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Who Makes Housing Policy in North Carolina?

by Priscilla Cobb and Bill Finger



In an era of microelectronics and space shuttles, a simple house has become one of society's most complex, elusive products. For the structure to take form, craftsmen must join hands with financiers, insurers must swap papers with landown-

ers, and builders must tap into an ever-tightening money market. The complexity of the product has

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spawned a diffuse and disorganized governmental system for one of life's fundamental needs — adequate shelter. From building inspectors to bond supervisors, from septic tank codes to lending laws, government has reached deep into the housing business.

Federal and state involvement in the housing world dates from the very beginning of the republic. In North Carolina, the colonial administrators designed their capital city, New Bern, with the same degree of detail that today's government officials model their "planned communities." And one of the state's earliest statutes required Smithfield landowners to build "one Bricke House, Sixteen Feet Square at least, and Ten Feet Pitch in the Clear."¹

North Carolina quickly became more involved in housing — collecting property taxes, writing building codes, and zoning land. In 1933, the General Assembly created the state Building Code Council to oversee building codes throughout the state; three years later the Council published a statewide building code. But the great leap in governmental involvement in housing came not through expanded state efforts but at the federal level, especially during the New Deal.

As millions of homeless people wandered the countryside, a variety of federal housing-related vehicles emerged — from lending agencies to public housing assistance. In 1935, to take advantage of newly available federal funds, the N.C. General Assembly authorized local communities to create housing authorities. This action established a pattern that to a large extent has continued for almost 50 years: The major governmental efforts in housing have been at the federal and local levels.

In 1951, the General Assembly reinforced this federal-local pattern. Like other states, the legislature allowed urban areas to create redevelopment commissions to take advantage of federal funds. Local governments could then purchase or acquire through the power of eminent domain blighted areas of the city, clear these sections, and sell them to private developers.

Attention to housing problems escalated during the 1960s, particularly under President Johnson's Great Society. In 1964, the Institute of Government at the University of North Carolina issued the state's first major study on housing. This report, based on 1960 U.S. Census data, documented "a housing problem of major proportions," where more than two of every five people in the state (44 percent) lived in substandard houses.² This report prompted a study by Gov. Terry Sanford's office, "A Housing Program for North Carolina," written by Thad Beyle and issued in December 1964. Four years later, the N.C. Depart-

ment of Administration issued the first of three official state housing reports. This 1968 document recommended that the General Assembly adopt as an official state goal "the achievement by the year 1980 of a decent, safe, and sanitary home in an adequate and healthful environment for every North Carolinian," and it called on the legislature to create a state department of housing to reach this goal.³

While the General Assembly did not act on these two major recommendations, in 1969 it did establish the N.C. Housing Corporation as a "public agency and instrumentality of the state." The legislature charged the Housing Corporation to increase the rate of subsidized housing construction in the state by 10,000 units per year. Thus, North Carolina entered the housing business in a formal way for the first time, joining an enterprise pursued by federal and local governments since the 1930s.

In 1972 and again in 1977, the state prepared official housing plans, or "elements" as the U.S. Department of Housing and Urban Development (HUD) called them, in order to qualify for HUD planning grant funds in the community assistance area.⁴ The 1972 effort, an extensive five-part series of reports, reiterated the goals of the 1968 report and the 1969 legislative charge to the state's housing corporation.

Despite the repeated findings of major housing problems, neither the N.C. Housing Corporation nor any other executive-branch agency was taking aggressive or innovative actions. The data seemed to accumulate like so many bricks, the proposed state actions piled one upon the other like so much mortar. Consequently, in 1973, the General Assembly closed down the Housing Corporation and established a study commission to prepare yet another report recommending state action. In 1974, as proposed by the Special Legislative Study Commission on Housing and at the urging of both Gov. James E. Holshouser, Jr. and Lt. Gov. James B. Hunt, Jr., the General Assembly created the N.C. Housing Finance Agency, similar to the housing corporation but with expanded powers and financing abilities.

Meanwhile, the legislature was also taking actions which tended to diffuse housing-related programs. In 1973, for example, the General Assembly passed the Sedimentation Pollution Control Act, which created the N.C. Sedimentation Control Commission.⁵ This group developed a comprehensive state erosion and sediment control program to which builders have to conform. The Department of Natural and Economic Resources was designated to administer this program, and local officials were to enforce it.

Other housing-related regulatory functions con-

North Carolina State Government Departments with Housing Responsibilities

<u>Department/Division, Council, etc.</u>	<u>Housing Programs</u>	<u>Regulatory Responsibilities</u>	<u>Data Collection</u>
Department of Administration Human Relations Council Commission of Indian Affairs Office of Policy and Planning	fair housing assistance Section 8 "existing"		a) Governor's Commission on Housing Options for Older Adults (1981) b) The Commission on the Future of North Carolina
Division of Veterans Affairs	VA loans (field assistance)		
Department of Commerce Savings and Loan (S&L) and Banking Commissions; S&L Division Energy Division	weatherization assistance	regulation of mortgage lenders	
Department of Cultural Resources Division of Archives and History	assistance with historic properties		
Office of the Governor Housing Finance Agency	single family and multifamily financing assistance, Appalachian Regional Commission, Section 8		
Office of State Budget and Management			a) N.C. State Data Center b) Housing Study Commission staff (1982)
Department of Human Resources Operations Section			Title XX survey (last updated 1981)
Division of Health Services		wells and septic tank standards	
Department of Insurance Engineering and Building Codes Division		a) Building Code Council b) Manufactured Housing Board	
Department of Justice Consumer Protection Division		Landlord-tenant, real property, mobile homes	
Department of Natural Resources and Community Development Division of Community Assistance	a) CDBG small cities program b) Section 107 technical assistance program	zoning and subdivision regulation assistance	
Division of Envir. Mngmt. Division of Land Resources	clean water bonds	Sedimentation Control Commission Coastal Resources Commission (land use plans and permits)	
Office of Coastal Management			
Department of Revenue Ad Valorem Tax Division		property tax	
Department of Transportation Division of Highways	relocation program	subdivision road standards	
Department of State Treasurer Investment Banking Division		management of state pension funds Local Government Commission (bond approval)	
State and Local Government Finance			

Source: Fiscal Research Division, General Assembly, March 16, 1982, memorandum and agency survey by Priscilla Cobb, N.C. Center of Public Policy Research, March-May 1982.

tinued to be performed by departments ranging from Insurance (building codes and homeowner insurance) to Cultural Resources (historic preservation) and from Administration (fair housing) to Commerce (mortgage-lender regulation). Meanwhile, various other departments incorporated housing programs into their primary areas of activity, such as the Departments of Transportation (a housing relocation program as part of road construction) and Commerce (a home weatherization program in the energy division) (see box on page 38).

As the North Carolina Housing Finance Agency began operations in 1974, a major change took place in federal housing policies. President Nixon recast HUD priorities, eliminating many programs but at the same time incorporating more involvement of the private sector through a direct rental-assistance payment system. In addition, Nixon established a Community Development Block Grant (CDBG) program as a kind of federal revenue sharing to local governments which could be used for housing-related assistance. Also at this time, the Housing and Urban Development Act of 1968, which gave state housing finance agencies preference in the allocation of federal housing subsidy funds, was beginning to have a substantial impact on the degree of housing initiatives taken by various states.

With the establishment of the state Housing Finance Agency (HFA), North Carolina seemed to have an administrative vehicle capable of a major role in initiating and coordinating housing programs in the state. But placed in the Department of State Treasurer (to take advantage of that department's expertise with bonds), the HFA did not have a strategic location for becoming the hub of state housing policies. As the various housing regulatory and programmatic functions spread to no less than 11 state departments, the Department of Natural Resources and Community Development (NRCD), reorganized in 1977, began to emerge as a central location for housing policy.

The 1977 housing element, which was produced by the Division of Policy Development within the Department of Administration, in cooperation with NRCD and the Department of State Treasurer, put forth the reorganization of NRCD as a catalyst for new housing initiatives. "Reorganization . . . will strengthen the state's role in housing. A new housing section in NRCD will focus state resources in a more coordinative and effective manner," concluded the report's abstract.⁶ The report went on to say that although the state had taken some major steps to provide housing for low-income citizens, "tremendous deprivation" remained.

But the organizational goals of the 1977

report proved as difficult for the state to attain as did the report's substantive aims. In 1977, the General Assembly transferred the HFA into NRCD and left the authority to approve HFA bonds with the Department of State Treasurer. The major organizational challenge occurred not within this inter-agency arrangement, however, but within NRCD, where the technical and financial orientation of the HFA had to be meshed with the policy and community development perspective of the Division of Community Housing.

From 1977-79, the HFA and Community Housing Division lived side by side within NRCD. Then in 1979, the two merged into a new Division of Community Housing, with one person heading both and reporting to both the Board of Directors of the HFA and the Secretary of NRCD. Meanwhile, the Office of Community Development,

State Housing Programs and Regulations: Who They Affect

The state housing programs and regulatory functions directly affect four groups of North Carolinians — consumers, lenders, builders, and local government officials. The chart on the left lists each program and regulatory function according to the department and division of state government in which it is located. Below, each of these programs and regulatory functions is listed according to the group most directly affected. Many of those listed under local government ultimately affect all four groups, but directly affect local government officials; i.e., the sedimentation control commission establishes minimum standards which local governments must enforce.

Consumers

Section 8 Existing Rental Assistance Program
Veterans Administration Loans (Application Assistance)
Relocation Program (for persons displaced by highway construction)
Landlord-Tenant Disputes
Weatherization Assistance Program
Fair Housing Assistance

Lenders

Single-Family and Multi-Family Mortgage Purchase and Construction Loan Programs
Regulation of Mortgage Lenders

Builders

Section 8 New Construction/Moderate Rehab Rental Assistance Program
Appalachian Regional Commission Housing Programs
Building Code Council and Manufactured Housing Board
Subdivision Road Standards

Local Governments

Small Cities Community Development Block Grant Program
Section 107 Technical Assistance Program
Clean Water Bonds
Well and Septic Tank Standards
Zoning and Subdivision Regulation Assistance
Sedimentation Control Commission
Coastal Resources Commission
Property Tax
Assistance with Historic Properties Purchase and Renovation

also within NRCDC, was working through a series of drafts of a comprehensive housing strategy for the state. No official document emerged from this effort past a report labeled "Cut Five" of "A Proposed Housing Policy for North Carolina."⁷ More importantly perhaps, the marriage between HFA and the Division of Community Housing proved uneasy at best.

Finally in 1981, as the degree of cooperative spirit between the HFA Board of Directors and the NRCDC leadership was spiraling downward, the General Assembly once again moved the HFA, giving it quasi-independent status within the Office of the Governor. Aware that no coordinated state housing program had yet emerged, the legislature created their second major Housing Study Commission since 1973 (see box on page 45).

While the NRCDC lost the Housing Finance Agency in 1981, it gained control over distributing to local governments over \$40 million in federal community development funds, much of which can be spent for housing. The Reagan administration, as a part of its block grant funding vehicles, allowed states to administer the "small cities" portion of the already existing Community Development Block Grant program. North Carolina chose to administer this CDBG money through NRCDC. The NRCDC Division of Community Assistance (the Division of Community Housing was abolished when the HFA moved out of NRCDC) developed new regulations for allocating the \$40 million after a series of public hearings. In the process, a new group of NRCDC officials again grappled with many policy-related questions regarding housing, such as whether to make rehabilitation or water and sewer projects a priority for awarding CDBG grants (see article on page 16).

Meanwhile, the HFA, in its new quasi-independent status and under the leadership of a new and more aggressive executive director, was floating a series of both single-family and multifamily bond issues. The HFA also began a home improvement program which will combine HFA-generated funds with the CDBG funds still administered by HUD. By the middle of 1982, the HFA seemed to be emerging as a major state housing agency (see article on page 2).

In addition to the various housing elements and two major legislative study commissions already discussed, reports have come from the Governor's Citizen Task Force on Fair Housing (1979) and the Governor's Commission on Housing Options for Older Adults (1981). Other study efforts such as the N.C. Council on State Goals and Policies and now the Commission on the Future of North Carolina (N.C. 2000 Commission) have also contained a housing focus. But still no central coordinating strategy has emerged. Into this arena now comes the Reagan administration's "new federal-

ism" which is transferring the potential for governmental housing initiatives from the federal to the state and local levels. Local governments have long been involved with housing programs but always through a federal conduit; now these local officials must increasingly turn to Raleigh rather than Washington for technical assistance, funds, and coordination.

In 1982, two state agencies — the N.C. Housing Finance Agency and the Department of Natural Resources and Community Development — seem possible candidates for the location of a long-awaited state housing policy. The recommendations of the current Housing Study Commission to the 1983 General Assembly will help to define where the central policy and decision apparatus will be located (see box on page 45).

But recommendations alone — as the last decade has demonstrated — do not guarantee progress on the housing-policy front. Translating proposals into action requires that state leaders, together with citizens' advocacy groups, target housing as a major priority, in the same way that they have targeted such issues as hazardous wastes, highway funding, and the microelectronics industry. In the current housing "crisis" mentality, where home builder associations and middle-class consumers are as concerned about housing opportunities as are nonprofit church groups and tenants organizations, the time may have finally arrived for housing to become a political priority as well as a well-studied subject. Until the political machinery — the legislative and executive branches — responds to the state's housing needs in a coordinated fashion, state government will not be able to implement a well-defined housing policy. □

FOOTNOTES

¹"An Act for Establishing a Town on the Lands of John Smith, and other Purposes," Chapter XV, Laws of North Carolina, 1777. Found in *The State Records of North Carolina*, Walter Clark, editor, Vol. XXIV, Laws 1777-1778, p. 21.

²Mace, Ruth, "Housing in North Carolina; A Preliminary Report on Housing Conditions, the Home Construction Industry, Home Financing and the Use of Federal Aid," Chapel Hill, The Institute of Government, 1964.

³Mace, Ruth, "Toward Good Housing for All North Carolinians," N.C. Department of Administration, 1968.

⁴The Center for Urban and Regional Studies, UNC-Chapel Hill, *North Carolina's Housing Element*, N.C. Department of Administration, 1972; and N.C. Division of Policy Development, *Preliminary Housing Element*, N.C. Department of Administration, 1977.

⁵N.C.G.S. 113A, Article 4.

⁶N.C. Division of Policy Development, op. cit.

⁷Housing Policy Subcommittee, N.C. Department of Natural Resources and Community Development, "A Proposed Housing Policy for North Carolina: Working Paper — Cut Five," 1979.