Greg Russ

Use state, local funds for housing vouchers and private capital, equity markets, nonprofit ownership for public housing needs

A Minnesota Affordable Housing Policy Interview

November 16, 2018

Minneapolis Public Housing Authority's (MPHA) Greg Russ discusses the role of the MPHA in providing housing for 26,000 people in Minneapolis-either in public housing units or in private units subsidized by housing vouchers. He notes the inadequate federal funding for housing vouchers, urging that state and local governments provide funding for more vouchers. He says federal funding falls far short of meeting the need for major repairs and renovations of existing public housing. He raises the issues of getting housing authorities more involved in private capital and equity markets, transferring ownership of some public housing units to the two MPHA subsidiary nonprofits, and of moving families with young children out of areas of concentrated poverty.

Present

John Adams, Steve Anderson, John Cairns (vice chair), Janis Clay (executive director), Paul Gilje, Paul Ostrow (chair), Greg Russ, Dana Schroeder (associate director), Clarence Shallbetter, T Williams. By phone: Pat Davies.

Summary

According to Minneapolis Public Housing Authority Executive Director Greg Russ, there are 161,000 households in Minnesota with incomes at or below 30 percent of the state's median income, mainly in Minneapolis and Saint Paul. He says MPHA serves 26,000 people in public housing units or with housing vouchers. Almost all of those people live in households with incomes at or below 30 percent of area median income.

Approximately 10,500 people live in MPHA's 6,245 public housing units-either in high-rise or other MPHA buildings or in scattered-site units, which are mostly single-family homes. Another 15,500 people use 5,143 housing vouchers that pay a portion of their rent in privately owned apartments or homes. Households pay approximately 30 percent of their income toward rent and utilities and MPHA pays the rest. Both of these programs are federally funded.

Russ wants to explore getting state and local governments involved in helping to fund housing vouchers, since federal funding does not meet the need for them. He said one possibility for getting more federal funding is transferring ownership of some of MPHA's public housing units to its two subsidiary nonprofits.

Russ says one reason it's hard to get enough funding for housing is that we don't view housing as part of infrastructure. Another reason, he says, is the argument by a number of people that we shouldn't build public housing units. Instead, they say, we should use the earned-income transfer to a much larger degree, so people could buy housing themselves.

Russ discusses the 1995 Hollman Consent Decree that was aimed at spreading out public and subsidized housing in Minneapolis. He notes the difficulty of weighing whether to invest in a neighborhood and MPHA buildings with the evidence that moving families with kids under age 12 out of areas of concentrated poverty significantly improves outcomes for those kids.

Federal capital funding falls far short of MPHA's needs for major repairs, renovations and redevelopment of public housing now and into the future, Russ says. Federal restrictions make it impossible for local housing authorities to borrow or to mortgage their properties to raise capital. He says there are discussions going on about getting public housing more involved in private capital and equity markets.

Biography

Greg Russ is Executive Director/CEO of the Minneapolis Public Housing Authority (MPHA), a position he has held since February 2017. He succeeded Cora McCorvey, who was executive director of MPHA for 25 years, ever since its founding as an independent agency in 1991.

Russ was formerly the executive director of the Cambridge, Mass., Housing Authority. He has more than three decades of housing experience, including prior work at the Philadelphia and Chicago housing authorities and at the U.S. Department of Housing and Urban Development. Among other industry leadership experience, Russ is a past president of the Public Housing Directors Association and current board member of the Council of Large Public Housing Authorities. In 1973, he earned a B.A. degree in English from Shippensburg State College, Shippensburg, Penn.

Russ has a strong record of bringing capital investment and other resources to the public housing programs he has led. As a national expert, he continues to play a leadership role in conversations about the future of public housing. He is known for his willingness to explore the latest tools for preserving and modernizing public housing, including his work as a national leader and advocate for HUD's Moving to Work demonstration program. Russ continues to be involved in developing standards for the program and in shaping its future direction.

Background

The Civic Caucus is undertaking a review of the issue of affordable housing in Minnesota. The Caucus interviewed Greg Russ of the Minneapolis Public Housing Authority to learn about the agency's role in providing housing to low-income individuals and families, its funding and its projected needs for the future.

About the Minneapolis Public Housing Authority (MPHA).

The Minneapolis Public Housing Authority (formerly the Minneapolis Housing and Redevelopment Agency) dates back to 1947 .That year, the Minnesota State Legislature adopted the Municipal Housing & Redevelopment Act, enabling local jurisdictions to establish their own public housing and community development agencies to own and operate public housing. Months later, Minneapolis Mayor Hubert H. Humphrey did just that, creating the Minneapolis Housing and Redevelopment Authority (MHRA) and appointing its first board of commissioners.

The U.S. Housing Act of 1937 provided government subsidies for local housing agencies to construct public housing. In Minneapolis, this led to the construction of Sumner Field Homes, the first public housing in the city and in Minnesota. At the origin of the public housing program, only construction funding was provided. Much later (by 1973), Congress began to appropriate operating subsidies to cover the gap between rent collected and the cost to run the housing.

MPHA administers three primary housing assistance programs: Public Housing, the Public Housing Capital fund (separate funds provided by Congress for major capital

repairs to public housing) and Housing Choice Vouchers. Approximately 26,000 people in Minneapolis are served by the MHPA-10,500 people living in 6,245 public housing units and 15,500 people using 5,143 housing vouchers. MPHA owns and manages the public housing units. The Housing Choice Vouchers, also known as Section 8, are either "tenant-based" or "project-based." Private landlords or non-profits own the housing and MPHA supports the family with a housing assistance payment to the landlord.

In the public housing program, families pay 30 percent of the income as rent to MPHA. In the tenant-based voucher program, eligible families receive a voucher; families contribute approximately 30 percent of their income toward rent and utilities and MPHA pays the rest to a private landlord. Families can use the voucher within Minneapolis or outside the city.

With project-based vouchers, the MPHA contracts with property owners to attach vouchers to specific units and to assure that those units provide deeply affordable housing, typically for 10 or 15 years.

The 5,143 housing vouchers administered by MPHA are distributed as follows:

- 261 Veterans Affairs Supportive Housing vouchers or VASH. These are designed to support only veterans and MPHA works in partnership with the Veterans Administration.
- 100 Family Unification Program vouchers for families with kids aging out of foster care.
- 273 homeless housing units.
- 4,509 housing vouchers. Of these, 711 are project-based and the balance-3,798-are tenant-based.

MPHA is 98 percent federally funded. In 2019 the agency expects to receive $98 million in various Federal subsidies against $112 million in expenses. Federal funding falls into one of the three program categories noted above: Public Housing Operating Subsidy, Public Housing Capital Funds and Housing Choice Vouchers. Voucher funds are mostly in the form of housing assistance payments that are passed through to the private landlords and owners.

The MPHA says low-income public housing has been underfunded and unable to grow for many years. Lack of sufficient funding for essential public housing capital projects-major repairs, upgrades and redevelopment-is especially severe. To view a packet with more detailed information about the MPHA, click here.

Discussion

1. History of public housing and housing vouchers.

Public housing was created in the midst of the Great Depression. MPHA Executive Director Greg Russ said there were a few precursor programs to public housing during the Franklin Roosevelt administration. Some were designed as financial stimulus to the housing industry and others, such as Public Works Administration construction programs (the Industrial Recovery Act of 1933), were designed to put people to work building housing.

Russ said tenement activists and people affiliated with church groups were strong advocates for the successor U.S. Housing Act of 1937, but Roosevelt himself was not a particular fan of the program. There were concerns about public housing crowding out the private market, Russ said, but those didn't materialize.

Federal attempts, based on 1933 legislation, to create a single federal housing agency and program were declared unconstitutional by the Supreme Court, he said. The federal government, after passage of the 1937 Housing Act, provided model legislation that shifted certain key functions to state-created housing agencies.

The states acted to create local housing authorities that, in turn, selected sites, controlled development (financed by the Federal government) and ultimately managed the housing. In Minneapolis, this led to the construction of Sumner Field Homes, the first public housing in the city and in Minnesota. The U.S. Housing Act of 1937 provided federal funds for the construction of the units.

In 1939, Russ said, Congress committed the funds for construction of over 100 public housing projects nationally, about 50,000 units. Initially, public housing operated on the rents paid by the families. This system worked well into the 1960s. By then, much poorer families occupied public housing. In 1968, Congress capped the family rent at 25 percent of income (raised to 30 percent in 1981). In 1970, Congress began appropriating funding for housing operating subsidies, aimed at keeping rents to 25 percent or less of adjusted income and at closing the gap between the cost of operations and rents collected.

Public housing is economically different from other types of housing. Russ said public housing was originally intended to be a temporary step for working families. "That dissolved in the 1960s, as people became poorer and poorer," he said.

Unlike other subsidized real estate, he said, funding for public housing never provided funding for capital reserves or major building improvements. "The initial public housing buildings were built like tanks," Russ said, "and held up amazingly well." He said that wasn't true for all of the public housing stock, especially here in Minneapolis, where a lot of it, especially the senior housing, was built in the 1960s and 1970s, when construction was not as robust. Now, he said, part of the problem is how to raise the capital needed to invest back in the buildings to keep them available to very low-income families for the next 20 or 30 years.

The housingvoucher program was put in place during the administration of President Richard Nixon. After a housing allowance experiment in several cities, Congress, acting through the Community Development Act of 1974, appropriated funds for the first housing vouchers and distributed these funds to housing authorities in 1976. The idea, Russ said, was to provide families with vouchers they could use to go out in the market and lease. The housing authority would pay the difference between 30 percent of a family's adjusted income and the rent charged.

He said federal funding for public housing (currently about $5 billion to $6 billion nationally) is quite small compared to funding for the housing voucher program (currently about $20 billion).

Russ said there are few state or local rent-subsidy programs. Massachusetts has one and the City of Denver recently created one. The Denver approach is financed by public and private money. It's a fixed, two-year subsidy for certain families working in downtown Denver.

2. Affordable housing needs and MPHA role in providing housing.

If you were born in 1940, you had a 90 percent chance of earning more than your parents earned. Today, Russ said, that chance sits at 50 percent. There's a systemic divide, he said. "We used to think of families as having a good chance for upward opportunity," he said. "It's not happening today. Some of what we're seeing with respect to housing cost and affordability is the result of that bottom group of people not being able to move. Even in this booming economy, opportunity is not hitting that group."

"The diminishment of the chance to move ahead is being baked into our economy," he continued. "The Hiawatha homeless encampment in Minneapolis was a symptom."

We don't view housing as part of infrastructure. That's one reason it's hard to get enough funding for housing, Russ said. "We've argued for a long time nationally that housing should be part of infrastructure funding," he said.

Another reason is that not everyone is in love with building a housing unit, he said. "There are policy arguments that we should do an income transfer to the families and then people could buy or rent housing themselves," he said. Another part of the problem is that it's such a long haul to get any new development in the ground. Local or neighborhood opposition and associated planning and zoning rules make the development of new units more difficult.

There are 161,000 households in Minnesota with incomes below 30 percent of state median income. Russ said most of those households are located in Minneapolis and Saint Paul. MPHA serves 26,000 households, almost all of whom are at or below 30 percent of area median income (AMI). Russ said MPHA can serve households up to 80 percent of AMI, but it houses very few families at that level. Those who are at 80 percent often have multiple individuals in the same household working.

MPHA owns everything from single-family homes to high-rise buildings. Russ referred to a packet about the MPHA, which shows (on page two) a profile of the agency's housing assistance programs.

He noted that the average annual household income for nonworking households in MPHA's public housing units is $14,841, compared with $29,173 for working households. Those same figures for people using MPHA housing vouchers are $17,208 for nonworking households and $25,601 for working households. Although the working households earn more, they still wouldn't be able to rent in the private market, he said.

Also included in the packet, on page three, is information about MPHA's funding and finances. Russ said the federal Public Operating Subsidy funds property management and routine maintenance of the agency's 6,000 public housing units. Rent from tenants (who pay 30 percent of their income) supplements the federal subsidy and makes up about half of the revenues for the agency's owned-and-operated public housing.

Additional data included in the packet about the MPHA include:

- A map showing the location of the agency's public housing high rises and scattered-site housing;
- A map showing the location of households participating in the agency's Housing Choice Voucher Program;
- Figures showing the need for low-income housing in the Twin Cities metro area, the waiting lists for MPHA's public housing units and housing choice vouchers, and income ranges in the Twin Cities in 2018; and
- MPHA's strategic initiatives for 2019-housing preservation and creation; better tying housing into education, employment and health; and streamlining its operations.

Minneapolis is a highly segregated city economically and often racially. Russ said the majority of MPHA's vouchers and many of its public housing sites in Minneapolis are located in areas of concentrated poverty, including the high rises (75 percent) and scattered-site housing (57 percent). Most households using Housing Choice Vouchers (75 percent) are also located in areas of concentrated poverty in the city.

Minneapolis demolished some public housing following the 1995 Hollman Consent Decree. The decree was aimed at deconcentrating public and subsidized housing in the city. The decree grew out of the lawsuit *Hollman vs. Cisneros,* filed by the Minnesota Legal Aid Society and the National Association for the Advancement of Colored People (NAACP) on behalf of plaintiffs living in public housing in Minneapolis. The lawsuit alleged that the public housing and Section 8 voucher programs in the city perpetuated racial and low-income segregation. "That was the strategy in the 1990s," Russ said.

But now some people are saying, "Invest in the neighborhood and don't scatter people." "That's a stronger voice now than I've heard in the past," Russ said. "The difficulty is that sometimes these areas are economically starved for capital and other amenities, like a corner store or a dry cleaner. How do you balance what to invest in a neighborhood and MPHA buildings with the option to deconcentrate poverty?" There are some people, he said, who see moving people out to deconcentrate poverty as tearing at the fabric of a neighborhood.

There is now significant evidence that moving a family with kids under age 12 out of an area of concentrated poverty to an opportunity neighborhood with lower poverty significantly improves outcomes for those kids. There are significant increases in income and educational outcomes for the kids, Russ said.

He said MPHA is exploring the concept of moving families to opportunity areas with the Metropolitan Council. A question, he said, is whether there is housing outside the areas of concentrated poverty to which you can move families. He noted that a lot of neighborhoods in Minneapolis are made up of single-family homes. "It's difficult to get into those neighborhoods even if you're earning a significant income," he said.

"The concept of moving families is well documented by research, but the ability to do it is a hard lift," Russ said.

To increase housing subsidies, MPHA could transfer ownership of its units to either of its two nonprofits, which have the same board as MPHA. Russ said the nonprofits are subsidiaries of MPHA. He said the agency is applying to HUD for the transfer of all 700-plus scattered-site units to one of its nonprofits. That would mean that families who live in those units would be eligible for different kinds of vouchers. The vouchers would be project-based, i.e., attached to the scattered-site units. Russ said the new subsidy would be worth more than the public housing operating subsidies for the units, allowing MPHA to secure capital to reinvest in repairs and renovations to the units. MPHA officials have said tenants will not be displaced or see an increase in rent.

MPHA does not operate a true transitional housing program into which it can move homeless families. "Movement out of homelessness is incredibly difficult," Russ said. HUD doesn't fund the cost of the housing *or* the support services needed to move the families through the transition, he said. (Note: Since the time of this interview, MPHA has opened 16 units of new public housing that is targeted to homeless families moving out of shelters. This is in partnership with Hennepin County.)

MPHA operates some targeted voucher programs with services. Russ said, "No one in Congress will vote against vouchers for vets." He said under the Veterans Affairs Supportive Housing (VASH) program, MPHA partners with the Veterans Administration (who, in turn, provides the services) in order for veterans to use the vouchers. This targeted program, by including the VA, does offer both housing and services support. "But it is more the exception than the rule," he said.

He said there are also mainstream vouchers available only to families with mental health issues who can't get housing otherwise. There are also family reunification vouchers, again only a small number of them. Russ said there are other programs such as the 202 Program targeted to seniors and some seniors with disabilities. Nonprofit and church groups have built a lot of 202 housing. This housing is funded with its own appropriation, not connected to public housing. Services are often included in those buildings.

Congress is not appropriating funding for new vouchers to match the need for them. In the last 10 years, Russ said, Congress has taken the amount that was appropriated in the prior fiscal year and applied an inflation factor to determine the next year's funding. With a few exceptions, it is a "steady state" funding, just enough to stay even, he said. In the 1970s and 1980s, Congress would often add 50,000 or 100,000 new vouchers each year. "That's not happening," he said. "The pot of money is very tight. That's one of the reasons it's hard to reach more families." Also, the state and cities are not adding (and many are not able to add) to the pot of housing subsidies coming into Minnesota, he said.

MPHA had a waiting list of 514 applicants for housing choice vouchers as of October 2018. But the waiting list has been closed since 2008, when 16,000 households signed up over three days. Only a small portion of those households were actually put on the waiting list.

Russ said MPHA wants to pitch the idea of creating a state subsidy to sit on top of the federal subsidy and extend the impact of the federal dollars. **"**It's never been done," Russ said. "Unless there's a change in the amount of money we get from the federal government, we are going to have to begin to supplement those dollars locally and statewide."

In much of Minneapolis, aging, obsolescent properties are located along transit lines; this could leave options for redevelopment. An interviewer made that statement and said Richfield, St. Louis Park and Robbinsdale have aggressively redeveloped obsolete retail properties into housing.

Russ replied that there is a light-rail stop near MPHA's Glendale public housing in Prospect Park and there is some redevelopment happening around there. He said there's a parcel of land near the rail stop where MPHA would like to develop some housing. MPHA has other vacant land that adjoins the new light- rail line proposed to run from Target Field to Oak Grove.

MPHA's ability to acquire obsolete retailing is limited by the capital available, he said. "We're constrained by how much money we can raise for that."

Is there any way to connect the requirement for affordability to the increase in density called for in the ***Minneapolis 2040*** **plan?** An interviewer asked that question and Russ replied that the connection is worth talking about. He said elements of the 2040 plan also touch on inclusionary zoning, which requires a certain percentage of affordable units in new housing developments.

What places around the country are doing a good job in providing affordable housing? An interviewer asked that question and Russ noted that Portland, Ore., is looking at tiny homes, auxiliary dwelling units and density changes that could increase the number of units affordable for low-income families. And he said Montgomery County, Md., and Cambridge, Mass., both have inclusionary zoning.

Construction technologies are advancing, he said, and MPHA would like to do modular housing. The agency is working with the University of Minnesota to build a modular house and plans to try one in 2019.

And Russ envisions the modular unit on a city lot, where you could keep the existing house up front and then put an auxiliary dwelling unit in back, which might be a small house for a single person. "That's another thing we'd like to try," he said.

3. Capital needs for public housing renovations.

Federal capital funding falls far short of the agency's needs for major repairs, renovations and redevelopment of public housing. Russ pointed out that many of MPHA's buildings are over 50 years old. Russ said Congress only appropriates a total of $2.5 billion for capital needs nationwide. "The capital funding that Congress appropriates is far, far below the aging that's occurring in the buildings-the mechanicals, the systems and the buildings themselves," he said. "That has been a trend that has cut across administrations and all public policy."

Federal capital funding for the MPHA was $14 million in 2018. But the agency estimates that it has $96.4 million in immediate capital needs for infrastructure and building systems, $43.1 million in other immediate capital needs and $398.2 million in upcoming capital needs over the next 20 years.

Russ said restrictions placed on public housing properties by the federal Department of Housing and Urban Development (HUD) have the unintended consequence of leaving local housing authorities no room for borrowing or mortgaging their properties to raise capital. He said MPHA is in conversations with HUD about changing that and giving the agency some room to borrow. HUD has the administrative authority to do that and might accept that compromise, he said.

The capital for building public housing originally came from bonds backed by the federal government. Russ said the bonds were retired in the 1980s, when the federal government paid off the debt.

He said there are discussions going on now about getting public housing more involved in private capital and equity markets.Many agencies are doing that, Russ said, because there's no other source of adequate capital.

He said MPHA is planning an upgrade to its Elliot Twins towers, two senior public housing high rises, with a total of 174 units, to make them highly energy-efficient. He said it would take $40 million to do the upgrade. MPHA will probably be using private capital for the project, he said.

Russ said MPHA is committed to working with state and private sources on capital funding. One tool available, he said, is the low-income housing tax credit, where an equity investor puts money into public housing in exchange for tax savings later. The investor retains part-ownership of the public housing for 15 years. "It's not a bad model," he said, "but it's incredibly expensive, because it's loaded with transaction costs."

He said the new federal tax law has created opportunity zones in certain Census tracts designated by each state. Opportunity funds created to invest in the zones would shelter capital gains. "That's another new capital wrinkle," he said.

"It's going to be tough," he said. "It's a crowded market for capital. Our need is so high that we're going to have to pace ourselves."

Private developers have advantages over the public sector. Russ listed those advantages: (1) They're really good with the pencil; (2) They have no excess overhead, while most public institutions carry some; (3) They can move more quickly; (4) they have lines of credit available; and (5) They have people who look for deals and make deals. "That's how we're going to have to be if we're going to be successful," he said.