by 2008, it had declined by 19 percent for a loss of nearly 270,000 units. Only 5 percent of the public housing stock as of 2003 was built after 1985, and most of that replaced older public housing buildings that had been torn down. On the other hand, 57 percent of all public housing units were more than 30 years old in 2003. Clearly this is a program that is not an active housing policy.

**Hope VI and the Transformation of Public Housing.** Congress launched the HOPE VI program in 1993 to demolish and redevelop distressed public housing. Since its inception hundreds of public housing projects across the nation have been transformed into housing developments that defy popular conceptions of public housing. Distressed public housing is being replaced by smaller scale, often mixed-income housing built to a design standard that would have been condemned as excessively lavish throughout the postwar period. The federal government has also sought to reduce the extreme concentration of poverty and crime within public housing through changes in tenant eligibility criteria and far more stringent eviction policies.

For the past 20 years, the HOPE VI program has been central to the transformation of public housing. It has funded the demolition of more than 150,000 units of distressed public housing and invested $6.1 billion in the redevelopment of 247 public housing projects. In so doing, it fundamentally changed the face of public housing. Originally, HOPE VI focused on the physical reconstruction of public housing and resident empowerment, seeking to replace distressed public housing projects with lower density developments and a broader income mix than before by attracting working families whose low incomes made them eligible for public housing.

The program's goals soon became broader and more ambitious, encompassing "economic integration and poverty de-concentration, `new urbanism'; and inner-city revitalization."[xxii] (At the same time, the institutional look of traditional public housing was replaced by low-rise structures adorned with such features as front porches, bay windows, and gabled roofs. To help overcome the physical isolation of many public housing developments, HOPE VI projects are designed to blend in with the physical fabric of the surrounding community.

To improve safety, HOPE VI developments are often designed to give residents greater control over the areas just outside their homes. Traditional public housing featured common areas such as hallways, parking lots, and undifferentiated open space in which residents were often victimized by crime; HOPE VI designs give residents private and semiprivate spaces and minimize public spaces over which residents are less likely to exert control. HOPE VI developments are also built with a much higher level of amenity than the public housing they replaced. Apartments commonly include dishwashers, central air-conditioning, washers, and dryers. Such features, commonplace in market-rate housing, make it more feasible for HOPE VI developments to attract higher income households who, unlike typical public housing residents, have more options in the housing market.

To make improved design and construction possible, the HOPE VI program authorizes development costs per unit to be higher than has been allowed for public housing in the past. "In principle," write the authors of a major assessment of the HOPE VI program, "these higher development costs should pay off over time, not only in terms of better quality living environments, but also in lower maintenance costs. More specifically, well-designed and constructed housing is expected to reduce vandalism and hold up better in the face of normal wear and tear."[xxiii]

In addition to innovations in development finance and design, the HOPE VI program has also engendered changes in the management of public housing. Participating PHAs frequently contract out the management of HOPE VI sites to private management firms. Instead of management organized on a highly centralized basis, as is the case for the vast majority of public housing, most HOPE VI developments are managed independently. Each site has its own operating budget, and operating costs and performance are tracked on a project-by-project basis. This approach, commonplace in the rest of the multifamily real estate sector, is demanded by private lenders who require accountability for their investments. HOPE VI has brought public housing and its residents into the mainstream. It has created a new market of private investors and lenders that now view mixed-income and mixed-finance public housing as a good investment. Housing authorities are able to draw on their HOPE VI partnerships and experiences to advance and inform all aspects of their management, operations, design, revitalization, and leveraging strategies.

Few would disagree that HOPE VI developments represent a dramatic improvement over the distressed public housing they replaced. However, the program does not necessarily improve the lives of all the residents of the original public housing. First, by replacing large public housing developments with smaller scale, mixed-income projects, HOPE VI developments typically have fewer public housing units than the projects they supplant. For example, the program's redevelopment grants awarded from 1993 through 2007 involved the demolition of 96,226 public housing units and the rehabilitation of 11,961 other units. These will be replaced by 111,059 units. However, only 59,674 of these new units, 45 percent of what was redeveloped, can be considered equivalent to public housing in that they receive permanent operating subsidies of the magnitude necessary to support households with very low incomes. The other replacement units will receive shallower subsidies and serve families who are not necessarily eligible for public housing, or they will receive no subsidies and serve market-rate renters or homebuyers.[xxiv]

A second and related criticism of HOPE VI concerns the fate of public housing residents who do not get to live in the new housing developed under the program. As of September 2008, about 24 percent of the original public housing residents had relocated to completed HOPE VI developments (17,382 households), and housing authorities participating in the HOPE VI program expected 38 percent of the original residents would ultimately move back to the completed developments. Not all residents of public housing projects redeveloped under HOPE VI are eligible to reside in the new housing that replaced the old. Local housing authorities and site managers have the latitude to devise and enforce stricter tenant eligibility criteria than is typical for public housing as a whole. HOPE VI developments may exclude families with poor credit histories, with criminal records, or that do not demonstrate acceptable housekeeping skills.

Many of those displaced are re-housed under other assistance programs. For example, when residents of public housing slated for demolition under HOPE VI received rental vouchers, they moved from census tracts with an average poverty rate of 61 percent to tracts with an average rate of 27 percent. Moreover, about 40 percent of those who did not return to the original HOPE VI site now live in census tracts with poverty rates of less than 20 percent. Surveys of former residents reveal relatively high satisfaction with the quality of their new homes and neighborhoods. On the other hand, these former public housing residents continue to live in predominantly minority neighborhoods. One study reported that 40 percent of the relocated voucher holders had difficulty paying rent and/or utilities in the past year—largely because Section 8 recipients, unlike public housing residents, are responsible for their utility expenses; about half said they were having difficulty affording enough food.[xxv]

The future of Hope VI is uncertain. Funding for the program had dwindled to about $100 million annually. The Obama Administration, in its budget proposal for fiscal 2010, has sought to replace HOPE VI with a new program, the "Choice Neighborhoods Initiative." Initially funded at $250 million, it would "expand on the lessons of the HOPE VI program and help revitalize neighborhoods of high poverty through transformative investments in distressed public and assisted housing and closer linkages with school reform and early childhood interventions"[xxvi].

**Vouchers.** The largest housing subsidy program for low-income Americans is also the most inconspicuous in that it does not involve specific buildings or "projects." Whereas public housing and subsidy programs for privately owned rental housing support the construction of specific buildings, vouchers enable low-income households to obtain housing that already exists in the private market. Compared to project-based subsidies, vouchers are less expensive and provide access to a wider range of neighborhoods and housing. However, having a voucher does not guarantee that a low-income household will be able to use the subsidy. To succeed, the household must find an apartment that does not exceed the program's maximum allowable rent, that complies with the programs standards for physical adequacy, and whose owner is willing to participate in the program.

Although rental vouchers were first proposed in legislative debates preceding the public housing act of 1937, and were often promoted in subsequent policy discussions, they did not become part of U.S. housing policy until the 1970s. The Housing Act of 1974 established the first national voucher program which subsequent legislation revised and refocused. As first designed, the Section 8 Existing Housing program provided rental certificates to households with incomes up to 80 percent of the area median. The certificates covered the difference between 25 percent of adjusted family income (later increased to 30 percent) and Fair Market Rent (FMR). FMRs are calculated annually for more than 2,600 housing markets. Fair market rents vary greatly from housing market to housing market. In fiscal year 2009, the FMR for a two-bedroom apartment in the metropolitan areas of the 50 states ranged from $512 to more than three times that level $1,702 in Connecticut. The mean FMR for the 50 largest metro areas in 2009 was $1,007 for a two-bedroom apartment.

In 1983 the government established the Freestanding Voucher program, a variant of the Existing Housing program. It gave households more choice by allowing them to spend more, or less, than 30 percent of their income on rent if they so chose. The program covered the difference between 30 percent of income and a "payment standard" (which housing authorities could set higher or lower than the FMR). The program allowed participants to reside in housing that cost more than the payment standard as long as they paid for the additional rent. Households who selected units costing less than the payment standard could retain a portion of the savings, thereby paying less than 30 percent of their income on rent.

The Quality Housing and Work Responsibility Act of 1998 merged the certificate and voucher programs into a single program, renamed the Housing Choice Voucher program (HCV). HCV retained several aspects of the voucher program. The legislation allowed housing authorities to establish multiple payment standards within the same metropolitan area to reflect internal differences in rent levels; more expensive sections could have higher payment standards and lower cost areas could have lower payment standards. It allowed participants to spend more than 30 percent of their income on housing if they wished to, but no more than 40 percent. It also permitted voucher holders to take their vouchers anywhere in the country. The legislation gave property owners more latitude in deciding whether to lease apartments to voucher holders. Finally, the legislation states that extremely low-income households (earning less than 30 percent of the area's median family income) must receive at least 75 percent of all vouchers issued annually.

By 2009, vouchers assisted more than 2.2 million households, more than any other federal housing program. As a percentage of all HUD-assisted households, vouchers increased from 34 percent in 1993 to 42 percent in 2008. Whereas the number of households in public housing and other project-based subsidy programs has decreased since the early 1990s, the voucher program has continued to grow, if only in fits and starts.[xxvii] About one-quarter of this growth derived from increases in the number of new previously un-served households provided federal housing assistance for the first time, and three-quarters reflected transfers of households from public housing and other project-based subsidy programs to the voucher program. The latter occurs when public housing projects are downsized and redeveloped under the HOPE VI program or when owners of subsidized housing choose to prepay their federally insured mortgage or otherwise opt out of the subsidy program.

Rental vouchers offer several advantages over project-based subsidy programs. They are far less expensive per unit, potentially allowing the government to assist more households with the same amount of funding. The General Accounting Office, for example, estimates that public housing redeveloped under the HOPE VI program will cost 27 percent more than vouchers over their 30-year life cycle, and housing in metropolitan areas financed with low-income housing tax credits cost 15 percent more, after controlling for differences in location and unit size.[xxviii]

It is also clear that vouchers provide a greater degree of residential choice than project-based subsidy programs do, enabling recipients to live in a wider array of neighborhoods. Compared to public housing especially, but also to other project-based programs, a much smaller percentage of voucher holders live in economically distressed neighborhoods. However, the voucher program is no guarantee against racial segregation. Minority voucher holders usually reside in minority neighborhoods. Moreover, the geographic distribution of affordable rental units (i.e., renting for no more than a housing authority's voucher payment standard) constrains the potential for voucher holders to access middle-class neighborhoods of any racial composition. When affordable rental units are in short supply, vouchers are of limited value in promoting opportunity.

The nation's more than 30 years of experience with vouchers also underscores fundamental limitations with this approach. Some types of households fare better than others under the program, and it is decidedly less effective in tight housing markets. Large families, the elderly, and families and individuals with special needs tend to be less successful in finding housing with vouchers than other types of households and stand to benefit from project-based subsidies. Such subsidies also enable low-income people to reside in affluent neighborhoods with few affordable units. They can also promote racial integration. In areas with very tight rental markets, project-based programs increase the supply of low-cost housing.

Finally, the growth of the voucher program over time has become something of a political liability. The cumulative increase in low-income households issued housing vouchers, combined with the provision of vouchers to residents of public housing slated for demolition and to residents of privately owned housing whose owners are opting out of federal subsidy programs, has greatly increased the cost of the voucher program in the federal budget.

## IV. State and Local Housing Policy and the Nonprofit Sector.

The federal government is no longer the preeminent player in U.S. housing policy. Beginning in the late 1970s, state and local governments, along with a variety of nonprofit organizations, have become increasingly important to the development and implementation of housing policy and programs. The federal government encouraged this shift through the "devolution" of highly centralized programs, such as public housing, giving block grants that give states and localities much more latitude to devise their own housing programs. This shift reflects the scarcity of federal housing subsidies, as well as a change in the provision of much of the remaining subsidies from a centralized, categorical approach to one based on block grants. This section will explore the landscape of state and local housing policy, focusing on the uses for which block grants and other funds are invested. It will also discuss the role of community development corporations and other nonprofit organizations as a partner to state and local government in delivering housing assistance.

Starting in the 1980s, when the Reagan administration sharply cut back growth in federal housing expenditures, states and localities had to find new ways of addressing their increasing housing needs. They needed to tap into new funding sources and develop their own programs. Between 1980 and the early 1990s the number of state-funded housing programs increased by 177 programs and by 2006, state expenditures in this area had more than doubled to $5.15 billion. Nevertheless, total state spending on housing and community development remained modest, never reaching 1 percent of total state expenditures.

The growth in housing and community development expenditures at the local government level has been far larger than state spending approaching $37 billion, which in real terms in 2006 was more than double the total in 1981. As with the states, this increase is much less impressive in the context of total local expenditures. Housing and community development have accounted for about 2.5 percent of total expenditures since 1991, down from 2.9 percent in the 1980s.

Over the past quarter century, state and local governments have put in place an extremely broad array of housing programs, far too many to capture in a single paper. Indeed, entire books are written on state and local housing programs alone.[xxix] The objective here is to sketch out some of the chief parameters of these programs – highlighting their funding sources, the type and duration of subsidies provided, the kinds of housing activities supported, the incomes and other characteristics of the households assisted, and their strengths and limitations.

We give special attention to four of the most widespread ways by which states and local governments fund or otherwise support low- and moderate-income housing: federal block grants; tax-exempt bond financing; housing trust funds; and inclusionary zoning. We also briefly discuss the role of different types of nonprofit organizations in implementing housing programs at the state and local levels.

**Community Development Block Grants.** The first step in the devolution of housing and other social programs occurred with the creation of the Community Development Block Grant program (CDBG) in 1974, which replaced eight federal programs. These categorical programs, including Urban Renewal and Model Cities, required states and local governments to compete to obtain funding for specific projects and gave recipients little leeway in how the funds could be spent. In contrast, CDBG gave states and localities much more discretion in determining how the approximately $4 billion in federal funds may be used.

In order to receive block grant funds states and localities must prepare a consolidated plan which identifies the housing needs of the state or municipality, lays out a strategy for meeting these needs, and specifies the resources for that strategy and how it will be implemented. They allow for a wide range of activities, including acquisition, disposition, or retention of real property; rehabilitation of residential and nonresidential buildings; social services; and economic development. The few functions CDBG has explicitly prohibited from funding include public works (government buildings, schools, airports, stadiums), general government facilities (e.g., park maintenance, street repairs), and political activities. At least 70 percent of CDBG expenditures must benefit low- and moderate-income persons, defined as up to 80 percent of area median income.

CDBG allows for a wide range of housing-related expenditures, with one restriction which prohibits local governments from using CDBG funds to construct new residential buildings, except as a "last resort."  Since its inception, about 28 percent of the program's funds have gone towards housing, mostly for housing rehabilitation.  Nearly three quarters of all CDBG housing expenditures in fiscal year 2008 went to housing rehabilitation.

In summary, the CDBG program has supported a wide range of community development projects and activities, many of which involve housing. It is easily the most flexible source of federal funding for housing and community development and an evaluation of the program concluded it has been very effective.[xxx]  Similarly, a more recent study of the program's neighborhood impacts in 17 cities found that neighborhood improvements are most pronounced when CDBG spending in a neighborhood exceeds a minimum threshold -- that is, when CDBG is targeted to a limited number of neighborhoods.[xxxi]

The main criticisms of the CDBG program have to do with its income targeting and the types of projects and activities it sometimes supports. With the income eligibility standard set at 80 percent of the median income for the metropolitan area the program may be used to benefit a wide range of city residents, not necessarily the lowest income households. Moreover, as previously noted, up to 30 percent of an area's CDBG allocation does not need to be targeted to any income group at all. In some cases, CDBG funds have been used in ways that harm low-income households, such as when CDBG-funded urban renewal projects displace local residents.[xxxii]

**The HOME Investment Partnership Program.**  In 1990, Congress created a second block grant program, the HOME Investment Partnership program. HOME is the nation's largest federal block grant program that focuses exclusively on affordable housing for low- and moderate-income households. The program gives state and local governments wide latitude in choosing how the almost $2 billion in funds may be spent; however, they must be spent on housing programs and projects, and the beneficiaries of these programs and projects must be low-income households. Cities and other local governments annually receive 60 percent of HOME funding and states receive 40 percent. As with the CDBG program, HUD uses a needs-based formula to allocate HOME funds to individual jurisdictions. Congress requires that all participating states and localities allocate no less than 15 percent of their annual HOME funding to community-based nonprofit organizations (Community Housing Development Organizations, or CHDOs). Congress also mandates that participating jurisdictions provide funds from other sources to partly match their HOME allocations.

Through March 2009, the HOME program has committed more than $27.7 billion to state and local governments, assisting more than 1.1 million renters and homeowners. Slightly more than half of total HOME funds have supported the development of low-income rental housing. About one quarter has involved a variety of homebuyer activities and less than one fifth has gone toward the rehabilitation of owner-occupied homes.

The broadest range of HOME-funded programs involves homebuyer assistance. These programs include home-purchase counseling, financial assistance for down payments and other closing costs, low-interest first or second mortgages to reduce monthly carrying costs, and subsidized development of housing for owner occupancy. The latter may involve subsidized new construction of homes targeted to low- and moderate-income families or the acquisition and rehabilitation of existing homes for sale to such households.

HOME-funded projects must assist households with incomes no higher than 80 percent of the area median income and, in the case of rental housing, no more than 50 or 65 percent of area median. In addition to its income eligibility requirements, the HOME program also requires that the housing it assists remain affordable for a minimum number of years. Without additional subsidies, extremely low-income households (with incomes below 30 percent of area median) are seldom able to afford housing developed with HOME funds By itself, HOME rarely provides the "deep subsidies" associated with public housing and rental vouchers whereby the government covers the difference between the rent and a fixed percentage of the tenant's income. Instead, this is usually achieved by subsidizing the acquisition and/or development costs of the project, thereby reducing the amount of rental income needed to cover debt-service and other operating expenses. Most often it is used in conjunction with the Low-Income Housing Tax Credit.  For example, as of 2007, about 35 percent of all rental units with support from the HOME program also benefited from the LIHTC.

In summary, HOME and the CDBG program provide states and localities with broad latitude to customize housing programs to their individual needs and priorities. The chief limitation of these block grant programs is that they seldom provide subsidies large enough to house households with extremely low incomes and the greatest need for housing assistance.

**Tax-Exempt Bond Financing.** The first housing subsidy programs initiated by state governments usually involved tax-exempt bond financing of mortgages for first-time homebuyers and for multifamily rental housing developments. By exempting interest on these bonds from federal income tax, government agencies can pay lower interest rates to investors and use the proceeds of the bonds to finance low-interest mortgages. Tax-exempt housing bonds are generally issued by state housing finance agencies. Almost all of these agencies were founded from the 1960s through the 1980s. State housing finance agencies also issue housing-related bonds, administer the federal Low-Income Housing Tax Credit program and state housing trust funds.

The federal government limits the amount of tax-exempt bonds—known as private activity bonds—that a state can issue in a given year. Private activity bonds can be used for several purposes besides housing, e.g., for economic development, water and sewer services, mass transit, and student loans. In fiscal year 2009, the maximum amount of private activity bonds a state could issue was $90 per state resident, translating into about $26 billion for the nation as a whole. In 2007, statewide bonding authority ranged from $256.2 million in the smallest states to $3.1 billion in California.

The financial crisis that began in 2008 has severely impaired the market for tax-exempt bonds, making it extremely difficult for housing finance agencies to issue bonds at interest rates that are low enough to offer below-market rate financing for housing. Even though the economic stimulus bill of 2008 gave states capacity to issue $11 billion in additional housing bonds, the economic crisis rendered this resource nearly useless, and many "HFAs have been forced to curtail their lending significantly, while some have suspended lending altogether."[xxxiii]

**Mortgage Revenue Bonds** enable low- and moderate-income households to become home-owners for the first time by obtaining below-market-rate interest mortgages. Through 2007, state housing finance agencies had issued nearly $234 billion in these bonds, which have been used to finance more than 2.7 million mortgages. In 2007, these agencies issued $17.8

billion in bonds and closed more than 126,000 mortgage loans, and the median annual income of homebuyers using these mortgages was $36,806.

**Multifamily Housing Bonds.** Although most multifamily bonds are tax exempt, many states also issue taxable bonds, which are not subject to an annual volume cap. In 2007, for example, tax-exempt multifamily bond issues for new acquisition and/or development of new rental housing totaled $3.3 billion while taxable bond issues amounted to $555 million. Rental housing financed with multifamily bonds frequently receives additional subsidies as well. In 2007, 77 percent of all bond-financed rental housing also received low-income housing tax credits and in 14 states every bond-financed project also had tax credits. Other common subsidy sources include HOME block grants, HOPE VI funds, and various forms of credit enhancement.

Federal regulations require that a minimum percentage of the units financed with tax-exempt bonds be occupied by low-income households. As with housing funded with Low-Income Housing Tax Credits, households with incomes of up to 60 percent of area median income must occupy at least 40 percent of the bond-financed property's units, or households with income of 50 percent or less must occupy 20 percent of the units. Of the 35,000 bond-financed units put in service in 2007, more than 82 percent went to families with incomes of 60 percent or less of the area median, including 28 percent to families earning less than 50 percent of median.

**Housing trust funds** are usually established with a dedicated funding source, and are targeted to low- and moderate-income households. States, counties, and cities have established nearly 600 such trusts, generating more than $1.6 billion annually for many types of housing assistance. Trust funds provide a flexible form of funding to help address local housing needs. Because they are based on revenue sources under the control of state and local government, trust funds generally have far fewer restrictions on how they can be used than is the case for federal housing programs, even block grant programs. Trust funds are usually administered by governmental or quasi-governmental agencies operating under the guidance of a broad-based oversight board. With representation from banks, realtors, for-profit and nonprofit housing developers, advocacy organizations, labor unions, service providers, and low-income residents, these boards usually play an advisory role, though some have formal responsibilities in governing the funds, including selection of projects to receive funding from the trust funds. The first trust funds were created in the late 1970s, and the number of such trusts has been growing exponentially since.[xxxiv]

In total, housing trust funds generated about $1.6 billion annually as of 2006. State trust funds accounted for about 80 percent of this amount and city trust funds 17 percent. Housing trust funds support many different types of housing programs. They include new construction and the acquisition and rehabilitation of existing structures. Almost all trust funds are targeted to low- or moderate-income households. The most common designation is for households earning 80 percent of the area median income, although many trust funds target lower income groups for at least some programs. About one in four trust funds focuses exclusively on the homeless or on other households with incomes below 50 percent of median.

While housing trust funds are an increasingly popular way of addressing local housing needs, it is important to recognize their limitations:

- Trust funds seldom provide the depth of subsidy associated with public housing and housing choice rental vouchers. Consequently, most trust funds do not serve very low-income households.
- Although most trust funds require that the affordability of the housing they assist is preserved for a minimum period of time, these requirements often fall short of those imposed by federal housing programs.
- Trust funds are not ubiquitous; they are more prevalent in some states and regions than in others, thereby limiting their ability to meet the nation's housing needs.

**Inclusionary Zoning** is used by a growing number of localities to increase the supply of "affordable" housing. It requires or encourages developers to designate a portion of the housing they produce for low- or moderate-income households. For example, a developer building a 100-unit residential complex might be required to reserve 20 of these homes for families of modest means. Inclusionary zoning is appealing for two main reasons.

First, its ability to increase the supply of affordable housing as well as to promote economic diversity within affluent communities—enabling lower income households to reside in areas with very little affordable housing; and second, because it appears to have no budgetary impact. Second, this type of zoning can take on many different forms, including mandatory requirements and voluntary inducements. Localities also differ widely in the amount of affordable housing they require private developers to build, the incomes of the targeted populations, and the length of time that units must remain affordable. As of 2004, about 600 mostly suburban communities had instituted some form of inclusionary zoning. The vast majority of these localities are in New Jersey, California, and Massachusetts, which require most if not all municipalities to address a portion of their region's housing needs. They commonly rely on inclusionary zoning to satisfy these requirements, in large part because it involves minimal direct public expenditure even if the regulations place an implicit tax on developers. Other states also require or at least encourage local governments to adopt housing plans that might in turn lead them to adopt inclusionary zoning. However, few localities in these states have done so.

Until the late 1990s, inclusionary zoning was overwhelmingly a suburban phenomenon, limited mostly to affluent suburbs with vibrant housing markets. In recent years, however, this zoning has been adopted by a growing number of cities. Inclusionary zoning ranks among the most popular means of producing affordable housing. It seemingly generates low- and moderate-income housing with little if any public expenditure and it increases the economic diversity within affluent communities. However, inclusionary zoning's accomplishments to date fall far short of such potential. Porter estimates that as of about 2003, inclusionary programs have produced 80,000 to 90,000 new housing units nationally, with about 65,000 located in states that mandate provision of affordable housing (e.g., California, New Jersey).[xxxv] Inclusionary zoning programs may fail to produce as much affordable housing as their proponents would wish for several reasons. Perhaps most fundamental is the dependency of inclusionary zoning on the vibrancy of local and regional housing markets. The amount of affordable housing produced through inclusionary zoning is directly tied to the volume of market-rate residential construction. Inclusionary zoning can be highly effective in communities with robust housing markets, but ineffective in areas with minimal amounts of new construction. Finally, for inclusionary zoning to provide housing affordable to very low-income households, additional sources of subsidy are almost always necessary. Without additional subsidy, inclusionary zoning programs can seldom make it financially feasible to house families earning much less than about 60 to 80 percent of area median income.

To sum up, local governments are increasingly turning to inclusionary zoning to help address their need for affordable housing. Although its ability to produce affordable housing with minimal explicit public subsidy makes it very appealing, inclusionary zoning as applied in most places is seldom able to meet more than a fraction of the need for low-cost housing. It also is not as free as it appears to be. It relies on implicit taxes and charging fees for services that in many ways concentrate the costs of subsidies on a limited tax base.

**Nonprofits and State and Local Programs.** It is impossible to discuss the rise of state and local housing programs in isolation from the parallel growth of the nonprofit housing sector.

Although state and local governments have devised numerous housing programs and established new sources of program funding, government agencies seldom build or renovate housing or provide other housing services directly. Instead, they partner with other groups to carry out these programs. In many places these organizations are often nonprofits. Frequently the relationship between government agencies and nonprofit housing groups is so close that, as Goetz puts it, "the distinction of the `success' of the local public agency and the `success' of the [nonprofit] becomes blurred."[xxxvi]

Nonprofit housing producers appeal to state and local governments for several reasons. First, most nonprofit housing groups are committed to keeping their housing affordable to low-income households indefinitely and, unlike many of their for-profit counterparts, have no desire to reap capital gains from the sale of the property or eventually to charge market-rate rents. Second, nonprofits are often committed to serving the poorest, most needy families and provide an array of supportive services beyond housing—including employment counseling, child care, education, and more. Finally, nonprofits are sometimes the only groups willing or able to construct or rehabilitate housing in the toughest urban neighborhoods.

The importance of the nonprofit sector is reflected in the requirement imposed by several major housing programs that state and local governments designate a minimum percentage of their funding to nonprofit housing groups—a percentage frequently exceeded by wide margins. Each state must assign at least 10 percent of its annual Low-Income Housing Tax Credits to housing developed by nonprofit organizations. The HOME program, as noted earlier, requires state and local governments to earmark at least 15 percent of their block grants to nonprofit CHDOs. Recognizing the importance of the nonprofit sector to the development of affordable housing, many state and local housing trust funds support the operations of these groups by providing funds for predevelopment costs, organizational capacity building, and administrative costs.

Although the present generation of nonprofit housing groups is quite diverse, varying widely in size and in the scope of services they provide, housing is integral to their work. In total, nonprofit organizations have produced nearly 1.5 million housing units for low- and moderate-income households, and account for nearly one-third of all federally subsidized housing.

At risk of overgeneralization, it is useful to distinguish three types of nonprofit housing organizations. These categories include: (1) community development corporations; (2) large citywide or regional nonprofit organizations; and (3) nonprofit providers of supportive housing for the homeless and others with special needs. Although the categories overlap to some extent, they cover most of the nonprofit housing landscape. We discuss only the first type which accounts for the largest share of such housing provision.

**Community Development Corporations (CDCs)** were first formed in the 1960s with support from the federal government and the Ford Foundation, but were established in much larger numbers over the next thirty years. They focus largely on the housing and other needs of individual neighborhoods. Many also work in economic development, workforce development, and a variety of social services. According to one estimate, in 2005 4,600 CDCs were in operation. Collectively, by 2005 they had built or renovated 1.6 million units of low- and moderate-income housing since the 1960s. CDCs produced more than 96,000 units annually from 2005 to 2007, compared to about 62,000 from 1994 to 1998.

CDCs perform many housing-related activities in addition to housing development. In the area of housing alone, many CDCs engage in homebuyer counseling, tenant counseling, homeless services, acquisition of existing housing, home repairs, and assistance with home purchase financing. Outside the housing arena, some of the most common CDC activities include economic development, commercial real estate development, advocacy and community organizing, youth programs, job training and placement, homeless services, and emergency food assistance.

As of 2005, nearly 90 percent of all CDCs received at least $50,000 from federal programs -- especially CDBG, HOME, and the Low-Income Housing Tax Credit. From 1992 through 2008, state and local governments have designated an average of 21 percent of their HOME block grants for projects involving CDCs; this is well above the minimum allocation of 15 percent. Similarly, nonprofit organizations, including CDCs and others, account for more than 23 percent of all tax-credit developments put in service through 2006-far above the minimum requirement of 10 percent.

A number of studies have shown the challenges CDCs confront.[xxxvii] Some of these are:

- The need for multiple funding sources. Most affordable housing projects require CDCs (and other developers) to assemble several sources of financing in order to underwrite a project. For example, a frequently cited study of CDC-sponsored housing developments found that the typical project received financing from an average of nearly eight separate sources.[xxxviii]
- Undercapitalization. Closely related to the need for multiple funding sources is the tendency for development projects to be underwritten with very narrow margins. Tight

development budgets make it more difficult and costly to sustain the housing in the long term.

• Lack of long-term operating support causes CDCs to struggle to obtain funds to cover staff salaries and other operating expenses. In the absence of multiyear operating support, CDCs depend on short-term grants and development fees and other sources of revenue. Dependence on development fees is particularly risky because it requires a steady if not increasing flow of development projects from year to year. Relatedly, the long-term viability of CDC housing is of growing concern. The difficulties of providing affordable rental housing to low-income households do not stop with the completion of construction. Effective property and asset management are essential for sustaining the housing over the long haul.

In order to meet these challenges, CDCs receive support from several key sources in government, philanthropy, and elsewhere. Without this system, CDCs would be hard pressed to access the financial and technical resources essential for housing development and management. The single most important element of this support system is the national intermediaries: Enterprise Community Partners (Until 2006, known as the Enterprise Foundation), the Local Initiatives Support Corporation (LISC), and Neighbor Works America (officially the Neighborhood Reinvestment Corporation). Enterprise and LISC provide a wide array of financial and technical assistance to hundreds of CDCs throughout the nation. They provide equity for rental housing development by syndicating Low-Income Housing Tax Credits and loans and grants to cover site acquisition and other predevelopment costs. They also provide training and professional development.

Since 1980 LISC has helped 2,400 CDCs in more than 300 urban and rural communities construct or rehabilitate more than 244,000 low- and moderate-income housing units. In 2008, LISC provided $49.5 million in grants to CDCs and raised $529 million in tax-credit equity for CDC development projects. From its founding in 1981 through 2007, Enterprise has raised on the order of $8 billion to help 2,500 nonprofit groups build over 200,000 units of affordable housing. In 2007, the organization provided $1 billion in grants, loans, and equity to nonprofit community developers and helped create or preserve more than 25,000 units of affordable housing.

To sum up, most of the innovation in housing policy since the 1980s has taken place at the state and local levels of government, often in collaboration with the nonprofit sector. Most of the new housing built for low- and moderate-income families and individuals has been supported through state and local programs; direct federal funding has gone mostly to the preservation of subsidized housing built before the mid-1980s and for rental vouchers.

However, much of the housing built and renovated by states and localities is funded with federal resources, including block grants (HOME and CDBG), Low-Income Housing Tax Credits, and tax-exempt bonds. With the notable exception of New York City, few places have drawn from their own resources (general revenue, capital budgets) to support the production or preservation of affordable housing. Additional funding for affordable housing often derives from housing trust funds, which are typically supported through fees generated from real estate transactions and from inclusionary zoning, which usually creates incentives or requirements for private developers to produce affordable housing.

State and local governments often have greater flexibility than federal agencies in designing programs more closely attuned to the needs of specific places and populations. However, state and local programs rarely offer the deep subsidies provided by federal programs that make it possible to house very low-income families.[xxxix] (Moreover, the resources available for state and local programs often depend on the strength of the local housing market, as in the case of housing trust funds and inclusionary zoning. Few developments funded through state and local programs can accommodate very low-income households unless they can pay much more than 30 percent of their income on rent. Moreover, few state and local programs will reduce rents when tenant income decreases, as is routine with public housing and rental vouchers. Indeed, when very low-income families do reside in housing built through state and local programs -- including the Low-Income Housing Tax Credit -- they usually receive federal rental vouchers or other additional subsidies. It does not appear, in other words, that state and local governments, working in concert with nonprofit housing groups, will ever be able to serve the neediest households without additional federal assistance.

## V. Conclusion.

The structure of U.S. housing policy has changed considerably in the past quarter century and perhaps even more deeply in the past few years during the economic crisis. Sub-national governments and nonprofits have grown from very little active involvement to now providing more than $20 billion annually. At the same time, a large portion of HUD's budget goes not the expansion of affordable housing programs but to continuation of existing subsidies. In many ways, this sort of shift is appropriate. It recognizes the highly idiosyncratic nature of housing markets. In housing policy one size indeed does not fit all. Nor does the growth in sub-national government involvement in housing assistance, for the most part, violate norms as to which level of government has a comparative advantage in providing subsidies. Most of these sub-national expenditures are distributed from the federal government to lower tiers of government. In short, a great deal of innovation in addressing the housing problems of the poor has been developed.

However, the overall policy environment leaves much to be desired. Most fundamentally, housing assistance provided at the state and local level, whether it consists of federal block grants, tax credits, or locally funded programs, rarely provides a depth of subsidy sufficient for the poorest households—the population in greatest need of affordable housing. Most often, low-income households fortunate enough to receive federal rental vouchers are the only ones able to afford housing produced through state and local programs. But federal subsidy programs provide assistance for only 25 percent of the eligible population. As a result, the majority of low-income renters pay far more for housing than they can afford. Meanwhile, the federal government provides more than $150 billion annually in mortgage interest deductions and other tax benefits for homeowners, half or more of who earn more than $100,000 annually. Moreover, while local housing assistance increased so too have local implicit taxes on the housing costs and availability for the poor. Land use controls, zoning ordinances and a variety of impediments to developing multi-family housing make housing less affordable for the poor.

As a result of this badly structured overall policy environment there is a nationwide surfeit of housing while housing costs are a severe and increasing burden, and housing availability for many of the poor is extremely limited. Much more can be done at the local level to lower these costs and increase housing availability for the poor, and for many of the most important policy changes action at the local level will be the key to improving conditions. Much more could also be done to make the distribution of housing subsidies less regressively distributed. In the end, it would indeed be surprising if the complicated, multi-layered system of providing housing assistance does not undergo significant changes in the coming years, particularly in light of the enormous problems that arose in the sector in the recent financial crisis and economic downturn. However, without a clear understanding of the directions that will be taken on national tax, finance and housing policy, it is impossible to discern how sub-national housing policy will evolve.

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[i] This chapter is a synthesis of Schwartz's recent book, *Housing Policy in the United States* (2nd Edition) (Schwartz 2010). In addition to synthesizing that work, we also do not present much of the programmatic detail and quantification of what are often complicated programs and trends. See the book for a much richer presentation and citations for many of the empirical findings presented

[ii] Housing programs for the homeless, elderly, and other populations with special needs are not discussed.

[iii] Van Vliet (1998).

[iv] Bratt (2000).

[v] U.S. Census Bureau (2010).

[vi] Glaeser (2010).

[vii] Glaeser (2010).

[viii] Quigley (2010).

[ix] DiPasquale and Murray (2010) and Joint Center for Housing Studies (2008) 25.

[x] Joint Center for Housing Studies (2008) 26.

[xi] Glaeser (2010).

[xii] Quigley (2008).

[xiii] HUD (2010).

[xiv] National Low Income Housing Coalition (2010).

[xv] See Schwartz (2010) for information on these programs and citations for many of the empirical findings presented here.

[xvi] Poterba and Sinai (2008).

[xvii] Until 2008 when Fannie and Freddie collapsed, HUD also had regulatory authority over these institutions. The multi-billion dollar financial collapse of these institutions in 2009 provides a sense of the scale of federal support for homeownership.

[xviii] HUD also manages the FHA insurance programs, the rental voucher program, housing and community block grants, and housing programs serving the elderly, the homeless and other populations with special needs. It also supervises Ginnie Mae, which insures securities backed by FHA-insured mortgages. Until 2008, when Fannie Mae and Freddie Mac collapsed, HUD also had regulatory authority over these agencies.

[xix] Ernst and Young (2007).

[xx] Stegman (1992) 363.

[xxi] Schwartz and Menlendez (2008).

[xxii] Popkin et al. 2004: 14; and Cisneros & Engdahl 2009).

[xxiii] Popkin et al (2004) 21.

[xxiv] Popkin et al. (2004): 21; Kingsley(2009).

[xxv] Popkin et al (2004) 30.

[xxvi] HUD (2009a).

[xxvii] Congress provided no funding for additional vouchers from fiscal year 1995 through 1998 and again from fiscal year 2003 through 2007. In total, the number of voucher holders has increased by 630,000 since fiscal year 1995.

[xxviii] (GAO 2002a).

[xxix] See, for example Goetz (1993); Stegman (1999); Keating & Krumholz (1999)

[xxx] Walker et al (1994).

[xxxi] Galster et al. (2004); see also Walker et al.( 2002).

[xxxii] Gramlich (1998).

[xxxiii] Thompson (2009).

[xxxiv] Municipal and county trust funds are often established in response to state legislation designed to promote local trust funds. Thus, 250 of the 432 municipal trust funds identified in the Center for Community Change survey were established in New Jersey after the state passed legislation in 1992 enabling localities to charge fees on private real estate development. Similarly, most of the 82 countywide housing trust funds were created in Pennsylvania after the state passed the 1992 Optional Affordable Housing Trust Fund Act, Brooks (2007: 16.

[xxxv] Porter (2004) 241.

[xxxvi] Goetz (1993) 130.

[xxxvii] Walker (1993), Goetz (1993) and Stoutland (1999),

[xxxviii] Hebert et al. (1993).

[xxxix] Mueller & Schwartz (2008); Pelletiere, Canzio et al. (2008).