Investing in Affordable Housing in Michigan

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Contents

Executive Summary

Even in the aftermath of the longest economic growth period in American history, the need for affordable housing remains acute. In a contracting economy, Michigan is faced with difficult choices in allocating scarce resources. This paper analyzes whether Michigan should invest public resources in affordable housing. Public Sector Consultants (PSC) reviews Michigan's affordable housing situation; examines housing trust fund and tax credit options; identifies current state programs for low-income residents; summarizes job, wage, and tax data on low- and middle-income housing construction; and assesses the economic and non-economic benefits of low-income housing.

The U.S. Department of Housing and Urban Development (HUD) defines affordable housing as housing which costs no more than 30 percent of household income. New construction and adequate existing housing are not affordable for many middle-income and most low-income families. It is difficult for low- and middle-income families to find decent, quality, affordable housing. The Michigan State Housing Development Authority (MSHDA) estimates that almost 750,000 residents have housing affordability problems. These households include many city, suburban and rural Michigan residents.

Despite Michigan's high marks in many areas of public policy, when it comes to spending on housing, *Governing* magazine's 2001 *Source Book* on state and local governments ranks Michigan 48th and 49th among the states on per capita spending and spending as a percentage of personal income. (*Governing* 2001, 93)

Housing trust funds and housing tax credits are the primary options employed to address affordable housing in the United States. Currently, 37 states are investing in housing trust funds; 34 cities have created housing trust funds (only Ann Arbor in Michigan); and 39 counties (none in Michigan) have housing trust funds to help low-income families. The federal Low-Income Housing Tax Credit is used in all states to provide affordable housing. (Brooks 1997)

MSHDA and the Family Independence Agency (FIA) operate the majority of Michigan's housing programs. These programs contribute to the economy by creating jobs and increasing the tax base. In addition, affordable housing programs help to stabilize families, leading to improved school attendance, increased academic performance, better health for children, and less domestic violence.

PSC concludes that the economic impact of affordable housing can be shown in the following four areas:

- By leveraging additional funds, most housing trust funds generate at least five dollars of public and private money for every dollar from the trust fund.
- On average, 36 jobs are created per $1 million of new residential construction.
- Increased permanent, quality, affordable housing can save millions of dollars in reduced emergency care for the homeless
- Increased wages, sales, and property tax values would raise tax revenues in cities and the State of Michigan.

While the current political climate is not conducive to new funding measures, further review of funding options for an affordable housing trust fund is warranted. These include the use of the Single Business Tax, Budget Stabilization Fund, or a .03 cent cigarette tax increase. All of these options could generate about $25 million for at least several years. Now is the time to lay the groundwork for an affordable housing plan in Michigan, in order to be prepared when the economy improves and a new administration takes office in 2002–03.

Introduction

BACKGROUND ON AFFORDABLE HOUSING

Even though the United States has enjoyed its longest economic boom ever from 1992 to 2000, the number of American citizens in poverty remains high. Over the past ten years, one major hurdle for many Americans has been the difficulty of finding affordable housing. The problem is not limited to the poor. A variety of Americans—urban and rural, low income and middle class—have been unable to find an adequate supply of affordable housing. In this paper, the term "affordable housing" is defined by the U.S. Department of Housing and Urban Development (HUD) as housing which costs no more than 30 percent of the income of the occupant household. (MSHDA, Sept. 2000, 1–4) Although the 30 percent threshold is a reasonable threshold of affordability for middle-income families, this leaves low-income families with very little for other expenses.

Several recent studies have found that most new non-subsidized housing construction is financially unattainable for many middle-income families and most low-income families. In January 2001, the U.S. Commerce Department reported that the median cost of a new home in the U.S. was $169,900, and the average cost of a new home was $206,100. (Commerce 2001, 1) According to the U.S. Census Bureau, *2000 Estimates*, median income for homeowners was $50,669, and the average income was $66,490. (1–4) Therefore, on average, new housing construction in 2001 was generally only accessible to households earning $50,669 or more. In addition, the U. S. Department of Housing and Urban Development (HUD), has developed a standard for housing need. According to HUD (2001), housing need exists if a lower income household (below 80 percent of the HUD adjusted median family income) is subject to one or more of the following conditions:

- it pays more than 30 percent of its income for housing (either for rent or mortgage payments),
- it lives in physically inadequate housing, or
- it lives in overcrowded housing.

HUD based the above definition on 1990 Census data, but has since refined this definition by introducing "Priority" housing needs. The new standard creates a subset of lower income households with severe housing problems. These include households paying more than half of their income for housing costs or living in housing with severe physical defects.

The problem of inadequate housing is widespread and severe. The Center for Community Change cites a National League of Cities survey of 690 officials in 473 cities on urban problems. According to the report, "Affordable housing was ranked second among worsening conditions in urban areas and the lack of affordable housing was expected to block local economic growth for these cities. Forty percent of those surveyed said the supply of affordable housing had worsened; over 50 percent said the supply of affordable housing was inadequate to support economic growth." (Brooks 1993, 1)

MICHIGAN AFFORDABLE HOUSING NEEDS

Given the need to delineate the affordable housing dilemma and understand housing need, it is important to estimate the number of Michigan households unable to afford adequate housing. Recent Michigan State Housing Development Authority (MSHDA) estimates are that 672,000 Michigan households, about 18.5 percent of all households, are lower income households facing housing problems. Clearly, the biggest barrier to adequate housing is excessive cost. In Michigan, it appears that housing affordability problems are somewhat more prevalent among renters, extremely low-income households at 30 percent of median income, and the elderly. (MSHDA, Sept. 2000, 1–2) Renters are three times more likely to experience housing problems than homeowner households. Extremely low-income households are more than five times as likely to experience housing problems as higher income households. The elderly are twice as likely to experience housing problems as non-elderly households. This situation is likely to become more acute in the future; the R. L. Polk Company, known for demographic forecasts used by HUD, has projected that senior households will increase as a proportion of the total. In absolute terms, extremely low-income, non-elderly renter households account for almost one-quarter of all lower income households with housing needs.

In September 2000, MSHDA estimated that the percentage of Michigan households with housing problems will decline slightly over the next five years from the current 18.5 percent to 17 percent of the total. However, housing needs in Michigan vary significantly among three broad geographic areas: central cities (defined by the Federal Office of Management and Budget), metropolitan or suburban (defined by MSHDA to include suburban municipalities), and rural. In central cities, three of every ten households have housing problems. In rural areas, two of every ten households have housing needs. In suburban households, one of eight households (12.5 percent) experiences housing problems. Although the incidence of housing need in suburban areas may seem low, these areas represent a large number of households. Suburban communities include half of all Michigan households; they have almost as many households in need as the central cities.

The State of Michigan spends less on housing than any state in the Midwest, except for Iowa (see Table 1 below). According to *Governing* magazine, Iowa and all the other Midwest states also spend more on housing *per capita* than Michigan. Further, although Michigan ranks well in many other categories in the review, it ranks 48th and 49th among the 50 states in per capita spending on housing and percentage of personal income spent on housing. California and New York, two "new economy" states with which Michigan competes for business, spend 20 and 15 times, respectively, what Michigan spends on housing. Unlike Michigan, all the other Midwest states, as well as California and New York, have invested in housing trust funds. It should be noted, however, that the state share of funds spent on housing is greater in Michigan than in many of these states.

Table 1. Spending on Housing

New Economy/ Midwest State	State & Local Total (In millions)	State Share (vs. Local)	Total Per Capita	Per Capita Rank	Total as % Personal Income	% Personal Income Rank
California	4,584	3.2	142	4	0.6	4
Illinois	1,333	3.1	111	10	0.4	10
Indiana	302	16.9	51	35	0.2	38
Iowa	138	2.2	48	39	0.2	39
Michigan	**222**	**16.6**	**23**	**48**	**0.1**	**49**
Minnesota	407	4.9	87	15	0.3	19
Missouri	308	19.8	57	31	0.2	33
New York	3,389	6.9	187	3	0.6	3
Ohio	799	7.0	71	23	0.3	23
Wisconsin	317	9.7	61	28	0.3	30
Midwest avg.	478	10.3	64	29	0.3	30

Source: *Governing*

Problem Statement

In the United States, and Michigan in particular, almost all new or existing privately produced housing is unaffordable to many middle- and most low-income households. The only significant vehicles for financing affordable housing units have been the Low-Income Housing Tax Credit and Mortgage Revenue Bonds, which stimulate production of affordable housing for low-income families. In order for the market to provide affordable housing, public and private subsidies are necessary. Even in the midst of economic prosperity, the scarcity of affordable housing has increased.

In Michigan, MSHDA found that 62 percent of those with housing problems in the central cities are renters. More than half of those with housing problems are non-elderly renters, and of these, one-third are extremely low-income non-elderly households. In contrast, elderly renters and non-elderly owners are the largest groups with housing problems in suburban areas. In suburban municipalities, the majority (54 percent) of those with housing needs are renters. In rural areas, homeowners represent more than 55 percent of lower income households with housing needs.

The above estimates are consistent with a recent HUD analysis of the housing needs of low-income (under 50 percent of adjusted median income) renter households. (MSHDA, Sept. 2000, 3) The HUD study, based on American Housing Survey data, reported that an extreme cost burden (housing costs greater than 50 percent of income) represents the most common and most rapidly increasing housing problem for the group studied. Further, the HUD study found that the incidence of priority housing problems has increased in all geographic areas of the country, with suburban renters most likely to have an extreme cost burden. Among very low income renters with housing problems, five out of six face high costs that leave almost no funds for other basic needs. In the central cities, the proportion rises to about three out of four very low income renters.

According to MSHDA, there will be variations among household categories despite the expectation that housing needs among low-income households will decline slightly. The number of extremely low income households with housing needs is expected to remain unchanged. The need among renters will decline somewhat more rapidly than among homeowners. Elderly households will enjoy a greater decrease in need than will non-elderly households. Rural counties are projected to have an overall increase in needs.

Many studies illustrate the impact that the lack of affordable housing has had on low- and middle-income citizens. For example, Nancy Andrews notes (1998, 3) that “the number of low-income households grew by 2.2 million between 1985 and 1995. As real incomes stagnated, the inflation-adjusted cost of housing rose, at the lower end of the market. As a result, housing has become less and less affordable, constraining the choices of lower income Americans with respect to neighborhoods, school systems and proximity to jobs.”

In the mid-1980s, John Kasarda’s research found that jobs created in urban centers required relatively high-level skills, appropriate for well-educated employees living in more affluent suburbs. Similarly, Robert Lehrman of the Urban Institute reports that a remarkable 75 percent of the seven million new jobs created between 1989 and 1995 were professional and managerial. Lehrman describes an oversupply of low-skilled labor, even as skill demands are increasing in other occupations. (Andrews 1998, 9) This surplus leads to depressed wages at the low end of the economic spectrum and an increased need for affordable housing. The two solutions most widely mentioned in housing literature are housing trust funds and housing tax credits. To better understand these options, each is discussed in some detail in order to examine its potential for financing affordable housing in Michigan.

Strategies

HOUSING TRUST FUNDS

Housing trust funds are the most prevalent resource used to help low- and middle-income citizens secure affordable housing. Most housing trust funds have been created through government action; however, they are generally administered by an outside nonprofit entity such as a community foundation. They may create a distinct board to oversee the fund's operations and will usually hire staff to operate it. Community foundations have been chosen because of their fiscal capacity and because they encourage additional contributions such as corporate investments.

The Community Economic Development Association of Michigan (CEDAM) has developed the goal of $25 million for an affordable housing trust fund for Michigan. This amount was chosen for several reasons. First, the neighboring states of Ohio and Illinois both have housing trust funds of approximately $23 million to $28 million. As peer states, Ohio and Illinois compete with Michigan for businesses, residents, and tourists. Finally, the economy of these two states is similar to Michigan's.

In most cases, housing trust funds have coordinated housing activities effectively. Flexibility is an essential element in housing trust funds. For example, senior citizen housing may be needed in a given year, whereas rehabilitation funds may be necessary in another. Often, jurisdictions have been able to utilize available resources, target spending, facilitate more long-range planning and evaluation, and create a system that is more accessible and efficient for low-income families.

The funds have done this in several ways. The synchronization of the due dates of funding applications allows applicants to organize their own financial packaging. The trust funds also allow submission of a package of applications for different sources of funds and increase access to various available funding sources. In addition, the creation of a single application process, wherein one application is used for many funding sources, has been a major way to reduce bureaucratic delays and misunderstanding. This type of coordination is best utilized when the jurisdiction or organization is responsible for several sources of funding, such as CDBG (Community Development Block Grant) funds, HOME funds, and the housing trust fund.

In order to be effective, trust funds must have:

- A dedicated source of revenue. The importance of securing a dedicated source of revenue through legislation cannot be overstated. The dedicated revenue is usually a tax, fee, or interest from investment accounts, or annually allotted resources.
- Government involvement (if the trust is not a government program). State housing trust funds are typically administered by government agencies. Often, these trust funds have appointed advisory boards, which oversee the agency.
- Funds for low-income housing. Housing trust funds generally make awards through an application process that specifies eligible applicants and eligible projects. Most housing trust funds target funds for households who earn 80 percent or less of the area median income.
- Leverage of other funds and broad-based political support. Leveraging funds and the need to work with opponents of trust funds are important affordable housing strategies, which could help secure legislation to create a housing trust fund. (Brooks 1999, 31)

Leveraging is a major asset of housing trust funds. Leveraging allows public funds to secure additional funds for housing investment purposes. Given the limited resources available for affordable housing, leveraging is essential for housing trust funds. This also increases the positive effects on the economy.

CEDAM estimates that $25 million of public funding for affordable housing would leverage an additional $75 million in public and private investment.

Several strategies are also useful in waging a successful housing trust fund campaign. These include:

- Securing several sources of financing for affordable housing. Sources include state or federal programs, private lenders, and low-income housing tax credits.
- Gaining comprehensive support from many industries and interest groups.
- Countering the opposition's argument. The key to this approach is a compelling campaign with convincing facts.
- Working with the opposition to keep them neutral, rather than actively opposing your efforts. The challenge here is to find an ally with sufficient influence to convince opponents that it is in their interest not to oppose your proposal. (Brooks 1999, 43–58)

LOW-INCOME HOUSING TAX CREDITS

Section 42 of the Internal Revenue Service code contains the regulations governing the federal Low-Income Housing Tax Credit Program, which was created to encourage construction and rehabilitation of housing for low- and moderate-income individuals and families. The Federal Low-Income Housing Tax Credit (LIHTC) provides a tax credit for low-income rental housing that is based on the eligible cost of development and the number of qualified low-income units.

Eligible development costs are expenditures that can be included in the depreciable base. The owner must elect to rent a minimum of 20 percent of the units to families with an income of less than 50 percent of the area median income, or a minimum of 40 percent of units to families with an income of less than 60 percent of the area median income. (MSHDA 1994, 1–2) The maximum gross rents are determined for specified household sizes by the number of bedrooms and the area median income. Utilities paid by the tenant are considered part of the gross rent. The tax credit rate is approximately 4 percent for building acquisition costs, 9 percent for rehabilitation and new construction costs, but only 4 percent if a development has federal subsidies or is financed with tax exempt financing. The actual tax credit rate is determined each month based on prevailing treasury interest rates.

Missouri's Low-Income Housing Tax Credit program is a companion to the federal Low-Income Housing Tax Credit. The program provides an annual 10-year state tax credit equal to a maximum of 100 percent of the amount of federal tax credit allocated, and is available to Missouri taxpayers who own developments in Missouri that have received a federal Low-Income Housing Tax Credit. Developments that receive an allocation of tax credit are subject to a 15-year initial compliance period and a 30-year Land Use Restriction Agreement, which limits the use to affordable housing. The 30-year Land Use Restriction Agreement can be released at the end of the 15 years based on the provision established in Section 42 of the Internal Revenue Service code. This program is a national model and reputedly works very well. (MHDCC 2000, 1–2)

The New York State Low-Income Housing Tax Credit Program is also considered a model state low-income housing tax credit program. This state tax credit is a stand-alone program administered by the Division of Housing and Community Renewal (DHCR) for owners of housing for low-income persons. The legislation authorizes the DHCR commissioner to allocate the state low-income housing tax credit (SLIHTC) to eligible buildings in the state. The law requires that SLIHTC programs be administered in the same manner as the federal program (LIHTC). Any building located in New York is eligible for the credit if it is 1) a qualified low-income building, or 2) if at least 40 percent of the residential units are rent restricted and occupied by individuals whose income is 60 percent or less of area median gross income. (DHCR 2001, 1–16)

MICHIGAN HOUSING PROGRAMS

Michigan programs for low-income residents are administered by several state agencies. The Family Independence Agency (FIA) administers many federally and state-funded low-income programs, such as Temporary Assistance for Needy Families (TANF), child day care funds, the family independence program, child and family programs, protective services programs, foster care and adoption, state disability and Supplemental Security Income (SSI) assistance, and state emergency relief. The Department of Career Development administers the Work First and other federal job training programs. The Department of Community Health provides resources for low-income health care through Medicaid county offices, mental health resources, medications, and state-run mental health facilities. Only the Michigan State Housing Development Authority (MSHDA) and FIA address affordable housing needs for low- and moderate-income families, using state and/or federal resources.

MSHDA is a quasi-governmental organization. It provides various programs in four areas: rental, home purchase, home improvement, and community development. In addition to MSHDA, FIA provides weatherization and emergency housing resources for TANF-eligible families.

FUNDING SOURCES FOR TRUST FUNDS

There are at least eight options for funding an affordable housing trust fund in Michigan. The most promising options appear to be the Single Business Tax, Tobacco Settlement Trust Fund/Michigan Merit Scholarship Trust Fund, State Housing Tax Credit, Tax Increment Finance, state tobacco tax, and real estate transfer tax. Each of these is capable of providing annual increments totaling about $25 million.

The Single Business Tax (SBT) is a value-added tax on business worker compensation, depreciation, profits, and interest expenses. The tax rate is currently 2 percent, but this is being phased out over the next 20 years. On an annual basis in Michigan, this tax raises over $2 billion. Of the above amount, $25 million could be allotted to the affordable housing trust fund. After the tax is phased out, PSC recommends that $25 million be taken from the State Education Property Tax fund for the affordable housing trust fund, with the State General Fund reimbursing the School Aid Fund.

Alternatively, by increasing the Michigan real estate transfer tax by .075 cents per $1,000, $25 million could be generated to finance a trust fund. A major drawback is that the revenue generated by this tax is statutorily dedicated to the Michigan School Aid Fund, and the tax was specifically created to replace property taxes that had previously funded Michigan’s public schools. It would be politically difficult to change the act to provide for a diversion of some or all tax revenue to an affordable housing fund. School organizations and real estate organizations would present major objections. Nevertheless, an increase in the Michigan real estate transfer tax is a realistic option.

Another revenue option is to seek an annual allocation from the Tobacco Settlement Trust Fund or the Michigan Merit Award Scholarship Trust Fund and/or interest from both funds. One plausible justification for using this source is that low-income persons are more likely to be smokers. According to the 1994 Surgeon General report, young people who come from a low-income family and have fewer than two adults living in their household are especially at risk for becoming smokers. Moreover, a report issued by the Office on Smoking and Health at the National Center for Chronic Disease Prevention (CDC 1998) found that smoking prevalence was higher among persons living below the poverty level (32.3 percent) than among those living at or above the poverty level (23.5 percent). Since low-income households are also the primary targets for affordable housing, the Tobacco Settlement Funds could greatly benefit low and very low-income households by funding a housing trust fund. One approach would be to create a line item in both trust funds for a set amount along with trust fund interest, totaling $25 million. Of course, there would be opposition from the educational community, health advocacy groups, and others.

The State of Michigan's Budget Stabilization Fund (BSF) currently generates approximately $70 million in interest each year. Although the Budget Stabilization Fund is designed for financial crisis situations, it has been used for other purposes, such as prison construction and to pay for court-ordered settlements. However, these were one-time appropriations. The BSF has not been used to fund permanent programs. An allocation of 36 percent of the interest from the Budget Stabilization Fund could be used to fund a $25 million housing trust fund for a limited amount of time. There would likely be strong political opposition to this proposal, as the legislature is reluctant to tap the fund except in exceptional circumstances.

Other possible dedicated funding sources include an Internet sales tax, a tax increment finance fee, cigarette tax increase, or investments from the state pension funds in housing development mortgage bonds. While each of these is a viable option, some are more feasible than others are. Table 2 reviews the funding source for each option, its advantages and disadvantages, potential opposition, and likely timetable.

In addition to options for dedicated revenues for housing trust funds, there are also several options for low-income housing tax credits in Michigan. These options have varying levels of viability. One option for a low-income tax credit is to petition Congress to increase the federal low-income tax credit from 10 to 15 percent to generate sufficient housing resources. If granted, this action could increase the number of developers, landlords, and nonprofit organizations that are willing to set aside homes for low and very low income households in their developments. According to the MSHDA FY 2001 Housing Production Goals report, if an increase of this size were made, the number of affordable housing units built in the state would increase by 6,061, or double the new and rehabilitated units financed by MSHDA in FY 2000. However, the chances of the Michigan congressional delegation successfully advocating in Washington to secure an increase in the federal housing income tax credit do not appear very high. Given the many legislative goals for Michigan, an increase in the federal housing low-income tax credit has not been at the top of the list recently.

Another option for providing a Michigan state low-income housing tax credit is to make this tax credit an element of tax increment financing. Tax increment financing is an economic development tool that establishes a base year and takes the tax growth beyond the base year for economic development projects in a designated tax increment finance district. If part of the tax increment financing were used as housing tax credits, state resources from tax increment finance districts around the state could provide sizable resources. However, municipalities, counties, and townships might not support this attempt to divert some their valuable resources from economic development projects. To do this, local officials would have to be convinced of the importance of affordable housing to economic development.

Table 2. Affordable Housing Trust Fund Options

Funding Source	Method	Pros	Cons	Potential Opposition
Single Business Tax	Credit for amount contributed to affordable housing fund, not to exceed 2% of the tax liability	Set amount for affordable housing	Anti-competitive, anti-business	Chamber of Commerce
Tobacco Settlement Trust Fund/ Michigan Merit Award Scholarship Trust Fund	Line item from each fund ($15 million); interest on fund ($10 million)	Funding source that will provide funds in perpetuity; annually hundreds of millions of resources; benefits low-income persons.	Reduces trust funds for education; not the intent of the trust fund; does not assist on community health or public health concerns directly.	Michigan Education Assn.; Public and Community Health Organizations
Budget Stabilization Fund	Annual line item $25 million (36%) of $70 million in interest on fund	Previous one-time appropriations; Great need for affordable housing.	No precedents for funding permanent programs from BSF; major political hurdles.	?
State Housing Tax Credit	Tied to SBT Tied to education property tax, after SBT phased out	Current tax credit for business purposes.	Not the purpose of SBT; major hurdle if attached to education property tax.	Michigan Chamber, business associations; MEA, MASB
Real Estate Transfer	.075 cent per $1,000, or 10 percent, increase in Real Estate Transfer Tax for housing raises $25 million	A small fee generates a substantial amount of revenue and there is a direct connection to affordable housing.	Real estate costs are already high; another additional cost would be unpopular. All tax increases are difficult politically.	Michigan Realtors, Homebuilders Assn., Manufactured Housing organizations
Cigarette Tax	.03 cent cigarette tax increase to raise $25 million	Tax on an item viewed as detrimental to the public good (in terms of health).	This would be a declining revenue source. All tax increases are difficult.	Michigan Retailers Assn.; Chamber of Commerce
Internet Sales Tax	Revenue from taxing Internet sales	Uses sales tax to benefit Michigan communities	Tax has to await federal guidelines or legislation	Business associations, chambers of commerce
State Pension Funds	Investments	Benefits MI communities.	Too risky or unstable.	Fund managers, retirees
Tax Increment Financing	$9.60 per $1,000 fee added to estimated $240,000,000 Tax Increment Financing Estimate for FY 2001	Precedents have been established for some communities to use these funds for housing, infrastructure, roads.	Economic development has been the primary use of these funds. There are remaining legal questions.	Business community; Chamber of Commerce

JOB, WAGE, AND TAX DATA

Over the past four years, MSHDA reports that 5,236 jobs have been created from housing construction programs. Further, annual construction wages over the past four years have totaled $145,150,636. Also over the past four years, $56,226,176 was paid in taxes from housing construction. In the state of Michigan, housing construction programs have had a significant impact by creating jobs, providing wages and paying taxes.

If Michigan had an affordable housing fund of $25 million, approximately $75 million of additional public and private funds could be leveraged for affordable housing. Based on CEDAM estimates, this investment would generate approximately 1,000 additional units of affordable housing and provide other aid such as housing for the elderly or those with disabilities, homeownership and financial counseling, or repairs and rehabilitation. It could assist 1,500 households with "special needs" (people who need extra help getting into a home). Construction and renovation would create 2,500 jobs in construction and related trades and substantive wages would be earned by these workers (the average construction wage is currently $22 per hour, plus benefits). Many of these individuals in construction jobs would pay income and other taxes.

Table 3. MSHDA Fiscal Year Housing Unit Production

	Annual Unit Goal	Actual Units Produced	Additional Funding Amount	LIHC Units	LIHC Tax Credit Amount	Number of LIHC Projects	Section 8 Vouchers Number of Families
FY 2001 *							
FY 2000	5,185	6,061	$41 million*	3,668	$15,913,257	61	13,672
FY 1999	4,980	4,618	$40 million*	3,558	$15,551,455	56	12,610
FY 1998	4,716	6,080	$27 million*	3,761	$16,221,769	54	12,205
FY 1997	5,900	5,966	$23 million*	3,239	$15,375,655	57	13,920
Total	20,781	22,725	$131 million*	14,226	$63,062,136	228	52,407

Source: MSHDA 2000 (December) *Other resources spent on housing

Table 4. MSHDA Construction Annual Jobs

	Jobs			
Year	2000	1999	1998	1997
Single Family Loans	80	55	156	99
MI Mortgage Credit	43	49	43	83
Home Imp. Loans	67	67	77	94
New Construction Total	123	104	199	182
Other Construction	2,055	1,032	404	832
Total	2,245	1,203	680	1,108

Source: MSHDA 2000 (December)

Table 5. MSHDA Construction Annual Wages

	Wages			
Year	2000	1999	1998	1997
Single Family Loans	$ 2,401,415	$ 1,553,863	$ 4,067,517	$ 2,389,000
MI Mortgage Credit	$ 1,303,632	$ 1,371,007	$ 1,130,376	$ 1,985,000
Home Imp. Loans	$ 2,013,869	$ 1,869,308	$ 1,990,625	$ 2,260,000
New Construction Total	NA	NA	NA	NA
Other Construction	$61,639,099	$28,870,950	$10,313,675	$19,991,000
Grand Total	$67,358,015	$33,665,428	$17,502,193	$26,625,000
Source: MSHDA 2000 (December)		NA = Not Available		

Table 6. MSHDA Construction Annual Taxes

	Taxes			
Year	2000	1999	1998	1997
Single Family Loans	$ 992,817	$ 645,412	$1,689,484	$ 1,029,659
MI Mortgage Credit	$ 538,961	$ 569,462	$ 469,514	$ 855,535
Home Imp. Loans	$ 769,298	$ 717,814	$ 764,401	$ 974,060
New Construction Total	NA	NA	NA	NA
Other Construction	$23,546,175	$11,086,561	$3,960,452	$ 7,616,571
Total	$25,847,251	$13,019,249	$6,883,851	$10,475,825
Source: MSHDA 2000 (December)		NA = Not Available		

ECONOMIC BENEFITS OF AFFORDABLE LOW-INCOME HOUSING

The creation of additional low-income housing clearly provides many economic benefits. Low-income housing contributes to the improvement of employment stability and adds to the tax base. Many studies have demonstrated the economic benefits of increased low-income housing.

Economic growth and affordable housing are often interrelated. For example, a Center for Community Change report notes that:

> One out of every seven jobs in the Ohio economy is either directly or indirectly related to housing. In other words, about 15 percent of the total Ohio workforce are engaged in housing related work. Homebuilders and the finance, insurance and real estate industries will benefit from increased production. Finally, household durable goods and retail sales markets will also benefit from increased housing activity. (Brooks 1993, 1)

The comprehensive impact of affordable housing on an economy is very significant. The report cites the Chair of Boston's Neighborhood Housing Trust, who wrote in the *Boston Business Journal* in 1991 that the city's housing trust fund

> …created approximately 2,700 construction jobs as well as economic activity for architects, lawyers, engineers, supply and service contractors and local unions. Perhaps most importantly, linkage has contributed to the rebuilding of neighborhoods and has given local residents a vehicle to participate in the regional economy and its expansion. (Brooks 1993, 2)

The Manpower Demonstration Research Corporation (MDRC) conducted an evaluation of the impact of affordable housing on jobs in the Minnesota Family Investment Program (MFIP) in June 2000. Essentially, this and other research suggests that public subsidies promote work among long-term welfare recipients when they are combined with a well-designed welfare reform program. The evaluation of the MFIP program found that increases in employment and earnings, reductions in poverty, and even increases in marriage were the strongest ever documented for welfare reform in the United States. Significantly, employment and earnings increased far more among residents of public and subsidized housing than among poor families not receiving housing assistance. MDRC found that eligibility for full MFIP services boosted the employment rates of long-term welfare recipients living in public or subsidized housing by 18 percentage points, which was more than double the gain in employment for those not living in public or subsidized housing.

Quarterly earnings increased an average of 25 percent among the families eligible for full MFIP services that lived in public or subsidized housing. Conversely, earnings increased 2 percent, an amount that was not statistically significant, among families eligible for the full MFIP services that did not live in public or subsidized housing. Two other studies also reported comparable results. Among households eligible to receive Job Opportunities and Basic Skills (JOBS) services in Atlanta, Georgia, and Columbus, Ohio, employment and earnings gains were substantially larger among the families in public or subsidized housing than among the families not receiving such assistance. (CBPP 2000, 1-2)

State and federal governments spend millions of dollars on emergency shelter for the homeless. These funds are spent primarily because of the lack of affordable housing. The above-mentioned studies suggest that with increased affordable housing, this funding could be reallocated. Moreover, adequate housing for homeless families could result in stable employment, increased earnings, and a better quality of life.

If Michigan fails to implement a $25 million affordable housing fund, there would be severe negative consequences. First, approximately 600,000 residents who need affordable housing would have to rely on public funding and subsidies, costing taxpayers much more than $25 million. Second, approximately $75 million in public and private resources would not be leveraged for affordable housing throughout the state. Third, Midwest states such as Ohio, Illinois, Indiana, Minnesota, and Iowa, which all have housing trust funds, would be strategically positioned to attract companies seeking affordable housing for their employees—at Michigan's expense. Potentially hundreds of millions of dollars in economic development projects would be lost. Finally, the opportunity to improve the lives of many middle- and low-income families by providing affordable housing would be lost; some of these residents might relocate to competing states, costing Michigan tax revenue and federal funds.

NON-ECONOMIC BENEFITS OF AFFORDABLE LOW-INCOME HOUSING

Numerous studies suggest that affordable housing or housing subsidies produce many non-economic benefits. Research evidence suggests that housing subsidies can help long-term welfare recipients increase education, improve child health, and reduce domestic violence.

Some studies have indicated that the children of transient parents perform less well in school. By enabling families to find and keep affordable housing, housing subsidies may help children in these families maintain attendance rates and remain in a stable school setting, thereby improving their academic prospects. There is also some evidence that suggests that school performance is correlated with certain neighborhood characteristics such as concentration of poverty. By enabling families to move to neighborhoods with better educational opportunities, housing subsidies such as tenant-based vouchers may help families secure a better education for their children.

According to the MDRC evaluation cited above, studies by doctors in Boston suggest that housing subsidies may lead to improvements in child health. One study found that children of families on a waiting list for housing assistance were more likely to suffer from stunted growth than children of families with housing subsidies, who were able to afford nutritious food. A study of participants in the Moving to Opportunity demonstration program in Boston found that children of families who received assistance in moving to low-poverty neighborhoods were less likely to experience asthma attacks or be the victim of violent crime than the children of families that remained in higher poverty neighborhoods. (CBPP 2000, 3)

As for domestic violence, if the parent has no other housing options, she or he is forced to remain in the abusive setting. Housing vouchers can help victims of domestic violence escape or relocate to a nonabusive setting.

Conclusions and Recommendations

Overall, the economic impact of affordable housing can be demonstrated in four areas. The first area is leveraging additional funds. Most housing trust funds leverage at least five dollars of public and private money for every dollar available from the trust fund. Opportunities for leverage exist in all federal housing programs (i.e., CDBG, HOME funds), Section 8 rental assistance subsidized debt programs (i.e., mortgage revenue bonds), private debt programs (i.e., conventional financing, lending pools), equity programs (i.e., federal low-income housing tax credits), private funds (i.e., foundation grants, churches), and national nonprofit intermediaries (i.e., Low-Income Housing Fund, Enterprise Foundation). Second, on average, approximately 36 jobs are created per $1 million of new residential construction. Third, increased permanent, quality, affordable housing could save millions of dollars in reduced emergency care for the homeless and more importantly, secure housing for the homeless in an environment that would allow families to thrive. Fourth, through higher wages, sales, and property tax values, tax revenues are increased in cities and states.

PSC recommends further exploration of the use of the Single Business Tax, Budget Stabilization Fund and a .03 cent cigarette tax increase. These sources of funds could provide $25 million on a permanent basis. All options impose a relatively small fiscal burden on taxpayers and appear to offer the best chance to reach a compromise. The Single Business Tax, along with the cigarette tax, may present the best opportunity to utilize a sizable funding source with available funds and stakeholders who may be amenable to funding an affordable housing fund. Given the current economic downturn and the political environment in Lansing, the climate is not conducive to providing resources for new spending measures. A window of opportunity could open, however, when the economy improves and the state administration changes. Now is the time to lay the groundwork for such endeavors, with the expectation of funds being appropriated in the 2002–03 budget.

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