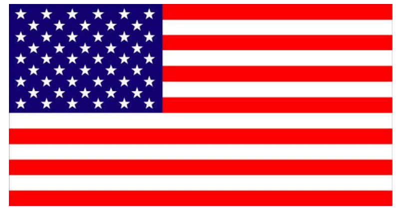
TRI-COUNTRY CONFERENCE 2004



Public Funds and Housing

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I. Statement of the Challenge

Across the United States, many urban and rural communities are experiencing an array of housing and community development related challenges. As families struggle to pay their rent, mortgage, or even worse to just maintain shelter, the affordable housing problem continues to pose a challenge to many state and local governments. Cities also face the complexity of community and economic development issues. Families continue to move outside the city for inexpensive housing, low crime rates, and better schools. As a consequence, city governments are now confronted with the task of reinvigorating their cities with economic development, renewed employment opportunities, social services, and safe places to live. This takes place in the face of waning federal investment in housing and community development. As federal priorities shift to homeland security, defense and other post-911 concerns, federal investment into housing and community development takes a further back seat, shifting much of the attention and pressure on cities and states. As statistics show increasing problems of housing affordability, depleting tax bases of communities, and isolated poverty, housing and community development continues to lack in attention and public investment. Research also demonstrates that increased problems in these areas adversely affect other policy concerns such as health care, education, and employment, thus serving as convincing support that a proper investment in housing and community development has the potential to positively affect other policy issues. Furthermore, as demonstrated from current trends in public investment activities, the outcomes of these programs suggest a need for additional investment rather than the downturn in funding currently taking place.

II. Overview of Current Public Programs, Trends in Investment, and Challenges

Government resources for housing and community development activities have usually not met the huge demand. Even so, positive outcomes continue to materialize. Until recent years, most public investment in housing has been directed toward rental housing. However, over the past four years, attention has been shifted toward homeownership. With resources being heavily directed into this direction, rental assistance programs are suffering significant investment losses. Even some community development programs that participate in the provision of social services have been the target of public disinvestment. As a result, funding pressure is being directed, more than ever, on state and local governments. Moreover, because many opponents of public investment in housing and community development programs doubt the efficacy of federally run programs, many are even urging the total elimination of some programs.

This shift in investment is evident when examining funding for the U S Department of Housing and Urban Development (HUD) programs over the past four years (FY 2000-FY 2004)[1]. While funding for Section 8 Voucher renewals appear to have grown steadily over the past four years, the impact of the funding has continued to decrease (funding has not increased with the rate of inflation). Even housing programs for the elderly and disabled have remained static (Section 202 and Section 811 programs); with funding requests for FY 2005 being reduced compared to past expenditures.

Many states have begun to rely heavily upon the use of tax credit programs, such as the Low Income Housing Tax Credit (LIHTC) and the New Market Tax Credit (NMTC). As decentralized development models, the popularity and support for these programs have steadily increased. Not only have LIHTC and NMTC created jobs, housing, and businesses, but the use of these credits have also spurred private investment as well. Despite declining funding, public housing and community development programs, including those with declining funding, continue to produce positive results and promote private involvement.

Other factors affecting public investment include uncertainties regarding the efficacy of existing programs. Due to a variety of reasons, many government leaders are calling for the elimination of some programs citing inefficiency and ineffectiveness as the rationale. This can be observed from HUD enacted funding and funding requests over the aforementioned years. Despite this fact, the downturn in funding has prompted many proponents to cite current outcomes and program shortcomings as proof that further investment, rather than disinvestment is needed. For instance, despite various examples of success with the HOPE VI program, opponents continue their efforts to eliminate the program altogether because of certain identified problems. However, advocates of HOPE VI view the program's success, in spite of under funding and problems, as indication of its relevance and need.

Analysis used to make such judgments include the Office of Management and Budget's annual evaluation of government programs, the Program Assessment Rating Tool (PART), which for instance cites the HOPE VI program as ineffective[2]. However, uncertainties regarding the methods and validity of the measurements used for such reports prevent any established appraisals. This is in part due to unexpected time needed to complete certain projects. The HOPE VI plan involves various stages of demolition, the building of new infrastructure, and the provision of social services. Many HOPE VI sites are well on their way to success; however others are still in the early stages of their development. Also, HOPE VI funding is usually just the initial investment, as with many other public programs, out of the necessary resources required for completing the project. According to the Council of Large Public Housing Agencies (CLPHA), HOPE VI grant dollars only account for 30 percent of funding involved in the projects[3]. As outside investment is received, the progress of the project advances.

Problems with data collection and measurement have also raised concern regarding the legitimacy of many studies evaluating government housing and community development programs. Early assessments of many programs are conflicting. While some assess the financial efficiency of a program, other evaluators have focused in on "human" outcomes such as improvement to quality of life. Case studies have provided a good estimation of program effectiveness, but do not offer the comprehensive examination necessary when assessing a program for funding.

Despite these challenges, public investment into housing and community development continues to demonstrate a vast benefit to the economy and society as a whole. Other than the most targeted results of additional housing stock, affordable rents, and increased business development, public investment into housing and community development programs continues to prove its role in spurring social and economic stability. Programs such as CDBG, HOME and the LIHTC have leveraged billions of dollars in private investment as a result of its initial investment and stories of revived HOPE VI communities continue to exhibit that it has the potential to change lives and transform communities.

III. Examples of Public Investment: CDBG, HOME, HOPE VI, and the LIHTC

Four of the most prominent public housing and community development models are the Community Development Block Grant (CDBG), Home Investment Partnership Program (HOME), the HOPE VI program, and the Low Income Housing Tax Credit (LIHTC). All four programs are designed in some manner to address the affordability of housing, the availability of housing stock, and the development of the overall community. They also exemplify the use of public dollars into housing and community development activities

CDBG

The Community Development Block Grant was created in 1974 as a single grant program designed to address various community development needs[4]. A compilation of several previous grant programs, the CDBG program is directed at activities that include infrastructure, business development, and rehabilitation. One of the nation's largest federal grant programs and HUD's first block grant program, CDBG is allocated to local and state government for administration to entitlement communities, which have autonomy over the direction of the funds and how they are allocated hence. According to a report conducted by the National Association of Housing and Redevelopment Officials (NAHRO) on the 25 year history of the program, Congress outlined the following goals for the program: local programs should eliminate slums and blight conditions detrimental to health and safety; conserve and expand housing stock; improve provision of community services; encourage a more rational use of land and natural resources; reduce the isolation of income groups(particularly of low-income persons); preserve properties for historical and architectural values; and promote economic development and energy conservation[5].

Even with such planned goals, CDBG was designed as a broad federal program, allowing state and local governments to take leadership in the implementation and strategy of housing and community development in their area. Funding for the grant is determined by a needs-based formula created by HUD. Communities receive funding based upon their designation as "entitlement" or "non-entitlement" communities with entitlement communities receiving a majority of allocation. This is due in part also to the grant's principal purpose and target of affecting the low and moderate-income population—a purpose that has been made stronger within the program guidelines over the years.

Funding for the grant has also been relatively stable over the years. However because funding has not matched the rate of inflation, the impact of CDBG funds continues to decrease. The growth of low-income populations and entitlement communities utilizing the grant have also decreased the grant's effectiveness over the years. According to NAHRO, this trend also poses a problem for leveraging funds from the private sector.

As previously mentioned, public investment has proven to be the catalyst for investment in housing and community development activities. When public investment diminishes, so does private investment. Even with these challenges, CDBG programs have spurred private investment and produced positive outcomes.

In 2003, $828 million in CDBG funds were spent for housing activities and $237 million for economic activities[6]. This investment assisted 184,611 households and created or maintained over 100,000 jobs[7]. For every CDBG dollar invested, another $2.79 was funded by the private sector[8]. To date, approximately four million units have been improved or made affordable for low- or moderate-income families[9]. These particular outcomes highlight some of the effectiveness of CDBG and support the contention that public investment is wise and viable. An increased investment into the CDBG program as well as annual evaluations of certain provisions of the program have the potential to improve the program while allowing it to stay in use, serving the communities it continues to serve effectively.

HOME

HOME, the Home Investment Partnerships Program, was created in 1990 under Title II of the National Affordable Housing Act of 1990[10]. It is the largest block grant given to local and state governments for affordable housing. According to HUD, the program allocates $2 billion annually to states and localities[11]. Because HOME is a flexible grant, it gives state and local government the freedom to be innovative in their approach to addressing affordable housing needs in their areas. The HOME program formed to address a variety of affordable housing needs that include: providing housing to lower-income households, expanding the capacity of non-profit providers, and strengthening the ability of state and local governments to develop and implement affordable housing strategies tailored to local needs and priorities. Overall, the program has been successful in reaching much of these goals. Since 1992, HOME has assisted over a quarter of a million families purchase a home and has provided rental assistance to over 100,000 households[12].

Like the CDBG program, funding for HOME has been steady over years. However, like the CDBG program, this funding has not kept pace with inflation and does not account for initial under-funding. Funds allocated through the program are handed through a block grant based upon formula. A distinctive characteristic of HOME is its use by non-profit organizations. According to a HUD report on the program, community housing development organizations accounted for 26 percent of HOME funds committed through 1996 and non-profit agencies of all kinds accounted for nearly one-half of all funds committed[13]. It is because of the heavy use of HOME by the non-profit sector that researchers find that HOME units are more than likely to remain affordable. Such groups usually have previous experience with subsidized housing.

Since its inception, HOME has been successful in producing affordable housing across the country and it continues to today. Studies show that HOME continues to benefit the low-income families for which it was designed. According to one study on the affordability of HOME units, it was found that 80 percent of the sampled units had incomes at or below 50 percent of the median income[14].

As of February of this year, the program had committed funds to well over 785,000 units of affordable housing[15]. Since 1992, the program had provided rehabilitation assistance to over 152,000 households[16]. Like CDBG, the program has been successful at leveraging private investment as well, with HOME leveraging $3.01 in private and other funding for every dollar of HOME funding[17].

HOPE VI

The HOPE VI program emerged in 1989 from a national commission charged with examining the state of public housing in the US[18]. After exploring various problems and challenges facing public housing, Congress discovered that several developments were "severely distressed." They subsequently created the HOPE VI program, a strategy and plan to address the problem. Implemented in 1992, the initial investment into HOPE VI was $5 billion dollars to replace several distressed public housing developments with redesigned neighborhoods, that provided social services for the residents and assistance to other programs within the community that would aid in the revitalizing the entire community. This objective grew out of the belief that a comprehensive approach would benefit the desolated communities—that needed more than just new buildings. Today, despite the fact that funding for the program has eroded over the years, HOPE VI has created mixed-income communities by creating affordable low- and moderate-income units right along side market rate units. This has reshaped the face of some of the nation's most dangerous and notorious neighborhoods. Other activities offered by the program include assisting the residents with job development, and integrating HOPE VI activities with other programs that aid the residents in areas such as health care services and education programs.

Since its inception, most evaluative analysis of the HOPE VI program has been on the whole favorable and has tended to be mostly case study analysis. While some controversy remains regarding the displacement of some residents, most analysis of the program shows positive change. In one study conducted by the Urban Institute and the Brookings Institution, researchers found that "development [of the HOPE VI properties] is still in its early stages but with changes made to the programs to correct recognized problems support for and investment into the program should continue[19]. Even though, only 15 of the 165 HOPE VI funded developments have been completed, as previously mentioned, the time needed to complete HOPE VI projects has proven to be longer than many expected. But by all accounts, most early research shows positive results. According to CLPHA, thus far HOPE VI has created more than 31,000 units of new or rehabilitated units[20]. Current funding will add an additional 95,131 units. Reports also show decreasing crime and unemployment rates and increasing per capita incomes.

One example of the HOPE VI program at work is the Cabrini Green development in Chicago, Illinois. Well known throughout the country for its dense high rises of poverty, high crime and blight, the program has now revitalized the once infamous public housing development. HOPE VI funding has replaced most of the old Cabrini Green building with less dense, townhouse style mixed-income developments, transforming the once vacant corner of the city. While many residents and city officials are still concerned about relocation of the substantial number of residents, most look forward to the renewal of the community, the services being offered and the decreasing crime rate.

Similar stories to Cabrini Green's can be found all over the country with other HOPE VI communities. With more attention and resources paid to resident relocation and other problematic areas, the HOPE VI program has the capability of being one of the most dramatic government programs in history addressing housing and community development.

LIHTC

Other public investment tools widely used are tax credits. Tax credits have proved a reliable way to encourage private investment into housing and community development while decreasing the intrusion and sometimes inefficient bureaucratic management other housing and community development programs experience. The LIHTC was created eighteen years ago, by the Tax Reform Act of 1986[21]. In response to burdened federal expenditures directed toward housing and community development activities, LIHTC was considered a way for the federal government to promote private investment while relieving itself of financial burden.

LIHTC's are allocated to low-income housing developers who then offer the credits to investors. The investors are given a reduction in their federal tax liability for the equity they provide to finance qualified affordable housing projects. Investors claim the tax credits over the span of ten years. Funds raised from the sale of tax credits finance the development of low-income apartment units.

The LIHTC program exemplifies the current push for more state and local responsibility of housing and community development issues. As a decentralized program (the LIHTC is governed by the IRS but implemented by state governments), states have been able to target the tax credits to developers in areas of high need that meet the program requirement. According to the LIHTC requirements, developers must rent a minimum 40 percent of their units to tenants whose incomes are equal to or less than 60 percent of the area median income. Alternatively, 20 percent of the apartments could be rented by individuals falling below 50 percent of the area median income. Even though the IRS is responsible for oversight of the program, states are responsible for the federal compliance.

To date, all fifty states in the U.S. have utilized the LIHTC program and remarkable results have ensued[22]. According to some assessments of the program, the tax credit has assisted in the production of 1.6 million apartments thus far and leverages approximately $6 billion of private investment annually[23]. The LIHTC also annually creates approximately 125, 000 affordable apartments for special needs residents such as the homeless and seniors, as well as for working families[24]. Its effectiveness and popularity has been credited to its lack of dependency on public investment. However it must be noted that the program is often used in combination with other federal programs such as the CDBG and others—strengthening its impact as a tool. For instance, according to one study, it was only because of the use of government rental assistance programs that families were able to afford the LIHTC units in one community.

The LIHTC program has become the predecessor in a new wave of tax policy oriented housing and community development models that shift away from directly appropriated expenditures. However, communities rely on the combined use of decentralized programs such as LIHTC along with other traditional forms of housing assistance.

IV. The Future of Public Investment in the United States

Regardless of public willingness to fund housing and community development activities, the importance of the need is quite evident. Public involvement in housing and community developments issues serve as the forerunner to private involvement, ultimately relieving the burden of public funds. As communities improve, particularly the most distressed-ones, the level of investment needed for the initial improvement will decrease.

Most proponents of public investment recognize the flaws of existing programs; however with factors such as completion time and the lack of measurement tools, decreasing public investment does not appear to be the answer. In fact, in many cases the opposite seems appropriate. With most housing and community development activities already under funded, the promising outcomes of the programs thus far only hint at the potential if adequate funding were given. This does not taken into account housing and community development's ability to positively affect other social issues. An investment in housing and community development stretches far beyond the creation of buildings and businesses. It has the potential to change lives and maintain strong economy—strong grounds for increased public investment.

End Notes

[1] US Department of Housing and Urban Development Budget, retrieved July 2004 from http://www.hud.gov/offices/cfo/reports/cforept.cfm

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[5] Ibid, 6

[6] "CDBG Fact Sheet." Retrieved June 2004 from http://www.ncdaonline.org."

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[10] Study of the Ongoing Affordability of HOME Program Rents-Final Report, June 2001. The US Department of Housing and Urban Development. Retrieved from http://www.huduser.org/publications/affhsg/ongoing.html

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