Citizens League Report

# Adequate Housing is Now *Everyone's* Problem

## A Proposal to Expand the Public Responsibility for Solutions

May 5, 1969

*Public affairs research and education in the Twin Cities metropolitan area*

CITIZENS LEAGUE REPORT

# Adequate Housing is Now *Everyone's* Problem:

## A Proposal to Expand the Public Responsibility for Solutions

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Approved by the Citizens League Board of Directors

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# INTRODUCTION

The Twin Cities metropolitan community must awaken to the disturbing fact that it has a housing problem on its hands, and it is not doing enough about it. We say "awaken" because most people in this area either do not view housing as a problem, or they view it as a problem of low priority.

The metropolitan area has a sizable housing problem -- one of making adequate housing available for an increasing number of people whose incomes are not high enough to rent or buy housing at today's prices.

The problem is one of:

REAL CONCERN for a growing portion of the general population that is being outdistanced by the soaring economics of the housing market.

CRISIS PROPORTIONS for those whose incomes are so low they are priced completely out of the housing market.

TRAGIC, PERSONAL DIMENSIONS for those whose race and color prevent them from exercising free choice in the housing market.

The gap between family income and housing price will widen, engulfing more and more people in the years ahead, unless we and our political leaders face up to the magnitude of the very real problem before us.

The metropolitan community has not mobilized its forces -- public and private -- to take hold of the problem on a large-enough scale. Solutions have come through in bits and pieces, but there is much more we can and should do.

<u>For construction of new houses</u>, we rely on the private builder who -- more often than not -- is a small operator producing for a limited geographical market, unable to achieve economies of scale. Costs of building materials, of land, of money and of labor combine to drive up the price of housing that he erects on the site. We hem him in with building and zoning restrictions that further contribute to higher housing cost by preventing use of new methods and materials.

Result: We place the price of adequate new housing increasingly beyond the reach of a growing proportion of the population of the Twin Cities area.

<u>For our supply of existing housing</u>, we rely on a market that theoretically operates to "trickle down" adequate housing to even the lowest income levels. But buyer and renter competition has intensified for these older homes in recent years.

Result: We force growing numbers of families into aging housing in the older and more central portions of the metropolitan area, into housing that is obsolete and badly maintained.

<u>For housing families whose incomes are too low</u> to obtain adequate shelter in the private market, we rely on federally financed housing authorities -- primarily in the central cities of Minneapolis and St. Paul -- to supply public housing at low rents.

Result: We fail to satisfy the housing needs of many low-income families because our public programs have not faced up to the full scope of the problem, falling woefully short of expectation.

For housing families with little or no income -- the handicapped, the unemployed, the fatherless family -- we provide inadequate housing allowances through an assortment of welfare programs.

Result: We indirectly subsidize the slumlord because the housing allowances we give through welfare programs are generally insufficient for anything but substandard housing.

For expanding the housing opportunity for minority groups, we rely on legislation, education and the well-meaning efforts of many groups, but progress is slow and resistance takes many subtle forms.

Result: Minority families, disproportionately low on the income scale, are driven into concentrations of the poorest and oldest housing in the core cities of the metropolitan area.

For producing more housing for low-income families, and for reducing the price of that housing, we give subsidies that miss the target and disappear into the housing industry generally.

Result: We give tax benefits in large measure to the higher-income homeowner and not the lower-income renter. We place no controls on tax incentives to real estate investors, so the investment money flows into middle- and upper-income housing, which, under the circumstances, is a surer investment than low-income housing.

This report explores the extent of the low-income housing problem in the Twin Cities metropolitan area, and recommends specific actions that should be taken to alleviate that problem.

Certain basic conclusions lie at the heart of our recommendations:

WE CAN AND MUST, as a metropolitan community, accept public responsibility for low-income housing.

WE CAN AND MUST assign that responsibility so that continuing studies are made, so that information is readily available, so that plans are formulated and so that private and public programs are carried out on a scale to meet the area's housing need.

WE CAN AND MUST identify and work for removal of barriers to low-cost construction and to location of low-income housing.

WE CAN AND MUST redirect existing subsidies and determine what additional subsidies are necessary to close the gap between family income and housing price.

Today's housing problem is a crisis for the low-income family. It will be a crisis of the future for everyone if we fail to arouse ourselves to action.

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## SUMMARY OF RECOMMENDATIONS

The housing problem in the Twin Cities metropolitan area is becoming critical in terms of cost and must be elevated in priority. The metropolitan community must broaden substantially its view of the problem, which is now looked upon as affecting only the very low-income person, and a problem confined within narrow geographical limits.

THE CITIZENS LEAGUE RECOMMENDS that the Legislature this year assign clear responsibility for:

* Providing specific, current data on housing need and supply
* Planning where and what kind of housing should be built
* Promoting public and private housing programs to fullest extent
* Attacking the cost problem by opening the way for new technology
* Removing zoning barriers to low-income housing
* Encouraging adoption of uniform building and housing codes

THE CITIZENS LEAGUE RECOMMENDS that the Legislature assign responsibility for determining by 1971:

* What is needed in the way of a land-assembly program
* Where subsidies ought to be placed, and how much is needed
* Whether some agency should be a builder of last resort

THE CITIZENS LEAGUE FURTHER RECOMMENDS:

* An appropriation for a demonstration housing program
* Legislation ensuring a tenant's right to decent housing
* Increases in welfare housing allowances
* Changes in federal income tax laws to increase investment in low-income housing; appropriation of greater sums for housing programs; more realistic cost limits for housing construction under federal programs; expanded research into building technology

# THE LOW-INCOME HOUSING PROBLEM

I. The price of housing is being pushed ever higher in the Twin Cities metropolitan area, leaving behind a growing number of families who cannot afford to buy or rent decent housing.

On the one hand, we find that the supply of mortgage money is tightening, interest rates are reaching new highs, labor and material costs are rising, land costs are mounting, and there is a growing shortage of building-trades workers. On the other hand, population is growing, the "war babies" are marrying and forming new families, income levels are rising slower for some than others, and the demand for housing is soaring. Anyone who has been close to the housing market recently knows what a great demand there is for housing of all types, and what an inflationary effect this has had on housing price.

A. A new three-bedroom house costing under $20,000, and used houses of similar size costing under $15,500, have virtually disappeared from the housing market in the Twin Cities metropolitan area.

The demand is so great for good housing in good neighborhoods, and there is really so little of it, that no end to the price spiral seems in sight -- a situation that prompts some builders to predict that single-family homes may someday be a luxury.

While there are some used houses selling for under $15,500, they are more apt to be found in the relatively unattractive and old "inner city". And, while a few new houses are being built to sell for under $20,000, they are out on the suburban fringes and are of very minimum construction quality, without central water and sewer services.

B. These "minimum" housing prices are beyond the reach of what is normally considered a moderate-income family.

A $20,000 house would require a $1,000 down payment under an FHA mortgage, and the lender undoubtedly would require the buyer to pay 1 per cent (1 point), or $190, as an origination fee on the $19,000 mortgage. If the mortgage were written for 35 years, the FHA maximum term, the monthly payment on principal and interest would be $128.25. Many lending institutions, however, won't write a mortgage for more than 30 years. Hazard insurance would be $5 a month, taxes would be $36.60 a month (based on an average tax rate of 300 mills, of which 50 would be for bonded indebtedness), and the 1/2 per cent FHA mortgage-insurance premium would be $7.90 a month. The total monthly payment would be $177.75.

Using a common rule-of-thumb that a family can afford to spend 25 per cent of income on housing, we might assume that the $20,000 house would require a monthly income of $711, or an annual income of $8,532. But this ignores the fact that the 25 per cent should not only cover the payment on principal, interest, taxes and insurance (PITI), but also an allowance for utilities and maintenance.

In actual fact, lending institutions require that a family's gross income should be 4 1/2 times the PITI payment. To turn this aorund, the PITI payment should take no more than 22.2 per cent of the family's gross income. The $177.75 monthly payment, therefore, would require a monthly income of nearly $800, or an annual income of $9,598.50.

With a minimum annual income of nearly $9,600 required to buy a new, three-bedroom house, *this means that 54 per cent of the families in this Twin Cities area housing market could not afford to go into that market today and buy that house, assuming their assets were limited to the minimum down payment. Some 300,000 families have incomes under $9,600, before federal taxes.*

The $15,500 used house would require an annual income of $7,625, again using the lenders' requirement of income that is 4 1/2 times the PITI payment. The minimum down payment would be $500 on an FHA-insured mortgage, and the lender would require the buyer to pay $150 (1 point). A 30-year mortgage would require a monthly payment of $105. Hazard insurance would cost an estimated $4 a month, taxes $26, and the mortgage-insurance premium $6.22, for a total monthly payment of $141.22. The family's income would have to be at least $635 a month.

*More than 35 per cent of this area's families -- or some 200,000 families -- could not afford to buy a used, three-bedroom house in today's housing market.*

*The same economics that govern whether a family can afford to buy a $15,500 used house, also govern whether that family could afford to rent an apartment of adequate size -- Good three-bedroom apartments in a suitable environment are scarce at $140 a month, including utilities.*

The family income figures forming a basis for the above calculations were taken from a Federal Housing Administration analysis of the Minneapolis-St. Paul housing market. The study lists the following numbers of families at various 1969 estimated-income levels (<u>after</u> federal income taxes are deducted): 16,500 families under $2,000; 38,500 under $3,000 60,500 under $4,000; 93,500 under $5,000; 137,500 under $6,000; 203,500 under $7,000; 264,000 under $8,000, and 324,500 families under an after-tax income of $9,000. The "housing market" covers the Twin Cities area less Carver and Scott counties, so the number of families at each income level would be even greater for the entire seven-county metropolitan area.

C. <u>All components of housing price -- the cost of labor, materials, land and money -- are contributing to its increase</u>.

Early this year, the Federal Housing Administration raised the interest rate on insured mortgages from 6 3/4 to 7 1/2 per cent, plus 1/2 per cent for its mortgage insurance premium. Costs of materials are rising steadily, particularly lumber costs, which have gone up 30 to 90 per cent in the past year. Residential lots now cost from $4,000 to $15,000, depending on location. A new round of wage increases is due May 1 for building tradesmen, whose hourly rates now range from $4 (laborers) to $5.25 (electricians).

And skilled craftsmen are at a premium -- every trade is short. In October, 1968, the Minnesota State Employment Service reported that 42,128 persons were employed in construction activities in the Minneapolis-St. Paul metropolitan area, compared with 42,347 two years earlier. That is a decline of 219 employees in what should be an exploding industry. Nationally, the construction labor pool is estimated at less than 3 million, and 10 per cent is lost annually through retirement, death or job changes. In 1966 that loss was estimated at 282,000 craftsmen. In that same year, apprenticeship programs replaced only 16,000.

Pressures on housing price show no sign of slackening.

A typical three-bedroom house containing about 1,100 square feet of floor space cost an estimated $11,891 to build in 1948, according to Real Estate Research Corporation. The estimate for that same house last year was $19,646, representing an increase of 65.2 per cent from 1948 to 1968. In one year alone, from 1967 to 1968, the estimated increase was 6.69 per cent. Other estimates have placed the increase in construction cost over the past year as high as 13 per cent. The Greater Minneapolis Area Board of Realtors reported the average sales price of houses in this area increased from $21,100 in 1967 to $24,921 in 1968.

The long-range outlook is for continually rising costs. According to one estimate, construction will cost 62 per cent more per square foot in 1975 than in 1965.

D. <u>Zoning and building requirements add an artificial cost to housing price</u>.

As reported in the Citizens League's recent study, "Breaking the Tyranny of the Local Property Tax", many Twin Cities area suburbs have enacated stiff residential building ordinances that have the effect of preventing large numbers of lower-income families from buying homes in those communities. This usually is accomplished by increasing the minimum square footage for a house, increasing the minimum lot size, and adding such requirements as a two-car garage for every home.

The purpose of these actions may be to ensure certain standards of community development or it may be to allow only those houses that "pay their own way". That means that the house should be of sufficient value so that taxes are high enough to finance the cost of local government services -- particularly school costs -- that the family requires.

As the Property Tax report noted, such policies work directly against benefiting the entire metropolitan area, because housing options for lower-income families are severely restricted -- more often than not ot the older homes in the central cities of Minneapolis and St. Paul. The result is that very few communities, if any, are developing populations with a wide range of income levels.

The building and zoning requirements tend to boost housing price, dictating for many families a minimum dwelling that really is bigger and more expensive than needed, and more than they can afford. In a real sense, these requirements add an artificial cost to housing price.

Ironically, the federal government, in effect, has paid communities to zone out low and moderate-income housing. Under the 701 urban planning assistance program (Section 701 of the Housing Act of 1954) the federal government has underwritten two-thirds of the cost of developing comprehensive community plans and zoning ordinances. It was through these plans and ordinances that many communities restricted residential development to middle and upper-income housing.

Fortunately, this will be changed in the future to meet a new federal requirement that such planning make realistic assessment of problems related to housing needs -- such as an inadequate supply of dwellings, substandard dwellings or poor public services. Priority will be given to planning assistance for low-income areas and housing studies.

Unfortunately, many of the suburbs already have gone through the planning process and their development maps are tinted indelibly with middle-class colorings. And some other suburbs are of such an exclusive, wealthy nature that they do not have to rely on federal assistance in preparing zoning regulations.

E. Building technology is confined by building codes to traditional methods and materials that shackle the industry to on-site construction.

A graphic portryal of the present state of the arts in the construction industry was depicted in a recent issue of Progressive Architecture magazine. "An 18th Century carpenter could rise from his grave," the magazine said, "pick up a hammer and some nails and start working on a contemporary construction job without attracting much attention." It was observed that this is a rather unique situation without parallel in other industries.

Building codes are enacted and administered under powers delegated by the state to protect the public health, safety and general welfare . . . and this they do very well. Municipalities take one of the four national building codes and amend them to suit local conditions or special interests. The result is that the metropolitan area has codes with many variations of how buildings should be constructed, and of what materials. Should someone feel that certain features of a code militate against low-cost but nevertheless satisfactory construction, his only recourse is to appeal to the same authority that established the code. The mixed reception to plastic pipe -- allowed in some communities but not in others - indicates how well a new product may fare. Lack of uniformity, then, constitutes a bewildering maze . . . a cost-inflating maze . . . for the builder who moves from community to community within this area to put up housing.

As presently written and enforced, building codes -- as well as electrical and plumbing codes -- tend to lock the construction industry into on-site work. Factory-produced units or modules, if not prohibited outright, are not used because the factories are not located close enough to the Twin Cities metropolitan area so that building inspectors can inspect units during assembly. On-site work, of course, is subject to vagaries of the weather, and in Minnesota this means severe winters and rainy spring days.

Minnesota is on the threshold of adopting a state building code that reportedly utilizes "performance standards" to the greatest extent possible. While the code would not be mandatory, it is written so it can be adopted by municipalities by reference -- that is, it does not have to be published in full as a local ordinance. The performance concept, for example, means talking about a wall in terms of its strength, its insulation quality, its resistance to fire and its ability to absorb sound, rather than specifically in terms of how it is constructed and of what materials. Performance standards require an intensive program of basic research if reliance on the familiar, traditional product is to be changed.

Retrogression seemed likely for a time last fall in St. Paul, where an amendment was introduced to ban all prefabricated buildings. Later it was softened to forbid pre-assembly of any plumbing, heating, electrical or other mechanical equipment. Under heavy attack from builders, materials suppliers and concerned citizens as a "giant step backward in the construction industry," the proposal was withdrawn by its sponsor.

Builders have stated that 12 to 15 per cent can be clipped from construction cost by easing building codes so fullest use can be made of latest technology in on site construction. Desirable as such savings are, there appears general agreement in the construction industry that more work must be done in plants and less on the site if any really significant savings are to be achieved. The $20-per-square-foot cost of conventional construction can be reduced to $8-to$10 per square foot for a prefabricated unit built in a factory -- a saving of 50 per cent or more.

Manufacturing modular units in factories, instead of constructing units on the site, lowers costs two ways. The work can be systematized because materials are readily at hand, and the workers do not have to battle mud or cold weather. Secondly, labor costs per unit can be reduced by time-saving use of machinery, greater specialization of workers' skills and assembly-line procedures. As noted earlier, skilled building trades workers are in short supply and it appears there are not enough craftsmen to build all the conventional housing that will be needed in years ahead. In view of that situation, industrial workers rather than craft workers can be employed in plants that manufacture housing, contributing further to lower costs because industrial wage rates are lower.

A housing consultant has estimated that labor cost is 35 to 40 per cent of the cost of a conventional house, but that factories think they're not doing well if they let the labor factor get up to 10 per cent of cost.

F. <u>The reluctance of communities to accept manufactured or prefinished housing constitutes a missed opportunity in solving the low-income housing problem</u>.

Manufactured housing would seem to offer a good deal of shelter for relatively little money, and a number of systems are being developed around the country. We cite here just a few examples.

The least expensive unit listed in a Cornell University study, <u>The New Building Block</u>, is a modular unit (a "box" complete with walls, floor and roof) made of wood, manufactured in upstate New York, delivered to nearby cities on flat-bed trucks, and costing $7.70 a square foot. Habitat, the widely publicized high-rise sturcture at Montreal's Expo-67, cost a prohibitive $89.42 a square foot. As the Cornell study points out, logistic factors . . . transporting the housing modules to the site . . . are most critical in determining the ultimate economic feasibility of a system based on preassembled modules.

Another example is provided by Chicago, a city with strong building codes and unions, but frequently cited as making a significant breakthrough in the production of low-cost housing in a plant. Opposition was sidetracked by forming a new corporation owned one-third by the building trades unions, one-third by the Chicago Housing Authority, and one-third by Chicago's big building materials supplier, U. S. Gypsum. An experimental program of 200 prefabricated homes will be followed by 1,000 houses for the city's next public housing program. Four-plexes are being built at a cost of $14,500 for a four-bedroom apartment, $12,500 for three bedrooms and $11,000 for two bedrooms. Prices include air conditioning, built-in appliances landscaping, outdoor lighting, playground equipment and paved outdoor parking.

Significant cost savings would seem to be in store for users of architect Carl Koch's Techcrete system, which involves on-site fabrication of structural components -- precast, prestressed concrete floor planks and bearing walls. Under a Department of Defense contract, the system will be used to erect 18-story apartments costing from $6.23 a square foot, and three and four-story townhouses from $6.84 a square foot.

The mobile home, already accepted by 5 million people and comprising more than one-fifth of all housing starts annually, holds here-and now possibilities for housing low-income families, either on a permanent basis or as interim housing until something else is built. They can be used individually or in twos or threes to make homes of various sizes and shapes. They can be stacked, like so many drawers in a file cabinet, in a high-rise framework for use as apartments.

An average mobile home costs about $8 per square foot, including appliances, furnishings and some built-in furniture. That compares with an unfurnished house costing up to $20 a square foot. Individually, mobile homes can cost from $3,000 to $12,000 (the latter for a double unit), but a typical home runs about $6,000. Natural-wood siding can be added for a more house-like appearance, as Pemtom, Inc., is doing with its Movilla unit in Cimarron Park in East Oakdale Township. Units there will sell from about $7,000 for a two-bedroom version to $13,500 for a four-bedroom model.

It is extremely difficult to get approval for a mobile home development, however, since local councils are looking for development that will addmore to their tax base. Local councils also listen with a political ear to the wishes of their taxpayers, many of whom own the higher-value homes that council policy has dictated. These taxpayers generally do not want what they consider an unattractive mobile home development in their midst, and are reluctant to accept the fact that proper community planning and site development can alleviate the storm sewer, water and sanitary disposal problems otherwise attendant to high-concentration developments.

The barriers are so inflexible that mobile homes cannot even be used as interim housing in most communities -- a missed opportunity of tragic dimension in areas where there is a need for housing rehabilitation programs or where public redevelopment and highway programs displace low-income families.

A particular impediment to the purchase of mobile homes by low-income families is the method by which such units are financed. Short-term financing and parking-space rentals require monthly payments higher than such families can affrod, and down payments are greater than for conventional housing. The general rule is a seven-year payment plan, although 10-year financing is available on so-called "double wides" -- two units fastened together to form a single dwelling unit. The down payment generally runs $1,000 for a unit costing $6,000 to $8,000, and interest is added at a rate of $5.50 per $100 per year. The buyer of a $7,000 unit thus would pay $1,000 down, finance $6,000 for seven years at a total interest cost of $2,310. His payment would be $8,310 divided by 84 months, or nearly $99 a month. In addition, he would have to pay an insurance charge, say $6 a month, plus about $50 a month for space in a mobile home park -- for a total of $155 a month. Some parks make extra charges for units occupied by more than two persons, and for pets. Gas, fuel, oil and electricity are metered by utilities firms and billed to the user in some parks.

II. <u>No overall public responsibility has been assigned for housing</u>.

No one public agency has been given responsibility for determining housing need and supply in the Twin Cities metropolitan area, nor for planning programs to meet those needs -- particularly those of low-income families and individuals.

A. <u>The increased population that is forecast for the Twin Cities metropolitan area raises a huge question of how these people will be housed</u>.

About 615,000 new families will be formed in the Twin Cities area as population increases to an estimated 4 million persons by the year 2000, according to a recent metropolitan study. But the total need in the next three decades will be closer to 700,000 new dwelling units, inasmuch as 50,000 to 80,000 units will be needed to replace existing housing to be removed for new highways, open space, commercial and industrial expansion, and urban renewal.

The seven-county metropolitan area now has about 600,000 dwelling units. *By the year 2000, therefore, we must more than double our present housing stock, and do it in less than half the time than it took to build what we have now.* To paraphrase President Lyndon Johnson, when he signed the bill creating the Department of Housing and Urban Development, we must literally build a second Twin Cities metropolitan area in the next 31 years.

The construction industry operating in the private market will determine how much of this increased population will be sheltered. Contractors, operating much as they do now, presumably should be able to meet the shelter needs of those families who can afford to buy or rent housing at prevailing prices. The scale of the task will be so great, however, that guidance as to housing location, quantity, type and price seems necessary.

But what of the housing need of families whose incomes are too low, who cannot afford the price of housing? There is no reason to assume these families are the responsibility of a single municipality. They are the responsibility of the entire metropolitan community, yet no overall responsibility has been assigned. Are we to continue to meet their needs in piecemeal fashion -- by local housing authorities building not-enough public housing, by contractors building too-expensive private housing, by neighborhoods and municipalities walling out minorities, by welfare authorities pennypinching on housing allowances, by landlords overcharging tenants for substandard dwellings, by a state government virtually abdicating any responsibility for the problem, by a federal government authorizing promising housing programs and then failing to appropriate sufficient funds?

B. <u>Housing should be viewed as a public responsibility, even though it may no be publicly owned or constructed</u>.

We make plans on a metropolitan level for solid waste disposal, for a zoo, for open space, for health services. But for shelter, a basic need of mankind, we do very little in the public sphere aside from a federally financed study or two. We plan for these other facilities because they are needed and because they cannot be provided well by single units of government or individual agencies acting along.

We do not plan for housing, yet the motivating considerations seem similar, in that private builders cannot meet the needs of a growing number of people with low incomes, and that only a few individual municipalities try to meet local demand for public housing. Most municipalities, in fact, accept no public responsibility for low-income housing. To the contrary, they set up building and zoning regulations that act as effective barriers in keeping out the poorer families.

C. <u>Basic information is lacking about the housing problem</u>.

We know we have a housing problem, but to determine the extent of it, we must know more about the people who need housing -- about their incomes, where they are located, and about their race, their age and their family size. We also need to know more about our supply of housing -- its price, size, age and location. Current data on all these points simply is not available.

Information currently in use is drawn from the 1960 federal census, and it is nine years out-of-date. Its validity is questionable when applied to a growing metropolitan area such as ours, where there has been a great movement to the suburbs, where many homes have been removed for freeway construction and other projects, where an unknown number of Negro and Indian families have come to reside, where housing has deteriorated and been rehabilitated in unknown ratio, where income levels have risen for many and fallen for others by varying amounts, where an undetermined number of new families have been established and old families have undergone change, and where population age levels have changed because of immigration and emigration, birth and death.

D. <u>While we do not know the exact dimensions of the housing problem confronting us now and in the future, its magnitude will require solutions on a large scale.</u>

We referred earlier to the population increases predicted for the Twin Cities metropolitan area, and questioned how these people will be housed. The outlook is not optimistic.

The National Commission on Urban Problems estimates that this country, in order to break the back of minimum housing needs by 1980, should build 2 million to 2 1/4 million new housing units a year. In only one year since World War II have we even approached the rate of 2 million units, and that was in 1950. The rate over the last six years has averaged 1.45 million, not counting mobile homes. Construction pace is such that it is estimated it will require 125 years to renlace the nation's housing inventory, and many dwellings are already deteriorated.

Some 20 per cent, or about 115,000 dwelling units, of housing in the metropolitan area was built before 1900. Another 12 per cent was built between 1900 and 1920. *This means that about one-third of the houses in the Twin Cities area are more than 50 years old.* In addition, many of the houses built directly after World War II were jerry-built and small, rendering them prematurely obsolete.

III. <u>Rising housing prices constitute a hopeless situation for low-income families who try to rent or buy adequate housing. And the problem is worsening.</u>

The incomes of a sizable number of people at the lowest end of the economic ladder are so out of pace with the rest of the economy that each day finds them less and less able to afford decent, safe and sanitary housing.

A. <u>For a substantial portion of the urban poor, incomes do not rise proportionately with the growth of the nation's affluence.</u>

This is true of low-income elderly people on pensions. It is true of the handicapped, the unskilled, the mother left with children to rear. Many of these urban poor are on welfare rolls. The area's two largest counties, Hennepin and Ramsey, had more than 36,000 and 20,000 persons, respecrively, on assistance in a recent month. They receive housing allowances that are inadequate to meet rents on standard housing. A family of four on direct relief in Minneapolis receives $95 a month, including utilities. The monthly allowance, again including utilities, is $80 in Ramsey County for a family of four on relief. To a great extent, welfare departments are subsidizing substandard housing.

B. <u>The housing problem is especially acute for minority group people, particularly those with low incomes</u>.

A disproportionate percentage of low-income families among the black and Indian populations, often coupled with racist attitudes and racial discrimination, makes the housing problem most severe for these groups.

Despite open housing laws passed by federal, state and local governments, housing discrimination continues to exist. The Minneapolis Civil Rights Department received 41 housing complaints last year out of a total of 169 allegations of racial discrimination. The Minneapolis Human Relations Commission reported in January that a nonwhite person seeking housing "in the so-called 'liberal city of Minneapolis'" is "almost certain to face a frustrating, humiliating and degrading search."

Frank Kent, Minnesota Human Rights Commissioner, has stated it is "almost impossible" for Negroes to find apartments in the suburbs. His department handled 452 cases of discrimination in 18 months, and 134 were related to housing.

A recent survey of a 413-square-block area in the southwestern part of St. Paul revealed that less than 10 per cent of more than 12,000 residents contacted said they were willing to openly support fair housing. The survey revealed such negative attitudes that the sponsoring organization decided to pull back and attack the problem through the area's 39 spiritual leaders. Residents listed 16 different "fears" about open housing.

In Minneapolis, recent surveys have shown the Indians' greatest problem is housing, and that much of it is not fit for human habitation. It is housing characterized by cockroaches, poorly heated and dimly lighted rooms, shattered windows covered with cardboard, sagging doors that don't lock, plumbing that doesn't work, plaster that is cracked and steps that are broken. It was found that 70 per cent of the Indians living in the Phillips area reside in substandard housing.

One Indian couple looked at nearly 40 Minneapolis apartments in two days before finding a landlord who would rent to them and their child. In Richfield, three landlords advertising places for rent were visited by an Indian couple who were told the places were already rented. A white couple was sent out, and was told in each instance that the place was available.

A racial sensitivity survey was taken in Hennepin County churches and synagogues a year ago. "White church-going people in our community are not free of racial bias," concluded the sponsors, the Minnesota Council on Religion and Race, and the Minneapolis Urban Coalition.

Non-whites in the Twin Cities area had a median income of about $4,500 at the time of the 1960 census, compared with $6,400 median income for whites. By 1967, median income had risen to $8,318 for white families nationally, but to only $5,300 for blacks in metropolitan areas.

Outside of the ghetto area, discrimination can take the form of increasing the price or the rent of housing that otherwise would be available to a non-minority person. In effect, the minority person may pay a "color tax," getting less housing value per dollar than does the white person. Within the ghetto, the increased demand for low-income housing vs. a static or dwindling supply, and the high cost of maintenance, often tends to increase the price of housing in that area. Thus, both within and without the ghetto, the minority person pays more for his shelter.

C. <u>Many of the low-income families priced out of the market for good housing are forced to live in overcrowded conditions or in substandard housing in the oldest sections of the cities, areas with a heavy concentration of social and health problems</u>.

Obviously, the lower-income families and individuals who cannot meet today's prices for adequate housing are living somewhere . . . they are not out in the street. Some are in public housing. Some are in subsidized private housing. Some (the more elderly) are in houses they managed to buy and pay for in earlier years.

Others are crowded into dwelling units intended for smaller families. And the least fortunate are living in substandard housing -- units that should be rebuilt or extensively repaired, or which lack certain plumbing facilities.

The number of substandard units is estimated at 19,700 in Minneapolis and 18,500 in St. Paul. At their worst, these are ramshackle dwellings with broken windows, torn screens, broken-down steps, holes in the plaster, plumbing that doesn't work . . . rundown buildings sorely in need of paint and yard cleanup . . houses infested with cockroaches and rats . . . units for which the rent is much too high. Tenants of these substandard dwellings have no remedy, under present law, against the slumlord who refuses to maintain his property, other than to file a complaint of a housing code violation with the city's inspection department.

Understaffed inspection departments in both cities attempt to keep up with complaints, but tend to relax their vigilance because the task is so monumental. Enforcement of housing codes is fraught with delay, often because ownership of slum buildings frequently changes hands and it is almost impossible to determine the owner of record.

The oldest neighborhoods truly become poverty pockets, with families jammed into rundown housing and with no money for upkeep, speeding the deterioration of the neighborhood. There also is a deterioration of the human spirit, an anger, a frustration that reaches out and touches the entire community when it results in civil disorders and crimes. There is a loss of hope that causes people to fall into bad housekeeping habits and to live in filth, providing a breeding ground for all manner of health problems.

This was borne out in a 1967 health survey of St. Paul, in which the city was divided into three socio-economic areas -- the lowest being an area where 60 per cent of the houses are deteriorated and 72 per cent of the dwelling units are renter-occupied. That area had highest percentages of fire calls, overcrowding, juvenile delinquents and children on AFDC (Aid to Families with Dependent Children). It had, by far, the greatest incidence of tuberculosis, infant diarrhea, hepatitis, gonorrhea, syphilis, whooping cough, infant deaths.

Other problems crowd into these poorer areas: unemployment, underemployment, low educational levels, alcoholism, drug addition, marital problems, incohesive family situations, crime, and psychological-psychiatric problems.

Inadequate housing "has been one of the most important contributors to the perpetuation of poverty", the chairman of the Ramsey County Welfare Board, Samuel Grais, declared recently. "It demoralizes individuals; it breaks up families; it deprives children of a stable home environment, and adversely affects their proper development. If a family does not have a decent place to live, it will find it difficult to pull itself out of the culture of poverty."

The character of the core city is exemplified by Minneapolis, which has less population than Hennepin County suburbs, but 16 times as many relief recipients, 4 times as many old people, 3 times as many poverty families and more than 2 times as much crime.

D. The housing problem has been made worse through actions of redevelopment authorities, the state highway department and other public agencies, which have removed more low-income housing than has been replaced.

The housing problem has been aggravated by the removal of more low-income housing than has been replaced, as a result of clearance projects by redevelopment authorities and the highway department. Since 1960, an estimated 12,500 dwelling units have been demolished in Minneapolis, and 7,350 in St. Paul.

In that same period, Minneapolis showed a net gain in housing of nearly 14,000 units, and St. Paul more than 6,300. But many of the demolished units were houses occupied by low-income people, because it is in those areas where urban renewal takes place, and where highways are routed. Most of the new units that were built were apartments, suitable in size and price for single people and young married couples. Even most of the public housing built has been high-rise apartment units for elderly couples and individuals. Where houses have been built, they generally have been for middle and upper-income families. Little replacement housing has been built for the low-income family.

For example, the St. Paul Housing and Redevelopment Authority reported last fall that it had demolished 2,688 dwelling units since 1953. Only 1,601 units had been added to the housing supply by the Authority, although an additional 1,456 units were then in the planning stage or under construction.

E. A decent home is a matter of public policy.

Every American family . . . every person . . . is entitled to a decent home in a suitable living environment. This was proclaimed as national policy by Congress in the Housing Act of 1949, and was reaffirmed in the Housing Act of 1968. The commitment should be no less at the state and local levels. Yet, as one community organizer summed it up: "Some persons are still living in the conditions of the Middle Ages while we approach the 21st Century."

IV. Present efforts toward a solution of the low-income housing problem are inadequate.

A. Existing public housing programs have not produced enough housing for low-income families, and have done little to improve their social environment.

1. *To look at what has been done in public housing in the metropolitan area, one has to turn to Minneapolis and St. Paul.* The rest of the metropolitan area has not yet provided any public housing, although South St. Paul has a 132-unit high-rise project under construction for the elderly, and Forest Lake is to begin work soon on 40 units of housing for the elderly. Only 10 other communities in this area have formed local housing and redevelopment authorities, and none has produced any housing.

Minneapolis and St. Paul came early on the scene, forming housing and redevelopment authorities in 1947, following passage of state enabling legislation earlier in the year. Together they have built, bought or leased nearly 6,800 dwelling units and have another 2,400 under construction.

Early emphasis in both cities was on project housing for families. In Minneapolis, the housing authority took over the Sumner Field project, originally a federal project, and has built Glendale, Lyndale, Olson and Glenwood projects - comprising 966 units. St. Paul built the McDonough, Roosevelt, Mt. Airy and Dunedin Terrace projects - a total of 1,119 units.

Aside from Dunedin Terrace, project housing for families has not been built in recent years, and apparently will no longer be built. Not only was there difficulty in finding suitable locations within the two cities, but the crowded environment and the social stigma that attached to such projects has rendered them unsuitable as future solutions for the housing problem. As noted by the National Commission on Urban Problems, this type of housing lacks social services and has made little contribution toward development of a sense of community among its own tenants, or between the tenants and surrounding neighborhood.

The current emphasis is to provide family housing on scattered sites, but in most cases this approach does not add to the community's housing stock, and makes it difficult to provide needed social services.

One program is to lease apartments from private owners, and re-rent them at subsidized, low rents to low-income families and individuals. Another program is to buy old housing and rehabilitate it for lease or sale to low-income persons. A third program involves construction by the housing authority of small multiple-family units for lease. Another program, utilized in Minneapolis, arranges for construction of houses by private builders, with the housing authority agreeing to buy them as "used" housing if they are not sold after a stipulated time on the private market.

The two cities have more than 1,000 apartments under lease throughout the community, with little or no social stigma attached to the occupants.

Even as project housing for families has fallen into disfavor, project housing in the form of high-rise buildings for the elderly has gained favor. Minneapolis has completed nearly 2,900 units and St. Paul more than 1,000; both cities have projects planned or under construction that will more than double these figures. Such projects are socially acceptable by the community and their elderly inhabitants alike, can be built within federal cost limits without great difficulty, and pose no great problem as far as sites are concerned.

*Extensive waiting lists -- about 3,150 on the list in Minneapolis and about 2,000 in St. Paul -- attest to a desire for such housing, but raise questions about priority of elderly housing vis-a-vis family housing.*

2. *Nationally, the public housing program has made a sorry showing, building fewer units than Congress in 1949 said were needed in the next six years.* At that time, with 160,000 to 170,000 public housing units already built, Congress authorized an additional 810,000 units over the following six years. The total - two decades later - stands at only 667,000 units.

3. *Public housing programs initiated by the Minneapolis and St. Paul housing authorities cannot be developed to their full potential because, under state law, the authorities must confine their operations to their respective municipal boundaries.* This geographical limitation prevents them from going out where sites are available -- Minneapolis and St. Paul have little undeveloped land

remaining -- and it prevents them from locating families near job opportunities in the suburbs.

Abandoned school sites would seem to offer some opportunity for housing projects in the central cities, but these sites are few, they are not very large and the Board of Education seeks the highest price possible since the proceeds go into its building fund. For example, Minneapolis has only three sites available -- a 1.3-acre portion of the old Marshall High School athletic field, the 2.05-acre Franklin Junior High site, and the 3.4-acre South High School site, with a likelihood that part of the latter tract will be taken by the Highway Department for roads in connection with the Hiawatha Avenue project.

The National Commission on Urban Problems reported that 63 per cent of all construction permits for industrial buildings issued in a recent year were for locations outside the central cities. A like trend is evident in the Twin Cities area. This means that the suburbs are becoming the employment centers for blue-collar workers, an ironical situation in view of the fact that blue-collar workers tend to live in the central cities. On the other hand, the Commission reported that 73 per cent of office building construction permits were issued in the central cities, yet the white-collar workers increasingly are living in the suburbs.

The requirement that housing authorities operate on a municipal basis poses a problem for some small communities that do not have the expertise to develop programs of their own. And townships cannot participate at all in any public housing program, for the state statute confines itself to cities, villages and boroughs.

These limitations on the exercise of authority fail to recognize that the Twin Cities metropolitan area is a single community despite the many municipal boundaries plotted on maps to divide us into arbitrary political subdivisions. A person may live in one municipality, work in another, shop in another, go to church in another, and send his children to school in another municipality -- yet we are all part of a single community.

4. *State assistance to the housing problem is virtually lacking.* The Municipal Housing and Redevelopment Act of 1947 is the only piece of Minnesota legislation pertaining to low-income housing, and it is administered by a single official in the State Planning Agency.

The state can point to only two other examples of assistance: the State Insurance Commission has developed a plan assuring low-income areas that they obtain property insurance, and the state has developed a program that uses federal funds to train building inspectors.

New York, New Jersey, Connecticut, Illinois and Pennsylvania have formulated ambitious urban assistance programs, but Minnesota has not done so to date.

B. <u>Efforts toward a solution of the low-income housing problem through the private sector have been unsuccessful.</u>

1. *The building industry is made up of many small entrepeneurs producing housing for a local market.* They cannot build the quantity of housing needed for families at all income levels, let alone the families with low incomes.

Confronting a housing need of great magnitude is an industry composed of 18 crafts and more than 870,000 contractors, most of them operating within a single locality. Of 200,000 general contractors in this country, only 1,200 have more than 100 employees. In the Twin Cities area, the number of large homebuilding firms can be counted on one hand.

The industry is made up of many specialty contractors, many with few employees, who come together on the site of a project and go their separate ways upon its completion. The lender, the architect, land developer and materials supplier become a project team, but only for the moment. And the industry in the Twin Cities metropolitan area is confined to on-site construction, with economies of scale and mass production generally lacking. It is a highly conservative, traditional, conventional industry, slow to change its products or its methods.

2. *Market conditions are working against the filtering-down process, which, in the past, has passed housing down through families of ever-lower income levels till it reached the poor in reasonably adequate condition.*

As noted by the National Commission on Urban Problems, market conditions in most urban areas since the early or middle 1950's have been extremely favorable for the filtering-down process. Housing construction outran household formation by 50 per cent. Migration of low-income families into central cities was offset or more than offset by out-migration of the more-well-to-do families to the suburbs.

In recent years, the gap has widened between housing price and incomes of the urban poor. Houses in the central cities, as noted earlier, are getting very old. The result is a heightened competition for the least-expensive housing, so that the low-income family finds itself pushed farther and farther toward the bottom of the housing market, into decades-old houses that show the degeneracy of poor maintenance and repair.

3. *Efforts to enroll the private sector in public housing programs have been stymied by cost limitations that are unrealistically low.* St. Paul, for example, planned to build a number of dwellings on scattered sites last year, using the "turn-key" approach, whereby a builder puts up a unit at a set price and turns it over to the local housing authority upon completion. Bids were few and too high; the project was scrapped.

The subsidized Section 221 (d) (3) program must meet criteria of economic feasibility so confining that few projects are built. Only three have been constructed in the Twin Cities within the past year. St. Paul has the 96-unit Hanover Apartments and the 143-unit Liberty Plaza project. Still under construction in Minneapolis are the Village East apartments, consisting of 320 units. An older project under this program is University Towers and Town House Apartments (Girard Terrace), a 360-unit project in Minneapolis. Some use of the St. Paul units by low-income families is being made through the housing authority's leasing program, but these projects are designed for moderate-income and not for low-income families.

The new Section 235 program of the 1968 Housing Act is designed to spur construction of new houses by subsidizing a family's mortgage interest payment down to a rate as low as 1 per cent. But new houses cannot be built within the cost limits set for this program -- $17,500 for a three-bedroom house and $20,000 for four or more bedrooms.

4. *Certain forms of ownership -- condominiums and cooperative housing -- are not being used in the Twin Cities area, although they would enable homebuyers to benefit from cost savings realized on construction of high-density units.* These forms of ownership also would enable families to take advantage of property-tax and income-tax benefits realized by all homeowners.

Sponsors of the condominium law say there is nothing legally wrong with it, yet lending institutions do not make use of it. And despite Minnesota's strong traditions in cooperative purchasing, cooperative housing has not been utilized, although efforts are under way. Part of the fault, aside from the lending institutions' conservatism in sticking to the old, familiar methods of financing, apparently has been the lack of any promotion of these "new" forms of ownership.

5. *Increasing attention is being given to rehabilitation of existing housing.* The Minneapolis Housing Authority recently obtained permission to buy and rehabilitate housing throughout the city, with total authorization raised to 500 units. St. Paul's housing officials plan to rehabilitate 300 units this year and next. But efforts to interest private builders in rehabilitation have been slow; they often cannot determine how profitable a job will be -- if at all - until they start remodeling work. As a result, such work tends to be very expensive.

6. *Persons interested in providing more housing for low-income people are looking with great expectation to nonprofit sponsors.* But it is the profit-seeking builder who has the know-how, not the nonprofit group. And there is far less attraction in building housing for low-income families than there is in building it for upper-income families.

C. Public subsidies going into housing are not targeted sufficiently to provide housing for people at the lower end of the income scale.

1. *The principal subsidy to the occupant is given through the property tax system, with the biggest part of tax relief going to homeowners rather than renter, although the latter tend to be lower on the income scale.*

The subsidy to owner-occupied dwellings takes two forms: a 35 per cent credit on the non-debt portion of the tax levy, and a homestead classification that allows the first $4,000 of adjusted market value to be figured at 25 per cent rather than 40 per cent in determining assessed valuation. A $15,000 house owned by a landlord and rented to a low-income family, will pay double the property taxes paid by an identical $15,000 house occupied by its owner claiming the homestead exemption. Assuming a tax rate of 300 mills, of which 50 mills were for bonded indebtedness, the taxes on the owner-occupied home would be $297.50. Taxes on the other home -- paid indirectly by the low-income renter -- would be $600. Yet, under the state's Tax Reform and Relief Act, the renter would be able to claim no more than $45 rent credit on his income tax return.

2. *The homeowner's benefit under the income tax system, besides the right to deduct his property tax from income, also includes the right to deduct the interest paid on the mortgage.* For a renter to get this benefit, it would have to be passed on by the landlord in the form of lower rent, and there is no assurance that this happens.

It should be noted that the right to deduct the property tax and mortgage interest from income tax may not be of great benefit to the homeowner whose income is so low that he has little or no income tax liability from which to make the deduction.

It should be further noted that the tax on housing is heavily regressive, since it looms so large in the budgets of poorer families. In the example of the $15,000 house, the $600 in taxes would take 15 per cent of the income of a person having an income of $4,000 a year, but only 7 1/2 per cent of an $8,000 income. If that house were rented for $160 a month, the property tax would amount to a sales tax of 31 per cent -- and this against a basic need of mankind.

The property tax also discourages an owner from making improvements to his home, since they will result in higher taxes if they increase the home's value. An exception exists in St. Paul, where special legislation was obtained in 1967 that allows delayed assessments for improvements to older homes.

3. *The largest subsidy is the conservatively estimated $750-million-a-year revenue loss borne by the federal government because of income tax deductions given to investors for accelerated depreciation on all types of buildings.*

This allows an owner to show a "paper" loss during the early years of a building's life -- a loss that can be charged off against other income to reduce the owner's tax liability. This makes such investments particularly attractive to persons in high tax brackets.

The investment flow, however, is not to low-income housing. It is to housing for families of upper incomes who pay their rent regularly and don't run up maintenance expenses. Low-income families often don't pay their rent on time, and, because they may have large families, they often are "hard" on a building. For those reasons, investment in low-income housing is far less attractive.

4. *A further subsidy has been the mortgage-insurance program of the Federal Housing Administration, which loosened the flow of mortgage money and made it easy for the middle class and the more affluent to build homes in suburbia, but which offered little assistance to those in greater need.*

Until the summer of 1967, the FHA almost never insured mortgages on homes in slum districts, and very seldom in the "gray areas" that surround those districts. Until recently, the poor, the near poor and the lower middle class -- constituting 40 per cent of the population -- received only 11 per cent of the FHA mortgages.

In 1965, for example, the median income of families buying single-family units under FHA was $8,700. Nearly 74 per cent of the purchasers were middle income ($7,200 to $8,400) and above, and more than 25 per cent were considered relatively affluent, $10,800 and above. Only 1.3 per cent of FHA homebuyers had incomes of $3,600 to $4,800, and 8 per cent were in the $4,800-$6,000 bracket.

## SUMMARY OF THE PROBLEM

From our analysis of the low-income housing problem, as detailed in the preceding pages, the nature and magnitude of the problem can be summarized as follows:

<u>Housing price is increasing in the Twin Cities metropolitan area, affecting a growing number of families who cannot afford to buy or rent decent housing</u>.

* "Minimum" housing is getting beyond the reach of what is normally considered a moderate-income family.

*Incomes of some 300,000 families are insufficient to buy new housing. Incomes of some 200,000 families are insufficient to buy adequate used housing on today's market.*

* All components of housing price -- the cost of labor, materials, land and money -- are contributing to its increase.

* Local zoning and building requirements add an artificial cost to housing, boosting its price.

* Building technology is confined by local building codes to traditional methods and materials that shackle the building industry to high-cost, on-site construction.

* The reluctance of communities to accept manufactured or prefinished housing constitutes a missed opportunity in solving the low-income housing problem.

<u>No overall public responsibility has been assigned for housing</u>.

* Housing should be viewed as a public responsibility, even though it may not be publicly owned or constructed.

* Basic information about the housing problem is lacking.

* Even though we do not know exact dimensions of the housing problem, its magnitude will require solutions on a large scale.

<u>Rising housing prices constitute a hopeless situation for low-income families who try to rent or buy adequate housing, and the problem is worsening</u>.

* Incomes of a substantial portion of the urban poor - the elderly, handicapped, unskilled, the fatherless family -- do not keep pace with the nation's affluence.

* Minority groups, particularly those with low incomes, find the housing problem especially acute.

* Many of the low-income families priced out of the housing market are forced to live in overcrowded conditions or in the nearly 40,000 units of substandard housing in the oldest sections of the cities, in areas with a heavy concentration of social and health problems.

* More low-income housing has been removed than built as a result of actions of various public agencies -- the highway department and redevelopment authorities.

<u>Present efforts toward a solution of the low-income housing problem are inadequate</u>.

* Existing public housing programs have not produced enough housing for low-income families, and have done little to improve their social environment.

* Within the entire metropolitan area, only Minneapolis and St. Paul have provided low-rent public housing.

* State assistance, up to this point, has been virtually lacking.

* It has been difficult to bring the private sector to bear on the problem because of the fragmented nature of the building industry.

* Efforts to enroll the private sector in public housing construction have been stymied because of unrealistic cost limitations placed on programs.

* Certain forms of ownership -- condominiums and cooperative housing -- would facilitate home ownership but are not being used.

<u>Public subsidies for housing miss the target and do not provide sufficient housing for low-income people</u>.

* The low-income renter receives little tax relief through either the property-tax or income-tax systems.

* Accelerated depreciation allowances constitute a sizable, uncontrolled subsidy that produces little low-income housing.

## RECOMMENDATIONS

1. We recommend that the 1969 Legislature take action to solve the low-income housing problem in the Twin Cities area by creating a Metropolitan Housing Agency under the Metropolitan Council, and assign the agency necessary responsibility to work for solutions to the problem in the seven-county metropolitan area.

Our study has concentrated on the Twin Cities area and its low-income housing needs. Although we do not know the extent of the problem, there is evidence of unmet housing needs in other areas of Minnesota. With the creation of a Minnesota Department of Community Affairs or similar agency to deal with housing needs throughout the state, we recognize the importance of coordination between the metropolitan and state agencies.

We recommend that the Metropolitan Housing Agency be given responsibility to begin immediately to:

a. Develop and analyze on a continuing basis data on housing supply and need in the metropolitan area, with priority attention given to the needs for low-income housing.

b. Prepare and implement plans, after prior consultation with local governments in the area, for the location, timing and nature of housing construction and rehabilitation, with priority attention given to low-income housing.

c. Promote maximum use of existing federal programs to increase the quantity and quality of low-income housing, promote public and private programs that will enable low-income families to become homeowners, and encourage use of ownership forms -- cooperatives and condominiums -- that make multiple-family units available to buyers at prices lower than those for single-family housing.

d. Exercise authority to approve or disapprove housing developments receiving governmental financial assistance, loan guarantees and/or tax abatement, to ensure inclusion of low-income housing in those developments when inclusion is warranted.

e. Determine which building-code requirements are unwarranted restrictions against the development of adequate-quality but nevertheless low-cost housing. The agency should have authority, after prior consultation with local governments affected, to grant exemptions to specific projects from those building-code requirements that prohibit construction of low-cost housing for low-income people. Provision should be made for a review of those decisions, upon proper request from the local governments affected. The agency should promote adoption by local governments of a uniform building code that utilizes performance standards to the greatest extent possible.

f. Establish standards for local zoning and platting ordinances to achieve orderly community development and yet not prohibit low-income housing. The agency should establish criteria for determining where such housing would be desirable, and it should have authority, after consultation with the local government affected, to disapprove local zoning and platting ordinances that would keep out low-income housing form those areas. Provision should be made for a review of those decisions, upon proper request from the local governments affected.

g. Establish standards for adequacy, maintenance and repair of dwelling units, and promote adoption and enforcement by local governments of a uniform housing code incorporating those standards.

h. Promote use of new building technologies, serve as a public clearinghouse for information about new techniques and materials, and factors preventing their use, and encourage local governments to waive building-code requirements for experimental projects.

i. Provide advice and technical assistance to public and private developers attempting to put together low-cost housing programs.

2. <u>We recommend that the 1969 Legislature instruct the Metropolitan Housing Agency to begin immediately to study key housing problems in the metropolitan area, and to work up specific proposals for presentation to the 1971 Legislature on these specific problems</u>:

a. <u>Land-assembly program</u>: The agency should prepare a plan whereby it, or some other public agency would engage in the purchase and assembly of tracts of land, with authority to arrange for its development, to resell or lease the land to developers, and to assist developers by writing down land costs.

b. <u>Subsidy to occupant and/or the owner/builder</u>: The agency should prepare a state program for additional financial help to the low-income person, beyond what is available from other sources, to enable him to lease or purchase adequate housing. This assistance might be direct -- in the form of down-payment money, earnest money, funds for home maintenance or a rent subsidy -- or it might be given indirectly through income-tax credits or rebates, or through special property-tax concessions. In regard to the property tax system, the agency should make recommendations for use of the system in a way that will not penalize homeowners for bringing their property up to code standards. The agency also should determine whether additional subsidies, beyond those now available, should be given to the owner/builder in order to reduce the price of housing and increase housing production.

c. <u>Construction of housing</u>: The agency should determine whether there is a need for a builder of last resort, and where that responsibility should lie, if efforts directed at public housing authorities and private developers fail to produce the quantity of housing needed for low-income families and individuals.

3. <u>We recommend that the Legislature appropriate $3 million for a low-cost housing demonstration program to be conducted by the Metropolitan Housing Agency</u>.

   It is recommended that the housing demonstration program involve construction of single-family and multiple-family dwellings, built without regard to present building codes, but with regard to maintaining quality construction standards. The demonstration program should make widest use of new techniques and materials, encouraging their application to housing construction in both the private and public sectors.

   It is recommended that necessary environmental studies be made in conjunction with the demonstration program. The effort should be not only to build experimental prototypes that can produce cost savings in follow-up projects, but to provide suitable amenities that will make for attractive living in a variety of housing styles and densities.

4. <u>We recommend that the 1969 Legislature enact a law that will enable tenants to petition District Court for correction of building conditions that violate any code pertaining to the health, safety or welfare of the building's occupants with rents to be deposited with a court-appointed administrator for a period up to six months for use in correcting the violation</u>.

5. <u>We recommend that county welfare boards in the metropolitan area increase housing allowances to levels that will enable welfare recipients to live in decent, adequate housing rather than in substandard housing</u>.

6. <u>We recommend that the Federal government do the following</u>:

   a. Change the present federal income tax law to give greater incentive to investment in low-income housing than in middle- or upper-income housing by giving even greater acceleration to depreciation on low-income housing.

   b. Appropriate larger sums for its housing programs, bridging the sizable disparity that exists between sums authorized in Housing Acts and the sums finally appropriated by Congress.

   c. Establish more realistic per unit cost limits for dwellings to be constructed or purchased under the various federal housing programs.

   d. Engage in a greately expanded program of research into new building technology and the use of new building materials.

## DISCUSSION

I. <u>Solutions to the housing problem must be consistent with larger social and physical development objectives for the metropolitan community</u>.

The committee, after studying the low-income housing problem for many weeks, and before formulating its recommendations, set down certain basic criteria for proposed solutions:

It should be a solution for the total metropolitan community, recognizing that this is, in fact, a single housing market, and emphasizing that the problem of adequate housing for low-income families is a problem for which persons at all income levels, in all types of housing, and in all parts of the area, should share a legitimate public responsibility.

It should be a solution that works to expand the range of housing choices available to people at low income levels particularly, but to people at other income levels as well. These choices should be both in terms of the type of housing available, and the location of housing available.

It should be a solution that works not only to close the gap between family income and housing price, but also contributes significantly to reducing the real economic costs -- particularly construction cost and other technological costs -- that go into housing price.

It should be a solution that does not -- in the process of solving the housing problem -- create more serious physical or social problems for the community. Cheapening the quality of construction, for example, might result in somewhat lower rentals to the occupants but might make no contribution to the long-term good of the community. The objective -- at the same time we attempt to solve the income/price relationship -- must be to build the very best housing we can . . . in terms of the right units at the right time in the right place with the right kind of construction and design.

It should be a solution that does not produce a stratification of the population, with certain income groups occupying only certain kinds of housing in certain locations. It should provide, in other words, that low-price units are not just high-rise apartment units -- which might be the least expensive to build -- but also should include duplexes and single-family units.

It should be a solution that places special emphasis on the need for relatively lower-priced housing while working to expand and improve the total stock of housing. This will require special incentives to attract capital into the housing industry, and particular incentives for the construction of housing for lower-income families.

It should be a solution that does not significantly worsen the ability of the local government unit to provide the revenue needed to support public services required by the occupants of the housing.

*The committee feels that any solution should meet these requirements. It feels its proposals do meet those requirements.*

II. The problem is most usefully looked at as an income problem, or, more precisely, as a problem of the income/price relationship.

The really central problem is the inability of many families - a growing number of families - in the metropolitan area to pay for adequate housing. The housing problem is not simply a problem of bad buildings. These are symptoms of the problem.

The inability of families to pay for housing is a double-sided problem. It is a relationship between the income available to the family for housing, and the price at which the housing is offered. It is the gap between incomes and housing prices in the Twin Cities area that constitutes our problem.

On the income side, the problem is concentrated in certain parts of the population. It is concentrated, for example, in the elderly, in the unskilled, in minority races, in large families and -- geographically -- in the older, crowded central portions of the metropolitan area.

On the price side, the problem is complex. Many things go into housing price: the cost of land, the cost of labor and materials, the cost of a building technology restricted by building codes, the cost of money borrowed, taxes, the developer's profit, and the cost imposed by public regulations -- minimum lot-size and minimum floor-area requirements that push up the cost of housing units. Accessibility is also a factor in housing price, as it imposes special transportation costs. And, finally, price is influenced by the changes in the total stock of housing as the market expands.

*This approach suggests we must take the view that there is no one solution. There are opportunities -- many opportunities -- to work on both sides of the income/price relationship.*

III. The strategy required is to move across a broad front with programs operating on both the income and price side of the housing problem. Further it will be necessary to move at all governmental levels -- local, state and federal.

The committee recognizes that most of the dollars for housing come from private funds. Public programs will contribute to a solution of the housing problem primarily by influencing the direction of this private development.

A number of the elements that contribute to housing price are uniquely matters for local and state action.

One target is the artificial, non-economic, element introduced into housing price -- increasingly in recent years -- by local codes and ordinances that require more expensive dwelling units than would be necessary. These so-called "minimum house value" regulations are motivated in large part by the needs of the various local governments to maximize municipal revenues, and to minimize the demand for, and cost of, municipal services. They affect the housing problem both directly and indirectly -- by raising the general level of housing prices and by further restricting the areas in which low-income families may locate. Building and housing codes are matters for state and local action.

The tax system further contributes to the housing price problem by relying so heavily on property taxes as a support of public services. The property tax is a heavily regressive tax, comparable roughly to a sales tax of 20 to 30 per cent on expenditure for shelter. The property tax system also is significantly off-target by giving tax relief through homestead classification and credit to the owner-occupant, who tend to be higher on the income scale, and very little tax relief to renters, who tend to be lower. The property tax system is a matter of state and local action.

Direct public construction of housing by local housing and redevelopment authorities is an attempt to zero in accurately on housing problems, but the aim can be improved. Housing authorities continue to increase the upper-income-limit for admission to public housing, even though too few units have yet been built to accommodate the lowest income group. Similarly, housing authorities have, on occasion, swung their programs over toward elderly housing, when the needs may be greater for family housing, particularly minority family housing. The problem is further aggravated by the geographical limitation of housing authorities, and the removal of more housing units than built. Housing and redevelopment authorities are creatures of state law, whose projects are under the supervision and control of local officials. Here, too, is a matter for state and local action.

Public welfare payments continue to disappear into substandard housing so that, in effect, substandard housing is being subsidized. Welfare housing allowances are a matter for local and state action.

At the federal level, public policy and programs fall short of meeting expectations created in the professed goal of a decent home for every family. We add programs without the financial resources to carry them out, or the energy to promote their effective use. This is a significant part of the problem. We have set an ambitious goal, and a whole new scale of effort is required. Authorization and appropriations for public housing programs are a matter for action at the federal level of government.

Federal income tax laws provide an opportunity to claim a rapid depreciation on real estate, and thus accumulate a "paper" loss over the early years of the life of a building. This loss can be charged off against other income, tending to make investment in housing particularly attractive to persons in relatively high tax brackets. There is substantial evidence that the investments flow almost exclusively to housing for families of moderate and upper income. There continues to be a strong demand for units in this price range, and the cost of maintenance of these units is substantially lower than for housing for lower income families, making them relatively more attractive to investors. The resources of the housing industry thus get tied up in producing housing for the higher-income families. The retargeting of benefits under the federal income tax laws is a matter for action at the federal level.

Public subsidies to housing ought to be related to public goals for housing. Specifically, these subsidies ought to go to effective production of low-income housing. New controls or incentives need to be introduced to assure that more of the public investment ends up where public policy has indicated it should end up -- with relatively larger increases in the supply of housing for lower-income people.

IV. <u>Public programs should aim at influencing the housing industry, technology of the industry and the means of assembling land</u>.

The housing industry is essentially a collection of separate industries -- architect, land developer, builder, contractor, lender, materials supplier, etc. -- from which specific firms are assembled into a team for development of a particular project, and then broken up when the project is completed.

The industry is highly conservative, traditional and conventional, slow to change either its products or its methods. Innovation is resisted. Yet there is, in some quarters a growing interest in new methods of building which would reduce the rapidly rising, real economic cost involved in the present system of assembling substantially all the materials and the labor on the actual site of the building project.

The problem of getting large tracts of land currently tends to drive developers out to the fringe, where undeveloped tracts are available, rather than encouraging developers to replace the large stock of deteriorated and obsolete housing in the built-up areas. The urban redevelopment program exists as one mechanism for assembling land for rebuilding in the older areas . . . but the political and financial price for redevelopment projects is so high that relatively little of the total housing stock is replaced through this mechanism.

*Efforts must be made to encourage greater unification within the highly fragmented housing industry. Efforts must be made to modernize the technology of the building industry. Efforts must be made to find some better way to assemble substantial tracts of land on which a developer can build projects large enough for him to achieve real economies of scale.*

V. <u>Our goal should be to ensure a sufficient amount of "adequate" housing, particularly for low-income people</u>.

The committee spent a great deal of time discussing what is meant by "adequate" housing. Obviously, we were talking about safe and sanitary housing, structurally sound and well-maintained, and located in a decent neighborhood. And when we talked of low-price housing, we were not talking about low-cost housing that would be the instant slum of tomorrow.

We concluded that the metropolitan community should develop its own standards for adequate housing, that these should be written into a uniform housing code, and that local governments should be encouraged to adopt that code and enforce that code.

*Metropolitan standards for adequate housing should be a determination of minimum adequacy for all housing in the area. Low-income housing should not be singled out for any lesser level of adequacy.*

VI. Enforcement of housing codes is desirable, but it should be recognized that this may raise the price of housing, further widening the gap between family income and housing price and adding to the low-income housing problem.

Evidence was presented to the committee of a shockingly large quantity of substandard housing in the Twin Cities area. Evidence was further given that inspection departments are not adequately staffed to enforce housing codes, and that inspectors often are frustrated in attempts to compel enforcement.

Tenants are marshalling forces to get landlords to repair and maintain rental units according to code requirements. The committee is totally in agreement with this well-publicized effort, but cautions the public against assuming that the low-income housing problem is solved if the battle is won against substandard dwellings.

Normally, the landlord will recover as much of his repair expense as the market will allow in the form of higher rent, aggravating the housing price/family income problem as we have defined it.

Higher rents will be the general trend for substandard housing brought up to code requirements, the committee believes, even though notice of strict code enforcement may cause an initial slump in the selling price of some substandard units. That slump will occur where a falsely high price -- commanded for such property in the absence of code enforcement -- is adjusted downward to reflect anticipated expenditure of X dollars for repairs. It is apt to be offset quickly by increased housing demand, however, as other substandard units are found to be unrepairable and have to be removed from the market.

*The real solution lies in increasing the quantity of housing available to low-income people, but, in the interim, our major concern should be with the tenant, who has a right to decent housing through code enforcement.*

VII. Subsidies -- in one form or another -- are a necessary part of any program to make adequate housing available to low-income people.

Given the incomes earned by families at the lower end of the scale, and given the cost of land, the cost of building technology and all the other costs that go into housing price, the committee sees no way in which the income/price gap can be closed without the use of some public monies, either to increase incomes or to permit the builders to offer housing units at a below-market price.

Subsidies are involved, whether we work on the income or the price side. An accelerated depreciation allowance to a builder, which can be used to reduce his federal income tax liability, is a subsidy out of public tax resources fully as much as is a direct appropriation from public revenues for, say, the construction of low-rent public housing units.

VIII. Efforts that have been made, or are being made, to deal with the housing problem at the metropolitan and state level have been piecemeal and do not have the promise of action or the sense of urgency that is necessary.

The committee has reviewed efforts (see summary in Appendix J) taken in regard to housing, including those dealing generally with housing and not specifically with low-income housing. It has measured those efforts in relation to the complexity and overwhelming magnitude of the problem, and has concluded that much remains to be done.

The important thing is to bring the full force of public responsibility to bear on the problem. What has been done up to now has been done in bits and pieces, in this location or that location, and has only tackled parts of the problem.

The committee does not wish to be hypercritical of past or proposed efforts. Indeed, the committee appreciates that there is so much to be done that it welcomes any exercise of public responsibility, no matter how limited it may appear.

*The core of the low-income housing problem, however, is the gap between housing price and family income, and unless a program closes that gap it is not really getting at the housing problem.*

The Metropolitan Development Guide and the Metropolitan Planning Commission's housing study stated some very desirable goals and policies for housing, albeit general and not specific concepts. But they have not resulted in any more housing for low-income families.

The Metropolitan Council's housing study is a very necessary first step in metropolitan-wide housing effort, but it can only be a part of what the program should be. Spanning, as it will, a three-year period and awaiting 1970 census data for a true look at the problem, the study does not crank up fast enough to get at the problem of providing more housing for low-income families. The second study on interim housing, again, is a promising, but partial, attack on the whole problem.

Injecting a housing element in planning programs is something that should have been required from the inception of the 701 program. It comes too late to accomplish much in the metropolitan area.

Only partial attacks on the problem are made by the otherwise worthwhile programs of the insurance industry, the Minneapolis down-payment program and the St. Paul Community Development Corporation. The programs do put low-income people into decent housing, but not in great enough quantity.

The recently announced State Urban Affairs Council and Urban Action Center, and the legislative proposals for a State Department of Community Affairs and State Housing Development Authority, at this point, are yet on the drawing board or are gleams in the politician's eye. What they will produce, and what attention they will pay to the housing problem in the single market metropolitan area, is problematical.

*Appendix A*

## GLOSSARY OF TERMS

Amortization: Periodic repayment of the principal of a loan.

BMIR (Below Market Interest Rate): This term denotes a mortgage that has an interest rate of 3 per cent. These funds are provided by FNMA.

Building Code: A locally adopted code, based upon one of several national codes, that details all aspects of a building's construction -- materials that can be used, room sizes, ventilation required, window space, fireproofing, etc. Plumbing and electrical requirements are detailed in separate codes.

Condominium: An apartment project in which the tenants have direct ownership of a specific apartment unit and a fraction-share ownership in the common facilities.

Cooperative: A housing project in which the tenants have the privilege of residency through the ownership of stock in the cooperative corporation which in turn is the owner of the property.

Debt Service: The required periodic payment of principal and interest on a loan.

Demonstration Project Grant: Funds the Federal Government furnishes a local public agency to help finance a project to develop or improve methods and techniques for the elimination and prevention of slums and blight.

Economic Soundness: A term denoting that the project must generate enough net income to support itself including debt service and operating costs.

FHA: Federal Housing Administration.

FNMA: Federal National Mortgage Association.

GNMA: Government National Mortgage Association.

HAA: Housing Assistance Administration.

Housing Code: A municipal code that sets minimum standards for occupancy of dwellings. The standards relate to the maintenance of the dwelling, size of the unit in relation to the number of occupants, the adequacy of plumbing and heating facilities, etc.

HRA: Housing and Redevelopment Authority of the community (also known as LPA). This is a government entity, usually an individual corporate body under state enabling laws, authorized to engage in the development and operation of low rental housing and/or redevelopment.

HUD: Department of Housing and Urban Development. The parent agency for the Federal Housing Administration, Housing Assistance Administration, Federal and Government National Mortgage Associations, Demonstrations and Intergovernmental Relations Administration, the Metropolitan Development Administration and the Renewal Assistance Administration.

Limited-Dividend Corporation: A private company that provides rental housing and whose income is limited to a specific percentage of its investment.

MIP (Mortgage Insurance Premium): The 1/2 per cent charged annually on the declining balance of the principal of an FHA-insured mortgage. The premium is part of the borrower's regular monthly mortgage payment.

Mortgage Discount: The percentage of a face mortgage loan amount that may be required by an originating mortgage lender or mortgage buyer as payment for making or buying a mortgage loan at a given interest rate. (See Points.)

Mortgagee: The lender - one to whom property is mortgaged.

Mortgagor: The borrower - one who places a mortgage on his property.

Nonprofit Corporation: The organization entity of a group of individuals having no interest in gain or in profit. To qualify as a mortgagor, the applicant, the nonprofit corporation, must be approved by the FHA and meet its criteria of fiscal stability and housing objectives.

Operating Costs: Those expenditures for the operation, management and maintenance of a housing project, excluding finance charges and payments to the Reserve for Replacement.

Platting or Subdivision Ordinance: A municipal ordinance that establishes procedure and requirements for platting property -- i.e., subdividing a large parcel of land into lots of certain size, according to their use and allowing for streets, alleys, open space, etc.

Points: The percentage of a mortgage loan that the lender charges the seller and buyer of a home. Points (one per cent = one point) are charged against government-insured FHA and GI loans to give the lender the equivalent of the going interest rate when the loan is made for a lower rate. For example, in recent weeks the prime rate has been 7-3/4 per cent, or 1/4 per cent more than the maximum allowed by FHA. Some lending institutions, to make up the difference, have been collecting one point each from the buyer and seller. In some cases, sellers have had to pay up to 3½ points.

Principal Obligation: Amount of mortgage debt that a borrower owes.

Reserve for Replacement: A monthly charge for an FHA project to be placed in escrow for later expenditures on substantial repairs as authorized. These expenditures are for the operation, management and maintenance of a housing project, exclusing finance charges.

Zoning Ordinance: An ordinance that divides a municipality into zones of most appropriate land use -- various categories of residential, commercial, industrial and public use -- and which specifies minimum lot sizes, house sizes and yard requirements.

*Appendix B*

## SUMMARY OF REQUIREMENTS
## OF MINNEAPOLIS AND ST. PAUL HOUSING CODES

The Minneapolis code defines a dwelling unit as "any habitable rooms located within a dwelling and forming a single habitable unit with facilities which are used or intended to be used for living, sleeping, cooking and eating." The St. Paul code has a similar definition: "a room or group of rooms located within a residence building and forming a single habitable unit with facilities which are used or intended to be used for living, sleeping, cooking, and eating."

By "habitable room," the Minneapolis code means "a room or enclosed floor space used or intended to be used for living, sleeping, cooking, or eating purposes, excluding bathrooms, toilet rooms, laundries, pantries, foyers, communicating corridors, closets, storage spaces, and stairways." The St. Paul code's definition is similar: "a room occupied by one or more persons used or intended for living, cooking, eating or sleeping purposes, but does not include bathrooms, closets, water closet compartments, laundries, serving and storage pantries, corridors, cellars, and spaces that are not used frequently or during extended periods."

Minimum requirements of dwelling units:

* Foundation, exterior walls and roof in workmanlike state of maintenance and repair.
* Interior walls, floors and ceilings in workmanlike state of maintenance and repair.
* Free of insects, rodents and vermin.
* Water closet, lavatory, bathtub or shower, and kitchen sink in working condition and connected to a water and sewer system.
* Lavatory, bathtub or shower, and kitchen sink connected to hot and cold running water.
* Water closet and bathtub or shower in room affording privacy.
* Water-heating facilities (capable of heating water to not less than 130 degrees F. in St. Paul, not less than 120 degrees F. in Minneapolis).
* Heating facilities (capable of heating all habitable rooms to 70 degrees F., measured 4 feet above the floor in Minneapolis, 5 feet above the floor in St. Paul.)
* Facilities for storing rubbish and garbage (or disposal of garbage).
* Water lines, plumbing fixtures and drains in working order.
* Electrical service, including two outlets per room (three in kitchen), one of which may be ceiling or wall-type fixture.
* Floor area -- St. Paul: 150 square feet for one occupant, additional 100 square feet for each of next two occupants, additional 75 square feet for each other occupant. Minneapolis: 120 square feet for one occupant of one habitable room; 150 square feet for two occupants of single habitable room; 220 square feet for two or more habitable rooms occupied by three occupants, plus 70 square feet for each additional occupant.

* Sleeping rooms -- St. Paul: in a dwelling unit of two or more habitable rooms, every room used by one adult for sleeping purposes shall have a floor area of at least 70 square feet. Sleeping rooms used by two or more adults shall have 50 square feet of floor area per occupant. Minneapolis: no specific mention.

* Ceiling -- Minneapolis: 7½ feet high, but habitable area above the first floor requires only 7½ feet over 50% or more of area, with no area under 5-foot ceiling counted as habitable; in one-story-and-attic buildings, an attic bedroom must have 7-foot ceiling over 50% of floor area. St. Paul: 7 feet high over at least half the floor area, with no area under 5-foot ceiling counted as habitable.

* Cellar space shall not be used for sleeping purposes in St. Paul. Cellar space shall not be used as a habitable room or dwelling unit in Minneapolis. (Cellar is defined as that portion of building that has half of more of height below ground-level. This is being amended in Minneapolis to allow use of cellar space as bedroom by members of the immediate family.)

* Basement space (less than helf of height below ground-level) may be used as dwelling unit in both cities if floor and walls are water-tight and if window area is sufficient.

* Window space -- St. Paul: every habitable room must have at least one window facing outdoors, with window area 10 per cent of floor area. Window must be easily opened, or mechanical ventilation provided. Non-habitable rooms must have one or more windows, or mechanical ventilation. Minneapolis: every habitable room must have at least one window facing outdoors, with window area 1/8th of the floor area. Window must be easily opened, or mechanical ventilation provided. No windows required in kitchen it if has mechanical ventilation and if it has an opening at least 20 square feet into another habitable room having windows big enough for both that room and the kitchen. Both cities: windows not required in water-closet compartment or bathroom having mechanical ventilation system.

*Appendix C*

CONGRESSIONAL FUNDING OF THE VARIOUS PROGRAMS
OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FOR FISCAL YEAR 1969,
COMPARED WITH 1969 AMOUNTS AUTHORIZED AND REQUESTED, AND 1968 APPROPRIATIONS
(Figures represent millions of dollars)

| Program | Fiscal 1968 Appropriation | Fiscal 1969 Authorization | Fiscal 1969 Budget Request | Fis. 1969 Approp. |
|---|---|---|---|---|
| Rent Supplements | $ 10 | $ 108 | $ 65 | $ 30 |
| Model Cities -- Total | 312 | 1,000 | 1,000 | 625 |
| Planning Grants | 12 | 12 | - | - |
| Supplement Grants | 200 | 500 | 500 | 312.5 |
| Additional Urban Renewal | 100 | 500 | 500 | 312.5 |
| Urban Planning Grants | 45 | 55 | 55 | 43.8 |
| Urban Renewal Grants | 750 (FY69) | 1,400 (FY70) | 1,400 (FY70) | 750 (FY70 |
| Urban Research | 10 | open | 20 | 11 |
| Urban Technical Assistance | 2.2 | 5 | 5 | - |
| Community Development Training | 3 | 27 | 7 | 3 |
| Fellowships for Urban Studies | .5 | .5 | .5 | .5 |
| Water and Sewer Grants | 165 | 435 | 150 | 165 |
| Neighborhood Facilities | 30 | 141 | 40 | 35 |
| Open Space Land Grants | 75 | 87.5 | 85 | 75 |
| Metro. Development Incentives | - | 10 | 10 | - |
| Public Housing | 275 | 358 | 358 | 350 |
| Home Ownership Assistance (Sec.235) | - | 75 | 75 | 25 |
| Rental Housing Assistance (Sec.236) | - | 75 | 75 | 25 |
| Tenant Services | - | 15 | 15 | - |
| Fair Housing | - | 11 | 8 | 2 |
| Flood Insurance | - | 1.5 | 1.5 | 1.5 |

The funds for the Section 235 and 236 programs were expected to assist in payments on more than 65,000 dwelling units, divided about equally between sales and rental housing units. (HUD estimates between 33,000 and 34,000 units would be purchased under the program.) In the first year, 25 per cent of the homes could be from existing inventory, the second year 15 per cent, and the third year 10 per cent.

The Minnesota district office of the Federal Housing Administration received a fiscal year 1969 allotment of only 100 homes under the Section 235 program. The first unit assisted was in Minneapolis and was a 2-bedroom, one-story frame dwelling about 15 years old, selling for $16,400, with a $200 down payment and 30-year mortgage. Monthly payment = $136.86. Maximum assistance payment - $57.53. Married couple, ages 27 and 25, with a 2-year-old child. Husband a grinder at Hitchcock, Inc., earning $567 a month. Was paying $115 in rent, had $600 cash available for down payment, had $155 in liabilities. Eligible assistance payment = $28.46 a month; family's share's $108.40.

*Appendix D*

CONSTRUCTION COST ESTIMATES
AVERAGE QUALITY SINGLE-FAMILY HOME 1/
MINNEAPOLIS-ST. PAUL (1948 - 1968)

| Year 2/ | Adjusted Cost Per Square Foot of Ground Floor Area 3/ | Cost | Annual Increases | Percentage Increase Over Preceding Year |
|---|---|---|---|---|
| 1948 | $ 10.81 | $ 11,891 | $ | |
| 1958 | 13.44 | 14,784 | | |
| 1960 | 13.82 | 15,202 | | |
| 1961 | 13.92 | 15,312 | 110 | .72 |
| 1962 | 13.98 | 15,378 | 66 | .04 |
| 1963 | 14.26 | 15,687 | 309 | 2.01 |
| 1964 | 14.57 | 16,270 | 583 | 3.72 |
| 1965 | 14.97 | 16,467 | 197 | 1.21 |
| 1966 | 15.70 | 17,270 | 800 | 4.85 |
| 1967 | 16.74 | 18,414 | 1,144 | 6.62 |
| 1968 | 17.86 | 19,646 | 1,323 | 6.69 |

Percentage Increase

| 1948-53 | 1953-58 | 1958-63 | 1963-68 |
|---|---|---|---|
| 11.7 | 11.04 | 6.01 | 25.2 |

1/ Cost is for typical three-bedroom home containing about 1,100 square feet. The cost of land should be added to obtain gross cost to purchaser. Land will range from $750 to $1,000 in 1948 upward to $3,000 to $6,000 in 1968.

2/ December each year except November, 1968.

3/ Real Estate Research Corporation and Boeckh's Cost Index.

*Appendix E*

# WELFARE DEPARTMENT ALLOWANCES FOR HOUSING

# IN HENNEPIN AND RAMSEY COUNTIES

Hennepin County: These are the housing allowances for individuals and families on so-called categorical aid programs (Aid to Families with Dependent Children, Old-Age Assistance, Aid to the Blind and Aid to the Disabled).

Efficiency unit ----- up to $70 a month
1-bedroom (family of 2) ----- up to $85
2-bedroom (family of 3 or 4) ----- up to $90
3-bedroom (family of 4, 5 or 6) ----- up to $105
4-bedroom (family of 7 or 8) ----- up to $120
Larger units determined on an individual basis. Utilities not included.

Utilities allowances range from $24 a month for a family of 2, to $29 for a family of 4, and in $2 increments up to $41 for a family of 10.

As of December, 1968, Hennepin County had an AFDC caseload of 6,902, involving 18,502 children. It had 5,344 persons on OAA, 301 on Aid to the Blind, and 2,344 on Aid to the Disabled.

Minneapolis: These housing allowances exist for individuals and families on direct relief:

| Persons | Utilities Not Provided | Utilities Provided |
|---|---|---|
| 1 | $50 | $65 (for a man, $55) |
| 2 | 60 | 75 |
| 3 | 70 | 90 |
| 4 | 75 | 95 |
| 5 | 80 | 105 |
| 6 | 85 | 115 |
| 7 | 90 | 120 |
| 8 | 95 | 125 |
| 9 | 100 | 130 |

However, these allowances can vary with the circumstances. For example, the Relief Department might allow $125 rent for a family of 6 if that is what they rent their apartment for, since direct relief is intended to be of a temporary nature. The alternative would be to find an $85-a-month apartment ($115 with utilities) for that family -- which is not easily done.

Caseworkers can approve housing allowances 20 per cent higher than figures limited; greater allowances must be approved by unit supervisors.

Minneapolis had 1,645 relief cases involving 3,480 persons in December. About 1,000 were single persons, with the remainder families of 2 or more persons. Other communities in Hennepin County reported 80 relief cases involving 207 persons.

Ramsey County: The Ramsey County Welfare Department uses "block budgets" for individuals and families under categorical aid programs. These budgets are to cover all their needs, including housing (but not telephone, transportation and medical expenses). These are the monthly budgets allowed:

| Persons | Budget | Persons | Budget |
|---|---|---|---|
| 1 | $116 | 6 | $334 |
| 2 | 176 | 7 | 369 |
| 3 | 216 | 8 | 399 |
| 4 | 260 | 9 | 434 |
| 5 | 296 | 10 | 469 |

As of December, 1968, Ramsey County had 3,257 AFDC cases (9,148 children), 1,880 on OAA, 119 on Aid to the Blind, and 1,232 on Aid to the Disabled.

These are the housing allowances for those on direct relief:

| Persons | Rent | With Heat | With Heat and Utilities |
|---|---|---|---|
| 1 | $35 | $45 | $50 |
| 2 | 55 | 65 | 70 |
| 3 | 60 | 70 | 75 |
| 4 | 65 | 75 | 80 |
| 5 | 70 | 80 | 85 |
| 6 | 75 | 85 | 90 |
| 7 | 80 | 90 | 95 |
| etc. | | | |

As of December, 1968, Ramsey County had 1,550 relief cases, involving 4,656 persons (666 single persons, 633 families with children, and 251 families with adults only).

(Note: Aware that present housing allowances are "not realistic," the Ramsey County Welfare Board intends to increase allowances July 1. For families on categorical assistance programs, budgets will be raised $10. To make rent schedules comparable for families on general relief, their housing allowances will be increased $15. It has been said that the increases are the maximum that can be handled under the welfare budget, even though they may still be unrealistic. It is anticipated that some owners of substandard dwellings will only raise rents when the new housing allowances go into effect: families will pay more, but get no better housing.)

*Appendix F*

# THE SECTION 235 PROGRAM

# OF THE 1968 HOUSING AND REDEVELOPMENT ACT

The Section 235 program is limited to lower-income families and provides a federal subsidy that can reduce the mortgage-interest rate to as low as 1 per cent, depending on the family's "adjusted income", which is the gross income minus a credit of $300 for each child. The adjusted income cannot exceed 135 per cent of the income limits for occupancy of local public housing for that city. For example, the adjusted maximum limits in the cities of St. Paul and Minneapolis are as follows:

| Number | St. Paul | Minneapolis | Number | St. Paul | Minneapolis |
|---|---|---|---|---|---|
| 1 person | $3,780 | $3,240 | 6 persons | $ 9,180 | $ 8,100 |
| 2 | 4,860 | 5,400 | 7 | 9,990 | 9,450 |
| 3 | 6,750 | 6,750 | 8 | 10,800 | 9,450 |
| 4 | 7,560 | 6,750 | 9 | 11,610 | 9,450 |
| 5 | 8,370 | 8,100 | 10 | 11,880 | 9,450 |

Up to 20 per cent of funds appropriated for the program can be used to assist families with incomes exceeding the above limits, but not in excess of 90 per cent of the income limits for occupancy in a Section 221(d)(3) below-market-interest-rate project. Ninety per cent of 221(d)(3) limits for this area are: one person, $5,535; two persons, $6,705; three and four persons, $7,875; five and six persons, $9,045, and seven or more persons, $10,260.

During the first year of the Act, 25 per cent of the amount of the contracts can be for existing housing, dropping to 15 per cent the second year and 10 per cent the third year. When these limits are reached, existing houses are limited to those displaced by government action, those moving from low-rent public housing, or those who have five children under 21 years at home.

Maximum mortgage is $17,500 in the metropolitan area. An exception is $20,000 for families of five or more that require four bedrooms. These limits apply in the Twin Cities Standard Metropolitan Statistical Area (SMSA).

Down payment is $200, which may be by labor equity or a gift. This is to pay prepaid items and closing costs. Equity cannot be increased to obtain a higher-priced property. A property may not be sold for more than the Federal Housing Administration valuation including closing costs.

Assets of applicant may not exceed $2,000, or $5,000 if applicant is 62 years old. Such assets exclude value for household goods and auto, and may be increased over the basic amount, $500 for each dependent under 21 years, plus an amount equal to the applicant's full share of the mortgage payment for one year.

The amount of the subsidy paid by FHA will be the lesser of two figures estimated as follows:

a. The difference between 20 per cent of the adjusted income and the monthly payment to principal, interest at 7½ per cent, FHA premium, taxes and hazard insurance.

b. The difference between 1 per cent and 7½ per cent monthly payment, plus payment to principal, FHA premium, taxes and hazard insurance.

Mortgagees are paid a handling fee of $3.50 per month per insured case in addition to the subsidized interest. Recertification of income for subsidy changes is required every two years, and may occur sooner on the mortgagor's request.

*APPENDIX G*

# NONFARM HOUSING STARTS, 1946-1968 AND THE TYPE OF LOANS USED TO FINANCE THEM

(units in thousands)

| Year | Units | (Conventional) | | (FHA) a/ | | (VA) | |
|---|---|---|---|---|---|---|---|
| | | Units | % | Units | % | Units | % |
| 1946 | 1,015.2 | 856.3 | 84.4 | 67.1 | 6.6 | 91.8 | 9.0 |
| 1947 | 1,265.1 | 926.5 | 73.2 | 178.3 | 14.1 | 160.3 | 12.7 |
| 1948 | 1,344.0 | 1,055.8 | 78.6 | 216.4 | 16.1 | 71.7 | 5.3 |
| 1949 | 1,429.8 | 1,086.4 | 76.0 | 252.6 | 17.7 | 90.8 | 6.3 |
| 1950 | 1,908.1 | 1,388.7 | 72.8 | 328.2 | 17.2 | 191.2 | 10.0 |
| 1951 | 1,419.8 | 1,084.3 | 76.3 | 186.9 | 13.2 | 148.6 | 10.5 |
| 1952 | 1,445.4 | 1,075.0 | 74.4 | 229.1 | 15.8 | 141.3 | 9.8 |
| 1953 | 1,402.1 | 1,029.1 | 73.4 | 216.5 | 15.4 | 156.5 | 11.2 |
| 1954 | 1,531.8 | 973.9 | 63.6 | 250.9 | 16.4 | 307.0 | 20.0 |
| 1955 | 1,626.6 | 965.0 | 59.3 | 268.7 | 16.5 | 392.9 | 24.2 |
| 1956 | 1,324.9 | 870.8 | 65.8 | 183.4 | 13.8 | 270.7 | 20.4 |
| 1957 | 1,174.8 | 896.4 | 76.3 | 150.1 | 12.8 | 128.3 | 10.9 |
| 1958 | 1,134.2 | 941.8 | 71.6 | 270.3 | 20.6 | 102.1 | 7.8 |
| 1959 | 1,494.6 | 1,078.3 | 72.2 | 307.0 | 20.5 | 109.3 | 7.3 |
| 1960 | 1,230.1 | 929.8 | 75.6 | 225.7 | 18.3 | 74.6 | 6.1 |
| 1961 | 1,284.8 | 1,002.7 | 88.0 | 198.8 | 15.5 | 83.3 | 6.5 |
| 1962 | 1,439.0 | 1,163.9 | 80.9 | 197.3 | 13.7 | 77.8 | 5.4 |
| 1963 | 1,582.9 | 1,345.7 | 85.0 | 166.2 | 10.5 | 71.0 | 4.5 |
| 1964 | 1,502.3 | 1,289.1 | 85.9 | 154.0 | 10.2 | 59.2 | 3.9 |
| 1965 | 1,450.6 | 1,241.3 | 85.6 | 159.9 | 11.0 | 49.4 | 3.4 |
| 1966 | 1,141.5 | 975.6 | 85.5 | 129.1 | 11.3 | 36.8 | 3.2 |
| 1967 | 1,268.4 | 1,074.0 | 84.7 | 141.9 | 11.2 | 52.5 | 5.1 |
| 1968 b/ | 1,382.8 | 1,189.6 | 86.0 | 137.2 | 9.9 | 56.0 c/ | 4.1 |

a/ Housing of 1 to 4 units

b/ Preliminary for first 11 months

c/ January-December average

SOURCE: Economic Report of the President, January, 1969

## HOW INTEREST RATES AND THE MORTGAGE TERM AFFECT MONTHLY PAYMENTS ON THE PRINCIPAL AND INTEREST

Example: $20,000 new house

(Down payment is $1,000, leaving a $19,000 mortgage)

Term of Mortgage*

| Rate | 20 years | 25 years | 30 years | 35 years |
|---|---|---|---|---|
| 5% | $ 125.40 | $ 111.08 | $ 102.00 | $ 95.90 |
| 5½% | 130.70 | 116.68 | 107.88 | 102.04 |
| 6% | 136.13 | 122.42 | 113.92 | 108.34 |
| 6½% | 141.66 | 128.29 | 120.10 | 114.79 |
| 7% | 147.31 | 134.29 | 126.41 | 121.39 |
| 7½% | 153.07 | 140.41 | 132.86 | 128.11 |
| 8% | 158.93 | 146.65 | 139.42 | 134.95 |

Example: $15,500 used house

(Down payment is $500, leaving a $15,000 mortgage)

Term of Mortgage*

| Rate | 15 years | 20 years | 25 years | 30 years |
|---|---|---|---|---|
| 5% | $ 118.62 | $ 99.00 | $ 87.69 | $ 80.53 |
| 5½% | 122.57 | 103.19 | 92.12 | 85.17 |
| 6% | 126.58 | 107.47 | 96.65 | 89.94 |
| 6½% | 130.67 | 111.84 | 101.29 | 94.82 |
| 7% | 134.83 | 116.30 | 106.02 | 99.80 |
| 7½% | 139.06 | 120.84 | 110.85 | 104.89 |
| 8% | 143.35 | 125.47 | 115.78 | 110.07 |

* Note that the term of mortgage ranges in the tables from 20 to 35 years for the $20,000 new house and from 15 to 30 years for the $15,500 used house

SOURCE: Financial Publishing Company, Boston

*APPENDIX I*

PERCENTAGE DISTRIBUTION OF ALL FAMILIES BY ESTIMATED 1969 INCOME
AFTER DEDUCTION OF FEDERAL INCOME TAX
MINNEAPOLIS-ST. PAUL HOUSING MARKET AREA

| Area & No. Of Households | Under $4,000 | Under $5,000 | Under $6,000 | Under $7,000 | Under $8,000 | Under $9,000 | Under $10,000 |
|---|---|---|---|---|---|---|---|
| HMA Total (549,222) | 11% | 17% | 25% | 37% | 48% | 59% | 68% |
| Minneapolis (175,700) | 15 | 23 | 31 | 43 | 53 | 62 | 71 |
| St. Paul (105,700) | 13 | 20 | 28 | 41 | 51 | 60 | 69 |
| Hennepin suburbs (138,000) | 5 | 9 | 15 | 25 | 38 | 49 | 58 |
| Ramsey suburbs (40,200) | 4 | 8 | 16 | 28 | 41 | 51 | 62 |
| Anoka County (37,350) | 7 | 14 | 25 | 41 | 55 | 67 | 77 |
| Dakota County (33,750) | 11 | 17 | 26 | 39 | 51 | 63 | 73 |
| Washington Co. (18,522) | 14 | 22 | 35 | 49 | 63 | 74 | 81 |

Housing Market Area Totals

Under $2,000 = 16,500 families
" $3,000 = 38,500 "
" $4,000 = 60,500 "
" $5,000 = 93,500 "
" $6,000 = 137,500 "
" $7,000 = 203,500 "
" $8,000 = 264,000 "
" $9,000 = 324,500 "
Under $10,000 = 374,000 families

SOURCE: Analysis of the Minneapolis-St. Paul Minnesota, Housing Market, Federal Housing Administration, October, 1967.

*Appendix J*

# HOUSING STUDIES AND PROGRAMS THAT HAVE BEEN UNDERTAKEN AT THE STATE LEVEL AND IN THE TWIN CITIES METROPOLITAN AREA

Some of the more noteworthy efforts directed at housing are summarized below. See page 28 in the Discussion Section of this report for the committee's comment on these efforts.

## Metropolitan Development Guide

Housing is one of the elements in the Metropolitan Development Guide, prepared by the former Metropolitan Planning Commission and published late in 1968 by the Metropolitan Council. Listed in the Guide as housing goals for the seven-county Twin Cities area are (1) enough housing for all area residents, (2) a broad choice of housing types, (3) housing choice within neighborhoods, (4) identity and individuality in housing, (5) convenience to facilities and activities, and (6) safe, healthful, and blight-free residences and neighborhoods.

The Guide also lists certain housing policies, such as to "encourage design and planning innovations in both housing structures and land development," and to "develop equal access to an open housing market for all persons at each income level throughout all portions of the metropolitan area, regardless of age, race, religion, or ethnic background," and to "locate public housing of various types throughout the metropolitan area."

## Metropolitan Planning Commission Housing Study

A housing study was undertaken in 1967 by the staff of the former Metropolitan Planning Commission, but it was never published. Among its recommendations were these:

* Encourage a range of housing types in each community, to prevent the growth of single-income, single-age communities, narrowing the range of social experience.

* Make housing for low-income groups readily accessible to the employment areas that attract them, whether in basic manufacturing in the suburbs or clerical work in the central cities.

* Encourage new concepts and innovations in housing by public agencies, private developers and lending institutions.

* Legislate flexible zoning ordinances and building codes that treat housing according to density.

* Encourage housing types other than single-family detached houses, through tax deductions, financing and other monetary considerations.

* Encourage the "planned residential development" concept.

* Work toward increased decentralization of public housing and elderly housing, and toward the integration of both into local neighborhoods.

* Cease considering multiple housing as a second-class use.

## Metropolitan Council Housing Study

The Metropolitan Council has received a $100,000 grant from HUD for a special study of low-income housing. In general, it provides for the Council to determine low-income housing needs, evaluate present housing activities, and develop recommendations for new techniques to make quality housing available to low-income persons. The study is expected to be completed in 1970. A Technical Advisory Committee of about 25 members is being formed to advise the staff on technical information, provide innovative ideas, act as a sounding board and evaluate information.

The study will seek answers to the following questions:

* What are our "goals" for low-income housing?

* What are the obstacles -- economic, governmental, etc. -- that stand in the way of providing better housing for the low-income population?

* How can we get private builders and developers to coordinate more closely with metropolitan housing goals and plans?

* How do the Model Cities program and the Community Renewal program fit into the metropolitan housing program?

* What do the various groups in the population want in the way of housing?

* How do decisions about major employment centers, transportation facilities, other public works, zoning, and tax policy affect the ability of the area to meet its housing objectives?

* How can we better use these major public decisions to get low-income housing developed in accordance with our goals?

This study will be knitted into a three-year study, with the second year considering housing generally, and the third year consisting largely of a new look at housing on the basis of 1970 census returns.

A second study by the Metropolitan Council has to do with the possibility of developing housing -- as an interim use -- on land that later will be used for major public facilities or for major commercial or industrial development. The hope is that, if some kind of temporary or relocatable housing could be developed, and financed for a fairly short period, some interesting housing demonstrations might be possible.

## The Housing Element in Planning Programs

The 1968 Housing Act directed that all state, metropolitan and municipal comprehensive plans supported with so-called 701 planning grants contain a "housing element." The State Planning Agency is requiring the following items in local plans:

* What do you think the housing problem is in your community? How many substandard homes, lack of low-price housing, waiting lists for units for the elderly?

* What are the obstacles to meeting your housing problems? Restrictive insurance practices, inadequate local resources for building housing, inadequate public facilities?

* What are you trying to do about your housing problems? A fair housing program? A city housing plan? Work with non-profit housing agencies?

* How are you going about the job? What was your housing planning last year? What is your plan for the coming four years?

* How are you going to carry out your plan? How many homes are going to be built? What new code-enforcement techniques are being introduced? What public facilities for housing are going to be provided?

It is important to note that this requirement does not apply to municipalities in the Twin Cities area that have already completed their basic community plans . . . as many, if not most, already have. Only if the local community applies for "701" aid to amend its plan is there any provision for introducing this requirement to think about housing into the planning of the larger, older suburbs.

## The Insurance Industry's Billion-Dollar Commitment

In 1968, the insurance companies of the nation earmarked $1 billion for housing and job-creating projects for low-income and minority groups.

In Minnesota, insurance firms committed $20.5 million during the year that ended in mid-March, 1969 -- financing 1,086 housing units to rank 18th among the states, and providing 1,316 jobs to rank eighth.

A second $1 billion recently was pledged nationally, but with emphasis on business development loans. This program makes available funds that borrowers otherwise would be hard-pressed to obtain through regular lending channels.

## Minneapolis Urban Coalition's Down-Payment Program

A major family philanthropic organization made $30,000 in funds available to low-income families for down payments on houses in 1968. The Urban Coalition became the vehicle for processing grant applications. It screened 160 applications from core-city residents, and then stopped accepting further applications until guidelines could be developed. A new foundation allotment of $75,000 has been obtained for the program.

The 160 applications resulted in grants being approved for 71 families, including 47 black families, 17 white, 6 Indian and 1 Mexican. At last report, home purchases utilizing the grants had been completed by about 65 of the families.

## Community Development Corporation of Greater St. Paul

Industries, banks, savings and loan associations, business firms, foundations and individuals pooled $720,000 that will be used by the Community Development Corporation to buy, renovate and sell 70 houses in the Summit-University and Concord Terrace areas. Maximum selling price will be $17,500 for houses having up to four bedrooms, and $20,000 for larger homes.

Before deciding on this housing rehabilitation program, the CDC had been putting its funds into a scattering of housing and business development efforts. It made loans for down payments on houses, it loaned about $60,000 in seed money to start the government-subsidized Liberty Plaza housing project, and it made grants for emergency repairs to houses, to mention three of the activities it pursued.

## Creation of State Urban Affairs Council and Urban Action Center

State help on urban problems, including housing, appeared imminent with announcement recently that Governor Harold LeVander had issued an executive order creating an Urban Affairs Council made up of the governor and heads of nine state agencies. Its purpose is to redirect state efforts in providing services unique to the needs of big cities characterized by severe social and economic problems.

Another executive order creates an Urban Action Center in the State Planning Agency, to serve as a secretariat to the Urban Affairs Council. It would be federally funded and would advise the governor and Legislature on needed programs, and inject the state as a participant in Model Cities programs. The Center would rely heavily on specialists in the University of Minnesota Center for Urban and Regional Affairs.

State Department of Community Affairs

Bills are before the Legislature to create a State Department of Community Affairs to specialize in urban problems. It would include the State Office of Local and Urban Affairs, State Crime Prevention and Control Agency, State Office of Economic Opportunity and the Minnesota Municipal Commission.

Sponsors of the proposal see the new department making state grants (up to 90 per cent) to meet urgent inner-city needs, planning state programs promoting low- and middle-income housing porjects, providing advice to big cities in coping with urban problems, and setting up model demonstration projects.

State Housing Development Authority

A bill is before the Legislature to create a State Housing Development Authority, to consist of the Department of Public Welfare commissioner, state planner, state treasurer and four persons appointed by the governor. It would have authority to issue up to $50 million in bonds to finance its operations.

Functions of the proposed Authority would be very vroad, including:

* To provide advisory, consultative training and educational services to nonprofit housing corporations, housing cooperatives and limited-dividend corporations to assist them to become owners of housing projects and to manage such projects.

* To carry out studies and analyses of housing needs within the state, and ways of meeting those needs, and to engage in research and disseminate information on housing.

* To survey and investigate housing conditions and needs and make recommendations to the governor and legislature on measures necessary to alleviate housing shortages.

* To encourage demonstration projects and research in new and better techniques for increasing the supply of housing.

* To make mortgage loans, and to set standards for housing projects receiving loans.

* To make non-interest seed money available to defray development costs of low- and moderate-income housing projects.

# ACCELERATED TAX DEPRECIATION AS A FEDERAL SUBSIDY FOR RENTAL HOUSING INVESTMENT

"It is conservatively estimated that for all buildings, the revenue cost of allowing tax depreciation methods that write off the cost faster than straight line amounts to some $750 million annually. For residential buildings, the revenue cost would amount to about $250 million annually . . .

"The government -- and the lower-income tenant -- would both be better off if action were taken to recapture some of the $750 million of lost revenue now being used for building and to apply it in a direct and affirmative way toward the lower-income housing we so desperately need."

-- remarks by Stanley S. Surrey, Assistant Secretary of the Treasury, before the Fifth Annual Development Forum, Urban America Inc., at Berkeley, Calif., Oct. 28, 1968

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Federal tax law permits investors in buildings to reduce their income tax liability by deducting a certain amount annually for depreciation, the wearing-out of a building. The law allows more than just straight-line depreciation, which would be, say, the annual deduction of 1/40th the value of a building having a useful life of 40 years.

## NEW BUILDINGS

On new buildings, an owner can use one of two methods for figuring his depreciation: double declining balance, or the sum-of-the years digits.

Under the 200% declining balance method -- taking a 40-year building as an example -- the owner can write off 5% or 1/20th of the building's value the first year. In ensuing years, the annual depreciation allowance would continue to be 5%, but against the value remaining after deducting depreciation taken up to that point. In the first five years, with the building's "life" reduced 12½%, the owner can take tax deductions equal to 22.6% of its cost. In the first 10 years, the depreciation allowances would total 40.1%, but the life of the building would have been reduced only 25%.

The sum-of-the-years digits method is not used very much because it is more difficult to calculate. Under this method, the first-year depreciation on a 40-year building would be $\frac{40}{820}$ or about 4.88%. The numerator represents the number of years remaining in the life of the building, and the denominator the sum of the digits of all years making up the estimated useful life. The second year's depreciation would thus be $\frac{39}{820}$ or 4.72%. In the first five years, the owner can take tax deductions equaling 23.2%, although the building's life would be reduced only 12½%. In the first 10 years, when the life of the building would be shortened 25%, the owner could take 43.3% depreciation.

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## USED BUILDINGS

On used buildings, a 150% declining balance method is used in figuring the depreciation allowance. The annual rate of depreciation on a building having an estimated 40-year life would thus be 3.75%. This would be applied the first year against the full cost of the building. It would be applied the second year and each following year, of course, against the building value remaining after previous deductions for depreciation.

In the first five years, the building's life having been reduced 12½%, the owner can take income-tax deductions totaling 17.4%. In the first 10 years, depreciation allowances would total 31.8%, and the life of the building would be reduced 25%.

## ACCELERATED DEPRECIATION AS A TAX SHELTER

During the early years of building ownership, the depreciation allowance and deductible mortgage interest not only wipe out the taxable rental income from the property, but also give rise to depreciation-caused "tax losses" that can be applied against other income.

For example, if a building's depreciation allowance were $20,000, and the taxable income from the property totaled $15,000, that would leave a $5,000 "loss" that the taxpayer could deduct from other taxable income -- thus "sheltering" a portion of that income. If the taxpayer were in a 50% tax bracket, the $5,000 "loss" would enable him to keep $2,500 more of his other income.

This tax shelter operates to the benefit of the building's owner for about 10 years, after which he can sell the building and reinvest his money in another building and start the fast-depreciation process all over again. A further consideration operating here is that gains on resale of a building held for 10 years are taxed at a reduced capital gains rate of no more than 25%. If the property is held less than 10 years, the over-depreciation claimed as a result of an accelerated depreciation schedule is subject to recapture -- repayment to the federal government on a sliding scale.

<u>There are no restrictions on the kinds of buildings to which the accelerated depreciation and capital gains treatment apply. As Surrey said, these incentives "probably tend to expand luxury housing, commercial, office, motel, shopping center and other forms of more glamorous investment, squeezing out lower-income housing."</u>

## SOME OF THE MORE COMMON FEDERAL HOUSING PROGRAMS

Public Housing -- Housing for families and individuals of low income that is financed, constructed and managed by a local public housing authority. Federal assistance for public housing first started in 1937. In 1949, Title III of the Housing Act provided (1) loans to help finance development and construction of housing units, and (2) annual contributions to hold rents at levels within the means of low-income tenants. In addition, federal assistance is available for purchase and rehabilitation, short-term leasing, and contracts with private builders to purchase completed housing (known as "turnkey" public housing).

Minneapolis has the following public housing:

| | Elderly | Family | Total |
|---|---|---|---|
| Occupied | 2,265 | 991 | 3,256 |
| Under Construction | 1,316 | 0 | 1,316 |
| *Leased (Authorized) | 1,000 | 250 | 1,250 |
| *Used (Authorized) | 0 | 194 | 194 |
| Under Design | 1,200 | 0 | 1,200 |
| In Development | 1,000 | 250 | 1,250 |

*As of April 17, 1969, the Minneapolis Housing and Redevelopment Authority had 719 units under lease -- 685 apartments for the elderly and 34 units for families. As of April 10, 1969, the Authority had 111 used housing units purchased or under option.

St. Paul has the following public housing:

| | Elderly | Family | Total |
|---|---|---|---|
| *Occupied | 981 | 1,200 | 2,181 |
| Under Construction | 744 | 0 | 744 |
| Leased | 641 | 0 | 641 |
| *Used | 0 | 69 | 69 |
| Under Design | 180+ | 0 | 180+ |

*The number of units occupied by the elderly includes 112 units at McDonough Homes, 1544 Timberlake Road, that could be used by families as well. The number of used houses purchased for rehabilitation includes both those authorized and those acquired and occupied.

South St. Paul has under construction a 132-unit high-rise project for the elderly.

Forest Lake has plans in progress for construction of 40 units of housing for the elderly.

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Programs Known by Section Numbers in the Various Housing Acts:

Section 115 -- Authorizes federal grants up to $3,000 to qualified low-income owner-occupants for rehabilitation of housing in an urban renewal area, code enforcement area, or in areas planned for such activities within a reasonable time. As of April 30, 1969, Minneapolis had approved 283 grants totaling $462,976.72 in the Harrison, St. Anthony, Seward, Near Northside and Como South areas. St. Paul, which has been involved in this program only since about October, has $31,727 in grants approved or awaiting federal concurrence, nearly all in the Phalen Park area.

Section 202 -- Provides 3-per-cent, 50-year mortgage loans for housing for the elderly. Nonprofit corporations or cooperatives can obtain 100 per cent financing for building or rehabilitating units, which are rented to persons 62 and older whose incomes are too high for public housing, but too low for the private housing market. Three projects in the Twin Cities area, all in St. Paul, are: Central Towers, 284 apartments, 20 E. Exchange St., built by Central Presbyterian Church; Redeemer Arms, 160 apartments, 313 N. Dale St., Redeemer Lutheran Church; Wilder Residences, 82 apartments, 514 Humboldt Ave., Amherst H. Wilder Foundation.

Section 203 -- The regular Federal Housing Administration home mortgage insurance program. FHA guarantees mortgage amounts up to $30,000 on a sliding scale: 97% of the first $15,000, 90% of the next $5,000, and 80% of the balance. Maximum term is 35 years and maximum interest rate is 7½%, plus mortgage insurance premium of one-half of 1% on the unpaid balance of the principal. Nationally, the percentage of housing starts financed under FHA has run about 10 or 11% the last six years.

Section 204 -- Authorizes federal grants to local housing authorities to improve services to tenants. No funds were appropriated for the 1969 fiscal year.

Section 207 -- Authorizes grants to public and private nonprofit organizations to develop and demonstrate new or improved ways of providing housing for low-income persons and families. Projects are to test new approaches in construction design and methods to lower construction costs, new or improved ways of rehabilitation, ways of increasing home ownership, and to provide technical advice to housing sponsors.

Section 221(d)(3) -- Assists the construction or rehabilitation of moderate-income rental or cooperative housing through FHA-insured mortgage financing at 3% for a term up to 40 years. The program is limited to nonprofit corporations and cooperatives, who can get 100% mortgage financing, and to limited-profit sponsors, who can get 90% financing and are limited to a 6% return on their 10% equity. The program puts limits on cost and design of housing, and limits on the incomes of renters. Minneapolis has one 221(d)(3) project -- the 360-unit University Towers and Town House Apartments (formerly Girard Terrace) at Humboldt and Olson Highway. Two others under construction are Village East and West Apartments, each 320 units, at Franklin and 30th Avenue. St. Paul has two 221(d)(3) projects -- Liberty Plaza, 143 units, at Marshall and Western, and Hanover Apartments, 96 units, at Fuller and Farrington.

Section 221(h) -- Authorizes nonprofit sponsors to purchase, rehabilitate and sell houses to moderate-income families at 3% interest, with a $200 down-payment required. The 1968 Housing Act extended this program and authorized a new Section 235(j) program to low-income families, for whom the interest rate can be reduced down to 1%. There are no programs of this kind in Minnesota.

Section 235 -- Assists low-income families in the purchase of new housing and a limited amount of used housing by a subsidy that lowers the mortgage interest rate to as low as 1%. The subsidy is equal to the difference between regular payments on mortgage principal, interest, taxes and insurance and 20% of the buyer's income. Maximum mortgage is $20,000 for a family of five or more requiring at least four bedrooms, and $17,500 for a smaller home. The Minneapolis FHA office used up an allotment of 100 homes under the 1969 fiscal year appropriation.

Section 236 -- Provides FHA-insured mortgage financing at an interest rate as low as 1% for a mortgage term up to 40 years. The program is available to limited-profit, nonprofit and cooperative housing sponsors. Tenants must pay 25% of their family income for rent. The program is designed to serve families having lower income than under Section 221(d)(3), but income higher than for public housing. No projects have been proposed in Minnesota.

Section 312 -- Authorizes direct federal loans at 3% interest to low- and moderate-income owners of residential and business property in urban renewal areas and code enforcement areas, and to owner-occupants of residential property in areas planned for such activities within a reasonable time. The loans are made to enable owners to bring structures up to code requirements. Minneapolis has approved 394 loans totaling $1,783,306 in the Harrison, St. Anthony, Seward, Near Northside and Como South. St. Paul has $74,458 in loans approved or awaiting federal concurrence, mostly in the Phalen Park area.

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Model Cities -- Helps selected cities plan, administer, and carry out comprehensive and coordinated physical and social programs to improve the environment and general welfare of people living in slum and blighted areas. Some $4.6 million has been set aside for a Model Cities program in south Minneapolis, where planning of the program is nearing completion. St. Paul is seeking funds for a similar program in the Summit-University area.

New Communities -- Encourages private development of entire new communities through the guarantee of bonds or other obligations issued by developers, providing the development plan includes a proper balance of housing for families of low and moderate income. No funds were appropriated for fiscal 1969.

Relocation Assistance -- Provides relocation payments to families and individuals displaced by urban renewal. Up to $200 may be paid for moving costs and property loss. Up to $1,000 may be made in relocation adjustment payments over a 2-year period to assist persons to relocate in standard accommodations. An owner-occupant of residential property may receive up to $5,000 to enable him to buy a replacement dwelling within one year. Business concerns may receive up to $3,000 for moving expenses and property loss, or up to $25,000 for moving expenses.

Rent supplement -- Enables poor families to rent new and rehabilitated housing

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financed with the assistance of the FHA for up to 40 years. The rent supplement payment is the difference between the actual rent for the housing and 25% of the tenant's income. St. Cloud has the only project in Minnesota, a 108-unit building sponsored by the Archdiocese. Approval has been given for additional projects in Morris (89 units) and Wheaton (69 units).

Rent supplements are authorized for low-income people who are (1) elderly, or (2) handicapped, or (3) displaced by governmental action, or (4) occupants of substandard housing, or (5) occupants of dwellings damaged or destroyed by a natural disaster. For a tenant to be eligible, his income cannot exceed the amount established in his area for occupancy of low-rent public housing.

In addition to the St. Cloud project and those planned in Morris and Wheaton, FHA has eight contracts around the state with Section 202 elderly housing projects whereby up to 20% of the units can be rented to rent-supplement recipients.

Most of the rent supplement money is supposed to be used in projects built under the FHA <u>market-rate</u> 221(d)(3) program, with a small portion to be used for units built under the <u>below-market-rate</u> 221(d)(3) program. However, the 1968 Housing Act also authorizes payment of rent supplements in conjunction with the new Section 236 program.

## WORK OF THE COMMITTEE

The Citizens League has had, since its founding in 1952, a continuing interest in area problems of all kinds. But this study on low-income housing breaks with tradition, in a sense, because it explores a problem that focuses on a social issue more than a governmental issue, getting down to a basic concern of all people -- the need for adequate shelter. It is a social issue in which government has been involved, of course, and one which the committee concluded requires even greater involvement.

The committee was formed early in 1968 following authorization by the Citizens League Board of Directors, that it conduct the following research:

"Review the existing public programs for providing low-rent housing, with particular attention to the new programs authorizing the lease and purchase of housing by local public agencies. Consider what contribution to the housing supply might be made by some form of nonprofit corporation, or development fund, making use of new federal programs of below-market-rate loans for lower-income housing. Determine whether a need is likely to remain, after taking account of the various federal programs, for the provision of acceptable housing for lower-income families; and whether some program of housing assistance would be feasible and desirable on a state or local basis. Make recommendations for action by private organizations interested in housing, by the public housing authorities, by city councils and by the State Legislature."

A total of 24 Citizens League members participated in the deliberations of this committee. The chairman was John F. McGrory, assistant general counsel for Cargill, Inc. Other members were Bernard P. Becker, Bertin Bisbee, Don Blackman, Charles Clay, Charles Dayton, Cletus Dozark, Richard Faunce, Harold Field, David Graven, Vigdor Grossman, Ray Harris, Marlowe Knutsen, Charles Lutz, Stanley Miller, Mrs. Fred Norton, Mrs. Joseph Richardson (co-chairman), Art Roberts, Peter Seed, Mr. and Mrs. Roger Shepard, Jr., S. L. Stolte, James G. Thompson and Rolfe Worden. The committee was assisted by James J. Carney, Jr., Citizens League Research Associate. When it was first formed, the committee consisted of more than 80 persons, but many of them did not remain as members during the many months of the study.

The committee met 27 times as a full committee, and a steering subcommittee held 11 meetings, between April 18, 1968, and April 24, 1969. All meetings were held in the evening and lasted from 2 to 2½ hours. Minutes of meetings at which speakers appeared were made available to a large number of public officials and civic leaders interested in the subject of housing.

During the year of its study, the committee received information from a number of officials and others involved in the public and private sectors of housing. They included the following:

Larry Laukka, vice president of marketing, Pemtom, Inc.
Vernon Dale, director of management, Minneapolis Housing and Redevelopment Authority.
Arnold Skaar, intake supervisor, Minneapolis Relief Department.
Richard Parker, then housing specialist for Citizens Community Centers.
Edward Helfeld, executive director, St. Paul Housing and Redevelopment Authority.

Marshall Anderson, director of development and management, St. Paul Housing and Redevelopment Authority.

Frank J. Gordon, director of management, St. Paul Housing and Redevelopment Authority

Arno Windsor, assistant vice president, mortgage department, Twin City Federal Savings and Loan Association.

Harry Jensen, Jr., assistant vice president, mortgage finance department, Northwestern National Bank

E. Peter Gillette, Jr., vice president, commercial loan department, Northwestern National Bank

Joseph F. Gabler, Minnesota director, Federal Housing Administration.

Marshall Hamann, chief underwriter, Federal Housing Administration.

Allan Anderson, director of housing and community development, Office of Local and Urban Affairs, State Planning Agency.

Harmon T. Ogdahl, state senator, chief author of state's condominium law.

Robert Engstrom, vice president, Pemtom, Inc.

Kennon Rothchild, president of H. & Val J. Rothschild, Inc., and head of Hanover Development Co.

Arthur Sternberg, board member, Liberty Plaza, Inc.

Mrs. Helen Starkweather, board president, Residents Committee for Bethune Redevelopment.

Galen McKibben, co-chairman of Residents Committee, University Towers-Town House Apartments (Girard Terrace).

Mrs. Brenda Betts, resident of Girard Terrace.

Charles Backstrom, associate professor, political science, University of Minnesota, who had assisted in a housing study in Washington, D. C.

Richard Schnarr, assistant St. Paul city architect.

Lionel R. Robinson, chief housing inspector, Minneapolis.

Rev. John Fischer, organizer of Minnesota Interfaith Housing Corporation.

Wells Hively II, associate professor, educational psychology, University of Minnesota, who developed a plan for encouraging private investment.

Frank Staffenson, then supervisor, housing code section, St. Paul Bureau of Health.

Mrs. Dorothy Holtz, director of relocation, Minneapolis Housing and Redevelopment Authority.

Ted Young, staff member, Urban League Housing Center, St. Paul.

B. Warner Shippee, executive vice president, University Development Corp.

Edward J. Welsch, chairman of executive committee, Community Development Corporation of Greater St. Paul.

Roland Westerlund, head of social economics development, Metropolitan Council.

Dr. Paul Ellwood, executive director, American Rehabilitation Foundation.

Gordon Moe, Minneapolis city assessor.

Donald Jacobson, director of environmental control, Minneapolis City Coordinator's Office.

A number of members of the Citizens League committee were resource persons in their own right. Included in the membership were a housing research consultant, two architects, a bank official, and persons associated with real estate development.

## New research from the Citizens League

### *Minnesota Homestead Property Tax Review 1991*
### *Minnesota Managed Care Review 1991*

Two new research reports from the Citizens League provide useful objective information about two topics that almost everyone thinks about: property taxes and health care. *Minnesota Homestead Property Tax Review 1991* builds on the annual property tax survey done by the League for the past 25 years. It includes data and trend analysis on residential property taxes in the Twin Cities area and in cities around the state.

*Minnesota Managed Care Review 1991* provides valuable information about Minnesota's health coverage marketplace, including health maintenance organizations, preferred provider arrangements, and Blue Cross/Blue Shield. The report also analyzes key trends in enrollment, self-insurance, and management arrangements and costs. *Minnesota Managed Care Review 1991* is a valuable reference for people who need to keep up with Minnesota's dynamic health care marketplace.

League members can buy either report for $10.00; nonmember price is $15.00. Discounts are available for multiple copy orders. To order your copies, please use the enclosed form or call the League at 612/338-0791.

*The computer data sets developed by the League staff in preparing its analyses are also available. The property tax data set includes files of multi-year data on property tax rates, valuations, and calculations of taxes on homes of different values. The managed health care files include data on health plan enrollment, finances, utilization, etc. The sets can be used on your PCs and Macintosh computers. Call the League office for details.*

## School Shopper Help for Parents

### *THE SCHOOL BOOK: 1990-91*
### *A Comprehensive Guide to Elementary Schools in the Twin Cities*

Minnesota parents who are selecting schools now have a concise source of comparative information. *The School Book, A Comprehensive Guide to Elementary Schools in the Twin Cities,* a new publication from the Citizens League, profiles 449 public and private elementary schools in the metropolitan area.

The book features information about each school's curriculum, foreign languages, building and facilities, extracurricular activities, number of students and teachers, class size, use of technology, grading system, parent organizations and communications, and services such as latchkey and breakfast. Each school profile includes a self-description of the school's teaching philosophy and strengths.

*The School Book* also includes information about what to consider when choosing a school, an explanation of Minnesota's school choice law, an application for the open enrollment program, and a Metropolitan Council map of public schools and districts in the region. You can get a copy of *The School Book* by calling the Citizens League at 612/338-0791 or by using the enclosed order form. League members can buy the book for $10.00; the nonmember price is $12.95.

## *Public Affairs Directory 1991-1992* Now Available

The Citizens League's *Public Affairs Directory* is a handy guide to the people and organizations in the public, private, and nonprofit sectors that influence and implement public policy in the state. The listings include metro area legislators as well as other key elected and appointed officials at many different levels of government. To order your copies, use the attached order form or call the League office.

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# WHAT THE CITIZENS LEAGUE IS

The Citizens League has been an active and effective public affairs research and education organization in the Twin Cities metropolitan area since 1952.

Volunteer research committees of League members study policy issues in depth and develop informational reports that propose specific workable solutions to public issues. Recommendations in these reports often become law.

Over the years, League reports have been a reliable source of information for governmental officials, community leaders, and citizens concerned with public policy issues of our area.

The League depends upon the support of individual members and contributions from businesses, foundations, and other organizations throughout the metropolitan area. *For membership information, please call 612/338-0791.*

Citizens League

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PUBLICATIONS

- *Minnesota Journal* — 22 issues a year of timely public affairs news, analysis and commentary, including the League's annual property tax survey.
- *Minnesota Managed Care Review 1991* -- Important information and analysis for people working in Minnesota's dynamic health care marketplace.
- *Minnesota Homestead Property Tax Review 1991* -- The League's annual analysis of residential property taxes in the Twin Cities area and other Minnesota cities.
- *Public Affairs Directory* — a handy listing of agencies, organizations and officials involved in making and implementing public policy.
- *The School Book* — a comprehensive guide to elementary schools in the Twin Cities.
- **Citizens League reports** — full reports and statements on topics studied — free copies are a benefit of membership.

MEETINGS

- **Mind-Opener breakfast meetings** — every Tuesday from Labor Day to Memorial Day, public officials, community and business leaders discuss and debate timely issues.