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LOCAL GOVERNMENT RESPONSE TO SEVERE REDUCTIONS IN FEDERAL FUNDING FOR LOW-INCOME HOUSING

Between 1980 and 1987, new federal budget authority for low-income housing plummeted by 72 percent.[1] Low-income housing needs have not abated during this period; levels of homeless persons and the dramatic rent burdens of single-parent households attest to the need for government assistance. Despite rhetoric, anecdotes, and case studies, until now no systematic analysis of the actual effects of the funding cuts has been developed to focus policy discussions. Has local and state activity expanded to offset the loss of federal funds? Are some cities coping better than others because of state funding and active nonprofit organizations? Have new local policies targeted particular beneficiaries who have been most hurt by federal cuts? Are some cities developing off-budget strategies that should be replicated? This paper reports findings from an ongoing systematic national study addressing these questions.

STUDY METHODOLOGY

The study surveyed the nation's 75 largest cities and a random sample of 175 additional Community Development Block Grant (CDBG) entitlement cities. This sample was designed to focus on the core of urban housing activities and prospects for innovation, and provide a statistically reliable representation of United States urban housing, political, social, and economic conditions.

The research compares low-income housing assistance documented in cities' 1980 and 1987 Housing Assistance Plan Performance Reports. Although the performance reports no longer serve as tools for furthering national or local housing policies, the reports continue to document low-income housing activities and thus provide a usable source of comparable information.[2] Furthermore, since performance reports include all low-income housing assistance delivered in the city, regardless of the funding source, they offer a systematic source for investigating all housing activities in a city. Preliminary local interviews, field work, and consultations with low-income housing experts in both the United States Department of Housing and Urban Development (HUD) and the University of California at Berkeley suggest that the Housing Performance Report documents are fairly reliable and complete, in part because the reports are required for Community Development Block Grant (CDBG) applications and because virtually all low-income housing activities are either directly federally funded or contain some CDBG funding, which must be reported elsewhere. In addition to quantified data, the Housing Assistance Plan Performance Reports include a narrative section which offers a discussion of the low-income housing problems which cities are facing, and ways in which these cities are struggling to cope with these difficulties.

Local interviews supplemented this primary document source. The interviews and pretest document analyses validated the basic approach, but also suggested a disposition to multi-year and multi-source funding of projects, caused by difficulties in assembling complete, viable project financing. Since multi-year and multi-source funding practices tend to create an impression of increased activity, the researchers constructed, pretested, and extensively revised a short survey of local low-income housing officials. In addition to checking on multiple-year counting and multiple sources, the survey asked local officials to annotate their reports and, further, to identify innovative low-income housing activities not included due to the structure of the performance report.

The current set of complete city files, including both 1980 and 1987 Housing Assistance Plan Performance Reports and a completed city survey, now comprises 77 cities. A substantial number of 1980 reports were destroyed in response to an internal HUD directive. (As additional information is obtained from localities in the ongoing research project, the results will be continually updated to reflect the experience of additional cities.) Although surveys and 1987 documents which have already been collected constitute larger data sets, methodological rigor argues for limiting all analyses in this report to the 77 complete cases. Information gathered on the four largest areas (Chicago, New York, Los Angeles, and Baltimore) are excluded from the following analysis, but will be analyzed separately. The remaining 73 cities reflect a reasonable cross-section of the original sampling frame, based on both CDBG grant size (capturing both city size and need) and geographic distribution.

Information on the types and levels of low-income housing assistance in the following analysis have been restricted to pairwise comparisons: that is, separately comparing each city's activities in 1980 to its activities in 1987. Where data are missing for a particular city in either year, the city has been deleted entirely from analysis of that particular variable. However, information regarding funding sources incorporated all information received (retaining data from cities with partially missing data in either year). The information was calculated separately for 1980 and 1987, in an effort to probe the nature of, and shift in, funding sources. Measures constructed to probe 1987 city responsiveness used only 1987 data.

In short, the following analysis rests on a representative national sample of CDBG cities' (population 50,000 and above) official documents reporting all low-income housing assistance before (1980) and after (1987) drastic federal funding cuts, and a brief survey of local officials responsible for these reports. United States Census information and Federal Register reports of Fair Market Rents supplement these data sources.

OVERALL CITY RESPONSE: MAINTENANCE

On first glance, local government response appears impressive; despite the 72 percent decline in federal funding, the overall level of households assisted has declined by a mere 6 percent. This level of city activity testifies to the urgency of the low-income housing crisis and local governments' perception of the political necessity for response. The precipitous drop in federal funding was not, however, filled by direct city, state, and philanthropic dollar-for-dollar substitution. Instead, the gap was filled by shifts in the ways remaining federal funds were used. The rest of this paper examines these shifts in types of assistance and types of households served. Similar aggregate levels of assistance in 1980 and 1987 mask the significant shift in the nature of housing assistance. Table 1 and Figure 1 illustrate how the almost identical volume of new households assisted in 1980 and 1987 received different types of assistance: supply (construction), demand (Section 8 existing certificates

Table 1

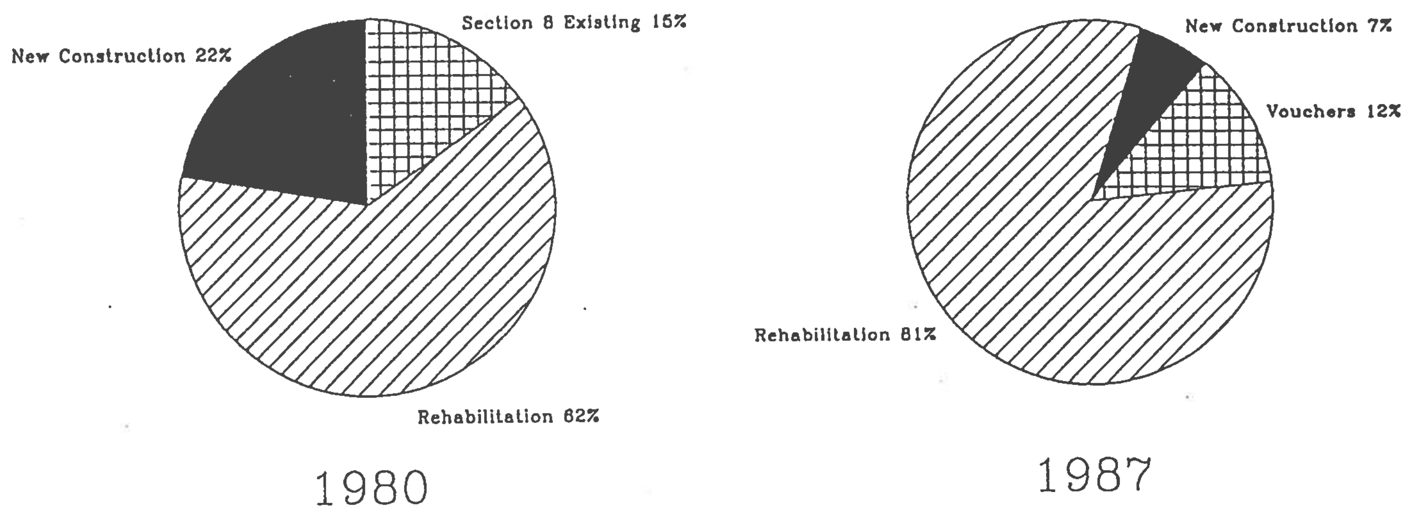
Shifts in Levels of Low-Income Households Served by Type of Assistance 1980 and 1987

Housing Activity	Share of Total 1980 Households Served	Share of Total 1987 Households Served	Change in Households Served 1980-1987
New Construction	22%	7%	-73%
Rehabilitation and Home Improvement	62%	81%	22%
Existing Section 8 and Vouchers	15%*	12%	-24%
Overall Change in Housing Activity			-6.5%

SOURCES: Housing Performance Reports, 1980 and 1987,
Survey of local officials,
Institute of Urban and Regional Development
*Total is less than 100% because of rounding.

FIGURE 1

COMPARISON OF ALL NEW LOW INCOME HOUSING ASSISTED 1980–1987



and vouchers, which pay the difference between what a poor household can afford and fair market rents), and maintenance (rehabilitation) assistance. The proportion of those types of assistance changed significantly between 1980 and 1987. Of all new households served in 1980, 22 percent received new construction, 15 percent received rent assistance, and 62 percent received rehabilitation. By 1987 the proportion shifted to only 7 percent new construction, 12 percent vouchers, and 81 percent rehabilitation, as depicted in Figure 1. This significant shift to maintenance is similarly depicted in the percentage changes between 1980 and 1987 in levels of type of assistance, shown in the third column of Table 1.

All new low-income housing construction has dropped by 73 percent. This drop approaches, but does not parallel, the approximate 90 percent drop in HUD assistance for new construction in the same period (Table 2). This loss of new construction is not surprising; it reflects an explicit federal policy of de-emphasizing new construction.

New Section 8 existing certificates and vouchers (demand) assistance fell by 24 percent (Table 1). Existing housing refers to subsidies to low-income households to supplement income, permitting households to rent existing market-rate housing units. Assistance comes in the form of Section 8 existing certificates or vouchers to convert the needy household's latent demand into effective demand.

This finding is surprising in view of the Administration's position in favor of shifting from a supply (new construction) to demand (vouchers) policy. New federal authorizations for vouchers in 1987 appear not to have increased but to be almost identical to the 1980 figures (Table 2). Yet, since the 1987 figures include loan management, conversions, and moderate rehabilitation, they are somewhat inflated; therefore authorization may be understood to have declined. Cities' Housing Performance Reports disclosed a 24 percent reduction in the level of new households assisted through existing programs. Conversations with local housing officials suggested that the use of vouchers may be somewhat under-reported because the local housing authority, which administers the Section 8 existing/voucher program, typically is separate from the agency which prepares Housing Performance Reports. Whatever the extent of decline in HUD reservations for the existing/voucher program and whatever the extent of under-reporting

Table 2

Change in Federal Resources for Low-Income Housing
1980 - 1987

	1980	1987	Percent Change
New Budget Authority (in billions of $)	26.7	7.5	-72%
All Assisted Housing unit reservations	265,202	89,660 *	-66%
All Assisted New Construction and Substantial Rehabilitation Reservations	187,976	23,759	-87%
All new Section 8 Existing and Voucher reservations	77,226	77,258 **	0%
New Construction Starts	151,159	13,374	-91%

NOTES:

* The official total is less than the total of new units because of the loss of 11,357 units (10,889 rent supplement and 468 units of Section 236).

** Includes loan management, conversions and moderate rehabilitation.

SOURCES: Compiled from Low Income Housing Information Service tables, compiled from HUD budget documents.

in city performance reports, the existing/voucher program, and thus demand-side assistance, has clearly declined since 1980.

In contrast to both new construction and existing assistance programs, rehabilitation assistance has not suffered at all. Rehabilitation has increased by 22 percent, serving 62 percent of total assisted households in 1980 and 81 percent of households assisted in 1987 (Table 1).

The first major conclusion on local government response to severe reductions in federal funding for low-income housing is a marked shift away from supply and demand assistance toward maintenance. This overall shift shows less an assertive policy reversal, than ongoing local practice brought into sharp focus by drastic federal funding cuts.

OVERALL FUNDING: STILL FEDERAL

To better understand low-income housing activities, it is necessary to examine the shifts in kinds of assistance with respect to their funding sources.

Despite major cuts in federal funding and major shifts in type of assistance, the federal government continues to provide virtually all low-income housing resources (Table 3). Examining each type of assistance in greater detail shows how this paradox could result.

New Construction

In 1980, virtually all new construction of low-income housing was funded by HUD. In contrast, by 1987 direct HUD funding accounted for only one-half of all new-construction activity, with CDBG funds and state funding contributing more resources than in 1980. However, detailed analysis of state-funded new construction projects revealed that states relied primarily on federally subsidized mortgage revenue bonds.[3] As such, the state activity more accurately reflects an indirect federal subsidy, not a state funding source. Shifting these projects to the federal column yields the results found in Table 3. Federal funding in this version accounts for 75 percent of new construction funding sources.

Table 3

Percentage Distribution of Low Income Housing Activities by All Funding Sources, 1980- 1987

Activity (Year)	CDBG	Local	State	HUD	Local Comb.	Federal Comb.	Rental Rehab	Missing	Total
New Construction									
1980	1%	0%	3%	92%	0%	0%	n/a	4%	100%
1987	3%	1%	3%*	71%*	7%	4%	n/a	11%	100%
Section 8/ Vouchers									
1980	neg.	0%	neg.	99%	0%	0%	n/a	0%	100%**
1987	0%	0%	3%	90%	0%	3%	n/a	4%	100%
Rehabilitation/Home Improvement									
1980	57%	neg.	5%	33%	neg.	0%	n/a	4%	100%**
1987	46%	1%	4%	10%	24%	5%	4%	6%	100

n/a = not applicable; neg. = negligible, less than .5%.
* Federal figures reflect 26% tax exempt financing issued by state agencies.
** Totals are less than 100% due to rounding.

NOTE: Column names for sources:

CDBG	Community Development Block Grant
Local	Local (e.g., general fund or special local taxes)
State	State funded
HUD	HUD or other federal source
Local Comb.	local or state funds combined with other sources including CDBG.
Federal Comb.	Federal funds combined with other local and state sources.
Rental Rehab.	Federal rental rehabilitation program.
Missing	Funding source not available.

SOURCES: Housing Performance Reports, 1980 and 1987,
Interviews with local officials,
Institute of Urban and Regional Development

Table 3 shows the level of CDBG and local combination funding increased to constitute 10 percent (11 with sole-source local) of new construction assistance in 1987. Local combination means CDBG funding combined with other nonfederal sources, typically some state activity. The category also includes a few cases of truly local contributions, for example from the City General Fund. Both the CDBG and the local combination categories rely on CDBG, a two-faceted source which implies city discretion in using federal funding. When CDBG and local combination categories are viewed as federally funded, then the only nonfederal funding sources of new construction are sole-source local, 1 percent, and sole-source state, 3 percent. The federal government continues to play the dominant role in funding new low-income housing construction.

Section 8 Existing and Vouchers

The overwhelming majority of Section 8 existing and voucher units are federally assisted. Federal sources continue to fund 93 percent of units assisted through direct HUD assistance and multiple federal sources (3 percent were state-assisted, the remaining 4 percent were missing). The Nonfederal Housing Programs survey echoes this conclusion.[4] This research found only three nonfederal voucher programs. Maryland and Pennsylvania provided stop-gap "crisis" assistance for the about-to-be-homeless. The third, in Washington, D.C., was a derivative of the Section 8 existing program, and seemed at the time to be floundering. (Our study found rent subsidies in Massachusetts, also.) The Nonfederal Housing Programs survey reported:

> "... municipalities' reluctance to take [on housing voucher/rent certificate programs] is based on the continuing high subsidy costs, on the fact that vouchers do little to increase the permanent supply of affordable housing, and on administrative considerations."[5]

Rehabilitation

Comparing 1980 and 1987 funding sources, the drop in direct federal assistance for rehabilitation is substantial. With rental rehabilitation and federal combination added, the total federal share accounted for 19 percent of units assisted in 1987. States' funding for rehabilitation remains a modest share of total rehabilitation assistance. Sole-source CDBG-funded assistance has decreased, but in combination with other nonfederal sources it has increased its proportion to 70 percent of all rehabilitation activity in 1987. Clearly, cities have taken the initiative in promoting rehabilitation, targeting CDBG funding as well as combining other nonfederal sources with CDBG funding for rehabilitation and home improvements.

Relative Importance of Different Funding Sources

City Initiatives

Substantial local activity and direction of CDBG funding can be variously interpreted. On the one hand, substantial direct use of CDBG funding, which is essentially a city's only source of flexible funding, demonstrates the priority city officials give to low-income housing. Moreover, substantial efforts to collaborate with other actors to leverage CDBG resources generated an additional 24 percent of all rehabilitation. Cities' efforts have proven the urgency and political significance of low-income housing.

On the other hand, CDBG funds are, after all, federal. In 1987, just one percent of all units rehabilitated and just one percent of all new construction units were funded with solely local (e.g., General Funds) resources. Thus, low-income housing activities continue to depend on federal funding.

State Initiatives

While state participation in low-income housing has increased somewhat since 1980, most states remain relatively modest contributors. Interpreting and projecting states' low-income housing experiences is difficult. Much of past state low-income housing activities, such as mortgage revenue bonds, have been directly or indirectly federally subsidized and have become unworkable. States have developed a variety of housing programs.[6] Comments from cities on new state programs that were not yet having an impact suggest that, over time and with additional experience using them, the programs may make viable contributions to the housing system. In 1987, however, sole-source state programs contributed only four percent of all low-income units rehabilitated, and three percent of all new construction units.

Private Initiatives

The role of non-government actors warrants discussion by virtue of its absence. The non-government, or private, sector is not reported separately because it did not constitute a distinct source of funds. This finding is significant because recent publicity has cast the private / voluntary / nonprofit sector in a leading role.

Confusion and over-simplification account for the discrepancy between public appearances and bottom-line low-income housing practices. Most importantly, three major non-government actors -- lending institutions, foundations, and nonprofits -- are mistakenly confused, although they serve quite different functions in the process of producing or rehabilitating low-income housing. Most often, cities referred to the private sector, lending institution contribution as straightforward, conventional, private financing.[7]

Cities rarely referred to the second major non-government actor, foundations or large-scale institutions such as Local Initiative Support Corporation or The Enterprise Foundation, as contributors. These organizations do serve important functions; they provide local nonprofit organizations with technical assistance, help in packaging financing, act as financial intermediaries, and extend some support money, and sometimes interim financing, for low-income housing.[8] Cities did not report them as a funding source for actual projects, however. The only exception was Habitat for Humanity, mentioned by three cities, one of which reported its project had no government assistance. In exploring potential future roles for such large institutions, it is essential to recognize their function as a facilitator for low-income housing.

In contrast to private lending institutions and large-scale private facilitating foundations, the third actor in the private sector, local nonprofits,[9] worked closely with cities. Nonprofits, whether mainly housing developers or more community-based Community Development Corporations (CDCs), took responsibility for packaging complex projects, such as the new construction project with financing described below. While cities mentioned collaboration with nonprofits in their housing reports, they did not cite nonprofits as sources of funding. On the contrary, some cities are providing nonprofits with CDBG funds for basic administrative support. In examining the potential roles for CDCs, it is important to focus on equity capital. Without access to adequate equity capital, CDCs will continue to act as project facilitators, but will be incapable of performing a larger role in the housing delivery system.

These distinctions among private / voluntary / non-profit actors are vital to interpreting the results presented here. They help clarify why the private sector has been such a limited source of funding for low-income housing.

Further confusion arises from leveraging scarce resources, discussed briefly below, and the publicity rightly attending successes in building or renovating low-income housing in the face of federal austerity. Nonprofits and large-scale facilitating organizations can and should take credit for facilitating low-income housing, even if they contributed only minor amounts of the project debt or equity capital. The private sector is a helpful, indeed often essential, highly visible partner of city government, but usually lacks the capital which is crucial for project realization.

Thus, despite substantial local commitment and efforts, and state and private participation, most low-income housing activity -- new, existing, or rehabilitated -- continues to depend heavily on federal funding.

SPREADING SCARCE RESOURCES THINLY: MUTUAL LEVERAGING

Cities report an increased reliance on multiple source funding (Table 3). In 1987, 29 percent of all rehabilitated units required funding from multiple sources, in contrast to a negligible percent in 1980. In 1987, 11 percent of all new construction units reported received funding from multiple sources, in contrast to no multiple-source activity in 1980.

The increasing complexity and sources of funding could reasonably be expected to increase the time needed to package a viable project. Local officials were surveyed regarding the number of funding cycles required to realize project development in 1987. Table 4 depicts these findings. In sum, about a third (35 percent new construction, 33 percent rehabilitation) replied that packaging financing for the typical project required more than a single year: most typical multi-year rehabilitation projects had completed feasible packages in two years, while the typical multi-year new-construction project took two or three years to package.

Local housing officials explained the process, for example, of working with nonprofit promoters, securing a redevelopment-subsidized site one year, returning to their City Council the following year for extra subsidies to link with a lucky source of HUD funding, gluing the eventually feasible package together with CDBG funds, and in the final year using a state subsidy and/or housing vouchers to lower some rent levels.

Successful project packaging can be extremely complex, as the following examples illustrate. Table 5a shows funding of the well-publicized 1987 Boston Housing Partnership Project.[10] While this was a rehabilitation project, Table 5b documents a new-construction project.

These dollar-specific descriptions of locally initiated projects reveal a great deal. First, cities and nonprofits which have worked together in the face of drastic federal funding reductions have been remarkably creative, resourceful, and persistent. They have earned admiration.

Second, once a project is pieced together, opportunities for mutual leveraging abound. In the Boston project, more than a dozen local, state, private, and nonprofit organizations share credit for rehabilitating 700 units of abandoned low-income housing.

Third, all that effort and deep subsidy -- 10 new low-income units in one case and 700 resurrected abandoned units in the other -- still only goes so far, and no farther. The new construction projects served 40 percent very-low-income; its rents, while technically affordable to those earning only 50 percent of the metropolitan area's median income, and far below market rates, still have rent levels which do not reach those of greatest need.

Table 4

Number of Years Needed to Package Typical New and Rehabilitation Projects

Activity	1 Year (or N/A)	2 Years	3 Years	4 Years	More	Missing
New Construction	28%	14%	14%	0%	7%	37%
Rehabilitation	35%	21%	2%	2%	8%	32%

Activity	No Need for Funding for More than One Year	% Units Needing More than One Year < 50% Projects	% Units Needing More than One Year >50% Projects	Missing
New Construction	28%	9%	26%	37%
Rehabilitation	35%	22%	11%	32%

SOURCES: Survey of Local Officials,
Institute of Urban and Regional Development

Table 5a

Anatomy of Boston's Multi-Source Rehabilitation Project

Year formed:	1983
Partners:	City of Boston Local Lenders Major Insurance Companies Investment Bankers Neighborhood-Based Housing Organizations
1985-87	To rehabilitate 701 apartments in 69 buildings in 10 neighborhoods;
Program:	City acquires these abandoned properties through tax foreclosure.
Average Development Cost per Unit:	$51,000
Project Developers:	Neighborhood-based organizations
Rent subsidies:	o 15-year state rent subsidy program o Federal Section 8 certificates o $22.3 million in tax-exempt financing through the Massachusetts Housing Finance Agency o $856,000 in annual interest subsidies provided under the State Housing Assistance for Rental Production (SHARP) program o Letters of credit to secure portions of the finance package from four Boston-area banks o $1.9 million in interim loans from the Local Initiatives Support Corporation, the Massachusetts Community Development Finance Corporation, and a Ford Foundation program-related investment.
Grants:	o $4.5 million in CDBG funds from the city of Boston o $430,000 from corporations and private foundations, including the Boston Foundation, Hyams Trust, the Riley Foundation, the Public Welfare Foundation, and the Local Initiatives Support Corporation.
Equity:	o $8.8 million raised through syndication through two-tier partnership structure.
Beneficiaries:	o All units low- and moderate-income; average rent $300.

Table 5b

Anatomy of an Actual 1987 New-Construction Project*

Sponsor: Nonprofit Housing Organization

Financing:	Private lender (9.5% 30-year loan):	$842,327
	Housing Demonstration Action Grant (HODAG) (deferred):	650,000
	Redevelopment tax increment financing (deferred):	362,200
	CDBG:	140,000

Beneficiaries:

10 units, very-low-income:
  5 2-bedroom units @ $386/mo.
  5 3-bedroom units @ $446/mo.
13 Market-rate units ($695 and $840)
  are within fair market rent levels,
  and thus potentially available to
  Section 8 existing or voucher-holders

* These are accurate figures from a true project, but the source cannot be disclosed because information was given in confidence.

Fourth, local initiative depends on federal funding.[11] The new construction project used federal resources (HODAG and CDBG) for more than two-thirds of the project cost not covered by conventional private financing. The more complex Boston project relied on federally-funded Section 8, CDBG, Federal National Mortgage Association guarantees, and the tax code syndication mechanism.

These represent an enormous effort over several years by a number of people committed to low-income housing to produce, in one case, 10 units of very-low-income housing, in the other, 700 units of low-income housing.

Leveraging is a timely, popular, and in some senses laudable strategy. Most institutions, whether local governments, nonprofit organizations, states, philanthropic foundations, or private enterprises, are eager to demonstrate that they have leveraged their scarce resources into higher production by garnering outside resources. Each aims to show it can do more with less. As scarce resources are spread into more leveraged projects, the process becomes more convoluted, but not more productive. A city, nonprofit, foundation, and state might each contribute separately to the same project, which each proudly counts as its own. In the final accounting, however, there are not four projects, but only one.

The silver lining in this inefficient leveraging cloud is that all of the surviving successful contributors to low-income housing have learned to become entrepreneurs. Further, all of these survivors have become collaborators. The concept of public-private partnership has thus been tested through austerity and can be refined through this learning experience. The challenge is to fashion a policy system which takes advantage of leveraging while avoiding a shell game, where well-motivated organizations succeed only in leveraging each other.

SPREADING SCARCE RESOURCES THINLY: SHALLOW SUBSIDIES, SHIFTS IN BENEFICIARIES

Like mutual leveraging, shallow subsidies spread scarce resources thinly creating the appearance of productivity.

"Shallow subsidies" are small grants (or, even more shallow, loans) which treat small problems, in contrast to deep subsidies which provide a substantial amount of money to a household or housing unit to solve a serious problem. For example, a shallow subsidy would be to spruce up the exterior of a homeowner's house. A deep subsidy would be new construction for a family which could afford to pay only $125 (30 percent of its $417 welfare check) for a month's rent.

Because the category "moderate rehabilitation" was not used in 1980, it is impossible to provide a direct 1980-1987 comparison to demonstrate the role of shallow subsidies.

The data show that a majority (55 percent of all rehabilitation) in 1987 were shallow subsidies. Programs such as home improvement, weatherization, paint, and HUD's moderate rehabilitation indicate shallow subsidies. While they may meet real needs, they reflect a system struggling to maintain or marginally improve existing housing stock, limiting the depth of subsidy to specific minor improvements.

Beneficiaries, those low-income households receiving assistance, changed between 1980 and 1987 in a mixed pattern shown in Table 6.

Comparing 1980 and 1987, overall assistance to renters dropped 17 percent, while assistance to owners actually increased 21 percent. In the same period, overall housing assistance to the elderly dropped by 33 percent, while the drop in small families was 14 percent, and assistance to large families increased by 8 percent.

For all programs serving renters between 1980 and 1987, service to the elderly dropped 57 percent. This drop was far greater than the overall drop to renters (17 percent), which was similar to the drop in rental assistance to families (21 percent). Rental assistance to large families increased 11 percent. Housing assistance to owners increased to all household types, up 51 percent to the elderly, 23 percent to small families, and 13 percent to large families.

In 1987, substantial rehabilitation served 10 percent elderly, 38 percent family, and 17 percent large family, whereas home improvement served 29 percent elderly, 36 percent family, and 9 percent large family. (No table is necessary for this simple comparison.)

The Housing Performance Reports do not report income served. As requested by the study survey, local officials documented income data whenever available. The information gathered varies in its coverage; officials identified income data for approximately 40 percent of all

Table 6

Percentage Changes in Types of Housedholds Assisted
1980 - 1987

Type of Assistance	Total	Elderly	Small Family	Large Family
Overall Decrease in Assistance	-6%	-33%	-14%	8%
Renters	-17%	-57%	-21%	+11%
Owners	21%	51%	23%	13%

Source: Housing Performance Reports, 1980 and 1987
Survey of Local Officials
Institute of Urban and Regional Development

assisted units. Table 7 shows that all types and sources of assistance serve the very-low-income.

Despite major reductions in both federal funding and federal direction, the nation's low-income housing assistance continues to target not just the poor, but the very poor, those earning 50 percent or less of their metropolitan area's median income. The findings are hardly startling with respect to federal programs (except for rental rehabilitation, which does not appear to closely target beneficiaries.) The findings are impressive, however, for CDBG and state-funded programs. (The lower proportion for local combination represents a smaller number of units.) It is worth noting that programs for homeowners serve fewer very-low-income households; nonetheless, three-quarters are very-low-income.

In short, assistance has shifted to benefit homeowners. Still, 85 percent of those assisted, whether renters or homeowners, continue to be the very poor.

VARIATIONS AND INITIATIVE

The pattern of cities responding to federal funding cuts by using CDBG funds for low-income housing rehabilitation is clear. In fact, most cities continue to do essentially the same things they did in 1980: home and neighborhood improvement. The picture seems to be changing because, in the aggregate low-income housing system, beneficiaries have changed in some respects. Yet cities' low-income housing policies have scarcely changed; they have merely been brought into view by the sharp losses in direct federal funding. Though numerous local and state efforts have been mounted, the overall effect seems an effort to "tread water." In the face of federal cuts, the data show cities unable to assemble the resources necessary for their own initiatives.

That all cities did essentially the same thing is remarkable and deserves further exploration. The study has shown that all cities used CDBG alone and in combination with other sources, to provide rehabilitation assistance. Local and state controlled resources -- that is, CDBG and CDBG in combination with other nonfederal resources (excluding tax-exempt

Table 7

Percent Very Low Income Households Served
By Tenure and Funding Source, 1987
(for All Units Reported in 1987)

	Percent Very Low Income
TYPE OF ASSISTANCE:	
All Assistance	80%
Renter Assistance	90%
Owner Assistance	74%
SOURCE OF ASSISTANCE:	
CDBG Funded	89%
Locally Funded	89%
State Funded (including federally subsidized mortgage revenue bonds)	95%
Federally Funded	90%
Rental Rehabilitation*	65%
Local Combination	57%
Federal Combination	90%
All Federal, including Rental Rehabilitation and vouchers, but no CDBG)	87%

Rental Rehabilitation program served households 19% with incomes greater than 80% of the metropolitan area's median income.

Source: Housing Performance Reports, 1980 and 1987
Survey of Local Officials
Institute of Urban and Regional Development

financing) -- accounted for less than 15 percent of the total new construction units reported for 1987.

Variations in the Volume of Local Response

The volume and creativity of local response that cities were able to muster varied. Variations in volumes of low-income housing assistance can be explored by quantitative indicators and analysis, and creativity can be gauged by special achievements and innovative off-budget approaches. The absolute new number of households assisted through new construction and rehabilitation, in a city divided by its CDBG grant, provides an indicator of the city's low-income 1987 housing performance.[12] Because CDBG grant size derives from the national formula (population, overcrowding, poverty, and aged stock) which expresses need, the ratio expresses the city's achievement in responding to its low-income housing need, taking into account the size of its need. Thus, cities can be ranked in order of their relative achievements in meeting their own needs. The ratio of housing assistance provided to relative need varied from none at all to a low figure of .04, to 7.33. This wide range is important because it suggests that something other than federal funding can and does affect low-income housing.

Preliminary analyses showed no association between a city's relative success at responding to its needs and the urgency of its low-income housing needs. (Cities with the most severe needs might be expected to work harder and achieve more.) The first need-indicator which showed no association was extent-of-poverty. The second need-indicator analyzed was minority population. The third need-indicator was affordability, measured by the city's fair-market rents and 30 percent of its average monthly household income.

This finding is surprising and troubling. Poverty is the primary indicator of housing need. Minority population provides an important supplemental indicator of low-income housing need because minorities suffer from more housing problems even after accounting for their disproportionately low income.[13] Affordability provides an important supplemental indicator because it captures the escalating housing market problem of increasing numbers being unable to afford housing even though they may not be literally poor, and of severely increasing rent burdens. Yet low-income housing activity apparently has no association with need. This finding points in two directions: toward efforts to return national housing policy toward equitable response to housing need, and toward further research to clarify what does drive local low-income housing activity.

Use of Off-Budget Strategies

Cities' development and use of off-budget strategies provides another set of responses to the severe cuts in federal funding. These innovative kinds of responses may be overlooked because they are not included in conventional reports and HUD categories. Table 8 shows the extent to which cities in this study used off-budget strategies.

This level of off-budget strategies demonstrates local initiative in the face of drastic federal funding cuts. Furthermore, a wide range of cities adopted off-budget strategies. Although California has a state law on density bonuses/inclusionary zoning, some California cities did not report density bonuses, and other cities from a range of states (both coastal and interior) did report density bonuses. Those reporting rent control were all on either the East or the West Coast.

Because the initiatives vary so much in type and scope, it is usually difficult, and in many cities impossible, to gauge the number of units assisted through innovative and off-budget strategies. Nonetheless, with 12 percent reporting rent control, and 18 percent reporting density bonuses (inclusionary zoning), the conclusion that locally initiated off-budget strategies are contributing to low-income housing is inescapable.

The following specific cases offer a glimpse of the uneven impacts of off-budget strategies. Telephone interviews with four medium-sized California cities with density bonuses found: one city with no formal mechanism for knowing how many low-income units are generated, one city with no units produced, one city in which density bonuses are allowed but not usually

Table 8

Local Off-Budget Housing Strategies
(Reported by City Officials)

Strategy	Yes	No	Unknown	Missing
Density Bonus	18%	63%	3%	16%
Developer Fees	14%	66%	3%	17%
Special Taxes	8%	71%	3%	18%
Other Financial	14%	60%	8%	18%
Consortium of Nonprofits	14%	60%	8%	18%
Rent Control	12%	71%	2%	15%

SOURCES: Survey of City Officials
Institute of Urban and Regional Development

used, and one city which used density bonuses to produce 8 low-income home ownership units and 150 low-income rental units.

A national survey of state and local initiatives described Princeton's affordable housing program, which is an off-budget regulatory program with inclusionary provisions, impact fees-linkage, and production incentives. Since its inception in 1984, it has produced 140 low-income units.[14]

In contrast, an early study showed that Orange County, California, generated 3,254 units of affordable housing in the first 21 months of its density bonus program; 683 of the units were low-income.[15]

The national survey examined linkage programs, a version of developer fees. The eight sample linkage programs reported results ranging from $35 million in Boston (and $27 million in San Francisco) to none-to-date. Five of the eight had secured $700,000 or less.[16]

In the end, off-budget regulatory initiatives such as density bonuses and impact fees indicate considerable local initiative and commitment. They suit times and places with booming expansion, where affordability is likely to be a major problem. Yet results are uneven and hard to document. Furthermore, programs may not be replicable.[17]

CONCLUSIONS

Cities are actively promoting low-income housing through ongoing programs of housing maintenance. Yet they evidently cannot add to the supply of low-income housing without major direct federal subsidies, nor provide modest assistance without using indirect (CDBG) subsidies.

Policy Implications

The end result of severe reductions in federal funding for low-income housing, and local government response to those cuts, has been an eight-year holding pattern.

Meanwhile, demand from poor, homeless, immigrant, and female-headed households has been growing; affordability has become a crisis. In 1987 the average single-parent household contributed more than 58 percent of its income to housing (up from 25 percent in 1974). Over the same period, in families with a single parent under 25 years, the rent burden went from 46 percent to 81 percent.[18] The impasse between growing demand and stagnant supply creates a pent-up problem.

A variety of strategies can help relieve the short-term stress and prevent the problem from worsening. Stop-gap help for the homeless and more rental vouchers for the near-homeless offer immediate choices. Significant help for first-time middle-income homeowners (through proposed Individual Home Accounts, revisions in FHA regulations, and local deferred taxes, for example) would also relieve stress within a fairly short time. Securing subsidized housing which is about to convert to private market rates (e.g., Section 221 [d][3] projects for which contracts are about to expire) as permanent low-income housing is particularly crucial in some areas to keep the low-income housing impasse from worsening.

But federal programs are essential for providing the urgent and long-term solution: increasing the supply of low- and very-low-income housing. Without federal funding and leadership, past experience and political and administrative incentives push cities toward maintenance and rehabilitation. Such assistance serves important functions, but, since it rarely expands the low-income housing supply[19] and may even reduce it,[20] it can have little impact on affordability.

New Construction for the Very-Low-Income: Rescuing Public Housing

Findings from this research argue for increasing the supply of very-low-income public housing. Although many public housing projects are decent,[21] conditions in others (mainly large city projects) testify to the public image of public housing as stigmatizing and abysmal. A quarter of the nation's 134 largest housing authorities are in financial trouble.[22] The national housing task force called the violent drug-dealing in public housing "domestic terrorism."[23]

The nation needs a practical program to rescue the remains of public housing. The program should rely on experience, incentives, and tight management. HUD should fund staged modernization of deteriorated public housing projects and new construction. Renovation should stress security, and attractiveness. New public housing projects should be small-scale and scattered-site, and conform with their neighborhoods, with attractive designs ensuring security. Tenants should be carefully screened for the privilege of living in the new or renovated units, and commit themselves to keeping the project safe and drug-free.

Only well-managed housing authorities or those participating in a workout program should be eligible for these projects or for new construction. Tight management should include not only these incentives to housing authorities and tenants, but also plans for authorities in financial trouble, new uniform accounting standards (on a project-by-project basis), management training programs for housing authorities' staffs, and pilot tenant management programs.

HUD should explore a new public housing program for very poor single people. The program should build or renovate and manage single-room occupancy hotels, emphasizing security and tenant selection.

New Construction Policies for Moderate-Income Households

Some determined efforts between cities and nonprofits created a successful collaborative model for generating new moderate-income housing. A new program should build on that spontaneous local initiative with strong federal support and structure. Such a city/nonprofit partnership should capitalize on nonprofits' entrepreneurship, growing sophistication, and community base, complemented with local government responsibility. The federal role should replace the inefficiencies and uncertainties of the recent scrambling for patchwork resources, with reliable funding targeted to the most severe affordability needs.

Carefully crafted federal program structure should retain local initiative while rewarding proven productivity and targeting need. The following offers one possible program design. Funds should be divided by an equitable formula based on housing needs, emphasizing indicators of overcrowding and affordability. Within high-need metropolitan areas, HUD should allocate funds through competitive applications. Applications should be judged by the twin practical criteria of feasibility and track records. (Track records refer to an organization's proven, effective experience in producing low- and moderate-income housing.)

All applications should propose joint city/nonprofit operation, but either party could initiate the proposal and take the lead responsibility. Cities could guarantee to produce a particular minimum number of units within a three-year period, but could leverage resources and ingenuity to produce more units. Superior quality and production would bolster their track records, and thus competitive advantage, for future funding. Nonprofit proposals should focus on a specific project and the means of collaboration with the local government. Nonprofits could take advantage of their ability to secure favorable financing, attract private investment (if incentives are restored), mix low- and moderate- with middle-income units, and locate projects in relatively inexpensive pockets within the high-demand market areas. Inexperienced nonprofits could build their track records with cities or as subcontractors or junior partners with experienced nonprofits.

Such a system would not only reward, but build on, proven expertise, encourage private and state participation, and produce an expanding supply of affordable housing where it is most needed.

Some of this expanded supply of moderate-income housing should be converted to homeownership opportunities. Programs should permit tenant rents to become installments on downpayments, and should establish joint government/new homeowner equity to keep units affordable.

These specific proposals for increasing the supply of low- and very-low-income housing where it is most needed by responsible, proven, public, and nonprofit local agencies are offered to carry the debate forward.

Now that systematic, reliable, city-level information has shown nationwide that cities are actively engaged in low-income housing maintenance programs but cannot deal with the affordability crisis without a strong federal partner, the time has come to focus debate on new federal directions.

NOTES

[1]New budget authority compiled from HUD budget summaries by the Low-Income Housing Information Service.

[2]A note on Local Housing Assistance Plan Performance Report terminology: Historically the title conveyed federal concerns that cities be held accountable for actual "performance" in accord with their plans' goals, which were required to derive from local needs. The name persists, although the connotations are outdated. Today goals are usually set according to whatever housing assistance cities realistically think they might be able to get, and have little relation to either local policy or need. Today "performance" (often called achievement or accomplishment) implies, perhaps, more assertive local effort than in 1980, when cities were rather passive recipients of HUD housing programs. (True, some cities went to considerable effort and expense to make HUD programs work in their communities in 1980.) Further, since cities are now permitted to, and do in fact, spend CDBG money directly on housing assistance (which they were prohibited from doing, except for rehabilitation, in 1980), local performance does convey local effort and commitment. Still, "performance" never implied exclusively local effort, and was always meant to cover all low-income housing assistance delivered in the locality, whatever the source.

Our study never meant to imply grading cities' "performance" as if in some kind of circus or examination. Instead we view the performance report as a primary record of what the whole low-income housing assistance system delivered in a locality.

[3]The Tax Reform Act of 1986 re-categorized tax-exempt bonds issued for housing activities as private activity bonds, subject to a statewide cap on annual authority. Further, private activity bond interest was declared a tax preference item, increasing the cost of capital. On the other hand, the Act exempted 501(c)3 organizations from state volume caps and did not classify 501(c)3 bond interest as a tax preference item. Given the time frame of this analysis, the potential role of 501(c)3 bond activity to increase private source capital to assist low-income housing activities, cannot be ascertained.

[4]Stegman, M.,. and J.D. Holden, *Nonfederal Housing Programs*, Washington, D.C., Urban Land Institute (ULI), 1987, pp. 43-47.

[5]Ibid., p. 4.

[6]Sidor, J., *State Housing Initiatives: A Compendium*, COSCAA, 1986; and Nenno, M., *New Money and New Methods: A Catalog of State and Local Initiatives in Housing and Community Development*, National Association of Housing and Redevelopment Officials 1986, and Stegman and Holden, op. cit.

[7]The nature of performance reports did not permit an examination of the nature and type of private financial assistance. In the ongoing research effort, the study will focus on the role of Community Reinvestment activities, concessionary financing, and new financial intermediation which has begun to emerge at local, state, and national levels. In understanding the potential role for private financial sources, it is essential to gauge the breadth and depth of debt and equity capital available through private sources.

[8]Stegman and Holden, "Public/Private Partnerships Promote Low-Income Housing" in *Urban Land*, July 1987.

[9]The ongoing research informing this report is producing a separate paper analyzing nonprofit low-income housing, comprehensively and in depth.

[10]Kirkpatrick, D., M.A. Dillon, and S. Bloch, "Local Trends in Nonprofit Housing Production," in *Economic Development and Law Center Report*, Volume 16, Issue 5, Winter 1986, p. 14; and Stegman, M., and J.D. Holden, "Public Private Partnerships Promote Low-Income Housing," in *Urban Land*, July 1987, p. 16.

[11]Tom Agnotti, "Housing Strategies: The Limits of Local Actions," in *The Journal of Housing*, Sept./Oct. 1987, p. 202, also points out that local initiatives are very dependent on federal funding.

[12]Households assisted by rent assistance (e.g., vouchers) were excluded, to have the indicator capture improvement in the housing stock or actual increases to the housing supply.

[13]HUD, 1980. *Housing Our Families*. Washington, D.C.: U.S. Government Printing Office, HUD PDR-630.

[14]Stegman and Holden, op. cit., p. 73.

[15]Schwartz, S. I., and Johnson, R. A. with D. Burtraw, Local Government Initiatives for Affordable Housing: *An Evaluation of Inclusionary Housing Programs in California*, Institute of Governmental Affairs and Institute of Ecology Kellogg Public Service Research Program, University of California, Davis, December 1981, p. 28.

[16]Stegman and Heiden, op. cit., pp. 60-63.

[17]Ibid., pp. 73-74.

[18]Apgar, W., and Brown, H.J., Joint Center for Housing Studies, Harvard, *The State of the Nation's Housing 1988*, Appendix Table 11.

[19]Occasionally a rehabilitation project converts a warehouse or under-used school to low-income housing and thus adds to the supply of low-income housing units. Rehabilitating abandoned housing resurrects former low-income housing, rather than creating new units. Even "abandoned" housing may be sheltering poor people, particularly in cities with severe affordability problems.

[20]Rehabilitation to code may reduce the number of actual units. Moreover, gentrification resulting from rehabilitation may make units too costly for low-income, thus preserving the unit, but not its low-income status.

[21]yStruyk, R.L., *A New System for Public Housing -- Salvaging a National Resource*. Washington, D.C., The Urban Institute, 1980; and Bratt, R.G., "Controversy and Contributions: A Public Housing Critique," *Journal of Housing*, Sept./October 1985, pp. 165-173.

[22]Bratt, ibid.

[23]National Housing Task Force. *A Decent Place to Live*. March 1988, p. 10.