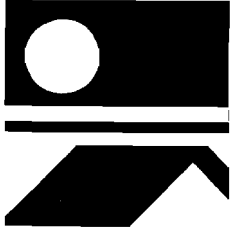


*Why We Should Build
Inclusive Communities*



**The Case for a Regional Housing
Policy in the Twin Cities
Metropolitan Area**

*Final Report of the
Committee on Housing Policy
and Metropolitan Development*

Randy Peterson, Chair

*Approved by the Citizens League
Board of Directors on March 15, 1994*

May 1994



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FOREWORD

Not long ago, the Twin Cities could be smug about its quality of life. But times are changing in the metropolitan area.

The region is beginning to cope with problems the older, bigger cities confronted a decade or two ago: Growing pockets of persistent poverty. Racial tension. Fear of big-city crime. Tussles between central cities and suburbs over responsibility for the costly problems they share.

The public has become more concerned about the trends, and recently a spate of proposals have been offered for how to deal with the changes. In keeping with the multi-faceted nature of the problem, the proposals have focused on solutions ranging from community-oriented policing to improved technical education to neighborhood revitalization. The proposals collectively represent a search for the "levers" government and others can use to reverse the problems and set a positive direction for the future.

In the midst of these changes, renewed attention has been directed to the region's housing stock and the public policies that influence it. Citizens and policymakers have taken up the question of whether housing policy represents one of the levers that can help the Twin Cities region deal with its changing socioeconomic landscape.

The Citizens League hopes to contribute to the debate by examining more closely the links between housing, poverty concentration and urban hardship.

□ The charge to the committee

The Citizens League Board of Directors asked this committee to study the connection between housing and poverty concentration and to outline a framework for new policy directions in housing, if new directions are needed. Specifically, the committee was asked to respond to the following questions:

1. Do current housing policies contribute to the concentration of poverty? What other factors, such as race discrimination, contribute to polarization?
 2. Are there additional costs to society when poverty is concentrated? (Are 100 low-income individuals in one community more "costly" than 10 low-income individuals in 10 communities?)
 3. Does dispersing poverty help to ameliorate poverty? (Do low-income people find their chances of economic advancement improve when they live in socioeconomically mixed communities?)
 4. Should the metropolitan area adopt an explicit policy of reducing the spatial concentration of poverty, and economic and social polarization, within the region?
 5. To what extent do new housing policies represent the solution to the problem of economic opportunity for low-income citizens, and the problem of economic polarization?
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6. What should be the elements of a regional housing policy?
 7. Who should implement and enforce the policy?

□ About This Report

This report responds to the Board's questions and outlines a rationale for a metropolitan regional housing policy. The report is organized according to these questions, and several others we discovered to be important.

We begin by describing some of the changes in the Twin Cities metropolitan area.

Next, we describe the Twin Cities housing landscape and the public policies that have influenced and continue to influence it. Briefly, this section shows that housing and other public policies have been among the forces contributing to widening city-suburb disparities and concentrations of poverty within central cities and older suburbs.

Also included is an overview of some of what is already known about the consequences of poverty concentration, both for individuals and for the urban region as a whole. Those findings suggest that the trend toward spatial disparities is a costly one, and that urban decline, once it occurs, tends to worsen.

We then outline our conclusions about the problem. We believe that new regional policies are indeed needed to stem the disparities, and that housing should be included in these policies. We offer a new way to think about solutions, using five "design principles for better value" that were first described by the Citizens League in a 1993 report.

In our final section we present recommendations for state and federal changes in housing-related policies. We believe that the Legislature should designate housing in the metropolitan area as a system, and should create a governance mechanism to plan for how that system should be developed.

This report is not itself intended to be the comprehensive housing plan that is needed. The report is also not intended to be a critique or endorsement of any particular housing proposal that has been already offered. It is intended to provide a foundation for understanding the important links between housing and poverty, and a framework for thinking about the Twin Cities housing policies.

The problems of urban decline are already evident in the Twin Cities, and now is the time to take action to prevent further troubles. We urge citizens and their government to bring a deepened regional vision to the region's challenges.

EXECUTIVE SUMMARY

☐ There are signs of trouble in the Twin Cities

The Twin Cities area is relatively healthy, compared with many older cities. But there are signs of trouble. Poverty here is increasing faster than in the nation, and becoming more concentrated in certain areas. The trend is hitting people of color especially hard; minorities in Minneapolis and St. Paul are more likely to live in poverty than are minorities in any of the U.S.'s largest 25 metro areas. As the area has become more suburbanized, social and economic disparities between cities and suburbs, on average, have widened. However, many inner-ring suburbs are experiencing troubles that used to be considered "inner-city" problems.

Poverty concentration is costly to metropolitan areas and individuals, regardless of whether such concentrations occur in central cities or suburbs. The causal relationships between poverty and other problems are not always clear. But high concentrations of people in poverty are often associated with more crime, more school failure, and deteriorated neighborhoods.

Metropolitan areas pay a price when the gap between central cities' and suburbs' economic health becomes extreme. Urban regions where the population of the central cities is rapidly declining also have declining or slowly growing suburbs. Regions with bigger city-suburb gaps in income and employment growth have slower employment gains.

☐ A free market? No.

The housing market shapes the pattern of poverty and affluence in the Twin Cities. To be sure, the housing market itself is driven by many factors that are outside the immediate control of government—people's tastes in housing and demographic trends, for example.

But the housing market is not a "free market." Federal, state and local policies strongly influence the market—favoring some citizens to the disadvantage of others, exacerbating the difficulty of providing low-cost housing, and contributing to the concentration of poverty.

☐ New policies are needed

The region should adopt explicit policies to alleviate the concentration of poverty and slow or reverse the economic disparities between central cities and suburbs. The Twin Cities can expect things to get worse in the absence of some intervention. The region must deal with these issues or risk the health of its social and economic future.

These policies should address housing. Housing policies play a critical role in shaping the patterns of prosperity and poverty in the region, and they must be part of the solution.

Improving the mix of housing opportunities throughout the Twin Cities can help to ease the problems associated with poverty concentration. For some poor individuals, residential location makes a difference in their economic prospects. The opportunity to live in integrated, middle-class neighborhoods appears to boost employment among adults and school performance

among children—improvements that not only benefit them in the present, but can be expected to yield long-term payoffs in earnings and advancement.

While it is difficult to know for sure, it is also likely that reducing the *concentration* of poverty—even if the *level* isn't significantly reduced—would ease some of the added problems that go along with concentration, such as physical decay of neighborhoods.

□ A new design for fairness and value in housing

The Citizens League believes that government shouldn't be mostly about mandates and spending. The purpose of government should be to design environments where citizens and institutions will be inclined to behave in socially beneficial ways. The League has outlined **five “design principles”** that public policy makers should use when designing policies.

These principles suggest some new directions for housing policy:

- **Use competition to align institutional self-interest with the public's interest in the quality and cost of services.** Competition is stifled in today's housing market. To allow competition to work in the public interest, we should consider making housing policies, in part, on a regional level, so that local governments can't act like monopolists. Present laws against discrimination should be vigorously enforced. Policies that distort the market should be revised.
 - **Allow prices of public services to reflect true costs, including the social cost of individual decisions.** To give individuals an economic stake in their housing choices, government should refrain from artificially raising and lowering the price of housing. It should also price public services such as transportation and sewers so that consumers of the service pay a proportionate share of the costs of the service.
 - **Target public subsidies directly to people who are financially needy.** It seems both fair and frugal to limit across-the-board benefits and focus public spending on those who most need help. And when government subsidizes people, it should provide the subsidies directly to housing *consumers* and let consumers decide for themselves where they wish to live.
 - **Meet more public responsibilities through non-governmental communities in which people already have relationships of mutual obligation.** Families, ethnic associations and neighborhoods are producers and problem-solvers. And the mutual ties of obligation, attitudes of loyalty and commitment and habits of “other mindedness”—civic virtue—developed in these private communities are a form of social capital essential for democracy itself to survive. Housing policies should encourage the ties that enhance households' ability to solve their own problems, and should build a civic infrastructure for a regional community.
 - **Consider long-term economic growth to be one of the objectives of state spending.** Policymakers must consider how the methods employed to solve the region's housing problems will affect the vigor of the state's economy over the long run. They should ask questions such as: How tightly should growth policies limit investments to new infrastructure at the fringes of the region?
-

□ Recommendations to the Legislature and Metropolitan Council

The State of Minnesota should designate housing in the metropolitan area as a regional system. The Legislature should begin by acknowledging that housing is a regional market and that housing policies should be regional in scope.

The State of Minnesota should delegate to the Metropolitan Council the responsibility for proposing what policy objectives should be met, and how the regional housing system should be operated and the policies enforced. The proposal should be developed in cooperation with local governments and submitted to the Legislature two years after the Legislature's direction.

The goals of the regional housing policy should be to:

- **increase the availability of housing opportunities** affordable to low-income people throughout the region;
- **reduce the concentration of poverty** in areas where poverty now prevails;
- **increase the stability of neighborhoods**, particularly middle-class neighborhoods in the inner areas of the region;
- **foster communities that integrate housing types** that serve people of diverse household sizes, lifecycle stages and incomes;
- **improve the fairness of the housing market**, and reduce racial segregation throughout the metro area.

Detailed recommendations about how the system should be operated were beyond the scope of this report. However, we envision that in the new regional system, the Metropolitan Council will define policy objectives, collect baseline data, and design evaluation criteria and methods. The regional policy would specify numerical goals for the expansion of low-cost housing in areas that are currently undersupplied, and for the upgrading of housing in areas where low-cost housing predominates. Local governments would prepare plans to diversify their housing accordingly. The Council would review and approve the plans, and would be empowered to offer inducements and enforce penalties for noncompliance.

When developing housing goals, the emphasis should be on the housing opportunity offered to low-income *individuals*, not simply on numbers of publicly subsidized housing *units*. The goals for low-cost/low-income housing should be set not simply for municipalities, but for communities within each larger municipality. A number of factors, such as proximity to jobs and transportation, influence the capability of a community to successfully integrate lower-cost or subsidized housing; these factors should be considered when developing a community's housing goals.

The Council should consider a broad range of strategies—some regional, some local—to accomplish the goals of the policy. The emphasis should be on redesigning policies so that the structure of incentives encourages individuals and the private sector to respond appropriately. Public sector initiatives and funding will continue to be needed to enable those with very low incomes to obtain the housing they need.

Strategies will be needed to encourage homeowners to maintain older housing; allow obsolete housing to be removed quickly; promote increased low-cost housing—including integrated housing such as boarding and accessory apartments—in fast-growing suburban areas; promote alternative land use design concepts that encourage economically integrated communities; and facilitate links between housing and services such as transportation.

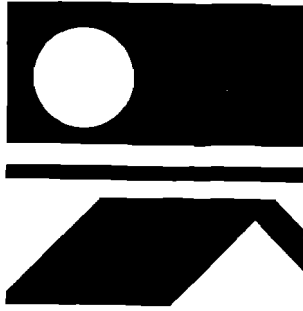
Income and property-tax policies that penalize low-income people and subsidize sprawl should be revised. The State of Minnesota should phase out the preference for homestead property in the property-tax code, cap the amount of interest on a home mortgage that can be deducted from income when calculating state income tax, and direct the savings achieved from these measures to other forms of housing assistance that are targeted on the basis of financial need. The state should also lobby the federal government to reduce subsidies for home ownership and to increase funding for housing subsidies for poor people.

The federal, state and local government should substantially increase their commitment to and aggressiveness in enforcing Fair Housing rights. The Metropolitan Council should also consider affirmative strategies to reduce segregation within the Twin Cities metropolitan area.

□ Urgency and caution

The Twin Cities has already begun to experience some of the distress that goes along with poverty concentration and segregation. The problems are here. The time to take action is upon us. The need for urgency should be tempered by an understanding of the long-term consequences of housing policies. Too many of our current problems were caused by past solutions that failed to do so.

Government and the private sector together must bring a clearer regional vision to challenges facing the Twin Cities.



Background:
Housing and Poverty
in the Twin Cities



Q. Are the Twin Cities destined to suffer the same problems as Detroit, Chicago and other big cities?

A. The Twin Cities area has reason to be concerned about its future.

The region is showing signs of dramatic change. Other U.S. cities have experienced similar changes ahead of us. Those areas have found that the changes bring with them troubles that, once taken hold, have proven difficult to fix.

The Twin Cities area is relatively healthy, compared with many older cities. The seven-county metropolitan area population grew 15 percent during the past decade—a healthy pace, compared to the national average.¹ The area was eighth among the 25 largest metropolitan areas in the U.S. in employment growth between 1983 and 1992.² Median income is higher here than the state and national average. The poverty rate is lower than the U.S. average (eight percent compared with 13 percent) and so is unemployment.³ Crime is also lower here, and despite widespread fears, the rate is not increasing significantly.

But there are also troubling signs.

Poverty is deepening here. Even though the poverty rate is below the U.S. average, poverty here increased faster than the national rate between 1980 and 1990. The category of poor people increasingly includes people with jobs. The shift from a manufacturing to a service economy, where jobs typically pay less, means that a substantial number of working people are living in poverty. In the metropolitan area, 57,828 people are employed but in poverty—32 percent of the total poverty population.⁴

However, most troubling is that, while most Twin Citians' incomes improved slightly, the poorest of the poor—those at less than 74 percent of the poverty level—was the only income group that grew as a share of total population. There are now 131,257 metro area residents in this lowest-income category.⁵

Poverty is becoming increasingly concentrated in certain areas. The core area of Minneapolis and St. Paul⁶ had only 14 percent of the region's population in 1990, but almost half of its poor people (87,000 persons). And the share of the region's total poverty population living in those core areas grew between 1980 and 1990. The population of the core area grew by 10,000, but the number of people living in poverty increased by 30,000. The rest of the region added 22,000 poor people while growing by 293,000 population.⁷

Areas of concentrated poverty are spreading. In Minneapolis and St. Paul, the areas that have long been poor (defined as more than 25 percent of people in poverty) are now ringed by areas that reached the threshold after 1990 (*See Map 1 - Appendix C*).

These changes have affected Twin Cities people of color especially hard. Poor people in the Twin Cities are more likely to be white than minority (65 percent, compared to 35 percent).⁸ But people of color are more likely to be poor than are whites. While the poverty rate for whites in the metro area stayed the same at about six percent, between 1979 and 1989 the rate among African Americans rose from 26 to 37 percent; among American Indians from 30 to 41 percent; among Asians from 24 to 32 percent and among Latinos from 17 to 19 percent.⁹ People of color in Minneapolis and St. Paul are more likely to live in poverty than are minorities in any of the largest 25 metro areas in the U.S. The 29 percent gap between Minneapolis-St. Paul and suburban poverty rates for minorities is the largest among the 25 metro areas.¹⁰

The Twin Cities, like metropolitan regions across the U.S., has become more suburbanized.¹¹ Of the 303,000 people the region gained during the 1980s, nine out of 10 were residents of the developing suburbs. The two central cities experienced little change, while the population of the older, inner-ring suburbs declined by about 9,000.¹²

New jobs are growing faster in the suburbs, too. Two-thirds of the net job growth during the 1980s went to the developing suburbs. Minneapolis and St. Paul are holding on to a shrinking share of all jobs in the region (74 percent in 1980, 64 percent in 1990). Even so, jobs are still overwhelmingly concentrated in Minneapolis, St. Paul and the fully-developed suburbs. The two central cities together held more than a third (452,000) of the region's total jobs in 1990.¹³

The social and economic disparities between cities and suburbs are widening. The income gap between central cities and suburbs grew during the 1980s. The suburbs experienced a 21 percent increase in average per-capita income, compared with 12 percent for Minneapolis and seven percent for St. Paul. Per-capita income in 1989 was \$14,800 in Minneapolis and \$13,700 in St. Paul, compared with \$18,200 for the suburbs.¹⁴

Many older suburbs are experiencing problems that have usually been associated with central cities. The percentage of children in poverty has jumped dramatically in some inner suburbs. For example, the number of children under five living in poverty in Richfield increased from 105 in 1980 to 262 in 1990, a 111 percent increase (compared to the metro-area average increase of 64 percent).¹⁵ The housing in many older suburbs is now reaching 30 years old, the age at which units begin to require substantial reinvestment.¹⁶ And while minority populations have increased in suburban areas, tolerance of diversity has not always increased likewise, and there have been disturbing incidents of harassment and racial tension.

Fear of crime is at an all-time high. Recent opinion surveys have shown that crime has become a top concern among area citizens,¹⁷ even though overall crime in the Twin Cities has not risen dramatically and is still lower than the national average.

Q. Are there additional costs to society when poverty is concentrated?

A. Yes.

The pattern of "poor at the core" is expensive to society—more expensive than an equivalent number of poor people who are more evenly distributed geographically throughout a metropolitan area. There are actually three related factors that magnify the costs of poverty: City-suburb disparity, concentration of poverty and decentralization. We will examine each.

City-suburb disparity

Metropolitan areas pay a price when the gap between cities' and suburbs' economic health becomes extreme. The evidence of the cost of disparity is mounting:

- Population growth is one commonly-used measure of urban health. In one analysis, faster metropolitan population growth was associated with smaller differences between cities and their total MSAs concerning the percentage of older housing in the total inventory, the percentage of blacks in the total population and local tax rates. When the city-suburb gaps were large, metropolitan population declined.¹⁸
- The same study looked at signs of urban distress, and discovered that cities that suffered by comparison with their MSAs also suffered compared with other cities over time.¹⁹
- A National League of Cities study found that metropolitan areas with smaller city-suburb gaps in per-capita income and employment growth enjoyed faster employment growth. Areas with bigger gaps tended to have slower employment gains.²⁰
- In general, metropolitan areas that have

rapidly declining central cities also have declining or slowly growing suburbs. Fast-growing central cities tend also to have fast-growing suburbs. Income and employment growth are similarly correlated.²¹

- Metropolitan areas where the 1970 disparity in "hardship conditions" was wide showed much smaller improvements in hardship conditions overall between 1970 and 1980. The greater the disparity in city-suburb hardship as of 1970, the less well a metropolitan region did compared with other regions during the decade.²²

Concentrated poverty

Wide gaps in the well-being of cities and suburbs do matter. In addition, the degree to which poverty is concentrated also matters and is costly, no matter whether such concentration occurs in a central city or suburb.

People and neighborhoods pay a steep price when poverty predominates. Poverty itself does not *cause* problems such as crime directly, of course. Even though the causal relationships are not clear, however, it is clear that high concentrations of people in poverty are associated with other troubles.

One obvious consequence of poverty concentration is that neighborhood economic activity suffers. When customers who can pay are scarce, retail and other services decline, businesses close and housing deteriorates.²³

Few people want to live in poor neighborhoods, mostly because of fears of crime and violence.²⁴ Again, it is important to stress that poverty does not cause crime, and that most poor people are law-abiding citizens. However, economic distress seems to make neighborhoods more vulnerable to crime.

The Twin Cities' crime rate continues to be lower than the national average. Overall crime has not increased much in the last five years, contrary to widespread perceptions and fears. But rates of crime (all types) are higher in the central cities than in the suburbs, and the rate of violent crime is nearly eight times higher in St. Paul and 10 times higher in



Speak Up!

St. Paul Police Department

What happens to a neighborhood when poverty is concentrated there? Officers and civilian staff members at the St. Paul Police Department's FORCE community policing unit discussed this and other questions at a Citizens League Speak Up! on housing.

The support base for people and families erodes, participants said. People become alienated. "There is a lot of drug and alcohol abuse in these neighborhoods...there is no sense of community." And crime tends to go where it's tolerated, they said. "We've become a nation of experts, where people look to professionals to solve their problems," one participant said. But what makes a difference in a neighborhood is whether its residents take charge themselves, according to these officers. Organizing in block clubs and informally lets people know they have control, and lets them get to know each other while keeping the neighborhood safe and pleasant. (*See Appendix B for more details on this and other Speak Ups!*)

Minneapolis compared with the rest of the region.²⁵

Within the central cities, crime tends to be concentrated in a few areas. Poverty appears to be one of the factors affecting where. A recent study of Minneapolis crime patterns found that crime is higher in census tracts where poverty is more concentrated, and that concentration—not just the numbers of poor residents—affected the crime rate. That is, in two tracts having the same *number* of poor

residents, the tract having a greater *proportion* of people in poverty had a higher crime rate.²⁶

Poverty concentration has ill effects on children's education. The U.S. Department of Education reported that more than half the students in schools with the highest concentration of poverty are low achievers, compared with only eight percent of students in schools with the least poverty. The "average" student in high-poverty schools did more poorly than Chapter 1 (low-achieving) students in low-poverty schools, and the achievement gap tends to widen into junior high school.²⁷

Nationally, principals in elementary schools with high concentrations of poverty are more than three times as likely to say physical conflict is a problem as principals in schools with low poverty. Central-city students are more likely than suburban students to fear attack at school, according to the U.S. Department of Education.²⁸

Poverty concentration is intimately related to racial segregation (although it's important to stress that in the Twin Cities, most poor people are white). Douglas Massey has shown that racial segregation in housing is enough *by itself* to produce increasing concentration of poverty. Since changes in the economy affect blacks more than whites (black unemployment increases faster than white unemployment, for example), areas of high black concentration are more vulnerable to poverty during economic downturns than primarily white areas. The combination of poverty concentration and racial segregation has prompted growing concern about the condition and future of the inner-city poor. The urban sociologist William Julius Wilson has argued that "lack of neighborhood material resources, the relative absence of conventional role models and the circumscribed cultural learning produce outcomes, or concentration effects, that restrict social mobility."²⁹

The problems of the ghetto are difficult for all residents, white and minority. The unique degree of segregation adds another dimension to the experience of low-income people of color. Blacks living in poor neighborhoods experience "social isolation" that sustains poverty in three ways, according to Wilson. Neighborhood residents lack access to resources, such as job contacts, provided by working residents. These areas experience a

"concentration of nonwork behavior," including illegal activity. And residents are geographically isolated from jobs and other normal activities.

These problems mean that "inner-city blacks reside in neighborhoods and are embedded in social networks and households that are less conducive to employment than are the neighborhoods, networks and households of the other ethnic groups."³⁰

The troubles in poor neighborhoods often get passed on to their young people. For example, girls are more likely to become single parents and receive AFDC when that is the common behavior among parents and peers. The poorer the neighborhood, the less likely girls are to use contraceptives and the more likely they are to be sexually active and become pregnant. Youth are more likely to commit crimes and engage in drug use when those behaviors are common among peers.³¹

Some have argued that the problems of urban ghettos have to do with the erosion of personal responsibility and family obligation—that poverty is the result, not the cause of social dysfunction. The evidence is convincing that when poverty is concentrated, residents of the neighborhood experience costly effects, even those residents who are not themselves poor or dysfunctional. The evidence also suggests that concentrated poverty, for a variety of reasons, undermines the formation and exercise of mainstream values and behavior.

Decentralization

Decentralization—the spreading out in space of our urban areas—is also costly. Government's policy of subsidizing sprawl means that large new investments are continually made in housing and infrastructure on the fringes. As demand for housing and land in these rapidly-growing fringes exceeds supply, prices are pushed up. At the same time, infrastructure near the core deteriorates and loses value. As geographer John Adams points out:

At the city and regional scales we too often concern ourselves more with current flows than with the stocks that make the long-term flows possible. And as we build up the stocks, as we do when we construct a dam or a high-

way, or operate a school, we seem inclined to evaluate them in terms of their present contributions to flows, rather than to their long-term contributions to national, regional or city balance sheets...If we build new highways and other infrastructure to accommodate [suburbanization], we may actually end up worse off in balance sheet terms by, in effect, throwing away or devaluing assets at one location while erecting new and more expensive ones elsewhere.³²

An analysis of the costs of decentralization is beyond the scope of this report. It is worthy of further attention.

Q. What does the housing market have to do with the pattern of poverty and affluence in the Twin Cities?

A. A great deal.

Many factors affect the fortunes of individual metropolitan areas. Declining U.S. fertility and rural-to-urban migration have affected different cities differently, as have changes in energy prices, technological developments and the inevitable ups and downs of the economy. The weather is surprisingly important—most of the cities experiencing fast growth during the past decade have been cities with distinctly un-Minnesotan January climates. These major factors have yielded a wide variety of economic experiences during the past decade, from the struggles of old New England cities such as Hartford to the booming prosperity of San Diego.³³

Among urban regions in this country, however, there is a remarkable similarity in the arrangement of better-off and worse-off areas within their boundaries. The poorest communities are usually near the center. Why is this

pattern so common? How does it evolve? Housing plays an important part in shaping the landscape of poverty and affluence. This process occurs through a combination of influences, including culturally-based ideas about housing, racial attitudes, market forces and demography.

We begin with an overview of how housing shapes urban geography, then look more closely at the Twin Cities experience.

Culturally-based beliefs about housing

People need housing for shelter for physiological reasons. Housing isn't just shelter, though. When people buy or rent a housing unit, they are really buying a bundle of many different goods:

- the structure itself, and the basic features of the structure, such as the floor plan;
- additions to the basic structure, such as a garage or finished basement;
- the social composition of the neighborhood;
- the physical amenities of the environment;
- the public services provided, such as schools, public safety and parks—and the tax bill associated with those services and
- accessibility to jobs, shopping and other conveniences.

While people *need* a roof over their head, they *want* housing for reasons that are socially constructed and that imbue housing with complex meanings. These meanings aren't always obvious, as geographer Adams has pointed out. "Like sex, death and religion, housing has its hidden meanings...that concern status, position, power and personal identity," he says. "The housing units themselves are neutral, but their uses are social. Americans use housing to hold on to their wealth, to state who they are, to build social bridges and fences, to join groups and to exclude others from their groups."³⁴

On average, Americans have historically preferred to own their housing rather than to rent.



Speak Up!

Project for Pride in Living

Why do you live where you live? A group of south Minneapolis residents gathered to share their views at a Citizens League *Speak Up!* at Project for Pride in Living last fall.

Many of the participants said they would find living in the suburbs horrible. "I'd die if you put me out in Lakeville," one person said. Another said "I wouldn't live any further south than 15th Street. I love the city."

A few considered moving to the suburbs—mostly because of concerns about safety in their neighborhood—but found the rents were way too high. And suburban life is a hassle, they said. In the city, they are close to the bus, the schools and shopping centers. In the suburbs, that convenience would be missing.

On one point there was general agreement: Nearly all participants said they would prefer to own a home if they could. "I like the idea of owning something I could pass on to my kids," one woman said. (*See Appendix B for more on the Speak Ups!*)

The traditional ideal has been a large, newer single-family home.³⁵ When their incomes rise, households tend to act quickly to improve their housing but they don't back-track quickly when their incomes dip.³⁶ These preferences are encouraged by a long-standing legal bias that has favored family-type housing through tax codes and zoning laws, and has discriminated against other forms of housing.

The legal bias for homeownership has usually been justified by the positive social benefits that ownership produces. Some studies have shown that homeownership per se translates into increased voluntarism and political participation. Homeownership seems to contribute to neighborhood stability, since homeowners move less frequently than renters. And some argue that homeownership stimulates economic growth through the direct employment created in related industries, and increased national savings and investment rates made possible by accumulation of wealth.³⁷

However, the social benefits of homeownership aren't easy to determine because homeowners and renters differ in many other respects, such as income and lifecycle stage.³⁸ And the links between homeownership and neighborhood stability are complex and indirect. Nevertheless, federal housing policies are designed to encourage homeownership.³⁹

The instability of middle-class neighborhoods

The fact that housing is used to express one's identity and social status contributes to an inherent instability in middle-class neighborhoods.

High-income and wealthy people seem to prefer to live in areas where people similar to themselves live. Middle- and upper middle-class households seem to enjoy living among households similar to or better off than themselves. Housing is a major signpost that conveys information about social position, so upwardly-mobile middle-class households commonly show their economic success by moving into better-off areas.⁴⁰

This means that within middle-class neighborhoods, the newest arrivals are usually less well-off than the neighborhood average. The departing households are usually better off than the neighborhood average.

The declining income does not go unnoticed, and people begin to act on their perceptions. Housing consumers are like consumers of other products. There are two types of consumers who have very different degrees of choice determined largely by their incomes. The marginal consumer is concerned mostly

with cost, and is likely to end up at a particular residential location because the price is right.⁴¹ The "connoisseur" has fewer worries about cost and is sensitive to variations in life style, service delivery and taxes. The connoisseur "votes with his feet."⁴²

Since the social status of the neighborhood is one component of the perceived quality of the housing bundle, those who have the means to do so are likely to depart when that status slides.⁴³

Over time, therefore, middle-class neighborhoods decline in the relative socioeconomic status of their residents. At present, the social imperatives to leave are strong. The financial incentives make departure almost irresistible.

Working-class neighborhoods and wealthy neighborhoods are traditionally more stable than middle-class areas. Wealthy people can usually afford what they want the first time they buy a home, so they have less incentive to keep moving on. In less affluent, working-class areas, people have fewer resources to move. When these areas' oldest sections become obsolete, they seem easier to rejuvenate than similar areas in the middle-class sector; people are more able and more inclined to reinvest in their older homes than to buy new ones.

The spatial organization of housing stock

This tendency of people to move as their fortunes improve sets in motion one of the most important dynamics shaping the supply of housing: the "vacancy chain." When a household moves "up" because of rising income, it tends to move out to newer, more up-to-date and therefore more expensive housing on the outer ring of the urban area. As waves of construction take place in urban areas, rings of housing of like age develop, much like rings on a tree.

The first household's move out leaves a moderately-priced, middle-aged home vacant. That home is acquired by another household with slightly less income, moving from an older home closer to the center of the city. Their older house is left vacant. The chain continues until the oldest, lowest-value housing nearest the core is left vacant, is demol-

ished or is acquired by a new resident of the area.

Thus, in most metropolitan areas, the oldest and lowest-cost housing tends to be concentrated in central cities and first-ring suburbs. There, too, is where most low-income people live because that's where the housing is affordable to them.

The Twin Cities

There have been six cycles of homebuilding in the Twin Cities since 1889, including the very large post-World War II expansion. Each cycle placed on the landscape a new ring of housing, and the vacancy chain progressed.

Now, the area is reflecting the common urban pattern:

- **the oldest housing is concentrated in the central cities.** Twenty percent of the Twin Cities' housing stock was built before 1939, but *half* of the housing stock of the central cities is that age (*See Map 2 - Appendix C*).
- **the lowest-cost housing is concentrated in the central cities.** These areas have the lowest median home prices and lowest monthly rents. The median home price for the Twin Cities in 1990 was \$89,584, but was \$80,000 or less for Minneapolis, St. Paul and the inner-ring suburbs. The 1990 median rent in the central cities was \$389, compared with \$488 in the fully-developed suburbs and \$518 in the developing suburbs⁴⁴ (*See Maps 3 and 4 - Appendix C*).
- **the poverty population is concentrated most heavily in the core areas of Minneapolis and St. Paul.** The poverty level for the region as a whole is eight percent, but in the core areas of the central cities, nearly 30 percent of the population is poor. Minneapolis and St. Paul are home to all of the region's census tracts having more than 28 percent poverty⁴⁵ (*See Map 5 - Appendix C*).

Market forces

The forces of housing supply, demand and price operate within a regional, rather than purely local market. The housing market is not simply characterized by the concentric rings of progressively newer housing, however. Within the Twin Cities metropolitan area there are also smaller wedge-shaped submarkets, each with distinct social, economic and ethnic characteristics.

There are 14 of these housing sectors, or submarkets (*see Map 6 - Appendix C*). As the Twin Cities has expanded outward, particular populations and their social class characteristics have also tended to move outward in sectors.⁴⁶ For example, a person moving outward from Franklin and Chicago Avenues has been more likely to move south to Richfield than to move northwest to Golden Valley.

Households still tend to move within these submarkets today. Communities within each submarket are more similar to one another—whether in the first or fourth ring—than they are to communities in the same ring but different submarkets.

The demand for housing within a given area includes both demand from those who already live in the area, and from others looking to move in. Since the average move is to better housing, this means that there is much more price pressure on scarcer housing in the upper price ranges than there is on the lower end of the housing price range.

And demand is greatest in the outer areas of middle-class submarkets, because of the inherent instability described above. That means prices in these areas are also higher.

In the Twin Cities, prices have been strongest on the outer edges of the middle- and upper middle-class expansion sectors of the metro area (*See Map 7 - Appendix C*). Demand has been muted on the edges of the working-class sectors, where there has been less incentive to abandon home neighborhoods, and less financial wherewithal to do so. Demand is also lower in the outer edges of the wealthy sectors, where people have less desire to keep on the move to something better. Developers and builders follow the market and build where demand is strong.

Racial prejudice and discrimination

Racial prejudice and discrimination play very important parts in the operation of urban housing markets.

An ample body of research shows the historic impact of race on residential choice. Much of the research has focused on African Americans, who appear to experience a unique level of segregation, and we highlight some of that work here. Discrimination against other racial and ethnic groups and people with disabilities occurs as well.

There is clear evidence of whites' strong and continued aversion to living in close proximity to blacks. Blacks are significantly segregated from whites at every income and educational level. Even when blacks' incomes and educational levels rise, the level of segregation they experience changes very little.⁴⁷ The Brookings Institution found that once race was controlled for, there was no evidence that upper-income groups avoided locating near lower-income neighborhoods.⁴⁸

Black-white segregation persists, but *not* because blacks choose to live in predominantly black communities.⁴⁹ In a 1978 national study, 85 percent of blacks preferred a neighborhood that was half black and half white, but only 36 percent of whites preferred such a neighborhood. And 34 percent of the whites preferred an all-white neighborhood, while only five percent of blacks preferred an all-black neighborhood.⁵⁰ Three separate studies compared actual residence patterns of black households with what would have been expected given their household incomes. All three studies found that blacks were overrepresented in a small number of communities that had high proportions of blacks, and were underrepresented in most other communities.⁵¹ Other studies support these findings.

Residential segregation is not a thing of the past. Studies done since the 1960s have found no significant decrease in residential segregation nationally. A study of 1,600 separate suburbs in 44 metropolitan areas showed that black-white residential segregation was about the same in 1980 as it had been in 1970.⁵²

While migration of blacks to suburban communities has increased dramatically, most

blacks are still concentrated in central cities, and even a move to the suburbs is no guarantee of an integrated neighborhood. Most suburban blacks live in "spillover" areas adjacent to inner-city black neighborhoods.⁵³

Integration, when it does occur, is usually unstable. What may seem to be integrated neighborhoods are more likely to be in transition from predominantly white to predominantly black, as whites seek to distance themselves from neighborhoods in which the minority population is greater than a certain tipping point, which has been estimated to be as low as seven percent.⁵⁴

Discriminatory practices are present at every point in the housing market. A 1978 study showed that a black family had a 50 percent chance of encountering discrimination when buying a house.⁵⁵ A 1988 "secret shopper" audit of real estate agencies found the estimated overall incidence of discrimination for homebuyers to be 59 percent for blacks and 56 percent for Latinos.⁵⁶

A spate of recent reports have shown the extent of race discrimination in mortgage lending. The Federal Reserve Bank of Boston found that race has a big effect on the probability of denying a loan application in that area, even after controlling for 38 other relevant factors.⁵⁷ A 1993 Federal Reserve Board study of national data showed similar results. Thirty-six percent of black applicants for conventional home mortgages and 27 percent of Latino applicants were denied credit, compared with 15 percent of whites. Differences in income did not explain the gap. The denial rate for whites in the lowest income category was the same as the denial rate for blacks in the highest income category.

Clearly, racial segregation is not unique to Minneapolis. But attitudes about race and overt racial discrimination have made their mark on the Twin Cities residential landscape. Many regional areas are racially segregated.⁵⁸

Minneapolis' and St. Paul's share of minority populations is declining. But they remain the home of two-thirds of the racial minority persons in the region and more than half the Latinos, and most of these minority residents are concentrated within a few smaller communities.

Federal housing standards define an area as segregated if its share of racial or ethnic minorities is 15 percent above or below the citywide percentage. In Minneapolis, 63 of the 130 census tracts are segregated. In St. Paul, 15 of 82 census tracts are segregated.⁵⁹

Blacks have moved to area suburbs at an even faster pace than whites. In the Twin Cities, the white population of the suburbs increased 21 percent between 1980 and 1990, while the increases were 160 percent for African Americans, 120 percent for Asian-Pacific Islanders, 86 percent for Latinos and 74 percent for American Indians.⁶⁰ However, suburbanization has not equalled integration. Minority residents continue to be concentrated in relatively few suburbs, usually contiguous to central-city minority neighborhoods.

A recent Humphrey Institute study of mortgage lending, similar to the national surveys noted above, found that mortgage discrimination still occurs in the Twin Cities. Even after controlling for bad credit and other relevant factors, the mortgage loan rejection rate for non-whites is 57 percent higher than for whites in the Upper Midwest as a whole, and 70 percent higher in the Twin Cities. In other words, a non-white applicant in the Twin Cities is 70 percent more likely to be denied a home mortgage loan than a similarly qualified white applicant.⁶¹

Demographic trends

The housing landscape is shaped by cultural beliefs, market forces and racial attitudes. Demography is a fourth important influence.

The type of housing people want is determined, in part, by where they are in their household life cycle and the size and composition of their households. Typically, young adults move to apartments. Families with children seek larger housing. Empty nesters scale down to smaller units that are easier to maintain. Older seniors become concerned with access to medical and other supportive services.

When the composition of the population changes, housing demand changes too.⁶² When those growing population groups have purchasing power, the market tends to respond quickly.

The age composition of the metropolitan area has changed a great deal in the past 30 years. Statewide, the median age rose from 29.2 years to 32.5 years between 1980 and 1990.⁶³ Some metro communities are grayer than others, however. The aging of the population has occurred unevenly throughout the region, reflecting the different historical cycles of the Twin Cities' development.⁶⁴

Inner-ring suburbs such as Richfield and parts of Edina developed quickly during the post-World War II era. These were homogeneous communities composed mainly of young families raising the children that became known as "baby boomers." Family housing predominated.

The population of those older suburbs has aged. In 1960, 49 percent of Edina's population was children. By 1990 that share had fallen to 20 percent, and now seniors make up another 20 percent. Second-generation suburbs farther out are younger. They now have a high percentage of their populations aged 25 to 44, including families with young children, but fewer seniors. Eden Prairie's population, for example, includes only three percent seniors.⁶⁵

Household composition has also changed dramatically. In the seven-county metro area, the "traditional" family—a married couple with children—has shown a marked decline as a percentage of all households since 1960. In Bloomington, for example, married couples with children made up 76 percent of all households in 1960 but only 24 percent in 1990.⁶⁶ The majority of Twin Cities married-couple families now have both parents in the paid labor force.⁶⁷

Among family households, an increasing share are single mothers with children, although the increases have been relatively small, from 7.7 percent of families in 1970 to 10 percent of families in 1990.⁶⁸ The fastest-growing segment of the metropolitan area population has been non-family households, many of whom are elderly women living alone.⁶⁹

As noted earlier, there have been dramatic changes in household income, one of the major determinants of effective demand for housing. Between 1980 and 1990, there was a 45 percent increase in the number of metro-area renter households with incomes of

\$10,000 per year or less.⁷⁰

When households match themselves up with housing units, patterns of housing use emerge. Some households feel "underhoused." They have less than they need or want given the size or composition of their family. The unit may be crowded or poorly equipped, or may lack desired outdoor yard space, parking or other amenities.

Some households feel "overhoused." For example, an elderly couple or widowed partner may be left with a large, relatively empty unit, yet cannot move without giving up their neighborhood, friends and familiar surroundings because the local area lacks a variety of housing options.

Total demand for particular housing types is affected by these characteristics of households. Once the housing units are in place, however, they can't respond quickly to demographic changes. This may result in mismatches between what people want and what is available in certain areas.

While the Twin Cities metropolitan area does not suffer from a shortage of housing units, it does seem to have these mismatches.

There is a mismatch between what many people need for shelter and what they can afford to pay. In 1989, there were 35,427 fewer low-rent housing units than low-income renters.⁷¹ This "affordable housing gap" includes households who are homeless as well as households who are low-income and are paying more than 30 percent of their income for housing.⁷²

The Wilder Foundation counted more than 2,300 homeless people in October 1991, 600 of which were children.⁷³ Of the 110,064 low-income households who do have housing, 33 percent are paying from 31 to 49 percent of their income for housing and 43 percent (about 48,000) of households are paying more than 50 percent of their income for housing.⁷⁴ Nearly 60 percent of the low-income renters paying more than 30 percent on housing live in Minneapolis and St. Paul.⁷⁵

There is also a mismatch between the type of housing people want, and what is available given what they can afford. For exam-

ple, there are 29,082 poverty-level families with children in the metropolitan area, but there are only 2,871 rental units that have three or more bedrooms and rent for \$300 per month or less.⁷⁶

There also seems to be a mismatch between what is available in certain areas and what is desired in those areas. For example, there seems to be an insufficient number of low- and moderate-price units in the outer areas of the Twin Cities, given the needs and wants of some households within those areas—such as low-income households, elderly people who wish to give up their houses but wish to remain in familiar areas, young people leaving parental homes to start their own households, and perhaps households in central cities who might wish to live farther out if there were more lower-priced units in outer areas.

Market-rate rents and home prices that are substantially higher than in the central cities are a major factor in this mismatch. And in many suburbs, the scarcity of subsidized housing results in waiting lists numbering in the hundreds and waiting times of months or years.⁷⁷

There also may be a mismatch in some areas between the desires of moderate- and upper-income households for certain housing amenities and what is available in some areas. For example, the small post-war family homes common in parts of south Minneapolis and Richfield may not suit the tastes and lifestyles of dual-income “baby boomer” households.

Changing demographics will continue to affect the housing market. Based on population estimates by age groups, the Metropolitan Council forecasts that by the year 2015, the area will see:

- somewhat lower demand for first-time rental housing;
- lower demand for first-time ownership housing;
- high demand for move-up housing or upgrading existing homes;
- growing demand for housing and service combinations, particularly for seniors.⁷⁸



Speak Up!

Minnetonka Community Center

Why do you live where you live? The conversation at a Citizens League *Speak Up!* hosted by the West Hennepin Human Services Planning Board was a reminder that, when it comes to housing, tastes vary.

“You’d have to pay me to live in the city,” one participant said. He and others said that they are scared of the increase in violence and concerned about the schools in the central cities. Housing in the suburbs is more expensive, but people are willing to cut costs somewhere else in their budgets in order to stay out of the city, they said.

Participants spoke about attitudes and values in their communities. One woman used to live in north Minneapolis. Kids in the neighborhood thought they were stuck there and could see no hope, she said. In her suburban home, “we’re in subsidized housing but the attitudes are different...I wanted my children to see that there was hope.”

Unfortunately, community attitudes sometimes work against low-income people, even in the suburbs, the group said. They sometimes encounter the assumption that, as one person said, “if you are on AFDC you are trash.” (See Appendix B for more comments from the *Speak Ups!*)

Q. Do housing policies contribute to the concentration of poverty?

A. Yes.

Many factors relating to housing, but outside the immediate control of government, affect where poverty is concentrated. But government itself has played an important role in determining what our housing looks like and how it works. Though perhaps not intentionally, these policies have been a sort of "social engineering" that has exacerbated the concentration of poverty in the inner portions of the metropolitan area.

This effect can't be blamed on a single housing policy. Indeed, there is no unified "housing policy," per se, at either the federal or state levels. Many policies affect the housing market. Some are explicitly designed to deal with housing. Others concern taxes, funding of infrastructure and even education, but they nevertheless affect housing in important ways.

The authority for housing "policy" is similarly ambiguous and overlapping. Currently, authority for dealing with housing issues is scattered among all levels of government. There are varying degrees of cooperation and coordination between or within the levels of government. The federal government, in addition to funding housing through the Department of Housing and Urban Development (HUD), is responsible for regulating capital markets and for the deductibility of interest on home mortgages. The state government partially funds the Minnesota Housing Finance Agency, and is responsible for income- and property-tax relief policies. Counties and the Metropolitan Council have Housing and Redevelopment Authorities (HRAs) of varying degrees of aggressiveness and willingness to cooperate with other jurisdictions. Municipalities have zoning authority and some of them have their own HRAs.

Thus, a complex web of tax, infrastructure,

land-use and local services policies together comprise a *de facto* "housing policy" that has contributed to the growing pockets of poverty. We'll look at some of the components of this *de facto* policy in turn.

The bias toward homeownership

Perhaps the most pervasive feature of current policies is the bias toward homeownership. The bias is reflected in income- and property-tax policies, as well as a host of other state and local policies.

Income-tax benefits

What people want in housing and what they get are two different things. What they get is constrained by how much they have to spend, and by what they know about the housing opportunities available to them.

Ability to pay determines *effective demand* for housing—that is, what people want weighted by what they can afford. Effective demand for housing can be manipulated by enhancing households' ability to pay and by giving them more information about what already exists.

Ability to pay, in turn, is governed by income and its predictability, prior accumulation of home equity and other assets and access to credit. It's also influenced by the cost of housing. The cheaper housing is, the more buying power consumers have—witness the recent response to low mortgage interest rates.

Since World War II, public policies have encouraged homeownership by lowering the price of ownership to consumers. FHA mortgage insurance, and especially tax benefits such as deductibility of mortgage interest and real estate taxes from income for tax purposes all effectively lower the cost of homeownership.

The demand for homeownership, not surprisingly, was stimulated substantially, according to the U.S. Congressional Budget Office (CBO). In a 1981 report, the CBO noted:

- "One study suggests that as much as one-third of the owner-occupied housing in the U.S. as of 1976-77 would

not have been built if tax benefits had not lowered the after-tax cost of buying a house to far below the cost of other investment assets.

- Other research suggests that the fraction of homes that are owned by their occupants would be four to five percentage points less without the mortgage interest and property-tax deductions, and without the exclusions of net imputed rental income.
- Studies also indicate that households would buy less expensive houses in the absence of tax subsidies, and that housing prices might be lower.”⁷⁹

The income-tax benefits do not involve restrictions on the location of residence, and are entitlements.⁸⁰ However, because the mortgage interest subsidy is available only to homeowners who itemize their deductions, it does not benefit all homeowners equally.⁸¹ Two-thirds of all households nationally were homeowners in 1980, but only 28 percent of tax returns filed in 1981 claimed homeowner deductions. Most of the discrepancy is attributed to the fact that lower-income owners don't itemize, either because they own the house free and clear or because their incomes are below the level at which it is worthwhile to itemize. In 1980, about the same proportion of homeowners had incomes below \$10,000 as had incomes between \$10,000 and \$20,000, but the higher-income homeowners received greater benefits from their deductions.⁸²

State property-tax policies

Minnesota's property-tax system heavily favors homestead property and penalizes rental property. The state's classification system assigns a higher "tax capacity" to multifamily rental property. Apartment buildings, on average, are taxed at three to three-and-a-half times the rate of single-family homestead property.

The Minnesota Department of Revenue has compared the tax burdens on various types of property under the current system, with the tax burden that would occur if all property were taxed at the same rate. The saving that Minnesota's residential homestead property enjoyed in 1993 as a result of preferential clas-

sification was projected to be \$636.1 million. That is the equivalent of a subsidy to homeowners. Rental property owners, by contrast, paid \$167.9 million more than they would have under a straight market-valuation system. That is the equivalent of a penalty paid by rental property owners.⁸³

As a result of this system, Minnesota's property taxes on apartments consistently rank among the highest in the nation. In the long run, rents increase as property taxes increase, so tenants bear the burden of higher property taxes even though they are poorer, on average, than homeowners.⁸⁴ In the short run, market forces determine how much rent a property owner can charge. That means that as taxes eat into operating revenue, owners may respond in the short term by putting off repairs, and investors by choosing more profitable investments. The predictable result is a decline in the quantity and quality of rental housing.⁸⁵

Minnesota's disproportionate rental tax burden has magnified the difficulty of providing market-rate rental housing at rents that are affordable to low-income people.⁸⁶ The supply of housing units renting for \$250 per month or less (constant dollars) declined two percent between 1980 and 1990.⁸⁷

The state does ease tax rates for certain types of rental housing serving low-income tenants, and those tax preferences do indeed result in lower rents. However, even though the demand for low-cost housing has increased sharply, there has been little change in the share of residential property with these preferential tax classifications.⁸⁸

Subsidies for low-income people's housing

Government has also helped to make housing less expensive for low-income households. The assistance has been of three main types: (1) public housing units; (2) financing and funding to developers to enable units to be offered at below-market rates and (3) direct assistance to renters and homebuyers.

The level of subsidy, and the way in which assistance is provided to low-income people, has tended to concentrate subsidized tenants and units toward the center of metropolitan



Speak Up!

Minnesota Multi Housing Association

What's the biggest single problem when it comes to providing housing for low-income people? Property taxes, according to a group of rental property owners and managers who attended a Citizens League *Speak Up!* on housing.

The state's property-tax system penalizes renters, they said. The single-family homeowner pays very little of the total property-tax bill. But property taxes account for 23 cents out of every dollar of the participants' rental operating revenues. The tax burden is causing property values to decline, and "that's why people are walking away from their properties and letting them go back to the banks," said one participant.

The tenant every owner wants is one who pays what is owed, respects the property and respects the other residents. "How do we create a model for the \$400-a-month unit for the good tenant?" one participant asked.

Their solution: Start by fixing the property-tax system, then give people vouchers and let them live where they want. Concentration of poverty causes problems, the group agreed. "[Low-income people] don't want to live that way...We shouldn't concentrate all low-income people in one place." And pay attention to how the properties are managed. "The key to a rental property that works is good site management," they said. (*See Appendix B for more details.*)

areas. In contrast to homeowners who receive their subsidy automatically by simply sending in their tax forms, individuals seeking public housing and Section 8 subsidies must apply, qualify on the basis of financial need and usually wait. The programs are not entitlements, and many people whose incomes qualify for assistance do not actually receive it. And a number of factors limit recipients' choices about where to live.

Most public housing units, as a matter of policy choice, have been concentrated in certain neighborhoods of central cities and older, inner-ring suburbs. When city officials were considering where to locate public housing in Minneapolis in the 1950s, the Minneapolis Housing and Redevelopment Authority initially concluded that the community's best interests would be served by integrating low-income households throughout the city. However, primarily white neighborhoods objected and virtually all of the new public housing units were located in primarily black neighborhoods on the city's near north side.⁸⁹ Early siting decisions such as these Minneapolis cases solidified the central cities' role as the primary suppliers of low-cost housing.

Minneapolis and St. Paul's share of the area's 45,549 federally-subsidized rental housing units declined from 90 percent in 1971 to 63 percent in 1980, and to 60 percent in 1992. Still, the largest share of subsidized rental housing in the Twin Cities is located in the central cities (26,237 units). The city-suburb ratio of subsidized housing is 60/40, while the central city/suburb population ratio is about 30/70.⁹⁰ The fully-developed (inner-ring) suburbs had 17.2 percent of all subsidized housing units in the Twin Cities; the developing area (fast-growing outer suburbs) had 20.4 percent.⁹¹

The largest program of direct housing assistance to renters is the federal Section 8 program, which will provide \$116 million in assistance in the Twin Cities in the current fiscal year.⁹² The goal of the program is to ensure that households not pay more than 30 percent of their income for decent housing.

Section 8 vouchers and certificates may be used anywhere in the metropolitan area. However, in practice the bulk of metro-area Section 8 subsidies are used in the central cities and older suburbs (*see Map 8 - Appendix C*).

Several factors, including market forces and the effects of policies, contribute to this tendency. First, the supply of rental housing in the Twin Cities—especially units with three or more bedrooms—is concentrated in the inner communities. Second, the “fair market rent” on which the subsidy is determined is set at the 45th percentile of rental rates in the total metropolitan statistical area. Even with a Section 8 subsidy, units in areas with higher than average rents are often not affordable, so recipients still tend to be concentrated in areas with below-average rents, typically the central cities and inner suburbs. Third, the program is voluntary for landlords and requires that the housing unit be certified to accept such subsidies. In areas where vacancy rates are low and demand for rental units high, there are few incentives for landlords to accept Section 8 tenants in favor of higher-paying, non-subsidized tenants. Finally, proximity to social services and public transportation is an important concern for low-income households. But other policies have permitted and encouraged suburban land-use patterns that virtually require people to own cars.⁹³

A related factor is that Minnesota law requires that any low-cost housing that is removed be replaced one-for-one in the same municipality.⁹⁴ The law was intended to ensure that the supply of low-cost housing not be depleted by “gentrification” efforts. However, the law thwarts efforts to upgrade and diversify the housing stock in older, deteriorated areas, especially in the central cities, and helps to perpetuate the concentration of low-cost housing in those areas.

Policies of segregation

Public policies have reflected and often contributed to whites’ preference for segregated housing. Local governments historically responded to the great migration of blacks from the rural south to industrial cities by implementing racially restrictive zoning practices. In 1917, restrictive zoning was declared unconstitutional, but other race-based restrictions continued for many years thereafter and the impact of the early policies can still be felt.⁹⁵

One of the most tangible examples of government’s influence on housing segregation was

the Federal Housing Administration (FHA) mortgage insurance program in its early years. The federal government, once it decided to be in the mortgage insurance business in 1934, wanted some control over the risks it assumed. The racial composition of neighborhoods was presumed to be an indicator of loan risk. Underwriting guidelines contained very explicit language—shocking by today’s standards—that clearly advocated racial exclusion. Consider these excerpts from the 1938 Underwriting Manual:

If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values.

The borrower who acquires property for occupancy in a location inhabited by a class or race of people that may impair his interest in the property—and thereby affect his motivation—should be ascribed a lower rating in this feature to reflect the diminishing importance of the property to the borrower.

Recommended restrictions should include...prohibition of the occupancy of properties except by the race for which they are intended.⁹⁶

The consequence of the underwriting guidelines was that virtually no FHA loans were made in racially mixed neighborhoods of inner cities. The Supreme Court disallowed deed restrictions in 1948. But other—slightly less explicit—guidelines continued the practice of making FHA loans only in white, middle-class suburbs until President Kennedy’s executive order prohibited the practices in 1962.⁹⁷ The effect of the policies was to spur the growth of predominantly white suburbs and exacerbate the segregation of minorities in the central cities.

The FHA’s racial restrictions have long since been eliminated. But the early patterns the policies laid down, along with the continuing tendency of whites to avoid areas identified as primarily black, means the impact of the FHA policies, like the earlier zoning practices, is still evident.⁹⁸

Policies encouraging urban sprawl

Subsidies for highway travel

A variety of other policies that on their face have little to do with housing have nonetheless affected housing development by making suburban living less expensive than it otherwise would be. For example, since the 1916 Highway Act, federal transportation policy has been heavily oriented to highway development and the goal has been to accommodate steadily increasing traffic.⁹⁹ American highways, along with other elements of the transportation infrastructure, are subsidized, and the way the subsidies are provided encourages development of highway infrastructure.¹⁰⁰ When the cost of commuting to suburbs is kept low, the price to consume new suburban housing is also kept relatively low and the demand for such housing high.

Land use and the suburban community

As the suburbs expanded in the boom of the 1950s and 1960s, a distinctively suburban ideal of land use evolved as well, one oriented toward residential property and based on the assumption of private automobile ownership.

Older city neighborhoods had been characterized by diversity of residents (in age as well as ethnicity), an emphasis on pedestrian traffic, and integration of residences with commercial activity. The zoning laws that began evolving in the early 1900s, and which were increasingly reflected in the growing suburbs, were geared toward "protecting the family-oriented residential neighborhood from uses that threatened the quality and attractiveness of neighborhood surroundings," according to geographer Adams.¹⁰¹ The location that has received the most favored treatment in municipal policies has been the higher-class areas of single-family detached housing.¹⁰²

While that ideal of land use may protect certain kinds of property, it profoundly changed the character of communities and has led to a host of problems:

The idea [of a city as a collection of villages] has been discarded, and replaced with the modernist model of the city as machine. While the village blends hous-

es with shops, the old with the young, and the rich with the poor, the notion of the city as machine, which is now rigidly enforced in the United States through impenetrable layers of zoning codes, relentlessly and single-mindedly separates the old from the young, the rich from the poor, apartments from town houses, houses from shops, and factories from offices, until the city is so sprawled out that such simple, everyday tasks as getting a haircut, browsing for a novel, and picking up a half-gallon of milk require three separate automobile trips.¹⁰³

Older city neighborhoods permitted a mix of poor and well-to-do, in part because land-use traditions allowed for a range of lower cost housing: The small apartment over the butcher shop, the boarding house, the rented room in a family house, the smaller houses and apartments interspersed with larger and more opulent homes. In such communities, lower-income people had access—on foot, often—to stores, services and churches. And such living arrangements encouraged, or perhaps demanded, that people form ties with their neighbors.

In the Twin Cities today, suburban life requires extensive automobile travel, discourages frequent interaction among neighbors, and reinforces class differences—in part, because of municipal policies regarding the arrangement of housing.

The role of local governments

Financing of local services

Local governments must pay for public services with local revenues, primarily property-tax revenues. They face clear fiscal incentives to discourage development that results in net cost, and encourage development that results in net tax/revenue gain.¹⁰⁴ School finance policies that require local communities to bear a significant share of the school finance bill, for example, motivate communities to regulate housing construction so as to keep taxes per housing unit high and school expenditures per unit low.

Municipal funding of service also affects the

choices individuals make, contributing to the self-reinforcing cycle of urban decline. When poverty becomes concentrated in certain jurisdictions, their service burden and property taxes are disproportionately high. People take the higher tax burden into account when choosing a home. The financial incentive they face encourages them to avoid high-cost areas. When those who can afford to do so choose to move to lower-tax areas, poverty becomes more concentrated and the problems worsen still.¹⁰⁵

Municipal development policies

Municipalities have nearly complete control over their land use, zoning and other development policies. Courts have generally upheld the right of local governments to exert control over land use and development.¹⁰⁶

Municipalities face powerful incentives to use these policies to restrict development. A recent national HUD study found that communities do, in fact, put barriers in the way of low-cost housing—barriers that add 20 to 35 percent to the cost of housing.¹⁰⁷ Of course, building and zoning regulations serve important public purposes (such as safety), but when used over-zealously they can inflate the cost of housing and effectively exclude low- and moderate-income residents from some communities.

HUD's findings were recently echoed in a comprehensive report on Twin Cities area municipal policies by the Minnesota Association of Realtors.¹⁰⁸

Excess regulatory cost is not the only, or even the largest, cause of affordability problems, but it does play a significant role, the MAR said. The cost of housing is inflated by a number of policies:

- **Zoning** has traditionally been used to separate incompatible land uses. However, it can also exclude affordable housing by inflating land costs, primarily accomplished by requiring excessive lot sizes. Local codes also limit the quantity of affordable housing by tightly restricting rental housing and by prohibiting manufactured and accessory housing ("granny flats").

- **Subdivision regulations** specify what public improvements will be the responsibility of developers, rather than the municipality. "Gold-plated" subdivision ordinances—implemented to improve the level of amenities and ensure high-quality infrastructure—may lead to excess cost.
- **Building codes** beyond those needed to ensure the health and safety of residents, and decrease long-term maintenance costs, also serve as barriers to housing affordability.
- **Fees and exactions** are appropriately imposed by local governments in order to recoup their costs for new development. But such fees are unfair if they require new residents to pay the whole cost of improvements that benefit the entire community, including current residents.
- **Environmental conservation regulations** fulfill an important public goal. Unfortunately, these regulations are often contradictory or used by opponents to block new development.
- **Growth controls**—entirely appropriate to manage regional growth—are unacceptable when used by municipalities to prevent growth within their borders.¹⁰⁹

By requiring large minimum lot sizes, communities not only impose the higher land cost of a larger lot, but also the greater special assessment costs (for sewer, street, curb and gutter) that go with the larger lot. The MAR noted that special assessment costs on a 15,000 square-foot lot—required by some metro area communities—range from \$3,000 to \$8,500 higher than on a 10,800 square-foot lot, the metro-area average minimum requirement.¹¹⁰

Suburbs are not alone in using such policies to thwart unwanted development. Central cities inhibit construction and rehabilitation of low-cost housing by gearing building codes to new construction rather than to the rehabilitation of existing buildings. These codes often insist on using state-of-the-art materials and methods that are inconsistent with those originally used.¹¹¹

Political boundaries and social differences

This melange of state and local policies makes municipal boundaries extremely important in conveying information to housing consumers. City boundaries matter. To see why, a quick review of some simple principles of statistics is helpful.

Statistical averages are just that—averages. Given any set of observations of any event, very few observations will actually be identical to their average as a group. For example, while the average score on a math exam might be 80 out of a possible 100, it would be quite possible for only one person to actually score an 80 and for the other scores to be clumped equally on the extremes of a range between 60 and 100. The smaller the set of observations (people in the class, in this example), the less likely any one observation (test score) will be “average.”

Similarly, the demographic profile of any political jurisdiction will differ from the metropolitan average with some finite probability. The smaller the geographic size of the jurisdiction, the less likely it will be average.

The housing “bundle,” as we have said, includes many tangible features, such as the property-tax bill. It also includes things like social status and perceptions of neighborliness that are complex and difficult to describe. To the extent that these various features differ by municipality—as property taxes, schools and amenities determined by zoning do—the boundaries provide a shortcut to identifying differences.

Sociologist Gregory Weiher argues that once a jurisdiction becomes different, “population, culture, demography and life style begin to interact with geography, the jurisdiction acquires an identity as a place, and the information that is structured and conveyed by political boundaries tends to perpetuate that identity.”¹¹² Within the Twin Cities area, for example, Saint Paul, Brooklyn Center and Orono may be political jurisdictions but they also carry clearly different social identities that citizens notice and act upon. Thus, Weiher concludes:

[The] bounding of political space permits an interaction of geography,

demography, and human cognition which tends to result in segregation by race and class. The existence of a boundary, particularly one which is unambiguous and authoritatively established, distinguishes one place from another. In turn, such places can be cognitively differentiated by persons seeking suitable locations in metropolitan areas. Because suitability is often defined in terms of the racial and class identity of the people that live in particular places, political boundaries can become socioeconomic boundaries also. That is, political boundaries can become social fractures.¹¹³

In short, simply by drawing boundaries, government affects housing. And it is municipal boundaries, rather than neighborhoods, that are becoming increasingly important. Since the *Brown v. Board of Education* school desegregation ruling, a greater share of the difference in communities’ racial make-up is accounted for by municipal boundaries; before desegregation, it was neighborhood boundaries.¹¹⁴ Among metropolitan statistical areas, segregation by race, education, income and age increases as the number of municipal governments in the area increases.¹¹⁵

Conclusion

While by no means the only factor, government policy plays a powerful role in determining who lives where. When it comes to the arrangement of poverty and affluence, it’s not just the market and individual preferences. It’s our policies, too.

Q. Is urban decline irreversible?

A. Not irreversible—but under some conditions there can be a snowball effect.

Recall that population loss and employment loss are the two typical measures of urban decline. “Decline” in a central city is not necessarily a bad thing. If the city was overcrowded to begin with, a moderate decline in population would be an improvement. And if outmigration occurs as a result of rising incomes, it might bring problematic effects but the underlying cause would not usually be viewed as a problem!

However, when certain conditions exist, population and employment losses can overshoot what would be considered desirable. The Brookings Institution identified several factors that appear to be self-reinforcing; creating a snowball effect that makes further population losses difficult to stem.

The self-reinforcing elements include;

- decline in “critical mass” activities, such as mass transit, restaurants and cultural outlets that depend on a sufficient population base in order to survive;
- wide differences in the tax rates of central cities and suburbs;
- existence of a “ghetto culture” in the poorest areas;
- erosion of the political power of cities and
- differential migration by race and income.¹¹⁶

Urban areas such as the Twin Cities metropolitan area would do well to ask whether such conditions are beginning to develop.

For example: Another of the self-reinforcing conditions is physical blight.¹¹⁷ Low-income residents often have difficulty continuing to invest in their homes. Neglect of maintenance, abuse or abandonment of the structures may result. Older housing in portions of the central cities and some suburbs is especially vulnerable to such deterioration. All of these conditions further contribute to reduced confidence by neighborhood residents, the cycle of rapid turnover of housing from middle- to lower-income occupants, and conversion of single-family homes into rental units run by absentee landlords.

Regional data show that the rates of housing abandonment and rental conversion have not increased significantly in the Twin Cities.¹¹⁸ And it is difficult to know whether the physical condition of the inner areas of the Twin Cities has affected migration. However, the combination of aging housing stock and increased concentration of poverty in certain areas of the central cities and older suburbs does not bode well.

Regardless of whether central city decline starts for “good” or “bad” reasons, it can bring other problems, such as physical decay, that may be viewed as reasons to leave. These problems may persist even if the original cause for decline is remedied. The good news, however, is that neighborhood revitalization and the positive expectations often generated are also self-reinforcing phenomena.¹¹⁹

Q. Does dispersing poverty help to ameliorate poverty?

A. Reducing poverty concentration probably helps, over the long run.

Once areas of concentrated poverty have developed, can the problems be reversed? There are really three questions involved here. First, does reducing the concentration of poverty lessen the negative impacts of poverty on the community? Second, does relocating to better-off areas help the long-term economic prospects of current residents of low-income areas? And third, do such moves actually lift people out of poverty right away?

Does reducing the concentration of poverty lessen its negative impacts on society?

There are relatively few opportunities to make before-and-after comparisons of a city which take all the possible related variables into account. The answers can be inferred from what is known, and has been described in previous sections of this report: That metropolitan areas in which city-suburb disparities are smaller, and in which poverty is less concentrated, do better economically, and that neighborhoods in which poverty is less prevalent have fewer of certain kinds of problems.

The evidence that is available suggests that dispersing poverty would have the reverse effect on metropolitan areas. It's likely that reducing the concentration of poverty—even if the *level* isn't significantly reduced—would ease some of the added problems that go along with concentration, such as crime and physical decay of neighborhoods.

Do poor individuals' prospects improve when they relocate to less-poor areas?

Some people believe that government should intervene to provide new opportunities for low-income families to move to more affluent communities as a strategy to reduce their isolation and improve their social and economic prospects. Such programs are rare.

The Gautreaux program of Chicago is a notable exception. In response to a lawsuit charging that the Chicago Housing Authority prevented low-income minorities from living in integrated neighborhoods, the Gautreaux program (named for the lead plaintiff) began in 1976 and helped low-income residents to move anywhere in the six-county Chicago area. To date, the program has placed nearly 4,000 families in over 100 municipalities in the Chicago metropolitan area.

The program has offered a unique opportunity to observe how residential segregation affects the experiences of low-income people. A series of research studies has tracked the participating families to discover how the experiences of those who moved to the suburbs ("suburban movers") differed from those who relocated to other city neighborhoods ("city movers"). The families relocated under the program can be considered a random sample since, while participation was voluntary, participants' preferences had little effect on whether they ultimately located in a city or suburban neighborhood. These findings can provide much richer insights than many poverty studies that must rely on aggregate information about census tracts.

The results support the assertion that location alone may make a difference.

The Gautreaux adults who moved to the suburbs (even those who had no work experience) were more likely than the city movers to be employed after their move.

The suburban movers encountered more racial discrimination and harassment than the city movers did at first. The discrimination abated over time, however, and the suburban movers made friends with their new neighbors about as often as the city movers did.

The children of suburban movers did better in school, and their mothers were more satisfied

with the schools. A surprising number of the children of suburban movers were diagnosed as learning disabled. Some parents expressed the belief that this reflected the (predominantly white) teachers' predisposition to label minority children as "slow." However, others said that, once diagnosed and provided with individualized attention, the children's achievement improved dramatically. One parent said:

When we first moved here, Moses was in first grade but he was doing kindergarten-level work. They had to hold him back and he had to have special tutors. But they eventually started working with him and now he's doing great...I went to the school to find out—the first thing I thought was "black," because this was the first time I had had any trouble. In Chicago they never called me up. I went up there and actually saw what the first grade kids were doing in the suburbs and I knew in my heart he couldn't do that.¹²⁰

The children who moved to the suburbs were much more likely to stay in school, graduate, go to college, attend a four-year college and/or be employed than their peers who moved to other city neighborhoods.¹²¹

The suburban parents said their new location stimulated their children's motivation. Parents made comments such as "my daughter wouldn't have the drive, the challenge, the desire to advance that's needed to get ahead in life if we hadn't moved...In Chicago she had no interest. Here she wants to do well...The housing project environment brings you down...makes you not care about the future...A lot more is expected of you out here."¹²²

One way to interpret these results is that even severely disadvantaged people embraced typical "middle-class" values when they lived in mainly middle-class areas. Children, especially, seemed to respond to traditional sources of motivation—demanding teachers, successful peers and the possibility of success. They began to behave in ways that not only benefited them in the present, but could be expected to yield large long-term payoffs in earnings and advancement. To the extent these children went on to college, for example, they

could expect their eventual earnings to improve significantly.

Of course, the Gautreaux studies reflect the experience of only one area. It is not clear whether such experiences would occur in other areas. The U.S. Department of Housing and Urban Development is planning to launch similar demonstration projects across the U.S. to explore that question.

The Gautreaux story offers hope that relocation can lead to improvements in families' and childrens' economic circumstances, at least in the long run.

Do poor individuals who relocate rise out of poverty?

Probably not immediately. Location does make a difference. Over the long run, the difference may be significant, as the experience of the Gautreaux children suggests.

For any individual household, relocation alone probably won't solve its immediate economic problems. Among the Gautreaux parents, for example, the suburban movers were more likely to get jobs than their city peers. The suburban households' wages were no higher, though, and all the participants continued to need Section 8 subsidies to pay for their housing.

Many factors affect a person's ability to land a job, including his or her level of education, specific skills and general degree of work readiness. Beyond the immediate control of prospective employees are such factors as race and gender discrimination and the state of the economy. Once employed, people may still be unable to afford much housing, if their hourly wages are low or their benefits are limited.

Suburban life poses many challenges for low-income households. Public transportation is scarce and inconvenient. Supportive services such as child care and medical care may be hard to find or get to. People of color in predominantly white communities face not only their own adjustment but possible racism from neighbors. A move to the suburbs may be one step toward a better future for some families, but many additional steps are also required.

Q. What's the connection between housing and jobs?

A. There is a link, but housing opportunity isn't the only path to employment.

Some have argued that when unemployed and underemployed poor people live in the inner cities, while new jobs are added in the outer suburbs, the distance blocks their chances of getting jobs.

The "spatial mismatch" hypothesis was first offered by economist John Kain in the 1960s.¹²³ Kain argued that inner-city blacks were becoming isolated from employment opportunities as jobs continued to suburbanize in Chicago and Detroit. Kain's model suggested that housing market segregation cost non-whites about 10 percent of the employment in the metropolitan area.

Is a spatial mismatch the culprit behind inner-city residents' job difficulties? We have found that:

- the distance between certain new jobs and disadvantaged workers has grown;
- transportation is not meeting the needs of a suburbanizing work force, especially workers who depend on transit;
- distance and many other factors hinder unemployed people from getting good jobs.

We will look more closely at each issue.

Suburbanization and geographic barriers in the Twin Cities

New jobs are most definitely flowing toward the outer reaches of the Twin Cities metropolitan area. And for low-income people who rely on transit, those jobs aren't easy to get to.

Most of the Twin Cities' net job growth during the 1980s was in the suburbs. The region gained 255,000 jobs in the 1980s, and 170,000 of them were in the developing suburbs; only 5,000 were in Minneapolis and St. Paul.¹²⁴ Manufacturing jobs, in particular, are growing faster in the developing suburbs. The metropolitan area as a whole gained a modest 3,661 manufacturing jobs between 1980 and 1990, but the two central cities and Bloomington together lost 25,000 manufacturing jobs in the same period.¹²⁵

Most Twin Citians rely on private automobiles to get to work. In 1990, only 5.3 percent of all commuters in the Minneapolis-St. Paul metropolitan area used public transportation.¹²⁶ For most people who are deciding where to live, convenience to work is a matter of convenience to auto routes. An increasing share of work travel is between suburbs now.¹²⁷ Even though jobs have become more spread out, however, auto commuters in the Minneapolis-St. Paul metropolitan area still took an average of only 21 minutes to travel to work, the second-lowest average travel time to work among the 25 largest U.S. metropolitan areas.¹²⁸

Averages don't tell the whole story, however. While most travel is done in private autos, nearly 10 percent of households in the region do not own an automobile, usually because they can't afford to.¹²⁹ The poor are disproportionately located in the central cities of Minneapolis and St. Paul. People of color are also more likely to be transit-dependent. In the seven-county Twin Cities metropolitan area, 36.9 percent of African American and 35.6 percent of American Indian households were without a vehicle, compared with 8.1 percent of white households (recall that most of the region's people of color are concentrated in the core areas of the two central cities).¹³⁰

Twin Cities transit continues to be heavily oriented toward bringing people toward downtown in the morning and away from

downtown in the evening. Transit-dependent workers seeking suburban jobs can expect long and inconvenient commutes.¹³¹ Residents of the poorest areas of the central city tend to have travel times that are as long as those of residents of the far suburbs (*see Map 9 - Appendix C*); however, their travel times are most likely long not because of distance, but because they rely on public transportation.

Some suburban employers report having difficulty filling entry-level positions, presumably because of a shortage of entry-level workers in their own communities. Studies on other metropolitan areas have found higher suburban wages for inner-city blacks, suggesting that residential discrimination and, hence, long commuting distances require employers to meet their labor needs by paying more for these workers.¹³²

Critiquing the spatial mismatch hypothesis

Since Kain's spatial mismatch theory first appeared, empirical studies of employment among urban blacks have attempted to test the hypothesis. A number of early studies challenged the notion that distance between residence and job is the main problem. Among those early findings:

- Joseph Mooney (looking at data from the same time period that Kain did) found that the overall unemployment rate affected black unemployment much more strongly than employees' place of residence did. Blacks bore the burden of greater unemployment, no matter where they were located.¹³³
- Mark Hughes found that wage discrimination against blacks had a much greater effect on their earnings than did job and residential location. "The best empirical evidence suggests that blacks have lower status because they are black, and dispersal from the ghetto will not change this," Hughes said.¹³⁴
- David Ellwood, similarly, found no evidence to support the spatial mismatch hypothesis. Instead, it is "race, not space, [that] remains the key explanatory variable," he concluded.¹³⁵

However, more recent studies with refined measures of access and sophisticated databases have found that spatial access has significant and substantial effects on employment and wages.¹³⁶ For example:

- Ihlanfeldt and Sjoquist quantified the magnitude of the effect of spatial access on black and white youth employment rates in Chicago, Los Angeles and Philadelphia. They found that 30 to 50 percent of the black-white employment difference could be explained by spatial access to jobs.¹³⁷
- In a second study, the same team examined 43 metropolitan areas and found the spatial access effect to be even larger. The spatial access effect was greater the larger the metropolitan area.¹³⁸
- The researchers found in a 1989 study that a one standard deviation increase in the measure of spatial access would increase earnings of both black and white males by about \$1,000.¹³⁹

Other factors: Matching skills, jobs and wages in the changing economy

While it is true that jobs are growing faster in the suburbs, the openings created by normal turnover in central-city jobs also represent employment opportunity. What is keeping central-city residents from landing these jobs—the jobs that are already nearby?

Employment is growing much faster in the suburban areas of the Twin Cities. But the *growth* in new jobs is not the only measure of employment opportunity. There are still many jobs in the center of the region. Jobs are still overwhelmingly concentrated in Minneapolis, St. Paul and the inner suburbs. The cities of Minneapolis and St. Paul held more than a third (452,000) of the region's total jobs in 1990.¹⁴⁰

The core area, consisting of the two downtowns and the midway area, had about 374,000 jobs, more than 2.8 jobs for each of its 133,000 households. The number of jobs was greater than the number of households for all occupational categories, and the difference

was greater than the number of unemployed and out-of-labor-force households. This means that even if all the unemployed households in the core area got jobs, and the retirees and so forth were accounted for, there would still be more jobs than households in this core area.¹⁴¹

Besides "spatial mismatch," another explanation that has been offered for the growing numbers of unemployed and working poor is that there is a mismatch between the skills required of today's workers and their level of preparedness.

Good-paying jobs that require little education—and even jobs that require no more than a high school diploma—are disappearing.¹⁴² Jobs growing the fastest are those that pay well but require advanced education and managerial, professional or technical skills, and those in the service sector, which *on average* pay less and require fewer skills.

The Twin Cities economy has experienced the shift from manufacturing to information and services. Two-thirds of all the region's new jobs in the 1980s were in the services and trade sectors. By 1989, about half the jobs in the region were in services or trade.¹⁴³

Disadvantaged people are finding a bigger gap between their skills and the requirements of the jobs that will prevail in the new global economy. For example, even though the educational level of blacks improved nationally during the 1970s, it didn't keep up with improvements in the white population and wasn't sufficient to keep up with new job requirements. Thus, unfortunately, many blacks lack sufficient education to participate in the high-skill, growth sectors of the urban economy.

Because of these shifts in the economy, simply having a job isn't enough to prevent poverty. Poverty-level earnings among working people have become a basic feature of the 100 largest metro areas in the U.S. In Minneapolis in 1990, 11 percent of working residents were working but earning less than 125 percent of the poverty level—although, unexpectedly, most of this underemployment was due to inconsistent employment rather than steady but low-paying work.¹⁴⁴ Nationally, the working poor are disproportionately women and minorities.¹⁴⁵

More discouraging still is the fact that upgrading one's skills may not be enough to escape poverty. Among the poor who receive public assistance, the usual route to self-sufficiency is to boost earnings through employment. Training and education programs are the most frequent means for making the transition to employment. However, the U.S. General Accounting Office (GAO) said that while training and supported work programs do increase earnings, the increases aren't enough to lift families out of poverty. "Economic independence from rental assistance is beyond the means of many housing recipients," the GAO concluded.¹⁴⁶

These findings suggest that other factors in addition to proximity contribute to poor residents' employment and income difficulties. There appear to be additional barriers to getting a job at all, and once employed, to earning wages sufficient to escape poverty.

Strategies

There are three major strategies for bridging the distance gap between workers and jobs. Integration strategies, such as the Gautreaux example described earlier, attempt to break down barriers to residential mobility. Redevelopment strategies focus on encouraging businesses and jobs to locate in the central cities (we will not review these strategies here). Mobility strategies focus on connecting workers to jobs through transportation, education and training.¹⁴⁷

In the Twin Cities, the Regional Transit Board is adopting new approaches to serving the transit needs of an increasingly decentralized community. Its Vision for Transit strategy involves development of circulator routes serving suburban areas. The circulator routes connect with one another, and with all-day express services and other routes to the central cities, at large transit "hubs," most located at large shopping centers. The hubbing strategy is an attempt to deal with the inherent difficulty of providing mass transit in areas with low population densities. Several circulator routes and hubs have already been developed and the full system will require five to 10 years for completion.¹⁴⁸

Several "reverse commute" services appeared in metro areas throughout the U.S. during the 1980s to link inner-city workers with suburban jobs. Most of them eventually failed, casualties of the economic downturn and ongoing financial troubles. However, with the economy perking up, such strategies are again being attempted. There is some agreement that as the employment mismatches have become more severe, there is a better chance that such programs can succeed.¹⁴⁹

In the Twin Cities, one such reverse-commute program is run by Loring-Nicollet Bethlehem Community Centers (LNB) in conjunction with Southwest Metro Transit. Job counselors at LNB help potential workers to identify employment prospects. In addition, the Eden Prairie Chamber of Commerce and Southwest Metro have sponsored job fairs in which inner-city residents find out about jobs with Eden Prairie employers. Once a worker finds a job, Southwest Metro uses a combination of express buses from downtown and dial-a-ride circulator vans to get workers to their job locations. LNB works with both employees and employers to deal with any "culture shock" or diversity concerns that may arise. The early success of the program appears to result from the multi-pronged strategy, and the partnership between a community agency and business leaders.

Conclusion

Geographic distance is one of the barriers to employment, and improving transportation and housing opportunities near suburban jobs are both pieces of a solution to unemployment. If the goal is to increase employment and earnings and reduce poverty, suburban housing should be viewed as only a part of the answer. Many other important issues, such as race and gender discrimination in the workplace, education and training, and the number and nature of jobs and their wage rates must be considered also.

Q. Are there other reasons to be concerned about government's influence on the housing market?

A. Yes.

So far, we have focused on some of the problems—economic and social—that arise when poverty becomes concentrated.

But there is another reason to be concerned about these policies: Many of them are unfair. One of the purposes of government is to mitigate some of the inequities that inevitably arise in market economies. At the very least, we should expect government not to worsen those inequities. But that is precisely what many of our current policies do.

Redistribution and income

Public policies related to housing tend to redistribute resources in favor of those who are already relatively well-off.

Federal and state support for housing in the form of the interest and real estate tax deduction for homeowners far outstrips the assistance provided to low-income renters and home buyers.

- The **federal government** is projected to top \$84 billion in tax expenditures for homeowners in 1994 (including mortgage interest deductions, real estate tax exemptions and special treatment of home capital gains for federal income tax purposes). These tax expenditures represented 80 percent of all federal spending on housing; outlays for housing assistance to low-income people were only 20 percent of the total. Sixty percent of all housing benefits (tax expenditures and housing outlays combined) are projected to go to

the fifth of households with incomes above \$60,600. These benefits will be more than *three times higher* than the benefits provided to the fifth of households whose incomes are below \$13,100 (see Figure 1).¹⁵⁰

- The **State of Minnesota** provided \$293.6 million in tax expenditures to homeowners in 1993 (including mortgage interest deductions, real estate tax exemptions and special treatment of home capital gains for state income tax purposes).¹⁵¹ The State's appropriation to the Minnesota Housing Finance Agency for housing assistance to low-income residents was \$18.4 million.

Minnesota's property-tax relief system, which relies heavily on classification, is highly regres-

sive because it provides too much general relief to homeowners, regardless of their incomes, and too little to homeowners and renters who are actually needy, according to the State's own Department of Revenue.

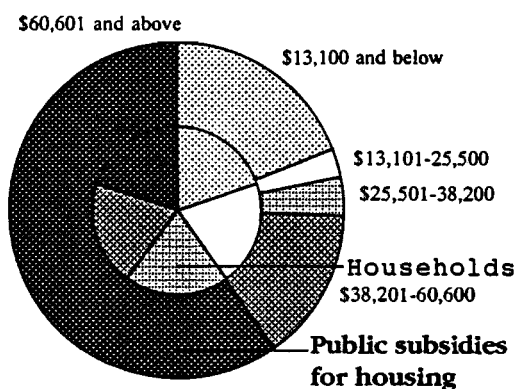
For taxes payable in 1990, the State reimbursed local governments \$609 million in Homestead and Agricultural Credit Aid (HACA) to compensate them for the lost tax capacity arising from preferential treatment of homestead and farmstead property in the classification system; the State only provided \$39 million in "circuit-breaker" refunds to individuals whose incomes were low compared to their tax bills. It's true that more circuit-breaker refunds are paid to lower-income households, but these refunds account for only 10 percent of all credits and aid, so their impact is diluted.

This property-tax system is particularly burdensome to low-income renters, since more low-income people are renters than homeowners. Statewide, the median income of renters was 47 percent of the median income for homeowners, and more than 43 percent of renter households had incomes less than half the median income for the county they lived in.¹⁵² Still, they pay a disproportionately high rate of tax. In short, the property-tax system, even after relief and aid, is a generalized entitlement supporting mostly the relatively well-off.

The different manner in which federal and state subsidies are provided to homeowners and to low-income renters reinforces and deepens the social divisions between them. The homeowner benefit is referred to as a "tax deduction." It is paid in a manner that ensures privacy. It may be used wherever the homeowner chooses. The benefit to low-income tenants is referred to as a "subsidy." It permits much more limited choice. It requires disclosure of large amounts of personal information, and often publicly identifies the beneficiary as a "welfare recipient." Such controls are usually justified by reference to the need to avoid abuse or long-term dependency. Homeowners may expect to receive their subsidies indefinitely, however.

Thus the inequity in our housing policies is not just a fiscal inequity. The methods for distributing the subsidies reinforce income and class differences in ways that do not seem to be justified by the policy goals.

Figure 1.
Share of projected 1994 federal
public subsidies for housing
by income quintiles



The inner circle shows the division of all households into equal-sized groups, defined by the annual household income ranges indicated. The outer circle shows the proportion of housing outlays and expenditures accounted for by each income group. Households with incomes of \$60,601 and above account for only 20 percent of all households, but they receive 60 percent of all federal housing subsidies.

Source: Cushing Dolbeare, *At A Snail's Pace FY95: Charts and Tables on the 1995 HUD Budget*. Low Income Housing Information Service, March 1994. Each quintile=18,629,000 households. Subsidies includes tax expenditures and direct outlays.

Redistribution and urban geography

As mentioned earlier, our housing-related policies tend to redistribute resources spatially within the metropolitan area from central cities to developing suburbs. Fast-growing suburban areas, whose growth is spurred by federal policies, appreciate in value, while central cities decline. Again, Adams notes that:

Capital value shifts out of low-income neighborhoods and lower-income households end up with expensive housing—all a direct result of national public policy. The benefits reaped by the suburbs come partly at the expense of the neighborhoods and the households in the inner cities.¹⁵³

Civil rights

Public policies have failed to protect the civil rights of minority groups to fair housing access. In some cases, policies have perpetuated discrimination. We should expect government to protect the rights of minority groups, not only to be free from individual acts of discrimination, but to have access to the full range of opportunities that housing represents.

Q. Has government tried to affect the spatial arrangement of housing?

A. Yes—several laws have addressed the location of housing.

The postwar policies described earlier have affected the arrangement of housing, sometimes by their unintended side effects. But more recently, government has intervened explicitly to influence aspects of housing location.

Home Mortgage Disclosure Act and Community Reinvestment Act

The Home Mortgage Disclosure Act (HMDA) of 1975 requires all federal lending institutions to report the number, amount and location of their mortgage loans. The original purpose of the HMDA was to make sure that lenders weren't denying applications solely because of the property's location. Since amendments made in 1989, the Act also required that lenders also report the sex, race and income of individual applicants and whether the application was approved or denied.

The federal Community Reinvestment Act (CRA) of 1977 requires lending institutions to define their service areas, provide information about their credit activity within those boundaries and show how they determine the credit needs of their communities and respond to the communities' special concerns. CRA was designed to ensure that lenders adequately respond to the general credit needs of all geographic areas in their service area and not "redline" certain areas. An annual CRA report is filed with the U.S. Comptroller of the Currency or FDIC and must be placed in a public file, to which public comments may be

added. An institution's CRA performance is one criterion used to determine whether applications for new facilities, mergers and so forth will be approved.

Fair Housing Act

The federal Fair Housing Act of 1968 and the Fair Housing Amendments Act (FHAA) of 1988 prohibit discrimination in housing and establish fair housing rights. The goal of the FHAA is to promote open, integrated residential housing patterns and to prevent increases in segregation of minority groups.

The Act applies to people with disabilities, racial, ethnic and religious minorities and families with children under 18 years old. Likewise, gender may not be used as a basis for limiting housing opportunities. The FHAA is far-reaching in its scope, encompassing rental procedures used by landlords, mortgage lending practices by financial institutions, sales of homes by real estate agents and zoning to prohibit low-cost or multi-family dwellings by municipalities. Local governments are not allowed to override the national policy of fair housing set forth in the Act.

The FHAA specifically prohibits discrimination in selling or renting housing, providing services in connection with the sale or rental of housing, and in the terms, conditions or privileges associated with the sale or rental. (There are exceptions to the Act for religious institutions and property owned by private clubs that give preference to their own members. There is also an exception for senior citizen housing.)

The FHAA can be enforced by the Department of Housing and Urban Development, by the Justice Department or by individuals. The remedies may include compensatory damages, injunctions against further discrimination and punitive damages and penalties up to \$150,000.

The prohibited practices include:

- steering minority home buyers to purchase homes in certain neighborhoods or sections of a housing development;
- zoning to prevent construction of or denying permits to small group homes

for people with disabilities in residential areas;

- zoning to prevent construction of any low-cost housing within municipal boundaries;
- expressing a preference for renting to married couples without children;
- rejecting a bona fide offer to buy a home based on a person's race, color, religion or national origin;
- rejecting Section 8 vouchers or requiring tenants to have income in the amount of three times their rent;
- any seemingly neutral decision that has a racially discriminatory effect and perpetuates segregation and prevents inter-racial association;
- insurance "redlining" or a refusal to provide property insurance on dwellings for discriminatory reasons;
- charging higher rents to people with disabilities or families with children;
- zoning that requires significant lot sizes or significant distances in spacing between residences;
- publishing advertisements that picture or indicate a preference for a particular race as a tenant or buyer.

Regional housing policies: Twin Cities

The Twin Cities' Metropolitan Council has been a nationally-recognized model of regional problem-solving on physical infrastructure, including housing.

In the early 1970s, the Council sought to ease the undersupply of housing affordable to low-income people and alleviate the concentration of low-income people in the core areas of Minneapolis and St. Paul. The Council adopted its first regional housing plan in 1971, aimed at providing "suitable" housing for all residents throughout the region.¹⁵⁴ During the 1970s, the Council implemented the housing plan primarily by exerting control over the use of federal housing funds. In the A-95 review process, the Council gave lower priority to requests for federal funding for popular

projects (such as parks) if the requesting municipality hadn't planned for low- and moderate-income housing. After 1974, the Council was also authorized by the Legislature to administer the Section 8 certificate program in the suburbs.¹⁵⁵

Other Council policies gave funding preference to local communities that took the initiative to lower barriers to affordable housing, such as by writing down the cost of land or allowing higher housing densities. The state-level Mandatory Land Planning Act required the Metropolitan Council to coordinate planning on such services as parks. Local governments were required to include housing policies, numerical goals and implementation plans. Many local communities complied with these requirements and took positive steps to improve housing affordability.

In the early 1980s, the federal government shifted its philosophy, policy and resources related to public housing toward a greater reliance on private market solutions. The A-95 rule was removed. The Metropolitan Council, without this as leverage, could exercise only limited influence on housing development.¹⁵⁶

After many years of not being in a leadership role, the Council focused anew on housing in 1990. A 1991 proposal called for a regional policy framework for guiding the delivery of housing and the implementation of neighborhood plans.¹⁵⁷ In a new proposal released in February 1994, the Council announced three demonstration projects, including one to expand the affordable housing stock in the suburbs, and said it would take the initiative to develop new housing strategies.

There seems to be general agreement that the Metropolitan Council's efforts were effective when the federal funding was available to provide leverage—even if the total impact on the concentration of poverty was modest.

In general, however, it appears that federal and local policies have not made a big impact on the patterns of poverty and racial segregation. Why not?

One reason is lack of adequate enforcement. Enforcement of the Fair Housing Act has been woefully inadequate in the Twin Cities. HUD's Minnesota caseload of housing discrim-

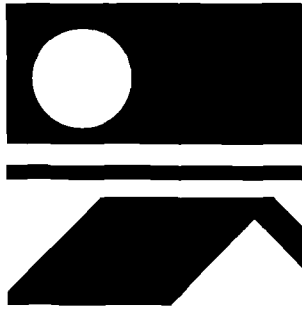
ination complaints rose 20 percent from 1991 to 1992, but the resources allocated for enforcement declined. Likewise, enforcement dollars have not kept up with increasing caseloads in the cities of Minneapolis and St. Paul and the state Department of Human Rights.¹⁵⁸ The Twin Cities has no testing program to determine the extent of housing discrimination.

Another possible explanation for the policies' limited effectiveness is that they must operate within a larger system that gives individuals and institutions powerful incentives to act counter to the policies' intent. For example, the Fair Housing Act prohibits local governments from using zoning to exclude low-cost housing, but the pressures of local revenue raising push these governments to do just that.

- 1 Metropolitan Council. *The Twin Cities Metro Area in Perspective*. November 1992, p. 6.
- 2 Metropolitan Council. Materials distributed at June 22, 1993 meeting of Metropolitan Development Investment Framework (MDIF) Issue Group #1.
- 3 Metropolitan Council, *The Twin Cities Metro Area in Perspective*, op. cit., p. 17, 18 and 21.
- 4 Metropolitan Council.
- 5 Metropolitan Council. *Trouble at the Core: The Twin Cities Under Stress*. November 18, 1992, p. 7.
- 6 The Metropolitan Council delineated the core area as the two downtowns, the Capitol complex, the University of Minnesota and midway area.
- 7 Metropolitan Council. *Trouble at the Core*, op. cit., p. 8.
- 8 Metropolitan Council. In this tabulation, minority refers to racial minorities and white includes white Latinos.
- 9 The Urban Coalition. *Profiles of Change: Communities of Color in the Twin Cities Area*. August 1993, p. 12.
- 10 "Twin Cities Core has worst poverty rate for minorities." *Star Tribune*. December 13, 1993, p. 1A.
- 11 There are at least two delineations of the Twin Cities metropolitan area in common use. The first is the seven-county area (Hennepin, Ramsey, Carver, Scott, Dakota, Washington and Anoka Counties) under the jurisdiction of the Metropolitan Council. The second is the U.S. Bureau of the Census' Metropolitan Statistical Area (MSA), which also includes Wright, Chisago, Sherburne and Isanti counties in Minnesota, and St. Croix and Pierce counties in Wisconsin. Unless otherwise noted, this report will use "metropolitan area" to refer to the seven-county area covered by the Metropolitan Council.
- 12 Metropolitan Council, *Trouble at the Core*, op. cit., p. 32.
- 13 *Ibid.* p. 18.
- 14 *Ibid.* p. 38.
- 15 "Selected Demographics Accompanying the Testimony of Representative Myron Orfield to the Committee on Local Government and Metropolitan Affairs," Minnesota House of Representatives, January 26, 1993 (from U.S. Census data).
- 16 Metropolitan Council, *Trouble at the Core*, op. cit., p. 29.
- 17 Minnesota Center for Survey Research, University of Minnesota. *Annual Twin Cities Area Survey*, 1990, 1991, 1992 and 1993.
- 18 Katherine L. Bradbury, Anthony Downs and Kenneth A. Small. *Urban Decline and the Future of American Cities*. Washington, D.C.: The Brookings Institution, 1982, p. 8-9.
- 19 *Ibid.* p. 4. The distress index combined unemployment, violent crime rate, per capita income, percent of population poor, percent of 1970 housing built before 1940 and city/MSA tax disparity). The decline index combined changes in the above factors.
- 20 Larry C. Ledebur and William R. Barnes. *City Distress, Metropolitan Disparities and Economic Growth* (combined revised edition). Washington, D.C.: National League of Cities, September 1992, p. 14.
- 21 Richard Voith. "City and Suburban Growth: Substitutes or Complements?" *Business Review*. Federal Reserve Bank of Philadelphia, September-October 1992, p. 27.

- 22 Richard P. Nathan and Charles F. Adams, Jr. "Four Perspectives on Urban Hardship." *Political Science Quarterly*, Fall 1989, p. 485.
- 23 Douglas S. Massey. "Renter's Apartheid: Segregation and the Making of the Underclass." *American Journal of Sociology*, 96:2, September 1990, p. 329-357.
- 24 Ronald R. Minny. "The Underclass: Concept, Controversy and Evidence." *Poverty and Public Policy: What Do We Know? What Should We Do?* Conference paper, Madison, WI: Institute of Research on Poverty, November 1992.
- 25 Metropolitan Council. *Trouble at the Core*, op. cit., p. 30.
- 26 Steven Cannon. "The Effects of Concentrated Poverty on Crime Rates in Minneapolis Tracts." Draft paper, December 5, 1993, p. 8. The analysis used receipt of public assistance income as a proxy for poverty, and examined the effect on Type 2 crimes over the years 1987-1989.
- 27 U.S. Department of Education. "Improving America's Schools Act of 1993: The Reauthorization of the Elementary and Secondary Education Act and Amendments to Other Acts." *Education Week*, October 20, 1993, p. 19-34.
- 28 U.S. Department of Education, op. cit., p. 19-34.
- 29 William Julius Wilson. "Race, Class and Poverty in Urban America: A Comparative Perspective." *Building Strong Communities: Strategies for Urban Change*. United Way of New York Lecture, April 30, 1992, p. 10.
- 30 *Ibid.*, p. 11 - 12.
- 31 Minny, op. cit., p. 22.
- 32 John S. Adams. "Balance Sheets for Cities? Why Not We Need Them?" *Minneapolis Cities*, March 1993, p. 17.
- 33 Bradbury, op. cit., p. 1-18.
- 34 John S. Adams. "The Meaning of Housing in America." *Annals of the Association of American Geographers*, 74:4, 1984, p. 516 and 517.
- 35 *Ibid.*, p. 524.
- 36 *Ibid.*, p. 520.
- 37 Wilhelmina A. Leigh. *Homeownership and Access to Credit*. Minneapolis, MN: University of Minnesota Hubert H. Humphrey Institute of Public Affairs, p. 5-7 (numerous separate studies cited).
- 38 Rossi and Schlay, 1982. Cited in: Anne B. Schlay. *Family Self-Sufficiency and Housing*. Paper presented at the Fannie Mae Annual Housing Conference, 1993, p. 11.
- 39 Anne B. Schlay. *Family Self-Sufficiency and Housing*, op. cit., p. 12.
- 40 Adams. "The Meaning of Housing in America," op. cit., p. 518.
- 41 Gregory R. Weither. *The Fractured Metropolis: Political Fragmentation and Metropolitan Segregation*. Albany, NY: State University of New York, 1991, p. 24.
- 42 *Ibid.*, p. 23.
- 43 *Ibid.*, p. 23.
- 44 Metropolitan Council. Materials distributed at June 22, 1993 meeting of MIDIF Issue Group #1.
- 45 John S. Adams. Testimony to committee on August 18, 1993.
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- 60 The Urban Coalition, op. cit., p. 35.
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- 64 Jeanne Massey. Testimony to committee on August 25, 1993.
- 65 *Ibid.*
- 66 *Ibid.*
- 67 Minnesota Planning.
- 68 Metropolitan Council. Materials distributed to committee on August 25, 1993.
- 69 Jeanne Massey, op. cit. Non-family households includes persons living alone and households with two or more non-related people living together.
- 70 Metropolitan Council. *Housing Chapter of the Metropolitan Development Guide*, op. cit., p. 15.
- 71 *Ibid.*, p. 15.
- 72 Federal guidelines define "affordable" housing as that which requires 30 percent or less of an individual's monthly financial resources. "Very low income" means that an individual's income is less than 50 percent of the regional median. "Low income" means an income between 50 and 80 percent of the regional median. "Moderate income" means an income between 80 and 100 percent of the regional median. In the Twin Cities metropolitan area, the median household income in 1990 was \$36,678.
- 73 Metropolitan Council. *Housing Policy for the 1990s*. Draft position paper, November 1993, p. 8.
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- 75 *Ibid.*
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- 80 In this usage, "entitlements" refers to those programs for which each person who meets the qualifying criteria receives the benefit. Some have argued that the value of mortgage interest deductions and other tax expenditures should not be considered "subsidies." They object to the implication that, as one person said, "government is entitled to all your money, and any money the government lets you keep is called a subsidy." The counter-argument is that in any given tax structure and at any level of expenditure, a reduction in tax for any group requires an offsetting increase in tax for someone else or a reduction in spending by an equivalent amount. Thus the tax expenditure is the moral and fiscal equivalent of spending on the favored group, and should properly be considered a subsidy. We are persuaded by the latter argument and use the word "subsidies" to refer to these tax expenditures.
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- 83 Minnesota Department of Revenue, Tax Research Division, 1992.
- 84 Craig Swan. *Rental Housing in Minnesota 1990: The Effect of whose extra cost was \$548.7 million in 1993*.
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- 104 Thomas Luce. Testimony to committee on September 8, 1993.
- 105 Oliver Byrum. Testimony to committee on September 15, 1993.
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- 109 *Ibid.*
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- 112 Weiher, *op. cit.*, p. 55.
- 113 *Ibid.*, p. xi.
- 114 *Ibid.*
- 115 Stein, 1987, cited in: Weiher, *op. cit.*, p. 92.
- 116 Bradbury, *op. cit.*, p. 205-208.
- 117 *Ibid.*, p. 208.
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- 121 See: Rosenbaum, James E. and Julie Kaufman, "Educational and Occupational Achievements of Low-Income Black Youth in White Suburbs," Paper presented at the Annual Meeting of the American Sociological Association, August 1991; Rosenbaum, James E., Marilyn J. Kulieke and Leonard S. Rubinowitz, "Low-Income Black Children in White Suburban Schools: A Study of School and Student Responses," *Journal of Negro Education*, 56:1, 1987; and Rosenbaum, James E., Marilyn J. Kulieke and Leonard S. Rubinowitz, "White Suburban Schools' Responses to Low-Income Black Children: Sources of Successes and Problems," *op. cit.*
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Conclusions: A New Regional Housing Policy



Q. Should the Twin Cities adopt an explicit policy of reducing the concentration of poverty within the region? If so, should such a policy deal with housing?

A. Yes to both questions.

All citizens of the Twin Cities should be concerned with the increasing concentration of poverty and with the widening economic and social disparity between the central cities and the urban region as a whole. Citizens and policymakers should be concerned out of self-interest: The region must deal with these issues or risk the health of its social and economic future. But citizens should also be concerned out of commitment to basic fairness. Government itself risks its legitimacy when it not only accepts but perpetuates unfairness.

At present, the region does not have an explicit policy or set of policies that seek to alleviate the concentration of poverty and slow or reverse the economic disparities between central cities and suburbs. The problems associated with poverty concentration and disparity have proven elsewhere to be self-reinforcing, so the Twin Cities can expect things to get worse in the absence of intervention. **New policies will be required.**

These policies should address housing, because housing policies have played and continue to play a critical role in shaping the patterns of prosperity and poverty in the region.

Current housing policies are inefficient. These policies and market factors have con-

tributed to the gap between the need for housing affordable to low-income people, and the availability of housing units or tenant subsidies to meet the need. The policies have led to economic disparities between cities and their suburbs and to concentrations of poverty, both of which have been shown to be detrimental to individuals and to the urban economy. By encouraging urban sprawl, the collective policies encourage massive investments in new infrastructure while allowing the existing housing stock and infrastructure to deteriorate. This is wasteful.

The policies are also unfair. The housing market is not a "free market." Though not always the product of conscious choice, the result of governments' present policies related to housing is a kind of social engineering that distorts the housing market and favors some citizens to the disadvantage of others. Housing policies tend to unfairly distribute both resources and individual choice away from those who already have the least resources and toward those who already have the most money and choices.

The policies are also unwise, since they exacerbate the social and economic polarization already developing.

The Twin Cities needs a better approach. The region must view its housing stock as a regional resource. The problems we are experiencing are regional problems, and the solution must be a regional solution. New regional housing policies are needed to:

- more adequately meet the needs of low-income households for affordable housing;
- reduce the concentration of poverty in heavily impacted areas;
- increase the stability of neighborhoods, particularly middle-class neighborhoods in the inner areas of the region;
- foster communities that integrate housing types that serve people of diverse household sizes, lifecycle stages and incomes;
- improve the fairness of the housing

market; reduce discrimination against individuals and barriers to groups and

- reduce the degree of racial segregation throughout the metro area.

To accomplish these purposes, the unit of government in charge of the housing policy must be large enough in scope to encompass all the relevant participants. A regional approach will require that the relationship between the State of Minnesota and local units of government be re-examined.

Citizens and local officials sometimes believe that their local governments have or should have nearly complete discretion over local matters. In fact, the state is the primary law-making entity. Municipalities are incorporated by authority of the state, and their powers are delegated to them by the state. Likewise, the state may delegate some powers to regional entities, if the policy objectives warrant regional decisions. New housing objectives clearly will.

Devising new housing policies will not be easy. Public policies have repeatedly recognized that government, the housing industry and individuals sometimes behave in ways that are unfair or against their own long-term interest and have sought to prevent such behavior. However, the laws have so far had little impact on the historic pattern of residential socioeconomic and racial segregation.

Housing has deeply symbolic meanings that have to do with family, identity, security, values, personal progress and social success. Policies that ignore these meanings are likely to be met with indifference. Policies that challenge these meanings are likely to be met with opposition. Policymakers must be sensitive to citizens' views. However, they should not simply respond. **Legislators and other policymakers must lead the way toward a new vision of community that includes tolerance of socioeconomic and racial difference.**

When designing new housing policies, policymakers and citizens must also recognize the complexities involved. New strategies, however well-intentioned, could result in unintended consequences that are at

least as problematic as the results of the earlier post-World War II policies have become.

Among the complexities:

- The market for housing is huge compared with the level of spending on direct "public" housing activities. Of course, public policies play a substantial role in shaping the rules within which this "private" market functions. Nevertheless, **the forces of the market—which drive land prices and supply, operating costs, investment decisions and consumer behavior—are powerful and not fully subject to the control of public policy.**
- While attention has justifiably focused on disparities between the central cities and the suburbs, it is important to remember that particular neighborhoods in the central cities are connected with older suburbs and developing suburbs along sector lines. For the upwardly-mobile, the cultural imperatives and fiscal incentives to leave middle-class neighborhoods and move out are almost irresistible.

Stemming the widening economic disparities will require attention to the role of housing in stabilizing middle-class and older neighborhoods in the inner portions of the metropolitan area. Are there houses available for growing families with young children? Does the housing "bundle" include a perception of adequate safety? Are the public services, including education, of high quality? **For policies to succeed, the incentives to stay in these older areas must prevail against the powerful incentives to leave.**

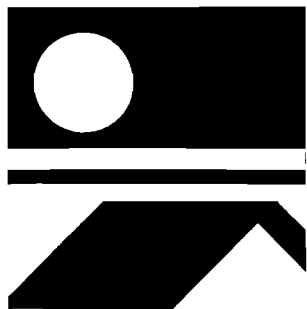
- New construction represents only a small part of the housing inventory at any point in time, and thus represents only a part of any comprehensive housing policy. **Remodeling, rehabilitation and demolition are at least as important, particularly when it comes to maintaining and improving the quality of housing in older areas.** Attempts to remove deteriorated

low-cost housing in these areas, however, have frequently been met with opposition by advocates for the poor, who fear that the overall supply of low-cost housing will dwindle.

- **Location seems to make a difference for individuals in poverty.** The opportunity for low-income inner-city residents to live in middle-class communities in suburbs and central cities does offer promise for some of these families to improve their circumstances, though the results may be more evident in the long run than immediately.
- **However, just increasing the supply of low-cost housing in the suburbs may not be enough to result in relocation or “dispersal” of significant numbers of current residents of inner-city neighborhoods.** Waiting lists for suburban subsidized housing are already long. New additions to the supply of low-cost housing would likely be filled by the substantial numbers of current suburban residents who are now living in poverty or near-poverty. If the goal is to enable inner-city residents to relocate, additional changes would be needed.
- **Past experience suggests that inner-city residents who do choose to relocate when housing opportunities are made available in farther-out suburbs are likely to be those who are the “best off” of the current poor residents of center cities and older suburbs.** They likely have more access to housing information, more money to pay for relocation, better transportation and (perhaps) greater motivation.
- **Thus, policymakers must be careful: A policy that focuses *only* on increasing the supply of low-cost suburban housing could reinforce the same pattern of suburbanization of the better-off that has led to our present housing landscape.** The difference would be that the central cities and older suburbs could be even worse off because it would be the poorest and most disadvantaged citizens who would be left in the core.

- **Suburban zoning policies have typically concentrated rental housing and separated it from single-family, resident-owned housing, and have otherwise separated lower-cost from higher-cost housing.** Low-cost housing developments may also be located far from transportation and other household and social services. **Increasing the supply of low-cost housing given current land use policies could result in concentrations of poverty and isolation within suburban communities.**
- **Racial prejudice is a deeply entrenched feature of the housing market.** Policies that attempt to increase the level of socioeconomic integration, but which don't recognize the importance of race and address it, may work differently than expected.
- **Housing is connected to everything else.** Indeed, one of the problems of the current landscape is that decisions about housing, transportation, social services, retail and commercial development are made independently. To achieve the goal of socioeconomic integration, communities must consider how all the pieces fit together.

Despite the difficulty of the task, however, citizens and the Legislature should move quickly and resolutely to bring a new perspective to the problems of the metropolitan area. They can begin by looking at how to design fairness and better value into public policies regarding housing.



Design Principles for Better Housing Policies



Design principles for better housing policies

The Twin Cities needs new housing policies to reduce the concentration of poverty in the region, stabilize older neighborhoods, and improve the fairness of the housing market. *How* should housing policies be designed to get those results?

A recent Citizens League report, *Minnesota's Budget Problem: A Crisis of Quality, Cost and Fairness*, offered a blueprint for the design of public services, in the form of five "design principles for better value." Before proceeding to specific recommendations for housing policies, we pause here to show how these design principles can provide a new perspective from which to begin a discussion of housing solutions.

Improving quality, cost and fairness in Minnesota's public services

Minnesota's Budget Problem said that Minnesota can expect slower revenue growth in the future than it has experienced in the past. If state and local governments wish to maintain their level of spending in this slow-growth environment, the governments will have to increase the "tax bite," the share of personal income paid for public services. But it will be unrealistic to expect taxpayers to agree to pay a much bigger share of their incomes than they are now. The pressures on their household budgets are too tight and their faith in government is too slim. So government will have to learn to do more with less, or at least more without more.

In other words, it is not safe to assume that the answer to the Twin Cities' housing problem, or any other public problem, will be "more money."

Citizens and policymakers must adopt a new view of the role of government, if they hope to get the results they require without relying upon increased public spending. The traditional view has been that the role of government is to dish out money. The problem is

that the system for delivering most public services does not connect the money that is dished out with the results that should be expected. In general, government and citizens do not require results from spending, nor do they require fairness as a result of redistribution.

The typical strategy for improving quality or boosting productivity in the face of budget constraints has been to exhort public managers and employees to work harder or smarter or to exhort citizens to be more virtuous and self-sacrificing. The problem is *not* that public employees—or elected officials, for that matter—are not talented or well-intentioned. Some are not—but even the hardest-working public employee or the most talented and enthusiastic manager are not likely to achieve long-lasting improvements in a system where the incentives are not designed to produce the desired results. And even those middle- and upper-income citizens who are sincerely concerned about the poor residents of the metropolitan area may be reluctant to welcome lower-income neighbors if the size of their tax bill is at stake.

Housing-related policies such as the Home Mortgage Disclosure Act, and the wide array of programs to expand affordable housing, have at best had limited impact on the concentration of poverty in the nation's urban areas. In large part, we believe, the failure results because the policies exist within the prevailing system of financial incentives that encourage the opposite behavior. Thus, the laws are working at cross-purposes not only with deep-seated cultural, class and racial attitudes but with rational economic self-interest.

In a battle between exhortation and self-interest, self-interest usually wins. Policies that rely primarily on exhortation can be expected to fail over the long run.

The Citizens League has said that **the purpose of government should be to design environments where individual citizens and institutions will be inclined to behave in socially beneficial ways.**

This statement accepts that government is—and always has been—about "social engineering." The point of policymaking is to decide,

in a democratic fashion, what the public interest is toward which we should be steering individuals' and institutions' self-interested personal choices. The important questions are: How should housing policies be arranged so that people are more inclined to behave in socially beneficial ways? Or, at least, how can policies be revised so that people who do the right thing aren't penalized?

There are three assumptions underlying the League's argument. First, government should let markets do what they do best—allocate resources. The “market” can be either the private market or new, public “citizen markets” that government itself sets into motion. Second, government should properly be concerned with redressing some of the inequities that inevitably arise in private market economies. Third, government should encourage individuals toward public-spirited behavior.

Minnesota's Budget Problem outlined five “design principles” that public policy makers should use when developing policies and public services:

1. Target public subsidies directly to people who are financially needy.
2. Use competition as a tool to align institutional self-interest with the public's interest in the quality and cost of services.
3. Allow prices of public services to reflect true costs, including the social costs of individual decisions.
4. Meet more public responsibilities through non-governmental communities in which people already have relationships of mutual obligation.
5. Consider long-term economic growth to be one of the objectives of state and local spending.

These five principles represent the very few methods that systematically link spending with results and systematically orient people to make choices that are compatible with the public interest. When applied, the principles shape a system in which the incentives are

lined up right, so that self-interest—not exhortation—is the driving motivational force. If public services are not characterized by at least one of these five principles, they can be expected to fail.

What is “the public interest” in affordable housing?

From the perspective of society as a whole, what would be considered desirable behavior on the part of individuals, housing developers and managers, local governments and other stakeholders?

First, we would hope that individuals would do what they could to avoid poverty and provide for their own economic needs. They would finish high school, go on to vocational training or other higher education and choose careers that would provide a decent living. They would postpone childbearing until marriage and plan their families with an eye to the financial and social resources they are able to bring to the task of parenting. They would save money to provide for unforeseen setbacks, to allow for future investments in housing or their children's education and to cover their retirement years. They would maintain their housing faithfully (whether it's their own home or a rental unit) and otherwise be good neighbors. If misfortune struck, they would turn first to a network of family, friends, church and neighbors, and when others were in trouble, would lend a hand. They would show tolerance and civility in their personal relations with others in their community, including people who were different from them.

We would hope that rental property owners would take good care of their properties, treat their tenants with fairness and respect and act as good citizens in their neighborhoods. We would hope that financial institutions would make loans to creditworthy people regardless of race, for home purchases and business development in all neighborhoods within their service area. We would hope that schools would provide a quality educational experience for all children, regardless of where they live or how much money their parents have. And we would hope municipal governments would act as partners with one another in solving problems they share.

A nice scenario! And obviously a far rosier picture, in most respects, than the current experience in the Twin Cities.

How can policies be arranged so that—without constantly forcing individuals or institutions to do what they don't want to do—people find themselves more inclined to make choices that serve the public good? (Self-interest, of course, includes not only economic motivations but the natural concern people have for their families and friends.) It should be clear that simply exhorting landlords, bankers, school superintendents and city councilmembers and homeowners to be good people will not get us to the picture painted above.

What follows here is a brief discussion of how to apply the five principles to achieve better value and more fairness in housing. The final section of this report presents specific recommendations that flow from the findings and these design principles.

Design principles for better value in housing

The critical step, we believe, involves reducing the extent to which government has inhibited the positive contribution of competition in the housing market. Thus, we take the five principles out of order, and begin with the second.

Use competition to align institutional self-interest with the public's interest in the quality and cost of services.

In private markets, competition prevents the concentration of power in the hands of individuals who might define the public interest as equivalent to their own personal ambition. Only when customers have choices are producers required to give customers what the *customers* want.

In many respects the housing market works very well. But as we have seen, it is not a "free market."

- The fragmentation of the region into multiple local governments creates constituencies with parochial interests and jurisdictions with the power to control the market to serve those interests. Municipalities, like monopoly firms, can define the public interest as being equivalent to their own self-interest, and may manipulate housing price and supply (using zoning and other policies) in what can be viewed as a form of restraint of trade.
- The existence of multiple units of government also encourages "externalities"—that is, the practice of avoiding costs by pushing them onto others. This market failure accounts for some of the differences in local property taxes.
- Housing prices are distorted by tax policies that lower the price of owned housing, making rental housing less competitive than it otherwise would be.
- Discrimination prohibits consumers from exercising the full range of choice they otherwise would have at any given level of income.
- Information barriers may prevent low-income and minority residents from one geographic area from being aware of housing alternatives in other areas.

To apply the second design principle to housing, policymakers should look at how to clean up the distortions that now prevent the private sector from responding to the needs and desires of low- and moderate-income housing consumers. They should focus on realigning the incentives in the marketplace so that the invigorating effects of competition can supply housing of appropriate quality and price and in locations that are not segregated.

Of course, the housing market, like the market for other goods and services, does not respond well to the needs of consumers who have very little to spend. But once the market distortions that thwart private providers from supplying lower- and moderate-cost housing are alleviated, the affordability problem can be remedied by putting dollars or vouchers into the hands of needy individuals and letting

them choose their own housing from the array provided by the marketplace. It is not necessary, with this arrangement, for government to determine "what poor people want" or where poor people should live, only to allow them to decide for themselves where they belong.

Some public financing is already provided in the form of Section 8 certificates and vouchers. Since the market for housing is dysfunctional now, merely giving individuals housing vouchers has not and probably will not do much to reduce the concentration of poor households in the core areas. The second design principle stresses that housing policies must also put the conditions in place that enable the market to work well, so that individuals—subsidized, if necessary—can exercise choice.

For example: Make housing policies, in part, on a regional level, so that local governments are unable to act like monopolists. Strengthen enforcement of anti-discrimination laws. And provide information to low-income people and people of color about housing opportunities in a variety of geographic locations.

Allow prices of public services to reflect true costs, including the social cost of individual decisions.

Current housing policies often disguise the true cost of the housing unit and related public services and distort citizens' choices about how to spend their money. While the extent of the unaccounted-for costs has not been measured, it is clear that the prices of new suburban housing units do not reflect their marginal social costs—costs that include extensions to highways and other infrastructure and the related deterioration of housing units at the end of the "vacancy chain."

Housing prices consumers face should reflect the real costs associated with their choices. The third design principle suggests that policymakers should limit the prerogative of local governments to artificially raise or lower housing prices (such as by restrictive zoning) in different cities within the metropolitan area.

Policymakers should also limit the degree to which home ownership is subsidized. When government lowers the price to consumers of

owned housing, it is no surprise that people are spurred to purchase ever bigger and newer housing.

Public services related to housing—transportation and infrastructure such as sewers—should also be priced so that consumers of the service pay a proportionate share of the costs of these services. These costs are intimately related to the "price" of different housing choices. Subsidized highway use, for example, contributes to the artificially low cost of suburban homeownership. Congestion pricing systems, by contrast, are designed to reflect the fact that peak-hour auto commuters place higher demands on highway infrastructure. Those commuters should face prices that reflect the high social cost of freeway commuting.

Target public subsidies directly to people who are financially needy.

Targeting, when applied to housing, leads to three strategies:

First, government should provide housing subsidies to individual homeowners and renters on the basis of financial need. That means limiting the various tax benefits provided across-the-board to homeowners—benefits that are either random or regressive in how they redistribute resources. If homeownership yields substantial benefits to society beyond those benefits enjoyed by the individual homeowner, it may be appropriate and desirable for government to reduce the price of owning a home in order to promote consumption. However, policymakers should ask: How much housing consumption is enough to obtain the social benefit? How much subsidy is needed to promote that level of consumption? How should the subsidy take into account the financial circumstances of the household? The answers should determine how housing subsidies are designed.

Second, government should strive to provide the subsidies directly to housing consumers, not to developers, landlords or units of government. Give housing consumers money or vouchers and let them decide how and where to live. Subsidize consumers, not producers, keeping the playing field of producers even and subject to the goad of competition. In

general, providing subsidies directly costs less and empowers consumers more.

Third, provide housing subsidies only to ensure a basic level of service. Government does not have an obligation to subsidize an unlimited level of service. In the case of housing, for example, government has no obligation to subsidize a poor household's desire to live in a luxury apartment in a prime lakefront location. Nor should government subsidize a high-income household's choice to own an opulent mansion, vacation home or yacht.

When government provides subsidies to low-income households to assist with housing affordability, the subsidies should, however, allow for a reasonable range of choice of housing location. Some may argue that government has no obligation to enable a low-income household to live in a community where the market price of housing is higher. But government policies themselves have contributed to these price differentials and have helped to impose on those who are already poor the additional personal and financial costs associated with poverty concentration. Recipients of housing assistance should not expect government to pay for unlimited choice. They should expect a reasonable range of location options.

Meet more public responsibilities through non-governmental communities in which people already have relationships of mutual obligation.

The fourth principle recognizes that families, ethnic organizations and neighborhoods perform a variety of public purposes including child rearing, caring for the infirm and education. They are producers and problem-solvers. Government has another stake in nurturing these communities, however. Mutual ties of obligation, attitudes of loyalty and commitment and habits of "other mindedness"—civic virtue—developed in these private communities are a form of social capital essential for democracy itself to survive.

When poverty becomes concentrated, communities become vulnerable to a host of other problems and residents have a harder time improving their own lives. When metropolitan

areas develop wide chasms between social worlds, the civic infrastructure erodes.

Housing policies should permit and encourage those ties among members of a community that enhance their ability to solve their own problems. For example, government should encourage land-use policies that accommodate households in different stages of the life cycle and different economic levels, and avoid isolating people who are poor, elderly or disabled in certain areas.

More of a challenge is creating a civic infrastructure for our regional community. While citizens and political leaders now acknowledge that all the communities of the Twin Cities share a common interest, there is little in our present political system that enables citizens to think of themselves or act together as citizens of a regional community.

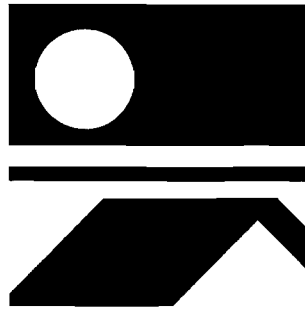
The fourth principle also points us to the question of how public policies could be revised to promote families' own abilities to provide for their housing needs, thus lowering the demand for publicly-assisted housing. This question is outside the scope of this report, but is intimately connected with the issues of housing and poverty. For example, how can policies encourage people to avoid too-early or unwed parenting, which so often leads to poverty? How can policies encourage couples with young children to stay together? How can policies encourage teenagers to complete their education?

Consider long-term economic growth to be one of the objectives of state spending.

How the public sector spends money is important. Policymakers must consider how the methods employed to solve the region's housing problems will affect the vigor of the state's economy over the long run. They should ask questions such as:

- How can government encourage homeownership, which is the main form of households' private saving, without encouraging overconsumption of housing (to the detriment of other forms of productive investment)?

- How tightly should regional growth policies limit investments to new infrastructure at the fringes of the region?
 - If public policies are changed so that the costs of suburban expansion are actually reflected in the prices of housing, transportation, and so forth, what will be the effect on business growth?
 - Given the global economic forces we have heard about, how can government capitalize on the emerging economic strengths of central cities and suburbs? How should government invest in central city revitalization to foster long-term economic prosperity?
 - How do the effects of poverty concentration affect the ability of young people to meet the educational demands of the changing economy, and how should schools and other institutions deal with these challenges?
-



Recommendations



Q. What should be the elements of a regional housing policy? Who should implement and enforce the policy?

A. Let's look at these questions in three steps.

The first step is to create the process for devising the regional solutions that are so urgently needed.

The second step is to consider what the regional policy should look like. In this section, we suggest the elements that should be considered for inclusion in the policy. This checklist might serve as a beginning workplan for those who will investigate alternatives and craft the details of a regional policy.

The third step is to look at what changes will be needed at the state and federal level in order to maximize the regional policies' chance of success.



Recommendations to the Legislature: Creating a regional housing system

RECOMMENDATION 1:

The State of Minnesota should designate housing in the metropolitan area as a regional system.

The evidence is clear that the Twin Cities housing market is a regional market. Actions—whether by individuals or institutions—taken in one part of the metropolitan

area profoundly affect the rest of the region. The Legislature should begin by acknowledging that housing is a regional resource and that housing policy decisions should be regional in scope.

RECOMMENDATION 2:

The State of Minnesota should delegate to the Metropolitan Council the responsibility for proposing what policy objectives should be met, and how the regional housing system should be operated and the policies enforced.

The Legislature's direction should require that the Council's proposal:

- be developed in cooperation with local governments and with active public participation;
- include a description of the specific housing objectives to be met;
- indicate the strategies that will be used to achieve the objectives and
- specify the authority the Council will require to implement and enforce the policy.

The Council should be directed to submit a preliminary report on the first steps of the plan by the January following the Legislature's instruction. The final plan should be submitted by the following January.

There is substantial precedent for this approach. For example, the Metropolitan Land Use Planning Act of 1976 empowered the Council to devise a regional growth management strategy and required local governments to devise compatible local plans.

This recommendation, if implemented, would set up a democratic process for defining the result that is most beneficial for the region, then ensuring that the conditions in the regional market are aligned to encourage that result.

We believe the creation of a regional plan is crucial. The problems the region is facing are

complex. The links between housing and the problems of poverty concentration are important but the solutions are not always clear. The best hope for a successful result lies in engaging all the stakeholders in a process of crafting a comprehensive, well-thought-out plan. This process also would focus attention on sorting out and redefining the relationships between the local, regional and state governments.

The Legislature must address issues of geographic scope and accountability if the housing system is to operate effectively as a truly regional system.

Many of the Twin Cities' current problems have arisen because local boundaries tend to encourage parochial behavior, even among well-intentioned people. The impact of boundaries should not be ignored at the regional level. "Leapfrogging," the tendency of development to skip to the outer boundaries of a jurisdiction in order to avoid the policies of that jurisdiction, is a danger for regions as well as municipalities.

To avoid leapfrogging, the metropolitan regional boundary must be drawn widely enough to encompass the areas closely connected with its economy. The U.S. Bureau of the Census has already recognized that the Twin Cities metropolitan area now reaches beyond the seven counties of the Metropolitan Council's current service area. The Legislature should do likewise as it moves toward regional policymaking on housing. **The geographic scope of the Metropolitan Council's authority should be expanded to the 11 counties in Minnesota within the Twin Cities Metropolitan Statistical Area.** That scope must apply to the various systems under Council jurisdiction, such as transit and sewers, since housing policy is integrally related to these other systems.

(Lawmakers should also consider the ramifications of the Minnesota-Wisconsin border. The complexities of inter-state policymaking are beyond the scope of this report. However, as the Twin Cities housing market continues to expand into western Wisconsin, it will become increasingly important to consider how the two states' common interests are addressed by their separate policies.)

The recommendations in this report would, if adopted, expand the authority of the Council considerably—in geographic scope, as well as by partially superceding the authority of municipalities. It has long been the position of the Citizens League that effective and accountable regional governance requires election of Council members. **Given the expanded authority to set housing policy recommended here, the election of Council members is even more important to ensure proper accountability to citizens.** An elected regional government also begins to develop the civic infrastructure of a regional community.



Suggestions to the Metropolitan Council: Elements of the regional policy

It is beyond the scope of this limited study to specify the details of a regional policy. What follows is a preliminary vision of how the system would work. This section begins with a restatement of the goals we think appropriate, and the breadth the plan should aim for.

The section continues with a discussion of some elements that could be included in the policy. These should be viewed as suggestions rather than recommendations; the suggestions were guided by the "design principles for better value" noted in the previous section. We encourage the Metropolitan Council to consider these suggestions as the plan is developed.

RECOMMENDATION 3:

The regional policy should arrange incentives to promote certain community characteristics throughout the metropolitan area that contribute to the region's well-being over the long run. At the risk of overstatement, it is important to stress that the policy should *not* be aimed simply at exporting poverty to the suburbs. **The policy should aim to:**

- **increase the availability of housing opportunities** affordable to low-income people throughout the region;

- **reduce the concentration of poverty** in areas where poverty now prevails;
- **increase the stability of neighborhoods**, particularly middle-class neighborhoods in the inner areas of the region;
- **foster communities that integrate housing types** that serve people of diverse household sizes, lifecycle stages and incomes;
- **improve the fairness of the housing market**, reduce discrimination against individuals and barriers to groups and
- **reduce the degree of racial segregation** throughout the metro area.
- promote increased low-cost housing in fast-growing suburban areas;
- link expansion of low-cost housing in undersupplied areas with reductions in the supply of low-cost housing in over-supplied areas;
- promote alternative land use design concepts and development regulations that permit and encourage economically integrated communities;
- promote integrated low-cost housing options such as accessory apartments, co-housing and home boarding, particularly in areas where single-family housing currently predominates;
- facilitate links between housing and related services such as transportation and between housing and commercial development;
- reduce racial segregation in Twin Cities housing markets, and in publicly-subsidized housing.

RECOMMENDATION 4:

The Council should consider a broad range of strategies—some implemented at the regional level and some by local governments—to accomplish the goals of the regional policy.

The emphasis of the strategies should be on redesigning policies so that the structure of incentives encourages the private sector to respond appropriately. Public policies have hindered the market from responding to existing needs. We believe that a great deal could be accomplished by reducing these disincentives and allowing the market to do what it does best. Of course, public sector initiatives and funding will continue to be needed to enable those with very few resources to obtain the housing they need. And a public role will be essential to enable the market to be truly open, competitive and choice-driven.

The plan should include an array of strategies to:

- improve the incentives to maintain housing in older, lower-cost housing areas;
- allow obsolete housing to be removed quickly, and either replaced with homes of greater value, or the land converted to commercial uses that could provide jobs to those who live nearby;

Developing the regional policy: Some considerations

Many complex questions will have to be answered before the details of the regional housing plan can be refined. For example: *How* can policies create the needed linkages between central-city and suburban strategies so that the concentration of poverty can be reduced? What are the existing programs and incentives in the marketplace and provided by the public sector that appear to be successful and cost-effective? Who in the region should be responsible for the various pieces of the housing policy?

We address a few of these questions here.

What should the process be for implementing the policy?

We envision that in this new regional system, the Metropolitan Council would define the policy objectives more specifically, collect

baseline data, and design evaluation criteria and methods.

The policy would specify numerical goals for the expansion of low-cost housing in areas that are currently undersupplied. It would also specify numerical goals for the upgrading of housing and deletion of deteriorated housing stock in areas where low-cost housing predominates. The Council would develop the housing plan in tandem with plans for infrastructure, transit and other services.

Local governments would be required to prepare plans to diversify their housing in accordance with the specified goals. The Council would review and approve the plans, then evaluate results. The Council would be empowered to offer inducements and to enforce penalties for noncompliance (more on this issue later).

How would the numerical goals be set?

Setting goals is a necessary part of implementing any policy, and an entirely appropriate role for the Council. How should the goals be determined? We are not inclined to favor an approach that simply assigns a "fair share" of affordable housing based on a municipality's share of the total metropolitan population. We suggest instead the following approach.

First, the goals for low-cost/low-income housing would encompass publicly-subsidized housing units, tenant-based subsidies used in market-rate units, and low-cost, market-rate "slots" (which could include arrangements such as boarding). The emphasis would be on the housing opportunity offered to low-income *individuals*, not simply on numbers of publicly-subsidized *units*.

Second, the goals for low-cost/low-income housing would be set not simply for municipalities, but for communities of 25,000 to 35,000 people within each larger municipality. The goal is to nurture communities in which people of different incomes may coexist, and in which members have a sense of mutual obligation. A smaller "community" unit is needed in order to avoid the perpetuation of ghettos and the creation of new pockets of poverty. It is not enough to have one numerical goal for the largest cities, especially when

they already contain some areas of high poverty and other areas with virtually no low-income households. Most larger cities now divide themselves into neighborhoods and group these into larger communities for various planning purposes. It is that set of communities around which the larger cities' goals would be set.

Third, a number of factors would be considered when developing housing goals for a community. These factors influence the capability of a community to successfully integrate lower-cost or subsidized housing. Considering these factors—rather than relying on a contract or formula—would help ensure that the goals advance the region's policy objectives, given the different circumstances in each community. The factors would include:

- rate of population growth or decline;
- extent of current over-representation or under-representation of low-cost housing units;
- extent of current concentration of low-income or minority people;
- economic feasibility;
- presence of, and rate of growth in, jobs that are accessible to lower-skilled workers;
- presence of or plans for specific commercial developments that add to the population of low-wage employees in the area;
- access to public transportation;
- access to household services (grocery stores, etc.) and social services.

How would the policy be enforced?

The reluctance of some local governments to encourage affordable housing arises in large part from the incentive system now in place. These incentives tend to encourage even those with the best of intentions to avoid development they perceive as costly. With a regional system in place, that incentive system should change for the better.

However, the policy must not rely on spontaneous voluntary cooperation alone. The Metropolitan Council's own experience has shown that regional policies can be implemented effectively when backed by significant inducements and enforcement authority.

The Council might consider creating positive inducements to spur local initiative. For example, a metropolitan "development and redevelopment fund" could be created with revenues from a regional levy and other sources, and awards made to local governments meeting certain criteria for new housing strategies. (As noted earlier, however, new housing strategies should not *depend* on new spending, which will be increasingly difficult to secure in a slow revenue growth environment.)

Significant penalties will also be needed to enforce compliance among communities who fail to make progress toward meeting their goals. Penalties should be carefully chosen. Again, the scope of this study did not permit a full analysis of the options and their impacts. We are inclined to think it appropriate to make approval of MUSA and highway extensions contingent upon satisfactory progress toward achieving housing goals. Areas that enjoy the benefits of development should be required to share in the responsibilities of development.

Some have suggested that state-paid aids to local governments, such as Local Government Aid (LGA) and Homestead and Agricultural Credit Aid (HACA) be contingent upon achievement of housing goals. The Legislature should proceed with caution here.

The Citizens League has pointed out in past reports that Minnesota's system of providing property-tax relief, which favors these grants to local governments, has significant problems with equity, accountability and efficiency.¹ The League has recommended eliminating or reducing the LGA and HACA programs and instead providing a greater share of property-tax relief directly to taxpayers based on the relationship between their incomes, wealth and property-tax bill. Given the significant flaws in these programs—even with regard to achieving their stated objectives—the state should be skeptical about using them for an entirely new purpose.

Other questions to consider

Should the new system place any limitations on municipal governments' discretion in matters of zoning, permitting and development regulations? Unlimited municipal authority over such matters does play a role in the problems of disparity and poverty concentration. Standardizing some requirements would curb local governments' ability to use such regulations over-zealously to block low-cost housing and could also reduce bureaucratic costs that hinder affordability.

There are different ways to alleviate the temptation of local governments to use their authority to avoid responsibilities for housing affordability. One approach would be to leave zoning and development authority in the hands of local governments and require only that the communities achieve certain housing results specified in the regional plan.

Another approach would deregulate the market even further: The regional plan would include some basic standards that would apply to all metropolitan municipalities. Local governments contemplating building or zoning code changes that would exceed the basic standard would be required to apply to the Council for amendments or variances, and the request would be accompanied by a statement identifying the impact of the change on housing affordability.

Yet another approach would involve lessening the incentive on municipalities to emphasize high-end residential development, by capturing a portion of new residential property valuation (over some pre-determined home price, for example) and sharing it regionally. In essence, this would be an expansion of the current commercial-industrial tax-base sharing (fiscal disparities) law to achieve a new purpose. This study did not analyze the impact of such a policy. The concept is appealing, however, and worth further study.

A fourth approach would combine elements of all three of these strategies.

Can or should property-tax policies be changed to create better incentives for property owners and municipalities? For example, what would be the effect of a two-

tiered property-tax system in which land values are taxed at a higher rate than the structures on the land? Such a system appears to provide a greater incentive for property owners to maintain and improve their properties and decreases the incentive to hold land for speculative purposes. The Council should consider the extent to which such a two-tiered system would help to achieve the goals of a regional housing plan.

Likewise, the Council should consider whether some public services that are now financed by municipalities should instead be financed regionally or by the state. In general, public services that are regional in nature should be financed regionally. Otherwise, individuals and municipalities may—and generally do—attempt to avoid paying for costs they help to incur.

What strategies are needed to reduce racial segregation in the Twin Cities housing market and ensure that anti-discrimination laws are adequately enforced? Clearly, more vigorous state and federal enforcement of Fair Housing Act rights is needed. However, other regional strategies may also be appropriate. The Council, perhaps in cooperation with an expanded private Minnesota Fair Housing Center, could:

- operate a testing program to detect race discrimination in real estate brokerage and sales, lending, insurance and publicly-assisted housing;
- consolidate local waiting lists for publicly-assisted housing so that housing units throughout the metro area are available to all those eligible for assisted housing on a first-come, first-served basis;
- affirmatively market housing options in areas unfamiliar to applicants;
- coordinate these marketing efforts with county case managers, community organizations, schools and employers and
- work to modify media practices that contribute to segregation.

Should the Metropolitan Council actually provide various housing services to individuals, cities or developers? The Council currently operates its own Housing and Redevelopment Authority, which administers the Section 8 subsidy program in several suburban communities. Should the Council provide other direct services? For example, if the plan determines that a “one-stop permit shop” for developers and remodelers is needed, should the Council operate such a program?

In general, we prefer that the organization that creates and administers a policy *not* also deliver the services required by the policy. Such an arrangement builds in an inherent conflict: The policymaking organization is supposed to represent the public interest by arranging for services that meet public needs, but, like all organizations, it also has its own interests. The Council may determine that some housing services should be provided by the public sector at the regional level. If so, it should consider various models of service delivery that minimize this inherent conflict between public and institutional interest.

Will current state laws have to be changed?

We favor repealing the state statute that requires one-for-one replacement of low-income housing in areas where such housing already predominates, and instead replacing deleted units throughout the region. The present statute effectively prevents deteriorated neighborhoods from upgrading and increasing the diversity of their housing stock. Deletion of deteriorated inner-city units should be linked with strategies to expand housing opportunity in other communities to ensure that the total availability is not diminished. (These strategies can include providing subsidies that enable individuals to secure existing market-rate units.)

The question of funding

We acknowledge that there are more people needing low-cost housing than there are low-cost units available. Filling that gap costs money. It costs money whether that mismatch is solved by constructing new units, by improving old units or by simply giving individuals money. The demand for spending on housing subsidies is currently outstripping the amount of money devoted to this purpose.

Many of the recommendations in this report will also require resources. We do not attempt here to solve the problem of how to finance and pay for new and better housing options, an admittedly huge problem. That will be one of the major tasks involved in creating the regional plan. We do suggest some options that should be considered, and a few that merit a more cautious approach.

First, the regional policy could make a substantial impact if it simply made use of existing funding to meet the goals described here. For example, funding provided through existing mechanisms, such as the state's property-tax relief programs, could be reallocated in a more targeted way to needy households. Similarly, the savings achieved by reducing across-the-board homeowner subsidies to could be directed to expanded assistance to needy households (see Recommendation 5). Increasing the number of suburban landlords who accept Section 8 tenants *increases the range of housing choices* even if the *level* of funding is not increased. (Of course, any reallocation must be done gradually, as housing options are expanded and as consumers exercise their own choices, not as an immediate, forced relocation.)

Second, the Metropolitan Council could use its fiscal authority to levy a regional property tax or to issue revenue bonds.

Some have proposed expanding the use of tax-increment financing and altering the regional tax-base sharing law as strategies to increase the resources needed for housing programs.

The Legislature should not permit expansion of tax-increment financing (TIF), beyond its original purpose, without considerable study. The Citizens League has previously noted that, while public assistance for real estate development is sometimes appropriate, mechanisms such as TIF are accompanied by and lead to a host of problems. The League has urged the Legislature to tighten up tax-increment financing to make that mechanism more accountable now, and to phase out TIF in favor of other mechanisms that emphasize direct sources of revenue, on-budget decisions and targeted assistance.

The tax-base sharing (fiscal disparities) system, on the other hand, is working well. The fiscal disparities system was designed to discourage parochial competition for commercial development by placing 40 percent of a city's increased tax base into a regional pool.

Some have proposed that fiscal disparities be amended to permit municipalities to retain a portion of their increased tax base, and therefore revenues. The revenues would be directed to housing affordability efforts. The Citizens League has previously noted that fiscal disparities has become part of the underlying structure of the property tax in the metropolitan area. Reducing the contribution rate, such as by allowing municipalities to retain a portion of their increased tax base, would increase commercial-industrial taxes in the cities that already have the highest tax rates.²

Other proposals, such as to expand fiscal disparities to include high-priced residential property in the calculation of tax base growth, represent a departure from the original purpose of the law. As mentioned earlier, the concept is appealing, particularly as a method for reducing inappropriate fiscal incentives on local governments, and worthy of further study.

There are many unanswered questions about how a residential fiscal disparities system would affect local tax rates, including the rates on commercial/industrial and multifamily rental property. Before making such a change, policymakers should compare this proposal with other alternatives to meeting the two separate goals of correcting inappropriate incentives and raising revenues. For example, what about simply funding services that are regional in nature (like police protection) with a regional tax? Or imposing a surcharge on *new* housing of more than a certain value? The Legislature should pursue these questions, and in the meantime should contemplate changes to fiscal disparities with caution.

The scarcity of housing dollars should not be cause to abandon reform. Even at the current level of funding, the Twin Cities should do better at providing housing oppor-

tunity to people throughout the region. New policies can achieve better results and more fairness now. With improved policies in place, any additional dollars will have a better chance of making a dent in the troubling pattern of poverty concentration and economic disparity.



Recommendations to the State Legislature and Congress: Revising tax policies, enforcing anti-discrimination laws

RECOMMENDATION 5:

Revise income and property-tax policies that penalize low-income people and subsidize sprawl.

Subsidies for housing should be targeted to individuals who are financially needy. The federal government and the State of Minnesota should limit across-the-board subsidies provided to homeowners regardless of their incomes and wealth. We acknowledge that these benefits have become viewed as entitlements. Limiting the benefits is not likely to be popular with homeowners, who represent a powerful political force. Other strategies should not wait for these policies to be revised. But unless the changes are made, all the other strategies we have suggested will be fighting against powerful contrary incentives.

The State of Minnesota should:

- phase out the preference for homestead property in the property-tax code, and tax homestead and residential rental property at the same rate;
- lobby the federal government to reduce subsidies for home ownership and to increase funding for housing subsidies for poor people;
- cap the amount of interest on a home mortgage that can be deducted from

income for state income-tax purposes, and eliminate the deduction for a second home and

- direct the savings achieved from these measures to other forms of housing assistance that are targeted on the basis of financial need.

The federal government should:

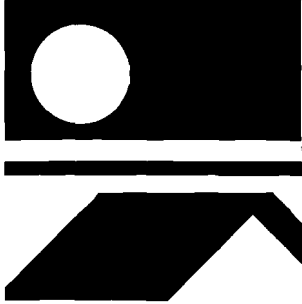
- cap the amount of interest on a home mortgage that can be deducted from income for federal income tax purposes, and eliminate the deduction for a second home;
- cap the amount of local real estate taxes that may be deducted from homeowners' income;
- put tighter limitations on the exclusion of real capital gains (from home sales) from income for those over age 55, perhaps through a circuit-breaker type mechanism that considers the relationship between current income and the value of capital gains; and
- direct the savings achieved from these measures to other forms of housing assistance that are targeted on the basis of financial need.

RECOMMENDATION 6:

The federal, state and local government should substantially increase their commitment to and aggressiveness in enforcing Fair Housing rights.

It is important to stress that the policies we recommend are not intended to prevent persons in racial or other minority groups from living in neighborhoods that are predominantly minority, if they choose to do so. The policies are intended to stem those practices that now prevent members of minority groups from exercising choice, and replace existing policies that, in effect, steer minorities to certain areas.

-
- ¹ Citizens League. *A First-Class Property-Tax System* (1987), *Remaking the Minnesota Miracle* (1990) and *Minnesota's Budget Problem: A Crisis of Quality, Cost and Fairness* (1993).
 - ² Citizens League. *Statement on Changing the Fiscal Disparities Law*, January 15, 1988.



Postscript



Q. To what extent do new housing policies represent a path to economic opportunity for low-income citizens, and the problem of poverty concentration within the region?

A. Housing is important, but other strategies will also be needed.

It is difficult to say with precision just how much the housing market and housing policies have contributed to concentrating the poor and the affluent in virtually different worlds. It is clear that the role has been substantial. We are convinced that improved housing policies are a necessary step toward alleviating these concentrations.

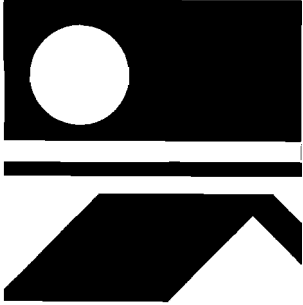
The Twin Cities has already begun to experience some of the distress that goes along with poverty concentration and segregation. The problems are here. The time to take action is upon us.

The need for urgency should be tempered by an understanding of the long-term consequences of housing policies. New policies should reflect a long-term view and should work together in a comprehensive strategy. Too many of our current problems were caused by past solutions that failed to do so.

Housing is only one part of the response to the Twin Cities' challenges, however. To deal with the problems of poor individuals and communities, the state and region will need to attend to a broad range of issues, including education, transportation, public safety, welfare policy and economic growth—all of

which are well beyond the scope of our work. Housing is connected to everything else. Indeed, one of the problems of the current landscape is that decisions about housing, transportation, social services, and retail and commercial development are made independently. To achieve the goal of socioeconomic integration, communities must consider how all the pieces fit together.

Initiative will be needed both from the public and private sectors. Business, religious, civic and philanthropic institutions have already contributed valuable leadership. More will be needed. Government and the private sector together must bring a clearer regional vision to challenges facing the Twin Cities.



Appendix A

Work of the Committee



Charge to the Committee on Housing Policy and Metropolitan Development

Background: Legislators offered and debated several proposals during the 1993 Legislative session that addressed the growing social and economic polarization in the Twin Cities metropolitan area. One of the most controversial was approved by both the House and Senate before meeting with a gubernatorial veto.

That bill attempted to correct a mismatch between the fast growth in new jobs in the outer rings of the metro area—particularly the southwest suburbs—and the need for jobs among citizens in the urban core. The full proposal included many interrelated strategies to correct this mismatch. One of the major provisions attempted to remove barriers that inhibit the diversity of housing choices, including low-cost housing, in some suburban communities.

This proposal, and similar alternative proposals, have shaped the terms of current discussion about metropolitan development and governance.

Charge: The Citizens League study committee should systematically examine the key assumptions behind the current proposals for new housing policies. Are the assumptions true? For example, what is the evidence that proximity of low-cost housing to jobs increases employment prospects for disadvantaged people?

The committee should answer the following questions:

1. Are there additional costs to society when poverty is concentrated? (Are 100 low-income individuals in one community more “costly” than ten low-income individuals in ten communities?)
2. Does dispersing poverty help to ameliorate poverty? (Do low-income people find their chances of economic advancement improve when they live in socioeconomically mixed communities?)

3. Should the metropolitan area adopt an explicit policy of reducing the concentration of poverty, and economic and social polarization, within the region?
4. Do current housing policies contribute to the concentration of poverty? What other factors, such as race discrimination, contribute to polarization?
5. To what extent do new housing policies represent the solution to the problem of economic opportunity for low-income citizens, and the problem of economic polarization?
6. What should be the elements of a regional housing policy?
7. Who should implement and enforce the policy?

The assumptions to be examined and tested include the following:

- The core communities of the Minneapolis-St. Paul metropolitan area are following the path of social and economic decline that has occurred in the larger cities of the U.S. Concentration of poverty produces negative social consequences. The middle class and private economy are fleeing from the concentration of poverty and its attendant ills to rapidly developing suburbs.
- Municipal policies and other factors have created exclusive housing markets in many affluent suburbs where jobs are growing the fastest. There is a pent-up demand for low- and moderate-income housing in these communities. If local zoning were relaxed, market forces would help supply appropriate housing.
- Geographic access to job-rich areas helps create employment. Even for socially and economically isolated people, proximity to jobs has a major positive effect on employment. Increasing the supply of low-cost housing in fast-growth suburbs increases proximity and thus improves the employment chances of disadvantaged people.
- Suburban communities currently receive a disproportionate share of infrastruc-

ture investment such as highway and sewer aid. It is appropriate for the region to enforce its housing policies by extending or withholding infrastructure investment and property-tax relief to municipalities.

Committee Membership

The committee was chaired by Randy Peterson. A total of 73 committee members took an active part in the work of the committee. In addition to the chair, they were:

Edythe Abrahamson	Margaret Kirkpatrick
John S. Adams	John A. Knutson
Leonard Adler	Brent Korengold
Mary Anderson	Gregory E. Korstad
Tom Bellamy	Dianna M. Krogstad
Marietta Booth	Peter Lancaster
Pauline M. Bouchard	Raeder Larson
John Burger	Lawrence E. Lee
Jim Casebolt	Kathleen Lewis
Erwin J. Chorn	Richard Little
David T. Christianson	Dean A. Lund
John T. Clawson	Mary Ann McCoy
Walt Cooney	Anthony Morley
Pat Cragoe	James L. Myott
Pat Davies	William K. Nelson
Fran Davis	Jim Newland
Jagadish Desai	Patrick R. O'Leary
Dirk DeVries	Edward C. Oliver
Robert R. Distad	Andrew Parker
Ron Dody	Barbara L. Portwood
W. D. Chris Donaldson	Mark A. Pridgeon
Bright M. Dornblaser	Donald J. Priebe
James E. Dorsey	Ron Salmela
Kimberly Erickson	Cynthia Schaedig
Linda Ewen	Heidi Schneider
Hugh Faville	Clarence Shallbetter
Miriam Goldfein	Glenn Silloway
Sally L. Graven	Erika Sitz
Walter Griffin	Archibald Spencer
Jeffrey R. Hazen	Kenneth E. Stabler
Steven T. Hetland	James M. Stanton
Fred Hoisington	Steve Thomas
Marjorie C. Hols	Mary Ann Van Cura
Dave Hutcheson	Barbara J. Van Drasek
Sharon A. Johnson	Alice E. Wilcox
Edwin Gary Joselyn	Elvin Wyly
Larry E. Kelley	

Committee Meetings and Resource Speakers

The committee met for the first time on August 18, 1993 and concluded its deliberations on February 23, 1994. During its 22 full group meetings, the committee studied a variety of printed materials and heard from the following resource speakers:

John S. Adams, professor and chair of the University of Minnesota's geography department and a professor of planning and public affairs at the Humphrey Institute of Public Affairs.

Bill Alleksaht, director of social services for Loring-Nicollet Bethlehem Community Centers, Minneapolis.

Charles Ballentine, research division manager of the Metropolitan Council.

Oliver Byrum, former director of planning for the City of Minneapolis.

John Brandl, professor of public affairs and planning at the Humphrey Institute, University of Minnesota.

Natalio Diaz, director of the transportation division, Metropolitan Council.

Tom Fulton, president of the Minneapolis-St. Paul Family Housing Fund.

Edward Goetz, associate professor in the housing program at the University of Minnesota.

Tom Luce, assistant professor of public affairs and planning at the Humphrey Institute, University of Minnesota.

Jeanne Massey, director of the South Hennepin Regional Planning Agency for Human Services.

Bruce McFadden, volunteer member of the management committee of the Northwest Hennepin County Success-By-6 Initiative and co-chair of the Initiative's transportation committee.

Bill McMahon, planner in the City of Minneapolis planning department.

John Middleton, director of the Job Wheels program, Loring-Nicollet Bethlehem Community Centers, Minneapolis.

Michael Munson, principal research planner at the Metropolitan Council.

Myron Orfield, State Representative (DFL-Minneapolis).

Tim Pawlenty, State Representative (IR-Eagan).

Peter Rode, research director at the Urban Coalition.

James Solem, commissioner of the Minnesota Housing Finance Agency.

Timothy Thompson, litigation director for Mid-Minnesota Legal Services, an organization that includes the Minneapolis Legal Aid Society.

Mark Ulfers, executive director of the Dakota County Housing and Redevelopment Authority.

Douglas Tenpas, mayor of Eden Prairie.

A subcommittee of the full study committee also read and reviewed a body of scholarly research on poverty, housing and urban decline. The members of this subcommittee were:

Pauline Bouchard	Mark Pridgeon
Jim Casebolt	Ron Salmela
David Christianson	Archibald Spencer
Walt Cooney	Kenneth Stabler
Fran Davis	James Stanton
Margaret Kirkpatrick	Steve Thomas
John Knutson	Barbara Van Drasek
Kathleen Lewis	Elvin Wylly
Richard Little	

Public participation

The Citizens League used several methods to share the work of the committee publicly throughout the process, and to invite public comment.

In addition to the 73 members who served officially on the committee, 41 were correspondent members. These correspondents received all meeting minutes, and were invited to attend meetings as observers.

The full texts of meeting minutes were available on Citizens League On-Line, a computer bulletin board operated by Twin Cities Metronet. This is a free service available to any computer user with telecommunications capabilities.

In the early stage of the study, the League held a series of Speak Ups! on housing. Two

of these meetings were held with League members who were interested in the issue but who did not participate in the full six-month study. The rest of the meetings were held with groups of citizens who are closely affected by the issues under study. More than one hundred participants provided information and guidance to the committee, and the League acknowledges their valuable contribution. Below is a list of many of those who attended or registered for Speak Ups! (acknowledgment on this list does not imply the individuals' endorsement of the final document):

Janet Abele	Delaine Glunz
Julie Ackstrom	Elizabeth Goebel
Lynn Allen	Marilyn Greene
Judy Alnes	Marie Grimm
Denise Anderson	Barbara Guettler
Travis Anderson	Nancy Hackbarth
Gary Armstrong	Jim Halverson
June Audette	Jean Hammink
Pam Baglien	Larry Haqq
Laurel Bahn	Nadine Haqq
Celia Barnes	L.C. Haslet
Veronica Beach	Conrad Hauff
Emma Beamon	Sharon Hauff
Judy Bednarek	Dorothy Heins
Elaine Biskupic	Tim Heins
Michael Borowiak	Bill Hilz
Dominick Bouza	Leo Hoffman
Gary Briggs	Venetia Jarrett
Alice Bubb	Evert Jarvis
Merrill Busch	Gene Johnson
Gary Capouch	Gordon Kegler
Daniel J. Cermak	Pat Kegler
Dana Chatman	Mark Keilen
Ann Cieslak	M.S. Khan
Sherry Coates	Virginia Lanegran
Sheila Covin	Donna Larson
Bobby Cox	Shirley Lauritson
Ken Cramer	Chuck Lindemann
Zach Cybulski	Darralu Lindholm
Anita DaHinten	Howard Madson
Eva Daumann	Paula Maluski
Kelly Day	Ann Manning
Gregory Deckert	Jeanne Massey
Frank Dunbar	Douglas Mayo
Lynn Durfee	Barbara J. Namen
Bruce Ekdahl	William Nelson
Eva Eldeen	Don Ogilvie
Sylvia Elrod	Kay O'Keefe
Mary Jo Engrav	Craig Okins
Joe Errigo	Gary Oleisky
Marilou Fallis	Ed Oliver
Shirley Ferraro	Sharon Opdyke
Joon Fong	Emilio Ortiz, Jr.
Bill Gerst	Gary Pagel
Wendy A. Geving	Michelle Pecukonis

J.R. Perez	Pat Steiger
Nancy Perry Pool	Sue Stepka
Carolyn Press	Linda Strong
John Pyka	Paul Strong
Nancy Reeves	Pam Stocking
Jock (Peter) Reichel	Mark G. Sween
Stonewall Richmond	Stacy A. Swenson
Pat Rife	Andrea Tate
Mary Rippe	Dennis Tebbin
Rosie Rodgers	Anna Thomas
John Rohman	Susan Thoreson
Linda S. Roland	Imogene Treichel
Laura Roller	Blaire Tremere
Daniel J. Ronning	Eileen Troseth
Gloria Ross	James E. Thurstin, Sr.
Wayne Ross	Vicki Toepper
Arline Satrom	Russ Unger
Steven C. Schachtman	Susan VanDervere
Steve Schenk	Johnny Vega
John Selkirk	Joe Wallin
Suzanne Selkirk	Vic Ward
Walt Shaw	Fern White
Laura Sheak	Barbara Wildenbring
Donna Simpson	Rep. Tom Workman
Patrick Spangler	Harry Yaffe
Doug Spiotta	Deb Ziehl
Marcea Staten	Marlene Zigas

Several community organizations convened these Speak Ups! in cooperation with the League. We acknowledge their leadership and assistance gratefully:

Community Action for Suburban Hennepin
(CASH)
Fourth Baptist Church (Minneapolis)
Medtronic, Inc.
Minnesota Multi Housing Association
Neighborhood House (St. Paul)
Northwest (Minneapolis) YMCA
Project for Pride in Living
St. Paul Police Department
West Hennepin Regional Planning Board
Westminster Corporation

Committee and other Citizens League members moderated and hosted Speak Ups!. They were:

Leonard Adler	Kim Erickson
Tom Bellamy	Richard Little
John Clawson	Barbara Lukermann
Pat Cragoe	Pat O'Leary
Pat Davies	Ed Oliver
Chris Donaldson	Heidi Schneider
Bright Dornblaser	Mary Ann Van Cura
Jim Dorsey	

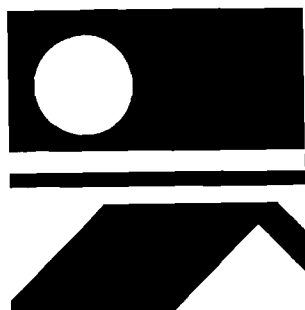
Acknowledgments

The Citizens League thanks the following organizations for their generous contribution of meeting space for this project:

- The accounting firm of Lurie, Besikof, Lapidus & Co.
- Lutheran Social Services of Minnesota
- Northern States Power
- Prudential Insurance Corporation
- City of Golden Valley

Staff Support

Research associate Janet Dudrow prepared this report. Staff assistance was also provided by Joe Loveland, Heather Peterson, Stacy Bodis (intern), Katy Turner (volunteer), Dawn Latulippe and Joann Latulippe.



Appendix B
Citizens League Speak
Ups! on Housing



Speak Ups! on Housing Policy and Metropolitan Development

Summary of Discussions

INTRODUCTION

The purpose of these Speak Ups! was to engage Citizens League members and other citizens in discussion about the study topic. We were especially interested in speaking with people who have low incomes and who thus have experienced the problem of housing affordability firsthand. Twelve Speak Ups! were conducted, two with groups of League members and 10 in cooperation with other community organizations.

The discussions were informal, and interview questions varied from meeting to meeting. The basic set of questions is included on the last page of this appendix.

Participants were diverse in their experiences, race, gender and residence. About half were persons of color. Some individuals had disabilities. Many were single parents, mostly single mothers.

Themes, issues and policy implications

The discussions were remarkably varied. Our first observation is that it is impossible to generalize about the experiences or preferences of the people we spoke with. However, a few very broad themes did emerge. They are:

- There is a shortage of affordable housing, and the shortage allows landlords to neglect their maintenance responsibilities, and treat tenants unkindly. People fear losing their apartments, knowing how hard it would be to find another, so they have little control over the ill-treatment. Poor housing quality and disrepair is a major problem.
- There are barriers in the system to finding and paying for housing—waiting lists, application fees and various income requirements. There appears to be a
- group of people who “slip between the cracks.” Their incomes are too high to qualify them for assistance or a case-worker to negotiate the system, but they may be poor enough to have little experience in negotiating all the processes.
- Fear of crime and violence is a major concern for both city and suburban participants.
- People talked about the importance of attitudes and values. When deciding where to live, they seem to want an area that reflects values and attitudes that are compatible. People can have similar income situations, but hold very different preferences.
- We heard many comments about racism, class consciousness and the stigma associated with being poor and living in subsidized housing. Poor kids, especially, are seen to be treated differently by neighbors, teachers and police. Adults say they are labeled and treated coolly, especially when people find out they live in certain low-income apartment complexes.
- The Minneapolis Public Schools are not well-respected. Many people said that they had chosen to live in the suburbs because they didn't want to send their children there. Concerns about the children's safety appeared to drive their views. A few participants acknowledged that they had negative perceptions even though they had no personal experience with the district.
- Transportation is a big problem for low-income people, especially those in the suburbs. There was consensus that if you live in the suburbs, you simply have to have a car.
- There was no unanimity at all about whether residential location affects job prospects. However, there was a clear message about the importance of a having a job.

The conversations pointed to several issues pertinent to our study. First, the problem of

stigma points to the need for housing alternatives that don't concentrate low-income people together in readily-identifiable complexes. Second, it is clear that the shortage of affordable housing is, in effect, an "absence of competition" that allows property owners to provide poor customer service with impunity. Third, these discussions did *not* point to any clear conclusions about whether active interventions to "disperse" poverty would be effective or welcome. The discussion did underscore how much people want to make their own choices about where to live.

Highlights of discussions

COMMUNITY ACTION FOR SUBURBAN HENNEPIN (CASH)

Hopkins Family Resource Center

September 28, 1993

Sharon Johnson, host

Mary Ann Van Cura and Bright Dornblaser, moderators

Number Attending: 11 people (community residents, most of whom were low-income)

Summary

It is hard to find affordable housing in the suburbs. The rents in Plymouth are so high that the units don't qualify for Section 8 certificates.

People are being forced out of their homes to make way for higher-income people. The landlords want to raise rents. (In one example, a landlord tried to raise the rent to just above the level that would be allowed under the Section 8 certificate program, in order to "get rid of" the Section 8 tenants. Several tenants sued the property owner and won.)

There were several complaints about treatment by landlords. Several participants believed that many landlords judge applicants on the basis of race. Many landlords fail to give out the Form CRP. A tenant organizer said that this happens because the housing is substandard, or the landlord isn't claiming the income; if the CRP were filed, the housing inspector and the IRS would find out. Landlords can exert a great deal of control. Waiting lists for subsidized housing are very long, and several participants said that the landlords' preferences

rule, citing instances when their names mysteriously dropped from the waiting list while the landlord's friends got in.

Landlords are sometimes intrusive; in one case, a landlord showed up at a prospective tenant's apartment and conducted a "white-glove" inspection, including looking inside the refrigerator and inquiring whether the children were allowed to draw on the walls. In another case, a property manager laid down severe rules. For example, tenants had to get prior written permission from the management to have a guest stay overnight. "There is a concept that people in subsidized housing have no rights," one participant said. Because most tenants fear eviction, they allow the inappropriate treatment to continue.

Low-income areas are developing in the suburbs. There was a perception that suburbs are trying to "put all the low-income people in one area so they can keep an eye on people." Some low-income apartment complexes become known as "bad," then all the residents—even the ones who aren't a problem—get stigmatized. For example, people refer to the "Kimberly ghetto" (a low-cost apartment complex in Brooklyn Center). The kids are treated differently in school. Low-income housing in general is unfairly stereotyped. One participant said that her complex is very well-organized, with strict rules and a crime-prevention block club.

Suburban schools do not have much awareness regarding people of color. There are also a lot more expenses in suburban schools—football clinics, gym suits, class pictures—and more peer pressure because most kids have money. "You run into a lot of class consciousness," one person said. "St. Louis Park does not like low-income people," said another.

Transportation from one suburb to the other involves going through downtown first. There are no direct bus lines. The consensus was that "you have to have a car."

Everyone at the meeting said they would like to own a home if they could. Barriers to ownership included qualifying for the mortgage and accumulating a down payment.

Why did they choose to live in the suburbs?

All participants mentioned the schools. Others said they don't like downtown and are more comfortable in a suburban environment. Several mentioned fear of crime in the central city. "Bouza said gangs won't come here, but they crawled in like roaches and now they're here," said one person. Part of the crime problem is people's attitudes. Only a small percentage of people in north Minneapolis are committing crime, but the general attitude is that the community is lost. Several comments implied that police are not adequately responding to the concerns of these communities.

One participant claimed it was no fun being a low-income person, but you just have to try to do the best you can. "Whatever job you can get, you take, whatever you have to do to get there, you'll do," she said.

ST. PAUL POLICE DEPARTMENT

St. Paul

September 30, 1993

Lieutenant Gary Briggs, host

Pat Davies and Dean Lund, moderators

Number Attending: About 15 (police officers and civilian crime-prevention specialists)

Summary

Several officers said that most people in the Twin Cities have stable incomes. There are not many people who are deprived of resources, and the image that poverty is widespread is overblown. People may choose to use their resources in a certain way, but everyone who wants food, shelter and medical care can get it. They said that there is no incentive for government and the charitable institutions to say the poverty problem is really small, because if all the social welfare clients were worked off welfare, the social workers would be out of a job.

What happens when there is a concentration of poverty? The support base for people and families is gone. People become alienated. Crime tends to go where it's tolerated. There is a lot of drug and alcohol abuse in these neighborhoods. There is no sense of community. Participants agreed that a big issue is attitudes; children of parents who are on welfare grow up assuming that they'll get on welfare too. They don't think about getting jobs.

The system breaks down when people in poor communities know what the problem is but do not use the resources they have to solve the problem. We have become a nation of experts, where people look to professionals to solve their problems, one participant said. Block clubs get people involved who normally would have remained quiet. "They're the tax base," one person said, "the people who go to work everyday." Organizing, such as in block clubs, lets people know they have control, and lets them get to know each other while keeping the neighborhood nice. This approach can happen no matter what the makeup of the neighborhood is, but it did appear in one recent case that more attention was paid to a crime problem when there were middle-class white people in the area.

Housing plays a big role in people's lives. "If you have a job, you maintain [your housing]. If you don't, you won't," one officer said. But they thought that there were no jobs in St. Paul, that "they're all going to the suburbs." "What core cities need are jobs where people can make money and gain some self-esteem," one person said.

Landlords have been abandoned by the system. There are many programs to support homeowners, but not landlords. There are more and more cases of landlords walking away from buildings because costs have gone out of control (especially due to damage caused by tenants). The banks get the abandoned buildings and give them to big conglomerates to manage, and the conglomerates care even less than the original landlord, one person said.

There are currently no consequences for bad behavior among tenants. A tenant can trash a unit and, as long as he or she has a Section 8 certificate, cannot be turned away from housing in St. Paul. HUD will reimburse a landlord for up to two months' rent to cover damage, but above that amount, the landlord pays, while there is no system to ensure that the tenant pays a fine for causing the damage. There should be rewards for good behavior and penalties for bad behavior.

Busing to achieve school desegregation is "a failed experiment" that has destroyed neighborhood communities, some said. Others said

that magnet schools have done a lot to build people's sense of ownership. However, all agreed that it isn't likely that the city will return to neighborhood schools.

NEIGHBORHOOD HOUSE

St. Paul

September 4, 1993

Mr. Eustolio Benavides, host

Ed Oliver and Mary Ann Van Cura, moderators

Number Attending: Around 8 (low-income neighborhood residents, including some currently homeless)

The Meeting

There was a mix-up regarding the arrangements for the Speak Up!, so we arrived to find no participants. However, we went downstairs where dinner was being served to homeless and needy people from the neighborhood. We convinced about eight people to stay and participate in a discussion. The participants' comments included the following:

Damage deposits and credit application fees are major barriers to securing affordable housing. Low-income people have trouble gathering enough funds for these fees.

The quality of housing was a major concern. Complaints included damage, unwanted pests and landlords' unresponsiveness to their requests for repairs.

People complained of bad managers in public housing. Two people gave examples of managers entering apartments after tenants had left to rummage through their belongings.

Applying for emergency assistance is a long process and requires disclosure of much information. By the time people are in the crisis situation, they do not have any time to spare on all this process.

People feel stuck in the same rut, unable to move or find employment. The waiting list for Section 8 housing is one year long.

(There were two parents present with their children. One said that the family was "living on the street" and that part of the problem was that landlords wouldn't rent to people with

teenagers. When one of the teenage boys was asked about school, he acknowledged that he was missing school but didn't care, because he hated school anyway.)

One participant's final comment was to "get help quick."

NORTHWEST YMCA

New Hope

September 5, 1993

Elaine Biskupic, host

Pat O'Leary and Janet Dudrow, moderators

Number Attending: 6 (human service professionals)

Participants were professional staff, including outreach workers, counselors and school learning readiness counselors. They described their clients as "working poor." Many of the families are headed by single mothers with two part-time jobs, who are earning between \$15,000 and \$17,000 and have no medical or other benefits.

Summary

What happens when poverty is concentrated geographically? In these poor areas, the children may be unsupervised, unclean and under-dressed; they lack self-respect and are low in social skills, the staff people said. "These families are endangered, basically living in fear," one person said. Mothers do all the shopping and errands before dusk because there is too much "craziness" in their neighborhoods. Many "older children" (some as young as eight) have become the supervisors. They prepare the younger ones for school and watch them when they get home, leaving no time for their own studies. Kids are extremely vulnerable, easy targets for sexual abuse and drugs. "Predators prey on poor people."

Concentrations of low-income housing, in Brooklyn Center, for example, have led to concentrations of poverty and increases in crime. There is "major drug running."

Many people in the surrounding areas are afraid the problems are going to take over their communities. The staff people said that white property managers are not maintaining the housing because the owners "figure if it

becomes run down enough the minority people will just move out."

Poverty is different in the suburbs. There are no services, and affordable housing is scarce. Transportation is a major problem.

Racism is one of the biggest problems in their community, participants said. "It's racist out here," one person said. Minorities can get along if they are homeowners and blend in by acting white. But "if you wear your hair in braids, forget it." The suburbs lack services for African Americans and many other minority groups (e.g., Jet Magazine, beauty services). Racism is an emotional drain on minorities. One participant said "integrate the cultures, not just the people. If you are unable to contribute your culture to the community, how can you get going?" Racism is an issue of power. "How can you confront the source of power? Are they [whites] ready to relinquish or share the power?...People in the power positions are not held accountable." The growing polarization is a set-up for violence, especially racial violence. Several people noted that the tension is particularly noticeable in the schools.

There was an overall consensus that the job prospects were not improving for the poor. There are many job openings in the suburbs, but they are mainly part-time jobs in the service industry, paying minimum wage and providing no benefits.

The people they work with don't want to move to Minneapolis. They are concerned about crime problems in the areas where housing is affordable. Reasons for choosing their location included the reputation of the Robbinsdale schools (District 281), misconceptions and racism that lead to negative views about Minneapolis. "A lot of whites moved out to get away from black people," they said. "If suburbs are forced to take more low-income housing, the community will go into outrage."

What about the prospects for dispersing poverty? The staff people said that it isn't enough to send one or two low-income or black people into a new community; that forces those people to "carry the burden of breaking down the walls." And don't put all the Section 8 housing together, they said. Instead, let people have certificates so they can choose where they live.

WEST HENNEPIN HUMAN SERVICES PLANNING BOARD

Minnetonka Community Center

September 11, 1993

*Bruce Larson and Lois Gunderson, hosts
Bright Dornblaser and Pat Cragoe, moderators
Number Attending: 8 (community residents,
mostly low-income)*

Summary

In response to the question about why people chose where they live, the common response was "you'd have to pay me to live in the city." Participants said that they and others are scared of the increase in violence. "I love my children, and there are better ways to die," one father said. They said that they do not feel secure or safe in the city. Another participant said she "fought tooth and nail" to keep the house during her divorce, so that she wouldn't have to move to the city. Another said he had fears about "what is happening with black people."

Much of the available housing in the suburbs is newer, and therefore more expensive. But many people are willing to cut costs somewhere else in their budgets in order to stay out of the city.

Participants said consideration of schools was extremely important. The schools in the suburbs are more personable; parents know their children's teachers.

It is easier to find handicap-accessible housing in the suburbs because the housing is newer, and there is more underground/indoor parking. A major factor in location choice for people with disabilities is whether Metro Mobility serves the location.

Several participants talked about other aspects of public assistance, including Medical Assistance. A great deal of the financial pressure they face is a result of regulations about "spend-downs" and co-pays. If people make a little bit of money through work, or if the spouse does, they can end up farther behind because of loss of medical benefits. It is difficult to save for a down payment on a house because the savings would make them ineligible for MA. Comments were also made about how the system forces you to lie; several par-

ticipants said they just accept that they have to lie.

Purchasing a home is very difficult. It seems if you do not have a personal contact to borrow the money from it is almost impossible, said one. Another said that if more people were to own their own homes the attitudes would start to change. A homeowner stated that his payments are \$35 less per month than when renting. But there are costs involved in upkeep, and fix-up loans are hard to come by. One person said she feels bad that her home is not landscaped like the others in the neighborhood and wonders what the neighbors must say.

Participants spoke about attitudes and values in their communities. One person used to live in north Minneapolis and "the attitude was different...I saw people destroying things in the building on purpose." In her suburban home, "we're in subsidized housing but the attitudes are different...wanted my children to see that there was hope." Kids in north Minneapolis thought they were stuck there and could see no hope, she said. One person said that if you were brought up with money that was what you would strive for and if you hadn't, you did not know what to strive for.

The attitude issue is a two-way street. Several participants said that there was prejudice against them. They feel that there is an assumption that "if you are on AFDC you are trash."

At the same time, they said they'd be worried if more poor people were to move into their neighborhood. "I'm proud of where I live and I don't want the value of my neighborhood to go down," one person said.

PROJECT FOR PRIDE IN LIVING

Minneapolis

October 13, 1993

Karen Law, host

John Clawson and Kim Erickson, moderators

Number Attending: 9 (neighborhood residents, mostly low-income)

Summary

Why did they choose to live where they live? There were a variety of responses. Some single moms thought about moving to the sub-

urbs but found the rent way too high. They were told it was because of the higher property taxes. One woman tried to get Section 8 so she could move. The housing people told her to move first and then give them a call. She was scared to take the risk that they wouldn't help her and she'd lose everything.

Many of the participants said they would find living in the suburbs horrible. People living in the inner cities develop a different set of values and survival skills. "I'd die if you put me out in Lakeville," one person said. Another said "I wouldn't live any further south than 15th Street. I love the city."

One man talked about how housing is only one part of a larger issue. You cannot reverse years of neglect by giving someone a home in the suburbs, he said. In the city, people have the convenience of being close to the bus, the schools and shopping centers. They lose that convenience, and the freedom just to walk the streets of their neighborhood and meet up with people similar to themselves.

However, people also expressed concerns about their neighborhood, primarily concerns about crime and safety. A few had considered moving to the suburbs to escape these problems, but transportation was a big problem, as were the problems of high rents and long waiting lists. Some of the participants said they avoid going out after dark. The drug traffic and drive-by shootings have become the norm instead of the exception. "Cheap rent will get you killed," one person said.

In response to a question about the degree of racial segregation, participants said that they hadn't experienced much overt discrimination, although the more subtle version does occur. One woman said she mentioned a neighborhood she'd like to live in, and a friend commented that "they won't let you live there."

Nearly all participants said they would prefer to own a home if they could; they thought it would be cheaper to own than rent, and liked the idea of owning something they could pass on to their kids. Many stated they felt undereducated on the processes of home ownership. One participant did own a home but lost it because there was a balloon mortgage on it that he did not know about.

When the group was asked for their suggestions for better housing policies, they mentioned making the owners and landlords more responsible, and tying low-cost housing with different kinds of support systems. "Housing is a social system," one person said.

Participants acknowledged that the quality of inner-city life has decreased and that improvements are needed. One participant felt that improvements depend on the community, that everyone needs to stick together. "If you see something going down in the neighborhood somebody has got to pick up on it. You can clean up a lot of the riff-raff by working together," he said. "There are good and bad times and good and bad areas. Things are always changing."

FOURTH BAPTIST CHURCH

1250 Broadway Avenue, Minneapolis

October 28, 1993

Host: Pastor Don Groschel

Moderator: Kim Erickson

Number attending: 3

Summary

This is a large church, with a congregation of about 1,800. The building is very large and houses two sanctuaries, a private school, a gym, an extensive education wing, a seminary and library.

The church has been at its current location for many years. Broadway Avenue "used to be like a farm town," with people visiting their neighbors or going to the movies on Friday nights, and kids participating in youth activities. Now crime and fear are problems. Participants expressed concern that while the neighborhood used to be occupied primarily by homeowners, it is now "mostly rental."

Concentration of poverty in their neighborhood is responsible for many ill effects, the participants said. The biggest problem is the "break-down in the family structure. Kids are not taught respect for authority or responsibility" and without that, it is difficult for them to do well in school or at work. Some neighborhood parents have enrolled their children in the church's school because they view it as a more disciplined and safe environment than the public schools.

The congregation recently conducted a survey of its members. Most now live in the suburbs, primarily Crystal, New Hope, and Robbinsdale. The congregation is 99 percent white. The two percent who are people of color mostly live within the city.

The congregation is seriously considering relocating the church to a suburban community. The primary reason is concern about crime and personal safety. There have been a number of automobile break-ins and other incidents of vandalism. Participants acknowledged that fears about violent crime "were probably more perception than reality."

The congregation is about 60 percent in favor of relocating, and support is higher among younger families. That has to do with "the instincts of parents to protect their children," one person said. However, the costs of such a relocation would be tremendous, including the loss they would take on their substantial property, and the difficulty of finding and paying for a suburban site. The issue will be taken up more in earnest once the congregation has found a new senior pastor, the search for which is now underway. It is expected to be a divisive question.

The decision poses a dilemma in terms of the church's ministry. They realize that they are needed in the neighborhood, that residents there need spiritual resources in order to turn their lives around, and that those resources come from the message of the Gospel, participants said. However, if they stay, that would require dramatically changing every aspect of their church, from music to programming. If they leave, it would simply mean "providing a different kind of ministry to our members, in a different community."

MEDTRONIC*Corporate Center, Fridley**November 1, 1993**Host: Penny Hunt**Moderators: Lyle Wray and Janet Dudrow**Attendance: 8 employees.***Summary**

The factors that people considered when choosing their residence location included school districts, convenience to work, perception of crime in the area and physical appearance of the neighborhood. Two people had recently moved to the Twin Cities from other parts of the country; they said that the area seems crime-free, though it may seem better than it is simply by comparison to other cities.

The central cities should focus on getting people to move back in, not on getting them dispersed. Keeping middle-income people helps the tax base. What keeps people away? High taxes in the city, the "deplorable condition of the Minneapolis schools" and housing stock that doesn't meet people's needs. The media—primarily television—have played a large role in fanning the flames of crime fears.

One African-American participant said that racial diversity in a neighborhood is much less important than economic diversity. "I don't care if the neighborhood is all black, as long as there are some successful people there." A neighborhood should accommodate a variety of housing needs and circumstances, the group agreed.

How can government encourage economic diversity in neighborhoods? The main goal should be to provide wider choices for people. City governments must look at the fact that "the taxes paid aren't proportional to the services delivered" and concentrate on the value for the dollar. Incentives that rental property owners face should be changed to give them a reason to maintain their properties. Consider turning public housing over to tenants to own and control. Improve the quality of housing amenities; tear down every fifth house and make some of the homes and yards bigger, with more modern features. Pay more attention to regional governance. Look at transportation improvements for central cities and suburbs, including reverse-commute options.

MINNESOTA MULTI HOUSING ASSOCIATION*Edina Towers Residence**November 4, 1993**Host: Merrill Busch**Moderators: Pat Davies and Dean Lund**Attendance: 7 owners and managers of multi-family rental housing***Summary**

The biggest single problem they face in trying to provide housing for low-income people is high property taxes. Property taxes account for 23 cents out of every dollar of operating revenue. High property taxes are causing property values to decline, and "that's why people are walking away from their properties and letting them go back to the banks," one person said.

If Minnesota reduced its property taxes on rental property by 30 percent, the state would still be in the 90th percentile nationally. The state's property-tax system, which taxes rental property at a much higher rate than homesteads, redistributes money from the poor to the rich. The single-family homeowner pays very little of the total property-tax bill. In addition to taxes being high, governments are also increasing the use of fees—partnership filing fees, inspection fees, license fees, rubbish removal fees.

Participants said that they "used to only worry about keeping their buildings clean and occupied," but now they must worry about dealing with drugs, gangs and crime. They all employ full-time police and security officers to patrol their buildings. One participant said he was conducting various youth programs, including a \$40,000 summer basketball clinic, in cooperation with social service agencies, simply as a self-interested strategy to keep the gangs out of his buildings (the properties are located in Minneapolis and inner-ring suburbs). One participant talked about having to remove bullets from the front door of one of the properties she was trying to turn around.

Minnesota is facing these problems in part because the lenient welfare system is attracting outsiders, several participants said. "Sharing and Caring Hands will give out food, no questions asked. The welfare check goes for spir-

its. They get a Section 8 certificate for housing. There are herds of people taking advantage of the system."

The tenant every owner wants is one who pays what is owed, respects the property and respects the other residents. How do we create a model for the \$400/month unit for the good tenant? Changing the property-tax system is the first step.

Concentration of poverty does cause problems, the group agreed. "They don't want to live that way...We shouldn't concentrate all low-income people in one place. Give them vouchers and let them go where they want." There are more vacant units than we realize. Counts of vacancy rates don't include vacant units controlled by the Resolution Trust Corporation, even though they are decent units.

Rental property is a business. Capital will go where there are yields. But it must be managed as a business. So-called non-profit developers spend double what the for-profits do—they just call it "developer fees." They make every decision by committee and that means "lots of meetings and staff time and coffee and donuts just to decide what color the carpet will be," one person said. "We just make decisions. 'The carpet will be blue. Next question.' You've got to make this a business, not a hobby or voluntarism." One participant said she'd like to teach the neighborhood groups how to manage properties and would do it for free, but nobody has asked her to.

The key to having a rental property that works is good site management. Good management can improve security and make people feel more secure. The Multi Housing Association conducts certification programs for site managers and maintenance managers that cover financial management, problem-solving and customer relations.

Coop Northwest has worked with landlords and the business community to improve their rental communities. Changes were made in eviction procedures and reference disclosure, and the property owners are taking a more active role in working with police. "Problems tend to be pushed to where the law enforcement is unsophisticated," one person said.

There is some racism behind community complaints. "In some ways, I don't think the Twin Cities have learned to deal with diversity."

One participant described a development he had put together. The company provided the up-front construction and development capital. Once built, the ownership was transferred to the local government, but his company stayed on as property managers. The property taxes were waived. It was a win-win: the local government got a good rental property with no up-front risk and no ongoing management responsibility, while the operating company got a tax break.

WESTMINSTER CORPORATION

St. Paul

November 22, 1993

Hosts: Judy Alnes and Joe Errigo

Moderators: Jeff Hazen and Steve Hetland

Attendance: About 70 program directors, site managers, maintenance and office staff

Summary

"Part of the beauty of America is that you get to choose where you live," but government policies now restrict choice, the group said. People should have more choices. However, we shouldn't assume everybody wants to live in the suburbs. Even those who do need the support of the community.

Transportation is a critical factor. Most of Westminster's suburban housing is for elderly people; counties provide transportation to seniors but not to families. The organization has trouble filling very nice units in Rosemount because there is no transportation available. "If you put housing in suburbs away from transportation, it just won't work."

What would be the ideal vision for housing that supports a family's long-term well-being? One participant spoke personally about being employed but still having little money. "We want a safe place for the kids, a good school system and low rent." Others said that the Section 8 program is the ideal model, if people use the features like training and education. The problem with Section 8 is that it doesn't provide enough to allow a person to save for a downpayment on their own home. An ideal

housing situation should also be convenient to or linked with other services such as child care.

The media and society pressure people to be "high class" and keep up with others, rather than encouraging people to do their best and respecting people of all incomes. Low-income kids in wealthier communities may face pressure about their clothes and so forth; if kids get labeled "welfare" they get discriminated against. But one person said "if you teach your kids good morals and values it won't matter how the other kids dress."

There is a great sense of pride and safety within ethnic communities. Residents at the Little Earth community feel lots of camaraderie. Policies shouldn't just isolate people, the group said.

The entire community must be educated about providing housing to low-income people. The "ignorance factor" must be dealt with among merchants and other citizens. (Bloomington city officials recently referred to the residents of one lower-cost building as "you people.") Schools must teach tolerance to young people. Individuals must speak up about racial stereotypes and jokes. There should be more incentives for people to get involved with their communities.

The goal of housing policy should be to provide decent, safe, affordable housing for all people, and to provide freedom of choice. Westminster does these things better than most, a consequence of good management practices, policies and procedures. Site coordinators tailor services to residents, and try to make sure people have access to the services they need.

The answer to the housing problem is "more than bricks and mortar." There are institutional barriers—policies and attitudes—that are very real and must be overcome.

CITIZENS LEAGUE MEMBER SPEAK UP!

November 18, 1993

Host: Barbara Lukermann

Moderators: Len Adler and Jim Dorsey

Attendance: 9 League members.

Summary

The group agreed about the danger of continued deterioration of the core cities, with Minneapolis-St. Paul becoming like Detroit, Chicago or Cleveland.

There was consensus that suburbs are subsidized at the expense of cities. Ideas about what can or should be done about it ranged from giving the Metropolitan Council greater powers on matters such as MUSA, zoning and tax distributions, to make suburban development more expensive, to letting free-market factors continue allowing people to move out if they wish.

Many of the participants were nostalgic about how it was to grow up in the Twin Cities—"if it could only be like it was"—but most agreed that it will not be possible to go back.

There were strong feelings that overhaul of tax laws that discriminate against the central cities is essential to any solution.

To bring the discussion to some conclusion, the moderators put several proposed actions to be considered: (1) should we, through government action, slow expansion to suburbs and put efforts to rebuild the core cities and inner suburbs? (2) should emphasis be placed on development of incentives to enhance and overhaul existing housing and spur new low-cost housing, development of land use for industry and commercial use, and encouragement of "gentrification" of neighborhoods; or (3) should we seek distribution of low-cost housing in the suburbs, offering choice to poor inner-city residents?

After heated discussion, option 2 was clearly the alternative of choice, with probably the greatest emphasis on the need to overhaul the way taxes are administered. If low-cost housing could be made economically feasible, if jobs could be brought into the cities (also to the workers) by land use overhaul and other incentives, existing transportation, schools and

social services could be utilized more effectively.

Let the low-cost housing in the suburbs be used for commercial and industrial workers in suburbs, but put major emphasis on development of cities. In this way, we would be giving the cities the breaks that would encourage development and level the playing field, the group said.

CITIZENS LEAGUE MEMBER SPEAK UP!

November 16, 1993

Host: Chris Donaldson

Moderators: Tom Bellamy and Heidi Schneider

Summary

The disparity in housing opportunities is not a new issue, but was forecast as a problem decades ago. We need to acknowledge that we are talking about a totally opposite approach to the problem than what was addressed during the War on Poverty, when the focus was on keeping people in the inner city and locating services for them there.

There are many kinds of subsidies being provided: subsidies for people who buy homes in the suburbs through FHA mortgages and tax relief. There are subsidies for low-income units located in the city, and perhaps some major subsidies for developers. A renter in the Powderhorn area of Minneapolis has formed a "mother's union," which is lobbying to have foundation and grant money provided directly to poor individuals to apply toward their housing expense, rather than to developers.

Housing problems are a symptom of the tax imbalances in the system, the group said. A change in tax policy must be part of the whole picture for changing housing policy, and rental owners should not have to pay such a heavy tax burden. A flat rate for property taxes is what is needed to make housing more affordable.

A regional agency is needed to address these issues and break down barriers in the different communities that treat these problems individually. The state should have ultimate enforcement power on housing policy.

Race and prejudice is central to housing policy, and will ultimately undermine all other efforts to counteract poverty.

Poverty cannot be concentrated. Dispersal is essential so that children have role models and their ambitions are uplifted. The group agreed that there should be a policy to disperse poverty. However, there was less agreement about how to do that. Some expressed concern about government engaging in "social engineering," while others suggested that poor individuals be given money directly to make their own selections.

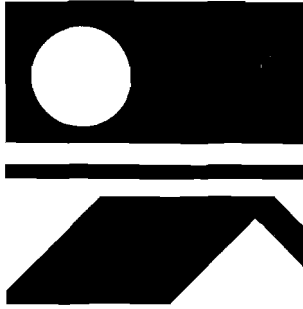
An observation was made that we should not let the enormity of the task, or the fact that there is little public support, deter us from seeking some sort of remedy. Even a small effort is better than none.

Interview Questions for Outreach Speak Ups!

1. Many experts have described changes in the Twin Cities, with bigger gaps between high-income and low-income people, and more neighborhoods where there are lots of people struggling financially. Have you noticed changes in your neighborhood/community/service area? Are you concerned about the changes?
2. (For human service professionals and police staff: Are there added costs that go along with concentrations of poverty? Do you have any hypotheses about the nature of the relationship between poverty and other problems such as crime?)
3. What do you consider when deciding where to live? How big or small a factor is consideration of the schools in the area?
4. Is owning a home important to you, or not?
5. Have you found any trouble locating the kind of housing you'd prefer? What were some of the roadblocks? What would you change about your housing if you could? (For human service professionals: What are some of the concerns your program participants have about their housing? Do they have trouble locating the kind of

housing they'd prefer? What were some of the roadblocks?)

6. From your experience, do your housing arrangements make a difference when it comes to meeting the goals you have for yourself and your family? (For example, does your housing arrangement help or hurt when it comes to finding the job you want?) (For human service professionals: Do housing arrangements seem to make a difference when it comes to your participants' meeting the goals they have for themselves and their families? For example, does their housing situation seem to help or hurt their chances of finding the kind of job they want?)
 7. (For police staff: Does housing improvement lead to reversal of neighborhood problems such as crime, or does the relationship seem to work in the reverse direction? To what extent does the existence of publicly-assisted housing in a neighborhood have an impact? What seems to characterize neighborhoods that are successful are retaining a high quality of life? What characterizes the neighborhoods that don't do so well?)
 8. What are some of the pleasures and difficulties of living in the suburbs (or city neighborhoods)? Do you think that more opportunities to live in the suburbs would be helpful to those living in the city now? (For human service professionals: What are some of the unique benefits and challenges that low-income people face living in the suburbs? What are some of the unique challenges that service professionals like you must meet?)
 9. Some people have said that government should try to even out some of the economic differences between different areas in the Twin Cities. One suggestion is to require more low-cost housing to be provided in the suburbs. What do you think of that idea?
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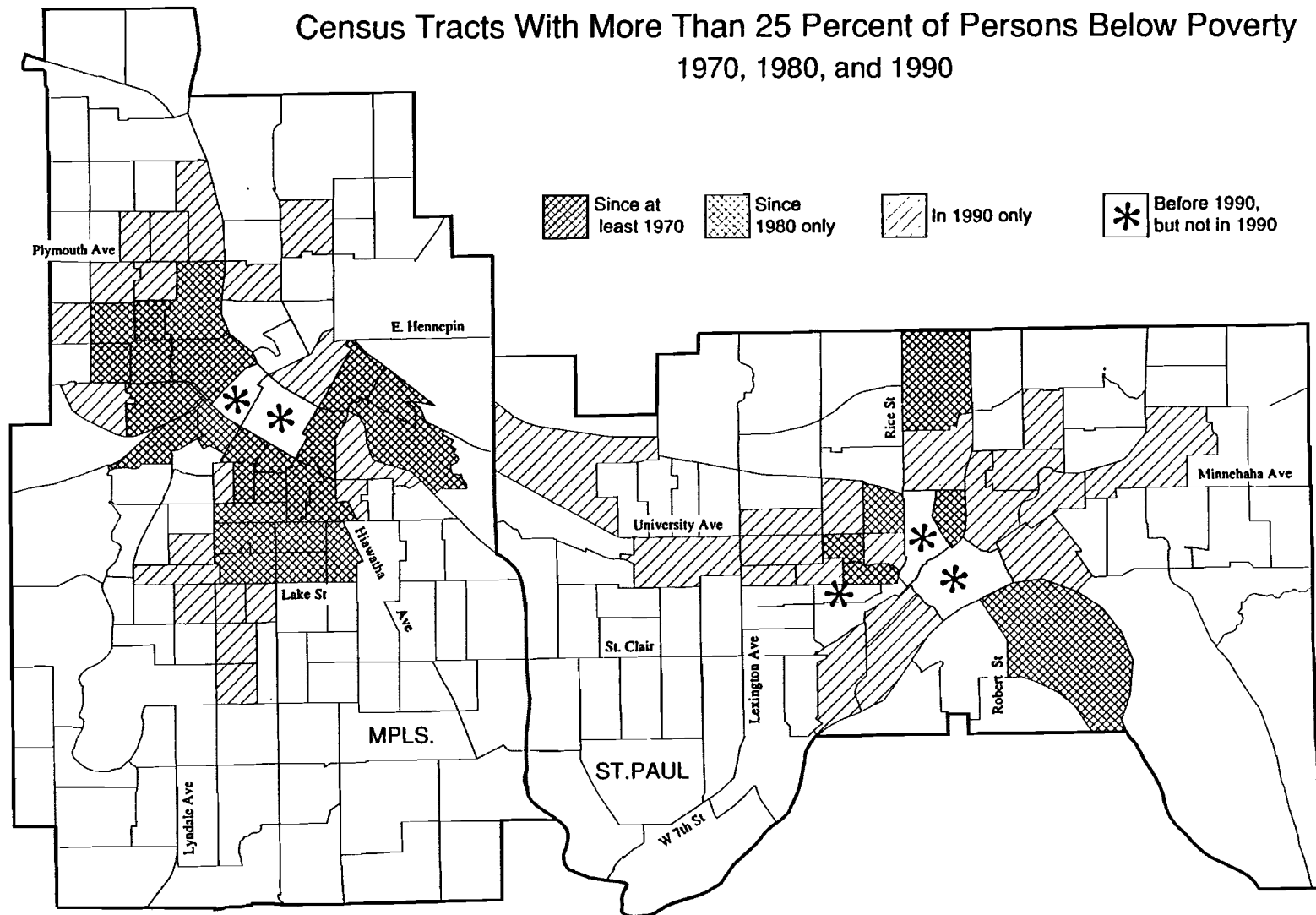
Appendix C

Maps



Map 1

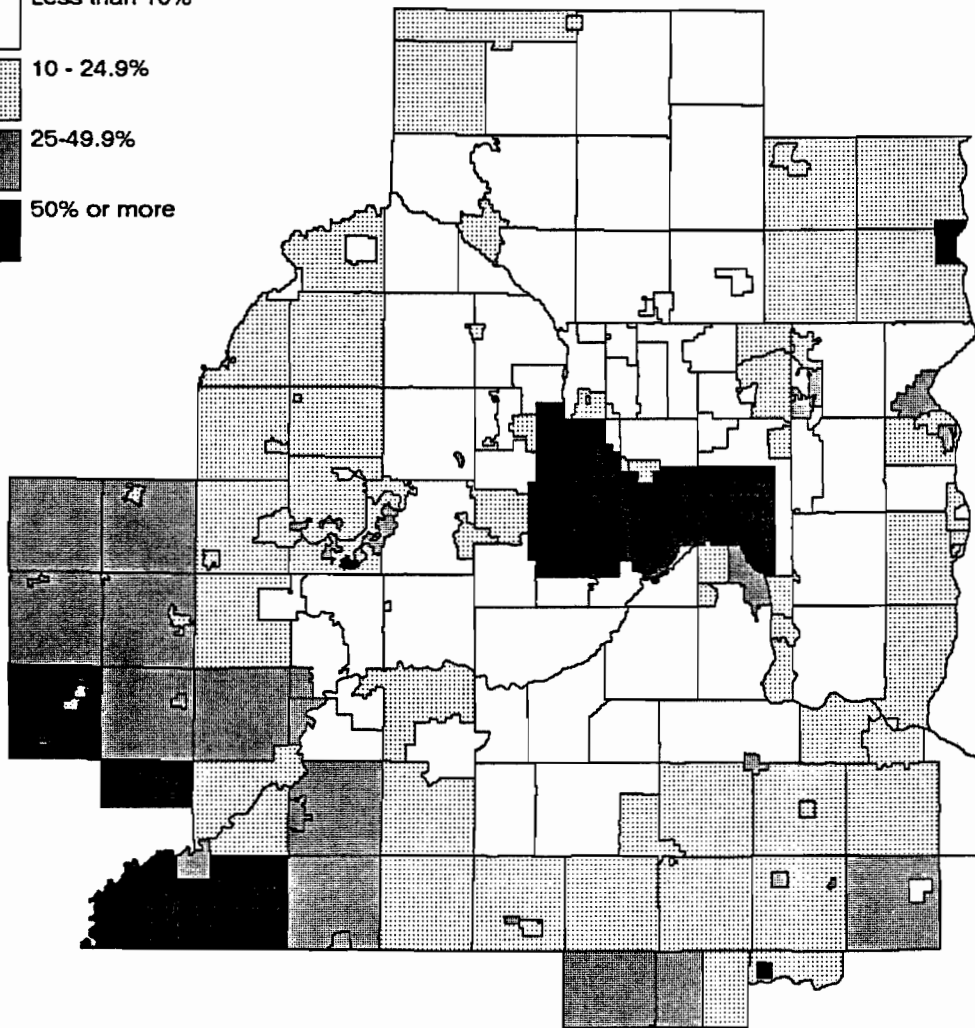
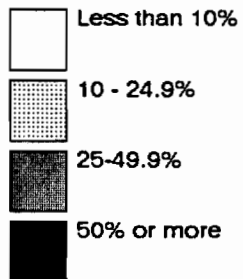
Twin Cities Metropolitan Area Census Tracts With More Than 25 Percent of Persons Below Poverty 1970, 1980, and 1990



Metropolitan Council

Map 2

SHARE OF HOUSING STOCK BUILT BEFORE 1940



DATANET PLUS MAPPING

Source: 1990 U.S. Census.

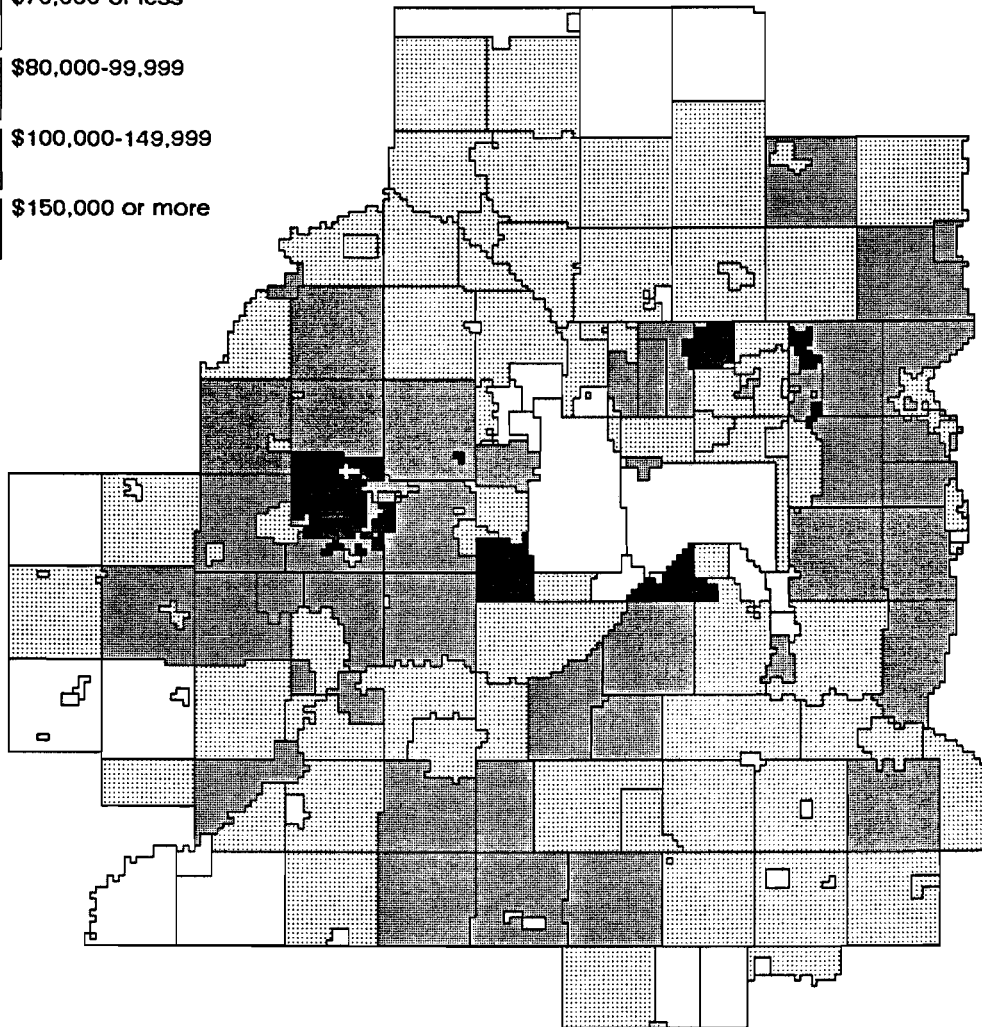
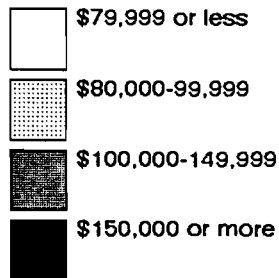
DATANET
Plus
MAPPING

METROPOLITAN COUNCIL

Map 3

DISTRIBUTION OF OWNER-OCCUPIED
HOUSING BY MEDIAN PRICE RANGES

1990



DATANET PLUS MAPPING

In 1990, the median value of a home in the metropolitan area was approximately \$90,000.

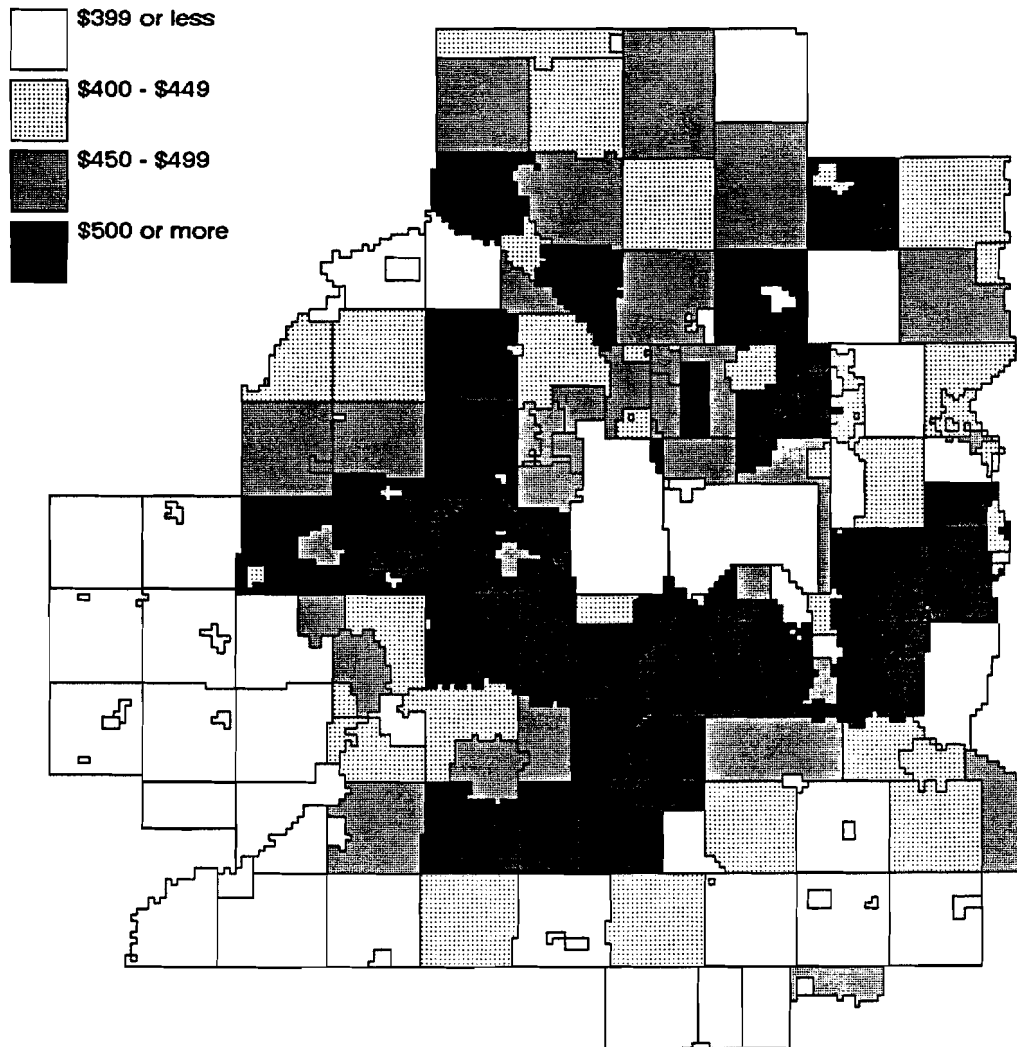
US Bureau of Census, 1990

DATANET
Plus
MAPPING

METROPOLITAN COUNCIL

Map 4

DISTRIBUTION OF RENTAL HOUSING BY MEDIAN PRICE RANGE - 1990



DATANET PLUS MAPPING

Based on Dept. of Housing and Urban Development 1990
Median Family Income of \$45,000, a very low income family
(30% of median) could afford around \$340/mo.

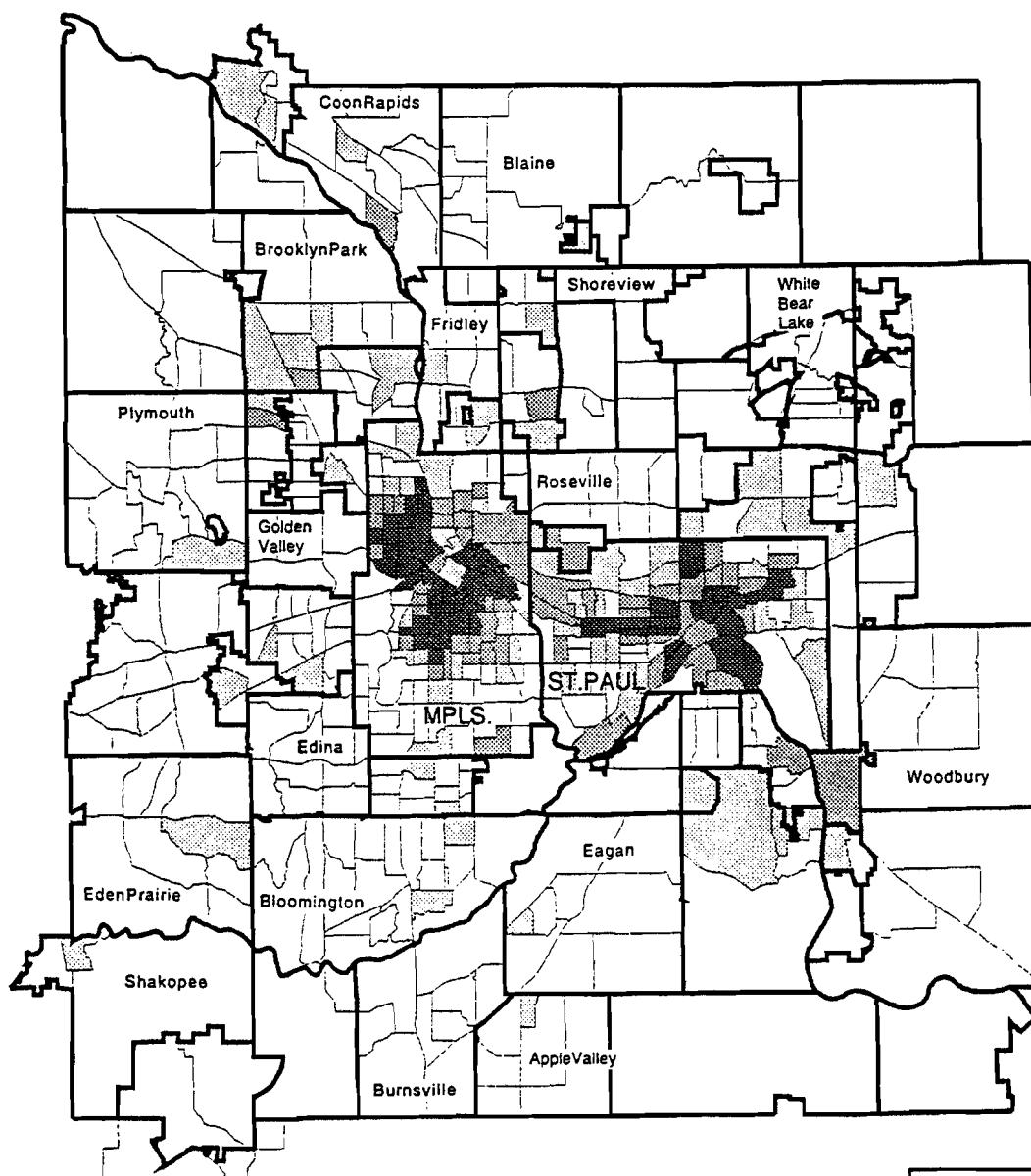
US Bureau of Census, 1990

DATANET
Plus
MAPPING

METROPOLITAN COUNCIL

Map 5

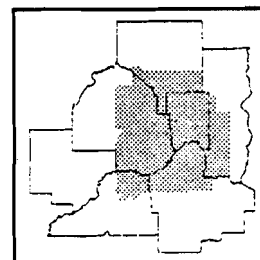
Twin Cities Metropolitan Area
 Percent of Persons Below Poverty Level, 1989
 (Census Tracts Above Metropolitan Average)



27.7% - 76.6%
 Highest decile

13.8% - 27.7%
 Second highest decile

8.1% - 13.8%
 Remaining tracts
 above regional average*



Metropolitan Council

Source: U.S. Bureau of the Census, 1990

*Tracts 701.01 and 612.00 not shown on map

Map 6

Housing Submarkets in the Minneapolis-St. Paul Metropolitan Area

Source: John S. Adams, from Our Changing Cities, John Fraser Hart, ed. Johns Hopkins University Press, 1991.

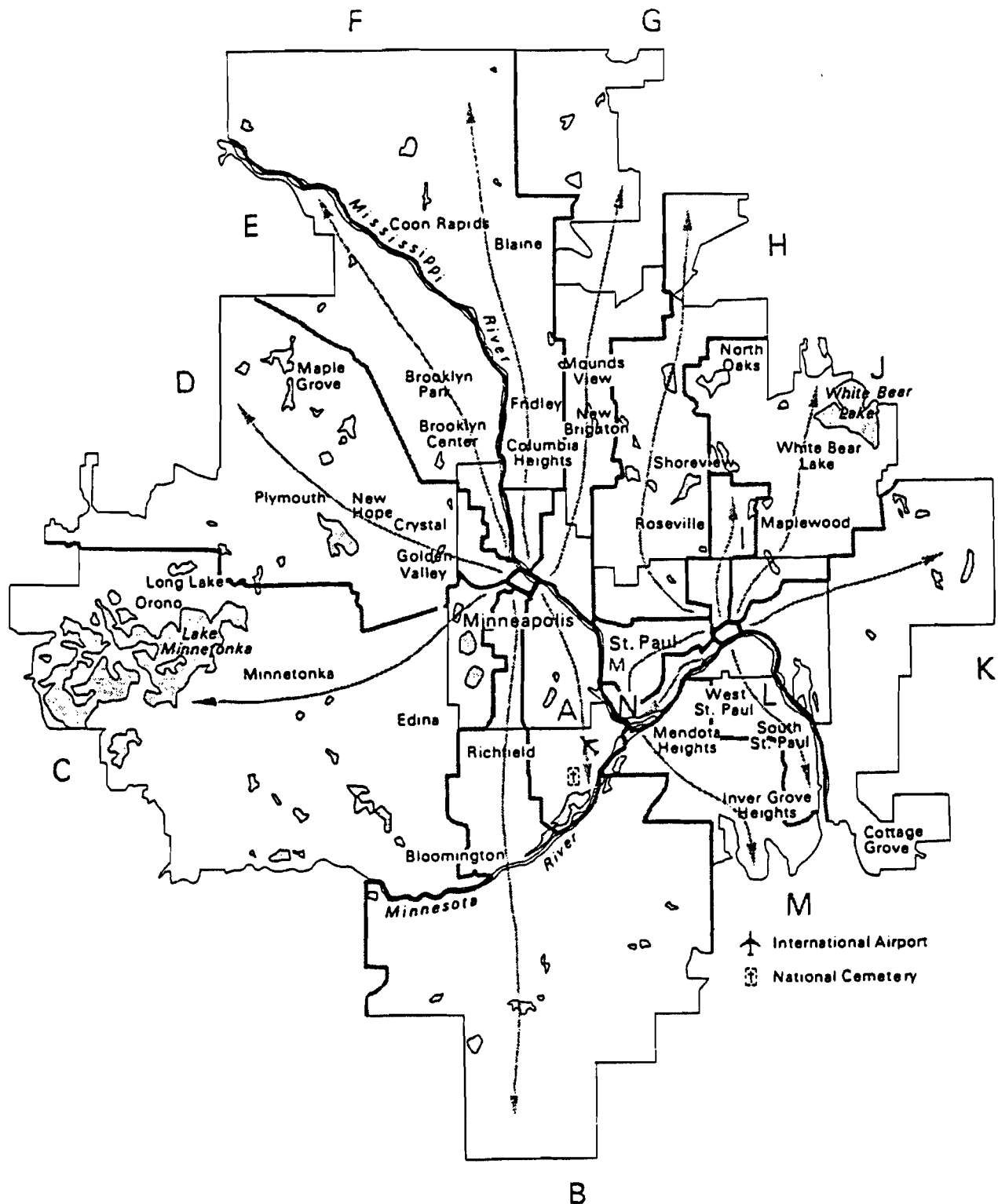
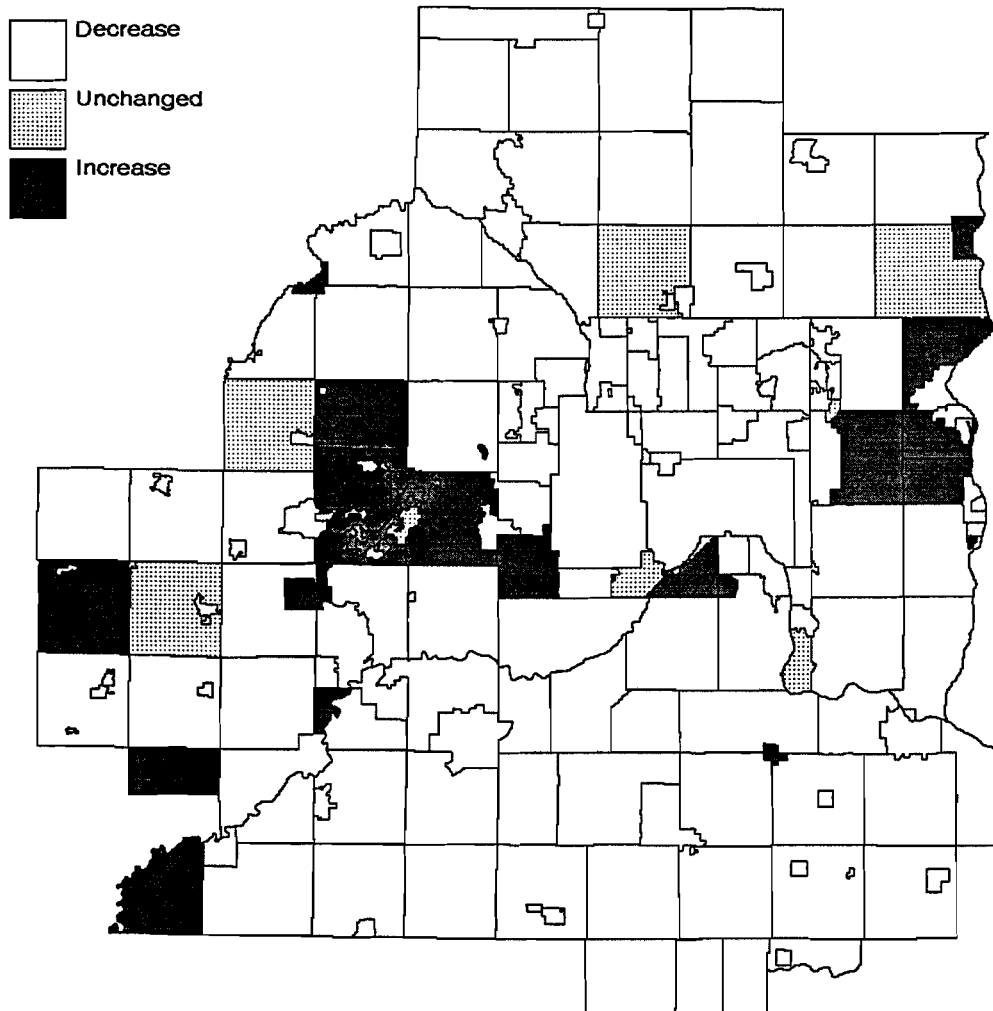


FIG. 7.2 Sectoral housing submarkets in Minneapolis-St. Paul.

Map 7

Percent Change in Median Price Homes (Adjusted) - 1980 to 1990



DATANET PLUS MAPPING

The regional median changed from \$102,542 (adjusted for inflation) in 1980 to \$89,584 in 1990.

U.S. Census data

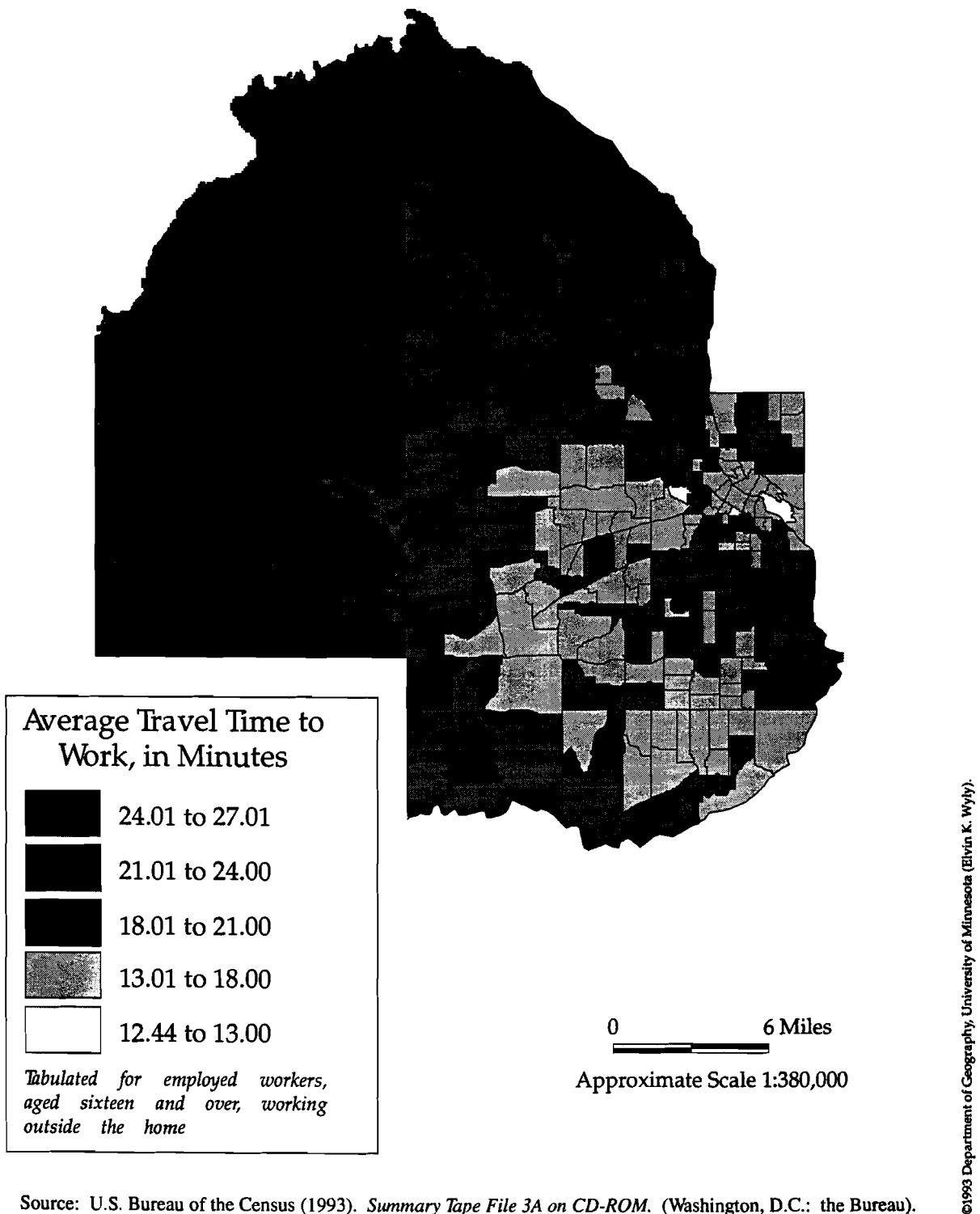
DATANET
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METROPOLITAN COUNCIL

Map 9

Average Travel Time to Work, 1990

Hennepin County, Minnesota, by Census Tract



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The Citizens League promotes the public interest in Minnesota by involving citizens in identifying and framing critical public policy choices, forging recommendations and advocating their adoption.

The Citizens League has been an active and effective public affairs research and education organization in the Twin Cities metropolitan area for more than 40 years.

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.*

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