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INTRODUCTION

“Affordable housing” and “workforce housing” are terms identified with housing for low- and moderate-income working people—people who are working, fall above the poverty line, yet cannot afford to buy or rent decent housing in areas near a supply of jobs. The working poor are the service providers of our nation, the teachers, nurses, firefighters, police officers, restaurant servers, and coffee-shop baristas—the people we need living in our communities so our communities can thrive and grow and we can get those café lattes we so love.

Whatever term is used, however, housing for low-income households still has a bad reputation. It brings back images of old news stories of ugly high rises and blocks of sterile housing. It’s associated with crime and gangs and garbage in the streets—communities in which no one cares because no one is responsible; because federal oversight is too high up to see the local problems.

In the last thirty years, the oversight of affordable housing has come down much closer to the local problems. Today, how affordable housing is developed, where it is placed, who it benefits, and even what it looks like is determined by state and local housing officials, not by the federal government. But, while affordable housing policy has devolved to the states, the national government still plays a vital role. This book is about the federal partnership that developed between the national government and the states beginning in the 1970s. It looks at this partnership in a unique way: through the state housing agencies that implement affordable housing policy.

Affordable housing policy in the United States encompasses a wide variety of issues, such as segregation, gentrification, displacement, and homelessness. At the state and local level, issues related to zoning and land use also affect affordable housing. But, while each of these issues is important to solving the affordable housing crisis, each is complex

enough to merit individual study and therefore beyond the scope of this book. Clearly, more scholarly attention would help lead to a better understanding of many of the issues surrounding the devolution of housing policy.

This book examines the role state housing agencies play in the federal housing partnership. It uses three in-depth case studies of housing agencies in Maryland, Minnesota, and Texas, supplemented by a survey of thirty others. This book details the history of these three state agencies and the policies and program they developed to answer three questions: How did the federal housing partnership evolve? What role do state housing agencies play? What kinds of programs and policies have developed at the state level?

THE DEVOLUTION OF AFFORDABLE HOUSING POLICY

For most of the twentieth century (1937 to 1980, to be exact), affordable housing was provided by the federal government in a principal-agent relationship with local governments, primarily through their public housing authorities. Principal-agent relationships are found throughout the layers of American government. As Terry Moe points out, “the whole of politics is . . . structured by a chain of principal-agent relationships.”¹ But at any one time, the chain may be made up of different participants. During the “federal era” of affordable housing policy, the federal government was the principal, dominating all aspects of policymaking save the actual delivery, which was done by local agents—cities and their public housing authorities. In part, the federal-local relationship was based on the fact that most aspects of housing are determined at the local level: zoning and land use policy are primarily local issues. In part it was also due to the fact that the greatest visible poverty problems were located in urban areas. Starting with the housing act of 1949, federal housing policy was primarily concerned with the problems of urban deterioration.

States were left out of this principal-agent relationship. Not until the early 1960s, when first New York, then a handful of other states, began issuing tax-exempt mortgage revenue bonds, did states begin to play a role in developing affordable housing. Otherwise, their role was limited to writing pass-through legislation when necessary that allowed local governments to implement federal housing programs. States did not put their own resources, either financial or bureaucratic, toward addressing the housing needs of their citizens.

States began to play a more active role after the Nixon Housing Moratorium in 1973. Concerned that the moratorium would lead to the complete abandonment of affordable housing by the federal government, many states began to finance affordable housing by issuing federal mortgage revenue bonds. In the 1980s, however, states began to exert their own policy leadership in affordable housing. Spurred by changes in rhetoric and policy at the national level, states created and funded their own affordable housing programs. With the creation of two federal grant-like programs in 1986 and 1990 (the Low Income Housing Tax Credit and HOME program), the relationship between the national government and the states became closer to the cooperative or partnership model of federalism described by Daniel Elazar, in which a policy issue is “simultaneously of both local and nationwide concern and, consequently, was attacked by all planes of government.”² Affordable housing is a national, state, and local concern because “a responsible society has an obligation to prevent people from dying out in the cold.”³ But, housing is more than just shelter: it has economic and symbolic importance.⁴ Housing conditions say a great deal about whether a society is thriving or deteriorating. State and local governments have the greatest incentive to make sure their communities are thriving. A thriving community affects job growth, which in turn affects economic growth. During the 1980s, states recognized that shortages in affordable housing, particularly in growth areas, also impeded economic development. States have since become “central to the development and implementation of housing policy and programs.”⁵

The federal government continues to play a role in affordable housing policy, but it is not the preeminent role it once played. There is general recognition among scholars that the federal government reached its limits of domestic power during the 1980s both politically and financially.⁶ The escalating national debt and a lack of political will limited the federal government’s ability to solve national domestic issues. Since the 1980s, the federal government has relied on broad block grants rather than centralized categorical grants to provide support for affordable housing.⁷ Through these block grant and grant-like tax expenditure programs, the federal government provides state and local governments with funding and leaves them to make the hard political and policy questions regarding allocation.

Only a handful of studies have recognized the state role in affordable housing policy. In 1987, Michael Stegman and J. David Holden wrote *Nonfederal Housing Programs: How States and Localities Are Responding to Federal Cutbacks in Low-Income Housing*.⁸ Stegman

followed that in 1999 with *State and Local Affordable Housing Programs: A Rich Tapestry*, a book that describes over one hundred affordable housing programs at the state and local level.⁹ Alex Schwartz, in one of the most thorough books on U.S. housing policy in years, devotes a whole chapter to “State and Local Housing Policy and the Nonprofit Sector.”¹⁰ However, while each book is rich in detail about subnational programs, they do not explore what enabled the states to enter into a federal partnership and take on affordable housing policy.

The resurgence of the states since the 1960s and their response to devolution and policy decentralization since the 1980s has been well documented. But, while many studies have focused on the legislatures and governors or on individual policy areas—particularly the environment, welfare, Medicare, and Medicaid—there have been few done on the agencies that must implement policy: the state bureaucracies. Sandra K. Schneider et al., in their study of the structure of bureaucratic decision making, point out, “While the role of the bureaucracy is widely acknowledged, it has seldom been subjected to direct scrutiny, particularly at the state level.”¹¹ The important role of the state bureaucracies in housing policy was noted by one housing scholar in 1988: “In the 1980s, then, the states—collectively—came of age in the area of housing. More than two-thirds of all housing programs now operated by the states (beyond the traditional bond-financed ones) were begun [between 1980 and 1987]. These new programs have new staff to run them and new state-wide pro-housing coalitions behind them; they represent new thinking and new energies.”¹²

State housing agencies are the link between the states and the federal government in the affordable housing partnership. Once a state has established a bureaucracy to administer social policy, that policy is institutionalized in the state; it is no longer at the whim of the politics of the moment. After bureaucracies are established, state-level interest groups also form to protect them and their programs or to challenge them when they are not fulfilling their mandate.

THE PARTNERSHIP MODEL OF FEDERALISM

The theory of cooperative federalism was first put forward shortly after the New Deal programs began putting federal cooperation into practice in the 1930s. Jane Perry Clark in 1938 described cooperative governmental arrangements in her book *The Rise of a New Federalism: Federal-State Cooperation in the United States*.¹³ Morton Grodzins developed his famous “marble cake” image to depict the interrelation-

ships among the levels of federal government: “All levels of government in the United States significantly participate in all activities of government.”¹⁴ Daniel Elazar in his book *The American Partnership* found examples of cooperation between the national government and state and local governments dating back to American Independence.¹⁵ Federal cooperation was viewed as the three levels of government sharing powers and responsibilities. Writes Elazar, “Federalism in the United States, in practice, if not in theory, has traditionally been cooperative, so that virtually all the activities of government in the nineteenth century were shared activities, involving federal, state, and local governments in their planning, financing, and execution.”¹⁶

The theory of cooperative federalism has rather gone out of favor (try Googling “Cooperative Federalism”). When it is mentioned in political science textbooks, it is described as a form of federalism in effect from the 1930s through the 1950s. It has had numerous critics. Some, such as James Sundquist, argued that the federal system needed more, not less, nationalization, to improve coordination of policy implementation.¹⁷ David Walker, writing in 1995, recommended overhauling the entire national judicial and political structure of the United States in order to strengthen the federal system as a nation-centered system.¹⁸

Other scholars, such as Paul Peterson, found cooperative federalism untidy. Peterson specifically found fault with Grodzin’s marble-cake metaphor because “it suggests flux, change, and complexity when one purpose of theory is to identify, to the extent possible, simplicity, pattern, and order.”¹⁹ In his book, *City Limits*, Peterson argued for a functional division of policymaking responsibility for each level of government based on “their essential character.”²⁰ This character was based on fiscal capabilities, not political structures or institutions; that is, each level of government should take responsibility for the functions it could best perform within its economic limitations. The national government has the financial resources and political capacity to disperse financial assistance among the states or directly to individuals (via welfare programs); therefore, it should be responsible for redistributive policies. State and local governments, on the other hand, with more limited resources and ability to tax their residents, were best suited for economic developmental policies. In his later book, *The Price of Federalism*, Peterson theorized that if states were to take on redistributive policy, there would be a “race to the bottom” as each state cut its benefits so as not to be a “welfare magnet.”²¹

Pietro Nivola questioned whether it is desirable to have a federal system in which officials at all levels are doing everything. “More

puzzling is how, often meeting little or no resistance, the central government has come to meddle incessantly in matters that are much more mundane.”²² Nivola gives examples of federal meddling, such as “telling localities in some states how to deploy firefighters at burning buildings, instructing passengers where to stand when riding municipal buses . . .”²³

Arguments for “sorting out” federal responsibilities date back to the writing of the Constitution itself, when the framers designed a government that was, in James Madison’s words, “neither wholly *national*, nor wholly *federal*.”²⁴ Since the founding, the federal system has fluctuated between state and national dominance in policymaking. Richard Nathan, among others, has suggested that the fluctuation is the result of changes in national leadership—when national leaders are more conservative—as in both the late nineteenth and twentieth centuries—states increase their role in domestic policy leadership. The federal system was designed to provide numerous access points to give citizens options of how to get what they need from the government. When one part of the system is closed off, people can turn to another part of the system.²⁵

There is an alternative to the pendulum swings of nation-centered and state-centered policymaking. In our federal system, it is possible for each level of government to play its appropriate role with regard to the same social policy. This is the essence of a true “federal partnership”: Not all levels doing everything, but each level doing what it does best. This alternative would have the federal government continue redistribution through federal block grants with national priorities attached, so there is some equity among states. But, it would leave states able to adapt the policy to their local needs. This alternative reflects the general belief in the United States, also dating from our founding, that the government closest to the people is the most responsive. Such a version of federalism is similar to the principle of subsidiarity, which has been advocated by a number of scholars as a basis for federal-state policymaking realtions.²⁶ In essence, subsidiarity is an argument for devolution when a lower level of government may be a better means of delivering services.

Viewing federalism along the lines of the subsidiarity principle addresses some of the criticisms of cooperative federalism.²⁷ As a principle of government, subsidiarity recognizes that “even when higher communities must play a role in achieving some good, they ought to do so, to the extent possible, by *fostering and seconding the initiative and efforts of lower communities*, rather than by simply substituting for those efforts.”²⁸ If the federal government were fostering the efforts of state and local governments, it would articulate national policy goals, then allow state and local governments to determine how best to

achieve those goals, and it would provide the funding that would *enable* them to achieve those goals and address the most pressing needs of their citizens. The federal government should not interfere with such local and state issues that they can handle themselves. There are too many issues of national concern that deserve far more attention: homeland security, growing economic inequality, healthcare costs.

Many policies have benefited by a cooperative relationship among the national and state and local governments. These have been social policies that were of joint concern nationally and locally, and were both redistributive *and* developmental. The ESEA (Elementary and Secondary Education Act) is a good example. Education is the quintessential local developmental policy—but Title I of the 1965 act achieves redistribution of resources to help disadvantaged youth. The Clean Water Act, which created EPA-state partnerships and redistributed funds through the Clean Water State Revolving Fund, is another example of a cooperative partnership among national, state, and local governments. There are many small communities around the United States that could never raise local taxes high enough to support a wastewater treatment plant without doing significant financial harm to their residents. A redistributive program such as the Community Development Block Grants, which provides funds to upgrade wastewater treatment plants, not only protects local citizens from the health effects of not being able to treat waste, it also protects the larger streams and rivers—and therefore other jurisdictions—from the pollution that would occur if waste flowed into them.

Since many developmental policies are deemed “local,” where do the states come into the partnership? That question will also be addressed in this book. The short answer, however, is that a federal-local partnership can ignore larger statewide problems and leave out many small communities. Affordable housing certainly occurs at the local level, but as this study will show, state housing agencies play an important role in bringing financial assistance and multiple financial supporters, as well as planning and oversight to the process. Those were tasks once done by regional offices of the federal Department of Housing and Urban Development (HUD). These are now tasks performed by state housing agencies—agencies closer to the problems and more accountable to their residents.

METHODOLOGY

Most of my research is based on case studies of housing finance agencies in three states: Maryland, Minnesota, and Texas. These states were

very different politically and they represented different regions of the country. Minnesota in the Midwest was considered one of the most progressive states in the nation; Texas in the Southwest, one of the most conservative; and Maryland in the Mid-Atlantic fell in between. But, these states also had similarities, in that they had not undergone any major constitutional or institutional changes since the 1970s. The powers of their executives and legislatures remained basically unchanged, and all three states were still operating under constitutions that were written shortly after the Civil War. In a sense then, these “variables” remained constant. What had changed was the creation and funding of their housing agencies, each of which occurred during a different decade of the development of the federal-state housing partnership: Minnesota’s Housing Finance Agency was created and funded in the early 1970s; Maryland’s Department of Housing and Community Development in the 1980s; and the Texas Department of Housing and Community Affairs in the early 1990s.

I examined these states’ public records, which I supplemented with lengthy interviews with housing agency officials, low-income housing advocates, and legislators. I used this research to understand how these states’ housing policies and programs had evolved since the 1970s. Using the information gained from the case study research, I developed a nationwide survey instrument of state housing agencies.

OVERVIEW

Chapter 2 describes the process of devolution of housing policy and the evolution of the federal housing partnership. Chapter 3 looks at the institutionalization of state housing agencies and the development of state-level housing interest groups that advocate for housing programs and their clientele. It also describes in detail the four federal block grants and tax expenditure programs that make up the federal role in the federal partnership.

Chapter 4 recounts the nearly forty-year history of the three case study agencies: Minnesota Housing Finance Agency, Maryland Department of Housing and Community Development, and Texas Department of Housing and Community Affairs. Minnesota’s Housing Finance Agency was one of the few state agencies in the early 1970s to receive state funding, enabling it to create programs independently from the federal government. Texas’s and Maryland’s agencies became more proactive following devolution in the 1980s. All three faced challenging statewide housing crises during the 1990s that they addressed with new

programs and new state funding. Chapter 5 then examines in more detail the types of statewide policies and programs these agencies developed using federal and state resources.

Chapter 6 draws comparisons among the state housing agencies and their programs. It explains several strategies the state housing agencies developed to fund their programs and supports these findings with survey data of thirty additional agencies. Chapter 7 looks at affordable housing issues in the 2000s, including the mortgage crisis, and it explores how the federal housing partnership reflects the principle of subsidiarity and provides a model for balance in the federal system.

State bureaucracies play an important role in the American federal system at the turn of the twenty-first century. They have taken on additional responsibilities in the last thirty years, since the federal government disengaged from policymaking in the early 1980s. They actively develop their own state policies, and their staffs and their management capabilities have expanded.²⁹ They decide how to use the federal grants and state funds, and they implement the programs devised by their governors and legislatures in addition to creating programs themselves. As the link between the state and federal government, state bureaucracies are a necessary component of the federal partnership.