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Rebuilding Homes and Lives:

Progressive Options for Housing Policy Post-Katrina

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Progressive Ideas for a Strong, Just, and Free America

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EXECUTIVE SUMMARY

This brief offers an array of options that policy-makers can use to meet the range of housing challenges posed by Hurricane Katrina. The steps we offer here not only will provide needed shelter to the homeless and rebuild the Gulf Coast, but will do so in a way that expands opportunity and builds sustainable communities. These options vary, ranging from housing vouchers to regulatory approaches to tax credits, but all are grounded in a conviction that using experience-tested models with a proven record of success is the best way to create affordable housing for poor and middle class alike. We pay particular attention to overcoming the shameful legacy of concentrated poverty, offering a range of strategies to create mixed income communities. Finally, while we have tailored these options to the needs of rebuilding the Gulf Coast, they also should be seen as key strategies for creating more effective housing policy nationwide.

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INTRODUCTION

The destruction of the Gulf Coast by Hurricane Katrina has left more than 250,000 families homeless, and has devastated the infrastructure of New Orleans and surrounding areas. The question for policymakers is how to rebuild homes and lives, to not only provide shelter and replace lost housing stock, but to do so in a way that creates opportunity and builds sustainable communities. This brief offers a series of policy options, based in research and successful practice, which will allow policymakers to effectively and pragmatically respond to the housing crisis produced by Katrina.

The options that we present not only seek to aid in rebuilding, but to address the shameful legacies of concentrated poverty that plagued New Orleans as well as too many other cities in our great nation.[1] Social scientists have repeatedly shown that concentrated poverty is a critical barrier to meeting America's promise of opportunity for all. Ten days after the hurricane hit, President Bush eloquently described this tragic situation in a primetime address and made a pledge to improve upon it in the future. He said, "Within the Gulf region are some of the most beautiful and historic places in America.… [T]here is also some deep, persistent poverty in this region as well. And that poverty has roots in a history of racial discrimination, which cut off generations from the opportunity of America. We have a duty to confront this poverty with bold action. So let us restore all that we have cherished from yesterday, and let us rise above the legacy of inequality." But recent proposals do little to meet the promise of these stirring words.

In contrast, in this brief we seek to offer a series of pragmatic steps that policymakers could take to simultaneously rebuild after Katrina and to create opportunity by de-concentrating poverty. Moving away from public housing models of the past that have concentrated poverty and exacerbated social ills, this brief focuses on ideas that have proven to be successful but have been inadequately funded or implemented on a small scale. These options vary, ranging from housing vouchers to regulatory approaches to tax credits, but all are grounded in a conviction that using experience-tested models is the best way to create affordable and sustainable housing for poor and middle class alike. The policy options that we highlight, then, are not only suitable for addressing the housing crisis on the Gulf Coast, but also provide templates for reducing concentrated poverty nationwide by creating affordable, sustainable and integrated housing opportunities.

We are not, however, recommending a particular course of action in terms of how to rebuild the Gulf Coast. Policymakers and community representatives will have to weigh how to balance competing priorities such as meeting the short-term needs of displaced families, helping renters, creating more homeowners, building housing quickly or inexpensively, or building sustainable communities. Of course, in practice, there will not be a single policy solution that will fit the Gulf region's diverse housing needs. Many of the programs described below can and should be offered in parallel. That said, this brief seeks to inform this debate by highlighting policy options that have been used in the past and, on occasion, modifying them to meet the unique circumstances presented by Katrina.

We draw on the best of past practice, rigorous research and successful models to offer the options highlighted here. However, we should emphasize that given the unprecedented nature of the crisis, it is hard to know for certain exactly how well lessons drawn from more stable situations will apply. Government incentives to developers, for example, are dependent upon market demand meeting most of the cost, and we do not yet know what level of demand to expect. We have more experience from past crises about the effectiveness of shorter-term policy options, and so are more confident in the applicability of these lessons in those cases. Finally, we do not yet know what percentage of displaced residents are likely to return to the Gulf Coast, or if there are entire neighborhoods that may not be rebuilt because of safety concerns. Where appropriate, we have provided estimates of the costs of replacing the entire lost housing stock, which can be adjusted downwards if need be. One important caveat applicable to many of the existing programs (particularly those that rely on private sector actors) is that the scale of need for new construction and rehabilitation is unprecedented. Many of these programs have successfully generated hundreds or thousands of new units, but the current need may be many, many times those figures. The scalability of the programs, coupled with the ability to provide materials and skilled construction labor, is likely to be tested as reconstruction proceeds.

We divide the brief into four sections. First, we consider demand-side approaches to supporting renters. An expanded Section 8 program is likely the best way to house displaced families in the short run, and, if these families are placed in viable neighborhoods, would also be an important strategy for the longer run. Vouchers are also a portable strategy that can be utilized by displaced families whether they choose to return to the Gulf region or not. Second, we consider supply-side approaches to rebuilding the stock of housing in the Gulf Coast. We include a range of alternatives, including tax credits to developers, regulatory approaches, funds to support building by Community Development Corporations (CDCs) and other non-profits, and models for public housing. Third, we consider the challenge of creating greater homeownership in rebuilding the Gulf region, drawing on an array of existing initiatives with this objective. Fourth and finally, we speak briefly to how the federal government can build local capacity in the rebuilding process, drawing on the expertise of knowledgeable locals, but also bolstering the efforts of these locals with outside funding and technical assistance. We focus in this brief primarily on the federal government, although we offer some options at the local level.[2]

HOUSING THE HOMELESS: USING VOUCHERS TO CREATE A MOVE TO OPPORTUNITY

The most immediate short-term problem posed by Katrina is housing displaced families. The Bush administration initially proposed concentrating displaced families in large trailer parks, an approach that met considerable criticism from commentators across the political spectrum. Large trailer parks are simply another form of concentrating poverty, by warehousing people without connecting them to larger communities where they can find work and rebuild their lives. Social scientists have shown that concentrating poverty and disruption has negative consequences for child development, crime, and labor market participation.[3] The administration has since proposed a form of emergency rental housing assistance for low income families, but the plan is vague on important details (such as the length of time that the assistance will be available) and offers lower benefits than the Section 8 voucher program.[4] We join a growing chorus of voices in suggesting that it would be preferable to use Section 8 vouchers to enable displaced families to gain access to existing housing stock throughout the Gulf Coast, and elsewhere as needed.[5] (A New Vision petition signed by 176 of the nation's top social scientists who have done the research in this area strongly urges the use of Section 8 vouchers to de-concentrate poverty in the wake of the tragedy.)[6]

The Senate has approved an amendment that would appropriate $3.5 billion in emergency Section 8 voucher assistance for victims of Hurricane Katrina.[7] The funds are provided in an amendment to the fiscal 2006 State, Justice, and Commerce appropriations bill (H.R. 2862) sponsored by Sen. Paul S. Sarbanes (D-Md.). The amendment also provides for the waiver of certain voucher program requirements including income limits and income verification.[8] This emergency assistance is similar to that extended successfully to victims of the 1994 Northridge earthquake.[9]

We suggest that there are four additional ways that legislation regarding housing vouchers could be amended to be of greater use to Gulf families: 1) stable and continuing funding that would make Section 8 a part of the long-run as well as the short-run solution; 2) greater portability in the use of vouchers; 3) creating a regional administration structure for the use of Section 8 vouchers; and 4) greater counseling in the use of vouchers for placement.

Section 8 as Part of the Long-Run Solution

This emergency assistance is a welcome step, but further commitment is required to see low-income Gulf Coast residents through the storm. Katrina has left thousands of families with little in the way of income or savings, and thus decimated their ability to afford housing even where it is available. *Extending funding for Section 8 for displaced residents can help to meet this gap by providing families with needed assistance as they look for market rate housing.*

An expanded Section 8 is also critical to rebuilding and reconstruction throughout the Gulf Coast. If Section 8 is to work effectively for reconstruction, legislators must undo previous funding cuts and allow funding to follow demonstrated local need (we address the importance of funding by need as opposed to through block grants below).

This commitment to stable, need-based funding will help local Public Housing Agencies (PHAs) build trust with housing developers and landlords—collaborations that are critical to replenishing the affordable housing stock in the Gulf Coast region. Commitment to Section 8 will help the reconstruction efforts in a number of ways. For example, Section 8 can help spark reconstruction in New Orleans if it is combined with building projects that use the Low Income Housing Tax Credit (LIHTC). PHAs often encourage builders to use the LIHTC by promising them that Section 8 "project-based" vouchers will be allocated to the unit. But builders will be hesitant to work with PHAs if they doubt the long-term funding of the program, or the ability of PHAs to draw upon reserves if funding fluctuates. Similarly, local PHAs need to convince new landlords to join the program, by assuring them that Section 8 vouchers will be a reliable source of income for years to come. Funding increases to Section 8 will contribute to a positive investment climate for building low-income housing, and make it easier to recruit new landlords.[10]

Enabling True Portability

Section 8 vouchers are supposed to be portable, but effectively, many voucher recipients can only rent houses within the jurisdiction of the PHA that issued the voucher. *One way to help Gulf Coast families recover is to make Section 8 vouchers truly portable.* Because of recent HUD restrictions, voucher recipients are often forced to rent within that PHA's jurisdiction. This diminishes the vouchers' usefulness as a de-concentration tool, as the recipients are often forced to use the vouchers in already high poverty-concentrated areas. Such limits on portability also restrict the opportunities available to recipients, by keeping them from taking advantage of available units in nearby communities.

Legislative changes in the early 1990s gave recipient households the legal right to "port out" their vouchers to other jurisdictions, but this right is not honored in practice, as many local PHAs informally prevent their clients from taking their vouchers to other PHAs' jurisdictions.[11] Processing vouchers from one PHA to another imposes great burdens on their accounting departments, and HUD has not provided additional funds to cover the administrative cost of portability.[12] Rules and funding mechanisms must be changed to make Section 8 vouchers truly portable, so that Katrina survivors can move toward opportunity instead of being trapped wherever the vouchers are available.

Portability requires either centralized administration or inter-PHA collaboration. The latter possibility would require legislators to allocate funding to cover the administrative costs of processing vouchers between PHA jurisdictions. As part of the relief effort, HUD should be allocated administrative funds that local PHAs could draw upon to enable true portability.

Regional Administration

Another way to help low-income families in the Gulf Coast would be to centralize the administration of Section 8 in Louisiana.[13] *The many local PHAs could be combined into a central agency, within the Louisiana Housing Finance Administration.*[14] If Louisiana had a single jurisdiction for Section 8, this would make it easier for displaced people to find housing in existing units throughout the state, pending the recovery of New Orleans' housing stock. A centralized process also would make it easier to place people in economically diverse communities, with better educational and employment opportunities. Furthermore, it would be helpful to establish stable working relationships between PHAs in the larger Gulf Coast region, using additional administrative funding for portability to allow people to follow economic opportunities.

Housing Mobility: Placement and Counseling Services and Transportation Assistance

For Section 8 to be effective in the Gulf Coast, it will require a concerted effort to recruit new landlords and match voucher holders with housing units. In tight housing markets, many people receive Section 8 vouchers but cannot find a landlord to accept them. The uptake of Section 8 vouchers has a distressingly low success rate in many cities, since fewer landlords are willing to accept Section 8 tenants when non-Section 8 renters will pay more with less hassle.[15] Local PHAs must actively cultivate relationships with local landlords to inform them of the program's advantages and dispel stereotypes about Section 8 tenants. Section 8 voucher recipients would benefit from housing counseling, to help them persist in a daunting search process.

Housing placement and counseling services can also help Katrina survivors find housing in more desirable neighborhoods that will increase their life chances. Reconstruction should not just rebuild the same racial and socioeconomic exclusion that existed before. The areas in New Orleans that were hardest hit were essentially "federal enclaves" of subsidized housing. These neighborhoods of concentrated poverty were not formed by mutual affinity; they were created by deliberate government choices that steered poor minorities into less desirable areas of the city.[16] Many people wish to return to communities where they have friends and family, and housing counselors should respect that. But a vital dimension of the Section 8 program must also be to empower people with the opportunity to rebuild their lives in more racially and economically integrated neighborhoods—which social science research shows has a number of powerful benefits.

Research on poverty and housing shows that many poor people wish to move towards economic opportunity but often are daunted by the search process and the emotional disruption of moving. Housing placement services help recipients locate suitable neighborhoods and coach them through the search process. Housing services can also contribute the "soft skills," technical knowledge, and emotional energy that are required to find new landlords and recruit them to accept Section 8. Ongoing housing counseling can help prevent common sources of strain in landlord-tenant relations, by coaching voucher recipients on transitioning to a new neighborhood.[17] Without housing counseling to assist voucher recipients with moving into low-poverty communities, Section 8 may simply concentrate poor tenants in high-poverty neighborhoods where landlords cater to a government market, which would effectively create the same concentrated poverty of public housing.

In addition to placement and counseling services, transportation assistance is an important element of any housing mobility program. Many of the low-income families that qualify for vouchers lack the transportation necessary to allow them to fully function in suburban communities, where public transportation often is lacking. To make it more viable for families to use their vouchers to move into such communities, some form of transportation assistance should be provided through the program (for example, some have proposed helping moving families finance the purchase of a car).

Best Practices Examples:
The Moving to Opportunity Experiment and the Gautreaux Program

The Moving to Opportunity (MTO) Experiment and the Gautreaux housing mobility program demonstrate the effectiveness of housing placement and counseling, combined with Section 8 vouchers.

In the MTO experiment, community-based organizations helped Section 8 recipients find housing in low-poverty neighborhoods and coached them through the transition. The experiment is ongoing, but the results to date show that participants have a higher quality of life in low-poverty settings, and their children experience better outcomes on a variety of measures.[18]

The Gautreaux housing mobility program is the result of a 1976 United States Supreme Court decision that held that the Chicago Housing Authority (CHA) and HUD violated the constitutional rights of tenants by following racially discriminatory practices in the administration of the Low Rent Public Housing Program. Through the Gautreaux program, 7,000 low-income (often public housing) residents voluntarily used Section 8 vouchers to move to low-poverty or low-minority communities throughout the six-county Chicago metropolitan area between 1976 and 1998. The agency administering the program identified landlords willing to participate in the program, notified families as apartments became available, counseled families about the advantages and disadvantages of moving, coordinated visits to the apartment units and communities, and accompanied families on the visits. Subsequent studies found that most participants continued to live in much better neighborhoods than before their involvement in the Gautreaux program, experienced notable improvements in employment opportunities, and had the prospects for their children improve dramatically.[19]

Funding Mechanisms: Moving to Need, Rather than Block Grants

Section 8 housing vouchers are not an entitlement benefit. Only about one in four households that are eligible for vouchers receive any form of federal housing assistance. Most areas have long waiting lists for vouchers, and many agencies stop accepting new applications entirely when the backlog becomes overwhelming. Limited funding is a persistent barrier to the program’s ability to reach low-income families. Nevertheless, politicians who want to limit the growth of the program have attacked the funding of Section 8 since 2002. These cost-cutting efforts targeted the allocation mechanisms that were used to distribute funding between PHAs. The effort has been to make Section 8 into an inflation-adjusted block grant, so that the federal government would not be committed to increase funding to PHAs with rising demand for vouchers or housing prices. Drastic funding cuts and new allocation formulas threatened the solvency of PHAs, which undermined their credibility with builders and landlords. In the wake of Hurricane Katrina, it is obvious that these reforms hinder the ability of Section 8 administrators to respond to regional emergencies. To aid the housing crisis in the Gulf Coast, legislators must renew their commitment to Section 8 and reverse these funding cuts. The funding of Section 8 should attend to the following matters of implementation (for further information on these administrative issues, see the Center on Budget and Policy Priorities report on the 2006 Housing Bill[20]):

- Choose the 2006 funding equation proposed by the Senate, not the House.
- Allow project-based vouchers as exceptions to budget-based allocation
- Allow PHAs to build modest reserves.
- Sustain funding to Section 8 at, or above, 2003 levels.

The 2006 Appropriations Bill should allocate funding among PHAs according to recent measures of local need. The House has proposed a funding equation that is designed to prevent funds from following rising needs—exactly the opposite of what is required to help the Gulf Coast. The Center on Budget and Policy Priorities defends the Senate's alternative equation, which would distribute Section 8 funds in a more equitable and efficient way. This funding should be on a yearlong timetable so that PHAs can uphold their long-term agreements with landlords. The Senate's proposal would have the effect of redistributing funds across the Gulf Coast to take into account the changing geographic distribution of need and changing housing costs in the wake of Hurricane Katrina.

REBUILDING THE HOUSING STOCK: CREATING AFFORDABLE HOMES, SUSTAINABLE COMMUNITIES

Expanding the Low Income Housing Tax Credit

The Low Income Housing Tax Credit (LIHTC) is "the nation's primary mechanism for encouraging the production of housing to be occupied by low- or moderate income households" (McClure 2000: 1). The LIHTC "provides a ten-year reduction in tax liability for owners of low-income rental housing based on the development costs of low-income apartments. Credit-financed apartments cannot be rented to anyone whose income exceeds 60% of area median gross income" (National Low Income Housing Coalition 2005a). The LIHTC is a federal program, administered at the state level. The tax credits are not entitlements, but are allocated through a competitive process. The estimated cost of the LIHTC—in the form of foregone tax revenue, since there are no direct outlays—was $3.7 billion in FY04.[21]

Wallace (1998: 47) estimates the total number of LIHTC units put into service between 1986 and 1996 at 553,131. According to the National Low Income Housing Coalition (2005a), the LIHTC "has assisted in the production of approximately 1.8 million apartments with rents affordable to low income families … The Credit accounts for most new affordable apartment production and drives up to 40% of all multifamily apartment development." Currently, the LIHTC program supports about 1,300 projects a year – approximately 56,000 units annually (McClure 2000: 97). There is clear demand for the LIHTC on the part of developers: "Typically, many more developments are proposed in each state than can be funded" (Ernst & Young 1997).

There is some concern that at least some percentage of the units subsidized through the LIHTC would be built without the credit.[22] Without denying that some inefficiencies may exist, we still see substantial benefits to using the LIHTC in the Gulf region: 1) it is a relatively inexpensive way to encourage the production of low-income housing, and 2) the existing structure of the program increases the speed at which it can be implemented and reduces start-up and transaction costs. To take the second issue first: Those involved in low-income housing development are familiar with its structure, and an administrative apparatus exists. Developers in the New Orleans area are demonstrably familiar with the program: "From 1987 to 1998, Orleans Parish also received low-income housing tax credits (LIHTC) funding for 3,220 units. Today, tax credits are much less focused on Orleans Parish and are now widely disbursed throughout the state … Private partners as limited partners with non-profit general partners have used

LIHTC and historic tax credits to renovate about 2,200 existing units in the 1990s and built about 500 new units" (Ragas 2002: ii-iii). Expanding the program would thus simply require increasing its budget (either across the board or specifically for the affected states). *To improve the ability of the LIHTC to reduce poverty concentration, modifications should be made to ensure that the developments built are mixed-income or, alternatively, scattered throughout an economically diverse community. Other adjustments to the program, such as ensuring that the subsidy for low-income units is greater than that for moderate-income units, could aim to further augment the construction of housing for the poor.*[23] The LIHTC also possesses the attractive feature of being administered at the state level. In contrast to more centralized federal programs, the LIHTC thus takes advantage of the greater familiarity of state authorities with local housing markets and housing needs. Finally, the LIHTC is particularly applicable in situations where there is considerable new development, which is likely to be the case in the Gulf Coast.

In terms of cost, we begin by drawing on estimates that suggest that 216,000 units affordable to low-income households (earning 80 percent or less of Area Median Income) were destroyed in the Katrina-affected region of the Gulf Coast.[24] In New Orleans alone, 112,000 such units were destroyed. The average LIHTC dollars authorized per low-income unit in 2003 were $6,696 in Alabama, $6,811 in Florida, $8,316 in Louisiana, and $12,970 in Mississippi (Danter 2005). These numbers allow us to arrive at a loose estimate of the cost of replacing lost affordable housing units using the LIHTC. *Using the Louisiana estimate of LIHTC dollars, we can estimate that it would cost approximately $931 million to replace the units lost in New Orleans and $1.8 billion to replace all of the units lost in the Katrina-affected region using this mechanism.* Given that Congress has already appropriated $60 billion for reconstruction, this seems like a relatively inexpensive way to rebuild the needed affordable housing.

For LIHTC to work effectively, the majority of the costs of building the affordable housing units need to be met by the market. Given that many of the families who would be housed in these units have lost their jobs and savings due to the hurricane, *an expanded Section 8 program is critical if there is to be sufficient demand for developers to build these units.*

Expanding HOPE VI

HOPE VI is currently the only major federal program dedicated exclusively to creating new communities with affordable housing. The program was started in 1992 to replace existing poverty-concentrating and deteriorating public housing stock with poverty-diffusing, mixed-income homes. One concern about Hope VI is that it destroys existing housing stock for low-income residents without guaranteeing to replace it.[25] Given that the Gulf Coast faces a housing stock already depleted by a natural disaster, this is not a central concern for rebuilding the region; however, it is an important concern for the implementation of Hope VI in other areas and *the program should be modified to guarantee alternative, economically integrated housing opportunities for former residents who are not accommodated in the new developments.* Mixed-income housing raises the quality of life for the poor in part because of high-income residents' increased demand for quality services. As Mindy Turbov and Valerie Piper note, "By integrating public housing units into a larger non-public housing development, economics demand that the housing be of the quality, design, and management required to attract families who have other housing choices. In other words, it must be desirable within the marketplace."[26] HOPE VI uses a "mixed-finance" model that involves both public and private money.[27]

Rebuilding through HOPE VI is more expensive than simply creating public housing or creating incentives for development through the LIHTC. [28] However, the payoffs are also greater, as it requires a significant commitment to build the institutions that create sustainable and thriving mixed-income communities. While it may be unreasonable to expect expanded Hope VI funds to cover the entire cost of rebuilding, *we recommend that HOPE VI funding, which was cut 50 percent since 2003, be restored to previous levels for purposes of national affordable housing and poverty de-concentration goals, and* *increased beyond this level for current needs in the Gulf region.* This means channeling affordable housing resources for the Gulf region through a HOPE VI Special Gulf Fund, which will accept proposals for financing which compete only against other Gulf region proposals.

The best HOPE VI projects have been designed with the intention of creating not only higher-quality affordable housing, but higher-quality neighborhood spaces, institutions and community norms. These projects focus resources on schools, community centers and recreational facilities in addition to housing. HOPE VI has been most successful where it has been coupled with school reform, as in Murphy Park in St. Louis and Centennial Place in Atlanta. By paying serious attention to the institutions and networks that foster healthy communities, HOPE VI projects both attract a wide range of income groups and improve the quality of life for the poor. *While HUD encourages this kind of reform, increased funding for the program should be tied directly to an insistence on school reform plans as part of the grant-application process.* This means including local public school district officials in the planning process. More generally, HOPE VI requires the input of existing residents in the planning of the new development. Given the dispersal of many of the previous residents after Katrina, it is especially important that extra care be taken to make sure that those who intend to return to New Orleans be given every opportunity to share their knowledge of their communities' needs during the planning process. This can readily be accomplished via collaborative tools such as video conferencing and the web.

Americans have generously donated private funds for emergency assistance to evacuees and victims of Katrina. HUD should lead an effort to develop a National Katrina-HOPE VI Donor Housing Fund that will provide matching dollars to Gulf region HOPE VI projects in order to increase the capacity for rebuilding strong communities.

Best Practices Example: Centennial Place, Atlanta[29]

Centennial Place is an early HOPE VI project that replaced the Techwell and Clark Howell Homes in Atlanta. Prior to HOPE VI, this part of the city was plagued by high levels of violent crime, and the housing stock was in disrepair. There were more than 1,000 outstanding emergency work orders between the two project housing developments. Poverty and unemployment were highly concentrated in the area, with a 75 percent poverty rate and a 26 percent *employment* rate. The local Fowler Elementary School provided poor quality education to local residents.

Today, Centennial Place is a thriving mixed-income development, with 40 percent public housing, 40 percent market rate, and 20 percent low-income (affordable to those with incomes below 60 percent of area median income). Annual income levels of residents range from $10,000 to $220,000. The development is no longer exclusively African-American, but it remains majority black. Median income has risen, unemployment has dropped, crime has fallen (by 93 percent), and educational attainment has increased dramatically. The new Centennial Place Elementary School is one of the best in the Atlanta school system. Local leaders worked with HUD, the Atlanta public schools, local universities, and private philanthropists to reinvent the school and provide it with state-of-the-art facilities. In addition to the elementary school, there is an onsite Workforce Enterprise Center that provides adult education to low-income residents.

Inclusionary Zoning

One way of ensuring equitable redevelopment in hurricane-affected regions is through inclusionary zoning (IZ). Inclusionary zoning "requires developers to make a percentage of housing units in new residential developments available to low- and moderate-income households. In return, developers receive non-monetary compensation—in the form of density bonuses, zoning variances, and/or expedited permits—that reduce construction costs" (PolicyLink). In general, there is a minimum project size that triggers the affordable unit requirement. There are many variations on IZ laws, but all such laws aim to encourage a supply of affordable housing that is mixed with other types of development.

Inclusionary zoning is an option for local and not federal government; it has been implemented successfully in various localities across the country. Montgomery County, Maryland's IZ ordinance created nearly 10,600 affordable housing units between 1974 and 1999 (Brown 2001: 5). In nearby Fairfax County, Virginia, a 1990 ordinance had created 582 affordable units as of 1999 (Brown 2001: 7). More recently, in 2005 New York City adopted IZ ordinances for communities on the West Side of Manhattan and Williamsburg, Brooklyn, that are expected to generate 6,900 affordable housing units. Perhaps more than in any other state, IZ has taken hold in California. As of March 2003, there were 107 cities and counties using inclusionary housing in the state, one-fifth of all localities – a number that does not include San Diego, which adopted an IZ policy in summer 2003. Inclusionary housing policies were credited with the production of over 34,000 affordable homes and apartments in California (National Housing Conference 2004: 1, 9).

Inclusionary zoning has a number of attractive qualities, both generally and with respect to the Gulf region specifically. First, because housing is still produced by the market, IZ is a relatively inexpensive policy alternative. Second, it fosters workforce integration, as it enables many of the people who work in more affluent communities (such as police officers and teachers) to live in these communities. Third, it can serve as a "win-win" for developers and the communities in which they build, as properly designed incentives allow developers to maintain the profitability of their projects. IZ is also a flexible approach to encouraging mixed-income development. Cost, like many of the other parameters of IZ, can be calibrated according to circumstances, policy goals, and resources. This flexibility is evident in existing IZ initiatives. Some are mandatory while others are voluntary (though past successful practice suggests that mandatory IZ policies are significantly more successful at generating affordable housing units than voluntary policies). Some apply only within city limits, while others cover larger regions and even states. The exact nature of the tradeoff between developers and government varies, as do rules about which developments are subject to IZ ordinances and how "affordability" is defined. *Because IZ applies to new construction, it is well suited to areas that are undergoing development, a description that will certainly apply to much of the hurricane-affected region.*[30]

National Affordable Housing Trust Fund

In the past several years, the idea of a National Affordable Housing Trust Fund (NAHTF) has gained momentum.[31] NAHTF legislation is currently in Congress, and has been debated for several years. Legislation was introduced in 2003 in the House by Reps. Bernie Sanders, Barbara Lee, and John Simmons, and similar legislation was introduced by John Kerry in the Senate.

The NAHTF would support housing production and preservation by using public resources to leverage private finance for the creation or rehabilitation of affordable units. The idea behind "Housing Trust Funds" is to create a pool of dedicated housing resources at the state, regional or national level which can be used to increase the stock of affordable housing, usually with a focus on rental housing. According to the Housing Trust Fund project, over 300 local and state funds currently exist.

Best Practices Examples: Ohio and D.C. Trust Funds

State and local housing funds have existed in parts of the country for many years, though some of these funds have only recently begun to receive dedicated funding. The Ohio fund was created in 1992, but dedicated revenues were not assigned until 2003. Likewise, the D.C. fund was established in 1988, but dedicated resources were not legislated until 2002.

The Ohio fund receives dedicated funding from the real estate recordation fee, which can yield as much as $50 million a year to the fund. Ohio has used $160 million to leverage an additional $850 million in other resources, a mix of public and private. This translates into a leverage success rate of just over $5 for every $1 of trust fund money. Nevertheless, The Housing Trust Fund Project estimates that the Ohio fund has supported 317,000 households with the $160 million it has spent, which is a very efficient $500 per household.[32] At least 75 percent of the funds must be used to provide housing for those below 50 percent of county median income.[33]

The D.C. fund receives deed recordation and deed transfer fees as its source of dedicated funding. According to a D.C. Fiscal Policy Institute estimate, in D.C., $20 million in loans provided by the fund can leverage about $145 million in other, mostly private, investment. Were this estimate to be nationally valid, this would mean that for every $1 invested in an NAHTF, we could expect to leverage an additional $7 in private resources. The fund must spend half of its resources on rental housing. The fund also is required to focus on poorer residents: 40 percent of the fund resources must be used for "extremely low income," and 40 percent for low-income housing development. [34]

Dedicated funding streams protect projects from the annual appropriations process, and insure that housing continues to be built even in years of general budgetary cutbacks. The legislation being considered at the national level contemplates dedicated funding from Fannie Mae and Freddie Mac. Part of the logic for this source of financing is that it would allow the NAHTF to be tied to ongoing debates over regulatory reform for Government Sponsored Enterprises (GSEs) and would allow Fannie Mae and Freddie Mac to support the fund as part of their social mission.

The NAHTF is a commendable policy option for several reasons. First, there is legislation on the Hill that is already in draft form that simply needs more support. Second, the approach has already been tried successfully at the state level. Third, any amount of money that is put into the fund, above some minimum, will be useful.

PROMOTING HOMEOWNERSHIP: CREATING A STAKE IN NEW COMMUNITIES

Increasing homeownership is an important goal of American housing policy, and it should be a critical objective for the rebuilt Gulf Coast. According to the most recent surveys, the overall national homeownership rate is 68.6 percent, an increase of about 3 percent since 1980. The rate varies by the race of the householder (ranging from 75.6 percent for Non-Hispanic whites to 49.2 percent for Hispanics and 48.0 percent for blacks) and by income (from 84.0 percent for households with family income greater than or equal to the median to 52.7 percent for households with below-median incomes) (Bureau of the Census 2005). In recent years, homeownership promotion efforts have focused largely on closing this "homeownership gap," particularly by attempting to increase rates of homeownership among racial and ethnic minorities. As policymakers look to increase homeownership in areas affected by this summer's hurricanes, their efforts are likely to build on these existing initiatives.

Downpayment Assistance

One obstacle to homeownership that has historically received relatively little attention is the need to produce a substantial down payment in order to buy a home. Recently, policymakers have begun to address this issue. For example, the American Dream Downpayment Initiative (ADDI), signed by President Bush in 2003, "provide[s] down payment, closing costs, and rehabilitation assistance to eligible individuals. The amount of ADDI assistance provided may not exceed $10,000 or six percent of the purchase price of the home, whichever is greater … To be eligible for ADDI assistance, individuals must be first-time homebuyers interested in purchasing single family housing … ADDI funds may be used to purchase one- to four-family housing, condominium unit, cooperative unit, or manufactured housing. Additionally, individuals who qualify for ADDI assistance must have incomes not exceeding 80% of area median income." Although the program was authorized to receive $200 million annually from FY 2004 to FY 2007, Congress appropriated approximately $74 million in FY 2003, $87 million in FY 2004, and $50 million in FY 2005 (Department of Housing and Urban Development 2005a). HUD reports that the initial $161.5 million distributed through the program helped more than 3,500 families, more than half of which were minorities, purchase their first homes (Department of Housing and Urban Development 2005b: 1). *Fully funding the ADDI could bring the number of families assisted closer to the 40,000 originally predicted by the Administration.*[35]

President Bush has also proposed a Zero Downpayment Mortgage initiative that "allows first-time buyers with a strong credit record to finance 100 percent of the home purchase price and closing costs. For borrowers with limited or weak credit histories, a second program, Payment Incentives, reduces mortgage-insurance premiums after a period of on-time payments. In 2006, these new mortgage programs would help more than 250,000 families achieve homeownership" (Housing Fact Sheet 2005). CDCs and other non-profits should be encouraged to provide technical assistance to first-time homebuyers to educate them on risks and true costs associated with ownership.[36]

Rent to Own

Affordable Lease-Purchase Homeownership programs, commonly known as rent-to-own programs, are a way to move renter households into homeownership by reducing or eliminating the need for a down payment. The programs may be structured in many ways, but they share the fact that the future homeowners need not leave their homes and communities when they are ready to transition into homeownership. A common arrangement is for the houses to be built by the public housing agency (either directly or through a private developer) with a percentage of the monthly rent considered as equity in the unit. After a fixed period, potentially as long as 15 years, title passes to the renter. Affordability is maintained with deed restrictions that limit subsequent sales to low- or moderate-income households, with sales price adjusted for inflation.

In the post-Katrina context, expansion of LouLease, Lousiana's rent-to-own program, would help provide a return to ownership for families that owned homes destroyed by the hurricane which were not insured. In addition, the program may be good for people whose savings may have been depleted in weeks and months following the hurricane but who have good prospects for returning to a good job once the city comes back to life. If included as part of new HOPE VI construction, LouLease has the potential to transform families that were stable long-term renters into the cornerstones of revitalized communities. Rent-to-own programs offer strong incentives for residents to stay in their homes rather than move frequently; in this way, these programs offer many of the positive neighborhood effects and social benefits often ascribed to places with high rates of homeownership.

Providing Land

In general, about a quarter of a home's cost reflects the value of the lot on which it is built, so another policy option is to help aspiring homeowners by providing them with land. President Bush has proposed an Urban Homesteading Initiative that would identify federal property in the hurricane-affected region and distribute it free by lottery to low-income citizens who promise to build on the lot, either with their own mortgage or with assistance from a charitable organization. While a few cities have turned over abandoned or foreclosed-upon houses to citizens in exchange for a promise to rehabilitate them, such programs have always been conducted on a small scale. It is unclear how extensive such a program could be in the Gulf; according to the *New York Times*, "The main landlord for the homesteading property—the Housing and Urban Development Department—has identified only about 4,000 suitable properties in the region, including about 1,000 in the New Orleans area. Other federal agencies are supposed to be searching their books for properties" ("Little House on the Flood Plain" 2005). While the Urban Homesteading Initiative may assist some families, there is little indication that it could make a substantial, long-term contribution to supporting stable, mixed-income neighborhoods in the Gulf region. Moreover, the initiative would provide no assistance with the cost of construction.

Ensuring Fannie Mae and Freddie Mac Serve Low-Income Homebuyers

Current rules require Fannie Mae and Freddie Mac (government-sponsored enterprises that buy mortgages on the secondary mortgage market) to direct a portion of their resources to low-income and minority homebuyers and communities. Housing expert Bruce Katz and his colleagues (Katz et al. 2003: 42) have summarized recent efforts to direct Fannie and Freddie Mac toward helping low-income homeowners: "Fannie Mae and Freddie Mac's charters have always mandated a general priority for them to serve low- and moderate-income families. In the 1992 GSE modernization bill, however, Congress challenged Fannie Mae and Freddie Mac with more specific goals for meeting the credit needs of what were termed traditionally underserved populations and communities (Bunce 2002). The legislation established explicit goals, to be calibrated by HUD, for GSE service to underserved areas and households. These objectives include a low- and moderate-income goal, which targets borrowers with less than median income; the "special affordable" goal, targeting very low-income borrowers and low-income borrowers living in low-income census tracts; and geographically defined goals, targeting low-income and high-minority census tracts (Bunce 2002)." More recently, the proposed Federal Housing Finance Reform Act would have required the two enterprises to contribute a portion of the previous year's after-tax income (3.5 percent in 2007 and 2008; 5 percent in 2009, 2010, and 2011) "to new affordable housing funds created by the bill … 75 percent of the funds would be used to provide grants and other types of financial assistance [not including purchasing mortgages] to increase home ownership among low-income households and investment in community development." The Congressional Budget Office estimates that the mandatory contributions of Fannie Mae and Freddie Mac to the affordable housing funds "would be approximately $380 million in 2007. Assuming continued growth in net earnings for those GSEs, the cost of those contributions could increase to more than $600 million in 2011" (CBO 2005).[37]

Reforming the Mortgage Deduction

The current mortgage tax deduction does little to help low-income homebuyers who do not itemize deductions or do not owe tax, while benefiting wealthier citizens who would buy homes even in the absence of the deduction. In FY 2005, the mortgage interest and real estate tax deductions were worth $80.9 billion. Of this amount, 82 percent went to tax filers in the top quintile of cash income, 15 percent in the next quintile, and less than 4 percent to the bottom three quintiles combined (Carasso, Steuerle and Bell 2005: Table 2). One proposal aimed at increasing the progressivity of the mortgage deduction is to make it a refundable tax credit instead (Dreier 1995; Carasso, Steuerle and Bell 2005). Such a reform would more effectively target relief to low-income households and could even be made revenue-neutral.

There have been some hints that the President's Advisory Panel on Federal Tax Reform might propose such a change in a report now due November 1, 2005 (Donmoyer 2005).

As high and rising rates of homeownership suggest, homeownership is a popular personal and policy goal. Owning a home is an important way of building wealth. Many people also believe that high rates of homeownership promote neighborhood stability and civic engagement. Nevertheless, we would caution against any policy that relies exclusively on homeownership. Buying a home, even with charitable or government subsidies, is still a substantial financial commitment – a commitment that can expose homebuyers to serious financial hardship. Housing policy goals, in the Gulf and elsewhere, should thus combine the promotion of sustainable homeownership with the sort of rental assistance initiatives described elsewhere in this brief.

BUILDING LOCAL CAPACITY

Housing Counseling Superfund

In the wake of Katrina, the federal government is set to invest heavily in the production of new housing in the Gulf region. While the federal government is the only actor with the financial resources to subsidize rebuilding in the area, local participation in the process of building and preserving affordable housing is critical. In the wake of widespread destruction, there is an opportunity for the federal government to take a lead both in revitalizing the Gulf region, and in building local capacity for the long term.

Local actors include not only long-time residents and local businesses, but also the non-profit affordable housing development and preservation sector. Among the most important non-profits are Community Development Corporations (CDCs), of which there are thousands around the country, and Community Development Financial Institutions (CDFIs). These institutions identify potential affordable housing projects, put together development packages, identify potential homeowners, counsel them on homeownership, help them secure mortgages, and a variety of other services. There are numerous CDCs in the Gulf region. There are nine CDFIs in Louisiana, 11 in Mississippi, and seven in Alabama.[38]

CDCs are essential partners in the creation of affordable housing, but they can benefit from external resources, technical support and coordination that allow them to scale up their work and become more efficient. Some institutions already exist which provide CDCs with valuable support. The Local Initiatives Support Coalition (LISC) is a national non-profit that provides services to over 2,800 CDCs across the United States. Its annual expenditures are over $100 million. LISC currently provides loans, grants, and technical assistance to CDCs.[39] Local and regional CDFIs also provide technical support to CDCs, assisting them with development and mortgage financing.

Building on LISC, several regional attempts have been made to help CDCs coordinate their efforts in order to increase their impact. When faced with widespread deterioration and blight, individual CDCs can only change a few properties at a time. The creation of a larger coordinating body can help to push renovation at the neighborhood level.

In the Gulf region, individual CDCs are too small to be tasked with all of the rebuilding, but they can be brought in as partners. By providing them with technical support and a role in a coordinated regional development plan, Gulf-area CDCs can both provide a vital local perspective on federal plans, and increase their own capacity for affordable housing production. *One option is to create a Housing Counseling Superfund that would provide financial and technical resources to CDCs on a permanent basis.* The initial focus of such a fund could be on local CDCs and CDFIs in the Gulf region. Maintaining the capacity of the CDCs when many of its employees and board members may be dispersed will be critical to ensuring the CDCs' ability to begin restoring and constructing homes in a timely fashion. Until the Gulf-region CDCs are operating locally, LISC and CDCs in host cities should provide workspace and technical assistance to them.

Additionally, we should increase funding for CDFIs in the Gulf region to do mortgage relief.[40] CDFIs currently use HOME funding to help make homeownership more affordable to low-income buyers. Given the destruction caused by the hurricanes and flooding in the Gulf region, there are many people who will have a mortgage to pay on a home that is destroyed, while requiring a second mortgage for a new home.[41] This funding can be expanded through the Superfund, or through HOME. The cap on what a single family can receive from these sources should be raised for Gulf families that have lost a home.

Best Practices Examples:
Enterprise Corporation of the Delta; Homestart Development Assistance Corporation

The Enterprise Corporation of the Delta (ECD) provides support to local CDCs in the Delta region across several states. ECD has worked with the regional LISC office to support homeownership programs since 2001. During that time, an additional 122 homes have been added to the local affordable housing stock. ECD has also assisted CDCs in improving their capacity to generate developer fees and take a more active role in housing development. ECD has the capacity to move large sums of federal money into the local community. In addition to working with CDCs, ECD uses HOME grants to reduce the principal buy-down for low-income people attempting to become homeowners. ECD has a budget of about $10 million per year to provide services to area CDCs and individuals.

HDAC, the Homestart Development Assistance Corporation, was created by LISC, a non-profit with significant experience in housing. HDAC provides support to small CDCs in Phoenix with respect to land acquisition, construction bidding, and construction monitoring. The purpose of the relationship between the CDC and HDAC is twofold. First, HDAC allows CDCs to focus on their core business, which is identifying revitalization projects, finding potential homebuyers, and counseling them in the process of buying and keeping a home. Second, and perhaps more important, HDAC makes it possible for CDCs to bid collectively for projects, increasing the size of their bids and reducing the costs of development. Both of these motives should ultimately allow more homeownership, as the speed of development increases and the cost falls. HDAC has already increased CDC production from effectively zero to 25 and then 50 units in the first two years.[42]

Strengthening the Capacity of CDCs

The federal government should consider creating a clearinghouse and consulting agency modeled on HDAC which would provide nationwide services to local CDCs and CDFIs, allowing them to increase their productivity and reduce their project costs. As in Phoenix, a national HDAC would hire employees with long experience in home financing to provide assistance to the large number of CDCs around the country, particularly with coordination, acquisition and construction services. The Superfund should also support other local actors, such as tenant associations, in their quest to preserve affordable housing through mechanisms such as the limited equity cooperative by providing resources and technical support. A somewhat arbitrary figure for the start-up budget of this Superfund is $1 billion. Given that LISC does some, but not all, of what the Superfund will do, and operates on an over $100 million budget, with nearly $300 million in liabilities, it seems appropriate to scale up the Superfund. The immediate needs in the Gulf Region also militate in favor of a larger budget allocation.

CONCLUSION

While we have focused here on policies that squarely fall within housing policy, rebuilding housing in the Gulf also encompasses key policies in other areas.[43] Job training proposals to prepare low-income workers for the employment opportunities that will accompany the rebuilding effort,[44] and expanding the Earned Income Tax Credit to ease the rent burden on low-income households[45] are two such examples.

The tragedy in the Gulf provides an opportunity to rebuild New Orleans and the Gulf region stronger than before. To do so will require the use of all of our available policy tools—market-driven, regulatory and public—to create the kind of affordable, sustainable and integrated communities that should be the hallmark of a rebuilt Gulf region and the standard for our housing policies nationwide.

Table of Policy Recommendations by Target Demographic and Expected Dates of Use

	Short Term (<12 months)	Mid Term (12-24 months)	Long Term (24+ months)
Very-low– and Low-income Households	• Portable vouchers • EITC	• Portable vouchers • EITC • NHTF (rehabs)	• Portable vouchers • EITC • LIHTC[a] • HOPE VI • NHTF • Inclusionary Zoning[b]
Moderate-income Households	• Portable vouchers • EITC	• EITC • NHTF (rehab) • Downpayment Assistance • Mortgage Deductability	• LIHTC • HOPE VI • Inclusionary Zoning • NHTF • Downpayment Assistance • Mortgage Deductability
Community Capacity Building	• HOPE VI planning • CDC planning	• HOPE VI planning • CDC development	• HOPE VI tenant association • CDC management

Notes

[1] The problem of concentrated poverty, however, is not unique to New Orleans or the Gulf Region. About 52 million people throughout the United States live in communities that meet the definition of "poverty areas" (or 18.4 percent of the total US population). Moreover, minorities disproportionately live in areas of concentrated poverty, with 45.9 percent of blacks and 40.3 percent of Hispanics living in poverty areas, compared to 9.5 percent of whites.

[2] We want to thank Jim Wallace, a consultant at Abt Associates, for some early help in thinking through the ideas in this brief.

[3] For a recent take on the consequences of concentrated poverty along with some strategies to address it, see Xavier de Souza Briggs and William Julius Wilson, eds, *The Geography of Opportunity: Race and Housing Choice in America* (Washington: Brookings, 2005).

[4] For a more detailed analysis of the administration's newest transitional housing plan, see the recent report from the Center on Budget and Policy Priorities, available at http://www.cbpp.org/10-13-05hous.pdf.

[5] Bruce Katz. "In the Wake of Katrina: Provide Mobility, Not Just Mobile Homes. San Francisco Chronicle, September 18, 2005. http://www.brookings.edu/views/op-ed/katz/20050918.htm

[6] The petition can be found at http://newvisioninstitute.org/housingOpportunity.html.

[7] Bill Number H.R.2862 for the 109th Congress http://thomas.loc.gov/cgi-bin/query/z?c109:H.R.2862: (accessed on October 9, 2005)

[8] Senate Approves Amendment to Provide for Housing Vouchers for Hurricane Victims
Wednesday, September 28, 2005 http://www.housingonline.com/ (accessed on October 9, 2005).

[9] Bruce Katz and Mark Muro. "To Shelter Katrina's Victims, Learn from the Northridge Quake Zone." The Brookings Institution, September 12, 2005. http://www.brookings.edu/views/op-ed/katz/20050912.htm

[10] Legislators must allow local PHAs to rebuild their solvency. Previous reforms forced local PHAs to reduce their reserves, the money that they used to meet long-term obligations to landlords when funding sources were unstable. PHAs must be allowed to rebuild modest reserves. If legislators signal an ongoing commitment to the Section 8 program, this will strengthen the hand of PHAs to build relationships with the private sector.

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[a] Assumes credits are set aside for very-low– and low-income households.

[b] Most inclusionary zoning offers developers the option of providing a smaller percentage of units if they are set aside for low-income residents. For example, in Massachusetts, developers may set aside 25 percent of units for households at or below 80 percent of AMI or 20 percent of units for households at or below 50 percent of AMI.

[11] Tegeler, Hanley & Liben. 1995. Transforming Section 8: Using Federal Housing Subsidies to Promote Individual Housing Choice and Desegregation, 30 Harvard Civil Rights-Civil Liberties Law Review 451.
[12] Basolo, Victoria. 2003. Local Response to Federal Changes in the Housing Voucher Program: A Case Study of Intraregional Cooperation. Housing Policy Debate 14(1/2): 143-68.
[13] Katz, Bruce J., and Margery Austin Turner. 2001. Who Should Run the Housing Voucher Program? A Reform Proposal. *Housing Policy Debate* 12(2): 239-62.
[14] Louisiana Housing Finance Administration
http://www.lhfa.state.la.us/programs/contract_administration/admin_Section8.php
[15] U.S. Department of Housing and Urban Development. 2001. Study on Section 8 Voucher Success Rates: Volume I. Quantitative Study of Success Rates in Metropolitan Areas.
http://www.huduser.org/Publications/pdf/sec8success.pdf (accessed October 9, 2005).
[16] Katz, Bruce. Interview on Morning Edition, National Public Radio. September 14, 2005. "Planner Defines a New Vision of New Orleans." http://www.npr.org/templates/story/story.php?storyId=4846580
[17] Marr, Matthew D. 2005. Mitigating Apprehension about Section 8 Vouchers: The Positive Role of Housing Specialists in Search and Placement. Housing Policy Debate 16(1): 85-111.
http://www.fanniemaefoundation.org/programs/hpd/pdf/hpd_1601_Marr.pdf
[18] Goering, John. 2003. The Impacts of New Neighborhoods on Poor Families: Evaluating the Policy Implications of the Moving to Opportunity Demonstration. *Economic Policy Review* 9(2): 113-140.
[19] Rosenbaum, James E. 1995. Changing the Geography of Opportunity by Expanding Residential Choice: Lessons from the Gautreaux Program. *Housing Policy Debate* 6, no. 1 (1995): 231- 269.
[20] Center on Budget and Policy Priorities. "High Stakes for the Housing Voucher Program in the 2006 Appropriations Bill: Senate Bill's Proposed Funding Policy Would Distribute Funding More Efficiently and Restore Program Stability." 8/24/2005. http://www.cbpp.org/8-24-05hous.htm
[21] National Low Income Housing Coalition 2005a.
[22] According to one author, "The tax credit program appears to have been absorbed into the rental housing development process, but it has not been adopted by market rate housing developers. Rather, it has been adopted by either nonprofit CDCs or by specialized developers building projects entirely dedicated to low- or moderate-income occupancy. The units are going into largely metropolitan markets containing heavy concentrations of poor, minority households but rents are being charged that make the units affordable to only those poor households with the highest incomes in these areas" (McClure 2000: 100). The program has also been criticized as overly complex: "The LIHTC program fails to reach deep enough to make projects serving very poor households financially feasible. These developments must pursue the lengthy and expensive process of layering subsidies, one on top of another, until total development costs are covered" (McClure 2000: 101). Wallace (2001: 52-53) questions whether the LIHTC has resulted in a net increase in affordable housing stock and suggests that the tax credit is not a cost-effective delivery mechanism.
[23] More specifically, we suggest implementing an upper limit to the share of affordable units in a development partly funded using tax credits. LIHTC regulations already require a minimum of 20 or 40 percent of the units be designated affordable depending on whether the units are for households below 50 percent or 60 percent of AMI. To ensure the developments are truly mixed income, the affordable units should be no more than 40 percent of the total if set aside for households below 50 percent of AMI or 70 percent of the total if designated for households below 60 percent of AMI (with 10-20 percent of the total set aside for very-low-income households). The LIHTC program allows scattered-site development to be considered a single development for funding purposes; assuming these sites are in median-income neighborhoods, we would argue that the neighborhood itself provides the context for reducing poverty concentration and as such would allow scattered-site developments to be designated entirely affordable. Given the Gulf region's near- and mid-term housing needs, we would also suggest expanding eligibility to include households earning up to 80 percent or 100 percent of AMI for the next several years.
[24] The National Low Income Housing Coalition (2005b).
[25] Popkin et al. (2004) estimates the replacement rate of units at 78 percent.
[26] Mindy Turbov and Valerie Piper, "HOPE VI and Mixed-Finance Redevelopments: A Catalyst for Neighborhood Renewal,"2.
[27] At least half of the private equity is leveraged through another federal source: LIHTC funding represents about 27 percent of total financing, on top of the 53 percent of HUD-plus-other state financing mentioned above (Housing Research Fund). Creative mechanisms for increasing private financing are still needed.
[28] As of 2004, HUD had funded 446 HOPE VI grants in 166 cities (Popkin et al. 2004). This funding—in total, from 1993-2003, about $5 billion--has been used to create about 50,000 units of affordable housing. Until 2003, the

program received about $500 million in the annual appropriations process, but its budget has been cut by more than 50 percent since then. In 2004, HUD made $127 million in HOPE VI grants to 7 projects around the country. These 7 projects, across the United States, created 1976 units of affordable housing, in addition to a number of market-rate units. Given that Katrina destroyed about 215,000 units of affordable housing, the replacement of that housing with HOPE VI-style funding would require about 100 times the current appropriation, or $12.7 billion.

[29] This example draws on Turbov and Piper's Atlanta case study from their previously cited Brookings Institution report, available as a separate paper at http://www.brookings.edu/metro/pubs/AtlantaCaseStudy.pdf.

[30] Some object to inclusionary zoning because they argue that it slows construction. The best evidence does not support this contention on the whole. Evidence from California, however, indicates that "for the jurisdictions surveyed, adoption of an inclusionary housing program is not associated with a negative effect on housing production. In fact, in most jurisdictions as diverse as San Diego, Carlsbad and Sacramento, the reverse is true. Housing production increased, sometimes dramatically, after passage of local inclusionary housing ordinances" (National Housing Conference 2004: 38).[30] According to one review, "the best available evidence indicates that inclusionary housing does not slow development. Larger market forces will determine whether the residential real estate market will be robust or not. Inclusionary zoning *will* ensure that as development occurs, more households of moderate and low incomes will be able to find housing and live in the communities where they work" (Brunick nd: 16; emphasis added). Similarly, there is no evidence to support the contention that inclusionary zoning promotes overdevelopment through the use of density bonuses (PolicyLink).

[31] See http://www.nlihc.org/advocates/nhtf.htm

[32] Housing Trust Fund Project Newsletter, Summer 2003.

[33] Ohio Housing Trust Fund Status Report, State Fiscal Year 2005.

[34] See Ed Lazere, "The successful revival of DC's Housing Production Trust Fund," D.C. Fiscal Policy Institute, February 24, 2003.

[35] President George W. Bush 2004: 24

[36] Many renters have become first-time homebuyers because of adjustable rate mortgages (ARMs) and interest-only loans with low initial payments. These buyers are most at risk for losing their homes with a rise in interest rates.

[37] Since we initially drafted this report, Freddie Mac has pledged $1 billion in investment in mortgages and home-repair loans for the affected regions. Annys Shin, "Freddie Mac to Invest $1 Billion in Hurricane Zone," *Washington Post*, October 13, 2005: p D1.

[38] U.S. Department of the Treasury, CDFI Fund. See www.cdfifund.gov.

[39] LISC, 2004 Annual Report

[40] LouLease has already waived mortgage payments for its participants.

[41] Alternately, funds could be set aside to buy the mortgages on uninsured destroyed homes (potentially at reduced cost given the high risk of default) and then offer debt forgiveness on those mortgages.

[42] LISC Best Practices Profile, April 25, 2000, "Developing a bundled real estate services outlet."

[43] For policy options related to job training, see the recently released CAP policy brief by Hilary Pennington, Co-Founder of Jobs for the Future and a Senior Fellow at the Center for American Progress.

[44] Housing is first and foremost shelter, but safe, affordable, and certain housing reduces stress on individuals and families and eases reattachment to the local economy. Katrina laid bare the sad fact that many of New Orleans' poorest citizens were largely disconnected from the economy. The sheer size of the reconstruction effort will require far more workers trained in the construction industry than live in the region. This demand for skilled labor presents an opportunity to offer training to low-income workers with no previous skills. Job training programs incorporated into housing plans can help reconnect residents to their city. In the case of New Orleans, the newly trained construction workers will also help meet demand generated by reconstruction efforts in the private sector.

[45] Katrina also devastated the savings of many of the region's poorer residents. In addition to Section 8, the Earned Income Tax credit provides another way to help low-income families meet housing costs. According to Stegman, Davis, and Quercia (2004: 203), "[t]he federal Earned Income Tax Credit (EITC), which was designed to aid low-income working families and individuals, plays a role beyond that of income support. At a time when the availability of affordable housing is declining, the EITC also provides significant relief to households burdened by severe housing costs … If included in income, the current EITC, assuming full participation, reduces critical housing needs for working households by 18 percent." Given this indirect effect, expanding the EITC (either by loosening eligibility or credit amounts under the law or by encouraging all of those eligible to claim the credit) could have a positive effect on enabling individuals to afford market rate housing. Easing the rent burden of low-income households is particularly critical in New Orleans, where an estimated 48 percent of renter households spent more than 30 percent of its income on housing (US Census, American Community Survey, 2004).

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