

Assessing the Federal Qualified Census Tract Approach to Identifying Distress and Revitalization

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Introduction

The New Jersey Housing and Mortgage Finance Agency (NJHMFA) is responsible for the administration and monitoring of the **Low Income Housing Tax Credit (LIHTC)** program in New Jersey. The LIHTC program awards tax incentives to developers in order to increase the availability of affordable housing in the state.

The **Qualified Allocation Plan (QAP)** is the NJHMFA's methodology for awarding points to its applicants, in order to prioritize the projects and determine the final list of recipients. In 2013, the NJHMFA made extensive changes to the QAP, making project location a focal point of the ranking system for tax credit allocations. The QAP specifies that only 40 percent of tax credits can be awarded to projects located in cities with a poverty rate greater than 8.1 percent. The remaining tax credits should be awarded outside those areas. This change was intended to stop reinforcing high concentrations of poverty and steer low-income units to higher-opportunity areas, rather than distressed areas.

The NJHMFA uses **Qualified Census Tracts (QCTs)** to define distressed areas. A QCT is any census tract in which at least 50 percent of households have an income less than 60 percent of the area median gross income, or any tract with a poverty rate of 25 percent or greater. The list of QCTs is [maintained by the Department of Housing and Urban Development](#) and is updated every year.

Since 2013, the changes in the QAP have helped steer low-income units away from distressed areas. However, due to the increase in economic activity that cities such as Jersey City and Hoboken have seen recently, many of these areas are no longer distressed. Thus, a new question arises: Is there a point beyond which the NJHMFA should stop steering low-income units away from previously-distressed areas that are now experiencing some degree of economic recovery? What metrics do we have to identify and measure such recovery?

When we are looking for places that are experiencing economic revitalization, we are essentially talking about places that are moving from distressed to non-distressed conditions. We will refer to these places simply as "revitalizing" neighborhoods. Our analysis uses data from two years. We look at 2003 (the first year in which the QCT list was based on 2000 census data and tract boundaries) and 2015 (used in the most recent LIHTC application process; the 2015 QCT list was developed using data from the 2012 American Community Survey [ACS]).

The purpose of this report is to compare and analyze two methods of measuring revitalization, which rely on different definitions of distress:

1. **New Jersey Housing and Mortgage Finance Agency (NJHMFA) Method:**

- Uses QCT list to define initially distressed tracts in 2003 (the 2003 QCT list is based on 2000 Census data).

- Movement from distress to non-distress is defined as a tract dropping off the QCT list (thus no longer appearing on the list in 2015).

2. New Jersey Future Proposed Method:

- Uses tracts that are in bottom 20 percent of all tracts for at least two of four “distress indicators” to define initial distress using 2000 Census data (the same year on which the 2003 QCT list is based).
- A tract is defined as revitalizing if it no longer appears in the bottom 20 percent of all tracts for at least two of the distress indicators using 2012 ACS data (the same dataset used to identify QCTs on the 2015 list).

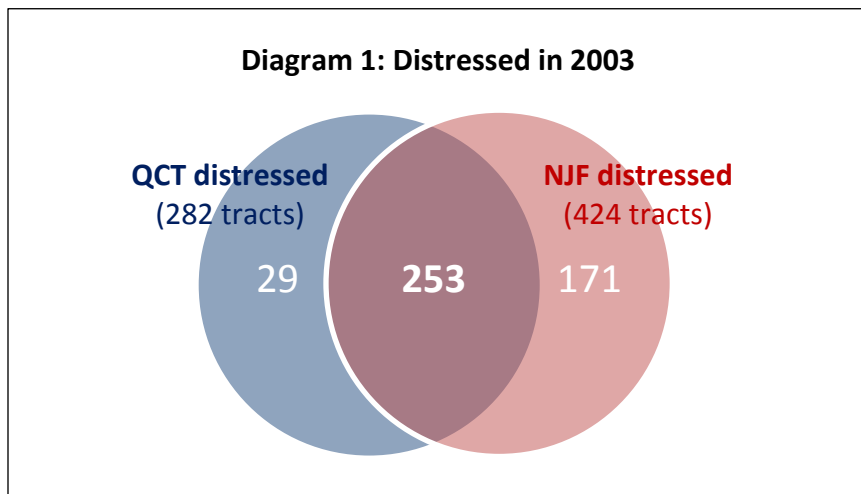
We are interested to see if either method is notably more accurate in identifying revitalizing neighborhoods, an admittedly subjective concept.

Identification of Distress and Revitalization: QCT vs. New Jersey Future methodology

The New Jersey Future methodology involves marking tracts as distressed based on their relative ranks among all tracts. We ranked all tracts in the state according to the following four distress indicators, using data from the 2000 Census (the same data year used to create the 2003 QCT list):

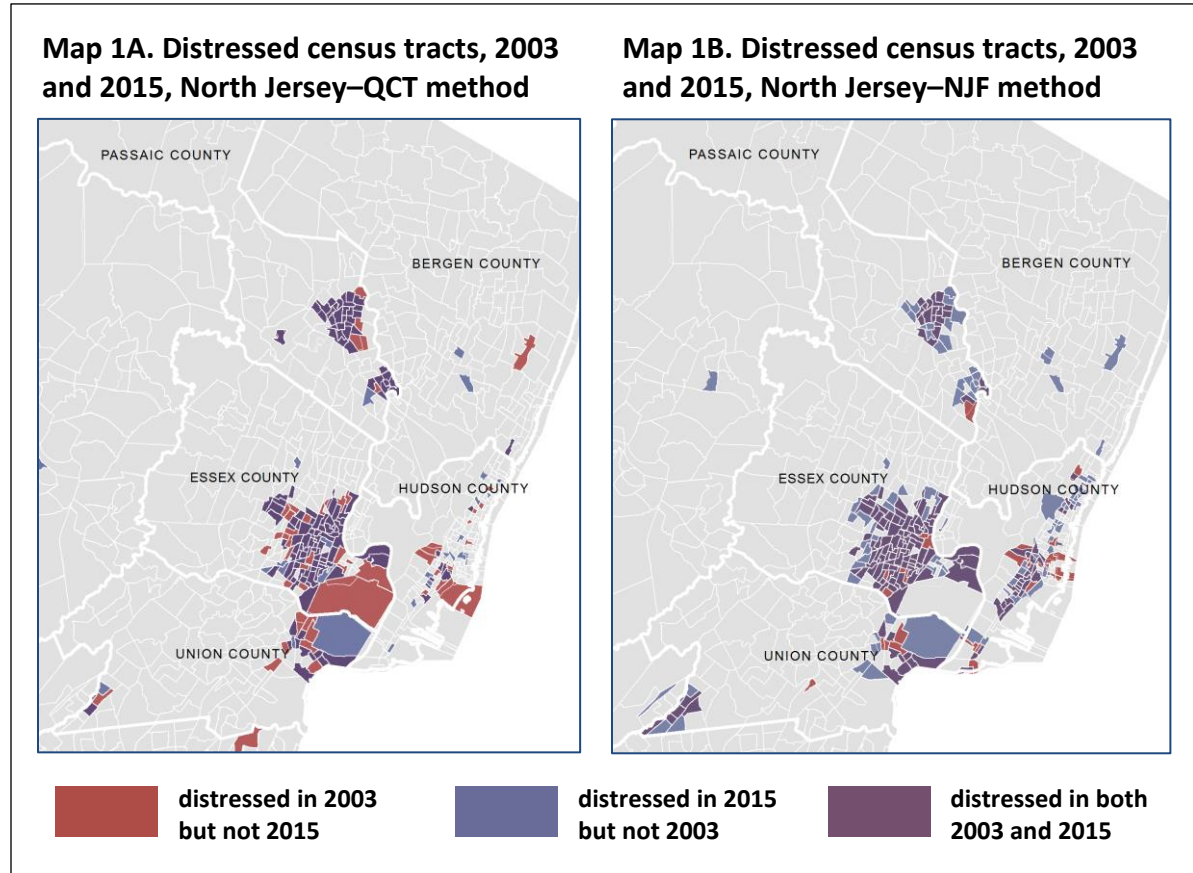
Indicator	Distress
Median household income (\$)	low value
Median rent (\$)	low value
Percentage of residents living below poverty level	high value
Percentage of vacant (non-seasonal, non-migrant worker specific) housing units	high value

We defined as “distressed” any tract that appeared in the bottom 20 percent of all tracts for at least two of these indicators. To identify which tracts had improved, we applied the same method to the tracts with 2012 data. If a tract is no longer marked as distressed, it is considered revitalizing.



For 2003 (using 2000 data), 253 tracts are identified as distressed by both methods. Only 29 of the 282 QCT tracts were not also identified as distressed by the New Jersey Future methodology, while the New Jersey Future methodology flagged as distressed 171 tracts that did not appear on the QCT list. The New Jersey Future methodology marks significantly more tracts than the QCT method (424 vs. 282). This does not come as a surprise, given that we take into account more indicators of distress.

Both methods identify similar clusters around urban settings (see Maps 1A and 1B), including Newark, Jersey City, Paterson, Trenton, Camden, and Atlantic City. As poverty tends to be more concentrated in urban areas, it seems likely that these areas are more distressed, and that both methods would have picked up on this.



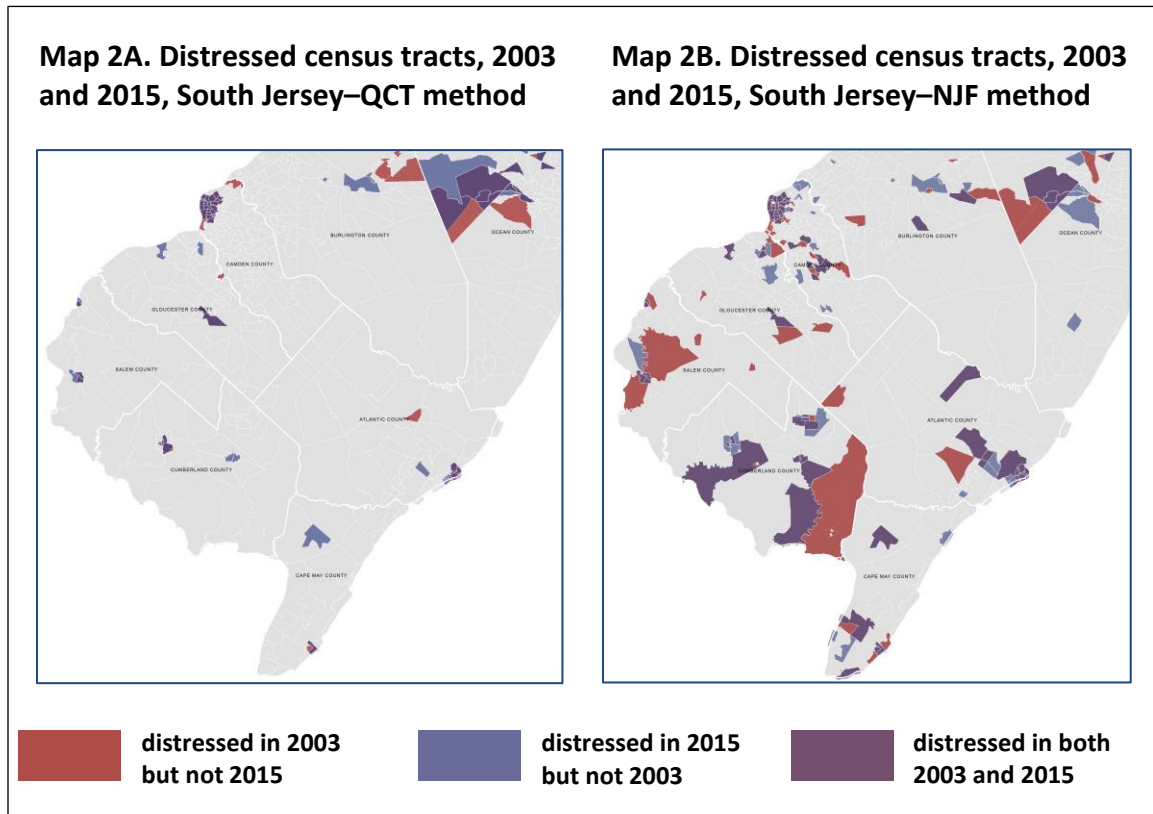
Both methods identify similar clusters in North Jersey. However, there are greater differences across South Jersey. Many large, rural southern tracts (particularly in Cumberland, Cape May, Atlantic, and Salem counties) are marked as distressed by the New Jersey Future methodology but do not appear on the QCT list (see Maps 2A and 2B). New Jersey’s southernmost counties have a lower cost of living than the rest of New Jersey, so lower median household incomes and rents in these places are somewhat to be expected. Being in the bottom 20 percent on these two indicators in these southern counties thus may not necessarily be indicative of actual distress, even though it is enough to get them flagged by the New Jersey Future methodology. The New Jersey Future methodology thus does carry a risk of identifying some potential false positives.

In 2003, the QCT method classified 29 tracts as distressed that New Jersey Future does not mark as distressed. Of these 29 tracts, 17 were in the bottom 20 percent for only one of New Jersey Future’s indicators:

- Nine tracts are in the bottom 20 percent of all tracts for median household income

- Seven tracts are in the bottom 20 percent for percentage below poverty line
- One tract is in the bottom 20 percent for percentage of vacant housing

(The other 12 tracts weren't in the bottom 20 percent on any of the four New Jersey Future indicators. Many of these are outliers – for example, tracts containing a college or prison or another institutional population that can produce skewed results for income-related data – and should probably have been screened out by the QCT process.)

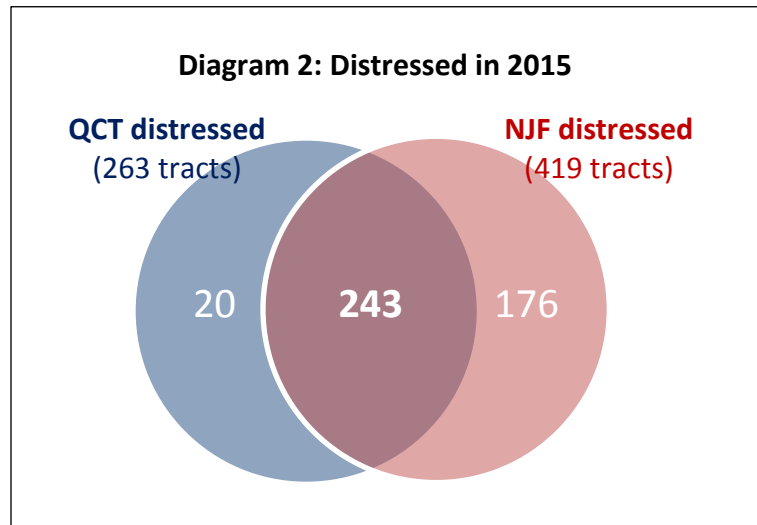


That a majority of these tracts had low median household incomes and high percentages below poverty line is not surprising given that the definition of QCTs is based on household income and high poverty rate. It is possible that these tracts were designated QCTs because of their low median household income, despite “doing better” in the other categories considered by New Jersey Future.

For 2015 (using 2012 ACS data), New Jersey Future’s methodology again marks significantly more tracts than the QCT method (419 vs. 263), as it did for 2003. Again, this does not come as a surprise, given that we take into account more indicators of distress.

There are 243 tracts that are identified as distressed by both methods in 2013. Only 20 of the 263 QCT tracts were not also identified as distressed by the New Jersey Future methodology, while the New Jersey Future methodology flagged as distressed 176 tracts that did not appear on the QCT list. The New Jersey Future methodology flagged 419 tracts in total. These results are similar to the 2003 results,

suggesting that the reasons for New Jersey Future’s methodology identifying more tracts as distressed remained consistent over time.



Next we compared the two methods to see the differences in how they identified tracts that are revitalizing, or moving from distressed status to non-distressed status. There were only 18 tracts that qualified as revitalizing by both methods, in that both methods counted them as distressed in 2003 but not in 2015. Our interest here is in the tracts on which the QCT and New Jersey Future methods disagreed.

1st area of difference

(Tracts flagged as revitalizing by QCT but not New Jersey Future) – 49 tracts

Of the 49 tracts that the QCT methodology identified as improving but New Jersey Future did not, there were nine that New Jersey Future’s methodology **did not classify as distressed to begin with** in 2003. Of the nine, there were three that were not in the bottom 20 percent for any indicator in 2003, while the other six were in the bottom 20 percent for one indicator:

- Three tracts were in bottom 20 percent for median household income
- One tract was in bottom 20 percent for percentage vacant housing units
- One tract was in bottom 20 percent for percentage below poverty level
- One tract was in bottom 20 percent for gross rent

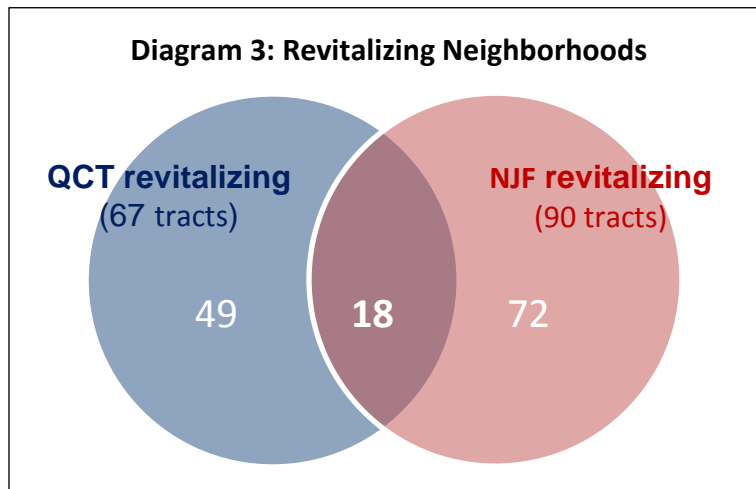
All of the 40 remaining tracts that the QCT method identified as improving but New Jersey Future did not still appeared in the bottom 20 percent of all tracts in 2015 for at least two of the four indicators used in New Jersey Future’s methodology and hence were still classified as distressed:

- 33 tracts were in bottom 20 percent for median household income
- 31 tracts were in bottom 20 percent for percentage below poverty level
- 31 tracts were in bottom 20 percent for percentage vacant housing
- 15 tracts were in bottom 20 percent for gross rent

Of particular note is that the majority of these tracts were still in New Jersey Future’s “distress range” for median household income and poverty rate, the two variables used in determining the QCT list, even though these tracts dropped off of the actual QCT list. We can look at the behavior of these two indicators from 2003 to 2015 for a potential explanation:

- The median household income across these 40 tracts increased from 30,814 to 41,559.
- The percentage below poverty level decreased from 21.5 percent to 17.6 percent.

These figures suggest a potential drawback to the New Jersey Future methodology. Even if the median income rose and/or the poverty rate fell across the board, we still mark the bottom 20 percent as distressed regardless of their absolute values. By defining distress in terms of percentiles, we don’t account for the possibility of progress across all tracts—or in other words, a rising tide lifting all boats. The QCT methodology is less susceptible to this drawback; while it looks at incomes compared to the area median, a relative standard, it also incorporates the poverty rate, which is an absolute standard. The poverty rate is defined relative to a fixed federal threshold, rather than how any given tract fares compared to any other.



2nd area of difference

(Tracts flagged as revitalizing by New Jersey Future but not QCT method) – 72 tracts

We now turn our attention to the 72 tracts that the New Jersey Future method identified as improving but the QCT method did not. Among these 72, there are 66 tracts – a substantial majority – that the QCT method **did not classify as initially distressed** in 2003. These 66 tracts all appeared in the bottom 20 percent for at least two of the four indicators used in New Jersey Future’s methodology in 2003:

- 38 tracts were in bottom 20 percent for median household income
- 40 tracts were in bottom 20 percent for percentage vacant housing
- 43 tracts were in bottom 20 percent for percentage below poverty level
- 42 tracts were in bottom 20 percent for gross rent

That these tracts were originally classified by New Jersey Future as distressed is a result of New Jersey Future’s methodology defining distress more broadly than the QCT list. This is illustrated in the table

below, in which we found the median and mean among these 66 tracts for each indicator, and compared these figures to the medians and means among all 2000 QCT distressed tracts.

	Median household income	Percentage vacant housing	Percentage below poverty level	Gross rent
Median, 66 tracts	36,949	5.8	9.9	640
Mean, 66 tracts	40,175	6.2	10.1	630
All QCT distressed median	27,656	7.2	23.4	631
All QCT distressed mean	27,274	9.3	24.0	626

For the 66 tracts flagged as distressed by New Jersey Future but not the QCT list, values for three indicators are significantly higher in the “more desirable” direction than the full set of QCT distressed tracts, while gross rent is not significantly different. This suggests that the New Jersey Future method flags as distressed many tracts that the QCT method does not consider “bad enough.”

For the remaining six tracts, which both methodologies initially identified as distressed in 2003 but where the New Jersey Future method classified the tract as revitalizing in 2015 while the QCT method did not, five of them still appeared in the bottom 20 percent of all tracts for one of the four New Jersey Future indicators:

- Four tracts were in bottom 20 percent for median household income
- One tract was in bottom 20 percent for percentage vacant housing units

This suggests that the reason for the discrepancy is the broader focus of New Jersey Future’s indicators, where these tracts may have shown more improvement on the variables used by New Jersey Future’s methodology but not the QCT’s, compared to the ones used by both.

Conclusion

The NJHMFA's use of HUD's list of Qualified Census Tracts (QCTs) appears to be doing an adequate job of identifying the most "distressed" neighborhoods in the state, those into which the LIHTC program should try hardest to avoid steering more lower-income housing, in order to stop reinforcing high concentrations of poverty. By extension, movement off of the QCT list serves as an adequate identifier of revitalization, to the extent that some of the safeguards designed to avoid exacerbating concentrated poverty may no longer be necessary for such tracts.

New Jersey Future's proposed alternate method of identifying "distressed" neighborhoods generally flags more census tracts as distressed, mainly because it broadens the definition of distress to include two additional variables – housing unit vacancy and median rent – that are not considered by the QCT list's methodology, which only looks at poverty rate and household income. Most of the census tracts that score poorly on housing vacancy and median rent also score poorly on poverty and household income (though sometimes not poorly enough to exceed the QCT methodology's thresholds), suggesting that the New Jersey Future methodology is probably picking up on some legitimate cases of distress that the QCT methodology does not.

It is also likely that the QCT methodology, which uses federal standards (the list of tracts is maintained by HUD), understates distress in New Jersey – particularly in the northern part of the state – because of New Jersey's higher cost of living. The federal definition of poverty uses a single nationwide standard, which tends to overstate distress in states with lower costs of living where incomes tend to be lower across the board, while understating it in states like New Jersey, where nominally higher incomes do not necessarily translate to a higher standard of living because the cost of living is higher for all income levels. New Jersey Future's methodology implicitly corrects for the discrepancy between New Jersey and the rest of the country by using a relative measure (looking at the bottom 20 percent of tracts on each metric, regardless of the overall level) rather than an absolute threshold like the federal poverty level.

Of course, using a relative measure can also sometimes be a weakness, in that it will almost always flag a certain number of tracts as distressed even if real improvements are being experienced across the board in the absolute values of the variables used in the distress index. By defining distress in terms of percentiles, the New Jersey Future methodology may not account adequately for the possibility of progress across all tracts—the scenario in which a rising tide is genuinely lifting all boats. The QCT methodology is less susceptible to this drawback; while it looks at incomes compared to the area median, a relative standard, it also incorporates the federal poverty rate, which is an absolute standard.