How the U.S. Developed a Hybrid Model of Affordable Housing Provision

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Executive Summary

This report uses the framework of “policy shifts” to help explain U.S. affordable and public housing policy. The report finds a trend that moves away from direct government provision of housing. Instead, a series of shifts have been instrumental in creating policies that support the development of partnerships among government, the private sector, and non-profits. In particular, the paper focuses on programs that incentivize involvement of the private sector and the not-for-profit community, such as the housing voucher programs (tenant- and project-based), the Low-Income Housing Tax Credit, HOPE VI (Homeownership and Opportunity for People Everywhere), the Rental Assistance Demonstration Pilot Program, and the Choice Neighborhoods Program. The paper also discusses demonstration programs, such as Moving to Work, Moving to Opportunity, Jobs-plus, Jobs-plus Community Revitalization, and Family Self-Sufficiency, which are designed to connect housing with jobs skills and social services. The U.S. experience of shifting towards policies that promote partnerships with the private and not-for-profit sectors reflects a growing recognition that the public sector alone cannot meet the continuous demand for affordable housing and that housing and community needs should be addressed in tandem.
Introduction: The Problem of Affordable Housing

Providing housing to those who cannot afford to pay market rates has been and continues to be a major problem in the United States. Since the 1930s, the provision of affordable housing in the United States has been accomplished through a mix of local, state, federal, and private approaches. However, the best strategy for providing affordable housing has been the subject of much debate. This paper outlines the history of U.S. affordable housing policy (including public housing) with the aim of demonstrating the impacts of various approaches to provisioning. By focusing on policy shifts, the paper examines the incremental changes in policy that allowed the United States to transition to a hybrid model of affordable housing provision that relies on private and non-profit sector partnerships with government.

In particular, the paper focuses on programs that incentivize private sector and not-for-profit community involvement, such as the housing voucher programs (tenant- and project-based), the Low-Income Housing Tax Credit, HOPE VI, the Rental Assistance Demonstration Pilot Program, and the Choice Neighborhoods Program. The paper also discusses demonstration programs, such as Moving to Work, Moving to Opportunity, Jobs-plus, Jobs-plus Community Revitalization, and Family Self-Sufficiency, which are designed to connect housing with jobs skills and social services. The U.S. experience of
shifting towards policies that promote partnerships with the private and not-for-profit sectors reflects a growing recognition that:

1) The public sector alone cannot meet the continuous demand for affordable housing; and,

2) Housing and community needs should be addressed in tandem.

Over the course of U.S. history, there has been a shift away from government as the primary supplier of affordable housing and an increasing reliance on the non-profit and private sectors to partner with government to meet demand. An evaluation of “policy shifts” helps explain the logic behind how the United States moved from a system in which the government directly provided public housing to a hybrid demand-side model that uses public policy to incentivize private sector affordable housing production and stimulate public-private partnerships.

Focusing on “policy shifts” provides a different perspective on current housing policy. In the case of U.S. affordable and public housing policy, these “policy shifts” often added new initiatives to the existing policy portfolio through pilot programs and demonstration projects. What we see in the case of U.S. housing policy is that politics and policy have always been tightly associated and policy has been adapted to meet competing demands. “Policy shifts” often occur when one political party comes back into power and changes the rules to try to correct previous policies that appear to no longer work. As a result, divergent policies reflect the ideological perspectives of different political parties and also address the changing social, economic, cultural, and political realities facing the country at the time of the policy shift.
The United States has an extremely complicated affordable and public housing system with multiple and sometimes competing programs and functions.¹ The numerous programs and resulting hybrid system are not a reflection of a systematic approach to government-assisted affordable housing but of the ongoing and often highly politicized debate about the role of government in affordable housing provision. Unlike other U.S. social services such as welfare, housing is not an entitlement. This means that not everyone who qualifies for housing assistance will be served. Because there is no right to government-assisted housing, public housing and other subsidies for affordable housing are often the target of budget cuts. The result is that the U.S. affordable and public housing system can be characterized by a shortage of units, often long waiting lists, lack of funding for capital improvements, and uneven access.

Despite billions of dollars spent and years of experimentation with various policy approaches, today the United States still has a housing affordability crisis. A 2011 Housing and Urban Development (HUD) report to Congress outlined the affordable housing crisis facing the United States, a country with 19.3 million very low-income renters. During the recent recession, the housing affordability problem was exacerbated. Between 2007 and 2009, there was a 43.5 percent increase in the number of people
who are considered “worst case housing needs” because they have income of less than 50 percent of the Area Median Income (AMI), do not receive assistance from the government, and pay more than half of their income towards rent or live in inadequate housing or both (U.S. Department of Housing and Urban Development 2011, Worst Case Housing Needs, summary xiii). By 2011, 8,475,000 people in the United States were considered “worst case housing needs” (ibid., summary vii). One of the key reasons for this increase is the lack of supply of affordable housing, which was made worse during the recent recession when many homeowners, who could no longer afford to pay their mortgages, became renters (ibid, summary viii). This increased the demand for affordable rental housing and subsequently there was an increase in rents. In addition, according to HUD, between 2005 and 2007, the United States lost 1.2 million units of rental housing that is affordable to people making 50 percent below the AMI at the same time that the total rental supply increased by 1.4 million units (U.S. Department of Housing and Urban Development, FY 2010–2015 Strategic Plan, 19).
Table 1: Federal Rental Assistance in the United States and U.S. Territories (2011)

<table>
<thead>
<tr>
<th>HUD Program</th>
<th>Units</th>
<th>Extremely Low Income (%)</th>
<th>Families with Children (%)</th>
<th>Disabled (%)</th>
<th>Elderly (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Housing</td>
<td>1,117,954</td>
<td>62</td>
<td>34</td>
<td>22</td>
<td>31</td>
</tr>
<tr>
<td>Housing Choice Vouchers</td>
<td>2,147,617</td>
<td>73</td>
<td>41</td>
<td>29</td>
<td>19</td>
</tr>
<tr>
<td>Section 8 - Project-Based Rental Assistance</td>
<td>1,263,344</td>
<td>71</td>
<td>26</td>
<td>19</td>
<td>47</td>
</tr>
<tr>
<td>Additional HUD Programs</td>
<td>37,315</td>
<td>73</td>
<td>12</td>
<td>57</td>
<td>25</td>
</tr>
<tr>
<td>Section 521 (USDA) Rental Assistance</td>
<td>271,599</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>59</td>
</tr>
<tr>
<td>Supportive Housing for Elderly and People with Disabilities</td>
<td>149,394</td>
<td>69</td>
<td>0</td>
<td>19</td>
<td>81</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>4,987,233</strong></td>
<td><strong>70</strong></td>
<td><strong>34</strong></td>
<td><strong>24</strong></td>
<td><strong>31</strong></td>
</tr>
</tbody>
</table>

Source: Table adapted from Center on Budget and Policy Priorities

Today the gap between the need and the demand for affordable housing and housing assistance is of major concern to officials at HUD and advocates of affordable housing as they make the case for a continued role for government support. In 2011, surveys estimated that there were about 636,000 homeless people in the United States (Center on Budget and Policy Priorities 2011). Calls for government involvement in affordable housing provision have a long history in the United States and they have been met with mixed success. This paper begins with a discussion of the history of public housing in the United States to demonstrate that even at the beginning of the U.S. public housing program, there was considerable debate about the correct role for the government in housing. An understanding of the origins of U.S. public housing policy helps explain the country’s ambivalent relationship with housing provision and efforts to shift away from direct government provision.

Although almost five million U.S. households receive rental assistance through HUD, that assistance comes through thirteen different programs and, unfortunately, these programs are not able to meet demand. Each program has its own rules and is administered by three operating divisions. HUD recognizes the administrative challenge it faces and is actively working to reform its bureaucratic structure and processes (U.S. Department of Housing and Urban Development, FY 2010-2015 Strategic Plan, 23). As of 2011 (see Table 1), the portfolio of government-subsidized affordable housing units was the following: public housing (1,117,954), Housing Choice Vouchers (2,147,617), Section 8 Project-Based assistance (1,263,344), other HUD programs (37,315), USDA Section 521 Rental Assistance (271,599), and Supportive Housing for Elderly People with Disabilities (149,394) (Center on Budget and Policy Priorities 2011). Despite these extensive programs, there are still long waiting lists (and even closed waiting lists) for housing choice vouchers and public housing.
The Great Depression

The United States has always had an uneasy relationship with government provisioning of housing. The U.S. public housing program found its roots in national crisis. During the Great Depression in the 1930s, when downward mobility was seen as an undiscriminating and uncontrollable force, the number of people who could not afford housing swelled: “13 million unemployed in the 1930s found themselves homeless or crowded into slum flats” (Abrams 1965, 20). The Depression era conditions were shocking and even made people question the distribution of prosperity during the 1920s. Studies such as the 1934 Brookings Institution’s “America’s Capacity to Consume” showed that even in the boom years there was always a large portion of the population that was impoverished and in need of housing assistance (Committee on Education and Labor 1935).

Concern for the poor during the Depression was used to promote more government intervention in housing. A study of twenty-eight representative cities found that only 8 percent of the dwellings that were constructed from 1929 to 1935, inclusive, were within reach of the 65 percent of families with annual incomes under $1,500. For an estimated 3,579,773 families, only 21,351 affordable dwellings were built in seven years (U.S. Housing Authority 1938, 6). The 1933 Real
Property Inventory showed that “at least one-third of the homes in the Nation were definitely below any standard which could be accepted as ‘decent’ or ‘American,’ and that at least one-tenth were dangerously unsafe” (ibid., 2). Although the actual statistics vary, the consensus was that affordable housing, and decent housing in general, was in short supply.

The housing shortage, according to a survey by the National Association of Housing Officials (NAHO), was so acute that “approximately 7,500,000 additional homes [would] be required to meet the normal family standards of 1930 due to the anticipated increase in population and family units” (Post 1938, 170). These figures did not take into account the replacement cost of existing dwellings. The survey predicted that in the future “blight, decay and deterioration will call for an additional 6,500,000 housing units” (ibid.). Therefore, to “properly house America during the next ten years” required the building of fourteen million units (Post 1938, 170). But it was clear that private industry alone was not keeping up with demand. From 1920 to 1930, when America witnessed its largest housing boom, private industry built only seven million new housing units (ibid., 171).

As a result of the housing shortage, only about one-third of the
population could afford the rent or sale price of a new home (U.S. Housing Authority 1938, 6). The other two-thirds were essentially excluded from the private market because private developers could not afford to build for them. Given the magnitude of the problem, there was a growing recognition that the government had an important role to play in anchoring the housing market and promoting and providing affordable housing options for a large portion of the American public.

However, even at the beginning of U.S. public housing policy, the government role in the housing sector was purposely limited; numerous efforts were made to make sure that government did not compete with private industry. First, public housing would be tied directly to slum clearance so that it would not increase the supply of housing (and thus drive prices down). Instead, public housing would replace the slums and improve the quality of housing available for the poor. Since the data showed that private housing construction served only a small percentage of Americans, the government could provide for the poorest Americans without usurping any of the private market (U.S. Housing Authority 1938, 76).

As a result of the uneasiness with government provisioning of housing, the public housing program was justified because it fit into the existing public works program, which was critical since two-thirds of American unemployment was in construction-related industries. Within these industries, unemployment had been as high as 80 percent...
loans “to local authorities for up to 90 percent of the cost of minimal slum-clearance and housing projects” (Bauman 1987, 43). Through local and federal subsidies and assistance, public housing would lower rents. Tax-exempt bonds were used to finance project development (US President’s Committee on Urban Housing 1968, 68).

Building the U.S. Housing Market: WWII and Post-War Period

During WWII, there was a temporary moratorium on new housing construction, which caused a housing shortage when veterans returned home. In 1944, the Veteran’s Administration’s home loan program helped finance home ownership for returning veterans, which stimulated the housing construction industry. The 1949 Housing Act focused on addressing deteriorating urban conditions. The Act provided funds to localities for slum clearance and urban redevelopment (U.S. Department of Housing and Urban Development 2007, HUD Historical Background. In addition, the 1949 Housing Act called for the construction
of 810,000 new public housing units. However, only 84,600 units were under construction by 1951 (Stoloff 2004, 10).

The 1956 Housing Act expanded the role of the federal government in housing. The Housing Act of 1961 opened the door for private investment in low-income housing by offering insurance and subsidized mortgage rates for developers who built multi-family affordable housing under Section 221(d)(3) (Vale and Freemark 2012, 387). In addition, in the 1960s, many states developed housing finance agencies that helped developers build affordable housing projects by accessing low-cost loans and federal subsidies (ibid.). In 1965, the U.S. Department of Housing and Urban Development (HUD) combined the U.S. Public Housing Administration, the House and Home Financing Agency, and the U.S. Housing Authority. HUD would be responsible for promoting private market-rate, subsidized, affordable, and public housing. The 1968 Housing Act had a goal of creating twenty-six million housing units in a ten-year period (Martinez 2000, 470).

1970s and 1980s: U.S. Housing Policies Begin to Shift to the Private Sector

By the 1970s, the public’s view of public housing had shifted. The private housing market met the demands of many middle-class Americans for rentals and homeownership. Public housing was increasingly marginalized as a program of last resort, targeted for the poorest Americans. Although public housing was originally viewed as an alternative to slums, by the 1970s, public housing was viewed as part of the problem. The high-rise public housing towers that had been modern solutions to the slums were now considered to be dangerous places where the poor were warehoused. The passage of the 1971 Brooke Amendment, a key policy shift, further reduced public housing’s ability to be financially self-sustaining (von Hoffman 2012, 355).

Whereas in the past, Public Housing Authorities (PHAs) were able to subsidize public housing with the rent they generated from the public housing units, the Brooke Amendment changed the
To encourage public housing agencies to perform better, HUD scaled back subsidies for operating cost (Stoloff 2004, 11). As a result, many PHAs struggled financially and public housing fell into disrepair. With their rent rolls covering only 79 percent of their operating costs, PHAs deferred basic maintenance (Stoloff 2004, 11). The conditions in public housing began to rapidly deteriorate making them increasingly undesirable places to live. Policies called “targeting,” which mandated that 75 percent of new admissions to public housing be extremely low-income families (ELI), had the effect of further reducing the revenues PHAs generated. Targeting was meant to ensure that public housing met the needs of the very poor; however, it further undermined the financial viability of public housing by reducing the income PHAs received from rent. The Brooke Amendment capped the percentage of income to be spent on rent; targeting increased the percentage of ELI families in public housing and significantly reduced the rental income PHAs received. The combination of both requirements devastated the PHAs’ financial picture of public housing by capping tenants’ rent at 25 percent of their income (this increased to 30 percent in the 1980s) (Stoloff 2004, 11). Tenants also had to make less than 80 percent of Area Median Income (AMI) to qualify for public housing. With income levels and percent of income capped, the gap grew between the rents collected and the cost of maintaining and operating public housing. Although it was assumed that HUD would cover some of the loss of revenue in the form of subsidies for operating costs, the Brooke Amendment had the effect of greatly reducing the revenue that was coming in to maintain public housing and resulted in many deferred maintenance costs (ibid.).

“The goal of Section 8 was to create four hundred thousand privately owned, but publicly subsidized, affordable units by 1981”
The Beginnings of the Housing Voucher System

Skepticism about HUD and public housing grew in the 1970s. The 1970 Experimental Housing Voucher Program represented another important policy shift. The impact of this shift can be seen today in the hybrid system characterized by both public housing and vouchers. The reasoning behind vouchers was that the government would no longer have to build, own, and operate the affordable housing projects; instead, vouchers would allow low- and moderate-income renters to access the private market through government subsidies. In 1973, President Nixon placed a moratorium on new federal public housing construction. In 1974, the Housing and Community Development Act created the Section 8 Program of tenant-based and project-based vouchers, which reduced funding for traditional public housing and consolidated existing programs (Vale and Freemark 2012, 388). The goal of Section 8 was to create four hundred thousand privately owned, but publicly subsidized, affordable units by 1981 (ibid.). This was a shift away from government production, control, and ownership of public housing to a new model that incentivized private developers to provide low-income housing. This shift towards vouchers, now known as the Housing Choice Vouchers Program, will be discussed in more detail later.

1980s, 1990s, and Today: A Shift to Public-Private Provision of Affordable Housing

During the Carter Administration, in 1977, there was brief return of federal funding for public housing construction. Funds were set aside for the construction of between thirty-five thousand and fifty thousand public housing units. However, after Carter left office in 1981, the shift
away from public provision of public housing resumed (Stoloff 2004, 12). Public opinion continued to turn away from direct government provision as public housing, PHAs, and HUD were increasingly seen as ineffective, costly, and corrupt. According to the 1981 U.S. Government Accountability Office (GAO) report, HUD suffered from “high costs, program weaknesses, and possible fraud in the program” (U.S. Government Accountability Office 1981, i). The GAO’s report exposed the weaknesses of the public housing program and justified a policy shift towards engaging the private sector in low-income housing production and management. HUD’s funding for low-income housing was cut from $30.17 billion in 1981 to $9.97 billion in 1986 (Wolf 1990, 552). This drastic reduction in the agency’s budget forced both advocates of low-income housing and HUD officials to search for other means of providing affordable housing. The solution was to create policies that promoted public-private partnerships rather than direct government provision of housing. Between the 1980s and today, a series of programs were adopted to address the lack of affordable housing, declining government investment, and a failing public housing system. These programs all turned to the private and non-profit sectors as partners:

- **The Low-Income Housing Tax Credit** program provides tax credits to developers who construct affordable housing.
- **HOPE VI** (and the subsequent Choice Neighborhoods and Rental Assistance Demonstration Pilot Program) leverages private funds for the demolition and redevelopment of distressed public housing.
- **The Housing Choice Voucher Program** provides eligible low-income renters with vouchers they can use to subsidize rents paid in the private market.
- **Project-Based Vouchers** (Section 8 Project-Based Rental Assistance) ties subsidies to particular developments owned by eligible Limited Liability Corporations, Limited Liability
Partnerships, non-profit and for-profit organizations, cooperatives, and joint ownership arrangements.

- **The Rental Assistance Demonstration (RAD) Pilot Program** allows PHAs to shift from Section 9 to Section 8 and to attach some of their Housing Choice Vouchers to public housing so that they can demonstrate a guaranteed income stream based on fair market rents (FMRs).

Taken together, these programs have all had an impact on changing the housing landscape for low- and moderate-income renters. However, it is important to keep in mind that even with these innovative programs, the United States has not been able to bridge the gap between the supply of and the demand for affordable housing.
Incentivizing the Private Market: The Low-Income Housing Tax Credit Program

As the government retreated from the role of owner and operator of housing, it made sense to look to the private market for assistance. The Low-Income Housing Tax Credit Program (LIHTC) created in 1986, which gives tax credits to private developers to build affordable housing, is considered “the most significant federal program for the production and preservation of affordable rental housing in the nation” because it has helped preserve or finance two million units of affordable rental housing since 1987 (U.S. Department of Housing and Urban Development 2012, What Happens to Low-Income Housing, Foreword).

Created under the Tax Reform Act of 1986, the program was designed to use federal funding to leverage private equity and to provide an incentive for private markets to invest in affordable rental housing. Developers can either keep their credits or sell them to outside investors (through an LIHTC syndicator) in exchange for capital or equity. Selling tax credits reduces the debt that the developer would hold, which allows the developer to offer lower and more affordable rents. The LIHTC is claimed over a ten-year period and is used to offset project costs. However, the projects must maintain their affordability for thirty years. The program is
administered at the state level, usually by local housing finance agencies, and is monitored by the IRS. It is estimated to cost the U.S. government annually around six billion dollars (Joint Committee on Taxation 2012 and Keightley 2013, summary).

The cost of the LIHTC is fixed and determined by statute. In 2012, each state received a total annual housing tax credit allocation of $2.20 per resident (Keightley 2013, 2). States have a total of two years to use their tax credits; if they do not use the tax credits within two years, the credits return to the federal pool for redistribution. The state determines the criteria used to evaluate projects and distributes the funds (Cummings and Di-Pasquale 1999, 251-320). This process is highly competitive, as funds are limited, and must follow a set of preliminary requirements. All projects approved by the state must give priority to very low-income populations and be structured to remain affordable for the longest period of time. Federal law also requires that 10 percent of credits be allocated to non-profit organizations (U.S. Department of Housing and Urban Development, Allocating Housing Tax Credits).

The LIHTC credits are calculated using a formula that considers three factors: the credit period length; the desired subsidy level; and the current interest rate. The credit period length is fixed for a period of ten years. Under the original Tax Reform Act of 1986, the formula was designed to provide subsidy levels equal to 30 percent of rehabilitated housing costs and 70 percent for new construction (Keightley 2008, summary). The 30 percent subsidy is regarded as the lower credit rate of 4 percent, and the 70 percent subsidy level is considered a 9 percent credit rate. Historically, the credit rates of 4

“at least 40 percent of the units must be rent restricted and occupied by households with incomes at or below 60 percent of HUD-determined area median income (adjusted for household size)”
and 9 percent have not stabilized at those exact levels. The actual credit rates depend on interest rates, which are determined by the U.S. Department of the Treasury. Since the interest rates the Treasury sets are subject to market fluctuations, the actual LIHTC credit rates have fluctuated below and above 4 and 9 percent (Keightley 2013).

Therefore, due to these fluctuations, the amount of credit that projects receive is not based solely on the credit rates. A decrease in the interest rate leads to a fall in the tax credit rate. An increase in the interest rate leads to an increase in the tax credit rate. However, despite these fluctuations, the original law requires that the subsidy levels remain at 30 percent and 70 percent. Therefore, tax rates will increase to keep the present value of the total tax stream over a ten-year period at 30 percent or 70 percent (Keightley 2013). The Housing and Economic Recovery Act of 2008 amended the 9 percent credit rate requiring that all credit rates for projects planned in service before December 31, 2013, have an applicable tax credit rate greater than 9 percent. **LIHTC Eligibility**

To be LIHTC eligible, projects must be residential rental properties that meet the ten-year previous ownership rule. Owners of the project must have been the owner for ten years prior to acquisition. This rule does not apply to new buildings. LIHTC projects must also meet low-income occupancy threshold requirements. The 20-50 Rule states, “at least 20 percent of the units must be rent restricted and occupied by households with incomes at or below 50 percent of HUD-determined area median income (adjusted for household size)” (U.S. Department of Housing and Urban Development, Eligibility). The 40-60 rule states, “at least 40 percent of the units must be rent restricted and occupied by households with incomes at or below 60 percent of HUD-determined area median income (adjusted for household size)” (U.S. Department of Housing and Urban Development, Eligibility). Eligible LIHTC projects have to adopt rent limits and maintain an affordability minimum of thirty years. Limits are calculated based on a percentage of AMI and adjusted by unit size (U.S.
Department of Housing and Urban Development, *Eligibility*).

Funding for the LIHTC has also been modified to increase the housing supply in highly economically stressed areas called Difficult Development Areas (DDA). Local Housing Finance Agencies (HFAs) determine whether projects can be classified as DDA projects and if they are eligible for LIHTC financing of up to 130 percent of the total cost of the project (minus the cost of land) (Keightley 2013, 3).

**Response to the LIHTC**

The LIHTC has received bipartisan (Republican and Democratic) support throughout its existence and has subsidized around 30,000 affordable residential developments and approximately 1.6 million affordable housing units (U.S. Department of Housing and Urban Development 2013, *Low-Income Housing*). Since 2000, more than 50 percent of new multi-unit rental housing developments have used LIHTC financing (Collinson and Winter 2009, 4). One of the benefits of
the LIHTC projects is their extremely low rate of foreclosure (less than 1 percent), which may be due to the fact that the project developer, project investor, LIHTC syndicator, and state allocating agency all play a role in monitoring the project (National Association of Homebuilders). Since the tax credits can only be used after a project’s completion, the LIHTC investors take an active role in overseeing the projects and making sure that they are financially viable.

Critiques of the LIHTC have been mixed. McClure (2000, 91-144), Stearns (1988, 203), Cohen (1997, 537), and Weisbach (2006) criticize the program for being inefficient because it requires excess layers of subsidies to attract investors and developers. Others question the resiliency of the program in times of crisis, such as the 2008 U.S. economic collapse when investment dropped from $9 billion in 2007 to $5.5 billion in 2008 (Philadelphia Association of Community Development Corporations). In 2009, the value of the tax credits plunged by 25 percent (Brophy and Godsil 2009, 55). Still others argue that the flexibility of the program allows it to address program flaws (Korb 2009; Reznick Group 2011). But there are also questions about whether the LIHTC supports enough development of housing for ELI residents who make less than 30 percent of AMI. Of the 1.6 million units funded through the LIHTC program, only 31.3 percent of the tenants are considered ELI (Vale and Freemark 2012, 393).

Despite different critiques, the LIHTC has been a very important policy tool for the development of affordable housing in the United States. One of the strengths of the program is that since it is written into the tax code, it does not have to be renewed each year. This means it has been better able to weather shifting political coalitions in Congress than other HUD programs targeted for funding cuts (Korb 2009). However, the economic collapse of 2008 demonstrated how the use of the LIHTC is extremely dependent on market conditions. During the recession, there was concern about the future of the LIHTC program since it depends on corporations valuing tax credits in order to offset taxable rev-
The LIHTC and Community Development Corporations

It is also important to note that the success of the LIHTC depends in large part on the involvement of the more than four thousand Community Development Corporations (CDCs) in the United States. Supported by foundations and intermediaries such as the Local Initiatives Support Corporation (LISC), the Enterprise Foundation, and government subsidized mortgage finance agencies such as Freddie Mac and Fannie Mae, CDCs are, in part, responsible for much of the supply of U.S. affordable housing. A study of LIHTC projects from 1995 to 2006 found that one-third of the LIHTC had a non-profit sponsor (U.S. Department of Housing and Urban Development 2009, *Updating the Low-Income Housing Tax Credit*). A 2010 report from the National Alliance of Community and Economic Development Associations found that 81 percent of community developers are working to produce housing and that between 2005-2008, “35 percent of all federally assisted housing units were produced by non-profits (along with many more state and locally funded units)” (National Alliance of Community and Economic Development 2010, 10). Between 1988 and 2010, community housing developers had produced about 1,614,000 affordable housing units through rehabilitation (723,000 units), acquisition (247,000 units), and new development (644,000 units) (National Alliance of Community and Economic Development Associations 2010, 11).3

The LIHTC, Mortgage Revenue Bonds, and Multifamily Housing Bonds

It is also important to note that the LIHTC is often used in conjunction with other financing
sources, such as state tax-exempt bonds, inclusionary zoning, and local housing trust funds (Vale and Freemark 2012). In addition to HUD and the federal government, state governments play a critical role in U.S. affordable housing policy. Mortgage Revenue Bonds (MRBs) and Multifamily Housing Bonds (MHBs) are other mechanisms to finance the development of affordable housing in the United States in partnership with private developers. State and local governments sell tax-exempt MRBs and the revenue they generate is used to offer low-interest loans for affordable housing development.

MRBs, which have been an important program for promoting affordable homeownership, have helped 2.6 million people become homeowners, and MHBs have helped finance the development of about 1 million units of affordable apartments (National Council of State Housing Agencies 2013). The federal government caps the amount of MRB per state at $90 per resident (with a cap of $273,270,000). Only first-time homebuyers, who make less than the AMI, are eligible for mortgages (up to 115 percent of AMI for larger families) and the price of the house is capped at 90 percent of the average area price. Developments that use MHBs are required to restrict 40 percent of their units to families who make less than 60 percent of AMI; alternatively they can provide 20 percent of the units to families making less than 50 percent of AMI (National Council of State Housing Agencies 2013). During the economic downturn, however, there was limited interest in purchasing these bonds due to market conditions.

Creating Public-Private Partnerships to Fix Public Housing: HOPE VI

Another important program that often worked in conjunction with the LIHTC has been the HOPE VI program. Although federal policy shifted in the 1980s towards supporting the development of privately owned affordable units through programs such as the LIHTC, officials in the 1990s also searched for ways to connect some of these private capital tools to improving the public
as several PHAs were placed under receivership (U.S. Department of Housing and Urban Development, FY 2010 HOPE VI). To address these challenges, Congress passed the National Affordable Housing Act of 1990 that required PHAs to use a management performance system and also provided funding for demolition and replacement through the HOPE VI program (Solomon et al. 2005). In 1992, the National Commission on Severely Distressed Public Housing (1992) found that about 6 percent of the U.S. public housing portfolio (about 86,000 units) was “severely distressed” and that the cost of replacing the units would be $7.5 billion dollars (U.S. Department of Housing and Urban Development 2007, HOPE VI Program Authority and Funding History). The Commission called it a “national disgrace” and recommended a $750 million investment over a 10-year period (ibid.). They also warned that if something were not done quickly to improve the management of the other 94 percent of public housing that was currently acceptable, those units would also become severely distressed (ibid., 2).

In 1991, the government owned 1.4 million units of public housing. However, many of the large-scale public housing developments in the United States, often called “projects,” came to be considered places of last resort that were concentrating poverty and racially segregated. In addition, the ability of local PHAs to manage these distressed complexes was called into question as the housing stock. The answer was another “policy shift”: HOPE VI. HOPE VI marked a change in the roles and responsibilities of HUD and the PHAs and relied on partnerships with private developers and non-profits to redevelop the most severely distressed public housing in the nation.

“The Commission painted a bleak picture of U.S. public housing with Residents living in despair and generally needing high levels of social and support services;”
The final report of the Commission found that the problem of public housing was also not purely about bricks and mortar. The Commission painted a bleak picture of U.S. public housing with: “1) Residents living in despair and generally needing high levels of social and support services; 2) Physically deteriorated buildings; and, 3) Economically and socially distressed surrounding communities” (National Commission on Severely Distressed Public Housing 1992, 3). They also found that the government alone could not fix the public housing problem and advocated for “working partnerships as essential in eliminating severely distressed public housing” (ibid., xiv). In response, Congress proposed the Urban Revitalization Demonstration (URD) that would become HOPE VI with an initial round of $300 million in funding (U.S. Department of Housing and Urban Development 2007, HOPE VI Program Authority and Funding History). HOPE VI was initially funded yearly through a Notice of Funds Availability until it was appropriated in The Quality Housing and Work Responsibility Act of 1998 (or the Public Housing Reform and Responsibility Act), passed after three years of congressional deliberation. The Act was designed to realign HUD and its programs, particularly its public housing program (Solomon 2005). It was extremely broad in scope and sought to overhaul a system of affordable housing production that was struggling. According to the Act:

Congress finds that there 1) is a need for affordable housing; 2) the government has invested over $90 billion in rental housing for low-income persons; 3) public housing is plagued with problems; 4) the Federal method of oversight of public housing has aggravated the problems; and 5) public housing reform is in the best interests of low-income persons.

The purpose of this title is to: 1) deregulate PHAs; 2) provide more flexible use of Federal assistance to PHAs; 3) facilitate mixed income communities; 4) decrease concentrations of poverty in public housing; 5) increase accountability and reward
HUD streamlined and simplified the rules governing nearly every aspect of public housing management, eliminating dozens of handbooks and guidelines in the process. Further, in rewarding HOPE VI grants, HUD placed substantial emphasis on developing public/private partnerships among housing authorities, private-sector developers, and management firms. Housing authorities were encouraged to experiment with new forms of asset management approaches in which the bulk of on-site management was subcontracted to private firms (Popkin et al. 2004, 16).

Under HOPE VI, PHAs worked together with the private sector and non-profits to demolish distressed public housing and typically replace it with lower scale, often mixed-income, development projects. According to a 2004 report by the Urban Institute and the Brookings Institution, HOPE VI marked a “policy shift” with a redefinition of HUD’s role:

With the advent of HOPE VI, HUD deregulated public housing and promoted a more entrepreneurial, market-driven culture in public housing management. HUD would provide initial grants (the

In the initial grants, PHAs with severely distressed public housing projects with more than five hundred units were allowed to apply for grants of up to $50 million (Popkin et al. 2004). HUD would provide initial grants (the
first round of grants in 1993 was $300 million) to help develop the public-private partnerships; however, the bulk of the funds for HOPE VI projects would come from the private sector, often using other funding tools such as the LIHTC (Raskin 2012).

Table 2: Hope VI Funding History

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Planning</th>
<th>Implementation/ Revitalization</th>
<th>Demolition</th>
<th>Total</th>
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<td>$ allocation</td>
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<td>$ allocation</td>
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<tr>
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Note on FY 95 Grants: 1st Round HOPE VI Implementation grants were automatically awarded to the 8 previous HOPE VI Planning grantees. 2nd Round HOPE VI Implementation grants were awarded by competition.

Note on FY 98 Grants: Congress included a set aside of $26 million for HOPE VI grants to revitalize severely distressed projects that serve the elderly.
Under HOPE VI, public housing properties with more than three hundred units and a 10 percent vacancy rate were required to be tested: if they cost more to repair than to demolish, the units would be demolished and the residents given vouchers. HOPE VI was originally designed with a one-for-one replacement, so that when a public unit was demolished it would be replaced; however, policy shifted in 1994 when Congress initiated a voucher replacement program and expanded the number of public housing units eligible for demolition (Vale and Freemark 2012, 395). A recurrent criticism of HOPE VI is that the units that were demolished were not replaced (Raskin 2012). Proponents of HOPE VI often remind critics that many of the public housing units that were demolished as a result of the program were in such bad repair that they were vacant before demolition (so it is not fair to argue for the one-for-one replacement ratio). Another critique of HOPE VI is that many of the residents of the initial public housing projects have not benefitted from the redevelopment, often because they did not return to the new mixed-income developments (Popkin et al. 2004, 20). Proponents of HOPE VI argue that most displaced residents were given vouchers, so they were able to move away from the severely distressed public housing projects to other neighborhoods with lower rates of poverty.

Between 1993 and 2010, HOPE VI awarded $6.3 billion to 133 PHAs through implementation grants for 262 projects (U.S. Department of Housing and Urban Development 2013, Developing Choice Neighborhoods, 1-2). Another $15 million (35 grants) was awarded for planning and $395 million (287 grants) was awarded for demolition (ibid.). Although there are no longer demolition grants associated with HOPE VI, over the course of the program one hundred thousand units of public housing were demolished (Vale and Freemark 2012, 394). The goal of HOPE VI was to reduce the concentration of poverty that had previously been a hallmark of large-scale public housing projects. Studies on the impact of HOPE VI redevelopment point to its “successes in replacing high-density, high-rise,
and barracks-style housing with lower-density townhouses and low-rise dwellings” (Popkin et al. 2004, 20). HOPE VI also allowed for a higher construction cost per unit than in typical public housing, therefore improving the quality of the units (ibid.).

According to a 2013 HUD report, the HOPE VI program was successful at creating mixed-income and mixed-financing communities. The strong partnerships among PHAs, developers, investors, property managers, and government officials were critical to the success of the program and were also important outcomes of the program (U.S. Department of Housing and Urban Development 2013, Developing Choice Neighborhoods, 1-3). In addition, through HOPE VI, HUD and PHAs recognized the need to “diversify” the tools used to offer affordable housing. For instance, residents of public housing projects slated for demolition by HOPE VI were offered Housing Choice Vouchers, and developers of HOPE VI projects turned to the LIHTC for financing (ibid.). The report also argues that HOPE VI highlighted the need to protect tenants and assist them with their many needs through a focus on case management and funding for support services (up to 15 percent of HOPE VI funds) (ibid., 1-4).

**After HOPE VI: Choice Neighborhoods Program**

In 2010 (expanding on the success of HOPE VI), the Obama Administration launched the Choice Neighborhoods Program (CNP) to provide grants for neighborhoods with distressed public housing projects or HUD-assisted housing. The CNP allocates about $400 million to improve thirty neighborhoods (U.S. Department of Housing and Urban Development 2013, Overview of FY2014 President’s Budget). CNP continued many of the innovations of HOPE VI using competitive HUD grants that PHAs had to apply for to incentivize public-private partnerships and leverage private capital to redevelop public housing. This program represents a slight “policy shift” in that the focus is now explicitly on improving the housing and the surrounding neighborhoods. According to a 2013 HUD Press Release, the
program succeeds on a number of fronts:

**Housing:** Replace distressed public and assisted housing with high-quality mixed-income housing that is well managed and responsive to the needs of the surrounding neighborhood.

**People:** Improve educational outcomes and inter-generational mobility for youth with services and supports delivered directly to youth and their families.

**Neighborhood:** Create the conditions necessary for public and private re-investment in distressed neighborhoods to offer the kinds of amenities and assets, including safety, good schools, and commercial activity, that are important to families’ choices about their community (White 2013).

HUD provides the local housing authorities and their community partners with technical assistance to help with planning, managing, and developing public housing within a neighborhood context. Unlike other programs, CNP focuses on renovating or replacing distressed projects and improving the social services provided in the communities around these developments. Grants from CNP can be used for both demolition and new construction. There are two types of grants: Implementation Grants and Planning Grants. Implementation grants support communities that have already gone through an extensive planning process for neighborhood revitalization. Planning grants support the development of comprehensive community revitalization plans. Since 2010, nine CNP implementation grants (totaling $234 million) have been awarded (White 2013). According to HUD, this investment has already leveraged almost $2 billion in investment going into these communities (ibid.).
After HOPE VI: Rental Assistance Demonstration Pilot Program

Although the HOPE VI program was successful in helping to stabilize many of the most distressed public housing projects, addressing the long-term needs of public housing is an ongoing challenge that requires numerous policy innovations. According to HUD, as of October 2012, there were 9,597 public housing projects in the United States (with a total of 1,169,299 units) (U.S. Department of Housing and Urban Development, RAD Tools). About 1.2 million American households live in public housing that is managed by 3,300 local Public Housing Authorities (PHAs) (U.S. Department of Housing and Urban Development, HUD’s Public Housing Program). PHAs administer the units through state charters with federal assistance from HUD. HUD provides funds to the Public Housing Operating Fund to cover the cost of maintenance and general upkeep. Together with rent collected from tenants, an administration fee for management costs, a utility allowance, and the capital fund designated for capital improvements and development, the total cost of maintaining the stock of existing public housing is supposedly covered. However, a 2010 study estimated “the unmet capital needs of public housing at $26 billion” (Center on Budget and Policy Priorities 2013). According to another study, to meet the capital needs of PHAs, the federal government would have to allocate about $3.4 billion annually just for capital costs (Abt Associates Inc. 2010, vi). Since there is almost no possibility of this level of funding being approved by Congress, HUD has worked to develop an entirely new approach that builds on the lessons of HOPE VI and uses innovative financing mechanisms such as the LIHTC.

Passed in 2012, the Rental Assistance Demonstration (RAD) Pilot Program is the Obama Administration’s answer to the capital budget gap. Although the 1998 Quality Housing and Work Responsibility Act allowed PHAs to capitalize their property assets, there was no easy way of doing this. The RAD program is designed as a bridge to allow traditional public housing units
(Section 9) access to private capital tools to raise equity for capital improvements. Through the RAD program PHAs are allowed to shift approved public housing developments from Section 9 to Section 8 so they can attach some of their Housing Choice Vouchers to public housing and demonstrate a guaranteed income stream based on fair market rents (FMRs). With this income guarantee, PHAs can go to the private market and raise money to finance improvements in the public housing projects. This allows PHAs to access capital and develop public-private partnerships.

In the first round of funding, HUD is authorized to convert 60,000 units of public housing and Mod Rehabilitation (U.S. Department of Housing and Urban Development, RAD Info.). As of December 31, 2013, HUD had already received applications for 176,000 units (ibid.). As a result of the large demand for the RAD program, HUD is advocating at the congressional level to raise the cap beyond 60,000 units. The second component of RAD allows PHAs to convert tenant-based vouchers (in Rent Supplement and Mod Rehabilitation projects) that are being terminated into project-based vouchers (ibid.).

**Connecting Low-Income Renters to the Market: Housing Choice Vouchers (Section 8 Tenant-Based Rental Assistance)**

Today Housing Choice Vouchers help 2.1 million low-income Americans to rent their homes (National Alliance to End Homelessness 2013). This program has its roots in the 1970 Experimental Housing Allowance Program, a pilot that was scaled up under the 1974 Housing and Community Development Act as a rental certificate program. The rental certificate provided tenants with a fixed amount that they could apply towards rent. In 1984, Congress approved a demonstration program for housing vouchers that would adjust to meet changes in rents. The certificate and voucher program were merged together in the 1998 Quality Housing and Work Responsibility Act to form Housing Choice Vouchers. A Housing Choice Voucher (HCV) (also
HCVs are administered by more than 2,400 local PHAs using funds from HUD (U.S. Government Accountability Office 2012, 4). The size of the voucher programs administered by local PHAs ranges from fewer than five units to 96,000 units (ibid., 4). HCVs provide housing assistance to low-income renters who are at or below 80 percent of the AMI; however, PHAs are required to offer 75 percent of their HCVs to renters who make less than 30 percent of AMI. HCV recipients must first apply to their local housing authority (where they will most likely be put on a waiting list) and will be screened for eligibility. Once

HCV recipients find a rental property that is willing to accept an HCV and the PHA pays the difference between the actual rent and the subsidized rate (paid by the renter) directly to the landlord (Sard 2001, 89).
better neighborhoods with added benefits such as safety and access to good schools.

**Housing Choice Voucher Funding**

One of the difficulties of the HCV program is that HUD has to negotiate with the 2,400 PHAs that administer the vouchers. The PHAs receive administrative fees based on the number of vouchers they administer; however, these fees have been declining and do not fully cover administrative costs. As a result, PHAs have had to reduce their staffs, and complain about being over-regulated and under-reimbursed (Rice 2013).

HCVs are funded through the federal government on a yearly basis. This means that they are vulnerable to federal budget cuts. Most funding for local housing agencies is based on their prior year’s authorized vouchers and their real cost adjusted for inflation. If the local PHA would like to receive more funds for its residents, they may apply when funds are available for additional vouchers. HUD then awards funds to selected PHAs on a competitive basis. Howev-
An added challenge for the HCV program is that it is often asked to help serve the neediest population. Special target vouchers are issued to groups that may cost more to service, such as homeless veterans, families with family members with disabilities, tenants who have lost their homes due to conversion of public housing or problems with HUD-assisted rentals, non-elderly disabled people transitioning out of elderly public housing, and families that have been separated due to lack of available private rentals (U.S. Government Accountability Office 2012, 6). By targeting HCVs for ELI residents (30 percent of AMI or less) and other special groups, HUD has to pay a larger subsidy to make up the difference between 30 percent of their income and the FMR. This means that costs rise and they are able to offer fewer vouchers.

The increasing cost of the HCVs is cause for concern, particularly at a time when there is political pressure to make budget cuts. A 2012 U.S. Government Accountability Office report recommends improving the efficiency of the HCV program by reducing the
cause the initiating PHA (where the person received the voucher) needs to negotiate with the receiving PHA. This is a complicated process. It can be difficult to absorb the mobile voucher. This also presents staffing issues for PHAs since there is no way to know how people will use the vouchers. Another challenge of HCV portability is that there is always the possibility that people might game the system and seek a voucher in a jurisdiction without a long waiting list and then move to another jurisdiction. Currently, there are efforts to address the challenges of portability (U.S. Department of Housing and Urban Development, Office of Housing Voucher Programs Report, 9).

Project-Based Vouchers: Section 8 Project-Based Rental Assistance

Section 8 Project-Based Rental Assistance, authorized in 1974, is a program in which vouchers are tied directly to privately owned projects rather than to the tenant. Section 8 Project-Based Rental Assistance (Section 8-PBRA) assists 1.2 million extremely low, low, and moderate income renters. (U.S. Department of Housing and Urban Development, Office of Housing Voucher Programs Report, 9).
and Urban Development, Renewal of Section 8). The subsidies are tied to particular developments owned by eligible Limited Liability Corporations, Limited Liability Partnerships, non-profit and for-profit organizations, cooperatives, and joint ownership arrangements. PHAs can “project base” up to 20 percent of their allocated vouchers (which come from their annual contributions contract with HUD). The PHA can offer Project-Based Voucher (PBV) assistance to eligible families who apply for HCVs and are on the waiting list. Families can move into the PBV units, but if they move, they will not be eligible for assistance in a different unit unless a HCV becomes available.

PBV projects are selected through an open and competitive process and must meet each PHA’s selection criteria. Selected project owners agree to rent their units to eligible low-income families for a fixed number of years (typically with an initial term of up to fifteen years). PBVs can be attached to new construction projects or existing developments. Project developers are guaranteed a fixed amount of revenue from Housing Assistance Payment (HAP) contracts with the local PHA that are based on local FMRs. Rents must not be more than 110 percent of the FMRs. Eligible low-income residents pay 30 percent of their income towards rent (after certain deductions are taken out) and utilities with a minimum contribution of $25 per month. The PHA agrees to pay the difference between the FMR and the 30 percent of the monthly family income allocated to rent (U.S. Department of Housing and Urban Development, Project Based Vouchers).

Since the renter contribution is capped, one of the challenges facing the program is keeping up with rent increases: low-income wages have not kept pace with rent increases so there have been significant cost increases for the program.

Private housing developers and non-profits that own the units enter into multi-year (typically twenty-year) contracts with HUD or public housing agencies agreeing to rent to low-income tenants (Center on Budget and Policy Priorities 2013, Policy Basics Federal Rental Assistance). Private owners are interested in PBVs because they provide a
fixed amount of guaranteed income on the project and can be used to leverage other sources of financing. A 2007 Government Accountability Office study of Section 8-PBRA found that 92 percent of the owners with contracts that expired between 2001 and 2005 opted to renew their contracts (U.S. Government Accountability Office 2007, 13). Through interviews with owners, they found that many who opted out of the program did so in order to raise rents or convert their units to condominiums (ibid.).

Often the fact that a development has PBVs is critical when it comes to applying for other sources of financing (LIHTCs, other tax credits, HOPE VI, and bond financing). Some of the benefits of PBVs are that they help to deconcentrate poverty by providing long-term affordable housing in areas with low poverty rates. In addition, they can be used to service specific populations. For instance, a PHA can work with a local non-profit to develop a housing project for the homeless, disabled, or elderly. PHAs can also attach PBVs to developments that they own so they can receive rental payments on these units.  

A key challenge of the Section 8-PBRA program has been to keep rents in line with the market. Rents were set to automatically increase every year. As market conditions change, in some cases the approved rents are too high for the local market and in other cases they are too low. The Mark-to-Market (M2M) program approved by Congress in 1997, when many of the original contracts were about to expire, ties the rents approved for Section 8 housing to the local housing market. Owners who renew their contracts under M2M refinance their mortgages at lower rates through HUD-insured mortgages (National Low Income Housing Coalition 2012).
The Role of Demonstration Projects in Policy Shift

Since it is extremely difficult and politically challenging to make changes to the rules and regulations that govern HUD and the local PHAs, a number of demonstration projects have served as “experiments” to test different hypotheses about more effective ways to administer public housing, HCVs, and provide low-income tenants with better access to jobs and opportunities. Moving to Work (MTW), Moving to Opportunity (MTO), Jobs-plus, Jobs-plus Community Revitalization, and Family Self-Sufficiency (FSS) are examples of these demonstration programs.

**Moving to Work (MTW)**

Moving to Work (MTW) (established by Congress in 1996) is an effort overseen by the Office of Public Housing Investment (OPHI) to allow PHAs to have more autonomy so that they can design and test innovative strategies that better meet local needs. There are currently thirty-five PHAs in the program (this number will increase to thirty-nine since four more PHAs were accepted into the program in 2012). The program is scheduled to continue until 2018. PHAs that participate in MTW are not given additional funding, but receive exemptions from many of the voucher and public housing rules. These exemptions provide the PHAs with more flexibility in how they use federal funding. The goal of MTW is to increase housing opportunities for low-income families and to help provide
Another benefit of increasing the percentage of HCVs that are attached to projects is the ability to finance the development of projects that meet special needs populations.

access to job training and job opportunities. PHAs in the MTW program can combine HCV funding, Public Housing Operating Funds, and Capital Funds to create a “block grant” to the community to support housing and community needs. For example, they are allowed to use the funds to replace public housing with mixed-income housing. One of the difficulties in assessing the success of the MTW is that each PHA has a unique approach so it has been difficult to establish a common metric for evaluating the program. A 2010 MTW Report to Congress found that HUD learned some important lessons from these demonstration projects. MTW allowed PHAs to have more access to capital by combining and leveraging funds. This helped PHAs repair existing public housing and develop new mixed-income projects. In addition, MTW allowed PHAs to develop policies better adapted to local conditions, such as local waitlists (U.S. Department of Housing and Urban Development 2010, Report to Congress: Moving to Work). Since each MTW program is unique, the box below highlights the Atlanta MTW program to demonstrate its innovative approach.
The Atlanta Moving to Work Program

The MTW program has helped the Atlanta Housing Authority (AHA) build private-sector partnerships to create greater access for low-income residents in mixed-income communities. Some of the programs that they have initiated through MTW are a higher inspection standard, a change in the ratio of elderly to non-elderly in housing projects so there are not as many elderly concentrated in the same projects, and an increase in the federally mandated cap on project-based vouchers so that more than 20 percent of units can receive project-based vouchers (higher than the federal standard). In addition, the AHA has increased the use of Housing Choice Vouchers (HCVs) as Project-Based Vouchers (PBVs) (it is currently 30 percent and they aim for 50 percent). Using the HCVs as PBVs gives the AHA more leverage to negotiate with private developers. Attaching the HCV to projects helps the AHA provide residents with high-quality affordable housing (less than five years old) and promote affordable housing development by acting as the underwriters for development capital (U.S. Department of Housing and Urban Development 2008, Moving to Work).

Another benefit of increasing the percentage of HCVs that are attached to projects is the ability to finance the development of projects that meet special needs populations (for example, the elderly, the homeless, and people with mental health challenges). In some cases, the AHA has provided 100 percent subsidy for particular special needs projects using vouchers. These subsidies help insure the development of projects that might otherwise be difficult to finance. In addition, the AHA has worked in collaboration with the United Way of Metropolitan Atlanta to develop a Homeless Demonstration Program where one hundred vouchers are allocated to the program over a five-year period. The partnership between the AHA and United Way has already raised $2 million in outside funding.

MTW also allows the AHA to make administrative innovations that save the agency money. For
instance, they have automated much of the administration of the voucher program and moved from paper to electronic files. To streamline the program’s administration, they reduced the number of times that the incomes of elderly residents have to be certified from once every year to once every two years. They also allow elderly residents to work and keep their additional income and exempt them from rent penalties. To promote more incentives for residents to work, in 2005 the AHA adopted a work requirement (or training requirement, if residents are attending school) in order to receive public housing or HCVs. These requirements have increased workforce participation since 2005 by 39.7 percent in public housing and 7.4 percent in HCVs (U.S. Department of Housing and Urban Development 2008, Moving to Work, 5). The AHA also has a Service Provider Network of thirty service providers in the Atlanta region that helps connect families receiving HCVs or families in public housing with work opportunities. They also produce a resource guide every year outlining the services of more than two hundred social, educational, and support services in the Atlanta region.

According to the Boston Research Group, since 1995, the Atlanta MTW demonstration project has been very successful at helping to encourage tenant self-sufficiency, promoting cost efficiency in terms of the delivery of services, demolishing troubled public housing and replacing it with mixed-income developments, and relocating families through vouchers to mixed-income neighborhoods. The Boston Research Group estimates that the “net social benefit” of thirteen new mixed-income communities in Atlanta is valued at $1.6 billion (U.S. Department of Housing and Urban Development 2008, Moving to Work, 7). In addition, studies show that families living in mixed-income communities have higher household incomes compared with those in public housing projects and children living in mixed-income communities do better in school (ibid.).
Moving to Opportunity (MTO)

Moving to Opportunity (MTO) was another HUD demonstration program that ran from 1994 to 1998 and was designed to help move low-income recipients of HCVs from very poor communities to more mixed-income communities through access to tenant housing counseling. Since many low-income families face barriers (i.e., in transportation and information) when it comes to using their HCVs, the tenant counseling service supported these families as they looked for housing in more mixed-income areas. The goal of the program was to test the effectiveness of housing counseling and to see what the impacts were for tenants when they moved from neighborhoods with high concentrations of poverty to more mixed-income neighborhoods. MTO focused on five PHAs (Baltimore, New York City, Chicago, Boston, and Los Angeles). For the program, each PHA randomly selected a group of HCV recipients with children (a total of 4,608 families were in the MTO program and were assigned to control and experimental groups) who received housing counseling and were required to move to neighborhoods with a less than 10 percent poverty rate (U.S. Department of Housing and Urban Development, Program Description, MTO). According to a 2002 study, researchers found that the families who moved to areas with less than 10 percent poverty “reported living in better housing in dramatically safer neighborhoods” (Popkin et al. 2002, v). However, there were also mixed results from the program as many residents struggled with the move away from their old social networks. (Fbid.)

Jobs-plus

Jobs-plus was a demonstration program that HUD ran from 1998 to 2003 in six public housing developments. The demonstration project (funded by HUD and private foundations) was designed to help public housing residents find jobs by providing on-site job centers and neighbor-to-neighbor job outreach to help spread the news about job opportunities. In addition, the demonstration project changed the public housing rent rules so that residents could earn money without having to
pay more rent. The results of the demonstration were modest, but significant. Participants in the program, after the intervention, continue to earn more money than their counterparts who did not participate (Harvard Joint Center for Housing Studies 2013).

**Jobs-plus Community Revitalization Initiative**

To help connect able-bodied public housing residents on welfare with jobs, HUD created the Jobs-plus Community Revitalization Initiative in seven cities (Seattle, Baltimore, Chattanooga, Dayton, St. Paul, Los Angeles, and Cleveland). It provides each PHA with a $200,000 grant (that must be matched 2-to-1 by local funders) and technical assistance from the Manpower Demonstration Research Corporation (MDRC). Through this grant and technical assistance, the PHA works with residents to develop a welfare-to-work program targeted to meet residents’ needs. The MDRC will evaluate the success of each program. This initiative is funded through a joint agreement between HUD under the MTW program and the Rockefeller Foundation ($5 million from HUD and $5 million from Rockefeller) (U.S. Department of Housing and Urban Development, *Jobs-Plus Community*).

**Family Self-Sufficiency (FSS)**

The Family Self-Sufficiency (FSS) program (1990) is designed to provide residents of public housing projects and recipients of HCVs with support services such as child care, financial literacy classes, job training, and so on. Participants in the program enter into a five-year contract with the PHA that outlines specific goals to work towards self-sufficiency. The PHA sets up an escrow account for FSS participants in which the PHA deposits their rent increases over the five-year period. Participants who meet their contractual goals receive the escrow funds plus interest (Harvard Joint Center for Housing Studies 2013, 37). A study of the program found that for those who completed the program, incomes rose by more than two-thirds and the average escrow account was about $5,300. As of 2012, there were 57,000 tenants enrolled in the program (ibid.).
Many of the challenges of housing affordability that were identified by housing advocates during the Great Depression still exist today. Economic crisis combined with federal budget cuts translates into a housing affordability crisis characterized by many people paying much more than 30 percent of their income on housing, long (and in many cases closed) waiting lists for public housing and HCVs, overwhelming maintenance shortfalls for public housing, and affordable housing production funding mechanisms that are vulnerable to market downturns. HUD struggles with how to meet the growing need for affordable housing in the context of shrinking budgets and federal efforts to reduce debt. As the key federal agency devoted to housing in the United States, HUD is working to streamline its management and involve other government agencies, local stakeholders, and developers more as partners. However, it does this work in a fiscally constrained and politically challenging environment.

One of the ways to improve housing outcomes is to increase the efficiency of administering U.S. public and affordable housing programs. According to HUD’s 2010-2015 Strategic Plan, the main challenges it faces are providing support to local authorities to deliver services and reducing HUD’s inefficient and centralized bureaucracy (U.S. Department of Housing and Urban Development, FY 2010-2015 Strategic Plan).
Plan: Goal 5). To address these concerns, HUD is developing more place-based decision-making strategies that decentralize decision making from Washington to the field offices to promote innovation. Many of these place-based decision-making strategies are designed to replicate the policy innovations and successes from programs like HOPE VI and MTW. The aim is to provide PHAs with more opportunities to tailor their programs to meet the specific needs of their communities rather than follow strict federal guidelines.

However, finding the capital to maintain existing public housing is an enormous challenge. According to the 2010-2015 HUD strategic plan, the backlog of capital maintenance costs is estimated between $18 and $24 billion dollars. To plug this gap, RAD allows PHAs to leverage $7.5 billion dollars in private equity through a property-based rental assistance model. Currently, the RAD program is a demonstration project, but already the demand for the program far exceeds the authorized sixty thousand units (U.S. Department of Housing and Urban Development, FY 2010-2015 Strategic Plan: Goal 5).

Another challenge that the recent recession highlighted was how critical the market is to affordable housing production. The LIHTC and state Mortgage Revenue Bonds (MRBs) and Multifamily Housing Bonds (MHBs) have been key funding mechanisms for affordable housing. However, in the economic downturn of 2008, all of these programs demonstrated that they were dependent on the market. When the markets were weak, these programs were not as effective at promoting affordable housing production.
Conclusions

For more than seventy-five years, the United States has been experimenting with various models of affordable housing provision. During the Great Depression, the model was for government provision of housing to meet the needs of people excluded from the private housing market. However, support for this approach waned, policies changed that undermined the financial viability of public housing, and ultimately there was a shift away from public housing as the primary solution to the affordability crisis. Since the mid-1970s, U.S. affordable housing policy has moved away from direct government ownership; increasingly, the federal government works to develop access to low-cost capital for non-profit and for-profit developers and to connect low-income tenants with these properties through vouchers.

The history of “policy shifts” outlined above shows that any “best way” to supply housing in the United States is politically charged and contested. Policies that were designed for one era do not necessarily make sense in subsequent times, and most importantly, policies designed for one era cannot succeed once there is no longer the political will to support them. As a result, U.S. housing policy ranges from government-owned and government-operated public housing, to public-private partnerships, to tenant-based and project-based vouchers, to the LIHTC and state bond financing.
What makes U.S. housing policy so complicated, but also provides interesting opportunities to combine resources, are the multiple programs that are all at play at the same time. Increasingly, through a more diversified, strategic, and comprehensive approach to affordable housing, we see HUD and advocates of affordable and public housing combining policy tools and working with other government agencies, the private sector, and non-profits to promote the construction of affordable housing, the redevelopment of public housing projects, and the improvement of surrounding neighborhoods. This “policy shift” requires a more comprehensive view of the problem in which access to affordable housing is a critical piece of a larger effort to help low-income individuals and families get out of poverty. It also requires a reassessment of the government’s role in affordable housing. Rather than promoting government construction, ownership, and maintenance of public and affordable housing, HUD’s strategy is to seek out partnerships with the private and non-profit sectors. All of the programs mentioned in this report (from Housing Choice Vouchers, Project-Based Vouchers, HOPE IV, MTO, LIHTC, RAD, etc.) center around developing partnerships and leveraging private capital. Given the history of U.S. affordable housing policy and the trends in “policy shifts,” we expect to see HUD continue this trend of building partnerships and leveraging private capital. What we learn from an analysis of past “policy shifts” is that adapting to the changing demands of socio-economic conditions, fiscal constraints, and political pressures requires an approach to affordable housing policy that is flexible and strategic.


Committee on Education and Labor (Senate). 1935. Slum and Low-Rent Public Housing.


U.S. Department of Housing and Urban Development. *Renewal of Section 8 Project-Based Rental*


### Acronyms

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AMI</td>
<td>Area Median Income</td>
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<td>CNP</td>
<td>Choice Neighborhoods Program</td>
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<td>ELI</td>
<td>Extremely Low-Income</td>
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<td>FMR</td>
<td>Fair Market Rent</td>
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<td>FSS</td>
<td>Family Self-Sufficiency</td>
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<td>GAO</td>
<td>U.S. Government Accountability Office</td>
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<td>HAP</td>
<td>Housing Assistance Payment</td>
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<td>HCV</td>
<td>Housing Choice Voucher</td>
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<td>HFA</td>
<td>Housing Finance Agencies</td>
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<td>HOPE VI</td>
<td>Homeownership and Opportunity for People Everywhere</td>
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<td>HUD</td>
<td>U.S. Department of Housing and Urban Development</td>
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<tr>
<td>LIHTC</td>
<td>Low-Income Housing Tax Credit</td>
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<td>M2M</td>
<td>Mark to Market</td>
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<td>MHB</td>
<td>Multifamily Housing Bond</td>
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<td>MRB</td>
<td>Mortgage Revenue Bond</td>
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<td>MTO</td>
<td>Moving to Opportunity</td>
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<td>MTW</td>
<td>Moving to Work</td>
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<td>PBV</td>
<td>Section 8 Project-Based Voucher</td>
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<td>PHA</td>
<td>Public Housing Authority</td>
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<td>RAD</td>
<td>Rental Assistance Demonstration Pilot Program</td>
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<tr>
<td>Section 8 PBRA</td>
<td>Section 8 Project-Based Rental Assistance</td>
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Endnotes

1  This can be challenging to administer; however, recently HUD has been working to use the diversified policy portfolio as an opportunity to combine resources in various programs.

2  Some argue that PHA managers could have withstood the impact of Brooke Amendment except for the targeting provision, which came later (1981). The combination of limiting rents to a percentage of income and then requiring that three-fourths of public housing residents be extremely low income (<30% AMI) was too much to bear.

3  This presentation is helpful for understanding some of the issues around CDCs and affordable housing production: http://www.aspeninstitute.org/sites/default/files/content/docs/HOUSING57.PDF

4  Inclusionary zoning in the United States is when municipalities require that a certain percentage of new housing be affordable.

5  Mod Rehabilitation was a program (repealed in 1991) designed to use the rental certificate (voucher) to help upgrade project based low-income housing. For more information, see http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/modrehab

6  Payment standards are based on HUD’s published FMR schedule for the FMR area in which the PHA has jurisdiction.

7  For more information about the regulations that govern PBVs, see http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&tpl=/ecfrbrowse/Title24/24cfr983_main_02.tpl

8  For more information, see http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/mtw

9  For more information, see http://portal.hud.gov/hudportal/HUD?src=/programdescription/mto

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