Embracing Odd Bedfellows in Odd Times:

How to Sustain Financial and Political Support for Mixed-Income Communities

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It was the Shakespearean character Trinculo, in *The Tempest*, who first introduced the phrase about misery inspiring acquaintance among strange bedfellows. Some say this choice of words was influenced by the poverty and overcrowded housing of Shakespeare's time—specifically, the need to find shelter even if it meant bedding down with an unexpected partner. Today, the saying typically refers broadly to unlikely alliances among politicians. These sorts of alliances are incredibly important when pursuing an agenda focused on poverty and affordable housing. In part, this is due to the reality that little in contemporary society is as inefficient and unfair as the U.S. housing delivery system. Even a small and much-needed mixed-income development is likely to face a tempest of technical, financial, and political hurdles.

In the early days of the Obama Administration, the co-authors of this essay began working together with a range of "strange bedfellows" in metropolitan Chicago on strengthening a more efficient strategy to increase the supply of mixed-income housing communities, as part of an overall focus on viable regional housing solutions. The Regional Housing Initiative (RHI), which started in 2002, is an interagency collaboration of housing authorities and other partners that has helped finance 40 housing developments, of which 33 are up and running in 2019. Seven others are nearly ready for occupancy.

The political challenges of managing the layers of local, state, and federal financing and regulations for housing are as common as the challenges of exclusionary zoning, source-of-income discrimination, and bigotry, but they are not insurmountable. RHI is promoting equitable housing solutions at a regional scale and, once sufficient administrative support and incentives are available, has demonstrated potential for even broader scale and replication.

Regional Segregation Requires a Regional Response

Encompassing more than 280 municipalities, each responsible for local housing policy and land use, and 15 public housing authorities (PHAs) serving all those towns, the Chicago area's challenges are both unique and illustrative. *The Cost of Segregation: National Trends and the Case of Chicago, 1990–2010,*[1] a landmark report published by The Urban Institute in 2017, reminds us that "Chicago's combined racial and economic segregation is among the highest in the nation":

> Blacks[2] and whites generally do not reside in close proximity to one another in Chicago: whites are spread throughout the region except in the south and west sides, while blacks are heavily concentrated in the south and west sides and the southern suburbs" (p. viii).

The Cost of Segregation research didn't just update data on these historic trends, however. It also quantified how metropolitan Chicago's segregation patterns have handicapped the entire region, reaching beyond the people and neighborhoods most intensely harmed by institutional racism. As in other U.S. metropolitan areas, Chicago-area towns struggle with a mismatch between where low-income residents live and where public funds are concentrated. More people in poverty live in the Chicago suburbs than in the urban core, while most of the federal antipoverty programs are still designed for, and provide funding within, inner cities. And in the suburbs, most of the poverty is located in economically struggling communities with limited capacity to generate revenue, while other suburbs are home to some of the country's best schools and nestled in affluent neighborhoods with easy access to Chicago's extensive public transit system, forest preserves, retail life, and other amenities. The report's findings demonstrated that, across metropolitan Chicago, everyone's economic prosperity, education, health, and safety are in peril regardless of one's race or income. The question then becomes how to address regional trends at a regional scale.

Mixed-income housing is an equally vital tool for revitalizing neighborhoods that are pursuing economic development and for amenity-rich communities interested in diversifying housing options. In both scenarios, however, the past failures of public housing still taint the local approval process to the extent that any multifamily rental housing proposal with an affordability component is likely to face significant "we-don't-want-Cabrini-Green-or-Robert-Taylor-Homes-in-our-backyard" resistance. Irrelevant is the fact that most of Chicago's

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[1] Gregory Acs, et al. *The Cost of Segregation, National Trends and the Case of Chicago, 1990-2010.* (Washington, D.C.: Urban Institute, 2017).
https://www.urban.org/sites/default/files/publication/89201/the_cost_of_segregation_final_0.pdf

[2] Editor's note: All references in this essay to black/African-American, white, or Asian populations refer to non-Hispanic/Latinx individuals unless otherwise noted. When the passage is a direct quote from a published source, however, we use the same descriptors as the original text.

notorious high-rises are long gone, many replaced with beautiful mixed-income housing. Community and political resistance may reflect ignorance about high-quality affordable housing or thinly veiled racial and class discrimination. In any case, it is impossible to make a dent on these issues one town at a time.

Whether the barriers to an efficient housing delivery system relate to the complexities of financing bricks and mortar with federal, state, local, public and private resources or to winning the hearts and minds of local leaders and neighbors, we are failing: The stark reality is that a family's ZIP Code still predicts future health, earnings, college graduation, teen pregnancy, and more. The American Dream is about everyone having opportunity to prosper, but families living in areas of concentrated poverty are unlikely to succeed.

Younger children benefit significantly when their parents can move them out of poverty, as demonstrated by the Moving to Opportunity research studies.[3] But what happens when moderate- and lower-income families with children in the Chicago area want to move to "opportunity areas"—places with good schools, jobs, transit, open space, and other amenities? The region's housing market offers them the preposterous dilemma of choosing between (a) an affordable home in a neighborhood lacking good schools and good jobs; or (b) living in overcrowded conditions, or far beyond their economic means, in a higher-resourced neighborhood. The lower a family's income, the more likely the family is to have no choice at all except to remain stuck in a racially segregated, under-resourced community. Once again, everyone—children, working parents, and employers—feels the impact of the price families pay in terms of lost opportunities and higher stress at work and at home. The federal Housing Choice Voucher Program (HCV) aims to help families rent better apartments in opportunity neighborhoods by letting federal support follow tenants rather than vice versa, but there is a scarcity of opportunity-area properties, and those owners and managers often are resistant to renting to families using vouchers.

Developers and policymakers face a perfect storm of political and practical barriers when they respond to these challenges by trying to establish mixed-income housing in high-resource neighborhoods. In particular:

- The suburban policy-making process is time-consuming and unfamiliar to many developers, and therefore can be excessively expensive. Even if a local mayor endorses or champions the proposal to members of the planning, housing, and city councils (who typically are volunteers), community resistance, fear, and even media drama are almost inevitable.
- Financing and political will are crucial but elusive. Even the most committed municipal partners face the challenges of staying in office while supporting needed

[3] Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz. "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," American Economic Review 106, no 4, (April 2016): 855-902

housing developments and of aligning jurisdictional and agency resources to create meaningful incentives for developers to implement local plans and priorities.

- Improvements to the federal Affirmatively Furthering Fair Housing Act and the Supreme Court's Disparate Income ruling created more tools, incentives, and restrictions to tackle segregation, but without continued federal oversight and support, local efforts to increase and diversify housing choices remain slow and tedious.

Motivated to reduce housing segregation and housing-policy inefficiency, the Chicago-area Regional Housing Initiative emerged as a small but replicable and scalable "workaround" of systems and policies that are slow to accommodate demographic trends and regional needs.

RHI: A Workaround to Leverage Mixed-Income Housing

RHI began in a very different housing market than we have today, at a point when stakeholders were analyzing the first regional rental market analysis to show that housing trends in the Chicago area were not accommodating suburban job and population growth. The fresh data helped prompt the Metropolitan Mayors Caucus to begin its own exploration of how mayors could take leadership to solve the "jobs-housing mismatch" problem. These mayors began working to improve the balance between housing stock, jobs, and population growth.

An important push came from the business community, when one employer who was providing his own workers with homeownership assistance asked this bold question that prompted the mayors' interest: "Why are we paying property taxes in towns that don't use those resources to help our workers afford housing options near work?" That question helped local leaders to finalize their own Housing Endorsement Criteria to ensure that whatever housing policies they support serve local workers and others by providing well-managed, well-designed housing near jobs and transit.

What is RHI, and How Does it Support Mixed-Income Housing? The Regional Housing Initiative is a financing strategy that aims to increase the range of affordable rental housing near jobs, good schools, and transit, especially in low-poverty suburban neighborhoods throughout the Chicago region. RHI enables PHAs to:

(a) pool and convert some of their tenant-based federal housing choice vouchers into site-based operating funds for interested developers and owners;

(b) attract developers who leverage additional financing to create new, mixed-income housing options in priority neighborhoods; and

(c) support existing market-rate properties in opportunity areas by enabling owners to set aside a portion of the apartments to serve lower-income households.

Through a competitive process, RHI selects rental housing developments to participate in the initiative and gives subsidies to some of the apartments—typically, 25 percent in any one building, consistent with federal regulations.[4] Because the vouchers ensure payment of full market-rate rents, developers only charge the very low-income residents a rent that equals a third of their income. The remaining rent is covered by the participating public housing authority and guaranteed for any RHI-referred tenant who moves into the subsidized apartment during the term of the renewable contract (typically 15-year renewable terms).

Working with housing developers, owners, and managers who are selected in part for their commitment to community building, RHI supports developments that would not otherwise get built due to lack of PHA funding—such as two recently approved developments by nonprofits to provide housing, vocational, and educational services for low-income single mothers and their children. RHI's approach enhances the voucher and development capacities of smaller, individual PHAs, which often struggle to find high-quality available housing for the thousands of households on their waitlists, and enables low-income families to access a new supply of housing increasingly located in the region's opportunity-area ZIP Codes. In this way, RHI typically diversifies the income mix not only in participating buildings but also the surrounding community.

Ten PHAs (large and small, suburban and urban) currently participate in the Chicago-area RHI, which, through modest but consistent activity since 2003, has awarded nearly 600 RHI subsidies to 40 mixed-income and supportive housing developments, providing a total of more than 2,200 apartments.

How does the RHI model work? Federally formulated housing funds, with local and state allocations, provide much-needed predictability for municipal leaders and developers dedicated to addressing local demands, especially when markets and more competitive funding opportunities are not responding to local needs. But there is a scarcity of such resources for lower-income households in opportunity area neighborhoods—i.e., those with good schools, jobs, transit, open space, and other amenities.

RHI's response to the above is an approach consistent with lessons learned from The Brookings Institution's work on Confronting Suburban Poverty in America, Living Cities' capital absorption work, collective impact efforts, and other best practices from around the country. Chief among them: work across jurisdictions, develop shared priorities, invest in capacity building, use a management "quarterback," and leverage greater private-sector investment.

RHI's approach involves navigating the priorities of diverse partners and stakeholders, political and otherwise—the "strange bedfellows" noted at the top of this essay—which include the public housing authorities; the region's metropolitan planning organization, which in this case is the Chicago Metropolitan Agency for Planning (CMAP); and the state's Housing Finance Agency (HFA). CMAP serves as management quarterback for the effort, and the

[4] PBV Regulations (24 CFR Part 983)

participating PHAs sign onto an intergovernmental agreement. The public housing authorities' administrative plans for HUD also include common language about this regional effort.

Through one efficient and competitive process, currently managed by CMAP, RHI staff facilitate the developer outreach, application, and review process regionwide. Given CMAP's leading role in helping communities with local planning, these communications help to deter and navigate local concerns by focusing on RHI as a tool for implementing (and attracting more financing for) those local plans.

All 10 PHAs score the proposals and select which will receive their pooled resources, using the housing endorsement criteria developed by the Metropolitan Mayors Conference along with other regional CMAP data on housing supply and demand trajectories. The selection criteria also consider the developer's ability and track record in cultivating a mixed-income community, to gauge whether families from high-poverty areas will be thoughtfully integrated into the building and surrounding neighborhood. On the financial side, the criteria incentivize developers to "follow the money" by producing new rental housing options that advance local, regional, state, and federal housing and economic development objectives.

Although RHI offers a rolling application process, it also schedules reviews to help developers leverage support for other competitive housing processes, especially the state's Low-Income Housing Tax Credits. The Illinois Housing Development Authority (IHDA) provides essential support to RHI, both by providing points to developers who have secured rent subsidies and are developing in opportunity areas and by allowing RHI to undertake its reviews on a parallel track with IHDA, so developers don't have to complete separate applications in order for RHI's commitments to leverage the IHDA competitive points. Coordinating the timing and scoring reduces hurdles and increases incentives for developers to address the unmet housing demand.

Once selections are made, the PHAs manage the subsidy contracts with developers. Special operating and management agreements allow the subsidies to cross jurisdictions when necessary, but this workaround arrangement has proven challenging and inefficient as the program grows, with both the large donor PHAs and the smaller receiving PHAs pointing to a duplication of services for the same limited administrative fees. Removing this technical obstacle would make RHI far easier to replicate and scale.

RHI creates a single, regional referral waitlist for lease-up and turnover of RHI-subsidized buildings, combining households from the participating PHAs' waitlists that choose to participate in RHI and identify the buildings and subregions that interest them. Because the households on this consolidated referral list already are on the waitlists for housing choice vouchers, most are black/African-American families currently living in segregated parts of the region. RHI staff offer basic information on educational and support services to help families choose and prepare for the move. Families referred by the larger housing authorities that work in the highest-poverty areas get preference in all new lease-ups and turnovers, as do families referred by the local PHA contributing to the development and families that work near the new site. Another important waitlist preference is for households whose members work or participate in job training within a specified radius of the site.

Looking Ahead: RHI's Replicability and Scalability

RHI's nontraditional partnerships across areas of authority and expertise, regional focus, ability to overcome political obstacles, and versatility in pooling resources across agencies and jurisdictions have made the initiative unique. RHI has demonstrated its effectiveness in diversifying the housing stock in selected areas. This tool for addressing residential segregation can be replicated and scaled, thanks to four recent federal policies and programs:

- Passage of the Housing Opportunity Through Modernization Act (HOTMA) in 2016 provided additional incentives and removed specific barriers to mixed-income housing in opportunity areas, which supports the goals of RHI.
- New language in HUD's Moving to Work Demonstration Program, which gives public housing authorities flexibility in using federal funds to increase housing choice for low-income families, now allows larger PHAs to share that flexibility with neighboring PHAs. This can support the effort to address housing needs regionally.
- HUD's new technical assistance for public housing authorities provides hands-on assistance, if needed, for regional PHAs to design their own programs.
- In early 2019, Congress funded the Housing Choice Voucher Mobility Demonstration Program, a new effort by HUD to encourage PHAs to help families access "communities of opportunity" by offering housing mobility support services and operating regional mobility programs. The federal program includes 500 new vouchers, giving agencies extra incentive to participate. Ideally, lessons learned will be scaled and implemented more broadly within Rental Assistance Demonstration (RAD) and other HUD programs.

Efforts to learn from and expand on the Chicago model have already begun. Baltimore's metropolitan planning organization started exploring the RHI model with six Baltimore-area public housing authorities in 2015; by 2019, 70 vouchers had been committed to opportunity-area developments. As in Chicago, all of the PHAs involved manage housing choice voucher programs, and most were already working together to minimize barriers for families interested in moving across jurisdictions. The impetus for further collaboration was a painful shortage of available housing options in neighborhoods with good schools and other amenities. Baltimore's regional effort adapted and improved the RHI model by adding more extensive mobility counseling services and a third-party administrator of subsidies. The Baltimore program is now fully operational and has received more than 10 new proposals.

Conclusion

For low-income people across the United States, the shortage of affordable, accessible housing options in opportunity areas causes misery of Shakespearean proportions. Such hard times often benefit from new alliances among odd bedfellows. The Regional Housing Initiative's model for financing and incentivizing mixed-income housing illustrates how these alliances can create sustainable solutions that bridge jurisdictional and agency borders, accommodate the varying capacities and resources available, and address the very different challenges faced by developers, municipal leaders, employers, and working families. Additional federal funding and incentives suggest opportunities to significantly scale up and replicate this approach.

Implications for Action

Implications for Policy.

- **Test and support housing mobility models that overcome regional barriers.** HUD's new Housing Choice Voucher Mobility Demonstration Program provides one vehicle to do so. After testing how RHI-type models can better utilize and connect with innovations offered through the Rental Assistance Demonstration, PHA consortia opportunities, Moving to Work, and HOTMA, policies should support the application of lessons nationwide.
- **Ensure that PHAs have sufficient administrative support to promote housing mobility regionally.** Operating and managing subsidies in other jurisdictions is cumbersome and expensive for all parties. Baltimore's approach eliminated this burden by using a third-party regional administrator; however, this innovation was created and funded via a lawsuit. Several mechanisms can be piloted to reduce the duplication of responsibilities when larger PHAs allow smaller PHAs to administer their vouchers in opportunity areas.
- **Create more financial incentives for PHAs and developers.** Federal policy allows 20 percent of the nation's 2.2 million tenant-based vouchers to be converted into operating subsidies or project-based vouchers. If that 20 percent leverages new mixed-income development near good jobs and schools, it could amount to close to 2 million more apartments. Most PHAs underutilize this 20 percent conversion prerogative, and now that cap can be higher in opportunity areas and in RAD conversions to project-based vouchers.

Implications for Development and Investment.

- **Make it easier for housing developers to follow the money.** State housing finance agencies are in a unique position to create structure and incentives that align state tax credits and other housing programs with PHA vouchers and with municipal, county, and regional plans.
- **Pool and redeploy turn-over resources.** Redirecting unused rent subsidies to new and existing opportunity area properties enables regional initiatives to support proposals that local jurisdictions could not otherwise take on, especially suburban neighborhoods.
- **Don't hesitate to start small with regional collaboration, allowing evolution.** Developers and other advocates wanting to use a mechanism like RHI for leveraging resources in opportunity areas should not be daunted by the challenges of getting all the PHAs signed on upfront. Chicago's 15 public housing authorities were all motivated by housing trends to explore how they could collaborate to increase the supply of housing in priority areas. With no incentives beyond good will, only three PHAs signed the original Intergovernmental Agreement to pool resources for developments that advanced the Metropolitan Mayors Caucus Housing Endorsement Criteria, but most of the early applications were submitted by supportive housing developers familiar with layered financing. Framing the whole approach via a regional leader like CMAP has also been critical to its growth, but starting small worked just fine.

Implications for Research and Evaluation.

- **Identify cost-effective supports for families moving to opportunity areas.** Mobility counseling, while valuable, can be a costly tool. Important questions for research include: What are the differences in costs, resident experiences, and residential longevity between place-based, opportunity-area models like RHI and other more traditional housing mobility strategies? How many people make the moves and stay, and at what costs? What positive economic, health, and safety outcomes are experienced by parents and children?

Implications for Residents and Community Members.

- **Design regional waitlists with the big picture in mind.** With residents, neighbors, and property managers, there are many implications for action related to the regional waitlist: Should there be a preference for households who live or work near the site? (That always helps with community acceptance, but doesn't necessarily help with mobility goals). What kind of pre-move information and services are most helpful? What kind of training and criteria should be formalized to best identify and cultivate housing providers to be true mixed-income community builders? What kind of technology is most efficient? How best to work with special needs populations and supportive housing? Take time to balance the needs and goals of the future residents with those of the participating PHAs, the community, and the region.

- **Implement a realistic and sustainable strategy to overcome community resistance to needed housing options.** The inefficiency of the housing delivery system has contributed to the sobering Brookings Institution finding that only 11 regions succeeded in generating inclusive growth between 2010-2015. This underscores that good "community acceptance" messages are not enough. There is a need for additional partners and messengers to coordinate early, forming a "nimble network" that includes employers, residents, developers, housing advocates, and policymakers who promote a coordinated effort that results in acceptance by community members.

References

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PBV Regulations (24 CFR Part 983)