

The largest federal program designed to increase the rental housing supply for poor working families helps them find living space in decent neighborhoods with good schools. It also encounters frequent neighborhood opposition.

The low-income housing tax credit (LIHTC) program, created under the Tax Reform Act of 1986, subsidizes developers who construct market-quality, multifamily units or renovate older structures for rent to low-income tenants at below-market rates.

Homeowners in more-affluent areas often resist the housing in their neighborhoods, citing concerns that new residents will flood public schools and crowd classrooms, negatively influencing existing students and competing for limited educational resources. There are also worries that adding more low-income pupils to struggling schools in poor areas may overburden educators and facilities, ill-serving students even while helping reduce the financial burden on parents.

Texas allocated approximately \$750 million in tax credits to developers from 1989 to mid-2009, creating almost 200,000 affordable housing units, 90 percent of them reserved

for low-income residents. Suburban counties, though lacking large low-income populations, attract LIHTC investors drawn to a greater supply of vacant land than in central cities.¹

Approximately 9 percent of Texas elementary schools have nearby LIHTC properties, each averaging 324 units. Year-to-year changes in the accountability ratings of public elementary schools closest to the low-income housing may help indicate whether the construction adversely affects neighborhood schools.²

Chart 1 illustrates that ratings remained unchanged over a one-year period for most schools. Some of the schools moved up or down one level, but very few moved two or more levels. Most of the schools that improved one level were initially rated academically acceptable. In contrast, those that fell one level were mainly recognized. Among schools rated exemplary, approximately one-fourth fell one level the next year.

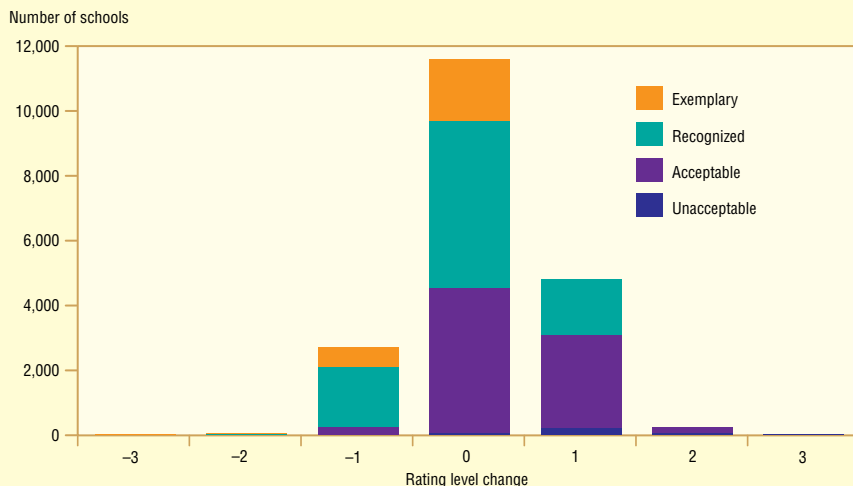
Adding LIHTC units appears to positively, not negatively, influence a school's accountability rating in the year the projects open, our analysis found. However, that effect is temporary, largely disappearing after a year. Schools

with nearby LIHTC units were classified by income and share of minorities in nearby census blocks. The estimates suggest that the positive influence is largely driven by the housing units constructed in higher-income census areas, while the negative, offsetting data come from LIHTC census block groups with greater minority or lower-income populations. The program's influence on schools also depends on whether the project is new construction or rehabilitation. New buildings seem to contribute to improvement of academic performance at the nearest elementary schools.

To be sure, the results involve relatively few children from the new homes in elementary schools each year. Therefore, the makeup of residents in the new housing units doesn't necessarily alter the demographics of Texas schools. However, the results appear consistent with previous studies indicating that such projects don't necessarily adversely affect receiving neighborhoods. In fact, they seem to suggest that more-motivated low-income families seek subsidized rental units in mixed-income neighborhoods offering better schools for their well-performing kids. This may dispel some homeowner concerns in higher-income neighborhoods hosting the projects. However, the possibly negative influence of the units in lower-income or higher-minority areas justifies the worries that the multifamily units in neighborhoods densely populated with low-income residents may limit educational opportunities.

—Wenhua Di and James C. Murdoch

Chart 1
Some Schools Improve After Low-Income Tax-Credit Housing Opens



NOTE: Compiled from a pooled sample of 19,433 Texas public elementary schools near new low-income housing tax credit projects, 2004-09.

SOURCE: Texas Education Agency Academic Excellence Indicator System.

Notes

¹ For a more-detailed discussion of the LIHTC projects in Texas, see "Low-Income Housing Tax Credits in Texas: Achievements and Challenges," by Roy Lopez and Wenhua Di, Federal Reserve Bank of Dallas *Banking and Community Perspectives*, Issue 2, 2009.

² For more details on the methodology and data, see "The Impact of LIHTC Program on Local Schools," by Wenhua Di and James C. Murdoch, Federal Reserve Bank of Dallas, Research Department Working Paper no. 1006, 2010.