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Urban Housing: A Strategic Role for the States

Peter W. Salsich, Jr.†

Amid the cacophony of the Clinton Administration's first year, quiet steps were taken to transform federal housing policy. Two popular housing programs, tax-exempt housing revenue bonds¹ and low-income housing tax credits,² were extended permanently in the Omnibus Budget Reconciliation Act of 1993.³ Tax-exempt housing revenue bonds have been the mainstay of a remarkable growth in state housing-finance programs in the past twenty years.⁴ The low-income housing tax credit, the only active federal housing production subsidy program, is administered by many of the same state housing agencies that issue tax-exempt housing revenue bonds.⁵ The congressional decision to give permanent status to these two programs is evidence of a growing confidence in the ability of states to be the primary managers of federal housing policy.

Expanding upon a recent article by the author,⁶ this Article argues that states have both the capacity and the opportunity to play a leading role in revitalizing national housing policy. I advocate redirecting federal housing policy away from the centralized bureaucracy of the past sixty years and toward a state-administered, national strategy to support creative, diverse, flexible, and community-planned affordable housing programs. This revitalized policy should include (1) redistributing federal tax subsidies to place greater

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1. In order for the income from these bonds to be tax-exempt under I.R.C. § 103 (1988), they must meet the requirements listed in I.R.C. § 142 (1988 & Supp. IV 1992) if the bonds are funding residential rental housing or the requirements listed in I.R.C. § 143 (1988 & Supp. IV 1992) if the bonds are funding owner-occupied residences.
4. See infra notes 39-52 and accompanying text.
5. See infra part II.B.2.
6. Peter W. Salsich, Jr., A Decent Home for Every American: Can the 1949 Goal be Met?, 71 N.C. L. REV. 1619 (1992). The article reviewed national housing policies since 1968 as part of a symposium on the Twenty-fifth Anniversary of the Kerner Commission report on racial disturbances in the mid-1960s, NATIONAL ADVISORY COMM'N ON CIVIL DISORDERS, REPORT OF THE NATIONAL ADVISORY COMMISSION ON CIVIL DISORDERS (Bantam Books 1968). The article recommends the reallocation of federal housing subsidies by placing a cap on the mortgage interest tax deduction and using a portion of the resulting revenues to fund expanded housing programs for low-income persons.
emphasis on the housing needs of low-income persons, (2) decentralizing the housing subsidy distribution system to the states, and (3) accentuating inclusionary housing policies by coordinating housing development and land use regulation practices.

Ironically, one of the positive effects of the sharp reduction in federal support for housing and urban assistance programs during the 1980s was the growth of sophisticated state and local housing programs. Prodded by both the increased visibility of homelessness and the federal government’s general withdrawal from active support of housing development efforts, states have begun to recognize housing as a legitimate area for spending to promote the public welfare. On the foundation of tax-exempt housing revenue bond finance programs established in the 1960s and 1970s, states have built a range of programs designed to respond to housing needs and to fill the gap left by curtailment of federal housing programs. All fifty states possess housing agencies of one sort or another that provide low-interest loans, grants, and other financial assistance to qualified housing developers, homeowners, and tenants. Most of these state housing programs have been funded by tax-exempt housing revenue bond proceeds and by reserves generated from the recycling of bond proceeds. An increasing number of states have appropriated or

7. For a review of the literature tracking the decline in federal housing programs during the 1980s, see John C. Boger, Race and the American City: The Kerner Commission in Retrospect—An Introduction, 71 N.C. L. REV. 1289, 1332-36 (1993).

8. The link between housing and general welfare was described eloquently by the New Jersey Supreme Court in the first Mount Laurel case:

There cannot be the slightest doubt that shelter, along with food, are the most basic human needs . . . . The same thought is implicit in the legislative findings of an extreme, long-time need in this state for decent low and moderate income housing, set forth in the numerous statutes providing for various agencies and methods of both state and local levels designed to aid in alleviation of the need . . . .

It is plain beyond dispute that proper provision for adequate housing of all categories of people is certainly an absolute essential in promotion of the general welfare required in all local land use regulation. Further the universal and constant need for such housing is so important and of such broad public interest that the general welfare which developing municipalities like Mount Laurel must consider extends beyond their boundaries and cannot be parochially confined to the claimed good of the particular municipality. It has to follow that, broadly speaking, the presumptive obligation arises to plan and provide, by its land use regulations, the reasonable opportunity for an appropriate variety and choice of housing, including, of course, low and moderate cost housing, to meet the needs, desires and resources of all categories of people who may desire to live within its boundaries. Negatively, it may not adopt regulations or policies which thwart or preclude that opportunity.


10. See NATIONAL COUNCIL OF STATE HOUS. AGENCIES, supra note 9 (summarizing over 600 programs administered by state housing finance agencies).
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dedicated state funds to supplement this traditional reliance on bond financing.11 All states have gained valuable experience in administering housing programs and determining how best to respond to housing needs.

A significant complement to state housing development programs is the growing state requirement that local governments engage in formal analysis of local housing needs before they exercise their zoning power.12 States are recognizing that parochial exercise of the delegated zoning power can result in unreasonable housing imbalances by excluding lower income persons from residential communities. For example, some state courts have rejected exclusionary zoning practices as arbitrary exercises of state power.13 State legislatures are requiring municipalities to consider housing needs in local planning activities.14 A growing number of states are including regional housing needs in mandated housing needs assessments.15 Several states have also enacted special zoning appeals processes in order to shift the presumptions and burdens of proof toward favoring affordable housing developments.16 And one state has linked direct state financial support for affordable housing to participation in regional housing compacts.17

Part I of this Article reviews both the growth of state housing programs that has taken place in response to the federal government’s withdrawal from

11. See, e.g., A Summary of Revenue Sources Committed to Existing Housing Trust Funds, Update: Sept. 1992 (Housing Trust Fund Project, San Pedro, Cal.) [hereinafter Summary of Revenue Sources, Update: Sept. 1992] (summarizing housing trust funds in five states, one of which benefitted from state general fund appropriations); A Summary of Revenue Sources Committed to Existing Housing Trust Funds, CURRENT TOPICS FROM THE HOUSING TRUST FUND PROJECT (Housing Trust Fund Project, San Pedro, Cal.), Nov. 1991, at 12-17 [hereinafter Summary of Revenue Sources, Nov. 1991] (summarizing housing trust funds in 21 states, nine of which benefitted from state general fund appropriations).

12. See infra notes 58-60 and accompanying text.

13. See, e.g., Britton v. Town of Chester, 595 A.2d 492 (N.H. 1991) (state zoning enabling act does not permit local governments to exclude forms of affordable housing, such as apartments and smaller houses); Southern Burlington County NAACP v. Township of Mount Laurel, 456 A.2d 390 (N.J. 1983) (state constitution prohibits exclusionary zoning); Southern Burlington County NAACP v. Township of Mount Laurel, 336 A.2d 713 (N.J.) (same), appeal dismissed and cert. denied, 423 U.S. 808 (1975); see also Associated Homebuilders v. City of Livermore, 557 P.2d 473, 483 (Cal. 1976) (holding that the constitutionality of a local zoning ordinance "must be measured by its impact not only upon the welfare of the enacting community, but upon the welfare of the surrounding region"); Berenson v. Town of New Castle, 341 N.E.2d 236, 240 (N.Y. 1975) (a local zoning ordinance can be attacked as constitutionally invalid "only if 'clearly arbitrary and unreasonable, having no substantial relation to the public health, safety, morals, or general welfare'" (quoting Village of Euclid v. Ambler Realty Co., 272 U.S. 365, 395 (1926)); Township of Williston v. Chesterdale Farms, 341 A.2d 466, 468 (Pa. 1975) (striking down local zoning ordinance on the grounds that it was unreasonable and therefore unconstitutional because "it [did] not provide for a fair share of the township acreage for apartment construction" necessary to provide needed low- and moderate-income housing).

14. For a useful chronicle of the growth of state regulatory efforts to promote affordable housing, see S. Mark White, Affordable Housing: Proactive & Reactive Planning Strategies (PAS Rep. No. 441, 1992); see also STATE & REGIONAL COMPREHENSIVE PLANNING (Peter C. Buchsbaum & Larry J. Smith eds., 1993).


affordable housing policy and the increasing housing needs of the population over the last two decades. Part II discusses opportunities for state leadership in housing through coordinated application of state zoning powers in conjunction with state administration of federal housing programs. Part III recommends a national housing policy in which the states would become the centerpiece of a coordinated, multilayered strategy for providing well designed and well managed, neighborhood-based, affordable housing.\(^{18}\)

I. THE INCREASED ROLE OF THE STATES IN HOUSING

A. Federal Withdrawal

The general withdrawal of the federal government from efforts to provide new money for low- and moderate-income housing development has been well-documented and can be summarized briefly.\(^{19}\) Since 1981, the federal government has dramatically reduced its role in housing assistance programs. The Reagan and Bush Administrations and Congress sharply curtailed or eliminated the major supply-side subsidy programs designed to encourage the production or rehabilitation of housing units for low- and moderate-income persons. Budget cutters noticeably reduced the Community Development Block Grant (CDBG) program, a substantial portion of which assists housing development.\(^{20}\) Low appropriations and restrictive regulations have slowed implementation of the new housing block grant (HOME) program approved in 1990.\(^{21}\)

The Tax Reform Act of 1986\(^{22}\) removed many of the popular tax deduc-

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\(^{18}\) While housing affordability problems can exist at almost any income level, for purposes of this paper affordable housing is housing that is within the economic range of persons at or below the national median income for renters. The national median income for renters was $20,696 in 1991, BUREAU OF THE CENSUS, U.S. DEP’T OF COMMERCE, STATISTICAL ABSTRACT OF THE UNITED STATES table 713 (1993), which marked approximately the top of the lower third of income, id. at table 715, and was marginally above the poverty line of $15,141 for a family of five, id. at table 746. Over 31 million of the nation’s 96 million households fell below this income level. Id. at table 715.

\(^{19}\) See, e.g., Boger, supra note 7, at 1332 & n.189.

\(^{20}\) The CDBG program is aimed at improving urban communities by providing grants to state and local governments for projects. 42 U.S.C. § 5301 (1988 & Supp. IV 1992). Among the authorized uses for the grants, CDBG funds may be used to reduce the cost of land acquisition, to provide infrastructure and site development improvements, and to make various forms of "soft second" loans designed to fill gaps between development costs and available private financing. 42 U.S.C. § 5305(a) (1988 & Supp. IV 1992). The term "soft second" comes from the fact that cities making such loans typically subordinate their liens to the first mortgage lender and agree to delay payback until a positive cash flow is generated, if ever.

\(^{21}\) HOME Investment Partnerships Act, Pub. L. No. 101-625, §§ 201-289, 104 Stat. 4079, 4095-128 (1990) (codified as amended at 42 U.S.C. §§ 12722-12839 (Supp. IV 1992)). This Act authorized the Secretary of the Department of Housing and Urban Development to aid the development of affordable housing by providing funds directly to state and local governments in support of a number of activities, ranging from acquiring property to providing security deposit assistance. Id.

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tions, such as accelerated depreciation and passive loss deductions, which had enabled investors to obtain attractive tax shelters by participating in housing-development activities.23 Housing advocates and investors found the replacement tax-subsidy vehicle, the Low Income Housing Tax Credit (LIHTC),24 unattractive because of the complexity of its rules and the temporary nature of its authorization.25 The congressional decision to make the LIHTC a permanent program in 199326 has helped it gain momentum as one of the few sources of support for housing-production activities. However, the LIHTC has had a limited impact on the total housing needs of low-income persons for several reasons: the significant loss from the market of existing low-rent units in recent years,27 the limitation on the tax credit's availability to newly con-

23. Id. §§ 201, 501, 100 Stat. at 2121-42, 2233-41 (1986) (codified as amended in scattered sections of 26 U.S.C. (1988 & Supp. IV 1992)). Accelerated depreciation had allowed investors to generate paper losses that could offset income faster than their property's value actually decreased; passive loss deductions allowed investors to reduce their taxable income from other sources, including from earnings, by the paper losses from their passive investment activities. A report issued by the HUD Office of Policy Development and Research drew the following conclusions about the tax law changes:

The Tax Reform Act of 1986 dramatically changed incentives for rental housing and in fact were [sic] a major factor in the collapse of the real estate industry that followed. Tax life for depreciation purposes was extended from 15 to 27.5 years, and accelerated depreciation was abolished except for historic buildings. More significant, however, was the overnight elimination of one's ability to write off real estate losses against other income. Many apartment syndications called for investors to make their total payment over a 5-to-7 years in order to maximize the tax advantages. When investors' ability to deduct real estate losses was abolished in 1986, many of them defaulted on their notes. These defaults almost invariably led to default on the permanent mortgage and loan foreclosure and contributed to the savings and loan (S&L) problems.


26. Supra note 3 and accompanying text.

27. EDWARD B. LAZERE & PAUL A. LEONARD, A PLACE TO CALL HOME: THE LOW INCOME CRISIS IN 44 MAJOR METROPOLITAN AREAS (Center on Budget & Policy Priorities ed., 1992). These authors estimated that there was a 4.1 million-unit gap between the number of available low-rent units (5.5 million units for under $250/month) and the number of low-income (income below 50% of area median income) renters (9.6 million) in 1989. Id. at 15; see also Janet Stearns, The Low-Income Housing Tax Credit: A Poor Solution to the Housing Crisis, 6 YALE L. & POL'y REV. 203 (1988).
structed or substantially rehabilitated units and to existing units when a transfer of ownership occurs, and the presence of caps on the use of tax credits based on state populations.

The only federal housing program designed to deal directly with the housing needs of the very poor—the public housing program—has confronted continuing crises, particularly in large, highly concentrated "projects" in the inner cities. Congress and successive administrations have repeatedly balked at appropriating funds to construct new public housing units, and many of the existing urban units require major renovation or demolition.

The advent of the Clinton Administration may have ushered in some new attitudes about the federal role in housing. The inability of the Administration to persuade Congress, however, to enact even a modest economic stimulus program during the spring of 1993 attests to the obstacles facing any attempt to expand housing subsidy programs. Political support for traditional federal housing production programs is likely to be extremely difficult to mobilize in this deeply indebted nation.

B. Growth in Housing Needs

During the 1980s, while federal support for direct housing assistance was diminishing, the need for such housing at the lowest economic levels was escalating. For example, a study by an Ohio committee concluded that twenty percent of that state's ten million residents lived in high-cost, poor-quality, or overcrowded housing. Numerous other studies have called atten-

31. See THE NAT'L COMM'N ON SEVERELY DISTRESSED PUBLIC HOUSING, THE FINAL REPORT OF THE NATIONAL COMMISSION ON SEVERELY DISTRESSED PUBLIC HOUSING, A REPORT TO THE CONGRESS AND THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT 75-88 (1992) [hereinafter THE FINAL REPORT]. As the fiscal year 1995 budget recommendations were being prepared, the Clinton Administration reportedly was considering a proposal to reduce public housing funds in order to increase support for programs to combat homelessness. Robert S. Swierczek, OMB Seeking 1995 Cuts in Housing Programs; CD Funding Would Be Stable; Homeless Aid to Increase, 21 [Current Developments] Hous. & Dev. Rep. (BNA) 485 (Dec. 20, 1993).
32. See Boger, supra note 7, at 1332-35 (attributing increase in housing need to a variety of factors, including loss of millions of older, low-income rental units, "gentrification" of neighborhoods, and stagnating or declining incomes among low-income and minority persons).
33. STATE OF OHIO GOVERNOR'S ADVISORY COMM. ON FUNDING THE HOUS. TRUST FUND, SECURING A FUNDAMENTAL COMMUNITY ASSET: THE CASE FOR STATE LEADERSHIP IN AFFORDABLE HOUSING 17 (1992) [hereinafter GOVERNOR'S ADVISORY COMM.] (high-cost housing was defined as a household with an annual income of $15,000 or less spending more than 35% of gross income for housing; overcrowded housing was defined as more than one person per room). The report estimated that a 10-year program to achieve a 50% reduction in Ohio's housing need would cost $7 billion. Assuming the federal government would cover 50% of that cost and private sources would cover 20%, the state would be responsible for 30%, or $2.1 billion ($210 million annually). The report recognized that $200 million was "an ideal goal," and so proposed to initially raise $50 million annually for Ohio's housing trust fund as the minimum necessary to fund "rational development and production of low-income housing and support services." Id.
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tion to the housing-affordability problem resulting from the decline in the relative purchasing power of lower and middle-income persons. For people officially in poverty, this problem approaches crisis proportions, as Table A indicates. Affordability is based on paying no more than thirty percent of family income on rent and utilities.

34. See Boger, supra note 7, at 1334 (citing CENTER ON BUDGET & POLICY PRIORITIES & CENTER FOR THE STUDY OF THE STATES, THE STATES AND THE POOR: HOW BUDGET DECISIONS IN 1991 AFFECTED LOW INCOME PEOPLE vii-xiv (1991)).

Table A
Housing Affordability Comparison

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Monthly Affordable Housing Services</th>
<th>Monthly Market Housing Costs b</th>
<th>Monthly Housing Affordability Gap i</th>
</tr>
</thead>
<tbody>
<tr>
<td>$37,300 a</td>
<td>930</td>
<td>400-800</td>
<td>$0</td>
</tr>
<tr>
<td>24,100 b</td>
<td>600</td>
<td>400-800</td>
<td>0 to 200</td>
</tr>
<tr>
<td>18,100 c</td>
<td>450</td>
<td>400-800</td>
<td>0 to 350</td>
</tr>
<tr>
<td>20,700 d</td>
<td>520</td>
<td>400-800</td>
<td>0 to 280</td>
</tr>
<tr>
<td>15,000 e</td>
<td>375</td>
<td>400-800</td>
<td>25-425</td>
</tr>
<tr>
<td>8,500 f</td>
<td>210</td>
<td>400-800</td>
<td>190-590</td>
</tr>
<tr>
<td>7,000 g</td>
<td>175</td>
<td>400-800</td>
<td>225-625</td>
</tr>
</tbody>
</table>

b. Eighty percent of national median income for all households in 1991. *Id.* Traditionally a “lower income family” must earn no more than 80% of the area median income in order to be eligible for federal housing assistance. HUD determines the median income for the given area. 24 CFR § 813.102 (1992).
e. Projected 1994 poverty level for a family of four.
g. National median income for Section 8 certificate and voucher holders.
h. Market housing costs are based on the assumption that rent and utilities for an unsubsidized two- or three-bedroom existing apartment will cost between $400 and $600 per month; new units will cost between $600 and $800 per month. The median gross rent for the United States in 1990 was $447. BUREAU OF THE CENSUS, *supra* note 18, at table 1241. Actual costs obviously will differ as local conditions dictate.
i. Gap between 30% of monthly family income and monthly cost of market-rate housing.

*(All annual income figures are rounded to the nearest hundred.)*
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Critically, a family of four whose annual income is derived from a full-time job paying the minimum wage will have virtually no chance of finding decent housing without obtaining substantial government assistance or severely straining the family budget.

The complexities of modern social problems in America, however, have caused an unfortunate blurring of vision regarding the housing needs of low-income persons. On the one hand, because these social problems are so interrelated, citizens and governments have tended to despair that anything productive could be accomplished and have thus opted to withdraw from the effort altogether. On the other hand, because of the cost of housing subsidies and the reliance that communities must place on their ability to attract residents who can afford to pay taxes, policymakers share a predictable tendency to design programs that contribute little toward the housing needs of persons whose incomes are below the poverty level. \(^{36}\) When “low- to moderate-income” is defined as between eighty percent and 115% of area median income,\(^ {37}\) housing programs geared to those definitions will reach persons whose incomes are in the $25,000-40,000 range rather than in the $5000-20,000 range.

As Table A illustrates, persons with incomes below $20,000 are likely to face significant gaps between what they can afford and what available housing costs. Assuming a rent gap of $250-$400 per month for available, decent housing, an annual subsidy ranging from $3000 to $4800 would be necessary to enable a low-income family to obtain such housing. A program to provide subsidies of this nature would be expensive, ranging from three to five billion dollars annually per one million low-income families served. \(^{38}\)

C. The States’ Response

The federal government’s withdrawal from active support of low-income
housing places major new responsibilities on state governments to devise specifically tailored programs. Many states are recognizing this reality and are moving to fill the low- and moderate-income housing production vacuum with creative and impressive commitments of state resources. The states have a rich history of leadership in the development of ideas for housing programs. The use of tax-exempt revenue bonds by state housing-finance agencies to raise money for housing development loans began in New York and spread throughout the country during the 1960s and 1970s. Thirty years after the New York housing finance agency was established, housing finance agencies that market tax-exempt housing revenue bonds exist in all fifty states and have matured to the point that they operate a sophisticated range of programs supporting first-time homebuyers, nonprofit and limited-profit rental

39. The Florida legislature, in the preamble to its comprehensive Affordable Housing Planning and Community Assistance Act, stated:

... Massive cutbacks in federal housing programs can spell disaster for many very low-income, low-income, and moderate-income persons in areas without well-prepared state and local government housing programs in place, and ... the Legislature recognizes that the private sector will not construct enough housing to ensure an adequate supply of standard housing for Floridians in the lowest income quartile, and that the crisis in affordable housing among households in this group must be addressed at the state level. ... 1986 Fla. Laws ch. 86-192 pmbl. (codified as amended at FLA. STAT. ANN. § 420.601 (West 1993)).


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housing producers, and low-income tenants. They also have become the administrators of the federal LIHTC program, as well as the federal CDBG and HOME programs for rural areas. In over half of the states, the housing programs are buttressed by state housing trust funds.

The tax-exempt housing revenue bond program is the backbone of state housing financing agencies. In the first thirty years that state housing finance agencies have been in operation, the proceeds from their bond sales have helped to make accessible over $50 billion of housing units to assist low- and moderate-income renters and first-time homebuyers. Over a million households have been assisted, many that would not otherwise have qualified for a home mortgage. In 1990, over $6 billion was invested in low- and moderate-income housing, resulting in over a hundred thousand additional homes. Many of these agencies now have significant reserves, some of which are being reinvested to fund additional programs in conjunction with state housing trust funds.

While bond-financed state housing programs do not impose direct expenditure obligations on states or the federal government, they do result in an indirect loss of revenue to the federal government. The revenue loss, called a tax expenditure, occurs because income derived from investment in such bonds is not subject to federal taxation. Congress has responded to the tax expenditure issue by imposing an increasingly strict set of regulations that must be met to preserve the tax-exempt status of housing bonds. The most significant of these restrictions, from a housing policy standpoint, is a federal cap on the dollar volume of housing bonds that may be issued annually.

43. See NATIONAL COUNCIL OF STATE HOUS. AGENCIES, supra note 9.
46. See infra notes 53-57 and accompanying text.
47. See NATIONAL COUNCIL OF STATE HOUS. AGENCIES, supra note 9. The figures are drawn from a review of the state programs described in this five-volume report.
48. Id.
49. Id.
50. See infra part II.B.1.
51. The estimated revenue loss for fiscal year 1993 included $1 billion resulting from the sale of tax-exempt bonds for rental housing and $1.75 billion resulting from mortgage revenue bonds (single family housing). OFFICE OF MANAGEMENT & BUDGET, BUDGET OF THE UNITED STATES GOVERNMENT: ANALYTICAL PERSPECTIVES, FISCAL YEAR 1995, at 54, table 6-1.
52. Housing bonds are categorized as private activity bonds by the Internal Revenue Code, I.R.C. § 141 (1988 & Supp. IV 1992). To obtain tax exempt status, they must be approved by elected public officials or their designees after public hearings, I.R.C. § 147(f) (1988); projects they are intended to support must meet congressionally mandated low-income targeting and eligibility standards for lengthy periods of time (15 years), I.R.C. § 142(d) (1988 & Supp. IV 1992); bonds must be issued in registered form (in the name of the owner of the security) rather than in nonregistered form (payable to order or to bearer), I.R.C. § 149 (1988 & Supp. IV 1992); single family mortgage-revenue bonds must be limited to support for first-time home buyers who meet congressionally established income and home price limitations, I.R.C. § 143(d)(1)-(2), (f) (1988); annual bond volume must not exceed $50 per capita or $150 million per state, I.R.C. § 146(d)(2) (1988), with exemptions for housing for veterans and housing developed by qualified, I.R.C. § 501(c)(3) not-for-profit corporations, I.R.C. § 146(g) (1988 & Supp. IV 1992); and
Beginning in the early 1980s, states started supplementing tax-exempt housing revenue bond financed programs with dedicated revenue sources deposited in housing trust funds. The majority of the states now have housing trust funds. The exact number of state housing trust funds varies depending on the definition used. By 1992, between twenty-six and thirty-six state housing trust funds had been established. Thirteen of the more broadly defined state housing trust funds were established between 1990 and 1992. Several other states are attempting to establish housing trust funds. Housing trust funds represent a recognition by states of the continuing depth of the housing crisis and an assertion that support for affordable housing programs is a legitimate function of state government.

53. See, e.g., CAL. HEALTH & SAFETY CODE §§ 50840-50842 (West 1986 & Supp. 1994); N. Y. PRIV. HOUS. FIN. LAW §§ 59-a, 1100-1103 (McKinney 1991). "Trust funds consist primarily of funds that are designated by law as trust funds. They are usually financed by earmarked receipts." OFFICE OF MANAGEMENT & BUDGET, BUDGET OF THE UNITED STATES GOVERNMENT, FISCAL YEAR 1994, 21 (1993). Public sector trust funds differ from their private sector counterparts. The government owns the assets of public trust funds, while beneficiaries own the assets of private trust funds which are managed by trustees with fiduciary obligations. Typically the corpus of a public trust fund is a revenue stream which includes (or is hoped to include at some time) an earmarked source of taxation, either new or diverted. Id.

54. NEWS FROM THE HOUSING TRUST FUND PROJECT (Housing Trust Fund Project, San Pedro, Cal.), June 1992, at 1-7; Summary of Revenue Sources, Nov. 1991, supra note 11. Under the Housing Trust Fund Project definition, which requires a permanently dedicated funding source, such as a real estate transfer tax, there are 26 state housing trust funds. The Housing Trust Fund Project also has identified 36 city or county housing trust funds. Summary of Revenue Sources, Nov. 1991, supra note 11, at 2-11. Others, using a more expansive definition which includes capital pools funded by a variety of techniques, contend there are 36 state housing trust funds, including the District of Columbia. GLENN D. PETHERICK, STATE HOUSING TRUST FUNDS (1993) at viii, app. A at 210. For example, in 1989 the Missouri legislature created a trust fund to be capitalized by surplus revenues of the Missouri Housing Development Commission (MHDC). MO. ANN. STAT. § 215.035 (Vernon 1993). By 1993, MHDC had committed $10 million of its reserves to the trust fund for rental assistance to very low-income families. MISSOURI HOUS. DEV. COMM’N ANN. REP. 11 (1993).

Because of the permanent extension of the Mortgage Revenue Bond Program and the Low Income Housing Tax Credit, some may consider that all states have dedicated funding sources for these programs. The federal tax expenditures (that is, the estimated revenue loss) for the mortgage revenue bond and LIHTC programs were estimated to exceed $4.2 billion in fiscal year 1993. OFFICE OF MANAGEMENT & BUDGET, supra note 51, at 54, table 6-1.

55. PETHERICK, supra note 54, at app. A at 210.

56. Missouri and Ohio, for example, are searching for a legislatively acceptable permanent funding source. See 1994 Mo. S.B. 648, 87th Leg., 2d Sess. (pending Feb. 1994); infra notes 116, 118 (describing the research and recommendations of the Ohio Governor’s Advisory Committee on Funding of the Housing Trust Fund).

57. This is demonstrated in the rhetoric of the enabling legislation. For example, the Florida legislature, in the preamble to the State Housing Incentive Partnership Act, stated that:

(1) With cutbacks in federal assistance for housing programs, the projected population growth of the state, and the impact of the 1986 Tax Reform Act, Florida is experiencing a critical affordable housing shortage.

(2) The failure of the state to commit sufficient resources to address the severe housing problems has resulted in many residents of this state continuing to live in substandard or unaffordable housing or without shelter.

(3) Only seven states report a greater per capita need for low-income rental housing units than this state.

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In addition to the previously noted housing development and finance programs, at least seventeen states have enacted legislation encouraging or requiring local governments to engage in formal land use planning that includes affordable housing development as an essential element. The housing elements of these statutes recognize the limited availability of affordable housing and encourage expanded housing opportunities for all citizens, especially those with low and moderate incomes. A number of statutes encourage municipalities to approve cluster zoning, increased densities, reduced minimum lot sizes, and use of municipally owned lands for housing. In addition to encouraging local and regional housing planning, states increasingly are adopting formal plans

(9) As a matter of public policy, special programs are needed to stimulate public and private enterprises to build and rehabilitate housing in order to provide decent, safe, and sanitary conditions for very low-income persons, low-income persons, and moderate-income persons.

(10) The state should provide incentives for the formation of public-private partnerships as the means of achieving the greatest reduction in housing costs. The state should support partnership initiatives through regulatory relief, a streamlined application process for state-level programs, training, technical assistance, and flexible funding to enable local governments to meet local needs and to match federal funds.


Absent such statutes, the general rule is that the requirement that local zoning be carried out "in accordance with a comprehensive plan" does not require that a formal plan be adopted so long as the zoning ordinance is comprehensive. See generally Charles M. Haar, In Accordance With a Comprehensive Plan, 68 HARV. L. REV. 1154 (1955). Hawaii is credited with beginning the trend toward greater state involvement in local land use regulation. While Hawaii's statute, first enacted in 1961, is unique in that it provides for state zoning instead of local zoning, lessons learned in Hawaii were influential in other states. 1961 Haw. Sess. Laws 187 (codified as amended at HAW. REV. STAT. §§ 205-1 to -18 (1993)); see FRED BOSSelman & DAVID CALLIES, THE QUIET REVOLUTION IN LAND USE CONTROL 5 (1971). See generally JOHN M. DEGROVE, PLANNING & GROWTH MANAGEMENT IN THE STATES (1992).

59. See, e.g., FLA. STAT. ch. 163.3177(g)(11)(c) (1992); ME. REV. STAT. ANN. tit. 30-A, § 4326 (West 1993); WASH. REV. CODE ANN. § 36.70A.090 (West 1991).
and establishing "vertical consistency" requirements that all levels of planning be in accord with "state legislatively adopted goals."60

II. OPPORTUNITIES FOR STATE LEADERSHIP IN HOUSING

The federal government's withdrawal from active support of subsidized housing efforts for persons with special needs or those whose incomes are below the poverty line imposes heavy burdens on states with large numbers of such persons. This withdrawal, however, provides significant opportunities for states to assume leadership roles in providing housing for their needy residents.

Experience indicates that states can play major roles in a revitalized national housing strategy. In particular, they have the ability to promote inclusionary housing policies and facilitate a more cooperative outlook among municipalities with respect to affordable housing. They are the level of government in the best position to strike the necessary balance among affordable housing, environmental, and infrastructure concerns. States are moving in the

60. See STATE & REGIONAL COMPREHENSIVE PLANNING, supra note 14, at 6. Oregon led the way with enactment of a "federalist" approach in 1973 featuring a "proactive" state agency, the Land Conservation and Development Commission, with authority to adopt and enforce broad state standards to which local planning and development must adhere. The Oregon experience is reviewed by Edward J. Sullivan, Oregon Blazes a Trail, in id. at 51. See also GERRIT KNAA$ & ARTHUR C. NELSON, THE REGULATED LANDSCAPE 69-98 (1992) (reviewing Oregon's state land use control system as an instrument of state housing policy and concluding that statewide planning in Oregon has not resulted in either higher housing costs, as many expected, or more affordable multifamily units). Florida amended and strengthened its comprehensive planning legislation in May of 1993. The law establishes the governor as the chief planning officer of the state and requires the governor to conduct a biennial review and revision of the state comprehensive plan. The plan must include guidelines for growth management, air and water quality, transportation, and establishment of "state and regional solutions to the needs for affordable housing." Planning & Growth Management Act, ch. 93-206, § 6, 1993 Fla. Sess. Law Serv. 93-206 (West). For a discussion of the Florida planning experience, see Thomas G. Pelham, The Florida Experience: Creating a State, Regional, and Local Comprehensive Planning Process, in STATE & REGIONAL COMPREHENSIVE PLANNING, supra note 14, at 95. New Jersey's Fair Housing Act of 1985 offers an example of a narrower housing planning approach, with more attention directed to the effect of local land use regulations on the availability of affordable housing. N.J. STAT. ANN. §§ 52:27D-301 to -329 (West 1993). The Act is a response to the constitutional fair share requirement articulated in the Mount Laurel cases. Southern Burlington County NAACP v. Township of Mount Laurel, 456 A.2d 390 (N.J. 1983) (state constitution prohibits exclusionary zoning); Southern Burlington County NAACP v. Township of Mount Laurel, 336 A.2d 713 (N.J.) (same), appeal dismissed and cert. denied, 423 U.S. 808 (1975). The Act established a state Council on Affordable Housing (COAH) to identify housing regions and adopt procedures for allocating municipal fair share housing needs. N.J. STAT. ANN. §§ 52:27D-305 to -307 (West 1993). The Act also provided for state appropriations to be channeled through the State Department of Community Affairs and the New Jersey Mortgage and Housing Finance Agency to make grants and loans to municipalities to help them meet their low- and moderate-income housing needs. N.J. STAT. ANN. § 52:27D-304. (West 1993). In 1985, the New Jersey Legislature adopted a revised approach to state planning, mandating preparation of a State Development and Redevelopment Plan, as the "tool for assessing suitable locations for infrastructure, housing, economic growth and conservation." N.J. STAT. ANN. § 52:18A-196(a), (c) (West 1993). The state planning process was delayed, however, by political disagreements and a lack of statutory guidelines. For a discussion of the New Jersey experience, see Peter A. Buchsbaum, The New Jersey Experience, in STATE & REGIONAL COMPREHENSIVE PLANNING, supra note 14, at 176.
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direction of synchronizing general land use issues with housing programs, and
have begun to grapple with the issues of the optimal level of and best locations
for development. They are capable of administering more effectively federal
housing production subsidies, particularly as they refine the planning and
coordination processes. Finally, they are encouraging innovative responses
to local housing needs through direct state funding.

A. Reforming Local Land Use Laws

The police power that is the basis for local land use regulation is a state
sovereign power that has been delegated to local governments. Increasingly,
however, states are recognizing that land use regulations designed to protect
property values can restrict severely the availability of affordable housing.
Land use regulations can retard efforts to provide affordable housing in subtle
ways. The federally mandated Comprehensive Housing Affordability Strate-

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61. See, e.g., ME. REV. STAT. ANN. tit. 30, § 4323 (West 1993) (authorizing local growth manage-
ment plans); N.H. REV. STAT. § 674:22 (1993) (allowing municipalities to "regulate and control the timing
of development"); OR. REV. STAT., §§ 197.225-.250 (1992) (establishing state policy planning goals); VT.
STAT. ANN. tit. 24, §§ 4301, 4302(c)(11) (1993) (stating that goals of state growth management plan
include "safe and affordable" housing); WASH. REV. CODE ANN. § 36.70A.110 (West 1993) (urban growth
areas to be designated); see DANIEL R. MANDELKER, LAND USE LAW 437-55 (3d ed. 1993); see also John
R. Nolon, The Erosion of Home Rule Through the Emergence of State-Interests in Land Use Control, 10
PACE ENV'TL. L. REV. 497 (1993) (urging the New York legislature to create mechanisms that would
require development planning at the regional level).

62. One of the major weaknesses of the federal housing programs of the past 50 years was the inability
of the federal government to solve the locational issue problem; federally subsidized housing developments
tended to be isolated from good neighborhood environments. See THE FINAL REPORT, supra note 31, at
47.

63. A complete discussion of all of the current state-operated housing initiatives is beyond the scope
of this Article. A summary of over 600 state housing finance programs prepared by the National Council
of State Housing Agencies is five volumes in size. NATIONAL COUNCIL OF STATE HOUS. AGENCIES, supra
note 9.

64. The basic form of delegation, a comprehensive state zoning statute authorizing local governments
to regulate land use through zoning, was approved by the Supreme Court in Village of Euclid v. Ambler

65. See supra notes 13-17 and accompanying text. For discussion of exclusionary zoning issues, see
John C. Barker, Common Law and Statutory Solutions to the Problem of SLAPPs, 26 LOY. L.A. L. REV.
395 (1993) (discussing use of defamation suits to discourage citizen protests against unpopular developments
and other government actions); Fred P. Bosselman, The Commodification of "Nature's Metropolis": The
Historical Context of Illinois Unique Zoning Standards, 12 N. ILL. U. L. REV. 527 (1992) (reviewing the
history of zoning in Illinois and the 19th century concepts on which it was based); Peter Margulies, Building
Communities of Virtue: Political Theory, Land Use Policy, and the "Not In My Backyard" Syndrome, 43
SYRACUSE L. REV. 945 (1992) (recommending a model of "participating entitlements" as a response to
the "Not in My Backyard" dilemma); Serena M. Williams, The Need for Affordable Housing: The Constitu-
tional Viability of Inclusionary Zoning, 26 J. MARSHALL L. REV. 75 (1992) (reviewing regulatory
techniques for encouraging affordable housing).

66. Saint Louis University and Washington University law and architecture students recently received
an object lesson in the! subtleties of land use regulation during a joint project to design and evaluate the
feasibility of an affordable housing development. Architecture students were asked to design models for
affordable housing to fit a vacant four-acre tract of land in an inner-ring suburb of St. Louis that had an
apparently liberal land use policy which included employing modern "wait and see" techniques of planned
unit developments. The law students were assigned to review the land use regulations to assess the legal

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process is responding by requiring recipients of federal housing and community development funds to study whether local regulations are acting as barriers to affordable housing. Local governments can be expected to look to the states for help and political cover in reforming local land use regulations. States have key roles to play in reforming local regulatory processes, facilitating regional cooperation, and providing financial incentives for local governments to accept affordable housing.

1. Shifting the Burden of Proof

States can improve significantly the climate for affordable housing by enacting legislation that shifts legal presumptions and burdens of proof for affordable housing development proposals. Generally, courts give municipalities the benefit of the doubt when affordable housing development proposals are denied rezonings, special permits, etc. Instead, states should enact legislation that shifts the burden of proof to create a presumption that affordable housing development proposals are consistent with approved housing plans. Burden-shifting statutes can aid local and regional affordable housing plans by limiting the presumption shifting to appeals by proponents of affordable housing proposals that are consistent with adopted local, regional or state housing plans. This limitation both encourages local governments to adopt

67. 42 U.S.C. § 12705 (Supp. IV 1992). As a requirement for receiving a variety of affordable-housing related assistance, state and local governments must provide a CHAS, which must include, among other information, a five-year projection of housing needs, the resources available to meet those needs, and the government’s plan for addressing those needs. See infra notes 200-09 and accompanying text.


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such plans and provides these plans with powerful teeth.

Massachusetts, California, Connecticut, and Rhode Island have all enacted statutes streamlining appeals of adverse land use decisions regarding proposed affordable housing developments. The original Massachusetts statute, dubbed the “anti-snob” law, established a state housing appeals committee with authority to override local zoning decisions blocking housing developments receiving federal or state housing assistance. It did not attract much attention until the high growth period of the 1980s, when it became an effective tool for gaining approval of affordable housing developments.

California has enacted a series of provisions designed to improve the procedural posture of affordable housing development proposals. Local agencies are required to (1) refrain from imposing adverse design criteria, (2) give specific public health or safety reasons for disapproving or reducing densities of housing developments that are consistent with local zoning and general plans, and (3) carry the burden of proof when a developer or other person appeals a denial or density reduction.

The Connecticut appeals procedure is modeled after the Massachusetts program, although appeals are heard by the judiciary rather than by a state

8, 1992) (municipalities' decisions sustained).
70. MASS. GEN. LAWS ANN. ch. 40B, §§ 21-22 (West 1993).
71. CAL. GOV'T CODE §§ 65589.5-6 (West 1993).
72. CONN. GEN. STAT. § 8-30g (1993).
73. R.I. GEN. LAWS § 45-53-1 to -7 (1993).
74. MASS. GEN. LAWS ANN. ch 40B, §§ 20-23 (West 1993). The statute was enacted in the early 1970s and was sustained by the Massachusetts Supreme Court against challenges that it violated local home rule powers, authorized illegal spot zoning and lacked sufficient standards to guide administrators. Board of Appeals of Hanover v. Housing Appeals Comm., 294 N.E.2d 393 (Mass. 1973). WHITE, supra note 14, at 8-9, compares the Massachusetts program to an unsuccessful attempt by the New York State Urban Development Corporation to override local zoning ordinances and directly produce affordable housing, noting that the Massachusetts law has “proven more successful.”
75. See Emily F. Reed, Tiltling at Windmills: The Massachusetts Low & Moderate Income Housing Act, 4 W. NEW ENG. L. REV. 105 (1981) (reporting that only 14,839 affordable housing units had been proposed and 3462 had been built from the enactment of the statute in 1969 to 1979); Lauren J. Resnick, Mediating Affordable Housing Disputes in Massachusetts, 45 ARB. J. 15, 17, 20 (1990) (reporting that more than 35,000 affordable housing units had been proposed, and 17,000 built from 1969 through January 1, 1989).
76. This summary of California procedural remedies is drawn from Katherine E. Stone & Philip A. Seymour, California Land-Use Planning Law: State Preemption and Local Control, in STATE & REGIONAL COMPREHENSIVE PLANNING, supra note 14, at 203.
77. CAL. GOV'T CODE § 65913.2(a) (West Supp. 1994).
78. CAL. GOV'T CODE § 65589.5(d)-(f) (West Supp. 1994).
79. CAL. EVID. CODE § 699.5 (West Supp. 1994); CAL. GOV'T CODE § 65589.6 (West Supp. 1994). California courts have limited the burden of proof shift, however, to administrative actions such as applications for special use permits and have refused to apply it to amendments to general plans, rezonings, or other legislative actions. Mira Dev. Corp. v. City of San Diego, 205 Cal. App. 3d 1201, 1222 (1988) (finding the requirement to provide specific public health or safety reasons for disapproving a housing development imposed by CAL. GOV'T CODE § 65589.5 (West Supp. 1994) inapplicable to local government zoning decisions, and therefore holding the burden-shifting requirement of CAL. GOV'T CODE § 65589.6 (West Supp. 1994) also inapplicable). But see Building Ind. Ass'n v. City of Camarillo, 718 P.2d 68, 73-75 (Cal. 1986) (in bank) (burden shifts concerning restrictive growth control measures are applicable to ordinances enacted by initiatives) (applying CAL. EVID. CODE § 669.5 (West Supp. 1994)).
agency. The burden of proof is shifted to the community that denied an application to demonstrate that the denial is reasonable. This represents a policy shift to a presumption that affordable housing is an acceptable form of land use. Municipalities with large concentrations of affordable housing, and those which are participating in other successful voluntary housing programs, are exempt from the appeals procedure.

Drawing on the cases decided since the appeals process began in 1992, an observer has concluded that the process establishes a “new and powerful tool” to facilitate the development of affordable housing, but it is no “slam dunk” for developers. Most importantly, the “encouragement of dialogue” would “allow municipalities and developers to create appropriate affordable housing far more successfully than can be done by the court or legislature.”

Burden-shifting statutes serve several purposes. They are strong statements that affordable housing is a state priority to which local governments must be sensitive. They provide teeth for local and regional housing plans without

80. CONN. GEN. STAT. § 8-30g(b) (1993). Under the statute, efforts are to be made to assign cases to a small number of judges so that “a consistent body of expertise can be developed.” Appeals are heard on an expedited basis. The municipality’s burden on appeal is to prove, based upon the evidence and the record compiled before the relevant zoning body, the following points: (1) The decision and reason cited are supported by sufficient evidence in the record; (2) the decision is necessary to protect substantial public interest in health, safety or other matters that may be legally considered; (3) the public interest clearly outweighs the need for affordable housing; and (4) the public interest cannot be protected by reasonable changes to the affordable housing development. Under the statute the court is required to wholly or partly revise, modify, remand or reverse the decision if the commission does not satisfy its burden of proof. Id.

81. CONN. GEN. STAT. § 8-30g(c) (1993).

82. Development proposals that qualify for the presumption-shifting appeals procedure include housing that would be assisted by state or federal programs or housing in which at least 20% of the units will be reserved for low- and moderate-income persons for at least 20 years after initial occupation. CONN. GEN. STAT. § 8-30g(a)(1) (1993).

83. CONN. GEN. STAT. § 8-30g(f) (1993).


86. Stearns, supra note 85, at 5. Rhode Island combines elements of both the Massachusetts and Connecticut statutes by including in one application all aspects of the approval process for rental housing developments that are dedicated for low- and moderate-income occupancy for at least 30 years and by providing for appeals to a state review board. R.I. GEN. LAWS §§ 45-53-4 to -5 (1991).
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forcing local governments to relinquish control over land development. And they give affordable housing advocates and developers a means to overcome opposition to such housing.

2. Seeking Consensus

As the impact of burden-shifting legislation grows, so will the need for alternatives to litigated resolution of affordable housing disputes. Massachusetts has taken the lead in encouraging the resolution of local disputes over affordable housing through consensus building techniques. It has been joined by a number of other states, including Connecticut, Florida, New Jersey, and Virginia.

Connecticut’s innovative approach combines state financial assistance with efforts to reach consensus on regional housing plans. The program seeks to establish “negotiated investment strategies” leading to “regional fair housing compacts” that would provide increased housing for low- and moderate-income families within particular regions.

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87. Chief Justice Wilentz of the New Jersey Supreme Court, in his opinion in the second Mount Laurel case, made the following point:

The waste of judicial energy involved at every level is substantial and is matched only by the often needless expenditure of talent on the part of lawyers and experts. The length and complexity of trials is often outrageous, and the expense of litigation is so high that a real question develops whether the municipality can afford to defend or the plaintiffs can afford to sue. Mt. Laurel, 456 A.2d at 410-11.

88. Resnick, supra note 75, at 20 (reporting that about 25% of cases appealed to the state housing appeals committee have been resolved through the auspices of the Massachusetts Mediation Service, a state agency).

89. CONN. GEN. STAT. § 8-386(a) (1993).

90. Planning & Growth Management Act, ch. 93-206, § 6, 1993 Fla. Sess. Law Serv. 93-206 (West) encourages local governments to collaborate with the public in developing a local comprehensive plan which “shall be adopted by the governing body of the jurisdiction.” Id. § 5. Furthermore, the Act requires inclusion of an intergovernmental coordination element in the local comprehensive plan which “must demonstrate consideration of the particular effects of the local plan, when adopted, upon the development of adjacent municipalities, the county, adjacent counties, or the region and upon the state comprehensive plan.” Id. sec. 6, § (6)(b)(1). The intergovernmental coordination element is required to “expressly provide for a dispute resolution process . . . for bringing to closure in a timely manner those disputes that pertain to development proposals that would have impacts on adjacent local governments or identified state or regional resources or facilities.” Id. sec. 6, § 6(b)(1)(C). Additionally, the Act requires local implementation of “a process to allow modification of development orders . . . without a loss of recognized development rights.” Id. sec. 6, § 6(b)(1)(D).


92. Although not strictly a dispute resolution mechanism, Virginia’s proffered dedication procedure and incentive zoning for affordable housing authorization provide a framework for use of consensus building techniques. VA. CODE ANN. §§ 15.1-491, -491.8, -491.9 (Michie 1989 & Supp. 1993).

93. CONN. GEN. STAT. § 8-386(a) (1993).

94. Id. The statute authorized pilot programs in two regions of the state. Under the pilot programs, the secretary of the Office of Policy and Management selects mediators from a list of independent consultants. These mediators submit negotiated agreements both to the regional planning agencies for incorporation into regional plans and to the chief executive officers of the municipalities within the planning regions. The statute requires that 65% of the legislative bodies located within a planning region approve an agreement before it can be incorporated into a regional plan. Id.

For thoughtful case studies of the use of mediation to build consensus for affordable housing in the
Achieving consensus for affordable housing is difficult because "[n]o single person or individual interest group can produce affordable housing . . . [since] the power to create it is held in many different hands." Consensus can be reached, however, if a broad "partnership of interests," including "key decisionmakers and stakeholders," works to encourage the development of housing that is "carefully tailored to the needs and resources of the community." The state's role in the consensus-building process is critical because of the state's ability to look beyond the borders of individual communities and assess the external effects of local decisions. By providing state mediators or offering to pay for private mediators, states can encourage their municipalities to take a broader view of affordable housing issues.

3. Providing Financial Incentives

In addition to burden-shifting statutes and mediation services, states are providing financial incentives to local governments to adopt inclusionary housing policies. One of the most encouraging approaches is the "housing infrastructure fund" in Connecticut. The money provided may be used for planning, construction or renovation of housing, or for any of the following items when necessary to support the development of housing in accordance with a regional fair housing compact: (1) sanitary sewer lines, (2) natural gas and other utilities, (3) storm drainage facilities, (4) public roadways and related facilities, (5) approved community septic systems.

The Connecticut program also authorizes the Commissioner of Housing,
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with the approval of the Commissioner of Public Works, the Secretary of the Office of Policy and Management, and the State Properties Review Board, to sell, exchange, lease, or otherwise dispose of any state-owned or controlled land in order to provide emergency shelter or transitional living facilities for homeless persons or to construct, rehabilitate or renovate housing for persons and families of low and moderate income. Approval of the municipality in which the land improvement or interest is located must be obtained before the state may transfer the land. The Commissioner of Housing also is authorized to acquire federal surplus land and transfer it to entities providing homeless shelter and housing for low- and moderate-income persons.

Affordable housing for low- and moderate-income persons imposes some very real costs on local governments. Higher densities tend to be the rule rather than the exception in such developments. These densities can place greater demands on schools, sewers, streets, and other public facilities. A desire to avoid such costs is no excuse for excluding affordable housing through restrictive zoning practices. But state financial assistance, as illustrated by the Connecticut program, offers crucial moral and tangible support that can help suburban governments shed their traditional reluctance to cooperate in regional efforts to provide expanded housing opportunities for low-and moderate-income persons.

B. Creating, Allocating, and Distributing Housing Subsidies

Although it should reduce market cost and thus lessen the burden for people at the higher end of the low- and moderate-income scale, removing unnecessary regulatory barriers to affordable housing will not by itself result in more housing for people who are unable to pay market prices. Persons unable to afford market prices generally are not able to obtain decent housing without governmental subsidies of some type. States are playing, and should play, increasingly important roles in the creation, allocation, and distribution of housing subsidies.

103. \textit{See, e.g., Britton v. Town of Chester,} 595 A.2d 492 (N.H. 1991) (holding exclusionary aspects of town’s land use regulations incompatible with the statutory requirement that local zoning ordinances promote the “general welfare of the community” which included the housing needs of low- and moderate-income persons living in the general region of the municipality).
104. The concept of “least-cost” housing was developed by the Supreme Court of New Jersey in recognition of the fact that local affirmative action in land use regulation by itself might not enable some municipalities to provide for a realistic opportunity for the construction of lower-income housing. Oakwood at Madison, Inc. v. Township of Madison, 371 A.2d 1192, 1222-23 (N.J. 1977). Least-cost housing will satisfy a Mount Laurel obligation “if, and only if, it cannot otherwise be satisfied . . . . [I]t is only after all alternatives have been explored, all affirmative devices considered . . . that least-cost housing will provide an adequate substitute.” Southern Burlington County NAACP v. Township of Mt. Laurel, 456 A.2d 390, 419-20 (N.J. 1983).
1. Creating Housing Subsidies

The growth of housing trust funds in response to the severe cutbacks in federal housing subsidy commitments makes the states significant sources of housing subsidies.\textsuperscript{105} Trust funds are being used to provide low-interest loans to bridge gaps in housing development financing.\textsuperscript{106} They also are being used to help reduce the interest costs for acquisition and construction loans for nonprofit, neighborhood-based corporations,\textsuperscript{107} and to provide crucial technical support to assist homeless and near-homeless service providers in expanding program development and production capacity.\textsuperscript{108}

States use a variety of sources for their housing trust funds. The Housing Trust Fund Project lists fourteen specific dedicated revenue sources, including the following: linkage programs, preservation programs, inclusionary zoning fees, property tax or tax increment funds, hotel or motel taxes, real estate transfer tax or document charge, unclaimed property funds, sale or lease of government property, loan repayment from government programs, funds available from bond issuances, interest from real estate escrow accounts, and interest from tenant security accounts.\textsuperscript{109} Nothing, however, limits states to these sources; any legal tax or fee arguably could be used to supply the money for a trust fund.\textsuperscript{110}

Trust funds subsidize the developer/owner or the tenant. They are distributed as grants or loans. They finance the widest range of programs, including new construction, rehabilitation, first time homebuyer assistance, subsidies and program services for low-income families and the homeless, matching funds for social services in assisted projects, capacity building grants for nonprofit housing corporations, mortgage insurance guarantees, and more. Funds generally are targeted to low- and very low-income residents, and efforts are made to distribute them throughout the state.\textsuperscript{111}

\textsuperscript{105} See supra notes 53-55 and accompanying text.\textsuperscript{106} See, e.g., R.I. GEN. LAWS \textsection 42-55.1-3 (1993) (giving the State Housing and Mortgage Finance Corporation authority to provide "financial assistance in the form of grants, loans, or any combination thereof . . . for use in the purchase, acquisition, construction and/or production" of affordable housing).\textsuperscript{107} IND. CODE ANN. \textsection 5-20-4 (Burns Supp. 1993); N.C. GEN. STAT. \textsections 122E-6, -7 (1987).\textsuperscript{108} I.DAHO CODE \textsection 67-8103 (Supp. 1993); N.Y. PRIV. HOUS. FIN. LAW \textsection 45-c (McKinney 1991).\textsuperscript{109} Summary of Revenue Sources, Nov. 1991, supra note 11, at 1.\textsuperscript{110} Other examples include retained earnings from public utilities, Act of July 13, 1993, sec. 5, \textsection 8-208(b), 1993 III. Legis. Serv. 88-33 (West), unpledged fund balances of the state housing-finance agency, Mo. ANNUAL STAT. \textsection 215.050 (Vernon 1983), stripper well settlement funds, N.C. GEN. STAT. \textsection 122E-6(d) (1987), lottery earnings, IOWA CODE \textsection 99E.32(s) (Supp. 1993), and broker trust accounts, WASH. REV. CODE ANN. \textsection 18.85.310(s) (West 1989).

\textsuperscript{111} See, e.g., CAL. HEALTH & SAFETY CODE \textsection 50842 (West 1986) (restricting expenditures to programs for lower-income and very-low-income households, as defined in the federal Section 8 program, 42 U.S.C. \textsection 1437a(b)(2) (1988 & Supp. IV 1992); at least 20% of funds deposited annually must be expended in rural areas); FLA. STAT. ANN. \textsections 420.9073, .9075 (Harrison Supp. 1992) (providing that qualifying counties receive guaranteed share of funds; at least 30% of all units assisted must be occupied by very-low-income persons and an additional 30% by low-income persons, as defined in 42 U.S.C. \textsection 1437a(b)(2) (1988 & Supp. IV 1992)).
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Because of the wide variation among the states, and the lack of consistency in revenue sources and program cycles, it is difficult to aggregate these funds, or make any useful comparison between the sizes and scales of the programs. A former official of the National Council of State Housing Agencies estimates that housing trust funds have provided more than $750 million and funded more than 80,000 housing units since their inception in the early 1980s. The Housing Trust Fund Project has identified over $110 million in annual revenue, with a total of almost $190 million in appropriations from general revenue. Funds from these state sources have escalated sharply from zero in 1980 to more than $100 million annually by 1992.

Most importantly, the growth of state housing trust funds represents acceptance by states of the responsibility to provide direct financial assistance, in addition to tax-exempt bond financing, to support the provision of decent housing for low- and moderate-income persons. The incidence of regular appropriations of state general tax revenues to housing trust funds is growing. While the total amount appropriated to trust funds may be far short of the need, or even short of the usual amounts appropriated by the federal government, the move by states to fill that role is impressive.

112. PETHERICK, supra note 54, at vii.
115. The author surveyed state housing finance agencies in 1978 and concluded that states needed to do more than provide lower-interest loans through the sale of tax-exempt bonds in order to make a measurable impact on housing concerns of low- and moderate-income people. Salsich, supra note 9, at 623-25.
116. CAL. HEALTH & SAFETY CODE § 50841 (West 1989 & Supp. 1993); FLA. STAT. ANN. ch. 420.0005 (Harrison 1990 & Supp. 1992); GA. CODE ANN. § 8-3-303 (Michie 1993); IND. CODE § 5-20-4-7 (Supp. 1993). The annual revenues available for housing through individual state trust funds vary greatly. For example, Florida's fund received $45 million in 1993 and expects to receive $115 million in 1995. Summary of Revenue Sources, Update: Sept. 1992, supra note 11, at 4; see infra part II.D.2. Perhaps a more useful way of comparing state efforts would be to examine per capita investment. The State of Ohio Governor's Advisory Committee on Funding the Housing Trust Fund compared the expenditures of six states: Ohio, Maryland, Virginia, Pennsylvania, Florida, and Washington. Per capita expenditures for persons below the poverty line were in the $20-30 range, except that Maryland's rate was four to five times that amount. GOVERNOR'S ADVISORY COMM., supra note 33, at 27 (Ohio $21.53, Maryland $112.50, Virginia $33.33, Pennsylvania $26.15, Florida $31.25, and Washington $31.25).

This same Advisory Committee reported that one in every five Ohioans and one-third of all Ohio renters have a housing need. The Committee estimated that it would cost over $7 billion to reduce Ohio's housing need by half over a 10-year period. Assuming that the federal government funded half of the effort, and local public and private sources contributed 20%, the state would be responsible for contributing $210 million annually for 10 years. The Committee recognized that this was an ideal goal, and, referencing current limitations on state revenue, proposed the establishment of a low-income housing trust fund that would raise $50 million annually from real estate conveyance fees, surcharge on estate taxes, interest on tenant security deposits, and mortgage recordation fees. These funds could be spent on rent subsidies, capital development grants, and homeownership programs. Id. at 17-21.
The growth of dedicated source housing trust funds and state general revenue appropriations for housing provides evidence that states recognize the important role they must play in responding to the housing needs of their citizens. Such funds also give states greater flexibility than do housing revenue bonds in tailoring programs for low-income families and persons with special needs. Administering housing subsidy programs gives states the necessary experience to play expanded roles in a revitalized national housing policy.

2. Allocating Federal Housing Subsidies

Several important provisions in the Omnibus Budget Reconciliation Act of 1993 complement the steps states are taking to develop a coordinated response to housing issues. Permanent extension of the Low Income Housing Tax Credit (LIHTC) and tax-exempt status for Qualified Mortgage Bonds revive important incentives for private investors to supply equity and credit for low- and moderate-income housing development. For the states, the major significance of this development is the recognition of the role they play in the allocation of these indirect, tax-expenditure subsidies. The operating subsidies, severely distressed projects, and drug elimination programs, $1.275 billion for HOME housing block grants, $723.7 million for homeless programs, $25 million for fair housing, and $35.7 million for assisted multifamily projects; an additional $4.4 billion was appropriated for the CDBG program, which cities and states can use for housing as well as other community development programs).

118. For example, the Ohio Governor’s Advisory Committee on Funding of the Housing Trust Fund has recommended annual appropriations of $50 million increasing to $210 million annually over a 10-year period to meet Ohio’s $2.1 billion state housing need. Under the Advisory Committee’s approach, the state would pick up 30%, private sources 20%, and the federal government 50% of the total cost. GOVERNOR’S ADVISORY COMM., supra note 33, at 19.

The Minnesota legislature appropriated $34 million in 1976 and $40 million in 1977. Salsich, supra note 9, at 624. Direct state support continues. The state appropriated from general revenue $28.3 million for 1992 and 1993. In addition, the Minnesota Housing Finance Agency (MHFA) will recycle reserves from bond and state-appropriated bond leverage funds. These will include $37.5 million from MHFA’s Housing Affordability Fund and $26 million from the Housing Investment Fund. MINNESOTA HOUS. FIN. AGENCY, AFFORDABLE HOUSING PLAN 1992-1993, 8-9 (1992). Since its inception, MHFA has financed over 23,000 units of rental housing, provided mortgage financing for over 30,000 owner-occupied homes, approved almost 80,000 home improvement loans, and authorized grants or deferred loans to more than 20,000 homeowners for basic repairs; the funds are distributed by MHFA through more than forty programs in three broad categories: home improvement, homeownership, and rental housing. Id. at 5, 9. A few examples include: Home Energy Loan Program, Deferred Loan Program, Single Family Capital Reserve Program, Purchase Plus Program, Build It Now!, Housing Trust Fund, Low Income Large Family Rental Housing Program. Id. at 11.


122. In addition, relaxation of the passive loss rules for rental real estate activities for taxpayers who own rental real estate and who spend more than half their time in real property trade or business is expected to encourage greater investment in all types of real estate. See Haas, supra note 120, at 254-55.
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allocation process derives from the volume caps imposed by Congress for both the LIHTC and housing revenue bonds.\(^\text{123}\)

The LIHTC legislation requires states to distribute their housing credit dollar amounts in accordance with a "qualified allocation plan" that has been approved by the state legislature, the governor, or an elected state official designated by the governor.\(^\text{124}\) While the housing bond provisions of the Internal Revenue Code do not specify allocation criteria in the detail of the LIHTC law, states are required to provide an allocation system by law,\(^\text{125}\) and must comply with the housing credit allocation plan for projects that are assisted by both tax credits and tax-exempt bonds.\(^\text{126}\)

The potential for a coordinated state housing strategy is clear. Within the framework of the tax credit statutory allocation preferences for need and long-term use, states can use their housing credit and bond allocation responsibilities to support the goals and objectives of housing affordability strategies and land-use-mandated housing plans. By linking the planning and allocation processes, states can insure that scarce public resources are used to meet identified local needs. To accomplish this, states will have to be willing to make difficult choices to establish a system of priorities for housing spending and avoid "deal driven" processes in which little attention is paid to maximizing efficient use of public subsidies.\(^\text{127}\)

\(^{123}\) I.R.C. § 42(h)(3)(C) (Supp.IV 1992) (establishing state LIHTC ceiling of $1.25 multiplied by the state population); I.R.C. § 146(d)(1) (1988) (establishing state private activity bond volume cap of either $75 multiplied by the state population or $250 million, whichever is greater).

\(^{124}\) I.R.C. § 42(m)(1) (Supp. IV 1992). "Qualified allocation plans" must contain three elements: (1) project selection criteria (which include project location, housing needs characteristics, project characteristics, sponsor characteristics, participation of local tax-exempt organizations, tenant populations with special housing needs, and public housing waiting lists); (2) preference for projects serving the lowest-income tenants, and projects obligated to serve qualified tenants for the longest periods; and (3) a procedure for monitoring compliance by housing credit recipients with the tax credit rules and for notifying the Internal Revenue Service of any noncompliance about which the monitoring agency becomes aware. I.R.C. § 42(m)(1)(B)-(C) (Supp. IV 1992).

\(^{125}\) I.R.C. § 146(e) (1988).


\(^{127}\) A study by the General Accounting Office recommended that states be given a greater role in allocation and compliance monitoring. U.S. GEN. ACCOUNTING OFFICE, RENTAL HOUSING: OBSERVATIONS ON THE LOW-INCOME HOUSING TAX CREDIT PROGRAM 21-22, 28-29 (1990). The 1993-94 allocation plan adopted by the Missouri Housing Development Commission requires applicants to include certifications that proposed projects meet needs as identified by applicable CHAS studies. The plan also identifies application standards, geographic distribution goals, set-aside priorities, mandatory federal preferences and development “characteristics which match the selection priorities as established by the housing needs assessment.” Special attention is given to “smaller size projects” that are “hard-to-develop” (homeless housing, single-room-occupancy housing, and scattered-site projects) and are located in “difficult-to-develop areas.” MISSOURI HOUS. DEV. COMM’N., ALLOCATION PLAN FOR THE LOW INCOME HOUSING TAX CREDIT 4-10 (1993). An earlier study urged public officials to give more attention to integrating the tax credit with state goals, policies, and programs. DANIEL D. PEARLMAN, NATIONAL HOUS. LAW PROJECT, STATE ADMINISTRATION OF THE LOW-INCOME HOUSING TAX CREDIT 4 (1988).
3. Distributing Federal Housing Subsidies

The gravity of the housing crisis and the enormous sums of money involved require the federal government to continue to play the lead role in funding housing subsidies. Congress appropriated over $18 billion in fiscal 1994 for low-income housing assistance. State housing trust funds, the main sources of state housing subsidies other than tax-exempt housing bond-financed loans, accounted for less than one billion dollars in a similar period.

For the states, the housing trust fund movement demonstrates significant growth in state commitment and competency to administer sophisticated housing subsidy programs tailored to local and regional needs. The stage is set for the states to become the distributors of direct federal housing subsidies as they are now the allocators of indirect federal low-income assistance through administration of the LIHTC and tax-exempt housing revenue bonds. States now administer and distribute federal CDBG and HOME funds to rural areas and small cities. State Public Housing Authorities can also now administer the section 8 certificate and voucher rental and assistance funds for non-urban areas. The experience gained from these efforts, the knowledge derived from years of administering housing bond issues, the investment in housing evidenced by housing trust funds, and the planning responsibilities undertaken through the CHAS process and state planning statutes demonstrate that states are prepared and willing to play a major role in meeting the housing needs of their low- and moderate-income residents.

C. Administrating Programs to Preserve Assisted Housing

In addition to their expanding roles in the creation, allocation, and distribution of housing subsidies, states have an important part to play in current efforts to prevent several hundred thousand housing units that were built with federal subsidies in the 1960s and 1970s from being removed from the affordable housing market. A complex federal housing statute was enacted in 1990

128. See supra notes 32-38 and accompanying text.
129. Supra note 117.
130. Supra note 112 and accompanying text.
131. See supra note 125 and accompanying text.
132. See supra note 126 and accompanying text.
135. See supra note 67 and accompanying text; infra notes 200-09 and accompanying text.
136. See supra notes 58-60 and accompanying text.
137. For an argument that a range of “productive” programs, including housing and community development, should be devolved to the states, see ALICE M. RIVLIN, REVIVING THE AMERICAN DREAM 110-25 (1992).
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to respond to concerns that authorized prepayment of HUD-assisted mortgages could exacerbate the housing shortage for low- and moderate-income persons. The Low Income Housing Preservation and Resident Homeownership Act (LIHPRHA) and its predecessor, the Emergency Low Income Housing Preservation Act (ELIHPA), established restrictions on prepayment of HUD-assisted mortgages and offered incentives to owners to retain their units in the assisted housing inventory.

The statute attempts to balance the interests of project owners who have prepayment rights with community concerns about continuing shortages in the low- and moderate-income inventory. Nonprofit organizations are given an important role as potential purchasers of assisted developments who will retain the units for low- and moderate-income persons. Individual plans for disposition must be approved by HUD before prepayment of mortgages is permitted. Success of the program depends on significant amounts of technical assistance and coordination activities for which state housing agencies are especially suited. The National Housing Trust has proposed that statewide entities be created to oversee sales transactions of mortgage prepayment property. These entities would not actually purchase such properties but would instead provide technical assistance in the use of the federal statutes. They also would help create local not-for-profit purchasers and coordinate the actual sales transactions.

In the Cranston-Gonzalez National Affordable Housing Act, Congress directed HUD to delegate “some or all responsibility for implementing” the LIHPRHA program to state agencies “if such agency submits a preservation

141. For a critical analysis arguing that the preservation statutes placed too great a burden on owners who wish to prepay their mortgages, see Howard D. Cohen & Taylor Mattis, Prepayment Rights: Abrogation By The Low-Income Housing Preservation and Resident Homeownership Act of 1990, 28 REAL PROP., PROB. & TR. J. 1 (1993).
143. The recommendation is based on a detailed study of preservation of corporations done by NHT on behalf of the North Carolina Low-Income Housing Preservation Consortium. A preservation corporation would work on behalf of local nonprofit housing organizations, community development corporations, public housing authorities, and resident groups interested in purchasing properties for extended use as affordable housing. The report suggests that a statewide entity could serve as a “bridge between buyer and seller” in which its role would include “negotiating with a seller and executing letters of intent on behalf of the purchasing entity, preparing an application for HUD predevelopment grants, and securing other resources for the purchaser.” Under the National Housing Trust proposal, it would be “economically viable to create a statewide preservation corporation if at least 10 eligible properties were put up for sale over a four-year period in the state.” Id.
plan acceptable to the Secretary.\textsuperscript{144} In 1992, Congress directed HUD to issue interim regulations implementing the delegation provisions within thirty days after enactment of the Housing and Community Development Act of 1992, with final regulations to be issued following a 120-day public comment and HUD review period.\textsuperscript{145} In June of 1993, a HUD official reportedly admitted that HUD “lacks the capacity to fully implement” LIHPRHA, but would delay issuing regulations to delegate administration to the states “until after it has identified a number of capable state housing-finance agencies and other authorized entities.”\textsuperscript{146}

While HUD has resisted issuing LIHPRHA delegation regulations, it has developed a plan to test the effectiveness of passing to state housing finance agencies failed multifamily projects that HUD now owns as a result of mortgage assignment and foreclosures. A draft notice for the demonstration program circulated during July 1993 called for cooperative agreements with participating state housing agencies that would enable an agency to “act as financier, tax credit allocator, administrator, insurer, developer, or project manager.”\textsuperscript{147}

Delegation of the assisted housing preservation program to qualified state agencies will enable that program to be coordinated with state housing development programs. Federally mandated housing preservation plans can be linked with state and local housing plans so that needs can be identified and appropriate responses prepared.

D. Linking Housing Planning, Development and Finance

A crucial first step in establishing a successful housing strategy is to develop effective connections among housing planning, development, and finance. States are experimenting with a variety of approaches to the linkage problem. A number of techniques are being used. Some states are requiring local governments to consider regional housing needs as a condition for receipt of state housing funds. Others are requiring affirmative steps be taken by local governments to provide a state-established fair share of affordable housing in a state-drawn region. States are establishing state housing goals and priorities and designating state agencies to coordinate local and regional efforts to meet those goals. California, Florida, and New Jersey provide good illustrations of


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this activity.

1. California

California has a three-part state housing policy. Part one is a comprehensive housing finance program, a significant portion of which is administered through a housing trust fund.\textsuperscript{148} The second part is a statutory planning requirement that local governments adopt land use plans containing detailed analyses of housing needs and proposals for meeting those needs.\textsuperscript{149} The third part of the California housing policy is a statutory fair share requirement. Under this statute, regional councils of governments, using data provided by state departments, determine the fair share of regional housing needs that each

\begin{itemize}
  \item \textsuperscript{148} \textbf{CAL. HEALTH \\ & SAFETY CODE} §§ 50840-50842 (West 1986 & Supp. 1994). According to the legislative findings and declarations for the housing trust fund, one of the major problems in California is that “increasing rents result in hardships for those least able to afford housing. Approximately 1,600,000 lower income renters, which comprise over 18 percent of all households, pay more than 25 percent of their income for housing and nearly 1,100,000 pay more than 35 percent of their income for housing.” In addition, the legislature found that “over 65 percent of all elderly renter households, pay more than 25 percent of their income for housing and over one-quarter pay more than 50 percent of their income for housing.” The legislature further found that “over 650,000 persons, which is more than 7 percent of all households, live in overcrowded conditions which are threatening to their health and safety.” \textbf{CAL. HEALTH \\ & SAFETY CODE} § 50840 (West 1986).
  \item \textsuperscript{149} \textbf{CAL. GOV'T CODE} §§ 65100, 65103, 65583 (West 1983 & Supp. 1994). In the California land planning statute, the housing element must include an eight-point assessment of housing needs and an inventory of relevant resources and constraints, including an analysis of population and employment trends, household characteristics, and an inventory of available land; an analysis of potential government constraints on development of housing for all income levels such as land use controls, site improvement requirements, fees and exactions; an analysis of nongovernmental constraints, such as availability of financing, price of land, and cost of construction; an analysis of special housing needs of groups such as the handicapped, the elderly, large families, farm workers, families with female head of households, and persons needing emergency shelter; an analysis of opportunities for energy conservation, as well as a statement of community housing goals, qualified objectives and policies; an analysis of existing assisted housing developments that are eligible to change from low-income housing uses during the next 10 years; and a five-year schedule of proposed actions to be taken by the local government to implement the housing policies and achieve the housing goals and objectives. \textbf{CAL. GOV'T CODE} § 65583 (West 1983 & Supp. 1994).
\end{itemize}
city and county should bear.\textsuperscript{150} The California statute requires local governments to consider ways to meet their share of regional housing needs, but does not impose the specific legal requirements for affirmative action that is characteristic of the \textit{Mount Laurel}\textsuperscript{151} jurisprudence of New Jersey.\textsuperscript{152} Because local governments are not legally required to meet the goals set by the housing elements, the housing-element statute is considered to establish a policy that is supportive of inclusionary housing programs but does not actually mandate them.\textsuperscript{153}

California relies heavily on three levels of governmental agencies: (1) active local redevelopment agencies whose governing laws are pro-affordable housing;\textsuperscript{154} (2) regional planning agencies called councils of government that undertake housing need assessments and give municipalities their individually targeted goals of affordable housing units;\textsuperscript{155} and (3) state housing and planning agencies that provide substantial financial assistance through housing bond issues and trust fund programs,\textsuperscript{156} and take the lead in development of housing policy.\textsuperscript{157} The distinctive elements are the significant role played by regional agencies and the tradition of support for housing at the state level. Its weakness lies in the spotty implementation of housing programs at the local level, partially because of the serious economic problems California has encountered,\textsuperscript{158} and partially because of the voluntary nature of the

\textsuperscript{150} CAL. GOV'T. CODE § 65584 (West 1983 & Supp. 1994).
\textsuperscript{152} Judd & Rosen, supra note 149, at 4-5 (citing Buena Vista Gardens Apartments Ass'n v. City of San Diego, 175 Cal. App. 3d 289 (1985)).
\textsuperscript{153} Id. at 5.
\textsuperscript{154} See, e.g., CAL. HEALTH & SAFETY CODE § 3334.2(a) (West 1983 & Supp. 1994) (requiring that not less than 20% of tax benefit received by local redevelopment agency from a tax increment finance (TIF) redevelopment project must be used for affordable housing); Lancaster Redevel. Agency v. Dibley, 20 Cal. App. 4th 1656 (1993) (holding that affordable housing funds may not be used to construct highway overpass leading to a planned business park that has no nexus to an affordable housing development); Daniel V. Potash, \textit{California's Tax Increment Financing of Affordable Housing Development}, A.B.A. J. AFFORDABLE Hous. & COMMUNITY DEV. L., Summer 1992, at 8.
\textsuperscript{155} CAL. GOV'T. CODE § 65584 (West 1983 & Supp. 1994).
\textsuperscript{156} See, e.g., CAL. HEALTH & SAFETY CODE §§ 50840-50842 (West Supp. 1994) (creating a housing trust fund).
\textsuperscript{157} See, e.g., CAL. HEALTH & SAFETY CODE § 50837 (West Supp. 1994) (creating the Advisory Task Force on Affordable Housing in Department of Housing and Community Development).
\textsuperscript{158} Professors Judd and Rosen suggest that based on an economic analysis conducted for the city of San Diego, use of tax-exempt mortgage financing can “offset a large proportion of the affordability cost of [a] city’s proposed inclusionary ordinance.” The authors note that to implement an inclusionary housing program successfully, local jurisdictions would have to be able to “overcome the current dearth of credit enhancement” based on the fact that financial institutions “have all but stopped issuing letters of credit at affordable terms for such bond issues.” The authors also suggest that other forms of financing be pursued, “including the establishment of assessment districts to amortize the cost of facilities improvements over the life of the project.” In addition, they note that it would be helpful if local jurisdictions provided, “pursuant to the requirements of the Community Reinvestment Act (CRA) that financial institutions meet the credit needs of the communities they serve,” “assist[ance] in securing construction and permanent financing for residential projects complying with inclusionary housing requirements.” Judd & Rosen, supra
Urban Housing implementation process.159

2. Florida

Another example of the increasing maturity of state housing programs is Florida’s State Housing Incentive Partnership Act, enacted in 1992.160 The Florida state housing trust fund receives an increase in the real estate transfer document stamp tax.161 The funds are distributed to local government housing trust funds pursuant to the State Housing Initiatives Partnership (SHIP) Program’s requirements of local planning and organization.162

Each county is eligible for at least $250,000 to implement a Local Housing Assistance Program (LHAP). These local programs are created through a process that brings together local government officials, lenders, developers and housing advocates. Plans are prepared and adopted by participating local governments, and approved by the Florida Housing Finance Agency. Ordinances enacted under the program must: (1) create a Local Affordable Housing Assistance Trust Fund; (2) establish a program to implement the housing plan; and (3) create a nine-member advisory committee consisting of homebuilders, bankers, labor representatives, low-income housing advocates, real estate professionals, and three appointees of the local government.163

The SHIP program thus turns state money into “local” money which can be used for locally originated programs or in conjunction with other Florida Housing Finance Agency programs.164 The SHIP allocation of state trust fund monies to local governments is expected to be $25 million in fiscal year 1993-94, $27.45 million in fiscal year 1994-95, and $80.02 million in fiscal year 1995-96 and beyond.165

SHIP sets explicit requirements for how the money may be spent. Seventy-five percent of the monies must be used for construction, rehabilitation or emergency repairs of housing facilities; sixty-five percent of each local govern-
ment’s allocation must be used to increase homeownership. In addition, local plans must earmark thirty percent of the money for “very low-income” persons, and an additional thirty percent for low-income persons. Funds recaptured from loan repayments or other programs flow back to the local housing trust fund to be used according to the local plan.

Under Florida’s mandatory planning statute, the local housing element must establish standards and plans that are guided by the following principles: (1) provide housing for existing and anticipated residents of the area; (2) eliminate substandard dwelling conditions; (3) structurally and aesthetically improve existing housing; (4) provide adequate sites for future housing, including housing for low-income and moderate-income families, mobile homes, group home facilities, and foster care facilities, and provide supporting infrastructure for public facilities; (5) identify housing in need of conservation, rehabilitation or replacement, such as historically significant housing, and provide relocation housing; and (6) formulate programs to implement the housing plans.

The major innovation of the Florida SHIP program, patterned after the Connecticut housing infrastructure fund, is the availability of state funds on a competitive basis to local governments who establish affordable housing programs, including local regulatory reform. Coupled with the nationally recognized “concurrency” program requiring local governments to manage growth in concurrence with development of public facilities such as streets and sewers, the SHIP program offers promise of being an effective “carrot” to encourage municipalities to pay more attention to affordable housing needs.

167. FLA. STAT. ANN. ch. 420.9075(5) (Harrison Supp. 1992) (may be extended to 10% by resolution).
168. FLA. STAT. ANN. ch. 420.9075(3)(d) (Harrison Supp. 1992). “Low-income” persons have “total annual adjusted gross household income” that does not exceed 80% of the state or metropolitan median, whichever is greater; “very low-income” persons have incomes of 50% or less of the same amount.
169. FLA. STAT. ANN. ch. 420.9079 (Harrison Supp. 1992). Because it is still in its infancy, SHIP’s impact is not yet known. However, preliminary analysis indicates that the fiscal year 1992-93 allocation of $18.75 million resulted in the production of 3712 units: 1638 for very low-income families, 1460 for low-income families, and 594 for moderate-income families. Most of the local plans provided that the funds were to be spent on homeowner assistance, construction, rehabilitation, and emergency repairs. Very little was directed towards rental housing. State housing officials reported that in the first year all of the 35 CDBG entitlement cities and the 66 counties submitted plans. While revisions were required to bring some of the plans into compliance with program specifications, all funds were ultimately distributed to local government affordable housing trust funds. The program must meet more stringent requirements as it matures. In fiscal year 1993-94, funds must be encumbered within six months after the close of the fiscal year. The following year local governments are required to expend the funds within six months of the close of the fiscal year. Telephone Interview with Carolyn Johnson, Community Assistance Consultant, Florida Housing Finance Agency (Nov. 8, 1993).
170. See supra notes 99-100 and accompanying text.
173. See FLA. STAT. ANN. § 163.3202(2)(g) (West 1993).
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Rural counties took the lead in the first round of approved SHIP applications. Effective implementation in urban areas may require greater emphasis on participation in regional housing compacts and use of mediators to help suburban communities find ways to cooperate, as is being tested in Connecticut.

3. New Jersey

New Jersey's legal and political struggle with affordable housing has received considerable attention because of the celebrated Mount Laurel cases in which the state's supreme court repeatedly held that local governments had a constitutional obligation to "affirmatively afford a realistic opportunity for the construction of [a] fair share of the present and prospective regional need for low- and moderate-income housing." After years of effort, the legislature enacted the state Fair Housing Act establishing a state-administered system for determining what constitutes a "fair share" of low- and moderate-income housing and for resolving disputes regarding affordable housing development projects. Under the Act, a state agency, the Council on Affordable Housing (COAH), creates housing regions, calculates regional housing needs, and allocates "fair share" requirements. Municipalities may submit plans showing their compliance with their fair share requirements. If COAH approves their plans, these locales are exempt from affirmative judicial remedies that may be sought by builders through litigation.

State-administered housing programs such as New Jersey's have significant potential, but they are not panaceas. For example, the state's supreme court struck down a COAH regulation authorizing municipalities to give occupancy preferences for fifty percent of their regional fair share housing to income-eligible households that reside or work in the municipality. In its opinion,


175. *See supra* notes 93-96 and accompanying text. The Florida legislature recognized this concern in the 1993 amendments to the Ship Statutes. *See supra* note 90.


177. 456 A.2d at 413.


180. *In re* Township of Warren, 622 A.2d 1257 (N.J. 1993). The court concluded that the occupancy-preference regulation, which applied to municipalities seeking certification that their regional fair share housing plan complied with the Mount Laurel doctrine and the State Fair Housing Act, *N.J. STAT. ANN.* §§ 52:27D-301 to -329 (West 1986 & Supp. 1993), "cannot be sensibly reconciled with the overall regulato-
the court reviewed the seventeen-year history of the *Mount Laurel* doctrine. The court noted that approximately 23,000 low- and moderate-income housing units had been scheduled for production and approximately 14,000 units had been completed, but that available information "suggests that such housing may not be serving regional needs." The court concluded that COAH's occupancy preference regulation "may be a factor in the existing pattern of absorption of *Mount Laurel* housing"; the court also expressed concern that the local residents/workers preference could lead to exclusion of minority low-income persons from suburban communities.

The court, in striking down the fifty percent occupancy preference regulation, left the door open for approaches that attempt to deal with the affordable housing needs of local residents. For example, the court suggested that municipalities zone for "additional affordable housing [above and beyond the fair share amount] and, subject to state and federal anti-discrimination laws, reserve such units to address exclusively local needs." The court also suggested that a COAH methodology, taking into account financially needy households in affected municipalities, could consider "authorization of an occupancy preference tailored to eligible local households with special needs, on the condition that such a preference did not frustrate compliance with a municipality's regional obligation to provide affordable housing."

New Jersey's affordable housing program is distinctive for its emphasis on state administration of a regional fair share, court-directed mandate. State administration of the fair share program provides enforcement muscle that may be missing from the California approach, but it also imposes a greater bureaucratic structure on the system. In addition, COAH's affordable housing planning responsibilities are independent from, but necessarily related to, a state plan that was not adopted until five years after COAH became operational.

The state planning process includes a "cross acceptance" feature that emphasizes negotiation of the required consistency between local plans and the state plan. How the two planning systems will mesh is an important unresolved

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181. Id. at 1273-75.  
183. Id. at 1275.  
184. See Buschsbaum, supra note 60, at 184 (noting that New Jersey "has a remarkably centralized state zoning system for low- and moderate-income housing").  
185. Id.
Urban Housing question.189

III. A COORDINATED STRATEGY

A coordinated strategy that responds effectively to local housing needs contains three basic elements: (1) an accurate assessment of local housing needs; (2) an allocation system that establishes priorities for responding to those needs; and (3) maximum leverage of public resources through public-private partnerships.190 The question remains whether housing policy initia-

189. Buchsbaum, supra note 60, at 184 (noting the potential conflict between the state plan's call for development in growth centers with COAH's mandate to meet affordable housing quotas not necessarily limited to growth centers). Two reviews of the Mount Laurel experience give the program "mixed" reviews, with the positive grades going to changes in attitudes about affordable housing and negative grades going to the complexity of the process. Peter A. Buchsbaum, Mount Laurel II: A Ten-Year Retrospective, STATE & LOCAL L. NEWS, Winter 1994, at 7; Ellen Lovejoy, Mount Laurel Scorecard, PLANNING, May 1992, at 10.

190. While beyond the scope of this Article, one of the major lessons to be taken from the numerous attempts over the last 60 years to provide adequate and affordable housing for persons of low and moderate income is that successful housing programs do not exist in a vacuum: an individual housing unit, whether a single family house, a condominium, a cooperative or an apartment unit, is a physical and psychological part of a community as well as a form of shelter. In order to provide shelter successfully, a housing unit must be part of a safe and stable environment. It must be linked, not only physically, but psychologically and emotionally both to the needs of the occupants and to the needs of the surrounding environment. The unit's relationship to streets, to other housing units, to job centers, and to schools will inevitably be an important contribution to its success or failure as "housing."

For example, the Mayor of St. Louis, Missouri, the first African-American to hold that position, set forth a goal during his campaign that in order to stabilize neighborhoods five efforts must be underway simultaneously in a coordinated fashion: (1) improvement of housing quality, (2) elimination or substantial reduction of crime, (3) provision of jobs and job opportunities, (4) improvement of local schools, and (5) encouragement and support for neighborhood businesses. Federal officials are embracing this coordinated approach, often called "holistic planning," as they announce plans to streamline HUD and consider permitting more flexibility in housing and community development spending. Cuomo Says Granters, Field Offices Will Manage Consolidated Plans, 21 [Current Developments] Hous. & Dev. Rep. (BNA) 462 (Dec. 6, 1993).

Many of these efforts traditionally have been supported by state governments. For example, the public educational system in this country is the responsibility of state governments. While these educational responsibilities generally have been delegated to local independent school districts, the primary source of support for public education comes through the state taxing structure. See, e.g., Rose v. Council for Better Educ., 790 S.W.2d 186, 205 (Ky. 1989) (holding that sole responsibility for providing an efficient system of public education rests with the General Assembly). The public provision of social services such as day care, visiting nurses, social worker assistance, and direct public welfare support has also been funneled through state agencies. While much of the money that goes to support services comes from the federal government, the delivery system is predominantly organized and managed by the states. In addition, crime control generally has been a state and local responsibility.

Two programs that provided good examples of the potential for effective state collaboration are the Caring Communities and Police in Neighborhoods programs in Missouri. The Caring Communities program began in 1988 with a breakfast meeting of the directors of the state departments of Elementary and Secondary Education, Health, Mental Health, and Social Service. The directors selected urban and rural pilot sites to test a "family-focused human services" model. These services are designed to keep children (1) in school, (2) "safely in their own homes," and (3) "out of trouble with the law." Martha Shirk, A Ray of Hope, ST. LOUIS POST-DISPATCH, Jan. 23, 1994, at 1C. The Missouri Housing Development Commission initiated the Police in Neighborhoods program in January 1994. This program provided financial incentives for 50 police officers in Kansas City and 50 in St. Louis to build or renovate homes in high crime areas and to become involved in those neighborhoods. Under the program, an $80,000 house can

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tives are best implemented by federal, by state, or by city or neighborhood agencies. There are a number of reasons why a state-administered housing strategy, conscious of broad national housing goals and sensitive to local and regional considerations, has the best chance of achieving success.

The controversial nature of affordable housing, as well as the necessity for public subsidy to provide housing commensurate with the need, suggests that an effective housing strategy requires a "carrot-and-stick" approach. The federal government has the resources to provide the "carrots," but does not have the ability to respond effectively to local-exclusionary land use

be acquired in Kansas City for a $1600 down payment and $364 a month. In St. Louis, a house can be acquired for $510 a month. Housing in Kansas City costs less because the City has agreed to match a $20,000 per unit subsidy provided by MHDC. Karen Dillon, Kansas City Offers Police Cheap Homes—But With a Catch, KANSAS CITY STAR, Jan. 26, 1994, at A1.

One of the main thrusts of the Clinton Administration's Empowerment Zone and Enterprise Communities program is block grants to states for social services, codified at 42 U.S.C. §§ 1397-1397f (1988 & Supp. IV 1992). Grants of $3 million per enterprise community, $100 million per urban zone (over two years), and $40 million per rural zone (over two years) will be passed through to nonprofit and profit groups for services identified in the strategic plans of qualifying zones and communities. Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66, § 13761, 107 Stat. 312, 664-67 (amending 42 U.S.C. §§ 1397-1397e); Otto J. Hetzel, Some Historical Lessons for Implementing the Clinton Administration's Empowerment Zones and Enterprise Communities Program, 26 URB. LAW. 63, 67 (1994).

The argument for federal administration rests on the fact that federal tax dollars and federal tax policy are likely to remain the primary source of capital for housing subsidies. See, e.g., Curtis Berger, Beyond Homelessness: An Entitlement to Housing, 45 U. MIAMI L. REV. 315 (1990-91); Michael H. Schill, The Federal Role in Reducing Regulatory Barriers to Affordable Housing in the Suburbs, 8 J. LAW & POL. 703 (1992); Sara H. Strauss & Andrew E. Tomback, Homelessness: Halting the Race to the Bottom, 3 YALE L. & POL'Y REV. 551 (1985).

The argument for more local administration, however, rests upon the principle of subsidiarity, which holds that decisions are most effective if made by persons closest to the problem. See Pope John XXIII, Mater Et Magistra, Part II, No. 53, in RENEWING THE EARTH 62 (David J. O'Brien & Thomas A. Shannon eds., 1966); DAVID OSBORNE & TED GAEBLER, REINVENTING GOVERNMENT 277 (1992) (quoting a "rule of thumb" of the National Conference of State Legislatures: "unless there is an important reason to do otherwise, responsibility for addressing problems should lie with the lowest level of government possible").

Finally, the fact that housing markets do not tend to respect municipal boundaries supports the proposition that regionally administered strategies are preferable.

The currently popular land use planning acronyms, "NIMBY" (Not in My Back Yard) and "LULU" (Locally Undesirable Land Use), are applied in many communities to multifamily developments, group homes, accessory apartments, and manufactured housing—all of which are effective types of affordable housing. See Margulies, supra note 65; Williams, supra note 65.

See supra notes 32-38 and accompanying text.
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practices that bar or severely restrict various forms of affordable housing. Municipalities generally do not have the resources (carrots) to respond effectively to housing needs within their boundaries, particularly urban centers with high concentrations of poor people. Regional governments, if they even exist, do not have the requisite taxing and regulatory powers, nor the resources, to implement an effective housing strategy. States, on the other hand, have both the general taxing power to complement federal resources and the ability to respond to exclusionary land use practices through their legal control over local regulatory power.

A. Assessing Housing Needs Accurately

State planning programs that fully assess housing trends and needs on a broader base than local plans are critical components of an effective national housing strategy. Housing markets vary from state to state, as well as within

194. Land use regulation is a function of a state's police power. Absent a delegation of that power by the state to the federal government or absent federal preemption of the land use regulatory power (for which there has been little political support except in the environmental area), the federal government is unlikely to be able to deal effectively with communities that practice exclusionary zoning unless the exclusionary provision violates federal fair housing laws or constitutional equal protection guarantees. See Huntington, Branch NAACP v. Town of Huntington, 844 F.2d 926 (2d Cir.), review declined in part, judgment aff'd, 488 U.S. 15 (1988) (holding a refusal to rezone to permit multifamily apartments in a largely white area violative of Fair Housing Act because of discriminatory effect).

For an argument that the federal government could effectively regulate local land use practices through its power to attach conditions to federal subsidies or to preempt local regulation of matters affecting interstate commerce, see Schill, supra note 191, at 708-18; see also Boger supra note 179, at 1573 (1993) (advocating a federal fair share plan); Peter A. Buchsbaum, Federal Regulation of Land Use: Uncle Sam the Permit Man, 25 URB. LAW. 589 (1993) (reviewing the growth of federal environmental land-use regulations).


196. Regional planning agencies exist in all of the states but, for the most part, are advisory. See THE PRACTICE OF STATE AND REGIONAL PLANNING 55-61, 133-65 (Frank S. So et al. eds., 1986); William W. Goldsmith, Marxism and Regional Policy: An Introduction, in URBAN AND REGIONAL PLANNING IN AN AGE OF AUSTERITY 23 (Pierre Clavel et al. eds., 1980); Ann R. Markusen, Regionalism and the Capitalist State, in URBAN AND REGIONAL PLANNING IN AN AGE OF AUSTERITY, supra, at 29. For an analysis of a regional government with tax allocation power, see Robert Freilich & John Ragsdale, Land Use Control in the Minneapolis-St. Paul Metropolitan Region, 58 MINN. L. REV. 1009 (1974); see also Patricia E. Salkin, Regional Planning: New Political Magnetism, LAND USE L. & ZONING DIG., June 1992, at 3 (surveying state growth management activities and concluding that regional planning is becoming more popular).

197. The Supreme Court's approval in 1926 of state enabling legislation authorizing local governments to divide land into districts or zones and apply uniform land use, bulk and density regulations within those districts ushered in the modern era of land use regulation. See Euclid v. Ambler Realty Co., 272 U.S. 365 (1926). For histories of zoning, see ZONING AND THE AMERICAN DREAM (Charles M. Haar & Jerold S. Kayden eds., 1989); RICHARD BABCOCK, THE ZONING GAME (1965); EDWARD M. BASSETT, ZONING (1940); ALFRED BETTMAN, CITY AND REGIONAL PLANNING PAPERS (1946); SEYMOUR I. TOLL, ZONED AMERICAN (1969).
areas of particular states. Because of the dynamics of these markets, assessments of housing needs tend to be more accurate if they are made from a perspective that is broader than a local perspective but narrower than a national one.

As noted earlier, states are becoming increasingly involved in housing planning. Changes in federal housing legislation recognize the importance of housing planning and provide an impetus for greater state activity. The Comprehensive Housing Affordability Strategy (CHAS) provision of the 1990 Cranston-Gonzalez National Affordable Housing Act requires states and municipalities to prepare five-year estimates of housing needs and annual supplements, and also requires states to devise strategies for meeting those needs in order to qualify for federal housing subsidies.

A provision of the CHAS assessment that received little attention initially but which is becoming an important feature of CHAS review is the requirement that local governments evaluate the impact of relevant local public policy, such as land use regulations, on their implementation of an affordable housing

198. For a collection of commentaries on housing markets, emphasizing that they do not respect local boundaries, see HOUSING IN AMERICA: PROBLEMS AND PERSPECTIVES 39-79 (Roger Montgomery & Daniel Mandelker eds., 2d ed. 1979).
199. See supra notes 58-60, 148-89 and accompanying text. Florida and New Jersey are examples of what has been called “top down” planning in which the state establishes firm directions for local government planning activities. An alternative approach, called “bottom up” planning is illustrated by new legislation in Washington, infra note 206, in which the state provides guidelines, assistance, and incentives to encourage local planning efforts. See State Development Initiatives Spur New Government Relationships, 20 [Current Developments] Hous. & Dev. Rep. (BNA) 352 (Sept. 14, 1992) (reviewing URBAN LAND INST., STATE AND REGIONAL INITIATIVES FOR MANAGING DEVELOPMENT (1992)).
Urban Housing strategy. A 1991 report of an advisory board established by the Bush Administration called attention to the fact that overly restrictive land use and building regulations can have a severe effect on affordable housing development by increasing the cost of land and other essential components. In 1992, Congress responded by authorizing HUD to make grants to states and municipalities "for the costs of developing and implementing strategies to remove regulatory barriers to affordable housing." The CHAS requirement underscores the federal government's understanding of the importance of planning for housing. States are also beginning to recognize this need. To avoid inevitable duplication and confusion, however, the CHAS review process should be delegated to state agencies that are responsible for administering state housing planning and production programs. This would require an amendment to the CHAS legislation which would remove the exemption from state approval for local government housing strategies. In states that have developed state housing review plans, local CHAS strategies should be subject to the same review to achieve maximum coordination.

B. Recutting the Federal Housing Assistance Pie

Three-quarters of all federal housing assistance goes to people in the middle
and upper income ranges through tax policies such as the mortgage interest and property tax deductions\(^{210}\) and the LIHTC.\(^{211}\) A cap should be placed on the mortgage interest deduction, and the tax receipts derived from the cap should be split between deficit reduction and a dedicated housing fund to increase the proportion of available housing assistance for people with the most pressing housing needs.\(^{212}\)

Such a fund could generate $5-10 billion annually in new money that could be distributed to the states on a matching basis to implement state approved local and regional housing plans.\(^{213}\) The HOME Investment Partnership block grant program could be the vehicle for distributing the funds to the states, if that program was redesigned to eliminate many of the bureaucratic roadblocks that have plagued its early years and to incorporate states more directly into the distribution system.\(^{214}\) The Intermodal Surface Transportation Efficiency Act (ISTEA)\(^{215}\) can serve as a useful model because of the congressional shift away from imposition of a federal transportation program to guidelines directing states and metropolitan areas to develop flexible transportation strategies as conditions for receipt of federal funds.\(^{216}\)

Funds from the mortgage interest deduction cap could be allocated to states

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\(^{210}\) While the LIHTC is designed to encourage the development of housing for low- and moderate-income persons, the direct beneficiaries of the credit are the individuals and corporations with the discretionary income to permit such investment. See Congressional Budget Office, The Cost-Effectiveness of the Low-Income Housing Tax Credit Compared with Housing Vouchers 2-3 (1992).

\(^{211}\) See Salsich, supra note 6, at 1628.

\(^{212}\) Id. at 1634-37. Characterization of the mortgage interest tax deduction as a governmental subsidy may be disputed on the grounds that the government does not pay middle- and upper-income persons for buying houses. Instead, the argument is that persons may be "tax advantaged" by virtue of their ownership. Letter from James I. Bliss to Peter W. Salsich, Jr. (Oct. 21, 1993) (on file with author). While housing assistance may be a more accurate term, the notion of tax deductions as subsidies is becoming common. See, e.g., Peter G. Peterson, Facing Up, Atlantic Monthly, Oct. 1993, at 77, 84-85.

\(^{213}\) As much as $20 billion could be reallocated to low-income housing programs were it not for the serious federal deficit. See Peterson, supra note 212 (arguing that the cause of "huge" budget deficits is "out-of-control spending on welfare programs for the middle and upper classes"). Because of the federal deficit problem, half of the funds generated by a mortgage interest deduction cap should be earmarked for deficit reduction. See Salsich, supra note 6, at 1657.


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on a need-based formula and drawn down by the states as supplements to state housing fund allocations.217 States have made impressive strides in responding to housing problems of their residents. Yet, it would be unrealistic to expect states to be able to take over all housing funding responsibility from the federal government under the current tax structure. States do not have the ability to generate the amount of tax revenue currently available to the federal government.218 But states are in a position to administer effectively a national housing strategy funded by an increase in federal funds allocated to housing and matched by growing state appropriations.

America's housing needs have not been and will not be met by a monolithic national housing bureaucracy. States are in the strategically significant position of being able to channel federal housing funds toward distinctive features of local housing markets, while simultaneously expanding the reach of housing programs so that economic, environmental, and resident mobility considerations are taken into account. The states' housing laboratories219 are producing a variety of creative responses to affordable housing needs. The experience gained in that process makes them excellent candidates for full partnership with the federal government in a new national housing strategy.

217. See supra notes 53-55 and accompanying text. Revenue generated by capping the mortgage interest deduction could fund a variety of programs. For example, the LIHTC could be expanded to encourage investment in homeownership by persons with lower or moderate incomes who live in neighborhoods that are identified as good candidates for revitalization. The existing state caps on use of the LIHTC could be increased in proportion to the amount of new tax revenues generated by the mortgage interest deduction cap. Such an approach would redirect the mortgage interest deduction toward its original purpose of encouraging homeownership. I am indebted to Richard Baron and Kevin McCormack, President and Vice President of McCormack, Baron & Associates, Inc., St. Louis, Mo, for the tax credit expansion suggestion.

A start could also be made by replacing large public housing projects with smaller, community-based, family housing clusters. Based on experiences in Europe and in the cohousing movement in America, developments of 35-50 unit clusters offer hope of integrating well designed and managed public housing into surrounding neighborhoods. The current federal expenditures for operating subsidies and for direct public housing support could serve as a fund to reconfigure the sites of distressed public housing units into new mixed-income developments in which the residents are economically integrated. This would enable them to build a sense of community. McCormack Baron & Assocs., Urban Revitalization Demonstration (Mixed-Income Housing Initiative), Jan. 10, 1994 (unpublished report on file with author).

218. See, e.g., Charles E. Connerly, A Survey and Assessment of Housing Trust Funds in the United States, 59 J. AM. PLAN. ASS'N 306, 313 (1993) (concluding that state housing trust funds "will not be able to come close" to federal funding levels for affordable housing that existed in the 1970s). For recommendations to revise the national tax structure to devolve more of the tax revenue to the states, see RIVLIN, supra note 137, at 142-50 (recommending common shared taxes such as corporate income and gasoline taxes).

219. "It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country." New State Ice Co. v. Leibmann, 285 U.S. 262, 311 (1932) (Brandeis, J., dissenting).
C. Decentralizing the Distribution of Federal Housing Subsidies

As discussed earlier, states have developed sophisticated capabilities for distributing federal housing subsidies.\(^{220}\) The U.S. Department of Housing and Urban Development, in contrast, has been criticized severely for an overly centralized bureaucratic structure and mismanagement of programs.\(^{221}\)

The states are in a position to assume greater responsibility for implementing federal housing policies. Many of the elements of a new model for addressing urban housing and neighborhood development issues can be found in the state programs described above.\(^{222}\) Through greater delegation of authority and responsibility for administering federal housing funds, the states can more effectively respond to the twin dilemmas of rebuilding inner city neighborhoods and opening up the suburbs to low- and moderate-income persons.

D. A Revised Federal Role

Decentralization of federal housing subsidy programs to the states does not mean that the federal government would have less of a responsibility for providing national leadership and resources. Rather, the role would change from manager to partner. Implementation of the mortgage interest deduction cap would result in a substantial increase in direct federal support for affordable housing. Decentralization of the distribution system would free the federal government to concentrate on effective implementation of national nondiscrimi-

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220. See supra notes 133-37 and accompanying text.

221. Former Secretary Jack Kemp called HUD a “swamp.” In a generally favorable article summing up Secretary Kemp’s efforts, Congressman Barney Frank of the House Subcommittee on Housing and Community Development was quoted praising Kemp’s honesty for stating that “there’s considerably less theft now.” Guy Fugliotta, Kemp Helped Agency Recover Self-Respect; Still, HUD “Needs a Plan and . . . Restructuring,” WASH. POST, Dec. 29, 1992, at A13. See generally OFFICE OF INSPECTOR GEN., U.S. DEP’T OF HOUS. & URBAN DEV., SEMIANNUAL REPORT TO CONGRESS, FOR THE PERIOD ENDING MARCH 31, 1993, at 1-15 (reviewing the “top 10 management issues facing HUD” and finding that “substantial effort is needed to effectively address these problems”).


222. OSBORNE & GAEBLER, supra note 191 at 321 (arguing that a “new paradigm . . . a shift in the basic model of governance used in America” is underway but largely unseen “because we are not looking for it”).
nation policies, both through aggressively enforcing the Fair Housing Act\textsuperscript{223} and by encouraging the development of new design techniques and living arrangements to end the isolation of low-income households.\textsuperscript{224} The federal government should also have primary responsibility for monitoring state and local efforts to remove artificial regulatory barriers to affordable housing.\textsuperscript{225} It should play a catalytic role in creating opportunities for low-income resident management and ownership.\textsuperscript{226} And it should continue to provide emergency housing assistance in response to major disasters such as earthquakes, floods, and hurricanes.\textsuperscript{227} A revised federal role does not require a huge bureaucracy, but rather a well-organized, clearly focused agency capable of supporting state and local programs with timely research data, technical assistance, training programs, strong enforcement procedures, and quick response capabilities for emergency relief.\textsuperscript{228}


\textsuperscript{224} Challenge grants under the new Urban Revitalization Demonstration Program (URD) could stimulate this activity. Department of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations Act, 1993, Pub. L. No. 102-389, tit.II, 106 Stat. 1571, 1579 (codified at 42 U.S.C.A. § 14371 note (West Supp. 1993)); see Gordon Cavanaugh, Ending Severely Distressed Public Housing—A Congressional Initiative, a HUD Challenge, A.B.A. J. AFFORDABLE Hous. & COMMUNITY DEV. L., Fall 1993, at 13-14. These grants also could help stimulate coordination of necessary social services so that persons residing in assisted housing have access to resources enabling them to be responsible tenants and active participants in their neighborhoods.

\textsuperscript{225} In 1992, HUD established a Regulatory Reform for Affordable Housing Information Center to collect and disseminate information on efforts to reduce regulatory barriers to affordable housing. Regulatory Reform Information Center Opens Its Door, ACTION (Regulatory Reform for Affordable Hous. Info. Ctr., Rockville, Md.), Summer 1992, at 1.


\textsuperscript{227} See, e.g., Seth Mydans, Health Concerns Mount As Tents Rise After Quake, N.Y. TIMES, Jan. 23, 1994, at 18 (describing efforts to provide emergency shelter and housing in the first days after the Jan. 17, 1994 Los Angeles earthquake).

\textsuperscript{228} The HUD Office of Inspector General stressed that because “it is unlikely that HUD will significantly increase its resources,” there exists a necessity for “better [use] of existing resources.” OFFICE OF INSPECTOR GEN., supra note 221, at 5.
E. Overcoming a Lack of Local Confidence in State Leadership

States were virtually ignored during the years of the major federal housing-production programs, particularly with respect to urban areas. In part, this was their own doing because they showed little interest or ability in responding to housing needs. It was also, however, a product of the growth of federal domestic programs after the Depression and the Second World War and the belief that massive federally subsidized public housing projects could solve the housing problems of the poor.229

The states, however, traditionally have been the “laboratories” for domestic programs.230 States have also been the traditional dispensers of “basic” public services such as education, family and child care services, and infrastructure (bridges, roads, sewers, street lights, etc.). An irony of federal housing initiatives is that the federal public housing system is based on a model developed by the State of New York.231 The states dropped out of the public housing system after enacting enabling legislation authorizing the creation of local public housing authorities in the 1940s.232 Fifty years later, housing is back on the states’ agenda. This time, the states are true participants, making use of their taxing powers to support housing efforts through subsidies, credit, planning initiatives, and inclusionary incentives.

Years of neglect or outright hostility in the states to affordable housing concerns have left a legacy of suspicion and distrust that is not easily overcome. States have a long way to go to persuade Congress, housing advocates, and the American people that states can and should play a key role in a national urban strategy for housing.233

Confidence is not acquired overnight, but only through painstaking efforts to demonstrate that confidence is merited. That is the significance of the state
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housing funding and planning movements. States are demonstrating, through their limited but growing direct investment of general funds, that housing is an important state responsibility.\textsuperscript{234} States also are demonstrating that they are no longer willing to allow local governments to use the state’s police power to exclude housing for low-income families from their communities.\textsuperscript{235}

These efforts should be applauded and nurtured, rather than dismissed for their limited scope. They form the basis for a new national housing initiative in which federal and state housing funds are distributed through a state-administered allocation system. Funding would be based on state-coordinated local and regional housing plans in which priorities are established for meeting national goals of ending discrimination and providing reasonable housing opportunities to all citizens in the context of specific local needs.

IV. CONCLUSION

The housing prospects for the nation between now and the year 2000 can be viewed in two ways. On the one hand, the withdrawal of the federal government from an active housing policy role, the increase in the number of persons with serious housing needs, and the state of the economy all suggest that housing prospects are not good. On the other hand, the growing commitment of resources by states, the presence of experienced state housing agencies, and the creative potential being discovered by states suggest that they can take effective leadership roles in a renewed effort to meet the housing needs of their citizens.

Despite the belief that inner cities are “America’s most obvious problem,” housing practitioners express cautious optimism for the future.\textsuperscript{236} This is based on an increasing recognition that, while the large public housing developments of the 1950s generally failed because of their concentrated and isolated environment, housing for low-income families that is well designed and well managed can become a resource rather than a threat. In a number of states, impressive efforts are underway to rejuvenate local housing efforts. This type of approach requires a shift in federal housing policy that would gradually phase out the centralized federal housing bureaucracy in favor of state-coordinated local and regional programs that work to establish coordinated strategies for the provision of well designed and well managed family housing.

\textsuperscript{234} See supra notes 109-18 and accompanying text.
\textsuperscript{235} See supra notes 64-86 and accompanying text.
\textsuperscript{236} See Nicholas Lemann, The Myth of Community Development, N.Y. TIMES MAG., Jan. 9, 1994, § 6 at 27 (reporting that few practitioners believe that the new federal Empowerment Zones program is likely to succeed in revitalizing inner cities, but that coordinated crime control, child care, education programs, health services, housing, income support, job training, and social services offer hope for inner city residents).