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The Excessive Costs of Creative Finance: Growing Inefficiencies in the Production of Low-Income Housing

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Abstract

The paper examines creative finance as a means of low-income housing production and preservation. The low-income tax credit has evolved as the main federal housing production program in recent years. But this evolution can only be understood as a last resort. The inefficiencies of this approach outweigh any advantages. High transaction costs, inappropriate targeting of benefits, and insufficient monitoring are among the problems. Recent changes in the tax credit may actually cost the government more. Furthermore, current policy in fact creates the same time bombs now exploding in the prepayment projects. Current proposals for housing reform and revitalization have positive features, but are either underfunded or still rely on creative finance. What is needed is a direct one- or two-step low-income production program.

Creative finance is a dirty word

Though it could have been used before that time, the term "creative finance" first gained notoriety in California during the 1970s, when housing prices soared, local markets went out of control, and the demand for mortgage money exceeded the willingness of conventional suppliers to extend enough credit at affordable terms to satisfy that demand.

According to Jack Lowry,¹ "As both purchase prices and the number of transactions increased, the amount of credit needed to complete each year's transactions grew from about \$9.4 billion in 1975 to more than \$40 billion in 1979." As a result, most Californians "became familiar with the devices of creative finance — sellers' loans, assumed loans, all-inclusive trust deeds, land contracts, junior liens, unamortized short-term loans, graduated payments, graduated interest rates, and others."

By the end of 1982, Lowry estimates that as many as a sixth of all California's homes were subject to liens held by their former owners, who had provided at least \$36 billion in mortgage credit — financial time bombs that would have to be repaid or refinanced

during the next ten years. In short, in the California context in which it evolved, creative finance was an ad hoc, costly, and potentially dangerous set of financing alternatives negotiated by buyers and sellers designed in response to a pathological set of market conditions. Surely, no responsible student of housing would propose such a system as a national model for financing market-rate housing.

Yet, housing advocates, Congressional committees, the Department of Housing and Urban Development (HUD), policy analysts of various stripes, and others engaged in serious policy debate about the preservation and production of low-income housing are in the process of institutionalizing and, to the limited extent possible, perfecting the use of creative finance in the low-income housing arena. This highly inefficient, costly, and labor-intensive means of producing low-income housing evolved in the 1980s as an ad hoc, emergency response to another pathological set of conditions — the unprecedented withdrawal of the federal government from its historical role as a long-term lender and subsidizer of new and substantially rehabilitated housing for the poor.

Seller's loans that cannot be repaid from rental income, balloon payments that cannot be paid off unless a low-income property is converted to market-rate use, graduated-payment mortgages that anticipate that tenant incomes will rise faster than the national average based upon the hoped-for positive outcomes of employment training and entrepreneurial development programs that are not yet even in place, put in place options that enable limited partners to walk away from their investments in 15 years. Federal tax credits that are as complicated to use as they are costly to the government to provide have become the instruments of creative finance in the low-income housing sector. And they have an even greater potential for causing long-term mischief than do their market-rate counterparts.

Thus, the theme of this paper is that rather than being ennobled and enshrined, the use of creative financing to preserve and produce low-income housing should be viewed as a system whose time should never have come. In elaborating upon this theme, it is important to distinguish how low-income housing is financed in this country from who actually produces low-income housing.

The extraordinary accomplishments of the network of community-based housing developers that have come of age during the past ten years deserve praise. These permanent, sophisticated organizations, many of which were helped by national intermediaries like

the Local Initiative Support Corporation (LISC) and the Enterprise Foundation, have kept local low-income production pipelines from running completely dry. Make no mistake about it, these community-based organizations are a far cry from their underachieving and underdeveloped 1960s nonprofit counterparts.

Regardless of how partisan differences about housing legislation are ultimately resolved by Congress, it is a foregone conclusion that the community sector will play a major role in the next generation of low-income housing production programs. However, unless a more rational way of financing housing for the poor is created, the costs of doing business for the government and for these local production entities will remain extraordinarily high. More important, perhaps, it will continue to be necessary for these groups to focus their creative energies on financial packaging rather than on ensuring that the families who will occupy their housing receive the services they need to become more productive, self-sufficient members of the community.

The central role of the low-income housing tax credit

At the heart of the creative finance system is the low-income housing tax credit created by Congress in the Tax Reform Act of 1986, which wiped out most other tax incentives to stimulate equity investment in real estate, including market-rate and low-income housing. To appreciate why the housing advocacy community continues to stand foursquare behind this highly inefficient and relatively inaccessible subsidy mechanism, one must recall the incredibly hostile housing policy environment that existed when the tax credit was enacted.

The tax reform debate raged at a time when the Reagan administration and Congress already had eliminated several of HUD's low-income production programs. President Reagan's fiscal year 1987 budget proposed deferrals and rescissions of billions of dollars of previously appropriated low-income housing funds, termination of the Section 202 housing program for the elderly and handicapped, and elimination of the Farmers Home Administration housing programs. With respect to the latter, HUD's significantly reduced housing budget then would be split evenly between urban and rural areas.

At this time, too, the House of Representatives was enthusiastically embracing Congressman Jack Kemp's right-to-buy bill that would

require public housing authorities to sell units to tenants on demand at steeply discounted prices. And, as if we needed another sign of how bad things had become for low-income housing by the mid-eighties, when the tax credit was created, E. F. Hutton issued an investment prospectus for \$200 million targeted to the acquisition of federally assisted low-income housing projects nearing expiration of their HUD use restrictions. The fund would seek to acquire projects that had high potential for conversion to market-rate rentals or condominiums, shopping centers, and other commercial development "of a type which would require prepayment of the government subsidized mortgage."²

Almost as soon as it was passed, the tax credit law was generally acknowledged to be seriously flawed. The maximum tax credit cannot be used for projects being financed with tax-exempt bonds or for those receiving below-market-rate loans from a federal source. The tax credit law required projects to remain in permanent low-income use, and prohibited locking into a limited partnership agreement, a bargain sale of a tax credit project to tenants, or a nonprofit sponsor at the end of the 15-year compliance period. It failed to waive the tax liability of owners who do transfer their ownership interests to a tenant co-op. The passive loss limitations and income cap reduced the tax credit's attractiveness to high-income individuals, and there was no increment in the tax credit for high-cost areas.

However, given the hostile housing policy environment that existed when the law was enacted, it is no wonder that the low-income advocacy community rallied behind a tax credit whose cost to the government may be double what it delivers to projects (see appendix for computation). This is a tax credit whose value to the developer has been estimated to exceed 50 percent of development cost but, when unaccompanied by other housing subsidies, cannot produce housing that is affordable to the poor.³ According to Joseph Guggenheim, for example, assuming average development costs, the tax credit alone can produce new, conventionally financed low-income housing at a rent of around \$491 a month for a two-bedroom apartment.⁴ In contrast, the average rent for public housing is \$109.

To put rental rates of tax credit projects in perspective, James Wallace points out elsewhere in this issue that nearly a third of all current residents of federally assisted housing have incomes of less than 20 percent of their respective area medians, while only 19 percent have incomes above 50 percent of median.⁵ Nevertheless, the tax credit law permits equity investors to access tax credit benefits by developing housing for families whose incomes are as high as 60 percent of median.

To afford a \$491 gross rent, assuming a 30 percent rent-income ratio, a household would need an income of \$19,640. A household with that income in a metropolitan area with a median income of \$32,800 would qualify as low income under the tax credit law because its income was less than 60 percent of the median for the area. That income, \$19,640, however, is around 30 percent higher than the 1986 median income of all renters in the United States. Surely this is not the income group that Congress intended to target in a limited-volume rental production program. After all, from 1974 to 1987, the number of renter households in the United States with incomes under \$5,000 (in 1986 dollars) grew from 2.7 million to 4.7 million.⁶ It is these households and others with poverty-level incomes that suffer from much higher rates of housing deprivation than do those who can be served by otherwise unsubsidized tax credit projects.

Consistent with the discussion above, one early assessment of tax credit projects found that when the sole source of government subsidy is the tax credit, "low-income" housing can be built in suburban fringe areas where costs are lower and incomes are higher, not necessarily where needs are greater.⁷ Indeed, according to the Mitchell-Danforth Task Force that studied the tax credit's limitations, "In markets where costs are high and incomes low, development is difficult and the amount of additional subsidies needed are huge."

In New York City, for example, where both the Enterprise Foundation and LISC have facilitated the creation of many public-private partnerships that link the city and community-based developers with corporate equity investors, it takes up-front capital grants of at least \$25,000 a unit and 40-year, 1 percent financing to produce tax credit projects — even when they start with city-owned buildings. This then is why it is necessary to resort to creative finance to develop an increasing share of new low-income housing.

Creative finance as a necessity

Born of necessity, creative finance is the piggybacking of several different subsidies in a single project — until they are sufficient to reduce rents to affordable levels. Rather than bemoaning their inefficiencies and extraordinary packaging costs, in Alice in Wonderland fashion, the industry has coined a complimentary term to describe these developments. They are known in the trade as "boutique" projects. Although these projects are a credit to the dedication and sophistication of their nonprofit sponsors, because of

their extraordinarily high transaction costs and associated inefficiencies, they should not be held up as replicable models. Yet that is what seems to be happening.

Table 1. Sources of Funds for Two Low-Income Housing Projects

Project	Amount	Terms
An 89-unit SRO project for homeless, physically disabled, and elderly individuals		
Equity	\$ 350,000	
Loan 1	1,100,000	1%, 30 years
Loan 2	800,000	1%, 15 years
Leasehold mortgage	300,000	6%, 20 years
HUD Rental Rehabilitation Grant	450,000	
HUD Urban Development Action Grant	350,000	3%, 20 years
Loan		
State grant 1	750,000	
State grant 2	26,719	
Total development costs	\$4,126,719	
Cost per unit	46,368	
Annual income of group served	5,000	
A 15-unit SRO project for homeless single adults		
Equity	\$ 484,000	
City loan 1	90,000	2%, 15 year/30 year amortization
City loan 2	57,000	9.25%, 15 years
City loan 3	3,450	0%, 15 years, payable at maturity
State loan 1	240,000	5%, 40 years, payable only if no longer in low-income use
State loan 2	270,000	11.15%, 30 years
Total development cost	\$1,144,450	
Cost per unit	76,297	
Annual income of group served	7,737	

Not long ago I had the opportunity to review 24 tax credit projects that were widely regarded as "state-of-the-art" deals. Each project contained an average of five separate financing sources. Seven projects, nearly a third, had six or more separate sources of financing and, incredibly, one had fifteen. Table 1 outlines the extremely complex financial structure of two of those nonprofit-sponsored projects that used the tax credit to produce single-room occupancy

(SRO) units for homeless individuals with incomes in the range of \$5,000 to \$7,400. While their multilayered financing was due largely to the fact that they are intended for very poor, homeless people, the complex structure of these projects also emphasizes the most serious failure of a housing policy based on creative finance. *It simply doesn't make sense to have a national housing policy in which the deeper the targeting and the lower the income group served, the more complicated and costly it is to arrange the financing.*

HUD's disingenuous support of the tax credit

With HUD's proposed fiscal year 1991 budget containing virtually no new production funds, and with proposed cuts in the Community Development Block Grant and Farmers Home Administration programs promising to make it more difficult to package tax credit projects, Secretary Kemp's enthusiasm for the low-income housing tax credit rings just a little hollow. For example, in 1988, nearly a third (31.2 percent) of all tax credit projects were in rural areas and, of these, nearly half (45.8 percent) combined the credit with Farmers Home Administration Section 515 below-market-rate financing and rental assistance funds.

Despite the probable extension of the tax credit, it should be much more difficult to create new low-income housing in rural areas next year if Congress approves the president's housing budget as it was submitted. The Administration has proposed cutting back the Section 515 multifamily rental construction program by 31 percent and substituting a total of 8,000 rural housing vouchers to offset this and other rural housing program reductions.⁴

Similarly, nearly 40 percent of all 1988 tax credit projects planned to combine the credit with other HUD subsidies, including Section 8 Moderate Rehabilitation (mod rehab) funds, Housing Development Action Grants (HoDAG), Urban Development Action Grants (UDAG), and Community Development Block Grant funds (CDBG). The president's budget, for example, recommends the outright cancellation of HoDAG, the restriction of mod rehab funds for use in renovating a relatively few SRO units for homeless individuals, and a \$163 million cut in the CDBG program. If all of these cuts are approved, the role of creative finance in the production of low-income housing will become even more important.

Who's in charge?

It does not take a rocket scientist to understand that when no one is in charge of orchestrating so many separate loans and subsidies, an unethical or highly inefficient developer might receive far more subsidy than is needed to get the project built. That is, indeed, what has already happened with many tax credit projects, especially when the credits were combined with HUD Section 8 mod rehab subsidies. A recent General Accounting Office (GAO) audit of eight tax credit/mod rehab projects determined that —

When the developers sold their ownership interests in these projects along with the related tax credits, and when these proceeds were combined with mortgage loans and other sources of funds, the developers realized cash proceeds far greater than the costs associated with acquiring and rehabilitating the properties. We estimated cash flows to developers on the eight projects ranged from about \$254,000 for a 36-unit project to about \$2.1 million on a 352-unit project. On a per-unit basis, the range was from about \$3,500 to \$11,400.⁹

According to GAO, “neither the mod rehab program nor tax credits provide developers incentives to minimize costs. In fact, there is an incentive to increase costs . . . because the amount of tax credits is based on a percent of rehab and acquisition costs, developers have an incentive to increase expenses, either by inflating costs or incurring unnecessary costs.” Moreover, with no centralized oversight of the “total benefit packages provided to individual projects, there is a real opportunity for excessive benefits.”¹⁰

That is why Congress banned the use of mod rehab subsidies in tax credit projects and recently imposed new underwriting requirements on the state agencies charged with allocating tax credits. Under the new rules, those agencies must develop written allocation plans before awarding credits, give priority to projects that produce the greatest number of low-income units and are more deeply targeted, and evaluate projects to provide only the minimum amount of tax credit necessary for economic feasibility. Clearly, the preferences for maximizing both production and targeting are in conflict unless the tax credits leverage large amounts of nonfederal funds, which seems to be what federal housing policy is all about these days.

For largely the same reason, in January 1990, under Congressional directive, HUD issued a similar regulation that would apply to all applicants for HUD program assistance, including financing insured by the Federal Housing Administration. Under the new regulation,

developers must state whether they expect to use tax credits. If they do, just as Congress has directed state credit allocation agencies to be the last ones to come to the table with project benefits, HUD also wants to be the last with the least.

To help HUD determine reasonable project needs, all applicants for HUD aid must specify the terms of the tax credits the aid will secure; identify the income limits that will be in effect; list all federal, state, and local government insurance, loans, grants, and subsidy programs in which the applicant plans to participate; and identify all grants and below-market interest rate loans expected from nongovernment sources. For each loan, the applicant must also specify the loan amount, interest rate, term, and monthly debt service.

The problem here is twofold. First, even if all the requested project data could be accurately provided at this early stage in the development process, HUD would likely choke on information overload. With the elimination of most multifamily production programs and a move to coinsurance during the era of President Reagan and Secretary Pierce, HUD lost a great deal of its inhouse multifamily underwriting capability. More important, not every agency and financing source that participates in a project can be, in Reggie Jackson's words, “the straw that stirs the drink.” Like an equation that has too many unknowns to have a unique solution, a creatively financed tax credit project that requires virtually all financing components to be locked in before any will be committed cannot be underwritten.

Although these new laws and regulations might make more efficient use of the tax credit and, thereby, possibly save the federal government some tax expenditures, they also will substantially increase the transaction costs of producing low-income housing that must be borne by states and localities. That is because project proposals will now bounce back and forth between the state credit allocation agencies, HUD, and local agency participants that provide separate pieces of the financing. And, every time one of the participants changes a number, all other parties to the deal will have to reassess the extent of their respective participation, and the project underwriting and review process will go on and on.

As rational as they seem, a serious problem with these new tax credit requirements is that they all focus on saving the federal government money, and not on creating financing programs that minimize total resource costs. As the GAO correctly observed, public-private partnerships have become important development

entities in recent years, not because they are inherently efficient or sensitive to client needs, but because they are "vehicles for both limiting federal expenditures and leveraging federal funds."¹¹ This proposition is especially applicable to the case of the new extended use requirement that Congress imposed last year on tax credit projects.

Widely supported by housing advocates, this requirement mandates that all housing units supported by low-income tax credits remain in low-income use for up to 30 years. Specifically, owners wishing to sell or convert a tax credit project at the end of 15 years first must give the state credit agency one year to find a buyer willing to maintain the project as low-income housing for the balance of the 30-year period. If the agency cannot find a buyer and the project is sold or converted by the original owners after 15 years, the law provides protection for existing low-income tenants for 3 years under a vacancy decontrol requirement.

In practical terms, without a public financing program that would enable nonprofits to buy out for-profit sponsors at the end of 15 years, the 30-year use restrictions will become just a 3-year extension followed by another expiring-use crisis. This time, however, rather than being primarily a federal problem, it will have to be resolved by states and localities because Congress failed to provide any means for the tenants in occupancy or a local nonprofit to buy tax credit projects in their sixteenth year, before vacancy decontrol is slated to begin.

Who uses the tax credit?

According to the trade journals, the concern expressed here about these new regulations is misplaced. According to many "inside sources," the impacts of the 1989 revisions to the tax credit law, including the extended use provision, will, if anything, be positive and will lead "to increased selectivity by agencies in choosing projects to receive credits, increased participation by nonprofit sponsors as a result of the greater emphasis on deeper targeting in projects, or joint ventures by for-profit firms with nonprofits, and downward pressures on developer fees and profits."¹²

With specific reference to the effect that the extended use restriction might have on the value of the tax credit to private investors, Bart Harvey of the Enterprise Foundation anticipated little change in price. This is because Enterprise's national and local syndications

are private placements targeted exclusively to corporate investors that raise capital for projects developed by nonprofit sponsors. These partnerships "have always been structured without any expectation of residual benefits for investors."¹³ While Harvey may be correct, the fact is that in 1987, 94 percent of all investors in tax credit projects were individuals, and just 6 percent were corporations.¹⁴ While more recent tax credit acquisition data probably will show a greater rate of corporate participation, the largest players in the tax credit game continue to be individual investors who acquire partnership interests in both public and private placement tax credit limited partnerships.

This fact has significant long-term implications because it implies that despite the terrific press received by the community housing sector, for-profit developers are the principal beneficiaries of tax credits. According to the National Council of State Housing Agencies, states utilized about two-thirds of their tax credit authority in 1988, allocating credits to 3,027 projects containing 77,825 low-income units. And, while not all projects for which credits were allocated will actually get built, 90 percent of all projects and 97 percent of all housing units supported by 1988 tax credits were sponsored by for-profit developers.

The fact that for-profit developers outnumber nonprofit developers by so many, and that individual investor-oriented limited partnerships are more likely to price their partnership shares with an expectation of realizing residual benefits to the extent that local market conditions will allow, these partnerships will be more reluctant to maintain a low-income use at the end of their mandatory 15-year compliance period. Thus, a substantial number of expiring use tax credit projects can be expected to come on the scene shortly after the turn of the century. These projects, it will be recalled, were placed in service prior to the recent extension of low-income use restrictions to 30 years.

We must monitor projects to ensure compliance

Even if the 1989 statistics are more favorable to nonprofit developers and the 1990 numbers become better still, they will not tip the production of tax credit projects in favor of nonprofit, community-based organizations. The fact that a relatively large number of tax credit deals are small-scale projects developed by for-profit investors — the average tax credit project has just 30 units — suggests that monitoring creatively financed housing for long-term compliance

with the applicable low-income use restrictions will be both more necessary and more difficult than would be the case if nonprofit developers dominated the production scene.

The problem is not that the tax credit law lacks severe penalties for noncompliance. Failure to adhere to the law's low-income use restrictions subjects the taxpayer to potentially serious financial consequences:

If a building fails to meet certain tax credit program requirements during the 15 year compliance period a "recapture event" is triggered. The penalty for a recapture event is denial of tax credit for the current taxable year and recapture of the accelerated portion of tax credit previously claimed by the building owner One-third of the annual credit amount, plus prescribed interest, is recaptured for non-compliance during the first 11 years. For non-compliance in later years, the applicable recapture percentages [are lower]."

Unfortunately, the federal government does not have a very good record when it comes to monitoring the performance of public-private partnerships oriented toward community development. As often as not, it tends to rely on the word of local officials about the accomplishment of the partnerships' goals. However, according to the U.S. General Accounting Office:

While local partnership projects tend to claim success in reaching their target populations, the success of some federal programs in addressing the needs of their target populations has been questioned. For example, HUD reported that, since 1982, 97 percent of the benefits from CDBG state and small cities grants have gone to low- and moderate-income people. However, a 1988 report by HUD's Inspector General questioned whether the grants were effective in reaching low- and moderate-income people. This discrepancy highlights the importance of evaluating whether a program improves the condition of its target population.¹⁴

Although the law requires recipients of tax credits to provide HUD with project information requested by the secretary, and to file annually at least three tax credit-related Internal Revenue Service (IRS) forms, no single government agency is responsible for ensuring that tax credit-supported projects meet their occupancy restrictions. This fact was acknowledged by the IRS at an April 27, 1990, hearing held by the Senate Banking Committee's special HUD investigations subcommittee. According to David Blattner, the IRS's assistant commissioner for examination, although "the IRS so far has disallowed first year tax credits claimed by 225 taxpayers and has various investigations underway, [we do not] have sufficient

information now to determine if there is widespread noncompliance by taxpayers with tax credit program requirements." ¹⁵ Even though the IRS now is working to put in place a system that would match taxpayer forms with those filed on the same project by housing credit agencies, this still would not get at the heart of the potential noncompliance problem. The problem could best be dealt with through a HUD-conducted biennial audit of a nationally representative sample of tax credit projects to determine the extent to which compliance varies with project size and type, sponsorship, over time, and the real estate cycle. After all, as long as HUD supports the tax credit as the primary vehicle for producing and preserving low-income housing, it should take the lead in monitoring sponsor performance.

Conclusion

We need to return to a more efficient and, yes, a more generous means of financing the preservation and production of low-income housing in the United States. For, when all is said and done concerning the increasing importance of creative financing, the fact remains that only a relatively small number of states and localities are investing heavily in the production of low-income housing.

According to the National Council of State Housing Agencies, just 4 percent of all 1988 tax credit projects contained one or more local subsidies, and just 10 percent contained a state subsidy. Fully 60 percent contained at least one federal subsidy in addition to tax credits, including Farmers Home Administration loans and interest subsidies (14.3 percent), mod rehab aid (4.1 percent), and Section 8 rental assistance (21.2 percent).¹⁶

If the Administration and Congress stay on their present budgetary course, these supplemental production resources will continue to dry up, and competition for Section 8 certificates and vouchers will intensify as this vital source of rental assistance becomes available to support public housing tenant buy outs and other Administration-sponsored resident conversion ventures.

Unless Congress fully funds housing programs other than the President's Home Ownership for People Everywhere (HOPE) initiative, which contains virtually no funds for new construction — such as the HOME program contained in the National Affordable Housing Act, containing flexible funds that can be directed by states and localities to preservation, rehabilitation, or new construction,

the future of low-income housing will revolve increasingly around the tax credit and creative finance. Among other things, this means that the location of future additions to the nation's permanent supply of low-income housing will be determined more by variations in construction cost and local income distributions, and by the degree of local packaging expertise and grantsmanship, than by demonstrated need. It also means that without the federal government as partner in local public-private partnerships, many states and localities will choose to remain on the sidelines, investing little of their own resources in housing production.

At the same time, budget exigencies will force some of the larger states that have been national leaders in the public-private production process to the sidelines as the required subsidy costs per unit rise to politically unacceptable levels. In this regard, it should be pointed out that "California, Connecticut, Massachusetts, and New York contended with revenue shortfalls ranging from \$250 million to over \$1 billion," and state and local budget woes have spread more broadly during the last 18 months.¹⁹ In short, creative finance cannot be a viable long-term national strategy for the production or preservation of low-income housing.

Appendix

The inefficiencies of the low-income housing tax credit

The two greatest sources of inefficiency of the low-income housing tax credit are the differences between the cost of the tax credit to the federal government in terms of foregone revenues and the amount of equity that is raised from sale of the tax credit; and the large amount of gross equity that is raised from sale of the tax credit that pays for syndication costs and, therefore, is not invested in housing. A third source of inefficiency that is even more difficult to measure is the high transaction costs that are borne by the public-private partnerships that develop low-income housing. The costs of packaging a housing project that consists of five or more separate financing sources are very high and frequently are not accounted for in a statement of "sources and uses of funds."

According to the National Council of State Housing Agencies (NCSHA), the average tax credit allocated by state agencies to low-income housing units supported by tax credits in 1988 was just \$2,598. Since the tax credit runs for ten years, the loss to the federal government in terms of forgone taxes is equal to the present value of \$2,598 per year for ten years, discounted back to the present at the government's long-term borrowing cost. Assuming the latter is 7.5 percent, the present value of the total tax expenditure associated with the average low-income tax credit housing unit in 1988 is \$17,833.

Because the typical private investor's required rate of return, or discount rate, is higher than the government's opportunity cost, the syndication of tax credits will almost always raise less equity capital than the federal government loses in tax revenues. Thus, for example, at a 15 percent rate of return, which is lower than the 16.3 percent median return to tax credit investors cited in Karl Case's paper, the sale of tax credits worth \$2,598 per year for ten years would raise a total of \$13,039.²⁰ That is, the present value of a ten-year tax credit annuity of \$2,598, discounted at 15 percent, equals \$13,039. Thus, sale of the tax credit results in a tax expenditure that is 37 percent greater than the equity capital it raises — a source of major inefficiency.

As indicated above, another inefficiency of most tax shelter subsidies is that not all of the capital raised through the syndication process ends up paying for bricks and mortar. As the Congressional Budget Office, GAO, and others have shown, preparing and marketing tax shelters is a costly business. In fact, a recent GAO study "reviewed prospectuses and/or summary data for all of the 19 public real estate partnership offerings on the market that use the low income housing tax credit. For comparison purposes . . . [the GAO] obtained information on the expenses and fees for the 48 residential or residential/commercial public partnership offerings being marketed that do not use the credit."²¹ According to GAO:

The 19 publicly offered partnerships being marketed for low-income housing tax credit projects on average use a higher proportion of equity to pay fees and expenses than partnerships for residential and residential/commercial investments. The low income housing partnerships devote an average of 27 percent of equity for fees and expenses, while the other types of investments use about 21 percent for this purpose.²²

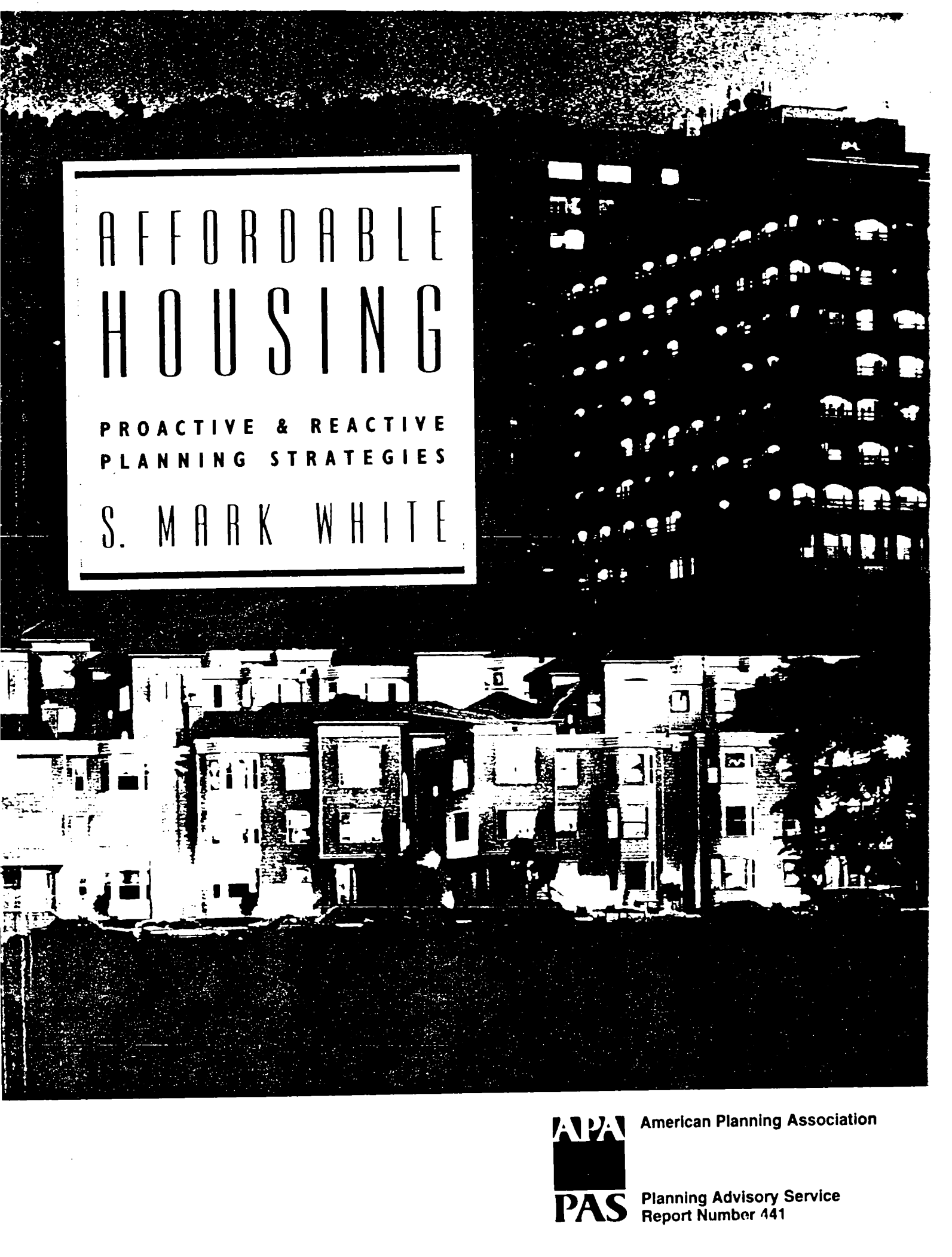
Applying the 27 percent industry average for the amount of fees and expenses associated with the sale of tax credits by publicly offered partnerships to the \$13,039 in gross syndication proceeds computed above reduces the amount of capital available for housing investment by \$3,521 (27 percent of \$13,039). Thus, the sale of \$2,598 in 1988 tax credits will generate approximately \$9,518 in investable capital (\$13,039-\$3,521), which is just slightly more than half (53 percent) as much as the credits cost the federal government in forgone revenue. That is why we can say that a direct capital grant to the project sponsor equal to about half the government's tax expenditure would contribute roughly the same amount to development costs as does syndication of the tax credit. Assuming the average development cost of a low-income tax credit unit is \$50,000, this would amount to a 20 percent capital grant.

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15. Warren Gorham & Lamont, Inc., *Housing and Development Reporter*, Reference File Three, "Low-Income Housing Tax Credit," (April 1990):81: 0018.
16. GAO, 17.
17. Warren Gorham & Lamont, Inc., *Housing and Development Reporter* (April 1990).
18. Parenthetically, it should be noted that since enactment of the low-income housing tax credit, the number of new low-income housing units created has probably been grossly exaggerated. For one thing, not all proposed projects for which tax credits are allocated in any given year are actually constructed. For another, since so many tax credit projects also receive other federal subsidies, there is probably a great deal of double counting. In the government's reporting of low-income housing production, housing units receiving Farmers Home, HoDAG, and other direct federal subsidies should be accounted for under their respective program titles or counted as tax credit units, but should not be subsumed under both categories.
19. Tax Foundation, *Tax Features* 33, no. 1 (January-February 1989):1.
20. Karl Case, 341.
21. GAO, 1.
22. *Ibid.*, 2.



AFFORDABLE HOUSING

PROACTIVE & REACTIVE
PLANNING STRATEGIES

S. MARK WHITE



American Planning Association

Planning Advisory Service
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Affordable Housing: Proactive and Reactive Planning Strategies

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Chapter 2. Affirmative Measures: Using Land-Use Controls to Provide Affordable Housing

The NIMBY Report, in its Recommendation 8-4, explicitly recognizes that employers and private industries have a direct stake in the production of decent, affordable housing. In order to establish a workable and legally defensible inclusionary zoning or linkage program, a causal connection between new development and the provision of affordable housing must be established. Where careful studies have been undertaken to establish the nexus between new development and housing needs, courts are increasingly willing to approve such programs.

Affirmative measures generally require some contribution by new development to the supply of affordable housing. This often takes one of several forms:

- Inclusionary zoning or land-use policies that require or induce developers to set aside a portion of residential projects for low- and moderate-income housing; or
- Linkage policies, which require that new development that creates a need for affordable housing construct or rehabilitate housing units or pay a fee into a housing trust fund.

INCLUSIONARY ZONING

According to the seminal work on inclusionary zoning, an inclusionary zoning ordinance is a policy that either ties development approval to, or creates regulatory incentives for, the provision of low- and moderate-income housing as part of a proposed development.¹ Several states now expressly authorize mandatory or optional inclusionary zoning.² Curiously, on pages 2-7 to 2-8 of the NIMBY Report, inclusionary zoning is dismissed as an attempt by local governments with restrictive land-use controls to rationalize their effect on affordable housing. Despite evidence that inclusionary zoning programs have produced more housing in areas where they are used than have federal housing programs,³ the effectiveness of such programs is not discussed. Instead, the NIMBY Report relies on a dubious equity rationale in its criticism of inclusionary zoning. Given its ostensible concern with the effect of land-use controls on the supply of affordable housing, the report's conclusions

are puzzling. The production of an adequate supply of low- and moderate-income dwelling units through inclusionary zoning, even where growth controls are in effect, speaks to the usefulness of the technique rather than to exclusionary motives.

The economic literature has raised several objections to inclusionary zoning that were ignored by the NIMBY Report. First, the primary objection to inclusionary housing programs is that any losses incurred on set-aside units are either absorbed by the developer or passed along to purchasers of market-rate units in the form of higher housing costs.⁴ This scenario is considered undemocratic by detractors of inclusionary zoning, since it is generally assumed that owners of undeveloped land or potential purchasers of homes in new subdivisions are nonresidents and, therefore, cannot participate effectively in the political process leading to the adoption of an inclusionary zoning scheme. Second, detractors argue that inclusionary zoning impedes the "filtering" process through which new construction is purchased and occupied by residents of the existing housing stock, thereby freeing existing housing for purchasers at the lower end of the income scale.⁵ Finally, it is asserted that units produced through an inclusionary zoning program can only become available to a limited number of needy beneficiaries. To the extent that inclusionary zoning programs discourage new development by adding to development costs or delay, therefore, the programs could harm the very class of persons they are designed to benefit. For the reasons discussed below, these arguments do not undermine the legitimacy of inclusionary zoning.

First, the argument that owners of market-rate units bear the cost of subsidized units is simplistic. According to conventional economic theory, developers can only shift regulatory costs to homeowners where the demand for housing is inelastic or price insensitive. Where the demand for housing is elastic—or sensitive to changes in price—and substitute housing is available in jurisdictions without inclusionary zoning, builders will be unable to pass on the costs to market-rate homeowners.⁶ To the extent that the demand elasticity of housing precludes higher prices, the cost of inclusionary zoning is either reflected in lower developer profits or lower land costs.⁷ While diminish-

ing profitability or land costs are hardly desirable results, these concerns are often outweighed by the need to provide affordable housing.

Second, shifting some of the burden of providing low-income housing to developers or landowners is not unfair. Placing the burden of inclusionary zoning on landowners or developers is justifiable under Georgian analyses or "beneficiary pays" principles, which support the shifting of infrastructure costs and other public expenditures to those who benefit from such expenditures. Accordingly, inclusionary zoning cannot be characterized as a burden on a narrow class of persons. The late Donald Hagman, a noted land-use scholar, argued that, because all land in a community is subject to development or redevelopment, all landowners theoretically bear the burden of inclusionary zoning. Not only does this result in a broader allocation of the burden than is generally assumed, but it also undermines the assumption that developers and occupants of new housing cannot participate effectively in the political process. Therefore, the characterization of inclusionary zoning as a cost-shifting device in which general societal burdens are borne by a small, discrete class of landowners is unconvincing.⁸

The argument that developers, owners of raw land, and purchasers of market-rate homes in new subdivisions are politically powerless is absurd. Developers and builders have powerful lobbies and are typically well represented at public hearings on the adoption of restrictive land development regulations. In California, developers have successfully resisted attempts to adopt development controls through the initiative process and have consistently outspent their opponents.⁹ Finally, purchasers of market-rate homes in new subdivisions are not necessarily *new residents* of a community. In fact, the argument that inclusionary zoning impedes the filtering process assumes that purchasers of new homes are *by definition* former residents of existing housing within the community. Consequently, these residents have had ample opportunity to participate in the political process.

The argument that inclusionary zoning impedes the filtering process has serious problems. First, to say that inclusionary zoning discourages new development is simplistic and unsupported by empirical evidence. Those communities that have the widest experience with inclusionary zoning regulations, such as Montgomery County, Maryland, and Orange County, California, are also among the fastest-growing housing markets in their respective regions.¹⁰ As has been shown by the mixed success of enterprise zones in this country, government regulations are only one small factor in the decision to develop in a community.¹¹ However, a community's regulatory structure can reach a point at which it becomes unconstitutional and unworkable, thereby discouraging development and inviting legal challenges. These issues are properly

viewed as matters of system design rather than an indictment of the technique itself and are dealt with in the discussion of inclusionary zoning system design that follows.

Second, filtering cannot deliver decent housing to all economic segments of the community, especially where the number of low- and moderate-income families exceed the number of units made available for resale by purchasers of new units. The chain of transfer between affluent homeowners and low-income persons is spatially fragmented, and the time lag for the construction of a market-rate unit to its availability for a low-income family is extremely lengthy.¹² These factors militate against the exclusive reliance on filtering as a tool of low-income housing policy.¹³

Third, filtering is responsible for only a fraction of housing needed within a community. In particular, filtering can produce only a small fraction of housing available for occupancy by low-income persons, and an even smaller fraction of those units which are not classified as substandard.¹⁴ Indeed, existing housing generally *appreciates* in value, which undermines the market's ability to deliver such units to low-income families. A significant proportion of housing costs, including property taxes, insurance, maintenance, and landlord or developer profits bear no relationship to the supply of housing.¹⁵ Moreover, the filtering process is slow and inefficient, especially for those units that will eventually trickle down to the poorest of the poor. Accordingly, the most successful housing programs generally view filtering as only one component of their housing production strategies.

Finally, the fact that inclusionary zoning units can only reach a portion of their intended beneficiaries is an argument for greater subsidies and more comprehensive program design. Federal housing assistance programs have long been criticized on the grounds that only a portion of those eligible actually receive assistance.¹⁶ It is true that, in many communities, inclusionary zoning can only meet a portion of total housing needs. However, addressing part of the problem is preferable to failing to address the problem at all. This argument does not, therefore, undermine the utility of inclusionary zoning as one tool in a community's total housing assistance program.

Mandatory Inclusionary Zoning

The most important policy issue in the design of an inclusionary zoning ordinance is whether the program will be mandatory or, rather, an option that developers may choose in exchange for regulatory incentives. Mandatory inclusionary zoning ordinances are those that require developers to set aside a designated proportion of housing for low- and moderate-income persons. In 1973, the Virginia Supreme Court in *Board of Supervisors of Fairfax County v. DeGross Enterprises*¹⁷ rejected a mandatory set-aside ordinance as beyond the scope of the state zoning enabling legislation and

as a taking of private property. The Fairfax County ordinance required developers in five zoning districts to set aside 15 percent of all residential units in new developments as low- or moderate- income housing, as a condition of rezoning or site plan approval. The *DeGroff* court reasoned that an ordinance employed to achieve socioeconomic goals exceeded the authority conferred under the zoning enabling legislation to regulate land.

DeGroff relied heavily on an earlier case that had invalidated a large-lot zoning ordinance designed to exclude low- and moderate-income persons, therefore concluding that a zoning ordinance can be neither exclusionary nor inclusionary.¹⁸ Because all zoning has socioeconomic effects, this distinction has been criticized as artificial.¹⁹ *DeGroff* has not been followed outside of Virginia and was expressly rejected in the leading case of *Southern Burlington County NAACP v. Township of Mt. Laurel*.²⁰ The Virginia state legislature now authorizes inclusionary zoning as an optional, incentive-based mechanism, which effectively overturns the *DeGroff* court's socioeconomic zoning rationale.

The court's ruling that the ordinance effectuated a taking of private property is suspect. Mandatory inclusionary zoning is generally susceptible to challenge as a regulatory taking, which involves a case-by-case analysis of the public purposes underlying the regulation and the economic impact on private landowners, or as a permanent physical occupation, which is compensable *per se*. The United States Supreme Court has also ruled in *Lucas v. South Carolina Coastal Council*²¹ that a regulation denying all use of private property is a *per se* taking. A detailed analysis of the takings question is beyond the scope of this report. However, the United States Supreme Court in *Yee v. City of Escondido*²² has recently affirmed the general rule that the mere regulation of the economic relationship between housing providers and housing consumers through rent controls or other forms of housing regulation does not effectuate a physical occupation, and other courts have upheld inclusionary ordinances under regulatory takings challenges. (See discussion below.) The Court did not address the question of whether mandatory set-asides, as opposed to the regulation of rents charged to preexisting tenants (who have entered into leaseholds voluntarily), would be classified differently. It is likely, however, that a court could simply classify the set-aside as a regulation of the use to which such units may be put, rather than a forced transfer of occupancy to low- or moderate-income persons, if the regulations involve only a temporary regulation of sales or rental prices.

A mandatory ordinance could also be challenged as an unlawful exaction under *Nollan v. California Coastal Commission*²³ and similar decisions by state courts requiring a rational nexus between purposes and effects of development exactions. However, inclusionary zoning ordinances are typically characterized as a form

of zoning district governing the use to which property may be put, rather than as exactions.²⁴ Unlike infrastructure exactions, which typically involve the transfer of land for roadways, open space, or utility rights-of-way to public ownership, developers maintain ownership and economic gains in the form of rents, sales transactions, and government assistance for inclusionary units. Inclusionary requirements are generally susceptible to challenge under exactions standards only where the developer is required to construct or to fund units off site, as under a linkage program.²⁵

Courts in states with strong regional general welfare doctrines have been receptive to, and have even encouraged the use of, mandatory inclusionary zoning. In its landmark decision in *Mt. Laurel*, the New Jersey Supreme Court imposed a mandatory obligation under the state constitution for all local governments to employ affirmative measures for the production of affordable housing (e.g., mandatory set-asides) where the removal of regulatory barriers would not suffice. In *In re Egg Harbor Associates*,²⁶ the court upheld a condition attached to a development permit by a state environmental agency requiring the developer to set aside 10 percent of a project's residential units for low-income housing and 10 percent for moderate-income housing. The court found that the condition was authorized by the state enabling legislation and did not amount to a taking of private property.

In states without judicially mandated regional general welfare requirements, courts have supported inclusionary zoning requirements where expressly authorized or where authorization is implied in the state enabling legislation. In *Iodice v. City of Newton*,²⁷ a Massachusetts court upheld a condition to the issuance of a special-use permit requiring that 10 percent of the proposed development be operated as low- and moderate-income housing. The Massachusetts statutes expressly authorized the imposition of set-aside requirements for special-use permits.

The mandatory approach is advantageous to the incentive-based approach where it appears that incentives will not be used by developers. The major policy issues associated with designing a mandatory program are:

- Structuring the program in such a manner as to ensure that developers receive an adequate return on their investments; and
- Ensuring that developers' obligations to construct the units and to make them available to low- and moderate-income persons are enforced.

Guaranteeing adequate rates of return can be dealt with through adjustments in the set-aside requirement and through the creation of additional regulatory incentives.

Program requirements contain three major ele-

ments: the number or percentage of units that must be set aside for low- and moderate-income housing (the “set-aside requirement”); the population to which the units must be made available (the “target population”); and the standards to which the units must be constructed. Most communities employing inclusionary zoning programs contain set-aside requirements ranging from five to 25 percent.

The severity of the requirement—from a developer’s perspective—is governed primarily by the target population to be served, especially if set-aside units are required to be built to the same level of quality as the market-rate units. Developers generally perceive the construction of low-income units as the most restrictive requirement since rental or sales prices are generally lower, and because the income mix between the occupants of low-income units and market-rate units is potentially wider. Accordingly, many jurisdictions primarily limit the set-aside requirement to moderate-income units or establish a lower set-aside percentage for low-income units. In Orange County, California, the set-aside requirement is divided between three income categories. Of the 25 percent set-aside requirement, 10 percent applies to units for persons of 80 percent or less of median income; 10 percent applies to persons between 81 percent and 100 percent of median income; and only 5 percent applies to persons between 100 percent and 120 percent of median income. Additional considerations in establishing the appropriate set-aside quotas are discussed below.

The integration of inclusionary units with market-rate units raises sensitive issues about project design and adequate access to services by occupants of the inclusionary units. Many communities avoid the issue altogether by allowing the developer to construct the units off site. Others allow the developer to maintain an exterior compatible with surrounding units while relaxing interior standards for the inclusionary units in order to preserve the marketability of the market-rate units and simultaneously reduce the cost of producing the inclusionary units.

The effectiveness of any inclusionary program—whether mandatory or incentive-based—depends upon how it is enforced. Most local governments employ deed restrictions and other property interests to ensure that the units remain affordable over time. (See the section below on enforcement.) However, in order to ensure that the units are constructed, local governments can use phased approval procedures or performance bonds, escrows, or other financial guarantees. During the permitting process, local governments could use an approach suggested by the *Mt. Laurel* court:

Municipalities . . . should require that a developer phase-in the lower income units as the development progresses. That is, if a developer is required

to set aside 20 percent of a development for lower-income units, 20 percent of *each* stage of the development should be lower income, to the extent this is practical.²⁸

Development agreements and public-private partnership arrangements are other innovative mechanisms for enforcing developer obligations while giving the developer a stake in seeing that the units are produced. These mechanisms are discussed in Chapter 3.

Finally, local governments must address whether additional regulatory benefits should be provided in order to “compensate” developers for the hardship of providing low- and moderate-income dwelling units.²⁹ Compensation might include increases in density, allocations of infrastructure capacity, reductions in site development standards (e.g., in setbacks and the parking requirements), or allowing mixed-use zoning. Appropriate incentives will depend upon the local situation.

Incentive-Based Inclusionary Zoning

An incentive-based ordinance allows increased density or other regulatory incentives as a quid pro quo for the provision of low- and moderate-income housing. Either out of an abundance of caution or as a result of political compromise, the incentive model seems to be the trend in state enabling legislation. One example is in Virginia, where inclusionary zoning has not been well-received by the judiciary. While the *DeGross* case (discussed above) invalidated a mandatory inclusionary zoning ordinance, the state now authorizes inclusionary zoning and the designation of geographic areas for the promotion of affordable housing. The legislation allows local governments to grant density bonuses in exchange for the inclusion of affordable housing units in proposed developments.³⁰

According to the law, certain local governments are empowered to implement an “affordable housing dwelling unit program” in which density bonuses may be given in exchange for the provision of moderate-income housing. The inclusionary program requirements may be applied to applicants for rezoning; requests for special exceptions; or site plan/subdivision applications that exceed 50 dwellings at densities exceeding one unit per acre and are served by central sewer. Developers must receive:

- A 20 percent increase in density in exchange for making 12.5 percent of the total approved single-family attached or detached units affordable housing; or
- A 10 percent increase in density for “nonelevator” multifamily dwelling units (those with a proposed height of four stories or less) in exchange for making 6.5 percent of the total dwelling units affordable housing.

Local housing authorities may be given an exclusive right to purchase or lease set-aside sales units and to control resale and re-lease prices for a period of 50 years. Set-aside price limitations must allow developers to recover construction costs and other allowances, as determined by the inclusionary zoning ordinance, exclusive of land costs or other costs not authorized by the ordinance. The ordinance may require the concurrent marketing of market-rate and set-aside units. Set-aside units must be processed within 280 days.

California legislation requires density bonuses and other regulatory incentives for developers who set aside a portion of the housing units within a project for low-income persons.³¹ The density bonus may be granted only where a developer sets aside 20 percent of total dwelling units for low-income households (50 to 60 percent of area median income); 50 percent of total dwelling units for very-low-income households (less than 50 percent of area median income); or 50 percent of total dwelling units for elderly persons. The burden is on the housing developer to demonstrate that the regulatory incentives are needed to make the housing units economically feasible. Regulatory incentives that may be granted in order to encourage the production of affordable housing include:

A density bonus of 25 percent over the otherwise maximum residential density; and

Additional regulatory incentives, such as:
1) a reduction in site development/zoning code standards (e.g., setback requirements, square-footage requirements, and parking requirements); 2) mixed-use zoning approval; or 3) other incentives (e.g., such as the waiver of fees or dedication requirements).

System Design Considerations

In designing a mandatory set-aside ordinance, overall project development standards and approval processes should be carefully tailored in order to maintain the workability and political acceptability of the program, guarantee sensitive project design, and avoid constitutional challenges. In the leading work on inclusionary zoning, Allan Mallach identifies several issues pertaining to the effectiveness of an inclusionary zoning scheme, including identification of the appropriate numerical set-aside requirement; the establishment of appropriate design requirements for set-aside units; use-to-use relationships between set-aside units and market-rate units; and streamlining the development approval process.³²

Set-aside quota. The quota is generally established as a proportion of total dwelling units within a project. If this number is too high, developers may have to increase market-rate unit costs in order to recover their losses on set-aside units; if the number is too low, the program may fall short of its goals. Identifying the

correct number depends on a variety of subjective factors, and the precise number is difficult to identify.

Communities might be better off to establish a level-of-service (LOS) standard that establishes community need for low- and moderate-income dwelling units as a proportion of total dwelling units, based upon internal growth needs and regional housing markets. LOS standards are commonly used to identify developer responsibilities and community fiscal obligations for infrastructure, such as roads, parks, and water/sewer facilities. The LOS standard would have a numerical element (i.e., the number of dwelling units needed) and a temporal element (i.e., the period of time over which the units would be produced, based upon fiscal and environmental constraints). LOS standards are useful because they can be easily translated into quantifiable standards for development approval purposes and they enhance the legal defensibility of the entire system.

Most importantly, LOS standards allow the community to identify the proportion of housing assistance that should be generated by nonregulatory mechanisms (e.g., federal transfer payments, property taxes, and other local financial tools), municipally owned property, and joint ventures with private developers. Too often, the failure to identify appropriate standards forces developers to remedy existing community deficiencies in low- and moderate-income housing as well as to mitigate incremental needs created by new development. Carefully designed standards can be used to avoid this inequity. The experience of Boulder, Colorado, which segregated communitywide obligations from developer responsibilities in crafting a development excise tax is instructive.³³ The city identified the total percentage of its housing stock that should be subsidized, based upon a regional comprehensive plan. By comparing the existing percentage of the city's housing stock that was assisted to the percentage that should be subsidized (as specified in the comprehensive plan), the city was able to calculate the number of dwelling units needed to maintain its existing level of service and those units needed to reach the desired goal. Additional legal considerations governing the establishment of carrying-capacity standards are discussed in the section in this chapter on linkage.

Unit design/compatibility and fit. The zoning code should establish flexible design standards for set-aside units, rather than requiring identical exterior and interior features for both market-rate and set-aside units. For example, some communities require inclusionary units to contain the same number of bedrooms as market-rate units but authorize lower interior amenity levels.

Spatial relationships. The community must consider the spatial relationship between set-aside and market-rate units. Options range from requiring all set-aside units to be dispersed within the develop-

TABLE 2. INCLUSIONARY HOUSING PROGRAMS

Jurisdiction	Plan Type	Applicability	Set-Aside Requirement	Affordability Control	Bonus/Flexibility Provisions
Boulder, Colo.*	Mandatory	All residential developments exceeding more than one dwelling unit	15% for moderate-income sales or rental; 7.5% for low-income sales or rental Units must be provided on-site in order to implement policy of dispersing units throughout city.	Written agreement between developer and city involving resale restrictions of 10 years for moderate income units and 5 years for low-income units.	Projects less than 10 units may make cash payment in lieu of construction. Alternative programs may be approved, including credits for more than 25 units and transfer of obligations to other sites.
Dallas, Tex.**	Voluntary, although developments with 50+ units/acre in some districts must employ set-aside:	Developments in areas of nonminority concentration..	20% qualifying subsidized housing units for specified zoning districts; PUDs may be conditioned on 10% set-aside.	Housing agreement containing deed restriction.	Density increases from 20 to 30, 20 to 40, and 10 to 15 units in designated multifamily zoning districts. Density increases from 15 to 20, 20 to 25, 45 to 75, and 60 to 100 in certain multifamily districts where development contains mixed uses. Off-site construction within three miles of development or \$10,000 in-lieu fee allowed as alternatives. 20% FAR bonus of 500 sq. ft. for each affordable unit recommended by staff.
Davis, Calif.	Mandatory	Rental housing exceeding five units	<i>For-sale units:</i> 25% through combination of on-site construction, land dedication, and reservation of units for self-help housing. <i>Rental units:</i> 24-35% for low income, very low income, depending on project size, through on-site construction and land dedication.	Property conveyed through land dedication may be conveyed to third parties such as nonprofit housing corporations, community-based mutual housing associations, or housing cooperatives.	One-for-one density bonus for construction of on-site affordable units or land dedication (calculated at 15 units per acre). Individualized programs with developers may be used in place of fixed standards. In-lieu fees may be used for small developments.
Hilton Head Island, S.C.	Voluntary	Residential overlay zone	No explicit set-aside requirement established. Projects may not exceed 50 units.	Legal agreement must be recorded, which is enforced by mortgagor or on annual basis by town.	Up to 15 units/acre for low income and 12 units/acre for moderate income, plus 20% departure from design and performance standards.
Montgomery County, Md.	Mandatory	Developments of 50+ units	12.5-15% moderate income	Applicant must enter into written agreement with the county. Development must be staged in such a manner that market-rate units are not approved prior to offering units for purchase or sale. Price controls must be in effect for 20 years. Local Housing Authority must be given option of purchasing 1/3 of all set-aside units.	Up to 22% increase in density. Off-site construction allowed. Contribution of land or money to trust fund allowed.

TABLE 2. CONTINUED

Jurisdiction	Plan Type	Applicability	Set-Aside Requirement	Affordability Control	Bonus/Flexibility Provisions
Orange County, Calif.	Voluntary (originally mandatory)	Residential developments of 5+ units	25% for persons up to 120% Area Median Income (AMI) as follows: 10% low ($\leq 80\%$ AMI); 10% moderate I (81–100% AMI); 5% moderate II (101–120%). Families of 5+ persons must be given priority in acquisition of units with 3+ bedrooms.	Commitments must be made as early as possible in the development approval process. Set-aside units must be constructed prior to approval of final development phase. Deed restrictions must be recorded with resale restrictions monitored by County.	Standard density bonus of 25%. Developers may transfer excess affordable housing credits to other projects so long as a balance between affordable and market-rate units is achieved over a broad planning area.
Orlando, Fla.	Voluntary	Applies in specified zoning districts; no size threshold.	Construction of on-site housing equal to density bonus or payment of fee into housing trust fund.	Deed restriction	Density bonus ranging from 14–33% in 11 districts (64% in one district). A separate policy allocates 3% of available traffic capacity from concurrency management program to low- and moderate-income housing.
Pitkin County, Colo.	Mandatory	Applications for rezoning, special use permits, building permit approval, subdivision approval, or planned unit development.	50% of residential units; 20% of tourist condominium units; One employee unit per three tourist bedrooms or double occupancy hotel rooms; One employee or moderate-income unit per 300 sq. ft. of commercial floor area.	Ordinance not specific.	Set-aside obligation may be reduced by one-half by reducing density by one-half and conveying preexisting subdivision lots or completed dwelling units to local housing authority.

Notes:

* Repealed and replaced by development excise tax targeted to housing trust fund. See S. Mark White, "Using Fees and Taxes to Promote Affordable Housing," *Land Use Law & Zoning Digest* 43, No. 9 (Sept. 1991): 3–9.

**Draft ordinance prepared in response to consent decree in *Walker v. United States Department of Housing and Urban Development*, No. CA-3-85-1210-R (N.D. Texas), a fair housing case.

See also George Sternlieb and David Listokin, "Inclusionary Zoning," *Development Review and Outlook 1984–1985* (Washington, D.C.: Urban Land Institute, 1984), 444–49.

nonprofit entities to directly or indirectly control the resale price of residential dwelling units.⁴¹ In Maine, the covenants may be used to:

- Control resale prices;
- Control the amount of equity appreciation;
- Control improvements to real estate;
- Control the class of persons to whom a dwelling may be sold [note: by its terms, this provision does not authorize discrimination on the basis of race, color, sex, physical or

mental handicap, religion, ancestry, or national origin];

- Grant a right of first refusal or option to purchase to qualified holders;
- Maintain the property as residential real estate;
- Limit the type of construction or materials that may be used in the improvements; or
- Prohibit, limit, or require acts enhancing property value or affordability.

The legislation expressly addresses common law constraints on the use of easements or covenants *in gross* by specifying that the covenants are enforceable even where most common law criteria are not satisfied. Exceptions to common law restrictions recognized by the legislation include the lack of an appurtenant interest in real property; the assignability of the interest to another holder; the unfamiliarity of the interest under common law principles; the imposition of negative burdens; the creation of affirmative obligations on the burdened estate; the failure of the benefits or burdens to touch or concern real property; the lack of privity of estate or contract; limiting the covenant to successors or assigns of the original parties; or the rule against perpetuities.

Local governments have also developed creative mechanisms for integrating inclusionary land-use programs with innovative management and ownership arrangements. Davis, California, now requires developers to satisfy a portion of their inclusionary obligations through the conveyance of land to nonprofit housing corporations, mutual housing associations, housing cooperatives, or other nonprofit housing entities.⁴²

The transfer of land or completed units to a community land trust could also be adapted to inclusionary land-use programs. A community land trust (CLT) is a nonprofit entity that minimizes the cost of land to homeowners by splitting the ownership interest between the land and the home. Generally, the CLT retains ownership in the land and leases or sells the home to low-income households. Land ownership allows the CLT to capture any profit on resale of the home for reinvestment in the community. According to a recent report, more than 100 community land trusts are currently in operation in more than 23 states.⁴³ These mechanisms ensure not only that housing will remain affordable over time, but also that dwelling units produced through an inclusionary program will be competently managed.

Other examples of enforcement mechanisms include:

- Development agreements or fines and penalties can also be used to enforce income restrictions but are less common. (A discussion of the use of development agreements to provide affordable housing is included in Chapter 3.)
- The execution of a promissory note secured by a deed of trust. Upon the conveyance of the unit(s) to a low- or moderate-income purchaser, the note and deed are released with or without a new promissory note and deed of trust against the purchaser. If the units are sold to someone other than a low- or moderate-income household, the promissory

note and deed of trust would be due and payable to the jurisdiction, enabling the jurisdiction to seek alternate housing for the target beneficiaries. This is the approach employed by San Francisco in its linkage program.

- If the developer is receiving governmental assistance or tax credits applicable to the low- or very-low-income housing units, the developer will probably be under contract with a state or federal agency to maintain the dwelling units in an affordable status for a specified period of time. Local governments may choose to "sign off" on those restrictions subject to verification of the contractual arrangements. This provision is more lenient than property use restrictions and would result in the elimination of inclusionary units where developers choose to prepay or otherwise terminate their obligations under federal contracts. (See also the discussion of "expiring use" issues in Chapter 4.)
- The negotiation of a contract, such as a development agreement, can establish that the conveyance of the units to persons other than low- or moderate-income persons is a breach of contract. Persons purchasing low- or moderate-income dwelling units would be required to become parties to the contract, and the failure of the developer to notify the jurisdiction of the sale of those units would constitute a breach of contract. The jurisdiction could require the developer to execute a lien on the property in order to enforce these obligations. In addition, reasonable liquidated damages could be established in the event of a breach.

LINKAGE

Linkage ordinances require developers of office buildings or other forms of nonresidential uses, such as commercial, retail, or institutional development, to build housing, to pay a fee in lieu of construction into a housing trust fund, or to make equity contributions to a low-income housing project. The underlying rationale is that new nonresidential development creates a need for housing by attracting employees to an area. The businesses occupying nonresidential buildings benefit from the availability of a well-housed and accessible labor force. The NIMBY Report and other federal policies clearly recognize industry's stake in a well-housed labor force.⁴⁴ Linkage ordinances are also increasingly applied to residential development on the theory that new residential development creates a need for service-sector and other low-income employees within the vicinity of the development.

Linkage ordinances have become an increasingly

Businesses benefit from the availability of a well-housed and accessible labor force. Linkage ordinances require developers of office buildings and other forms of non-residential uses to build housing, pay a fee in lieu of construction, or make equity contributions to low-income housing projects. Courts are increasingly willing to support the concept of linkage as long as the local government has established a connection between the fee amount and the need for affordable housing.



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popular method of financing local housing needs in the wake of declining federal subsidies. In addition, linkage funds can be combined with other revenue sources in order to meet federal matching fund requirements under NAHA. The linkage concept is similar to the concept behind impact fees, dedications, and fees in lieu of land for parks and recreation—the rational nexus standard justifies requiring the provider of the jobs to pay for the facilities, the need for which is generated by the employment.

Local governments must be careful, however, to comply with the constitutional standards of nexus and proportionality established by *Nollan v. California Coastal Commission*, and other state court decisions.⁴⁵ Courts are split as to whether linkage programs are unauthorized taxes and whether they constitute an unconstitutional taking. However, courts are increasingly willing to support the concept of linkage so long as the local government has established a connection between the fee amount and the need for affordable housing created by new development.⁴⁶ Courts have also approved the site-specific exaction of contributions to affordable housing needs so long as adequate standards are contained in the state or local enabling ordinances.⁴⁷ Regional general welfare cases requiring cities and counties to provide their fair share of regional housing needs can be used as authority for linkage fee programs.⁴⁸

The use of inclusionary zoning or linkage programs ties development approval to the adequacy of available affordable housing to accommodate new growth. As such, most commentators assume that the rational nexus standards applicable to impact fees and developer exactions for public facilities apply to linkage, and express doubt as to whether there is a sufficient

causal relationship between new development and the need for new housing to justify the fee. Indeed, if housing resources for low- and moderate-income persons were viewed as a constraint on the optimal amount of development within a community, a carrying-capacity standard for low- and moderate-income housing could be identified.⁴⁹

Where local governments tie the rate of growth to carrying-capacity standards, several important constitutional principles apply. First, the government must be prepared to demonstrate that the development will contribute or add to the need for housing or will consume resources otherwise available for housing opportunities. Second, where local governments condition development approval on the adequacy of public facilities, good faith attempts to remedy existing housing deficiencies through other funding sources must be shown.⁵⁰ The standard cannot be used solely to discourage growth or to foist past problems on the shoulders of the development industry. This test has often been applied to situations where concerns over facilities congestion have masked improper exclusionary motives. The denial of development approval on an ad-hoc basis premised on the inadequacy of public facilities can be invalidated when it is used for an improper public purpose, such as an artifice to exclude low- or moderate-income persons from a jurisdiction.⁵¹ The standards of causality and the propriety of public purpose are referred to as "legitimacy review."⁵²

Such standards establish the community's authority to deny development approval in the face of inadequate housing resources under its police powers. Under a linkage system, developers are asked to mitigate their impact on housing resources in order for

development permission to be granted. Any standards for the mitigation of housing impacts (such as a linkage fee or construction requirement) must be limited to an amount that is no greater than what is needed to correct the developer's pro-rata responsibility for the problem. This is referred to as the "proportionality" requirement. If a community tries to justify an exaction under its police powers but does not meet the standards for legitimacy or proportionality review, a court will characterize its actions as a taking of private property or as an unauthorized tax.

In several cases, fees requiring developers to contribute to off-site housing needs have been stricken where no demonstration was made that costs were properly apportioned or that good faith efforts to remedy existing housing needs (which cannot be funded through development fees) were undertaken by the local government. Accordingly, these cases involved extremely large fee amounts that tilted the takings inquiry in favor of the developer on hardship grounds. In so doing, however, some courts have cast doubt on the basis for linking development to housing needs in a community. In *Seawall Associates v. City of New York*,⁵³ the city placed a moratorium on the demolition of single-room-occupancy buildings (SROs) and combined the restriction with affirmative obligations to maintain and/or upgrade SRO units. Property owners could purchase an exemption from the moratorium by making a payment into a housing trust fund, and variances were authorized where a rate of return of at least 8.5 percent on the assessed valuation of the property could not be realized. Primarily because of affirmative obligations imposed upon landowners to maintain and upgrade their properties and to lease all units to low-income renters, the court characterized the scheme as a "permanent physical occupation," which is categorically compensable under the takings clause of the United States Constitution.⁵⁴ The court also took a dim view of the documentation used by the city to justify the restrictions on demolition. While the city had identified a severe homelessness problem, the court found no relationship between homelessness and the demolition of SRO units.

A housing preservation ordinance (HPO) adopted by Seattle was also stricken on enabling authority and, more recently, substantive due process grounds. In 1980, the city attempted to slow the conversion of low-income housing developments to nonresidential uses by imposing a fee on changes in use. The fee was successfully challenged as a tax, and the ordinance was replaced with the HPO. The HPO required developers seeking to demolish low-income housing to obtain a housing demolition license, which could be granted only if relocation assistance was provided to the tenants and if a specified percentage of the housing was replaced. As an alternative to providing replacement housing, developers were allowed to contribute

to a housing replacement fund.

In *San Telmo Associates v. City of Seattle*,⁵⁵ the city invalidated the ordinance as an unlawful tax on development rather than a regulatory fee. While the decision was grounded primarily on a unique Washington statute prohibiting the imposition of taxes or fees on development, the decision also characterized the measure as "an attempt to shift the social costs of development on to the developer under the guise of a regulation." The court characterized the provision of housing as a "public" responsibility, which it felt was being shifted to a "limited segment of the population." The court also expressed "grave reservations" as to whether the fee—which amounted to approximately \$1.5 million—could survive a takings challenge. Similarly, in *R/L Associates, Inc. v. City of Seattle*,⁵⁶ the court invalidated tenant assistance provisions of the HPO primarily on the strength of its ruling in *San Telmo*, but declined to rule on whether the ordinance constituted a taking of private property.

The city continued to enforce the HPO despite these mandates. In several recent cases, the city's recalcitrance, coupled with the burden of the expensive fee requirements, were ruled a violation of substantive due process. In *Sintra, Inc. v. City of Seattle*,⁵⁷ the court ruled that the assessment of a \$218,000 fee for the development of a \$670,000 property was unduly oppressive and a violation of substantive due process. In *Robinson v. City of Seattle*,⁵⁸ the court applied a three-part analysis in determining whether the ordinance satisfied substantive due process standards:

The three-prong due process test . . . inquires:

1) whether the regulation aims to achieve a legitimate public purpose; 2) whether the means adopted are reasonably necessary to achieve that purpose; and 3) whether the regulation is unduly oppressive on the property owner. . . . The first and second part of this test are often easily met by challenged government action. The third part is a more difficult determination.⁵⁹

Finding that the ordinance easily passed the first two elements of the substantive due process inquiry, the court rested its decision on an economic hardship analysis. This analysis takes into consideration a number of economic and public policy factors:

The "unduly oppressive" inquiry lodges wide discretion in the court and implies a balancing of the public's interest against those of the regulated landowner. We have suggested several factors for the court to consider to assist it in determining whether a regulation is overly oppressive, namely: the nature of the harm sought to be avoided; the availability and effectiveness of less drastic protective measures; and the economic loss suffered by the property owner. This court also has noted a set of nonexclusive factors for guidance in performing the "unduly oppressive" balancing test.

On the public's side, the seriousness of the public problem; the extent to which the owner's land contributes to it; the degree to which the proposed regulation solves it; and the feasibility of less oppressive solutions would all be relevant. On the owner's side, the amount and percentage of value loss; the extent of remaining uses; past, present, and future uses; temporary or permanent nature of the regulation; the extent to which the owner should have anticipated such regulation; and how feasible it is for the owner to alter present or currently planned uses.⁶⁰

Applying these standards, the court found that the fee provisions, coupled with the city's reluctance to comply with previous court orders, amounted to a violation of substantive due process. Accordingly, the court invalidated the ordinance and remanded the case for a determination of damages.

Whether the *Robinson* and *Sintra* cases will discourage the implementation of linkage systems within or outside Washington remains to be seen. Both cases rejected facial takings challenges, ruling that the ordinance substantially advanced the legitimate public purpose of preserving low-income housing, and did not deny the developers all reasonable use of their property. The language of the opinion also reinforces the need for compliance with the "good faith" standards articulated above, suggesting that the ordinance was simply underinclusive and overly burdensome:

[T]he City may not constitutionally pass on the social costs of the development of the downtown Seattle area to current owners of low-income housing. The problem must be shared by the entire city, and those who plan to develop their property from low-income housing to other uses cannot be penalized by being required to provide more housing. *San Telmo Assocs. v. Seattle*, 108 Wash.2d 20, 25, 735 P.2d 673 (1987). . . .

The public problem of homelessness is certainly serious. The extent to which an owner's land or property particularly contributes to a public problem may in certain instances be determinative, such as in some environmental protection cases. However, this factor is not particularly crucial in this action because these urban properties already have multiple potential uses. The problems of homelessness and a lack of low-income housing in Seattle are in part a function of how all Seattle landowners are using their property. We further conclude that both the feasibility of less harsh means of achieving the City's purpose and the permanence of the nonzoning regulation in controlling the type of use of the landowner's property militate against the City. This court has already said of the HPO that solving the problem of the decrease in affordable rental housing in the City of Seattle is a burden to be shouldered commonly and not imposed on individual property owners. (Emphasis added.)⁶¹

This deficiency can be met by complying with the "good faith" standards articulated above. By spreading the burden of providing low-income housing, the burden on the development industry is reduced pro rata, and the program becomes more effective through the inclusion of non-development-related revenue sources. This approach reduces incidences of hardship and expands the public policy nexus. In fact, a nearly identical case in San Francisco, which also has a longstanding practice of charging commercial developers for their impacts on housing needs, was upheld against unlawful taxation, equal protection, due process, and takings challenges.⁶²

Whether the court would characterize a broadly applied linkage ordinance adopted as part of an overall housing strategy, particularly one that requires existing residents to finance existing housing deficiencies, as an attempt to foist a general public burden on a limited segment of the population seems doubtful. A broad-based approach undermines the public policy arguments underlying the substantive due process inquiry. In the Seattle cases, the fees were limited to a small segment of the development community—owners of low-income housing. In addition, the policy basis for the opinion is factually suspect. The court in *San Telmo* did not reconcile its peremptory characterization of housing as a general public obligation with the fact that 98.6 percent of the housing stock in the United States is produced by the private sector.⁶³ Whether the substantive due process rationale will be followed elsewhere could become a function of how linkage ordinances are structured and their role in overall housing programs.

Quantifying the marginal impact of new development on housing needs is an important part of this strategy. Notably absent from the *Seawall* and Seattle court decisions was a discussion of any attempt to allocate housing costs between the development community and other potential funding sources. Several studies have examined the need for new housing created by employment and growth.⁶⁴ As new employment and residential growth locates in a community, the additional housing demand puts stress on the existing housing market, and land that could have been devoted to housing needs is consumed for other purposes. This creates a potential increase in housing costs and diminishes housing opportunities where the demand is not met with a commensurate increase in supply. The failure to accommodate marginal housing demands within the local jurisdiction may force employees and residents to locate in other jurisdictions, thereby increasing trip lengths and traffic congestion.

Interestingly, the New Jersey Supreme Court, in *Holmdel Builders Ass'n v. Township of Holmdel*, eschewed the rational nexus test applied to impact fees and other development exactions in approving the linkage concept, ruling that an indirect connection

between housing needs and commercial development would suffice in the linkage context.⁶⁵ The court relied heavily on its finding that new commercial or market-rate residential development consumes land that would otherwise be available for low- and moderate-income housing. Because the restriction on land supply would justify permit denial,⁶⁶ the opinion suggests that linkage fees are designed to mitigate the adverse effect of new development rather than to subsidize broad societal burdens.

In *Commercial Builders v. City of Sacramento*,⁶⁷ the court upheld linkage fees calculated on the basis of a yearly subsidy of \$12,000 per inclusionary household. The linkage fees were designed to raise about \$3.6 million annually or nine percent of the projected annual cost to provide affordable housing. The city had identified additional money from nondevelopment sources, including debt funding and general revenues. The court rejected an argument that the ordinance transgressed the constitutional principles set forth in *Nollan*, citing favorably a study establishing that additional low-income housing would be necessitated by an influx of workers associated with new nonresidential development. The court distinguished purely financial exactions, such as fees, from those involving physical encroachments to land. While exactions involving permanent physical occupations must substantially advance a legitimate public purpose, the court ruled that purely financial exactions used to defray a social cost are permissible if reasonably related to the needs created by development activity.

Exceptions to the rational nexus requirements are: the use of taxation rather than police powers; and the provision of low- and moderate-income units through a voluntary arrangement with developers. With excise taxes, monetary compensation is not tied to the need for housing created by a development, and the tax is not collected as a condition of development approval. Because the level of judicial scrutiny for exactions has been refined by *Nollan*, some local governments have turned to development excise taxes for added flexibility.⁶⁸ Excise taxes must be authorized by general enabling legislation or home rule powers. Development excise taxes are not subject to constitutional standards of nexus and proportionality, and may be used for the express purpose of raising revenue for affordable housing.

Developers can also voluntarily agree to provide more low- and moderate-income housing than a local government can constitutionally require through the use of development agreements or other obligations incurred as a quid pro quo for regulatory or other incentives.⁶⁹ However, local governments must insure that the underlying regulations that are relaxed as a result of such agreements are constitutional. If the underlying regulations are confiscatory, the city may be held liable for compensation regardless of whether

developers can escape such regulations through the provision of low- and moderate-income housing. Development agreements are a useful mechanism for establishing the developers' obligations while ensuring that permits will be forthcoming without undue delay. Development agreements are discussed in further detail in Chapter 3.

FINANCING AFFORDABLE HOUSING

Public housing authorities (PHAs), which are agents of the state, are the traditional conduits of low-income housing production. Typically, a PHA finances and operates low-income housing projects through the sale of tax-exempt bonds. A precursor to the public-private partnership movement was the use of "turnkey" procedures whereby low-income housing projects would be constructed by private developers and turned over to the PHA for ownership and operation.⁷⁰ Changes in the federal tax laws in 1986 reduced the role of PHAs in new construction, and the emphasis reverted to tax credits for investors in privately owned developments. The rise of housing trust funds and other innovative local programs signals a trend towards the use of federal-state-local and public-private partnerships in the provision of affordable housing.⁷¹

Housing Trust Funds

Housing trust funds (HTFs) and public-private partnerships are increasingly used by local governments as a response to reductions in federal funding for housing and a lack of financial resources by local governments. A housing trust fund is generally defined as a "dedicated source of revenue available to help low- and moderate-income people achieve affordable housing."⁷² Sources of funds include linkage payments; tax increment financing; endowments and grants; surplus reserve funds from refinancing municipal bond issues; and taxes and fees. Disbursements under the program might include payments for housing-related improvements, such as parks and transit.

Texas established a state HTF in 1991 to provide financial assistance to local governments, PHAs, nonprofit corporations, and income-eligible persons to finance, acquire, rehabilitate, or develop housing.⁷³ Assistance is limited to low- and very-low-income families. The HTF is funded through general appropriations or transfers and unencumbered fund balances of the Housing Finance Division in the Texas Department of Housing and Community Affairs. The Housing Finance Division administers the HTF program.

The Illinois Affordable Housing Act of 1989 creates an Affordable Housing Program targeted to low- and very-low-income families, and an HTF funded by program investments, general appropriations, and a real estate transfer tax.⁷⁴ HTF monies may be used for

new construction, rehabilitation, retention, and operation of low- or very-low-income housing. The trust fund is intended to be a supplementary rather than a primary funding source. The Illinois Housing Development Authority administers the Affordable Housing Program and disburses HTF monies. The Housing Development Authority has also been directed to develop a program for exporting tax increment financing from commercial and industrial developments to very-low-, low-, and moderate-income projects outside a tax increment financing district.

The Maine Affordable Housing Partnership Act of 1989,⁷⁵ calls for the preparation of a state plan for low- and moderate-income housing designed to establish integrated, mixed-income neighborhoods. A state agency, the Maine Affordable Housing Alliance, is charged with rule making and implementation authority requiring local governments to use private- and public-sector resources in the development of affordable housing, and to coordinate housing proposals with comprehensive land-use plans. A nonlapsing revolving loan fund is established for assistance to local governments and nonprofit agencies, and an Affordable Housing Land Trust Fund is established in order to require deed restrictions, covenants, or other property interests designed to preserve the supply of land available for affordable housing. The State Housing Authority is authorized to designate four "housing opportunity zones" in deteriorating urban areas. Local governments must have a local housing alliance and a plan of action to revitalize deteriorating residential dwellings and neighborhoods.

The Vermont Housing and Conservation Trust Fund serves the dual purpose of providing low-income housing and protecting agricultural and historic resources.⁷⁶ The fund is maintained by general appropriations and other public or private resources that may be approved by the general assembly. Municipal, state, nonprofit, or cooperative housing agencies are eligible for support.

The Rhode Island Housing and Conservation Trust Fund Act was recently enacted to provide low- and moderate-income housing. Monies are derived from an existing \$5 million housing endowment fund for the State Housing and Mortgage Finance Corporation and placed into a housing and conservation trust fund.⁷⁷

The Washington Affordable Housing Act,⁷⁸ creates a housing assistance program and HTF that includes revenue from gifts, appropriations, and pooled interest from real estate brokers' escrow accounts. The program is targeted to very-low- and low-income families, first-time homebuyers, and persons with special housing needs, such as the mentally ill, recovering alcoholics, frail elderly persons, disabled persons, and single-parent families. Eligible activities include:

- New construction, rent subsidies, social service matching funds, technical assistance for nonprofit community or neighborhood-based organizations;
- Homeless shelters and temporary assistance to families in order to prevent homelessness;
- Downpayment and closing cost assistance for first-time homebuyers; and
- The preservation of housing subject to expiring use restrictions.

HTF priority is given to projects with access to employment centers or public transportation. Local governments are authorized to leverage HTF contributions by donating land, making infrastructure improvements, waiving impact fees, granting zoning variances, and using "creative local planning." The Department of Community Development, which administers the program, is authorized to protect state interests by: 1) requiring a share in project appreciation proportionate to state contributions; 2) requiring a lump-sum repayment of HTF assistance upon the sale or change of use of the project; or 3) requiring a deferred principal or interest payment after a specified time period.

Tax Increment Financing

Redevelopment activities in inner-city areas have contributed to the loss of housing units available to low- and moderate-income persons. Between 1970 and 1982, for example, nearly one-half of all single-room-occupancy (SRO) units (116,000 units), which provide a source of low-cost housing for low-income, homeless, and transient persons, were demolished.⁷⁹ In addition, housing programs in inner-city areas must compete with economic ventures such as downtown landscaping, small business investment corporations, and slum clearance projects, for limited financial resources. As a consequence, some states have begun to target downtown economic assistance resources like tax increment financing for the production of housing for the poor.

Tax increment financing (TIF) is a mechanism frequently employed by local governments to encourage the redevelopment of blighted urban areas. Under TIF, tax revenues from the "base" valuation existing at the commencement of a redevelopment project are allocated to taxing entities as usual, while ad valorem taxes on increases in value (the tax increment) are earmarked for redevelopment activities. TIF revenues are generally used to finance bonds (referred to as "tax allocation bonds") issued by a redevelopment authority, and the value increment is added back to the tax base when the bonds are retired. Because property value increases are needed to retire tax allocation bonds and because the interest rate on tax allocation



The East Bay Asian Local Development Corporation worked jointly with BRIDGE to develop this mixed-use housing, commercial, and parking facility in Oakland's Chinatown. They secured \$4 million in city tax increment funds and \$5.5 million in HUD funds for the project. The project includes a nine-story senior tower and low-rise family apartments. The buildings cluster around a podium-level interior courtyard with play area over ground-floor commercial space. It won a United Nations World Habitat Award.

bonds is higher than that for general revenue bonds, TIF was originally thought unsuitable for the financing of low-income housing other than in cases in which low-income housing was included in mixed-use projects. (TIF is traditionally used as a mechanism for funding economic development activities and infrastructure improvements.)

But TIF is becoming an increasingly important tool for financing low- and moderate-income housing, especially in the absence of federal subsidies. In California, state law now requires that 20 percent of all TIF revenues be allocated to very-low-, low-, and moderate-income housing.⁸⁰ The provision now applies retroactively to projects established before 1977, the date that the set-aside requirement took effect, and requires that low-income housing projects destroyed by redevelopment agencies must be replaced.

Minnesota also authorizes the use of TIF to provide affordable housing. A TIF plan may be established for a "housing district" containing projects for low- and moderate-income housing projects and nonaffordable housing or nonresidential uses up to 20 percent of fair-market value.⁸¹ Ninety-five percent of owner-occupied units must be affordable to families earning 115

percent of the area median income, as defined in the federal Mortgage Revenue Bond legislation, while at least 50 percent of rental units must be set aside for households earning no more than 50 percent of the area median income as defined by the federal Low-Income Housing Tax Credit legislation. TIF revenues may be used to finance the housing project, public improvements directly related to the project, and administrative expenses. The TIF can remain in effect for up to 25 years from receipt of the first tax increment. However, failure to comply with the set-aside requirements results in the application of time limits for economic development TIF districts—eight years from receipt of the first tax increment and 10 years from approval of the TIF plan.

PROMOTING INFILL DEVELOPMENT AND PRESERVING AFFORDABLE HOUSING

Our nation's existing housing stock is its most affordable source of housing. Preserving the stock of existing housing units in decent neighborhoods, especially infill areas, avoids expensive costs associated with new construction and the extension of public facilities and services to outlying areas. By contrast, the

uncontrolled development and redevelopment of land at rapid levels can drive up the cost of housing, especially for low- and moderate-income persons, in two separate ways. First, speculation often drives up land values, thereby adding to land costs and inhibiting the construction of housing at affordable levels. Second, the use of land for purposes other than the construction of low- and moderate-income housing diminishes the supply of land available for use as housing. As a consequence, many jurisdictions have responded by adopting regulatory and land acquisition measures to ensure that existing housing stock and the supply of land available for affordable housing is preserved. The alternative would be the irretrievable loss of opportunities for low- and moderate-income housing development.

The NIMBY Report, on pages 3-1 to 3-12, identifies rent controls, outdated building codes, property tax disincentives, and restrictions on the siting of manufactured housing and accessory apartments as major barriers to redevelopment and revitalization of central cities. The report goes on to say that anti-redlining legislation, such as the Community Reinvestment Act, provides a significant level of needed reinvestment to central city areas. Regulations that encourage infill include ordinances conditioning the demolition or replacement of certain housing types on the replacement of such housing elsewhere, the payment of a fee in lieu of such replacement, or the payment of relocation assistance to existing tenants. Nonregulatory measures include land assembly, infrastructure maintenance, and investment policies. The use of partnership arrangements with private entities, such as those involving the donation of municipally owned land acquired through the foreclosure of delinquent taxes (referred to as *in rem* properties), and facilitation of financial incentives, such as the low-income housing tax credit and mortgage revenue bonds, also do not rely on regulation and can be effective affordable housing tools.

Promoting Infill Development

Infill development promotes housing affordability by using existing infrastructure and services rather than requiring expensive extensions of roads, water/sewer lines, and other facilities into newly developed areas. Infill development also avoids the consumption of open space in outlying areas and puts housing closer to job centers. Infill development is often frustrated by small lot sizes, high land costs, and neighborhood resistance.⁸²

Regulatory techniques that promote infill include administrative streamlining, density bonuses, and the elimination of overzoning for industrial uses in urbanized areas.⁸³ Infill parcels are often burdened by delinquent taxes or antiquated infrastructure. Cities can address these problems through the forgiveness of delinquent taxes and the funding of off-site improve-

ments. Tax increment financing and special improvement districts are often used as well. Governments may take a more active role through land assembly, land banking, and through leasing and joint venture arrangements using publicly owned land.⁸⁴

Any successful strategy to promote viable inner-city neighborhoods must take into consideration the regional setting of the urban core. The most successful strategies for promoting inner-city development have involved related and integrated controls on outlying development. For example, San Diego and Minneapolis have used "tiered" growth management systems founded on the staged growth concept judicially approved in *Golden v. Planning Board of Town of Ramapo*.⁸⁵ The cities employ a comprehensive system of zoning, impact fees, and public incentives to encourage growth in urbanized areas while staging or discouraging growth in outlying areas. By discouraging urban sprawl and employing incentives for growth in central city areas, the cities have attempted to change the pattern of urban development while preserving viable, livable central city environments.

Preserving Existing Supply: Housing Preservation, Housing Replacement, and Single-Room-Occupancy (SRO) Ordinances

In order to preserve existing affordable housing supplies, many localities have adopted ordinances that condition the demolition or replacement of certain housing types on the replacement of such housing elsewhere, the payment of a fee in lieu of such replacement, or the payment of relocation assistance to existing tenants. The conditions are generally tied to demolition licenses (the technique used in Seattle, San Francisco, and Hartford) or demolition/conversion moratoria (used in New York City). Some local governments have attempted to slow the diminution in rental housing supplies by regulating condominium conversions through the special use permit or subdivision approval process.⁸⁶ Rent control is also widely used where rapid growth in market-rate or upscale residential units has driven the price of rental housing beyond the reach of low- and moderate-income tenants. A recent federal decision upheld a Cambridge, Massachusetts, ordinance that coupled rent control with a requirement that permits be obtained from the city's rent control office prior to removing rental units from the market—including those removed through condominium conversion—against a takings challenge.⁸⁷

Single-room-occupancy (SRO) programs combine SRO demolition moratoria with relaxed construction standards and below-market interest loans to SRO developers.⁸⁸ Reasonable fees on the conversion of SROs to market-rate dwellings or nonresidential uses have been upheld by the courts,⁸⁹ although the New York Supreme Court recently invalidated a moratorium on demolition that was coupled with provisions

requiring rehabilitation and rental to bona fide tenants.⁹⁰ (See also the discussion above of linkage.)

Rent controls involve the establishment of a maximum rental price that may be charged by a landlord to a tenant. While many view rent controls as necessary to preserve affordable rental alternatives for low-income persons in areas where rapid demand has contributed to escalating rents, opponents claim that rent controls inhibit the construction of new rental housing.⁹¹ The Advisory Commission on Regulatory Barriers was clearly aligned with opponents of rent control, and the Department of Housing and Urban Development has recently issued a critical report.⁹²

Regardless of the efficacy of rent control in the overall housing picture, the commission's concerns seem unbalanced given the infrequency with which the technique is used. Rent control is generally limited to those areas where rapid growth in market-rate or upscale residential units has driven the price of rental housing beyond the reach of low- and moderate-income tenants. Permanent rent controls are used by state and local governments in only five states (California, D.C., Massachusetts, New Jersey, and New York), and, in many states, rent controls are banned outright, subjected to very stringent statutory criteria, or are permissible only in the event of an emergency due to a disaster.

The argument that rent control discourages investment in new housing and maintenance, contributes to homelessness, and induces a rise in the cost of uncontrolled units has been questioned. A recent article published in the *Journal of the American Planning Association* points out that much of the evidence against rent control stems from a single study published in 1987.⁹³ The Appelbaum article argues that the 1987 study is flawed by selective sampling and the failure to isolate other factors contributing to high rates of homelessness, such as climate, unemployment, and the high rents that motivate rent control in the first instance. The authors point out that three of the four jurisdictions identified as having the most severe rate of homelessness lack rent control and cite a number of studies finding little relationship between rent control and overall housing affordability, investment in new construction and maintenance, abandonment and displacement, and tax rates.

Moreover, the homelessness problem is most often identified with mental illness rather than rent controls.⁹⁴ In a random sampling of 41 cities, based upon a national study by the Department of Housing and Urban Development, Appelbaum et al. found that only unemployment rates, high mean temperatures, high percentages of renters, and low vacancy rates bore a statistically significant correlation with homelessness.⁹⁵ The incidence of homelessness was attributed to the declines in federal housing subsidies rather than to rent controls.

Indeed, the evidence against rent control suggests that, to the extent that a problem exists, it is more a

function of system design rather than inherent flaws in the approach itself. The exemption of new housing construction, the use of vacancy decontrols, and monitoring systems designed to target rent controls to the poorest segments of the population can be used to soften the impact on landlords and to avoid discouraging new construction.⁹⁶

When properly structured, rent control ordinances have consistently been upheld by the United States Supreme Court against due process and Fifth Amendment challenges.⁹⁷ In *Yee v. City of Escondido*,⁹⁸ the Court ruled that a rent control ordinance, coupled with a state statute that limited the grounds upon which leases in manufactured home rental communities could be terminated (including failure to pay rent), did not amount to a permanent physical occupation of the landlord's property. The mobile home park owners claimed that the combination of the California Mobile-home Residence Law and the City of Escondido's rent control ordinance amounted to a taking without just compensation. Rent control, according to the Court, was an accepted constitutional principle. The Court ruled that, since neither the city ordinance nor the state laws' limitations on eviction required park owners to continue to rent their land, the governmental action involved regulation of the use of property rather than physical occupation. The Court's decision, however, simply removes the permanent physical occupation test, which results in *per se* liability under the takings clause of the United States Constitution, as a potential argument for landowners in that situation. It did not resolve the issue of when the burden on landowners become so onerous as to deny all reasonable use of their property, or whether rent controls bear a requisite nexus to the public purpose of protecting the supply of low-income housing.

The typical elements of a rent control ordinance include:

Applicability. Rent control laws typically exempt owner-occupied dwelling units, buildings designed only for transient occupancy, rooming houses, and units constructed after the effective date of the ordinance. The exemption for new construction is generally designed to soften any disincentive for the construction of new buildings designed for occupancy by low- and moderate-income families. Exemptions or other preferential incentives for new construction generally take the following forms: 1) the exemption of all construction commenced after a date established in the ordinance; 2) the exemption of initial rents charged in new buildings only; or 3) an exemption for an established period of time or until an initial turnover in tenants.

Price Adjustments/Fair Return. Fair-return standards, which determine allowable increases in rent, are the most controversial and frequently litigated features of rent control ordinances. In order to survive judicial

scrutiny under the takings clause of the United States Constitution, the ordinance must ensure that there is an adequate rate of return for landowners.⁹⁹ While most fair-return standards focus exclusively on the landlord's rate of return or recovery of capital investments, some ordinances now consider hardship to the tenant where rent increases are sought above a certain threshold level.¹⁰⁰ In *Pennell v. City of San Jose*, the United States Supreme Court upheld a novel ordinance requiring the rent control board to consider whether rent increases above eight percent would impose an "unreasonably severe financial or economic hardship on a particular tenant."¹⁰¹ The San Jose ordinance granted an automatic increase of up to eight percent, with consideration of seven additional factors justifying increases exceeding eight percent. These included cost of debt service, rental history of the unit, physical condition of the unit, changes in housing services, market-value rents for comparable units, and other financial information provided by the landlord. The city prescribed certain household income and monthly expenses under which financial or economic hardship would be presumed. Tenants bear the burden of establishing other economic hardships.

In the United States, fair-return standards are generally designed to stabilize rents rather than to ensure comparable returns for comparable units.¹⁰² Most ordinances authorize rental increases above a baseline level established prior to the effective date of the ordinance based upon an established formula, criteria set forth in the ordinance, or an individualized increase established through an administrative process.

The types of standards generally include:

Cash-flow standards, which allow increases to cover debt service and maintenance costs;

Return-on-equity standards, which authorize increases to cover debt service costs, maintenance costs, and an allowance for initial cash investments;

Return-on-value standards, which authorize increases to cover operating expenses and a fair return based on the value of the property;

Percentage net operating income standards, which authorize adjustments where net operating income falls below a specified percentage of gross rents; and

Net operating income maintenance standards, which provide that rents may increase to include increases in operating expenses above a baseline rental established in the ordinance. In addition, most ordinances authorize increases to cover the cost of capital improvements.

Vacancy Decontrol. Many rent control ordinances contain a provision allowing the landlord to reassume control over the rent, with or without further controls on rent increases, when a lease is terminated. The converse situation, in which the landlord is required to grant the tenant a lease of unlimited duration, has invited litigation on takings grounds. The United States Supreme Court decision in *Yee v. City of Escondido* (discussed above) suggests that the failure to provide vacancy decontrol is not a *per se* taking. However, the combination of restrictions on rent increases and the absence of vacancy decontrols could expose local governments to liability as the hardship to landlords increases.

Chapter 2. Notes

1. Allan Mallach, *Inclusionary Housing Programs: Policies and Practices* (New Brunswick, N.J.: Center for Urban Policy Research, Rutgers University, 1984).
2. See, for example, Cal. Gov't Code, Sec. 65589.8 (West Supp. 1992), which mandates that inclusionary set-aside ordinances allow developers to satisfy inclusionary requirements by constructing rental housing; 1991 Connecticut Laws, P.A. 91-204, S.H.B. No. 7118; Florida Stat. Ann. Sec. 163.3202(3); Maryland Ann. Code Sec. 12.01 (Supp. 1991); N.H. Rev. Stat. Ann. Sec. 674:21 (West Supp. 1988).
3. A 1989 study in New Jersey found that, while 16,849 dwelling units were scheduled for production in only 54 communities through the use of inclusionary set-asides, only 1,700 units had been produced with Department of Housing and Urban Development subsidies. Martha Lamar, Allan Mallach, John M. Payne, "Mount Laurel at Work: Affordable Housing in New Jersey, 1983-1988," *Rutgers Law Review* 41 (1989): 1199, 1209.
4. Robert Ellickson, "The Irony of Inclusionary Zoning," *Southern California Law Review* 54 (1981): 1167.
5. *Ibid.*
6. This theory is generally used to explain why impact fees do not automatically translate into higher home prices. Charles J. Delaney and Marc T. Smith, "Development Exactions: Winners and Losers," *Real Estate Law Journal* 17 (1989): 195; Forrest E. Huffman, Arthur C. Nelson, Marc T. Smith, and Michael A. Stegman, "Who Bears the Burden of Impact Fees?," *Journal of the American Planning Association* 54 (1988): 49.
7. Donald Hagman, "Taking Care of One's Own Through Inclusionary Zoning: Bootstrapping Low- and Moderate-Income Housing by Local Government," *Urban Law and Policy* 5 (1982): 169; S. Mark White, "Development Fees and Exemptions for Affordable Housing: Tailoring Regulations to Achieve Multiple Public Objectives," *Journal of Land Use and Environmental Law* 6 (1990): 25, 28-29.
8. Hagman, "Taking Care of One's Own," 175-76.
9. See Madelyn Glickfeld and Ned Levine, *Regional Growth . . . Local Reaction: The Enactment and Effects of Local Growth Control and Management Measures in California* (Cambridge, Mass.: Lincoln Institute of Land Policy, 1992); California Association of Realtors, *Matrix of Land Use Planning Measures, 1971-1988*.
10. Orange County adopted a mandatory set-aside requirement in 1979 and, in 1983, changed the program to an incentive-based, voluntary provision. Michael Banzhaf, "Are Mandatory Inclusionary Housing Programs Passe? The Orange County Experience," *Western State University Law Review* 13 (1986): 473. Between 1980 and 1986, the county issued 24,913 building permits for housing, which was the third highest level of permit issuance of any county in the state. U.S. Dept. of Commerce, *County and City Data Book* (May 1988): 59. This figure represented 7.9 percent of all housing permits issued in the state during that period and a 14 percent growth rate for the county.
- Montgomery County, Maryland, adopted its "moderately priced dwelling unit" (MPDU) program in 1973, which required developers building more than 50 units in a subdivision to set aside 15 percent of those units for moderate-income residents. See *Marshall v. Fitzgerald*, 47 Md. App. 319, 423 A.2d 9th 67 (1980). Montgomery County issued 7,509 building permits for housing between 1980 and 1986—the highest level in the State of Maryland—for a 23.9 percent growth rate. Clearly, inclusionary zoning has not discouraged the production of new housing in Orange or Montgomery counties.
11. Mark Miller, "Inside an 'Enterprise Zone'," *NewsWeek*, March 6, 1989, 43; Ron Stodghill II, Patrick E. Cole, Teresa McGuire, "Enterprise Zones—Or Twilight Zones?," *Business Week*, February 27, 1989, 113; Joseph P. Shapiro, "A Conservative War on Poverty," *U.S. News & World Report*, February 27, 1989, 20; Ann McDaniels, "Kemp's Brave New World," *NewsWeek*, January 2, 1989, 26; Patrick G. Marshall, "Do Enterprise Zones Work?," *Editorial Research Report* (Congressional Quarterly), April 28, 1989, 230, 239.
12. Harold A. McDougall, "Affordable Housing for the 1990s," *Journal of Law Reform* 20 (1987): 727, 741.
13. Mallach, *Inclusionary Zoning*, 39-41.
14. Dale A. Whitman, "Federal Housing Assistance for the Poor," *Urban Lawyer* 9 (1977): 32-33.
15. *Ibid.*
16. It is estimated that nearly two-thirds of eligible low-income renters do not receive governmental assistance. Joint Center For Housing Studies, *The State of the Nation's Housing* (1991): 16.
17. 214 Va. 235, 198 S.E.2d 600 (1973).
18. See *Board of Supervisors v. Carper*, 200 Va. 653, 107 S.E.2d 390 (1959).
19. A number of cases have upheld the use of zoning districts with a direct socioeconomic purpose (e.g., retirement community districts authorizing elderly housing) as a valid exercise of the police powers and as an authorized purpose under the zoning enabling legislation. See, for example, *Shepard v. Woodland Tp. Committee & Planning Board*, 71 N.J. 230, 364 A.2d 1005 (1976); *Taxpayers Association of Weymouth Township v. Weymouth Township*, 71 N.J. 249, 364 A.2d 1016 (1976); and *Maldini v. Ambro*, 36 N.Y.2d 481, 369 N.Y.S.2d 385, 330 N.E.2d 403 (1975). Compare *Hinman v. Planning and Zoning Commission*, 26 Conn. Supp. 125, 214 A.2d 131 (1965); Richards, "Zoning for Direct Social Control," *Duke Law Journal* (1982): 761.
20. 67 N.J. 151, 336 A.2d 713 (1975), *cert denied*, 423 U.S. 808 (1975) (Mt. Laurel I); 92 N.J. 158, 456 A.2d 390 (1983) (Mt. Laurel II).
21. ___ U.S. ___, 60 U.S.L.W. 4842 (1992).
22. *Yee v. City of Escondido*, ___ U.S. ___, 112 S.Ct. 1522 (1992).
23. 463 U.S. 825, 107 S.Ct. 3141, 97 L.Ed.2d 677 (1987).
24. Mallach, *Inclusionary Zoning*, 36-37.
25. *Ibid.*, 166-173.
26. 94 N.J. 358, 464 A.2d 115 (1983).
27. 397 Mass. 329, 491 N.E.2d 618 (1986). Compare *Middlesex v. Aldermen of Newton*, 371 Mass. 849, 359 N.E.2d 1279 (1977), in which a 10 percent set-aside requirement was invalidated because there was no express authority in state zoning legislation.
28. *South Burlington County NAACP v. Township of Mt. Laurel*, 456 A.2d 447 (1983).

29. Henry A. Hill, "Government Manipulation of Land Values to Build Affordable Housing: The Issue of Compensating Benefits," *Real Estate Law Journal* 13 (1984): 3.

30. Virginia Code Ann. Secs. 15.1-491.8, -491.9 (1991).

31. Gov't Code Sec. 65915. The legislation also requires regulatory incentives for developments providing other social amenities, such as housing within one-half mile of a mass transit guideway station (Sec. 65913.5) and the provision of child care facilities (Sec. 65917.5).

32. Mallach, *Inclusionary Zoning*, 106-122.

33. S. Mark White, "Using Fees and Taxes to Promote Affordable Housing," *Land Use Law and Zoning Digest* 43 (September 1991): 3.

34. Linda Bozung, "A Positive Response to Growth Control Plans: The Orange County Inclusionary Housing Program," *Pepperdine Law Review* 9 (1982): 841-42.

35. IV American Law Institute, *Restatement (Second) of Property*, Sec. 410, comment at 2429 (1944).

36. Mallach, *Inclusionary Zoning*, 142. Mallach notes that these periods generally range from 10 years to perpetuity. The Palo Alto, California, program includes deed restrictions "lasting 59 years, which period started anew with each transaction." Mallach offers the opinion that "[t]he likelihood of any one homeowner remaining in the unit for more than 59 years is remote enough for this provision to be considered a de facto perpetual control." The San Francisco linkage ordinance uses a renewal feature coupled with a 20-year promissory note.

37. Gerald Korngold, "Privately Held Conservation Servitudes: A Policy Analysis in the Context of In Gross Real Covenants and Easements," *Texas Law Review* 63 (1984): 433.

38. Robert W. Burchell, W. Patrick Beaton, and David Listokin, *Mount Laurel II: Challenge and Delivery of Low-Cost Housing* (New Brunswick, N.J.: Center for Urban Policy Research, Rutgers University, 1983) 356; 24 C.F.R. Sec. 203.32 (Apr. 1, 1991), which mandates that FHA-insured mortgages be clear of all prior liens; one exception to this rule, however, allows a lien that favors a local government and has the prior approval of the commissioner.

39. 56 *Federal Register* 58762 (Nov. 21, 1991).

40. Mallach, *Inclusionary Zoning*, 144, note 2; Cal. Gov't. Code Sec. 65915(c).

41. 1991 Maine Laws, ch. 373 (to be codified at 33 Maine Rev. Stat. Ann., ch. 6, Secs. 121-126); 1991 Rhode Island Laws, Ch. 91-237

42. Davis, California, Ord. No. 1567 (June 20, 1990).

43. "Community Land Trusts Grow, Make Housing More Affordable," *Housing and Development Reporter*, October 14, 1991, 431; Institute for Community Economics, *The Community Land Trust Handbook* (1982). See also Connecticut Housing Land Bank and Land Trust Program, Conn. Gen. Stat. Ann. Secs. 214b-214e (1989), as amended by 1991 Connecticut Laws, P.A. 91-182, S.H.B. 7067; and Maine Rev. Stat. Ann. Secs. 5021-5025, which established an Office of Nonprofit Assistance to monitor and assist homestead land trusts.

44. *NIMBY Report*, 8-9. In 1990, the Labor Management Relations Act was amended to authorize unions to negotiate for employer-assisted housing [Public Law No. 101-723 [S. 1949] (Apr. 18, 1990)]. As a consequence, a Boston community-based housing corporation

was able to establish a \$1 million, three-year trust fund designed to provide housing assistance to service workers.

45. 483 U.S. 825, 107 S.Ct. 3141, 97 L.Ed.2d 677 (1987). See Robert H. Freilich and Terry D. Morgan, "Municipal Strategies for Imposing Valid Development Exactions: Responding to *Nollan*," *Zoning and Planning Law Report* 10 (December 1987): 169, 172; Robert H. Freilich and Stephen P. Chinn, "Finetuning the Taking Equation, Applying It to Development Exactions (Part II)," *Land Use Law and Zoning Digest* 40 (March 1988).

46. *Commercial Builders of Northern California v. City of Sacramento*, 941 F.2d 872, 1991 W.L. 146977 (9th Cir. 1991); *Holmdel Builders Ass'n v. Township of Holmdel*, 121 N.J. 550, 583 A.2d 277 (1990); compare *Bonan v. General Hospital Corporation*, 398 Mass. 315, 496 N.E.2d 640 (1986), vacating No. 76438 (Mass. Super. Ct. March 31, 1986), which invalidated a linkage fee at trial court level on procedural grounds. A recent District of Columbia appellate court decision dismissed a linkage ordinance adopted by initiative under a unique provision of the city's charter and federal enabling authority conferring exclusive discretion pertaining to the allocation of resources on the City Council. *Hessey et al. v. Board of Elections*, 601 A.2d 3 (D.C. App. 1991).

47. See *Blagden Alley Ass'n v. District of Columbia Zoning Comm'n*, 590 A.2d 139 (D.C. App. 1991), which approved the practice of off-site housing exactions but remanded the case for findings; *Nunziato v. Planning Board*, 225 N.J. Super. 124, 541 A.2d 1105 (1988), which invalidated \$500-per-dwelling-unit contribution to affordable housing program exacted as a condition of variance approval; and *Alexander's Dept. Stores of New Jersey v. Borough of Paramus*, 243 N.J. Super. 157, 578 A.2d 1241 (1990), which rejected a neighboring landowner's challenge to affordable housing contribution on standing grounds.

48. *Holmdel Builders Ass'n v. Township of Holmdel*, 121 N.J. 550, 583 A.2d 277 (1990); see also *In re Egg Harbor Associates*, 94 N.J. 358, 464 A.2d 1115 (1983).

49. One commentator reports that housing has been considered as one of the mandatory elements of Florida "concurrency" requirement, which prohibits the issuance of development permits that would cause a reduction in locally adopted level-of-service standards for public facilities. Robert Odland, "Growth Management: What California Can Learn from the Sunshine State," *Loyola of Los Angeles Law Review* 24 (1991): 1109, 1119.

50. *Stoney-Brook Development Corp. v. Town of Fremont*, 474 A.2d 561 (N.H. 1984); *Conway v. Town of Stratham*, 414 A.2d 539 (N.H. 1980); *Westwood Forest Estates, Inc. v. Village of South Nyack*, 244 N.E.2d 700 (N.Y. 1969); *Q.C. Construction v. Gallo*, 649 F.Supp. 1331 (D.R.I. 1986); *Associated Homebuilders, Inc. v. City of Livermore*, 557 A.2d 473 (Cal. 1976) (J. Mosk, dissenting). As a corollary, where jurisdictions are making real and substantial attempts to remedy public facility or housing deficiencies and to accommodate new growth through the planning process, courts will assume their good faith. See, for example, *Golden v. Planning Board of the Town of Ramapo*, 30 N.Y.2d 359, 334 N.Y.S.2d 138, 285 N.E.2d 291, app. diss'd, 409 U.S. 1003 (1972); *Smoke Rise, Inc. v. Washington Suburban Sanitary Commission*, 400 F.Supp. 1369 (D.Md. 1975); *Beck v. Town of Raymond*, 394 A.2d 847 (N.H. 1978); *Rancourt v. Town of Barnstead*, 523 A.2d 55 (N.H. 1986); *Westwood Forest Estates, Inc. v. Village of South Nyack*, 244 N.E.2d 700 (N.Y. 1969); *Belle Harbor Realty v. Kerr*, 323 N.E.2d 697 (N.Y. 1974).

51. *Dailey v. City of Lawton, Okla.*, 296 F. Supp. 266 (W.D. Okla. 1969), aff'd, 425 F.2d 1037 (10th Cir. 1970), which declared that the denial of multifamily zoning for a low-income housing sponsor based on the inadequacy of public facilities was invalid and discriminatory; *Urban League of Essex County v. Mahwah Tp.*, 207 N.J. Super. 169, 504 A.2d 66, 79-81 (1984); *Kennedy Park Homes Ass'n v.*

City of Lackawanna, 436 F.2d 108, 114 (2d Cir. 1970), cert. denied, 401 U.S. 1010 (1971), which invalidated a moratorium on rezoning and subdivision approvals due to asserted lack of sewer capacity because there was evidence of racial discrimination and lack of effort to resolve existing facility deficiencies.

52. Freilich and Morgan, "Municipal Strategies for Imposing Valid Development Exactions."

53. 74 N.Y.2d 92, 542 N.E.2d 1059, 544 N.Y.S.2d 542 (1989).

54. *Ibid.*, 542 N.E.2d at 1062-65; see also *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419 (1982).

55. 108 Wash.2d 20, 735 P.2d 20 (1987).

56. 113 Wash.2d 402, 780 P.2d 838 (1989).

57. 119 Wash.2d 1, 829 P.2d 765 (1992).

58. 119 Wash.2d 34, 830 P.2d 318 (1992).

59. *Ibid.*, 830 P.2d 329.

60. *Ibid.*

61. *Ibid.*, 830 P.2d 330, 331.

62. *Terminal Plaza v. City and County of San Francisco*, 177 Cal.App.3d 982, 223 Cal.Rptr. 379 (1986).

63. George Sternlieb and James W. Hughes, "Private Market Provision of Low-Income Housing: Historical Perspective and Future Prospects," *Housing Policy Debate* 2 (1990): 123.

64. Jerold Kayden and Robert Pollard, "Linkage Ordinances and Traditional Exactions Analysis: The Connection Between Office Development and Housing," *Law and Contemporary Problems* 50 (1987): 127; George Sternlieb, Robert Burchell, and Lynne Sagalyn, *The Affluent Suburb* (New Brunswick, N.J.: Center for Urban Policy Research, Rutgers University, 1971), 59-92.

65. *Holmdel Builders Ass'n v. Township of Holmdel*, 121 N.J. 550, 583 A.2d 277 (1990).

66. *Tocco v. New Jersey Council on Affordable Housing*, 242 N.J. Super. 218, 576 A.2d 328, cert. denied, 585 N.J. 401 (1990), cert. denied, 111 S.Ct. 1389 (1991).

67. *Commercial Builders of Northern California v. City of Sacramento*, 941 F.2d 872, 1991 W.L. 146977 (9th Cir. 1991). The fee amount is not set forth in the opinion.

68. S. Mark White, "Using Fees and Taxes to Promote Affordable Housing." Cf. 1990 Washington Laws, Ch. 17, S.H.B. 2929, Sec. 36 (to be codified at Wash. Rev. Code Sec. 82.46.010), which authorizes an excise tax on real estate transfers of 0.25 percent or a supplemental tax of 1.5 percent of the selling price in order to finance capital improvements designated in a comprehensive plan and housing relocation assistance for tenants displaced from the change in use or conversion of residential developments.

69. *Leroy Land Dev. v. Tahoe Regional Planning Agency*, 939 F.2d 696 (9th Cir. 1991).

70. See *Marino v. Town of Ramapo*, 68 Misc.2d 44, 326 N.Y.S.2d 162 (1971).

71. See Robert H. Freilich and Brenda Nichols, "Public-Private

Partnership in Joint Development: The Legal and Financial Anatomy of Large Scale Urban Projects," *Municipal Finance Journal* 7 (1986): 5; Robert H. Freilich and Stephen P. Chinn, "Transportation Corridors: Shaping and Financing Urbanization Through Integration of Eminent Domain, Zoning and Growth Management Techniques," *University of Missouri at Kansas City Law Review* 55 (1987): 153, 183.

72. David Rosen, *Housing Trust Funds*, PAS Report No. 406 (Chicago: APA, 1987), 9.

73. 1991 Texas Laws, Ch. 762, S.B. No. 546, Sec. 2 (to be codified at Tex. Rev. Civ. Stat. Art. 4413(501), Sec. 3.16).

74. Illinois Rev. Stat., Ch. 67, Paragraphs 1251, 1254-1255.

75. 30 Maine Rev. Stat. Ann. Sec. 5001 et seq.

76. 10 Vermont Stat. Ann. Sec. 312 (Supp. 1991).

77. R.I. Gen. Laws Sec. 42-55.1-1 to -55.1-3 (Supp. 1991).

78. Wash. Rev. Code Sec. 43.185.010 et seq. (as amended by 1991 Washington Laws, ch. 356, S.H.B. 1624).

79. Field Hearing before Subcommittee on Policy Research and Housing of the House Committee on Banking, Finance, and Urban Affairs, 101st Cong., 1st Sess., No. 101-38 (June 19, 1989), at 31-32; *NIMBY Report*, 7-13.

80. Community Redevelopment Law, California Health and Safety Code Secs. 33000, 33334.2; Amanda Susskind and Robin Harris, "Providing Affordable Housing through Redevelopment," *Public Law News* (Annual Meeting Issue 1991), 6, 13.

81. Minn. Stat. Ann. Sec. 469.174 (West Supp. 1992).

82. Real Estate Research Corporation, "Is Infill the Answer to Affordable Units?," in Frank Schnidman and Jane Silverman, editors, *Housing Supply and Affordability* (Washington, D.C.: ULI, 1983): 203-204.

83. Real Estate Research Corporation, *Infill Development Strategies* (Washington, D.C.: ULI and APA, 1982): 43-62; Eric Smart, *Making Infill Projects Work* (Washington, D.C. and Cambridge, Mass.: ULI and Lincoln Institute of Land Policy, 1985): 27-35.

84. Real Estate Research Corporation, *Infill Development Strategies*, 69-92.

85. Robert H. Freilich and Ragsdale, "Timing and Sequential Controls—The Essential Basis for Effective Regional Planning: An Analysis of the New Directions for Land Use Control in the Minneapolis-St. Paul Metropolitan Region," *Minnesota Law Review* 58 (1974): 1009; David Callies and Robert H. Freilich, *Cases and Materials on Land Use* (St. Paul, Minn.: West Publishing Co., 1986); San Diego Progress Guide and General Plan with Freilich and Leitner, legal consultants, *Guidelines for Future Development*, adopted February 26, 1979; see also *J. W. Jones v. City of San Diego*, 157 Cal.App.3d, 203 Cal.Rptr. 580 (1984).

86. See, for example, *Griffin Development Corp. v. City of Oxnard*, 39 Cal.3d 256, 217 Cal.Rptr. 1, 703 P.2d 339 (1985), in which it was found that the regulation of condominium conversions through special use permits was a legitimate use of police power and did not amount to a taking of private property; *McHenry State Bank v. City of McHenry*, 113 Ill.App.3d 82, 68 Ill.Dec.615, 446 N.E.2d 521 (1983), which considered condominium conversion regulations not authorized by zoning enabling legislation; *CHR General, Inc. v. City of Newton*, 387 Mass. 351, 439 N.E.2d 788 (1982), in which condominium conversion

regulations not authorized by zoning enabling legislation or independent municipal powers were challenged; *Graham Court Associates v. Chapel Hill*, 281 S.E.2d 418 (N.C.App. 1981), in which the town lacked authority under zoning enabling legislation to prohibit conversion of apartments to condominiums; and *Bridge Park Co. v. Borough of Highland Park*, 113 N.J. Super. 219, 273 A.2d 397 (1971), which ruled on an ordinance prohibiting horizontal property regimes or condominium units not authorized by zoning enabling legislation. For a discussion of the impacts of condominium conversion on neighborhoods and fiscal resources, see U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *The Conversion of Rental Housing to Condominiums and Cooperatives: A National Study of Scope, Causes and Impacts* (Washington, D.C.: U.S. GPO, June 1980).

87. *Gilbert v. City of Cambridge*, 932 F.2d 51 (1st Cir.), cert. denied, 112 S.Ct. 192 (1991); see also *Santa Monica Pines, Ltd. v. Rent Control Board*, 35 Cal.3d 858, 201 Cal.Rptr. 593, 679 P.2d 27 (1984).

88. See "SROs: A Poor Stepchild Comes of Age," *Zoning News*, August 1990, 1-3; Frances Werner and David Bryson, "A Guide for the Preservation and Maintenance of Single Room Occupancy (SRO) Housing," *Clearinghouse Review* (April 1982): 999.

89. Compare *Gilbert v. City of Cambridge*, which upheld a condominium conversion ordinance against takings challenge; *Terminal Plaza v. City & County of San Francisco*, 177 Cal. App.3d 892, 223 Cal.Rptr. 379 (App. 1986), which upheld in-lieu fee charged as a condition of converting single-room occupancy buildings to commercial or market-rate users; *Bullock v. City and County of San Francisco*, 271 Cal.Rptr. 44 (Cal. App. 1 Dist. 1990), which decided that a moratorium on conversion of SRO units to a hotel (conditioned on payment of a tenant relocation assistance fee) was constitutional but was preempted by state legislation; *Kalaydjian v. City of Los Angeles*, 149 Cal. App.3d 690, 197 Cal.Rptr. 149 (1983), which upheld a tenant relocation fee imposed as condition of condominium conversion; with *San Telmo Associates v. City of Seattle*, 108 Wash.2d 20, 735 P.2d 673 (1987), which ruled that a housing preservation ordinance and in-lieu fee were prohibited by state anti-impact fee legislation; *R/L Associates, Inc. v. City of Seattle*, 113 Wash.2d 402, 780 P.2d 838 (1989), in which tenant assistance provisions imposed as a condition to conversion of low-income housing units were ruled to be inconsistent with a state statute; and the recent companion cases of *Sintra v. City of Seattle*, 108 Wash.2d 20, 735 P.2d 20 (1987) and *Robinson v. City of Seattle*, 113 Wash.2d 402, 780 P.2d 838 (1989), in which tenant relocation assistance provisions were invalidated as a violation of substantive due process.

Legislation passed by Washington state in 1990 authorizes local governments to require tenant relocation assistance payments for landowners converting low-income housing developments to other uses. Wash. Rev. Code, Secs. 82.02.020, 59.18.440-59.18.450 (West Supp. 1991).

90. *Seawall Associates v. City of New York*, 74 N.Y.2d 92, 542 N.E.2d 1059, 544 N.Y.S.2d 542 (1989).

91. See, for example, Anthony Downs, *Residential Rent Controls: An Evaluation* (Washington, D.C.: ULI, 1988).

92. U.S. Department of Housing and Urban Development, *Report to Congress on Rent Control* (1991).

93. Richard P. Appelbaum et al., "Scapegoating Rent Control: Masking the Causes of Homelessness," *Journal of the American Planning Association* 57 (Spring 1991): 153.

94. For studies of the incidence of mental illness and drug addiction among the homeless, see "The Physical and Mental Health Status of Homeless Adults," *Housing Policy Debate* 2 (1991): 815; "Alcohol and Other Drug Problems Among the Homeless: Research, Practice, and Future Directions," *Housing Policy Debate* 2 (1991): 837.

95. Applebaum, "Scapegoating Rent Control," 157-58.

96. For a thorough and comprehensive description of system design, see Kenneth Baar, "Guidelines for Drafting Rent Control Laws: Lessons of a Decade," *Rutgers Law Review* 35, no.4 (1983): 721-85.

97. *Pennell v. City of San Jose*, 485 U.S. 9, 108 S.Ct. 849 (1988); *Block v. Hirsh*, 256 U.S. 135 (1944); *Fresh Pond Shopping Center, Inc. v. Callahan*, 464 U.S. 875 (1983); *Bowles v. Willingham*, 321 U.S. 503 (1944); *Eggar A. Levy Leasing Co. v. Siegel*, 258 U.S. 242 (1922); *Marcus Brown Holding Co. v. Feldman* 256 U.S. 170 (1921).

98. *Yee v. City of Escondido*, ___ U.S. ___, 112 S.Ct. 1522 (1992); *Fragopoulos v. Rent Control Board of Cambridge*, 557 N.E.2d 1153 (Mass. 1990), in which the court ruled that conditions placed upon a landlord who sought to change rent-controlled property from four-unit building to an owner-occupied, three-unit building are not a physical invasion and occupation of his property.

99. See *McHugh v. Santa Monica Rent Control Board*, 49 Cal.3d 348, 261 Cal.Rptr. 318, 777 P.2d 91 (1989); *Fisher v. City of Berkeley*, 37 Cal.3d 644, 209 Cal.Rptr. 682, 693 P.2d 261, aff'd, 475 U.S. 260 (1986); *Nash v. City of Santa Monica*, 37 Cal.3d 97, 207 Cal.Rptr. 285, 688 P.2d 894, app. diss'd, 470 U.S. 1046 (1985); *Birkenfield v. City of Berkeley*, 17 Cal.3d 129, 130 Cal.Rptr. 465, 550 P.2d 1001 (1976); *Helmsly v. Borough of Ft. Lee*, 78 N.J. 200, 394 A.2d 65 (1978), which invalidated a 2.5 percent general adjustment ceiling and onerous individual adjustment exclusion; *Kress, Dunlap & Lane, Ltd. v. Downing*, 193 F.Supp. 874 (D.V.I. 1961), which struck down a rent control ordinance allowing no increase in rentals for a 14-year period; *Searle v. Rent Stabilization Board*, 271 Cal.Rptr. 437 (Cal. App. 1990), which invalidated a rent control ordinance that limited annual rental adjustments to only 40 percent of the CPI and required a landlord to petition for an inflation adjustment. See also Katherine E. Stone and Phillip A. Seymour, "Hall v. City of Santa Barbara: A New Foot in the Takings Door?," *Public Law News* 15, no. 2 (1991): 5.

100. Dennis Keating, "Rent Control: Fair Return, Landlord Hardship, and Regulatory Takings," *Zoning and Planning Law Handbook* (1990): 401-03.

101. 485 U.S. 8 (1988).

102. Baar, "Guidelines for Drafting Rent Control Laws," 732-36.

AGENDA
HOUSING REFORM AND ECONOMIC INDEPENDENCE

August 3, 1993
1 - 2:30 p.m., Room 248 OEOB

I. Brief Listing of the Options (30 minutes)

HUD

HHS

Treasury

II. Analysis/discussion of the Options (45 minutes)

III. Selecting Options for Further FY 1995 Consideration
(15 minutes)

IV. Next Steps

Who Gets Housing Assistance?

Group	% of Income Eligible Renters	%/# Receiving Housing Aid
All Eligibles	100.0%	29.5% (4.07 million)
Non-elderly (<65)	74.1%	23.6% (2.52 million)
Elderly (>65)	25.9%	39.6% (1.42 million)

- HUD has proposed an 18 month disregard on earned income.
- Ceiling on rent
- Attempt to attack the problems with public housing projects. (severely distressed projects)

Non-Elderly Households Receiving Housing Assistance

Majority of Income from Salary & Wages

Total	46.3%
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Public Housing	35.1%
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Rental Assistance	42.9%
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Project-based	58.6%
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Rental Assistance & Economic Opportunity

- Merge rental certificate and voucher programs and increase portability
- Implement Moving to Opportunity Demo requiring recipients to move to non-poverty areas

Infuse rental assistance programs with mobility assistance

Implement Family Self Sufficiency Program targeted to AFDC Families

- Time limited housing assistance
- Contractual Agreement
- Rent freeze at start-up
- 30% rent rule creates escrow account at labor market income grows
- Cannot terminate housing assistance if family completes contract--job aid

The Essential Role of Fair Housing

Vigorously enforce Title VIII &
clean up the backlog of complaints

Create system of incentives & sanctions
to regionalize housing responsibilities

Create system of incentives & sanctions
to regionalize housing responsibilities

Carry out metropolitanwide pilot program

Creating Jobs through Public Housing

Implement Section 3 of the 1968
Housing and Urban Development Act

Requires HUD to Use Public Housing
construction/modernization/replacement
dollars to provide jobs for residents

Overhaul the Public Housing Program

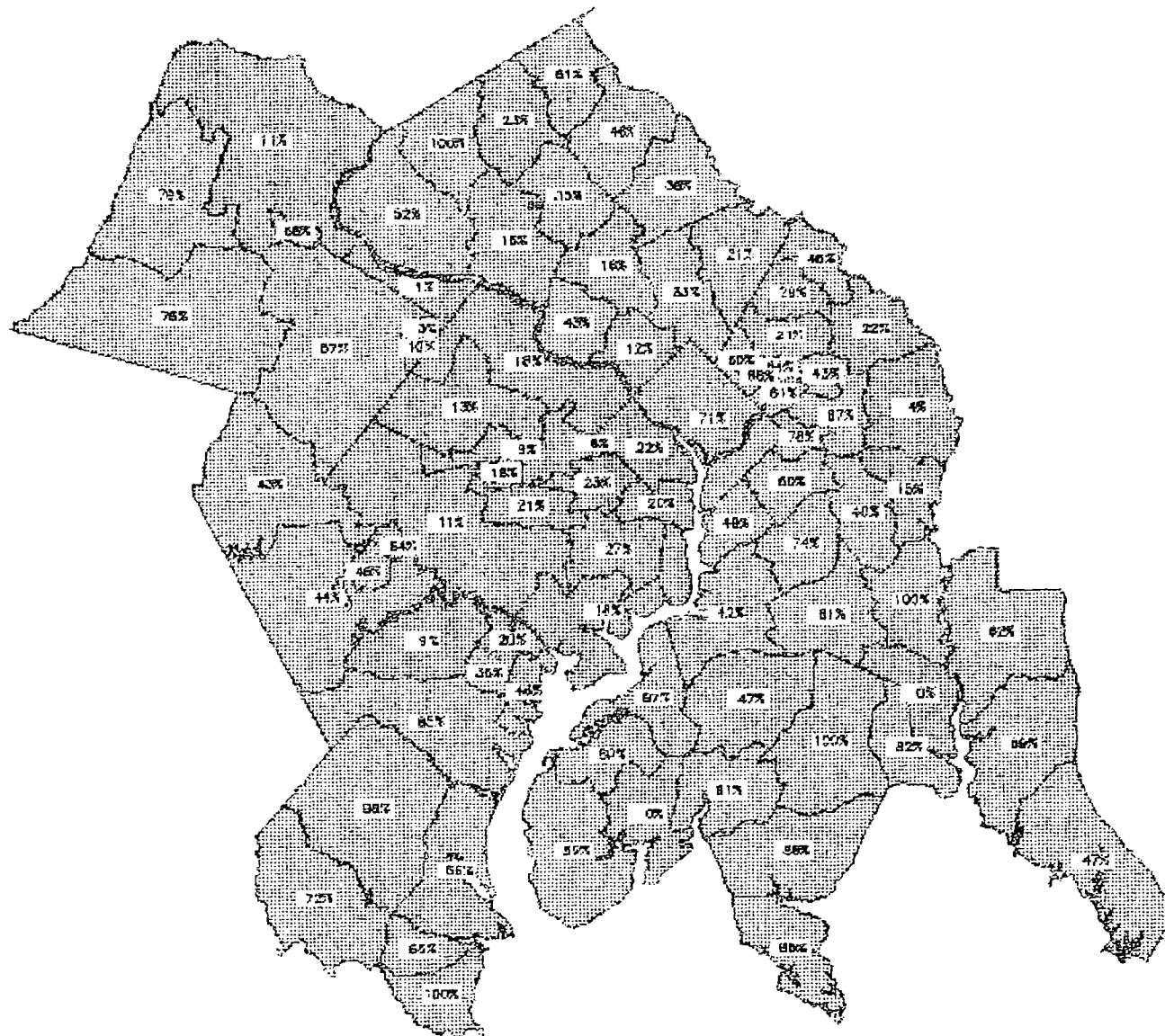
More income mixing and work incentives in existing stock

Redesign production program for greater neighborhood and community acceptance

Redevelop severely distressed family projects

Percent of Rentals below MSA 30th Percentile, 1990

Washington, DC-MD-VA MSA



Shown here are the percentages of rental units with rents at or below the 30th percentile of the distribution of rents in 1990 (for 2-bedroom units, just movers). All units with rents within or below the 30th percentile interval are included, with linear interpolation in the marginal interval.

Source: 1990 Census Special FMR Tabs

Alan Fox & David A. Vandenbroucke, PD&R/HUD
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Minor Civil Divisions

% Rents < "FMR"



30% or Less

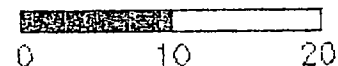


Over 30%



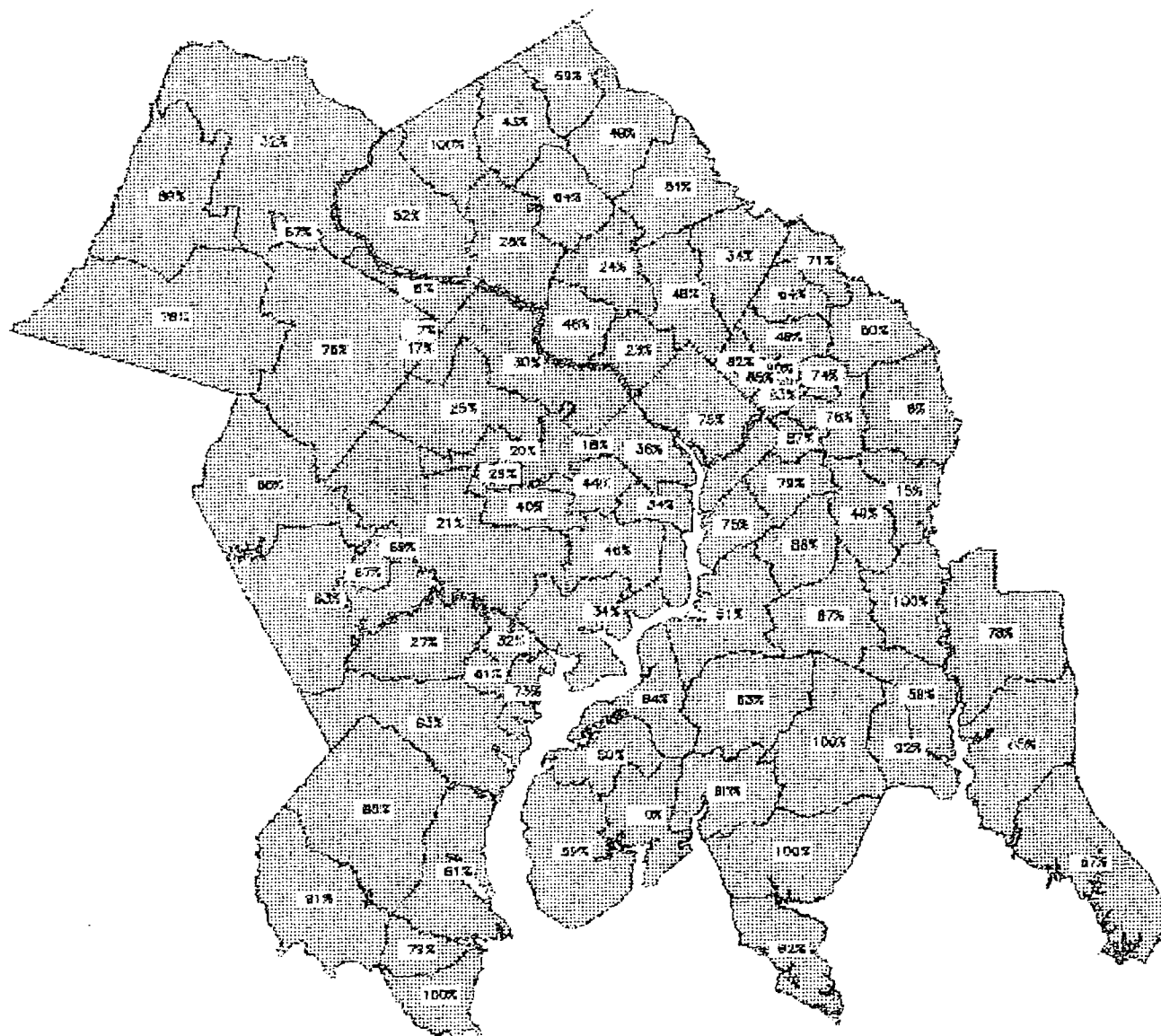
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Percent of Rentals below MSA 45th Percentile, 1990

Washington, DC-MD-VA MSA



Shown here are the percentages of rental units with rents at or below the "FMR", approximated by the 45th percentile of the distribution of rents in 1990 (for 2-bedroom units, just recent movers). All units with rents within or below the 45th percentile interval are included, with linear interpolation in the marginal class.

Source: 1990 Census Special FMR Tabs

Alan Fox & David A. Vandenbroucke, FD&R:HUD
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Minor Civil Divisions

% Rents < "FMR"



30% or Less

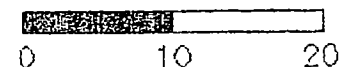


Over 30%



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Miles





August 2, 1993

ASSISTANT SECRETARY
FOR POLICY DEVELOPMENT AND RESEARCH

MEMORANDUM FOR: The Welfare Reform Working Group

*HUD working
towards break-up of
spacial
concentration*

FROM: Michael A. Stegman *MAS*

SUBJECT: OMB Housing Assistance and Economic Independence Sub-group

When he assumed office, Secretary Henry G. Cisneros identified a set of five core values that would characterize his tenure at HUD during the Clinton presidency. These are:

- a commitment to economic lift;
- a commitment to support families;
- a commitment to individual rights and responsibility;
- a commitment to reduce spatial separation by race and income; and
- a commitment to the enhancing the physical and spiritual sense of community.

Operationalizing these values, which are consistent with the underlying principals of the Administration's welfare reform initiative, requires the Department to make significant changes in program direction and intent. Many of these program changes are reflected in the Department's budget and legislative plans, including HUD's 1993 authorization bill (introduced last week), our 1994 budget, and preliminary plans for the 1995 budget. Some are underway. They are all compatible with the Administration's commitment to "making work pay" and "ending welfare as we know it."

It is HUD's intention to move aggressively during the next two years to build on the strengths of housing assistance for overcoming poverty and dependency among families with children. Housing assistance will focus on enhancing family stability, providing a platform for economic independence, reducing spatial separation by race and income, and creating jobs for parents. In particular:

- Housing assistance will be based on the principle that **able-bodied adults are expected to work** and that families with such members should receive assistance for a **limited time only**. If the President's welfare reform package passes, the Family Self Sufficiency program currently on the books can become mandatory, and its time limits can be enforced, for all families receiving both welfare and housing assistance. In the absence of a reformed welfare system that provides supportive services and jobs for those willing to make the transition from welfare

to work, HUD will expand the current Family Self-Sufficiency program within budget constraints and focus it on those most likely to be dependent on welfare.

- Family-based housing vouchers and certificates will be used to increase economic mobility, and thereby incomes, by helping families move away from poverty and minority concentrations and find housing throughout the metropolitan area.¹ HUD will go beyond the small set-aside of vouchers for the current "Moving to Opportunity" demonstration and allocate all incremental rental assistance to make a broad choice of housing locations a reality for assisted families.
- HUD will take advantage of the several billion dollar pipeline of rehabilitation funds for public housing to create job training and job opportunities for custodial and non-custodial parents of children living in public housing projects, a high proportion of whom are now dependent on welfare. This effort will involve aggressive and creative implementation of a provision of housing law that gives preference to project residents for the jobs created by HUD funds.
- To buttress each of these initiatives, HUD will attack the egregious backlog of housing discrimination cases and encourage or require the regionalization of assisted housing marketing and tenant selection, to help lower income Americans gain access to job opportunities in communities with expanding economies, wherever they are.

Welfare-to-Work for Recipients of Housing Assistance

HUD already has a welfare-to-work program. Under the Family Self-Sufficiency Program, a "social contract" between the administrator of housing assistance and the family acknowledges that housing assistance is part of a five-year transition from welfare to work and creates reciprocal obligations. Families are provided with a coordinated program of assistance to facilitate the welfare-to-work transition, and limited income disregards are in place. Additional rent paid is placed in escrow, and becomes an asset for the family at the end of the period of housing assistance. In exchange, the family must "play by the rules" in improving its potential for work and seeking work, families who fail to meet their obligations face immediate withdrawal of housing assistance, and housing assistance is time limited.

¹As noted later, results from the Gautreaux experiment, part of a settlement in a desegregation case, indicate that AFDC mothers who moved from inner city Chicago to its suburbs experienced important employment gains, but their children achieved dramatic improvements in life chances. The benefits of this mobility strategy underlie HUD's Moving to Opportunity program.

FSS is not now mandatory for families and is a small program because of resource limitations: very limited funding is available for the case management that is an essential part of such a program and none is available for filling gaps in services needed by families. However, if welfare reform is enacted and families are given the support and jobs needed to make the transition from welfare to work, the reciprocal obligations now present in FSS can become universal and mandatory for families receiving housing assistance. In addition, in the presence of comprehensive welfare reform as envisioned by the Welfare Reform Working Group, HUD will change the way in which the housing assistance benefit is structured to conform to the new configuration of the social safety net for transitional and post-transitional welfare families. This could mean, for example, increasing the percentage of income charged for rent or counting other transfers as income.

If welfare reform is not enacted, HUD intends to expand FSS within available resources, asking for more funding for case management and gap-filling services and continuing to target both FSS and housing assistance disproportionately to the AFDC population.

In addition to FSS-based strategies, HUD's "continuum of care" approach to homelessness will help shift homeless families and individuals from shelters to permanent housing, and ensure that they are brought into the welfare reform process as appropriate.

Enhancing the Use of Certificate and Voucher Programs for Metropolitan-Wide Mobility

Mobility means success, at least for children of assisted families. As part of the resolution of the Gautreaux desegregation case, families in Chicago public housing or on the waiting list have used both tenant-based and project-based housing assistance to move to neighborhoods throughout the metropolitan area. The duration of this program has made possible study of the long-term effects of moving to the suburbs for AFDC mothers and their children. The effects on adults have been impressive: those who moved were more likely to be employed and those who already had work experience saw gains in wages. The effect on the children has been even more dramatic: substantial gains in school achievement, college attendance, and work.

HUD already allows for tenant mobility. The 1.3 million families receiving tenant based certificate and voucher assistance from a local Public Housing Agency (PHA) can use it across jurisdictional lines, but administrative, informational, and psychological barriers mean that families rarely use their assistance to find housing in neighborhoods very different from their starting point.

HUD's Moving to Opportunity (MTO) program is a small experiment attempting to replicate Gautreaux in other cities and bring long term economic gains to assisted families. HUD plans to modify MTO and scale it up significantly.

In 1994 and 1995, HUD will reorient its tenant-based housing assistance programs to provide low income families with housing opportunities, and therefore economic opportunities, outside poor, minority, central city neighborhoods. Most features of the following strategy can be achieved under current law.

- Allocating vouchers/certificates to administrative entities that give families a real chance to shop for a wide range of housing throughout the metropolitan area;
- Providing the counseling and assistance with housing search necessary to help families take advantage of the opportunity to move to areas with lower concentrations of poor people and minorities;
- Using current authority for subsidy standards that make a wide range of housing throughout metropolitan areas affordable to program participants; and
- Allocating funds to metropolitan areas where the need for these enhanced housing opportunities is greatest.

Using Public Housing Modernization Funding to Create Jobs for Parents of Children on Welfare

The huge need for modernization of public housing has created a pipeline of jobs in the construction trades that could make a real impact on economic mobility and family stability of parents and children on welfare. Outlays will grow from \$1.8 billion in 1993 to \$3.1 billion in 1999.

The 1968 Federal Housing Act ("Section 3") gives priority for jobs created by HUD funding to residents of the jurisdiction in which the work is done. This powerful provision has had little enforcement, and no effect. Amendments to this law enacted in 1992 tie the jobs more closely than before to residents of assisted housing projects.

Given the huge need for job creation as part of welfare reform, HUD will undertake much more aggressive implementation of these provisions of housing law and, with partners, will attempt to match AFDC recipients and non-custodial parents with training and jobs. HUD will require each public housing authority that uses modernization funds to create a plan with explicit goals and timetables for training and employment of public housing residents, will monitor achievement of those goals, and will sanction non-performance. Ways for extending the job priority to non-custodial parents, for example those with a child support agreement, are being explored.

To facilitate the achievement of a training and employment program as part of the

rehabilitation of public housing, HUD will relax restrictions on the use of modernization funds for outreach, screening, training, and supervision of workers. In addition, PHAs will be required to link modernization projects to local institutions with technical training skills, the ability to train disadvantaged workers, and the ability to manage construction projects that include on-the-job training.

Enforcing Fair Housing to Maximize Mobility

The benefits apparent in the Gautreaux experiment should accrue to all families, whether they receive housing assistance or not. HUD's beefed up housing discrimination effort (encompassing mortgage and insurance redlining, along with Title VIII enforcement) will help break down obstacles to mobility among non-assisted renters and owners. Moreover, HUD staff are investigating the efficacy of regional assisted housing marketing efforts and tenant selection mechanisms as means to encourage mobility among assisted families.

HOUSING ASSISTANCE POLICY

We have identified some ideas concerning housing policy and how to integrate it better with social/health policy. These are a starting point in our thinking, and are for discussion purposes.

First, we believe that it is **very important to link welfare reform and changes in housing policy**. We also believe it is useful to approach the issue of housing assistance and linkages from a "people-based" perspective, as Chris Edley suggested at the June 30 meeting of the Group. This approach recognizes that different populations require different forms of housing assistance. We would distinguish particularly between the elderly and disabled and the able-bodied, working age adults. Thus, the various rules guiding housing assistance would be different for different populations (i.e., eligibility criteria, benefit levels, conditioning of benefits, etc.).

Second, the **inequitable treatment of households and individuals eligible for housing, cash assistance, and support services is a major problem for both these populations**. The different eligibility rules for, and availability of benefits under, housing and social programs creates distinct winners and losers among otherwise similar households. Establishing a policy that allocates benefits in a more equitable manner is a goal of ours, as we continue to review options.

The Able-Bodied--Especially the Welfare Population

The interaction of housing assistance and cash assistance (particularly AFDC) programs raises several issues in the context of welfare reform, which seeks to encourage self-sufficiency and "to make work pay". Specifically, substantial inequities and perverse work incentives result due to the fact that housing assistance programs are not entitlements. For example, roughly one-quarter of AFDC recipients report receiving housing assistance. For these households, the package of benefits received substantially exceeds the benefits received by similar households that do not receive housing assistance. In addition, the combination of AFDC, food stamps, housing assistance, and Medicaid provides a level of purchasing power that may exceed what households could achieve by working. In California, what immediately impresses one is the \$17,000 guarantee level for families receiving AFDC, food stamps, and housing assistance. Adding Medicaid makes it clear why there is little incentive to go to work. Several charts are attached which illustrate these points (Figures 1-6).

In light of these concerns, and along with an attempt to limit the size of the housing subsidy so as to make it available to a greater number of needy households, we have identified some options that could be developed further. These options range from conditioning benefits on employment or training for the able-bodied to different benefit structures or income-counting rules. They are--

- ▶ **Increase the amount of countable income that households are expected to pay for rent.**
- ▶ **Include food stamp benefits as countable income in rental assistance programs.**
- ▶ **Consider half of the AFDC benefit as housing assistance.**
- ▶ **Include the value of housing assistance, AFDC, and food stamp benefits in calculations of adjusted gross income for tax purposes.**
- ▶ **Reduce the Fair Market Rent to a lower percentile.**
- ▶ **Make housing benefits conditional on work requirements developed in welfare reform.** All scenarios of welfare reform envision significant expansion of resources to move families from welfare to work and fewer exemptions. This will mean many more AFDC recipients in assisted housing will be receiving JOBS services which could be coordinated with requirements placed on housing assistance. If such employment assistance is available, and assuming that there will continue to be waiting lists for housing assistance of individuals willing to cooperate, there would be legitimacy to imposing some form of sanctions, although there are questions about public acceptance of eviction. At a minimum, we should address the current situation where an AFDC sanction for failure to cooperate can largely be offset by food stamp and housing assistance increases.
- ▶ **Link the production of affordable housing with job training for AFDC recipients and non-custodial parents.** Welfare reform envisions the need to create a substantial number of job training and job opportunities for both recipients and non-custodial parents. We should explore the potential to link the need for job training and jobs with the rehabilitation of existing, and production of new affordable housing.

A more detailed discussion and analysis of these options is attached.

The Elderly and Disabled

For the elderly and disabled populations, housing assistance is better viewed within the overall context of long-term care policy, in particular combining housing and supportive services. An increasing number of older people with disabilities now live in Federally-subsidized supportive housing where they receive a range of personal care services designed to enable them to live in a home-like community setting rather than an institutional setting. Supportive housing for the elderly and disabled has the potential to both provide a long-term care option and to address important policy considerations such as: (a) the escalating costs of long-term care, (b) the effects of certain demographic trends such as the explosive growth of the elderly population, and (c) the demands of consumers for dignity, autonomy, and home-like service settings.

Available research documents the striking resemblances between the nursing home and supportive housing populations in terms of age, gender, income, familial status, and disability level. Increasingly, the Federal housing programs for the elderly and disabled will serve a vulnerable group of mostly female residents with few economic or social resources to draw upon. This presents an acute problem for those who must plan for financing the development of supportive housing and for those who must devise ways to deliver services to the residents of supportive housing.

To encourage the development of supportive housing as a long-term care option, we have identified a few options.

- ▶ **Improve coordination between housing assistance programs, and health and social service providers.** Distinct, and often conflicting, program guidelines create gaps in coverage, duplication of effort, and confusion among participants.
- ▶ **Develop collaboration among Federal, state, and private programs on a demonstration basis to increase the capital pool available for underwriting the financing of supportive housing and the services needed by residents.** Projects that involve HUD housing, HHS service and support programs, agencies such as FHA, Fannie Mae, Freddie Mac, and state housing authorities, and non-profit developers could address this issue.
- ▶ **Establish regulatory approaches that reflect consumer preferences, protect a potentially vulnerable population, promote market diversity, and assure quality.** Currently, regulations often produce inequitable eligibility requirements that create winners and losers among the residents depending upon the program they qualify for.

- **Examine the affordability of supportive housing and the extent to which supportive housing is a cost effective substitute for nursing home care.**

Currently there is no coordinated public policy strategy for promoting objectives such as these for the elderly and disabled. Clearly the development of such a strategy should include a forum that allows input from housing developers, managers, bankers, service providers, housing advocates and residents.

Finally, in regard to both the able-bodied and the elderly and disabled, we also think it is important to include in any housing policy reform considerations to ensure an adequate supply of low-income housing. This concern has two parts.

First, we ought to be thinking about coordinated strategies to address concentrated and persistent poverty, and the supply and distribution of low-income housing will affect our abilities to remedy this problem.

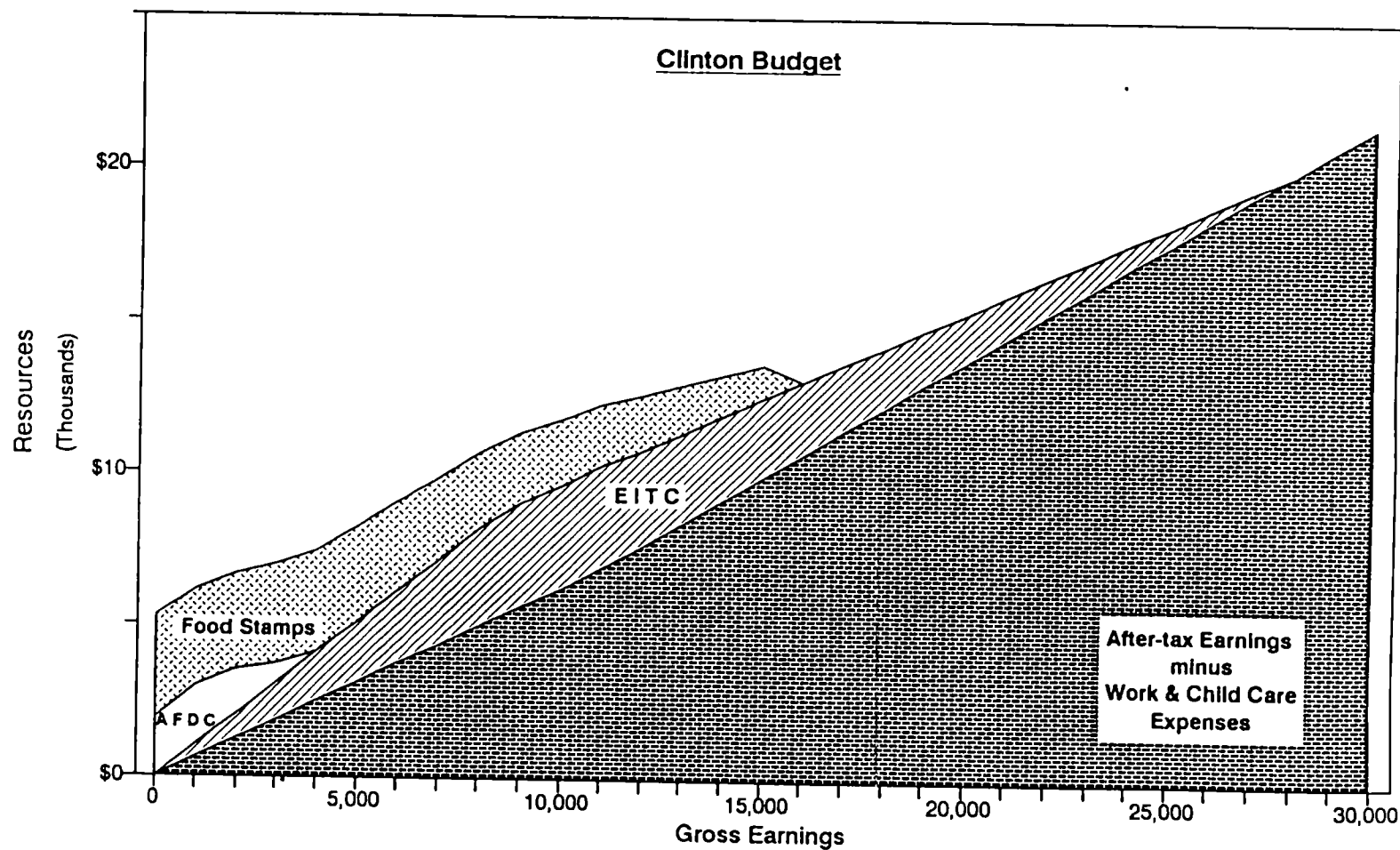
Second, while various changes in welfare and housing assistance policy may enhance equity and the self-sufficiency of participants, it may not do much to stem the loss of low-cost housing. Thus, a comprehensive housing policy should seek to coordinate and improve housing and income transfer programs, while at the same time preserve and expand the supply of low-cost housing. Federal leadership in model zoning, tax incentives, investment strategies to leverage development capital, as well as requirements for Federal financial assistance may help promote this goal. The strategy for achieving this may differ for different populations and in different regions and localities.

Attachments:

**Charts Concerning Benefit Levels
Discussion/Analysis of Options**

EARNINGS & BENEFIT LEVELS: 1993

Mother with two Children in Alabama

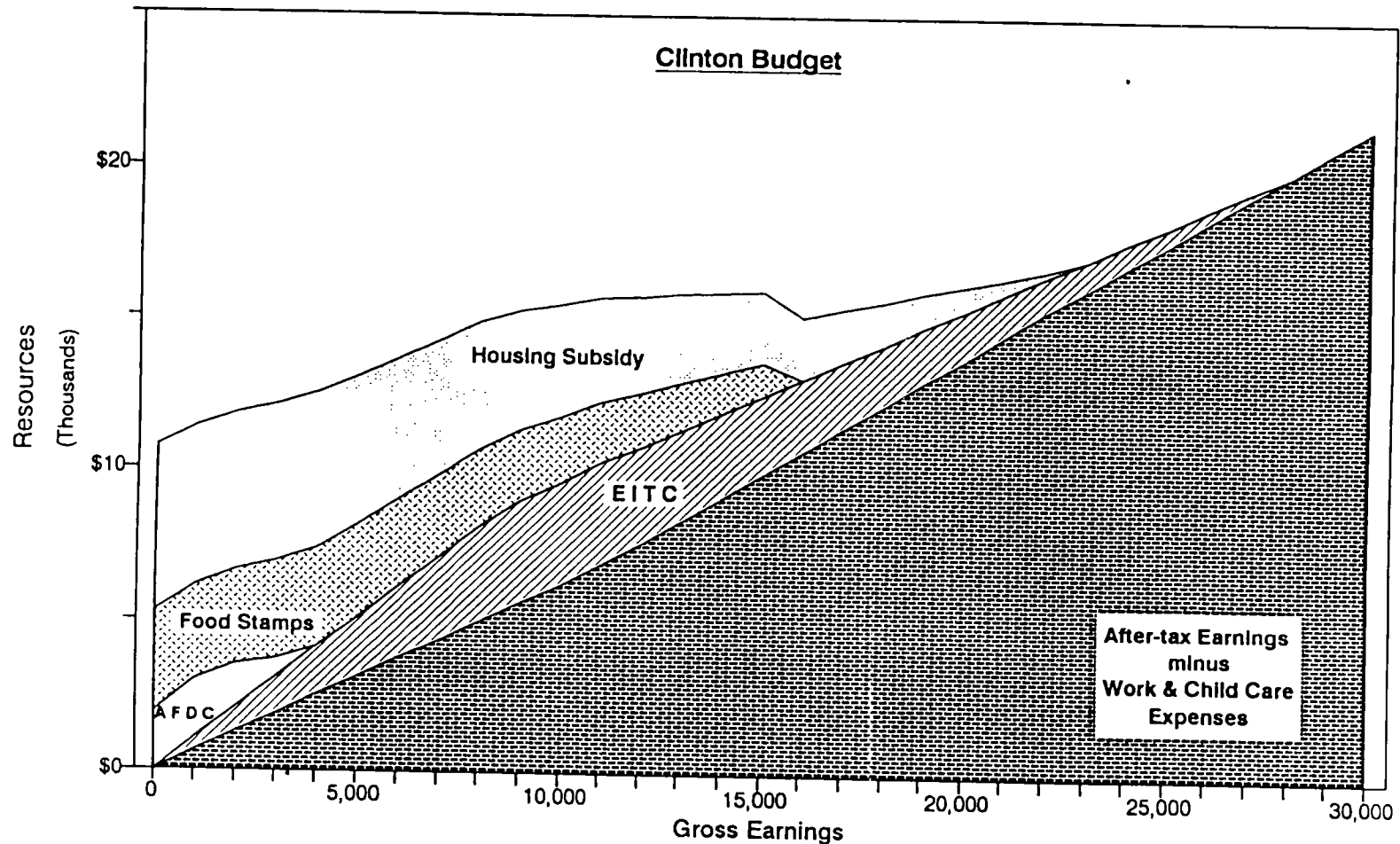


Note: Assumes child care expense equal to 20% of earned income to an annual maximum of \$2,500, work expense equal to 10% of earned income to a monthly maximum of \$88, and EITC is fully implemented.

Source: ASPE staff computations.

EARNINGS & BENEFIT LEVELS: 1993

Mother with two Children in Alabama

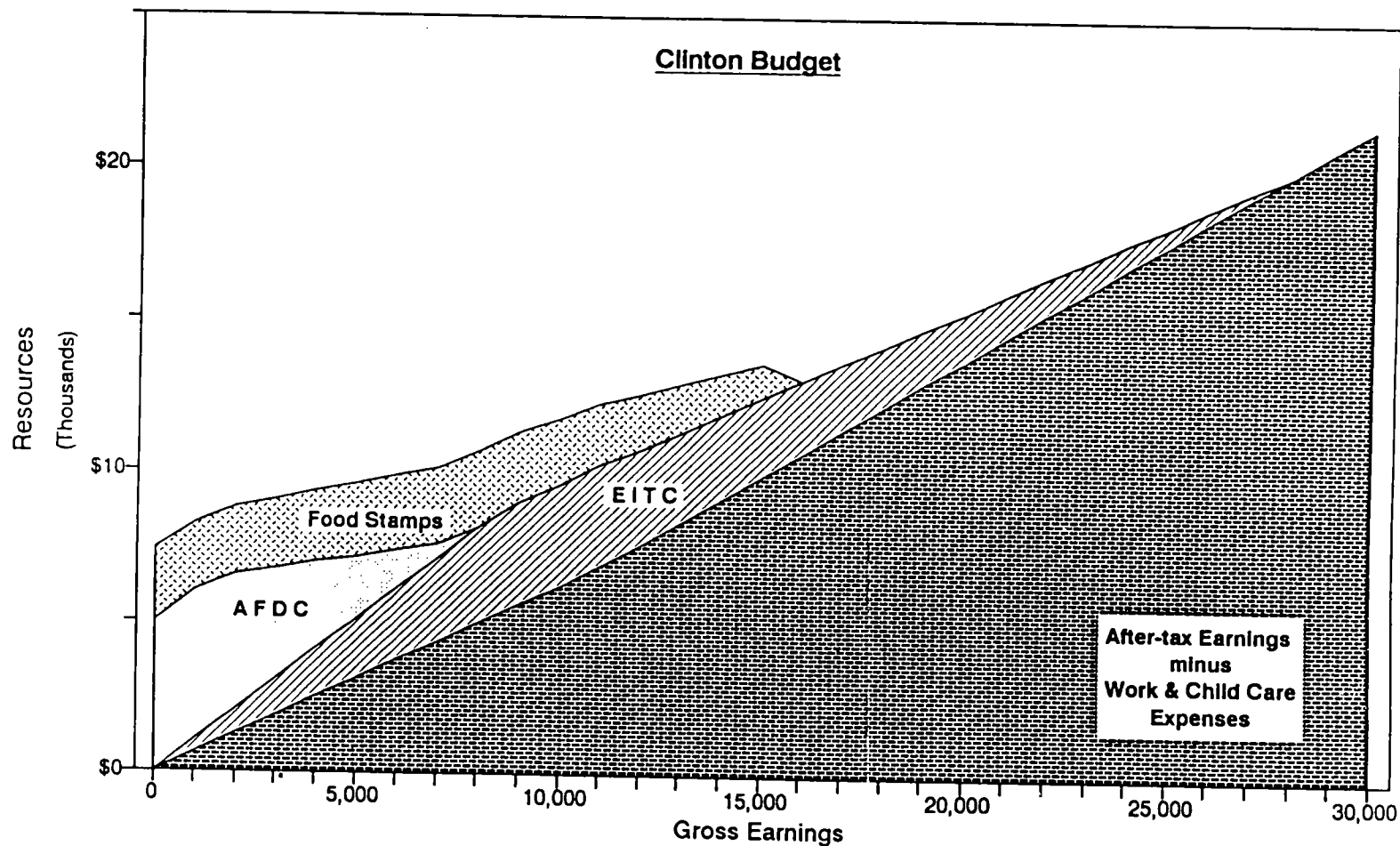


Note: Assumes child care expense equal to 20% of earned income to an annual maximum of \$2,500, work expense equal to 10% of earned income to a monthly maximum of \$88, EITC is fully implemented, and a \$484 monthly cost of housing.

Source: ASPE staff computations.

EARNINGS & BENEFIT LEVELS: 1993

Mother with two Children in Pennsylvania

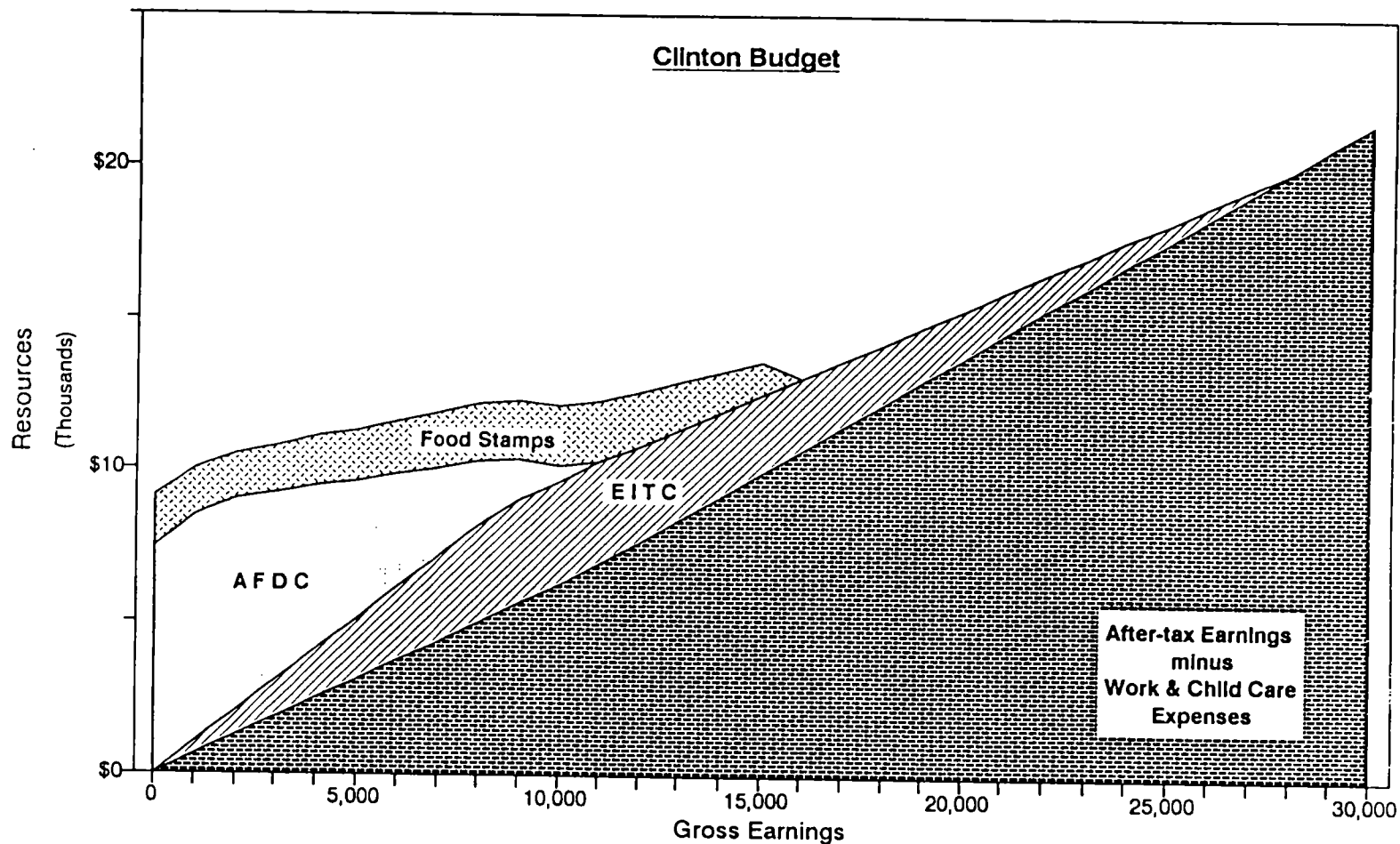


Note: Assumes child care expense equal to 20% of earned income to an annual maximum of \$2,500, work expense equal to 10% of earned income to a monthly maximum of \$88, and EITC is fully implemented.

Source: ASPE staff computations.

EARNINGS & BENEFIT LEVELS: 1993

Mother with two Children in California

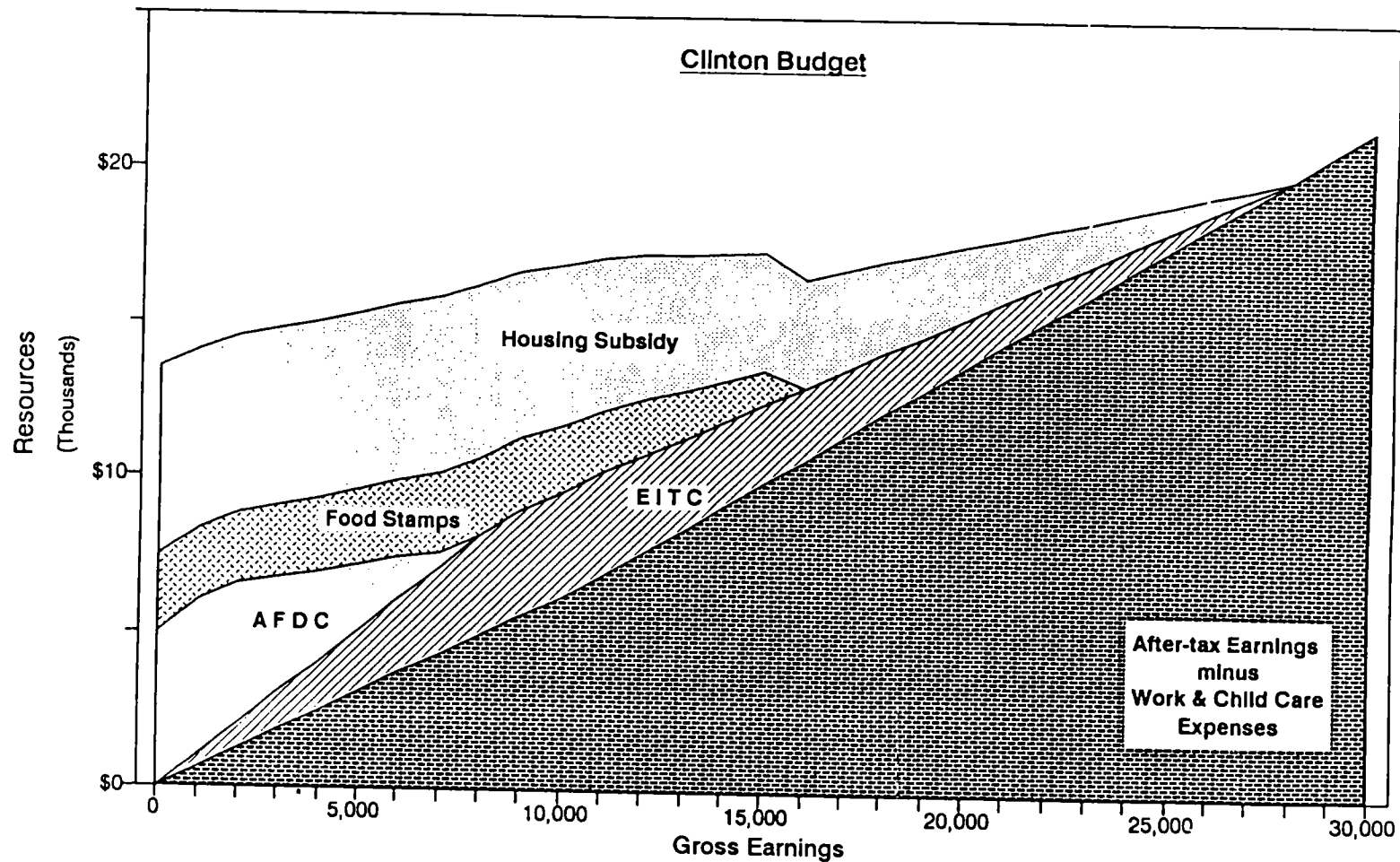


Note: Assumes child care expense equal to 20% of earned income to an annual maximum of \$2,500, work expense equal to 10% of earned income to a monthly maximum of \$88, and EITC is fully implemented.

Source: ASPE staff computations.

EARNINGS & BENEFIT LEVELS: 1993

Mother with two Children in Pennsylvania

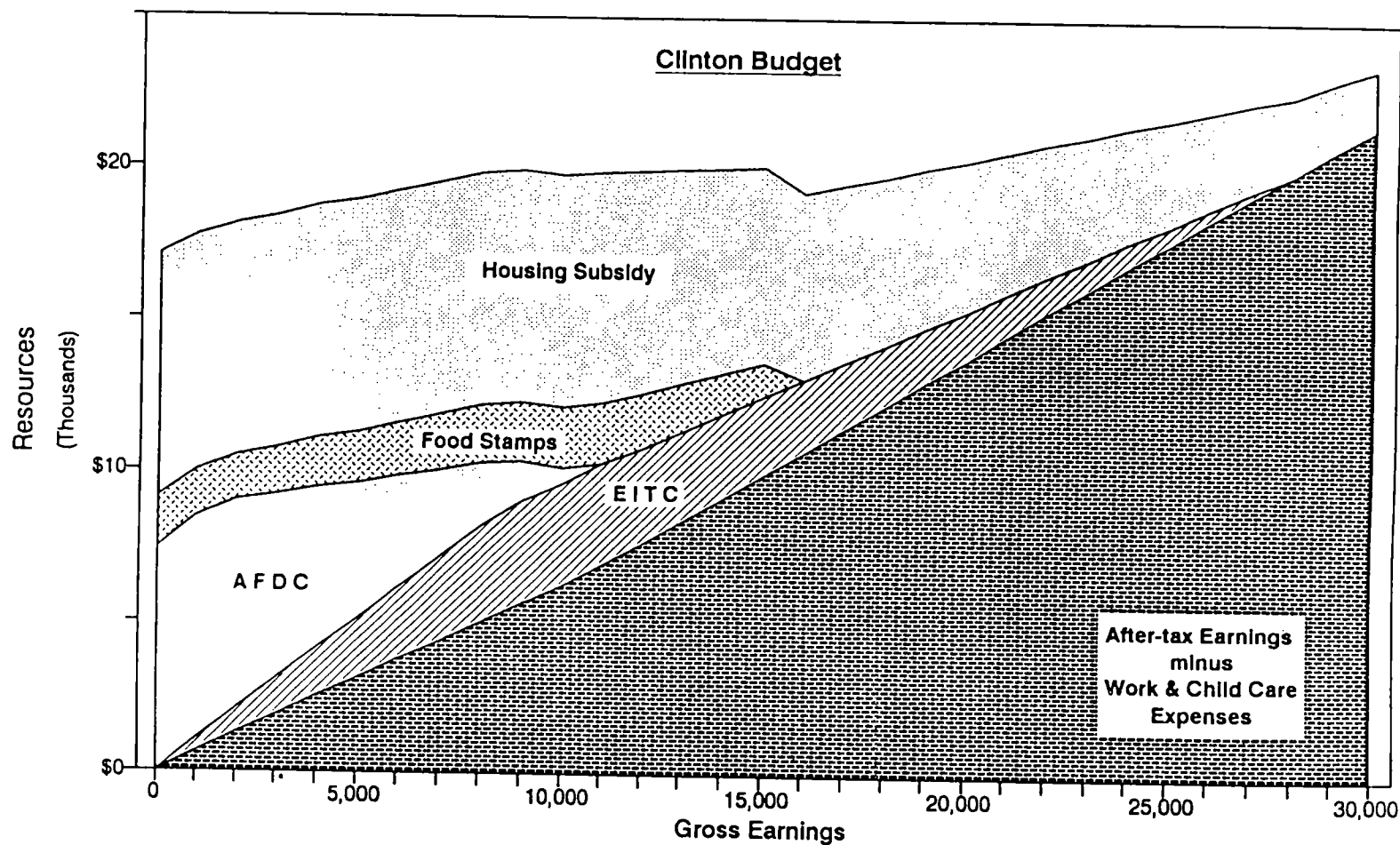


Note: Assumes child care expense equal to 20% of earned income to an annual maximum of \$2,500, work expense equal to 10% of earned income to a monthly maximum of \$88, EITC is fully implemented, and a \$610 monthly cost of housing.

Source: ASPE staff computations.

EARNINGS & BENEFIT LEVELS: 1993

Mother with two Children in California



Note: Assumes child care expense equal to 20% of earned income to an annual maximum of \$2,500, work expense equal to 10% of earned income to a monthly maximum of \$88, EITC is fully implemented, and a \$830 monthly cost of housing.

Source: ASPE staff computations.

7-15-93

FIGURE 6

*no assistance for landlords
to lower cost of housing.*

OPTIONS FOR HOUSING RENTAL ASSISTANCE

- 1a. Increase the amount of countable income that households are expected to pay for rent from 30 percent to 35 percent.

Under current law, households are expected to contribute 30 percent of countable income towards rent. Increasing this to 35 percent generally would not affect program eligibility, but would more quickly phase-out housing assistance for households with other income. Requiring participants to pay a greater share of the rent burden and phasing-out assistance for those with higher incomes could allow additional households access to housing assistance, improving program equity. However, this increase in the marginal tax rate may have negative work incentives.

- 1b. Increase the amount of countable income that households are expected to pay for rent from 30 percent to 40 percent.

The implications of this proposal are similar to those in option 1a. Also of note, either of these options would reduce the gap in rent burdens among assisted households, and those who are eligible for housing assistance but do not receive a subsidy. Presently, the rent burdens of households who are eligible for assistance but do not receive a benefit is 46 percent.

2. Include food stamp benefits as countable income in rental assistance programs.

Food stamp and AFDC recipients who receive housing assistance are substantially better off than similar recipients who do not have a housing subsidy. This option and option 3 below would reduce those inequities.

When households receive subsidies to purchase food, then more funds are available to purchase housing. It may be appropriate to consider this interaction by counting food stamps as income for housing purposes. Doing so would result in housing subsidies being reduced by 30 percent of the food stamp benefit. Note, this option may pose problems for assisted households who have little or no other cash income. In those households, food stamp benefits may not be substituting for other resources that would have been used to purchase food.

3. Consider half of the AFDC benefit as housing assistance.

Shelter is a substantial component of state AFDC need standards. Because most states have consolidated grants, it is not possible to identify the exact share of the standard that the state considers for shelter; nonetheless, a shelter subsidy is implicit in the AFDC benefit amount. Households that

receive both AFDC and a housing subsidy are arguably receiving assistance from two sources to pay for housing. This option would make explicit the shelter share in the AFDC benefit, and reduce the housing benefit accordingly. Under this option, half of the AFDC benefit would be considered a subsidy for housing, and would offset rental assistance dollar for dollar. The remaining AFDC benefit continue to be considered countable income for rental assistance programs.

4. Include the value of housing assistance, AFDC, and food stamp benefits in calculations of adjusted gross income for tax purposes.

This option would improve equity, particularly as it relates to working people who do not receive housing assistance when compared to households that receive benefits from each of the benefit programs. Whereas program participants receive benefits tax-free, households that do not receive program benefits must pay for housing and food from income that may be subject to taxation. This option also has the advantage of making earnings more desirable than program benefits, because benefits would be taxed while earnings would be treated favorably due to the earned income tax credit.

This option would target those households that receive higher amounts of program benefits. It is expected that this option would have little impact on AFDC and food stamp households that do not receive housing assistance and have little or no earnings, because those households would not have sufficient income to be subject to taxes. If further analysis indicates that this option would adversely effect many low-income households, it may be possible to offset much of the effect by increasing the standard deduction for single parent families who receive these benefits, allowing them to file as though they are a married couple filing jointly.

This option could create problems for assisted households who have little or no cash income from which to withhold or collect taxes due. For recipients of Section 8 tenant-based assistance, the value of the certificate or voucher could be reduced; however, it would not be possible to withhold taxes in this way from households in public housing or Section 8 project-based housing.

5. Reduce the Fair Market Rent to 80 percent of the 45th percentile rent

For many assisted households, the size of the rental subsidy is determined by the household's income, and the area's fair market rent (FMR). The FMR is intended to reflect the amount that would be needed to rent privately owned, decent, safe, and sanitary housing of a modest (non-luxury) nature. The FMR is established at the 45th percentile of standard quality rental units occupied by households who moved within the last two years,

excluding public housing and newly constructed housing. Roughly half of all renters pay less than the fair market rent.

It may not be necessary to provide assisted households with subsidy amounts based on the median price paid by all rental households. Lowering the FMR could allow HUD to provide more households with assistance, improve equity among those who do and do not receive cash and housing assistance (by reducing the subsidy amount), and still insure that an adequate supply of housing would be available for assisted households. Further, similar to options 1a and 1b above, this option phases out housing assistance at a lower threshold than current law; however, this option does so without increasing marginal tax rates. In addition, presently there are no incentives for certificate and voucher holders to economize by choosing a unit that is below the median rent. Neither does this option provide an incentive to economize; however, reducing the FMR has the affect of moving households toward lower-rent yet sufficient housing.

This option proposes reducing the FMR to 80 percent of the 45th percentile rent simply because it was easy to simulate. Other rent percentiles were not readily available and therefore could not be shown in the attached tables. However, the preferred option would be to simply reduce the FMR to another percentile rent, such as the 30th percentile. This level may continue to insure that assisted households have an adequate supply of housing to choose from, and not increase concentrations of poverty by restricting households to the lowest rent areas. One could build-in an incentive to economize by subsidizing rent up to some percentile of the fair market rent. Thus, if a household chooses to live in a rental unit equal to the 20th percentile they would receive a subsidy as if they were at the 30th percentile.

Of note, FMRs are used to calculate subsidy amounts for the 1.1 million recipients of Section 8 tenant-based housing only. Subsidy amounts in Section 8 project-based programs do not necessarily reflect an area's FMR; FMRs are not used for public housing. As a result, this option may not impact as many recipients of assisted housing as the other options presented.

The options discussed above are not necessarily mutually exclusive. For example, options 1a or 1b could be combined with one or all of options 2 through 5.

Analysis of Options

Tables A through L illustrate the impact of these options, both individually and in various combinations, on the amount of the housing assistance and on the disposable income of recipients. The tables calculate the amounts of assistance that a single parent with two children would be eligible to receive and the

household's disposable income in three states, assuming income at the minimum wage and hours of work ranging from zero to forty. Table S summarizes the results for each of the combinations in Tables C through L.

Table A shows benefit packages and disposable income for households that do not receive housing assistance. As stated previously, the majority of AFDC households do not receive housing assistance. Table B demonstrates the same for households that receive Section 8 tenant-based assistance. Comparing the two tables shows that those who receive housing assistance are substantially better off than those who do not. For example, in Alabama under both current law and the President's budget, those who receive housing assistance and have no earnings receive nearly twice the benefit as those with only AFDC and food stamps. As earnings increase, the difference in disposable income decreases, however, at 40 hours per week a substantial difference in income remains in all three states (compare the "disposable income" line in Table A to Table B).

Tables C and D show income packages assuming that assisted households are required to spend 35 and 40 percent of countable income on rent, respectively. Comparing disposable income in these tables to Table B shows virtually no impact on housing subsidies for households working twenty hours per week or less. This is because earnings are "taxed" at 100 percent in the AFDC program, so for housing purposes countable income stays basically the same whether income is earned or from AFDC. At 30 and 40 hours of work per week the difference is still relatively small. In Alabama, Table B shows disposable income under the President's budget of \$15,958 at 40 hours and a 30 percent HUD tax rate, while the disposable income is \$15,564 and \$15,170 in Tables C and D, respectively.

Table E combines options 2, 3, and 4. It shows benefit packages and disposable income when food stamps are considered countable income for housing assistance, half of the AFDC benefit is considered a housing subsidy and offsets any housing assistance, and all benefits are taxed. At lower levels of earnings total benefits are about ten percent less in Alabama, resulting entirely from counting other benefits as income for housing purposes. In California, where AFDC benefits are much higher, the effect on the housing subsidy and disposable income is greater. The effect of this combination is not as great at higher levels of earnings. Note the degree to which this combination would reduce housing subsidies in all states, which is done by comparing the "housing" line in Table E at various levels of income in each state to the "housing" line in Table B.

Table F shows the same combination as Table C (food stamps is considered countable income, half of AFDC is considered a housing subsidy, and all benefits are taxable), plus it adds option 1a, where 35 percent of countable income must be applied to rent. As in Table C, increasing the amount of income applied toward rent has a relatively small impact, particularly at lower levels of earnings. And as in Table E, the different treatment of AFDC benefits by housing programs substantially reduces the amount of housing subsidies for those with little or no

earnings in all three states, with the greatest impact in California where AFDC benefits are highest.

Table G combines options 2, 3, 4 and 5. It includes the same combination of options as Table E (food stamps is considered countable income, half of AFDC is considered a housing subsidy, and all benefits are taxable), plus it reduces the fair market rent. Comparing the "housing" lines of Table G with those of Table B shows that the combination of reducing the fair market rent and the treatment of half of AFDC as a housing subsidy reduces the amount of housing assistance substantially, especially at lower levels of income. The impact in California is greatest because AFDC benefits and the FMR used for that state are high. Also of note, the marginal effect on disposable income of reducing the fair market rent can be seen by comparing lines E and G for each state in the Summary Table (Table S).

Tables H and J are similar to Table G, except that they include an increase in the reduction for countable income to 35 and 40 percent, respectively. The combinations in Tables H and J demonstrate the cumulative effect of all options on the size of the housing subsidy and on disposable income. As shown in previous tables, the effect of increasing the percent of income that must be applied toward rent is relatively small.

Table K illustrates the effect of requiring assisted households to apply 40 percent of countable income toward rent, and considering food stamps as countable income. Most of the difference in Tables J and K results from the different treatment of AFDC income in each Table.

Table L combines options 2 and 4 only: considering food stamps as countable income for housing, and considering all benefits taxable income. In general, the impact of taxing benefits only matters in California, where benefits are highest. Considering food stamps as income has the greatest impact in Alabama, a low AFDC benefit state where food stamp benefits are higher due to the lack of other income (in Pennsylvania and California the size of the AFDC benefit reduces the amount of food stamps a household receives).

Summary

In general, all of the options and combinations would improve equity between households who do and do not receiving housing assistance. Largely, this would be done by reducing the amount of housing assistance provided. Although not discussed above, presumably some of these savings could be used to provide assistance to a greater number of households.

The Tables illustrate both individual and cumulative effects of the options discussed above. Of note, the effect of increasing the amount of income that must

be applied toward rent is relatively small, particularly at lower levels of earnings.

Considering food stamp benefits as countable income has a greater impact in Alabama than the other two states shown. This is because AFDC benefits in Alabama are low; in the higher AFDC benefit states, the presence of AFDC income reduces the amount of food stamps received.

Considering half of AFDC benefits as a housing subsidy has the greatest effect in high benefit states such as California. Before endorsing this option it may be useful to explore the relationship between AFDC benefits and housing costs by state, to see if in fact states may consider the cost of housing when determining AFDC benefits.

Taxing benefits has little or no effect on states with low and moderate AFDC benefits and low or moderate housing costs. Reducing the fair market rent would impact assisted households in all states. However, it would not affect households who live in public housing or project-based section 8, because the fair market rent is not used to calculate housing subsidies in those programs.

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

No child support award established

ALABAMA

Hours worked	
Wage Earnings	
Child Support Paid	
Cost of Assured Benefit	
AFDC (net cost to government)	
Food Stamps	
Housing	
EITC (fully phased in)	
Fed Income Tax	
Fed Payroll Tax	
Work Expense	
Child Care Expense	
"Disposable" Income	

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,504	3,432	3,252	2,724	2,196
Housing	0	0	0	0	0
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$5,472	\$6,992	\$7,997	\$9,841	\$11,471

President's Budget

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,528	3,456	3,276	2,748	2,220
Housing	0	0	0	0	0
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$5,496	\$7,341	\$8,671	\$10,840	\$12,875

CALIFORNIA

Hours worked	
Wage Earnings	
Child Support Paid	
Cost of Assured Benefit	
AFDC (net cost to government)	
Food Stamps	
Housing	
EITC (fully phased in)	
Fed Income Tax	
Fed Payroll Tax	
Work Expense	
Child Care Expense	
"Disposable" Income	

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	2,084	1,776	1,908	2,040	2,196
Housing	0	0	0	0	0
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$9,552	\$10,856	\$11,153	\$11,449	\$11,471

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	2,088	1,800	1,932	2,064	2,220
Housing	0	0	0	0	0
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$9,576	\$11,205	\$11,827	\$12,448	\$12,875

PENNSYLVANIA

Hours worked	
Wage Earnings	
Child Support Paid	
Cost of Assured Benefit	
AFDC (net cost to government)	
Food Stamps	
Housing	
EITC (fully phased in)	
Fed Income Tax	
Fed Payroll Tax	
Work Expense	
Child Care Expense	
"Disposable" Income	

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,796	2,508	2,640	2,724	2,196
Housing	0	0	0	0	0
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$7,848	\$9,152	\$9,449	\$9,841	\$11,471

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,820	2,532	2,664	2,748	2,220
Housing	0	0	0	0	0
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$7,872	\$9,501	\$10,123	\$10,840	\$12,875

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No housing subsidy is assumed but an excess shelter cost deduction of \$100 used to calculate the Food Stamp benefit.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations include the current maximum benefit by \$2 to \$294.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 0% of Food Stamps and 100% of AFDC—0% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan taxes only earnings.

07/20/93

11:29 AM

TABLE A

No child support award established

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
Disposable Income

	Current Law				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,360	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,108	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$10,833	\$11,708	\$12,408	\$13,588	\$14,554

	President's Budget				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	5,505	5,076	4,769	4,108	3,443
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$10,857	\$12,057	\$13,080	\$14,587	\$15,958

CALIFORNIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
Disposable Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,880	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$17,215	\$18,415	\$19,036	\$19,657	\$20,108

PENNSYLVANIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
Disposable Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,436	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,068

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$13,604	\$14,804	\$15,425	\$16,099	\$17,470

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 30%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 0% of Food Stamps and 100% of AFDC--0% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan taxes only earnings.

TABLE B

07/19/93

10:24 AM

No child support award established

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	Current-Law				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,988	1,188	0	0	0
Food Stamps	3,360	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,106	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554

	President's-Budget				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	5,455	4,934	4,596	3,823	3,049
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,807	\$11,938	\$12,907	\$14,303	\$15,564

CALIFORNIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,680	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	7,672	7,172	7,171	7,170	7,199
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$16,888	\$18,017	\$18,638	\$19,259	\$19,714

PENNSYLVANIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,436	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	5,887	5,387	5,386	5,335	4,562
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,399	\$14,528	\$15,149	\$15,815	\$17,076

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 35%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 0% of Food Stamps and 100% of AFDC--0% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan taxes only earnings.

TABLE C

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

Current-Law

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,360	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,106	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554

President's-Budget

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	5,404	4,832	4,423	3,539	2,655
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,756	\$11,814	\$12,734	\$14,020	\$15,170

CALIFORNIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,680	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	7,346	6,774	6,773	6,772	6,805
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$16,562	\$17,619	\$18,240	\$18,861	\$19,320

PENNSYLVANIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,436	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,819	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	5,683	5,111	5,110	5,052	4,168
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,195	\$14,252	\$14,873	\$15,532	\$16,682

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 40%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 0% of Food Stamps and 100% of AFDC—0% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan taxes only earnings.

No child support award established

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	Current-Law				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,380	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,106	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554

	President's-Budget				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	3,801	3,731	3,895	3,390	2,885
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	163
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$9,153	\$10,713	\$12,205	\$13,870	\$15,237

CALIFORNIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,680	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	4,859	4,790	5,522	6,255	7,035
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	236	397	527	657	785
Fed Payroll Tax	0	169	336	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,839	\$15,238	\$16,462	\$17,686	\$18,764

PENNSYLVANIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,436	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	3,586	3,516	4,249	4,902	4,398
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	81	213	390
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$11,098	\$12,658	\$13,931	\$15,170	\$16,523

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 30%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 100% of Food Stamps and 50% of AFDC--50% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan includes all benefits along with earnings and uses the Joint Filer standard deduction.

TABLE E

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
Disposable Income

	Current-Law				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,380	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,108	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554

	President's-Budget				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	3,631	3,484	3,576	2,987	2,393
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	90
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$8,983	\$10,466	\$11,887	\$13,467	\$14,823

CALIFORNIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
Disposable Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,680	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	4,634	4,488	5,158	5,829	6,548
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	202	352	473	593	712
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$13,647	\$14,981	\$16,153	\$17,324	\$18,351

PENNSYLVANIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
Disposable Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,436	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	3,385	3,238	3,909	4,499	3,911
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	30	153	317
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$10,897	\$12,380	\$13,642	\$14,827	\$16,109

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 35%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 100% of Food Stamps and 50% of AFDC--50% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan taxes all benefits along with earnings and uses the Joint Filer standard deduction.

No child support award established

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	Current-Law				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,988	1,188	0	0	0
Food Stamps	3,360	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,108	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554

	President's-Budget				
	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,988	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	2,640	2,570	2,733	2,229	1,724
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$7,992	\$9,551	\$11,044	\$12,709	\$14,239

CALIFORNIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,680	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	2,868	2,798	3,531	4,264	5,044
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	98	228	358	487
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$12,084	\$13,545	\$14,769	\$15,993	\$17,072

PENNSYLVANIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,438	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	2,122	2,052	2,785	3,438	2,934
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	170
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$9,634	\$11,194	\$12,548	\$13,919	\$15,278

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used. Housing cost is set at 80% of Fair Market Rental (FMR) for the 45th percentile.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 30%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 100% of Food Stamps and 50% of AFDC—50% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan taxes all benefits along with wages and uses the Joint Filer standard deduction.

TABLE C

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
Disposable Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,988	1,188	0	0	0
Food Stamps	3,360	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,106	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554

President's Budget

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,988	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	2,469	2,323	2,414	1,826	1,237
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$7,821	\$9,304	\$10,725	\$12,306	\$13,752

CALIFORNIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
Disposable Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,680	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	2,642	2,496	3,167	3,838	4,557
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	53	174	295	413
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$11,858	\$13,289	\$14,460	\$15,631	\$16,658

PENNSYLVANIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
Disposable Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,436	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	1,921	1,774	2,445	3,035	2,447
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	97
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
Disposable Income	\$9,433	\$10,916	\$12,208	\$13,516	\$14,864

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used. Housing cost is set at 80% of Fair Market Rental (FMR) for the 45th percentile.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 35%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 100% of Food Stamps and 50% of AFDC—50% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan taxes all benefits along with earnings and uses the Joint Filer standard deduction.

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,360	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,106	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554

President's-Budget

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	2,299	2,076	2,096	1,423	750
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$7,651	\$9,057	\$10,406	\$11,903	\$13,265

CALIFORNIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,680	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	2,417	2,194	2,803	3,412	4,070
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	8	119	231	340
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$11,633	\$13,032	\$14,150	\$15,269	\$16,244

PENNSYLVANIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,436	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	1,719	1,497	2,105	2,633	1,960
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	24
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$9,231	\$10,638	\$11,868	\$13,113	\$14,450

NOTES

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used. Housing cost is set at 80% of Fair Market Rental (FMR) for the 45th percentile.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 40%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 100% of Food Stamps and 50% of AFDC—50% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan t all benefits along with earnings and the Joint Filer standard deduction.

No child support award established

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Hours worked	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,360	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,106	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554

	0	10	20	30	40
Hours worked	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	2,889	2,432	2,096	1,423	750
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$8,241	\$9,414	\$10,406	\$11,903	\$13,265

CALIFORNIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Hours worked	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,680	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Hours worked	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	4,663	4,206	4,153	4,099	4,070
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,879	\$15,052	\$15,620	\$16,188	\$16,584

PENNSYLVANIA

Hours worked
Wage Earnings
Child Support Paid
Cost of Assured Benefit
AFDC (net cost to government)
Food Stamps
Housing
EITC (fully phased in)
Fed Income Tax
Fed Payroll Tax
Work Expense
Child Care Expense
"Disposable" Income

	0	10	20	30	40
Hours worked	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,436	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066

	0	10	20	30	40
Hours worked	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	3,235	2,778	2,725	2,633	1,960
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,747	\$11,920	\$12,487	\$13,113	\$14,474

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used. Housing cost is set at 80% of Fair Market Rental (FMR) for the 45th percentile.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 40%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 100% of Food Stamps and 100% of AFDC—0% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan taxes only earnings.

TABLE K

BENEFIT CALCULATIONS FOR A MOTHER & TWO CHILDREN: SELECTED STATES

ALABAMA

Hours worked	
Wage Earnings	
Child Support Paid	
Cost of Assured Benefit	
AFDC (net cost to government)	
Food Stamps	
Housing	
EITC (fully phased in)	
Fed Income Tax	
Fed Payroll Tax	
Work Expense	
Child Care Expense	
"Disposable" Income	

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,360	3,072	2,892	2,364	1,836
Housing	5,505	5,076	4,769	4,106	3,443
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	1,968	1,188	0	0	0
Food Stamps	3,384	3,096	2,916	2,388	1,860
Housing	3,328	2,986	2,733	2,229	1,724
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$8,680	\$9,967	\$11,044	\$12,709	\$14,239

CALIFORNIA

Hours worked	
Wage Earnings	
Child Support Paid	
Cost of Assured Benefit	
AFDC (net cost to government)	
Food Stamps	
Housing	
EITC (fully phased in)	
Fed Income Tax	
Fed Payroll Tax	
Work Expense	
Child Care Expense	
"Disposable" Income	

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,704	1,416	1,548	1,680	1,836
Housing	7,999	7,570	7,569	7,568	7,593
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	7,488	6,708	4,500	2,292	0
Food Stamps	1,728	1,440	1,572	1,704	1,860
Housing	5,489	5,146	5,106	5,066	5,044
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	331	451	465	479	487
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$14,374	\$15,541	\$16,108	\$16,675	\$17,072

PENNSYLVANIA

Hours worked	
Wage Earnings	
Child Support Paid	
Cost of Assured Benefit	
AFDC (net cost to government)	
Food Stamps	
Housing	
EITC (fully phased in)	
Fed Income Tax	
Fed Payroll Tax	
Work Expense	
Child Care Expense	
"Disposable" Income	

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,436	2,148	2,280	2,364	1,836
Housing	6,092	5,663	5,662	5,619	4,956
EITC (fully phased in)	0	553	1,105	1,658	1,995
Fed Income Tax	0	0	0	0	0
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066

	0	10	20	30	40
Wage Earnings	\$0	\$2,210	\$4,420	\$6,630	\$8,840
Child Support Paid	\$0	\$0	\$0	\$0	\$0
Cost of Assured Benefit	0	0	0	0	0
AFDC (net cost to government)	5,052	4,272	2,064	0	0
Food Stamps	2,460	2,172	2,304	2,388	1,860
Housing	3,890	3,548	3,507	3,438	2,934
EITC (fully phased in)	0	878	1,755	2,633	3,375
Fed Income Tax	0	0	0	0	170
Fed Payroll Tax	0	169	338	507	676
Work Expense	0	221	442	663	884
Child Care Expense	0	0	0	0	0
"Disposable" Income	\$11,402	\$12,689	\$13,270	\$13,919	\$15,278

NOTES:

- Child Care expense is set equal to 0% of income in calculating benefit levels in all programs in these examples.
- No excess shelter cost deduction is used. Housing cost is set at 80% of Fair Market Rental (FMR) for the 45th percentile.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$120 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations include the current maximum benefit by \$2 to \$294 and the PBP housing subsidy assumes a benefit reduction of 30%.
- The President's Budget Plan housing subsidy benefit calculations include in countable income 100% of F Stamps and 100% of AFDC—0% of AFDC directly reduces the housing subsidy.
- The President's Budget Plan taxes all benefits along with earnings and L the Joint Filer standard deduction.

DISPOSABLE INCOME

FOR A MOTHER & TWO CHILDREN: SELECTED STATES

A L T		Percent Unreimbursed Housing Cost	Countable Income		AFDC Housing Offset	Benefits Taxed	ALABAMA				
			Food AFDC	Stamps							
		Hours per week						0	10	20	30
A	Current Law	30%	100%	0%	0%	None	\$10,833	\$11,708	\$12,406	\$13,588	\$14,554
B	President's Budget	30%	100%	0%	0%	None	10,857	12,057	13,080	14,587	15,958
C	President's Budget	35%	100%	0%	0%	None	10,807	11,936	12,907	14,303	15,564
D	President's Budget	40%	100%	0%	0%	None	10,756	11,814	12,734	14,020	15,170
E	President's Budget	30%	50%	100%	50%	All	9,153	10,713	12,205	13,870	15,237
F	President's Budget	35%	50%	100%	50%	All	8,983	10,466	11,887	13,467	14,823
G	President's Budget	30%	50%	100%	50%	All	7,992	9,551	11,044	12,709	14,239
H	President's Budget	35%	50%	100%	50%	All	7,821	9,304	10,725	12,306	13,752
J	President's Budget	40%	50%	100%	50%	All	7,651	9,057	10,406	11,903	13,265
K	President's Budget	40%	100%	100%	0%	None	8,241	9,414	10,406	11,903	13,265
L	President's Budget	30%	100%	100%	0%	All	8,680	9,967	11,044	12,709	14,239

A L T		Percent Unreimbursed Housing Cost	Countable Income		AFDC Housing Offset	Benefits Taxed	PENNSYLVANIA				
			AFDC	Food Stamps			0	10	20	30	40
		Hours per week									
A	Current Law	30%	100%	0%	0%	None	\$13,580	\$14,455	\$14,751	\$15,100	\$16,066
B	President's Budget	30%	100%	0%	0%	None	13,604	14,804	15,425	16,099	17,470
C	President's Budget	35%	100%	0%	0%	None	13,399	14,528	15,149	15,815	17,076
D	President's Budget	40%	100%	0%	0%	None	13,195	14,252	14,873	15,532	16,682
E	President's Budget	30%	50%	100%	50%	All	11,098	12,658	13,931	15,170	16,523
F	President's Budget	35%	50%	100%	50%	All	10,897	12,380	13,642	14,827	16,109
G	President's Budget	30%	50%	100%	50%	All	9,634	11,194	12,548	13,919	15,278
H	President's Budget	35%	50%	100%	50%	All	9,433	10,916	12,208	13,516	14,864
J	President's Budget	40%	50%	100%	50%	All	9,231	10,638	11,868	13,113	14,450
K	President's Budget	40%	100%	100%	0%	None	10,747	11,920	12,487	13,113	14,474
L	President's Budget	30%	100%	100%	0%	All	11,402	12,689	13,270	13,919	15,278

A L T		Percent Unreimbursed Housing Cost	Countable Income		AFDC Housing Offset	Benefits Taxed	CALIFORNIA				
			AFDC	Food Stamps							
		Hours per week						0	10	20	30
A	Current Law	30%	100%	0%	0%	None	\$17,191	\$18,066	\$18,362	\$18,658	\$18,704
B	President's Budget	30%	100%	0%	0%	None	17,215	18,415	19,036	19,657	20,108
C	President's Budget	35%	100%	0%	0%	None	16,888	18,017	18,638	19,259	19,714
D	President's Budget	40%	100%	0%	0%	None	16,562	17,619	18,240	18,861	19,320
E	President's Budget	30%	50%	100%	50%	All	13,839	15,238	16,462	17,686	18,764
F	President's Budget	35%	50%	100%	50%	All	13,647	14,981	16,153	17,324	18,351
G	President's Budget	30%	50%	100%	50%	All	12,084	13,545	14,769	15,993	17,072
H	President's Budget	35%	50%	100%	50%	All	11,858	13,289	14,460	15,631	16,658
J	President's Budget	40%	50%	100%	50%	All	11,633	13,032	14,150	15,269	16,244
K	President's Budget	40%	100%	100%	0%	None	13,879	15,052	15,620	16,188	16,584
L	President's Budget	30%	100%	100%	0%	All	14,374	15,541	16,108	16,675	17,072

Notes:

- Disposable income refers to after-tax income plus benefits (AFDC, Food Stamps, and Housing Subsidy) minus work expense which is assumed to be 10% of income up to a maximum of \$88 per month.
- Child Care expense is set equal to 0 in calculating benefit levels in all programs in these examples.
- The Current Law and the President's Budget examples use a work-related expense deduction of \$0 in calculating AFDC benefit levels.
- The President's Budget Plan (PBP) food stamp benefit calculations increase the current maximum benefit by \$2 to \$294.
- For alternatives E, F, and G, housing cost is reduced from 100% to 80% of Fair Market Rental (FMR) for the 45th percentile.

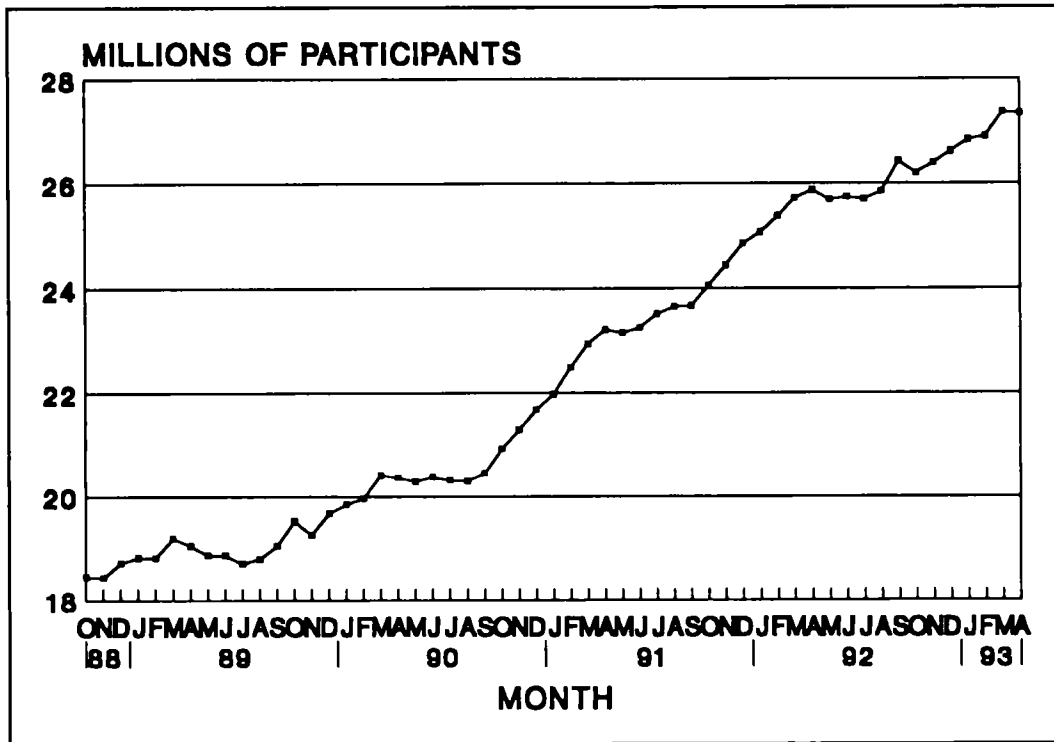
BACKGROUND BRIEFING ON THE FOOD STAMP PROGRAM

FOR

**THE WORKING GROUP ON WELFARE REFORM,
FAMILY SUPPORT AND INDEPENDENCE**

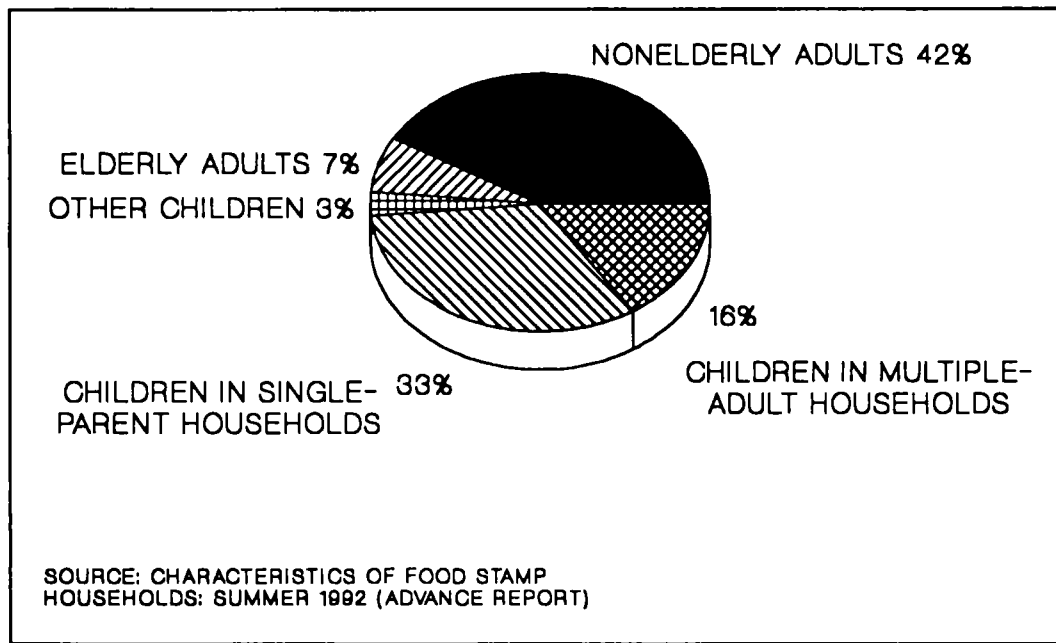
JUNE 30, 1993

PROGRAM PARTICIPATION



- NEARLY ONE IN NINE AMERICANS RECEIVES FOOD STAMPS (27.3 MILLION IN APRIL 1993).
- CASELOADS HAVE GROWN RAPIDLY IN RECENT YEARS: AVERAGE PARTICIPATION IS OVER 8 MILLION MORE THAN FOUR YEARS AGO; OVER 4 MILLION MORE THAN TWO YEARS AGO.

PARTICIPANT CHARACTERISTICS



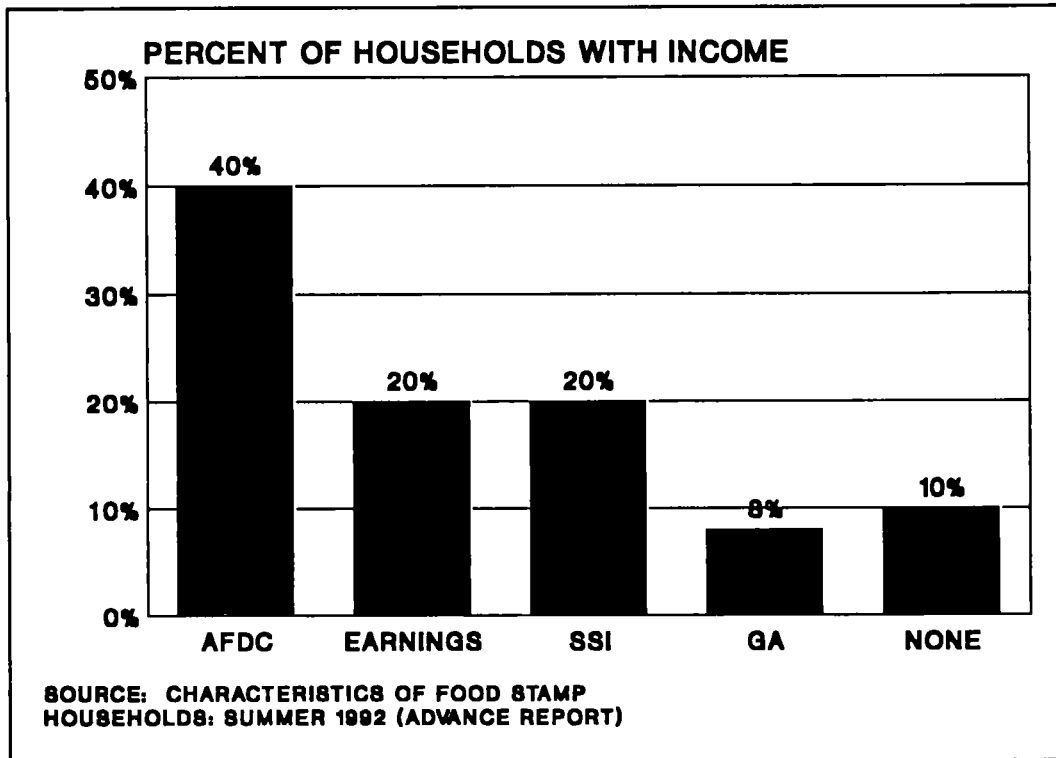
OF ALL FOOD STAMP PARTICIPANTS:

OVER HALF (52%) ARE CHILDREN; NEARLY TWO-THIRDS OF THESE CHILDREN LIVE IN SINGLE-PARENT FAMILIES

7% ARE ELDERLY (60 YEARS OR OLDER)

ABOUT 10% ARE SINGLE ADULTS OR CHILDLESS COUPLES.

INCOME AND RESOURCES



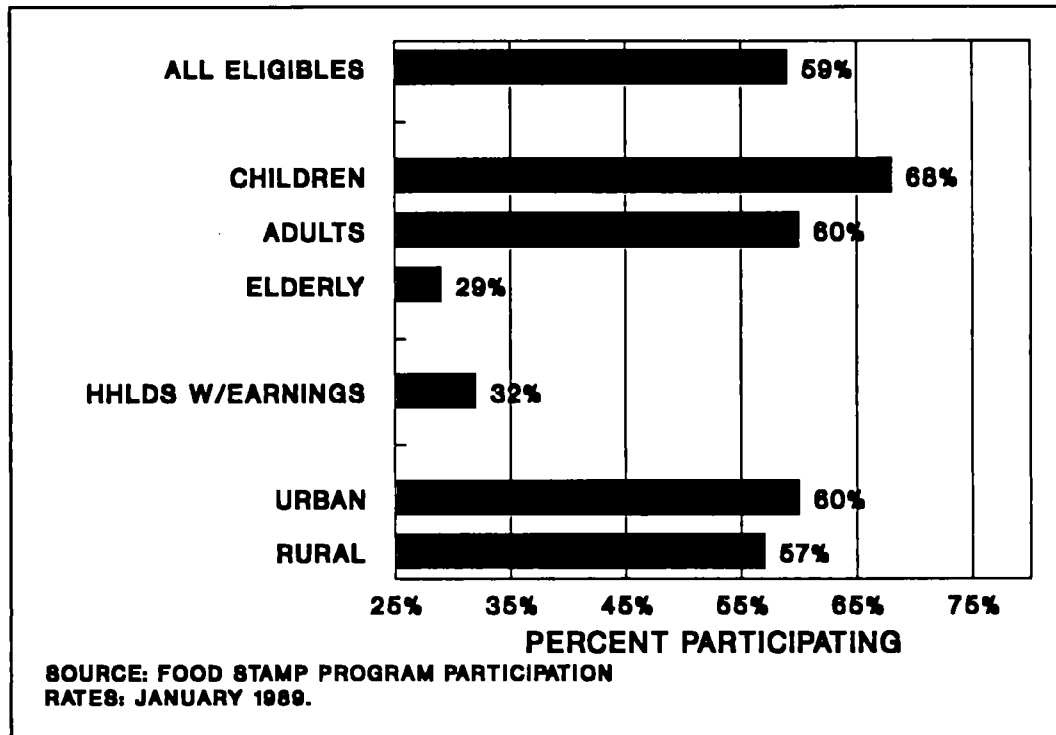
OF THE 10 MILLION PARTICIPATING HOUSEHOLDS:

- 40% RECEIVE AFDC, 20% RECEIVE SSI, AND 8% RECEIVE GA
- 20% HAVE EARNINGS
- 10% HAVE NO INCOME.

MOST FOOD STAMP HOUSEHOLDS ARE VERY POOR: 91% HAVE INCOME BELOW THE POVERTY LINE; 42% HAVE INCOME LESS THAN HALF THE POVERTY LINE.

MOST FOOD STAMP HOUSEHOLDS HAVE FEW RESOURCES: NEARLY 3/4 HAVE NO ASSETS; 3 OUT OF 5 DO NOT OWN A CAR.

PARTICIPATION AMONG THE ELIGIBLE



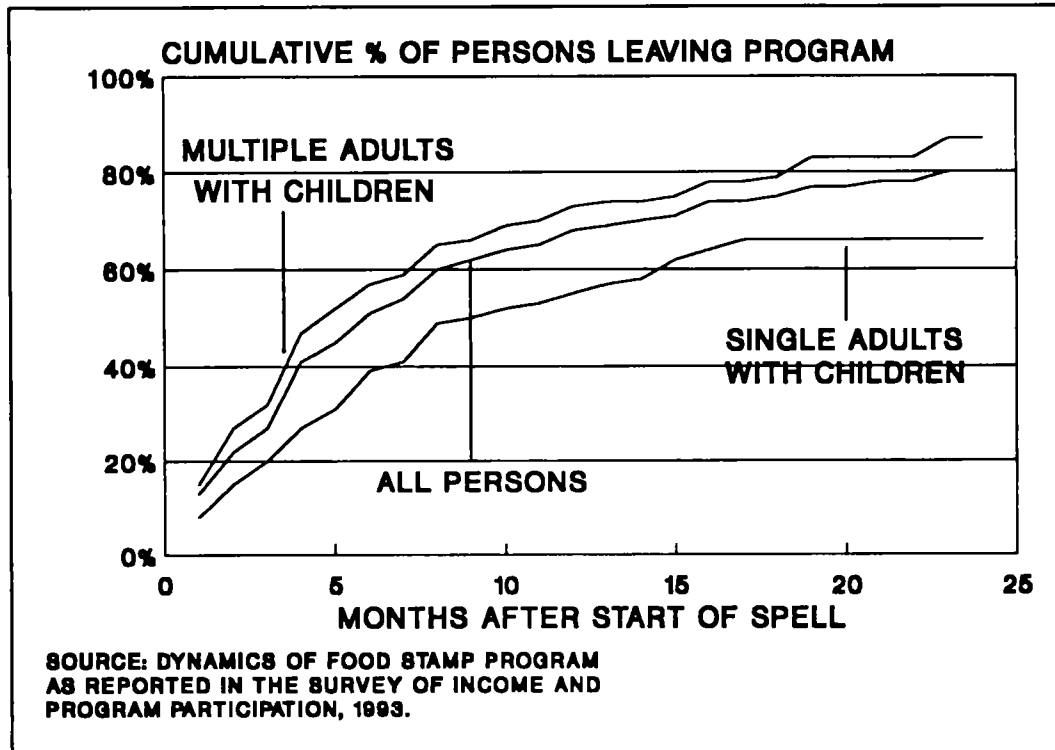
DESPITE RECORD LEVELS OF PARTICIPATION, MILLIONS OF ELIGIBLE AMERICANS ARE NOT SERVED.

VIRTUALLY ALL NONPARTICIPANTS LIVE IN HOUSEHOLDS WITH AN ELDERLY OR WORKING HOUSEHOLD MEMBER.

WHILE NEARLY 1 IN 5 FOOD STAMP HOUSEHOLDS INCLUDE SOMEONE WHO WORKS, THE PROGRAM REACHES ONLY 1 OUT OF EVERY 3 WORKING FAMILIES ELIGIBLE FOR BENEFITS.

- ABOUT ONE-THIRD OF ALL NONPARTICIPATING HOUSEHOLDS LIVE IN RURAL AREAS.

PARTICIPATION DYNAMICS



- HALF OF ALL PERSONS ENTERING THE FOOD STAMP PROGRAM LEAVE WITHIN 6 MONTHS; ONLY 1 IN 5 CONTINUE MORE THAN 2 YEARS.
- OVER HALF (53%) OF THOSE ENTERING THE PROGRAM APPLIED FOR BENEFITS AFTER EXPERIENCING A RECENT DECLINE IN EARNINGS; LESS THAN ONE-FIFTH (18%) HAD INCREASED NEED DUE TO A CHANGE IN FAMILY COMPOSITION.
- OVER HALF (57%) OF THOSE LEAVING THE PROGRAM DO SO BECAUSE OF INCREASED EARNINGS.
- OF THOSE WHO LEAVE, 2 IN 5 (38%) RETURN WITHIN 1 YEAR.
- LONG-TERM (MORE THAN 2 YEARS) AND MULTIPLE SPELL PARTICIPANTS ACCOUNT FOR NEARLY TWO-THIRDS OF ALL PARTICIPANTS WHO EVER RECEIVE BENEFITS AND ABOUT 80% OF ALL BENEFITS PAID.