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The Opportunity Illusion:  
Subsidized Housing and Failing Schools in California  

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Foreword

The nation’s largest low income housing production program, the awkwardly named Low Income Housing Tax Credit (LIHTC), is providing billions of dollars for building homes across the country. It has been the only significant source of funds for building housing for poor families since the 1980s. Yet few people know of its existence, fewer understand its complex mechanisms, and there has been virtually no information to answer critical questions about it. What we do know is that LIHTC is a costly program producing much needed affordable housing in one of the nation’s most expensive housing markets, where millions of people cannot afford to pay the cost of adequate housing. Who is it helping? Is it giving the children in these homes a better chance in life? Is it serving all groups in our society fairly? Is it opening up housing across the region’s color lines or is it investing in segregation? These are vital questions to ask, especially now with the collapse of the housing market and the financing freeze stalling new projects. Broadly speaking, is the public investment paying off for those it is supposed to help?

Since it operates primarily through the tax system rather than far more visible public budgets, and all the building is by private developers, the LIHTC is largely invisible to the public. Invisible and run at the federal level by financial officials with limited housing expertise, LIHTC is far less regulated than other housing programs. In some ways, of course, this could be good since some of the regulations on subsidized housing production were counterproductive. For example, when public authorities attempted to build subsidized housing, there was often a fierce neighborhood reaction because of stereotypes about the people many believe live in public housing. Unfortunately, the potential good derived from deregulation has often not been realized and some of the requirements essential to basic fairness have been forgotten. In reality, very large expenditures are being made to build expansive housing in areas where it offers few opportunities to those who live there, basic civil rights policies are often not followed, and the results reinforce the residential and educational segregation of minority families. Since these families are desperate for housing and will live wherever it is built, and since housing lasts a very long time, the damage can last over generations. In a period of scarce public resources and massive needs, we can do better.

Many of these projects are very expensive to government since they often combine multiple subsidies, providing the developers a good share of the cost of development through tax credits. Additional low cost capital often comes from state housing agencies, which issue tax-exempt bonds that subsidize the investors by lowering their taxes, thus diminishing public revenue. Finally, low income tenants still have to receive federal rent subsidies to afford to live in the buildings. When you add up all these costs of what are often triple subsidies, the government is typically paying much more for the lucky few families who benefit from them for LIHTC units than for subsidized private rental housing.

With all these costs, one would hope that families gain access to good safe neighborhoods with good schools, which give their children a better chance in life. Housing is about much more than building materials and square feet of living space; it is about a family’s opportunity. Anyone who has ever looked for housing for his or her family knows that.
The Department of Housing and Urban Development has a number of civil rights standards for the subsidized housing it runs based on federal fair housing and nondiscrimination laws. These include site selection criteria to try to foster integrated housing and avoid isolating families in very disadvantaged areas. Affirmative marketing policies should be done to assure that there is genuine outreach to families of other races and other locations, who might not hear about housing being developed in another area. There is very clear evidence that without such policies, seriously implemented, subsidized housing will end up with segregated and unequal opportunities for white and minority families. These policies have not been strongly implemented under conservative administrations, but at least they exist. In fact, data is published on the location and tenancy of subsidized housing by the race of the renters, so that the impacts can be readily judged. Unfortunately, the Treasury Department does not have similar standards. In fact, the LIHTC program gives developers substantially higher subsidies if they build in concentrated poverty areas than in less impoverished areas, which usually have substantially better schools. The Treasury Department publishes no information that enables civil rights groups and agencies to know how the subsidized units are contributing to neighborhood and school segregation.

There are many millions of poor families who cannot afford private housing and are ready to move into any decent housing they can afford. In terms of the LIHTC’s application in Southern California, this study shows that they are very likely to end up in areas with weak segregated schools. This has been happening throughout the history of federal housing programs. These schools directly undermine the chances for the children growing up in those housing units to escape the kind of conditions of poor education and poverty that put their families in subsidized housing. The problem is particularly critical in Southern California which has a huge population of poor families, intensely segregated schools with very different educational opportunities, a college system that is highly stratified and only works for those with good preparation, and very inadequate public transportation to get poor families from impoverished communities to job locations.

There is a very sad history of illegal segregation in public housing. Intentionally using public resources to create segregated housing violates the constitutional guarantee of equal protection of the laws. It violates the provision of the 1964 Civil Rights Act requiring nondiscrimination in all programs receiving federal funds and goes against 1968 fair housing legislation. Yet in community after community, the local housing authorities and the U.S. Department of Housing and Urban Development were either found guilty of these violations or settled lawsuits before the trial, thus conceding the case. In fact, both trials and independent research show that local officials, due to local fears and racial attitudes, often blocked the sites that would have created better opportunities. Instead, they chose to build housing in deteriorated ghetto and barrio communities with weak schooling and shaky job opportunities. Whatever the cause, this study shows that we now have what looks like a very similar end result from LIHTC.

More that forty years ago, Congress passed the Civil Rights Act of 1968, which included a vital provision, Title VIII, and was known as the Fair Housing Act. Title VIII contained the following mandate with clearly includes the Treasury Department:
“All executive departments and agencies shall administer their programs and activities relating to housing and urban development (including any Federal agency having regulatory or supervisory authority over financial institutions) in a manner affirmatively to further the purposes of [fair housing and integrated neighborhoods] … and shall cooperate with the [HUD] Secretary to further such purposes.”

Though the intensity of housing segregation for African American families has declined somewhat since 1980, it is still very high, especially in large older metropolitan areas of the East and Midwest, with their very large black communities. For Latino families, housing segregation has been substantially lower but is increasing in all parts of the country, especially in Southern California, and school segregation has become much more severe and rapidly spreading into the suburbs.

Authority to enforce fair housing in most housing subsidy programs is divided between HUD and the Justice Department, which is authorized to sue to gain compliance with Title VIII. In the 1980s, however, as federal programs directly funding construction of subsidized housing for families were virtually eliminated, the Congress turned to an indirect subsidy running through the tax system, in which developers would be paid with tax credits which could be sold and cashed out to get money for developing the housing. The political reason for this was that the conservatives running the government did not consider tax cuts spending, even though they had almost exactly the same effect as cash on the developer and the same effect on the federal treasury, by cutting tax revenue, increasing the net federal cost just as a direct expenditure would. Leaving the programs to the Treasury Department, whose basic constituencies were the finance industry and the business community, was a great mistake. As the great recession of 2008-2009 so clearly showed, Treasury had long been very unwilling to regulate even in cases of basic financial prudence. The state housing agencies’ major business was issuing tax exempt bonds to finance below-market cost mortgages, so they tended to be close to the finance, construction and real estate industries. These were not agencies that wished to regulate their constituents on sensitive civil rights issues. Many failed to exercise even a minimal level of accountability by not providing absolutely essential information needed to make any judgment about the social consequences of the largest U.S. housing program.

Housing segregation is, of course, very directly related to school segregation. In turn, school segregation directly correlates to inferior educational opportunities and lower levels of achievement, graduation and success in college. In California, there has been an extremely sharp rise in school segregation for Latinos since 1970. Research shows that few students in high poverty, segregated schools finish high school with the needed requirements to get into California’s public universities. Further, it is these high poverty, segregated schools that account for most of the state’s dropout crisis. So decisions that force poor minority families urgently needing housing to live in areas with very weak schools -- often with negative peer groups and high crime -- amount to decisions that limit the future of the children who grow up there.

When the housing and home finance industries recover, LIHTC is likely to continue as the major source of supply for construction of new housing geared toward low-income families. The policies of LIHTC need to actively embrace the requirements of civil rights law, while its charge
should be to think about housing as a key to family opportunities, not merely as financial or construction transactions. Southern California can do much better, particularly with the dramatic decline in housing and land costs resulting from the current recession and the virtual collapse of much of the private housing construction industry. In order for change to happen, this program should be transferred to HUD. The Obama Administration’s HUD officials, in collaboration with the California Department of Housing and Community Development, should then immediately create a plan for full compliance with Title VIII. Their plan should include housing construction in areas with good schools, and real opportunities for the children whose lives will be shaped by these decisions.

Gary Orfield
Executive Summary

Since the late 1980s, the Low-Income Housing Tax Credit (LIHTC) program has funded the bulk of subsidized development nationwide, enabling the construction of over 100,000 units targeted to lower income households in California alone (California Tax Credit Allocation Committee 2009c). Yet, by not encouraging the siting of projects in racially integrated areas, the Department of the Treasury’s Internal Revenue Service (IRS), which administers the program, has failed to enforce Title VIII of the 1968 Fair Housing Act. A major concern is that units funded through the program, specifically those targeted to families, are concentrated in poor, minority communities that feed into underperforming schools.

This study tests this claim by examining how siting decisions affect families’ neighborhood conditions and educational opportunities in Southern California. Between 2000 and 2005, the average LIHTC unit targeted to families was located in a high poverty, predominately Latino neighborhood. Poverty was a key determinant of a neighborhood’s receipt of LIHTC family units, with a 10% increase in a neighborhood’s poverty rate in 2000 associated with an 87% increase in the odds of receiving family units during the following five years. More heavily Latino neighborhoods, as well as those with existing LIHTC family developments, also were more likely to receive family units.

A primary outcome of LIHTC family units’ concentration in poor, minority neighborhoods is that they feed into segregated and underperforming schools—conditions that exacerbate cycles of poverty and disadvantage. The average Southern California LIHTC family’s nearest public high school was 84% minority and 57% free and reduced lunch eligible, substantially higher than the average high school’s 74% minority and 45% free and reduced lunch enrollment. In turn, families’ nearest high schools in Los Angeles and Ventura County had
Academic Performance Index (API) and SAT scores close to 100 and 200 points below the average respectively.

Four changes to LIHTC law are needed to enable the social mobility of children served. First, the IRS should affirmatively further racial integration in LIHTC siting policy or transfer its management to HUD, which operates under this mandate. Second, federal LIHTC law should give a tax credit boost to developers who site family units in high cost (rather than high poverty) neighborhoods. Third, state allocation committees should consider the quality of public schools assigned to proposed LIHTC family projects in awarding tax credits. Finally, the IRS and state allocation committees should enforce H.R. 3211, which requires reporting of tenants’ race and ethnicity in LIHTC buildings (National Commission on Fair Housing and Equal Opportunity 2008). This would enable monitoring by local fair housing organizations and ensure equal access to buildings located in the highest quality communities.
**Introduction**

The Low-Income Housing Tax Credit (LIHTC) program is the nation’s preeminent source for low-cost rental development. LIHTC-funded units currently account for about one-third of the total federally subsidized stock, with an average of 103,000 low-income apartments added every year (Khadduri and Wilkins 2008; U.S. Department of Housing and Urban Development 2009). An estimated 30% - 40% of total multifamily production and over 90% of total federally subsidized production is LIHTC-funded (Malpezzi and Vandell 2002; Freeman 2004; Joint Center for Housing Studies 2008). Costs for the program have exceeded $90 billion since its inception in 1987 (Eriksen 2009; Climaço et al. 2009).

As the primary driver of low-income rental production, it is worrisome that the LIHTC program currently is operating without a civil rights requirement. In fact, the program, which is administered by the Department of the Treasury’s Internal Revenue Service (IRS) instead of the Department of Housing and Urban Development (HUD), encourages the siting of projects in poor neighborhoods rather than racially integrated neighborhoods, as required by Title VIII of the 1968 Fair Housing Act. A major concern is that units funded through the program, specifically those targeted to families, are concentrated in poor, minority communities that feed into underperforming schools.

The State of California, as the biggest receiver of LIHTC funds, is especially affected by its siting policy. The California Tax Credit Allocation committee, which administers the program, granted over $10.4 billion in competitive federal tax credits between 1987 and 2008, financing

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1 Of the approximately 5 million units subsidized by the federal government, about 1.5 million were financed using LIHTC tax credits as of 2008, see Khadduri and Wilkins (2008). In 2004, the number of LIHTC-funded units exceeded those produced through other federal project-based programs (Orfield 2005)

2 This amount only covers the competitive 9% federal tax credits, not the supplementary state or federal 4% tax credits, which add additional costs. See the following section and California Tax Credit Allocation Committee (2009c) for more information about the structure of the LIHTC program.
the development of over 108,000 apartments statewide (California Tax Credit Allocation Committee 2009c). The federal government has since committed over $830 million to low-income rental projects initiated in California in 2009 (California Tax Credit Allocation Committee 2009d). A critical question is whether the state is using federal revenues to concentrate students from its future majority into schools that rarely prepare them for college, which—given the importance of post-secondary education on familial, community, and state wellbeing—bodes poorly for California as a whole.

This study investigates the impact of LIHTC siting policy on families’ neighborhood contexts and educational opportunities in Southern California, which in 2008 received about half of the state’s allocated resources. Poverty was a key determinant of a neighborhood’s receipt of LIHTC family units between 2000 and 2005, with a 10% increase in the poverty rate associated with an 87% increase in the odds of receiving family units. Latino composition and the receipt of family units between 1995 and 1999 also were positively associated with a neighborhood’s receipt of family units. As expected, a primary outcome of family units’ concentration in poor, minority neighborhoods is that they feed into segregated and underperforming schools—conditions that exacerbate cycles of poverty and disadvantage. The typical high school assigned to a teenager living in a LIHTC family unit was 84% minority and 57% free and reduced lunch eligible, substantially higher than the average high school’s 74% minority and 45% free and reduced lunch enrollment. In turn, the typical LIHTC family high school in Los Angeles and

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3 To conform to the Southern California Association of Governments’ (SCAG) jurisdiction, which enables the easy application of findings to regional planning processes, Southern California in this study is defined as the counties of Los Angeles, Orange, Riverside, San Bernardino and Imperial. San Diego County, which has its own regional planning body, is excluded from the analysis. In 2008, these five counties received about $389 million in LIHTC funds, with about $267 million going to Los Angeles County alone (California Tax Credit Allocation Committee 2009c).
Ventura County had API and SAT scores close to 100 and 200 points below the average respectively.

Changes to state and federal LIHTC law—namely the privileging of projects located in integrated neighborhoods that feed into high performing schools such as La Cañada or Arcadia in Los Angeles County for financing—are critical in enabling the social mobility of children served. In turn, mandatory reporting on tenants’ race and ethnicity would enable monitoring by local fair housing organizations and ensure that families of color have access to units built in the most advantaged communities, such as the City of Irvine in Orange County.

**Does Low-Income Housing Tax Credit Law Concentrate Low-Cost Units in Poor, Minority Neighborhoods?**

Policymakers often focus on improving the cost of housing at the expense of considering its location (Orfield and McArdle 2006). In consequence, affordable units, particularly those occupied by families, continue to be sited in disinvested areas with access to low performing schools. Rather than enabling social mobility, affordable housing located in these communities simply helps poor households make do. Therefore, an important question is: does Low-Income Housing Tax Credit (LIHTC) law, which directs the bulk of subsidized housing construction in the nation and state, consider the impact of neighborhood context and school quality in affordable housing siting, let alone encourage developers to locate their projects in racially and economically integrated communities?

The federal LIHTC program, which is administered by the Department of the Treasury’s Internal Revenue Service (IRS) and is contained within Section 42 of the Internal Revenue Code, was established in the 1986 Federal Tax Reform Act as a concession to affordable housing advocates during a period of drastic funding cuts. Tax credits are awarded to states on the basis
of population, among other factors.\textsuperscript{4} State agencies, in turn, award ten years of tax credits on a competitive basis to developers, who can sell them to investors as a way of funding building construction, acquisition or rehabilitation.\textsuperscript{5}

For a project to be eligible, at least 20\% of the units must be affordable to those earning half of the metropolitan area’s median income, or at least 40\% of the units must be affordable to those earning 60\% of the area’s median income (Internal Revenue Code 2009).\textsuperscript{6} Units produced currently are required to remain affordable for at least thirty years (California Tax Credit Allocation Committee 2009a).\textsuperscript{7} Most important in the context of this study, however, is that federal law gives a 30\% tax credit boost to projects located in poor neighborhoods, with the justification that these places most need new housing development (Internal Revenue Code 2009; Khadduri et al. 2006; Orfield 2005; Freeman 2004; Poverty & Race Research Action Council 2004; Roisman 2000; 1998).\textsuperscript{8} In turn, although federal law recognizes the difficulty of

\textsuperscript{4} Yearly federal expenditures for the program were set at up to $1.75 per state per capita as of 2002, an amount that has since risen with inflation, with an allocation of $2.30 per state resident in 2009 (Internal Revenue Code 2009; California Tax Credit Allocation Committee 2009a).

\textsuperscript{5} Only depreciable (ex. non-land-based) costs factor into the amount of tax credits that a developer can receive. Federal tax credits are awarded based on either 4\% or 9\% of the depreciable basis; these are known as the 4\% and 9\% credits respectively. Existing buildings or those already receiving federal subsidy receive a 4\% credit, while new buildings not receiving a federal subsidy receive a 9\% credit (Internal Revenue Code 2009). California also runs a state tax credit program designed to supplement the federal program. As of 2008, the state program had awarded more than $1 billion in additional funds, see California Tax Credit Allocation Committee (2009c). LIHTC developments sometimes receive supplementary resources through the Community Development Block Grant (CDBG) and HOME Investment Partnership programs, as well as other sources at the local and state level. Of the 1,201 LIHTC projects placed in service in 2006, for instance, 17\% and 3\% received HOME and CDBG funds respectively, see U.S. Department of Housing and Urban Development (2009) for more information about LIHTC financing.

\textsuperscript{6} Affordable in this context means that a household earning the targeted income would pay 30\% or less of their income on rent. Although there are rent restrictions, a major criticism of the LIHTC program is that it does not serve the poorest households most in need of low-cost housing, see Khadduri and Wilkins (2008). In turn, there is no guarantee that the household living in the unit will be paying 30\% or less of their income on rent (McClure 2000).

\textsuperscript{7} If the owner does not want to keep units affordable at the end of the affordability period, and a new buyer willing to maintain rent restrictions is not found, units may revert to market-rate rents. Many states, however, require longer affordability periods. California, for instance, requires affordability periods of 55 years for 9\% tax credits, see Schwartz and Méndez (2008) and Méndez et al. (2008) for detailed information about LIHTC projects’ long term affordability.

\textsuperscript{8} Poor neighborhoods, called “Qualified Census Tracts,” are defined as those where at least half of households have incomes less than 60\% of the metropolitan area’s median gross income, or where the poverty rate is at least 25\% (Internal Revenue Code 2009). The stipulation originates from one of the original goals of the LIHTC program, to
developing low-cost housing in expensive areas by giving a 30% credit boost to projects located in metropolitan regions with high land, construction, or utility costs relative to income, it does not give developers an incentive to build in higher cost neighborhoods within this larger geography (Internal Revenue Code 2009). Combined, these two provisions encourage the concentration of low-cost housing in poor sections of expensive housing markets, like downtown and South Central Los Angeles in Los Angeles County.

A unique feature of the LIHTC program is that states decide how to allocate tax credits to projects otherwise qualified under federal law. The federally mandated document that expresses a state’s preferences is called a Qualified Allocation Plan. In California, funding—which is awarded by the California Tax Credit Allocation Committee—is distributed based on building type, geography, and locational amenities, among other factors. Projects targeted to large families receive the bulk of available funds (65%), followed by those targeted to seniors (15%), single-room occupancy (10%), special needs (5%), and existing developments at risk of losing their affordability restrictions (5%). Within the Southern California region, state law directs the greatest number of tax credits to Los Angeles County (33%), followed by Orange County (8%) and San Bernardino, Riverside, and Imperial County (8%). Ventura County is guaranteed the

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9 High cost regions are called “Difficult Development Areas.” Of the 800,890 LIHTC units placed in service between 1990 and 2002, only 2% were located in census tracts with median gross rents equal to or greater than the metropolitan median gross rent in the most expensive fifth of housing markets. More than 60% of these units were located in tracts with median rents 80% or below the metropolitan median rent (Schwartz and Meléndez 2008).


11 At least 30% of the units in buildings targeted to large families must have three bedrooms or more (California Code of Regulations 2009).
smallest amount of funding in the region (California Code of Regulations 2009). To receive the
most tax credits, units must remain affordable for fifty-five years (California Tax Credit
Allocation Committee 2009a).

Applicants are required to describe the neighborhood surrounding their project, including
its proximity to services and transportation. Projects are awarded points based on the following
neighborhood characteristics: proximity to public transit, parks, community centers, libraries,
grocery stores, schools, medical centers, and pharmacies. One extra point is awarded to projects
that are located in poor neighborhoods and contribute to community revitalization plans. California’s Qualified Allocation Plan awards no extra points to projects located in racially
integrated, low poverty, or high cost neighborhoods, let alone those that feed into high
performing schools.

Scholars speculate that the privileging of projects located in low-income areas, combined
with the discrimination faced by large families, leads to particularly poor neighborhood
conditions for buildings receiving children (Khadduri et al. 2006; Orfield 2005; Poverty & Race
Research Action Council 2004; Freeman 2004; Roisman 2000). Yet, although a handful of
studies examine the neighborhood conditions of LIHTC units sited during various periods, few
focus on units targeted to families. A study of the neighborhood conditions of two or more
bedroom LIHTC units (a proxy for family units) in metropolitan areas over 250,000 placed in
service between 1995 and 2003 found that, while about one-third of units nationwide were
located in low poverty neighborhoods (poverty rates of 10% or less), there was wide variation

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12 In turn, twenty percent of tax credits are directed to rural projects.
13 It is important to note that projects with other characteristics are privileged above those that will contribute to
community revitalization plans. These include projects that are LEED certified (8 points), located near public
transportation (up to 7 points), and with high speed Internet (5 points). See the California Code of Regulations
(2009) for the complete scoring breakdown.
14 See Oakley (2008), Freeman (2004) or Climaco et al. (2002) for recent evidence on the neighborhood conditions
of LIHTC units nationwide.
among the regions and states (Khadduri et al. 2006). Only 17% of LIHTC family units were sited in low poverty neighborhoods in the Pacific region during the studied period, compared to between one-third and close to one-half in the South, Northeast and Midwest (Khadduri et al. 2006). California fell into the bottom half of the states, with less than one-quarter of family units sited in low poverty neighborhoods (despite one-third of all renter households living in these areas) and just over one-fourth of units located in racially integrated neighborhoods (Khadduri et al. 2006). Other states with low percentages of family units sited in racially and economically integrated neighborhoods include Connecticut and New Jersey, a finding corroborated by other reports (Freeman 2004; Orfield 2005).  

As evident by the analysis above, considerations of school context, let alone incentives to locate projects in racially or economically integrated neighborhoods, are noticeably absent in LIHTC law, which governs the planning and funding of almost all federally subsidized units and a substantial proportion of total rental production. Existing research has found that, although spatial variation exists, most family units are located in poor, predominately minority communities. This study will substantiate and expand upon these findings by showing that LIHTC family units in Southern California are disproportionately sited in racially and economically segregated areas—a tendency that has detrimental effects on residing children’s educational opportunities.

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15 A study conducted by the Connecticut Civil Liberties Union and urban planning graduate students at Columbia University, for instance, found that LIHTC units targeted to families in Connecticut were located in poorer areas with more minorities than those targeted to seniors (Freeman 2004). A New Jersey study sponsored by area fair housing, civil rights, and taxpayer organizations found that LIHTC family buildings were overwhelmingly located in distressed inner-city or suburban neighborhoods that fed into failing schools (Orfield 2005).
The Neighborhood Conditions of LIHTC Family Units

To assess the neighborhood context of Southern California LIHTC units targeted to families, a database of units funded by the LIHTC program between 2000 and 2005 was obtained from the California Tax Credit Allocation Committee (California Tax Credit Allocation Committee 2008). This period was selected because not all projects funded after 2005 have been built and some built before 2000 no longer have affordability restrictions. Projects receiving additional tax credits, reapplying for funds, or not in service by July 2008 were excluded. Buildings in the database were divided into the following types: large family, single-room occupancy, senior, special needs, at-risk and non-targeted. Single-room occupancy, special needs, at-risk and non-targeted units were grouped into the category “other units.” Three projects that lacked or had incorrect addresses were eliminated.16

In all, 31,621 units were included in the analysis. Of these, 12,347 (39%) were targeted to families, 11,670 (37%) were targeted to seniors, and 7,604 (24%) were not or otherwise targeted. The greatest number of units was located in Los Angeles County, followed by Orange and Riverside (see Table 1 below). Within each county, Imperial and Riverside had the highest proportion of family units (59% and 55% respectively), while Orange had the least (21%). Orange had the highest proportion targeted to seniors (46%), followed by San Bernardino and Ventura (45% and 44% respectively).

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16 Two of the projects, scattered site buildings in Los Angeles, Gardena, and Montebello funded in 2005, had close to 500 low-income units.
The 2000 U.S. Census’s “address-finder” function was used to obtain the census tracts of all projects included in the LIHTC database. This dataset was eventually merged with a list of census tracts in the six counties. The units of similarly targeted projects in the same census tract were combined to measure the relative spatial dispersion of family units. Whereas they were relatively dispersed among census tracts in Imperial, they were more concentrated in Orange, San Bernardino, and Los Angeles (see Table 1a in the Appendix). Close to one-third of tracts in Imperial had received at least one LIHTC family unit, compared to just over 1% of tracts in Orange and less than 4% of tracts in San Bernardino and Los Angeles.

Yet, since there are only 29 census tracts in Imperial County, distribution among the tracts is not necessarily evidence of family units’ spatial dispersion. In turn, visual analysis of the

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17 Nine tracts in Los Angeles County were removed for having no population. In turn, one tract was removed in Orange, Riverside, and San Bernardino County respectively. Tracts without families and housing units also were removed.
location of Orange County units indicates that although few tracts include them, the ones that do are relatively dispersed. The clustering of units in Los Angeles, San Bernardino, and Ventura tracts, on the other hand, provide more evidence of spatial concentration. The greatest concentration of Los Angeles County units targeted to families were located in the predominately poor and segregated neighborhoods of downtown and South Central Los Angeles, a finding corroborated by Oakley (2008). Victorville received the highest proportion of family units in San Bernardino County, whereas Oxnard received the highest proportion in Ventura County (see Figure 1).

Figure 1: Map of Study Area and Distribution of LIHTC Family Units, 2000 - 2005

Next, data was incorporated from the 2000 U.S. Census and California Tax Credit Allocation Committee database on the following neighborhood factors that may shape the siting of LIHTC family units:

1) Percent of population that is African American
2) Percent of population that is Latino
3) Median household income
LIHTC law privileges the siting of units in neighborhoods where the poverty rate is at least 25% or at least half of families earn below 60% of the metropolitan area’s median family income. Thus, it is reasonable to expect a strong positive association between poverty and the receipt of LIHTC family units and a negative association with median income. Holding income constant, predominately African American and Latino neighborhoods may be more likely to receive LIHTC family units due to discrimination in white neighborhoods and minority residents’ generally lower level of political capital—a tendency addressed by the Department of Housing and Urban Development in their mandate to site projects in racially integrated communities.

Neighborhoods with a high proportion of homeowners also may be more likely to use their political capital to block the siting of low-cost units (particularly those targeted to families, which are viewed as attracting more problematic tenants than those targeted to seniors), since homeowners tend to move less and as a result are more concerned about quality of life. Their property values—and associated family wealth—also are at stake (Fischel 2001). Land costs, as approximated by median housing value, govern the feasibility of affordable development, with neighborhoods with lower median housing value likely having lower costs and a greater chance of receiving LIHTC family units.18

One would expect neighborhoods that received units between 1995 and 1999 to receive units in the current period for several reasons. Their past receipt could indicate that they have

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18 Large family housing likely is more expensive to develop than other types. Since units require multiple bedrooms, it is more likely that a developer will have to construct the building rather than rehabilitate an existing one, which may be cheaper, see Khadduri and Wilkins (2008).
few social and political barriers to affordable development. Controlling for demographic, economic and housing market characteristics, these neighborhoods may have residents who are more socially inclusive or have less political and organizational capacity to block proposed developments. Related to this point is that the past, successful construction of a low-cost family project in a neighborhood may compel developers to continue to build there, due to potential existing relationships with local representatives and residents and developers’ proven ability to overcome barriers. In all, building in a neighborhood that has received units in the past likely reduces a developer’s uncertainty regarding the time that it will take to construct the project—a key factor in determining its financial feasibility.

Finally, since California LIHTC law targets one-third of funds to Los Angeles County, its tracts should have a greater chance of not only receiving family units, but also more units. Yet, at the same time, the relative concentration of units in a few census tracts may render their receipt less likely.

Table 2 on the following page compares the average neighborhood conditions of all housing units and LIHTC family units for the region and by county.¹⁹ On average, LIHTC family units were located in neighborhoods that were more heavily Latino and poorer than the average housing unit. LIHTC family unit neighborhoods were about 57% Latino and 22% poor, compared to a composition of about 35% Latino and 12% poor in the average housing unit neighborhood, a difference of about 21% and 10% respectively. Although LIHTC family unit neighborhoods also had higher proportions of African Americans, differences were less pronounced (9% compared to 7%). The median income for LIHTC family unit neighborhoods was about $14,500 less than the average housing unit neighborhood, with median housing values  

¹⁹ Housing unit counts were derived from the 2000 U.S. Census. Average neighborhood conditions for all housing units and LIHTC family units were calculated by weighting each census tract’s conditions by the number of units contained.
of about $74,000 less. LIHTC family unit neighborhoods also tended to have more renters than
the average housing unit neighborhood (about 56% compared to 45%).

Neighborhood conditions of LIHTC family units varied widely across the six counties. In
general, their conditions were generally comparable to or more favorable than the average
housing unit neighborhood in Orange and Imperial, somewhat worse in San Bernardino, and
substantially worse in Los Angeles, Riverside, and Ventura. LIHTC family unit neighborhoods
had comparable percentages of African Americans and Latinos in Orange County, compared to a
22% difference in (and 57% greater proportion of) Latinos in Los Angeles County, a 27%
difference in (and 85% greater proportion of) Latinos in Riverside County, and a 48% difference
in (and 166% greater proportion of) Latinos in Ventura County.20 In turn, the proportion of
families in poverty in the typical LIHTC family unit neighborhood was only between 1% and 3%
greater in Orange and Imperial, compared to a difference of 9% and 14% in Riverside and Los
Angeles respectively (see Figure 2).21 Median incomes and housing values in typical LIHTC
family unit neighborhoods were between 29% and 39% lower than the average housing unit
neighborhood in Los Angeles and Ventura County; in contrast median incomes and housing
values were about 6% and 19% greater in Orange County LIHTC family unit neighborhoods
respectively. LIHTC family unit neighborhoods also had a greater proportion of renters in Los
Angeles, Riverside, and Ventura (between 12 and 17 percentage points higher than the average
housing unit neighborhood).

20 Khadduri et al. (2006) found that from 1995 – 2003, only about one-fifth LIHTC family units located in the Los
Angeles-Long Beach MSA and Orange County PMSA were in tracts whiter than the metropolitan area as a whole;
in turn, only about one-quarter of units were located in whiter tracts in the Riverside-San Bernardino and Ventura
PMSAs.
21 Khadduri et al. (2006) found that from 1995 – 2003, only about 11% of LIHTC family units were sited in low-
poverty (less than 10% poor) census tracts in the Los Angeles-Long Beach MSA and Riverside-San Bernardino
PMSA respectively, a low rate given that about one-quarter of renter households lived in low-poverty tracts in each
area. In contrast, about 41% of units in Orange County were located in low poverty tracts (compared to about 51%
of all rental households), see pg. 29.
<table>
<thead>
<tr>
<th>Geography</th>
<th>% Black</th>
<th>% Latino</th>
<th>Median Income</th>
<th>% Families Below Poverty</th>
<th>% Rental</th>
<th>Median Housing Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Southern California</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Units</td>
<td>7.0%</td>
<td>35.4%</td>
<td>$49,835</td>
<td>12.1%</td>
<td>45.1%</td>
<td>$237,729</td>
</tr>
<tr>
<td>Difference</td>
<td>1.8%</td>
<td>21.4%</td>
<td>-$14,542</td>
<td>10.1%</td>
<td>11.1%</td>
<td>-$74,070</td>
</tr>
<tr>
<td><strong>Los Angeles County</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Units</td>
<td>9.3%</td>
<td>38.9%</td>
<td>$47,232</td>
<td>14.1%</td>
<td>52.4%</td>
<td>$257,359</td>
</tr>
<tr>
<td>Difference</td>
<td>3.6%</td>
<td>22.0%</td>
<td>-$18,353</td>
<td>13.5%</td>
<td>17.1%</td>
<td>-$84,591</td>
</tr>
<tr>
<td><strong>Orange County</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Units</td>
<td>1.4%</td>
<td>25.8%</td>
<td>$62,879</td>
<td>6.7%</td>
<td>38.9%</td>
<td>$290,407</td>
</tr>
<tr>
<td>Difference</td>
<td>0.0%</td>
<td>1.3%</td>
<td>$3,907</td>
<td>2.8%</td>
<td>1.3%</td>
<td>$54,363</td>
</tr>
<tr>
<td><strong>Riverside County</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Units</td>
<td>5.1%</td>
<td>31.7%</td>
<td>$44,731</td>
<td>10.8%</td>
<td>30.8%</td>
<td>$150,602</td>
</tr>
<tr>
<td>Difference</td>
<td>0.7%</td>
<td>27.1%</td>
<td>-$9,499</td>
<td>8.5%</td>
<td>13.6%</td>
<td>-$38,768</td>
</tr>
<tr>
<td><strong>San Bernardino County</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Units</td>
<td>7.8%</td>
<td>35.3%</td>
<td>$43,847</td>
<td>12.9%</td>
<td>35.4%</td>
<td>$131,269</td>
</tr>
<tr>
<td>Difference</td>
<td>2.6%</td>
<td>-0.6%</td>
<td>-$7,654</td>
<td>5.3%</td>
<td>8.4%</td>
<td>-$28,970</td>
</tr>
<tr>
<td><strong>Ventura County</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Units</td>
<td>1.7%</td>
<td>29.0%</td>
<td>$62,386</td>
<td>6.4%</td>
<td>32.7%</td>
<td>$263,312</td>
</tr>
<tr>
<td>Difference</td>
<td>-0.2%</td>
<td>48.4%</td>
<td>-$18,030</td>
<td>6.7%</td>
<td>12.0%</td>
<td>-$100,444</td>
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<tr>
<td><strong>Imperial County</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Units</td>
<td>2.6%</td>
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<td>$33,722</td>
<td>19.2%</td>
<td>40.5%</td>
<td>$98,101</td>
</tr>
<tr>
<td>Difference</td>
<td>-1.4%</td>
<td>9.7%</td>
<td>-$1,086</td>
<td>1.4%</td>
<td>1.3%</td>
<td>$89</td>
</tr>
</tbody>
</table>

*Average neighborhood conditions for regular and LIHTC family units are weighted by the number of units received.
Source: California Tax Credit Allocation Committee (2008); U.S. Census (2000)
The Determinants of a Neighborhood’s Receipt of LIHTC Family Units

To test the influence of racial composition, housing need, housing cost, and past receipt of LIHTC family units on a neighborhood’s receipt of family units from 2000 – 2005, tracts that had missing values for median income, families in poverty, rental housing, or median housing value or less than 100 occupied housing units (about 1.5% of the total number of tracts) were
eliminated.\textsuperscript{22} The average conditions of the remaining 3,332 tracts are presented in Table 3 below. The dependent variable, number of LIHTC family units received between 2000 and 2005 (\textit{fam units}) is an extremely right skewed variable, with most tracts receiving no units and a few receiving up to 375 units. The independent variable accounting for receipt of LIHTC units between 1995 and 1999 (\textit{past units}) is similarly skewed, with a few tracts receiving up to 500 units. In turn, the average tract included in the analysis was about 7\% black, 39\% Latino, 13\% poor, 44\% rental occupied and had a median income and housing value of about $50,000 and $231,000 respectively. About 60\% of the tracts were located in Los Angeles County.

<table>
<thead>
<tr>
<th>Table 3: Descriptive Statistics (N=3,332)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Fam Units</td>
</tr>
<tr>
<td>Black</td>
</tr>
<tr>
<td>Latino</td>
</tr>
<tr>
<td>Income</td>
</tr>
<tr>
<td>Poverty</td>
</tr>
<tr>
<td>Rental</td>
</tr>
<tr>
<td>Value</td>
</tr>
<tr>
<td>Past Units</td>
</tr>
<tr>
<td>Los Angeles</td>
</tr>
</tbody>
</table>

\*Tracts that had less than 100 occupied units or were missing responses for one or more variable were eliminated

Source: California Tax Credit Allocation Committee (2008); U.S. Census (2000)

Although correlations between the explanatory factors and family units received were weak, signs ran in expected directions (see Table 2a in the Appendix). While Latino composition, poverty, rental composition and past family units received were positively associated with the receipt of family units between 2000 and 2005, median income and housing value were

\textsuperscript{22} None of the tracts had missing values for number of family units, number of past family units, or proportion black or Latino. Less than 1\% of tracts had missing values for median income, proportion of families in poverty, and proportion of rental units. About 1.5\% of tracts had missing values for median housing value. About 3\% of tracts receiving LIHTC family units (133) had missing values. Since less than 5\% of the total number of cases had missing values, a casewise deletion (as opposed to an imputation) was appropriate.
negatively associated. Of the explanatory factors, poverty was most correlated with the dependent variable, followed by past units received. In general, however, the independent variables were more correlated with each other than they were with the dependent variable. Latino composition was highly correlated with percent of families in poverty (0.68) and income (-0.62); median income was highly correlated with poverty, rental composition, and median housing value (-0.72, -0.69, and 0.72 respectively), and poverty was highly correlated with rental composition (0.68). Since income and poverty both measure housing need, and the latter was more strongly correlated with family units received than the former, median income was removed from the analysis. Rental composition also was removed due to its high correlation with families in poverty. Although Latino composition and poverty also were highly correlated, since both are central to the theory that LIHTC family units are placed in racially and economically segregated neighborhoods, they were kept in the analysis.\textsuperscript{23}

To more accurately gauge the effect of these factors on LIHTC siting, family units received was recoded as a dummy variable, with “1” indicating a tract’s receipt of at least one family unit, and a binomial logistic regression of the receipt of family units on the explanatory variables was conducted (see Table 4). Since median housing value was statistically unrelated to the receipt of family units, and the model excluding median housing value had a more negative Bayesian Information Criterion (BIC) and less variance in the predicted values than the model including it, median housing value was removed from the analysis.\textsuperscript{24}

\textsuperscript{23} Population size was included in earlier iterations of the models but was eventually removed because its inclusion did not add significantly to their explanatory power.

\textsuperscript{24} The BIC difference between the model excluding and including median housing value was 7. Thus, there is strong positive evidence in favor of the model excluding median housing value.
The explanatory variables were associated with family units received as expected. The effect of families in poverty was especially strong. A 10% increase in the proportion of families in poverty increased the odds of receiving a family unit between 2000 and 2005 by 87%. For each additional 10% increase in the Latino population, the odds of receiving a family unit increased by 11%, although the effect was only significant at the 5% level. In turn, the model provides support for the theory that LIHTC family units tend to concentrate in the same neighborhoods over time. For each additional ten family units received in the past, the odds of receiving a unit in the current period increased by about 7%. African American composition statistically did not affect the odds of receiving a LIHTC family unit. Despite the state’s targeting of resources to Los Angeles County, location in the county decreased the odds of receiving a family unit by 54%—evidence in part of the concentration of family units in less than 4% of the county’s over 2,000 census tracts.

25 A one-standard deviation increase in poverty yielded the largest percent increase in the odds of receiving a family unit (100%), followed by Latino composition (35%) and past family units received (14%).
26 The 95% confidence interval for the effect of a 10% increase in poverty on the odds of receiving a family unit was 56% to 124%, compared to an interval of 2% to 21% for the effect of a 10% increase in the Latino population. The 95% confidence interval for a 10 unit increase in past family units received was 3% to 12%.
The effects of the explanatory factors on the odds of receiving LIHTC family units varied among Los Angeles, Riverside, and Ventura, the only counties with coefficients statistically not equal to zero (see Table 3a in the Appendix). Latino composition had the greatest effect on the odds of receipt in Ventura County, while poverty had the greatest effect in Los Angeles County. A 10% increase in Latino composition increased the odds of receiving a family unit in Ventura by about 72%. In turn, a 10% increase in the percent of families in poverty in Los Angeles increased a tract’s odds of receiving a family unit by 108%—further evidence of family unit concentration in the most disadvantaged parts of the county.27 Receiving a family unit between 1999 and 1995, on the other hand, did not affect the odds of receiving a family unit within the counties at the 5% level or higher.

Since about 96% of the tracts received no LIHTC family units during the studied period, a Tobit regression (which accounts for left-censored observations defined as having a value of 0

Note: ***p<.01, **p<.05, *p<.10
*Note: the variables income, rental, and value were removed due to high correlation with the independent variables and low correlation with the dependent variable
Source: California Tax Credit Allocation Committee (2008); U.S. Census (2000)

---

<table>
<thead>
<tr>
<th>Variable</th>
<th>b</th>
<th>Standard Error</th>
<th>Odds Ratio</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black</td>
<td>0.750</td>
<td>0.775</td>
<td>2.116</td>
<td>111.7%</td>
</tr>
<tr>
<td>Latino</td>
<td>1.053**</td>
<td>0.451</td>
<td>2.865</td>
<td>186.5%</td>
</tr>
<tr>
<td>Poverty</td>
<td>6.258***</td>
<td>0.935</td>
<td>522.277</td>
<td>52127.7%</td>
</tr>
<tr>
<td>Past Units</td>
<td>0.007***</td>
<td>0.002</td>
<td>1.007</td>
<td>0.7%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>-0.775***</td>
<td>0.207</td>
<td>0.461</td>
<td>-53.9%</td>
</tr>
<tr>
<td>Intercept</td>
<td>-4.481***</td>
<td>0.238</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chi^2</td>
<td>133.23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P &gt; Chi^2</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

27 A one-standard deviation increase in the percent of families in poverty increased the odds of receiving a family unit by 140%, compared to a 24% and 11% increase with a one-standard deviation increase in the percent Latino and past units received respectively.
for fam units) was more appropriate than an ordinary least-squares (OLS) regression in assessing the effects of the explanatory factors on the number of family units received.\footnote{Modeling censored data using OLS regression yields biased and inconsistent estimates, see Long (1997). Yet, Tobit regression renders the analysis vulnerable in several ways. As a maximum likelihood estimation, it requires a larger sample than OLS regression. Long (1997), for instance, suggests that at least ten observations are needed for each independent variable and more if they are strongly collinear (54). While the number of observations in this analysis (3,332) is substantially larger than 10 times the number of independent variables (5), the high collinearity of percent poor and Latino may render the sample size insufficient. In turn, Tobit regression is more vulnerable to violations of homoskedasticity than OLS regression. When errors are non-normal in OLS regression, the estimator remains consistent, which is not the case in Tobit regression (Long 1997).} Once again, median housing value was statistically unrelated to the number of family units received and was removed from the analysis.\footnote{The BIC difference between the model excluding and including median housing value was 8. Thus, there is strong positive evidence in favor of the model excluding median housing value.} As evident by Table 5, the poverty rate continues to have a strong effect. A 10\% increase in the poverty rate was associated with an increase of about sixty-two family units. In turn, each additional ten family units in the past was associated with an increase of about nine family units during the studied period.\footnote{The 95\% confidence interval for the effect of a 10\% increase in poverty on the number of units received was 41-83; the interval for the effect of an increase of 10 past units was 3 -14.} Location in Los Angeles County was associated with a decrease of about eighty family units. Neither Latino nor black composition, on the other hand, affected the number of family units a tract received at the 5\% level or higher.
The poverty rate and Latino composition continue to have strong effects on a tract’s number of family units received within Los Angeles and Ventura County respectively (see Table 4a in the Appendix). While a 10% increase in poverty is associated with an increase of sixty-four additional family units in Los Angeles County, a 10% increase in the Latino composition is associated with an increase of thirty-nine family units in Ventura County.

The results suggest that a tract’s poverty rate and number of past family units received positively affect the current number of units received; yet, with regard to an exact effect, they are inconclusive. The residuals were slightly left-skewed and almost normally distributed.\(^3\) A visual inspection of the predicted values to the residuals indicates that the Tobit model is somewhat more accurate at higher predicted values, which may indicate that the coefficients are biased. In turn, as evident by the high sigma, there is large variation in the predicted values; thus, substantial variation in the receipt of family units is unexplained by this model.

\(^3\) The residuals had a skewness of -0.687 and kurtosis of 3.85. A normally distributed variable in Stata should have a skewness of 0 and a kurtosis of 3.00. Squaring the dependent variable brought the kurtosis down to 3.75 but increased the skewness to -0.728.
Several additional caveats must be made. To start, Latino composition and poverty are highly correlated; thus, there is little variation leftover in the two variables to explain a tract’s receipt of family units. That they still affect the number of family units received even after controlling for each other’s effect is striking. Yet, due to the high correlation between poverty and rental occupancy, as well as the more moderate correlations between poverty and housing value and Latino composition and rental occupancy and housing value, it is difficult to pinpoint what effect each variable represents. The strong positive effect of poverty on a tract’s odds of receiving a family unit, as well as the number of units received, may reflect LIHTC law’s privileging of low-income areas, or it may reflect developers tendency to locate projects in cheaper areas that have the least risk and uncertainty, specifically those with fewer homeowners, who tend to have more political capital and capacity for contention.

Since the variable accounting for the receipt of past family units is largely uncorrelated with the other independent variables, its effects are clearer. Developers tend to concentrate LIHTC family projects in the same communities over time, even after controlling for LIHTC law’s privileging of communities with housing need. Again, this may reflect their tendency to continue to build in areas where they have relationships with political representatives and residents and thus less uncertainty and risk.

Regardless of the exact effects, there is strong evidence that LIHTC family units are overwhelmingly sited in impoverished communities and more moderate evidence in favor of the concentration of family units in the same areas over time, as well as their disproportionate location in places with a high proportion of Latinos. Interestingly, this analysis shows no

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[32] In an analysis of LIHTC projects in Chicago, Atlanta, Los Angeles and New York placed in service between 1987 and 2000, Oakley (2008) reaches a similar conclusion for all of the cities except Los Angeles, which had a negative correlation between previous and current receipt of a LIHTC project. The difference between her analysis and the current one may be due to the time period under investigation, the level of spatial analysis, or the choice to study spatial correlation among projects as opposed to units.
evidence that LIHTC units were disproportionately sited in African American communities in Southern California during the studied period.

**The School Conditions of LIHTC Family Units**

As evident by the analysis above, LIHTC family units generally are located in neighborhoods with higher poverty and more Latinos that those typically found in Southern California. While small disparities between the qualities of neighborhoods receiving and not receiving LIHTC family units exist in Orange and Imperial counties, large disparities exist in Los Angeles, Riverside and Ventura counties. A key question is: what implications does the disproportionate siting of family units in these areas (and the concentration of units in the same areas over time) have for the educational opportunities of residing children?

LIHTC family building addresses were matched to regular public high schools using the California School Finder and aggregated by census tract.\(^33\) Data on the following school quality indicators were collected from the California Department of Education for the 2006 – 2007 school year (Education Data Partnership 2008a, b, c):\(^34\)

1) Percent non-white enrollment  
2) Percent eligible for free or reduced lunch\(^35\)  
3) 2007 Academic Performance Index (API)\(^36\)  
4) Adjusted one year dropout rate\(^37\)

\(^33\) The California School Finder is available on the following website: [http://www.schoolfinder.ca.gov/SearchHome.aspx](http://www.schoolfinder.ca.gov/SearchHome.aspx). High schools were chosen as the unit of analysis because they enable the direct measurement of students’ college preparedness. Teenagers living in LIHTC family units may not necessarily attend their neighborhood school; their parents may enroll them in a magnet or charter school instead. In turn, districts may not necessarily assign students to the nearest school. Thus, actual school conditions may be different than those presented in the report.

\(^34\) School data for family unit census tracts were weighted by the number of units received. Four census tracts had either missing data for the 2007 API score, percent of graduates with UC/CSU required courses, or SAT score. Tracts with missing values were included in the tabulation, but typical characteristics were calculated only for tracts without missing values. There were no missing values among tracts in Orange, Riverside, and Imperial counties.

\(^35\) Free and reduced lunch data was only calculated for high schools enrolling grades nine or above.

\(^36\) The API measures spring test performance; it ranges from 200 to 1,000. 2007 API data was calculated for regular high schools only. Alternative, special education, combination, and state special schools were excluded from the analysis.
5) Percent of graduates that have taken courses required for entry into the University of California (UC) or California State University (CSU) system with a grade of “C” or better (“A-G” requirements)

6) SAT score

The average Southern California LIHTC family’s nearest public high school was 84% minority and 57% free and reduced lunch eligible—substantially higher than the average high school’s 74% and 45% minority and low-income enrollment (see Table 6). Although LIHTC families live near high schools with similar dropout rates, their spring test performance was poorer. That only 35% of graduates on average met UC/CSU course requirements at the typical LIHTC high school is worrisome. In turn, the typical LIHTC high school’s SAT score (1331) was more than 400 points below the 25% percentile score for 2007 enrolled UCLA freshman (UCLA Office of Analysis and Information Management 2007). These findings suggest that teenagers residing in Southern California LIHTC buildings attend distressed high schools that fail to prepare them for college and middle class jobs.

32 The one-year high school dropout rate is an adjusted rate calculated by dividing total reported dropouts by enrollment after adjusting for reenrolled dropouts and lost transfers, see Education Data Partnership (2008b).
<table>
<thead>
<tr>
<th>Geography</th>
<th>% Non-White</th>
<th>% Eligible for Free or Reduced Lunch</th>
<th>Academic Performance Index (API)*</th>
<th>Dropout Rate</th>
<th>% of Graduates with UC/CSU Required Courses</th>
<th>Average SAT Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Southern California</strong></td>
<td>74.0%</td>
<td>45.1%</td>
<td>703</td>
<td>5.5%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Family Units</td>
<td>84.2%</td>
<td>57.3%</td>
<td>638</td>
<td>4.7%</td>
<td>35.3%</td>
<td>1,331</td>
</tr>
<tr>
<td>Difference</td>
<td>10.2%</td>
<td>12.2%</td>
<td>-65</td>
<td>-0.8%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Los Angeles County</strong></td>
<td>82.1%</td>
<td>53.0%</td>
<td>684</td>
<td>6.3%</td>
<td>40.3%</td>
<td>1,438</td>
</tr>
<tr>
<td>Family Units</td>
<td>92.5%</td>
<td>66.0%</td>
<td>591</td>
<td>6.4%</td>
<td>41.7%</td>
<td>1,261</td>
</tr>
<tr>
<td>Difference</td>
<td>10.4%</td>
<td>13.0%</td>
<td>-93</td>
<td>0.1%</td>
<td>1.4%</td>
<td>-177</td>
</tr>
<tr>
<td><strong>Orange County</strong></td>
<td>60.6%</td>
<td>27.9%</td>
<td>774</td>
<td>2.5%</td>
<td>39.1%</td>
<td>1,590</td>
</tr>
<tr>
<td>Family Units</td>
<td>63.8%</td>
<td>29.2%</td>
<td>771</td>
<td>0.7%</td>
<td>38.5%</td>
<td>1,553</td>
</tr>
<tr>
<td>Difference</td>
<td>3.2%</td>
<td>1.3%</td>
<td>-3</td>
<td>-1.8%</td>
<td>-0.6%</td>
<td>-37</td>
</tr>
<tr>
<td><strong>Riverside County</strong></td>
<td>66.2%</td>
<td>43.6%</td>
<td>681</td>
<td>5.2%</td>
<td>27.4%</td>
<td>1,418</td>
</tr>
<tr>
<td>Family Units</td>
<td>77.1%</td>
<td>56.0%</td>
<td>648</td>
<td>3.1%</td>
<td>33.8%</td>
<td>1,352</td>
</tr>
<tr>
<td>Difference</td>
<td>10.9%</td>
<td>12.4%</td>
<td>-33</td>
<td>-2.1%</td>
<td>6.4%</td>
<td>-66</td>
</tr>
<tr>
<td><strong>San Bernardino County</strong></td>
<td>71.1%</td>
<td>41.9%</td>
<td>689</td>
<td>7.0%</td>
<td>26.0%</td>
<td>1,411</td>
</tr>
<tr>
<td>Family Units</td>
<td>72.5%</td>
<td>49.8%</td>
<td>696</td>
<td>5.7%</td>
<td>19.8%</td>
<td>1,384</td>
</tr>
<tr>
<td>Difference</td>
<td>1.4%</td>
<td>7.9%</td>
<td>7</td>
<td>-1.3%</td>
<td>-6.2%</td>
<td>-27</td>
</tr>
<tr>
<td><strong>Ventura County</strong></td>
<td>55.2%</td>
<td>26.5%</td>
<td>750</td>
<td>3.9%</td>
<td>24.8%</td>
<td>1,586</td>
</tr>
<tr>
<td>Family Units</td>
<td>86.9%</td>
<td>34.5%</td>
<td>670</td>
<td>3.7%</td>
<td>19.8%</td>
<td>1,406</td>
</tr>
<tr>
<td>Difference</td>
<td>31.7%</td>
<td>8.0%</td>
<td>-80</td>
<td>-0.2%</td>
<td>-5.0%</td>
<td>-180</td>
</tr>
<tr>
<td><strong>Imperial County</strong></td>
<td>90.6%</td>
<td>62.8%</td>
<td>684</td>
<td>3.6%</td>
<td>16.2%</td>
<td>1,349</td>
</tr>
<tr>
<td>Family Units</td>
<td>87.7%</td>
<td>60.1%</td>
<td>688</td>
<td>1.5%</td>
<td>19.4%</td>
<td>1,354</td>
</tr>
<tr>
<td>Difference</td>
<td>-2.9%</td>
<td>-2.7%</td>
<td>4</td>
<td>-2.1%</td>
<td>3.2%</td>
<td>5</td>
</tr>
</tbody>
</table>

* Average conditions for LIHTC family unit high schools are weighted by the number of units received

* Regular high schools only

Source: Education Data Partnership (2008b, c); California Department of Education (2008a, b, c)
Wide variation in educational quality existed for LIHTC family neighborhoods by county.\(^3\) Once again, school conditions in LIHTC family neighborhoods were significantly

\(^3\) Southern California and county high school percent non-white and free and reduced lunch eligible and 2007 API data were tabulated through student data files (California Department of Education 2008a, b, c). Each county’s percent of non-white high school students was tabulated by dividing non-white high school enrollment (acquired from student data files) by 2006 – 2007 total enrollment for grades nine through twelve. Southern California statistics were calculated from aggregate high school enrollment data for the six counties. County and regional free and reduced lunch percentages were calculated by dividing those eligible by total enrollment for grades 9 - 12. County indicators such as the dropout rate and SAT score, as well as the percent of graduates who have taken courses required for UC or CSU admittance, were acquired directly through the Education Data Partnership (Education Data Partnership 2008b). Dropout rates were aggregated to the regional level by dividing the total.
worse than the county average in Los Angeles, Riverside, and Ventura. LIHTC family schools were substantially more segregated by race in Ventura (minority population difference of 32%) and by class in Los Angeles and Riverside (low-income population difference of about 13%). In turn, typical LIHTC high schools in Los Angeles and Ventura had API and SAT scores close to 100 and 200 points less than the county average respectively (see Figure 3). In contrast, dropout rates and the percent of graduates meeting college course requirements were more comparable to county averages.

In general, high school conditions for teenagers living in LIHTC family units in Orange and Imperial were comparable to or better than those faced by students living in the average county neighborhood. Yet, students living in Orange likely fared better than those living in Imperial, since the average high school in Imperial County had a high poverty rate and low rate of college preparation (as indicated by the percent of graduates who meet entry course requirements). LIHTC family schools in Orange County, on the other hand, had the highest SAT scores and lowest poverty and college dropout rates among those in region.

While school quality was decisively worse in Los Angeles, Riverside, and Ventura, and comparable or better in Orange and Imperial, it was mixed in San Bernardino. Teenagers living in LIHTC family units in San Bernardino attended schools that were as integrated and well performing as the average county high school. In turn, they had slightly lower dropout rates. Yet, a higher percentage of students in these schools was eligible for free and reduced lunch (50% compared to 42%) and fewer graduates had taken courses required for admittance to the state’s public universities (20% compared to 26%).

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number of dropouts by county by total high school enrollment (DataQuest 2007); the percent who have met college course requirements and SAT score were not aggregated to the regional level, because they were not readily available in disaggregated form.
Educational opportunities were further disaggregated by district in Los Angeles, since the county received about half of the LIHTC family units sited in the region (see Table 7). About 70% of Los Angeles County family units were sited in the City of Los Angeles and attached to the Los Angeles Unified School District (LAUSD), one of the most disadvantaged school systems in the country. During the 2006 – 2007 school year, close to 70% of LAUSD high school students were eligible for free or reduced lunch; about 90% were non-white. About 8% of students dropped out, and only about half of graduates had met the course requirements for entry into the UC or CSU system. LAUSD high schools also have some of the lowest API and average SAT scores in the region. In general, the more disadvantaged the district, the more family units it received. In turn, the most advantaged districts—such as Beverly Hills, La Cañada and San Marino—received no family units during the studied period.
Implications and Recommendations

The findings above suggest that without explicit requirements to locate low-cost units in racially and economically integrated communities, LIHTC family projects will continue to concentrate in poor, segregated neighborhoods. Further, siting units in distressed neighborhoods and cities tends to attach residing teenagers to poor, segregated and underperforming high schools and districts.

Living in a poor, segregated neighborhood likely has a debilitating effect on socioeconomic outcomes. Scholars have documented extensively the “culture of segregation” and “culture of poverty” that characterize distressed inner-city communities and stunt residents’

<table>
<thead>
<tr>
<th>District</th>
<th>Number of Family Units Received</th>
<th>% of County Total</th>
<th>% Non-White</th>
<th>% Eligible for Free or Reduced Lunch</th>
<th>Academic Performance Index (API)*</th>
<th>Dropout Rate</th>
<th>% of Graduates with UC/CSU Required Courses</th>
<th>Average SAT Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>4,243</td>
<td>69.4%</td>
<td>90.3%</td>
<td>67.0%</td>
<td>620</td>
<td>7.8%</td>
<td>47.3%</td>
<td>1,322</td>
</tr>
<tr>
<td>Pasadena</td>
<td>349</td>
<td>5.7%</td>
<td>84.7%</td>
<td>51.6%</td>
<td>659</td>
<td>4.1%</td>
<td>43.3%</td>
<td>1,333</td>
</tr>
<tr>
<td>ABC</td>
<td>211</td>
<td>3.5%</td>
<td>90.5%</td>
<td>29.2%</td>
<td>802</td>
<td>2.0%</td>
<td>37.0%</td>
<td>1,657</td>
</tr>
<tr>
<td>Antelope Valley</td>
<td>199</td>
<td>3.3%</td>
<td>70.7%</td>
<td>54.3%</td>
<td>662</td>
<td>4.4%</td>
<td>21.0%</td>
<td>1,408</td>
</tr>
<tr>
<td>Long Beach</td>
<td>194</td>
<td>3.2%</td>
<td>81.8%</td>
<td>59.7%</td>
<td>690</td>
<td>5.1%</td>
<td>38.3%</td>
<td>1,450</td>
</tr>
<tr>
<td>Charter Oak</td>
<td>178</td>
<td>2.9%</td>
<td>67.7%</td>
<td>17.1%</td>
<td>702</td>
<td>2.1%</td>
<td>33.9%</td>
<td>1,438</td>
</tr>
<tr>
<td>West Covina</td>
<td>156</td>
<td>2.6%</td>
<td>88.1%</td>
<td>49.9%</td>
<td>729</td>
<td>1.6%</td>
<td>19.8%</td>
<td>1,368</td>
</tr>
<tr>
<td>Claremont</td>
<td>149</td>
<td>2.4%</td>
<td>53.9%</td>
<td>20.2%</td>
<td>794</td>
<td>1.7%</td>
<td>53.1%</td>
<td>1,583</td>
</tr>
<tr>
<td>Whittier</td>
<td>140</td>
<td>2.3%</td>
<td>85.4%</td>
<td>49.3%</td>
<td>712</td>
<td>2.0%</td>
<td>30.0%</td>
<td>1,365</td>
</tr>
<tr>
<td>Santa Monica-Malibu</td>
<td>83</td>
<td>1.4%</td>
<td>44.2%</td>
<td>22.5%</td>
<td>795</td>
<td>2.9%</td>
<td>78.3%</td>
<td>1,642</td>
</tr>
<tr>
<td>Compton</td>
<td>75</td>
<td>1.2%</td>
<td>99.8%</td>
<td>92.5%</td>
<td>540</td>
<td>10.2%</td>
<td>2.6%</td>
<td>1,168</td>
</tr>
<tr>
<td>Baldwin Park</td>
<td>70</td>
<td>1.1%</td>
<td>90.2%</td>
<td>67.5%</td>
<td>639</td>
<td>19.9%</td>
<td>18.3%</td>
<td>1,324</td>
</tr>
<tr>
<td>Glendale</td>
<td>64</td>
<td>1.0%</td>
<td>41.7%</td>
<td>35.7%</td>
<td>797</td>
<td>1.5%</td>
<td>40.3%</td>
<td>1,580</td>
</tr>
<tr>
<td>Beverly Hills</td>
<td>0</td>
<td>0.0%</td>
<td>32.1%</td>
<td>3.1%</td>
<td>824</td>
<td>1.7%</td>
<td>60.1%</td>
<td>1,746</td>
</tr>
<tr>
<td>Burbank</td>
<td>0</td>
<td>0.0%</td>
<td>55.1%</td>
<td>21.4%</td>
<td>765</td>
<td>11.3%</td>
<td>27.8%</td>
<td>1,516</td>
</tr>
<tr>
<td>La Canada</td>
<td>0</td>
<td>0.0%</td>
<td>41.4%</td>
<td>N/A</td>
<td>895</td>
<td>0.1%</td>
<td>71.7%</td>
<td>1,771</td>
</tr>
<tr>
<td>Manhattan Beach</td>
<td>0</td>
<td>0.0%</td>
<td>32.4%</td>
<td>3.3%</td>
<td>856</td>
<td>2.2%</td>
<td>87.7%</td>
<td>1,715</td>
</tr>
<tr>
<td>Palos Verdes Peninsula</td>
<td>0</td>
<td>0.0%</td>
<td>36.4%</td>
<td>1.2%</td>
<td>861</td>
<td>0.1%</td>
<td>76.3%</td>
<td>1,724</td>
</tr>
<tr>
<td>Redondo Beach</td>
<td>0</td>
<td>0.0%</td>
<td>42.3%</td>
<td>14.3%</td>
<td>793</td>
<td>2.9%</td>
<td>41.5%</td>
<td>1,613</td>
</tr>
<tr>
<td>San Marino</td>
<td>0</td>
<td>0.0%</td>
<td>73.0%</td>
<td>0.6%</td>
<td>911</td>
<td>0.2%</td>
<td>84.4%</td>
<td>1,821</td>
</tr>
<tr>
<td>County</td>
<td>6,111</td>
<td>100.0%</td>
<td>82.1%</td>
<td>53.0%</td>
<td>684</td>
<td>6.3%</td>
<td>40.3%</td>
<td>1,438</td>
</tr>
</tbody>
</table>

* Regular high schools only

Source: Education Data Partnership (2008a, b, c); California Department of Education (2008a, b, c); DataQuest (2007)
social mobility (Wilson 1987; Massey and Denton 1993). In turn, inner-city, segregated minority schools often have fewer qualified teachers and advanced courses, higher dropout rates, fewer college applicants and lower test scores than suburban, predominately white schools (Orfield and Frankenberg 2008; California Educational Opportunity Report 2007). Students also have limited access to social networks that can connect them with colleges and jobs (Orfield and Mc Ardle 2006).39 Employers even may discriminate against job applicants from heavily minority school districts by assuming that they do not have the necessary hard and soft skills (such as ability to interact and get along with others) to perform required tasks (Tilly et al. 2001). Due to employment discrimination and lack of skills, some of these young people become involved in crime and end up incarcerated.40 Thus, by confining occupants to poor, segregated communities, affordable housing policymakers may be exacerbating, rather than alleviating, the stresses that these families face.

These conditions imply that considerations of neighborhood and school context in the siting of affordable housing targeted to families are necessary in enabling the social mobility of low-income minority children and ensuring the long-term economic success of the state’s future majority. There is a growing literature on the benefits that low-income people accrue by living in low poverty neighborhoods, which include enhanced health, safety, and environmental satisfaction (Goering et al. 2003; Varady 2005; Cove et al. 2008; Turner and Briggs 2008;

39 In the Boston region, for instance, students from predominately suburban areas with low poverty and low percentages of minorities applied not only to more colleges, but also to more selective, out-of-state schools. African Americans, Asians, and Latinos living in suburban areas performed significantly higher on their SATs as compared to those living urban areas (Berger et al. 2004). In California, only 7% of students attending schools with 90-100% African Americans, Latinos, and American Indians and 10% of students attending schools with a majority in these groups enrolled in University of California or California State University schools in the fall 2006, compared to 18% of those attending majority white and Asian schools (California Educational Opportunity Report 2007). Graduating high school and attending college are important milestones in attaining middle-class status, as having a bachelor’s degree is becoming more important for obtaining a high wage job.

40 Indeed, school dropout rates are associated positively with incarceration rates. About half of black high school dropouts end up going to jail at some point in their lives, which further limits their employability and lowers the quality of life in the neighborhoods where they reside (Frankenberg 2007).
Ferryman et al. 2008; Comey et al. 2008). In turn, there is evidence that African Americans who attend desegregated schools have higher or more rational occupational expectations and educational attainment and are more likely to attend predominately white colleges, complete scientific or technical majors, secure more prestigious, integrated jobs, have white friends, and live in integrated neighborhoods, which likely have higher medium incomes and more resources than segregated, minority areas (Crain and Wells 1994; Dawkins and Braddock 1994; Clotfelter 2004; Orfield and McArdle 2006; Hawley 2007).

The placement of affordable units, particularly those targeted to families, in racially and economically integrated neighborhoods that feed into high performing schools is a goal accomplished through changes to federal and state LIHTC law, as well as new advocacy and planning frameworks. Four changes are needed to enable the social mobility of low-income children served: 1) a mandate to affirmatively further racial integration; 2) financial incentives to develop subsidized housing in higher cost communities; 3) considerations of assigned school quality in awarding tax credits, and 4) required reporting on tenants’ race and ethnicity to ensure families of color have access to the highest quality communities. Given the slowdown in LIHTC production due to the economic downturn, now is a perfect time to change the incentive structure that guides project placement.

Like the Department of Housing and Urban Development (HUD), low-income housing programs administered by the Internal Revenue Service (IRS) also should promote families’ opportunities to live in racially integrated communities. Yet, given the historical reluctance of government agencies to commit to fair housing goals and the absence of a strong LIHTC constituency, changes to LIHTC siting policy may have to come from the courts. As Orfield (2005) and the Poverty & Race Research Action Council (2004; 2008) argue, LIHTC law
currently violates Title VIII of the 1968 Fair Housing Act, which requires federal housing agencies to “affirmatively further” racial integration. This requirement was further articulated in the 1970 case *Shannon v. HUD* and the 1987 case *NAACP v. Secretary of Housing and Urban Development*. In 2003, eleven state and national fair housing organizations notified the IRS of their discriminatory siting policy for LIHTC units (Orfield 2005). Lawsuits protesting LIHTC siting policy were filed in Connecticut, New Jersey, and Texas. California fair housing agencies could join those in other states by using the data from this report and others to compel changes to state LIHTC law.

Another option is to transfer management of the LIHTC program from the IRS to HUD, which already has a mandate to affirmatively further fair housing. Since some developers applying for LIHTC funding also apply for HUD-administered programs, such as Community Development Block Grant (CDBG) and Home Investment Partnership (HOME) funds, two additional benefits of HUD management are the better streamlining of information on affordable housing financing and the more efficient processing of applications.

States also play a role in the application of fair housing law to the LIHTC program. One option is to enable the sub-allocation of tax credits by regional councils of governments, such as the Southern California Association of Governments (SCAG). In California, this move would be consistent with SB 375, which directs regional planning bodies to enable affordable housing construction in high job growth areas (Orfield 2009). The National Fair Housing Commission

\[41\] See *Asylum Hill Problem Solving Revitalization Association v. King* and *Re Adoption of the 2003 Low Income Housing Tax Credit Qualified Allocation Plan*, available on the internet through the Affordable Housing Resource Center at: [http://www.novoco.com/low_income_housing/lihtc/court_rulings.php](http://www.novoco.com/low_income_housing/lihtc/court_rulings.php). In the former ruling, the judge upheld the Fair Housing Act’s application to the LIHTC program, but claimed the state did not have an obligation to further enforce it. In the latter, the judge ruled that the requirement to affirmatively further fair housing was not enforceable in court (Tegeler 2009). In 2008, the Inclusive Communities Project filed a lawsuit challenging the Texas Department of Housing and Community Affairs’ lack of fair housing review in allocating LIHTC funds (see McCain 2008; National Commission on Fair Housing and Equal Opportunity 2008).

\[42\] See Roisman (2000) for a comprehensive review of the legal avenues through which change to the LIHTC program could arise.
also has recommended granting fair housing oversight to metropolitan planning organizations, as was accomplished through A-95 review in the 1970s (Orfield 2009).

Financial incentives to spur LIHTC development in higher cost communities also would enable low-income families better access to quality neighborhoods. Currently, federal LIHTC law directs states to privilege projects located in poor neighborhoods for financing. This stipulation originates from one of the original goals of the LIHTC program, to improve distressed, inner-city communities. Yet, subsidized units often are sited in poor areas without determining whether they will improve the receiving community; rarely are units planned as part of a comprehensive revitalization strategy (Tegeler 2005; Poverty & Race Research Action Council 2004).\textsuperscript{43} Evaluative research has found only weak evidence that the development of subsidized housing improves poor communities, with the most likely benefit being an increase in property values—an outcome that may benefit area homeowners but displace renters (Orfield 2005; Freeman 2004). As a result, some policy analysts have recommended removing incentives to concentrate units in poor neighborhoods (Khadduri and Wilkins 2008).

The quality of neighborhoods receiving family units would improve if federal legislators direct states to prioritize and provide the greatest financing for projects located in high cost neighborhoods—places where developers are least likely to build due to their higher land costs, NIMBYism, and lack of local government capacity in facilitating affordable development.\textsuperscript{44} High cost neighborhoods could be identified as census tracts with median gross rents equal to or greater than the metropolitan median gross rent (Schwartz and Melèndez 2008). Options include

\textsuperscript{43} The California Qualified Allocation Plan is an exception. One extra point is awarded to projects located in designated neighborhood revitalization areas. Compared to the points awarded to other project features, however, the state does not strongly privilege projects contributing to a community revitalization plan (California Code of Regulations 2009).

\textsuperscript{44} Louisiana, Massachusetts, Nevada already privilege projects located in higher income, low poverty neighborhoods in their Qualified Allocation Plans (Poverty & Race Research Action Council 2008).
offering a tax credit boost to projects located in these communities and factoring land costs into
the amount received, as well as deepening the eligible basis of rehabilitation projects. 
Affirmative marketing of projects located in higher cost areas to people living in poor areas
through fair housing organizations, the media, church networks, and other channels would
accomplish lawmakers’ “sufficient need” requirement (Poverty & Race Research Action Council
2004; 2008).

Considerations of school quality in state tax credit allocation processes also are needed to
enable LIHTC children access to higher performing schools. California, along with other states,
could develop an index of high school quality based on characteristics that indicate a school’s
diversity, such as racial and class composition, and the extent to which its environment enables
student learning and advancement, such as graduation rate, percent eligible for UC/CSU
admission and annual test scores. Projects feeding into the top quarter of schools could receive
additional points in the state’s allocation process and be eligible for a federal tax credit boost, as
currently provided to projects located in lower income census tracts and high cost metropolitan
regions. Another option is to allocate more points to projects feeding into elementary, middle,
and high schools with free and reduced lunch enrollment rates of less than thirty percent (Orfield
2009). Granting allocation authority to regional councils of governments, such as the Southern
California Association of Governments (SCAG), would enable the most efficient application of
these requirements.

Equal opportunity is important not only in LIHTC project siting, but also in tenant
selection. The lack of information that exists on the households that move into LIHTC family
units is worrisome. It is possible, for instance, that units built in relatively affluent and integrated
neighborhoods in places like Irvine in Orange County are occupied by predominately white
families at the upper end of the eligible income scale, a condition potentially indicative of racial discrimination or the tendency of low-cost developments in suburban areas to be filled by households living nearby (Roisman 2000; Mallach 2003; Poverty & Race Research Action Council 2008). Although federal statute H.R. 3211 requires LIHTC property owners to report tenants’ race and ethnicity, the IRS and state allocation agencies have yet to enforce it (National Commission on Fair Housing and Equal Opportunity 2008; Poverty & Race Research Action Council 2008). Implementing this mandate would enable local fair housing organizations to regularly inspect tenant demographics in newly developed buildings and—with state and federal resources—ensure that families of color throughout the region know about and are able to move into buildings located in the most advantaged communities.

Advocacy groups and institutions that combine housing and education planning also would illuminate the patterns and consequences of discriminatory low-cost development, as well as concoct creative solutions to remedy inequities. Currently, many affordable housing organizations focus exclusively on increasing the low-cost stock at the expense of locating units in integrated neighborhoods with access to high performing schools (Center for Cities and Schools 2007; Vincent 2006; McKoy and Vincent 2005; Sidney 2005). Coalitions composed of affordable housing, fair housing, and educational equity groups would be able to rally for change more effectively. In turn, school boards make decisions on sitings without input from other local government departments, and planning departments make decisions on residential development without input from school districts. Although state school facilities planning policy encourages collaboration among these entities, more incentives including direct funding would render collaboration more probable and lead to more equitable and efficient siting decisions (Center for Cities and Schools 2007).
Given the current slowdown in LIHTC production due to the economic downturn, now is an ideal time to change LIHTC siting policy to better enable low-income families’ social mobility when the housing market bounces back. Since 2007, traditional tax credit investment through sources such as Fannie Mae, Freddie Mac, and mainstream banks has dried up, with an estimated 1,000 projects with close to 150,000 units stalled across the county as of late July 2009 (California Tax Credit Allocation Committee 2009c; Schwartz 2009; Elphinstone 2009; Department of Housing and Urban Development 2009a). In response, the 2009 American Recovery and Reinvestment Act included a provision for a $2.25 billion Tax Credit Assistance Program (TCAP) under the HUD-run HOME Investment Partnerships program to help states finish construction on about 35,000 stalled units nationwide (Department of Housing and Urban Development 2009a; Department of Housing and Urban Development 2009d). State tax credit agencies are allowed to distribute funds based on their Qualified Allocation Plan to projects that were awarded tax credits between October 2006 and September 2009 and can be completed by February 2012 (Department of Housing and Urban Development 2009c; Department of Housing and Urban Development 2009b; Department of Housing and Urban Development 2009d).

Since HUD administers the TCAP, receiving agencies are required to “affirmatively further fair housing,” which includes the establishment of an affirmative fair housing marketing plan to encourage underserved groups to apply for residency (Department of Housing and Urban Development 2009d). It is unclear whether state agencies are required to give priority to projects

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45 During the first quarter of 2009, multifamily building permits were down 49% from the previous year (U.S. Department of Housing and Urban Development 2009: 4). Only about half of new apartments that were completed in the fourth quarter of 2008 were leased in their first three months, a 7% decline from the previous year (U.S. Department of Housing and Urban Development 2009: 4). The Los Angeles area has been less hard hit, however, than smaller towns in the South and Midwest, since banks must still invest in the region to comply with community reinvestment law (Elphinstone 2009).

46 The funds are allocated based on the 2008 HOME appropriation, with California receiving about $326 million through the program (Department of Housing and Urban Development 2009a).
located in integrated areas, as required by Title VIII of the 1968 Fair Housing Act—an issue worthy of further investigation.

More research on the neighborhood and school conditions of California LIHTC units is needed to better target the above policy recommendations, as well as create momentum for changes in state and federal siting policy. An interesting finding from this analysis is that the neighborhood and school contexts of family units varied among the counties. Los Angeles, Riverside, and Ventura consistently had the largest disparities between the conditions of neighborhoods and schools receiving family units and average conditions in the county, whereas Orange and Imperial consistently had the smallest disparities. Although similar conditions in Orange were driven by its receipt of relatively few family units and by their concentration in advantaged communities like Irvine, similar conditions in Imperial arose from the county’s relative disadvantage. Further exploring why family units disproportionately are sited in poor, segregated neighborhoods and school districts in some counties more than others is critical to constructing appropriate recommendations.

Understanding developers’ and city policymakers’ decision-making process in the siting of affordable units is an important topic for future research. Do developers consider locating projects in higher income neighborhoods, but are discouraged by high land costs? If so, changes to LIHTC law that enable tax credits to cover land costs (rather than just the depreciable basis) and direct credits to developers building in high cost neighborhoods could help to overcome this barrier (Khadduri and Wilkins 2008). Yet, if residents’ and local officials’ desire for social exclusion also frustrates the location of family housing in these areas, then additional methods are required. Answers to this question as well as those proposed above would lead to more
narrowly targeted strategies to site family units in better-resourced neighborhoods and improve the educational opportunities and social mobility of low-income children.
References


Joint Center for Housing Studies. 2008. America’s Rental Housing: the Key to a Balanced National Policy. Cambridge, MA: Joint Center for Housing Studies.


## Appendix

### Table 1a: Tracts with 2000 - 2005 LIHTC Family Units by County

<table>
<thead>
<tr>
<th>Geography</th>
<th>Number of Tracts</th>
<th>Number of Tracts with LIHTC Units</th>
<th>% of Tracts with LIHTC Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Southern California</strong></td>
<td>3,391</td>
<td>280</td>
<td>8.3%</td>
</tr>
<tr>
<td>Family Units</td>
<td></td>
<td>133</td>
<td>3.9%</td>
</tr>
<tr>
<td><strong>Los Angeles County</strong></td>
<td>2,046</td>
<td>163</td>
<td>8.0%</td>
</tr>
<tr>
<td>Family Units</td>
<td></td>
<td>77</td>
<td>3.8%</td>
</tr>
<tr>
<td><strong>Orange County</strong></td>
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<td>42</td>
<td>7.3%</td>
</tr>
<tr>
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<td>8</td>
<td>1.4%</td>
</tr>
<tr>
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<td>342</td>
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</tr>
<tr>
<td>Family Units</td>
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<td>22</td>
<td>6.4%</td>
</tr>
<tr>
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<td>9</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>Ventura County</strong></td>
<td>155</td>
<td>14</td>
<td>9.0%</td>
</tr>
<tr>
<td>Family Units</td>
<td></td>
<td>8</td>
<td>5.2%</td>
</tr>
<tr>
<td><strong>Imperial County</strong></td>
<td>29</td>
<td>11</td>
<td>37.9%</td>
</tr>
<tr>
<td>Family Units</td>
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<td>9</td>
<td>31.0%</td>
</tr>
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Source: California Tax Credit Allocation Committee (2008); U.S. Census (2000)
<table>
<thead>
<tr>
<th>Variable</th>
<th>Fam Units</th>
<th>Black</th>
<th>Latino</th>
<th>Income</th>
<th>Pov.</th>
<th>Rental</th>
<th>Value</th>
<th>Past Units</th>
</tr>
</thead>
<tbody>
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<td>1.000</td>
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<td></td>
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</tr>
<tr>
<td>Income</td>
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<td>-0.249</td>
<td>-0.615</td>
<td>1.000</td>
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</tr>
<tr>
<td>Poverty</td>
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<td>0.291</td>
<td>0.679</td>
<td>-0.718</td>
<td>1.000</td>
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<td>Rental</td>
<td>0.073</td>
<td>0.147</td>
<td>0.449</td>
<td>-0.687</td>
<td>0.681</td>
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<tr>
<td>Value</td>
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<td>-0.195</td>
<td>-0.530</td>
<td>0.718</td>
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<tr>
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<td>0.008</td>
<td>0.067</td>
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<td>0.095</td>
<td>-0.044</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: California Tax Credit Allocation Committee (2008); U.S. Census (2000)
### Table 3a: Logistic Regression of Receipt of LIHTC Family Units on Explanatory Factors, by County

<table>
<thead>
<tr>
<th>Variable</th>
<th>Los Angeles</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Ventura</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b</td>
<td>Standard Error</td>
<td>Odds Ratio</td>
<td>Percent Change</td>
<td>b</td>
<td>Standard Error</td>
<td>Odds Ratio</td>
<td>Percent Change</td>
<td>b</td>
<td>Standard Error</td>
<td>Odds Ratio</td>
<td>Percent Change</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black</td>
<td>0.638</td>
<td>0.844</td>
<td>1.890</td>
<td>89.4%</td>
<td>-0.381</td>
<td>3.628</td>
<td>0.683</td>
<td>-31.7%</td>
<td>-63.279</td>
<td>41.530</td>
<td>0.000</td>
<td>-100.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latino</td>
<td>0.715</td>
<td>0.610</td>
<td>2.044</td>
<td>104.4%</td>
<td>2.530*</td>
<td>1.294</td>
<td>12.553</td>
<td>1155.3%</td>
<td>5.406***</td>
<td>2.096</td>
<td>222.779</td>
<td>22177.9%</td>
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<td></td>
</tr>
<tr>
<td>Poverty</td>
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<td>1.110</td>
<td>1521.274</td>
<td>152027.4%</td>
<td>2.201</td>
<td>3.122</td>
<td>9.038</td>
<td>803.8%</td>
<td>-4.192</td>
<td>7.279</td>
<td>0.015</td>
<td>-98.5%</td>
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</tr>
<tr>
<td>Past Units</td>
<td>0.007*</td>
<td>0.004</td>
<td>1.007</td>
<td>0.7%</td>
<td>0.012*</td>
<td>0.007</td>
<td>1.012</td>
<td>1.2%</td>
<td>0.037*</td>
<td>0.020</td>
<td>1.037</td>
<td>3.8%</td>
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</tr>
<tr>
<td>Intercept</td>
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<td>0.395</td>
<td>-4.144***</td>
<td>0.577</td>
<td>-4.689***</td>
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<td></td>
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</tr>
<tr>
<td>Chi^2</td>
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<td>17.230</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>P &gt; Chi^2</td>
<td>0.000</td>
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<td>0.001</td>
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<td>0.001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>2000</td>
<td></td>
<td>340</td>
<td></td>
<td>152</td>
<td></td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

**Note:** ***p<.01, **p<.05, *p<.10

**Source:** California Tax Credit Allocation Committee (2008); U.S. Census (2000)
Table 4a: Regression of LIHTC Family Units Received on Explanatory Factors by County, Tobit Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Los Angeles</th>
<th></th>
<th>Riverside</th>
<th></th>
<th>Ventura</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b</td>
<td>Standard</td>
<td>b</td>
<td>Standard</td>
<td>b</td>
<td>Standard</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Error</td>
<td></td>
<td>Error</td>
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<td>Error</td>
</tr>
<tr>
<td>Black</td>
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<td>-90.136</td>
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<tr>
<td>Latino</td>
<td>25.457</td>
<td>49.985</td>
<td>258.039*</td>
<td>140.731</td>
<td>387.368**</td>
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<td>Past Units</td>
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<td>152</td>
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</tbody>
</table>

Note: ***p<.01, **p<.05, *p<.10
Source: California Tax Credit Allocation Committee (2008); U.S. Census (2000)