

The Road Home  
Rental Housing Program:

# CONSEQUENCES FOR NEW ORLEANS

SEPTEMBER 2006



Revised Edition

### **BGR Housing Committee**

Andrew B. Wisdom, *Chairman*  
Joan Coulter                      Hardy B. Fowler  
Roy A. Glapion                    David Guidry  
George D. Hopkins, Jr.        Roger Peck  
Lynes R. Sloss                    Gregory St. Etienne  
Sterling Scott Willis

### **BGR Project Staff**

Janet R. Howard, *President & CEO*  
Stephen Stuart, *Principal Author*  
Peter Reichard, *Research Analyst*  
*and Production Manager*  
Patricia Morris, *Research Analyst*

### **Acknowledgments**

BGR thanks the Louisiana Recovery Authority officials and state consultants who took the time to participate in numerous interviews and readily supply information.

### **BGR**

The Bureau of Governmental Research is a private, non-profit, independent research organization dedicated to informed public policy making and the effective use of public resources for the improvement of government in the New Orleans metropolitan area.

This report is available on BGR's web site, [www.bgr.org](http://www.bgr.org).

### **BGR Board of Directors**

#### **Officers**

David Guidry, *Chairman*  
Lynes R. Sloss, *Vice Chairman*  
Hans B. Jonassen, *Secretary*  
Robert W. Brown, *Treasurer*

#### **Board Members**

Conrad A. Appel III  
Robert C. Baird  
Virginia Besthoff  
J. Herbert Boydston  
Kim M. Boyle  
Ralph O. Brennan  
Joan Coulter  
Bertel Dejoie  
J. Kelly Duncan  
Hardy B. Fowler  
Aimee Adatto Freeman  
James D. Garvey, Jr.  
Roy A. Glapion  
George D. Hopkins, Jr.  
Diedria B. Joseph  
Maurice L. Lagarde III  
Matthew P. LeCorgne  
Mark A. Mayer  
Carolyn W. McLellan  
Henry O'Connor, Jr.  
William A. Oliver  
Louadrian Reed  
Gregory St. Etienne  
Sterling Scott Willis  
Andrew B. Wisdom

#### **Honorary Board**

William A. Baker, Jr.  
Bryan Bell  
Harry J. Blumenthal, Jr.  
Edgar L. Chase III  
Louis M. Freeman  
Richard W. Freeman, Jr.  
Dr. Ronald J. French  
Paul M. Haygood  
Diana M. Lewis  
Anne M. Milling  
R. King Milling  
Dr. George H. Porter III  
Edward F. Stauss, Jr.



**Bureau of Governmental Research**  
938 Lafayette St., Suite 200  
New Orleans, Louisiana 70113

**T**he hurricanes and related levee breaks of 2005 destroyed or badly damaged an estimated 82,000 rental units in southeast Louisiana. Approximately 63% of these were located in New Orleans. To help restore rental housing, the Louisiana Recovery Authority (LRA) adopted the Road Home Workforce and Affordable Rental Housing Program.

The program allotted \$1.6 billion of Community Development Block Grant (CDBG) funds for the construction or rehabilitation of rental housing. Of that amount, \$869 million was earmarked for repair of small rental properties willing to accept rent restrictions. The remaining \$667 million was to be combined with \$1.7 billion of GO Zone low income housing tax credits to produce rental housing for workforce and low income households.

The bedrock of the LRA's program was mixed income housing. In the program's own words, the intent was to use the powerful incentives of the low income housing tax credit program and CDBG funding to motivate developers to build new mixed income communities that accommodate families from across the income spectrum. The LRA decided to finance such housing, despite the higher costs associated with it, in order to avoid the mistakes of the past. The program elicited little interest from developers, however, and no mixed income projects were awarded in the first round of tax credit allocations.

The LRA and the Louisiana Housing Finance Agency (LHFA), the state entity charged with administering housing tax credits, are now proposing program revisions that would effect significant changes. Most notably, the changes would reduce the emphasis on classic mixed income development, which combines low income, subsidized housing and market rate housing, reserving only 18% of the tax credits for such development. The remainder would be available for the development of very low income units in 100% low income housing tax credit developments.

The changes would also allocate the CDBG funding to parishes based on their proportionate shares of significant damage to all rental units. The LRA estimates that New Orleans' share of such funds would be 63%, and

its share of tax credits would be 50%.

Separately, the LRA is also considering revisions to its small rental repair program that would change the financing terms and accompanying rent restrictions. Funds for the small rental property repairs would also be allocated based on damage, but limited to the eight most damaged parishes. The LRA estimates that New Orleans would receive about 66% of these funds.

For a more detailed description of the Road Home rental housing program, see Appendix A.

## FOCUS ON AFFORDABLE HOUSING

Although ostensibly a recovery program, the Road Home rental program is at heart an affordable housing program, focused on the creation of subsidized, rent-restricted housing for low income households:

- As a condition to providing funds for the repair of damaged small rental properties, the Road Home program would impose rent restrictions on such properties. BGR estimates that this would convert approximately 15,500 market rate units into rent-restricted ones.<sup>1</sup> Approximately 10,300 of these would be in New Orleans.
- As a result of IRS regulations and LRA rules, at least 86% of the rental units in the Road Home program would carry rent restrictions. This far exceeds the proportion of damaged subsidized units to total damaged rental units in the City (20%).
- The amount of subsidized housing in the City would increase in both absolute and proportionate terms. Before Katrina, New Orleans had approximately 18,000 subsidized units. The City's combined share of new subsidized units would be between 18,500 and 21,000. The actual increase depends on a number of variables, including the number of existing units brought back into service by HANO and others, the extent to which tax credits are used to restore existing subsidized properties, the

<sup>1</sup> BGR derived this estimate from the ratio of unsubsidized rental housing to total rental housing, excluding public housing units, in New Orleans prior to Katrina.

extent to which Section 8 vouchers are piggy-backed with tax credits, and the extent to which small landlords agree to participate in the program. BGR estimates conservatively that Orleans Parish would see a minimum increase of 50% over the number of pre-Katrina subsidized units, from 18,000 to 27,000. It could be far more.

- The Road Home program would invest large amounts on a per-unit basis in housing for very low income and special needs households. BGR estimates that it would require a public subsidy of approximately \$135,000 to provide a household making 20% of area median income with an affordable unit in a 100% low income tax credit development. By contrast, it would cost approximately \$36,000 to provide comparable housing for households making 80% of area median income.<sup>2</sup> Median income for a three-person household in the New Orleans area is \$47,100.

The focus on affordable housing is understandable. Prior to Katrina, housing expenditures for nearly half of renter households in the City exceeded 30% of income – the federal benchmark for determining if a renter’s housing expenditures are burdensome. Low incomes, rather than high housing costs, drove the affordability problem. More than 85% of households making less than \$20,000 spent in excess of that level for housing. The widespread damage to two-thirds of the rental housing in New Orleans exacerbated an already difficult situation. Average rents have risen by 25% to 30% across the metropolitan area, creating problems for moderate as well as low income families. For more detailed information on the status of affordable housing in New Orleans before and after Katrina, see Appendix B.

## CONSEQUENCES FOR NEW ORLEANS

While creating affordable housing is critically important, it is equally important to develop such housing in a way that contributes to, and can be sustained by, the community as a whole. Unfortunately, the LRA’s program as currently proposed would create new problems and exacerbate existing weaknesses in New Orleans.

- It would promote the development of 100% low income housing tax credit projects with high concentrations of poverty.

- On a regional level, it would continue to concentrate low income housing disproportionately in Orleans Parish.

- It could impede the growth of the tax base for a number of reasons.

- Because it concentrates on large-scale development rather than the small properties that dominate New Orleans’ rental stock, it runs the risk of leaving large, storm-ravaged areas of the City blighted.

Fortunately, the current review of the programs provides a golden opportunity to examine the impacts, revisit some of the premises, and implement changes that hold greater promise for the recovery of the City.

### Concentrating Poverty within Developments

The LRA’s program would provide deep subsidies for 6,000 to 9,000 units reserved for very low income households. As originally proposed, the LRA’s program would have built those heavily subsidized units within mixed income sites, with the units for extremely low income families limited to 20%. Such an approach would have diluted the concentrations of poverty on site and mitigated the impacts within Orleans Parish. As used in this report, extremely low income refers to households making at or below 30% of area median income. For a more detailed discussion of mixed income housing, see Appendix C.

Under the proposed revisions, only 18% of tax credits are set aside for classic mixed income developments. The balance of the credits and CDBG funds are available to fund very low income units in a variety of 100% low income projects, including so-called Additional Affordability Projects. Developers of Additional Affordability Projects must allocate units evenly to households that fall within the following income thresholds: 20%, 30%, 40%, 50%, and 60% of area median income. The percentages for the other

<sup>2</sup> BGR calculations, using the analytical framework and numbers provided by a state consultant.

---

types of low income projects are not specified.

In structuring mixed income developments, experts strongly advise against allocating more than 40% of the units to extremely low income households. This is the very percentage required by the LRA's current proposal. The LRA itself allowed no more than 20% in designing its original mixed income program. It should be noted that 40% is the percentage that the Census Bureau uses to define census tracts with high concentrations of poverty.

Introducing extremely low income families into 100% low income projects on the scale contemplated for the Additional Affordability Projects could, depending on the circumstances, recreate within developments the very conditions that the LRA was seeking to avoid: concentrated poverty and the social ills associated with it. The LRA maintains that the risks would be mitigated by well-chosen locations, good design and construction, and high-quality management. BGR urges the LRA and LHFA to exercise extreme caution in evaluating and approving developments with high levels of poverty.

### **Concentrating the Region's Poverty in New Orleans**

The LRA and LHFA intend to target the housing investment to the most damaged parishes, including Orleans, and to allocate the tax credits on a proportionate basis. As noted above, under the proposed allocation formulas, New Orleans would receive 50% of low income housing tax credits and 66% of the funding for damaged small rental properties.

Prior to Hurricane Katrina, New Orleans housed a disproportionate number of the region's rental units, low income households, and subsidized units. While it was home to only 36% of all households in the region, New Orleans contained 48% of the renter households in the area. It was home to 60% of the region's renter households with incomes below the poverty level, and to 70% of the region's 26,000 subsidized units. One out of five renter households in Orleans received some housing subsidy, a rate twice that found in the suburban parishes.

As of the 2000 Census, New Orleans contained 47 of

the metro area's 49 census tracts with concentrated poverty, defined as tracts where more than 40% of people live below the Census Bureau's poverty level. However, it contained only 20% of the metro area's low-poverty tracts, where less than 10% of people live below the poverty level.

The geographic allocation formula would continue to concentrate the region's low income subsidized housing in New Orleans. The problem goes beyond concentrated poverty, however. To the extent subsidized housing is concentrated by jurisdiction, rather than approached regionally, it fails to align affordable housing with the overall housing market or job market; it fails to connect low income families to job opportunities; and it fails to equitably distribute the financial and social burdens on jurisdictions hosting low income households.

The LRA has shown little hesitation when it comes to remaking the housing market in accordance with its concepts of equity and sustainability. In conjunction with the LHFA, it has attempted to achieve predetermined social outcomes by imposing heavy conditions on the receipt of recovery funds. The LRA initially boldly embraced mixed income housing to de-concentrate poverty. It has attempted to create affordability in a market with a housing shortage by imposing rent restrictions as a quid pro quo for the receipt of recovery funds by landlords whose property has been damaged.

Oddly, however, its attempts to shape the housing market halt at the parish borders, leaving intact, and even exacerbating, the fundamental problems that threatened New Orleans' sustainability even before the storm.

### **Impeding Growth of the Tax Base**

New Orleans and other local governments affected by Hurricane Katrina have limited resources with which to address basic operations and critical infrastructure. Taxpayers themselves are facing rising costs of living, including utility and insurance costs. Rebuilding the tax base is critical to local governments' survival.

Two factors in the proposed housing recovery program could impede the growth of the tax base in New Orleans: an LHFA proposal that would encourage

---

developers to seek tax and other subsidies from local governments, and a disincentive to maintain or upgrade property due to rent caps.

**Consuming Local Resources.** Despite local financial constraints and unprecedented financial challenges, the LHFA has proposed awarding points for projects, and particularly mixed income projects, that receive financial support from local governments to reduce their project development costs. This support may include waiving water and sewer tap fees and building permit fees, foregoing real property taxes during construction, contributing land for project development, providing below-market rate financing, providing an abatement of real estate taxes, or providing other operational cost subsidies or financial contributions. These local government subsidies would be layered on the substantial funding available through low income housing tax credits, CDBG funds, and other sources.

While the approach might stretch funds at the state level, it undermines the prospects for recovery at the local level by depriving devastated local governments of much needed revenue sources. It would create additional strains on local government and indirect burdens on an already reduced tax base.

**Restricting Rents.** Finally, rent restrictions don't just restrict rents; they limit the value of property, and can discourage the investment of the resources required to maintain it. Properties that are not maintained can negatively impact the value of surrounding buildings. Both the limited potential for return and the disincentive for continued investment have serious ramifications for the future tax base.

### **Risking Blight**

One of the most serious problems facing New Orleans is rehabilitating its existing housing stock. Almost 80% of the City's rental housing stock with major or severe damage – 40,700 units – consisted of small rental properties. Yet, the LRA's small rental repair program would provide funding to rehabilitate only 12,000 of those units, or 30% of the small rental units in the City. If the allocated funding were spread over all the damaged units, it would equate to approximately \$14,000 per unit.

While the LRA has worked extensively with developers and consultants to gauge and fine tune the funding needed for larger development, it has done relatively little to ascertain the condition and needs of the small rental market. It designed the small rental repair program and allocated funding without adequate information on, or assumptions with regard to, the amount of uninsured damage. The LRA considers the amount of uncompensated damage irrelevant because the small rental repair program is not intended to be a compensation program. Rather, it is an incentive program to produce rent-restricted housing.

Not assessing the needs of the small rental market and structuring a program that responds to them is a serious mistake. If the small rental program is not adequately funded, large areas of the City are at risk of remaining blighted. Ironically, many of these neighborhoods are mixed income themselves. The risk is particularly great in areas such as Mid-City, where 90% of rental units with major damage are in small properties. The sheer number of rental units with major or severe damage in that area alone – 14,300 – approaches the total number of units the LRA anticipates funding through the small rental property repair program.

Addressing the small rental repair market would appear to be relatively inexpensive. The subsidy offered by the LRA to induce the repair of these units — \$10,000 to \$100,000 per unit – contrasts sharply with the per unit subsidies in the proposed piggyback program. The latter program contemplates multiple subsidies that could exceed \$175,000 a unit for very low income residents in mixed income settings.

The attractiveness of the small rental repair program may be lessened by the severity of the restrictions imposed. As originally proposed, landlords would have to agree to rent restrictions for 10 years in order to obtain loans repayable on sale of the property. Proposed revisions would impose restrictions ranging from 3 and 20 years. Interestingly, the longer end of the spectrum exceeds the term of restrictions imposed on developers who receive piggyback grants.

BGR submits that, if the demands on the small rental repair program are greater than anticipated, the LRA's

revisions should be expanded to include a reallocation of resources from the piggyback program to the small rental housing program. Expanding the program and loosening or eliminating rent restrictions could have a positive impact. The change in strategy would make more units available to returning New Orleans households, in probably shorter time spans and with less public subsidy per unit, tap into existing housing and infrastructure, fight blight, and encourage the revitalization of New Orleans neighborhoods. It would also help to preserve some mixed income neighborhoods.

## **DOVETAILING WITH NEIGHBORHOOD PLANS**

As the LRA crafts its housing plans, it is assisting neighborhoods throughout New Orleans in planning their futures. Such plans, it is hoped, will become part of a citywide master plan to guide future development.

It is clear from the LRA's and LHFA's proposed revisions that a substantial amount of tax credits and CDBG funding will be allocated to public housing redevelopments. The LHFA has indicated that tax credits worth more than \$200 million will be allotted to such housing, and that an indeterminate additional amount will be allocated to other federally assisted housing. The LRA has indicated that it will place emphasis on public housing developments and federally assisted housing.

It is vitally important that all housing developments comply with local plans. This applies to properties of public housing authorities, as well as private entities.

## **ANOTHER APPROACH: ENCOURAGING LOW INCOME HOMEOWNERSHIP**

Within the context of the small rental property repair program, the LRA is considering the establishment of pilot programs to provide incentives to convert rental properties into owner-occupied housing. For participating households, homeownership would offer the opportunity to create wealth and gain a tangible stake in their neighborhood. For the community, it would enhance the stability of neighborhoods and put property on the tax rolls. BGR submits that the LRA should

place greater emphasis on home ownership, elevating it from a possible pilot program in the small rental repair program to a major element of the recovery program.

## **THE COST OF POLICY CHOICES**

The LRA is committed to providing housing for extremely low income residents, including the elderly and those with special needs. This is a legitimate policy choice based on a concept of equity. It will, however, diminish Louisiana's ability to meet the demand for work force housing.

The LRA has indicated that many households making below 20% of median income are non-working. The subsidies required to provide housing for such families are greater than those needed to provide housing for households with higher income levels. Based on information provided by a state consultant, BGR estimates that it would cost the public \$135,000 to provide housing in a 100% tax credit development for a family making 20% of median income. It would cost \$102,000 to provide comparable housing for a family making 40% of area median income; \$69,000 for a family making 60% of area median income; and \$36,000 for a household making 80% of median income. See Appendix D of the report for details of the calculations.

## **CONCLUSION**

Affordable housing is undoubtedly an important part of New Orleans' recovery. It is, however, only one element, and programs to promote it should be evaluated in the context of the whole.

The LRA's initial formulation of the housing program attempted to provide very low income housing without recreating the concentration problems of the past. The program did not attract significant private developer interest. In response, the LRA is back-pedaling on its goal of de-concentrating poverty and opting to recreate very low income housing in developments with higher concentrations of poverty. In so doing, it is leaving communities exposed to risks that it eschewed at the beginning. The ramifications of the current program are particularly acute for New Orleans.

---

The strategic change exacerbates problems inherent in the original program, most notably the failure to take a regional approach to affordable housing. By designing a program that allocates funds for low income housing on a basis proportionate to damage, instead of one that redistributes subsidized housing over a larger base, the program perpetuates, and accentuates, regional inequities. It keeps subsidized housing, and the poverty for which it compensates, concentrated in New Orleans.

The program could also create problems for New Orleans' tax base at a time when expansion of that base is desperately needed to finance services and improvements. It may, if the small rental properties program is not adequately funded, contribute to the neglect and blight of New Orleans neighborhoods.

## RECOMMENDATIONS

BGR recommends the following:

- The LRA should adequately fund the small rental repair program, redirecting funds from the piggyback program if necessary.
- To encourage participation, the LRA should eliminate rent restrictions from the small rental repair program.
- The LRA should, to the extent feasible, redirect piggyback funds from 100% low income projects to home ownership or other programs that help low income households build wealth.
- The LRA and LHFA should reallocate the low income housing tax credits and the CDBG funds on a basis that will distribute low income housing equitably and strategically throughout the New Orleans region.
- Rather than awarding bonus points to projects that tap into local government sources, the LHFA should protect devastated local governments from pressure to contribute scarce revenues or assets by deducting points for projects that rely on such sources.
- All projects funded by the LRA and/or LHFA should be consistent with existing neighborhood plans.
- As a precondition to receiving low income housing tax credits or CDBG funds, the LRA and LHFA should require public housing authorities to disclose to the public their plans for redeveloping public housing and other sites and for utilizing Section 8 vouchers and other subsidies available to them.

## APPENDIX A: THE ROAD HOME WORKFORCE AND AFFORDABLE RENTAL HOUSING PROGRAM

In response to the Gulf Coast’s hurricane damage in 2005, Congress allocated Low Income Housing Tax Credits worth \$1.7 billion to Louisiana for use in the Gulf Opportunity Zone (GO Zone). It also appropriated \$10.4 billion of CDBG funds to Louisiana to assist with disaster recovery.<sup>3</sup>

Louisiana, through the LRA, plans to invest \$8.1 billion of CDBG funds in homeowner and rental housing programs, collectively called “The Road Home.”<sup>4</sup> Homeowners will receive 79% of the allocation.<sup>5</sup> Most of the remainder, totaling approximately \$1.6 billion, will fund rental housing and related social services,<sup>6</sup> with the lion’s share going to the LRA’s Workforce and Affordable Rental Housing Program.

As approved by HUD, the Workforce and Affordable Rental Housing Program has two main components:

**Small Rental Properties – \$869 million** in deferred payment loans (mortgages that carry no interest and are repayable only on sale or transfer) for owners of small rental properties to make repairs, with a requirement that the landlords restrict rents for 10 years.

**CDBG/Tax Credit Developments – \$2.4 billion**, consisting of \$1.7 billion in GO Zone tax credits and \$667 million of CDBG funds. Tax credits would be used to subsidize the construction cost of units targeted to households making 60% or less of area median income. The CDBG funds would be used as follows:

- **Piggyback Program – \$552.4 million** in additional piggyback subsidies to make tax credit units affordable to between 6,000 and 9,000 very low income tenants (households not exceeding 40% of area median income, or \$18,850 for a three-person household in the New Orleans area in 2006). The subsidy would cover the difference between the selected tax credit rent and HUD’s affordable rent for the household for a 15-year period. The LRA has estimated that developers would need average operating subsidies of approximately \$102,000, \$67,000, and \$38,000 per unit to make them affordable to households with incomes at 20%, 30%, and 40% of area median income, respectively.<sup>7</sup> According to the LRA,

**Table 1: The LRA’s Proposed Allocation of CDBG Piggyback Funds**

| Target Household Income | Target Number of Units | Total Estimated CDBG Funding |
|-------------------------|------------------------|------------------------------|
| 20% AMI                 | 2,000-3,000            | \$263,460,000                |
| 30% AMI                 | 2,000-3,000            | \$184,140,000                |
| 40% AMI                 | 2,000-3,000            | \$104,810,000                |
| 50% AMI                 | 3,500-4,500            | \$0                          |
| 60% AMI                 | 3,500-4,500            | \$0                          |
| Above 60% AMI           | 5,000-15,000           | \$0                          |
| <b>Total</b>            | <b>18,000-33,000</b>   | <b>\$552,410,000</b>         |

Source: Louisiana Recovery Authority

without the piggyback subsidies, the units would be affordable only to those making between 45% and 60% of area median income.

- **Supportive Housing Services – \$72.7 million** in grants for up to 3,000 piggyback units to fund social services for the elderly, the disabled, or those with other eligible needs.
- **Flexible Incentives for Mixed-Income Developments – \$41.6 million** to developers of tax credit projects to reduce the costs of land and infrastructure for mixed income developments.

The LRA estimated that its CDBG/Tax Credit program would spur the construction or rehabilitation of 18,000 to 33,000 rental units, of which 13,000 to 18,000 would benefit from the tax credits and/or piggyback funds. The proposed allocation of CDBG piggyback funds is set forth in Table 1.

### Proposed Revisions to CDBG/Tax Credit Program

The implementation of the mixed income housing strategy depended on harnessing the low income housing tax credits, which are administered by the Louisiana Housing Finance Agency. However, in the first round of awards, none of the credits went to mixed income housing. Developers and state consultants attribute the lack of interest in the mixed income program to several factors:

- The LHFA’s tax credit scoring favored projects with 100% tax credit units over mixed

income projects.

- LRA allocations of CDBG funds did not adequately consider the need to subsidize some market rate units at mixed income sites.

- The LRA Road Home program had not been approved by HUD at the time the tax credit allocation round began this spring, creating uncertainty as to whether the program would be fully funded.

Recently, the LRA and LHFA proposed a number of changes to their rental housing plans. Although the LRA has reiterated mixed income as a “primary goal,” these changes would reduce the emphasis on mixed income housing, making 100% tax credit developments, as well as mixed income housing, eligible for piggyback funding.

**LRA’s Proposed Changes.** The LRA proposed three types of eligible properties and defined the income mix for them:

- **Mixed Income:** Properties with 10% of units set aside for households with incomes not exceeding the 20% of area median income, and 10% for households not exceeding 30% of area median. These units would receive both tax credits and operating subsidies. Up to another 20% of units may receive tax credits only and rent to households with incomes not exceeding 60% of area median. The balance must be market rate units.

- **Additional Affordability LIHTC:** Properties in which all units receive low income housing tax credits and developers set aside equal numbers of units for households not exceeding each of the following percentages of area median income: 20%, 30%, 40%, 50%, and 60%. The units set aside for households making up to 40% of area median income would receive operating subsidies.

- **Permanent Supportive Housing:** 100% tax credit-subsidized properties in which at least 15% of units are designated as “permanent supportive housing,” which are units serving households with extremely low incomes (*i.e.*, not exceeding 30% of area median) and certain conditions, such as homelessness or disability. The permanent supportive housing units would

receive operating and social service subsidies. All three property types would be required to set aside at least 5% of their units as permanent supportive housing.

The LRA’s proposed revisions indicate that the piggyback program will emphasize the rehabilitation of damaged public housing developments and other assisted housing. What this means is unclear. It should be noted that the LHFA has set aside \$207 million worth of the remaining tax credits for public housing redevelopment.

The draft proposal would reallocate the \$667 million in CDBG subsidy as follows.

- **Louisiana Project Based Rental Assistance: \$422.4 million** in operating subsidies to make tax credit units affordable to very low income households. The subsidy would be available for all three property types. The LRA is also contemplating the use of Section 8 vouchers or public housing operating subsidies to provide operating funds.

- **Louisiana Mixed Income Flexible Subsidy: \$86.6 million** to subsidize mixed income properties through an operating reserve or gap financing.

- **Louisiana Additional Affordability Gap Financing: \$55 million** to provide gap financing for Additional Affordability LIHTC properties in amounts up to \$15,000 per tax credit unit.

- **Louisiana Permanent Supportive Housing Gap Financing: \$30 million** to provide gap financing for developing Permanent Supportive Housing properties in amounts up to \$15,000 per tax credit unit.

- **Louisiana Supportive Services Grants: \$72.7 million** to fund services for occupants of permanent supportive housing units.

Seven parishes with major and severe hurricane damage to their rental supplies would receive 75% of each subsidy pool. The parishes — Orleans, Jefferson, St. Bernard, Plaquemines, St. Tammany, Cameron, and Calcasieu — would share the 75% in proportion to their damage. The remaining 25% would be allocated among all 31 parishes in the Gulf Opportunity Zone. If New Orleans receives CDBG funds in proportion to its share of statewide major

or severe rental housing damage, its share would be 63%.

**LHFA's Proposed Changes.** In August 2006, the LHFA awarded \$568 million worth of GO Zone tax credits. Orleans Parish received approximately 30% of the credits, and, as noted above, no mixed income projects were awarded. In preparation for the next round of awards, which will distribute the remaining \$1.1 billion in GO Zone tax credits, the LHFA has significantly revised its allocation plan to direct more credits to the most damaged areas and more to mixed income developments.

Of the remaining credits, the LHFA is planning to award \$325 million to projects that requested, but did not receive, credits in the first round. Orleans Parish projects would receive \$100 million, while projects outside of Orleans would receive \$225 million. The other \$811 million would finance new applications in the eight most damaged parishes.<sup>8</sup> Ultimately, New Orleans could receive approximately 50% of all GO Zone credits.

Excluding the \$100 million of credits committed to New Orleans, the LHFA plans to set aside approximately 25% of the remaining credits, or \$302 million, for mixed income development. This set-aside represents 18% of all \$1.7 billion worth of GO Zone credits.

The LHFA is making tax credits available to the following types of projects: Mixed Income Projects, Priority Special Projects, and public housing redevelopments. In addition to Permanent Supportive Housing and Additional Affordability projects, the Priority Special Projects include rehabilitations of existing HUD-subsidized developments and projects specifically endorsed in local plans developed under the LRA's local planning process. The LHFA's definition of a mixed income project mirrors the LRA's, with an additional requirement that 51% of residents at initial occupancy have incomes at or below 80% of area median income.

BGR has separately submitted comments to the LHFA on its proposed allocation plan for the remaining GO Zone credits.

### Small Rental Property Repair Program

Separately, the LRA is circulating proposed revisions to its Small Rental Property Repair Program.

As approved by HUD, the Small Rental Property Repair Program would provide \$869 million to repair or rebuild up to 18,000 units in small rental properties. The funding would be available at three levels: \$25,000, \$50,000, and \$75,000. The \$25,000 level would require landlords to cap their rents at HUD-established fair market rents (currently \$940 for a two-bedroom apartment). The other two levels would require the landlord to submit to tighter rent restrictions, affordable at 65% and 50% of area median income. In all cases, the assistance would be structured as deferred payment loans, carrying 0% interest and no payments until the landlord sells the property. The rent restrictions would last for 10 years.

If the proposed revisions are adopted, landlords could apply for deferred payment loans in amounts ranging from \$10,000 to \$100,000 per unit (with the highest awards available only for special circumstances). To obtain subsidies, landlords would have to agree to rent restrictions on a sliding scale, with the minimum subsidy provided for units made affordable to households making up to 80% of area median income and the maximum subsidy provided for units made affordable to households making up to 50% of median. The period of the rent restrictions would range from three to 20 years.

---

<sup>3</sup> Under the regulations governing the CDBG disaster recovery funds, 50% of the aggregate must benefit low- and moderate-income households. The remainder may be spent to meet "urgent need" or "the prevention or elimination of slums and blight." States may seek waivers of this requirement if HUD makes a finding of "compelling need." U.S. Department of Housing and Urban Development, Allocations and Common Application and Reporting Waivers Granted to and Alternative Requirements for CDBG Disaster Recovery Grantees Under the Department of Defense Appropriations Act, 2006, Federal Register, February 13, 2006, p. 7666 et seq.

<sup>4</sup> Louisiana Recovery Authority, The Road Home Housing Programs: Action Plan Amendment for Disaster Recovery Funds, approved by the U.S. Department of Housing and Urban Development, May 30, 2006, pp. 3-4. The remainder of the original \$6.2 billion CDBG appropriation will be directed to infrastructure and business development needs.

<sup>5</sup> Portion excludes \$1.17 billion in federal hazard mitigation grants for homeowners.

<sup>6</sup> Although the LRA is planning the use of the rental housing funds, the Louisiana Office of Community Development, which is part of the state Division of Administration, will administer the funds. In addition, the state Department of Social Services will administer the CDBG funds for social services.

<sup>7</sup> These estimates equate to the present value of the operating subsidy needed to reduce the tax credit formula rents to levels affordable to those households.

<sup>8</sup> The parishes are Orleans, Jefferson, Plaquemines, St. Bernard, St. Tammany, Cameron, Calcasieu, and Vermilion.

## APPENDIX B: NEW ORLEANS' RENTAL NEEDS IN CONTEXT

### Prior to Hurricane Katrina

In 2004, the City of New Orleans had approximately 96,000 rental units. These units constituted 53% of occupied housing units in the City. The percentage was high by national standards. New Orleans had the 11<sup>th</sup> highest percentage of rentals of all 70 U.S. cities with populations greater than 250,000. The median percentage for the group was 44%.

Of the 96,000 rental units, approximately 18,000, or 20%, were subsidized. The Housing Authority of New Orleans (HANO) provided 75% of the subsidized rentals in the City, supporting approximately 6,000 households in public housing and 8,000 with vouchers.

In 2004, the median renter household reported income of approximately \$21,000. This contrasted with \$47,000 in income for the median owner household in Orleans. An estimated 36% of renter households lived below the poverty line, and 68% were low income (*i.e.*, income less than 80% of the area median income). Of the 70 largest cities in the United States, New Orleans ranked 57<sup>th</sup> in median renter household income.

Given the low income levels, it is hardly surprising that many rental households spent a disproportionate amount of their income on housing. Housing expenditures (rent and utilities) for nearly half of New Orleans renter households exceeded 30% of income — HUD's benchmark for determining if a renter's housing expenditures are burdensome. In that regard, it ranked near the middle of the group of 70 large cities.

The affordability problem was most acute for those reporting annual incomes below \$20,000. 85% of all New Orleans renter households making less than \$20,000 a year spent more than 30% of their income on housing. Table 2 summarizes the census data.

Low incomes, rather than high housing costs, drove the affordability problem in New Orleans. In 2004, New Orleans ranked 59<sup>th</sup> in median housing costs in the group of 70 large cities. The median cost for rent

**Table 2: New Orleans Renter Households Spending More Than 30% of Their Income for Rent and Utilities, by Income Group, 2004**

| Income Group             | No. of Households | % of Total Households | % of Income Group |
|--------------------------|-------------------|-----------------------|-------------------|
| Less than \$20,000       | 36,070            | 78%                   | 85%               |
| \$20,000 to \$34,999     | 8,663             | 19                    | 40                |
| \$35,000 to \$49,999     | 1,361             | 3                     | 9                 |
| \$50,000 to \$74,999     | 248               | 0                     | 6                 |
| \$75,000 or more         | 0                 | 0                     | 0                 |
| <b>Total Households:</b> | <b>46,342</b>     |                       |                   |

BGR calculations based on U.S. Census Bureau, American Community Survey, Orleans Parish, Louisiana, 2004.

and utilities was a relatively low \$566 per month. In neighboring Jefferson and St. Tammany parishes, where median renter household income exceeded Orleans by more than 25%, rental costs were only slightly higher.<sup>9</sup>

In Orleans, the highest concentrations of poor residents were found in the census tracts holding public housing sites. Year 2000 census data indicated that the concentrations of poverty for those sites ranged from 62% to 88%. Thirty-seven other census tracts reported concentrations in excess of 40%. Only 23 of 181 tracts, spread throughout areas such as Lakeview, Algiers, and Uptown, reported concentrations below 10%.

Small rental properties (properties with fewer than 10 units) comprised 70% of New Orleans' rental supply, and a significant number of these were duplexes. The small rental properties were concentrated in older neighborhoods, while large rental properties of 10 or more units were concentrated in areas that developed largely after World War II, including New Orleans East and Algiers. Half of the rental units in Orleans Parish were built before 1950.

### Effects of Hurricane Damage

Hurricane Katrina and the resulting flooding damaged more than two-thirds of the 96,000 rental units in New Orleans. 78% of the damaged units are in small rental properties located throughout the City. In Mid-City,

<sup>9</sup> U.S. Census Bureau, American Housing Survey for the New Orleans Metropolitan Area: 2004, issued October 2005, Tables 4-12 and 4-13.

---

90% of the 14,300 units with major damage are small rental properties; in New Orleans East, 47% of the units with major damage were in such properties.

Precise figures on the incomes of renters affected by the hurricane damage are not available. Estimates prepared by the National Low Income Housing Coalition indicate that low income renter households suffered damage roughly in proportion to their share of the City's pre-storm rental housing market. According to HUD's and the Coalition's estimates, low income households constituted 68% of the renters in the City and 71% of the renter households in the damaged sections. Approximately 75% of the housing units affordable to low income renters were located in areas that suffered hurricane damage.

Although it is more difficult to measure, it appears that Katrina's damage proportionately impacted the subsidized portion of the City's housing stock, badly damaging approximately 70% of the stock.<sup>10</sup>

For displaced households seeking rental housing post-Katrina, the New Orleans market presents a daunting challenge: damage to two-thirds of the supply in Orleans Parish; increased competition not just from other displaced renters but also from some displaced homeowners; and rents that have risen between 25% and 30% across the metro area.<sup>11</sup>

Developers, lenders, and real estate investors say they face daunting challenges of their own: a scarcity of large, assembled tracts of land on the south shore of Lake Pontchartrain; 10% or greater increases in labor and materials costs post-Katrina; higher insurance costs; some neighborhood hostility to high-density rental housing development;<sup>12</sup> and uncertainty over flood protection, infrastructure, and services.

---

<sup>10</sup> As of July 2006, 1,100 of HANO's 5,100 public housing units are occupied, and another 1,000 are expected to be ready for occupancy in the fall. Only 1,800 of its 9,000 Section 8 rental vouchers are in use. The remainder of the 5,200 units is estimated based on the assumption that only one-third of non-HANO subsidized units were undamaged, the same ratio for rentals citywide.

<sup>11</sup> U.S. Department of Housing and Urban Development, Final Fair Market Rents for the Housing Choice Voucher Program and Moderate Rehabilitation Single Room Occupancy Program for Fiscal Year 2006, Revised Notice, at 71 FR 11286, March 6, 2006.

<sup>12</sup> Roberts, Deon, "West Bank residents leery of apartments," *The Journal*, May 19, 2006.

## APPENDIX C: MIXED INCOME STRATEGY FOR HOUSING DEVELOPMENT

Mixed income housing was an overriding goal of the Road Home rental program as adopted. In the program's own words, the intent was to use the powerful financial incentives of the low income housing tax credit program and CDBG funding to motivate developers to build new mixed income communities that accommodate families from across the income spectrum. In the face of developer resistance, the LRA is moving away from the model, substituting one that would incorporate the very poor into low income housing tax credit developments.

In opting for a mixed income strategy, the LRA was in step with contemporary theory. In the 1990s, the mixed income strategy gained prominence in federal housing law and policy. New programs, such as HOPE VI grants for redeveloping severely distressed public housing sites, and revisions to existing programs, such as the Section 8 overhaul in 1998, emphasized the need for a mixed income approach to subsidized housing. Many policy makers and scholars have expressed their preference for developing subsidized units within mixed income settings rather than developments which reserve all units for low income households.

Mixed income housing incorporates subsidized, rent-restricted units into developments with unrestricted, or market rate, units to foster a mix of tenants at different income levels. In theory, such developments serve a variety of purposes, including the reduction of concentrations of low income households in specific neighborhoods, integration of the poor into the economic mainstream, and the revitalization of neighborhoods.<sup>13</sup>

Researchers have found direct correlations between neighborhoods of high poverty and social problems, such as poor student performance, high crime, fragmentation of families, substance abuse, and teenage pregnancy.<sup>14</sup> Mixed income developments can dilute the concentration of poverty by enticing moderate and higher income families to relocate there, while dispersing low income households to other neighborhoods. In theory, the mixed income environment provides a platform on which poor, often non-working households can receive job training and gain access to employment opportunities, and learn from the example of working households.<sup>15</sup>

Mixed income developments, particularly large-scale projects, are supposed to create an economic ripple effect by infusing the neighborhood with disposable income from new residents. This encourages increased public services and private commerce.<sup>16</sup> The introduction of higher income households can also lead to the improvement of surrounding areas.

Limited evidence exists to support the theoretical benefits of mixed income developments. To some extent, their attraction derives from the shortcomings of other federal housing programs, such as traditional public housing developments and low income housing tax credit developments. Mismanaged or ill-conceived housing sites have degenerated into crime-ridden, dysfunctional communities with high unemployment rates and crushing poverty levels.

Despite the perceived benefits, redevelopment is often controversial. Mixed income housing conversions of public housing sites have come under attack for dispersing poor residents and disrupting communities. They are also more expensive to construct and operate than 100% low income developments. Because of the higher costs, such communities consume more public subsidies per rent-restricted unit than traditional low income developments. This means fewer rent-restricted units can be produced. BGR calculated that, under the LRA's proposed program, a low income unit in a mixed income development would require \$40,000 more in subsidy than a similar unit located in a 100% tax credit development.

---

<sup>13</sup> Smith, Alastair, *Mixed-Income Housing Developments: Promise and Reality*, prepared for the Joint Center for Housing Studies of Harvard University and the Neighborhood Redevelopment Corporation, October 2002, pp. 9-10.

<sup>14</sup> *Ibid.* pp. 7-8.

<sup>15</sup> *Ibid.* pp. 9-10.

<sup>16</sup> In some cases, planners have integrated mixed income development with new schools. In Atlanta, the housing authority redeveloped two public housing developments as mixed income sites and partnered with the school system to create new charter schools to serve the residents.

## APPENDIX D: COMPARATIVE COST OF MIXED INCOME AND 100% TAX CREDIT DEVELOPMENTS

Table 3 provides a simplified illustration of the financing gap for apartments affordable to households at 20%, 40%, and 60% of area median income in a 100% tax credit-subsidized development versus a mixed income development. The table also includes comparable housing affordable to households at 80% of area median income. The calculation assumes a two-bedroom, 900 square foot apartment affordable to a three-person household at each percentage of the 2006 area median income for the New Orleans area. The affordable rent excludes tenant-paid utilities of \$127 per month.

Variables for the 100% tax credit-subsidized and mixed income developments are the same, except for two. The annual operating expenses for the tax credit development are calculated at \$4,000 per unit; for the mixed income development, \$4,250. The development costs are \$110 per square foot for the tax credit development and \$150 per square foot for the mixed income development.<sup>17</sup>

At each income level, there is an approximately \$40,000 differential between the financing gaps for low income and mixed income developments. The financing gaps must be closed with private debt, equity, or subsidy.

<sup>17</sup> Total development costs for rental housing projects have varied widely since Hurricane Katrina. ICF Consulting, which the state hired to design the Road Home Program, has found a general range for apartment construction of \$90,000 to \$150,000 per unit. Higher development costs were found in proposed scattered site properties. Estimated operating expenditures and development costs were provided by a state consultant.

**Table 3: Financing Gaps for Units Affordable to Households at Various Levels of AMI**

| Unit Affordable To<br>Three-Person Household,<br>2006, New Orleans Area | 20% AMI               |                 | 40% AMI               |                 | 60% AMI               |                 | 80% AMI                |                 |
|---|-----------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|------------------------|-----------------|
|   | 100%<br>Tax<br>Credit | Mixed<br>Income | 100%<br>Tax<br>Credit | Mixed<br>Income | 100%<br>Tax<br>Credit | Mixed<br>Income | Tax<br>Credit<br>Style | Mixed<br>Income |
| Affordable Rent   | \$109                 | \$109           | \$344                 | \$344           | \$ 580                | \$580           | \$ 815                 | \$815           |
| Less: Vacancy (7%)  | -8                    | -8              | -24                   | -24             | -41                   | -41             | -57                    | -57             |
| Other Income  | 20                    | 20              | 20                    | 20              | 20                    | 20              | 20                     | 20              |
| Less: Operating Expenses  | -334                  | -354            | -334                  | -354            | -334                  | -354            | -334                   | -354            |
| Less: Reserve   | -25                   | -25             | -25                   | -25             | -25                   | -25             | -25                    | -25             |
| Net Operating Income  | -238                  | -258            | -19                   | -39             | 200                   | 180             | 419                    | 399             |
| Present Value of NOI*   | -35,645               | -38,645         | -2,862                | -5,862          | 30,060                | 27,060          | 62,850                 | 59,843          |
| Total Development Costs   | 99,000                | 135,000         | 99,000                | 135,000         | 99,000                | 135,000         | 99,000                 | 135,000         |
| <b>\$ Gap</b>   | <b>134,645</b>        | <b>173,645</b>  | <b>101,862</b>        | <b>140,862</b>  | <b>68,940</b>         | <b>107,940</b>  | <b>36,150</b>          | <b>75,158</b>   |

\* Present value represents the capitalized value of annual net operating income, assuming a discount rate of 8%.

\*\* Tax credit style development is assumed to have the same operating expenses and development costs as 100% tax credit subsidized development.

BGR calculations

The Road Home  
Rental Housing Program:

# CONSEQUENCES FOR NEW ORLEANS



Bureau of Governmental Research  
938 Lafayette St., Suite 200  
New Orleans, Louisiana 70113

Nonprofit Org.  
U.S. Postage  
PAID  
New Orleans, LA  
Permit No. 432