

FEDERAL OPTIONS FOR INCREASING THE QUALITY OF HOUSING AVAILABLE TO LOW INCOME HOUSEHOLDS

Susie Cho
Ji-Hoon Hong
Darlesh Horn
Jeffrey Lopiccolo
Jessica Mendez
William Ostan
Sarah Priestnall

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PREFACE

This report was prepared as part of the Capstone Policy Seminar experience at the Pepperdine School of Public Policy. The Seminar, one of the integral parts of the preparation for students receiving the Master of Public Policy degree, provides students with the opportunity to explore a public policy program in depth and to prepare a set of specific recommendations to policy makers to solve the problem. These reports are prepared by a team of 6-8 students over the course of only twelve weeks, providing for an intensive and challenging experience.

The results of the team's analysis is then presented to a panel of experts in a public workshop setting where the student panelists are given the opportunity to interact directly with the policy professionals, not only presenting their findings but engaging in an exchange of ideas and views regarding the specifics of those recommendations. The policy expert panel for this report included Ben Besley, Director of Development for The Olson Company, Frank W. Cornell, III, president of FWC Realty Services Corporation, Charles Hayes, former CEO of SRO Housing Corporation, and Douglas Tapking, Executive Director of the Area Housing Authority of the County of Ventura.

The School of Public Policy would like to thank our students for their hard work and commitment in preparing this policy analysis. We are proud of your achievement.

EXECUTIVE SUMMARY

This policy analysis examines the failure of housing policy in the United States, as the objective of such policy is to assure access to quality housing for citizens of all income levels. The presence of substandard housing in the stock of housing available to low-income American families illustrates that the federal government's efforts, while considerable, have been insufficient and unable to fully realize its objective.

For the purposes of this current study, we have determined that an acceptable housing unit is one that meets HUD standards for health and safety, does not fall under HUD's definition of "substandard" or "moderate", and complies with the relevant state and local housing codes. In addition, we also identified four basic approaches to addressing the problem of improving the quality of housing available to low-income households, whilst retaining affordability. The four approaches are as follows: (a) relying on private markets to provide quality, affordable housing; (b) encouraging non-profit ownership; (c) tightening regulation and increasing penalties for non-compliance with regulations; and (d) expanding government subsidy programs, specifically the Section 8 program.

Because increasing the quality of housing for low-income households is the principal consideration, this recommendation highlights a combination of two options. The recommended combined approach involves (a) encouraging nonprofit ownership of rental properties along with (b) tightening regulation and increasing the enforcement of penalties. We contend that this amalgam of options presents the best course of action because it most adequately fulfils the aforementioned criteria. It should increase the quality of affordable housing so that it meets or exceeds federal standards, while providing for local control and protecting liberty and freedom. This approach is also both politically feasible and economically efficient.

Encouraging nonprofit ownership alone, however, would not solve the problem of inadequate housing for low-income households because nonprofits do not have hegemonic control over all rental housing. A significant amount would still be owned by the private sector and the needs of the tenants living in these units must also be addressed as well. Furthermore, it should not be assumed that all nonprofits would fulfill their responsibility to provide decent, quality housing for their tenants. Tightening regulation and increasing enforcement would address the quality of housing in the private sector as well as that controlled by the nonprofits. This recommendation is not, nor does it claim to be, a perfect solution to the lack of quality

housing for low-income housing but it is comprehensive, responsible, and respectful of liberty and property rights.

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1. INTRODUCTION

There are many different facets that can be explored in the arena of low-income housing. However our group has limited the scope of our analysis to one particular problem area. Our goal, stated simply, is to recommend an implementation plan that increases the standard of the current supply of housing. We will not be addressing any issues, such as affordability or lack of supply, that fall outside the purview of this goal.

In 1776, with the signing of the Declaration of Independence, representatives of the thirteen colonies confirmed a shared belief that “all men are created equal, having certain unalienable rights.”¹ Furthermore, the Preamble of the Constitution states that the federal government has a responsibility to “promote the general welfare”² for all American citizens. In accepting its responsibility to ensure the equality of all citizens and to promote their general welfare, the United States federal government affirmed that at the core of American principles was an obligation to provide the highest possible standard of living for the people of the United States. A decent place to live is necessary part of an adequate standard of living. These beliefs continue to underpin American society. The National Housing Law Project points out that, “The promise of decent living conditions recognizes that a home, in its most basic sense, provides a person a place in the world. Home is the locus of the American family as it defines our quality of life. A home is essential to our individual well being and full participation in American society.”³

From the signing of the Declaration, up until the present day, this core American value has proven to be difficult to sustain. Despite various attempts at governmental intervention, many of the impoverished and working poor have yet to realize the American dream of a decent place to call “home”.

In spite of the federal government’s many efforts since the 1930s, the current situation faced by low-income American families provides proof that this aged commitment still fails to deliver decent living conditions for this sector of the U.S. population. In 1999, the Department of Housing and Urban Development conducted a study on the housing standards and improvements for low-income families. HUD’s 1999 report on the nation’s worst case housing needs, entitled *Rental Housing Assistance - The Worsening Crisis*, stated that despite economic expansion, worst case housing needs have reached an all time high of 5.4 million families.⁴ Worst case housing

¹ Declaration of Independence

² The Preamble to the Constitution

³ National Housing Law Project. “Housing for All: Keeping the Promise. www.housinglaw.org/html/hlb/496/496housing.htm.

⁴ “Rental Housing Assistance-The Worsening Crisis.” Office of Policy Development and Research. <http://www.huduser.org/publications/affhsg/worstcase00/>

needs are described by this report as those in which unassisted renters who earn 50 percent below the local median, pay more than half of their income on rent and reside in severely substandard housing. The report further noted,

There are now 600,000 more households with worst case housing needs than there were in 1991...a rate of increase that was almost twice as fast as overall household growth...With worst case needs at record levels, there was an urgent need to strengthen federal efforts to assure adequate supplies of decent, safe and affordable housing for America's lowest-income families.⁵

HUD and the Bureau of the Census define a housing unit as "substandard"⁶ if it has one or more of the following structural or physical deficiencies:

- The unit lacks hot or cold water or a flush toilet, or both a bathtub and a shower.
- The heating equipment has broken down at least three times for six hours or more during the previous winter, resulting in the unit being uncomfortably cold for 24 hours or more.
- It has no electricity, or it has exposed wiring and a room with no working wall outlet and had three blown fuses or tripped circuit breakers during the previous 90 days.
- In public areas such as hallways and staircases, it has no working light fixtures, no elevator, loose or missing steps and loose or missing railings.
- It has at least five basic maintenance problems such as water leaks, holes in the floors or ceilings, peeling paint or broken plaster, or evidence of rats during the previous 90 days.

A unit is classified as "moderate"⁷ if it has one or more of the following deficiencies:

- On at least three occasions in the past three months, all flush toilets were broken for at least six hours.
- Unvented gas, oil or kerosene heaters are its primary heating equipment.
- The unit lacks a sink, refrigerator, or either burners or an oven (HUD will now allow a microwave in place of a cooking stove).
- It has three of the four hallway or staircase problems listed for substandard units.
- It has at least three of the basic maintenance problems listed for substandard units.

See Appendix B for a more comprehensive look at HUD Minimum Health and Safety Standards.

⁵ "Rental Housing Assistance-The Worsening Crisis." Office of Policy Development and Research. <http://www.huduser.org/publications/affhsg/worstcase00>

⁶ Rental Housing On-Line (ROHL) Home. <http://rental-housing.com/rental/substandard.htm>

⁷ Ibid

Despite the HUD criteria and the many state and local codes, the living conditions of many American families remain deplorable. Many low-income Americans are forced to live in substandard living conditions because it is all that they can afford and because of poor enforcement of health and safety regulations. After an in-depth analysis of the problem and past attempts at resolving the issues involved, this body of work will suggest some approaches to correcting the issue of the lack of decent yet affordable housing units for lower income American households.

A Tale of Two Urban Centers

Nowhere is this problem more evident than in our major urban centers. The poor quality of affordable housing is a national problem that affects all our cities. Large cities in the United States, such as Los Angeles and New York, are unable to provide decent quality private housing for all their low-income residents.

Housing Conditions in Los Angeles

The City of Los Angeles is facing a profound crisis of housing affordability.⁸ According to the Los Angeles Housing Department, “Los Angeles has had a shortage of decent, affordable housing for more than 20 years; starting with the escalation in local rents and home prices in the late 1970s.”⁹ The California Budget Project points out that, “Renters endure conditions such as lack of electricity, lack of complete kitchen amenities and/or bathroom facilities. They tolerate frequent breakdowns of heating systems, water leaks, or large areas of peeling paint or plaster.”¹⁰

There are a total of 1.3 million housing units in Los Angeles with about 784,000 serving as rental units. This means that 59% of all occupied housing units in the city are renter-occupied. These renters often pay a higher percentage of their incomes for rent than anyone else in the State of California.¹¹ According to the U.S. 2000 Census, Los Angeles has an estimated population of 3.7 million with a median household income of about \$37,000. On the national scale, paying 30% of gross household income towards housing costs is considered affordable for renters. Among the population considered as renters, 45% of households are paying 30% or more of their household income on rent whilst 18% of these housing units are severely overcrowded.¹²

⁸ L.A. Housing Crisis Task Force: Task Force Report: 1999.

<http://housingcrisisLA.ucla.edu/Master.cfm?Page=TaskForceReport/Main.cfm&Content=TaskForceReport.cfm>

⁹ Los Angeles' Affordable Housing Shortage: 1999. www.ci.la.ca.us/lahd/02C-Housing%20Shortage.pdf

¹⁰ “Locked Out 2004: California’s Housing Crisis.” California Budget Project, January 2004. (page 15)

¹¹ L.A. Housing Crisis Task Force: Task Force Report: 1999.

<http://housingcrisisLA.ucla.edu/Master.cfm?Page=TaskForceReport/Main.cfm&Content=TaskForceReport.cfm>

¹² Overcrowded units have 1.51 or more persons per room, or the equivalent of 7 persons living in a 2-bedroom apartment.¹²

Those households classified as low-income or very low-income are most heavily impacted by this shortage of decent, affordable housing because they have little choice in the matter. They can either choose to forgo basic necessities and reside in substandard housing - since it is the only thing they can afford - or live in overcrowded conditions in higher quality housing.¹³ Recent data shows that in Los Angeles, 26 percent of households and 31 percent of families fit the national low-income bracket of those who earn in the bottom 20 percent of the nation.¹⁴

Los Angeles city officials are aware of the housing crisis their low-income residents face. These officials affirm that the housing market cannot meet the housing needs of the city's lower-income households. In their consolidated plan for 2003-2008, officials have stated that one of the biggest challenges is to "provide adequate, safe, affordable and appropriate rental and sale housing for its residents... Nearly 49,000 rental units have severe physical problems, an increase of 45% since 1995."¹⁵ Furthermore, there is not enough housing assistance to prevent widespread homelessness and high rates of overpayment and overcrowding. The 1999 report of the L.A. Housing Task Force states that, "Deterioration also threatens the City's older housing units. A small, but not insignificant number of the City's rental housing owners fail to comply with even minimum habitability standards."¹⁶ As a result of this, city officials acknowledge that measures must be taken to encourage owners to repair deteriorating rental units, stating in their consolidated plan, "There are a substantial number of poorly maintained units that pose health and safety hazards to their occupants whose owners refuse or neglect to repair them."¹⁷ The city has engaged in efforts to address this problem and has made some progress. The implementation of the Systematic Code Enforcement Program (SCEP) made substantial improvements possible, preventing the development of dangerous, substandard, and/or unsanitary and deficient conditions in apartment buildings. Despite this, the deteriorating condition of rental units remains an overwhelming ailment for Los Angeles.

The failure of landlords to comply with standards, along with the lack of enforcement can lead to disaster. In December 2000 a two-storey apartment building in Echo Park collapsed, crushing Juan Pineda, a 31 year-old father of two from Guatemala. Thirty-six other low-income

¹³ "Locked Out 2004: California's Housing Crisis." California Budget Project, January 2004.

¹⁴ SOCDs Census Data: Output for Los Angeles, CA. (Information for year 2000)
<http://socds.huduser.org/scripts/odbic.exe/census/incpov.htm>

¹⁵ City of Los Angeles, 2003-2008 Consolidated Plan: www.ci.la.ca.us/CDD/pdfs/conplan/IVA.PDF

¹⁶ L.A. Housing Crisis Task Force: Task Force Report: 1999.

<http://housingcrisisLA.ucla.edu/Master.cfm?Page=TaskForceReport/Main.cfm&Content=TaskForceReport.cfm>

¹⁷ City of Los Angeles, 2003-2008 Consolidated Plan: www.ci.la.ca.us/CDD/pdfs/conplan/IVA.PDF

tenants were injured. Tenants had complained for years about the need for repairs but inspectors had only required the landlord to make minor fixes.¹⁸

Housing Conditions in New York City

The City of New York, like Los Angeles, faces a problem with quality, affordable housing. As stated in New York State law, housing conditions in New York City have constituted an emergency since 1950.¹⁹ The lack of quality, affordable housing is particularly problematic because New York City is a city of renters. Out of the 3.2 million housing units, 2.1 million are renter-occupied, leaving a mere 30% of the city's housing units as owner-occupied.²⁰

Like Los Angeles, these poor housing conditions predominantly affect lower-income households. Census data shows that, "very low-income households constitute 37.4% of New York's population. Nevertheless, almost nine out of ten households that experience one or more severe housing problems earn very low incomes."²¹

An estimated 147,507 households or 5.3% of all households in New York experience one or more severe housing quality problems. In New York a severe housing problem is characterized as:

- For tenants, contract rents that exceed 50% of their income
- For owners or renters, living in buildings which are dilapidated.
- For owners or renters, living in units which have 5 or more housing maintenance deficiencies.

Table 1 below shows the percentages of New York families living in units with maintenance deficiencies.²²

¹⁸ Dreier, Peter and Candaele, Kelly, "Housing: An LA Story", The Nation, March 28, 2002

¹⁹ Housing Conditions and Problems In New York City: An Analysis of the 1996 Housing and Vacancy Survey. Michael H. Schill and Benjamin P. Scafidi: New York University School of Law Center for Real Estate and Urban Policy: May 1997.
http://www.housingnyc.com/research/html_reports/schill/schill2.html

²⁰ SOCDS Census Data: Output for New York, NY: (Information for year 2000)
<http://socds.huduser.org/scripts/odbic.exe/census/incpov.htm>

²¹ Ibid

²² Housing Conditions and Problems In New York City: An Analysis of the 1996 Housing and Vacancy Survey. Michael H. Schill and Benjamin P. Scafidi: New York University School of Law Center for Real Estate and Urban Policy: May 1997.
http://www.housingnyc.com/research/html_reports/schill/schill2.html

Table 1

Characteristic	Single Persons with children	Elderly Household	Household Income Below 50% of Median
All Households	8.5 %	23.6%	37.4%
Households living in units with 5 or more maintenance deficiencies	21.9%	14.2%	61.6%
Households living in dilapidated buildings	13.3%	17.5%	52.1%
Households with affordability or housing quality problems	19.2%	28.2%	85.6%

Approximately 18.9% of renters in New York spend 50% of their income on rent, with very low-income households making up 94.5% of all renters who pay more than half of their incomes in rent. This leaves them with few options for housing. The New York housing report offered this statement regarding New York families experiencing this rent burden. “The profile of people living in dwellings with severe housing quality problems is not surprising. Over one third of all households in the City of New York have very low-incomes, defined by the U.S. Department of HUD to be incomes less than half of the median income for the metropolitan area. However, over half of all households living in dilapidated buildings earn very low incomes. Similarly, 61.6% of those living in dwelling units with 5 or more maintenance deficiencies earn very low incomes.”²³

Numbers cannot adequately describe the appalling conditions faced by some renters in New York City. For example, the tenants living at 2874 Grand Concourse in the Bronx face falling plaster, rats, electrical outages and mold. Housing inspectors are aware of the problems, issuing almost 350 violations, 80 of which were deemed “immediately hazardous” and should have been addressed within 24 hours. However, poor enforcement means that the landlord is able to ignore the violations.²⁴

The conditions facing low-income residents in both Los Angeles and New York City are a mere snapshot of low-income residents’ housing conditions in many of America’s cities. At the

²³ Ibid

²⁴ Lamport, Joe, “More Dilapidated Housing, Less Code Enforcement”, Gotham Gazette, October 10, 2003

nationwide level, inadequate housing conditions for America’s low-income residents are far from being ameliorated.

The National Picture

According to the Bureau of the Census Statistical Brief released by the U.S. Department of Commerce, low-income households live in inferior housing that is often small, crowded (more than one person per room), older, and saddled with physical problems. An estimated 18% of low-income renters reside in homes that have either moderate or severe physical problems with 79% of low-income renters paying 30% or more of their income on housing costs.²⁵

The Joint Center for Housing Studies of Harvard University provided the following data on housing conditions for renter households in 2001.²⁶ The table shows the incidence of housing problems by income quintile.

Table 2

Thousands of Households	Bottom	Lower-Middle	Middle	Upper-Middle	Top	Total
Adequate	9,170	7,938	6,875	4,383	1,958	30,324
Moderately Inadequate	1,093	652	440	252	102	2,538
Severely Inadequate	530	275	167	133	75	1,181

Table 2 shows that on a nationwide basis, 10.9 percent of renter households live in moderately or severely inadequate units, as defined by HUD. For the bottom quintile, the percentage increases to 15 percent.

The moral foundations of the United States have driven the federal government to pursue policies aimed at raising the quality of housing for all members of society. The private market may provide housing at all price levels, but that which is available to our poorest citizens may not be of a quality that society finds acceptable. Attempts by the federal government to intervene in the market by providing incentives for private landlords to offer decent yet affordable housing have sometimes been successful on a small scale but have failed to solve the bigger problem.

²⁵“Housing of Lower-Income Households.” Bureau of the Census Statistical Brief. September 1994. http://www.census.gov/apsd/wwwstatbrief/sb94_18.pdf

²⁶ “State of the Nation’s Housing 2003”, Joint Center for Housing Studies of Harvard University

Losing the American Dream: A Historical View of U.S. Federal Housing Policy

In the 1920's there was a housing boom in the U.S. This created a situation in which three-fourths of the housing developed was marketed to the top one-third of households in the economy. The poor, in many cases, were forced to live in crowded, uninhabitable private housing units or public housing developments plagued with many social ills, such as overcrowding, crime, mismanagement and neighboring community resistance.²⁷

Despite these realities, during the 1920s several key politicians thought the prosperity experienced by the upper and middle class would soon reach the poor. Unfortunately, this trickle down theory never became reality. However, as slums, concentrated with families unable to afford decent housing, became more and more common during the Depression, Presidents Herbert Hoover and Franklin Roosevelt and their administrations enacted several programs to improve housing conditions for the poor.²⁸

In 1933 the Public Works Administration was authorized by the federal government to construct low-cost housing and to undertake slum-clearance projects. These efforts were not completely successful and the federal government again attempted to address poor living conditions with the enactment of the 1937 Wagner-Steagale Housing Act.²⁹ This Act further broadened the federal role in housing by establishing the U.S. Housing Authority as the permanent agency charged with building subsidized, low-income housing for America's poor. Despite these federal efforts, the U.S. still failed to provide many Americans with decent living conditions.

By 1940, the first national census of housing conditions revealed that almost two-fifths of the nation's thirty seven million dwelling units needed major repairs. Nearly half of these deteriorated units also lacked some, or all, plumbing facilities.³⁰ Although this report was a huge concern for the federal government, federal housing legislation, as well as other areas of domestic policy, came to a standstill due to the U.S.'s engagement in World War II.

As the country recovered from the war, housing conditions returned to the forefront of the federal government's political agenda. The Housing Act of 1949 was passed with strong bipartisan support and outlined as its key mission, the elevation of housing standards for all types of housing. This included the goal of eliminating substandard and other inadequate housing, and

²⁷ The Public Housing Debate: "The Past: the beginnings of Public Housing". www.texashousing.org/txlihis/phdebate/past1.html.

²⁸ Grolier: Encyclopedia of Knowledge. Housing Development and Policy in the United States. Pg. 334

²⁹ Grolier: Encyclopedia of Knowledge. Housing Development and Policy in the United States. Pg. 334

³⁰ Grolier: Encyclopedia of Knowledge. Housing Development and Policy in the United States. Pg. 334

it therefore encouraged the rehabilitation of housing and the elimination of slums in distressed areas. While its first efforts were aimed at public housing, the 1949 Housing Act, nonetheless, also addressed improving access to private housing for low-income groups.

Through these actions, the U.S. aimed to fulfill its promise of ensuring the improvement of the quality of life for all Americans. Like previous legislation in the 1930s, the 1949 Act reminded Americans that this country had a commitment to provide quality housing for all citizens and a commitment to the belief that decent living conditions “contributed to the development and redevelopment of communities and to the advancement of the growth, wealth, and security of the nation.”³¹ It also reaffirmed, “the realization, as soon as feasible, of the goal of a decent home and a suitable living environment for every American family.”

Since then, several congressional bodies have reaffirmed this goal, “turning the 1949 Act into a living document and a lodestar for housing policy.”³² According to the Alliance for Healthy Homes, it “prompted numerous housing and community development programs that have had varying results for the health and well-being of millions of families over the last half-century.”³³ Subsequent legislation included the Housing Act of 1954, which included a working plan that required communities to submit detailed plans to the federal government, outlining their redevelopment strategies. This was the first example of comprehensive planning by local communities required to attain federal funding to improve housing standards for its residents. This standard is still in existence today.

During the 1960s, the federal government made several efforts to secure quality housing for lower income families. At the beginning of the decade, the Federal Housing Authority introduced housing finance programs that would subsidize production of multifamily housing for low to moderate-income families. In order to induce private sector participation, subsidies, tax write offs, and below market interest rates were all included. Owners of the properties could convert private units to market rate rentals after 20 years. Following this effort, in 1965, The Department of Housing and Urban Development (HUD) was developed as a federal cabinet agency.³⁴ Since that time, HUD has continued to steer and preside over all federal housing programs. After the development of HUD, the federal government enacted the Housing Act of 1968. This Act again affirmed the previous goals of the 1949 Housing Act of “a decent home and

³¹ Alliance for Healthy Homes: http://www.afhh.org/aa/aa_existing_policy.htm

³² The Housing Act of 1949: Its Place in the Realization of the American Dream of Homeownership.” Sylvia C. Martinez. Housing Policy Debate, Volume 11 Issue 2. Fannie Mae Foundation 2000.
www.fanniemae.foundation.org/programs/hpd/pdf/hpd_1102_martinez.pdf

³³ Alliance for Healthy Homes: http://www.afhh.org/aa/aa_existing_policy.htm

³⁴ www.hud.org/library

suitable living environment for every American family,” while noting, “this goal has not been fully realized for many of the nation’s lower-income families.”³⁵

In the 1970s, the federal government enacted the 1974 Housing Act and Community Development Act. This Act attempted to create decent and affordable housing through the development of the Section 8 Program. The Section 8 Program primarily targeted local governments and the private sector. This program gave localities the authority and flexibility to use federal funds for new construction, substantial rehabilitation, or tenant based assistance for occupancy of existing rental units.³⁶ Local governments could use federal funding to build public housing or conduct redevelopment efforts on existing public housing. Localities could also use Section 8 funding to entice private landowners to rent to lower income families by offering them partial monthly payments to subsidize the difference between a fixed portion of tenant income and the fair market rent for rental units, as defined by HUD.

More than a decade after the creation of the Section 8 Program, the federal government enacted the Tax Reform Act of 1986. The Tax Reform Act introduced programs such as the Low Income Housing Tax Credit (LIHTC) program. The LIHTC provided the private sector with incentives for the development of rental housing for low-income households.

The American Dream Deferred: An Overview of Existing Federal Housing Policies

The United States Department of Housing and Urban Development (HUD) accepted its responsibility of addressing America’s housing needs and improving and developing the nation’s communities, but as stated previously, there is still a large portion of the population that suffers from a lack of quality, affordable housing.³⁷

Under the direction of HUD, U.S. federal housing policy has developed several housing programs to accomplish its goals of:

- Increasing homeownership opportunities;
- Promoting decent, affordable housing;
- Strengthening communities;
- Ensuring equal opportunity in housing;
- Promoting the participation of faith-based and community organizations; and

³⁵ The Housing Act of 1949: Its Place in the Realization of the American Dream of Homeownership.” Sylvia C. Martinez. Housing Policy Debate, Volume 11 Issue 2. Fannie Mae Foundation 2000.

www.fanniemae.foundation.org/programs/hpd/pdf/hpd_1102_martinez.pdf

³⁶ The Millennial Housing Commission. *Federal Role in Housing* www.mhc.gov/FRH.doc

³⁷ HUD. Homes and Communities. Fiscal Year 2004 HUD Budget Executive Summary. www.hud.gov/utilities/print/print2.cfm?page=80

- Embracing high standards of ethics, management and accountability.³⁸

Each goal stated by HUD has various programs that receive the necessary funding allocations to accomplish measurable objectives. Although HUD's top priority is to increase homeownership, many Americans may never realize the dream of being a homeowner. With this fact in mind, the HUD Administration works to encompass housing in every other form, from encouraging single-family and multi-family rental developments, to meeting the special needs of society's most vulnerable citizens.³⁹ By developing a variety of housing stock and housing resources, the HUD Administration seeks to promote decent, affordable housing for everyone regardless of socio-economic status. The Michigan State Housing Development Authority (MSHDA) is used below as an example to demonstrate how some of HUD's programs work.

The 70/30 Program offers low-interest mortgage loans for new construction and for substantial rehabilitation of existing buildings. Interest rates may vary by location with lower rates in distressed areas. The MSHDA finances this program through the sale of tax-exempt bonds. Although there are income limits imposed on recipients, income limits vary by location. At least 20 percent of the units in construction areas receiving funding must be occupied by households with incomes less than 50 percent of the area median and 10 percent of the units by households with incomes under 30 percent of median. Rate restrictions are also imposed by the MSHDA on units financed by this program.⁴⁰

The Taxable Bond Program enforces the MSHDA to finance \$50 million in taxable bonds, to provide loans for rental housing in which all tenants will have incomes at or below 60 percent of the area median in areas receiving funding from the Taxable Bond Program. Rents under this program are restricted. The program is designed to work in conjunction with the federal Low Income Housing Tax Credit (LIHTC).⁴¹

The 1% Tax Exempt Bond, Family Housing Program offers developers 1 percent interest rate loans for constructing or rehabilitating 50-120 units of rental housing for families in distressed areas. After receiving approval for the 1 percent interest construction loan, owners can then apply for Federal Low Income Housing Tax Credits on any of the units that meet the criteria.⁴²

³⁸ HUD. Homes and Communities. Fiscal Year 2004 HUD Budget Executive Summary. www.hud.gov/utilities/print/print2.cfm?page=80

³⁹ HUD. Homes and Communities. Fiscal Year 2004 HUD Budget Executive Summary. www.hud.gov/utilities/print/print2.cfm?page=80

⁴⁰ <http://rhol.org/rental/mshda.htm>

⁴¹ Ibid

⁴² Ibid

The Pass Through Program allows housing authorities to sell tax-exempt bonds on behalf of developers who supply their own credit enhancement. The bonds are not obligations of the housing authority or of the state. Interest rates are determined by the private market and based on the security of the credit enhancement of the developer. Twenty percent of the units must be occupied by households with incomes less than 50 percent of the median, or 40 percent of the units by tenants under 60 percent of median.⁴³

The Low Income Housing Tax Credit (LIHTC) allows housing authorities to administer a federal tax credit. This tax credit was established in 1987 as an incentive for owners and developers to build low-income housing. This program also offers moderate rehabilitation loans to landlords to improve their units. In certain localities that receive grant funds from various federal rental rehabilitation programs, the local housing authority offers loans at 8 percent interest to help landlords improve residential rental property so that it complies with health and safety codes. Improvement efforts that can be financed using this loan include building rehabilitation, energy improvements and unit renovations.⁴⁴

The Section 8 Existing Rental Allowance Program provides rent subsidies for low-income individuals who find their own housing in private homes and apartment buildings. Recipients are only required to pay a percentage of their income monthly for rent (usually 30 to 40 percent). Local housing authorities administer approximately 11,000 Section 8 existing certificates and vouchers.⁴⁵

In addition to providing funding for individual landowners to develop decent and affordable housing for low-income families, HUD also has provides funding for community development to ensure decent and safe living conditions for this sector of the population. Community development efforts financed by HUD include the following programs.

The Neighborhood Preservation Program offers \$25 million to the MSHDA to finance loans for small apartment buildings in distressed neighborhoods targeted by cities and/or local groups for revitalization. Other community development efforts financed by HUD include the Small Cities Community Development Block Grants, administered by the Michigan Department of Commerce, in collaboration with the MSHDA, which ensures that localities can leverage small cities block grants with home improvement loans and the HOME Act, passed by Congress in 1990. The HOME Act authorizes the HOME Investment Partnership Program to provide funds to

⁴³ Ibid

⁴⁴ Ibid

⁴⁵ Ibid

individuals and communities for a variety of housing activities, including rehabilitation, new construction, home ownership assistance, rental assistance and housing for the handicapped. Local housing authorities' allocation of HOME funds should be used for communities and nonprofits. Approximately \$14 million was allocated in 1993. Several local units of government have qualified to receive their own allocation of HOME funds directly from HUD.⁴⁶

The Section 8 Housing Choice Voucher Program is a federally funded program that provides rental assistance to families (the term "family" includes single persons and elderly) with incomes under 50% of median income renting from private property owners. This rental assistance provides recipients with subsidies that equal the difference between the family's share of the rent, set at 30% of the family's income, and a reasonable rent as established by the housing authority. Under this program, the local housing authority screens the families for income eligibility only. The subsidy is "tied" to the family. This provision allows the family to move anywhere they would like to and receive their subsidy, which is portable. Thus, when the family moves, the subsidy moves with them. The family is given the authority to select a rental unit of their choice. The housing authority retains the right to inspect the chosen unit prior to the family moving in and paying the monthly subsidy to ensure the unit is safe, decent and sanitary. Within the Section 8 program, there are sub programs such as the Family Self Sufficiency Program, Project Self Sufficiency, The After Care Program and the Shelter Plus Care Program.⁴⁷

The Section 8 Moderate Rehabilitation Program is another form of the Section 8 Rental Assistance program in which the rental assistance is "tied" to the rental unit rather than to the family. Because the subsidy is not portable, when the family moves they cannot continue to receive assistance from this program. The assistance is committed for 15 years in exchange for which the property owner rehabilitates the property and commits to renting to low-income families. This particular program contributed a lot to the effort of improving substandard housing. However, new funding is currently not available.⁴⁸

These and other federal housing programs are affected by the federal budget and by shifts in the economy and can be drastically affected by budget constraints imposed on the federal government. The HUD Budget is predominantly comprised of funds received by the United States Treasury, loans, receivables and related foreclosed property, accounts receivables, investments and other assets.⁴⁹ These funds are believed to assist the agency in its mission of creating better living environments for Americans. In FY2003, HUD reported having assets

⁴⁶ Ibid

⁴⁷ Ibid

⁴⁸ Ibid

⁴⁹ HUD. Performance and Accountability Report FY2003. www.hud.gov/offices/cfo/reports/2003par.pdf.

totaling \$120.8 billion. Of the FY2003 budget, 63.31% (\$76.5 billion) was received from the U.S. Treasury in HUD's Fund Balance Account and 25.99% (\$31.1 billion) was received through investments.

To this end, the HUD administration proposed a \$31.3 billion budget for FY 2004. The FY2004 budget of \$31.3 billion consists primarily of investments by FHA's Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund and by Ginnie Mae, in non-marketable, market-based investments not sold in public markets.⁵⁰ For the fiscal year 2004, HUD proposed expanding housing choice and opportunity by offering new flexibility to state and local governments.⁵¹ The administration of various programs providing housing assistance to needy families was to be altered. The administration also implemented new programs to address unmet housing needs of various target populations. Programs such as the Section 8 Housing Choice voucher program will be converted from a federally administered program to state-run block grants called Housing Assistance for Needy Families (HANF). Programs such as the HOME Investment Partnerships Program, the Public Housing Reinvestment Initiative (PHRI) and the Low Income Housing Tax Credit were designed to give states and local governments control to allocate resources to address housing needs more efficiently and effectively for the benefit of consumers. States and localities will be able to continue to operate these programs, providing federal funding remains constant. When budgetary constraints are imposed on federal funding, state and local funding to continue to operate specific programs diminishes significantly. See Appendix A for a more comprehensive look at current federal programs.

HUD has set minimum health and safety standards that classify housing as being decent, safe, sanitary, and in good repair. These standards address the major areas of housing, including the site, the building exterior, the building systems, the dwelling units, the common areas, and the health and safety considerations.⁵² See Appendix B for a more comprehensive look at HUD Minimum Health and Safety Standards.

Although health and safety standards outlined by HUD are detailed and apply to every area of the housing site and unit, they in no way supersede or preempt state and local codes for building maintenance with which HUD housing must comply. HUD housing must also continue to adhere to these codes.⁵³

⁵⁰ HUD. Performance and Accountability Report FY2003. www.hud.gov/offices/cfo/reports/2003par.pdf.

⁵¹ HUD. Homes and Communities. Fiscal Year 2004 HUD Budget Executive Summary. www.hud.gov/utilities/print/print2.cfm?page=80

⁵² U.S. Department of Housing and Urban Development. HUD CLIPS: Physical condition standards for HUD housing that is decent, safe, sanitary and in good repair (DSS/GR). Directive Number: 5.703. <http://www.hudclips.org>

⁵³ U.S. Department of Housing and Urban Development. HUD CLIPS: Physical condition standards for HUD housing that is decent, safe, sanitary and in good repair (DSS/GR). Directive Number: 5.703. <http://www.hudclips.org>

If federal, state and local codes are complied with, health and safety hazards in housing can be prevented. The HUD Administration, state and local governments, as well as many community organizations are currently educating and mobilizing community groups to take action to control hazards and create healthy home environments. To assist in preventing health and safety hazards in homes, the federal government currently offers funding programs to improve residential health and safety of substandard and/or moderate housing units.⁵⁴

After reviewing the extensive current housing legislation and federal housing programs, it cannot be contested that there are local, state, and federal programs that aim to provide decent and affordable housing. It is also obvious that there are regulations and penalties in place that provide proof of genuine U.S. effort at abating inadequate housing. The complexity of the debate lies in the fact that despite these efforts and programs, many low-income Americans have yet to experience a 'decent and suitable living environment'. As seen in major cities, such as Los Angeles and New York City, housing conditions for low-income families remain in need of improvement.

⁵⁴ HUD: Healthy Homes and Lead Hazard Control, HHI Funding Opportunities: www.hud.gov/offices/lead/hhifundingopportunities.cfm.

2. REASONS FOR THE FAILURE IN FEDERAL HOUSING POLICIES

The U.S. government's housing policy has been less than successful in addressing the poor and inadequate housing conditions of the country's lower income families. The following section will provide an analysis of why historical and current housing policies have been ineffective in addressing the housing needs of America's most needy families.

How the History of Federal Housing Policy Shapes the Present

Historically, federal housing policies have made several attempts at improving housing conditions for lower-income Americans. Overall, these policies failed to be effective.

A review of housing conditions for low income households following the 1949 and 1954 Housing Acts demonstrates that, "In the two decades after the passage of the 1949 Act, housing conditions for minority households did not improve...further, the slum clearance programs authorized in both the 1949 and 1954 Housing Acts resulted in massive displacement of lower-income and minority families."⁵⁵ After the clearance of poor neighborhoods and the development of higher quality housing, rents in these areas became too costly for those families that were residents prior to the redevelopment efforts. In addition to these unintended consequences, the Housing Act of 1949 led to the creation of the Urban Renewal Program (then called the Urban Redevelopment Program).⁵⁶ This program "intended to improve communities by giving grants to localities to eliminate slums and blight by substantially reducing land acquisition costs."⁵⁷ It was criticized for doing more "urban removal" than urban renewal.⁵⁸ Criticism of the program is also based on the argument that it led to white flight⁵⁹ from cities.

Housing legislation of the 1960s was also ineffective in addressing the housing conditions of the poor. Though ambitious in their intent, the 1960s finance programs had failed at the end of the 20-year time limit imposed by the program. According to Sylvia A. Martinez, finance programs eventually resulted in "the loss of attractive property in good locations. For the

⁵⁵ The Housing Act of 1949: Its Place in the Realization of the American Dream of Homeownership." Sylvia C. Martinez. Housing Policy Debate, Volume 11 Issue 2. Fannie Mae Foundation 2000.

www.fanniemae.foundation.org/programs/hpd/pdf/hpd_1102_martinez.pdf

⁵⁶ "Federal Role in Housing. The Millennial Housing Commission. www.mhc.gov/FRH.doc

⁵⁷ "Federal Role in Housing. The Millennial Housing Commission. www.mhc.gov/FRH.doc

⁵⁸ Alliance for Healthy Homes: http://www.afhh.org/aa/aa_existing_policy.htm

⁵⁹ "White Flight" is a phenomenon that occurs when middle to upper class individuals are able to escape the lower classes, (usually the poor and minorities), by enforcing an increase in housing prices beyond the scope attainable by lower classes. Consequently, middle to upper class individuals can use their financial resources to entirely move away from these populations.

twenty year period, many of these units were unmaintained and mismanaged, leaving subsidized units to be characterized as poorly located housing that are mismanaged properties.”⁶⁰

Although the Housing Act of 1949 and subsequent legislation up until the 1980s may have received substantial criticism, nonetheless, they were effective in heightening U.S. awareness of housing conditions of various income groups and providing some relief, although perhaps small, to some low income families in substandard housing.

Challenges Arising From Today’s Federal Housing Policies

Current federal housing programs, like those of the past, aim to secure housing units for low-income families that are affordable yet meet adequate health and safety standards. The following is a critique of why current federal policies aimed at improving housing conditions for low-income families have failed.

The current inventory of privately owned subsidized properties, as studied by the Millennial Housing Commission, totals less than two million units.⁶¹ The Millennial Housing Commission, an organization established as a part of Public Law 106-74, was developed by legislative mandate to identify, analyze and develop recommendations that highlight the importance of housing, improve the housing delivery system and provide affordable housing for the American people. This Commission was charged with recommending possible legislative and regulatory initiatives to ensure decent and affordable housing for all U.S. citizens. The Commission identified the “central housing challenge as the lack of sufficient rental apartments that are affordable for low-income households.”⁶² The study identified several factors driving this shortage, each of which will be examined below.

Restricting the occupation of these units to the elderly and disabled

Adequate units are offered to those families that are low-income but only if they fit the limited criteria of elderly or disabled. Therefore, the availability of these units does not help those low-income households not falling within these two distinctive categories. This limited criteria fails to serve disadvantaged families for the reasons stated in the Millennial Housing Commission report, “Affordable housing developments cannot be isolated from the broader community in which they are located...”⁶³

⁶⁰ The Housing Act of 1949: Its Place in the Realization of the American Dream of Homeownership.” Sylvia C. Martinez. Housing Policy Debate, Volume 11 Issue 2. Fannie Mae Foundation 2000.

www.fanniemae.foundation.org/programs/hpd/pdf/hpd_1102_martinez.pdf

⁶¹ The Millennial Housing Commission. Federal Role in Housing. www.mhc.gov/FRH.doc

⁶² National Housing Policy in the U.S. for the 21st Century. Dr. March A. Weiss. Prague Institute for Global Urban Development. http://www.pragueinstitute.org/housing_us.htm

⁶³ The Millennial Housing Commission. Federal Role in Housing. www.mhc.gov/FRH.doc

Allowing private land owners to stop providing housing to low income families after their 20 year contract has elapsed

The Harvard Joint Center for Housing Study has attributed the lack of decent and affordable housing to property owners deciding not to renew federal funding after an extended period of time. A statement released by this organization confirms, “More subsidized rental units are being lost from the affordable housing inventory as private owners take advantage of expiring contracts to exit federal programs and charge higher market rents. Although Congress has acted to soften the blow by extending vouchers to current tenants to keep the units affordable for their length of their chosen stay, many of these units are vulnerable to stiff rent increases and eventual removal from the affordable housing stock once current tenants move... Owners of 1.4 million private rental units can prepay their mortgages at the end of expiring use periods or opt out of programs when their subsidy contracts end. Landlords with properties in the most desirable areas and in the best condition are the most likely to opt out and to take advantage of higher prevailing rents.”⁶⁴

Private provision without government intervention

Private landowners that provide affordable housing to low-income families who are not eligible to receive federally funding or have refused federal funding have not been required by the federal government to meet a minimum quality standard of housing. Non-receipt of federal funding has served as a means for some private property owners to continue providing substandard conditions in their rental units without government intervention.

The National Low-Income Housing Coalition asserts that ending America’s affordable housing crisis and addressing substandard housing must involve greater fund appropriation for communities.⁶⁵ The diminishing strength of federal programs caused by the curtailing of federal housing budget allocations, as well as the lack of enforcement of health and safety standards on all affordable housing units (those federally funded and those not federally funded alike), allows the lack of decent and affordable units to continue to remain an issue. The Bureau of the Census Statistical Brief, released by the U.S. Department of Commerce, issued this statement, “low-income households live in inferior housing, older, and saddled with physical problems. An estimated 18% of low-income renters reside in homes that have either moderate or severe physical problems...”⁶⁶

⁶⁴ “Low-Income Housing.” Harvard University’s Joint Center for Housing Studies. <http://www.jchs.harvard.edu>.

⁶⁵ National Low-income Housing Coalition. www.nlihc.org

⁶⁶ “Housing of Lower-Income Households.” Bureau of the Census Statistical Brief. September 1994. http://www.census.gov/apds/wwwstatbrief/sb94_18.pdf

High Prices Force Overcrowding

Those families attempting to avoid substandard conditions, usually offered in affordable units, have chosen to experience a “rent burden”. Several families, in many of these cases, may live in a unit that cannot accommodate the number of individuals residing in the unit in order to afford the unit.

The National Low-Income Housing Coalition’s 2003 report, “Out of Reach” revealed that in the U.S., 37-68% of the population in all states and jurisdictions could not afford one to two bedroom apartments.⁶⁷ One solution is to share an apartment in order to share the costs. Many low-income families therefore live in a unit that cannot accommodate the number of individuals residing in the unit.

Overcrowding is not a new phenomenon. It has been recognized as a problem in the United States since the nineteenth century. Industrialization and immigration led to many households living two or three to a unit in substandard tenements in the major cities. This phenomenon declined in the United States for many decades but began to increase again in the eighties. Overcrowding, in the 1980s, affected 7 percent of renter households; by the 1990s, 8.9 percent of low-income families were affected.⁶⁸ Overcrowding has major effects on health and safety standards and the more intensive use of a housing unit accelerates its deterioration because more people than it was designed for are occupying it.

Low Housing Stocks

Large cities, with exploding populations do not have enough decent yet affordable housing stock to accommodate the overwhelming numbers of low income families that reside in urban areas. A study conducted by Harvard University’s Joint Center for Housing Studies found that housing problems among very low-income households tend to be concentrated largely in cities.⁶⁹ Of the affordable units available to low income households in these areas, many have severe structural deficiencies. An estimated 5% of both rural and urban low-income residents live in severely inadequate units (containing severe problems in plumbing, heating, electrical systems and upkeep).⁷⁰

⁶⁷ The National Low-income Housing Coalition. “Out of Reach-2003.” <http://www.nlihc.org/oor2003/data.php?state%5B%5D= all>.

⁶⁸ Myers, Dowell & Baer, William C., “The Changing Problem of Overcrowded Housing”, Journal of the American Planning Association; Winter 1996, Vol. 62, Issue 1

⁶⁹ “Low-income Housing.” <http://www.jchs.harvard.edu>

⁷⁰ “Low-income Housing.” <http://www.jchs.harvard.edu>

3. CRITERIA FOR DEVELOPING NEW FEDERAL HOUSING POLICY APPROACHES

In the context of this policy area, we now turn to solving our problem—improving the quality of affordable housing in the United States. In the course of dealing with this complex public policy question, it is helpful to identify what our clear priorities are. This will help us not only to choose between the various approaches available for addressing the problem, but also to remind us of what we are trying to accomplish. In this section, we will look first at the question of what constitutes an “acceptable” level of housing and then turn to the policy objectives that should guide our deliberations.

What is An Acceptable Housing Unit in America Today?

For the purposes of our study, an acceptable housing unit is one that meets HUD standards for health and safety, does not fall under HUD’s definition of “substandard” or “moderate”, and complies with the relevant state and local housing codes.

The following section will provide criteria for selecting a new federal approach to the provision of decent yet affordable housing for all Americans, while taking into account lessons learned from past and present federal housing policy initiatives.

Balancing Competing Public Interest Objectives

In striving to meet this goal of acceptable housing, it is important to recognize that there will be tradeoffs in the approaches we have available to solve the problem of low quality housing. The intent of developing criteria to formulate sound approaches to resolving the lack of decent and affordable housing in the U.S. for low-income American families is to develop approaches that are successful in the following areas:

- Providing suitable living conditions for low-income American families
- Meeting Federal Housing Standards
- Accomplishing Cost Efficiency
- Attaining Political Feasibility
- Maintaining Local Control
- Protecting Liberty and Freedom, and
- Avoiding Disincentives for the Private Sector

Addressing the areas listed above can provide a strong framework to effectively combat the housing crisis for low-income families in the U.S.

Providing And Sustaining Suitable Living Conditions For Low-Income American Families

The first and most important criterion in choosing an approach to resolve the decent housing crisis is selecting a strategy that will ensure that more decent yet affordable units are made available to low-income American families. Once these units are provided to low-income families, it is important that the quality of these units is maintained so that they do not slip back into the category of “substandard”. Many legislative and funding efforts can be implemented but they are null and void if, in the end, the existing substandard housing units are not brought up to minimum health and safety standards and/or if the availability of adequate units for this sector of the population does not increase.

Meeting Federal Standards

The next important criterion in establishing an approach to secure decent living conditions for lower income families is the operationalization of “suitable” living conditions, by ensuring that existing units meet or exceed existing federal housing standards as first recorded in the Housing Act of 1949 and later updated in the 1980s. This would mean that housing currently available would be of decent quality, as recognized by these legislative measures. According to the Code of Federal Regulations, a decent and suitable living environment signifies safe and livable neighborhoods while focusing on the retention of affordable housing stock to low-income and moderate-income families. Any approach proposed must be consistent with this code. Existing units must meet the health and safety standards established by the Government.

Economic Responsibility and Cost-Efficiency

Any approach to housing must be economically efficient. In short, although the goal of ensuring decent living conditions to lower income families is an honorable goal with admirable principles, the chosen approach to reaching this goal must be economically responsible and cost-efficient. The approach to ensuring decent housing has to be cost-efficient so that funding can be maximized in order to help as many households as possible. It is vital that each dollar be used responsibly and utilized to its maximum potential in order to get the most out of government funding, which is the public’s investment.

When considering if an approach is economically responsible, one must take into consideration the realized and perceived economic consequences of all stakeholders involved. Development and rehabilitation financing issues become a major consideration for federal, state and local governments, as well as residents of communities involved. Conflict between stakeholders can create severe political opposition to the strategies proposed.

Previous attempts at providing decent and affordable housing have entailed providing government funding in the form of subsidies and vouchers. In considering strategies to increase decent and affordable housing stock for low-income families, one must also evaluate the economic impact of providing subsidies and vouchers on the private housing market prior to proposing this approach. Depending on the amount of assistance, results can vary from overconsumption to underconsumption of housing. The impact of these government assistance programs can create tension between political leaders and their constituents. For a more detailed analysis of how subsidies and vouchers can affect rental markets, communities and recipients, please refer to Appendix E: Subsidies and Economic Inefficiency.

In considering cost efficiency, one must take into consideration the longevity of any approach. An approach, if cost effective, must include a plan for a strategic funding scheme in order that it will be effective and long lasting. Strategically planning funding resources and appropriations ensures spending efficiencies, cost savings by the government and stability of services to the target population. Federal funding for an approach, will undoubtedly, be appropriated on budget allowances. Should budgets and funding levels fall, it could bear heavily on the viability of certain programs, which can affect many families. In order to successfully ensure that the government can continuously secure decent and affordable housing for low-income American families, it is essential that the chosen approach attempts to secure nongovernmental involvement in the production, preservation and provision of decent housing stock to this population. By including nongovernmental agencies in this task, the government can secure additional funding while avoiding political fallout (political feasibility will be discussed in detail in the following section). Government involvement in the housing market can lead to cost inefficiencies, as seen previously. Past and current policies have demonstrated some of these inefficiencies, as seen with the Section 8 Housing Program. These inefficiencies could prevent programs from maximizing every public invested dollar while altering the housing market for private investors.

Cost efficiencies and the financial implications affecting all stakeholders (private land owners, recipients, federal, state and local governments) have to be considered in any approach to securing decent and affordable housing. Providing proof of cost efficiency for these stakeholders is important in attaining adequate political support.

Political Feasibility

Regardless of how brilliant an approach to an issue may be, that approach must also be politically feasible. Plainly speaking, the solution has to be in line with our current political culture and attain the appropriate level of support from all stakeholders involved. Any approach must have the ability to garner support from federal and state lawmakers, local leaders and agencies, and the residents of local communities and surrounding neighborhoods.

Any approach to housing must allow U.S. officials to remain in line with core American values, federal standards and budget constraints. Approaches that do not take into consideration the opinions and mores of law-making officials might experience the stalling of key decisions as a means to avoid unwanted legislation. It is important for an approach to be in line with the ideas and the political positions of key political leaders.

Approaches must also take into consideration the positions of localities and community residents. Many initiatives seeking to secure decent and affordable housing for low-income families can experience political opposition such as “NIMBYISM”. “NIMBY”, the Not In My Backyard theory, is demonstrated in the tendency of some communities to exclude certain populations of people from residing in their neighborhood. The most commonly excluded populations include homeless individuals, poor and/or disabled individuals or families, and specific races or ethnic groups.⁷¹ Exclusion of these groups is usually accomplished in several ways. Some common exclusionary techniques include “out pricing” certain populations by making rents in particular areas unaffordable to those that are not in higher income brackets, and lobbying local governments to avoid the development of affordable housing units and rental units through exclusionary zoning. NIMBYISM can also be encountered when local leaders assert that low-income housing integrated into high-income neighborhoods will provide a breeding ground for social ills most commonly associated with low-income neighborhoods. Often developers will receive incentives to build a certain number of low-income houses in high rent districts. In these cases, property owners often object to certain types of construction and housing projects claiming that the quality, value, and safety of a community can be compromised.

HUD is committed to creating equal housing opportunities for all Americans regardless of socio-economic status, race, color, religion, sex, national origin, age, disability and familial status. Programs introduced to ensure HUD combats NIMBYISM by attaining this goal include the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP). The FHAP provides funding to state and local governments to enforce fair housing laws that are

⁷¹ The NIMBY Report. National Low-income Housing Coalition. <http://www.nlihc.org/nimby/0901.htm>

substantially equivalent to those outlined by the federal government. The FHIP provides funding and support to nonprofit agencies to target discrimination. These programs were designed to provide enforcement, education and outreach to ensure all Americans have equal opportunity to housing in the United States.

There are lucid arguments on both sides of this issue. Those against NIMBYISM but still vying for political support argue that it is a civic responsibility and our moral duty to make some sacrifices for the good of the community, and that in the long run these projects are beneficial. Certain property owners make the case that the safety and well being of their family and community is paramount and they will not allow it to be compromised. This discussion is relevant to this present research and analysis because these concerns have to be addressed in satisfying an approach's need for political feasibility.

Providing for Local Control

The next important criterion in deciding on an approach is that of local control. The United States is richly diverse and has a wide range of physical and cultural characteristics that make each geographic area distinct. As such, there is no "one size fits all" housing program or model that could effectively and comprehensively address the housing needs of the entire country. Weather conditions, specific structural needs, and specific cultural needs differ significantly. HUD aims to provide resources and services to all communities to carry out a wide range of community development activities that are suitable for their geographic area.

There is no "one size fits all" federal program that will effectively address the specific needs of each state and locality. The federal government attempts to allow states and localities the flexibility to address their specific needs by providing policies and regulations that are broad in scope. Broad and nonspecific federal policies provide states and localities with the authority to extend the arm of the law in ways that address their specific needs.

Although the flexibility given to states and localities by the federal government works to each region's benefit, the extension of the law by state and local governments must never conflict with federal requirements. Housing policy for each state must remain in balance between federal, state and local regulations. Each region in the U.S. is held accountable, by the federal government, for analyzing its need for housing stock and monitoring the quality of its existing stock with federal guidelines in mind. Although the housing needs of the sunny west (as in Los Angeles) are very different from the housing needs of the weather-beaten northeast (as in New York), both regions must develop new housing stock and restore existing housing stock with the same federal regulations in mind.

Effective federal housing plans must continue to provide states and localities with the flexibility to provide a suitable living environment for their residents. Local housing officials and Public Housing Authorities (PHAs) must have the ability to use their local rental market data to establish housing standards and rents based on the needs of their area. Increased flexibility can assist localities in deciding how to best use funding and services to effectively address the specific needs of their communities.

HUD has traditionally provided unmarked housing dollars to local governments. Unmarked dollars given to local leaders and Public Housing Authorities (PHAs) provide significant cost savings realized through creative local efforts to develop and maintain housing. By giving localities leverage to create their own housing programs, HUD provides states and local government officials with performance-based incentives to provide housing that is suitable and appropriate for their geographic region. Local housing officials and PHAs can be creative and innovative in their approach rather than constrained by the necessity to meet minimum national standards. Localities use a “best practices” approach to housing standards and development concerning their region. HUD’s experience with many existing programs confirms that residents and local public housing authorities have benefited from increased flexibility.⁷²

In order to accomplish community development goals, HUD must continue to offer programs and solutions that are flexible enough to address all geographic areas while at the same time enforcing minimal federal regulations to ensure program accountability. Local housing officials must continue to have the authority to use their local rental market data to establish housing standards and rents. Greater freedom will continue to facilitate creativity and innovation in the provision of decent and affordable housing stock. It is imperative that this flexibility be present in our adopted approach so that it may effectively meet the needs of localities and thus be administratively possible.

Protecting Liberty and Freedom

Our next consideration in selecting an approach to decent and affordable housing for all Americans is the need to regard both liberty and private property. This principle is one that is listed in the Declaration of Independence and the Constitution. Everyone agrees that government must appropriate certain funds and provide certain services. Thinkers such as Adam Smith, John Locke and Milton Friedman would all remind us at the same time we must remember that private property is to be respected and that government intrusion is best kept to a minimum. And while the aforementioned men would all agree that smaller government is better government they

⁷² HUD. Newsroom. Flexible Voucher Program. www.hud.gov/news/release.cfm?content=pr04-010.cfm

would all acknowledge that government has a specific and important role to play. As we develop a proposal to address this problem we do it with respect for private property and limited government in mind, and also with the understanding that the government can, if employed properly, make strides towards realizing President Roosevelt's conviction that all Americans should enjoy a certain freedom from want and insecurity. Any solution that is proposed must therefore respect liberty and private property.

There is a constant debate about the size of government and what government 'should' do. The question really is not are we in favor of equality or liberty of low income families, or are we in favor of property rights of private land owners. Americans traditionally have valued both of these concepts to one degree or another. The question, when it comes to federal programs, is to what extent individual property rights can be abridged for the common good. Even the staunchest free market capitalists understand that government must appropriate certain funds and provide certain services.

Adam Smith, in the *Wealth Of Nations*, gives three criteria for what the government's responsibilities are. The first is Defense, the second is Justice (law and order), and the third is Public works (roads, highways, and education) Smith would most assuredly disapprove of government intrusion in the housing industry but his point is not argued from the stance of 'all property rights' or 'no property rights', it is simply a gradation, the extent to which we decide those rights can be limited for a greater or common good.

John Locke, in his *Second Treatise* makes the case for the importance of private property by explaining how he believes that the labor of the individual creates value and creates wealth. What was created by a person's labor belongs to the person and when two people are responsible (for instance an investor adds capitol and a worker adds labor) then the wealth would be divided as agreed to by the parties. Friedman is another who would tend to minimize the role of the government and advocate private sector solutions. These men would all advocate economic liberty as being the key ingredient for a successful society. It is this very idea that is naturally more efficient to them. Economic equality would not even cross their minds as something to be pursued by government.

The aforementioned thinkers vary greatly from Rousseau or Marx, both of whom felt that private property was theft. Rousseau asserted that wealth and gain are always attained through devious ends. Private property then is always theft and all things belong to all people in a sense. Obviously Marx and Rousseau make the most extreme case for economic equality and have no room in their philosophy for economic liberty (no property rights beyond those specified

arbitrarily by the government and only retained at the government's pleasure). A more reasonable interpretation of economic equality would be the ideas set forth by President Franklin Roosevelt.

Roosevelt championed his "four freedoms." They are Freedom of Speech, Freedom of Worship, Freedom from Want, and Freedom from Fear. The concept of the right to "freedom from want" stems from the idea that government has a responsibility to provide certain things to its citizens that extends beyond just safety, justice, and order. This is nothing new in our day where the government has delved into almost every aspect of society. It is therefore necessary that as we develop our suggestions for how to address the decent and affordable housing crisis to low income families by deciding what the appropriate balance is between economic equality and economic liberty. We then must discern to what extent we will respect property rights and to what extent we will have to limit them for the public good.

Avoiding Disincentives for the Private Sector

Unfortunately, most government housing programs have had the unintended consequence of providing disincentives for private landowners. These disincentives have had the affect of inducing resistance by the private sector in collaborating with efforts to secure decent housing for low-income families. Program requirements and regulatory mandates involved with participating in the government programs may deter owners from being inclined to want to rent to subsidized renters.⁷³ In the case of vouchers, disincentives are created for private owners because of the program and regulatory requirements involved with participating in the government program.⁷⁴ It would be much simpler and less burdensome for owners to rent to non-voucher holders and bypass the entire process. In selecting an approach, one must take into consideration the criterion of providing some means of implementing a program that avoids providing disincentives to private landowners.

It is with the acknowledgement and analysis of the specified criteria (providing suitable living conditions for low-income American families, meeting federal housing standards, accomplishing economic efficiency, attaining political feasibility, maintaining local control, protecting liberty and freedom, and avoiding disincentives for the private sector) that we select an approach to increasing low-income households' access to quality housing. The approaches that are considered are done so with an understanding of past and present obstacles, and with a firm

⁷³ The Report of the Millennial Housing Commission, pp. 8.

⁷⁴ The Report of the Millennial Housing Commission, pp. 8.

regard to the long-standing U.S. commitment of providing a ‘decent and suitable living environment for every American family.’

4. APPROACHES TO IMPROVING LOW-QUALITY HOUSING

Now that we have reviewed the extent of the decent and affordable housing crisis, its historical and current context and laid out specific criteria for establishing a successful new approach, we are now equipped to effectively address the problem of substandard housing in our urban areas.

There are four basic approaches to addressing the problem of the shortage of decent yet affordable housing for low-income households ranging from removing government from the housing market to increasing government's role: relying on private markets to provide quality, affordable housing; encouraging non-profit ownership; tightening regulation and increasing penalties for non-compliance with regulations; and expanding government subsidy programs.

Privatization

When the government intervenes in private markets, inefficiencies tend to arise. As addressed previously, the regulations and inspections that are part of the Section 8 program may increase the landlord's cost of providing housing such that they may decide not to participate and instead rent their units in the private market. This problem is particularly acute in neighborhoods where housing is scarce and voucher holders are in strong competition with unassisted renters.⁷⁵ Also, corruption and abuse of the system can occur. According to Grigsby and Bourassa, "because housing is a complex subject, housing subsidy programs appear to fall victim to greater fraud, abuse and administrative waste than do most other subsidy programs."⁷⁶

Therefore, one approach to addressing the housing crisis is for the federal government to discontinue all rental subsidy programs, whether they work on the demand side or the supply side. If this approach were taken, the private sector would be solely responsible for providing housing to low-income families and market forces would set the price for each type of unit, based on supply and demand. A huge portion of the housing market currently operates in this fashion. The market would provide a range of housing types, from single room occupancy units (SROs) to single family dwellings. Some properties would be substandard, but they would remain affordable. Many low-income families may choose to live in overcrowded conditions in order to afford a higher quality dwelling. No families would be able to use vouchers to afford a higher-quality dwelling.

⁷⁵ Abt Associates Inc., "Issues and Options for HUD's Tenant-based Assistance Program"

⁷⁶ Grigsby, William G. and Bourassa, Steven C., "Trying to Understand Low-Income Housing Subsidies: Lessons from the United States", *Urban Studies*, Vol. 40, Nos. 5-6, 2003

Privatization, as an approach, must be mentioned, but it is not a viable option because although the private market does create quality housing, it does so mostly for higher income households, which is not the target group we are aiming to help. Landlords aim to maximize their profits and so they will not make improvements to their properties unless they expect a reasonable return on investment in the form of a higher rent. In areas such as Los Angeles and New York City, where average rents for quality housing are already high due to high demand and limited supply, relying on the market alone would cause quality housing to be priced out of reach for most low-income families, rather than improving their access. Privatization therefore fails to meet the basic criterion of providing suitable living conditions for low-income American families.

Encourage Nonprofit Ownership

For many years the federal government has encouraged property developers and owners to provide rental accommodations for lower-income households by providing guaranteed rental income and mortgage subsidies. Unfortunately, over time, the amount of this housing has decreased because contracts expired and many owners decided to convert their property to market-rate housing (as discussed earlier). In addition, other property owners have not kept their properties in good condition. Individuals or groups who are committed to keeping the property available for lower-income households should be the ones to own these rental properties. Nonprofit developers are more suited to this role than private landlords. According to a Brookings Institute report, nonprofit housing developers are, “often locally based with long-standing commitments to the communities in which they work, and may be involved in other community development and social service activities as well.”⁷⁷

Because it must be assumed that private sector landlords seek to maximize their profit, therefore always attempting to increase the return on the investment they have placed in their rental properties by charging the highest possible rent and keeping their costs as low as possible, they cannot be depended upon to provide good quality, affordable housing over a prolonged period of time. Nonprofit developers, primarily Community Development Corporations (CDCs) are normally associated with a particular neighborhood and are devoted to serving the needs of the residents of that neighborhood. Although they often face considerable financial and organizational issues, many CDCs have the necessary experience and desire to rehabilitate substandard housing and keep it affordable for lower-income households.

⁷⁷ “Rethinking Local Affordable Housing Strategies: Lessons from 70 Years of Policy and Practice”, by the Urban Institute and the Brookings Institution” December 2003

It is true that one of the main challenges nonprofits face is obtaining enough financial support over an extended period of time to enable them to provide quality, affordable housing. However, opponents should take into consideration the incentives that nonprofit and community organizations have to develop, operate and maintain decent, affordable housing. Nonprofits and community organizations have a vested interest in their communities. These agencies appreciate the history of the communities they serve and want to maintain and increase the resources of the area. The more resources these agencies can obtain for the community, the more value they have to the people they serve. By maintaining decent and affordable housing resources, these agencies can demonstrate their validity to their funders, Board of Directors, HUD and other community agencies that may begin to partner with them to provide resources for their community. Overall, nonprofits and community organizations possess a clear mission to improve the standard of housing. This is the reason why they are in existence and even though it seems improbable financially, they will find a way to accomplish the task.

Tightening Regulation and Increasing Penalties

Government inspections are a mandated component of many federal housing programs, such as in the case of the Section 8 Program. Units receiving government funding must pass an inspection prior to being rented to a voucher-holder. However, many rental units available to lower-income households are not federally assisted and so are not subject to these inspections. Local councils are responsible for inspections and for the enforcement of the housing code for multi-family rental properties not receiving government funding. For example, in the City of Los Angeles, the Code Enforcement Unit, Complaint Section, handles complaints regarding substandard housing. Tenants are able to file complaints concerning habitability, deferred maintenance, and use or occupancy issues. Upon verification of a filed complaint, the landlord has thirty days to make repairs, after which penalties may be assessed. The property owner may be referred to programs such as the Rent Escrow Account Program or a Rent Reduction Program or the City Attorney's Office or to the Systematic Code Enforcement Program (SCEP). These programs conduct detailed building surveys on substandard units. SCEP was established to perform regular, mandatory inspections of rental properties in the City of Los Angeles. The Program, in recent years, has been unable to conduct these regular inspections due to internal issues. According to a 2001 letter from City Controller Laura Chick to the Mayor and other Council members, upon an outside auditor's evaluation, it was identified that, "significant resource and staffing problems were present in the Program, which prevented the City from

achieving the Program’s goal of inspecting multifamily units once every three years.”⁷⁸ Despite these issues, the Los Angeles City Council claims that the SCEP is the only code enforcement program in the country that guarantees regular apartment inspections.

This suggests that an opportunity exists to strengthen the inspection and enforcement process in many localities. This process would apply to both assisted and non-assisted rental housing. The federal government could choose to implement a standardized housing code for the entire United States, enforced by localities, but subsidized by the federal government. The code could establish minimum standards, which could then be adapted to local circumstances. The subsidy could be used by localities to hire enough inspectors for a mandatory inspection process to be established.

Expand Section 8 Program

The Section 8 Program is not an entitlement program. Only a minority of households qualified to receive a voucher actually receive one. HUD determines the number of vouchers that a local Public Housing Authority (PHA) has available, based on the size of the Section 8 budget, which is set by Congress. Because of housing regulations, landlords must keep their units up to a level of quality that needs to be sustained by a rent level that many extremely poor households cannot afford without a direct subsidy. The government only provides this subsidy to a small number of households, forcing many to either live in overcrowded conditions, or to pay a high percentage of their income for housing. Evidence from the Experimental Housing Allowance program, a precursor to Section 8, suggested that landlords improved the quality of existing housing so that their units would meet program standards. HUD found that the program decreased the number of substandard units by between 13 and 34 percent and increased the supply of “decent” units by between 3 and 9 percent.⁷⁹ Expanding the program so that all the households who qualify for a voucher receive one should therefore further reduce the number of substandard units, as landlords would do the necessary repairs so that they could participate in the program.

Although expanding the Section 8 program appears to be an attractive policy option that would increase the quality of rental housing available for lower-income households, the probable cost of the expansion means that it does not meet our criterion of political feasibility.

⁷⁸ Letter from Laura N. Chick, City Controller to Mayor James K. Hahn and City Council Members, November 13, 2001

⁷⁹ www.brookings.org/es./urban/knight/c3.htm

Recommendation

Because increasing the quality of housing for low-income households is our principal consideration, it would appear that the best approach is a combination of two options listed previously. This combined approach involves encouraging nonprofit ownership of rental properties along with tightening regulation and increasing the enforcement of penalties. This amalgam of options is the best course of action because it most adequately fulfills the aforementioned criteria. Implemented well, it should increase the quality of affordable housing so that it meets or exceeds federal standards, while providing for local control and protecting liberty and freedom. This approach is politically feasible and economically efficient.

Encouraging nonprofit ownership alone would not solve the problem because it is not envisioned that nonprofits would own all rental housing. A large amount would still be owned by the private sector and the needs of the tenants living in these units must also be addressed. Also, it should not be assumed that all nonprofits would fulfill their responsibility to provide decent housing for all their tenants. Tightening regulation and increasing enforcement would address the quality of housing in the private sector whilst also ensuring that nonprofit housing is of a decent quality.

There are those that might argue that nonprofit housing developers would not be able to meet or exceed the federal standards established in the Housing Act of 1949. The arguments made by opponents of HUD—Nonprofit partnerships are as follows:

- After initial funding is received and spent, nonprofit or community organizations will be financially and administratively unable to provide oversight, maintenance and rehabilitation to housing under their management due to lack of expertise and lack of incentives to maintain these units appropriately.
- Eventually, housing owned and operated by nonprofit and community organizations will be unable to meet and/or exceed existing HUD health and safety regulations due to their lack of expertise and thus, substandard housing will reappear and funding resources and collaboration efforts will be wasted.
- The system of collaboration and funding may be exploited and corrupted by less than honorable leaders of some organizations who may be persuaded to misallocate public funds that should be used for housing.

These arguments may be true in some isolated cases but proper implementation should ensure that these remain few in number. Many nonprofit housing developers have developed a great deal of expertise in this area, and expert advice is available for those who are new to the field.

This component of the recommended suggested approach is economically feasible because nonprofits are able to partner with the private sector so that they do not depend exclusively on government funding. They can receive funding from philanthropists and also make use of the Low Income Housing Tax Credit. This is also a politically feasible option because there are not many politicians who want to be known for trampling on nonprofit agencies that assist the community and therefore have important relationships with many of their constituents. There are few politicians willing to deny help to a nonprofit or community agency, especially if the organization has a history of success and a reputation for being an agent of change in their community. Additionally, increasing nonprofit participation is more politically feasible than increasing direct government intervention because it includes a role for the private sector but does not leave market forces unchecked.

Encouraging nonprofit ownership provides for local control because most nonprofit housing developers are locally based with long-standing links and commitments with their communities. They are entwined with the local communities' needs and desires. Their position in the community and their operating structure affords them the flexibility required to benefit both residents and local public housing authorities.

Government intrusion is kept to a minimum through nonprofits, while at the same time allowing government to aid Americans in a way that is beneficial because it increases the quality of housing. Therefore government fulfills its duty while not encroaching on the life, liberty, and the pursuit of happiness of its citizens.

All of these reasons point to the fact that HUD—Nonprofit partnerships are a viable component of our suggested recommendation. They are already playing an increasingly important role in housing development, particularly for lower-income households. In King County, Washington, the Housing Development Consortium of Seattle-King County developed, a group of nonprofit housing developers, opened 2,158 units of low-income housing in 2001. Ten developments were in Seattle and were partially funded by the 1995 Seattle Housing Levy. Each dollar of the Levy was leveraged about 3.5 times by the nonprofit housing developers, showing that they can be economically efficient.⁸⁰ Success stories like this increase the political feasibility of such an approach by proving its viability.

In addition to increasing nonprofit ownership, we suggest that the federal government tighten regulations and increase penalties and enforcement to ensure that the standard of existing housing is maintained or improved whilst remaining affordable. This option will not only meet

⁸⁰ Okigwe, Carla, "2,158 Reasons to Like Nonprofit Housing Groups", Seattle Daily Journal of Commerce, February 28, 2002

the criteria of meeting the existing federal standards, but will exceed them as well because the amplified regulation, penalties and enforcement efforts will increase standards.

It is arguable that this component of our suggested criteria is neither economically efficient nor politically feasible but that viewpoint is only justified from a cursory glance at its implementation. It might seem that increased regulation would require increased funding because additional labor would be needed in order to stringently enforce regulations. This may be true in the short run, but the increased enforcement will force owners of assisted housing to use their federal monies more responsibly due to fear of fines and legal action. In the long run, efficiency will be increased through accountability. Also, the penalties collected can be used to fund additional resources.

Tightening regulation and increasing enforcement is politically feasible because it will demonstrate that public officials are serious about providing a better standard of living for low-income Americans. The issue of poor Americans living in substandard housing has not been at the forefront of the American conversation about housing. Solutions to housing problems were embraced in theory but often failed to live up to their promise. By implementing this component of our suggested approach, current legislators can demonstrate they are ready to “put their money where their mouth is,” by backing up their regulations with increased enforcement. They will increase their political support by demonstrating to poorer communities and other interested parties that substandard housing is not acceptable and will not be tolerated.

Some landlords may claim that their liberty and freedom is being violated by this approach. However, the government has a duty to protect its citizens from unreasonable and uninhabitable living conditions. Our court system promises “Equal Justice Under Law” and it is the law of the land that the federal government will provide “a decent home and suitable living environment for every American family.” This right trumps the property owner’s claim to a liberty and freedom that allows him to maintain substandard housing.

Tightening regulation and increasing and enforcing penalties for noncompliance also fulfills the requirement of providing for local control. The federal government will continue to rely on local councils for enforcement. Local councils are already responsible for inspections and enforcement of the housing code for multi-family rental properties. The City Attorney’s office is ultimately responsible for settling disputes and fines for violations of housing codes and standards. Despite the infrastructure that is already set up for regulation and penalties, most cities do not guarantee regular inspections. For this reason, housing regulations and enforcement must

be tightened. Written laws have no effect unless they are justly enforced. Penalties must also be increased to act as a deterrent to future violations.

The issues surrounding the recommended approach are complex. The next section of this analysis will describe the details and recommendations for addressing some of the issues likely to arise in the implementation of our recommended approach.

5. IMPLEMENTATION

For some time, nonprofit organizations have played an important role in the rehabilitation and preservation of rental housing that is affordable for lower income households. They already play a large role in rehabilitation – a quarter of LIHTC rehab projects are sponsored by a nonprofit, compared with one-sixth of LIHTC new projects.⁸¹ Although their capabilities and success vary widely, they are now increasingly seen as the primary provider of affordable housing in many communities.⁸² According to Christopher Walker of the Urban Institute, “Nationwide, about 13 percent of all recent federally supported housing units (excluding public housing) have been sponsored by nonprofit developers.”⁸³ The two central federal programs addressing the supply side of providing decent, affordable housing – HOME and the Low Income Housing Tax Credit (LIHTC) – both rely heavily on nonprofit participation. Despite the central role that many nonprofits have filled, certain obstacles still exist to a larger and more successful participation. The actions that can be taken to overcome these obstacles are:

- Encourage the transfer of ownership of existing properties to nonprofit organizations
- Simplify the financing system that nonprofits use to fund rehabilitation
- Establish “best practices” and training programs for nonprofits

Encourage The Transfer Of Ownership To Nonprofits

Many property owners who took advantage of government programs in the 1970s and 1980s now feel they are unable to sell their property because of its negative tax basis, and the resulting capital gains tax bill that would be due upon the sale of the property. Although some of these owners may continue to serve the needs of their tenants by maintaining their properties, others have let their properties fall into disrepair or have abandoned them. The federal government can provide incentives for these owners to sell to individuals or groups who would keep the housing affordable and in good condition over the long run. These groups need not necessarily be nonprofits but nonprofits often have a greater commitment to the community that they serve, whether it is a neighborhood, or a group with special needs, such as the elderly or the physically handicapped.

⁸¹ Listokin, David and Listokin, Barbara, “Barriers to the Rehabilitation of Affordable Housing”, prepared for the U.S. Department of Housing and Urban Development, May 2001

⁸² Katz, Turner, Brown, Cunningham and Sawyer, “Rethinking Affordable Housing Strategies: Lessons from 70 Years of Policy and Practice”, The Brookings Institution Center on Urban and Metropolitan Policy and the Urban Institute, December 2003

⁸³ Walker, Christopher, “Nonprofit Housing Development: Status, Trends, and Prospects”, Housing Policy Debate, Volume 4, Issue 3, 1993

The incentive would be in the form of a tax break that would be given to owners who were prepared to sell their properties to nonprofit organizations. For-profit developers would not be excluded, so long as they showed a similar long-term commitment to addressing the needs of lower-income households. The Millennial Housing Commission (MHC), a bipartisan Congressional Commission authorized in 1999, described these groups, nonprofit or for-profit, as Preservation Entities in their report released on May 30th, 2002, in which they recommended such an approach.⁸⁴ The federal government should relieve sellers of their tax obligation so long as the property is sold to an owner who agrees to do any necessary rehabilitation, maintain it to certain quality standards, and keep it affordable for a long period of time. The incentive would be available regardless of whether the property is federally assisted or unassisted. This Preservation Tax Incentive (PTI)⁸⁵ would have the following conditions:

- There should be a minimum use agreement of thirty years.
- For assisted properties, the new owner must maintain existing federal subsidies. When the affordability period for the existing federal subsidy expires, the new owner may not opt out, must renew at least 50% of the federally subsidized units, and must also rent at least 20% of the units to households earning no more than 50% of AMI or 40% of the units to households earning no more than 60% of AMI.
- For unassisted properties, the new owner must make at least 20% of the units affordable at 50% of AMI, or 40% affordable to households earning 60% of AMI.
- There should be penalties for non-compliance with these stipulations. For nonprofits, the penalty should be loss of tax-exempt status; for-profits should pay a tax penalty.⁸⁶

Although the federal government would provide the tax incentive, states would play a crucial role in the administration of this program. Each state would establish criteria for qualifying as a preservation entity, using the general criteria set by the federal government as a minimum. This would enable each state to tailor the program to address their particular needs. These criteria might include a previous commitment to affordable housing plus the organizational and financial capability necessary for long-term, successful management of a mixed-income project. States should also establish criteria for preservation transactions. For example, a state should require that the preservation entity prove that the proposed transaction is economically viable – the property must be capable of sustaining itself as affordable and structurally sound for the minimum period of thirty years.⁸⁷

⁸⁴ www.mhc.gov

⁸⁵ Ibid

⁸⁶ Ibid

⁸⁷ Ibid

Simplify the Financing Scheme

Prior to 1980, federal funds supported a great deal of low-income housing development. After 1980, federal funds were drastically reduced, leaving nonprofits facing a complex system of financing, whether they are developing a new project, or rehabilitating an existing building. The major nonprofit developers are Community Development Corporations (CDCs). In order to finance their projects, these organizations must assemble, “a patchwork of tax incentives, tax-exempt bonds, loans under the Community Reinvestment Act, and state, local and philanthropic support.”⁸⁸ Federal sources of funding include the Low Income Housing Tax Credit (LIHTC), the HOME Investment Partnership Program (HOME) and Community Development Block Grants (CDBG). In addition, nonprofits must also look to states and localities and the private sector, including philanthropic contributors. No one source provides enough money. It is common for a development or rehabilitation to require five to seven funding sources. This makes these organizations relatively inefficient – according to a study by Abt Associates, preconstruction costs are higher for CDCs than for for-profit developers, with the predevelopment stage for CDC units averaging 29.3 months.⁸⁹ It also limits the range of organizations that can take on these projects and may produce a bias towards larger urban areas where the requisite expertise is available.⁹⁰

Isles, a nonprofit community development and environmental organization in Trenton, New Jersey serves as an example. One particular rehab project of theirs cost \$4.6M and combined the LIHTC, the Historic Rehab Tax Credit (HRTC), a New Jersey-specific subsidy from the Balanced Housing Assistance (BHA) program, Affordable Housing Program (AHP) funds from the Federal Home Loan Bank and an Inner City Ventures Fund grant from the National Trust for Historic Preservation.⁹¹ It is probably inevitable that such projects will require more than one source of financing. However, the following minor changes should be made to the HOME program to simplify the overall financing process for nonprofits:

- The HOME program requires that 15 percent of funds be set aside for community-based, nonprofit housing developers. This “set aside” should be removed as it may act as an upper bound. Local governments should decide how much to allocate to nonprofit developers. In areas where nonprofits are weak, the money would be wasted if localities were forced to provide it to organizations that are bound to fail. If

⁸⁸ Rosen Kenneth T. and Dienstfrey, Ted, “The Economics of Housing Services in Low-Income Neighborhoods” Chapter Nine, “Urban Problems and Community Development”, Brookings Press 1999

⁸⁹ Abt Associates, “Nonprofit Housing Costs and Funding”, HUD, 1992

⁹⁰ Smith, Mark T., “Comment on Kathryn P. Nelson’s ‘Whose Shortage of Affordable Housing?’” Housing Policy Debate, Volume 5, Issue 4 1994

⁹¹ Listokin, David and Listokin, Barbara, “Barriers to the Rehabilitation of Affordable Housing”, prepared for the U.S. Department of Housing and Urban Development, May 2001

prejudices existed against nonprofit developers, they would only be reinforced. Training and capacity building should come first. In areas where nonprofits are strong, localities should be able to give all the HOME monies to nonprofit developers if they so desire.

- The use of HOME funds to capitalize a long-term project reserve account should be allowed.⁹² Current regulations force developers to seek private debt financing for long-term reserves, complicating the financing process.

Establishing “Best Practices” and Training Programs

Over time, the work of CDCs and other nonprofit housing developers and managers has become more complex. The size, capacity and capability of these organizations vary widely. Housing development is often only one of the programs they are running. Their principal goal is not housing development per se but can be described as “community revitalization”.⁹³ Some may be expert in a particular field, such as mental health or drug rehabilitation, or closely tied to a neighborhood, but inexperienced in housing development and management. Others have years of experience and expert knowledge in financing, developing and managing properties.

Some geographical areas are better served than others. Large cities often have organizations with the necessary capacity and experience to take on rehabilitation and development projects. Other areas are underserved – medium-sized cities and areas outside the Northeast and West Coast. Organizations in these areas should be encouraged, but should receive the necessary training and guidance before receiving any federal funds. This would reduce the risk that projects would fail, either in the predevelopment stage because of lack of experience in raising capital, or in the operational stage, because of lack of experience in managing housing projects.

The federal government should provide grants that can be used for training and the establishment of “best practices”. Existing intermediaries, such as the Local Initiatives Support Corporation (LISC), the Enterprise Foundation and the Neighborhood Reinvestment Corporation (NRC), who already provide support to these types of organizations, should provide the training. These intermediaries are funded primarily by charitable foundations and provide important

⁹² www.mhc.gov

⁹³ Rosen Kenneth T. and Dienstfrey, Ted, “The Economics of Housing Services in Low-Income Neighborhoods” Chapter Nine, “Urban Problems and Community Development”, Brookings Press 1999

technical assistance and capital support.⁹⁴ The grants would enable them to devote more resources towards increasing the capacity and capability of nonprofit housing developers.

Training and the dissemination of successful practices would increase the likelihood that more nonprofit developers would succeed in developing and renovating properties and managing them. Increasing the capability of nonprofit developers would increase the esteem with which they are held by private partners such as banks and philanthropic organizations, as well as by the neighborhoods in which they work. This should increase their ability to raise money by reducing the risk involved with a particular project, and remove some of the opposition they often face from local residents.

In conjunction with implementing programs to encourage greater collaboration between government and nonprofit and community organizations to secure decent and affordable housing, we suggest the following implementation strategy for tightening regulations and improving enforcement efforts on existing privately-owned rental housing.

The Department of Housing and Urban Development should beef up their attempts to ensure all Americans have access to decent and affordable housing by enforcing all relevant health and safety standards. HUD, as previously stated, requires that minimum quality standards be met for both new and rehabilitated buildings. In addition, local jurisdictions have responsibility for the safety of private rental accommodations. In order to tighten regulations, increase penalties and expand enforcement to ensure existing housing units and newly developed housing units are decent and affordable for all American families, HUD officials should engage in the following activities:

- Increase enforcement through the hiring and training of HUD inspection and enforcement staff
- Plan and attend Annual Community Partnership Meetings

Increase Enforcement By Hiring and Training of HUD Inspection and Enforcement Staff

HUD should vigorously enforce existing regulations. Landlords should not be able to get away with non-compliance, as some have done in the past. A graduated penalty rate should be implemented - the longer a landlord fails to pay fines, the greater the penalty amount will become. Furthermore, if fines are ignored multiple times and do not result in compliance, then a criminal penalty should be enacted.

⁹⁴ Rosen Kenneth T. and Dienstfrey, Ted, "The Economics of Housing Services in Low-Income Neighborhoods" Chapter Nine, "Urban Problems and Community Development", Brookings Press 1999

Enforcement and penalty collection can be expanded by increasing the number of staff members in HUD field offices and Public Housing Authorities that are able to investigate existing housing units for compliance with federal, state and local safety standards. Recipients of grants such as community organizations and nonprofit groups should also experience increased enforcement. These agencies should be required to show accountability for all monies received from HUD and local housing officials.

Expanded enforcement only requires an increase in manpower, not the enactment of any new statutes or any major reorganization, so it will be relatively easy to implement because it works within the existing structure. Increasing the number of staff and providing training to new staff members as well as existing staff members will, undoubtedly, require increased spending for HUD. However, penalties should be high enough so that they can be used to cover the increased cost of enforcement. It is difficult to estimate the revenue from the increase in penalties but we estimate that in the long run, they will outpace the increased investment for additional inspectors. In the long run, there will be a substantial cost savings realized through health and safety compliance and efficient use of public funds by participating jurisdictions. Eventually, it may be possible to reduce the number of inspectors or redeploy them to other areas. HUD should receive little opposition to funding the increase in staff because the agency is attempting to ensure that every family has the opportunity to live in a decent and safe environment, so long as it can be shown that the staff will actually enforce the law and collect the appropriate penalties.

Upon receipt of federal funding to build decent and affordable housing for their chosen communities, housing developers, local government, community leaders and private owners that are participants of HUD programs such as The Home Investment Partnership Program (HOME) or Community Development Block Grants (CDBG)⁹⁵, are currently subject to annual program reviews. After review, should HUD officials be dissatisfied with the performance of the participating development, corrective action can and will be taken. Current actions taken by HUD for performance failure may include improvement enforcements made on participants, fines and/or possible loss of funding. HUD should continue to enforce these quality and safety standards and seek to increase the penalties and consequences for non-federally funded affordable housing units.

The current standards of regulation enforcement for recipients of federal housing funding programs should be increased in the following ways:

⁹⁵ HUD: Community Development Programs. www.hud.gov/offices/cpd/affordablehousing/programs/homes/index.htm.

- HUD reviews the performance of each participating jurisdiction in carrying out its responsibilities when necessary, or annually at minimum⁹⁶. HUD should increase their oversight by conducting quarterly reviews (every three months) at minimum.
- In conducting performance reviews, HUD relies primarily on information obtained from the participating jurisdiction's and, as appropriate, the State recipient's records and reports, findings from on-site monitoring, audit reports, and information generated from the disbursement and information system established by HUD⁹⁷. HUD should provide a means for community reports and reviews of participating jurisdictions.
- HUD also conducts a performance review when presented with other relevant sources such as citizen comments and complaints.⁹⁸ HUD should request a report from all tenants and neighboring citizens that should be reviewed during quarterly evaluations. Citizens' comments should be made an essential component of the review, instead of jurisdiction reports being the mainstay of the evaluation process.
- Should HUD find any problems, then the participating jurisdiction is given notice and time (not to exceed 30 days) to remedy the situation. This regulation should be allowed to continue in its current fashion.
- Should the participating jurisdiction fail to demonstrate remedial action, HUD takes corrective action. It can either choose between actions in accordance to section 92.551 or 92.552 in the Code of Federal Regulations. Refer to Appendix D to review Standards of Regulations Enforcements for Recipients of Federal Housing Funding.

HUD should also implement a uniform regulatory framework to inspect existing and new housing units. Currently, most states and local jurisdictions adopt one of three model- building codes to assess health and safety standards - the National Building Code, the Standard Building Code, or the Uniform Building Code.⁹⁹ Inspection teams can adopt a standard code so there is a uniform baseline in conducting inspections and improvements of housing, improving efficiency and costs in the long run.

⁹⁶ HUD: Community Development Programs. www.hud.gov/offices/cpd/affordablehousing/programs/homes/index.htm.

⁹⁷ HUD: Community Development Programs. www.hud.gov/offices/cpd/affordablehousing/programs/homes/index.htm.

⁹⁸ <http://www.hud.gov:80/offices/cpd/affordablehousing/lawsandregs/regs/hom/subl/92550.cfm>

⁹⁹ http://www.huduser.org/publications/destech/narrp/intro_narrp.html

Annual Community Partnership Meetings

These efforts to improve housing by increasing enforcement will cause some concern to communities. Landlords will not welcome HUD's increased oversight, while some tenants may be concerned that their units will not remain affordable. In order to mitigate this risk, HUD needs to work with individual communities so that all stakeholders understand the long-term goals of the program and can appreciate the benefits. To accomplish this, HUD officials should conduct an Annual Community Partnership Meeting. This Meeting should be comprised of federal, state and local officials, community leaders and citizens and will be responsible for ensuring health and safety standards are met in existing housing, while ensuring regulation compliance of new infrastructure in their geographic areas. Stakeholders involved in this meeting, should elect specific individuals to become members of a Housing Taskforce. Each geographic area will have a Housing Taskforce that works specifically for their area and is responsible for reporting to the members of the Community Partnership at the annual meeting. The Housing Taskforce for each geographic area will be responsible for the following activities:

1. Reviewing existing HUD regulations
2. Developing, recommending and implementing new local regulations specific to that geographic area
3. Reviewing and hiring necessary staff to enforce federal, state and local regulations
4. Collection, allocation and reallocation of funding according to the participant's compliance with regulation and enforcement

6. CONCLUDING REMARKS

Failure to combat substandard housing conditions for poor families is more than an attack on the American promise; it imposes an unsafe environment on low-income families. Run-down, un-maintained housing units, in many cases, violate federal, state and local health and safety standards, heightening the risk of poor families suffering from mental and physical ailments.

The American moral commitment to suitable housing extends to all families of every income level living in the U.S. This commitment must therefore assess past and current efforts and vigorously address the present reality of substandard dwellings and the low-income households residing in them. Many studies conducted on housing conditions of the poor assert that the effects of substandard housing are not confined to inner cities but can, in time, spread to the suburbs as well. Therefore, it is not only a moral obligation for the U.S. to provide access to affordable quality housing for all American households, but it is also in the best interest of the country to do so as a means of protecting all areas from the woes that accompany substandard neighborhoods. The United States Report for Habitat II: *Beyond Shelter: Building Communities of Opportunity* states that,

“The role of social safety net programs is not to maintain individuals, families, or communities in perpetual dependence, but to create a framework of supports, incentives, and clear rules so people can help themselves and lift themselves beyond governmental assistance. Better solutions will come when those who live in the problem (are relieved from the problem) and they are then able plan with others who have a common stake in its solution, not because it is an abstract mission but because it is a personal concern.”¹⁰⁰ “The federal government best serves as a catalyst and enabler of change, not as a planner and implementer. The federal role should be to support local actors in their efforts to design and implement locally crafted solutions that reflect local circumstances and needs, but that are consistent with national ideals such as fairness and equity.”¹⁰¹

The United States committed itself to providing a decent and suitable living environment for every American family. The existence of substandard housing and lack of affordable quality housing for low-income groups have stifled the fulfillment of this vow. As stated by Robert E. Lang and Rebecca R. Sohmer in their article on the legacy of the 1949 Housing Act, “The balance has yet to be achieved between project and people subsidies, between private and public funding, between federal, state, and local control to reach the worthy goal of providing all Americans with decent housing and a suitable environment, as first expressed in the landmark

¹⁰⁰ The United States Report for Habitat II: *Beyond Shelter: Building Communities of Opportunity*. May 1996
www.huduser.org/publications

¹⁰¹ The United States Report for Habitat II: *Beyond Shelter: Building Communities of Opportunity*. May 1996
www.huduser.org/publications

Housing Act of 1949.”¹⁰² If the home is the social and economic center for breathing life into American society, substandard housing becomes an impediment to maintaining the nation’s vitality. This effect is particularly acute in urban centers. *Beyond Shelter: Building Communities of Opportunity* further states that, “America’s cities are the center of the social and cultural life of our nation... reduced quality of life induces businesses and middle-income households to leave cities, generating a downward spiral in economic and social conditions.”¹⁰³ The concentration of America’s poor in unsuitable living conditions disrupts our American vow to equality and exacerbates blight in our cities. A report by the Fannie Mae Foundation entitled *Legacy of the Housing Act of 1949: The Past, Present, and Future of Federal Housing and Urban Policy* states that,

“America cannot afford to ignore the housing challenges facing our low income families. The vicious cycle of poverty concentration, social despair, and fiscal distress that challenges much of urban America today weakens our nation's economic health and undermines the ability of metropolitan regions to compete in the global economy.”¹⁰⁴

It is for these reasons that it is in the best interest for the federal government to adopt our suggested approach in ensuring decent and affordable housing for all American families.

¹⁰² Legacy of the Housing Act of 1949: The Past, Present, and Future of Federal Housing and Urban Policy.” Robert E. Lang and Rebecca R. Sohmer. Fannie Mae Foundation 2000. Housing Policy Debate. Volume 11 Issue 2. <http://www.fanniemaefoundation.org/programs/hpd/v11i2-edintro.shtml>

¹⁰³ The United States Report for Habitat II: *Beyond Shelter: Building Communities of Opportunity*. May 1996 www.huduser.org/publications

¹⁰⁴ The United States Report for Habitat II: *Beyond Shelter: Building Communities of Opportunity*. May 1996 www.huduser.org/publications

APPENDIX A. CURRENT FEDERAL HOUSING PROGRAMS

The Housing for the Handicapped Program, administered by the Michigan State Housing Development Authority works with the Michigan State Department of Mental Health to finance smaller group homes for profoundly handicapped individuals.

The Neighborhood Housing Grants allow the MSHDA to award funds to neighborhood and nonprofit housing organizations for home improvements, urban homesteading, and other local housing programs. These grants can also be used by nonprofit agencies to offer some development training.

Housing for the Homeless: The MSHDA administers state, federal and MSHDA funds that finance a variety of programs to expand the supply of housing for the homeless and to pay certain operating expenses.

Acquisition Rehabilitation: Low interest rate mortgage loans are made to eligible homebuyers for acquiring and rehabilitating single-family homes through the Acquisition Rehabilitation Program. Loan rates vary according to household income, and purchase price. However, the cost of the home may not exceed \$60,000.

Home and Neighborhood Improvement Loans: Loans of up to \$15,000 are granted to eligible individuals and communities to be used to improve homes over 20 years old. In newer homes, the homeowner may add energy conservation improvements, make the home more accessible to a handicapped family member, repair serious hazards to health and safety, and repair damage from a declared natural disaster. The loan must be financed at an interest rate of 1 to 9 percent. The maximum household income of a recipient must be equal to or less than \$36,500. To apply for the loan, individuals and/or community leaders/organizations must apply through participating lenders and communities.¹⁰⁵

The Contractor Assistance Program (CAP) works in conjunction with First Independence National Bank of Detroit, MSHDA provides working capital loans of up to \$50,000 to small contractors (with special outreach to female and minority owned firms), which have been selected to work on MSHDA rental housing projects. The program also provides

¹⁰⁵ <http://rhol.org/rental/mshda.htm>

training to the participating contractors in the areas of estimating, budgeting, cash management, cost control and financial reporting.

Public Housing: Public Housing is a federally funded program, through which the Housing Authority develops, owns and manages rental housing for families with incomes under 50% of median incomes. Families are not only screened for income eligibility but also for housekeeping practices, previous landlord references, credit references, etc. The family pays 30% of income for rent.

Construction Bonds (Section 8): Construction Bonds are Housing Authority-issued bonds, which can be used to finance the construction of privately developed rental properties committed for 20 years to renting to low-income families. Federal Section 8 subsidies are provided to allow rents to be set at 30% of the family income. The tenants are selected by the owner/manager and the Housing Authority monitors the units for compliance with health and safety standards. Although this program can be useful in increasing the housing resources in many geographic areas, there is no new funding for this program at this time.

Tax Exempt Bonds: Housing Authority issues bonds, which finance the construction of privately, developed rental properties in which at least 20% of the units are committed to low-income families for the life of the bonds (generally 12-15 years). Rents for these units are set as a percentage of the median income as established for the locality. Tenants occupying these units are selected by the owner/manager. The Housing Authority monitors the units for compliance with health and safety standards.¹⁰⁶

HUD Multi-Family Programs (rental properties)

Section 202 Supportive Housing for the Elderly Program¹⁰⁷ HUD provides capital advances to finance the construction, rehabilitation or acquisition with or without rehabilitation of structures that will serve as supportive housing for very low-income elderly persons, including the frail elderly, and provides rent subsidies for the projects to help make them affordable. The Section 202 program helps expand the supply of affordable housing with supportive services for the elderly. It provides very low-income elderly with options that allow them to live independently but in an environment that provides support activities such as cleaning, cooking, transportation, etc. The program is similar to Supportive Housing for Persons with Disabilities (Section 811). HUD provides interest-free capital advances to private, nonprofit sponsors to finance the development of supportive housing for the elderly. The capital advance does not have to be repaid as long as the project serves very low-income elderly persons for 40 years. Project

¹⁰⁶ <http://www.hacosantacruz.org/programs.html>

¹⁰⁷ <http://www.hud.gov:80/offices/hsg/mfh/progdsc/eld202.cfm>

rental assistance funds are provided to cover the difference between the HUD-approved operating cost for the project and the tenants' contribution towards rent. Project rental assistance contracts are approved initially for 5 years and are renewable based on the availability of funds. The available program funds for a fiscal year are allocated to HUD's local offices according to factors established by the Department.

Mortgage Insurance for Rental Housing: Section 207¹⁰⁸ Section 207 Program insures mortgage loans to finance the construction or rehabilitation of a broad range of rental housing. Section 207 mortgage insurance, although still authorized, is no longer used for new construction and substantial rehabilitation. It is however, the primary insurance vehicle for the Section 223(f) refinancing program. Multifamily new construction and substantial rehabilitation projects are currently insured under the Section 221(d)(3) and Section 221(d)(4) programs. Section 207 insures lenders against loss on mortgage defaults. The intent of the program is to increase the supply of quality and reasonably priced rental housing for middle-income families. FHA mortgage insurance is intended HUD-approved lenders.

Mortgage Insurance for Cooperative Units: Section 213¹⁰⁹: Section 213 insures mortgage loans to facilitate the construction, substantial rehabilitation, and purchase of cooperative housing projects. Each member shares in the ownership of the whole project operations through the purchase of stock. Section 213 insures lenders against loss on mortgage defaults. Section 213 enables nonprofit cooperative housing corporations or trusts to develop or sponsor the development of housing projects to be operated as cooperatives. Section 213 also allows investors to provide good quality multifamily housing to be sold to nonprofit corporations or trusts upon completion of construction or rehabilitation. Alternatively, cooperatives may use Section 221(d)(3) to insure construction or substantial rehabilitation of cooperative projects. FHA mortgage insurance is intended for HUD-approved lenders.

Mortgage Insurance for Rental Housing for Urban Renewal and Concentrated Development Areas: Section 220¹¹⁰Section 220 insures loans for multifamily housing projects in urban renewal areas, code enforcement areas, and other areas where local governments have undertaken designated revitalization activities. Section 220 insures lenders against loss on mortgage defaults. Section 220 provides good quality rental housing in urban areas that have been targeted for overall revitalization. Section 220 insures mortgages on new or rehabilitated housing located in designated urban renewal areas, and in areas with concentrated programs of

¹⁰⁸ <http://www.hud.gov:80/offices/hsg/mfh/progdsc/renthsg207.cfm>

¹⁰⁹ <http://www.hud.gov:80/offices/hsg/mfh/progdsc/coop213.cfm>

¹¹⁰ <http://www.hud.gov:80/offices/hsg/mfh/progdsc/renturbanhsg220.cfm>

code enforcement, and neighborhood development. FHA mortgage insurance is intended for HUD-approved lenders.

Mortgage Insurance for Single room Occupancy (SRO) Rental and Cooperative Housing: Section 221(d)(3) and (4)¹¹¹ Section 221(d)(3) and 221(d)(4) program insures mortgage loans for multifamily properties consisting of single-room occupancy (SRO) apartments. There are no Federal rental subsidies involved with this SRO program. It is aimed at those tenants who have a source of income but are priced out of the rental apartment market. SRO projects generally require assistance from local governing bodies or charitable organizations in order to reduce the rents to affordable levels. Although SRO housing is intended for very low-income persons, the program does not impose income limits for admission. Section 221(d)(3)(nonprofit borrowers) and Section 221(d)(4)(profit motivated borrowers) insure lenders against loss on mortgages. The program encourages construction or substantial rehabilitation of single-room apartment buildings with financing insured by HUD, thus enabling people with very limited incomes to find clean and safe housing. FHA provides mortgage insurance to HUD-approved lenders.

Mortgage Insurance for Purchase or Refinancing of Existing Multifamily Housing Projects: Sections 207/223(f)¹¹²Section 207/223(f) insures mortgage loans to facilitate the purchase or refinancing of existing multifamily rental housing. These projects may have been financed originally with conventional or FHA insured mortgages. Properties requiring substantial rehabilitation are not eligible for mortgage insurance under this program. HUD permits the completion of non-critical repairs after endorsement for mortgage insurance. Section 223(f) insures lenders against loss on mortgage defaults. The program allows for long-term mortgages (up to 35 years) that can be financed with Government National Mortgage Association (GNMA) Mortgage-Backed Securities. This eligibility for purchase in the secondary mortgage market improves the availability of loan funds and permits more favorable interest rates. FHA mortgage insurance is intended for HUD-approved lenders.

Mortgage Insurance for Rental Housing for the Elderly: Section 231¹¹³ Section 231 insures mortgage loans to facilitate the construction and substantial rehabilitation of multifamily rental housing for elderly persons (62 or older) and/or persons with disabilities. Section 231 insures lenders against loss on mortgages. Section 231 was designed to increase the supply of rental housing specifically for the use and occupancy of elderly persons, and/or persons with

¹¹¹ <http://www.hud.gov:80/offices/hsg/mfh/progdsc/sro221d3n4.cfm>

¹¹² <http://www.hud.gov:80/offices/hsg/mfh/progdsc/purchrefi223f.cfm>

¹¹³ <http://www.hud.gov:80/offices/hsg/mfh/progdsc/renths geld231.cfm>

disabilities. However, few projects have been insured under Section 231 in recent years; nonprofits have opted to use Section 221(d)(3), while profit motivated developers have used Section 221(d)(4). FHA mortgage insurance is intended for HUD-approved lenders.

Mortgage Insurance for Supplemental Loans for Multifamily Projects: Section 241(a)¹¹⁴ Section 241(a) insures mortgage loans to finance repairs, additions, and improvements to multifamily rental housing and health care facilities with FHA insured first mortgages or HUD-held mortgages. Section 241(a) insures lenders against loss on mortgage defaults. The program is intended to keep the project competitive, extend its economic life, and to finance the replacement of obsolete equipment. Insured mortgages finance repairs, additions, and improvements to multifamily projects, group practice facilities, hospitals, or nursing homes already insured by HUD or held by HUD. Major movable equipment for insured nursing homes, group practice facilities, or hospitals may be covered by a mortgage under this program. FHA mortgage insurance is intended for HUD-approved lenders.

Section 811 Supportive Housing for Persons with Disabilities¹¹⁵ HUD provides funding to nonprofit organizations to develop rental housing with the availability of supportive services for very low-income adults with disabilities, and provides rent subsidies for the projects to help make them affordable.

The Section 811 program allows persons with disabilities to live as independently as possible in the community by increasing the supply of rental housing with the availability of supportive services. The program also provides project rental assistance, which covers the difference between the HUD-approved operating costs of the project and the tenants' contribution toward rent. The program is similar to Supportive Housing for the Elderly (Section 202). HUD provides interest-free capital advances to nonprofit sponsors to help them finance the development of rental housing such as independent living projects, condominium units and small group homes with the availability of supportive services for persons with disabilities. The capital advance can finance the construction, rehabilitation, or acquisition with or without rehabilitation of supportive housing. The advance does not have to be repaid as long as the housing remains available for very low-income persons with disabilities for at least 40 years.

Risk-sharing Program – Qualified Participating Entities (Qpe): Section 542(b)¹¹⁶ HUD provides funding to nonprofit organizations to develop rental housing with the availability of supportive services for very low-income adults with disabilities, and provides rent subsidies for the projects to help make them affordable. The Section 811 program allows persons with

¹¹⁴ <http://www.hud.gov:80/offices/hsg/mfh/progdsc/supplement241a.cfm>

¹¹⁵ <http://www.hud.gov:80/offices/hsg/mfh/progdsc/disab811.cfm>

¹¹⁶ <http://www.hud.gov:80/offices/hsg/mfh/progdsc/disab811.cfm>

disabilities to live as independently as possible in the community by increasing the supply of rental housing with the availability of supportive services. The program also provides project rental assistance, which covers the difference between the HUD-approved operating costs of the project and the tenants' contribution toward rent. The program is similar to Supportive Housing for the Elderly (Section 202). HUD provides interest-free capital advances to nonprofit sponsors to help them finance the development of rental housing such as independent living projects, condominium units and small group homes with the availability of supportive services for persons with disabilities. The capital advance can finance the construction, rehabilitation, or acquisition with or without rehabilitation of supportive housing. The advance does not have to be repaid as long as the housing remains available for very low-income persons with disabilities for at least 40 years. HUD also provides project rental assistance; this covers the difference between the HUD-approved operating cost of the project and the amount the residents pay—usually 30 percent of adjusted income. The initial term of the project rental assistance contract is 5 years and can be renewed if funds are available. The available program funds for a fiscal year are allocated to HUD's local offices according to factors established by the Department. Each project must have a supportive services plan. The appropriate State or local agency reviews a potential sponsor's application to determine if the plan is well designed to meet the needs of persons with disabilities and must certify to the same. Services may vary with the target population but could include case management, training in independent living skills and assistance in obtaining employment. However, residents cannot be required to accept any supportive service as a condition of occupancy.

APPENDIX B. MINIMUM FEDERAL HEALTH AND SAFETY STANDARDS

Site: Site components including fencing, walls, grounds, lighting, mailboxes/signs, parking lots and driveways, play areas and equipment, refuse disposal, roads, storm drainage and walkways must be free from hazards.

Building Exterior: Each building on the site must be structurally sound, secure, habitable, and in good repair. Each building's doors, fire escapes, foundations, lighting, roofs, walls, and windows, where applicable must be free of health and safety hazards, operable and in good repair

Building System: Each building's domestic water, electrical system, elevators, emergency power, fire protection, HVAC and sanitary system must be free of health and safety hazards, functionally adequate, operable and in good repair.

Dwelling Units: Each dwelling unit in a building must be:

- Structurally sound, habitable, and in good repair. All areas and aspects of the unit, ceiling doors, electrical systems, floors, hot water heater, HVAC, kitchen, lighting, outlets/switches, patio/porch/balcony, smoke detectors, stairs, walls, and windows must be free of health and safety hazards, functionally adequate, operable and in good repair
- Where applicable, the dwelling must have hot and cold running water, including an adequate source of potable water.
- If the dwelling unit includes its own sanitary facility (note single room occupancy units may not), it must be in proper operating condition, usable in privacy, and adequate for personal hygiene and the disposal of human waste
- The unit must include at least one battery-operated or hard-wired smoke detector, in proper working condition, on each level of the unit.

Common Areas: The common areas must be structurally sound, secure and functionally adequate for the purposes intended. The basement/garage/carport, restrooms, closets, utility, mechanical, community rooms, day care, halls/corridors, stairs, kitchens, laundry rooms, office, porch, patio, balcony, and trash collection areas, if applicable, must be free from health and safety hazards, operable, and in good repair. All common area ceilings, doors, floors, HVAC, lighting, outlets/switches, smoke detectors, stairs, walls, and windows to the extent applicable, must be free of health and safety hazards, operable and in good repair. These standards for common areas apply, to a varying extent, to all HUD housing, but will be particularly relevant to:

- congregate housing
- independent group homes/residences

- single room occupancy units, in which the individual dwelling units (sleeping areas) do not contain kitchen and/or bathroom facilities.

Health and Safety Concerns: All areas and components of the housing must be free of health and safety hazards. These include but are not limited to:

- Air quality, electrical hazards, elevators, emergency/fire exits, flammable materials, garbage and debris, handrail hazards, infestation, and lead-based paint.
- The dwelling units and common areas must have proper ventilation and be free of mold, odor (e.g., propane, natural gas, methane gas), or other observable deficiencies.

The Bureau of the Census and the U.S. Department of Housing and Urban Development (HUD) determine whether or not a building/unit meets these outlined health and safety standards by assessing whether the units have physical or structural deficiencies. The extent of the physical or structural deficiencies of a particular housing unit classifies the unit as either “substandard” or “moderate”.

The following is a list of physical and structural deficiencies that classify any particular housing unit as “substandard”¹¹⁷:

- The unit lacks hot or cold water or a flush toilet, or both a bathtub and a shower
- The heating equipment has broken down at least three times for six hours or more during the previous winter, resulting in the unit being uncomfortably cold for 24 hours or more.
- It has no electricity, or it has exposed wiring and a room with no working wall outlet and had three blown fuses or tripped circuit breakers during the previous 90 days.
- In public areas such as hallways and staircases, it has no working light fixtures, no elevator, loose or missing steps and loose or missing railings
- It has at least five basic maintenance problems such as water leaks, holes in the floors or ceilings, peeling paint or broken plaster, or evidence of rats during the previous 90 days.

The following is a list of physical and structural deficiencies that classify any particular housing unit as “moderate”. Moderate units do not have severe problems, but they have one or more of the following deficiencies.¹¹⁸

- On at least three occasions in the past three months, all flush toilets were broken for at least six hours.
- Unvented gas, oil or kerosene heaters are its primary heating equipment.
- The unit lacks a sink, refrigerator, or either burners or an oven. (HUD will now allow a microwave in place of a cooking stove.

¹¹⁷ Rental Housing On-Line (ROHL) Home. <http://rental-housing.com/rental/substandard.htm>.

¹¹⁸ Rental Housing On-Line (ROHL) Home. <http://rental-housing.com/rental/substandard.htm>.

- It has three of the four hallway or staircase problems listed for substandard units.
- It has at least three of the basic maintenance problems listed for substandard units.

HUD health and safety standards were developed over a long period of time and experience.

Prior to the current standards, there were the *Property Standards* set by the Federal Housing Administration to reduce mortgage risks for FHA-insured properties and to improve housing standards and conditions.¹¹⁹ In 1942, *Property Standards* was combined with another publication entitled *Minimum Construction Requirements* to form *Minimum Property Requirements*. Later, in the mid-1950's, the *Minimum Property Requirements* was expanded and renamed to *Minimum Property Standards for One and Two Living Units*. By 1973, the *Minimum Property Standards (MPS)* had grown by volumes and had switched from being a default standard for deficiencies in local code enforcement, to becoming a largely prescriptive construction code.¹²⁰ Up until the mid-1980's different types of structures required separate minimum property standards but since then, HUD has come to accept model building codes, in lieu of prescriptive standards.¹²¹

There is one main difference between the model building codes and prescriptive standards. This difference is the durability requirement. Minimum property standards contain minimum standards for durability on items such as doors, windows, gutters, kitchen cabinets, etc to ensure the value of the home, whereas model building codes do not.

In August 1980, the National Association of Home Builders Research Foundation issued a report praising the MPS program but noting that its time had passed. The report summarized the findings of a 1978 HUD Task Force on Housing Costs that called the requirements of the MPS excessive and inflexible and recommended that HUD “immediately remove unjustifiable cost increasing technical and design requirements.” The report closed by stating that HUD had arbitrarily raised many MPS requirements to the point where they impeded the production of affordable housing, and it recommended adoption of the *CABO One and two Family Dwelling Code* in lieu of the MPS. The following year, a task force of the National Institute of Building Sciences similarly recommended that HUD “initiate a comprehensive and rational process to phase out the MPS for HUD-insured housing and rely on the nationally recognized model codes.”¹²²

¹¹⁹ *A Study of the HUD Minimum Property Standards for One- and Two- Family Dwellings and Technical Suitability of Products Programs*, National Institute of Building Sciences, March 2003, pp.i.

¹²⁰ *Ibid*, pp.ii.

¹²¹ *Ibid*.

¹²² ** excerpt from *A Study of the HUD Minimum Property Standards for One- and Two- Family Dwellings and Technical Suitability of Products Programs*, pp.ii

APPENDIX C-1. DATA FOR LOS ANGELES, CALIFORNIA POVERTY STANDARDS SINCE 1969

SOCDS Census Data: Output for Los Angeles, CA ¹²³

Poverty Rate (Percent)

	Central city of: Los Angeles, CA
1969	13.0
1979	16.4
1989	18.9
1993 Estimated*	29.9
1995 Estimated*	28.6
1997 Estimated*	25.8
1998 Estimated*	23.8
1999	22.1

*Estimated poverty rates for 1993, 1995, 1997, and 1998 are derived from the Census Bureau's Small Area Income and Poverty Estimates.

Median Family Income in 1999 Dollars

	Central city of: Los Angeles, CA
1969	\$47,665
1979	\$44,672
1989	\$46,170
1999	\$39,942

¹²³ SOCDS Census Data: Output for Los Angeles, CA. <http://socds.huduser.org/scripts/odbic.exe/census/incpov.htm>

Percent of Low-Income Families in National Income Brackets

		Central city of: Los Angeles, CA	
Low-income (National Lowest 20%)	1969	18.5	
	1979	23.4	
	1989	24.2	
	1999	31.0	

Median Household Income in 1999 Dollars

		Central city of: Los Angeles, CA	
1969		\$34,096	
1979		\$36,108	
1989		\$41,549	
1999		\$36,687	

Percent of Low-Income Households in National Income Brackets

		Central city of: Los Angeles, CA	
Low-income (National Lowest 20%)	1969	19.4	
	1979	22.6	
	1989	20.2	
	1999	25.6	

APPENDIX C-2. DATA FOR NEW YORK, NEW YORK POVERTY STANDARDS SINCE 1969

SOCDS Census Data: Output for New York, NY ¹²⁴

Poverty Rate (Percent)

	Central city of: New York, NY
1969	14.8
1979	20.0
1989	19.3
1993 Estimated*	24.4
1995 Estimated*	23.7
1997 Estimated*	22.4
1998 Estimated*	21.9
1999	21.2

*Estimated poverty rates for 1993, 1995, 1997, and 1998 are derived from the Census Bureau's Small Area Income and Poverty Estimates.

Median Family Income in 1999 Dollars

	Central city of: New York, NY
1969	\$43,952
1979	\$38,593
1989	\$46,164
1999	\$41,887

¹²⁴ SOCDS Census Data: Output for New York, NY: <http://socds.huduser.org/scripts/odbic.exe/census/incpov.htm>

Percent of Low-Income Families in National Income Brackets

		Central city of: New York, NY	
Low-income (National Lowest 20%)	1969	20.6	
	1979	28.9	
	1989	25.2	
	1999	30.2	

Median Household Income in 1999 Dollars

	New York, NY PMSA	Central city of: New York, NY	Suburbs*
1969	\$36,398	\$34,859	\$52,259
1979	\$34,242	\$31,792	\$54,276
1989	\$42,535	\$40,069	\$67,500
1999	\$41,053	\$38,293	\$66,064

Percent of Low-Income Households in National Income Brackets

		Central city of: New York, NY	
Low-income (National Lowest 20%)	1969	18.0	
	1979	27.6	
	1989	24.3	
	1999	27.0	

APPENDIX D: STANDARD OF REGULATION ENFORCEMENT FOR RECIPIENTS OF FEDERAL HOUSING FUNDING

Review of Current Codes and Regulations

Code of Federal Regulations—92.551¹²⁵

Corrective or remedial actions for a performance deficiency (failure to meet a provision of this particular code) is designed to prevent a continuation of the deficiency; mitigate, to the extent possible, its adverse effects or consequences; and prevent its recurrence. HUD may instruct the participating jurisdiction to submit and comply with proposals for action to correct, mitigate and prevent a performance deficiency, including:

- Preparing and following a schedule of actions for carrying out the affected activities, consisting of schedules, timetables, and milestones necessary to implement the affected activities;
- Establishing and following a management plan that assigns responsibilities for carrying out the remedial actions;
- Canceling or revising activities likely to be affected by the performance deficiency, before expending federal funds for the activities;
- Reprogramming federal funding that have not yet been expended from affected activities to other eligible activities;
- Reimbursing its Investment Trust Fund in any amount not used in accordance with the requirements of this part;
- Suspending disbursement of HOME funds for affected activities; and
- Making matching contributions as draws are made from the participating jurisdiction's HOME Investment Trust Fund United States Treasury Account
- HUD may also change the method of payment from an advance to reimbursement basis; and take other remedies that may be legally available.

Code of Federal Regulation 92.552—Notice and Opportunity for Hearing; Sanctions¹²⁶

If HUD finds after reasonable notice and opportunity for hearing that a participating jurisdiction has failed to comply with any provision of this part and until HUD is satisfied that there is no longer any such failure to comply:

¹²⁵ <http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/regs/hom/subl/92551.cfm>

¹²⁶ <http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/regs/home/subl/92552.cfm>

- HUD shall reduce the funds in the participating jurisdiction by the amount of any expenditures that were not in accordance with the requirements of this part; and
- HUD may do one or more of the following:
 - Prevent withdrawals from the participating jurisdiction's for activities affected by the failure to comply;
 - Restrict the participating jurisdiction's activities under this part to activities that conform to one or more model programs which HUD has developed in accordance with section 213 of the Act;
 - Remove the participating jurisdiction from participation in allocations or reallocations of funds made available under subpart B or J of this part;
 - Require the participating jurisdiction to make matching contributions in amounts required by 92.218(a) as HOME funds are drawn from the participating jurisdictions HOME Investment Trust Fund United States Treasury Account.
 - Provided, however, that HUD may on due notice suspend payments at any time after the issuance of a notice of opportunity for hearing pursuant to paragraph (b)(1) of this section, pending such hearing and a final decision, to the extent HUD determines such action necessary to preclude the further expenditure of funds for activities affected by the failure to comply.
 - Proceedings. When HUD proposes to take action pursuant to this section, the respondent in the proceedings will be the participating jurisdiction or, at HUD's option, the State recipient. Proceedings will be conducted in accordance with 24 CFR part 26, subpart B.

Code of Federal Regulations—92.251—Property Standards¹²⁷

Housing that is constructed or rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion, except as provided in paragraph (b) of this section. The participating jurisdiction must have written standards for rehabilitation that ensure that HOME-assisted housing is decent, safe, and sanitary. In the absence of a local code for new construction or rehabilitation, HOME-

¹²⁷ <http://www.hud.gov:80/offices/cpd/affordablehousing/lawsandregs/regs/home/subf/92251.cfm>.

assisted new construction or rehabilitation must meet, as applicable: one of three model codes (Uniform Building Code (ICBO), National Building Code (BOCA), Standard (Southern) Building Code (SBCCI)); or the Council of American Building Officials (CABO) one or two family code; or the Minimum Property Standards (MPS) in 24 CFR 200.925 or 200.926. To avoid duplicative inspections when FHA financing is involved in a HOME-assisted property, a participating jurisdiction may rely on a Minimum Property Standards (MPS) inspection performed by a qualified person. Newly constructed housing must meet the current edition of the Model Energy Code published by the Council of American Building Officials.

Community Development Regulations

Similar to HOME funded projects, Community Development projects will conduct performance reviews to make sure that all projects are completing their responsibilities in accordance to stated program objectives. In conducting performance reviews, HUD will primarily rely on information obtained from the recipient's performance report, records maintained, findings from monitoring, grantee and subrecipient audits, audits and surveys conducted by the HUD Inspector General, and financial data regarding the amount of funds remaining in the line of credit plus program income, as well as other relevant sources.¹²⁸ The participant will then be given the opportunity to submit further information explaining his position, which will then undergo further review by HUD. If at this point HUD is still dissatisfied, they may advise the participant to undertake corrective action in accordance to 570.910 – but HUD will take into consideration the participant's capacity using 570.905 before selecting the proper corrective action.¹²⁹

Review of Current Corrective and Remedial Actions

Federal Regulation—Subpart O, 570.910 Corrective and Remedial Actions¹³⁰

The following lists the actions that HUD may take in response to a deficiency identified during the review of a recipient's performance:

- Issue a letter of warning advising the recipient of the deficiency and putting the recipient on notice that additional action will be taken if the deficiency is not corrected or is repeated;

¹²⁸ <http://www.hud.gov/offices/cpd/communitydevelopment/rulesandregs/regulations/subo/570900.cfm>

¹²⁹ Ibid.

¹³⁰ <http://www.hud.gov/offices/cpd/communitydevelopment/rulesandregs/regulations/subo/570910.cfm>

- Recommend, or request the recipient to submit, proposals for corrective actions, including the correction or removal of the causes of the deficiency, through such actions as:
 - Preparing and following a schedule of actions for carrying out the affected CDBG activities, consisting of schedules, timetables and milestones necessary to implement the affected CDBG activities;
 - Establishing and following a management plan which assigns responsibilities for carrying out the actions identified in paragraph (b)(2)(i) of this section;
 - For entitlement recipients, canceling or revising affected activities which are no longer feasible to implement due to the deficiency and reprogramming funds from such affected activities to other eligible activities (pursuant to the citizen participation requirements in 24 CFR Part 91); or
 - Other actions which will serve to prevent a continuation of the deficiency, mitigate (to the extent possible) the adverse effects or consequences of the deficiency, and prevent a recurrence of the deficiency;
- Advise the recipient that a certification will no longer be acceptable and that additional assurances will be required;
- Advise the recipient to suspend disbursement of funds for the deficient activity;
- Advise the recipient to reimburse its program account or letter of credit in any amounts improperly expended and reprogram the use of the funds in accordance with applicable requirements;
- Change the method of payment to the recipient from a letter of credit basis to a reimbursement basis;
- In the case of claims payable to HUD or the U.S. Treasury, institute collection procedures pursuant to subpart B of 24 CFR part 17; and
- In the case of an entitlement recipient, condition the use of funds from a succeeding fiscal year's allocation upon appropriate corrective

action by the recipient pursuant to 570.304(d). The failure of the recipient to undertake the actions specified in the condition may result in a reduction, pursuant to 570.911, of the entitlement recipient's annual grant by up to the amount conditionally granted.

APPENDIX E. SUBSIDIES AND ECONOMIC INEFFICIENCY

Providing government subsidies to consumers, property owners or developers may lead to overconsumption or underconsumption of housing – depending on the size of the subsidy in relation to the preferences and incomes of the recipients. There are two types of subsidies that can be offered by the government, these include fixed quantity and excise subsidies. They are different in nature, but both contain economic inefficiencies

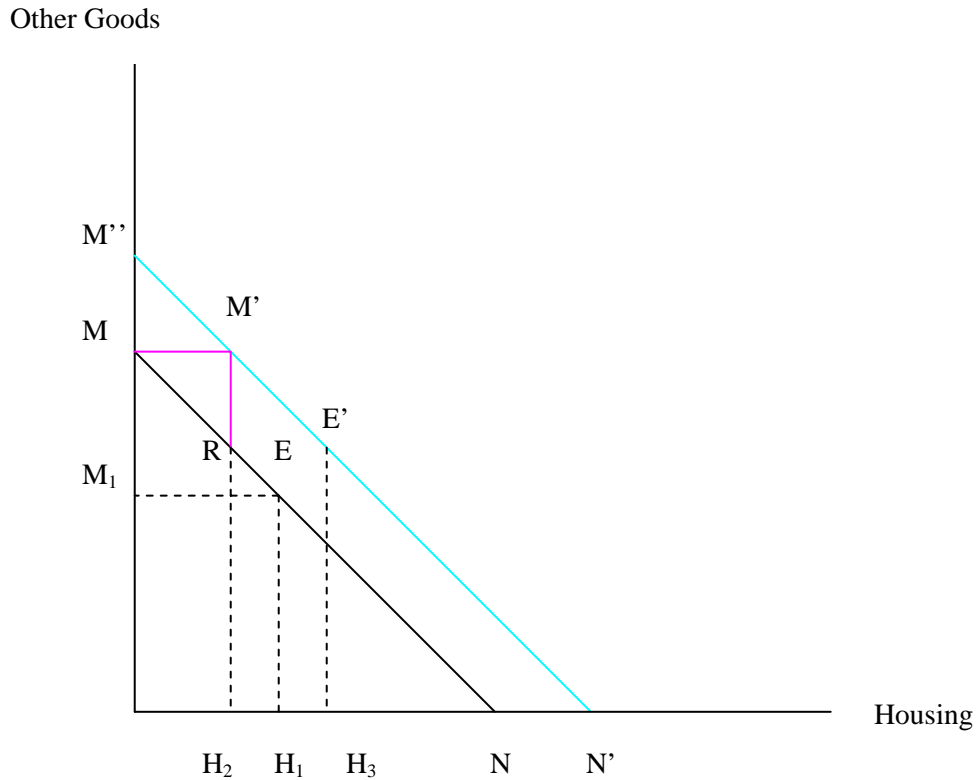
A fixed-quantity subsidy can lead to both under-consumption and over-consumption of affordable housing. The outcome will depend on the size of the subsidy in relation to the preferences and incomes of the recipients. Under-consumption results when subsidized housing is too costly or impossible for the consumer to supplement. For example, suppose that the government offered a housing subsidy for a 1-bedroom apartment at no cost, however, the consumer needed a two bedroom, the only options available to the consumer that wants to take advantage of the one-bedroom subsidy are to settle for a 1-bedroom apartment and ignore their necessity for an additional bedroom or to forego the entire subsidy and pay for the entire cost of housing for a two bedroom. Without a subsidy, a couple may prefer a 2-bedroom apartment and would be willing to pay for the cost of an additional bedroom. However, with the fixed quantity subsidy in place, the couple will only be allowed to take the 1-bedroom apartment instead of paying for the 2-bedroom apartment, which is the quantity they would prefer to consume. Placed in this situation, the couple will most likely forgo the 2-bedroom and take the subsidy for the smaller apartment. This scenario demonstrates how the fixed quantity subsidy can lead to changing preferences and under-consumption.

The graph below shows the under-consumption of housing when the government imposes a fixed-quantity subsidy. The pre-subsidy budget line (MN) (the budget line of recipients of the subsidy, prior to receiving the subsidy) shows that without the subsidy, H_1 units of housing would be consumed. However, with the subsidy, the budget line becomes $MM'RN$. Confronted with this situation, the couple consumes H_2 units of housing. They consume less housing with the subsidy but they gain MM_1 units in other goods. To state this plainly, the subsidy presents a situation in which the consumer (recipients of the subsidy) under-consumes housing but consumes more of other goods and services (i.e. clothing, entertainment, etc.).

Subsidies can also produce over-consumption in housing for recipients. This occurs when the government provides a quantity that is greater than an individual would consume if given a cash transfer in equal value to the subsidy rather than the actual subsidy. In this

situation, an individual may consume more housing than needed if the government offers them a larger housing unit than they would otherwise pay for if they received a cash transfer. If the consumer received cash instead of the subsidy, they would rent a smaller unit and utilize their remaining cash for other goods and services. Refer to Figure 1 for a graphical analysis of government rental subsidies.

Figure 1. Fixed Quantity Subsidy: The Case of Underconsumption



An excise subsidy on housing will provide government assistance for only part of the per-unit price of housing. In this scenario, the consumer decides the quantity they would like to consume. This is unlike a fixed-quantity subsidy on housing, in which the government decides the specific size of a rental unit available to the consumer. Also, unlike imposing a fixed-quantity subsidy on housing, the imposition of an excise subsidy on housing will almost always lead to over-consumption of affordable housing. There are two types of excise subsidies: ad valorem and per unit. An ad valorem subsidy on housing will allow the government to pay for a certain

percentage of the per unit cost of a consumer's housing but if a per unit subsidy is imposed on housing, the government will pay a certain *amount* for each unit of housing for the consumer.

As in previous and current housing approaches, the federal government can provide subsidies in the form of housing vouchers (refer to information regarding the Section 8 program) to increase the availability of decent and affordable housing stock for low income families. Between 1975 and 1998 the number of housing vouchers provided to low-income families in the United States increased from 162,000 to 1.6 million.¹³¹ Vouchers can be classified as a type of subsidy in that the government pays for a certain portion of the cost, but they are given directly to consumers to help offset the burden of market prices. In the case of vouchers that are offered to students in state colleges vouchers can serve as an anti-competitive device.¹³² Depending on the restrictions placed on vouchers for housing, we must see if it may cause a similar anti-competitive reaction. The effects of subsidies may produce cost inefficiency, as seen in under consumption and over consumption. The effects of these inefficiencies on the housing market for the private sector must be taken into consideration if choosing subsidies as a way to address the decent and affordable housing crisis for low-income families.

¹³¹ Housing Vouchers and Economic Self-Sufficiency: Evidence from a Randomized Experiment, Ludwig, Jens, pp 2.

¹³² Browning, Edgar K. and Jacqueline M. Browning, Public Finance and the Price 4th Edition, (New Jersey: Prentice Hall, 1994), pp. 172.