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Creating Balance in the Locations of LIHTC Developments:

The Role of Qualified Allocation Plans

Jill Khadduri, Principal Associate
Abt Associates Inc.

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Introduction

The Low Income Housing Tax Credit (LIHTC) is a federal program administered by the Treasury Department that subsidizes the development of rental housing projects for low-income households. LIHTC is the predominant “supply-side” or “project-based” component of U.S. rental housing policy, while the “demand-side” or “tenant-based” component is the Housing Choice Voucher program, providing subsidies that households can use to rent housing units they find in the private market. Since its creation by the Tax Reform Act of 1986, LIHTC has developed about 2.4 million units; since the early 1990s, LIHTC has been the only program that has added substantial numbers of subsidized projects to the U.S. rental housing stock. The housing voucher program currently assists about 2.5 million households—with some overlap, since vouchers frequently are used to rent units in LIHTC projects [Furman Center for Real Estate and Urban Policy 2012].

This paper is based on the premise that an effort is needed to create a better balance between locating LIHTC projects in “high-opportunity” communities and locating them in neighborhoods where substantial numbers of poor people and minorities currently live. After examining the basis of that premise, the paper then focuses on the way in which the administrators of LIHTC—agencies of state governments—can use the systems through which they allocate tax credit authority to change the balance of LIHTC locations so that the program does a better job of helping low-income families and racial minorities live in areas with good schools, superior public services and health care, and access to jobs.[1]

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[1] This paper provides an alternative, complementary analysis to an earlier paper published by PRRAC, the Kirwan Institute, and the Opportunity Agenda, titled *Opportunity and Location in Federally Subsidized Housing Programs: A New Look at HUD’s Site & Neighborhood Standard As Applied to the Low Income Housing Tax Credit* (October 2011). *Available at* http://www.prrac.org/pdf/OpportunityandLocationOctober2011.pdf

I. Why make an effort to create balance through state allocations of LIHTC?

LIHTC is most valuable when it does things that choice-based housing vouchers cannot do or do as well. Vouchers are less expensive than LIHTC in most places [GAO 1997; Deng 2005; Burge 2011; Weicher 2012]. Vouchers are more flexible than housing with a fixed location, and, therefore, families prefer vouchers to other forms of assistance [Fisher et al. 2012; Sard 2001]. Vouchers reach households most likely to have acute needs for assistance [Furman Center for Real Estate and Urban Policy 2012; Sard 2001; Nelson and Khadduri 1992]. Therefore, LIHTC developments should provide housing in situations where vouchers are difficult to use, in particular in high-opportunity neighborhoods where fewer housing units can be reached within voucher payment standards and where landlords may prefer unsubsidized tenants [Basolo and Ngyen 2005; Williamson et al. 2009; Galvez 2010; Edin et al. 2012].

Many current LIHTC developments do not meet that test: they provide housing in the same locations where vouchers are easy to use, neighborhoods with an abundant supply of relatively low-cost housing. Recent studies of the LIHTC program found many LIHTC developments have rents that are indistinguishable from the market-determined rents of housing in the same locations [Khadduri et al. 2012; McClure 2010; Baum-Snow and Marion 2009]. LIHTC often substitutes for housing that the private market would have built without a subsidy [Erikson and Rosenthal 2010; Malpezzi and Vandell 2002]. LIHTC is more likely to add to the net supply of housing in lower-income locations, because, given low demand, investors would not have built there without a subsidy [Baum-Snow and Marion 2009]. But it is still the case that vouchers are easy to use in those neighborhoods.

Another thing LIHTC may do better than vouchers, besides creating housing in high-opportunity neighborhoods, is support an effort to revitalize a neighborhood by improving the quality of the neighborhood's stock of housing. Such efforts may add new housing or rehabilitate the housing that already is there, and in either case the LIHTC-supported housing may have better construction standards and amenities than other neighborhood housing. Most of the time, however, the LIHTC housing has, at most, a small positive impact on property values beyond the footprint of the LIHTC development [Baum-Snow and Marion 2009; Funderberg and MacDonald 2010]. The scale of LIHTC developments is too small to have a major effect on the neighborhood as a whole. Furthermore, the author has found no research showing that distressed neighborhoods with LIHTC investments improve as measured by other quality measures such as well-performing schools, responsive public services, or safety.

Many efforts characterized as neighborhood revitalization are nominal, never going beyond the stage of designating a neighborhood for special attention. Even if implemented, neighborhood revitalization efforts often are ineffective; they do not have enough concentration of resources, interventions in areas other than housing, or diversity of housing types (homeownership as well as rental, both low income occupants and those with somewhat higher incomes) to turn a low-income neighborhood into a high-opportunity neighborhood [Turnham and Bonjorni 2004].[2] A review of the literature shows few examples in which the revitalization of a development has placed the neighborhood on a different

[2] See Galster [2010] for a discussion of conditions and amenities that affect the quality of a neighborhood.

trajectory, even when the redevelopment has been large in scale and removed a major blighting influence as in the redevelopment of distressed public housing under the HOPE VI program [Castells 2010].[3] Studies focusing on New York City have shown positive effects of very large-scale investments in multifamily housing development on the value of nearby housing [Ellen 2008]. However, those studies were in a city with a growing economy, and they have not been replicated in other cities. The successor program to HOPE VI, Choice Neighborhoods, responds to the discouraging results of past neighborhood revitalization efforts by requiring a proposed revitalization effort that is large in scale, focuses on neighborhood assets such as proximity to employment centers and transportation, and includes transformation in other sectors, notably schools.[4]

A second and equally compelling reason for seeking to balance the types of neighborhoods in which LIHTC housing for families with children is located is that *LIHTC, and state governments, are subject to fair housing law, including the obligation to affirmatively further fair housing.* The Fair Housing Act was enacted to combat residential segregation by prohibiting the denial of housing opportunities on the basis of race, family status, and other protected characteristics, and by requiring affirmative steps to provide integrated housing opportunities. An important corollary to this fair housing principle is the importance of increasing the exposure of low income children to high performing, lower poverty schools – something that the LIHTC program has not yet been able to accomplish in most metropolitan areas [Ellen and Horn 2012].

Efforts to ensure that allocations of LIHTC further the objectives of the Fair Housing Act should be part of strategies to address fair housing in the broader housing market. However, in most states, even those that have placed LIHTC family housing in census tracts with low poverty rates, few LIHTC developments for families with children are in locations without minority concentrations [Freeman 2004; Khadduri, Buron, and Climaco 2006]. State governments should include an assessment of their LIHTC Qualified Allocation Plans as part of the analyses of impediments to fair housing they are required to conduct as a condition of federal funding for housing and community development.

A final reason that state policy-makers should think carefully about the balance of neighborhood locations of LIHTC developments is that *a coming wave of need for recapitalization of older LIHTC properties threatens to worsen the current balance if nothing is done.* A study of the older LIHTC inventory recently completed for HUD found that properties that were originally rehabilitated rather than newly constructed often need system replacements after 15 years. Others will develop substantial capital needs by year 30. At the same time, older LIHTC developments in strong housing markets are at risk of conversion to market-rate housing at the end of their 15 or 30-year compliance period [Khadduri et al. 2012.] Without state policies that are conscious of the implications for the location of affordable housing, the further use of LIHTC and other state-controlled resources for these older properties is likely to preserve the housing that is in low-value locations, where choice-based housing vouchers are easy to use, while losing the by-no-means trivial amount of housing that has been created by LIHTC in high-value locations to market conversion [Khadduri, Buron, and Climaco 2006; Ellen and Horn 2012].

[3] For a rare example of a successful community revitalization effort, see Accordino et al. [2005].

[4] A program overview and funding documents can be found at http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/cn

II. Information used for this paper

This paper draws on several sources of information.

- A review of the research literature on the LIHTC program, on locations of affordable housing, and on the relationship between development of low income housing and neighborhood change.
- A review of the texts of Qualified Allocation Plans (QAPs) that govern the allocations of tax credit authority in 36 states.[5] Faced with limited time and resources, we gave the highest priority to the most urban states and those with concentrations of minorities in urban areas,[6] and we reviewed only recent QAPs, 2012 or 2013. Lawyers and law students working on a pro bono basis conducted the reviews, guided by a structured questionnaire designed to extract information about incentives for locating LIHTC housing in revitalizing neighborhoods and in areas of opportunity.[7] Khadduri provided quality control by re-reviewing several QAPs for information that may have been missed or misinterpreted. She also reviewed the QAPs of any states that appeared to provide incentives for locating LIHTC in high-opportunity locations or that had detailed definitions of revitalizing neighborhoods. On the basis of the reviews, she created state-by-state categorizations of QAPs along a number of dimensions.[8]
  The review and categorization of QAPs done for this study builds on the approach developed by the National Housing Trust for reviewing and categorizing other policy priorities that may be reflected in QAPs—in particular, preserving existing affordable housing and locating LIHTC housing near transit.[9] The National Housing Trust's website has a number of documents that record and summarize QAP incentives for those policy objectives.
- Interviews with officials of the agencies that allocate LIHTC. (For convenience, all are referred to in this paper as Housing Finance Agencies or HFAs, although some have other names). Khadduri conducted telephone interviews lasting between one and two hours with HFA officials from Georgia, Massachusetts, North Carolina, Ohio, and Pennsylvania. These states were chosen following the review of QAPs because they include priorities for high-opportunity locations and have other provisions relevant to the study. The interviews did not include states where fair housing litigation may have affected the content of the most recent QAPs (Maryland, New Jersey, and Texas) in order to broaden the set of states about which we have detailed information.

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5 35 states and the District of Columbia.

6 States *not* reviewed for this paper are: Alaska, Hawaii, Idaho, Maine, Mississippi, Montana, Nebraska, New Hampshire, New Mexico, North Dakota, South Dakota, Utah, Vermont, West Virginia, and Wyoming.

7 In the interest of completing as many reviews as possible within the available time, we also created priority categories, with lower priority states reviewed based on a shorter, simpler questionnaire.

8 An earlier review of QAPs by the Poverty and Race Research Action Council and the Lawyers' Committee for Civil Rights under Law found some examples of language that might have the effect of avoiding racial and economic concentration or encouraging development in high opportunity areas. Bookbinder et al. [2008].

9 Abt Associates is partnering with the National Housing Trust in a research project supported by HUD that is analyzing the effect of QAP incentives for transit-oriented development.

The purposes of the interviews were:

- To understand better how QAPs work in practice.
- To understand the processes through which HFAs create QAP provisions designed to change the balance of the location of LIHTC developments
- To understand how such provisions are evolving over time, and
- To understand the reasoning behind particular provisions in the QAPs and the ways in which state officials think they will affect the location of LIHTC housing.

This paper does not analyze how QAP provisions affect where LIHTC properties are located, through either state-by-state comparisons or before-and-after results for particular states. A parallel effort is under way to analyze which states are most likely to have LIHTC developments located near high-performing schools, extending the analysis presented in Ellen and Horn [2012].

It will, however, be difficult to conduct analysis that relates QAP provisions to outcomes in a rigorous way, since states have very different housing markets and very different overall incentive structures in their QAPs, and since changes in QAPs often affect multiple provisions and take place within the context of housing market change. Furthermore, many of the conscious efforts by state allocating agencies HFAs to create priorities in QAPs for high opportunity locations are new and would not affect the locations of properties placed in service until two years or longer after the QAP change was made. (HUD's database that documents the locations of LIHTC properties across states shows the locations of properties placed in service, not properties for which LIHTC has been allocated.) That does not mean that empirical work on the results of QAP changes is not taking place. As will be discussed in Section IV of this paper, HFA staff are analyzing the results of their states' LIHTC funding rounds to assess how QAP incentives appear to be affecting the locations of LIHTC developments.

III. How do states use QAPs to determine which LIHTC developments are funded?

The law governing LIHTC requires states to allocate the annual dollar quota of tax credit authority based on a qualified allocation plan (QAP) that governs the annual competition among applicants for "9 percent" tax credits, the credits for which states have fixed annual quotas of federal tax credit authority. Section 42 sets some standards for QAPs, both procedural requirements for publication of a draft QAP with opportunities for public comment and an enumeration of an extensive list of "preferences" that states must, in one way or another, include in the QAP.

The language in Section 42 sets forth preferences for "projects serving the lowest income tenants," "projects obligated to serve qualified tenants for the longest periods," and "projects which are located in qualified census tracts (as defined in subsection (d)(5)(c)) and the development of which will contribute to a concerted community revitalization plan." Section 42 also states that the selection criteria must also include "project location, housing need characteristics, project characteristics, "including whether the project includes the use of existing housing as part of a community revitalization plan," sponsor characteristics, tenant populations with special housing needs, public housing waiting lists, tenant populations of individuals with children, projects intended for eventual tenant ownership, the energy efficiency of the project, and the historic nature of the project [Section 42 of the US Code as of January 2011]. The federal administrator of the LIHTC program, the U.S. Department of the Treasury, has provided no guidance on how states should further define those preferences, rank them against each other, or relate them to other priorities that states may create in their QAPs.

Every state's QAP is unique. Most are very complex documents that require careful analysis to understand the incentives they create. Several types of QAP provisions influence which properties are selected in a competition for that state's allocation of 9 percent credits.[10] The most obvious type of provision is one that awards points for properties with particular features that permit head-to-head comparisons of properties on the basis of their point scores. However, other such as set-asides, threshold requirements, basis boosts, and non-numerical policy statements can be equally important and sometimes more important [Shelburne 2008; Gustafson and Walker 2002]. Some states hold strictly to point scores, and the highest-scoring properties must be selected. Other HFAs give themselves more flexibility to override point scores on the basis of non-numerical policy statements. Set-asides are pools of tax credit funds within which applicants complete only against other properties qualifying for the set-aside—e.g., within a geographic sub-area of the state or among new construction projects. In some states, set-asides are targets rather than absolute minimum or maximum amounts to be allocated for a type of property. Threshold requirements can exclude certain types of properties altogether—for

[10] Or which properties are eligible for the 4 percent credits that are awarded non-competitively in connection with financing properties with federally tax-exempt state-issued bonds. While not awarded competitively, these credits are subject to underwriting standards and other threshold requirements. Some QAPs govern other state programs as well—for example, credits against state income taxes, state-administered HOME funds, state "own-source" programs that provide loans or grants to housing developments—and may coordinate competition for those programs with competitions for LIHTC.

example, threshold requirements may exclude properties with per unit development costs or tax credits needed above a certain level, properties that do not meet certain construction standards, or properties not approved by the local chief executive.

To understand a QAP fully, one must both read the text and understand it in context. For example, some property features that qualify for competitive points come close to having the same effect as thresholds; they are “must-have” points because typically all properties in the competition will achieve them. Among properties amassing “must-have” points, a very small number of “marginal” points for a different property characteristic may determine which property is selected. Even set-asides do not always predict what will happen. For example, a property may be eligible to compete both inside and outside the set-aside.

Most states include the preferences enumerated in Section 42 in one form or another, but the force of those preferences varies greatly. For example, a state may minimize the effect of one of the Section 42 preferences by submerging it into a list of property features that get equal weight, by providing few points compared with other point-earning features, or by simply repeating the Section 42 language in the preface to the QAP without stating how it will affect project selection.

To achieve a particular policy objective requires cooperation from the development community—a developer must be willing to invest in a property with the desired characteristics and apply for an allocation of LIHTC. However, the overwhelming view of experts and practitioners in the LIHTC program is that QAPs are very effective. Developers "chase points" when they make decisions about which properties to acquire in order to use LIHTC and which properties they already own to take to the LIHTC competition as income and rent-restricted housing. During the annual public process for creating the QAP that will affect the next year's allocation, developers comment extensively on changes to QAPs that would make certain types of properties more fundable.

IV. A Process for creating more balance in the location of LIHTC projects through QAPs

The interviews with state officials conducted for this paper suggest an approach that states should follow when attempting to achieve a different balance in the location of LIHTC projects—in particular, when seeking to increase the number of LIHTC units for families that are located in high-opportunity neighborhoods.

The first step is analysis. HFA staff or their consultants should review the locations of current LIHTC developments to document the balance between projects in high-opportunity locations and those in other locations.[11] Particular attention should be paid to developments placed in service over the past few years and those awarded 9 percent credits. The analysis should also review applications and results of recent funding competitions to understand how QAP features affect the locations of successful developments. That review may show that otherwise fundable projects in high-opportunity locations get outscored by properties in other locations because of features that that on their face do not affect property locations, but in reality do.

For example, when conducting such a review, state officials in Pennsylvania concluded that a strong preference for properties that serve the lowest income households was working to the disadvantage of properties proposed for location in relatively affluent suburbs. Properties in smaller and more affluent jurisdictions did not have access to sources of gap financing such as HOME Investment Partnership Funds or Community Development Block grants, because these federal programs are allocated by formulas that deliberately favor communities with high poverty rates and also do not provide direct allocations to smaller communities. Gap financing usually is needed for a project to serve the lowest income households, since such properties can support smaller amounts of debt. Existing properties that have property-based rental assistance also score well on serving the lowest income households (because residents pay only 30 percent of their income), but few such properties are located in high-opportunity neighborhoods.

Officials from other states said that preferences for properties serving the lowest income households did not work to the disadvantage of properties in high-opportunity locations—for example, because the political geography of the state put high-opportunity neighborhoods in larger jurisdictions with access to gap financing (North Carolina) or because, in another state, suburban properties were less expensive to develop than those in central cities (Massachusetts). States differ, which is what makes analysis specific to each state important.

The next step is goal setting. Given the state's allocation of tax credit authority, along with other factors such as the feasibility of using bond financing with 4 percent credits, what is a reasonable number of units of family housing in high-opportunity neighborhoods to attempt to produce annually? A numerical target or percentage goal is useful. It provides a benchmark against which to measure success, and it may facilitate a productive public discussion of the QAP, making it clear that the objective is to change

[11] An example of such analysis is Buki et al. 2007.

the balance of LIHTC locations rather than to stop awarding tax credits to any properties in low-income communities. In the 2013 QAPs for Massachusetts and Pennsylvania, the goals take the form of a target number of LIHTC projects to be located in high-opportunity areas, as well as in other types of locations.[12]

If such goals are selected, the draft QAP for the next year would include provisions intended to achieve the goals, and the public comment process should encourage discussion of whether the proposed QAP provisions are likely to work. Once the QAP is final and the funding competition for the next year is complete, the HFA could then analyze the results to see if the goals were achieved. The process would then be repeated for the next year. An iterative process is necessary because of the complexity of the QAPs, the varying political and economic geographies of states, and the dynamic nature of housing markets and finance.

[12] PRRAC and some other civil rights groups have argued that goals should be set high enough to balance out historical patterns of segregated housing within a reasonable time; others have suggested a more incremental approach that seeks balance in new tax credit allocations only.

V. Changes to QAP provisions that may create better balance between high-opportunity and low-income locations of LIHTC properties

Based on analysis of the texts of recent QAPs and on interviews with HFA officials, this section proposes several changes that could be made to QAPs to achieve more balance in the locations of LIHTC projects.

Those changes fall into four categories:

- Limit priorities for LIHTC developments in low-income neighborhoods to those that have neighborhood revitalization efforts with a real chance of success.
- Limit incentives that lock in the historical geography of affordable housing
- Create incentives for locating projects in high-opportunity neighborhoods
- Change QAP provisions that block projects from being developed in high-opportunity neighborhoods

A. Limit priorities for LIHTC developments in low-income neighborhoods to those that have neighborhood revitalization efforts with a real chance of success.

State officials sometimes say that one of the reasons for the current imbalance in the location of LIHTC units is that Section 42 requires states to prefer properties in qualified census tracts (QCTs).[13] The QCT concept was created in 1989 as one of two types of geography where it might be difficult to develop LIHTC housing because of the limited rental income that would be available to support debt and operating costs [Hollar and Usowski 2007]. Difficult development areas (DDAs) are places where the maximum LITHC rent based on area median income is low relative to construction costs in the area. (In implementing the DDA designations, HUD uses Fair Market Rents as a proxy for construction costs). QCTs are places where household incomes are low enough that the property may not be able to charge rent at the LIHTC maximum, census tracts with in which the majority of residents have income between 60 percent of area median income or with a poverty rate of 25 percent or more.[14] The amendments to Section 42 made both DDAs and QCTs eligible for a higher basis on which the tax credit may be taken—up to 30 percent higher—at the discretion of the state. The language of Section 42 also states that one of the preferences states must include their QAPs is for projects in a QCT "with a concerted community revitalization plan."[15]

Most QAPs simply ignore the qualifier "with a concerted community revitalization plan" and provide some advantage (usually points) to properties in all of the QCTs on the list that HUD publishes every year based on tract-level census data on incomes.[16] Of the 36 QAPs we examined, none limits eligibility

[13] For example, this was part of TDHCA's defense in ICP vs. TDHCA.

[14] The poverty rate criterion was added in 2000.

[15] There is no legislative history on the QCT preference [Orfield 2005].

[16] HUD's notice explains how a QCT designation may affect eligible basis, but does not discuss the policy objectives of QCT designation and makes no mention of the preference for projects in QCTs "with a concerted community revitalization plan." Federal Register 77:77, Friday, April 20, 2012, p.23735.

for a basis boost to projects in QCTs that have a “concerted community revitalization plan” (or a similar concept using different language). Many states provide some competitive points to projects in QCTs. Some states appear to limit the eligibility for points to projects in QCTs with revitalization plans by repeating the Section 42 language or a similar formulation. For example, Georgia made a change to the 2013 QAP to restrict competitive points for a QCT to areas with a concerted community revitalization plan. The Georgia state official we interviewed for this paper stated that the intention was to limit the preference to places with serious revitalization plans, "and besides that's what Section 42 says."

Most states either provide no definition of what constitutes a concerted community revitalization plan or limit that definition to the a designation of a geographic area by a public entity as being covered by a plan or a program of some sort, but without further standards for "community revitalization." The designating entity is usually a local government or the state itself.

QCTs are not the only low-income locations given selection preferences by QAPs; in fact, it is more common for a definition of a revitalizing neighborhood to be associated with a preference that does not relate to QCTs but only to designation by a public entity. Some include words that make it clear that revitalizing the neighborhood is the objective of the plan or program referenced by the QAP, while others use a name that is more ambiguous. For example, Iowa's 2013 QAP provides points for "Great Place Communities" designated by the Iowa Department of Cultural Affairs.[17]

The QAP review looked for definitions of revitalizing neighborhoods that went beyond a designation by a public body and found only a few states in which the definition appears to give state officials the ability to assess the seriousness of a neighborhood revitalization effort that the LIHTC application claims to support. To do so would require the definition to include the following standards:

- an assessment of the current condition of the neighborhood
- a description of the plans for overcoming the neighborhood's problems
- a description of the resources that are being or will be devoted to the revitalization effort (other than local government financial support for the LIHTC property itself)

States with more detailed definitions of neighborhood revitalization in their QAPs

Colorado. The QAP[18] provides both one point and lists as one of the "guiding principles" that can override a point score for projects in QCTs that are "an important part of a broader or comprehensive program of neighborhood improvement, and which have the capability of fundamentally changing the character of the neighborhood." The QAP goes on to set the following standards:

"The sponsor must show in measurable terms how the community will be impacted. This should include local municipal support articulated in a community plan or in the form of significant funding commitments from the local unit of government, or evidence of substantial major investment in the

[17] An official of a different state explained that this is part of the inter-agency dynamics of state government. A different state agency asks the housing finance agency to provide points for areas participating in a named program, and the HFA agrees to provide a modest number of points without much further analysis.

[18] Language is based on the draft 2013 QAP.

areas that is consistent with an existing comprehensive community plan for improvement at the proposed site. These funding commitments or major investments should not be received solely from the development of Tax Credit properties. Generally, the overall development plan should include municipal support, private investment and/or private commitments to the redevelopment area."

This is one of the strongest definition of a revitalization plan in a current QAP, and even here, the plan is not required to go beyond investments in housing (just beyond investments in LIHTC properties), and the requirement can be satisfied by a plan rather than funding commitments.

Georgia. The 2013 QAP provides competitive points for properties in areas with various types of designation by local governments or in a QCT with a concerted community revitalization plan. In addition to such designation, "the Community Development/Revitalization Plan must include the following:

a. A discussion of potential sources of funding for the plan;
b. A clearly delineated target area that includes the proposed project site;
c. Detailed policy goals (one of which must be the rehabilitation or production of affordable rental housing);
d. Implementation measures along with specific time frames for the achievement of such policies and housing activities. The timeframes and implementation measures must be current and ongoing;
e. The proposed development project must support at least one of the goals of the redevelopment or revitalization plan; and
f. An assessment of the existing physical structures and infrastructure of the community."

The Georgia official interviewed for this paper stated that this language is intended to ensure that only projects in revitalization areas with a real chance of success are given an advantage in the LIHTC competition.

Pennsylvania. The state has made neighborhood revitalization one of the policy priorities for the 2013 funding round, intending to select at least three developments "which support a broader community revitalization program which has the capability of changing fundamentally the character of a neighborhood, enhancing the lives and amenities available to residents of the community, are focused on implementing a "mixed income" strategy, and/or which seeks to counteract the pattern through which some metropolitan areas are being segregated by income or race." The QAP goes on to state that the HFA will look at, among other features, whether the program of which the development is a part is "of sufficient size and scope to have a lasting positive impact on the community (including increasing or stabilizing tax base)," whether it "expands quality of life and fulfills a need for health care choices and other crucial service opportunities for residents of a community," and whether it is "consistent with the local community's plan to affirmatively further fair housing." Notably absent is mention of school quality or school improvement. Nonetheless, this QAP is an exception to the silence of other QAPs with detailed definitions of neighborhood revitalization in going beyond housing and including explicit language related to the success of the revitalization plan.

Massachusetts. The 2013 QAP for Massachusetts makes one of four funding priorities "Investment in distressed and at-risk neighborhoods where strategic housing investment has strong likelihood in catalyzing private investment, improving housing quality, and promoting occupancy at a range of incomes. Projects in this category include projects located in the Commonwealth's 24 Gateway Cities and/or Qualified Census Tracts (QCTs, as defined by Section 42 of the Internal Revenue Code)." Gateway cities are older industrial cities (other than Boston) on which the state is focusing economic development efforts. The state officials interviewed for this paper explained that QCTs were added in order not to exclude distressed Boston neighborhoods from this funding priority, but said that some distressed neighborhoods across the state in which "nothing is going on" would not be eligible. The further definition of revitalization efforts within the point scoring criteria emphasize designation by local chief executive or by another state agency and do not include language implementing the concepts of "strong likelihood in catalyzing private investment, improving housing quality, and promoting occupancy at a range of incomes."

Indiana. The QAP provides points for a community revitalization plan that clearly targets the specific neighborhood in which the project is located. The content specified for the plan does not specify the extent of resources to be devoted or necessarily include investments outside of housing, but does include: "implementation measures along with specific, current, and ongoing time frames for the achievement of such policies and housing activities." Higher points are available for neighborhoods with federal resources such as HOPE VI or Choice Neighborhoods, and the "federally assisted revitalization award" must: "be part of a mixed income phased community with a significant market component;" "facilitate the de-concentration of poverty;" and “provide for community improvements or amenities, which may include but are not limited to new or improved public infrastructure, green-space, improved transportation, quality of life enhancements, or other improvements benefiting the community."

Texas. The 2013 QAP provides points for projects in urban areas if the location is “in an area targeted for revitalization by a community revitalization plan.” The definition of such an area emphasizes the process for adopting the plan by a municipality or county rather than describing the type of neighborhood change that the plan must envision. The narrative gives examples of “factors in need of being addressed” that include health care, law enforcement and fire fighting facilities, “and other public facilities comparable to those typically found in neighborhoods containing comparable but unassisted housing.” This comparability standard is somewhat difficult to interpret and may suggest that the intention is to bring a severely distressed neighborhood up to the level of a typical low-income neighborhood. Other factors mentioned include crime, public education, and employment opportunities. The QAP goes on to state that: “A municipality or county is not required to identify and address all of the factors identified in this clause…[but] The adopted plan, taken as a whole, must be a plan that can reasonably be expected to revitalize the neighborhood.”

The most interesting feature of this QAP provision is that it requires funding that has “already commenced” and awards points based on explicit funding amounts: 4 points for a budget of $6 million or greater, and 2 points for a budget of $4 million or greater. Finally, the provision includes waiver authority for the 2013 funding round for concerted revitalization plans that are not far enough along to meet the requirements of the provision. The extent to which this very complicated provision will favor only those LIHTC developments in neighborhoods with meaningful revitalization efforts is difficult to assess.

These six state examples are notable as exceptions to the general practice of states for including no definition or standards to support preferences for LIHTC projects in low income neighborhoods. Very few states, either inside or outside the "concerted community revitalization plan" feature of Section 42, are limiting preferences for low-income neighborhoods to those that have neighborhood revitalization efforts with characteristics that would be essential to turning the neighborhood into an area of opportunity or making it a place where it no longer is easy for families to use choice-based housing vouchers. An obvious way for states to achieve better balance in their QAPs is to start to do so.

B. Limit incentives that lock in the historical geography of affordable housing.

Many states have incentives in their QAPs for preservation of currently affordable housing. These often (but not always) are for properties produced under federal programs such as HUD's Section 8, Section 236, and Section 221(d)(3) programs. Some relate to properties already placed in service under LIHTC. Some simply use "preservation" as the opposite of "new construction" and cover any property, subsidized or not, that already exists as rental housing.

The National Housing Trust has for several years been analyzing the texts of QAPs and allocations of LIHTC allocations to describe the extent to which each state is using LIHTC for preservation and to record the definitions used [http://www.nhtinc.org]. Preservation of previously assisted housing has been a growing use of LIHTC over the past decade. Many states have explicit set-asides for preservation of previously subsidized properties. Some of the larger in 2012 were in Delaware (50 percent), Florida and Ohio (35 percent), Wisconsin (30 percent), and Michigan, Oregon, and Georgia (25 percent).

Preservation of existing affordable housing is a worthy objective. However, given the increasing amount of older subsidized housing that needs recapitalization, the effect of preservation incentives can be to crowd out other uses of LIHTC. Furthermore, while some subsidized rental properties are in high-opportunity locations, the vast majority of LIHTC units and units developed under older programs are in low-income locations [Newman and Schnare 1997; Freeman 2004; Khadduri, Buron, and Climaco 2006]—that is, locations where households could easily use Housing Choice Vouchers to rent units in the same or other properties.

States should respond to these realities by designing incentives for preservation to include an assessment of the risk that a property's rents would rise above a level that voucher users could afford or above their current LIHTC rents if the property were no longer subsidized with rent and income restrictions. Some states seem to be doing that in their QAPs, including statements that the property must be "at risk" of becoming unaffordable (and not simply at risk of losing project-based rental subsidies). For example, Pennsylvania's 2013 QAP states: "The likelihood of conversion to market-rate housing must be supported by a current market study in a form and substance acceptable to the agency." It is not clear, however, whether the application of that test is rigorous. In recognition of the growing demand for the use of LIHTC to recapitalize older properties, some states—for example, Colorado and Massachusetts—are encouraging preservation projects to apply for bond financing and 4 percent credits, in order to preserve 9 percent credits for other uses.

The application of market studies to LIHTC properties is another way that some states may control the volume of LIHTC used for preservation. Market studies conducted by a third party (not the developer) are required by Section 42, and most QAPs incorporate the results of market studies by using them to define threshold requirements and, in some cases, providing points for properties that have particularly strong markets. These provisions may discourage the use of LIHTC in areas saturated with subsidized housing. However, the test appears to be applied more often to properties proposed to be newly constructed in an area or to existing properties that are not yet subsidized.

C. Create incentives for locating projects in high-opportunity neighborhoods.

Among the 36 states with QAPs reviewed for this paper,[19] 12 have QAP provisions with incentives for locating some LIHTC developments in high-opportunity neighborhoods.[20] Such incentives take the form of points, basis boosts, set-asides, threshold requirements, or policy statements. Given the complex way that QAPs affect the locations of LIHTC developments, they may be effective, or they may be overshadowed by other features of the QAP. Connecticut, Louisiana, Maryland, Minnesota, New Jersey, and Virginia use just competitive points. Pennsylvania's QAP used just points as of 2012, but added a set-aside in 2013 that is intended to make projects in high-opportunity locations more fundable.

Georgia, Ohio, and Texas use a combination of points and eligibility for a basis boost for project in high-opportunity locations. While Massachusetts uses points, HFA officials explained that the policy statement that that makes this one of four policy priorities into which all fundable LIHTC applications must fit is likely to have a much greater effect, as the HFA retains authority to make selections that override point scores.

Ohio changed between 2012 and 2013 from a more open-ended system to a system based on points, for locations in high-income census tracts and also for "new markets," defined as areas in which the Ohio Finance Agency's resources had not been used recently or not within the past 10 years. According to the state official interviewed for this paper, "every point counts," but it is too early to tell whether those changes will result in funded projects in high-opportunity locations.

This paper deliberately does not try to create a single definition of a high-opportunity neighborhood, because the definition is likely to vary by state, depending on the state's political geography and the demographic characteristics of its population.

The income levels of residents often are used as a proxy for the opportunity-creating features of a neighborhood. However, the Moving to Opportunity demonstration, which defined a high-opportunity neighborhood as one in which fewer than 10 percent of the population lives below the poverty level, has sparked a debate about whether income-based definitions are sufficient. The neighborhoods to which a large percentage of MTO experimental households moved had resident incomes that met the low-poverty test, but were minority neighborhoods [Orr et al. 2003; Kingsley and Pettit 2008; Sanbonmatsu et al. 2011] and were often within the same school system. Despite their relative income levels, it has been argued, such neighborhoods are unlikely to have significantly improved schools,

[19] States not reviewed for this paper are: Alaska, Hawaii, Idaho, Maine, Mississippi, Montana, Nebraska, New Hampshire, New Mexico, North Dakota, South Dakota, Utah, Vermont, West Virginia, and Wyoming.

[20] The QAPs reviewed were for either 2012 or 2013, often both.

employment resources, and public services because of historic patterns of residential segregation and public finance. Among the QAPs we reviewed that have definitions of high-opportunity neighborhoods, some use just income (Louisiana, Ohio, Virginia), while others use both income and school quality (Georgia, Massachusetts, Texas). Massachusetts focuses on the quality of secondary schools and the proximity of public universities, while Georgia and Texas focus on elementary schools. Minnesota uses income and proximity to jobs. New Jersey uses school quality and proximity to jobs. [21]

Connecticut bases the definition of a high-opportunity neighborhood on housing market characteristics: the amount of affordable housing and the percentage of housing units that are single-family, owner occupied. [22] Pennsylvania uses income, housing market characteristics, and proximity to employment, mentioning school quality in the narrative describing an "area of opportunity," but not in the section of the QAP that describes how to earn competitive points. Maryland uses school quality and housing market characteristics.[23]

North Carolina takes a different approach. There are no points for a high-opportunity census tract, but a threshold requirement states that projects "cannot be in areas of minority and low-income concentration (measured by comparing the percentage of minority and low-income households in the site's census tract with the community overall). The Agency may make an exception for projects in economically distressed areas with public funds committed to support the effort [2012 QAP, p.2012]." North Carolina is the only state both to mention race explicitly and to make locating a project in an area with a community revitalization plan an exception to an apparent overall commitment to affirmatively furthering fair housing.

A few other states have QAP provisions that may be intended to have the effect of directing LIHTC development toward high-opportunity areas, but are more ambiguous. Kansas, Missouri, Oregon, and Wisconsin favor LIHTC projects that help overcome imbalances between employment and housing market growth. Those provisions may encourage the development of LIHTC projects in high-growth regions of a state, but not necessarily on communities and neighborhoods that are difficult to access with housing vouchers or have high quality schools and public services. Arkansas, Colorado, and New York have policy statements or points favoring areas that have "unmet" or "pent-up" demand for affordable housing, but whether these provisions have the intention or effect of encouraging LIHTC development in high-opportunity locations is not clear.[24]

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[21] Many QAPs have threshold requirements or competitive points that relate to “amenities” and “dis-amenities” within a certain distance from the project. Amenities may include such features as elementary schools, health clinics, and public parks. However, they do not relate to the quality of the features (e.g., are the schools well-performing, is the health care system well-functioning?) and, therefore, not to whether the location can be defined as providing high opportunities. Dis-amenities include industrial sites, places with toxic waste present, and, occasionally “hot spots” for crime. The absence of such features does not mean that the location provides high opportunities…or that it is within a revitalizing neighborhood.

[22] Besides low poverty, Virginia also requires that the census tract have no other LIHTC developments.

[23] Based on Maryland's 2012 QAP. These provisions may be negated by a requirement for local approval of LIHTC applications, as discussed in Section D of this paper. The provisions of the 2013 QAP were not known as of this writing.

[24] Time and resource constraints prevented interviews with HFA staff in these states.

D. Change QAP provisions that block projects from being developed in high-opportunity neighborhoods.

A state's analysis of the locations of its LIHTC developments and the results of recent funding rounds may indicate that particular QAP provisions are preventing properties in high-opportunity locations from being selected. For example, such analysis, conducted by the Pennsylvania HFA, showed that just providing points for high-opportunity neighborhoods was not sufficient, because properties in such areas did not receive other points that put them above the funding line. The HFA responded by creating separate set-asides for urban properties and suburban or rural properties, so that suburban properties would not have to compete head-to-head with urban properties.

However, developers may not even bring properties in high-opportunity locations into the LIHTC competition, because of threshold requirements of the QAP that their properties cannot pass. The HFA should use the consultations with developers that occur both within and outside the QAP process to learn about such provisions. For example, in some states, per unit development cost limits may exclude properties in high-opportunity neighborhoods. Should that appear to be the case, the HFA might consider exceptions to the cost limits or might exclude site acquisition costs from the limits. High land costs may still be a bar to developing multifamily housing in high-opportunity locations in some states. In that case, the state may be able to overcome that impediment by using its new authority (since the Housing and Economic Recovery Act of 2008) to provide a basis boost for properties in high-opportunity locations.

Incentives to increase affordable housing development in opportunity areas should include elimination of local vetos. Many states have implemented the Section 42 requirement for notification to a local chief executive on a proposed project to require formal local government sign-off. Georgia was one such state, but changed its QAP between 2012 and 2013 to just reflect the Section 42 requirement. The state official interviewed for this paper said that, in his view, it would harder for a local official (chief executive or councilperson) to publically oppose a multifamily development than to quietly withhold approval. Even states that do not require a local government sign-off often provide competitive points for projects with letters of support from local governments and, in some cases, state senators. As part of their assessment of what may be preventing the funding of LIHTC projects in high opportunity neighborhoods, states should consult with the development community about whether such provisions are preventing projects in high-opportunity locations from being proposed for tax credit allocations.

VI. Beyond QAPs—what else has to happen?

Qualified Allocation Plans are a powerful tool for affecting the location of low income housing in a state, and this paper has focused both on the process for creating QAPs that change the balance of locations of LIHTC developments and on specific changes to QAP provisions that should be considered. However, both federal and state policy-makers should take other measures outside the tax credit allocation rules.

Those measures should include:

- HUD policies that ensure that the "stock" of deep housing subsidies is preserved when project-based subsidies are turned into tenant-based vouchers.[25] The high priority given to preservation of federally assisted projects by many states crowds out uses of LIHTC in high-opportunity neighborhoods and appears to have the explicit motivation of preserving HUD subsidy slots within the state. Another, complementary, change in HUD policy would be more flexibility in permitting project-based subsidies to be moved from an existing project to a new project in a different location.[26]
- More research on what constitutes neighborhood revitalization effort with a high likelihood of success. The results of such research would help states define the standards for concerted community revitalization plans.
- State policies that support the acquisition of property in high opportunity areas that can be used for affordable housing. For example, such policies could target foreclosed properties (including scattered-site properties) that become available during an economic turndown in locations that are likely to continue to have high-performing schools and strong public services.
- State policies that shift the burden of zoning appeals for affordable housing or that support inclusionary zoning provisions. Such policies would make it easier for housing developers to bring projects in high opportunity locations into the LIHTC competition.
- Support for the emergence of a sector of the multifamily development community that focuses on creating affordable rental developments in high-opportunity locations. This includes capacity building for the industry and also may include support for land acquisition costs beyond the basis boosts that states are able to provide within LIHTC.
- A proactive effort to identify multifamily properties, both subsidized and unsubsidized, that are at risk of loss as affordable housing in high-opportunity neighborhoods. This effort would help the multifamily development community identify business and mission-supporting opportunities and would help state officials identify policy changes that might be necessary to preserve these properties as affordable housing.

[25] HUD policies have been focused on protecting sitting tenants from displacement when older federally assisted projects “opt out” of the Section 8 or other older program, rather than on ensuring that public housing agencies serving the same community get—and keep over time—a number of Housing Choice Vouchers equivalent to the units in the assisted project.

[26] This was pointed out by one of the state officials interviewed for this paper.

All of these measures are important for ensuring that the LIHTC program is used to best advantage for creating housing opportunities that enhance the effectiveness of—and go beyond—the Housing Choice Voucher program, and that fulfill the obligation of public programs to affirmatively further fair housing. At the same time, the Qualified Allocation Plans are the key instrument of state policies for creating balance in the locations of LIHTC developments.

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