

**Place Matters:  
The Role of Public Housing Authorities in Expanding Inclusion in the US.**

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## I. Introduction<sup>1</sup>

In many U.S. cities, there is a growing sense that housing is less affordable to a wider range of the population than in the past, with a focus on middle-income households whose housing costs are rising. In some cities, there is additional concern and discussion about displacement pressures that rising rents and housing investment are placing on low-income people and communities of color.<sup>2</sup> Debates are raging regarding the causes of rising housing prices and their uneven impact within cities, with factions focused on competing root causes: the role of surging investment in housing, development regulations that undermine housing production, and historical inequities in zoning and planning (Aalbers, 2016; UN, 2017; Furman, 2015; Rothstein, 2017). Yet perhaps in contrast to other countries represented at this convening, much of the discussion of policy responses has taken place at the local level and been focused on local government actions. The federal housing agency—the US Department of Housing and Urban Development—is rarely mentioned in discussions of solutions. In addition, state and local government solutions proposed are often developed in close partnership with the private and nonprofit builders and investors who have become central to the construction of affordable housing in the United States.

Yet this narrative sidesteps the ongoing housing crisis facing the nation's poorest households, most of whom rent and do not live in gentrifying neighborhoods. There is a growing gap between the rising number of extremely low-income households<sup>3</sup> and the supply of housing they can afford: only one affordable rental unit exists for every three poor households, leaving a shortage of 7.4 million affordable homes for poor renter households (National Low Income Housing Coalition, 2019). Most low-income renters live far from gentrifying areas: since 2000, the number of low-income persons displaced from economically expanding areas in the 50 largest metro regions (464,000) has been dwarfed by the growth of low-income residents in economically declining areas in these regions (5,369,000) (IMP, 2019). Close to 36 million people live in areas of low-income concentration, and suburbs are now seeing the largest increases in such areas (IMP, 2019). The country's housing patterns also continue to be highly racialized, with heavy concentrations of Black and Hispanic residents in declining areas and strong indicators of on-going white flight from these areas (IMP, 2019).

These troubling settlement patterns represent an ongoing form of economic and racial segregation. Furthermore, they undermine efforts to improve the health and economic mobility of low-income residents by exposing them to poor environmental conditions and blocking access to well-resourced schools and adequate public services. Creating well-functioning, equitable communities requires that there be space for residents across the income spectrum. For low-income households, access to safe, stable, affordable housing can provide the foundation for better childhood outcomes, for parents' economic mobility, and for better mental and physical health for all family members (RWJF, 2011; Cunningham and MacDonald, 2012).

This paper provides an overview of obstacles to addressing the needs of the lowest income renters in the United States, focusing on how the country's federally-funded but locally governed Public Housing

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<sup>1</sup> This white paper was written at the request of the National Association of Housing and Redevelopment Officials. However, the views presented in the paper are those of the authors and should not be taken to represent the views of NAHRO.

<sup>2</sup> The term community of color is used primarily in the United States to describe communities comprised predominantly of persons who are not considered white (generally, of European descent, Caucasian). The term encompasses all non-white people, emphasizing common experiences of systemic racism. When referring to "white people" in this paper, we mean persons who self-identify as non-Hispanic and solely white in US Census Bureau data products. Non-Hispanic whites represent 61% of the US population as of the latest data available, although they represent only a plurality (rather than a majority) of the population in several US states, including California and Texas, the two most populated.

<sup>3</sup> Extremely low-income households are those with incomes below 30 percent of the median household income for a given region, and is generally considered to indicate that such households are below the poverty threshold. The terms extremely low income and poor are used interchangeably in this paper.

Authorities (PHAs)—historically the agencies charged with addressing the housing needs of the poor—are responding to current conditions and the evolving policy environment. We organize our paper as follows: following this introduction (Part I), Part II provides an overview of the arc of US affordable housing policy, organized around four themes. Part III then describes the conditions and challenges facing low income renters and how the housing choices available to renters using the two largest federal housing programs for the poor compare to the rest of the housing market. Part IV continues with a discussion of findings from interviews with housing researchers and public housing authority directors regarding the current direction of public housing policy, strategies, and innovations on the ground. Finally, in Part V we present the story of the Housing Authority of the City of Austin (HACA) to illustrate innovative approaches to the challenges currently facing PHAs.

Before we begin, a few notes are in order about how the United States system of government may differ from that of other countries in ways relevant to this discussion. In particular, our federal system of governance gives much greater authority to state and local governments than in many other countries. One way in which this dynamic unfolds is a system of *dual sovereignty*, in which US states, rather than being administrative subdivisions of the federal government, are separate sovereign entities with their own elected governments and authority over whole domains of policy, including the formation of local governments. Meanwhile, although local governments are legally creatures of state government, the United States has an unusually strong tradition of *local control*. Very often (though certainly not always) federal and state politicians are reluctant to intrude into areas over which local governments have authority, such as land use regulation.

For affordable housing, the complex and highly decentralized system of government in the United States—where federal, state, county, municipal, and other local governmental entities such as PHAs may all affect a given housing outcome—means several things. First, as noted above, many of the most consequential decisions relating to land use and other areas that affect affordable housing happen locally; others happen at the state level but not federally. In addition, even when highly consequential federal laws are enacted—such as those that created public housing in the 1930s and 1940s and tax credit subsidies for affordable rental housing in the 1980s—they are typically implemented via state and local governments and can therefore take highly varying forms in different locations depending on varying regional traditions and ideological preferences. This also means that tracking the effects of these laws and programs can be a surprisingly difficult task for researchers and others trying to influence policy.

## II. The Arc of US Affordable Housing Policy—Four Themes

Since the passage of the U.S. Housing Act of 1937, which created the U.S. public housing program, the federal role in shaping and funding programs for affordable housing has changed considerably. These changes bear directly on the current challenges facing policymakers and housing agencies and have led to troubling outcomes for the poorest renters. To provide context for understanding the current moment in U.S. efforts to address the country's affordable housing needs, we provide a broad overview of the direction housing policy has taken since 1937. We organize this discussion around four major interrelated themes: (1) the shift away from federal leadership in producing and funding housing for low and moderate-income households; (2) the rising role of state and local governments in setting priorities and finding resources for the implementation of programs, often with private partners; and (3) the emergence of a constellation of private housing producers. Finally, we discuss how these changes together have contributed to a declining emphasis on producing housing for the poor (4). This discussion provides important context for the federal government's recent major initiative—the Rental Assistance Demonstration—which we briefly introduce here and discuss in greater depth in Part IV.

### *Declining federal leadership*

The origins of U.S. housing policy are rooted in the Great Depression that began in 1929 and continued for much of the 1930s. Federal action in this period was motivated as much by the need to stimulate the economy and create jobs as it was to improve housing conditions for the working class. President Roosevelt famously described “one third of a nation ill-housed” in his 1937 inaugural address following his re-election and later that year championed legislation that created a federal public housing program (Schwartz, 2015, p. 163). The U.S. Housing Act of 1937 created the U.S. Housing Authority (which later became part of a new cabinet-level agency, the U.S. Department of Housing and Urban Development, commonly referred to as HUD) to administer federal grants and loans to local PHAs for the construction of affordable rental housing for low-income households. The PHAs, which are quasi-governmental entities governed at a local level, own and operate the properties but are subject to stringent federal oversight and regulations.

Following the Second World War, which largely halted domestic housing production, the 1949 Housing Act articulated the goal of providing “a decent home and a suitable living environment for every American family” (Orlebeke, 2000, p. 489). Despite its lofty goals, subsidized rental housing production in the decade that followed was modest. Less than one-quarter of the 800,000 units authorized by the federal government were constructed in the ten years following the Act’s passage (Orlebeke, 2000, 493). It was not until 1968 that the initial goal of 800,000 units would be met, but by this time, 425,000 existing central city housing units had been demolished through slum clearance programs (Schwartz, 2015, 164; Talen, 2014, 238). Opponents of public housing, concerned that the program was unfairly competing with private housing producers, had acted to limit the authorization of funds necessary to meet the goals of the 1949 Act, and local battles over the siting of public housing, often linked to racial and class prejudice, also slowed progress (Orlebeke, 2000; von Hoffman, 2000).

Between 1960 and 1972, Congress (the legislative body for the US) sought to expand affordable housing programs at all levels, including rental housing production, rehabilitation programs, and subsidized financing mechanisms offered to private developers. With the establishment of HUD in 1965, passage of acts outlawing discrimination in housing in 1968, and the 1968 recommendations of a Presidential Commission (The President’s Commission on Urban Housing), there was an uptick in support for housing programs for low-income households. The newly-formed HUD set ambitious production targets, timetables, and planning requirements designed to disperse low-income housing throughout metropolitan areas, and Congress provided ample funds (Orlebeke, 2000). Yet this expansion would prove to be short-lived.

Under President Richard Nixon (1969-1974), concerns were raised again about the impact of subsidized housing production on market producers and local housing markets. A 1971 review of affordable housing programs raised concerns about program costs, targeting, and environmental and community impacts, along with administrative problems (President’s Third Annual Report, 1971). In early 1973, the administration imposed a moratorium on subsidized production programs, marking a dramatic shift away from federal support for affordable housing production. In 1974, funds for eight of the largest housing programs were re-packaged into “Community Development Block Grants” (CDBG) allocated to local governments by formula, a restructuring that provided local governments with much greater discretion over the use of the funds (Schwartz, 2015, 268). In 1990, the smaller HOME Investment Partnership block grant was created and dedicated entirely to affordable housing (including construction) for low- and moderate-income households. However, the larger CDBG could not be used for construction of housing, and emphasized a shift to the new federal housing voucher program, also administered by local PHAs (Erikson, 2009). Vouchers allowed low-income households to rent homes in the private market by providing subsidies to landlords that make up the gap between 25 (later increased to 30) percent of a household’s income and the local “fair market rent” (set at

between the 40<sup>th</sup> and 50<sup>th</sup> percentile rent for the region). A small public housing production program remained, along with chronically underfunded support for public housing operations.

In the 1980s, two major changes further reduced the role of the federal government in setting the direction for housing policy and for funding affordable housing programs. First, as part of President Reagan's (1981-1989) overall reduction in social spending, federal funds allocated by HUD to state and local governments and for housing production programs fell sharply. Between 1981 and 1987, grants to state and local governments from HUD dropped 21 percent, from \$4.8 billion to \$3.8 billion (from \$12.6 to \$8 billion in 2015 dollars), and the total budget authority for housing assistance<sup>4</sup> fell by 62 percent, from \$26.1 billion to \$9.9 billion (from \$68.1 to \$20.8 billion in 2015 dollars) (US OMB, 2019). In short, the rise in direct funding for housing production through HUD of the previous decade was abruptly reversed.

Second, in 1986, a sea change in the way that affordable housing production is funded occurred when Congress amended the tax code to include a new Low-Income Housing Tax Credit (LIHTC). The LIHTC is now the most important source of funding for the construction or rehabilitation of affordable housing, yet it is administered by the Treasury Department's Internal Revenue Service. HUD is not involved in its operation nor does it appear in the annual federal budget, since it is a tax benefit rather than direct spending. By 2015, LIHTC housing units sheltered twice as many households as public housing and LIHTCs constituted the largest *de facto* subsidy for the production of low-income rental housing (Schwartz, 2015, p. 135).

Currently, the federal government, through HUD, still allocates annual block grant funds (including the HOME block grant) to state and local governments (\$6.7 billion in 2016), provides support to local public housing authorities that still own and operate public housing (\$6.3 billion in operating support and capital grants in 2015), and funds Housing Choice Vouchers (HCVs) for individuals (\$18.5 billion in 2015) (Rice, 2016). But since 1986, affordable housing production has primarily been funded through tax incentives drawing in private investment, both of which are outside of HUD's purview.

#### *Growing state and local roles*

Since 1974, state and local governments have gained greater authority and discretion over the use of federal housing funds and, since 1986, tax incentives for production of affordable rental housing. They have also developed new, locally funded and administered housing programs and incentives, often in partnership with the private sector. Programs that preceded CDBG had specified requirements that state and local governments needed to meet in order to receive funds. In contrast, as long as 70 percent of CDBG funds benefit low- and moderate-income people (e.g., those with incomes below 80 percent of the area median), CDBG funding allows communities to set their own priorities, consistent with the broad grant objectives to create "stable urban communities, by providing decent housing, suitable living environments, and expanding economic opportunities..." (Connerly and Liou 1998, p. 64 in Schwartz, 2015, p. 268-9). To receive federal block grant funds, jurisdictions with more than 50,000 residents must prepare a "consolidated plan" every five years along with annual action plans. The consolidated plans set priorities, incorporate public input, and assess local housing needs and problems such as discriminatory practices.

While CDBG funds decentralize housing planning, localities face competing needs for those funds. For the poorest localities, facing competing housing needs and a weaker tax base, these funds are particularly critical. Since 2001, localities have spent about one-quarter of federal CDBG funding primarily for housing rehabilitation.<sup>5</sup> Additional block grants have been created for emergency shelters and for housing people with

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<sup>4</sup> Housing assistance includes Section 8, Public Housing, Section 21, Housing Assistance for Persons with AIDS, and Sections 202 and 811. Vouchers have continued to grow.

<sup>5</sup> Funds can only be used for construction of new affordable housing when part of a neighborhood revitalization effort or as "housing of last resort."

AIDS. As with public housing, funds appropriated for these block grant programs are often less than legislatively authorized, modest, and typically used to fill gaps in a handful of projects' budgets. (Schwartz, 2015, 272). The current presidential administration proposed entirely eliminating block grants to localities in its 2018 budget proposal (CBPP, 2017).

The creation of federal LIHTCs in 1986 also relied on the decentralization of housing planning, providing states with the authority to set up their own housing programs governing the distribution of the credits, subject to some federal regulations. The Department of Treasury allocates LIHTCs to state housing agencies based on a formula reflecting states' population size, poverty levels, and housing conditions. Affordable housing developers compete for credits based on criteria developed by their state agency. Projects awarded LIHTCs then sell them to investors to raise equity for their projects. There are two types of LIHTCs: the "9% credits" are the most valuable and can be sold to raise around 70% of development costs. These are awarded competitively. The "4% credits" raise around 30% of project costs and are awarded without competition, usually combined with state bond financing (Schwartz, 2015, p. 143).

In response to rising need and declining federal resources, many state and local governments have begun to develop their own housing initiatives. By 2019, there were 800 Housing Trust Funds (HTFs) in U.S. cities, counties, and states providing more than \$2.5 billion a year from dedicated revenue sources to support housing needs (Housing Trust Fund Project, n.d.). Most dedicated revenue sources are based on real estate transaction fees (Schwartz, 2015, p. 301). In 2018, voters approved general obligation bonds for affordable housing at either the state or local level in California, Oregon, Texas, and North Carolina, including a \$4 billion bond in California, a \$652 million bond in Portland, Oregon, a \$250 million bond in Austin, Texas, and \$50 million and \$10 million bonds approved in Charlotte and Chapel Hill, North Carolina (Affordable Housing Finance, 2018).

Cities are increasingly trying to use their development regulations as tools to generate affordable housing. So-called inclusionary housing programs mandate or incentivize the inclusion of affordable units in market rate developments. These programs are most common in states that require or incentivize localities to ensure that a share of local housing is affordable to low-income residents. In states allowing cities to mandate inclusion of affordable units, units are produced more frequently than in cities with voluntary programs (Mukhija et al., 2010). Inclusionary housing programs often allow developers to pay fees toward the production of affordable housing elsewhere in lieu of units on-site. By 2016, there were 886 inclusionary housing programs in 25 states and the District of Columbia (Thaden and Wang, 2017). The scale of production under these programs has been modest, comprising only 0.1 percent of the total housing stock in jurisdictions with such programs (Schuetz and Freeman, 2017, p. 226).

Local housing movements are increasingly focusing on ways that citywide development regulations may facilitate or impede the housing choices available to low-income and minority households. These movements include efforts to amend state and local laws related to tenant rights, including barring landlord discrimination against tenants who pay part of their rent with a voucher, and zoning that impedes the development of multi-family housing. At the same time, cities are struggling to balance changes in development regulations that incentivize new forms of development with efforts to prevent the displacement of low-income renters (Zuk et al., 2018; Way, Mueller and Wegmann, 2018).

In sum, as federal control over affordable housing programs has declined, state and local governments have gained discretion over the use of federal funds, including state administration of the federal Low-Income Housing Tax Credits, currently the most important source of funds for the construction and preservation of affordable housing in the United States. Cities have also developed their own (albeit modest) programs and funding sources. Finally, local movements are pushing cities to adopt local laws and adjust regulations to remove barriers to construction of affordable housing throughout cities.

*Increased reliance on private producers, linked to private investors*

While the real estate industry initially sought to block public construction of affordable housing, the United States now operates under a system that depends largely on private producers, both for-profit and nonprofit. As federal policy shifted away from production of public housing, private organizations have stepped in. Over time, a sophisticated network of affordable housing producers has emerged, ranging from neighborhood-based groups with roots in 1960s-era federal programs emphasizing community empowerment, to mission-driven nonprofits operating at a larger scale, to for-profit developers specializing in the use of LIHTCs. In addition, a set of support organizations has emerged to manage the intricate process of LIHTCs for investors and setting up the complex legal structures required to manage the legal relationship between tax credit investors and affordable housing developers (Erickson, 2009).

Mission-driven nonprofit producers retain a special place within the constellation of affordable housing producers because of their dedication to meeting the needs of their communities and commitment to longer-term affordability. Research has found that, compared to market-rate producers, nonprofits are more likely to build housing that will remain affordable beyond the time period attached to the subsidy (Koebel, 1998), thus extending their benefits (Ellen and Voicu, 2005); more likely to serve the neediest tenants (O'Regan and Quigley, 2000); and more likely to work in distressed neighborhoods and attend to broader neighborhood conditions or provide social services (Crowe, 1996). In recognition of these facts, at least 10 percent of HOME block grant funds and 15 percent of LIHTCs must be awarded to qualified nonprofits (O'Regan and Quigley, 2000, 298). Nonetheless, private, for-profit producers build close to 80 percent of affordable housing using federal tax credits (Schwartz, 2015, p. 144).

Several policy initiatives have propelled or taken advantage of the growing networks of affordable housing producers and financiers that form what Erickson has labelled a "stealth housing program" (Erickson, 2009, p. xii). Reagan-era budget cuts spurred community-based organizations to seek out other sources of funding, such as charitable foundations and state and local governments. The resulting networks are strongest in cities or regions with locally-focused foundations, strong local organizations, and supportive state and local governments. With the advent of the federal LIHTC, local networks began to partner with private lenders and investors in new ways. In recent years, a number of new private investment funds have arisen, looking to join the network, but with an eye to meeting profit goals for their investors.

These private-led partnerships were well-positioned to respond in the 1990s when HUD proposed an initiative -HOPE VI- aimed at addressing the poor conditions and backlog of capital needs facing many public housing authorities. The HOPE VI program facilitated redevelopment of the most distressed public housing and operated in 130 cities and towns. Historian Lawrence Vale found HOPE VI outcomes varied widely in terms of the treatment of existing tenants in public housing developments that were rebuilt, as well as the extent to which those redevelopments served low-income households. Vale attributes these patterns to governance differences, which reflect each place's previous history of slum clearance and displacement (Vale, 2019). For example, in some locations, nonprofit housing organizations or well-organized tenants drove the redevelopment strategy. In others, where such actors were weak, developers dominated the process. The tensions between the goals of for-profit partners and the public entities in such redevelopment projects have been widely noted especially between projects that emphasized economic development goals over rehousing existing residents (Vale, 2013; 2019). In addition, researchers have found that HOPE VI's focus on converting public housing to mixed-income developments socially marginalized low-income residents in some locations (Joseph, Chaskin & Webber, 2007).

The different groups in this decentralized housing network provide an important bipartisan constituency (i.e., one spanning the two major US political parties) for affordable housing funding and related policy issues. For

example, these groups ensured that the LIHTC—initially a time-limited federal tax credit—became permanent in 1993 (Erickson, 2009, p. 93-98). They were critical to passage of the HOME block grant dedicated to housing in 1990. In 2006, they came together again to block cuts to the CDBG program (Erickson, 2009, p. 159.) More recently, following the mortgage crisis and the passage of federal tax reform undermining LIHTC attractiveness to investors, housing coalitions worked to ensure its ongoing viability as a source of funds for affordable housing development (Kimura, 2017).

In sum, the network of private actors involved in the production of affordable housing in the United States has largely replaced public production and strongly shapes housing policy. This system, partly driven by tax incentives, has leveraged a great deal of private investment for affordable housing at a time when there is little political appetite for directly funding programs. This shift in focus introduces challenges, as private funders and partners view their affordable housing developments as time-limited investments. In addition, although not without some exceptions, these partnerships tend to produce housing with shallow subsidies and with rents that are out of reach for the lowest-income renters.

*Shift away from support for the poorest renters.*

The themes discussed above have contributed to the perpetual gap between the housing needs of the poorest households and available assistance, despite the continuing affordability crisis experienced by so many of these households. The two main programs serving the poor—public housing<sup>6</sup> and HCVs—assist only one-quarter of the poorest households in the nation, leaving the other 75 percent paying more than half of their income for their housing costs (NLIHC, 2019). This percentage has remained remarkably stable over time, despite increases in funding for HCVs. The number of such vouchers available rose to over 2 million by 2012, triple the amount in 1980 (Schwartz, 2015, 231-2). Yet this does not necessarily triple the number of households assisted overall: between 1995 and 2012, about two-thirds of new vouchers were used to rehouse those displaced by public housing redevelopment or were “project-based” (i.e., allocated to other subsidized affordable housing developments) (Schwartz, 2015, 231).

In the current context, meeting the housing needs of lower-income groups often requires a convergence of several factors: availability of resources dedicated to deepening housing subsidies, a mission-driven housing organization motivated to seek out or accept multiple sources of subsidy; and the state or local political will to raise and target the resources needed to meet the housing needs of the poor. Federal block grant funds and LIHTCs contain provisions mandating set asides to nonprofits, based on evidence that they are more likely to target the “hardest to house” (O’Regan and Quigley, 2000). As noted above, most states go beyond these requirements (Schwartz, 2015). The main sticking point has been funding. But differences in state and local commitments also loom large.

In 2008, as part of the legislation responding to the impact of the mortgage crisis on affordable housing programs, Congress created a federal Housing Trust Fund (HTF), dedicated to meeting the needs of the lowest-income households. Establishing a national HTF dedicated to serving the needs of the poorest households has been a longtime goal of housing advocates. It was to be supported with funds generated by a set aside from mortgage sales by the two largest government-sponsored housing finance enterprises, Fannie Mae and Freddie Mac. Yet the total funding amounts allocated ended up being extremely modest: \$248 million in 2019, which is allocated by formula to the states. Texas, a state with a population of approximately 28 million (2018) and a poverty rate over 15 percent (2016), was allocated just under \$11 million in 2019, approximately \$3 per year per impoverished resident.

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<sup>6</sup> While public housing regulations have been loosened to allow PHAs to serve slightly better off households, restrictions on the share of income that tenants can pay in rent have made public housing the de facto program for the poor.

Despite the recent ramping up of attention to affordable housing, the scale of resources dedicated to the lowest-income groups at the state and local levels has been modest. A 2008 review of how state and local governments allocate their discretionary funds found that states are not exceeding federal income targeting requirements when administering federal funds or federal tax credits. In addition, local programs were less likely to target the poor than state and federal programs (Mueller and Schwartz, 2008).

### **A new approach to public housing: The Rental Assistance Demonstration (RAD)**

In this context, the work of public housing authorities is especially critical to the ongoing inclusion of low-income households in U.S. communities. PHAs have a presence in communities across the country, in a wide variety of contexts. They are the most important providers of housing to the poorest renters and also important actors in the distribution of HCVs in their regions. Most still manage a stock of aging housing funded and built by the federal government. Based on data presented in a 2010 report prepared for HUD, NAHRO estimated that addressing the capital needs of public housing would cost over \$70 billion (NAHRO, 2019, Abt Associates, Inc., 2010). Public housing has been stigmatized based on high profile examples of failure and poor conditions further undermining the hope for adequate Congressional funding for maintenance and operations. Contemporary efforts to address the needs of PHAs and their residents have thus come with significant strings attached, and advocates of the needs of the poor renters served by PHAs have had to navigate political waters increasingly hostile to the very existence of PHAs and public housing.

To overcome the ongoing challenge of the chronic underfunding of public housing operations and capital needs, Congress created the Rental Assistance Demonstration program (RAD) in 2011. The program reflects the current trends described above and also lessons learned from previous federal housing programs. PHAs choosing to participate in RAD receive the funds they currently get from HUD under a renewable 15- to 20-year contract. PHAs are allowed to then borrow money from private lenders and apply for tax credits to fund much-needed repairs and improvements to their properties. Current residents do not have to re-apply for their housing, and in most cases their rents will not change. Residents of properties undergoing substantial rehabilitation or whose buildings will be replaced by new ones can be relocated for up to one year but have the right to return once construction is complete. Residents can choose instead to accept a housing voucher and move elsewhere. Most significantly, through this process, public housing can shift to private ownership. Initially, only 60,000 units could opt to convert to these contracts through a competitive process; however, this number has since been expanded to 455,000 units. We will discuss the implications of this latest shift in federal policy in the final section of this paper.

### **III. Challenges for Low-Income Renters Today**

Low-income households in the United States face a great many challenges, but lack of access to safe, well-maintained, suitable, and affordable housing is surely one of the most pressing. In this section, we aim to provide a high-level overview of the housing-related issues that many low-income renter households are facing in the United States. We also examine the extent to which deeply-subsidized rental housing partially addresses some of these issues—and also at times introduces additional concerns.

We begin by providing a summary account of the housing options available to low-income renters in the United States today. Though these options have never been plentiful, there is considerable evidence that they have dwindled still further in recent decades, especially for renters who are poor. Next, we briefly summarize some scholarship evaluating the extent to which public housing and Housing Choice Vouchers (HCVs)—for those households with access to them—provide benefits in terms of improved housing quality. Because subsidized housing units provide not only shelter but also access to a neighborhood, we also discuss some of the locational opportunities and challenges with public housing units (which are tied to particular locations)

and HCVs (which ostensibly provide their users with locational choice). We recount research showing that this choice is actually quite constrained. Finally, the last section examines the locational attributes of public housing and HCVs in comparison to housing overall in terms of three locational characteristics: child opportunity, racial segregation, and exposure to environmental risks.

*The housing shortage for extremely low-income renters*

In the United States, much of the national media coverage of affordable housing issues focuses on large coastal cities such as Washington, Los Angeles, and New York. These cities have such extreme housing shortages that even comparatively well-off residents strain to find well-located, well-maintained housing options in their preferred locations. Perhaps partly as a byproduct of the propensity for members of the media to reside in such locations, their struggles garner a great deal of attention.

In reality, this middle-income housing crisis affects a relatively small subset of metropolitan areas and coexists with—and often overshadows—a far more widespread and pervasive housing crisis. This is the housing crisis as experienced by those with extremely low incomes, who struggle to find decent, safe, and well-located housing in every corner of the United States—from large cities and suburbs in the biggest metropolitan areas, to smaller cities and their suburbs, to rural communities. Low-income households in the United States face a grossly inadequate array of housing options in every sort of location, from those with booming job markets to those where well-paid jobs are scant, from those with the lowest vacancy rates to those with widespread abandonment of housing units. This is a truly nationwide housing crisis that has been decades in the making and the consequence of longstanding underproduction of market rate and subsidized housing that low-income households can afford.

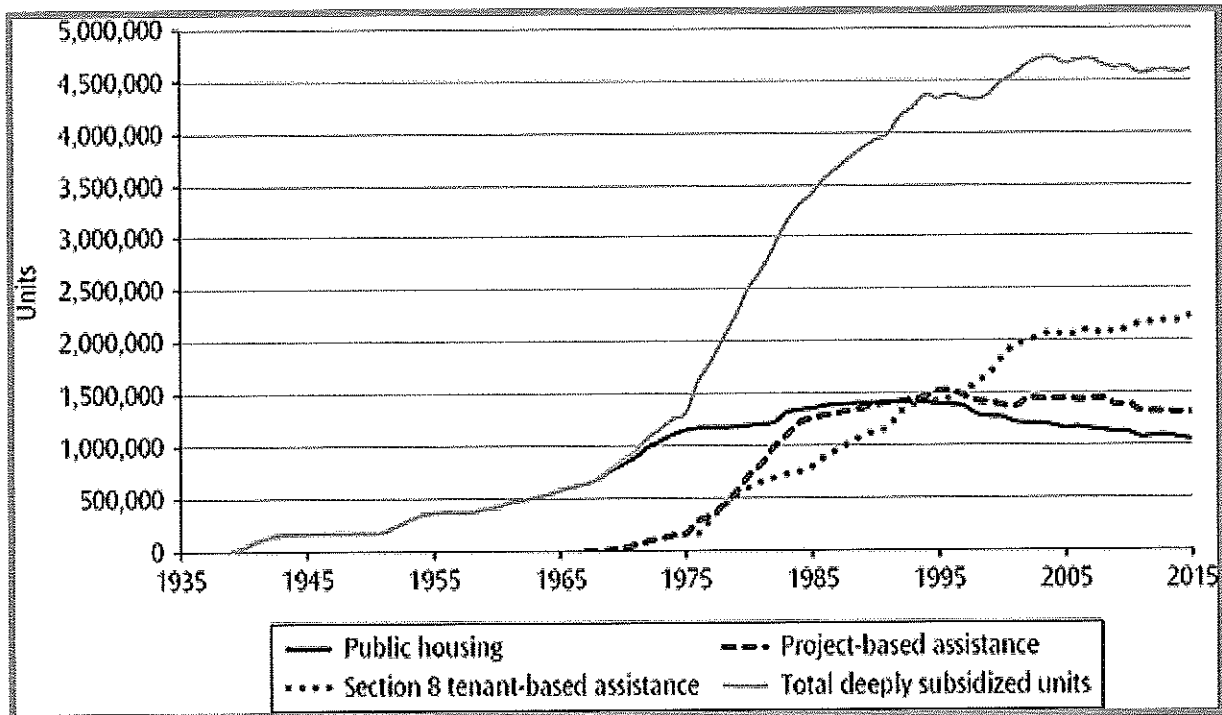
One of the leading affordable housing advocacy organizations in the United States, the National Low Income Housing Coalition (NLIHC), releases an annual report entitled “The Gap” which quantifies the shortage of affordable housing by income bracket and location. In these reports, as is customary in affordable housing policy in the United States generally, housing is considered affordable to a household if it costs no more than 30% of a household’s gross income. As reported in The Gap’s 2018 edition, in only 12 of the 50 largest metropolitan areas is there a shortage of housing affordable to those earning above the median household income (National Low Income Housing Coalition, 2018). These include all of the largest cities in California, as well as Boston, Denver, Miami, New York, Portland, and Seattle.

In contrast, *every single one of the top 50 metros* has a severe shortage of affordable housing for households that earn below either 30% of the median income (referred to as Extremely Low-Income, or ELI) for the region or the poverty level, whichever is lower. In Orlando and Los Angeles, the metros with the most extreme shortfalls, affordable housing is available for only 17% of ELI households. Among the largest 50 metropolitan areas in the United States, Providence, Rhode Island performs best—but its share of affordable housing units as a fraction of ELI households is still a dismal 47%. Similarly, when measured at the state level, ELI households face severe shortages both in highly urbanized states such as Texas (30%) and in predominantly rural ones such as Wyoming (34%). In no state is the availability of affordable units for ELI households higher than 59% (Maine).

Under such conditions, when affordable housing units are affordable and available to only 35 out of every 100 of the nation’s 11.2 million ELI households, such households must make difficult and sometimes agonizing choices. According to The Gap, in 2018 71% of ELI households spent more than half of their gross income on housing costs. At such low incomes, the almost inevitable result is that household members must shortchange expenditures that more fortunate residents would consider essential, such as food, medical care, childcare, clothing, and others, to say nothing of retirement savings or other long-term needs. In addition, when rents and other housing costs are so high, households have almost no safety margin when unexpected costs or setbacks, such as job loss, arise. In his book *Evicted*, the sociologist Matthew Desmond

(2016) extensively documented the cycle of repeated evictions and forced moves that ensnare ELI households trapped in a housing market with too few suitable options, and the resulting toll on their members' emotional, physical, and financial well-being.

One of the most important drivers of the dismal trends described above is that production of federally-subsidized housing reserved for and affordable to ELI households is essentially stagnant. It is true that the erosion of the public housing stock that began in 1995 has been offset by an increase in tenant-based (Housing Choice Voucher) assistance. In the figure below, however, the urban historian Lawrence Vale demonstrates that when added together, the total quantity of deeply-subsidized, federally-assisted housing has not increased at a rapid pace since the early 1990s, and has been essentially flat since the early 2000s (Vale, 2018). As Vale notes, this stagnancy is even worse than it appears upon first glance, since the US population has increased by about 15% since the early 2000s. Although the figure below does not capture all subsidized housing targeted at ELI households—for instance, some jurisdictions manage to build such housing without federal subsidies—it is clear nonetheless that a macro trend in the United States is that the stock of deeply-subsidized housing is not only failing to keep pace with the need, but is also falling further behind with the passage of time.



Trends in deep subsidies for federally-assisted housing, 1935-2015. Reproduced directly from *After the Projects* by Lawrence J. Vale (Figure 1.1, page 10).

#### *Housing quality and deep housing subsidies*

Deeply-subsidized housing—which in the United States means principally, though not exclusively, either public housing or housing units occupied by tenants holding HCVs—affords a small percentage of low-income families some relief from the dismal trends enumerated above. How extensive are the benefits? This

is a complex question, but in this section we briefly summarize research on the benefits in terms of improved housing quality.

Assessing the overall quality of public housing can be muddled. On the one hand, even after the redevelopment of tens of thousands of public housing units over the last quarter century or more, poorly maintained dwellings remain, in part because of inadequate federal funding and because the PHAs that own them are often unable to access financing to upgrade them. On the other hand, many tenants would be forced into poorly-maintained, sometimes downright dangerous options of last resort in the private market were they to lose their access to public housing. Separating these two opposing forces can be tricky.

According to one report, as of 2008 a considerable period of redevelopment had contributed to improved quality of the public housing stock (Sard & Fischer, 2008). The report noted that 90% of public housing units were in acceptable or good condition, though also cautioned that the stock was still quite old on balance and would need further investment to remain viable (Sard & Fischer, 2008). By contrast, in another study a convenience sample of 246 caregivers of children residing in a highly distressed neighborhood of Baltimore found that 99% of their housing units—likely largely unsubsidized—were substandard according to HUD’s evaluation methodology (Gielen *et al.*, 2012). Though the setting of that study is extreme in its level of disinvestment, and though many ongoing concerns persist with the state of maintenance in public housing, nonetheless it seems plausible that hundreds of thousands of families in the United States obtain better quality dwellings via public housing than would otherwise be possible in the absence of subsidies.

A 2012 study based on data sampled nationwide in the American Housing Survey confirms this view and also allows for a comparison between public housing, HCV-supported housing, and unassisted rentals (Ross, Shlay, & Picon, 2012). When respondents were asked about their level of satisfaction with their units, the most common response for HCV holders was “most satisfied” (40%), as compared to unassisted renters, whose most common response was “very satisfied,” with “most satisfied” at only 33%. When the authors controlled for various characteristics including satisfaction with the surrounding neighborhood, HCVs, and to a lesser but still notable extent, public housing, fared even better. As they note:

Compared with unassisted low-income renters, both voucher holders and public housing residents were more satisfied with their housing, independent of their satisfaction with their neighborhood. In particular, the odds of observing a higher degree of housing satisfaction for voucher holders are 58 percent higher than the odds for unassisted renters (*ibid.*, p. 45).

Again, we are left with a strong impression that HCVs and public housing, though not without real issues, in the aggregate deliver on their intended purpose of providing better quality housing than their recipients might otherwise be able to obtain.

#### *Landlord acceptance of vouchers*

As noted in the introduction to this section, subsidized housing influences the life course of its occupants not simply by providing (hopefully) quality shelter. It also ties occupants, at least for a time, to a particular location. In the United States, life opportunities vary greatly across various dimensions from one location to another. While the geographic opportunities offered by public housing, to a large extent, are fixed—sites of still-existing public housing developments were almost all selected decades ago—HCVs were meant to be something different. By devising a tenant-based, portable subsidy, policymakers intended for tenants to be empowered to take their HCVs into the rental market at the scale of an entire city or metropolitan region and find locations most well-suited to their needs.

A body of research in the intervening decades since the introduction of federal housing vouchers in the United States has demonstrated that, while vouchers do provide a degree of choice, tenants who hold them

face some formidable constraints that limit where they can and do end up using them. These constraints derive from limits in HCV subsidy amounts (in most cases only supporting rents up to the 40<sup>th</sup> percentile within the county or metro area), public housing agencies' decisions to provide a lower payment rate, the refusal by some landlords to accept HCVs, the logistical and financial difficulties of searching for suitable housing units, programmatic time limits for securing a unit with an HCV, and others.

A recent HUD-sponsored study, perhaps the most comprehensive yet undertaken, vividly demonstrates these constraints in five cities with varying housing market conditions: Fort Worth (near Dallas), Newark (near New York), Los Angeles, Philadelphia, and Washington, DC (Cunningham *et al.*, 2018). Across all five cities, the researchers perused over 341,000 online advertisements for rental units; of these, only 1 in 39 included text suggesting that the landlords accepted HCVs. Then, of the small fraction of ads that purported to accept HCVs, only between 37% and 54% (depending on the particular city) of the landlords actually proved to do so once the landlord or their representative was contacted.

Finding a potentially eligible unit, time consuming as it is, is one thing; being accepted as the renter is another. In three of the five cities, when the researchers called HCV-eligible listings to pose as renters, the rate of outright denial ranged from 67% to as high as 78%. So-called "source of income" laws, in which some cities or states prohibit landlords from discriminating against renters who have a housing voucher, seem to make a difference. In the two cities in the study covered by source of income laws—Newark and Washington—the landlord denial rates were much lower (31% and 15%, respectively). In all five cities, denial rates were higher in low-poverty neighborhoods.

### **How the locations of public housing and voucher-supported units compare to housing overall**

Earlier we noted that public housing locations are largely fixed as a result of decisions made decades ago, often with discriminatory intent, and that HCV holders' dwelling locations, while nominally influenced by their preferences, are in fact subject to considerable constraints. It is therefore not surprising that public housing developments and HCVs tend to cluster in disadvantaged locations. In this section we quantify these disparities by analyzing the locational characteristics of public housing units and HCV-supported rentals in comparison to a metro area's overall housing stock. In particular, we compare the locations of public housing units, HCV units, and housing units overall in regards to (1) the opportunities that the neighborhoods offer to children, (2) the neighborhoods' racial compositions, and (3) the environmental hazards to which residents are exposed.

In almost every case, the general pattern is the same: on average, HCVs cluster in neighborhoods that are disadvantaged vis-a-vis the overall housing stock, and public housing clusters in even more disadvantaged neighborhoods than HCVs. However, averages do not provide the complete picture. In a series of three charts, we show the full range of outcomes, which are quite varied. Yes, it is true that on average public housing and HCVs are located in disadvantaged neighborhoods; however, it is also true that large numbers of these types of housing exist in comparatively advantaged locations as well. It must also be noted that, given the steadily worsening absolute shortages of low-income housing in every corner of the United States, deeply-subsidized public housing units and HCVs constitute vital resources no matter where they are located.

#### *Opportunity for children*

Brandeis University's Heller School for Social Policy and Management developed and maintains a Child Opportunity Index for every census tract within the 99 largest metropolitan areas of the United States.<sup>7</sup> A

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<sup>7</sup> See <http://www.diversitydatakids.org>. Note that the Index originally included data on the 100 largest metro areas; however, in the time since the Index was created, changing official metro area definitions have resulted in the incorporation of one of those metros into another. That is why we work with a list of 99 metros in this analysis.

census tract is a geographical unit that typically is home to between about 1,500 and 8,000 people; it can be thought of as roughly analogous to a U.S. neighborhood. The Child Opportunity Index is an attempt to combine a variety of factors relevant to children's wellbeing—education, early childhood care, health, income, poverty, and others—into a single numerical score for every census tract in the 99 metros.

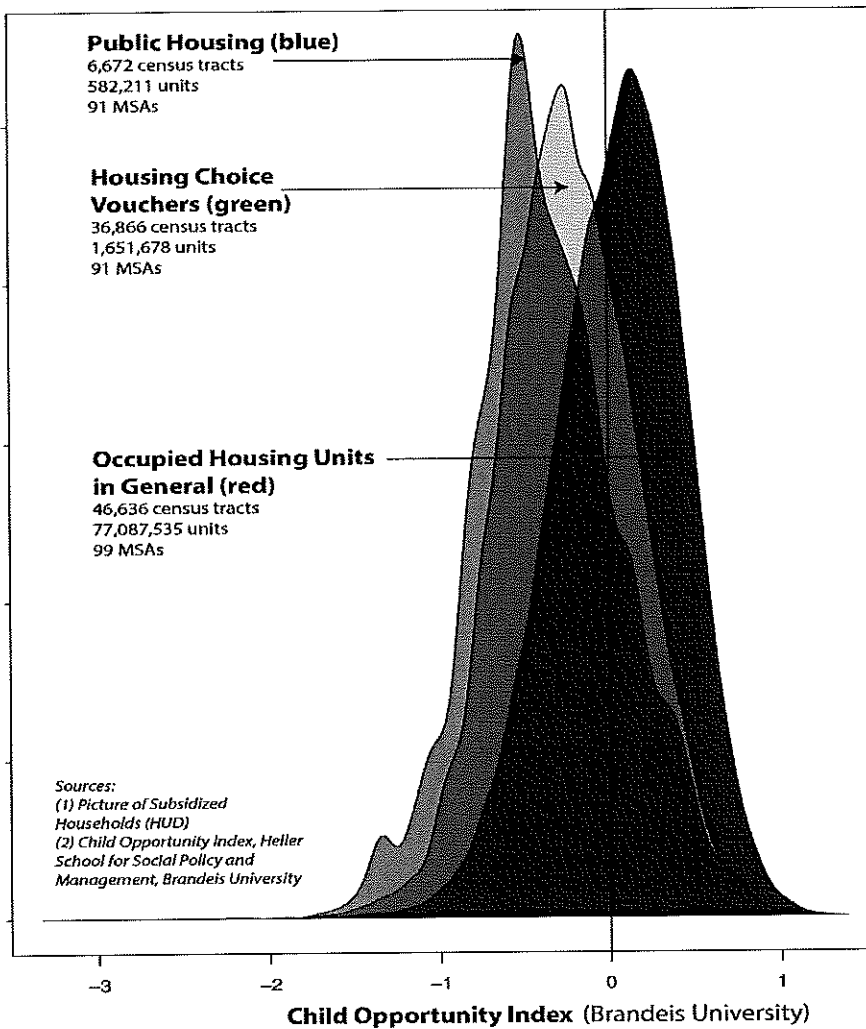
HUD maintains a database, Picture of Subsidized Households, which attempts to track all housing supported by direct federal spending in the United States. We used it in combination with the Child Opportunity Index to create the chart below. Most tracts have index values ranging between -1 and +1, where +1 indicates a high degree of opportunity and -1 indicates a dearth, although values can be somewhat higher than +1 and, in rare cases, considerably lower than -1. The red curve shows the distribution of opportunity by neighborhood for all of the roughly 70.1 million total housing units in the 99 metros, or 51% of total nationwide units. Intuitively, the more of the curve lies to the right side of the graph, the greater the share of overall housing units that lie in census tracts that offer high levels of opportunity to children growing up in them.<sup>8</sup> As can be seen, while the red curve includes a wide variety of opportunity levels for children, it is slightly skewed to the right, with a peak somewhat to the right of a Child Opportunity Index of zero. This means that the average housing unit in the 99 metros has somewhat higher than average opportunity for children, although as noted the full distribution spans across a wide range of outcomes.

The curve with a green peak represents HCVs; it is almost the mirror image of the red curve. It includes 65% of the nationwide stock of HCV-supported units, which covers 91 of the 99 metros. Where the red curve is somewhat right-skewed, the green curve is somewhat left-skewed. This is not surprising when one considers that, in most locations, the HCV program is designed to cover rents up to the 40<sup>th</sup> percentile level among the rental units available within a given region. Therefore, rental units in the highest opportunity neighborhoods, which tend to have the highest rents, will in most cases be out of reach for HCV tenants. Even so, the chart shows that a considerable number of HCV units lie in neighborhoods that lie in the positive range of the Child Opportunity Index (i.e., on the right side of the chart).

The blue curve represents public housing units; these represent 57% of the nationwide total and, just like HCVs, appear in 91 out of the 99 largest metros. The blue curve is shifted even further left than the green curve for HCVs; its peak lies at a Child Opportunity Index of about -0.8. Thus, public housing really is predominantly concentrated in low-opportunity neighborhoods. With that said, however, a nontrivial portion of the public housing distribution, just like with HCVs, extends into the right side of the graph. Thus, while much of public housing predominantly lies in low-opportunity areas for children, this is not the case for a portion of public housing.

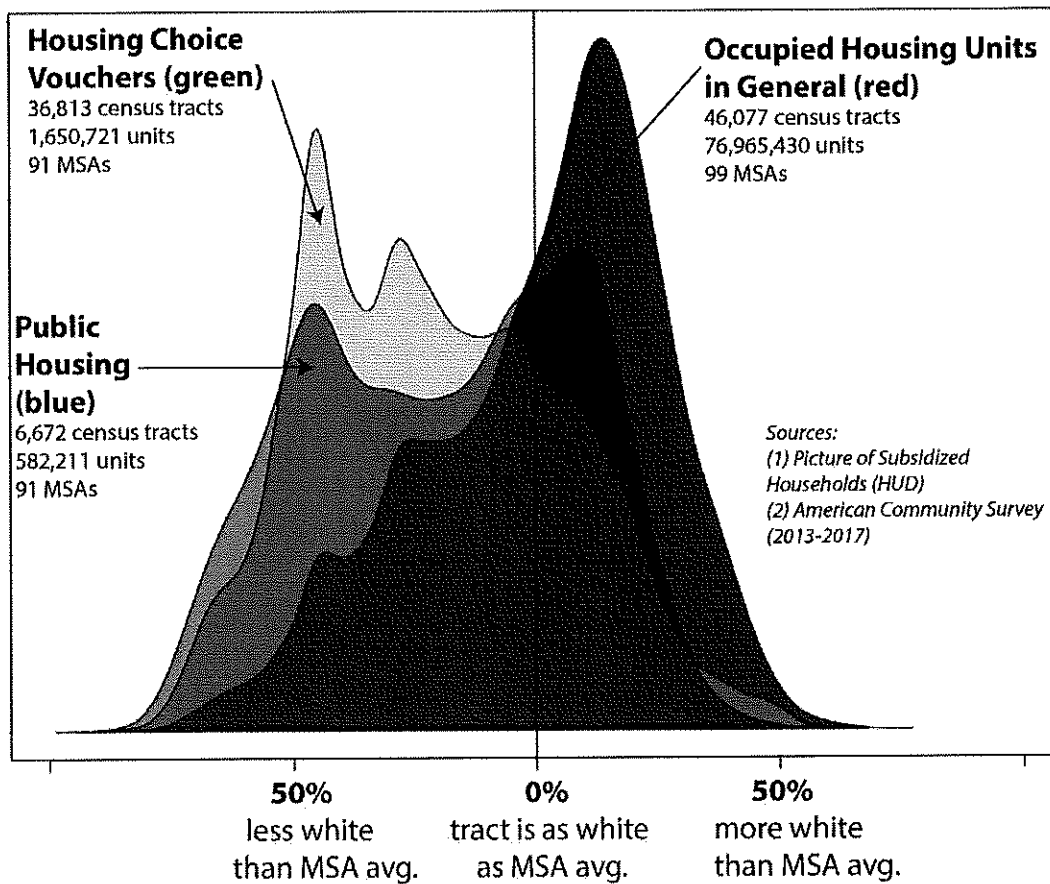
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<sup>8</sup> All curves in the graphs in this section are *weighted*, which means that if census tract A has twice as many units as census tract B, tract A will influence the resulting curve twice as much as tract B.



*Neighborhood racial composition*

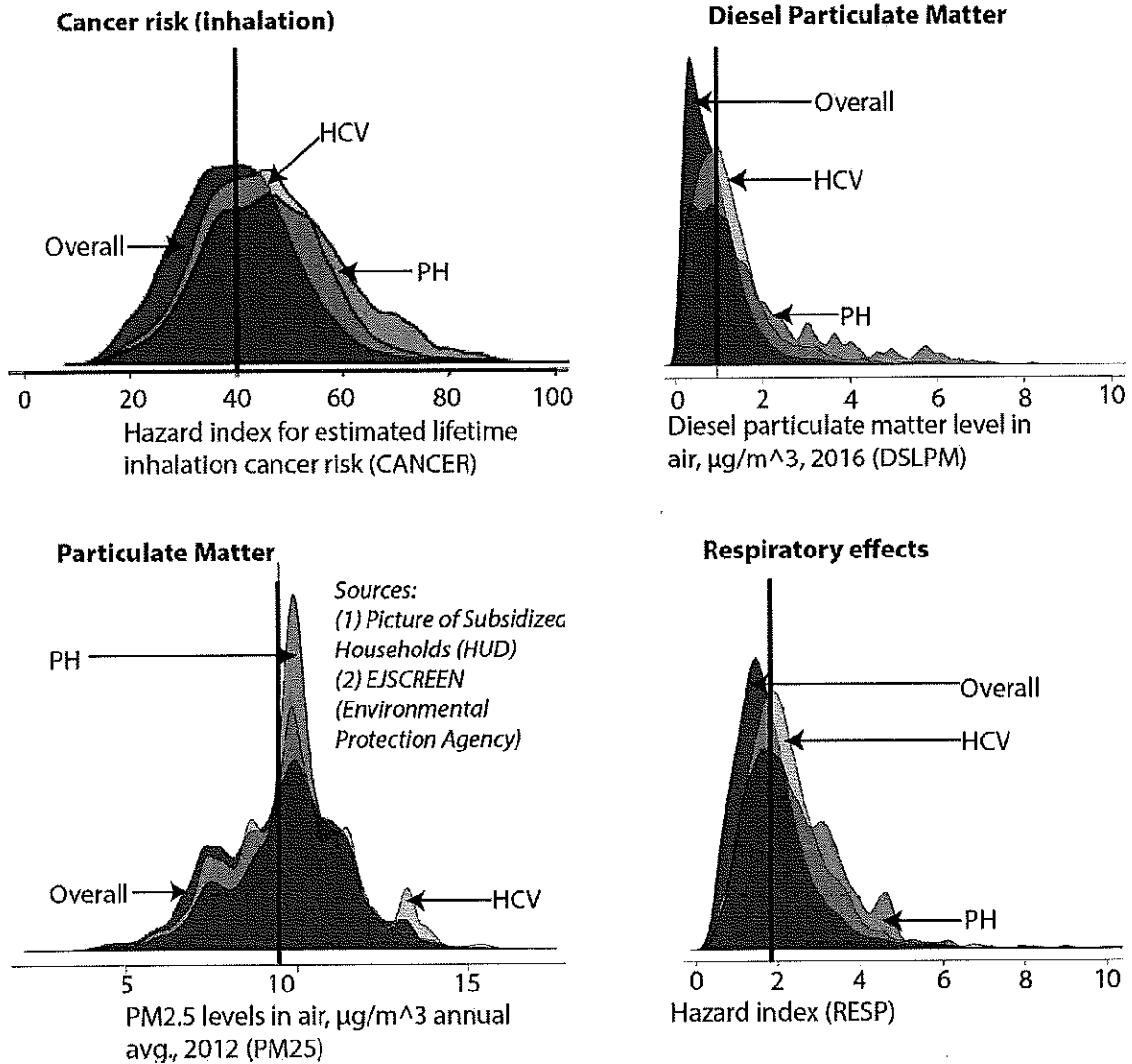
The next chart (below) shows the extent to which a given type of housing unit is apt to be in a census tract whose population is either more or less white than the metro in which it is located. Note that “white” refers to the majority (non-Hispanic white) population of the United States, which as of the 2017 Census (the latest data available) was 61% of the total. Due to the centuries-long history of oppressive policies towards people of color, as well as governmental policies that officially discriminated against them until barely half a century ago, in the United States most forms of socioeconomic advantage continue to cluster in whiter neighborhoods.



The curve for all occupied housing units (in red) is concentrated on the right side of the graph, which means that the typical occupied housing unit in the 99 largest metros is in a neighborhood that is whiter than its surrounding metro. This is a byproduct of America's somewhat diminished but still well-entrenched pattern of residential racial segregation, in which whites are disproportionately likely to live in anomalously white neighborhoods, rather than being evenly distributed throughout metros. By contrast, both HCVs (green) and public housing (blue) exhibit the opposite side of the racial segregation coin, given that they are disproportionately located in neighborhoods that are far less white than their metros. Nonetheless, there is still a considerable number of public housing and HCV units located in whiter-than-typical neighborhoods, suggesting once again that the predominant pattern is not monolithic.

#### *Exposure to environmental hazards*

The four graphs below largely use the same general format as those for child opportunity and racial composition above, but focus on four measures of neighborhood-level exposure to air pollution. These data derive from the EJSCREEN database maintained by the Environmental Protection Agency, a federal governmental body tasked with protecting the environment.



Proceeding clockwise, starting in the upper left corner, the graphs show levels of inhalation risk for cancer, diesel particulate matter, and fine-grained particulates (smaller than  $2.5 \mu\text{g}/\text{m}^3$ ), and a hazard index for respiratory effects.<sup>9</sup> In three of the four graphs, the pattern is similar: housing units overall are less exposed to environmental hazards than HCV units, which in turn are less exposed to those hazards than public housing units. Particulate matter (lower left) is a partial exception, in which the differences are more muted, although a slightly higher share of overall housing units still lies within tracts receiving less harmful exposure than for HCV and public housing units. The bottom line is that, again, while not all residents living in HCV and public housing units are exposed to harmful environmental conditions, they are more likely to be than for residents overall.

<sup>9</sup> Documentation for EJSCREEN can be found at <https://www.epa.gov/ejscreen/technical-documentation-ejscreen>

If inclusion of the lowest income households is critical to the creation of strong communities, the evidence presented in this section reinforces both the importance of the public housing and voucher programs to improving conditions for residents and the challenges remaining to their effective use.

#### **IV. The End of Public Housing? Current challenges to continuing to serve the poorest renters and local PHA responses**

As described in Parts 2 and 3, the lowest-income renters in the United States have historically been served by the public housing and voucher programs, with only a small share of eligible households receiving assistance. With consistently inadequate funding and modest rent rolls, public housing authorities (PHAs) have struggled to serve their residents and maintain their aging housing stock. In 2012, Congress authorized the Rental Assistance Demonstration (RAD) initiative, setting up a new paradigm for public housing in the United States (described earlier). This transition raises possibilities for innovation but also poses challenges that come from partnering with private investors.

In this section, we discuss our findings from interviews with leading public housing researchers and current and former executive directors of public housing authorities regarding the current challenges facing PHAs and residents. Researchers were chosen to represent a range of perspectives on public housing, while researchers and NAHRO leaders nominated PHA directors for interviews based on their perceived successes in navigating the challenges facing public housing. The focus of our discussions with researchers were on the meaning of the current shift in the mission of public housing, while our discussions with PHA directors were centered on their experiences navigating current challenges.

In our discussions, a number of common themes emerged. First, researchers largely see the current emphasis on RAD and the privatization of public housing as the culmination of the long-term decline of funding and political support for public housing in Congress and the shift toward greater reliance on private investment and private partners to produce affordable housing. They emphasized the challenges this shift is likely to pose to fulfill the mission of public housing to provide safe and decent housing for the lowest income and most vulnerable renters. They noted the constellation of local factors that influence how RAD will be implemented in different places, with important implications for residents. Finally, they emphasized that, to date, only a subset of places has participated in, or is capable of, participating in RAD, leaving many areas outside of the current discussion and likely more vulnerable to cuts in the federal public housing budget. PHA directors describe their own approaches to navigating changes in public housing policy and the different ways they have made use of the flexibility and greater financial security that the RAD program offers. They also raised concerns regarding the long-term sustainability of this new model. We discuss each of these issues briefly below.

##### *Challenges to preserving the mission of public housing*

Researchers and PHA directors noted both the political and financial realities that are pushing local housing authorities to participate in the RAD program by converting their properties to long-term contracts with HUD or to otherwise exit the public housing program<sup>10</sup>. These conversions are the culmination of a long-term trend in the federal government to underfund or even de-fund public housing—what one interviewee called “the long goodbye to public housing”. RAD conversions provide PHAs with critical access to necessary funds and a much more reliable federal funding stream. While there is still a risk that Congress will not fully fund the subsidy contracts, historically Congress has been more willing to fund these contracts than to fund traditional public housing. Exiting the public housing program also means getting out from under the

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<sup>10</sup> Officially, this shifts funds to an existing program—Section 8—and the rules governing it.

more complex HUD management structures, thus providing PHAs with more flexibility in managing their properties.

RAD represents the end of ubiquitous direct federal ownership of public housing for PHAs participating in the program. Under RAD, local agencies have the choice to retain ownership (often via subsidiary entities) and management or shift ownership and management to their private or NGO partners. Several interviewees felt this shift was highly significant and that it is particularly important for local PHAs retain ownership to remain accountable to the public housing mission of providing safe and decent housing for low-income families, the elderly, and people with disabilities. PHA ownership is also regarded as more likely to ensure long-term commitment to serving the lowest-income tenants. PHAs are also often seen as better landlords than private partners because of their commitment to their residents, and because they are more responsive to tenant needs, less apt to evict tenants, and more willing to provide residents with social services.

Researchers also noted the pros and cons of partnerships with private investors. The primary benefit of these partnerships is the ability to “unlock private capital” to carry out much needed renovations and to produce new housing. Indeed, one study estimates that for every one dollar of public investment in a RAD conversion an average of \$8.91 is raised in private investment (Econometrica, 2016, cited in Hanlon, 2017, 626). Some capital will come in the form of debt, introducing significant financial risk for PHAs if Congress does not fully fund the Section 8 Program (eg, the subsidy contracts) annually or if PHAs cannot service their debt agreements. At the same time, as with the earlier HOPE VI program, such public-private partnerships often produce mixed-income developments which can raise housing standards. But when such redevelopment is sited in districts primed for gentrification this can produce tensions around re-housing the lowest-income tenants in the new development. In addition, the relocation of tenants during construction can be extremely destabilizing and disruptive if not handled well. A large majority of public housing residents are children, seniors, and people experiencing disabilities. Even when relocation is handled well it can be challenging for these populations to move twice especially if the temporary location is far away from their schools or service providers.

#### *The importance of local context to the work of PHAs*

Since this new approach further deepens the reliance on local partnerships and the integration with the decentralized housing networks that produce tax credit housing, how it plays out will differ according to local context. Lawrence Vale, in his research on the implementation of HOPE VI in different cities, identified the different ways that the program was governed in each place—what he calls governance constellations. He argues that each city’s experience with urban renewal and other forms of development-induced displacement has shaped the constellation of stakeholders involved in public housing redevelopment. He describes four constellations in terms of the dominant groups leading public housing redevelopment efforts: 1) a strong private development partner; 2) elected and appointed officials in the public sector; 3) nonprofit organizations with strong commitments to low-income residents; and 4) organized public housing residents. Rachel Kleit, in her research on innovative PHAs, describes the contextual factors shaping the work of PHAs as 1) the orientation of the PHA toward public/private partnerships; 2) local housing market conditions; and 3) the availability of private capital for projects. In contrast, Ed Goetz’s research has focused on the state and local political context behind adoption of progressive local housing policies, or adoption of more tenant-centered approaches to public housing redevelopment. He emphasizes the competing narratives regarding public housing that were dominant nationally and in local battles over redevelopment and that were used to advance the redevelopment goals of local actors. Narratives that emphasized the dangers and poor conditions associated with public housing were used to support large scale redevelopment and mixed income housing. These narratives were particularly strong in cities like Chicago, where mismanagement and corruption produced especially poor conditions. In contrast, the feelings of public housing residents about their homes and the value they place on their communities, is rarely part of the discussion. In cities where residents are

organized and able to participate more fully in discussions about the future of public housing, redevelopment is more likely to emphasize rehousing tenants.

These themes rang true in our interviews with public housing directors. While all of these PHAs were clearly committed to continuing to serve their tenants, there were differences in strategies across places that reflected local market conditions, the political commitments of local government partners, and the availability and strength of a local housing network, including nonprofit service providers. While all four of the current PHA directors we spoke with were converting their public housing to project-based Section 8 contracts—primarily for the financial stability this would provide—this did not mean all were planning to redevelop this housing or to engage in partnership with private developers. The direction taken by some organizations was also shaped by tenant concerns. Finally, for these leading organizations, especially those entering into development partnerships, the move away from the public housing program as traditionally organized has required a shift in organizational culture and capacity.

### **PHA responses and innovations**

To give a sense of the varied paths that local PHAs have taken, we offer a few examples from our interviews with successful PHAs here. We describe the work of the Housing Authority of the City of Austin in more detail in Part V.

#### *Finance innovations*

The Fresno California Housing Authority (FHA) is a city and county PHA and operates in a community with high levels of poverty (25%) and large health disparities between income and racial groups. The FHA focuses operations on a quadruple bottom line that encompasses 1) social outcomes (including education, employment, and health); 2) environmental outcomes (solar power and water conservation); cultural change (how low-income families are valued and treated in the community); and 4) FHA financial self-sufficiency. To achieve financial self-sufficiency, the FHA formed two major subsidiaries, one for real estate development and the another for finance. Those subsidiaries are the development and finance partners for the majority of FHA properties and are able to capture loan and developer fees and interest payments which they reinvested into FHA initiatives that are not financially self-sufficient. For FHA, this allows them to fund capital needs for housing units, provide housing for people exiting homelessness, and increase funding for resident social services at rates that exceed traditional PHA levels. For example, the FHA requires that developers pay \$500 over the currently required residential services fee which in most cases is \$25-\$50. By requiring \$525-\$550, the Authority has developed a substantial annual budget which they match with \$1.5 million a year to provide resident services including job training aimed at wage progression and services for children rooted in the housing-health connection. In addition, FHA views their mandate in the context of broader community needs including working with neighborhood revitalization efforts where they partner with the city to support the formation of new community development corporations and conduct broad public education campaigns.

#### *“Housing First” innovations*

The Vancouver Washington Housing Authority (VHA) serves both the city and surrounding small communities and is located in an area experiencing population growth and associated rising housing costs. VHA has developed a significant focus on social services, especially for families and individuals experiencing homelessness or medical concerns. Vancouver, like a number of cities in the United States, is experiencing a significant increase in unsheltered homeless residents, and the VHA is working to address this trend by direct interventions include voucher targeting, project development, and wrap around social services.

In regards to targeting, VHA has worked with the local school district to identify homeless students and then prioritized housing vouchers for their families, knowing the connections between housing and academic

success. They have also developed partnerships with local and regional health nonprofits to identify and prioritize vouchers for individuals with complex behavioral or physical health conditions that would likely improve if they had access to stable housing.

The VHA provides and operates housing and services for people exiting homelessness. Since 2017, they have acquired five properties with 166 units dedicated to housing formally homeless residents. One property is reserved for young people that are aging out of foster care, three properties are dedicated to residents living with behavioral health issues and includes a soon to be completed assisted living property for 18-65-year-olds that leverages Medicaid funding to provide 24-hour care. These programs draw from a Housing First model that recognizes the difficulty in addressing addiction or other deeply-rooted personal conditions before people are stably housed. Outside of a deep attention to social services, VHA has been active in local policy discussions around inclusionary housing and the creation of a local housing trust fund to address the general affordability crisis.

#### *Retaining ownership post-RAD*

The St Paul, Minnesota Housing Authority is converting all of its properties to the Section 8 program but does not plan to redevelop any of them nor to partner with private investors. Its properties are in good condition and do not require redevelopment. Instead, the Authority will retain 100% ownership of its stock of public housing and be able to maintain it with greater financial autonomy and stability. It has developed creative partnerships with a range of community organizations to bring services to voucher households, including formerly homeless people, residents re-entering the community from prison, youth leaving foster care, and disabled war veterans. The Authority also uses state and local funding to provide congregate housing services at four of its sites to prevent elderly tenants from being prematurely placed in nursing homes. It maintains community centers at four of its family properties with services including Head Start, after school programs, health clinics, dispute resolution, computer labs, and resident councils. A community policing program has kept crime rates below city averages.

#### *A bifurcated system of PHAs and places*

The United States has around 3,500 PHAs which manage approximately 1.1 million public housing units. The 3,500 PHAs are diverse in terms of location, size, and services provided. Large PHAs like the New York City housing authority which owns 175,000 units (15 percent of the total public housing stock), often dominate public discussion and can overshadow the 90 percent of PHAs that manage fewer than 500 housing units (Schwartz, 2015, 163-7). In addition to diversity in terms of size and location, PHAs participate in a variety of funding programs and opportunities and RAD is no exception. As of 2015, only 12 percent of the nation's housing authorities were approved to participate in converting their public housing to RAD contracts (Hanlon, 2017, 627-8). Our respondents estimated the current number is closer to 20 percent, in either case these figures indicate that the vast majority of PHAs are not participating in RAD. However, in contrast to trends under previous programs aimed at transforming public housing, PHAs participating in RAD are less likely to be located in large cities or to have a large stock of units. In fact, over three-quarters of participating PHAs had fewer than 1,000 units, and 57 percent had fewer than 50 units (Hanlon, 2017, 627).

As of 2016, half of the RAD conversation projects were not using RAD to leverage private debt and/or tax credit generated equity but were instead using only their own reserves. In some places, participation in RAD may be more about exiting the public housing program entirely without entering into development partnerships. These PHAs may be motivated primarily by their desire to preserve their existing housing and tenant services, with some avoiding partnerships that put them at risk. It may also be true that those entering the RAD process in its first few years were those not needing to leverage outside capital or tax credit equity to fund major renovations or rebuilding.

During our interviews, respondents raised concerns that the low-uptake but high rewards offered by RAD may further the bifurcation between fiscally solvent and high-performing PHAs and those that are struggling financially. PHAs that have a history of innovation, financial know-how, and public-private partnerships are likely to perform well under programs like RAD. However, small or under-resourced PHAs may not have the capability to apply for RAD, get approval, or develop the capacities to fully take advantage of the flexibilities RAD provides. Places lacking large and nimble staff, strong community partners, political support, and an experienced housing development network may struggle to use this program to address their backlog of repairs and other problems. As the program advances—if the cap on the number of units allowed to convert to Section 8 expands—the profile of the places and agencies participating may change. At that point, the questions many of those interviewed raised about local context will become more important.

## **Discussion**

The current discussion around the changes to the federal public housing program are the culmination of the larger trends and themes in United States housing policy discussed earlier—it continues the federal retreat from leadership, the devolution of authority to lower levels of government, and increases reliance on partnerships with the network of private organizations that produce affordable housing. Finally, it exposes public housing organizations—and tenants—to the opportunities and challenges that come with greater reliance on private funders.

Perhaps the clearest finding from our interviews is that despite the innovative work being done by local PHAs, their best efforts will not expand the availability of housing for the group that has the greatest need for this housing—poor renters. The conversion of public housing to Section 8 through RAD does not—unfortunately—remove it from the rules capping the number of public housing units that can be developed in any given community at the number that existed in 1999. Instead, as PHAs enter into partnerships with private funders and developers (even if nonprofit), any new below market housing units are likely to be shaped by the income targeting that comes with federal LIHTCs, local programs, or the profit goals of social investment funds.

## V. Case study: The Housing Authority of the City of Austin

### Snapshot: Housing Authority of the City of Austin

- Oldest public housing authority in the United States.
- 6 subsidiaries generate approximately \$2 million a year to support HACA's resident services programs.
- 6,025 vouchers serve 13,002 individuals (2019).
- Average income of residents: \$15,655 (vouchers); \$14,500 (public housing).
- Pre-RAD public housing units: 1,839 units at 18 sites.
- Converting all multifamily public housing to Project-Based Rental Assistance units via the RAD program, with HACA maintaining ownership.
  - 16 sites converted as of August 2019, along with one partial conversion.
- Redeveloping two public housing sites with federal Low-Income Housing Tax Credits, preserving 100% of the units as affordable to extremely low-income households.
  - After the redevelopment, HACA will own an additional 134 units, which will be rent restricted through the Low-Income Housing Tax Credit program, and 21 market rate units.
  - An additional four to five sites are being considered for redevelopment.
  - Renovating several other converted sites with bonds/4% tax credits.
- HACA's subsidiary, Austin Affordable Housing Corporation, owns or co-owns an additional 23 multifamily properties with 5,121 units, which primarily target households at 60% of the median family income and above, plus close to 1,600 market rate units.
  - An additional 988 units at five sites are under construction.

### 1937-1997: New beginnings and challenges

The Housing Authority of the City of Austin, or HACA, was founded in 1937 as the first public housing authority in the United States, at the urging of then-Austin Congressman and future U.S. president Lyndon B. Johnson, shortly after passage of the Housing Act of 1937. HACA is home to one of the nation's first public housing developments, Santa Rita Courts, which opened in 1939, followed by two additional properties: Rosewood Courts and Chalmers Courts.

HACA proceeded to build an additional 15 public housing properties between 1953 and 1982, for a total of 1,800 units at 18 sites. The properties were built primarily for families with children but included a 164-unit high-rise complex for seniors, Lakeside for the Elderly. All of the properties other than Lakeside are one- and two-story buildings.

From HACA's inception until the late 1960s, the agency's official policy was to segregate whites, African-Americans, and Mexican-Americans into different public housing projects. Santa Rita Courts, the first public

housing development, was originally designated for Mexican-American residents, while Rosewood Courts was designated for African-Americans and Chalmers Courts for whites. Heading into 1970, all of HACA's family properties except for one were located in Central East Austin, an area home primarily to African-American and Hispanic residents as a result of decades of public and private discriminatory practices that added up to a citywide pattern of racial segregation.

As late as 1971, HACA's properties remained hyper-segregated. For example, HACA's senior property, Lakeside for the Elderly, housed only white persons, while four of HACA's family properties housed only persons of color. A federal civil rights lawsuit in the 1970s successfully challenged the housing authority's site selection and tenant assignment practices, leading to the construction of future public housing properties in majority-white or mixed-race neighborhoods. HACA's last public housing property was built in 1982, bringing HACA's public housing inventory to 1,839 units at 18 sites, along with 22 scattered site homes.

In the 1980s, with public housing under attack nationally and amidst a national and local recession, HACA faced a number of challenges, including low financial reserves. In 1984, HUD designated HACA as a financially troubled agency and further reduced its federal funding. The agency continued to struggle and in 1997 received another unfavorable audit from HUD citing mismanagement, poor maintenance of units, and unsafe living conditions. More than 300 of HACA's units sat boarded up while the agency's waitlist grew to 10,000 families.

The year 1997 marked a major turning point for HACA, with the hiring of a dynamic, new executive director, widespread reforms and organizational changes, and a renewed focus on customer service and serving residents. In 1999, HACA received a perfect performance score from HUD. Since then, HUD has continually designated HACA as a public housing high performer. As then executive director Jim Hargrove described the reforms: "And within eight or nine months, you could start to see things changing. We got focused back on the core business of offering housing. I wish I could tell you more that was magic, but that's really all it was." HACA also focused on training and retaining good staff, after seeing staff turnover of more than 100% in the mid-1990s. Many staff members hired during the reform era continue to serve the organization today. According to Hargrove in a 2001 interview: "We know who our customer is, and we also know who makes service happen for the customer, and it's not me. The leadership and the staff are where the rubber meets pavement. In the before times, people thought this was a government job and that it didn't make any difference, and that's just not our way."

#### **1997-present: Innovating to increase fiscal strength and fulfill core mission of serving tenants**

HACA's strengths today include its strong fiscal health and tenant-focused initiatives, both grounded in a culture of innovation.

##### *Innovating to increase financial stability and improve property conditions*

After the organization's financial difficulties in the 1980s and 1990s, and recognizing the federal government's on-going failure to adequately invest in public housing, a major focus of HACA over the past 20 years has been developing a more stable and independent financial platform to allow the organization to meet its core mission of serving low-income residents. In the words of HACA's leaders, "If HUD went away, could we sustain our work?"

With this focus in mind, HACA has reoriented itself as a learning institution, and HACA leaders have incubated an entrepreneurial and collaborative culture. Staff are encouraged and empowered to pursue innovative and bold programs and partnerships that improve services to residents and strengthen the

organization's financial standing. Over the past 22 years, this orientation has allowed the organization to not only improve the condition of its current housing stock but also expand its affordable housing portfolio and the number of programs supporting residents.

Today, HACA owns six subsidiaries that together deliver on average around \$2 million in revenue annually to support HACA's \$3.4 million resident services program budget, and help cover HACA's administrative costs. HACA's first subsidiary, the Southwest Housing Compliance Corporation (SHCC), was created in 2000, taking advantage of an opportunity to serve as HUD's Performance Based Contract Administrator for the states of Texas and Arkansas. SHCC provides oversight and monitoring of more than 800 Project-Based Rental Assistance properties in those two states.

HACA's second subsidiary, the Austin Affordable Housing Corporation (AAHC), was launched in 2003 in response to an opportunity to purchase a destabilized, high-crime shopping center near several HACA properties. After acquiring the property, AAHC transformed it into a fully-leased commercial center that includes an incubator for local businesses in partnership with the Austin Hispanic Chamber of Commerce.

Since that initial shopping center acquisition, AAHC has focused primarily on preserving and creating affordable, mixed-income multifamily rental housing for low and moderate-income families in Austin. AAHC currently manages 5,121 affordable multifamily units at 23 multifamily properties. Seven of AAHC's multifamily developments are new construction, built primarily through public-private partnerships utilizing the federal Low-Income Housing Tax Credit program. AAHC's properties all benefit from receiving a 100% exemption from local property taxes.

While AAHC's properties are not focused on serving households living in poverty, they nonetheless fill critical housing needs in Austin. Forty percent of the units in these properties serve households with incomes of 60% of the area median family income or less. In addition, AAHC's properties have the potential to open up critical housing opportunities in higher opportunity areas for HACA's voucher clients, whose annual incomes average \$15,655, far below Austin's median household income of \$67,755 (ACS,2017). For example, at one of AAHC's newest properties in Southeast Austin, at least 15 percent of units will be marketed for vulnerable war veterans with vouchers through the Veterans Affairs Supportive Housing Program.

The actual availability of units purchased by the AAHC (versus new construction) properties to voucher holders has overall been fairly weak so far, due in part to tenant screening barriers and a lack of marketing, as well as a low turnover of tenants living in some of the properties when they were acquired. Out of the 10 large multifamily properties that AAHC acquired prior to 2018 (each with more than 150 units), two have no tenants with vouchers and five lease three percent or fewer units to voucher tenants, including properties concentrated in higher opportunity areas of the city. Several of the properties with low voucher acceptance rates are not listed on HACA's website as properties that accept vouchers.

AAHC's seven new construction properties, which have all utilized federal Low-Income Housing Tax Credits and are all (except for one) located in East Austin, have overall a much stronger record of serving voucher tenants, with anywhere from 11% to 35% of units housing tenants with vouchers. These positive results are unsurprising given that, under federal law, LIHTC properties are barred from discriminating against tenants with vouchers.

The Rental Assistance Demonstration (RAD) program presents HACA with an additional opportunity HACA to bolster its financial standing while improving and expanding its housing facilities. Unlike federal funding for public housing, which is highly volatile, the RAD program provides for a stable level of funding

by converting public housing units to voucher-funded units—either a Section 8 project-based voucher or a Section 8 project-based rental assistance (PBRA) contract of 15 or 20 years.

HACA is converting all of its multifamily units to PBRA contracts and has completed the conversion on 16 properties, along with half of an additional property that is being converted in two phases. Through the process, HACA will provide the same number of units serving households in poverty while adding additional mixed-income units where possible. HACA is also maintaining ownership of its properties, which is critical to ensuring long-term affordability and preservation of these properties when the PBRA contracts expire.

The low-density construction of HACA's original public housing properties has created the opportunity for HACA to add additional units to many of its sites. The concentration of HACA properties in the urban core near public transit and jobs—including properties located in areas of deconcentrated poverty—has likewise supported the densification of HACA's properties. HACA is in the process of redeveloping two of its sites utilizing the Low-Income Housing Tax Credit (LIHTC) program and grant funds. The redeveloped properties will add 134 units to HACA's inventory, for a total of 1,973 units on all sites. Of the new units, 21 units will be market rate and the others will have LIHTC rents, which will be considerably higher than public housing rents though lower than market rents in the area. HACA is considering redeveloping an additional four to five sites. HACA is also renovating several of its properties through the RAD conversion process utilizing a mixed-finance approach including the 4% Low-Income Housing Tax Credit program, bonds, and grants.

Another program that has increased HACA's financial stability has been the agency's participation in the Energy Performance Contract (EPC) program with HUD, which was designed to increase energy efficiency in housing units. The EPC program allows public housing authorities to capture the savings that come from the lower energy costs, through what is called the "Frozen Rolling Base Incentive" (FRBI). From the savings, 75% is used to pay back the debt service incurred on the energy savings projects, and the other 25% can be used to cover other expenses. When HACA converted its properties through RAD, the debt for the energy efficiency upgrades was paid off, and the new operating subsidies that HACA receives from HUD for its converted properties take into account the \$3 million in annual energy savings from HACA's most recent EPC. In essence, because of HACA's participation in the EPC program, HACA receives an additional \$3 million a year in subsidies from HUD over a forty-year period, which HACA can count towards HUD's reserve requirement for the RAD program.

#### *Innovating to improve and expand services to tenants*

An additional strength of HACA has been its innovations in improving and expanding services to tenants, including its investments in tenant empowerment and security. To address the impacts on tenants associated with its RAD conversions, HACA hired a full-time staff member to serve as a resident protection manager and also contracted with a well-known local housing activist to work closely with tenants and community partners in identifying and addressing issues facing tenants living in properties undergoing redevelopment.

As part of this focus, HACA created a resident protection team to provide personalized support to tenants at properties undergoing redevelopment and has worked hard to create an active residents' council at each property. The resident protection team includes representatives from the local school district, local utility providers including Austin Energy, the U.S. Postal Service, and other community partners to make the transition as smooth as possible for HACA's residents. For example, the resident protection team was able to obtain school waivers so children could remain in their schools while relocated during redevelopment and arrange school busing for those students. The protection team also coordinated with local utilities to waive

transfer fees and provide batch service transfers, both of which facilitated uninterrupted services for residents.

To expand its capacity to provide services to residents, with a focus on breaking the cycle of poverty, HACA is continually pursuing partnerships at its public housing properties. Many of HACA's partnerships focus on improving outcomes for children living in HACA's properties, spanning from birth to graduation. Programs offered in partnership with other agencies include an infant childcare center along with Head Start (federally-subsidized preschool) programs on several housing authority sites. For school-age children, HACA has a contract with the Boys and Girls Club (a nationwide NGO that provides after-school facilities and programs for children) to carry out programs that support school attendance, grade advancement, and reward programs for honor roll and perfect attendance. HACA also contracts with the local nonprofit Communities in Schools, which pairs case workers with children and their families to improve school attendance, grades, and behavior.

Outside of HACA's school-age programs, HACA has partnered with CommUnityCare Clinic and the Institute for Health at Dell Medical School to bring onsite dental and medical clinics to one of its redeveloped housing authority properties. Through a collaborative initiative with other large public housing authorities around the country, HACA is working to figure out how the health clinic model can be financially self-sufficient via billable services that are covered by Medicaid and Medicare (federal health insurance programs for low-income and elderly individuals, respectively). HACA is also piloting a "Bringing Health Home" program where two HACA residents serve as peer health mentors at a HACA property and work with residents to create wellness plans.

HACA is pursuing digital inclusion for its residents by connecting 8 of its 18 sites to Google Fiber broadband service through partnerships with Google, Austin Community College, and the Ford Foundation. Through this program, residents are provided with free basic broadband, digital literacy training, and refurbished computers.

Partnerships have also been critical to HACA's expansion of services to chronically homeless households. Since 1998, HACA has partnered with the City of Austin's housing department and the Salvation Army to administer a tenant-based rental assistance program using federal HOME block grant (flexible) funds administered by the city. More recently, HACA has been exploring partnerships with permanent supportive housing providers by allocating vouchers to their properties. For example, HACA recently partnered with two local social service agencies and the federal Veterans' Administration at a new permanent supportive housing development, allocating 50 project-based vouchers to cover the rents at the property for chronically homeless persons, including homeless war veterans.

### **Current challenges**

One of HACA's greatest challenges continues to be the instability of federal funding, although the conversion of HACA's properties under RAD will reduce that instability for its housing stock over the next 20 to 40 years. Federal funding for the administration of the Housing Choice Voucher program has also been inconsistent and inadequate to cover costs. For the past two years, the federal funding has covered only 80% of administrative costs.

Additionally, given a lack of federal support, including a federal statutory ban on expansion, HACA has not constructed or acquired any new units serving households in poverty since 1982, except for AAHC's properties that accept tenants with vouchers. Of the 16 public housing properties that HACA has converted through the RAD program, no new units have been added that serve poor households outside the tenant-based voucher program.

Despite the growing needs in the Austin region for rental housing assistance, HACA has also seen a decline in the number of Housing Choice Vouchers it can administer each year, given rising rental rates in the area. When HACA re-opened its voucher waitlist in 2018, 19,000 persons applied, and HACA was able to accept only 2,000 of those applicants. HACA also faces ongoing challenges finding landlords who will accept vouchers, especially for properties located in higher opportunity areas, for hard-to-house populations, such as chronically homeless veterans, and for those needing units fully accessible to persons with disabilities. Last year, HACA's voucher acceptance rate was 85%, meaning that 15% of households receiving vouchers were unable to secure housing with their vouchers and had to return them to HACA.

Another challenge facing HACA is bringing successful resident services to scale across its 18 properties. For example, HACA has a large number of residents with mental health issues—and while HACA's on-site mental and physical health care programs have been extremely beneficial to residents in those programs, scaling that program to 18 sites is a major challenge. As HACA works to create a robust range of programs that support its residents in poverty, it also struggles with the fact that the agency is limited in what it can do to help residents reach self-sufficiency and transition out of public housing. HACA recognizes that many residents, especially seniors and tenants with severe disabilities, will need housing assistance for the rest of their lives, something that many policymakers do not understand in the discussions around affordable housing and, more specifically, public housing.

## V. Concluding Discussion

We began this paper noting the ongoing crisis facing the poorest renters in the US and how shifts in the focus and administration of housing assistance to low-income renters have worked against improving their situation. With the most recent changes in public housing policy, we now have a system that has brought together many of these trends: we are moving away from public ownership of housing for the poorest renters and towards a system that will depend heavily on the leadership, political will, and resources available in local networks to preserve this housing and develop new ways to address housing needs. Many factors seem to weigh against closing the large gap between the needs of the poorest renters and the housing available to them. For one, the cap on the number of public housing units in each region remains in place under the new system. In addition, programs involving private investors are not structured to reach those whose incomes fall well below market rents.

On the other hand, despite these dispiriting trends, we are impressed by the work that is taking place at leading PHAs around the country. Many PHAs—and their local political and community partners—have a real institutional commitment to preserving their existing housing for the poorest renters. As noted above, we found examples of agencies that had expanded their footprints in order to assist persons experiencing homelessness and other highly vulnerable groups. We found examples of agencies focused on continuing to support their tenants by providing a range of services and well-maintained housing.

At the same time, we saw impressive examples of PHAs that were able to creatively leverage RAD, with local partners, to develop a range of affordable housing in their communities. They did this while preserving their stock of deeply subsidized public housing. In Austin and other cities, PHAs have formed subsidiary organizations to generate funds that they control, and that they use to fulfill their original mission by expanding their impact on the broader housing market.

This broader work can be especially important in addressing many of the challenges we noted regarding the inclusion of housing for the poor throughout communities. PHAs that purchase apartment complexes in

neighborhoods near good public schools, or other public amenities, open up those areas to low-income renters with vouchers. And by keeping rents stable in these complexes, PHAs can offer new options to renters just slightly up the income ladder and, over time, add to the region's stock of housing well below market rents. Creating communities accessible to households across the income spectrum will depend on both the preservation of housing opportunities for existing PHA residents and the addition of affordable housing for other types of low-income households.

In the long term, though, there is no getting around the fact that reducing the large and growing shortage of decent and affordable housing for extremely low-income people will require more funding. While some localities may dedicate their own funds to housing the poor, others lack either the will or the capacity to do so. Only the federal government has the capacity to invest at the level required. The federal government funds other parts of the welfare state, such as food and health insurance for those who cannot afford them. Housing has been referred to as the gateway to other rights and opportunities (Rolnik, 2014). To ensure that all people have the housing that opens up access to the education, healthy environments, and economic security and mobility they deserve, we have to do better than providing only enough housing for 1 out of 4 poor households through federal housing assistance. PHAs can do their part, but eventually we as a society will need to commit to adequately funding housing assistance for those who need it.

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