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A Texas-Size Housing Fight

U.S. Threatens to Cut Aid After Galveston Rejects Rebuilding Low-Income Units

By ROBBIE WHELAN

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GALVESTON, Texas—Four years ago, Hurricane Ike swept through this island town on the Gulf of Mexico, flooding homes, destroying property and wreaking havoc on the economy.



Robbie Whelan/The Wall Street Journal

Former Galveston Mayor Joe Jaworski stands in front of a site that held subsidized housing lost in a hurricane. He supported replacing the units.

Now, Galveston has become the center of a different type of tempest, as local officials battle the Obama administration over plans to replace 569 public-housing units ruined by the storm.



Sen. Charles Schumer joins the D.C. Bureau to handicap which Dems will win, and which will probably lose, their seats in November. Also, how Elizabeth Warren will beat Scott Brown in what Schumer says will be "the most expensive Senate campaign ever." Photo: Associated Press.

The issue has already cost Joe Jaworski his job as mayor of this port city. In June, Mr. Jaworski, a Democrat who supported rebuilding the housing as part of a mixed-income development, was defeated in a run-off election by Lewis Rosen, a conservative businessman who promised not to rebuild the units.

Mr. Rosen favors using federal rental-assistance vouchers to house low-income tenants displaced by the storm, a move U.S. officials have rejected, saying they want to increase the city's supply of low-income housing.

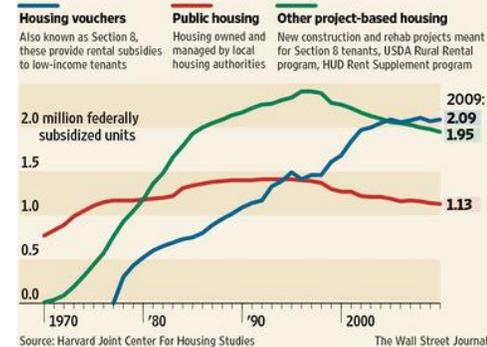
"This election was a referendum on public housing," Mr. Rosen said. "The citizens of Galveston did not want to build back the type of housing that was here before." He said vouchers would allow residents to live "where they have job opportunities, which do not exist in Galveston."

Irwin "Buddy" Herz, the newly named chairman of the Galveston Housing Authority, said mixed-income developments are "like communities of the poor. They destroy people's incentives to do better."

Mark Calabria, an economist for the libertarian Cato Institute, said "there's a tremendous amount of research that shows that voucher programs are more effective than anything we do in building assisted, affordable rental housing."

New Approach to Housing the Poor

Over the past two decades, HUD has shifted its focus away from dedicated subsidized housing and toward rental-assistance vouchers.



The Department of Housing and Urban Development, which funds subsidized housing, is demanding that Galveston build 569 low-income units—as part of mixed-income developments, not old-fashioned projects—or risk losing more than half a billion dollars in

storm-recovery funds the city needs to rebuild infrastructure, such as a water-treatment plant, roads and sidewalks. The agency has authorized \$109 million in federal funds to replace the lost housing.

HUD's Secretary, Shaun Donovan, summoned the new mayor to Washington last week to discuss the issue. The cabinet secretary reminded Mr. Rosen that the city is subject to two agreements between city, state and U.S. officials that require the city to rebuild the units, and asked that the city provide a plan within 30 days.

"This is all we are requiring of the Galveston Housing Authority—to rebuild with quality, affordable mixed-income housing," Mr. Donovan said in an emailed statement. "Many would consider this a golden opportunity to use federal and local resources to rebuild public housing the right way."

In the past two weeks, Mr. Rosen and the city's housing authority have opened negotiations with Texas' General Land Office, a state agency that is working on behalf of HUD and housing advocates to seek a compromise. No new plan has emerged, so the stalemate continues.

HUD's aggressive response is part of a broader effort in recent years to step up enforcement of fair-housing policies. In wealthy Westchester County, N.Y., HUD accused the local government of resisting federal orders to build 750 low-income units to battle what HUD has argued is segregation. The county says it now is

complying with all legal requirements in the case. And last year, HUD threatened to strip St. Bernard Parish, a mostly white community in Louisiana, of \$91 million meant to recover from Hurricane Katrina after the parish enacted policies that restricted access to affordable rental units for poor residents of nearby New Orleans. The Department of Justice sued the parish in February, alleging housing discrimination. The parish's newly elected president, who doesn't support the previous local government's housing policies, says the local government is working to comply with the agency's orders.

"Prior to 2009 it was a rare occasion that HUD would intervene on these types of issues," said Michael Allen, an attorney who has represented housing advocates in both the Westchester and Galveston cases.

Some housing advocates say the decline in low-income housing in Galveston has reduced the city's African-American population. "I think race is central to this discussion," said John Henneberger, co-founder of the Texas Low Income Housing Information Service.

The debate in Galveston reflects a dilemma poor citizens elsewhere face: As the need for low-income rental housing rises, exacerbated by the economic downturn and the foreclosure crisis, the supply of subsidized housing has shrunk.

Harvard University's Joint Center for Housing Studies estimates that in 2001, the number of low-income households (those with income of

\$15,000 or less) exceeded the number of low-income rental properties by 2.4 million; by 2010, the gap had risen to 5.1 million.

The National Low Income Housing Coalition estimates that 10,000 low-income rental units are lost every year to demolition, sale or natural disasters.

In 2011, Galveston picked McCormack Baron Salazar, a St. Louis developer, to build a mixed-income complex. The company is headed by Richard Baron, who worked with former Housing Secretary Henry Cisneros to develop replacements for public housing.

Under the plan by Mr. Baron and the city, the development would include community swimming pools and apartments with central air. Of the development's 718 units, 529 would be for very-low-income tenants, and the rest would be divided between working-class people subsidized by tax credits and market-rate rentals.

The plan was meant to make life easier for people like Bety Bustillo, age 56, and her husband, Luis, 55, two of the more than 20% of Galveston's population who live below the poverty line. The couple lived in a two-bedroom apartment in a project destroyed by Ike. They paid \$300 a month in rent, including utilities, and Ms. Bustillo could walk to her housekeeping job at a hospital, for which she earns \$1,160 a month. Mr. Bustillo makes about \$600 a month as a restaurant prep cook.

They now are living in a temporary apartment using a HUD disaster-

assistance voucher. The unit is smaller, costs \$450 a month after the voucher (not including utilities) and its location requires Ms. Bustillo to ride a bus one hour each way to work.

"I feel stressed about the situation," says Ms. Bustillo, who hopes the city will rebuild what was lost in the storm. According to Galveston's housing authority,

there is a waiting list of 1,200 applicants for public housing.