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Reforming Subsidized Housing Policy in the Twin Cities to Cut Costs and Reduce Segregation

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FORUM

High Costs and Segregation in Subsidized Housing Policy

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This article examines the public policies determining the distribution of subsidized housing in the Twin Cities metropolitan area of Minnesota, the resulting distribution of subsidized housing, and the comparative costs associated with building in the region's central cities or in suburbs. The analysis concludes that current policies are clearly not meeting the region's responsibility to affirmatively further fair housing. The metropolitan area abandoned its role as a national leader in this area decades ago. The result is an affordable housing system that concentrates subsidized housing in the region's poorest and most segregated neighborhoods. This increases the concentration of poverty in the two central cities, in the region's most racially diverse neighborhoods, and in the attendance areas of predominantly nonwhite schools. In the long run, this hurts the regional economy and exacerbates the racial gaps in income, employment, and student performance that plague the Twin Cities.

Keywords: low-income housing; minorities; community development; suburban

The Twin Cities metropolitan area of Minnesota is among the wealthiest and least diverse in the United States, characteristics that once enabled the region to implement one of the nation's most integrative affordable housing programs. But in 1986, the cities abandoned their ambitious, coordinated integration efforts. Affordable housing policy was turned over to a loose network of regional, local, and private entities. The result has been a reversal of the region's previous integrative trends—and the growth of a large, hard-to-regulate affordable housing industry.

Today, affordable housing policy in the Twin Cities actively contributes to deepening segregation. Present-day regional subsidized housing construction has largely been centered on building and rebuilding housing in the region's poorest neighborhoods. While this practice has been rationalized as a form of economic development, the evidence to date suggests that these policies have intensified racial segregation and the concentration of poverty.

This upswing in housing segregation has accompanied, and likely contributed to, other segregative trends in the Twin Cities, most notably in education. In the 1970s and 1980s, the region proactively pursued school integration, a policy lasting until the early 1990s, by which time the region contained very few segregated schools. But this progress has been reversed at an alarming pace. Today, over 130 of the region's schools are segregated, and racial isolation in schools mirrors residential segregation.

As a consequence of these policy changes, the Twin Cities region is unusually segregated for an American city with its demographic characteristics. For instance, it is

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much more segregated than similarly composed cities such as Portland, Oregon, and Seattle, Washington (Orfield & Luce, 2010). And the gap has worsened in recent years, as the most deeply segregated neighborhoods of the Twin Cities have endured an unusually harsh period of decline and disinvestment. Moreover, because many policymakers and analysts have explicitly rejected the goals of racial integration, the region is unlikely to change trajectory in the near future.

These broad segregative trends form the backdrop of other changes in the region's housing policy. Most notable is the emergence and preservation of a clear city–suburb divide in affordable construction. In recent decades, the central cities of Minneapolis and St. Paul, despite containing most of the region's low-income and minority population, have captured a disproportionate share of subsidized housing funding. That this practice helps perpetuate segregation is clear. Less obvious, however, is that it is inefficient. An analysis of available data on affordable construction suggests that central city development programs are comparatively expensive, with each new unit of urban affordable housing costing more than an identical unit in a less segregated, more affluent, opportunity-rich suburb.

This wasteful approach to housing construction, in which public subsidies are prioritized for central city projects, despite the fact that they return fewer units on the dollar and create negative social externalities, has a number of root causes. In part, it has arisen because the system by which affordable housing subsidies are distributed frequently incentivizes and rewards developments in dense urban areas (and to some extent, developments in segregated, relatively impoverished first-ring suburbs). It has also been encouraged by the growth of a sophisticated "poverty housing" industry with a firm stake in continued central city development. The industry incorporates a throng of government, nonprofit, and for-profit entities, including a number of investors and intermediaries. For some of these parties, affordable development is a highly profitable venture, facilitating high salaries and lucrative investment strategies.

Proponents of this strategy argue that subsidizing housing in low-income neighborhoods strengthens areas deprived of private credit. Most research, however, contradicts this view. The most significant regional attempt to revitalize a neighborhood through housing construction—the Franklin–Portland Gateway—is one of the most expensive affordable housing projects in recent history and appears to have done little or nothing to change its neighborhood's downward trajectory.

In the meantime, potential projects in higher opportunity suburban areas have gone unfunded. Affordable housing projects in these areas not only are much more cost effective but can also reduce the concentration of poverty and provide the region's low-income citizens with greater access to better schools, safer neighborhoods, and more economic opportunity.

Not only is this policy detrimental to the region, but it also violates federal law. The Fair Housing Act requires recipients of housing dollars to affirmatively further fair housing. Simply put, federal funding must be used on projects that encourage integration. The region's current subsidized housing strategies are clearly not meeting this requirement.

In short, the failure of the Twin Cities to pursue housing integration in a coordinated fashion has led to diffuse, decentralized affordable housing policy. A bevy of housing subsidies with unaligned policy objectives, each awarded based on different rules, frequently has the effect of rewarding central city developments. Meanwhile, responsibility for subsidized construction is divided among heterogeneous organizations pursuing a variety of interests and objectives. In these ways, regional authorities have encouraged inefficient, wasteful construction in the central cities, while doing little to resolve fundamental problems like segregation and access to opportunity. Serious reforms must be undertaken to address these concerns.

The Twin Cities Metropolitan Council and the Requirements of the Federal Fair Housing Act

Housing policy tends to fall under two broad frameworks. One framework focuses overwhelmingly on the production of units, using physical structures and the immediate neighborhood as the focal points for analysis. This housing research tends to emphasize the technical details of packaging, financing, and activities within the frame of single neighborhood, rather than viewing a metropolitan area as an interconnected system. Although these concerns are an important component of housing development, this viewpoint is necessarily incomplete.

The second perspective conceptualizes housing more broadly: as a means of providing access to desirable communities that offer strong opportunities for adults, foster the development of children, and pose few threats to health and safety. It sees regional housing policy as an interconnected system, where small changes can have broad effects throughout a metropolitan area: strengthening or weakening neighborhoods by causing population shifts, supporting or hindering cities in their bid to remain racially and socially integrated, and making suburbs more or less competitive in the cost and provision of services. This broader framework also views racial segregation and discrimination by government, private firms, and individuals as central to housing policy. It is concerned with the impact of residential segregation on local school quality, the metropolitan dynamics of housing markets, and migration patterns for households of all races.

Put more succinctly, one framework views housing policy on a micro scale, as being primarily a question of putting together funding and gaining access to sites, whereas the other views housing policy on a macro scale, as being broadly related to the dynamics of opportunity within metropolitan space.

Both Minnesota and federal law require that lawmakers and administrators incorporate the second, regional perspective when determining housing policy. This is particularly true with the effect of housing policy on racial segregation.

The Twin Cities Metropolitan Council ("Met Council"), in collaboration with the Minnesota Housing Finance Agency (MHFA), has had the primary responsibility to regulate and coordinate the placement of subsidized housing in the Twin Cities since its inception, and the passage of the Minnesota Land Use Planning Act of 1976 strengthened this obligation. The Met Council's responsibilities under the Federal Fair Housing Act are therefore an important overlay on any discussion of subsidized housing policy in the region.

According to Robert Freilich, the principal consultant retained to draft the Land Use Planning Act,[1] the Met Council's housing program was shaped by the Gautreaux case in Chicago, Illinois, and the Shannon case in Philadelphia, Pennsylvania, both of which involved remedies for federal civil rights laws violations involving governmental policies that concentrated affordable housing in racially segregated or resegregating neighborhoods (Freilich & Ragsdale, 1974b). In its guiding documents prior to the Land Use Planning Act, the Met Council had declared that its fair share housing system was intended to reduce racial and economic segregation and eliminate exclusionary zoning; it also declared its intention to use its affirmative powers to increase regional racial and economic integration for the benefits of individuals and neighborhoods, and to strengthen the region's workforce and economic vitality (Metropolitan Council of the Twin Cities Area, 1973).

The Federal Fair Housing Act declares that it shall be unlawful to make unavailable or deny a dwelling to any person because of race, color, religion, sex, familial status, or national origin (Fair Housing Act of 1968). The federal rule implementing this section states that a "practice has a discriminatory effect where it actually or predictably . . . perpetuates segregated housing patterns because of race, color, religion, sex, handicap, familial status, or national origin" (Fair Housing Act of 1968, 24 C.F.R. § 100.500). In *Inclusive Communities Project v. Texas Department of Community Affairs*, a federal court in Texas recently found a "perpetuation of segregation" disparate impact violation of the Fair Housing Act when the state housing agency disproportionately awarded low-income housing tax credits in minority neighborhoods (Inclusive Communities Project v. Texas Department of Community Affairs, 2010; Inclusive Communities Project v. Texas Department of Community Affairs, 2012; Project, Inc. v. Tex. Dept. of Community Affairs, 2010).

Recipients of federal housing funds have an obligation under the Federal Fair Housing Act to "affirmatively further" fair housing (Fair Housing Act of 1968, 42 U.S.C. § 3608(d), 2013), which requires them to use their "immense leverage" to create "integrated and balanced living patterns" (NAACP v. Secretary of Housing and Urban Development, 2012). In its proposed rule, which codifies existing case law, the U.S. Department of Housing and Urban Development (HUD) defines "affirmatively furthering fair housing" as "taking proactive steps beyond simply combating discrimination to foster more inclusive communities." Specifically, the proposed rule states that affirmatively furthering fair housing "means taking steps to overcome segregated living patterns and support and promote integrated communities, [and] to end racially and ethnically concentrated areas of poverty" (Affirmatively Furthering Fair Housing, 2013).

Despite these clear responsibilities, Twin Cities governmental agencies and housing developers frequently privilege the first, technically oriented policy framework over the second, regionally oriented perspective. As the following analysis will show, the Met Council's broad powers are not utilized, and the Fair Housing Act's requirements are ignored, as affordable units are consistently placed in struggling neighborhoods with few opportunities for residents.

Placement of Subsidized and LIHTC Housing Units in the Twin Cities

This section examines how subsidized housing is distributed across the Twin Cities metropolitan area.[2] The analysis uses data from HousingLink's Streams data set, which includes information for housing units receiving subsidies from nearly all public sources, excluding in particular HUD's Section 8 voucher program (HousingLink, 2013). The locations of all subsidized units and units supported by the Low-Income Tax Housing Credit (LIHTC) are broken out in three ways: by central cities and suburbs, by the racial composition of the surrounding neighborhoods, and by the racial composition of the elementary schools assigned to the units by school district attendance boundaries.

The central city–suburb comparison matters for a variety of reasons. First, the complicated administrative structure that controls the regional distribution of large amounts of subsidized housing divides the region this way. LIHTC funding in the metropolitan area is distributed through four "suballocators"—public entities designated by the State of Minnesota to determine LIHTC allocations within their borders. Both of the central cities are a suballocator in this system, along with Dakota County and Washington County. MHFA allocates funds across the entire state, including to some projects within the boundaries of the other suballocators. The central city–suburb comparison thus provides a window into how the administrative structure affects the regional distribution of subsidized housing. In addition, other funding streams often contribute to LIHTC projects and other programs (e.g., Section 8 vouchers) are affected by how LIHTC sites are spread across the region, so the suballocator system has effects beyond LIHTC.

The region's central cities are also crucial to the economic and social well-being of the region. Minneapolis and St. Paul are already home to greatly disproportionate shares of the region's low-income population and people of color (Orfield & Luce, 2010). Job growth also lags behind the suburbs in most years (Luce, Orfield, & Mazullo, 2006). Research shows that cities and suburbs sink or swim together (Haughwout & Inman 2004: Leichenko, 2001; Solé-Ollé & Viladecans-Marsal, 2004; Voith, 1998). A subsidized housing system that concentrates poverty in the central cities and increases regional segregation levels creates significant long-run costs for the region.

The composition of the neighborhoods where subsidized housing is located matters because public agencies distributing housing subsidies are required by law to affirmatively further fair housing. This means that public actors should not pursue policies that further concentrate subsidized housing in neighborhoods that already contain disproportionate shares of the region's affordable housing stock and poor populations. Similarly, they should not concentrate subsidized housing in ways that increase racial segregation in the region's neighborhoods.

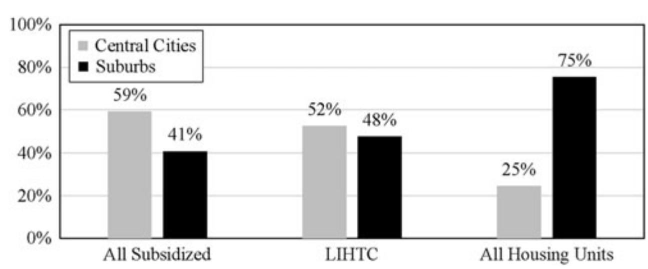
The makeup of schools near subsidized housing matters because a large body of research shows that a school's poverty rate is the most powerful predictor of student performance and that integrated schools are associated with better student performance for children of all races (Institute on Race and Poverty, 2008, pp. 6–7). The Twin Cities consistently ranks at or near the bottom of large U.S. metropolitan areas in the magnitude of racial achievement gaps, regardless of the measures used to evaluate student performance. A distribution of subsidized housing that provides the region's children from low-income families with access to low-poverty and racially integrated schools should therefore be a high priority.

Central Cities and Suburbs

Subsidized housing in the Twin Cities is highly concentrated in the region's two central cities. In 2012, about 25% of the region's population and housing units were located in Minneapolis and St. Paul. However, more than twice this share of the region's subsidized housing was located there—59% of all subsidized units and 53% of LIHTC units (see Figure 1).

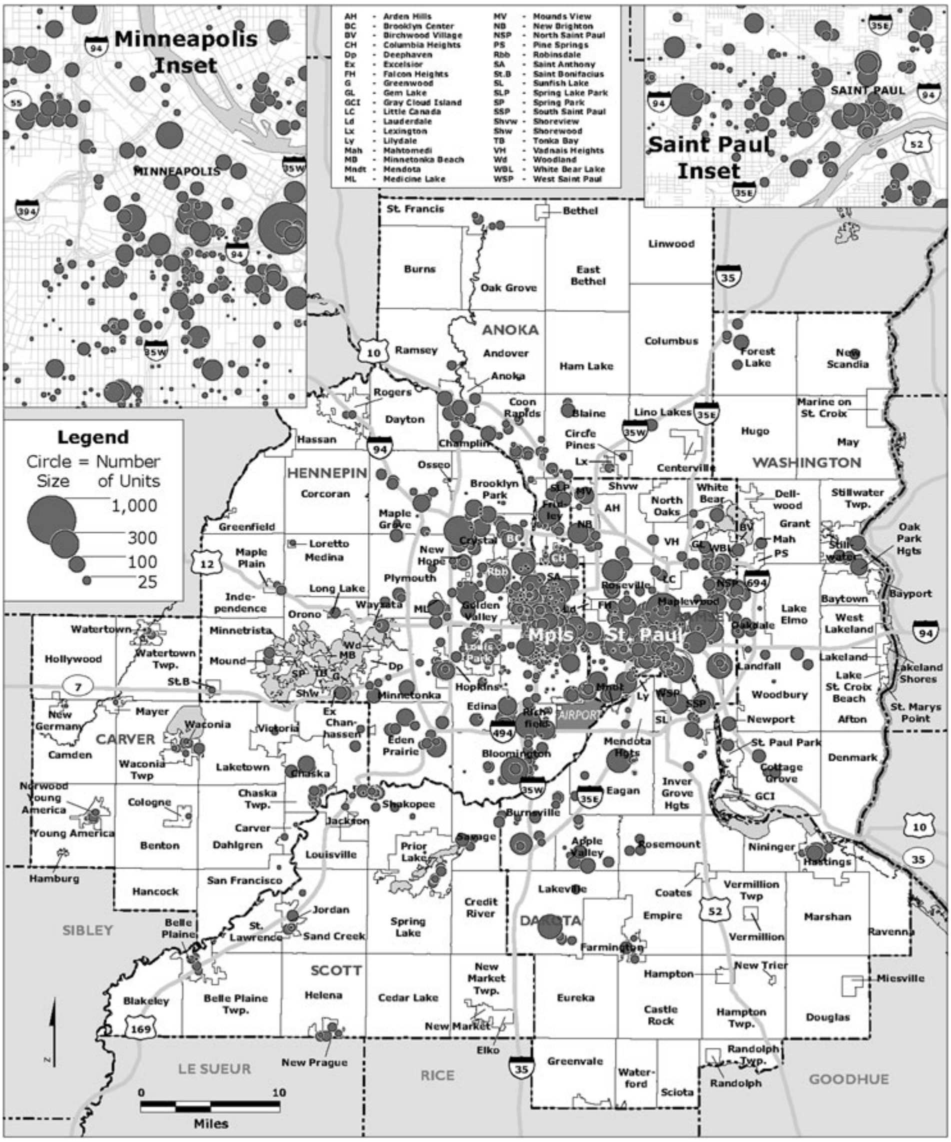
The distribution of subsidized housing within the central cities and across suburbs also shows a distinct pattern (see Figure 2). In the central cities, subsidized units are highly concentrated in neighborhoods along the I-94 corridor through central St. Paul and east-central and northwest Minneapolis—the areas in those cities with high concentrations of low-income people and people of color. Although subsidized units are more scattered in

Figure 1. Distribution of housing units in central cities and suburbs, 2012.



Note. LIHTC = Low-Income Housing Tax Credit.

Figure 2. Minneapolis – St. Paul, Minnesota, seven-county region: All subsidized housing by project site in 2012.



Note. From HousingLink Streams 2012 subsidized housing data, NCompass street data, Minnesota Housing Finance Agency subsidized housing data.

the suburbs, the bulk of the units are in inner suburbs, near to the central cities—areas which generally exhibit more poverty than other suburban areas and which are more likely to be in racial transition.

Neighborhood Types

The distribution of subsidized housing across neighborhoods with different racial mixes provides a window on how well the regional system has met its responsibility to affirmatively further fair housing. By this criterion, an effective housing system should not increase economic and racial segregation by concentrating subsidized housing in nonwhite segregated neighborhoods—areas which are often already characterized by high poverty and poor economic opportunities. Similarly, predominantly white neighborhoods—areas which typically show the lowest crime rates, the strongest environmental and health conditions, and the fastest-growing job markets—should not be underrepresented in subsidized housing markets. Finally, integrated, racially diverse areas are of interest because these areas are often unstable—in the midst of rapid economic and/or racial transition. Targeting these areas for subsidized housing development may further destabilize them.

The data show very clearly that publicly subsidized housing is heavily concentrated in areas that are already majority nonwhite. Further, racially diverse, integrated neighborhoods—areas that are often very unstable and susceptible to economic decline—are also home to disproportionate shares of subsidized housing. Despite the fact that most of the region's housing units are in predominantly white areas, subsidized units are much more likely to be found in majority nonwhite or racially diverse areas. This can be seen in two ways.

Figure 3 shows the percentage of the population that was nonwhite in census tracts across the region. It is easy to see that racially diverse (20–50% nonwhite) and majority nonwhite areas are distributed in much the same pattern as subsidized housing (see Figure 2). Majority nonwhite neighborhoods follow the I-94 corridor through St. Paul and Minneapolis, just as the subsidized units do. Racially diverse and majority nonwhite areas in the suburbs are also concentrated in inner suburban areas, often mirroring the subsidized housing patterns in Figure 2.

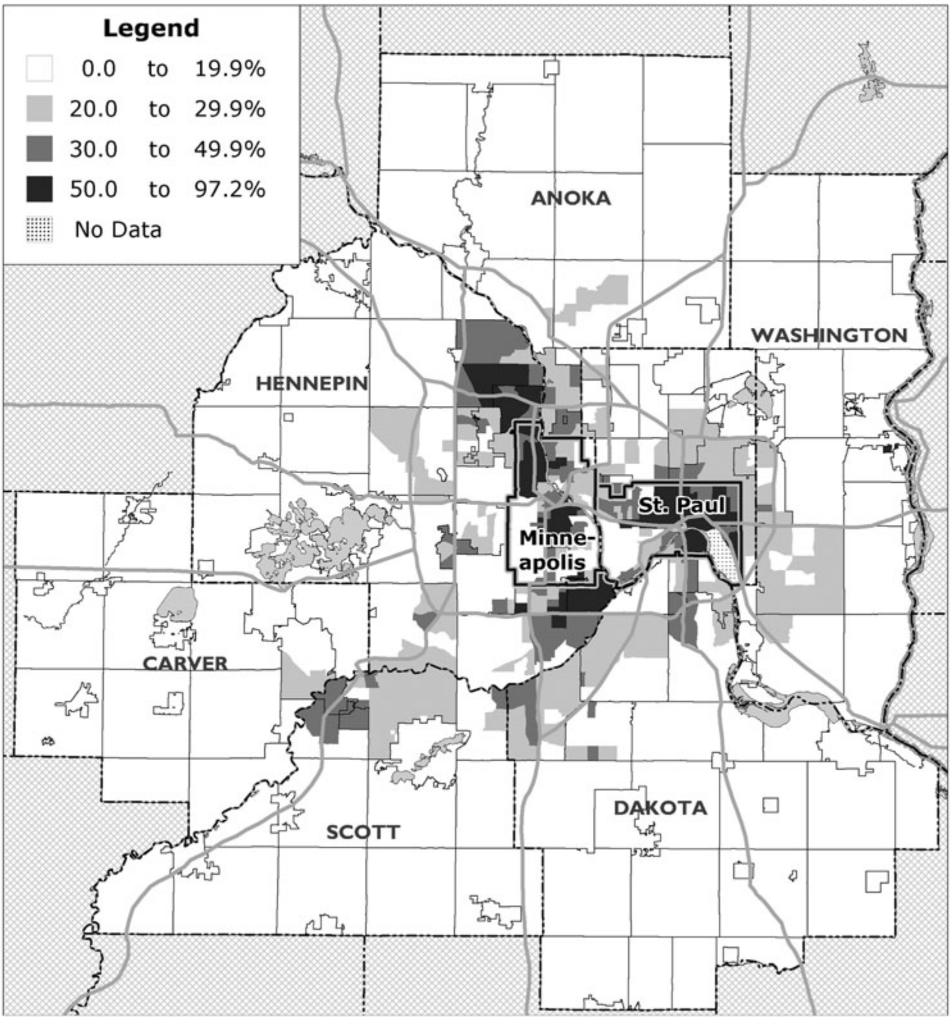
Tables 1 and 2 show the relationship more explicitly. In 2012, the share of all subsidized housing units in majority nonwhite census tracts (33.3%) was more than 3 times greater than the percentage of all housing units in those areas (10.7%). Racially diverse areas were also home to disproportionate shares of subsidized housing—44.5% of the region's subsidized units compared with just 33.6% of all housing units. In contrast, predominantly white areas contained less than a fourth of all subsidized units, despite containing more than half of all housing.

School Types

The makeup of the schools serving subsidized housing is an important indicator of the opportunity structure available to housing residents. Highly segregated schools are also nearly always high-poverty schools, and school poverty is a powerful predictor of student performance. Racially integrated schools are of value in and of themselves as well; integration is associated with better student performance for children of all races. The Twin Cities' consistently poor rank on racial disparities of all kinds, especially student achievement, makes it doubly important to use all means available to reduce disparities. Employing prointegrative strategies in the placement of subsidized housing is one such tool.

Not surprisingly, comparing the distribution of subsidized housing with the composition of elementary schools shows patterns much like the population data. Despite the fact that the majority of all students in the region are located in areas with predominantly white student populations in elementary schools, only about one-sixth of subsidized units are in those areas (see Tables 3 and 4). This part of the region, of course, is where educational opportunities are strongest for the most part, where crime is lowest,

Figure 3. Percentage minority population by census tract, 2010.



where environmental and health conditions are strongest, and where jobs are growing most quickly. The lack of housing in these areas that is affordable for lower income households shuts off long-run opportunities to low-income children of color, contributing to the region's enormous racial gaps in educational performance.

Table 1. Twin Cities, Minnesota, seven-county area number of total subsidized, Low-Income Housing Tax Credit (LIHTC), and housing units by percentage minority in census tracts.

Share of minority in tract	Subsidized units	LIHTC units	Total units	Renter units
0–19%	13,296	3,143	620,429	111,015
20–29%	13,571	3,868	238,646	82,431
30–49%	13,131	3,481	134,306	62,802
50–100%	19,950	4,100	118,685	64,347
Total	59,948	14,592	1,112,066	320,595

Note. Data from HousingLink (2012 subsidized unit data), U.S. Census Bureau (2010 census tract race data).

Table 2. Twin Cities, Minnesota, seven-county area share of total subsidized, Low-Income Housing Tax Credit (LIHTC), and housing units by percentage minority in census tracts, 2005–2011.

Share of minority in tract	Subsidized units	LIHTC units	Total units	Renter units
0–19%	22.2	21.5	55.8	34.6
20–29%	22.6	26.5	21.5	25.7
30–49%	21.9	23.9	12.1	19.6
50–100%	33.3	28.1	10.6	20.1
Total	100.0	100.0	100.0	100.0
Total metro sum	59,948	14,592	1,112,066	320,595

Note. Data from HousingLink (2012 subsidized unit data), U.S. Census Bureau (2010 census tract race data).

Table 3. Twin Cities, Minnesota, seven-county area number of total subsidized, Low-Income Housing Tax Credit (LIHTC) units, and students by percentage minority in elementary school attendance areas.

Share of minority in area	Subsidized units	LIHTC units	Student population
0–29%	9,356	2,416	100,980
30–49%	15,806	3,970	43,407
50–100%	34,786	8,126	43,666
Total	59,948	14,512	188,053

Note. Data from HousingLink (2012 subsidized unit data), Minnesota Department of Education (2013 school race data).

Table 4. Twin Cities, Minnesota, seven-county area share of total subsidized, Low-Income Housing Tax Credit (LIHTC) units, and students by percentage minority in elementary school attendance areas.

Share of minority in area	Subsidized units	LIHTC units	Student population
0–29%	15.6	16.6	53.7
30–49%	26.4	27.4	23.1
50–100%	58.0	56.0	23.2
Total	100.0	100.0	100.0
Total metro sum	59,948	14,512	188,053

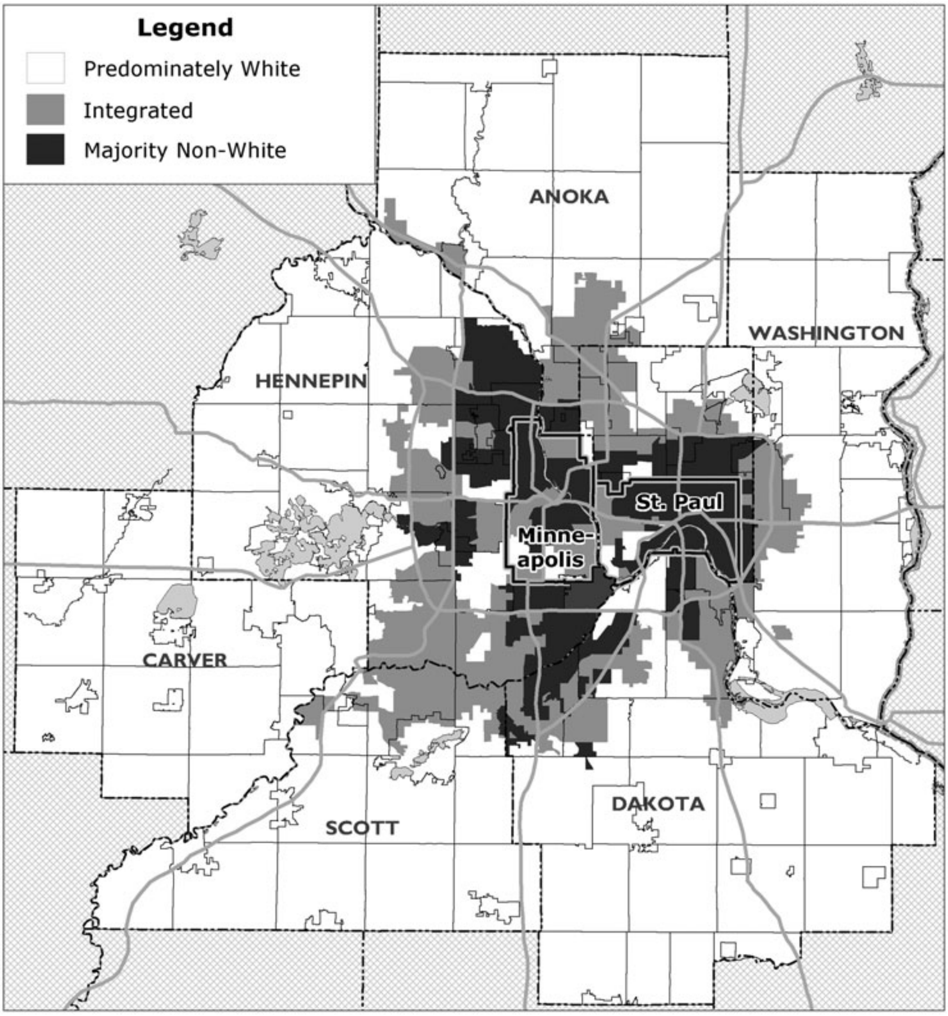
Note. Data from HousingLink (2012 subsidized unit data), Minnesota Department of Education (2013 school race data).

Reflecting this pattern, nearly 60% of subsidized units are in attendance boundaries for majority nonwhite schools, even though those areas have less than a fourth of all students in the region. These areas are home to the greatest concentrations of lower performing schools.

Attendance boundaries for integrated schools—those with 30–50% nonwhite students—contain a proportionate share of subsidized housing. Roughly a fourth of the region's subsidized housing is in these areas, reflecting their share of the elementary student population. This positive result is tempered by the fact that like neighborhoods with similar compositions, many of these schools are actually in racial and economic transition. Although integrated in 2012, these schools can be very unstable, meaning that it is inadvisable to add more subsidized housing in these areas.

Figure 4 shows the attendance boundaries of elementary schools in the region, divided into three categories: predominantly white (schools with nonwhite shares between 0 and 30%), integrated (nonwhite shares between 30% and 50%), and majority nonwhite (nonwhite shares greater than 50%). A comparison with Figure 2 shows how closely subsidized housing patterns mirror the distribution of predominantly nonwhite and integrated schools.

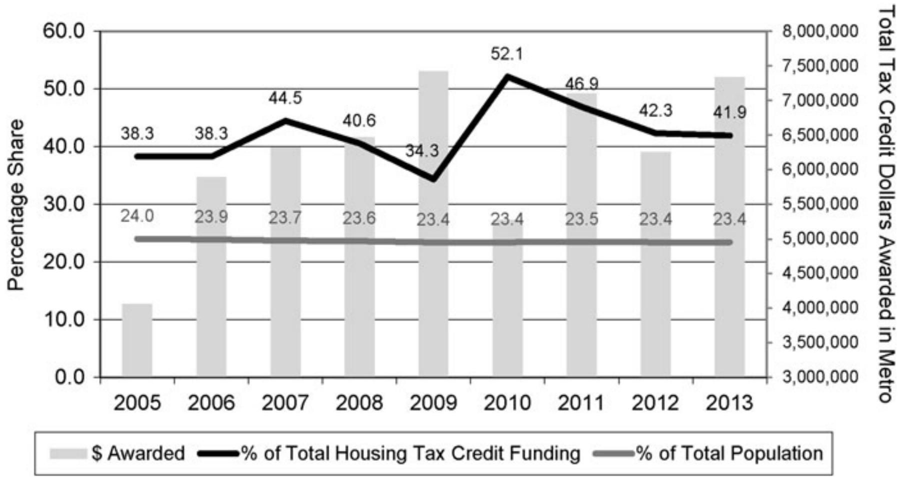
Figure 4. Racial composition of public elementary schools by school attendance areas, 2012–2013.



Recent Patterns of MHFA LIHTC Allocations

A great deal of the imbalance in the distribution of subsidized housing is due to the disproportionate share of subsidized housing in the two central cities. Data shortcomings make it difficult to see if recent funding patterns have improved or worsened the imbalance. Data showing recent LIHTC awards are limited largely to projects with MHFA participation (Minnesota Housing Finance Agency, 2005–2013). Data are not available for some projects awarded solely by the cities of Minneapolis and St. Paul. The two central cities distribute roughly a third of the region's LIHTC funding in their roles as suballocators. Projects with some degree of MHFA participation are counted in the figures below. However, some projects receiving LIHTC funding from suballocators may not be included in the MHFA reports. Nonetheless, the available data show a greatly disproportionate share of LIHTC funding going to sites in Minneapolis and St. Paul; because the central cities are the largest suballocators, more accurate data would almost certainly increase their total share of LIHTC funding.

Figure 5. Central city Low-Income Housing Tax Credit (LIHTC) and population shares, 2005–2013.



Note. Population estimates shown are from population estimates provided by the Met Council, available at http://stats.metc.state.mn.us/data_download/DD_start.aspx.

The LIHTC allocation data show that the percentage of LIHTC awards going to the central cities, measured in dollars, hovered near 40% from 2005 to 2009, rose to 50% in 2010, and dropped slightly to the mid- to low-40% range from 2011 to 2013 (see Figure 5). Although these shares (which understate the actual distribution of all LIHTC funds to the central cities) are lower than the share of LIHTC units shown in Figure 1, they still indicate that a disproportionate amount of LIHTC funding is going to central city locations. The two central cities were home to less than 24% of the region's population during this period but received 42% of the tax credit funding during the period. Between 2005 and 2013, $23 million of funding went to the central cities, resulting in over 1,200 new LIHTC units, often in segregated neighborhoods. At the same time, the state rejected about $33 million worth of requests from suburban areas—places more likely to have higher achieving and more integrated schools.

The Costs of Subsidized Housing in the Central Cities and Suburbs

The two central cities are home to disproportionate shares of the regional pool of subsidized housing. Together, Minneapolis and St. Paul contain 59% of the region's subsidized housing, compared with only 25% of all housing units (and an even smaller share of the population).

Although this unbalanced distribution concentrates poverty and increases racial segregation, one possible defense is that it also provides more bang for the buck by focusing funding in lower cost areas, thereby maximizing the regional total of affordable housing units generated by limited funds. Similarly, if it is cheaper to build affordable housing in the cities and the award process rewards lower costs, then the application process might create an advantage for projects in city locations. This section evaluates and rejects that argument, determining that per-unit total development costs are significantly higher in the central cities. It also explores some possible explanations for these higher costs.

Costs of Subsidized Housing Construction

Data for 166 MHFA-funded projects involving new construction of subsidized housing between 1999 and 2013 show that it is more expensive to construct subsidized housing in

Minneapolis or St. Paul than elsewhere in the metropolitan area.[3] This conclusion is drawn from a statistical model built from MHFA data, HousingLink's Streams data set, and various other sources. The analysis controls for building characteristics and a number of other project attributes that could affect costs. The results imply that, all else being equal, it costs significantly more to construct new subsidized housing units in the central cities than in the rest of the region—$30,000 more per housing unit in Minneapolis and $37,900 more in St. Paul. These amounts represent 14% and 18%, respectively, of the regional average cost per unit of constructing new subsidized housing during this period.

Table 5 shows the characteristics of new construction projects in the Twin Cities region between 1999 and 2013 for the region as a whole, the two central cities, and the suburbs. The data set includes cost and other information for the 166 new construction projects reported by MHFA for that period. The simple cost data show that the region-wide average cost per housing unit (in 2012 dollars) was $209,334. Projects located in Minneapolis and St. Paul show substantially higher costs per unit—$227,660 in Minneapolis and $224,157 in St. Paul—while those in the suburbs were less expensive at $194,174. However, the simple averages do not reflect other characteristics of the projects and the sites that could affect costs, perhaps enough to reverse the conclusion that projects in the central cities are more expensive.

First, and most obviously, cost is heavily impacted by the characteristics of the units in question. If the central cities were building larger units—or perhaps targeting slightly higher income residents—then one might expect different construction costs. As it turns out, the opposite was occurring: Central city units are disproportionately efficiencies or one-bedroom, while suburban units are more likely to contain two or three bedrooms. Higher shares of central city units also tended to be affordable at lower incomes.

Another possible explanation for higher costs in the cities is commercial space. City developments were in fact more likely to be mixed-use, with commercial space intended for retail or offices. This space is theoretically eligible for fewer public dollars than housing, but even mixed-use developments tend to be very heavily publicly subsidized. Similarly, city projects were more likely to include land acquisition costs, demolition costs, or historic buildings—all factors that could increase costs.

Other factors may impact costs but have less predictable effects on the city–suburb cost comparison. These include the percentage of units to be rented at market rents, whether the project includes some rehabilitation of existing units, the number of buildings, the number of units per building, and whether the project includes LIHTC funding.

The statistical model (see Table 6) includes all of the above factors and demonstrates that many do in fact affect per-unit costs. However, controlling for these characteristics actually results in a wider cost gap between central cities and suburbs than in the simple averages. After accounting for all of these factors, the gap nearly doubles to $30,000 for Minneapolis and more than doubles to $37,900 for St. Paul. Indeed, a location in Minneapolis or St. Paul remains among the most important of all the factors affecting costs per unit.

The large cost effect of a central city location is rivaled in the results only by whether the project included LIHTC funding, the number of units per building, the percentage of units that are market rate, whether land acquisition was required, and whether the project includes high percentages of large (three- or four-bedroom) units.[4] That site and unit characteristics are important is not surprising. The large effect for LIHTC funding—all else being equal, projects with LIHTC funding had costs $40,660 higher per unit—is less easy to explain. It is not simply an effect of public funding because all projects in the data set received some amount of public money. It could represent higher costs caused by red tape (if LIHTC is more heavily regulated than other funding sources) or those caused by

Table 5. Summary statistics for variables included in the statistical analysis.

	Full sample		Minneapolis, Minnesota		St. Paul, Minnesota		Suburbs	
Variable	Mean	*SD*	Mean	*SD*	Mean	*SD*	Mean	*SD*
Total development cost per unit (2012 $)	209,334	53,816	227,660	62,381	224,157	64,263	194,174	39,330
Percentage of units:								
0 bedrooms	15	33	21	36	15	33	10	30
1 bedroom	16	26	22	26	25	30	10	23
2 bedrooms	32	24	26	22	29	25	36	25
3 bedrooms	24	23	18	21	15	23	30	24
4 bedrooms	2	7	3	7	2	5	2	7
Percentage of units affordable at:								
30% of regional median income	23	35	29	36	37	41	16	32
50% of regional median income	42	42	34	38	33	38	48	45
60% of regional median income	24	39	25	37	15	31	26	42
80% of regional median income	1	5	2	9	0	0	0	1
Percentage of units market rate	11	21	10	17	11	23	11	23
Land acquisition included (0/1)	0.32	0.47	0.51	0.51	0.55	0.51	0.15	0.36
Demolition required (0/1)	0.24	0.43	0.38	0.49	0.41	0.50	0.10	0.31
Historic building(s) involved (0/1)	0.02	0.13	0.04	0.19	0.05	0.21	0.00	0.00
Rehabilitation of existing unit (0/1)	0.09	0.29	0.13	0.34	0.18	0.40	0.05	0.21
Conversion (0/1)	0.03	0.17	0.05	0.23	0.09	0.29	0.00	0.00
Nonresidential development (sq. ft. per res. unit)	23	77	47	115	23	57	7	40
Nonresidential development (0/1 – sq. ft. n.a.)	0.06	0.24	0.13	0.34	0.14	0.35	0.00	0.00
Units per building	33	35	41	32	54	52	23	27
Number of buildings	3.3	3.8	2.5	4.1	2.1	2.7	4.1	3.7
LIHTC included (0/1)	0.75	0.43	0.80	0.40	0.59	0.50	0.76	0.43
Minneapolis location (0/1)	0.33	0.47						
St. Paul location (0/1)	0.13	0.34						

Note. LIHTC = Low-Income Housing Tax Credit. *SD* = standard deviation. Data from HousingLink, Minnesota Housing Finance Agency, various news articles, real estate listings and LIHTC proposal documents.

Table 6. Regression results: Determinants of per-unit cost of Low-Income Housing Tax Credit (LIHTC) affordable housing projects (2012 $).

Variable	Coefficient	t statistic	Standardized coefficient
Minneapolis location	30,025	3.56[a]	0.28
St. Paul location	37,903	3.36[a]	0.27
Percentage of units:			
1 bedroom	142	0.89	0.07
2 bedrooms	304	1.74[a]	0.14
3 bedrooms	467	2.37[a]	0.20
4 bedrooms	1,979	3.34[a]	0.22
Percentage of units affordable at:			
50% of regional median income	−5	−0.04	0.00
60% of regional median income	−149	−1.27	−0.11
80% of regional median income	−330	−0.63	−0.04
Percentage of units market rate	556	3.20[a]	0.26
Land acquisition included	27,366	3.44[a]	0.25
Demolition required	4,758	0.57	0.04
Historic building(s) involved	65,223	1.92[b]	0.18
Rehabilitation of existing unit	−9,009	−0.73	−0.05
Conversion	−23,378	−0.85	−0.09
Nonresidential development (sq. ft. per res.)	27	0.68	0.05
Nonresidential development included (sq. ft.)	1,070	0.08	0.01
Units per building	−363	−3.32[a]	−0.30
Number of buildings	−1,409	−1.52	−0.12
LIHTC included	40,661	4.33[a]	0.33
Constant	140,095	11.20[a]	0.00
Adjusted R^2	0.46		
N	163		

[a]Coefficient significant at 95% confidence level. [b]Coefficient significant at 90% confidence level. Weighted least squares: weight = total units.

less strict rules about how to spend the money (if LIHTC is less heavily regulated than other funding sources). In either case, it is a finding worthy of further research.

The actual cost discrepancy may be even greater than indicated by the statistical analysis because it could be argued that the model controls for characteristics that should be omitted as policy variables. Building size and composition are as much a function of a development's geographic location as they are a discretionary choice of the developer. Likewise, if historic preservation and other project characteristics drive up costs, this may form part of the case against city building. Nonetheless, the model errs on the side of caution by including these factors; despite this, the cost disparity remains.

The econometric model only incorporates characteristics of the developments in question. If the full cost difference between city and suburb cannot be predicted by looking at what is being built, the gap must be the result of how projects are being built or funded or who is building them.

It is possible that construction costs in the cities are higher because of the relative difficulty of building large developments in a densely populated area. These costs can arise from a number of sources. Land suitable for development is scarcer in the cities and therefore likely costs more as well. (Note, however, that the land for affordable developments is not always acquired at market price and is often in low-cost, high-poverty neighborhoods.) Additionally, other costs associated with construction might be higher in central city locations; for instance, sites might be more difficult to access or might require additional safety measures. If building is on or near a former industrial site, pollution cleanup could be required before development can begin. Last but hardly least, the cities might more strictly regulate construction and development. Traffic studies, pollution studies and environmental certifications, historic preservation rules—all increase the expense of building.

With more extensive data, it may be possible to incorporate some of these factors into the regression model. This, however, poses a number of technical difficulties—for instance, affordable developers frequently pay below-market price for land acquisition—and would in any case undermine the model's analytic purpose, which is not to isolate every specific factor that could account for project cost differentials. Instead, the model is meant to demonstrate cost differences between otherwise identical construction projects being built in different locations. Characteristics of the locations themselves must therefore be omitted.

The other notable feature of affordable housing development in the central cities is the number of private firms and interest groups with a hand in its creation. While housing construction in the suburbs is frequently managed by county development agencies, the cities are home to a large network of heterogeneous organizations, all with a role in the process. This could work to raise costs in several ways, particularly if the housing industry is able to exert influence on government funding sources. First, some groups may directly benefit from increased spending in the housing sector—particularly public spending, some of which is little more than free money for developers. Another, more subtle mechanism by which interest groups increase costs is by promoting projects without regard to cost efficiency. For instance, while developing in a particular neighborhood may be expensive, a community development corporation based in that neighborhood creates a political constituency for development activity focused in that neighborhood. These development constituencies are not necessarily geographic; for instance, some of the largest development organizations in the Twin Cities focus on housing for recovering addicts. Nor are they necessarily private. Minneapolis's Department of Community Planning and Economic Development is far larger, better funded, and better organized than its suburban equivalents; it has the clout to substantially increase development within the city.

Because of their number and complexity, determining which of these factors is primarily responsible for the cost difference between cities and suburbs is impossible without better data. Indeed, it is unlikely that one single explanation exists; instead, some combination of the above factors probably contributes to the higher cost of affordable housing construction in the cities.

Nonetheless, the available data are sufficient to determine that affordable housing supply is not especially responsive to cost. The emphasis on expensive city building over cheaper suburban building suggests that the amount of construction is not strongly impacted by small marginal increases or decreases in unit cost. Of course, some of this is by design. Cost effectiveness is not the primary goal of affordable housing construction; rather, affordable housing fills a range of needs that the private housing market has failed to provide. But, all else being equal, increased cost effectiveness would allow more bang for the public's buck. What's more, unresponsiveness to cost helps demonstrate defects in the affordable housing market—defects that have deepened as the affordable housing funding has become more tangled and the development community has fragmented.

The Twin Cities Development Community

One potential explanation for the higher cost of affordable housing in the central cities is the number of private firms and interest groups with a hand in its creation. Affordable development in the metro area (and especially in the central cities) is dominated by a web of sundry developers, community development corporations, investors, and financial professionals, many of which exhibit a preference for projects in urban areas. The large number of participants helps draw public funds into the development apparatus while complicating any attempt to align funding with discernible policy goals. Moreover, the size and scope of the Twin Cities affordable housing community, combined with the necessity that it interact closely and frequently with the public agencies that provide the bulk of funding, creates a significant risk of regulatory capture, in which the community's (central city oriented) development priorities are imposed on or adopted by policymakers themselves.

The central role of this industry in affordable construction calls for further analysis. Analyzing community developers, however, poses a difficulty: There is no truly "typical" organization. Instead, the industry is composed of many heterogeneous firms. At present, the Metropolitan Consortium of Community Developers (MCCD), which includes almost all the major players in the Twin Cities housing nonprofit scene, has 49 members, which range from tiny community groups to large nonprofits with yearly revenues in the tens of millions of dollars. Some organizations such as Twin Cities Habitat for Humanity, are affiliated with larger national groups, while others are closely associated with for-profit companies. Activities run the gamut as well: Large developers are able to independently conduct most development, while neighborhood groups are forced to partner with builders, architects, financiers, and each other.

Housing Nonprofit Financial Overview

The affordable housing industry in the Twin Cities region is quite expansive and commands considerable financial resources. In 2011, the last year for which data are available, MCCD members had combined expenses of $178,111,075. Although the sector includes dozens of organizations, its resources, particularly in terms of raw spending and revenue, are concentrated in the hands of a relatively few large institutions. The activities of just eight of the 49 member organizations accounted for $110,193,034, or nearly 62%, of total spending. These organizations were Aeon, Artspace, Twin Cities Habitat for Humanity, RS Eden (a nonprofit building supportive housing for substance abuse victims), Commonbond, the Greater Metropolitan Housing Corporation, Project for Pride in Living, and the Community Housing Development Corporation, each with more than $10 million in expenses.[5]

By comparison, the expenditures of small neighborhood development corporations, which usually operate within a single neighborhood, are much lower. For example, 17 organizations spent under a million dollars in 2011, accounting for less than 5% of total spending.

MCCD members derived the largest share of their 2011 revenue from program services, earning $90,318,705. Coming next, private contributions provided $52,288,626 in funding. Finally, governments granted $46,719,761 to MCCD members.

Nearly 90% of reported MCCD expenses go to program services, with the remainder spent on administration and fund-raising. Approximately 30% of total expenses are in the form of employee compensation. However, both of these figures, and particularly compensation, vary widely between organizations.

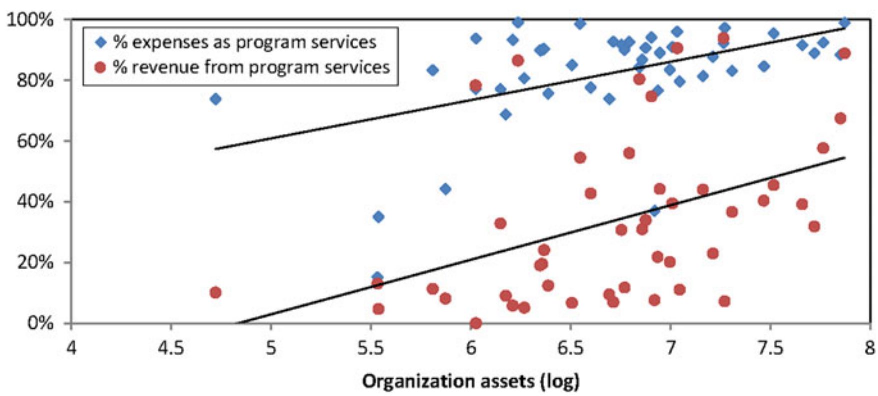
There appears to be little relationship between an organization's reported financial characteristics and the amount of government grant money it receives. The percentage of total revenue accounted for by grants varies widely among organizations, both large and small, ranging from nothing or a few percentages to nearly the entirety of an organization's yearly income. Nor does an organization's size (in assets or in members) seem to correlate well with the percentage revenue received through grants. Among the eight highest spending organizations, for instance, the Greater Metropolitan Housing Corporation received $5,233,407, while CommonBond received a comparatively meager $690,000 in grants. And smaller nonprofits frequently received large sums: for instance, Dayton's Bluff Neighborhood Housing Services ($2,834,567), Emerge Community Development ($2,942,801), and the Hmong American Partnership ($3,440,103).

Unsurprisingly, executive compensation appears to be associated with an organization's size. Of the "Big Eight" organizations that account for most expenses, seven also have the highest paid chief officers of MCCD member organizations, with yearly salaries ranging from $144,056 to $207,200. (The eighth member of the Big Eight comes in 10th, paying its president $123,861.) In general, heading up a housing nonprofit appears to be fairly lucrative, with only eight organizations paying their chief executives less than $50,000 a year. (Compensation may be higher than it appears, even in those organizations, because at least one of these is overseen by the chief executive officer of a Minneapolis for-profit developer. It is possible that the leadership of other MCCD members also includes for-profit business owners.)

There is one area in which clear distinctions among organizations emerge, however: program services expenditures and revenues. While most MCCD members' expenses are largely dedicated to program services, that proportion tends to increase in organizations with more assets. Furthermore, larger organizations derive a significantly higher percentage of their revenue from program services.[6]

The rather strong association between an organization's size and its programs' finances suggests that MCCD's large nonprofits operate more efficiently and in a manner more akin to for-profit enterprises. They draw large amounts of their funding from service fees and cover the gap between revenues with grants and contributions, while smaller organizations tend to fund more of their activities directly out of grants and contributions (see Figure 6). This distinction may also represent the large organizations' tendency to participate in stable, ongoing arrangements which they are successfully able to monetize—for instance, participating in continuous housing development for fees—instead of a selection of relatively heterogeneous activities, primarily linked by their geographic focus. Some scholars have argued that Community Development Corporations (CDCs) perform a dual role as technical specialists and neighborhood advocates (Goetz &

Figure 6. Percentage of revenue and expenses from program services, Metropolitan Consortium of Community Developers members (2011).



Sidney 1995); these figures complicate that picture, suggesting that larger CDCs tend to be somewhat more oriented toward technical and development work, while smaller CDCs may be somewhat more oriented toward political advocacy.

Affordable Housing Financial Intermediaries: Local Initiatives Support Corporation and Family Housing Fund

The aforementioned statistics only include community developers, who are perhaps the most visible members of the affordable housing community. However, affordable development also relies on financial intermediaries—organizations that frequently exceed the developers in size and influence. These entities, frequently nonprofits as well, provide coordination, technical assistance, and loans and grants to housing projects, helping developers cover funding gaps and navigate the complexities of the financing process. In essence, they fill a market niche created by the complexity of the affordable housing system, bringing together the vast number of government and private entities that participate financially in the construction of a single housing project.

Family Housing Fund is one notable local housing intermediary, comparable in size to the larger local developers (e.g., Aeon, Community Housing Development Corporation). In 2011, it maintained assets of $72,156,907 and liabilities of $34,384,044. Its expenses, $10,554,586, significantly exceeded its income of $6,414,242. As with for-profit financial firms, its executives are well compensated, with its president receiving $173,159 and its vice president getting $139,495.

Family Housing Fund represents a convergence of the public and private sectors in affordable housing; it was founded in 1980 as a collaboration between the cities of Minneapolis and St. Paul. Given these origins, it is perhaps unsurprising that the organization is disproportionately focused on the two central cities. For the first decade of its existence, the fund explicitly focused its efforts within the cities, contributing 10,500 low-income units to Minneapolis and St. Paul. In the following years, it expanded both its geographic scope and its program activities, inaugurating a series of programs designed to expand access to housing and reduce homelessness. Although some of these efforts are directed into the suburbs, a wildly disproportionate amount of the organization's resources is still expended in the central cities: MHFA records show that the intermediary contributed over $15 million to new affordable development from 1999 to 2013, approximately $9 million of which was to projects in Minneapolis and St. Paul.

Expenditures alone understate the organization's real influence over housing development. As one of the best-funded affordable housing entities in the Twin Cities, with substantial financial expertise at its disposal, Family Housing Fund also plays an important role in directing policy. It maintains leadership roles in a number of important regional projects: for instance, Corridors of Opportunity, which focuses on revitalizing distressed neighborhoods (primarily in the central cities); the Minnesota Preservation Plus Initiative, which seeks to maintain the existing housing stock; and the Central Corridor Funders Collaborative, a project helping guide investment along the Twin Cities' new light rail line.

Family Housing Fund also has created several major subsidiaries. In 1986, it organized the Twin Cities Housing Development Corporation, an entity charged with the direct development of affordable housing. More recently, the fund has created the Twin Cities Community Land Bank, which fills a variety of roles as a financial intermediary in its own right. In addition to making loans and otherwise providing financing, the land bank works directly with private banks to acquire foreclosed properties for conversion into affordable units, usually by transferring the property into the portfolio of a community developer.

These activities are sharply focused within the City of Minneapolis, particularly in the heavily distressed North neighborhood, which was devastated by the foreclosure crisis.[7]

But even the largest Minnesota organizations are dwarfed by national nonprofit housing intermediaries. One of the largest national players in affordable housing financing is Local Initiatives Support Corporation (LISC), which is headquartered in New York. It is comparable in size to a significant national financial firm, with assets totaling $440,406,573 in 2011 and an income of $149,668,788. Its size is reflected in its payroll: The same year, LISC paid out $5,299,110 in salary, with its president receiving $408,432.

LISC maintains a Minnesota subsidiary, Twin Cities Local Initiatives Support Corporation (TC LISC). Like Family Housing Fund, TC LISC plays a major role in policy development—even serving as a partner on almost the exact same set of local initiatives. This is not as strange as it may first seem: The lists of board members and organizational partners for Twin Cities affordable development collaborations are frequently near carbon copies of one another, as a handful of major organizations—the aforementioned largest CDCs, and the largest financial intermediaries—take a leading role in almost every venture.

Public–Private Interactions in the Affordable Housing Industry

Affordable developers' ability to obtain public funding, despite pursuing projects with a high per-unit cost, suggests that there may be some degree of regulatory capture in the affordable housing industry. Regulatory capture can be a complex phenomenon. Contrary to popular belief, *capture* does not mean that government and industry are engaging in any sort of corrupt activity or quid pro quo. Instead, a governmental agency can be captured if it develops a highly collaborative relationship with regulated entities, such that it begins to see its interests and the industry's as parallel. While a good working relationship with private industry can be beneficial, it can also prove corrosive to the public interest. This is because agencies and private firms that are too closely tied together are less likely to take antagonistic positions or question the assumptions undergirding the industry's activities, even when doing so would ultimately serve larger policy goals.

Capture is more likely in highly technical fields, where regulators and industry members must share the same narrow expertise. As a result, both groups frequently contain members with similar professional and educational backgrounds, and there is a higher probability of a revolving door developing, where industry members are selected for government positions, and former government workers enter the industry they once regulated. Capture is also more plausible in situations where there is frequent contact between regulators and private institutions, as participants see greater benefit in maintaining harmonious relationships and pursuing common goals.

Twin Cities affordable housing development easily satisfies these conditions. It boasts an extremely complex financial backend, which can only be navigated by technically proficient financial professionals. (In the words of one Minnesota Housing staff member, "Nobody really understands this stuff except the developers and underwriters.") Affordable developers—and, therefore, housing policymakers—also must possess the considerable engineering and planning expertise required to site and design a large multiunit building in a dense urban environment. As the technical complexity of development has increased, and financial and development specialists have come to dominate local and state housing agencies, "housing policy" has been increasingly defined by a focus on relative minutiae related to project funding, permitting, and construction. By contrast, questions of a broader scope—for instance, siting trends, neighborhood effects, and preferences for cities or suburbs—rarely appear in policy documents and are almost never thoroughly analyzed in connection to individual projects. The proliferation of technical specialists within public agencies seems to have encouraged the view that the agencies should not play any role as prescriptive policymakers or address any matter that cannot be resolved by reference to industry specialists.

In addition, the affordable housing industry relies heavily on repeat players. Almost all local affordable projects include the participation of one (or more) of a small handful of very active housing nonprofits, which usually possess years or decades of experience working in the same communities and with the same government funding sources. Many of these institutions are run by individuals with former careers in government housing agencies; likewise, many positions in local governmental bodies are filled by alumni of the affordable housing industry. (Most notably, the current appointed chair of the Met Council has remained in her position as the head of the local branch of Habitat of Humanity while at the council.) Consequently, policymakers working in affordable housing are frequently navigating the well-worn grooves of long-standing relationships. Nor is there much incentive to closely interrogate or disrupt these arrangements, as doing so would make life more difficult for all involved.

In some instances, the line between public and private in affordable housing has almost completely dissolved. For instance, the aforementioned Family Housing Fund was created in 1980 by the cities of Minneapolis and St. Paul; to this day, neighborhood advocates have expressed confusion about whether its employees are public servants. (In most of its public materials, the fund is referred to as a nonprofit.) The same ambiguity extends to its subsidiaries; for instance, the Twin Cities Housing Development Corporation was described by local media as "quasipublic" upon its creation but today also bills itself as merely a nonprofit (Sundstrom, 1986). If, how, and when these organizations transitioned from public to private entities is unclear. Nonetheless, the Family Housing Fund is treated as a public agency in at least one important step in the affordable development process: Minnesota Housing conducts a consolidated request for proposals (also known as the "Super RFP") in which potential developers can simultaneously request funding from a number of public entities, including MHFA, the central cities housing agencies, the Met Council—and the Family Housing Fund.

Elsewhere, governments and nonprofits are layered so closely into collaborative projects that it becomes difficult to distinguish where one ends and the other begins. Initiatives surrounding the recent Green Line light rail, which runs between the two central cities, illustrate the problem. The regional Met Council created the Corridors of Opportunity, a partnership designed to, in its own words, "accelerate the build out of a regional transit system for the Twin Cities in ways that would advance economic development." Corridors of Opportunity (2014), which has heavily focused its efforts on the Green Line central corridor, includes on its leadership team executives from the Met Council, TC LISC, and the central city housing agencies Project for Pride in Living, the MCCD, the Family Housing Fund, and the Twin Cities Community Land Bank, among others. Meanwhile, a private funding collaborative, the Central Corridor Funders Collaborative, was also created to spur development along the Green Line. But this initiative includes nearly the same set of local housing players as the Corridors of Opportunity: TC LISC, the Twin Cities Community Land Bank, the Project for Pride and Living, the Met Council, the housing agencies, and the Family Housing Fund.

These initiatives' work thus far has ably demonstrated the perils of densely intermingled public–private interactions: The Funders Collaborative helped create a recommendation that 4,500 affordable units be constructed or preserved along the Green

Line, after which Corridors of Opportunity and the Funders Collaborative routed millions of dollars of funding into affordable projects in this area. And, recently, the Funders Collaborative produced a report lauding the cities' progress toward its goal. Lost among this whirlwind of collaboration was the fact that much of the progress has been made by placing thousands of units in a handful of heavily segregated census tracts, one of which is the state's second-poorest by median income.

Other Factors Leading to Greater Spending in Central Cities

This section explores two other features of the subsidized housing sector that contribute to the central city focus of regional spending: the system and criteria used to select projects for public funding, particularly low-income housing tax credits, and the use of subsidized housing as a means of boosting neighborhood economic development.

Project Selection

Funding for affordable housing is provided by a complex web of public and private agencies and through a variety of financial vehicles. The best-known and most influential of these is LIHTC, allocated to the states by the federal government and to developers by a series of suballocators. In the Twin Cities, the largest suballocators are MHFA, Minneapolis, and St. Paul. In addition, a variety of other local entities receive a portion of tax credits, including Dakota County and some municipalities.

Public agencies also provide funding to developers through a range of different direct loans and grants. Public money is sometimes augmented with private grants, which usually works their way through a network of nonprofits. Frequently, private grants originate from organizations that themselves received significant contributions of public money; at least some part of these private grants represents indirect public contributions. Finally, of course, some purely private investment capital is spent on developing low-cost units, although the layering of funding mechanisms tends to obscure the exact size of the private contribution.

One explanation for why affordable housing construction focuses on the central cities despite higher costs is because funding allocators deemphasize project cost. Tax credit allocations take cost into consideration, but LIHTC projects are evaluated by point-based allocative systems that give more emphasis to a welter of other factors. Other sources of funding seem to function in a similar fashion. In addition, money is frequently allocated to geographic areas, which prevents lower cost projects from outcompeting high-cost projects, to the extent that lower cost projects are outside prioritized funding areas.

Another important consideration is the way in which the allocation process shields geographic shares of LIHTC funding from competitive pressure. The suballocator system ensures that the vast majority of central city allocations cannot be diverted to the suburbs, no matter how much cheaper it is to pursue suburban development. Nonetheless, other factors must also be at play, as the Washington and Dakota suballocators do not appear to encourage similarly high costs.

How the LIHTC Works

LIHTC allocation is complex. Minnesota splits its federal LIHTC allocation three ways. First, 10% is removed from the total as a nonprofit set-aside, as required by federal law. The remainder is split into two regional allocations: a metropolitan pool and a greater

Minnesota pool. The share of each pool is determined by a formula specified by state law. Currently, the metropolitan area receives 62% of the state's total allocation.

The determination of which projects receive LIHTC allocations is independent of the determination of the number of credits that will be allocated. As a result, a particularly expensive project, requiring a large number of credits, is not necessarily at a disadvantage when compared with a cheaper project.

Suballocators. While MHFA is the state's primary agency for administering LIHTC, state law allows local housing authorities to serve as suballocators of tax credits (Minn. Stat. 462A.222). Projects applying for tax credits within the geographic jurisdiction of a suballocator are expected to seek credits through the suballocator instead of through MHFA (with one important exception in the nonprofit set-aside, discussed below). Suballocators also develop their own Qualified Allocation Plans for selecting tax credit recipients, giving them discretion to pursue local priorities. Each suballocator maintains its own competitive round, meaning that applications within a particular jurisdiction only compete with other applications within that jurisdiction.

Today, there are four suballocators drawing from the metropolitan pool: Minneapolis, St. Paul, Washington County, and Dakota County. Minneapolis and St. Paul have jointly developed a Qualified Allocation Plan governing their allocation process and designated their respective housing agencies as the recipients of their tax credit shares. They do not, however, jointly evaluate project proposals; each city maintains an independent competitive round.

Minnesota state law does not specify any particular formula for distributing tax credits from the metropolitan pool to these suballocators. Instead, it instructs the Met Council to develop and submit a plan to Minnesota Housing for allocating tax credits, "based on regional needs and priorities." The statute also gives Minnesota Housing authority to "amend the distribution plan after consultation with the Metropolitan Council, representatives of local governments, and housing and redevelopment authorities" (Minnesota Statute 462A.222 subd 4). In other words, the statute instructs that suballocator shares will be determined by a collaborative effort between the Met Council and Minnesota Housing, and grants each agency significant discretionary authority over the final distribution.

Unfortunately, at present, the Met Council's distribution plan does not appear to be publicly available, nor has the agency yet responded to inquiries about the plan or its development. However, it is possible to determine the shares themselves by looking at Minnesota Housing's annual distribution projections, which specifies how many tax credits it expects to be available in each pool and to each suballocator. In 2015, 20.4% and 15.2% of the metropolitan pool's total tax credits were allocated to the Minneapolis and St. Paul suballocators, respectively.

As previously mentioned, 10% of the annual federal tax credits are placed into a nonprofit set-aside. The set-aside is administered by MHFA, which chooses to divide it between the metropolitan area and greater Minnesota in the same proportion as the other funds. Because of this practice, 62% of the set-aside—6.2% of the state's LIHTC funding—is earmarked for metro area nonprofits. This 6.2% is governed by MHFA's point system and can be allocated anywhere in the metro region, even within a suballocator's jurisdiction.

Proposal Grading System. Federal law requires that developments meet one of two criteria to qualify for tax credits: Either (1) 20% or more of a development's units must be rent restricted and occupied by families below 50% of the region's average median income, or

(2) 40% or more of a development's units must be rent restricted and occupied by families below 60% of the region's average median income. Confusingly, this multidimensional standard incorporates local average incomes, the relative number of units provided, the actual rents on those units, the actual occupancy of those units, and the actual incomes of the occupants (Iglesias & Lento, 2011).

Projects that meet these criteria are chosen for tax credit allocations in a competitive process, the particulars of which are governed by the suballocating agency. In Minnesota, projects are assigned points based on their characteristics; proposals with more points are given priority over proposals with fewer points. The point system is the suballocator's most direct means of incentivizing certain types of affordable housing construction and prioritizing particular policy goals (MHFA, 2013).

To qualify for tax credits, projects must score at least 30 points. However, each year, developments seek far more credits than are available. Because most developments depend on credits for a substantial portion, and often the majority, of their funding, developers have a strong incentive to maximize the number of points scored and therefore their chances of receiving adequate funding (Iglesias & Lento, 2011).

The number of tax credits a project receives is determined by the project's characteristics, not the competitive point process. A handful of points is available for more cost-efficient projects; outside of those, a project cannot increase its chances of receiving tax credits by cutting costs. The formula for the number of credits allocated takes into account a range of different factors and incorporates multiple, shifting standards. The number of tax credits provided also varies with the number of affordable units included in the project, of course.

Determining eligibility is only the first step. In order to calculate the actual number of credits allocated, allocators must also determine the project's eligible basis, which includes most costs of construction but omits certain expenses, such as land costs. Tax credits are then assigned to cover a certain percentage of the eligible basis. The percentage varies based on whether the project is rehabilitating an existing unit or constructing a new unit; the former qualifies for tax credits covering 30% of the project's cost, while the latter qualifies for credits covering 70%. Additionally, a certain number of credits is set aside to be allocated to nonprofit organizations. Finally, projects to be constructed in "qualified census tracts (QCTs) or difficult development areas (DDAs), determined by HUD on a yearly basis, are allowed to increase their eligible basis by up to 30% (Iglesias & Lento, 2011).

Further confusing the matter is the process of actually generating capital from tax credits. A given dollar value of credits does not translate directly into the same amount of cash for a developer. Instead, a tax credit entitles the holder to deduct that amount from its taxes for 10 years. Thus, $10 in credits can potentially reduce the holder's tax bill by $100 over a decade. But the *present* value to a holder might be markedly less than $100. This is both because simply multiplying the allocation by 10 ignores the reduced future value of money and because uncertainty about future events introduces an element of risk into the credit grantee's expected returns. Two major risks include the project owner's ability to ensure the project remains qualified for credits for the following decade and that the tax credits available in a given year could exceed the applicable tax burden, meaning that some go to waste (Iglesias & Lento, 2011).

This complicated structure has produced an equally complicated financial back end. Because a project's backers will rarely generate enough taxable income to make full use of the credits, credits are usually distributed by forming a partnership or limited liability corporation with for-profit investors. (This unusual arrangement is necessary to comply with the requirements of federal tax law.) The developer or tax credit recipient becomes the general partner, and the investors join as limited partners. The limited partners invest capital into the partnership—effectively the "price" being paid for the tax credits—and receive a 99.99% share of profits generated, thus transferring the benefit of the tax credits from the recipient to investors. This process is collectively known as syndication (Iglesias & Lento, 2011).

Effects of Suballocator and Point Systems on Project Placement and Characteristics. The suballocator shares serve, in effect, as a tax credit funding floor for the central cities. In the coming year, 35.6% of the metropolitan tax credit pool is effectively earmarked for use by the two central cities, which only contain 23% of the metropolitan population. In addition, MHFA can, at its discretion, make geographically unrestricted allocations from the 10% nonprofit set-aside. Since 2005, the central cities have received an average of 42% of all metro area LIHTC funding. This suggests that in addition to their suballocator shares, the central cities are receiving most of the set-aside.

Beyond simply overallocating funding to the central cities, this system may create greater incentives for developers to propose central city projects. Developers have an incentive to minimize competition for tax credits. Developers who apply for tax credits from the suballocators are only required to outscore rival projects in the same geographic jurisdiction, and are therefore exposed to less competitive pressure. In addition, the nonprofit set-aside allows nonprofit developers to apply jointly for MHFA and suballocator credits but only so long as they are developing a project within a suballocator's jurisdiction. This dual eligibility further increases the attractiveness of central city projects.

The point system for allocating tax credits among different projects also has a clear potential to affect the characteristics of project proposals. As the primary suballocator in the state of Minnesota, MHFA's point system represents a particularly influential set of policy priorities.

MHFA assigns a relatively large number of points to projects targeting certain populations. Ten points are given to projects in which 75% of the units contain two or more bedrooms and are prioritized for families with children; alternatively, a project is assigned 10 points if 50% or more of its units are single-bedroom and affordable at 30% of the area median income. Obviously, these two conditions are mutually exclusive. Another 10 points are available to projects for which 50% of the units are set aside for special populations, often meaning residents with disabilities or drug dependencies. The prevalence of larger units in the suburbs and smaller units in the central cities suggests that suburban developers have availed themselves of the first criteria while urban developers have relied upon the second. One potential explanation for this trend is the higher cost of developing in the cities: Since the points awarded are the same in either case, developers facing higher costs might be more likely to rely on the route that allows them to build smaller units (MHFA, 2013).

Ten points are also awarded for units that rehabilitate existing structures, and an additional 2 points if the rehabilitation is part of a community stabilization plan. If a project involves new construction, 10 points are only available if it will not require a substantial extension of existing utility lines. This criterion also significantly favors urban developers, who have a larger number of existing structures to choose from and, presumably, a more thorough network of utilities to draw upon (MHFA, 2013).

Five points are given to projects in or near top growth communities, where MHFA has determined that rapid job growth has created extra housing demand. In 2013, Minneapolis was included in these communities. Once again, this seems to advantage Minneapolis developers, particularly in conjunction with the point allotment for new construction relying on existing utilities. In smaller, thriving cities, land with existing utility connections might be subject to higher competing demands; in comparison, Minneapolis's larger geographic area gives developers more opportunity to obtain the top growth community points while building on relatively cheap, previously developed land (MHFA, 2013).

A heavy emphasis is placed on providing housing to combat long-term homelessness. Project proposals that meet certain conditions related to providing permanent housing for the homeless receive 100 bonus points, until $1,795,000 in tax credits are exhausted. Afterward, projects can earn up to 10 points for setting aside 50% or more of their units for long-term homelessness; even projects that only set aside 5–10% of their units can earn 5 extra points. Many affordable housing developments include a smattering of units targeted for the long-term homeless; this provision probably explains why. It also likely advantages developments in areas that suffer from higher rates of homelessness and disadvantages developments appropriate primarily for lower income families (MHFA, 2013).

Three points are available for projects with access to mass transit. Once again, this advantages proposals in regions with dense mass transit near land available for development (MHFA, 2013).

Comparatively few points are awarded to projects on the basis of cost effectiveness. Up to 6 points are available, on a sliding scale, for projects that keep soft costs down. Up to 20 points can be earned by projects that are fully funded or have a large percentage of their funding secured; this does not directly address the issue of cost but might provide an advantage to cheaper developments, which are presumably easier to fund. And up to 10 points are given to proposals that receive some percentage of their funding from other government contributions—a factor which may or may not favor lower cost projects (MHFA, 2013).

Finally, it is worth noting that economic integration of affordable housing projects appears to be an extremely low priority, at least as reflected by the point system. Developments with between 25% and 50% affordable units—in other words, developments that mix lower income and middle or higher income populations—are eligible for a meager 2 points. Projects located in higher income communities are also eligible for just 2 points. Notably, the point system allows applicants to count only one of these two sources, even if both apply. For comparison, a developer can also earn 2 points by providing high-speed Internet access and declaring its building smoke-free. Developers looking to maximize their chance of being awarded tax credits face no real incentive to consider economic integration (MHFA, 2013).

Other aspects of the LIHTC system can also influence the placement and composition of developments. In particular, the public–private financing system and syndication have the potential to add new dimensions to the construction of affordable housing, by adding a set of investment conditions and constraints to housing projects that are often difficult to predict. One such constraint is the developer's bureaucratic intelligence, as an organization with expertise and experience in setting up the financial infrastructure for housing might have a substantial advantage over a developer who is merely a competent builder. Syndication also subjects developers and credit allocators to new pressures. For instance, investors regularly demand financial commitments from the housing project owner (which may endanger its nonprofit status, if it exists). A project that is depreciating and running at a loss may allow further tax write-offs, to the delight of investors, although probably not to occupants seeking long-term housing (Clarke, 2012).

Perhaps even more importantly, syndication drags a number of third parties into the affordable housing market—parties who often have a very limited interest in actually providing housing. These include not only the private investors but also specialized coordinators, or syndicators. These additional participants may have incentives that are at odds with the housing objectives of the tax credit grant. For example, if tax credits, for whatever reason, are a particularly profitable investment in some circumstances, then investors and syndicators might especially support projects that maximize the allocation of tax credits. Placing projects in lower income QCTs and DDAs helps accomplish this end, as does building projects in which 100% of the units are affordable.

Other components of the LIHTC system suggest additional reasons for the emphasis on development in the central cities. Even absent investor pressure, the tax credit bonus provided to QCTs or DDAs provides a higher incentive for urban developers to focus on acquiring tax credits. Studies have shown that housing construction is disproportionately encouraged by the bonus, and high-density QCTs or DDAs are primarily found in the cities (Baum-Snow & Marion, 2009).

Subsidized Housing as Economic Development Policy

Deficiencies in the private credit market underlie one common argument in favor of subsidized development in low-income neighborhoods. According to some advocates of central city development, low-income areas that fail to attract private lending can be revitalized by public lending for the purposes of building low-income housing.

Unfortunately, while ameliorating the effects of unfair lending is an attractive policy goal, research shows that affordable housing generally fails to revitalize stricken neighborhoods. Indeed, development often has a negative effect, as these neighborhoods are frequently at high risk of racial or economic transition and are among the most likely to be adversely affected by the addition of subsidized housing (Institute on Race and Poverty, 2009; Orfield & Luce, 2013). For instance, Galster's (2004) literature review concluded that neighborhood characteristics influence how subsidized housing affects surrounding areas and that there is growing evidence that neighborhoods with moderate home values and poverty rates are at greater risk of experiencing negative effects, even at lower concentrations of affordable or multifamily housing. Galster also concluded that "affordable housing seems least likely to generate negative impacts when it is inserted into high-value, low-poverty, stable neighborhoods" (p. 200). Similarly, a literature review by Abt Associates concluded that the effect of subsidized housing on nearby properties appears to depend on the scale of the project and the stability of the neighborhood (Khadduri, Burnett, & Rodda, 2003). A small project in a stable neighborhood has either no effect or a small positive effect. In contrast, a project added to an unstable neighborhood, especially a large project, can either cause a decline in property values or prevent revitalization that would otherwise occur as a result of market forces (Khadduri et al., 2003, pp. 41, 63).

These trends are in evidence in the Twin Cities. The new consolidated plan for the City of Minneapolis, for instance, expands the neighborhoods eligible for subsidized housing to include census tracts with minority shares between 29% and 50%, potentially intensifying the city's pattern of racial segregation. As the following case study will demonstrate, huge amounts of public funding are poured into large housing developments in these low-income, segregated areas. But there is little evidence of the predicted economic boost that would make such projects worthwhile.

East Phillips, Minneapolis: Franklin–Portland Gateway Development

An informal survey of the leading community development organizations in the region was conducted, requesting examples of a low-income housing project that had revitalized a neighborhood. Very few examples were forthcoming. However, the City of Minneapolis, the private nonprofit developer involved with the project, and the Minnesota Housing Partnership all pointed to the Franklin–Gateway Project as an example of such a project. There was no other project with a similar level of response.

The Franklin–Portland Gateway, also known as the South Quarter, demonstrates how considerable resources, including LIHTC, are used to build subsidized housing in racially segregated, inner cities. (Figure 7 shows the location of the project and highlights the nearby neighborhoods covered by Table 7.) Located in the northwest portion of Minneapolis's Phillips neighborhood on four blocks surrounding the intersection of Franklin and Portland Avenues, the Gateway is one of the most expensive affordable housing developments in the region. According to MHFA data on funding streams, total development costs for the four buildings included in the project exceeded $66 million: $9,816,165 for the Children's Village Center, completed in 2004; $9,549,952 for the Jourdain building, completed in 2006; $13,216,898 for the

Figure 7. Franklin–Portland Gateway.

Table 7. Race and economics of the Gateway neighborhood, Minneapolis, and the Twin Cities metropolitan area.

	Percentage race and ethnicity in 2010		
	Gateway[a]	Minneapolis	Metro
White	26.9	60.3	78.6
Black	40.1	18.3	7.3
American Indian	3.4	1.7	0.6
Asian	1.7	5.6	5.7
Hispanic or Latino	23.1	10.5	5.4
All others	4.9	3.7	2.4
Population	3,198	382,578	3,279,833
Median household income ($)	21,757	47,478	66,157
Percentage below the poverty line	44.6	22.3	9.9
Percentage labor force participation	68.2	73.0	73.2
	Median sales 2010 through October 2013 ($)		
Single-family homes	125,000	195,000	n/a
Duplexes/triplexes	144,000	172,528	n/a
Condos/co-ops	123,000	213,000	n/a
Apartments (per foot)	37.8	59.2	n/a
Commercial (per foot)	69.8	63.9	n/a

Note. Data from U.S. Bureau of the Census (2000 and 2010 Census of Population, 2007–11 American Community Survey), City of Minneapolis (property sales data).
[a]Gateway includes all of Ventura Village and West Phillips neighborhood for sales data and Census Tract 59.02 in Minneapolis for U.S. Census data.

Wellstone building, completed in 2008; and, finally, $33,899,340 for Phase IV, which is still under development.[8]

The $32.5 million spent so far has produced 126 units of new housing, 97 of which are affordable. Unusual for a central city project, many of these units are geared toward families, with 74 containing two or more bedrooms. Plans for Phase IV include an additional 120 units, almost all of which are to be affordable. However, history gives some cause for caution: In the earlier phases, the number of units and the percentage of affordable units were adjusted downward as construction progressed.

The project is not dedicated solely to housing. The existing buildings contain approximately 8,500 square feet of rentable commercial space and about 2,700 square feet dedicated to tenant community space.[9] They also contain an office complex for Hope Community, the CDC responsible for orchestrating the development. This may help explain the relatively high costs associated with the project, which ranged from $259,857 to $340,849 per housing unit (in 2012 dollars) for the four phases. However, the multivariate statistical analysis described above and shown in Table 6 implies that the addition of commercial space does not add very much to the average per-unit development costs.

Like virtually every modern affordable housing development, the Franklin–Portland project relies on a complex mix of funding. The project has drawn from, or plans to draw from, over two dozen different funding sources, including federal, state, county, and city programs that provide grants and interest-free loans, private grant-writing foundations (which in turn receive public money), charitable contributions, and a small portion of private developer capital. A brief overview of these funding sources provides a window into the byzantine world of affordable housing financing, where a dizzying collection of programs (almost invariably assigned an opaque acronymic title) are mined for construction capital. The end result is a confusing alphabet soup that effectively obscures many of the incentives faced by housing developers.

The most significant single source of funding for the project, by far, is the LIHTC. Syndication of tax credits is responsible for \$14.6 million of funding for the existing buildings and is planned to provide another \$12.2 million for Phase IV.

The remaining costs are covered by a diverse array of programs. For Phase II, the developers received a \$3.2 million federally insured Section 221(d)4 mortgage from HUD; Phase IV will incorporate another \$9.1 million federally insured mortgage. Phase I was awarded a \$1.9 million loan from MHFA's Minnesota Families Affordable Rental Investment Fund program. Approximately \$3.2 million in loans were also received from the City of Minneapolis, with at least some of these traveling through the Affordable Housing Trust Fund program. Through its Livable Community Demonstration Account, the Minneapolis Community Development Agency provided \$1.2 million to the first three phases and is slated to give \$790,000 to Phase IV. The agency also awarded Phase I a \$400,000 Community Development Block Grant and a \$305,000 HOME Investment Partnerships Program (HOME) loan. Another \$2 million is expected to come through MHFA's Economic Development and Housing Challenge program, and Phase III was selected for a \$185,000 loan from the agency's Housing Trust Fund for Ending Long-Term Homelessness. Hennepin County has contributed approximately \$2 million through a smattering of loan programs. The nonprofit affordable housing financier Family Housing Fund loaned the project \$890,000, some portion of which was presumably granted to the fund by government entities. Phases I and II received \$225,000 from the HUD Empowerment Zone initiative, which helped fund projects in designated geographic zones. (Conveniently, three corners of the Franklin–Portland intersection fall into these zones. The corner that does not is the location of Phase IV, which was delayed until after the Empowerment Zone program expired in 2011.[10]) Finally, a variety of other private and nonprofit entities provided the remaining moneys.

As is the norm with affordable housing development, public agencies ultimately pick up most of the tab. Of the \$32.5 million spent on the first three phases, only somewhere between \$2.7 and \$6.1 million (8–19%) is from purely private sources. Similar figures are expected for Phase IV, which expects to raise from private sources only \$6.2 million of its \$33.9 million price tag.

Proponents of the Gateway argue that the development will bring viability to an economically struggling and undercapitalized area and that it will be a catalyst for further development in the area (Aeon, 2013; Gilyard, 2011; Olson, 2013). However, although the development has replaced many dilapidated structures that surrounded the intersection, there is no evidence that the Gateway has revitalized the surrounding area in a significant way. In fact, the area has fared much worse over the last 10 years than the city and region as a whole.

Tables 7 and 8 show racial and economic trends over the last 10 years in the area surrounding the Gateway development. As of 2010, the census tract containing the Gateway (the dark gray area in Figure 7) has a population that is 73% people of color, a decline of 7 percentage points since 2000. While population was essentially stable in the City of Minneapolis between 2000 and 2010 (and growing 10% in the metro area overall), the Gateway's population declined by 3.3%.

This area compares poorly economically as well. The median household income is \$21,757, less than half that of the City of Minneapolis, which is \$47,478 and only one-third the income level of the metropolitan area as a whole, which is \$66,157. During the

Table 8. Change in race and economics of the Gateway neighborhood, Minneapolis, and the Twin Cities metropolitan area.

	2000 to 2010 Point change		
	Gateway[a]	Minneapolis	Metro
White	7.4	−2.2	−6.1
Black	4.1	0.5	2.0
American Indian	−2.8	−0.3	−0.1
Asian	−1.5	−0.5	1.6
Hispanic or Latino	−2.4	2.8	2.0
All others	−4.8	−0.3	0.5
	2000 to 2010 Percentage change		
Population	−3.3	0.0	10.5
Median household income ($)	4.9	25.4	21.8
	2000 to 2010 Point change		
Percentage below the poverty line	2.5	5.4	3.2
Percentage labor force participation	16.0	−5.0	0.6
	2002–05 to 2010–13 sales % change		
Single-family homes	−31.3	1.0	n/a
Duplexes/triplexes	−38.7	−30.2	n/a
Condos/co-ops	−35.8	2.1	n/a
Apartments (per foot)	−37.8	−16.2	n/a

Note. Data from U.S. Bureau of the Census (2000 and 2010 Census of Population, 2007–11 American Community Survey), City of Minneapolis (property sales data).
[a]Gateway includes all of Ventura Village and West Phillips neighborhood for sales data and Census Tract 59.02 in Minneapolis for U.S. Census data.

2000s, household incomes rose 25% in the City of Minneapolis and 22% in the metro area but only 5% in the census tract containing the Gateway.[11]

The Gateway tract also has a very high poverty rate of 44.6%, double that of Minneapolis and more than 4 times that of the metro area, and the area's poverty rate increased by 2.5 percentage points in the 2000s. Labor force participation is just 68% in the neighborhood, lower than either Minneapolis or the metro area (both at 73%), although participation rates increased more during the period in the Gateway tract than in the city or the region.

Property sales prices are also lower and have dropped more dramatically in neighborhoods that surround the Gateway than in the city as a whole. Data from the Minneapolis City Assessor's Office show that since 2010, all property sales values (except commercial) are significantly lower in the Gateway neighborhoods than in the city overall (see Table 6).

There are enormous differences between the Gateway area and Minneapolis when it comes to sales price changes between the prerecession (2002–2005) and the postrecession (2010–2013) periods (see Table 7). Single-family property prices dropped 31% in the Gateway area, while they increased 1% in Minneapolis; sales prices for condos/co-ops dropped 36% while climbing 2% in Minneapolis; apartment (per square foot) prices declined twice as much and commercial (per square foot) prices 4 times as much in the Gateway as prices in Minneapolis; and, finally, duplex/triplex property sales declined in the Gateway by 39% and in Minneapolis by 30%.

Comparing the socioeconomic outcomes of the neighborhood surrounding the Gateway with other similarly situated neighborhoods (rather than to the City of Minneapolis and the region) changes very little. The comparison uses neighborhoods east

Table 9. Race and economics in neighborhoods similar to the Gateway in Minneapolis 2000, and change from 2000 to 2010.

	2000		2000–2010 change	
	Gateway	12-neighborhood average	Gateway	12-neighborhood average
Percentage white	20	30	7	0
Percentage black	36	34	4	3
Percentage American Indian	6	6	−3	−2
Percentage Asian	3	10	−2	−3
Percentage Hispanic	25	14	−2	3
Percentage all others	35	21	−7	1
Population	3,307	4,328	−3	−5
Median household income	21,601	22,316	13	11
Percentage below the poverty line	42	33	5	9
Percentage labor force participation	52	60	16	7
Percentage homeownership	10	23	0	−1
Vacancy rate	5	6	5	6

Note. Data from U.S. Bureau of the Census (2000 and 2010 Census of Population, 2007–11 American Community Survey).

and south of the Gateway (East Phillips, Phillips West, Midtown Phillips, East Ventura Village, East Phillips, Cedar Riverside, East Stevens Square, and North Whittier) and in North Minneapolis (Harrison, Near North–South, and Near North–North). Table 9 shows the Gateway neighborhood with typical values on most measures both at the beginning of the period (2000) and in changes during the subsequent decade, despite the enormous investments that occurred during the period.

Conclusions and Policy Recommendations

The public policies determining the distribution of subsidized housing in the Twin Cities are clearly not meeting the region's responsibility to affirmatively further fair housing. The metropolitan area abandoned its role as a national leader in this area decades ago. The result is an affordable housing system that concentrates subsidized housing in the region's poorest and most segregated neighborhoods. This increases the concentration of poverty in the two central cities, in the region's most racially diverse neighborhoods, and in the attendance areas of predominantly nonwhite schools. In the long run, this hurts the regional economy and exacerbates the racial gaps in income, employment, and student performance that plague the Twin Cities.

There are a variety of possible responses that could put the region back on track:

- The suballocator system that arbitrarily distributes a disproportionate share of the region's tax credits to the two central cities should be abandoned so all potential projects compete on equal footing for tax credits, or MHFA and the Met Council should adjust the central cities' share to reflect their share of regional population.
- The point system used to evaluate tax credit proposals should be redesigned to greatly increase the values given to cost effectiveness, strategies promoting economic and racial integration, and access to educational opportunities.
- Every possible means should be pursued to guarantee that all parts of the region contribute their fair share of affordable housing (subsidized or not) to the regional housing market. This means, in particular, that the Met Council should use all of its powers to ensure that affordable housing is located to enhance access to all types of

opportunities for households at all income levels. It also means that areas that are currently economically and racially diverse should not be overburdened, putting them at risk of rapid transition.

- The metro area should pursue a regionalized system to distribute Section 8 vouchers. If the current system (which allocates vouchers to several agencies) remains, then the portability of all vouchers from one agency to another should be required.
- All possible actions should be taken to ensure that Section 8 vouchers are redeemable in all parts of the region, particularly in high-opportunity areas where this is currently not the case.
- Finally, and perhaps most importantly, federal, state, and regional resources for policies designed to improve economic and social conditions in the region's poorest neighborhoods over the long term should be increased dramatically. These include, for instance, programs to create living wage jobs, better access to high-performing schools, and safer streets. The current lack of such funding in these areas creates the cutthroat competition by central cities for the only significant funding sources left—those for subsidized housing—despite the fact that any economic development benefits of such spending (if they even exist) are short-lived and come with clear long-term costs in the form of greater concentrations of poverty.

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Notes

1. See Freilich and Ragsdale (1974a). The report was later published in the Minnesota Law Review (Freilich & Ragsdale, 1974b) with the following note: "This article is the result of a 1971–73 grant from the Met Council to Professor Freilich to study and recommend a legal policy for regional growth in accordance with the council's decision to pursue growth in a timed and sequential manner" (p. 1009).
2. For the purposes of this work, the Twin Cities metropolitan area is defined as the region's seven central counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties. The HousingLink data set is limited to these counties, which contain the overwhelming majority of subsidized housing in the official 13-county metropolitan area.
3. The analysis is for new construction only. An effective model of costs for rehabilitation projects would be impossible with the available data given how varied these projects are. The cost data are based on budgeted costs, and the data set was edited to exclude duplicated records resulting from revised budgets. In the case of duplicates, the most recent entry was used. The resulting sample of 166 projects is meant to capture all new construction projects that received MHFA funding. Cost data include total development costs—funding from all sources, including non-MHFA public funding and private money. The sample includes projects that received LIHTC funding only from MHFA as well as projects that received LIHTC funds from both MHFA and another regional suballocator. See Other Factors Leading to Greater Spending in Central Cities for a description of the suballocator system.
4. This comparison is based on standardized coefficients shown in Table 6. Only the LIHTC and units per building coefficients exceed the Minneapolis and St. Paul coefficients (in absolute value).
5. Nonprofit financial data are drawn from the Form 990s Aeon, Artspace, Twin Cities Habitat for Humanity, RS Eden, Commonbond, the Greater Metropolitan Housing Corporation, Project for Pride in Living, and the Community Housing Development Corporation for the year 2011, available at www.guidestar.com.

6. This correlation is statistically significant at a 99% confidence level.
7. See Loan & Acquisition Map, Twin Cities Community Land Bank, http://www.tcclandbank.org/downloads/Map-Property-Acquisition-and-Loans.pdf.
8. All information on project costs and funding in the Franklin–Portland development is collected from a spreadsheet of proposed funding sources provided by MHFA.
9. Information about the Franklin–Portland Gateway is from the City of Minneapolis Community Planning and Economic Development. http://www.ci.minneapolis.mn.us/cped/projects/cped_franklin_portland_gateway, last accessed 12/5/2013.
10. See the HUD Empowerment Zone locator, available at http://egis.hud.gov/ezrclocator/.
11. Income growth rates were not adjusted for inflation.

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