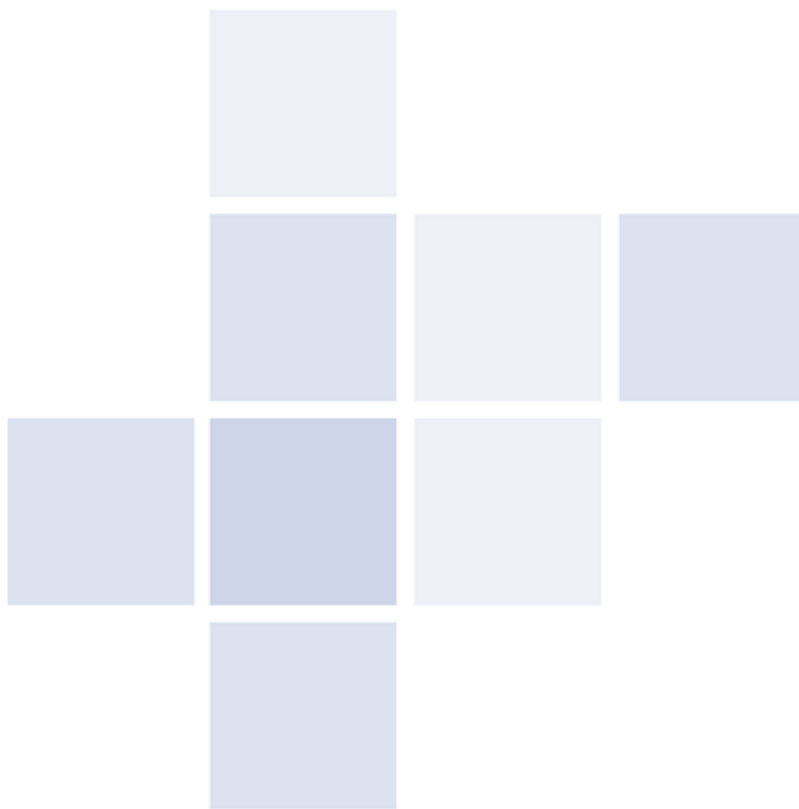




Why Are the Twin Cities So Segregated?

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Executive Summary

Why are the Twin Cities so segregated? The Minneapolis-Saint Paul metropolitan area is known for its progressive politics and forward-thinking approach to regional planning, but these features have not prevented the formation of some of the nation's widest racial disparities, and the nation's worst segregation in a predominantly white area. On measures of educational and residential integration, the Twin Cities region has rapidly diverged from other regions with similar demographics, such as Portland or Seattle. Since the start of the twenty-first century, the number of severely segregated schools in the Twin Cities area has increased more than seven-fold; the population of segregated, high-poverty neighborhoods has tripled. The concentration of black families in low-income areas has grown for over a decade; in Portland and Seattle, it has declined. In 2010, the region had 83 schools made up of 90 percent nonwhite students. Portland had two.

The following report explains this paradox. In doing so, it broadly describes the history and structure of two growing industry pressure groups within the Twin Cities political scene: the poverty housing industry (PHI) and the poverty education complex (PEC). It shows how these powerful special interests have worked with local, regional, and state government to preserve the segregated status quo, and in the process have undermined school integration and sabotaged the nation's most effective regional housing integration program. Finally, in what should serve as a call to action on civil rights, this report demonstrates how even moderate efforts to achieve racial integration could have dramatically reduced regional segregation and the associated racial disparities.

Although the Twin Cities was committed to civil rights and racial integration through much of the 1970s, this commitment began to collapse in the mid-1980s. Political apathy about racial equality was accompanied by exclusionary housing practices in the suburbs. Increasing concern over the availability of affordable housing accelerated the growth of the subsidized housing industry within the central cities – the PHI. The cities themselves participated in this process, creating the Family Housing Fund, a “quasipublic” intermediary which produced thousands of housing units in Minneapolis and Saint Paul. As a result of segregation, city schools declined, which gave momentum to a “school choice” movement that sought to implement free-market ideas in the education system. These so-called “education reformers” would become the PEC. Its policies have increased and preserved the growth of educational segregation.

The PHI and PEC are both complex networks of affiliated organizations and professionals, stretching through the public, private, and nonprofit world. The PHI centers around nonprofit housing developers, but also includes funding intermediaries, for-profit tax credit “syndicators,” attorneys, and lobbyists. The PEC includes well-funded political advocacy groups, consultants, and of course, many charter schools and charter school networks. Both the PHI and PEC are industries in their own right, employing thousands and receiving hundreds of millions of dollars from the government and charitable foundations.

Unfortunately, the PHI and PEC depend heavily on the segregated status quo. The PHI's network of professional connections is densest in the low-income central city neighborhoods where segregation is greatest, and the majority of affordable housing is consequently sited in these areas, which offer minimal resistance to affordable development. The PHI frequently dominates both politics and the local economy in these neighborhoods. The *raison d'être* of

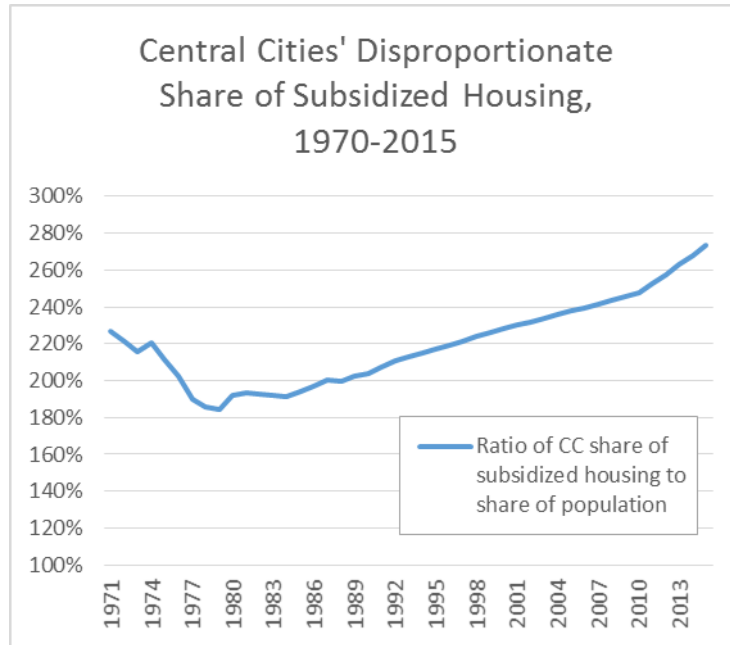
education reform is correcting the perceived failings of central city schools – failures that arise from the massive concentration of low-income, nonwhite students in these schools. Regional school integration is not on the agenda of the PEC and thus such policy initiatives would threaten the influx of charitable funding into PEC organizations.

Pressure from these two political constituencies have led to a series of governmental actions and policies that have had the effect of creating and perpetuating regional segregation:

- The abandonment of a Metropolitan Council Housing Plan which enforced the legal requirement that all cities build a “fair share” of moderate- and low-income housing.
- A revision of the state’s school desegregation rule to allow intentionally racially segregated schools to persist indefinitely without penalty.
- The exemption of charter schools and the open enrollment system from the school desegregation rule, undermining local districts’ ability to pursue integrated education.
- Consistently increasing affordable housing goals for the diverse central cities, and the concomitant decrease of the same goals for affluent, majority-white suburbs.
- The rise of massive public-private interaction in the affordable housing industry, such as the Corridors of Opportunity group, which sought to place nearly half the region’s new subsidized housing – 4,500 units – in segregated areas along the Cities’ newest light rail line.
- The failure to consider the impact of affordable housing and education policies on older, first-ring suburbs, where segregation and concentrated poverty are growing rapidly, endangering municipalities’ financial stability and, consequently, their ability to provide basic services to residents.

The combined effect of these policies, and similar actions at the local and state level, has been to reverse progress towards integration. Severe segregation – where less than one student in ten is white – has grown explosively in the region’s school districts, afflicting approximately 1 percent of all area schools in 1995 but more than 11 percent today. The concerted effort to achieve integration by locating subsidized housing in the suburbs, which started in the early 70s and made substantial gains over fifteen years, has stalled completely; the central cities’ relative share of subsidized housing has been increasing for decades and is now higher than at any point since the 1960s. Making matters worse, some older suburbs have themselves become segregated. Today, only 15 percent of subsidized housing units are in areas where schools are less than 30 percent nonwhite, the lowest figure since the beginning of the regional housing program. Lack of regional support for desegregation has handicapped pro-integrative organizations such as the Dakota County Community Development Agency. In the words of its director, “The policies are what drive funding, and the policies come from the Met Council board and the Minnesota Legislature . . . [T]hey favor funding priorities that are not as prevalent in the suburban area.”¹

¹ Jessie Van Berkel, *Suburbs Feel Shorted on Funds for Affordable Housing*, STAR TRIBUNE (Oct. 31, 2014).



In the absence of countervailing pressures in the public and private sector, real progress on regional residential and educational integration is possible. A proactive approach to housing integration, in which subsidized housing units were distributed evenly across the region, and Section 8 rental vouchers beneficiaries were distributed in proportion to regional population, would shift 9,700 additional nonwhite students to schools that are currently white or integrated. This would account for 80 percent of the student moves necessary to create a fully integrated regional school system, obviating the need for busing or other aggressive remedies.

In order to reduce regional inequality, create a more competitive region, and build a better-functioning society, it is imperative that the Twin Cities reconsider their approach to subsidized housing and education.

Why Are the Twin Cities So Segregated?

The Twin Cities are affluent, generous and progressive. There are perhaps more organizations per capita here dedicated to serving the poor than in any other metropolitan area. Why are racial disparities in the Cities as great as or greater than in any part of the nation? Why are our schools and neighborhoods much more segregated than regions with similar racial and economic characteristics like Seattle and Portland? It is becoming clear that many of the efforts originally intended to address poverty today actually contribute to severe and growing racial and social isolation in schools and neighborhoods, preserving the segregation that is at the root of racial inequality in the United States.

Ironically, as affluent suburbs become gradually more willing to allow economic and racial integration, a growing privatized poverty “industry” has itself become a new bulwark of segregation in housing and schools. Non-profit organizations fight for funding to spend on low-income housing concentrated in the region’s poorest neighborhoods, where there are no jobs, and where the schools – from which most children fail to even graduate – function as pathways to prison. Little funding is left for affluent suburbs that boast strong schools and job opportunities and in recent years their applications for affordable housing have been turned down with surprising frequency. Within the region’s education system, many policies persist that encourage or accelerate segregation. Self-styled education “reformers” advocate for single-race charter schools, some quite brazenly. The charter system is dominated by segregated, low-performing institutions that only offer dead ends for many students. By serving specific racial groups, charters deepen segregation and undermine the efforts of public schools, which have been financially weakened and which themselves are becoming more segregated. Other policies create durable avenues for white flight and facilitate the divestment of resources from the region’s neediest school districts. Despite evidence to the contrary, local education policymakers, charter boosters, and reformers continue to argue that gaps can be closed without addressing segregation, and even assert that segregated schools are more effective than integrated ones.

It is clear that this generous, progressive region must again work to become less segregated. It was once a national leader on civil rights, and has many laws and policies that could, if used, create more integration and less racial disparity. While resistance to integration in affluent communities remains strong, it is declining. When affluent communities and schools attempt greater integration, poverty advocates should help them, not undermine their efforts.

In the past, the Twin Cities’ reputation for progressive civil rights activism was well-deserved. Minneapolis was the first large city in the country to enact a fair housing ordinance and Minnesota was one of the first states to pass a civil rights law outlawing housing discrimination.² Not only did Hubert Humphrey and Walter Mondale hail from the Twin Cities, but so did Roy Wilkins, Clarence Mitchell, and Whitney Young. Republican governor Elmer Anderson pushed the Human Rights Act through the legislature and Congressman Al Quie helped build a Republican consensus to support the major civil rights acts of the 1960s.

In the 1960s and 70s, the state created a regional government, the Metropolitan Council, and enacted a fair-share requirement in the Metropolitan Land Use Planning Act that required that all suburban communities provide for their fair share of affordable housing. The Met Council worked with the Minnesota Housing Finance Agency to adopt the nation’s best regional

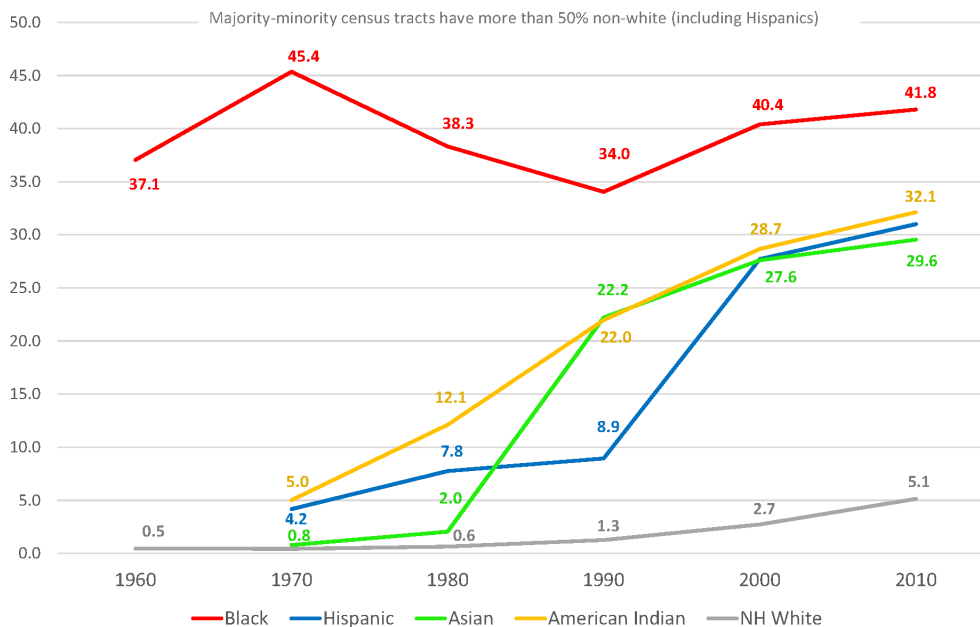
² Minn. Stat § 363A.09.

fair housing program. The Council explicitly sought to improve housing choice by opening up all the region’s communities to low-income residents, and in the ten years prior to 1980, the percentage of regional cities offering subsidized housing increased from 8 percent to 51 percent.

Also in the early 70s, Minneapolis integrated its public schools pursuant to court order, and the state government used the momentum created by this lawsuit to adopt a desegregation rule that required racially integrated schools throughout Minnesota. This rule aggressively reduced existing segregation, and contained mechanisms to prevent integrated schools from slowly transitioning back into racial isolation.

As a result of all of these efforts in the 1970s and early 1980s, the Twin Cities was on a path to become one of the most integrated metropolitan areas in the United States. It had all the tools in place to do so, and they were working as planned. In the early 1990s, only about 2,000 (or 2.5 percent) of the region’s non-white students were in schools that were more than 90 percent non-white³ and only 3 percent of the region’s population lived in majority non-white, high poverty areas.⁴ Likewise, black residents living in census tracts that were more than 50% minority decreased from 45% in 1970 to 38% in 1980. On the other hand, by the 1980s and 1990s the region saw increasing shares of American Indians, Asians and Hispanics in majority minority tracts and by the 1990s there was a reversal of the long term decrease in black shares in those tracts.⁵

Chart 1: Share of Twin Cities Area Population in Majority Minority Census Tracts, 1960-2010



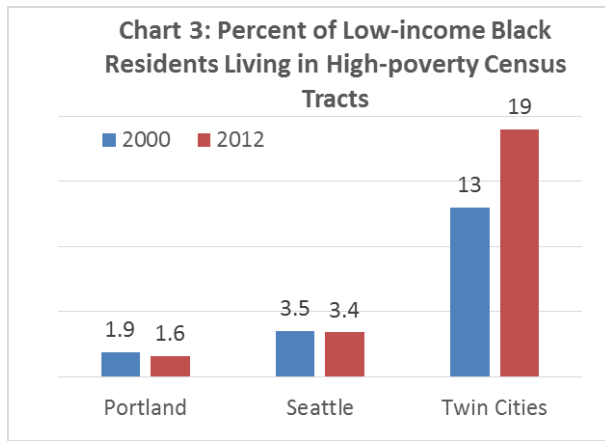
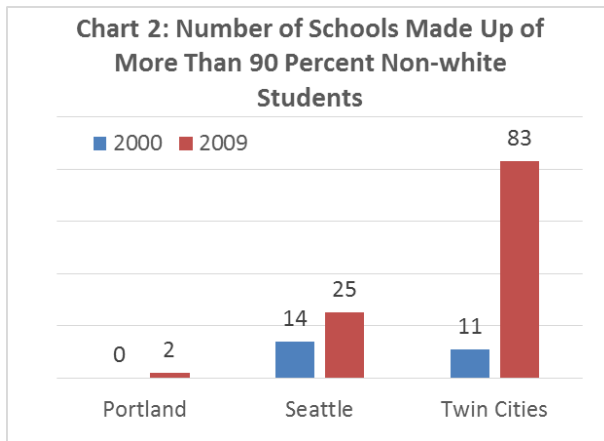
³ School data are for the 11 Minnesota counties in the Twin Cities metro area in 1995 and are from the Minnesota Department of Education.

⁴ 1990 data from Metropolitan Council, *Choice, Place and Opportunity: An Equity Assessment of the Twin Cities Region*, March, 2014, Section 5, page 5.

⁵ Black shares in majority minority census tracts was calculated by IMO from National Historical GIS data, Minnesota Population Center. *National Historical Geographic Information System: Version 2.0*. Minneapolis, MN: University of Minnesota 2011.

By 2010 the number of schools made up of more than 90 percent non-white students had increased more than seven-fold (from 11 to 83); the number of non-white students in those highly segregated environments had risen by more than 10 times (from 2,000 to 25,400), a percentage increase from 2.5 percent to 16 percent; and the share of the regional population in majority non-white, high poverty areas rose by three times to 9 percent.⁶

Some of these changes simply reflect the fact that the region became more racially diverse during the period. However, other metros of roughly the same size and with similar demographic histories have not shown the same pattern of deterioration. For instance, the number of schools in the Portland metro made up of more than 90 percent non-white students was just 2 in 2009 (up from 0 in 2000) and in Seattle it was only 25 (up from 14).⁷ The neighborhood comparisons are no better. In 2012, 19 percent of low-income black residents of the Twin Cities lived in high-poverty census tracts (up from 13 percent in 2000) compared to just 3.4 percent of low-income black residents in Seattle (down from 3.5 percent in 2000) and 1.6 percent in Portland (down from 1.9 percent in 2000).⁸



In the Twin Cities, as elsewhere in the nation, racial isolation and economic decline are intertwined. As the maps following this section demonstrate, the growth of poverty since 1980 has mirrored patterns of segregation. While affluent, white enclaves in the south and southwest of the central cities have remained stable, poverty has dramatically worsened in much of Minneapolis and Saint Paul, as well as many of the older, first-ring suburbs. In this way, segregation has helped wrench apart the economic fabric of the region, as neighborhoods or even entire cities have found themselves crippled by the rapid, destabilizing increase in poverty.

In this environment, even programs designed to increase housing choice can backfire and accelerate segregation. For instance, the Section 8 Housing Voucher program is intended to

⁶ Metropolitan Council, *Choice, Place and Opportunity: An Equity Assessment of the Twin Cities Region*, March, 2014, Section 5, page 5.

⁷ Data are from the National Center for Education Statistics. The equivalent numbers for the Twin Cities from this source were 112 schools with more than 90% non-white students in 2009 compared to 37 such schools in 2000.

⁸ Bureau of the Census data compiled and provided by Paul Jargowsky and the Center for Urban Research and Education, Rutgers University. Similar differences for Hispanic residents exist across the metros.

provide families with flexibility in the private housing market, and in doing so help prevent the concentration of poverty that is associated with public housing.

Instead, in the Twin Cities, Section 8 has replicated the ill effects of public housing. The Cities contain a number of dense “clusters” of Section 8 voucherholders, concentrating poverty to a remarkable degree.⁹ A small census tract in Phillips concentrates voucher holders at the rate of 802 per square mile. In another tract in the Aurora-Saint Anthony neighborhood in Saint Paul, with 583 voucher holder per square mile, 19 percent of households are using a voucher.

Of the 705 census tracts in the Twin Cities metropolitan area, 21 have household voucher use rates above 10 percent – eight in Saint Paul, and twelve in Minneapolis. By comparison, a vast number of census tracts – even densely populated census tracts – contain virtually no Section 8 voucher beneficiaries. Within the metropolitan area, 37.4 percent of households live in census tracts where five or fewer Section 8 vouchers have been put to use; 11.3 percent live in tracts without a single voucher whatsoever.

Segregation and the concentration of poverty are no longer confined to the central cities. These problems have spilled over into the region’s older suburbs, particularly the first-ring suburbs in close proximity to segregated central city neighborhoods. Many of these cities are in the process of rapid, destabilizing racial and economic transition, as flight from growing segregation pushes middle-class residents into the urban fringe. These changes frequently start in a city’s schools, where open enrollment, alternative schooling options, and other instruments of white flight can help “flip” an integrated district into severe segregation in a matter of years. For instance, in the fifteen years following 1997, the Brooklyn Center school district transitioned from 41 percent nonwhite to 84 percent nonwhite, and 38 percent low-income to 82 percent low-income. School transition often precipitates residential segregation. In the decade following the 2000 census, Brooklyn Center has become rapidly more segregated, with the number of white residents declining dramatically, from over two-thirds of the population to less than one-half.

Not surprisingly, the region now shows some of the widest racial disparities in the country. Recent data show alarming gaps between whites and non-whites in income, unemployment, health, and education. Poverty rates for black Minnesotans are more than four times those for whites while household incomes for blacks are less than half of those for whites; reading proficiency rates for black students are less than half those for whites in most school grades and years; incarceration rates for blacks are 20-25 times greater than for whites; and black unemployment rates are two to three times those for whites. All of these disparities put the region and state near the bottom of national rankings.¹⁰

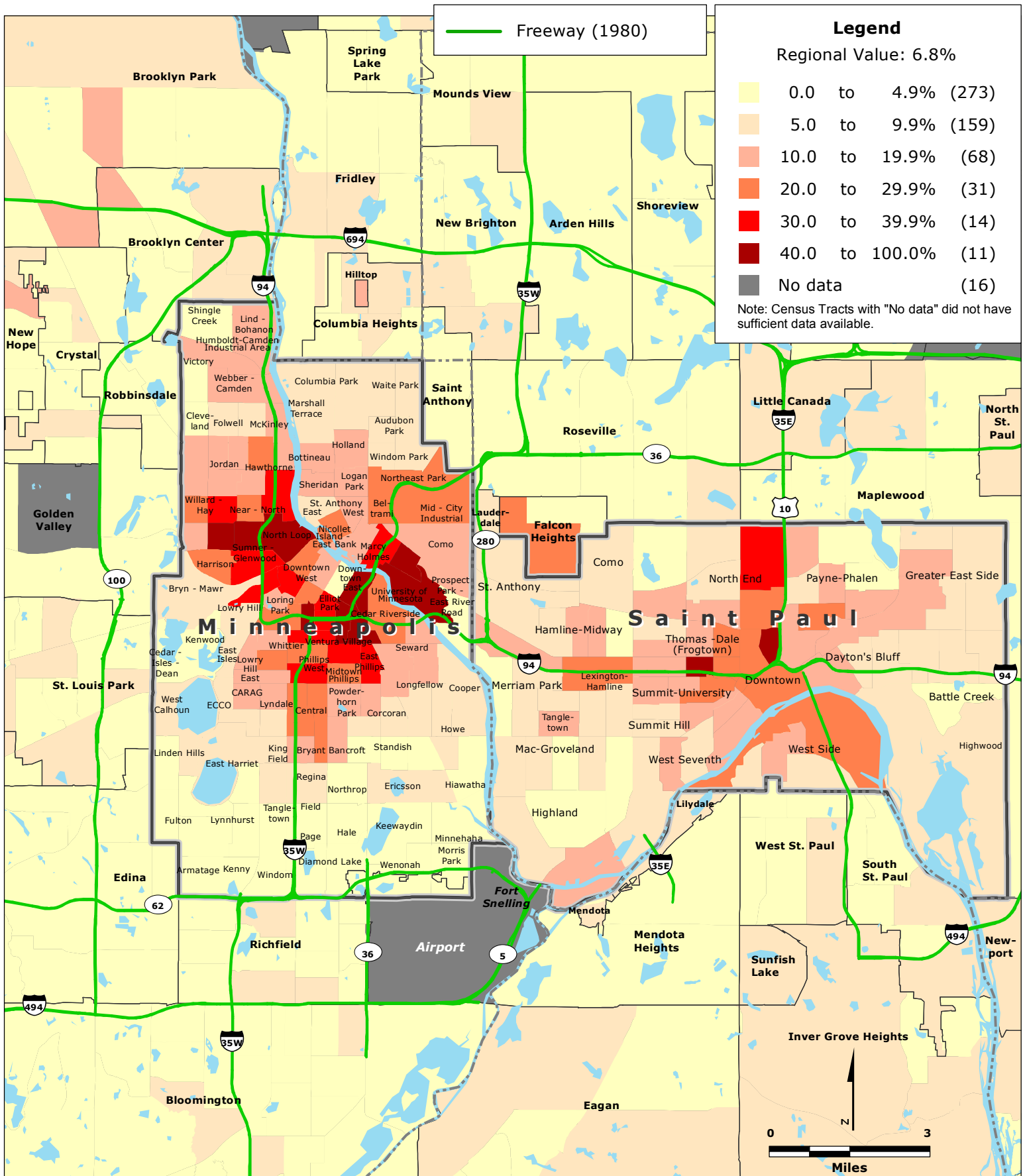
What has brought us to this pass? How did a state and a region once at the forefront of civil rights and integration efforts fall so far? The answers lie in a complex web of actions by public, non-profit and private actors during the last 30 years in a number of policy areas, including especially housing, finance, education and transportation. Driven by political and governmental apathy, the well-meaning but misdirected efforts of housing developers, school

⁹ Voucher concentration figures were generated using 2010 U.S. Census data.

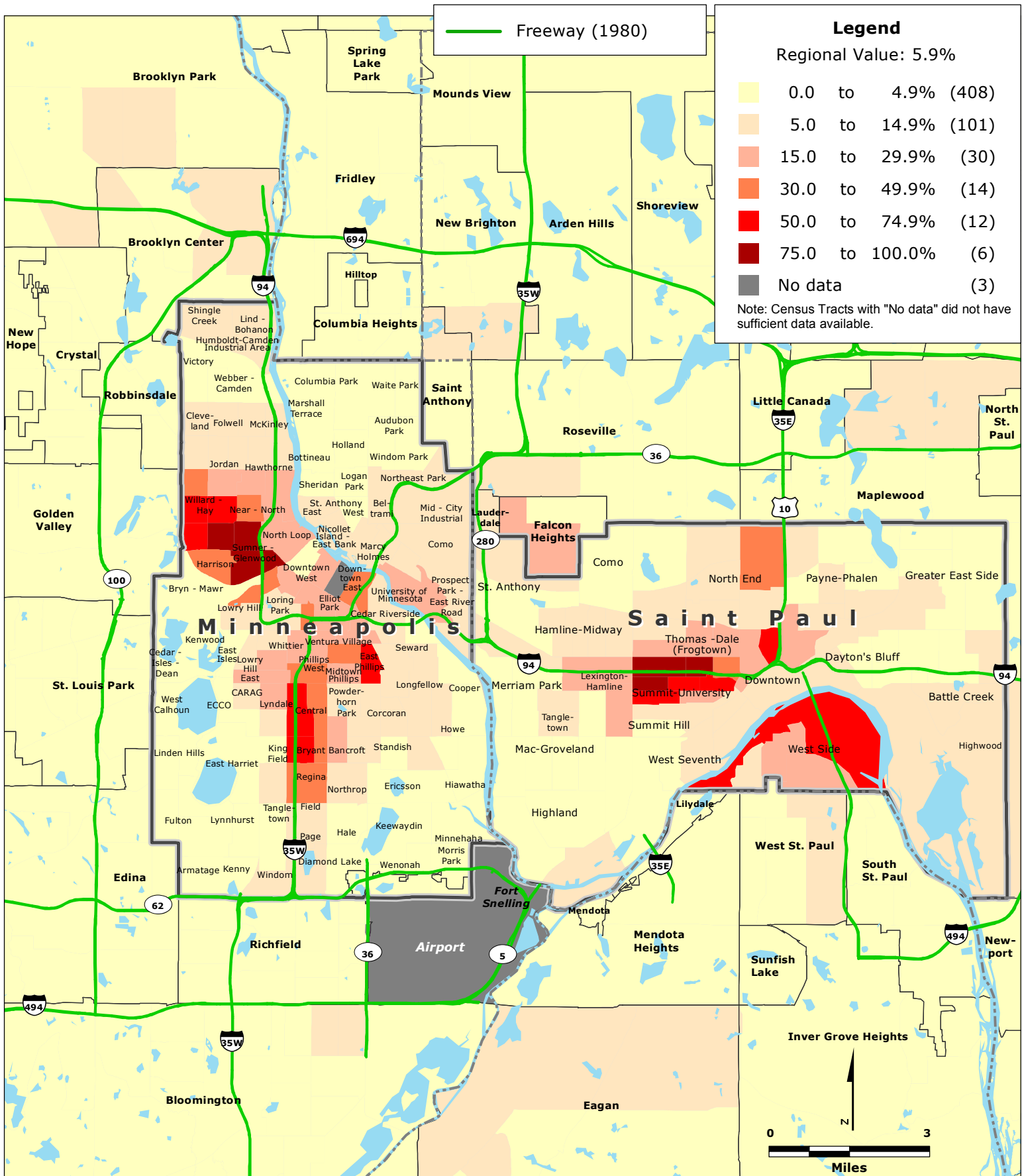
¹⁰ See, e.g., Jonathan M. Rose, *Disparity Analysis: A review of disparities between White Minnesotans and other racial groups*, COUNCIL ON BLACK MINNESOTANS (2013). Various reports are also available at <http://minnesotabudgetbites.org>.

reformers, and the proliferation of organizations and groups with a firm financial interest in maintaining segregated living patterns, our state has slowly reversed its civil rights heritage.

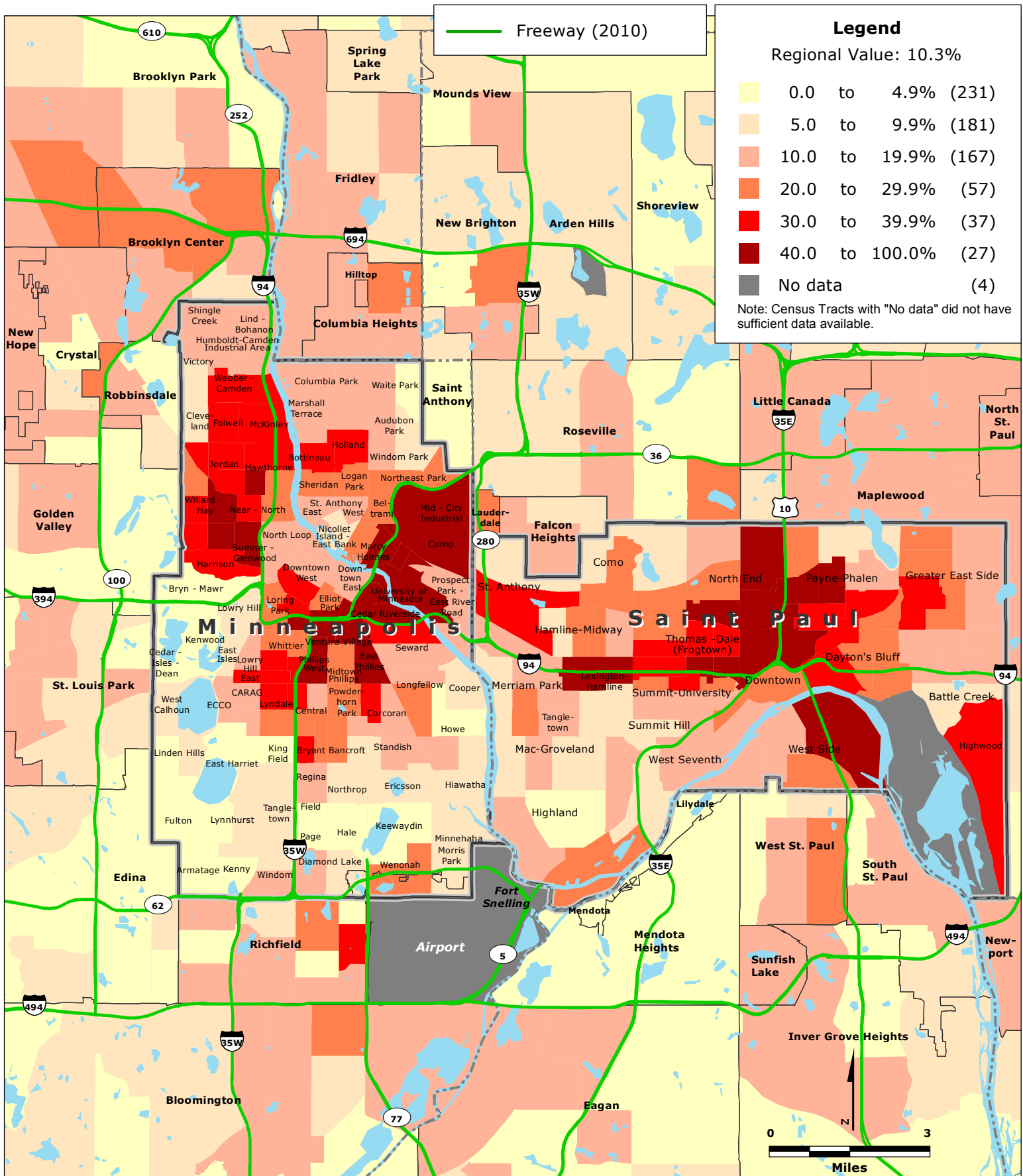
Map 1: MINNEAPOLIS-SAINT PAUL (Central Area) Percentage Below Poverty Line by Census Tract, 1979



Map 2: MINNEAPOLIS-SAINT PAUL (Central Area) Percentage Minority Population by Census Tract, 1980

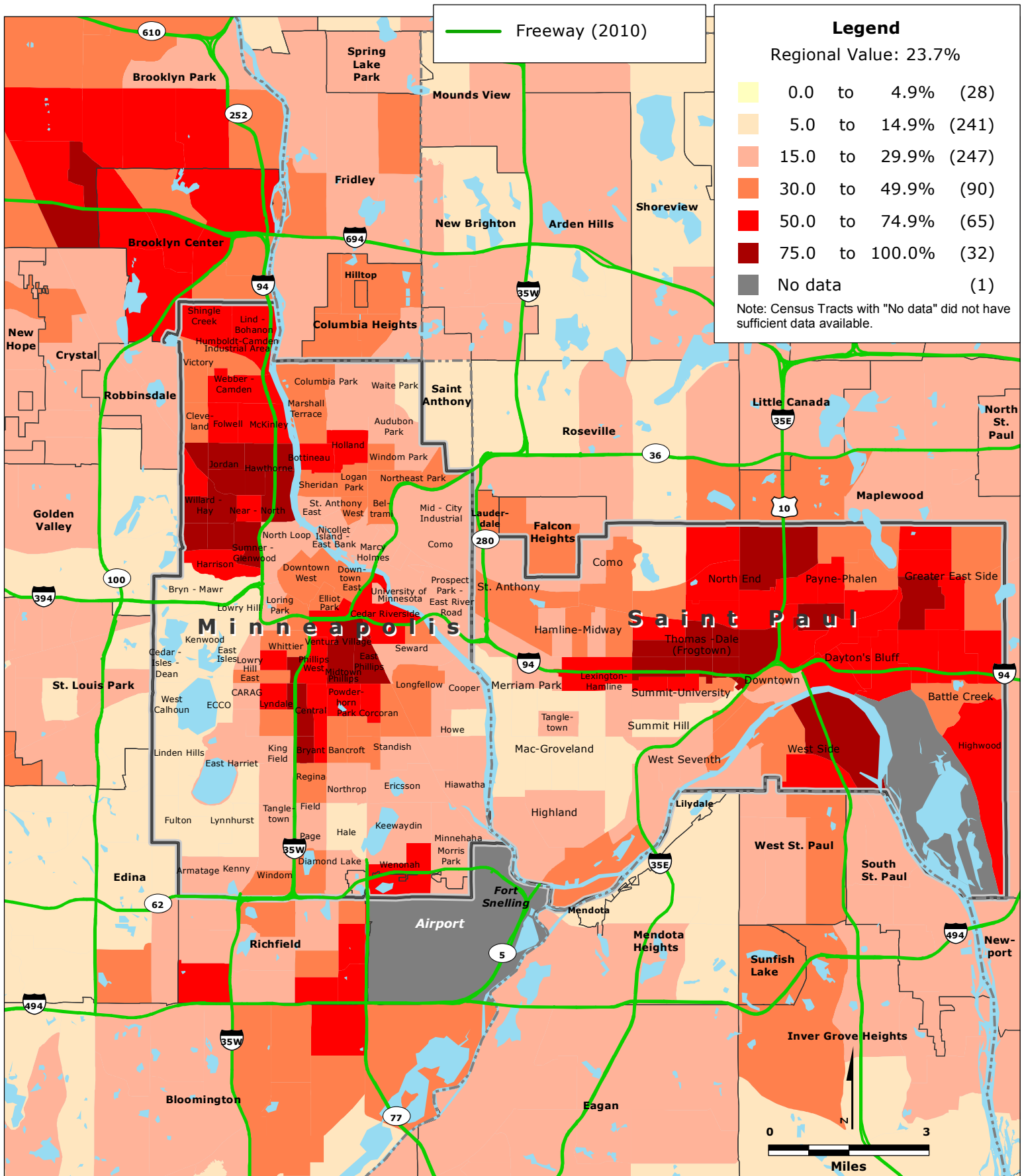


Map 3: MINNEAPOLIS-SAINT PAUL (Central Area) Percentage Below Poverty Line by Census Tract, 2008-2012 (5-year avg.)



Data Source: U.S. Census Bureau; American Community Survey.

Map 4: MINNEAPOLIS-SAINT PAUL (Central Area) Percentage Minority Population by Census Tract, 2010



The Origins of Resegregation

Resegregation began in the early 1980s. Rudy Perpich was returned to the governor's office in 1983, alongside a solidly Democratic and liberal legislature. Largely uninterested in metropolitan affairs, Perpich's initial appointment to chair the Metropolitan Council was Gerald Isaacs, a banker soon accused of conflict of interest and forced to resign. During Issacs' and his successor's troubled tenures, the nation's most effective fair housing program was gradually dismantled.

The fair housing program was called Policy 13. It was reaffirmed in the Met Council's 1985 Housing Policy Plan, which renamed it Policy 39. Under this policy, the Met Council had required communities to end exclusionary zoning and assigned each community a fair share goal. The state housing finance agency allocated the state's housing resources so that these communities could actually achieve their goals. If the suburbs wanted access to state funds for roads, sewers and parks, they had to allow affordable housing to be built. The suburban reaction, as described by the Council at the time, was sometimes "one of anger, hostility and frustration."¹¹ Nonetheless, the Council's staff maintained that "the review role is an invaluable tool for implementing policy," and the body continued to leverage its funding powers to encourage integration.¹² In their words, "the available evidence strongly suggests that minority populations would like a far broader opportunity for suburban and rural living than they presently have." And for a time, the Council largely succeeded in providing these opportunities.

From 1971 to 1979, the Twin Cities built as much as 73 percent of all new subsidized housing in suburbs, the best record in the nation. At the beginning of this period, 90 percent of the Twin Cities' subsidized units were located in the two central cities, and only 16 of the region's 189 municipalities had any subsidized housing at all. By 1979, almost 40 percent of the total subsidized units were located in the suburbs, and low-income families had subsidized options in 97 different communities. Slowly but surely, central city housing segregation was being erased.¹³

But this would ultimately prove the high water mark for regional integration. The suburban share of affordable housing, which increased from 10 percent to 40 percent in just a decade, has remained almost unchanged until the present day, even as the regional population shifted more and more into the suburbs. In over thirty years, the central cities' share of regional subsidized housing has never dipped below 57 percent. In other words, by the 1980s, the forces that would block further progress had begun to coalesce in earnest.

During the 70s, the Met Council chair, Al Hofstede (at the time, a former Minneapolis Alderman, and the city's future mayor) had been forced to fight a constant rearguard action to keep affordable housing subsidies in the suburbs. He pushed state and local governments to avoid concentrating housing subsidies in the two central cities and to deploy these resources in the suburbs to create a more racially integrated metropolitan area. But directing affordable housing towards the suburbs inevitably kept these resources out of the central cities. This in turn

¹¹ Metropolitan Council, *Housing Opportunity in the Twin Cities Area: A Staff Background Report on the Local and Regional Response 1967-1978* (1978).

¹² *Id.*

¹³ Metropolitan Council, *Report on Subsidized Housing Activity* (1979).

generated resistance from central city housing agencies and the urban developers who could expect to build new affordable projects.

In what would prove a significant setback for suburban integration, the cities of Minneapolis and Saint Paul collaborated to create the Family Housing Fund in 1980. This entity quickly became a useful ally and an effective policy instrument for those who believed that public resources should be put to use building affordable housing in low-opportunity central city neighborhoods. With large philanthropic and governmental resources, the Family Housing Fund aggressively promoted the construction of subsidized housing in the core cities, effectively pushing more government housing funds into the cities' most segregated neighborhoods.¹⁴

In its first decade, the Family Housing Fund focused on housing in the central cities, pumping a reported 10,500 low-income units into Minneapolis and Saint Paul.¹⁵ The organization eventually grew into one of largest regional players in affordable development, and to this day continues to contribute to projects across the metro area. But a disproportionate share of its efforts are still focused on the two central cities, and a disproportionate share of the units it helps finance are located within segregated census tracts (Table 1).

And these figures, which only examine housing projects directly financed by Family Housing Fund, underestimate the organization's regional influence. The Fund intertwined itself with the Twin Cities' housing policy apparatus, its directors sitting on the boards of a number of regional projects and collaborations, and the organization working closely with virtually every other major public, private, and nonprofit entity in affordable housing construction and finance. Although the organization is today most frequently described as a nonprofit, its public sector roots ensure that it maintains unusually close ties with local governmental entities; its president of 34 years is a former deputy director of the Minneapolis housing agency. The Fund has also created subsidiaries to participate more directly in housing development. These include the Twin Cities Housing Development Corporation (described as "quasipublic" by the Star Tribune upon its creation in 1986, but today billing itself on its website only as a "nonprofit developer")¹⁶, and more recently, the Twin Cities Community Land Bank. The Land Bank, itself an increasingly important participant in the housing scene, works with private banks to acquire foreclosed properties for conversion into affordable housing, mostly in distressed Minneapolis neighborhoods, particularly in North Minneapolis.¹⁷

¹⁴ Ingrid Sundstrom, *Financial transaction nets housing agencies \$4.2 million*, STAR TRIBUNE, (May 30, 1986); Robert Franklin, *\$8.5 million grant goes toward housing for 3,400 families*, STAR TRIBUNE (Apr. 26, 1998).

¹⁵ Robert Franklin, *Housing fund turns to suburbs: \$7 million McKnight grant to help provide more living units*, STAR TRIBUNE (Feb. 26, 1991).

¹⁶ Ingrid Sundstrom, *Family Housing Fund now developing rental units*, STAR TRIBUNE (Mar. 1, 1986).

¹⁷ The TCC Land Bank provides maps of its projects on its website, available at <http://www.tcclandbank.org/maps.html>.

**Table 1: Twin Cities Seven County Area
Subsidized Units Covered by Family Housing Fund and
Other Funders* by Percentage Minority in Census Tracts
1999 to 2013**

% Minority in Tract:	Number of Units:		Total Units	Renter Units
	Family Housing Fund Units	Other Funder Units		
	0 to 19%	1,279		
20 to 29%	1,525	3,900	238,646	82,431
30 to 49%	1,502	3,304	134,306	62,802
50 to 100%	4,633	4,300	118,685	64,347
Total	8,938	15,238	1,112,066	320,595

% Minority in Tract:	Share of Units in Tracts:		Total Units	Renter Units
	Family Housing Fund Units	Other Funder Units		
	0 to 19%	14.3		
20 to 29%	17.1	25.6	21.5	25.7
30 to 49%	16.8	21.7	12.1	19.6
50 to 100%	51.8	28.2	10.7	20.1
Total	100.0	100.0	100.0	100.0

Sources: Minnesota Housing (MHFA), 2012 HousingLink, 2010 U.S. Census Bureau.

Facing pressure from conservative suburban politicians, who characterized integration as social engineering, and an increasingly organized housing community, clustered around powerful proponents of inner-city development like the Family Housing Fund, the Met Council began to back away from the fair share commitments of the Land Use Planning Act and Policy 39. Housing dollars returned to segregated neighborhoods. Much of the land that had once been zoned to be inclusionary and multifamily in the suburbs quietly reverted to large lot, single-family home zoning.¹⁸ In the end, the very effective fair share program was ended not only by racially-motivated white opposition from affluent suburbs, but by the changing priorities and self-interest of central city politicians and housing developers, and the neglect of a disengaged Met Council and liberal legislature.

The advent of a new federal program, the Low Income Housing Tax Credit (LIHTC), also helped accelerate resegregation of the Twin Cities. Prior to 1986, federally supported housing programs were HUD programs, closely regulated by civil rights rules and pro-integrative court decisions. In 1986, HUD programs were replaced by tax credits, which were administered by the United States Department of the Treasury, subject to fewer civil rights rules. This loosening of federal oversight gave the central city housing developers another opportunity to capture a greater share of affordable development.

¹⁸ Edward Goetz, Karen Chapple, and Barbara Lukermann, *Enabling Exclusion: The Retreat from Regional Fair Share Housing in the Implementation of the Minnesota Land Use Planning Act*, 22 JOURNAL OF PLANNING EDUCATION AND RESEARCH 213 (2003).

As the Minnesota enabling legislation was created in 1986 to administer LIHTC, the distribution system was designed to ensure that a disproportionate share of these credits would be dedicated to the central cities, effectively returning government-supported housing to segregated neighborhoods. Minneapolis and St. Paul both became “sub-allocators,” and the Met Council (with input from the Minnesota Housing Finance Agency) was empowered to set the cities’ minimum allotment of tax credits. The Met Council chose to award the cities each a share far in excess of their share of regional population. Even beyond that, credits were awarded by a competitive point system that relied on criteria that effectively ensured that the cities always receive an even greater share than their guaranteed minimum, and that frequently disadvantaged proposals for projects in mostly white, growing city neighborhoods or suburbs.¹⁹

LIHTC was also notable for drawing another group of well-funded interests into the affordable housing world: for-profit investors and intermediaries. In order to utilize tax credits, housing managers and developers form single-purpose partnerships with for-profit investors. The investors buy their way into the partnership for the price of the tax credits, which are then deducted from the investors’ annual tax bills. The entire process, called syndication, is facilitated by specialized attorneys and financial professionals. The investors and syndicators have a strong interest in preserving the LIHTC system but no economic interest whatsoever in pursuing genuine integrative affordable housing goals.

Growing (and largely white) suburbs were always resistant to building affordable housing, and when the central cities began to recapture federal funding through LIHTC and other means, suburban governments did not oppose their efforts. Nor was there significant opposition at the state level. The Met Council, the regional entity with the most power to ensure that housing subsidies were put towards integrative ends, instead took an easier, more politically palatable path, and directed money into urban communities where affordable development would meet no opposition.

During the 1980s and 1990s community development organizations become more influential, and more deeply entrenched in metropolitan politics. The collaborative funding structure of the tax credit gave rise to dozens of neighborhood-based low-income development organizations, which actively sought to build housing in the areas they represented – which were almost invariably depressed central city communities. Because voter turnout and political participation were low in these neighborhoods, and there were few commercial or other interests with the resources to compete politically, community developers could easily build strong political constituencies. These neighborhood entities in turn built coalitions with banks, who were required under the Community Reinvestment Act to show investment activity in segregated neighborhoods. It was much cheaper and easier for banks to donate or loan a few million dollars to neighborhood housing developers than to actively pursue fair lending practices. By funding community developers, a bank could also generate strong allies who could be counted on to praise the bank’s reinvestment policy and who would be much less likely to challenge any potentially discriminatory lending.

The small neighborhood organizations, headed by and staffed with local activists, collaborated closely with larger, wealthier developers. The small neighborhood organizations, sometimes with nonwhite leadership, were politically attractive and wielded outsized influence,

¹⁹ Institute on Metropolitan Opportunity, *Reforming Subsidized Housing Policy in the Twin Cities to Cut Costs and Reduce Segregation* (2014), 20-24.

and could effectively appeal for subsidies for “their” projects. In reality, however, the design and construction of these projects was almost always beyond the financial resources and technical expertise of the tiny neighborhood group, and instead was conducted almost entirely by a larger partner – usually a well-established nonprofit or for-profit developer.

This rising nexus of political and economic forces has contributed even further to the concentration of affordable housing in the central cities. With favorable political tailwinds in segregated neighborhoods, large firms were less sensitive to costs, leading to major projects with ballooning budgets.²⁰ By comparison, because opposition to suburban affordable housing is greater, developers face more resistance in the legal and political sphere, and in any case, proportionately fewer dollars are available. Although this has resulted in more cost-effective construction in the suburbs, it is unsurprising that many developers have little interest in an integrative model that offers fewer profits in exchange for harder work.

Affordable development sometimes even contributes to a segregative feedback loop, where a concentration of low-income housing in a neighborhood accelerates abandonment and disinvestment, which in turn attracts yet more attention from community developers – and makes affordable development even easier to pursue. For example, in the aftermath of the 2008 recession, North Minneapolis, which had for years been a high priority for community development, was one of the areas in the state hit hardest by the foreclosure crisis. Ironically, this has led to the area becoming the epicenter of several major local affordable projects and initiatives, as foreclosed properties in distressed neighborhoods like North are cheap to acquire, and banks have proven more than willing to turn them over to developers and land banks at a discount. At times, developers in these areas seem to have taken it upon themselves to convert every abandoned structure into new, permanent low income housing. While this continual revamping of the housing stock keeps developers and financial professionals busy, it manifestly does not offer residents of distressed neighborhoods new housing opportunities in more affluent areas, or promote racial or economic integration.

Together, the entities involved in affordable development form a web of tightly interconnected government agencies, non-profits, private developers, banks, and investors, all dependent upon a profitable model of building low-income housing in poor central city neighborhoods. This collection of interests has coalesced into the dominant force in affordable housing in the Twin Cities. Collectively they are hereafter referred to as the poverty housing industry, or PHI.

The rise of the PHI in the early 90s was accompanied by a parallel movement in education policy. As Twin Cities neighborhoods resegregated, so did the schools. This triggered a decline in test scores, which was used by self-styled “school reformers” as evidence of the failure of central city public education. School reformers argued that Minnesotans needed more “choice” in education: both the ability to choose which public school district to attend, and also the option to choose between traditional public and independent “charter” schools. They asserted that charter schools and choice would create a competitive race to the top and more racial integration.²¹ As had happened in the affordable housing sector, a lucrative private education

²⁰ *Id.* at 9-13 and Appendix Table A.1.

²¹ *See, e.g.*, TED KOLDERIE, CREATING THE CAPACITY FOR CHANGE: HOW AND WHY GOVERNORS AND LEGISLATURES ARE OPENING NEW-SCHOOLS SECTOR IN PUBLIC EDUCATION (2004); JOE NATHAN, CHARTER SCHOOLS: CREATING HOPE AND OPPORTUNITY FOR AMERICAN EDUCATION (1996).

sector quickly established itself, consisting of advocacy groups, charter research organizations, charter schools, and charter support companies. This network of organizations is hereafter collectively referred to as the poverty education complex, or PEC.

Enhancing school integration efforts was one of the arguments initially made in support of open enrollment and charter schools, the two main school choice measures in Minnesota.²² Ironically, however, both programs eventually evolved to share many of the same strategies and results that southern segregationists had used to elude the mandates of *Brown v. Board of Education*, and charter proponents have completely abandoned any effort to defend the programs on the basis of integrative outcomes.

Historically, most charters were predominantly non-white, poor and located in the central cities. In more recent years, much of the growth in charter enrollments has been in nearly all-white schools that appeared in suburban areas where the public schools are becoming racially diverse – much like segregation academies in the Deep South.²³

White or nonwhite, charter schools in the Twin Cities remain very segregated. Nearly 90 percent of black students at charters attend a segregated school, as do about 80 percent of Hispanic and Asian-American students. Meanwhile, over 70 percent white charter attendees attend a white-segregated school. In most cases, these numbers continue to rise. The vast majority of charters, and especially nonwhite-segregated schools, have produced poor student performance, even after controlling for their high poverty rates.

Charters have been remarkably open about their attempts to create single-race enclaves, particularly in the central cities. While legally mandated segregation is forbidden, charters have found effective workarounds, one that skirts as close as possible to the enforced separation of the Jim Crow era: a large number of charters are “culturally-focused” and overwhelmingly composed of a single racial group, ensuring that students from any other group will remain isolated. The strategy has proven highly effective at maintaining racial lines, as the degree of segregation at charters is much higher than at traditional public schools. While even segregated traditional schools typically include a small minority of diverse students, segregated charters frequently enroll hundreds of students from one ethnic group, often without a single exception. The public school system, forced to compete with charters for students and funds, is now slowly following suit, dividing diverse student bodies into separate schools, each explicitly targeted at a separate racial group.²⁴

Similarly, the early years of open enrollment were dominated by race-neutral student movements. But in recent years, growing numbers of white students are using the program to move from racially integrated schools (or schools in racial transition) to much less racially

²² *Id.*

²³ Institute on Metropolitan Opportunity, *Failed Promises: Assessing Charter Schools in the Twin Cities* (2009); Institute on Metropolitan Opportunity, *Update of Failed Promises: Assessing Charter Schools in the Twin Cities* (2012); Institute on Metropolitan Opportunity, *Update of Failed Promises: Assessing Charter Schools in the Twin Cities* (2013). All IMO reports are available at <http://www.law.umn.edu/metro>.

²⁴ Beth Hawkins and Cynthia Boyd, *The Rise of Voluntarily Segregated Schools: New Trend, Familiar Problems*, MINNPOST (Nov. 19, 2008).

diverse schools – a pattern closely resembling optional school boundaries, which were outlawed by the Supreme Court in the 1970s.²⁵

One key political assist for the PEC came in the late 1990s, when the Minnesota Attorney General's office sharply changed its interpretation of the meaning of the federal equal protection clause. While civil rights stalwart John R. Tunheim was Chief Deputy Attorney General of Minnesota, elected state and local officials had been told they had broad discretion to integrate local schools. After Tunheim left to become a federal judge, the Attorney General's office issued an opinion asserting that, without proof of discriminatory conduct, the integration plans it had previously encouraged were now illegal because they discriminated against whites. The opinion defended segregated schools, arguing that "*Brown v. Board of Education* did not stand for the proposition that racially segregated schools, without more, are inherently unequal."²⁶ The new rule, rather than being based in any existing law, was instead rooted in the office's speculative assumption that the federal Supreme Court would soon declare almost all proactive integrative strategies unconstitutional. (Nothing of the sort ever happened; indeed, the Supreme Court has gone on to affirm the permissibility of integration efforts like those previously used in Minnesota.)

But charter schools and districts using the open enrollment program did not even have to abide by this new, greatly weakened integration rule. This is because the new rule exempted charters and open enrollment from its requirements, making it nearly impossible for local schools to effectively integrate.²⁷ (In the case of charters, this was achieved by a provision of the law declaring, bizarrely, that they are not considered "schools" for the purpose of the integration rule.)²⁸ After the effective destruction of the integration rule, school segregation skyrocketed, which in turn accelerated housing segregation and raised the profile of the community developers in the PHI.

Both the PHI and the PEC sought to exploit huge government programs in areas of housing and education to create highly salaried administrative positions and private wealth. But unlike most powerful corporate interest groups, the PHI and the PEC tended to be active supporters of Democratic politicians. In part, this is out of necessity: both networks are heavily active within the Democratically-controlled central cities.

As the PHI and PEC grew more influential, and the Met Council stopped enforcing Policy 39, the region's heretofore tiny black ghetto exploded in size, growing at the fourth fastest

²⁵ Institute on Metropolitan Opportunity, *Open Enrollment and Racial Segregation in the Twin Cities: 2000–2010* (2013), available at <http://www.law.umn.edu/metro>.

²⁶ STATE OF MINN. DEP'T OF CHILDREN, FAMILIES, & LEARNING, STATEMENT OF NEED AND REASONABLENESS IN THE MATTER OF PROPOSED RULES RELATING TO DESEGREGATION: MINNESOTA RULES CHAPTER 3535 (3535.0100 TO 3535.0180) B1 (1998).

²⁷ Margaret C. Hobday, Geneva Finn, & Myron Orfield, *A Missed Opportunity: Minnesota's Failed Experiment with Choice-Based Integration*, 35 WILLIAM MITCHELL L. REV. 101 (2009).

²⁸ MINN R. 3535.0110 subp. 8 (A) ("For purposes of parts 3535.0160 to 3535.0180 only, school does not mean . . . charter schools under Minnesota Statutes, section 124D.10.").

rate in the nation in the 1980s.²⁹ Meanwhile, Minneapolis's schools went from 34% nonwhite to 59% nonwhite in just 12 years.³⁰

Resistance

These regressive trends had not gone unnoticed or unopposed. Unfortunately, efforts to reverse or slow the process of resegregation have thus far all met with limited success, quickly foundering against suburban pushback or, more recently, the increasing influence of entrenched housing and education interests.

In 1992, fair housing advocates sued the Met Council and the city of Minneapolis over their segregated affordable housing policies. After several years, the defendants settled in what became known as the Hollman Consent Decree, using the lawsuit as an opportunity to expand suburban affordable housing. Several heavily-segregated public housing projects in North Minneapolis would be demolished, and replacement units would be constructed in the suburbs. Programs to encourage greater racial and economic integration were also instituted – for instance, public housing residents would also be given special “mobility vouchers” which would help them find new housing.

These efforts were no match for the political, social, and economic forces opposing integration. Over two hundred families applied for mobility vouchers. But 71.9 percent of these applicants were subsequently unable to find a qualifying lease within the time frame allowed, and thus were prevented from relocating.³¹ This strongly indicated that the unavailability of accessible affordable housing is a major culprit in continuing residential segregation.

But the PHI, rather than regarding this disappointing outcome as a symptom of entrenched housing discrimination, instead interpreted it as an indication that fair housing is unviable and undesirable. In a study Family Housing Fund commissioned to evaluate the outcome of the lawsuit – the same study which demonstrated that most families seeking relocation were unable to find a qualifying lease – efforts to provide more suburban housing choices were characterized as “dispersal” or “deconcentration.” The evaluation approached the public debate over integration narrowly, focusing heavily on the views of a small number of mostly-white housing activists and a local community of non-English-speaking Asian immigrants.³² It did not acknowledge the political forces, including those within the black community, that were continuing to fight to prevent segregation and preserve integrated schools.

The fight for integration was also taking place within the legislature, where a political coalition of the cities and older suburbs was urging a return to the Met Council's Policy 39, proposing a bill that would strongly condition state funding on a city's willingness to provide a fair share of low-income housing. But this bill was opposed by conservative suburban politicians, some of whom were quite explicit about their desire to maintain the suburbs as havens for the wealthy. (“People moved to Apple Valley for the good life,” said one. “We're not

²⁹ Paul A. Jargowsky, *Ghetto Poverty Among Blacks*, 13 JOURNAL OF POLICY ANALYSIS AND MANAGEMENT (1994), Table A-1.

³⁰ Myron Orfield, METROPOLITICS 43 (1997).

³¹ Edward Goetz, Hollman v. Cisneros: *Deconcentrating Poverty in Minneapolis, Report No. 7: Mobility Certificates*, Table 6 (2002).

³² Edward Goetz, Hollman v. Cisneros: *Deconcentrating Poverty in Minneapolis, Report No. 6: The Experience of Dispersed Families* (2002).

going to sit here and let [the housing bill] ruin our community.” Another protested that, “The suburbs exist for a reason. They give people something to shoot for.”³³ The bill passed both houses but was ultimately vetoed by Republican governor Arne Carlson. After protracted political battles, a compromise measure emerged in its place: a new law that dropped carrot-and-stick tactics for an approach that was “all carrot,” so to speak. Suburban communities would voluntarily negotiate housing goals with the Met Council, and strong housing performance would be rewarded with increased funding, which would come from one of several newly created accounts. Although this new law did not diminish the fair share and civil rights obligations already enshrined in Minnesota law, it created little additional pressure for cities to integrate, conditioning no preexisting funding on their compliance. This was the Livable Communities Act.³⁴

Simultaneously, pressure for integration was mounting at the grassroots level. In 1995, the NAACP sued the state of Minnesota, alleging that segregation in Minneapolis had led to unconstitutionally inadequate city schools. The lawsuit was the subject of detailed press coverage. These events coincided with crowded, emotional school board meetings in which hundreds of black parents from North Minneapolis forcefully opposed the city’s effort to return to segregated neighborhood schools. Much of the testimony centered on the injustice of Minneapolis’s highly segregated pattern of neighborhood development and affordable housing construction.

Suburban school boards, frightened by the prospect of mandated busing, proposed a negotiated resolution to the crisis. But this proposal collapsed when black community leaders noted that school integration without busing would require the creation of low-income housing in the wealthy suburbs – something suburban communities were unwilling to provide.³⁵ (The Orono school superintendent, for instance, argued that, “The issue isn’t as simple as providing low-cost housing.” He instead suggested that the city focus on “creating jobs.”)³⁶ As the Star Tribune pointed out at the time, the suburbs failed “to put anything concrete on the table,” which “[left] them open to criticism that they are motivated more by fear of a court ruling than good intentions.”³⁷

Developments at the regional level were accompanied by a major push for more affordable housing within the central cities themselves, particularly Minneapolis. Throughout the 90s, housing costs had been a topic of increasing importance in Minneapolis politics, as projections showed that within a few years even middle-class families would struggle to find affordable residences. By 1994, this had led to the emergence of a high-profile grassroots campaign for affordability, which ceaselessly lobbied the city government for massive new investments in housing. The centerpiece and primary objective of this campaign was the creation of a Minneapolis Affordable Housing Trust Fund, which would build thousands of affordable units within the city. Initially, the campaign included many civil rights advocates; when the City

³³ Dane Smith, *House OKs Penalties for Suburbs Lacking Low-Cost Housing*, STAR TRIBUNE (Apr. 30, 1993).

³⁴ Metropolitan Livable Communities Act of 1995, Minn. L. SF 1019 (1995) (codified at Minn. Stat. 473.25 et seq.).

³⁵ Mike Kaszuba, *Suburban Housing Costs Keep Poor Away*, STAR TRIBUNE (Aug. 4, 1996).

³⁶ *Id.*

³⁷ *Id.*

Council finally created a task force to address the issue, it placed John Powell, a noted civil rights researcher, at its head.³⁸

But political opposition to integration from state and regional government, as well as reluctance by the city to wholeheartedly address the affordability issue, created a problem: without participation by the Minneapolis suburbs, any attempt to provide huge amounts of cheap housing in the city itself would inevitably intensify segregation. This question divided housing activists. Nonetheless, absent any commitment from the state or Met Council to support integration, Minneapolis was incapable of resolving the problem on its own.

Meanwhile, the concerns raised by civil rights advocates did little to stop the efforts to construct ever-more affordable housing in Minneapolis. These efforts culminated in the election of R.T. Rybak, a close ally of the PHI and PEC, in 2001. Rybak campaigned heavily on the affordable housing issue, calling it his “top priority” and promising to erect an enormous “housing thermometer” measuring progress towards construction goals in front of City Hall.³⁹ Under Rybak, the city finally created the long-discussed Affordable Housing Trust Fund (AHTF). In its first decade of operation, the AHTF would pour over \$73 million into affordable development, resulting in the creation of over 6,000 units in Minneapolis. As is the case with nearly all of Minneapolis’s affordable units, the vast majority of these are located in segregated, distressed neighborhoods.⁴⁰

The AHTF replicated in microcosm a simple dynamic that was occurring throughout Minneapolis and Saint Paul. Although there was considerable political pressure to build affordable units in the metropolitan area, and the PHI provided a robust institutional framework for doing so, the state and Met Council were refusing to ensure that the suburbs received their fair share of housing. As a result, all of the effort and resources for affordable housing found themselves focused in the neighborhoods of least resistance: the most racially-isolated, lowest-income regions of the two central cities.

The NAACP’s civil rights efforts ran up against the same problem. Its victory in obtaining the 1995 Hollman Decree, under which Minneapolis was obligated to raze segregated housing projects in North Minneapolis, was reversed when the suburbs failed to construct promised replacement units. The intransigence of suburban and regional governments had created the unenviable choice between public housing in the cities and no public housing at all, and the community split over whether to cancel the demolitions it had formerly requested.⁴¹

Jesse Ventura’s Met Council, first appointed in 1998, provided a valuable assist in the push to massively increase central city affordable housing construction. One of its most important tasks was to implement the Livable Communities Act (LCA). Though the LCA represented a compromise measure, lacking the enforcement mechanisms of previous approaches, a number of civil rights advocates were still optimistic it could trigger a transformation of the suburbs, reducing segregation in the region. In 2002, the law’s sponsor,

³⁸ Kevin Diaz, *Task Force Lays Out Aggressive Plan for Affordable Minneapolis Housing*, STAR TRIBUNE (June 10, 1999).

³⁹ Steve Brandt, *Rybak’s Top Issue, Housing, Gets the Spotlight*, STAR TRIBUNE (Apr. 7, 2002).

⁴⁰ Minneapolis Community Planning and Economic Development, *City of Minneapolis Affordable Housing Trust Fund 2002-2012*, available at <http://www.minneapolismn.gov/www/groups/public/@cped/documents/webcontent/wcms1p-105333.pdf>.

⁴¹ Kevin Diaz, *MCDA Calls Affordable Housing Report ‘Problematic,’* STAR TRIBUNE (Aug. 17, 1999).

told the Star Tribune it was accomplishing its goals, and “has helped change the debate on affordable housing in most suburbs from ‘whether’ to ‘how.’”⁴²

But in a repudiation of the fair housing proponents who supported the passage of the act, Ventura’s Met Council used the LCA to give the highest affordable housing goals to the deeply segregated central cities and low-income, rapidly segregating suburbs.⁴³ By 2007, local media was acknowledging that the LCA had “fallen far short” of meeting its affordable unit targets, with a number of suburban communities producing a tiny fraction of their negotiated goals.

Ventura’s Met Council had cynically used a law passed to open up whiter suburbs for affordable housing to *increase* the affordable housing shares of segregated neighborhoods. This reversal effectively undermined the political coalition for metropolitan reform that had existed between the central cities and older suburbs during the 1990s.

Previous Met Councils had used lawsuits as a fulcrum on which to leverage significant fair housing and civil rights reforms, desegregating schools and integrating neighborhoods. But when Ventura’s Met Council was sued to enforce the fair share requirement of the Land Use Planning Act, it reacted with hostility, hiring one of the region’s best corporate law firms to defeat the under-resourced civil rights advocates.⁴⁴

During the next several years, Minneapolis and St. Paul would add more units of subsidized, very low-income housing than would be built in all of the suburbs combined. Between 2002 and 2011, the region produced 2,249 new very affordable units (affordable to those earning 30 percent of the metro median income).⁴⁵ Ninety-two percent of these units were produced in the central cities, which have 23 percent of the region’s population. In other words, the central cities received four times their fair share of very low-income units. Virtually all of these units were located near segregated or re-segregating schools. Of the 7,253 new and preserved very affordable units from this period, 74 percent were in the central cities – over three times their fair share.

Faced with the undeniable failure of the LCA to accomplish its original aims, the Met Council, rather than restoring its previous, more successful policies, abandoned any pretense of fighting segregation. The Council’s own documents capture an obvious change in priorities. As late as 1996, its Regional Blueprint discusses the stalled progress towards suburban housing integration, noting with concern that the situation had not improved in over a decade. But by 2004, even this vestigial anxiety over civil rights had vanished.⁴⁶ That year’s Regional Development Framework only notes that “[t]he region will, of course, need much more housing

⁴² Steve Brandt, *Affordable Housing: Where battle lines – and solutions – are being drawn*, STAR TRIBUNE (Jan. 20, 2002).

⁴³ The Met Council does not maintain a public list of Livable Communities Act per-community housing goals. The goals are on file at the Institute of Metropolitan Opportunity.

⁴⁴ *Alliance for Metropolitan Stability v. Metropolitan Council*, No. C7-02-007774, 2003 WL 25485305 (D. Minn. 2003).

⁴⁵ Data on regional housing production were obtained from resources maintained by HousingLink, including its annual reports, the most recent of which is available at http://www.housinglink.org/Files/Housing_Counts_2002_2013.pdf.

⁴⁶ Metropolitan Council, *Regional Blueprint* 59 (1996).

in the next 30 years,” and emphasizes the importance “public-private partnerships” in expanding housing supply.⁴⁷

In 2010, a new set of LCA goals were negotiated by the Council. From a civil rights perspective, the results were disastrous: the housing goals for exurban communities dropped by 42 percent, and the goals for predominately white communities dropped by 63 percent. But the goals for the two central cities increased by 43 percent.

Rather than acknowledging its own drifting priorities, the Council now claims, in a bold rewrite of history, that fair housing efforts were scuttled as part of a premeditated policy change. Its 2014 Housing Policy Plan ambiguously states that “actions in 1998 and 1999 eliminated [the Policy 39 fair share plan] from the metropolitan development guide.”⁴⁸ But Council has been unable to provide any record of such actions, and, under pressure to explain its odd assertion, has finally suggested that this landmark fair housing policy was eliminated by implication, after years of nonenforcement. In other words, the Met Council, once an agency deeply concerned with the problem of regional segregation, now claims that its most important civil rights tool has simply atrophied away due to years of nonuse.

Two decades of battles on behalf of integration had painted a gloomy picture of life in poor Twin Cities neighborhoods. But the Met Council, it seems, subscribes to a different vision of housing disparities – a vision also favored by affordable housing developers. In this view, the defining problem of housing inequality is simply a shortage of units, and low-income minorities no more want to live in the suburbs than they are missed by the affluent whites already there. The solution is simple and never changes: more money is needed to build more units, wherever space for them can be found.

This viewpoint, characteristic of the PHI, now dominates housing policy, with real consequences for Twin Cities residents. The share of affordable housing in higher-income white suburbs has declined to the lowest percentage since the 1970s. Potentially valuable locations near transit lines in poor neighborhoods, which could help jumpstart neighborhood recovery, have been instead targeted for unprecedented concentrations of subsidized housing, developed at extraordinary expense, and served by schools that are more segregated and lower-performing than anywhere in the metropolitan area.

While almost 80 percent of low-income households in the Twin Cities have cars and only 10 percent of them use transit to get to work, the PHI continues to assert that the state should build more affordable housing on transit lines because low-income people needed to be closer to transit. Even though most unfilled *entry-level* jobs are now in the suburbs, often without transit access, the PHI continues to assert that affordable housing must be close to the central business districts which, although large and well-served by transit, are in also the region’s largest clusters of *highly-skilled* jobs.

Research shows that low-income housing tenants in growing suburbs are more likely to be employed at better jobs, with their children more likely to be doing better, in higher-performing schools. More than 60 percent of all non-white residents of the Twin Cities and 40 percent of non-white residents of subsidized housing live in the suburbs, and subsidized housing

⁴⁷ Metropolitan Council, *Regional Development Framework* 13 (2004).

⁴⁸ Metropolitan Council, *Housing Policy Plan* 18 (2014).

units in the suburbs have the region's longest waiting lists. Nonetheless, the PHI argues that low-income racial minorities want to stay in segregated central city neighborhoods with the Twin Cities' worst schools, and that subsidized housing must be built in these communities to accommodate them.

The PHI also argues that concentrating subsidized housing in poor neighborhoods will revitalize the housing markets of those neighborhoods. But there is little evidence of any sustained or transformative revitalization during the last three decades of building subsidized housing in these neighborhoods. Nor is there good evidence of long-term economic development benefits of concentrating subsidized housing anywhere else in the country. In fact, studies on local subsidized housing projects suggest that major projects have no effect at all neighborhood recovery.⁴⁹

For some civil rights advocates, this is a familiar story – Minnesota isn't the only place where development interests have succeeded in convincing politicians that affordable housing is synonymous with civil rights. But events in other regions also show that ignoring segregation can have costs. In 2009, Westchester County, a relatively progressive suburb of New York, was sued for its failure to remedy racial isolation.⁵⁰ The county's federally-mandated analysis of impediments to fair housing had almost completely ignored the issues of race and segregation; the county claimed that “the most pressing impediment . . . was the lack of affordable housing stock,” and that it had done “an outstanding job in increasing the stock of affordable housing.”⁵¹ The county had indeed added thousands of affordable units, though many of its wealthy municipalities contributed little to this effort. But, in an ominous precedent for the Twin Cities, a federal judge decided this was insufficient. Pointing out that “fair housing” and “affordable housing” are distinct concepts, she determined that the county had defrauded the federal government when it claimed to have fulfilled its housing-related civil rights obligations.⁵²

The PHI and PEC Today

The PHI has grown ever more influential, and today functions as, in essence, its own sector of industry. CDCs alone account for revenues approaching two hundred million dollars per year, distributed across dozens of organizations with thousands of employees.⁵³ And a dense network of financial professionals, specializing in affordable housing funding, grew up to support these institutions. Today, most workers in the field of affordable housing come from a financial or development background, and have little or no connection to metropolitan policymaking or civil rights.

In the public sector, the affordable housing policy apparatus has changed course to accommodate these new participants, with their heavily financialized, entrepreneurial outlook. Consequently, policymakers have minimized the role of integration even as a secondary aim of affordable development; for instance, the state today awards only 9 out of 246 available priority

⁴⁹ Institute on Metropolitan Opportunity, *Reforming Subsidized Housing Policy in the Twin Cities to Cut Costs and Reduce Segregation* (2014), 26-30.

⁵⁰ United States of America ex rel. Anti-Discrimination Center v. Westchester County, 668 F.Supp 548 (2009).

⁵¹ *Id.* at 551.

⁵² *Id.* at 570-71.

⁵³ Institute on Metropolitan Opportunity, *Reforming Subsidized Housing Policy in the Twin Cities to Cut Costs and Reduce Segregation* (2014), 26-30.

points for LIHTC projects located in an economically integrated neighborhood, and no points at all for projects in white or racially integrated locations.⁵⁴

In the early 2000s, Twin Cities' nonprofit foundations, which heretofore had been strong supporters of integrated schools and neighborhoods, also began to dramatically increase funding to supporters of central city housing and charter schools. Their support for integration and civil rights seemed to diminish.

By the time Mark Dayton was elected governor, members of the PHI would monopolize appointments to state agencies involved in housing and metropolitan development. Susan Haigh, the president of low-income housing developer Habitat for Humanity and an alumnus of the affordable housing community, was appointed chair of the Met Council. At the head of the Minnesota Housing Finance Agency was Mary Tingerthal, a financial professional who, according to her official bio, "coordinated the work of the Housing Partnership Fund ... Housing Partnership Ventures, [and] the Charter School Financing Partnership, a new conduit for charter school loans."

The PHI has evolved to keep abreast of new trends in urban development, such as increased enthusiasm for transit-oriented planning. But as a consequence of the industry's risk-averse, technocratic leadership and minimal institutional expertise in civil rights, these efforts have almost always resulted in funding being directed into segregated urban neighborhoods. For example, in 2007, many of the largest participants in affordable housing development teamed up with transit advocates and other regional reform groups to create Corridors of Opportunity, which would help distribute millions of dollars of new federal and philanthropic support. Many of these millions ended up funding housing projects along the region's new Green Line light rail, as part of an attempt to create 4,500 affordable units along the transit corridor. Despite the fact that the Green Line passes through relatively affluent areas of both central cities, virtually all of the planned affordable units were located in one heavily-impoorished stretch in Saint Paul, including one neighborhood which boasts the dubious distinction of being the state's second-poorest census tract.

In some ways, Corridors of Opportunity looks like the PHI in microcosm. It is led by a board composed of public officials, community organizations from Minneapolis and Saint Paul, affordable housing financiers, and a number of charter school affiliates. Notable members include: the vice president of Family Housing Fund; the executive director of the Twin Cities branch of Local Initiatives Support Corporation (LISC), a financial organization which supports affordable housing nationwide; the president and CEO of Twin Cities Community Land Bank (Family Housing Fund's subsidiary); a member of the Itasca Project, a group, run by the national consulting firm McKinsey & Co., which promotes charter schools across the Twin Cities region; a president and CEO of a local charter school; the executive director of Nexus Community Partners, a community development organization focusing almost entirely on the poorest neighborhoods in North and South Minneapolis and Eastern Saint Paul; and the executive director of the Cornerstone Group, a for-profit real-estate company. Met Council President Haigh, formerly of Habitat for Humanity, sits as a co-chair. There are no board members from civil rights organizations.

⁵⁴ Minnesota Housing Finance Agency, LIHTC Self-Scoring Worksheet 2013, available at http://www.mnhousing.gov/get/MHFA_012461.

Besides showing the tangle of interests promoting inner-city affordable housing, Corridors of Opportunity illustrates another feature of the PHI: its tendency to blur the lines between the public and private sector. Corridors of Opportunity is theoretically a public entity, though largely composed of individuals from the private and nonprofit sectors. But to spur development along the Green Line, it works closely with a private-sector counterpart, the Central Corridor Funders Collaborative. The Funders Collaborative, confusingly, includes many of the same members as Corridors of Opportunity, including LISC, the TCC Land Bank, Family Housing Fund, and the Met Council. Making matters worse, some of the organizations involved – for instance, Family Housing Fund – have at times been described as “quasipublic” in character. For outsiders, this labyrinth of collaboration makes it next to impossible to monitor the use of public money, to safeguard civil rights responsibilities, and to efficiently utilize disclosure laws.

The PEC is somewhat more centralized and interconnected than the PHI, with local advocacy organizations relying less than housing developers on the charitable contributions of extremely wealthy benefactors and major foundations. For instance, in 2014, the Bush Foundation awarded \$200,000 “Education Ecosystem” grants to nearly a dozen Twin Cities education reform organizations. “Ecosystem” is an appropriate descriptor, as many of the recipients are closely intertwined, sometimes in ways that calls their independence into question. For example, grant recipient Charter School Partners, theoretically an analysis and research organization, shares an office with fellow recipient MinnCAN, the Minnesota chapter of national charter advocacy organization 50CAN. National “grassroots” advocacy groups such as Students for Education Reform and Educators 4 Excellence have been very active in the Twin Cities. These two groups have been frequently accused in the national media of serving as front organizations for wealthy donors, use their considerable financial resources to recruit thousands of rank-and-file members and create the appearance of organic education advocacy.⁵⁵ At times, PEC organizations have come under scrutiny in local media for acting as financial conduits between national financiers and local school politics.⁵⁶

Beyond these advocacy and support organizations, the PEC also includes, of course, hundreds of charter schools themselves. While some of these are simply small specialty institutions, such as Montessori schools, others are large and powerful regional actors. Charter superintendents sometimes earn considerably higher salaries than their counterparts in traditional public schools. One local charter “entrepreneur” attracted criticism when his personal compensation exceeded \$270,000; his schools also employed several family members, bringing total compensation to more than \$400,000.⁵⁷ (By contrast, charters usually pay their teachers low wages and provide few benefits, leading to high turnover.) Other Twin Cities charters are members of national charter school networks such as KIPP – schools that have been frequently accused of practicing “corporate-style, finance-driven” education, roughly analogous to the dominant approach in affordable housing construction.⁵⁸

⁵⁵ See, e.g., Valerie Strauss, *How to Spot a Fake ‘Grassroots’ Education Reform Group*, WASH. POST (Oct. 12, 2014).

⁵⁶ Alejandra Matos, *Out-of-State Money Pouring into Minneapolis School Board Race*, STAR TRIBUNE (Oct. 30, 2014).

⁵⁷ Steve Brandt, *Mahmoud’s 273K Salary Raises Eyebrows*, STAR TRIBUNE (Aug. 15, 2012).

⁵⁸ See, e.g., Michael Diedrich, *After Liftoff, Rocketship Schools Starting to Struggle*, MN2020 (Jan. 30, 2014).

In some cases, charter schools have hidden connections to for-profit companies. For example, the state offers several online “virtual” high schools, which are largely based out of rural locales such as Fergus Falls or Houston, Minnesota. Although ostensibly public schools like any other, these online schools pay millions of dollars a year to purchase curriculums from for-profit companies like K12 Incorporated, which helped set up the schools and provide ongoing technical and instructional support.⁵⁹ Elsewhere in the nation, online high schools have been heavily criticized for providing low-quality education and failing to assist the struggling students they often court.⁶⁰

Studies of student performance in Twin Cities charter schools have established that they underperform traditional public schools, and have done so for all twenty years of their existence. For all the attention and publicity they receive, and for all the corporate and philanthropic support they have can muster, charter schools are not only more segregated than traditional public schools, but actively contribute to greater segregation and weaker educational outcomes in the school system. The PEC has created a race to the bottom, rather than a race to the top.

A Better Solution

Could the current divided state of the Twin Cities have been avoided? One very clear and straightforward path to a more integrated region would have been to more evenly distribute subsidized housing across the metropolitan area. A more proactive approach to the location of LIHTC, Section 8 project-based housing and Section 8 voucher-eligible rental units could have made a serious dent in regional segregation, creating better-integrated schools. Better-integrated schools, in turn would reduce many of the pressures that drive white flight and create housing segregation.

This is clearly demonstrated by a simulation of the racial make-up of Twin Cities schools in a region where the existing subsidized housing stock is evenly distributed. For the purposes of the simulation, an integrated school was defined as one with non-white enrollment between 20 and 60 percent – a range consistent with most definitions. In 2012-13, 230 of the roughly 500 schools with defined attendance boundaries in the seven-county region had racial mixes in this range;⁶¹ 86 had non-white shares greater than 60 percent; and 175 had non-white shares less than 20 percent. If integrating all schools was achieved simply by having students of appropriate races in the appropriate schools trade places, then roughly 12,100 nonwhite students in schools above the 60 percent ceiling would have to trade places with 12,100 white students in schools below the 20 percent floor. However, a choice program would be unlikely to result in one-for-one trades across schools.

If, instead, only 75 percent of the nonwhite students leaving predominantly nonwhite schools were replaced by white students then about 14,850 nonwhite students would have to relocate to predominantly white and already-integrated schools in order for all schools to be below the 60 percent ceiling. If 50 percent of moving nonwhite students were replaced by white students then 17,750 non-white students would have to move. Although these numbers are non-

⁵⁹ Information about the contractual relationship between the Fergus Falls and Houston School Districts and charter support companies was obtained through a MN Data Practices Act request.

⁶⁰ See, e.g., Trip Gabriel, *More Pupils Are Learning Online, Fueling Debate on Quality*, N.Y. TIMES (Apr. 5, 2011).

⁶¹ This definition excludes charter, magnet and special purpose schools without clearly defined attendance boundaries.

trivial, they represent just 7, 9 and 11 percent of total nonwhite student enrollment in the seven county metropolitan area.

Table 2 shows the potential impact of making changes in the existing distributions of LIHTC and Section 8 units and in the racial mix of subsidized housing residents.⁶² The simulations show the potential integrative impacts if (1) subsidized units had been distributed across the region in proportions equal to the distribution of students in the region's schools and (2) the racial mix of residents of those units were the same everywhere. The children in each of the households in subsidized units were then assumed to attend the relevant neighborhood school.⁶³

The program with the greatest potential impact is the Section 8 voucher program. If Section 8 voucher usage was distributed evenly across the region and the distribution of households was race-neutral, a total of 5,531 nonwhite students currently in predominantly nonwhite schools would instead be attending a racially balanced school. The fact that the greatest potential for pro-integrative actions lies with the voucher program is encouraging in one way because changing the regional distribution of Section 8 vouchers does not necessarily involve one-for-one construction of new units in areas with shortfalls. In many areas, existing rental units could fill the void simply by increasing the number of landlords who accept vouchers. On the other hand, resistance to vouchers is still significant in many parts of the region.

Adding the effects of equalizing the distribution of LIHTC and Section 8 project-based units increases the total number of nonwhite students in racially balanced schools to 9,729. This represents a very substantial share of the total number of moves needed to eliminate racially segregated schools (predominantly white as well as predominantly nonwhite) in the region. Fully 80 percent of the needed "moves" would now be unnecessary if the region had distributed the existing stock of subsidized housing in a location- and race-neutral fashion. And even if only 75 percent of nonwhite students leaving predominantly nonwhite schools are replaced by white students, two-thirds of the needed "moves" would be unnecessary.

In other words, if subsidized housing was currently distributed more equitably, it would be unnecessary to even discuss perennially controversial topics like pro-integrative school boundary reforms or busing.

These simulations represent fairly rough estimates. And as previously discussed, there are forces in education policy that both actively promote greater segregation, and insulate existing segregation from legal and administrative remedies. For instance, as long as charter schools and open enrollment remain exempted from the state's desegregation rule, privileged racial groups can use these "alternative" education systems as safe enclaves from integration.

However, despite these caveats, the fundamental message of these models is clear. Over long periods of time, relatively modest housing policy changes have the potential to make a

⁶² Race data available for LIHTC, Section 8 vouchers and most (roughly two-thirds) Section 8 project-based units. Race distributions for Section 8 project-based units with no race data were estimated using the racial make-up of the Section 8 project-based sites closest to each unit missing data.

⁶³ The number of children per subsidized unit was estimated using household data from the Bureau of the Census. The number and age distribution of children per unit were allowed to vary by race. Children in subsidized units were then assigned to the neighborhood elementary, middle and high schools based on the estimated age distribution for all subsidized units "assigned" to specific school attendance boundaries.

serious dent in school segregation. Further, many of these very worthy programs currently have long waiting lists for participation. If they were expanded to levels commensurate with demand and modified to reflect the modest changes included in the simulations, these programs have the potential to eventually create something very special in America – a stably integrated regional school system. The longer we leave this opportunity untapped, the more it demands to be considered.

Table 2: School Integration Simulations

	<u>Elementary</u>	<u>Middle</u>	<u>High</u>	<u>Total</u>
<u>Number of minority students who would have to change schools in order to achieve racial balance in 2012-13</u>				
100% Replacement	6,847	2,469	2,791	12,107
75% Replacement	8,056	3,528	3,284	14,868
<u>Number of additional minority students who would already be in a racially integrated school if the racial make-up of subsidized housing were the same across the region and:</u>				
LIHTC units were distributed across school attendance areas in proportion to school enrollments	2,028	355	541	2,924
Section 8 project-based units were distributed across school attendance areas in proportion to school enrollment	837	178	259	1,274
Section 8 voucher useage were distributed across school attendance areas in proportion to school enrollment	3,541	774	1,216	5,531
Total	6,406	1,307	2,016	9,729
Percentage of total moves needed for racially balanced schools (100% Replacement)	94	53	72	80
Percentage of total moves needed for racially balanced schools (75% Replacement)	80	37	61	65
<u>Number of Schools Included in the Analysis</u>	<u>Elementary</u>	<u>Middle</u>	<u>High</u>	<u>Total</u>
Predominantly White (0% - 20% nonwhite)	102	35	38	175
Diverse (20% - 60% nonwhite)	153	36	43	232
Predominantly Nonwhite (60% - 100% nonwhite)	58	18	13	89
Total	313	89	94	496

Definitions:

"Racial balance": an outcome where the racial make-up of all schools in the region falls between 20 and 60 percent nonwhite.

"100% Replacement": all nonwhite students leaving a predominantly nonwhite school are replaced by a white student from a predominantly white or racially diverse school.

"75% Replacement": all nonwhite students leaving a predominantly nonwhite school are replaced by a white student from a predominantly white or racially diverse school.

Sources: Minnesota Housing Finance Agency, Minnesota Department of Education and the Census Bureau.

Conclusion

The numbers of highly segregated schools and neighborhoods in the Twin Cities are increasing rapidly, as is the growth of concentrated poverty. It does not have to be this way. Minnesota had laws to prevent it. When they were implemented and enforced, they were effective. Sadly, political leaders from both parties dismantled the civil rights protections designed to prevent highly segregated schools. Fair housing laws are still on the books, but they haven't guided housing policies for decades. Political leaders are now set to further weaken these laws. This political apathy has allowed highly profitable engines of segregation to flourish in our schools and neighborhoods. A number of influential entities now have hundreds of millions of dollars, thousands of employees, stunning political power, and a vested interest in maintaining the segregated society they service. Indeed, as things are today, we could refer to a SHI – segregated housing industry – instead of a PHI; the PEC may as well be the SPEC.

One common set of buzzwords used to defend the allocation of resources to segregated neighborhoods is "equity in place": the notion that low-income communities of colors can be and should be restored from poverty without any fundamental change to living patterns. But to civil rights advocates, not to mention many members of the communities in question, "equity in place" sounds suspiciously like "separate but equal." There is, after all, a long tradition in American society of asking segregated communities to self-improve – while remaining segregated. This approach has not been exclusively the province of racists and racial supremacists. In the aftermath of the Civil War, prominent writers and scholars (white and nonwhite alike) theorized that freed slaves must undergo "moral uplift" before joining middle-class society, and that otherwise, integration could only bring chaos. Today's policymakers use more sensitive language, but sometimes echoes of "moral uplift" appear in their recommendations. Whether because of ideology, convenience, or simple carelessness, the PHI and ERC have at times both defended the idea that the solution to long-standing racial inequality is not social change but simple largesse, directed from the government and the wealthy towards the poor and the segregated. Sometimes, these entities are altruistic and genuinely well-meaning, but history and social science alike show that their approach will probably never succeed.

For policymakers and politicians still interested in integration, there is also an important broader lesson in the Twin Cities' return to segregation. For many years civil rights advocates have treated segregation as primarily a product of white racism. But the Minnesota experience shows that racial separation isn't always driven solely by a desire to exclude. When policymakers become apathetic about integration, economic forces and interest group politics can work in concert to pull nonwhite citizens into undesirable neighborhoods and failing schools, just as surely as racism can keep the same beleaguered minorities out of white enclaves. Because of this, true and permanent integration cannot be effected by simply overcoming racial animus – advocates must also overcome institutions that have grown up around a segregated society and ultimately draw purpose from a segregated status quo. Some of these same institutions may profess to represent a progressive outlook, or even work to help segregation's victims. Nonetheless, they remain invested in a society where racial concentration is preserved, not remedied. If these forces are not accounted for, even regions that have made remarkable progress can backslide into racial separation and isolation. This is what happened in Minnesota. Exclusionary pressures were comparatively weak in Minneapolis and St. Paul. Advocates of integration assumed this alone was enough to create lasting social change. They were wrong.

But it is not too late to create a truly integrated society. Doing so would require a number of steps. Existing fair housing laws must be maintained and enforced. Fundamental civil rights protections must be applied to all parts of public education. Governments and foundations must recommit to a racially integrated society, the society that was Martin Luther King's dream and that most Americans still aspire to. Public and philanthropic funds should go to organizations that affirmatively further fair housing practices, not to those whose activities perpetuate segregation. And these commitments must extend to the entire Twin Cities area, not just to underprivileged pockets in Minneapolis and Saint Paul. The poverty housing industry should become a partnership for integrated housing; the poverty education complex should become a partnership for equal opportunity in integrated schools. Changing our current course will involve hard work and it may be less profitable for many of the entities that currently control housing and education policy. But our Minnesota values say that it is necessary and our history shows that it is possible.