State and Local Governments: New Initiatives in Low-Income Housing Preservation

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Abstract

Preservation of the federally assisted low-income housing stock is a critical issue in housing policy for the 1990s. Most of the low-income housing initiatives that emerged over the last decade at the local and state levels were in response to changing economies and housing markets, to shifts in composition of the low-income population, and to cutbacks in federal housing assistance as well as potential losses in the federally assisted housing inventory. The expansion of housing initiatives at state and local levels has critical ramifications for federal housing policy. It is a challenge to the federal government, which has not undergone a similar dramatic change in housing assistance policies. A number of areas of a new "federal partnership" need to be explored.

The context of low-income housing preservation

Definition of the issue

Preservation of the federally assisted low-income housing stock is a critical issue in housing policy for the 1990s. This goal applies not only to the privately owned and assisted housing inventory (such as projects developed under the Section 8, Section 236, and Section 221(d)(3) rental assistance programs), but also to public housing developments that require major comprehensive physical improvements to remain viable and to the Farmers Home Administration (FmHA)-assisted inventory. This inventory includes millions of housing units.

Even beyond this federally assisted inventory, low-income housing preservation has a broader context. Narrowly defined, it covers the programs and interventions designed to restore or hold in place the supply of low-income housing in its current locations. More broadly defined, it includes programs and interventions to ensure a place for low-income housing as economic, physical, and social circumstances change. This paper discusses low-income housing preservation in the broader context. The rationale for selecting the broader definition is that all housing markets are dynamic and constantly changing, and no housing survives over time as a static entity. Preserving

low-income housing in its current locations involves decisions about its place in a changing community.

Most of the low-income housing initiatives that emerged over the past decade at the local and state levels were undertaken in response to changing economies and housing markets, to the shifts in composition of the low-income population, and to the cutbacks in federal housing assistance as well as potential losses in the federally assisted housing inventory.

Demographic changes

Changes in the numbers and composition of the low-income population are well documented. The Joint Center for Housing Studies of Harvard University foresees a drop in growth of the number of new households formed per year from 1.5 million currently to 1.2 million in the early 1990s to 1.1 million in the late 1990s.[1] The 1990s will also see a shift in the age structure of American households, with the sharpest increases coming in households with heads aged 45 to 54; a declining propensity to form households will produce a substantial drop in the number of households headed by 25- to 34-year-olds. At the same time, households with heads aged 55 or older will continue to rise, reflecting the improved health of the nation's elderly, but raising issues of independent living. In terms of household composition, the number of married couples with children will remain relatively stable, while the number of single people living alone is expected to more than double. Increasing numbers of children will live in nontraditional households: in 1970, married couples made up some 88 percent of all households with children (25.5 million); by the year 2000, their share will drop to just 74 percent (25.3 million). During the same 30-year span, the number of households headed by single parents will increase from 3.2 million to 8.9 million.

The housing implications of these demographic shifts are multiple, according to the Harvard study. The inability of household income to keep pace with housing costs particularly affects single persons, young adults, and single-parent households with children. Most of these households are competing with higher income households for a dwindling supply of low-cost rental housing. Another study, by Margery Austin Turner of the Urban Institute, forecasts that by the year 2000, "fewer households will seek the traditional suburban single-family home. . . . Most single mothers will not be able to afford single-family homes although they need the space. . . .

Dramatic increases in the number of single individuals may boost the demand for smaller units — including elderly with demand for supplementary services."[2] Dr. Turner also projects considerable pressure on the existing housing stock — on smaller units and those offering services for the frail elderly. Also, since over 80 percent of the growth in the number of households between 1980 and 2000 will occur in metropolitan areas, pressures on the urban housing stock will be particularly severe. This is not to say that housing conditions in rural areas are not a serious concern; housing occupied by poor households in nonmetropolitan areas is more likely to be substandard.[3]

Shifts in the economy

Shifts in the composition of the low-income population are accompanied by economic and physical changes in local communities and states. The decline of traditional manufacturing in the United States and the growth of new service-oriented, information-based industries is substantially altering employment and settlement patterns. In a paper for the National Association of Housing and Redevelopment Officials in 1986, Dr. Royce Hanson found that as the economy has been restructured, cities with a good base for a knowledge-based economy have prospered, but those cities with economies based on manufacturing or activities such as mining or agriculture have been caught in the pincers of declining revenues and rising need.[4] In responding to change, states, counties, and cities have embraced a wide array of economic development interventions, with mixed success. Dr. Hanson forecasts: "In spite of the undoubted progress in some cities, the polarization of urban areas and labor markets within them, the rise of the underclass, and the deterioration of services and facilities raise fundamental policy issues about the future of the American city in an age of advanced technology and world-wide markets." A significant aspect of this economic change is a shift in demand to more highly skilled jobs, coupled with the general tendency of low-income families to lack the educational skills that would enable them to fill these positions.

Dynamic housing markets

In the 1970s, and increasingly in the 1980s, local and state housing markets were dramatically affected by these demographic and economic changes. From an economic perspective, this impact can be observed in both "strong" and "weak" housing markets. Strong

markets show displacement, escalating housing costs, gentrification, conversions of rental properties to ownership, and shortages of housing for expanding industry. Weak markets, in contrast, are characterized by housing abandonment, excess supply, tax delinquencies, and disinvestment in declining neighborhoods. From a demographic perspective, the increasing visibility of "special needs" populations such as the frail elderly, the handicapped, single-parent households, and the homeless have stimulated responses to meet the special requirements, not only for housing but also for related support services, that these circumstances require. In strong markets, as housing costs have risen, increasing numbers of families with lower paid workers are priced out of the housing market.

Decline in federal assistance

The 1980s also witnessed deep cuts in the traditional programs of federal government assistance, and a shift in federal housing policy away from the construction of low-income housing. Between fiscal years (FY) 1981 and 1989, new commitments of federal housing assistance dropped from $30 billion annually to $7.5 billion — a cut of 75 percent. Many federal housing assistance programs were eliminated, and emphasis was on providing housing vouchers to help families pay for existing housing, rather than on building new housing units. The U.S. Department of Housing and Urban Development (HUD) absorbed a 40 percent reduction in new budget authority and a 38 percent reduction in its Washington office staff.[5]

Loss of the federal inventory

The reduction in federal assistance, particularly to construct new low-income housing units, is exacerbated by the potential loss for low-income occupancy of the existing inventory of privately owned, federally assisted rental housing developments. The National Housing Preservation Task Force estimated the potential loss to be between 1.2 million and 1.5 million units by 1995 and over 1.8 million units by 2000, due to decisions by owners to opt out of the program and expiration of assistance contracts.[6]

Responses of the 1980s

The story of low-income housing in the 1980s is largely one of state and local governments undertaking a broad array of categorical

programs and interventions to address the needs of a changing low-income population in dynamic housing markets impacted by economic change. As one housing analyst observed in 1982:

> Some local officials are only now learning about the appropriateness of various tools — and new tools are being created continuously at the local level to contend with changing circumstances. The state of the art is not scientific methods, based on knowledge and understanding of the effects of public interventions on the chemistry of the housing markets, but an alchemy based on intuition and inventive experimentation.[7]

While the experimentation continued as the 1980s ended, a new maturity could be observed at both state and local levels. Individual housing initiatives had begun to be related to broader, more comprehensive approaches and strategies in economic and human resource development.

The evolution and trends in the housing functions of state and local governments

State and local government involvement in low-income housing has evolved over a period of 70 years, dating back to the 1920s, when local public functions to protect health and safety through zoning and subdivision regulations, building and occupancy codes, property taxes, and municipal services were enacted. While not designed specifically to assist low-income households, these public functions were a recognition of the importance of housing to the physical, economic, and social health of the entire community.[8]

It was not until the 1930s, in response to the Great Depression, that significant efforts were undertaken to address low-income housing needs. These initiatives came from the federal government in the form of assistance programs to local public agencies to clear slums and construct low-income public housing. Federal assistance was expanded in the 1940s and early 1950s to cover the rehabilitation of housing and neighborhoods and the revitalization and redevelopment of substandard areas in local communities. The 20 years from 1950 to 1970 witnessed the expansion of these programs among local communities, and the development of a body of experience about various financing and intervention techniques. New local public expertise was developed in the entire community development process — land assembly, relocation assistance, re-use planning, public-private negotiated agreements, housing rehabilitation, historic preservation, and citizen participation.[9]

It was not until the 1960s that most state governments became involved in housing activities. While a handful of states had previously enacted state-assisted public housing, most states were nonplayers in aggressive housing programs. A major breakthrough was the establishment of state housing finance agencies, which had expanded into over 40 states by 1980. A major focus of state finance agency programs was providing below-market construction loans to single-family home developers in order to lower the costs of homeownership. However, increasingly these agencies also were financing moderate-income rental developments, and "piggybacking" with federal assistance to bring the rents down for the benefit of lower income households.

The 1960s and 1970s also were especially turbulent for local housing markets, and local governments were under increasing pressure to intervene in the market process to ease the housing pressures on low-income families and to counter disinvestment in declining neighborhoods. The interventions developed in response to these changes included rent control; constraints on displacement and conversions of rental properties; tax abatement for housing investment; recycling of abandoned properties; and municipal housing rehabilitation loan programs. Paul Brophy observed:

> One of the most important conceptual breakthroughs of the 1970s was a recognition by some local officials that the objective in any neighborhood recovery program is not limited to the improvement of the physical condition of the housing stock but also includes altering the neighborhood's housing market in a directed way. . . if physical improvements are to be sustained.[10]

From a federal assistance perspective, the 1960s also saw the first program, other than welfare shelter grants, to provide direct assistance to families in the form of rent certificates to enable them to rent private, existing housing. The Section 23 leasing program, initiated in 1965, was the forerunner of the Section 8 housing certificate program in the 1974 Housing Act and the voucher program initiated by the Reagan Administration in the early 1980s.

The Community Development Block Grant (CDBG) program enacted by Congress in 1974 represented another significant shift in federal assistance for housing and community development. This program quickly became a major vehicle for housing and neighborhood rehabilitation. The CDBG program consolidated various categorical community development programs into one assistance mechanism, and allocated Block Grant assistance directly to general purpose local governments. This development led to an

expansion of local housing finance, including tax-exempt mortgage bonds; general-obligation bonds for housing; rehabilitation loans and grants; tax abatement; and tax-increment funds generated by redevelopment activity. A major force in expanding local action was the 1968 amendment to the U.S. Internal Revenue code that made “residential real property for family units” an eligible use for financing by municipalities using tax-exempt industrial revenue bonds.

At the same time as local governments were assuming new housing roles, state governments were awakening to their housing responsibilities. By 1980, 13 states had established housing rehabilitation grant or loan programs, and 15 states provided tax incentives for housing.[11] Further signs of change were the initiatives taken by some states to revise building and housing codes and to develop new land use and growth strategies to guide future development. Regulatory and incentive programs were initiated in some states to reduce the cost of housing.[12]

The evolution of housing activity from locally based “health and safety” provisions in the 1920s to multifaceted efforts involving local, state, and federal governments came to fruition in the 1980s. In particular, there was a movement to merge traditional general government functions with federal and state assistance and with partnerships with the private sector. The traditional local regulatory functions involving building, housing, and zoning codes were joined increasingly with the slum clearance, assisted housing, and neighborhood improvement activities that began in the 1930s. The negotiated land re-use agreements of the urban renewal program of the 1950s and 1960s expanded into full-fledged public-private partnerships in the 1980s.

The surge of new state activity in housing and community revitalization in the 1980s had its roots in the gradual evolution of state capacity developed in the 1960s and 1970s, when a significant number of states expanded their functions. In the 1980s, however, the prime causes for this new state response centered increasingly on the recognition of future needs — a changing American industrial employment structure, changing demography accompanied by new patterns of settlement, and a resurgence in the general capacity of state government, particularly in fiscal management.[13] Older industrial areas have come under pressure to restructure their physical form, institutions, infrastructure, and living environment, which were designed to support outdated manufacturing systems, to respond to new technologies and worldwide trade competition. All of these older areas have substantial inventories of surplus industrial buildings, older infrastructure, and deficient housing.[14] States

in newer growth areas have found it necessary to create systems, including housing and infrastructure, to support the rapid expansion of new forms of economic activity. States in both older and new growth areas have also been compelled to respond to dynamic changes in the composition of the population, including the growth of "special needs" populations — the frail elderly, the handicapped, the chronically mentally ill, and the homeless. States also have been spurred by a new managerial capacity, initially triggered by the fiscal crises of the 1970s, to manage better and integrate the various state public functions around common goals.

Like the states, local governments have increased their housing and community development activity because of a new recognition of its essential role in supporting economic objectives. Most significantly, the lack of affordable rental housing for lower paid workers, as well as special-needs households, has reached crisis proportions in many localities and has begun to restrain economic growth in some communities.

Generally, state and local interventions in the 1980s had the following characteristics:

1. Became integral components of larger economic development efforts;

2. Became more closely tied to traditional state and local functions such as land use and regulatory powers and, more recently, to growth management and urban development strategies;

3. Became integrated as permanent functions in state government;

4. Brought local governments into a more influential place in the federal system, one beyond their traditional subservient role to state government;

5. Increasingly took the form of joint public-private ventures under a concept of "partnerships" unique in the history of government; and

6. Increasingly were discussed as "regional" issues that were beyond traditional political jurisdictions.

While housing and community development activities are not yet major functions of state and local governments as a whole, they are becoming important functions in a growing number of states and

cities across the country. In terms of direct expenditures, states spent only one-half of 1 percent of general state expenditures for housing and community development in 1987, but 11 states (Maine, Massachusetts, Alaska, Hawaii, Vermont, Delaware, Virginia, Connecticut, Idaho, Kentucky, and South Dakota) spent more than 1 percent. At the same time, from 1981 through 1987, states issued $3.6 billion in industrial revenue bonds for rental housing and $45.5 billion in mortgage revenue bonds to assist homeownership. Six states expended over $100 million each in 1986-87 for housing and community development (Massachusetts, New York, Illinois, Pennsylvania, Virginia, and California). In 1986-87, city governments as a whole spent 4.5 to 4.8 percent of their direct expenditures for this function, a proportion that has been consistent since 1982-83. Nine individual cities (Richmond, VA; Norfolk, VA; Portland, OR; New York; Minneapolis; Buffalo; Cincinnati; Boston; and Detroit) spent over 7 percent of their city budgets in 1986-87 on housing and community development. In the period from 1981 to 1987, local governments issued $15.4 billion in mortgage revenue bonds to assist homeownership.[15]

A 1989 study by the New School for Social Research in New York documented that 25 of the 51 most populated cities in the United States were using locally generated revenues to directly or indirectly stimulate the construction or rehabilitation of affordable housing. Of the 53 separate programs being undertaken by these cities, 55 percent were being financed out of current operating revenues or special taxes or fees. The remaining 45 percent were financed by bonds.[16]

State and local governments closed the 1980s with a consistently increasing commitment and capacity in the area of housing and community development. This trend is reflected not only in the growth of direct expenditures and bond issues but also in the creation of state and local administrative structures. Every state now has an administrative entity incorporating the functions of housing and community development. In ten states, such entities are called either Departments (or Agencies) of Housing and Community Development (California, Maryland, New York, Vermont, Virginia), Department of Housing (Connecticut), or Department of Development (Mississippi, Ohio, Washington, and Wisconsin). Other states use titles such as Department of Community Affairs, Intergovernmental Relations, Economic and Community Development, Planning, Commerce, or Water/National Resources.[17] The latest state to introduce a cabinet-level Department of Housing and Community Development was Maryland, in 1987. The

diversity in titles reflects the evolving status of the function within states, or the tendency to link housing and community development with economic development.

Prior to 1960, local public housing agencies and local redevelopment agencies were the primary administrators of housing and community development at the local level. But after 1974, the new role of general local government begun under the CDBG program led to the creation of additional administrative departments, often combining new functions of economic development. Currently, the coordination of housing and community development functions is sometimes centered in a special unit in the mayor's office. Other cities, such as St. Paul, Minnesota, consolidate functions under a Department of Planning and Economic Development that oversees community development, housing, business redevelopment, downtown development, and planning. Some cities, such as Baltimore, combine a range of housing and community development functions (including the local housing authority) under a consolidated Department of Housing and Community Development. In contrast, Pittsburgh has broadened the powers of its redevelopment authority to carry out new functions but retains a separate housing authority. As functions and activity expand, local administrative structures are likely to adjust and change.[18]

The federal government in 1986-87 still contributed the overwhelming proportion (62 percent) of the $33 billion directly expended that year for housing and community development in the United States. The new state and local contributions had not matched this commitment or made up for the drop of almost $22.5 billion in the federal commitment since 1981. But a new relationship among federal, state, and local governments was evolving, characterized by more responsibility and initiative at state and local levels.

The states: New initiatives in affordable housing

As the states entered the 1990s, they were involved in a broad array of new programs and interventions designed to promote affordable housing. These initiatives included generating new sources of funding (particularly housing trust funds); developing new partnerships with private enterprise and nonprofit organizations; fulfilling state fair share requirements; providing assistance for homeless persons, congregate housing for frail elderly, and group homes for chronically mentally ill persons; and planning housing components in growth management strategies.

Terner and Cooke estimate that more than 300 new state housing programs were enacted from 1981 to 1989. All but two states have issued or delegated the issuing of tax-exempt bonds to finance homeownership and rental housing.[19]

The reasons for these initiatives relate not only to federal funding cutbacks but also to increased state sensitivity to the lack of available rental housing for lower-income households (particularly the elderly, the homeless, the physically and developmentally disabled, and farm workers); the lack of available homeownership opportunities for first-time home buyers; the extent of substandard housing and deteriorating neighborhoods; and the lack of housing at affordable prices to accommodate the workers drawn by business development and job initiatives. The following state initiatives are cited for special attention.

Housing trust funds

Since 1985, at least 19 states have developed trust funds for low-income housing. Some states utilize dedicated revenues to finance their trust funds. These states include Arizona (unclaimed property deposits); California (off-shore oil taxes); Connecticut (state business tax reductions and contributions); Delaware (a document surcharge); Florida (a statewide surtax on deed transfers from sale of property); Maine and Vermont (a real estate transfer tax); Maryland and Minnesota (interest from escrow deposits); and North Carolina (oil overcharge funds). Iowa and New York utilize appropriations from general funds for their trust funds. Five states use reserve funds from previous activity of the state housing finance agency to finance their trust funds (Kentucky, Missouri, New Hampshire, Rhode Island, and Virginia). Washington State uses a combination of escrow funds from real estate transactions and state lottery receipts. New Jersey uses a "non-lapsing" revolving fund based on a general fund appropriation and a realty transfer tax.[20]

The revenue proceeds from these funds range from $2 million to $50 million annually. Whether such funds will be expanded in the future is not yet clear. But the initiative to dedicate funds could be a significant development.

In addition to the 19 states with established trust funds, a number of other states, including Georgia, Illinois, Nevada, Ohio, Pennsylvania, and Texas, are considering establishing trust funds.

Trust funds are used for a variety of purposes, including loans and grants for the construction or rehabilitation.of affordable housing, emergency shelters and support services for homeless persons, homeownership assistance, congregate housing for elderly or handicapped persons, and farm labor housing. Many of the state programs provide direct funding for technical assistance to nonprofit community organizations.

State housing partnerships

To date only Massachusetts and Wisconsin have established statewide housing partnerships. The Massachusetts partnership, established in 1985, is the most experienced, involving a program of comprehensive goals, state assistance mechanisms, and requirements for local participation. The four goals are: (1) increasing the supply of affordable housing; (2) developing urban resources; (3) combining growth management and affordable housing; and (4) housing persons with special needs. The Wisconsin partnership, also established in 1985, utilizes a combination of technical assistance services and housing loan funds. The Massachusetts program includes $500 million in state assistance funding, while Wisconsin administers a $12 million revolving loan fund.[21]

State fair housing requirements

The New Jersey Fair Housing Act, enacted in 1985, has a two-pronged approach to low-income housing needs: a "fair share" distribution of low- and moderate-income housing responsibilities among the state's regions and localities; and state assistance in the form of tax-exempt financing grants, loans, and other aid to assist in meeting these responsibilities.

The act establishes a Council on Affordable Housing within the state Department of Community Affairs (DCA) to provide guidelines and determine obligations for regional or local plans; for example, "housing elements." The DCA is expanding its Neighborhood Preservation Program using a new non-lapsing revolving fund based on a $2 million appropriation from the state's general fund and 10 percent of the annual amount of funds collected in realty transfer taxes, for a total of approximately $8 million.

Only one other state, California, has a "housing element" requirement — in this case, a requirement under the comprehensive

planning provisions of the state act. While the enforcement of the California statute has been relatively inactive in recent years, new legislation in 1989 would tighten the enforcement of this requirement and expand the housing factors that must be considered.[22]

Assistance for special-needs households

Among the states there has been a resurgence of concern for and an increase in action on behalf of elderly persons, particularly the frail elderly at risk of institutionalization. In addition, the acute housing needs of developmentally disabled persons, who often appear in the homeless population as a result of deinstitutionalization from state facilities, is receiving new attention. At least 21 states have enacted homeless assistance programs. Four states (California, Maryland, New Jersey, and Rhode Island) have taken action on new housing initiatives for the elderly since 1985. In addition, 11 states have taken new action on housing for developmentally disabled, abused, or homeless persons in the same period (California, Connecticut, Delaware, Maine, Maryland, Massachusetts, New York, Ohio, Pennsylvania, Rhode Island, and Virginia).

The new initiatives include home equity conversion, home repair, condominium conversion protection, shared housing, accessory apartments, Elder Cottage Housing Opportunity (ECHO) housing, various models of shelter with services, and continuing care communities.[23]

Homeownership and rental housing construction or rehabilitation

In addition to providing new housing assistance supported by housing trust funds or public-private partnerships, a number of states initiated or expanded programs for homeownership or rental housing construction or rehabilitation. These states included Connecticut, Florida, Maryland, Massachusetts, Mississippi, New Jersey, New York, Rhode Island, Vermont, and Virginia.[24]

Rental assistance

Direct or indirect rental assistance to tenants has been initiated in at least five states: California (operating subsidies in rural housing); Connecticut (rent certificates for low-income persons in

privately owned rental housing); Maryland (fixed monthly financial assistance for homeless persons with emergency needs for six months); Massachusetts (rent subsidies for low- and moderate-income households in Massachusetts-financed housing programs, rent subsidies in existing private rental housing, and rent subsidies to private rental development); and New York (rent subsidies in multifamily rural projects with federal financing from the FmHA.[25]

Preservation of federally assisted housing

At least 14 states have initiated state actions to preserve the use by low-income residents of the states' inventories of federally assisted housing units that are subject to opt-outs by private owners under the terms of federal assistance policy. The most detailed responses have been undertaken in California, Maryland, Rhode Island, and Massachusetts. Most states taking action require that the owner give early notification of intent to sell. California requires that top priority for its federal low-income tax credits be given to proposals that will preserve federally assisted housing, and also requires local governments to inventory and report existing subsidized units. A Maryland law signed on May 5, 1989 (the Assisted Housing Preservation Act), requires that tenants and government be notified of the intent to sell; that tenants, nonprofit organizations, and government have the right of first refusal to buy the unit; and that the owners provide lease extensions anad relocation expenses for displaced tenants. Rhode Island legislation enacted in 1988 and 1989 (the Affordable Housing Preservation Act) provides for lease extensions; notice requirements; priority use of tax credits; and right of first refusal by the tenant association, the state housing finance agency, the local housing authority, or the local government.

The 1987 Massachusetts plan includes a voluntary preservation pledge by owners and a "highest and best use" appraisal as the basis for a workout based on the actual risk of prepayment, a negotiating level for public subsidy, and a justification for debt financing. As of January 1990, the state was working on underwriting for five developments with over 2,000 units. Most states are taking measures to use their existing housing assistance programs to address preservation. It is generally agreed that some changes in federal policy are needed to implement state or local preservation policies.[26]

Acquisition of the over-built inventory

Increasingly, states as well as localities are looking into the availability of their over-built housing markets. In December 1989, Connecticut announced a plan to buy or assist in the purchase of at least 500 condominiums to be rented or sold to moderate- or low-income families.[27]

Linking welfare and housing assistance

A few states are beginning to explore the possibilities of linking welfare and housing assistance. In 1989, the New York State Department of Social Services adopted a demonstration that provides rent subsidies to cover operating costs in state-financed housing developments. In the same year, the Connecticut Department of Human Resources began a program providing a $50 monthly supplement to each welfare family that pays more than 50 percent of its income for rent and receives no other housing assistance.[28]

Affordable housing and growth management

A second wave of state programs to manage growth, emerging in the 1980s, is focused not only on the environmental issues that stimulated earlier growth policies but also on comprehensive planning, including affordable housing. Six states enacted major land use legislation in the decade: Florida, Georgia, Maine, New Jersey, Rhode Island, and Vermont. A report for the National Governors Association in December 1988 concluded that this second wave of state growth management initiatives includes an emphasis on investment in infrastructure, water systems, waste water treatment plants, and affordable housing. The report notes that although states traditionally "have not been heavily involved in housing issues, the link between affordable housing and other public policy objectives, such as economic development, compels state involvement." [29]

Growth management initiatives in the six states adopting recent legislation focus on a range of policy issues affected by development and employ both regulatory and non-regulatory strategies. Their key characteristics follow:

1. Comprehensive planning is the primary strategy and is the foundation of land use regulation, infrastructure spending, and economic development strategies at all levels of government.

2. Programs are applied statewide at all types of development.

3. Planning at each level of government must comply with state goals and must be integrated with planning at other levels. Planning also must be integrated with the implementation process.

4. States are committing significant resources to planning and to the development and the support of the local planning process.

The emerging attention to this issue was reinforced by the first national conference on "States, Growth Management, and Affordable Housing," conducted by the Council of State Community Affairs Agencies and the Urban Land Institute in March 1989.

Local government: New initiatives in affordable housing

The long evolution of the housing function in local government reached a new stage of maturity in the 1980s propelled by the same forces that affected state government — economic development, changing demographics, and shifts in federal housing policy. In the case of local government, an additional factor is in the increasingly innovative use of general governmental powers in zoning, asset management, capital budgeting, and taxation.

It is hard to overstate the influence of economic development on increased local housing activity. As Ralph Widner pointed out prophetically in 1980:

> Until recently, few municipalities assumed that economic development was a significant or necessary concern of city government. Under the pressure of events, that circumstance is changing rapidly. Tomorrow's economic development agencies must serve as vehicles for joint public-private planning, land acquisition, development, and the co-venturing or joint venturing of projects. They must have the ability to simplify local decision-making on economic projects; hold or assemble land; provide long-term, low-cost mortgage financing; engage in risk-sharing through co-venturing; provide financial incentives in exchange for desirable development; provide access to financial aid, federal assistance, and space for new start-ups and

entrepreneurs; obtain cooperative services and capital improvements in conjunction with development projects; and coordinate economic development with housing improvement, for a city's economic future depends on its livability.[30]

Many localities have included most of the above components in their recent activity. At the same time, local housing activity has been responsive to shifts in local housing markets brought about by economic change and by the increasing visibility of special needs households.

The new initiatives include use of housing trust funds with dedicated sources of revenue; public-private housing partnerships; linkage of private commercial development to housing; zoning and land use powers; tax increment financing; and asset management. They also include a number of strategies to address housing needs in the center city, in abandoned housing, and in targeted neighborhoods.

Housing trust funds

At least 14 localities have active local housing trust funds: Boston; Burlington, VT; Chicago; Dade County, FL; Denver; Duluth, MN; Hartford; Jersey City; King County, WA; Los Angeles; Montgomery County, MD; San Diego; San Francisco; and Seattle. The localities that adopted trust funds most recently were San Diego and King County, WA, both in December 1989. The sources of revenue for these funds include real estate transfer taxes; linkage fees on downtown commercial development; sale of urban renewal land; condominium transfer taxes; fees from demolition of rental housing; dedicated increases in property taxes; tax increment revenues; hotel and business fees; and general city revenues.[31]

Revenues from trust funds range from about $200,000 to $20 million. All of the funds have some targeting for low-income housing. There are a variety of administering agencies, largely housing or community development departments or agencies, but almost all have advisory panels including a broad segment of community participation, particularly nonprofit community organizations.

Trust funds are used for a variety of housing purposes, depending on specific local needs. Denver, for example, established the following policies for its first allocation of funds: preserve the existing housing stock; provide three-bedroom units for low-income families; promote neighborhood rehabilitation; leverage private funds;

promote economic development; promote metropolitan coordination on low-income housing needs; and promote fair housing and neighborhood and school integration.

Housing linked to private development

A number of local governments have tapped the private development process for housing though linkage agreements, density bonuses, and inclusionary zoning ordinances. Linkage agreements usually involve a contribution for housing by a commercial or office developer or an agreement to build replacement housing. Linkage programs are generally described as mandatory (Boston, San Francisco, and Santa Monica, CA) or voluntary and linked to density bonuses (Seattle and Miami). Increasingly, cities such as Chicago and Washington, DC, are negotiating linkage agreements with developers on a case-by-case basis, rather than requiring a mandatory contribution of square footage for housing purposes. In another approach, Boston's parcel-to-parcel program and New York's Battery City bond float represent a new generation of linkage programs that tie prime development sites to neighborhood sites in need of reinvestment.[32]

Inclusionary zoning has, to date, been used primarily by suburban counties and small cities. Many local programs include density bonuses to encourage developers to include low-income housing in residential development. It is estimated that there are more than 50 inclusionary zoning ordinances throughout the country, mostly in California. Some programs are mandatory (Santa Monica, CA, and Montgomery County, MD) and some are voluntary (Orange County, CA, and Arlington, VA). Many of the newly adopted ordinances are in New Jersey (in response to the Mount Laurel decision) and Florida (as counties adopt comprehensive plans under a new state-mandated deadline). One city (Madison, WI) is exploring a reverse-linkage strategy that would apply exaction fees against new development outside the downtown areas to support housing development in central city neighborhoods.

Linkage has been described by one observer as an "emergency-type" solution for cities:

> Linkage is inherently temporary. By defining a relatively narrow range of potential donors who are currently in a high-profit category, linkage becomes sensitive to changing market efforts, especially through regional competition. [It also has inherent weaknesses] . . . It is not tailored well to meet low-income groups . . . it does not

> address desirable locations or mix of housing. . . it diverts attention from the need to find more broad-based and long-term programs on the local, state, and federal levels.[33]

Whatever its shortcomings, however, the move to linkage programs has raised the important issue of making low-income housing an integral component of total city development, whether private or public. This development has important implications for the future.

Public-private partnerships

Housing partnerships, which are similar to housing trust funds, are a rapidly growing development. The evolution of such partnerships from project-based agreements to communitywide structures has taken place largely since 1983, although the forerunner, the New York City partnership, dates to 1978. Partnerships provide a more coordinated and sustaining vehicle for private investment in low-income housing; and they establish an entirely new set of relationships between public, private, and nonprofit entities.

At least 30 cities have some version of communitywide partnerships. Some of the better known local housing partnerships are in Boston (1988), Chicago (1985), Cleveland (1986), and New York City (1978). In general, the community partnership is based on agreements between a locality's corporate and financial entities, the city government, and neighborhood nonprofit organizations. The private organizations and government provide investment capital to undertake an agreed-upon agenda of neighborhood improvement activities, usually carried out by neighborhood organizations. The glue holding the partnership together is a skilled cadre of financial and development specialists who structure the investment packages and administer the assistance package.[34]

The number of project-oriented public-private housing partnerships also continues to expand. A survey by the United States Conference of Mayors released in September 1989 documents 127 single partnership projects in local communities. Broken down by type of project, they consisted of partnerships for homeownership (33), affordable rental housing (30), home improvement and rehabilitation (20), housing for senior citizens (9), transitional housing (10), single-room occupancy (5), homeless housing (5), and other types (15).[35]

The growth of local public-private partnerships has been stimulated by national entities supported by foundations, such as the

Enterprise Foundation and the Local Initiatives Support Corporation (LISC), which have brought investment money and housing expertise to be used in conjunction with local public, private, and nonprofit resources.[36]

Tax increment financing

Tax increment financing — the use of increased local taxes received from redevelopment areas for housing and community development needs — is authorized in at least 35 states. However, communities in California and Minnesota have used it most extensively. California law requires that 20 percent of tax increment revenues be used for housing unless findings are made to exempt a redevelopment project from that requirement. In Los Angeles, five housing trust funds are financed from three redevelopment projects. By October 1987, the funds had received commitments for $192.8 million to support 11,341 assisted housing units. Duluth, Minnesota, used tax increment financing to develop four downtown development ventures including 240 units of market-rate housing.[37]

Center city housing and preservation

Two different forces are stimulating new housing initiatives in downtown areas of large and small communities across the country: a recognition that downtown office and commercial development can be better sustained with a housing component that keeps the area active beyond the eight-hour workday, and the loss of low-income rental housing in the downtown areas of many cities. The Downtown Research and Development Center, the Real Estate Research Corporation, and the Urban Land Institute all report increased downtown housing initiatives in all sizes of cities. These include cities like Columbus, OH; Des Moines, IA; Memphis, TN; Richmond, VA; and St. Louis, MO. An additional sign of increased housing in downtown is the growing number of mixed-use developments that combine housing with office and retail use.

The loss of low-income rental units in downtown areas, resulting from displacement by new commercial, office, and institutional development, has spurred some cities to undertake efforts to maintain or replace this stock. Atlanta, Hartford, Los Angeles, San Francisco, and Seattle have adopted housing preservation ordinances designed to preserve downtown housing. Most of the ordinances apply to all housing, although New York City has imposed a moratorium on the demolition, conversion, or alteration of

single-room occupancy (SRO) dwellings. Some ordinances have been challenged in the courts based on the legal issues of whether they constitute a "general tax" or whether the ordinances represent "takings" from the private owner. Additional experience and rulings are required before a resolution is clear.[38]

Los Angeles and San Diego have adopted a strategy of preserving and rehabilitating SRO hotels as integral parts of a downtown redevelopment area.[39]

Homeless housing and services

Many cities have undertaken efforts to assist the increasing numbers of homeless persons on their streets. The United States Conference of Mayors has noted the continuing increase in the number of homeless persons requesting services.[40]

In addition, there are a growing number of homeless assistance initiatives by local housing authorities and community development agencies, The National Association of Housing and Redevelopment Officials (NAHRO) has documented 30 case examples of such programs ranging from the leasing of public or private housing units, new construction or substantial rehabilitation of housing for emergency shelters or permanent housing, and construction or rehabilitation of structures for transitional housing. In addition, a number of these local agencies (the Housing Authority of Pierce County, Washington; the Los Angeles Community Redevelopment Agency; the Seattle Housing Authority; the Housing Authority of Birmingham, Alabama; the Sacramento Housing and Redevelopment Authority; the Portland, Oregon, Development Commission and the Housing Authority; and the San Diego Housing Commission) have undertaken multiple activities to assist homeless persons.

Some cities (Los Angeles and Seattle, for example) have adopted downtown housing preservation ordinances to assist in the selection of sites for homeless shelters and to preserve existing SRO housing.

In addition, a number of cities have developed communitywide organizations to coordinate the numerous homeless assistance activities by public, private, and nonprofit agencies. These include Pittsburgh, Portland, Phoenix, and Trenton.

Individual public agency initiatives

A number of special project initiatives designed to increase the supply of affordable and special purpose housing have been undertaken by individual cities and public agencies. These include the 1987 city programs of Charlotte and Greensboro, North Carolina; the "stepping stone" homeownership programs of the Charlotte Housing Authority; the homeownership programs of the Denver and Colorado Springs Housing Authorities; the "special needs" programs of the housing authorities in Falls Church and Hampton, VA; Manchester, NH; Pierce County, WA; and Seattle; and the public-private housing ventures of the Boulder, CO; Fairfax County, VA; Houston; Montgomery County, MD; Norfolk; New Berlin, WI; and San Diego Housing and Redevelopment Agencies.[42]

Abandonment and neighborhood housing strategies

There is evidence of an increasing emphasis by local communities on the restoration of declining neighborhoods, particularly those with substantial numbers of abandoned structures. In July 1989, as an example, the city of Baltimore undertook a two-pronged program designed to stabilize and preserve its neighborhoods.[43] The first initiative was the adoption of a Conservation Areas Program seeking to counter negative influences in outlying city neighborhoods that are showing signs of instability and decline. This involves selection of specific conservation areas, coordinated delivery of city services, and assistance to enable neighborhood community associations to grow and develop so that residents are able to "manage" neighborhoods in the future.

The second initiative is the creation of the Baltimore Community Development Financing Corporation (CDFC), a nonprofit, nonstock corporation administered under a board of directors of public and private members. Twelve local financing institutions participate in the program. Using public and private funds, CDFC has established four loan funds — the Vacant House Fund, the Commercial and Multi-Family Development Fund, the Homeownership Development Fund, and the Community Development Fund — each of which includes a number of lending programs.

Four of the five first-generation lending programs are established under the Vacant House Fund:

Multifamily construction and permanent finance. Construction and permanent financing will be made available to developers for projects involving the acquisition and/or rehabilitation of vacant and abandoned buildings and/or lots resulting in at least three buildings or five dwelling units.

Single-family construction. Construction financing will be made available to developers for projects involving the acquisition and/or rehabilitation of vacant and abandoned buildings and/or lots resulting in at least three buildings or five dwelling units.

Nonprofit acquisition line of credit programs. Line of credit financing will be offered to tax-exempt corporations for the acquisition and/or rehabilitation of properties.

Single-family permanent program. First and second permanent loans will be made available to individuals for single-family dwelling units to be occupied by the borrower, resulting from the acquisition and/or rehabilitation of vacant and abandoned buildings and/or lots for which CDFC has made construction loans to a developer.

Priorities include: (1) addressing the unmet credit needs of low- and moderate-income neighborhoods and families; (2) financing the redevelopment of vacant buildings into affordable housing; and (3) the conversion and stabilization of targeted neighborhoods. CDFC's objective is to be an efficient, fast, and flexible specialized lender. It will work through local for-profit and nonprofit developers and individuals, and originate, underwrite, and make first and second (or other junior) mortgage loans for the rehabilitation and new construction of multifamily or single-family housing, commercial, and mixed use projects. CDFC staff will be familiar with the sources of equity and subsidies necessary to make projects financially feasible and will provide technical assistance to project sponsors to help them qualify for CDFC loans.

New York City has a longstanding effort to deal with increasing numbers of abandoned housing, dating back to 1978. The city became, in effect, a landlord of last resort, and by 1984 was managing more than 26,000 residential units in 4,000 occupied buildings as a result of tax delinquency or takeovers because of hazardous living conditions. City public agencies manage about two-thirds of the abandoned acquired housing, while the remaining one-third is managed under a community management program, largely through nonprofit neighborhood organizations. From 1979 through 1984 the city sold 271 buildings and 7,027 units to "alternative

managers," and tenant associations purchased over half of the units. The experience of tenant-acquired buildings in Harlem has identified a new approach to low-income housing management through cooperative housing units — personal support networks called "community households" — where economic and managerial burdens of a common residential dwelling are shared by drawing on social relationships.[44]

Asset and resource management

Increasingly, local communities are beginning to take advantage of an underutilized resource to assist them in addressing their housing and community development needs — the public assets represented in the underutilized land and buildings that they own. Most larger cities have a reservoir of land and buildings acquired through urban renewal or tax-delinquency proceedings. Departments of education, public works, and transportation have discovered their own surprising, valuable underutilized land or buildings. Untapped real estate assets have a potential to produce revenue or be used as matching contributions in public-private ventures.

Since 1988 there has been a growing movement within cities to inventory their assets, assess their value, and put into place a decision-making process to use them in more effective ways for urgent housing and community development needs. Denver, a pioneer in asset management, has created an office of asset management.[45]

New directions for the federal partnership

Preservation of the low-income housing stock has critical ramifications for federal housing policy. The first is the preservation of existing federally assisted housing units for lower-income families involving millions of housing units. Beyond this, the rapid evolution of state and local government activity in housing and community development over the last decade presents an entirely new dimension. The new activity is still in the stage of experimentation for many states and localities and represents a rich mixture of largely uncoordinated efforts. Many of the new mechanisms have not been in place long enough to be truly tested or evaluated and will require adjustment as more experience is gained.

Some of the areas for future attention have been identified by state and local leaders who initiated the new approaches.[46] An ongoing concern is the "virtual panic" (in the words of one observer) to deal

with homelessness and low-income housing needs in a time of diminishing resources. Uncoordinated, piecemeal development and design have a detrimental impact on community life. There is increasing evidence, particularly at the state level, of new attempts to integrate housing with economic and community development strategies. At the local level, coordination is not as fully advanced, although local governmental structures increasingly reflect a consolidation of housing with economic and community development. There are still further signs of recognizing the regional base for future development beyond existing political jurisdictions.

Despite the continuing experimental nature of the state and local initiatives, it is clear that they represent a movement that will not be reversed. They are a challenge to federal involvement, which has not undergone a similar evolutionary change in assistance policies. A number of areas of a new federal partnership need to be explored:

1. How can federal housing assistance be delivered to state and local governments that are increasingly developing their own priorities and strategies?

2. How can federal economic and fiscal policy relate to the changing economic structure of different geographic areas, and include housing as an integral component?

3. How can federal income support and social support assistance relate to the special-needs households increasingly requiring housing assistance?

4. How can the federal government stimulate the professional capacity of personnel at all levels to deal with increasingly complex strategies and relationships?

Flexible housing and community development assistance

State and local governments desperately need federal assistance to supplement and support their own efforts to develop and rehabilitate housing for low-income persons. In their new initiatives involving public-private partnerships, local resources (including housing trust funds) do not provide the revenue necessary to make state and local government active players in these partnerships at the level of activity necessary to respond to the need. Federal assistance for new low-income housing construction, community revitalization, and infrastructure development must be flexible and not tied to

narrow projects or purposes. It must be based on a true assessment of state and local needs and delivered in a predictable, consistent fashion.

A national economic and development framework

As a number of states have moved to integrate housing into a new framework for economic and physical development, the federal government needs to develop a similar approach for the nation as a whole. A number of economic development analysts have observed:[47]

> Economic policy has been dominated by concerns for the aggregate performance of the economy . . . But, as is the case in many of the other advanced industrial countries, economic policy must also be concerned with two other aspects of national economic performance: the performance of major sectors within the aggregate economy; and the geographic consequence of national policy and technological change. (Widner)

> Urban policy traditionally has not been closely related to national economic policy because it is place-oriented. But the nation's urban areas supply most of the physical infrastructure and social institutions on which the economy is built. Their economic and fiscal health is not separate from that of the nation. (Hanson)

There is a need to return to the urban policy considerations of the late 1970s and early 1980, when the federal government seriously explored the geographic impact of its actions in the areas of taxation, construction of capital facilities, location of federal employment, and purchasing of supplies and services.

In a related area, the Council on Development Choices in the 1980s (created by HUD in 1980 and administered through the Urban Land Institute) identified 14 trends and forces shaping communities in the 1980s. These trends included energy cost and supply, increasing competition for land, and protecting the natural environment. The council identified the problem in realizing success as that of "creating a pervasive climate for reform of development policy" to affect the thousands of men and women who influence the choices and opportunities of other Americans through the choices they make as members of planning and zoning boards and as private practitioners in development finance, architecture, and construction. Creating such a climate requires a national development policy.[48]

Income and social support for special-needs households

Despite the wide array of new state and local initiatives, very few have attempted to fill the deep need to provide income support for very low-income, deprived families to enable them to occupy decent, standard housing; only a few jurisdictions have provided limited rent assistance to meet the cost of available housing, including new or rehabilitated housing whose cost has been reduced to some degree by use of innovative financing mechanisms. State and local governments clearly do not have the resources to meet this gap. There is an increasing recognition that the shelter allowances of the federally supported welfare assistance program must be better linked to the housing assistance opportunities of the federal government's housing programs. While there is some movement in this direction, much remains to be done. A joint advisory panel of the National Association of Housing and Redevelopment Officials and the American Public Welfare Association issued a report in September 1989 containing both short-term and long-term recommendations to provide better linkage between these two federally assisted programs.[49]

In addition, there is an increasing recognition of the need to link the rapidly growing effort to provide housing for special-needs populations (frail elderly, handicapped, chronically mentally ill, homeless) to the larger federally assisted system of health care. A report issued in June 1989 by the Urban Institute indicated, for example, that some 365,000 elderly low-income persons currently residing in federally assisted housing have some frailty that affects their capacity for daily living, and that many of them could remain independent outside of more expensive nursing homes with appropriate support services. Yet the federally assisted Medicaid and social services programs have not been effectively linked to these needs. Policy making about long-term care has been divorced from policies on housing.[50]

Again, the federal government has a new opportunity to enhance state and local initiatives that serve the rising number of persons in special-needs populations.

Professional capacity for complex functions

Finally, the changing nature of state and local housing and community development functions — as well as the potential changes in federal assistance methods — requires development of a new

expertise among public administrators, as well as private and non-profit community-based entities. They must learn to work in new roles and in new partnerships. Again, the federal government can stimulate this transition by incorporating "capacity development" as a component in its assistance programs.[51]

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