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STRENGTHENING AND REJUVENATING OUR NATION'S COMMUNITIES AND THE HOPE VI PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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STRENGTHENING AND REJUVENATING OUR NATION'S COMMUNITIES AND THE HOPE VI PROGRAM

Tuesday, April 29, 2003

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:14 p.m., in Room 2128, Rayburn House Office Building, Hon. Robert Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney, Tiberi, Harris, Waters, Carson, Lee, Watt, Clay and Scott. Also in attendance was Mr. Leach.

Chairman NEY. [Presiding.] The subcommittee will come to order. The subcommittee meets today to discuss our nation's communities and the HOPE VI program, which is administered by the Department of Housing and Urban Development.

As today's witnesses well know, Homeownership and Opportunity for People Everywhere, HOPE, is the name given to a series of housing programs initially authorized by the Cranston-Gonzalez National Affordable Housing Act in 1990. The HOPE programs are numbered one through five, with HOPE VI added later. The HUD Reform Act of 1989 authorized the establishment of the National Commission on Severely Distressed Public Housing. The task of this commission was to conduct case studies and site examinations of public housing developments. The commission reported that approximately 86,000 public housing units were severely distressed and recommended that these units be removed from the housing stock. HOPE VI was begun as a result of the findings of this commission.

The purpose of HOPE VI programs is to revitalize severely distressed public housing developments and transform them into safe, livable environments. The required element of the program is the provision of a effective targeted self-sufficiency initiatives so that public housing can regain its role as housing for low-income families who are determined to improve their status. HOPE VI funds are used to provide three types of grants—planning, implementation and demolition. Until 1998, the bulk of funding provided for HOPE VI was rewarded to planning and implementation grants. Since 1998, most of the grantees were awarded funds for the demolition of obsolete projects or units. A number of concerned housing support groups and legislators are now questioning the necessity of

many of the demolitions and are debating the future of the HOPE VI program.

President Bush's fiscal year 2004 budget proposal does not include funding for HOPE VI. So far, HUD maintains that the program resulted in the demolition of 55,000 of the 140,000 public housing units that have been approved for demolition under HOPE VI. In addition, because progress is often slow under HOPE VI programs for various reasons, billions of dollars in HOPE VI funds remain in the pipeline and demand the concentrated attention of HUD and the current grantees.

Despite the success and popularity of the HOPE VI program, not all proponents of affordable housing support this program. The intended purpose is to provide quality housing for low-income families, yet some experts maintain that few of the newly constructed units are available to these families upon the completion of a project. In some revitalization areas, as many as 75 percent of the original public housing tenants become displaced. As conscious stewards of the taxpayer's income, we must investigate if this is the best use of government funding or not. Clearly, the HOPE VI program is in need of review. We must determine whether it is proper to phase out HOPE VI, and if HOPE VI is to be continued, then whether reforms are necessary.

Both Congressman Leach, H.R. 1614, and Congressman Watt, H.R. 1077, have introduced legislation in the 108th Congress that includes changes envisioned in H.R. 3995 and H.R. 5499. These bills are virtually identical, with the exception that the Leach bill includes a section that would allow HOPE VI grants to be used to assist small communities to develop affordable housing as part of the Mainstreet Redevelopment Program. We hope to have an agreement on these two bills and move to markup hopefully within the next month.

Although today's hearing is to discuss the HOPE VI program, interested parties may have noticed today the front page of the Washington Post article that referred the Administration's housing assistance for needy families, or HANF proposal. I do intend to introduce this legislation tonight upon request—I want to stress upon request—of the Administration, and hold the first in a series of hearings on the section 8 program beginning May 22. Section 8 reform is a worthy topic and it necessitates thoughtful debate and discussion. I look forward to the leadership of this subcommittee as we move forward in studying this proposal. Again, we have to lay it on the table for discussion. Personally, I am in a neutral position on this whole proposal. We need to have public hearings and we need to have discussions among members of the committee and advocates for housing across the United States and with HUD to see if block granting works. So at the request of the Administration for discussion purposes, I am going to introduce this.

I want to thank all of our witnesses for taking time from their busy schedules to be here today. I look forward to hearing the testimony and having a good discussion on the HOPE VI program. I would like to thank members for being here today, and without objection, all members' opening statements will be placed in the record.

The gentleman from Georgia?

Mr. SCOTT. Thank you very much, Mr. Chairman, and let me commend you for having this very, very important hearing on a most worthy and important program.

The HOPE VI program is an extraordinary, creative and beneficial program. I want to thank this distinguished panel for coming before us and for sharing your testimony. The HOPE VI program is important to my district and the Atlanta metro area of Georgia because both the Fulton County Housing Authority and the Atlanta Housing Authority have both received HOPE VI grants. Because of their successes with this program, I am a cosponsor of both Mr. Leach's bill and Mr. Watt's bill, and their efforts to reauthorize and improve HOPE VI. I think it is very important to note this strong bipartisan Republican-Democratic partnership to revitalize and reinstitute HOPE VI.

With neighborhood revitalization as the cornerstone of its strategy, since 1994 the Atlanta Housing Authority has reduced its workforce by more than 53 percent. It has increased the number of families it serves by 17 percent. It has privatized the management of 100 percent of its real estate and leveraged $184 million of federal grants, including three HOPE VI grants totaling $1.3 million, into $2.5 billion of local economic activity. What a success story is the program in the HOPE VI in my district. The Atlanta model of mixed-income community development is a proven, sustainable neighborhood strategy that is definitely eliminating the institutional poverty. These achievements have been reached and achieved under the leadership, the sterling leadership of one of our panelists, Ms. Renee Lewis Glover, from my district in Atlanta, Georgia, and we are so proud to have you here, Ms. Glover, who is the chief executive officer of the Atlanta Housing Authority.

If I may, Mr. Chairman, let me just take a moment to introduce Ms. Glover to us. Ms. Renee Glover joined the Atlanta Housing Authority as CEO in September of 1994. The Atlanta Housing Authority is the sixth largest housing authority in the United States. It owns and operates approximately 9,500 multi-family apartments and administers approximately 12,000 section 8 vouchers. Ms. Glover was named public official of the year 2002 by Governing magazine, and she has been recognized as one of the top 10 women in government by the Center for American Women and Politics, the Ford Foundation, and the Council for Excellence in Government. She served on the national advisory council of Fannie Mae, and was appointed by Congress to the Millennial Housing Commission in 2000, charged with providing legislative recommendations on national housing policies. Prior to joining the Atlanta Housing Authority, Ms. Glover was a corporate finance attorney in Atlanta and New York City. She received her juris doctorate degree from Boston University, her master's degree from Yale University, and her undergraduate degree from Fisk University. I welcome Ms. Glover today to our committee and we look forward to your testimony.

Thank you very much, Mr. Chairman.

Chairman NEY. I thank the gentleman for his statement.

Mr. Watt of North Carolina?

Mr. WATT. Thank you, Mr. Chairman. I will be brief, although I have a lot to say about HOPE VI and the process by which we got here.

First of all, I want to thank the chairman for convening this hearing. This is exactly the way the process should work. A debate starts about the value of a particular federal program and the best way to resolve that debate is to have people who have been in the middle of the programs come and talk about the value, the problems, the challenges that they have experienced in the program, and then try to see whether there is any way to accommodate those problems and concerns and challenges. I think that is what we have been trying to do throughout this process. We introduced a bill last year to reauthorize HOPE VI and improve it by addressing some of the concerns that had been identified—displacement of residents, housing authorities who were getting funds and were not ready to immediately start to use those funds—the range of issues. So the bill that we introduced last year and reintroduced this year addresses those concerns.

Then Mr. Leach approached me about an amendment which had been offered to last year's bill that had passed the committee, which we left out of the bill this year, and wanted to know if I would be offended if he dropped another bill that had that amendment in it, and I said, not only would I not be offended, I would join as a cosponsor in your bill. So I have got two bills out there now that I am supporting. All that does is add value to the discussion about how to do this.

The other thing I want to say to the representative from HUD in particular is that I have not been one, despite the fact that I have authored the bills to reauthorize HOPE VI, I have not been one, and I think Secretary Martinez will verify this, to say that I have closed my mind to alternatives that would improve or make the HOPE VI program a better program. What I am waiting on is a specific proposal from this Administration. I think some of the things I have heard that may be being thought about by the Administration may have some value to them, but I do not think we can solve the problem by zeroing out HOPE VI, and then talking about how we revised the program. I think now is the time to have that discussion and this is the process within which to initiate that discussion.

So I will end where I began, which was to thank the chairman for providing this forum in which a discussion and evaluation of a valuable program can be made, and we can discuss and evaluate how to make it even better. I thank the chairman and yield back.

Chairman NEY. Thank you.

Our ranking member, Ms. Waters?

Ms. WATERS. Thank you very much, Mr. Chairman and members. I have a statement that I am going to submit for the record, but I am going to condense my comments by simply saying that many of us were alarmed when we learned that the Administration was not desirous of reauthorizing HOPE VI. As you know, we all have concerns about public housing—the funding for public housing, section 8, making more units available, rehab—all of that. But HOPE VI has taken on quite a significant meaning for distressed housing in this country. While the Administration makes the argument that not all of the dollars allocated to HOPE VI have been spent, our examination of this issue does not lead us to conclude

that this is a good reason why HOPE VI should not be reauthorized.

We have learned that the number of applications for it outweigh any concerns about whether it is needed. As a matter of fact, we believe that if we simply fund it at about 50 percent of those applications that have been put in, we would be going a long way toward providing safe affordable housing for so many of our citizens who are in desperate need. Not only are we concerned about the lack of reauthorization, we think this sends a message. We do not know why, even if you did not want to put the dollars into it, if the Administration did not want to put the dollars into it, we do not know why you would not simply support reauthorization. That is a signal that says, we think this program has value. We think that despite the fact that all of the dollars have not been spent, we do see progress being made.

We have discovered in our examination of the issue that increasingly the housing authorities have reduced the number of days that it has taken them to get up to speed, and we think it gets even better. We think with the more involvement of the private sector and all of that, that these grants can be expedited in ways that can put the rehabilitation of housing units on line in ways, again, that would make them available to people who so desperately need it.

So what I would like to hear in addition to whether or not you understand the request and the needs and the applications and what you think about all of that, I need to understand how the projects are chosen. My staff has walked through this with me, I guess, 100 times now, or many times now, and I do not understand how the criteria is evaluated and how you can score high and not get selected to be supported for a HOPE VI grant. I want to trace the dollars. I am from Los Angeles and our needs are great. I want to see what is it going to take for me to be competitive with Texas and Florida, for example. I think there is something I do not know, I do not understand, about how the decisions are made. So I am hopeful that in your testimony today you will help me to understand that.

Also, my staff has brought to my attention that in the evaluation, in this criteria and the way that it is evaluated, the dollars are directed toward the unit—rehab of units. And they have pointed out to me that you have units that are located in communities that are in great disrepair and there is a need for support for infrastructure and things that do not meet the strict criteria for the rehab of units et cetera. So I would like some comments about whether or not we can take a look at that so that we can factor that in to these applications and requests, and this can be given some consideration.

Having said all of that, HOPE VI has a following, not just among members of Congress on both sides of the aisle, but throughout our communities. People who work on housing issues and consumer issues are now in support. We think the relocation problems are being worked on. We all are concerned that people have options and that they can get back into some of these rehabilitated units. We do not want folks to be displaced and just disappear, and we not know what happened to them. But we support HOPE VI and we would like to see it reauthorized, and we would like to see it

funded. But even if it is not funded, we want to see it reauthorized, and hopefully we can hear something about those issues.

Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman NEY. Thank you.

The gentlelady from Indiana?

Ms. CARSON. Thank you very much, Mr. Chairman, and certainly thank you to the Honorable Michael Liu for being here this afternoon. I hope I have pronounced your name correctly. If I did not, I apologize, but I appreciate the distinguished panel who have gathered here today to present your views in terms of the subject matter before this housing subcommittee.

It seems as though nearly every time this committee hears from HUD, one area of another is on the chopping block. The public housing drug elimination program is gone, and it served very well in my community in terms of a major decline in drug activity in the public housing projects, and the budget is proposing to knock out brownfield programs, even though this committee labored long and hard on it just last year. Section 8 vouchers will not be funded at the 100 percent level, and we are supposed to somehow be pleased with the fact that it might be as low as 70 percent after all.

Now, we are here to hear why we no longer hear HOPE VI. I would simply implore the Administration now more than ever not to eliminate, not to reduce, not to get rid of so many of these vital housing assistance programs that have worked well for so long. When I read your advance copy, sir, of your Administration's position to eliminate HOPE VI altogether, it implied that it had essentially served its purpose, or that there were areas where resources had not been utilized, and the consequence of that was is that you felt maybe that we do not need it at all. As I read your very eloquent statement, it reminded me of a man being with a woman for several years, having had children and grandchildren, and then decided that because she began to move slowly and was not meeting up to capacity, that he no longer needed her; that he kicked her out in favor of something that may be more energetic, and more that would be more palatable to his thinking. While I would be opposed to that kind of strategy in terms of eliminating domestic tranquility, I would also be opposed to eliminating HOPE VI, that has in fact worked well for several communities, including my own of Indianapolis, Indiana. We were having plans to use further resources from HOPE VI so that we could enhance domestic tranquility for lower income people.

I realize in your statement that you say, well, it was not all used, it was used up as fast as it ought to have been, but I would suggest to you very respectfully that sometimes when things become a little aged, they do not move as fast as they used to move, but they still serve their purpose.

I would respectfully ask for some reconsideration on the part of this Administration. I do not want to sound political, but I do favor the HOPE VI, as I did section 8, as I did brownfields, and as I did the drug elimination program. Even though I am becoming an old member of the United States Congress and do not move as fast, I would like to assure you that all those programs worked extremely well. Inevitably, some have a little flaw here and there, a little ar-

thritis and osteoporosis, but they still work well. If you would be kind enough to take back to the Administration our desire collectively, especially on this side of the aisle, to reconsider totally throwing the wife out with the bathwater and bring her back in and kind of patch her up a little bit and see if we cannot move forward with HOPE VI.

Mr. Chairman, I yield back the balance of my time.

Chairman NEY. I thank the gentlelady from Indiana.

Mr. Tiberi, do you have anything? I want to thank the gentleman from Ohio for joining us. With that, we will begin with panel one, and as is procedure, without objection your written statements will be made part of the record and you will have five minutes to summarize your testimony.

Michael Liu is the Assistant Secretary for Public and Indian Housing at HUD. He oversees the Administration of all public housing section 8 rental assistance and Native American programs at HUD—programs that comprise more than 50 percent of HUD's operating budget of approximately $30 billion. Prior to assuming his position at HUD, Mr. Liu served as Managing Committee Member for the Federal Home Loan Bank of Chicago.

Welcome.

STATEMENT OF HONORABLE MICHAEL LIU, ASSISTANT SECRETARY, PUBLIC AND INDIAN HOUSING, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC

Mr. LIU. Thank you very much, Mr. Chairman. As you said, my testimony is in for the record; Michael Liu, Assistant Secretary for Public and Indian Housing at HUD. I will summarize. I think in the interest of time I will specifically direct my verbal comments to the questions presented to us in your invitation to come before you this afternoon, Mr. Chairman.

The first question has to do with the Administration has not included additional funding for HOPE VI in fiscal year 2004; would you please explain why you believe HOPE VI should not receive future funding. To go over the reasons very quickly and in general at this point, and of course be open for questions later, first of all, as we all know, as you described, the program was authorized for a 10-year period which expired in 2002. The Administration did request an authorization for fiscal year 2003 and the Congress agreed with that. There will be funding for fiscal year 2003. However, we have found a number of fundamental issues and fundamental design flaws with the program. Over time, we have now come to understand that now that we have dealt with much of what was originally considered the most severely distressed public housing in America, there is some very serious questions as to what that really means today. I think there are some attempts through legislation to address that question, but there is a lot of debate in academia, among practitioners, among public housing authorities as to what type of revitalization, what type of housing we need to address, something which does deserve very close examination and something which should be very considered and measured as we move forward.

Secondly, one of the major purposes of HOPE VI as originally designed was to eliminate most of the severely distressed housing in

America—86,000 units. In fact, in combination with HOPE VI and other demolition programs within HUD, we have to date actually demolished over 100,000 units, with another 40,000 units plus or minus a few, approved, upwards to 140,000 within the next year. The cost per unit we have found to be extremely high under the HOPE VI program as compared to the HOME program. It is 120,000 in the aggregate nationwide, which is considerably more than what we have found for similar type units in the HOME program.

There has been concern about time frames in which these programs in which the grants are actually implemented. We see successes such as in Denver, Milwaukee and Seattle, a very minority, 15 out of the 165 grants through 2001, only 15 have been completed. Whereas programs across the country—New Orleans, Cleveland, Gary, Indiana—we see projects struggling to stay on schedule.

A perverse incentive exists in the current program. That is, if we intend to address the most distressed housing, many times that is in part related to the capacity of the housing agency to maintain that property. Yet, we want to work with housing authorities that know how to spend this money and how to move in the development world. So we see a very fundamental tension in this program that we need to pause and look at and to work out as we move forward. This is one of the major reasons why we have found that the program has moved much slower than all of us would like to see.

The second issue that was posed to us was to address our public housing reinvestment initiative. In a nutshell, the public housing reinvestment initiative is a proposal which has been put forward by the Administration to further provide a tool to public housing authorities to access private sector capital for the purposes of rehabilitation and revitalization of public housing; $131 million has been put aside to support the credit subsidy involved, which is linked to up to an 80 percent guarantee of the program. This proposal is separate and apart from our HOPE VI initiative. It is one more in a line a other tools which we have developed over the last five or six years to assist public housing authorities going to Wall Street, going to the markets. We have approximately 50 housing authorities today that have either completed or are in the pipeline to get bond financing and debt deals which will allow them to access literally billions of dollars of private sector capital to assist their needs in dealing with backlogged capital needs. The public housing reinvestment initiative is one more tool, in addition to those which already exist today, to assist public housing authorities and agencies to move in this direction. These are tools which were not in existence 12, 13 years ago when the original National Commission on Severely Distressed Public Housing was in existence, or when they completed their report.

We are also asked to address the specific proposal, H.R. 1614, introduced by Congressman Leach. While we think that there are some very good ideas in that legislation, the specific targeting of small communities tied to we believe the Mainstreet program, and as defined in the bill itself, clearly is not linked to public housing. In fact, there is language there that specifically de-links it from the most severely distressed public housing, which I think is indicative

of our position, which is that there is need to reexamine some of the underlying fundamental issues before we move on.

The next question that we were asked to address——

Chairman NEY. I would note, not to interrupt, but the time has expired. If you would like to summarize?

Mr. LIU. In the end, Mr. Chairman, we think that the program has met its primary goal, the initial goal of eliminating the most severely distressed public housing. It has some inherent conflicts which we need to review, and it is time that we do so.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Michael Liu can be found on page 49 in the appendix.]

Chairman NEY. Thank you. And also some questions may arise on the remaining issues that you had, or if you want to work them into the conversation, we can also do that.

With that, I did want to ask you, since you mention in the testimony about HOME units and also HOPE VI, and you show that there has been a big difference in being able to do those, why do you think there is such a big difference? Is it the Administration within HUD, or is it some difference of rules or regulations? Why would there be such a big difference in administering the two programs?

Mr. LIU. Those are one of the issues that we think is a valid issue for us to review and look at during this period, as we look forward as to what should be the next iteration of how we address the backlog needs. The fact that the HOME program has shown to be a much more cost-effective program, we have to do a better analysis to see exactly why. Flexibility may be one issue—the flexibility on the part of the entities involved in the development; the fact that the HOME program is not necessarily tied to use by public housing agencies, which in many instances may not be the best entities across the country to be involved in complex real estate-type of development.

Chairman NEY. Because both programs are leveraging low income tax credits and private funds, so they are both doing that. Both are administered under HUD. But has there ever been a comprehensive look at why one was working better than the other? You were talking about the housing authorities, maybe that is one part of it.

Mr. LIU. There has not been a direct comparison to the degree of analysis which would allow us to actually come forward with a more comprehensive answer at this time.

Chairman NEY. The other question I had, HOPE VI funds are distributed by way of the notice of funding availability, NOFA, which is published by HUD each year. The fiscal year 2002 revitalization notice of funds availability on July 31, 2002, for which applications were due by November 29, 2002, and the awards were announced March 5, 2003. The fiscal year 2002 NOFA, demolition NOFA, was published on April 4, 2003, with the applications due by June 3, 2003. Can you explain what takes it so long—what is the delay time in there to be able to publish the NOFA?

Mr. LIU. For fiscal year 2002, we went to considerable lengths to adjust the program to deal with some of the concerns that we had; to streamline the process for public housing agencies once they did

receive their grants, so that we could mitigate the concerns that we saw of grants made prior to that point in time. So from the standpoint of that work, to review what we thought would work, to get views from those involved in development and with the housing agencies, that is what took us the time in order to get our NOFA out in the time frame that we did.

Chairman NEY. Because on the other hand, you hear housing authorities who people will say, well, they have a delay there, but they might come back and say, well, the delay is actually here in Washington; $500 million is in the pipeline, but it is sitting here because it takes a year to get the NOFA out. That is the other side of the argument.

Mr. LIU. Well, the time frame that we are talking about here, Mr. Chairman, just deals basically with—we are not counting any time in which it takes them to apply and in which the award is granted in order to, in terms of our global view of what is at issue and what is a problem here. I think even if you discounted the grants made in 2001, there were 16 made in that year. The remaining 149 of those we only had fewer than 14 which were completed by the end of fiscal year 2002.

Chairman NEY. So for this year the grants will come out quicker?

Mr. LIU. We believe that we will need less adjustment so that we certainly anticipate that we will be able to get a NOFA out a few months earlier, and that the process will probably be accelerated.

Chairman NEY. And one note, agencies will run into this all over the government. I just wondered if internally there has been any type of look or consideration of how possibly to streamline it or if anything has been discussed?

Mr. LIU. Absolutely. In terms of, we have cut our review process, which used to take upwards of four months, of five months, because we have changed the application process where housing agencies have to be much more project-ready. The actual review process is much shorter. I think we took approximately six weeks instead of the normal three to four months that it would take once the applications came in.

Chairman NEY. The final question I had—you mentioned several alternative methods for revitalizing distressed public housing, such as bond financing and property-based initiatives. Today, not all the public housing agencies have the expertise to use the alternative methods that you do discuss in your testimony. How do you propose that the smaller, more rural communities address the revitalization and redevelopment needs?

Mr. LIU. Actually, we find a tremendous number of the smaller and modest-sized housing agencies around the country are able to access capable advice and guidance from either consultants or people associated with local and state organizations to assist them. I can rattle off a few names of cities now which would give you an example. We have Marquette, Milwaukee, Suffolk——

Chairman NEY. Not to interrupt, but I have been told there is a total of about 50.

Mr. LIU. Approximately 50 that are right now in the queue, but there are more every day. We get calls every day, and we have done, again, these account for close to probably $2 billion or $3 billion.

Chairman NEY. I appreciate the effort, but it is 50 out of 2,600, we have got to somehow work together to get the curve up.

Mr. LIU. Understood.

Chairman NEY. Thank you.

The gentlelady from California?

Ms. WATERS. Thank you very much.

I don't know if I have a question as much as I have a statement. I am struck by how dispassionately we are discussing this issue, when in fact there is a housing crisis in America, and certainly a housing crisis among poor people and working people. As I understand it, most Housing Authority Directors were never considered to be experts as developers and contractors. They took the jobs basically described as jobs that would manage public housing under the public housing authority. So if we know that, what then is HUD's responsibility to help develop that capability, rather than sitting back and saying, oh, we gave you some money and you didn't get it done; you are too slow; you don't really know what you are doing.

What is HUD's responsibility in helping with this new mission that is now on this public housing authority to eliminate distressed housing, and I guess build more units. What is your role? What do you do to assist them?

Mr. LIU. Congresswoman, since the start of the program, it is my understanding, and we certainly have staff which have been with the program for the time frame that it has been in existence, we get nothing but compliments from the industry organizations on the professionalism and the outreach and the efforts made by our staff to work with those housing agencies that not only receive grants, but those who have attempted to get grants and are interested in the program. We currently are very active in working with NAHRO and FATA and CLAFIN and the various organizations in permitting staff to be out at their conferences to provide information and background on the programs.

Ms. WATERS. If I can take back my time, I hate to interrupt you, but we only have so much time. Really, the proof of the pudding is in the eating. You get all these compliments—what are they saying now that you are not reauthorizing the program? You do not want to put in any more money, and the compliments do not mean anything. The whole idea was to do something about this distressed housing, and I suppose provide some safe and secure situations for people to live in. So I guess what I am saying is, I guess what you are telling me is you think you have done a good job.

Mr. LIU. Congresswoman Waters, I think we have done what the program initiated in regards to both the demolition, but we would all agree, I think there is a consensus that a lot more has to be done to focus our energies in ensuring that the units that were promised need to be built. Less than 25,000 of the promised 85,000 units that were projected to be built under the program have been completed.

Ms. WATERS. So what are you being complimented on if your assistance has not resulted in the building of those units?

Mr. LIU. We have been complimented on the fact that we have tried mightily, working with many entities, that as you have point-

ed out, were not initially capable. These are one of the fundamental issues.

Ms. WATERS. Are you saying then that you have failed? That despite all your hard work and everything that you have done, you have just failed to be able to help the housing authorities get the job done?

Mr. LIU. One of the fundamental issues that we do have to examine here and which was I think raised by Chairman Ney, is whether or not public housing agencies are the only entity that should be involved in developing housing; whether or not in terms of HOPE VI, whether or not they are the only entity that should be considered to be grant recipients. Right now, many of them work with private developers under contract, but there are some opinions out there that perhaps a redevelopment program might work better working directly with other entities.

Ms. WATERS. Let me just say this, I think it has taken HUD too long, and I am not accusing any one Administration, because this crosses Administrations, has taken too long to come to the realization that, hey, something is wrong here. I mean, given the fact that you are now coming to that conclusion and you are moving in some ways to privatize and make sure that you have some loan guarantees by which to get some companies in there I guess who want to do this work and all of that—let's agree that we can chew gum and walk at the same time. We do not have to stop and say, well, we just discovered we have not been doing such a good job; let's take another few years and do a study. Let's authorize this program, reauthorize it. Let's keep the money flowing. Get the private sector in there. I do not care. I understand what some of this is about. I do not necessarily agree with it all the time, but I get it. Let's get the private sector in there and let's keep moving so that we can do the demolition and we can do the building and the rehab or whatever it is it takes to get it done. That is not a question. That is just my opinion.

Thank you, Mr. Chairman.

Chairman NEY. The gentleman from Ohio, Mr. Tiberi?

Mr. TIBERI. Thank you for coming, Assistant Secretary Liu.

Back in 1989, I was volunteering in a project in what is currently my district—it was not my district at the time—and ended up actually starting a learning center with a teacher from the Columbus city schools. That project was a pretty horrible project. It was unbelievable in terms of, it would not have met building code at the time. That is how poor it was in terms of its shape. That was one of your HOPE VI projects that I would like to tell you is now done and completed and quite nice.

Having said that, however, and that would probably be considered—and there were three in the district that I represent that have been successful—at the time, that particular project when it was built was criticized by many in the community, and watch dogs around central Ohio, because of the cost of that particular project. In fact, an argument was made at the time, and off the top of my head I cannot remember the actual number, that you could have taken every resident that was being displaced and replaced back into the new facility, you could have taken each one of them and built a house for them at the cost under the HOPE VI program

that it cost to rebuild this new facility, that was once called Windsor Terrace and then was renamed Rosewynne; again, very nice.

My question to you is with respect to the HOPE VI projects, because I certainly do not have the understanding that you have across the country with respect to HOPE VI, is there any concern internally that the criticism was somewhat legitimate? That you could have provided maybe homeownership to some folks, rather than rebuilding the unit in terms of these costs that were incurred to replace what was there—which by the way, absolutely needed replaced?

Mr. LIU. Congressman, that is a very insightful question. The question of providing other opportunities in addition to rental housing as part of the concept of HOPE in housing is certainly one which in fact was envisioned by the original writers of the final report on the National Commission on Severely Distressed Public Housing. Until recently, we have not really seen more developments, more plans under HOPE VI which provides homeownership as a key component part of the HOPE VI plan. They have been more in a very smaller supportive role, and unfortunately many times to a great degree in market rate versus designed to work with various other subsidy programs and supportive programs to provide public housing residents with the opportunity or the chance to perhaps qualify. That is changing a bit around the country, but definitely it has been a concern of this Administration.

Mr. TIBERI. That the cost of these units just not only in Columbus but also throughout the country exceeded maybe expectations at the time, and that other opportunities to provide maybe even better housing, at what it was costing to provide this type of housing could have been done for the best interests of the residents?

Mr. LIU. One of the fundamental problems that has dogged the program has been the difficulty on the part of the applicants to project costs in a much more accurate fashion. Total development cost has been one of those.

Mr. TIBERI. I know the Housing Authority Director in Columbus believed it was a good program for Columbus, but there was criticism from the outside in terms of what the costs were. I have a little bit more time. I wanted to just touch on one other thing. Low-income tax credits has been in the news lately with respect to the issue of the dividend tax cut, what impact it would have on low-income tax credits; the impact of proposing this elimination. What would it mean to housing, in your opinion?

Mr. LIU. Congressman, we certainly will defer to Treasury for the Administration's formal statement on this issue, but I will point out from a personal standpoint, from history, at the outset the low-income housing tax credit program in fact was a program that was invested in mainly by small investors. It was only after some time evolved in the program did the large corporate investors get into the picture. So perhaps we are just at another point in evolution.

Mr. TIBERI. Well, I certainly thank you. It has certainly been a success in central Ohio.

Thank you, Mr. Chairman.

Chairman NEY. Thank you.

Mr. Scott from Georgia?

Mr. SCOTT. Thank you very much, Mr. Chairman, and Assistant Secretary Liu, thank you very much for coming.

I guess the nature of my question is sort of, where do we go from here? You have mentioned the issue of need, today's need in terms of an issue of whether we continue this. When Secretary Martinez was before the committee, I put some questions to him, and I was left with the impression that all hope is not lost to revitalize this whole program. On a visit that I had to the White House some time ago, I mentioned the question to President Bush. He said that discussions can still be forthcoming, but there are major, major concerns.

I would like us to start off from the premise that why we need to save this program; why we need to do it. I was very interested in the responses that you gave as to some of the reasons why you think it needs to go out. When you do a cost-benefit analysis, in this case I think we can safely say that the benefits of keeping the HOPE VI program intact and moving it with some changes, with some clarifications, I think we do need to address the issue that you raise of how we can move more quickly in the process.

I think also the issue of some of the displacement of some of the people—are we creating more of a problem—can be addressed. But when you look at my city of Atlanta and you look at what has been done there, I would like for us to look at the success of what we have done there—not just Atlanta, but I represent Atlanta. There are some other places—Boston, Seattle, some of the other communities—who I am sure have done equally well. Given the major need that we still have, wouldn't the more responsive thing to do, given the need for housing, given the success of this program, and as I pointed out to the President and to Secretary Martinez, this is indeed a Republican initiative. That is to be applauded, and we applaud it. It does all of those things. It brings about responsibility. It takes people from living in a mound of public dependency. It takes people who were once living that way and tearing down and demolishing those units that were basically for welfare recipients, and turning them into where people of mixed income can live and grow together. But the most important thing that it has done is it has stimulated those communities all around it.

In Atlanta, all around the Carver Village, which is in my community in my district, we have taken $44 million of federal tax dollars and we have converted that into almost $200 million by building shopping areas and revitalizing those communities. So I am not clear on the evidence, that we have enough evidence to justify doing away with this program. It seems to me that I think your biggest leg that you are standing on here is one which you mentioned, the cost per unit in comparison to your HOME block grant program; that it costs—did you say?—about 33 percent more to build one of these units than that. Can we not try to find out why that is happening, and maybe address the specific issues within this program, and put things in the bill that would address those and not turn this program out? What is that difference, the 33 percent? Why does it cost that?

Mr. LIU. Congressman, some of the issues that you raise and which you pinpoint, and some of the issues related to cost, some of the issues related to timing and timeliness of these projects, go

to some of the very premises of the HOPE VI program, which will require lots of debate. I have already mentioned one in regards to what are the proper entities in the community. In Atlanta, certainly the public housing agency appears to have been extremely successful. I have been there. I know Ms. Glover and I think there has been a lot of accolades rightfully so provided to your city and to your Administration there. But by far, Atlanta is the exception rather than the rule—the very rare exception. So I think a healthy debate on what entity should be involved in development has to take place, and that is a tremendously controversial subject. I would be the first to indicate that.

Whether or not we are in fact providing options to people, or the belief that they can move on beyond public housing, the jury is still out. The mixed income model works to the extent that we have dealt with where we have been able to build the units to provide better housing. But having we in fact provided people the encouragement to move beyond public housing once they have received those wonderful units? We do not know as yet.

Chairman NEY. The time has expired.

Mr. SCOTT. Alright, thank you.

Chairman NEY. Mr. Watt of North Carolina?

Mr. WATT. Thank you, Mr. Chairman.

You have indicated in your testimony that you think HOPE VI has served its purpose. I am wondering whether that means that there are no more severely distressed housing units throughout the country. Is that what that means?

Mr. LIU. Congressman, from the standpoint of what was identified in the national commission's report on severely distressed public housing, where they estimated 86,000 units, the fact that we have moved forward in a very deliberate process to review severely distressed housing over the past 10 years and we now are in the situation where I can state that we have demolished over 100,000 units——

Mr. WATT. I know the numbers game. I guess the question I am asking is, are there still severely distressed public housing units in America? I cannot believe that HUD is saying that there are not any, if that is what you are saying, because I know in my own community there are public housing units that are boarded up. They cannot be lived in because they are so severely distressed. So I just cannot imagine that HUD is telling this committee that there are no severely distressed public housing units left in America.

Mr. LIU. As I mentioned, congressman, I think the definition, which I think your legislation and Congressman Leach's legislation attempts to deal with, and which others have commented on, is one of the fundamental issues that we have to ask ourselves.

Mr. WATT. There is really nothing in my legislation that deals with the issue of severely distressed public housing. My bill and Mr. Leach's bill address some of the concerns that have been raised about the Administration—first of all, the displacement of residents which we think ought to be made a high priority in the consideration of applications, the delays that have occurred in commencing and completing projects which we think should be addressed in the reauthorization of HOPE VI. I mean, we start from the presumption that there continue to be severely distressed pub-

lic housing units. I guess the thing that I am a little distressed about is that HUD seems to now be saying that that is not the case. We can pursue that discussion.

Let me just talk about a couple of other things that you mentioned, and give you my perspective on them because I think—and maybe we will get more information about these things. You talked about the time frames for completing these projects. My perception was always that it would take longer to build a community, which is what most of these HOPE VI projects have been about, than it takes to build a house, or it takes to build an apartment. If you were just going to tear down the existing distressed public housing and build back on the existing footprint, you could do that fairly quickly. But all of these things, it seems to me, take longer because you are building—the whole process of HOPE VI was to build community, not just housing, not low-income public housing. You were trying to build a community through HOPE VI.

The cost per unit, it seems to me, is just a—unless you define it in some other way—if you take the cost of all that was done in Atlanta around rebuilding that community and you divided by the number of housing units, you are absolutely right—it is going to come out to something that is higher than building the public housing back there. The cost of building a community is higher than the cost of building a public housing unit, but that was the whole philosophy of HOPE VI in the first place—not to just build concentrations of blocks of housing that there that really—you know. So what I hear you saying is that HOPE VI has been maybe a victim of its own success. I thought some of the things that you are now describing as problems with HOPE VI were the very things that we set out to try to accomplish through HOPE VI.

So I know my time is up, but let me just make this point. I guess I am disappointed that today your position seems to be substantially different than the one Secretary Martinez was expressing. We now have had three different positions on this. We got the budget that says we are putting nothing in it for HOPE VI. Secretary Martinez came a couple of weeks later after that and said, well, we do not really intend to terminate HOPE VI; we just want to improve it. I said, well, okay, give us what you want to improve it with so we can start talking about it. And now today, I am hearing there are no more distressed housing units in America. We don't need the program. So you have got to figure out what it is you are saying at HUD and in this Administration before we can move forward, because those are three entirely different positions that we have heard.

Mr. TIBERI. The gentleman's time has expired.

Mr. WATT. Thank you, Mr. Chairman.

Mr. TIBERI. I would like to recognize Ms. Carson from Indiana.

Ms. CARSON. Thank you very much.

I do not want to be problematic because I realize you have very tough choices here. Understand that I come from Indianapolis, Indiana where we have the highest rate of home foreclosures in the country, the highest rate of bankruptcies in the country, and borders on the highest rates of unemployment. So I am up here trying to squeeze anything out of a bloodless turnip that I can, so I am sure you would respect that.

My question is, you want to move toward a more cost-effective process for HUD and public housing, so eliminating HOPE VI, eliminating the baby in the bathwater and the wife is one way you want to be more cost-effective. Does the Administration have its level of cost-effectiveness resources in the budget on the way to approval, and if so, at what amount? That is a difficult question, but I am not well today. I just cannot get this in my head.

Mr. LIU. Congresswoman Carson, I will point to the various tools, many of them which are not in the budget today because they do not have to be in the budget. We have our bond and debt financing tools which work with the capital fund in moving to work with cities, they work with the capital fund and our operating subsidies where we can leverage these dollars to produce bonds—in Chicago, a $300 million bond last year alone. We have bonds in the pipelines, bond deals for one entity for $700 million. We have interesting loan proposals.

Ms. CARSON. Excuse my interruption—are you backing those bonds? Are we in some kind of crap game or what? Are you putting the resources behind the bonds that you are getting?

Mr. LIU. Yes, we are; yes, we are. Through our capital subsidy program, we are putting together—we have the resources needed and there is a process in place where we provide, with the housing agency, working with them, the debt service dollars which provide the comfort for Wall Street to issue these bonds.

Ms. CARSON. So instead of HOPE VI, you spend around behind the bonds, guarantee the bonds, work with the housing authorities who in turn will replace this in a way that you find feasible and appropriate?

Mr. LIU. Exactly.

Ms. CARSON. You see, I am easy to get along with, even though I do not agree with you. You know what I mean?

Mr. LIU. Understood.

Ms. CARSON. But I respect your position on this.

Thank you, Mr. Chairman. I yield back—I am sure he is happy—the rest of my time.

Mr. TIBERI. Thank you.

I would like to recognize Mr. Clay from Missouri.

Mr. CLAY. Thank you, Mr. Chairman. Let me also thank Ranking Member Waters for holding this hearing also, and thank you, Assistant Secretary, for being here.

Let me say that HOPE VI is a vital program of the housing umbrella that has the unique mandate of placing people of varying economic levels in the same community. I represent St. Louis, Missouri. We have a very successful HOPE VI project going there. I noted that you came down pretty hard in your testimony on public housing authorities. I assume that you intend to turn over their authority to the states through grants or block grants. Is that the way that HUD is going?

Mr. LIU. That is for the section 8 program, and our proposal on HANF, Congressman Clay, but that does not affect the public housing program. We are not proposing a block grant for the public housing program.

Mr. CLAY. How does HUD plan to replace demolished units?

Mr. LIU. Currently, for those housing agencies that have not been able to participate in the HOPE VI program, they get their capital fund subsidy on an annual basis. Through that capital fund subsidy, housing agencies today, whether or not they are part of the HOPE VI program, have some means to deal with the capital needs, backlog needs, revitalization needs in their public housing units.

Mr. CLAY. How well is that going as far as people that are displaced? Are there plans that will return them to the developed properties? If there are, how well is that going as far as placement?

Mr. LIU. Well, back to the HOPE VI program specifically, that has been one of the major criticisms which we recognize of the program—that there is displacement or there is concern about being able to be relocated back into those units. Let me clarify. The program does require today that the housing agencies provide a relocation plan, and every family is promised a voucher that they, working with the housing agency, can use in the interim while units are being built. Not all families take advantage of that, and there have been criticisms that not enough units have been built back on the footprint or on the sites that we are talking about. Of course, a number of years ago a federal law was passed which did away with the one-for-one replacement requirement, so that housing agencies and HUD and the states and the counties and the cities no longer have a requirement to replace one-for-one every single public housing unit which is demolished and planned for redevelopment.

Mr. CLAY. Wait a minute. Now, we are getting into philosophy here. Do you feel as though HUD has a responsibility to actually provide housing or decent affordable housing for those who are in need of housing?

Mr. LIU. Absolutely. That is HUD's mission.

Mr. CLAY. You still have that mission?

Mr. LIU. Absolutely.

Mr. CLAY. Okay. Let me ask you about the application process. You kind of talked about that in your testimony, about the PHAs having problems with that. We have many more applications than are processed each year. What do we do with the applications from the previous years?

Mr. LIU. Those applications which have been submitted and which have not been successful are considered unsuccessful applications and we have a level playing field each and every year as we move forward. The work they have done may be very good in terms of their experience for another application, or as a framework for them to proceed on their own redevelopment without the HOPE VI dollars in place.

Mr. CLAY. Okay. Thank you, Mr. Secretary. Let me say that since I have heard the criticism that there is a lack of resources, why wouldn't we stay with HOPE VI?

Mr. LIU. Congressman, as I have pointed out, when you step back from the minority of cases when there have been successes, the overwhelming majority of grants have not been completed. We still need to focus in HUD and the housing agencies which have that money—it is going to be $3.5 billion by the end of fiscal year 2003—to make sure that the promises made in those applications

will come to fruition for the betterment of those communities, as well as the residents involved.

Mr. CLAY. Okay. So what happens in a community like St. Louis? Do we just now—do we aggressively pursue high-density communities and make them all section 8 public housing? Is that where we are going with this?

Mr. LIU. Not at all. As I indicated, today separate and apart from HOPE VI there are many communities that are embarking on very aggressive revitalization of the public housing in surrounding communities, using the resources that they have not, without HOPE VI.

Mr. CLAY. How do we get the mixed income?

Mr. LIU. They are making them mixed-income. You can make them mixed-income.

Mr. CLAY. Is it working, do you think?

Mr. LIU. The jury is still out.

Mr. CLAY. Thank you, Mr. Chairman.

Mr. TIBERI. The gentleman's time has expired. Thank you.

Ms. Lee is up next.

Ms. LEE. Thank you, Mr. Chairman. I want to thank you and our ranking member and our Assistant Secretary for this hearing. Forgive me for being late. If I ask a question that has already been answered, I apologize. I will take your testimony, however, and read it very carefully.

I want to ask a couple of things. Well, all of us of course have benefited—our districts have benefited from HOPE VI. Just in my own area, I believe we have about $12.7 million in HOPE VI grants. But one thing that some of us are noticing is the Administration's focus more on homeownership as a priority. We all support homeownership and believe that that is the American way, but in doing that tend to undervalue and under-fund public housing. For example, there is no request, again, for HOPE VI in the budget. The drug elimination program has been completely forgotten, I guess, and we are trying to see how we can restore that. But the section 8 vouchers, you are going to block grant it, or are trying to block grant it to the States. With the desperate need of housing in this country, I would think that HOPE VI and the drug elimination program, section 8 should be increased and accelerated, and even presented to our constituents in the country as a priority, when really it looks like there is a retrenchment on public housing. Could you comment on that just in the context of HOPE VI and what you just said about the funding? If I heard you correctly, you are saying that the grants have not all been executed. I would think that you want to make it work, the community groups want to make it work, public housing authorities in cities and counties and this committee—everyone wants to make it work. So why isn't there more focused effort to make it work, rather than say it is not working, so we are not going to fund anymore?

Mr. LIU. Well, congresswoman, I think you have actually placed the emphasis exactly where we want to go, which is to use our resources over the next few years to ensure that the $3.5 billion for revitalization, which will be in the pipeline by the end of fiscal year 2003 or at least by the end of the calendar year 2003, be used, be managed, be leveraged, so that we can build those units; so that

we can provide the supportive services; so that we can provide an array of options for public housing residents, rather than adding to the pipeline; adding to a program that still needs to meet all of its goals in every city across America—not just in some cities, but in all of the cities where the actual dollars exist right now.

Ms. LEE. But you are saying $3.5 billion has not been spent?

Mr. LIU. By the end of this calendar year 2003, there will have been $3.5 billion not spent. As we speak right now, there is $3 billion in the pipeline.

Ms. LEE. Okay. Does that $3.5 billion, even if it is spent, meet the need in terms of affordable housing and in terms of those individuals and families that need this type of housing and public housing specifically?

Mr. LIU. Well, for HOPE VI, for the particular communities that are receiving the grants, we think that, and we hope that based on what has been provided to us in terms of the need, that yes, the dollars are there to provide what is planned by that housing agency in that city. Understand that it is hoped that this $3.5 billion will also leverage many more dollars of the private sector and other resources from other parts of government so that we are really talking literally in some instances, well as a whole we are probably talking hundreds of millions of dollars that will be flowed toward these various HOPE VI projects, without reauthorization in 2004.

Ms. LEE. So there is a loss of—what?—$574 million from the program for this year, for 2004?

Mr. LIU. For 2003, it is $574 million for the overall program, and of course we are not proposing that the program be funded in 2004.

Ms. LEE. Okay. Why wouldn't you want it funded? Why wouldn't you want more communities to benefit from HOPE VI?

Mr. LIU. We believe that there are some fundamental issues as to, one, the definition of what is most severely distressed public housing. We have been criticized. The program has been criticized by advocates of the program, by resident groups, as well as those who oppose the program generally that today, versus 10 or 12 years ago, there is a difference as to what might be considered severely distressed housing, and that it should not be in the eye of the beholder. There should be clearer definitions. There should be a clearer consensus understanding. We agree that there needs to be debate on this fundamental issue.

Mr. TIBERI. The gentlelady's time has expired. I would like to remind all the panelists that they can submit written questions to HUD for responses, and I am sure you will respond and it will be reflected in the record as well.

I would like to thank Mr. Liu for taking time to testify today. I would like to remind everybody that we have a second panel that we are going to have seated. Again, thank you, Mr. Liu, for coming today. I will ask the second panel to make their way up to the table and I will introduce the second panel, and give everybody an opportunity to——

Mr. WATT. Mr. Chairman, did Mr. Leach not have any questions?

Mr. TIBERI. Mr. Leach did not have any questions, but thank you for bringing that up. You have supporters out there, Mr. Leach. I am going to allow Mr. Leach also to introduce one of the panel members who is from the Hawkeye state.

Mr. LEACH. Would you like me to do that now, sir?

Mr. TIBERI. Sure.

Mr. LEACH. Mr. Chairman, first let me thank Mr. Liu for appearing, and simply, Mr. Secretary, to indicate that you are going to be followed by a State official from Iowa. So as distinguished as you are, you are going to be over-shadowed.

In any regard, Mr. Chairman, I would like to indicate that one of our next panelists is Mr. Tom Guzman from the State of Iowa. Tom represents the Iowa Department of Economic Development's Main Street Program. Tom is one of the leading experts in the country on Main Street-types of economic development. He has consulted on programs in Arkansas, California, Colorado, Connecticut, Illinois, Maine, Michigan, Mississippi, Missouri, New Mexico, New Hampshire, Ohio, Oklahoma, Oregon, South Dakota, Washington, and Wisconsin. I only stress this to note that rural America faces severe housing and economic development challenges, as well as urban; and secondly that Mr. Guzman is, from my perspective, the second leading authority in the world on this subject. I stress second, Tom, because 28 years ago when I was a young candidate for the Congress, I attended a series of meetings throughout my district seeking office, and there was a lady that often attended, similar Rotary's and Kiwanis', talking about Main Street as it was originally put together. My talking about a balanced budget did not seem to get anywhere. Her talking about Main Street did. So I promptly asked her to marry me, and I have become a long-term advocate of the Main Street program. I would hope that as this bill goes forward, people would recognize that there are parts and parcels of housing that do apply, and economic development that apply to communities under 30,000. The Iowa model, I think, is an impressive one.

Thank you for allowing me to introduce Mr. Guzman—a first class individual and an expert on the particular subject.

Chairman NEY. I want to thank you.

The next panelist—Mr. Scott, do you have any additional comments about Rene Glover? Mr. Scott has made an introduction of the Executive Director of Atlanta Public Housing. We move on to Mr. Howard Husock. He is a research fellow at the Taubman Center for State and Local Government. He is also the director of the Case Program at the John F. Kennedy School of Government at Harvard University. He has published numerous articles, as well as books on housing and entrepreneurship.

Next is Kevin Marchman. He is the Executive Director of the National Organization of African Americans in Housing, a nonprofit organization here in Washington, D.C. He has over 24 years of experience in the public housing field, having served first as director of the HOPE VI program at HUD, and then as Assistant Secretary for the Office of Public and Indian Housing at HUD. Previously, Mr. Marchman was the Executive Director of the Denver Housing Authority. I want to welcome you to the committee.

Susan Popkin is a nationally recognized expert on public and assisted housing, with more than 15 years experience in researching issues related to housing in neighborhoods. Her work focuses on a wide range of issues related to housing and neighborhoods. Brian Tracey is a Senior Vice President and Community Development

Market Executive for Bank of America here in Washington, D.C. Joan Walker Frasier is the chairperson of the Atlantic City Resident Advisory Board. She also serves as a State Delegate for the National Organization of Public Housing Residents, ENPHRONT. Ms. Frasier has been a resident of public housing for over 10 years. She is currently a resident at the Jeffries Towers, a public housing development in Atlantic City.

Last is Lisa Zukoff, who has been the Executive Director of the Wheeling West Virginia Housing Authority, my birthplace by the way, since 1997. Previously, she headed two other housing authorities. Ms. Zukoff has construction experience with rural rental housing projects and section 8 new construction projects.

Welcome. With that, we will begin with Joan Walker Frasier.

STATEMENT OF JOAN WALKER FRASIER, EXECUTIVE COMMITTEE MEMBER, JEFFRIES TOWER RESIDENTS ORGANIZATION, ATLANTIC CITY, NJ, AND ON BEHALF OF EVERYWHERE AND NOW PUBLIC HOUSING RESIDENTS ORGANIZING NATIONALLY TOGETHER (ENPHRONT)

Ms. FRASIER. Good afternoon. I am Joan Walker Frasier, State Delegate of the National Organization of Public Housing Residents, ENPHRONT. I am a public housing resident in Atlantic City, New Jersey, and an executive board member of the Jeffries Tower resident organization, and also an ENPHRONT State Delegate.

I want to first express ENPHRONT's strong position that there should not be any further reduction in the overall public housing appropriations account. Second, the HOME VI program should be re-funded and reauthorized. However, an authorized program can only be effective if comprehensive reforms are made. In lieu of a re-funded HOPE VI, appropriators should be urged to shift to the public housing capital fund any amount equal to the fiscal year 2003 HOPE VI appropriations. Furthermore, it is important to understand that a reformed HOPE VI can only work if Congress adequately funds the public housing capital and operating funds in order to prevent further deterioration of public housing stock. In reauthorizing HOPE VI, it is important that Congress align the program with the original goals and recommendations developed by the National Commission on Severely Distressed Public Housing. The commission's final report, among other things, emphasized that developments were to be revitalized and preserved through rehabilitation and replacement housing. The commission did not place heavy emphasis on demolition as a necessary activity to treat distressed properties. The commission also expressed support for replacing distressed public housing units with hard units that would be deeply subsidized.

ENPHRONT believes that another important step in reforming HOPE VI is to define concretely the terms "severely distressed." The looseness and lack of consistency of the definition, along with the lack of reliable data on the condition of properties, has made it nearly impossible to identify with any certainty the number of properties that are truly distressed. We recommend that HUD be required to develop a clear definition of "severely distressed" that reflects the opinion of residents, activists, public housing agencies, and housing experts. The agency should also be required to create

and maintain a list identifying properties that are severely distressed based upon the new definition.

The loss of public housing units under HOPE VI is another major area of concern. ENPHRONT strongly believes that the program should not result in the loss of hard units that are affordable and targeted to extremely low-income households. There are several ways to reform HOPE VI in order to address this. For instance, a reformed program should allow HOPE VI funds to be used in conjunction with project-based vouchers in order to facilitate the production of more hard replacement units. In addition, reform should remove all barriers to combining HUD funds.

ENPHRONT is also concerned about the large number of residents who do not return to revitalized communities. We believe that residents living in a property anytime in the one year period preceding submission of the HOPE VI application and who remain public housing residents or receive voucher assistance should have the right to live in units developed under HOPE VI. H.R. 1614 can address this concern by adding to the selection criteria and element that looks at the extent to which the plan demonstrates that all reasonable steps will be taken to ensure that the maximum number of existing residents will be offered a priority for and are encouraged to reoccupy dwelling units in the revitalized community.

Resident participation is another area where reform is needed. Existing HOPE VI requirements fail to ensure that residents are engaged in the HOPE VI process in any meaningful way. H.R. 1614 attempts to address this concern by requiring ongoing participation in the redevelopment process. However, other reforms are needed if resident participation is truly to be meaningful. First, the selection criteria section of H.R. 1614 should be amended to require that HUD evaluate the applications based on the extent of early and sustained involvement in the application process. Second, housing agencies should be required to provide to resident organizations funds to enable them to retain independent technical assistance.

I thank you for this opportunity to testify and I urge you to review my full written comments, and look forward to working with you in the near future. Thank you.

[The prepared statement of Joan Walker Frasier can be found on page 55 in the appendix.]

Chairman NEY. I want to thank you, Ms. Frasier, for your thoughtful testimony. We will review the entire piece of legislation. Thank you for coming to the U.S. Capitol.

Next, Ms. Renee Glover.

STATEMENT OF RENEE GLOVER, CHIEF EXECUTIVE OFFICER, ATLANTA PUBLIC HOUSING, AND PRESIDENT, COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES, WASHINGTON, DC

Ms. GLOVER. Thank you, Mr. Chairman, and Ranking Member Waters, and the outstanding congressman from Georgia, David Scott.

I want to put a little bit of perspective around this discussion, because quite frankly I think we are talking about some very, very serious issues. I believe, based on our experience in Atlanta, that the HOPE VI program is probably the most significant economic development program that has ever been done in this country.

When I say that, you only have to look at the results, because we have a serious problem that is brewing in this country. We have inadvertently locked out too many Americans from the American dream. I will tell you in terms of getting to a description or definition of distressed public housing, you only need to look at the people. In Atlanta, in the large communities where we have not treated the communities with HOPE VI, we have families—and this is the average income—of $7,300 a year. That is not $17,000 that is not $70,000—that is $7,300. In all of the public housing communities, there is a captive elementary school. Those schools are at the flat bottom of the state. Even in the Appalachian areas, these schools are terrible performers and we have a very high rate of truancy. So people are not being provided an opportunity to pursue the American dream. We have a disproportionate rate of crime because, quite frankly, people prey on a sense of hopelessness.

The question is, and I think this is what the Congress should look at, is if there are thoughtful solutions that can solve these problems and reconnect the families to the mainstream of America, because I think a fatal flaw that evolved over the years with the public housing program was taking the people out of the mainstream, because the biggest cost is re-integrating families into the mainstream. We have developed 11 mixed-income communities. What is a mixed-income community? A mixed-income community is a market-rate community that has an affordable resource seamlessly inside of it. If the affordable component is not seamless, then you end up with the NIMBY-ism and the other types of resistance that you have in the programs. But guess what? It is working. The most frequently asked question that we got back in 1996 after we developed the first community is, who is going to want to live next door to those people? Well, shame on us as a society for coming up with a policy that creates a people called "those" people. Those people are you and I, and but for the grace of God could we be living in the communities.

So if we can, with the same dollars, leverage those resources, leverage the know-how in the private sector, and create healthy communities with great schools, because I also want to let you know that we are working with the school system. Schools that were at the flat bottom are now exceeding performance in the state. What that all means is that environment matters. We do not want to leave any children behind, but if we have children living in horrible conditions, then I believe we can do better than that. I think that we absolutely must reauthorize the HOPE VI program. There is a lot of focus on it takes too long. Well, it took us 60 years to develop a policy over time that ended up isolating families. Segregation around income is just bad public policy.

So I want to come back to you with a few thoughts in terms of reauthorizing the program. We have got 60 years of evidence that proves without any debate or discussion that concentrating poverty is bad public policy. We want to blame the families who grow up in these situations that often attract preying individuals and poor schools and poor social services and what have you, and then we want to say, why aren't those families more successful? Well, those families are not more successful because they have been cut off from the American dream. I believe we are better than that. So

let's stop concentrating poverty. But you cannot stop the concentration of poverty if the country is not prepared to make an investment in this program. That is what HOPE VI is. It is a thoughtful strategic investment that leverages private resources and that in fact creates a community of hope and excellence and most importantly, providing resources so families can be in the mainstream.

Secondly, we should leverage and work with the private sector and apply market principles. In every one of the distress public housing communities in a one-mile radius, there is total disinvestment around public housing communities. In fact, we use the term in Atlanta that these communities have become residential brownfields. Well, just like you have to make an investment to eliminate the brownfields effect of real estate, we have got to make an investment in terms of residential brownfields, because again as a country, we are better than that.

Chairman NEY. I don't want to cut you off, but the time has expired and we are trying to keep to the five minutes. I will let you summarize. It is very compelling testimony.

Ms. GLOVER. Thank you. A third recommendation—this needs to be comprehensive community building, and not re-building a program that was based on failed policy. The true weapons of mass destruction are hopelessness, a lack of strategic investment, leaving children and families behind, and locking them permanently out of the American dream. I believe that in the country, we have the political will and the corporate will to solve these problems. It works. We have proof that it works, and I urge this committee to be thoughtful about reauthorizing the Hope VI program.

Thank you.

[The prepared statement of Renee Glover can be found on page 61 in the appendix.]

Chairman NEY. Thank you for your testimony.

Mr. Guzman?

STATEMENT OF THOMAS D. GUZMAN, DIRECTOR, IOWA DOWNTOWN RESOURCE CENTER, DES MOINES, IA

Mr. GUZMAN. Chairman Ney, thank you for the opportunity to visit with you. I would especially like to thank Congressman Leach for his invitation to have us come and talk, perhaps from a different angle on the HOPE VI initiative. I would again like to thank you for the opportunity for me to share some of my thoughts concerning the HOPE VI program, and the reauthorizing including the Small Community Mainstreet Rejuvenation and Housing Act of 2003.

Main Street Iowa is in its 18th year of providing technical assistance and capacity-building services to Iowa communities committed to improving the social, physical, economic and political values of their city centers. Through a lot of hard work from hundreds of community leaders across our State, Main Street Iowa today is recognized nationally as one of the most successful Main street models in the country. Because of their efforts, Iowa Main Street communities have received the Great American Main Street Award six times. It has only been awarded 40 times in the country, and six of those are within our great state of Iowa.

Iowa is a state of low population growth. Most of our counties and most of our communities actually experience population loss. Despite this trend, the 2000 census revealed that 74 percent of Iowa's Main Street communities, regardless of where they were located in the state, experienced population gains, which means that they are being allowed to thrive, not just survive, as many other small towns are in our country. The Main Street Approach (R) is a copyrighted and trademarked program of the National Trust for Historic Preservation. It is an economic development program within the context of historic preservation. Since the early 1980s, almost 2,000 communities nationally have utilized the Main Street Approach (R). It is successful because it sets high standards for communities to aspire to. Communities that consistently meet these standards are recognized as nationally certified Main Street communities. In Iowa, about 75 percent of our communities achieve this designation annually.

As part of the program, Main Street communities are required to track their incremental economic impact. Since 1986, Main Street Iowa communities have recorded the following impacts—and you need to recall, this is a state with small communities and small populations. We have a net gain of over 2,300 business starts, expansion and relocations in our Main Street communities that employ over 6,500 people full time. Thousands of local citizens have invested over $363 million into downtown building rehabs, purchases and construction. What is really amazing is the private sector ratio, when you compare that to the state investment in operating the state Main Street program. Last fiscal year, for every dollar that the state invested in the state Main Street program, the private sector invested $131. Since we started the program in 1986, it is a 51 to 1 return. I am willing to bet that there are very few state or federal programs that can match that kind of excellent return.

In 2001, we built a partnership with the Federal Home Loan Bank and with the Iowa Finance Authority to create a new loan pool offering low-interest commercial loans to rehab upper floors, renovate old downtown buildings, and for new construction. Last month, we are pleased to say that we celebrated our first $1 million milestone. That may seem small to an awful lot of people, but all of these but one project that we funded were in towns under 12,000 in population—truly small towns. However, access to capital for downtown development projects like upper-floor housing is always scarce. Federal programs do not seem to fit the needs of Iowa communities because they do not fit the criteria for eligible projects or the project minimums are just way too large. Talking about HOPE VI today just astounds me, at the amount of dollars that we are investing and what I could just think what those could do in smaller communities. Most of the federal programs are targeted for larger urban areas and offer little opportunity for utilization by rural America. We understand that the need is great in urban America. However, the needs of rural America are also great and should be addressed as well.

We must invest in the revitalization and rejuvenation of our smaller communities who have made the commitment to invest in themselves, Main Street communities. They have the organiza-

tional capacity necessary to efficiently utilize development tools. Making these tools available for Main Street communities under 30,000 just is smart business.

HOPE VI reauthorization is an excellent example of how we can fine-tune an existing legislative authorization and make it relevant and useable for America's smaller communities to address affordable housing. This reauthorization does not authorize new money for this partnership. It merely takes advantage of existing monies that could already be authorized. By including criteria, this could allow America's smaller communities to participate in providing affordable housing.

I want to admit that I am not an expert on HOPE VI. That is because it, as currently authorized, there is no opportunity for us to use it in our State. However, we need HOPE VI to be reauthorized. We need it to include language allowing small states like Iowa the opportunity to develop affordable housing for low-income families. I can truly visualize hotels, upper-floor apartments and economic vitality to communities as a result of this.

The signature of America is embedded in its smaller communities. Developing tools which assist in making them stronger, more livable communities is good for every state in our nation. By doing so, we strengthen the economic, physical, political and social health of our country, and that is a very good thing.

Thank you.

[The prepared statement of Thomas D. Guzman can be found on page 78 in the appendix.]

Ms. HARRIS. [Presiding.] Mr. Guzman, thanks so much for your testimony. The Main Street Program—you bring a whole different orientation to this. I had the opportunity to oversee those in Florida. They were extraordinary, so I thank you for your testimony and your quick summation.

Mr. Husock, thank you for being here. Welcome, from Harvard Kennedy School.

Mr. HUSOCK. I believe that the chairwoman is in fact an alumna of the Kennedy School.

Ms. HARRIS. Yes, I am an alumna.

STATEMENT OF HOWARD HUSOCK, ALFRED TAUBMAN CENTER FOR STATE AND LOCAL GOVERNMENT, JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY, CAMBRIDGE, MA

Mr. HUSOCK. Thank you very much. I am Howard Husock. I am Director of public policy case studies at the Kennedy School and I am a contributing editor to City Journal magazine, published by the Manhattan Institute of Policy Research, where most of my writing on housing issues has appeared.

I am testifying in favor of the Department of Housing and Urban Development's budget proposal for the HOPE VI program. I am not sure—I might be the only one on this panel. There is no doubt that HOPE VI developments have replaced severely distressed housing and there is no doubt that they have provided homes which are better than their residents could otherwise have afforded. But beyond this superficial attractiveness, there are significant questions about HOPE VI which, especially at a time of budget constraint,

ought to be taken seriously. I would like to frame some questions for the committee that I hope you will take seriously.

Question one, are we confident that over time HOPE VI projects will be well maintained? It is important to keep in mind that the developments which previously stood on HOPE VI sites, were also hailed when they were built as a great step forward. This was even true of the public housing high-rises now so thoroughly discredited. It is a lot easier to cut ribbons on new projects than to maintain those projects over time. Like other public housing before it, HOPE VI faces fundamental challenges because by design, many of its residents have low incomes and thus pay low rents. These developments will depend on a combination of market rents and public subsidies. Neither of these is an assured income stream. We must always wonder whether those managing subsidized housing in addition have the capacity and the competence to maintain it over time. Their track record in the main—not every housing authority to be sure—but in the main has not been reassuring. So before we spend millions more on additional HOPE VI developments, it is far from inappropriate to pause to see whether those built to date can indeed be well maintained.

Question two, will middle-income tenants choose to live and remain in HOPE VI developments? Just because a development has designated a number of units for middle-income tenants or owners is no assurance, especially in a period of declining rents and real estate prices when other options may be affordable, that they will move in. I have already been told by a HOPE VI developer in Chicago he doubts he can attract the requisite number of middle-income tenants for a planned development in the city's State Street corridor. This is a crucial question for a couple of reasons. Not only will the developments need income to ensure proper maintenance, but income mixture, as has been alluded to before, is a key part of the theory of HOPE VI. It is based on the belief that higher-income households will set good examples for those of lower income. If it proves difficult to attract or to retain higher-income households, the developments could quickly become new versions of the housing they replaced.

Question three, can we be sure that that HOPE VI social experiment will work? We have proceeded on the supposition that the presence of middle-income households will provide positive role models and generally improve the social fabric in HOPE VI projects, but we should keep in mind, this is a hypothesis. It is not a proven approach. Sociologists have long recognized that it is difficult for households of significantly divergent incomes to establish deep relationships. We cannot rule out the possibility that instead of higher income households serving as role models for those of lower income, that instead there will be friction between the two groups. We have already seen this happen when section 8 rent voucher households have moved into higher-income neighborhoods, most famously in the south suburbs of Chicago.

Question four, is new housing designated for those of very low income in keeping with our larger goals for American family structure? By designating significant number of HOPE VI units for those of very low income, we cannot flinch. We must acknowledge the fact that it is highly likely that many, many of these house-

holds will be single-parent households. Such households, after all, dominate existing public and otherwise subsidized housing. HUD figures show today 6 percent of public housing households have two parents and children as residents. Among public housing families with children in which the head of the household is not elderly, not disabled, take the out of the mix, 88 percent are headed by single parents. HOPE VI risks providing new units for single-parent households, which in contrast to our overall public assistance policy, will come with no time limit. We have to ask whether we are providing better housing for single-parent families than that which lower-income two-parent families can themselves afford, and are thereby sending a message inconsistent with our broader efforts to encourage the social stability and effective child-rearing which two-parent families in the aggregate provide.

Question five, is HOPE VI making the best use of the land on which the developments have or will be built? Engaging the cost, we should not confine ourselves to the cost of construction and Administration. We have to keep in mind there are other things you could do with that land. In Boston, for instance, the HOPE VI development in the city's Mission Hill section occupies a site adjacent to some of the best hospital and medical education facilities in the world. It is quite possible that had that land been put up for public bid, that other private or nonprofit use might have been made of it, boosting the city's economy and providing jobs for poor people and middle-class people alike. Should we assume that simply because public housing has occupied a particular site, that subsidized housing of some kind must always occupy that site in perpetuity. If we do so, we risk creating what I call a frozen city, one in which economic growth is more difficult to attain. Keep in mind, the public housing in New York City today occupies and acreage equivalent to 156 World Trade Center sites.

I would be less than candid were I not to concede I am skeptical, it is pretty clear, about the wisdom of the HOPE VI program. Still, I hope that those committed to improving our cities, and especially committed to improving the prospects for the poor, will understand the sincerity of the questions that I have tried to raise here. The fact that in my view the answers to all are very much in doubt makes the proposal to pause, at this point and take stock of the program, the right policy choice.

Thank you very much.

[The prepared statement of Howard Husock can be found on page 83 in the appendix.]

Ms. HARRIS. Thank you, Mr. Husock.

Our next speaker is Mr. Kevin Marchman. Welcome.

STATEMENT OF KEVIN E. MARCHMAN, EXECUTIVE DIRECTOR, NATIONAL ORGANIZATION OF AFRICAN AMERICANS IN HOUSING, WASHINGTON, DC

Mr. MARCHMAN. Thank you. I am going to limit my remarks to just two issues this afternoon.

First, I want to review something that was said earlier today, and talk a little bit about the history of the HOPE VI office. I was fortunate enough to be recruited to HUD in 1994 to open up the HOPE VI office. Many people did not know it at the time, but we

worked on two tracks. It was the HOPE VI office and also the office dealing with troubled housing agencies. In the first two years of HOPE VI, many of those grants went to housing authorities who had issues. It was our responsibility to work with those housing authorities as they began to run the grants.

In 1996, the HUD inspector general released a report saying that the HOPE VI office simply did not have enough controls, and that we should add controls to the program. We started the office with two people. I believe now there are up to 50. I mention all that in terms of the time that it takes in order to do these HOPE VI programs. It has expanded, there is no question about it, but expanded for one real good reason. When we opened up the office, in agreement with Congress, we wanted to go through the total transformation of public housing in this country. We were not interested in simply replacing projects. We were looking at communities. We were looking at homes, and not projects and not units.

The fact is, yes, the HOPE VI office and the HOPE VI program is perhaps the best program that HUD has had in the last 25 years to work with public housing. There is no question that what it replaced is far—the HOPE VI replaced a program that needed terrible, terrible changing. The fact is that the HOPE VI program looked at families, looked at communities, looked at economic development. And the fact is, if you look city from city—and I probably could name you 25—HOPE VI has been a success in these cities. The cities that have issues have had issues in their Administration in any case, but even those are changing. I needed to make that clear.

I have had the opportunity to testify in front of the commission that set up the HOPE VI program some 10 years ago. We simply said, nothing less than total transformation is needed. It was not just about demolition of units. I have had the great fortune to run housing authorities throughout the country, in Denver and San Francisco and Chicago, New Orleans and Camden. When I was at HUD, I ran the program for four years and am now working with NOAAH, the National Organization of African Americans in Housing—we work with HUD in expanding opportunities for MBEs and WEs in the HOPE VI program. Flat-out experience tells me and it should tell you that the HOPE VI works and it needs to be reauthorized.

Thank you very much.

[The prepared statement of Kevin E. Marchman can be found on page 103 in the appendix.]

Ms. HARRIS. Thank you very much, Mr. Marchman.

Dr. Popkin, thank you for coming today to testify on the panel.

STATEMENT OF SUSAN J. POPKIN, URBAN INSTITUTE, WASHINGTON, DC

Ms. POPKIN. Thank you for inviting me to testify today on behalf of the reauthorization of the HOPE VI program.

The goals of HOPE VI are ambitious, seeking to address the physical problems of distressed public housing, while also improving the overall well-being of residents and promoting self-sufficiency. HOPE VI targeted some of the most beleaguered housing in this country—dilapidated public housing developments that had

failed to deliver on the promise of decent housing for the poor. The problems HOPE VI seeks to address are among the most complex and difficult to solve.

My remarks today are based on findings from the Urban Institute's research on the impact of HOPE VI on original residents. Our findings indicate that the effects of the program on original residents have been mixed, but on balance the story is generally positive. Where HOPE VI has been implemented effectively, most former residents have clearly benefited. In these cases, residents have moved to lower-poverty neighborhoods and reported real differences in housing quality, safety and improvements in mental health and outlook. However, there are still concerns and evidence that some former residents are struggling in the private market, that relatively few have returned to the new developments, and that large numbers face barriers to making the transition out of dilapidated public housing and to self-sufficiency.

In my full testimony submitted today, I highlight three findings from our research. First, and most significant, many former residents moved and made significant improvements in their living conditions. These families are living in better housing and less-poor neighborhoods than their original HOPE VI developments. Second, residents are facing challenges. A substantial proportion of families are struggling to find and keep housing in the private market. Many face challenges in facing higher utility costs and dealing with individual landlords. In sites with tight rental markets or where demolition far outpaces the production of new units, many former residents have ended up in other distressed communities. Finally, a large number of households face serious challenges, including disability and mental health problems, which threaten their ability to make a successful transition to either new mixed-income housing developments or the private market.

These findings support the continuation of HOPE VI, but also highlight the need for reallocation plans that reflect local rental market realities, offer better relocation services that provide housing search assistance to encourage residents to consider moving to lower-poverty neighborhoods, address the needs of hard-to-house residents such as the disabled, large families, households with members with criminal records, and those with complex personal situations, provide enhanced community and supportive services that offer residents both pre-and post-move services and include tracking and monitoring of residents.

Adopting these guidelines has the potential to improve outcomes for the original residents of HOPE VI developments by offering the opportunity for public housing families to move to better housing and safer communities—environments that can better serve the needs of these low-income families and help them to improve their life circumstances.

Thank you.

[The prepared statement of Susan J. Popkin can be found on page 108 in the appendix.]

Chairman NEY. [Presiding.] I want to thank the witness for her testimony.

Mr. Tracey?

STATEMENT OF BRIAN TRACEY, MARKET EXECUTIVE, BANK OF AMERICA ON BEHALF OF THE NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS, WASHINGTON, DC

Mr. TRACEY. Yes, good afternoon Chairman Ney, Ranking Member Waters, members of the subcommittee. Thank you for this opportunity to testify both on behalf of Bank of America, as well as the National Association of Affordable Housing Lenders.

Community development at Bank of America works to help build stronger and healthier neighborhoods throughout this country. Our associates at Bank of America do that by developing real estate, providing financing, and making equity investments all in low-and moderate-income communities, using a variety of financial tools and programs and working with individuals, government, nonprofit organizations and businesses in these neighborhoods. One of those tools is the HOPE VI program.

Community development at Bank of America has been involved as a lender, investor, or developer in more than two dozen HOPE VI projects in such cities as Atlanta, Charlotte, Los Angeles, Nashville, Baltimore, Seattle, Chicago and Houston. Public grant funds largely to HOPE VI resources have been used to leverage private debt and equity capital, often in the form of low-income housing tax credits to transform existing public housing sites, revitalize the surrounding community, and importantly, improve the lives of public housing residents.

Bank of America's first HOPE VI project provides an overview of how we view the program. First Ward Place in Charlotte involved the comprehensive redevelopment of an uptown city neighborhood. More than 30 government agencies, community groups and private businesses came together to transform the former Earle Village, a crime-ridden, badly deteriorated public housing complex, into a mixed-income urban neighborhood containing public housing units, affordable and market-rate apartments, townhouses and for-sale single-family homes. First Ward Place now has important community services previously nonexistent in this community.

Funding for First Ward Place came from a broad base of local support, not only Bank of America and the housing authority, but also nonprofit organizations, as well as the city itself. Our goal, and importantly the community's goal, for First Ward Place was to create a strong neighborhood of skilled, employable and economically independent residents living in a safe, comfortable homes with room for people from all income levels—homes where all of us in this room would be comfortable. Importantly, the transformation of First Ward Place, made possible by the HOPE VI funding, has resulted in private capital flowing to areas adjacent to the community, creating a multiplier effect often overlooked in judging the success of HOPE VI developments.

While HOPE VI has been an invaluable tool for neighborhood redevelopment and affordable housing, additional resources are needed. The proposal to assist public housing authorities to take advantage of established private capital markets, moving certain public housing developments to project-based section 8 and making more effective use of other mainstream affordable housing and community development financing tools would seem to be a compelling new resource for sustainable preservation of affordable housing,

but this should be viewed as a new resource, and not a replacement for the HOPE VI program. Bank of America and the other members of the National Association of Affordable Housing Lenders would welcome the opportunity to expand and deepen our role in the redevelopment of public housing in severely disinvested communities.

The implementation of any such proposal, such as the public housing reinvestment initiative, should build on existing established practice. Many lenders, including Bank of America, have significant experience in providing financing for properties with project-based section 8 vouchers. This experience can provide models for the implementation of any such new proposal.

Now, I touched in my written testimony on certain criticisms of the HOPE VI program, that being that progress is slow and is costly. While some of this criticism is valid, some is not. Initially, some public housing authorities may lack the experience to undertake real estate development work with private lenders, but one benefit of the HOPE VI program is the public-private partnership that is created by this program, which should ultimately result in the housing authority gaining real estate development skills. That is a benefit of this program. Also, many HOPE VI developments are complex by the very nature of the real estate itself, and would be slow to progress and expensive to develop regardless of the funding source. I think it is important that we distinguish the actual cause and effect for the cost and the degree of delay for these projects.

Finally, let me comment on just one other issue—managing change in a HOPE VI neighborhood. Importantly, neighborhood goals are identified early in the HOPE VI process, with government and the community given a great amount of input and influence over the outcomes of the effort. While there may be some displacement, we view revitalization that leads to economically and ethnically diverse communities with a range of incomes as a favorable outcome, as long as safe and decent housing is available for those displaced. There must be room for everyone in the changed neighborhoods.

In summation, Bank of America and the National Association of Affordable Housing Lenders believe that HOPE VI is a valuable and effective tool for revitalization of low-and moderate-income neighborhoods, while improving the lives of public housing residents. Private capital will play a role in improving public housing, and those of us at Bank of America and the National Association of Affordable Housing Lenders do not stand dispassionately on the sidelines on these issues. Rather, we stand ready to bring the financial resources of our members to bear in these communities, but we need help. The poorest of the poor is such the government is still needed as a catalyst, helping to spark private investment. We believe that HOPE VI should continue to be one such spark.

Thank you for the opportunity to participate in this hearing and I would be glad to answer any questions at the conclusion of our panel. Thank you very much.

[The prepared statement of Brian Tracey can be found on page 120 in the appendix.]

Chairman NEY. I thank the gentleman for his testimony.

Ms. Zukoff?

STATEMENT OF LISA B. ZUKOFF, EXECUTIVE DIRECTOR, WHEELING WEST VIRGINIA PUBLIC HOUSING AUTHORITY, ON BEHALF OF NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS, WASHINGTON, DC

Ms. ZUKOFF. Thank you, congressman. It is always nice to see a neighbor, Congressman Ney. Thanks, committee.

My name is Lisa Zukoff, and I represent a small housing authority in West Virginia. We have 600 public housing units and 400 vouchers. We undertook a grant application in 1998. We were not awarded the first year, and went back in 1999 and were awarded $17.1 million to renovate Grandview Manor and Lincoln Homes public housing developments, which totaled 328 units. To date as a 1999 grantee, we have completed phase one, 39 rental units, and are currently under construction with 23 homeownership units. I would like to mention that the three market-rate units in the homeownership phase have sold first.

I urge you to reauthorize the HOPE VI program. HOPE VI has undeniably and positively changed the face of Wheeling's public housing and the way our agency does business. It provides residents with housing choice and economic opportunity and helps stimulate the depressed economy of Wheeling. Managing the grant motivated my agency to reexamine its priorities and organization, and we established a new department in relocation and expanded our supportive service program, which also benefits our general public housing and housing voucher programs. We are now poised to become the affordable housing developer in our city. We also offer assistance to other agencies in our areas attempting to obtain HOPE VI grants.

Regarding the statutory changes in H.R. 1614, NAHRO believes that the statutory changes can be further enhanced, as noted in my written testimony. Along with a commitment to reauthorize the HOPE VI program must come a commitment to adequately fund the capital, operating and housing choice voucher programs that support HOPE VI and the residents served by public housing. NAHRO, which represents both public housing and community development interests, has considered the proposal thoughtfully, but we must point out that there are other funding sources available that small community have access to, and we cannot recommend using scarce public housing resources for non-public housing programs.

Relocation and resident choice in housing has become a big issue in HOPE VI. First, HUD applications require that residents that live in the complexes that are going to be revitalized through the HOPE VI program approve of the applications. Moving is difficult and creates anxiety in the community, and change is difficult for all of us. A major goal of the HOPE VI program is the de-concentration of poverty. This means that not everyone can come back, however all the residents are housed with a voucher or in other assisted housing units.

In relocation summary, the lack of affordable housing in this country is an issue which is greater in scope than the HOPE VI program. One can debate whether the units demolished under HOPE VI were viable or not, but the fact remains that there is an affordable housing crisis in America that affects renters, prospec-

tive homebuyers and homeowners alike. HOPE VI assists in providing quality affordable rental and homeownership housing, and the program should be continued.

Progress of Hope VI—I brought one of four volumes of our closing documents for phase one of our HOPE VI project. These properties have a lot of federal dollars and require due diligence. To give you an example, our tax credit closing required 170 documents just to close that phase of the mixed finance deal. So when you talk about taking a long time, this one book of four helps explain what it takes to close a mixed-finance deal. It is very complicated work. HUD has also dealt with this problem through their NOFA process by demanding readiness by those receiving their grant awards over the last several years in their NOFA process.

Leveraging private funds in the process of assembling an application—this is a timely effort. It took us over a year in advance to plan the application. Probably a minimum lead-time is needed for any city that has not been involved in development to get that work, just to meet with all the players involved. Also, we really would like the committee to look at planning grants that used to be involved in the HOPE VI process, for smaller agencies in communities that do not have the resources, to put the applications together. An average cost of putting a HOPE VI application together is about $200,000.

The public housing reinvestment initiative that was spoken of earlier and is part of the reauthorization bill—this is a good tool for agencies that can make it work, but this does not provide the large infusion of cash needed to attract investments in public housing, nor is it financially feasible to use this approach for severely distressed public housing.

In conclusion, we would like you to please consider reauthorizing the program at a level of $625 million. Thank you very much for the opportunity to speak before the subcommittee today. My full written testimony is submitted for the record.

[The prepared statement of Lisa B. Zukoff can be found on page 125 in the appendix.]

Chairman NEY. I want to thank everyone for their testimony.

I just wanted to follow up, Lisa, with the $200,000 that it costs to get an award of——

Ms. ZUKOFF. $17.1 million. The first application, it cost us $180,000.

Chairman NEY. Can you just elaborate a little bit? I am taking it from the angle because I am familiar with you, obviously, we know each other, and as a small public housing authority in a small community.

Ms. ZUKOFF. We actually had to use our operating reserves to actually help pay for that application, but our board felt very strongly that it was needed. You have to pay for an extensive market study. Usually if you do not have a development background, we had to hire a consultant to assist us. We had to hire urban planners. Your construction costs have to be cost-certified by accounting folks who deal with construction. It is very expensive.

The second year, we gleaned a lot of experience from the first year and we only had about $60,000 in the application. We wrote the application ourselves, but we did indeed have to update our

market study, have our urban planners involved, and have the cost certifications. So that was bare-bones with $60,000.

Chairman NEY. Do you utilize Bel-o-mar at all in this?

Ms. ZUKOFF. Yes.

Chairman NEY. You do. The other question I want to ask you, then, knowing the cost, should it just be public housing authorities that are involved with the HOPE VI or should we find a way that other entities can be involved to help complement or to help public housing authorities?

Ms. ZUKOFF. Well, I think it is a partnership. There are obviously other entities involved with our agency—the city and different organizations—we have 30 memorandums of agreement with other service agencies within our city that help with our HOPE VI grant. I think there needs to be a way for smaller communities. Our city population is 30,000. Obviously, there are much more rural and smaller communities that can benefit by such a program. But I really would hate to see public housing funds go out of the public housing program. So I think, yes, there is a need, and should we find a way to work them in—absolutely.

Chairman NEY. Which gets to the other point of my question, which would be, should we attempt to change—and I stress the word "partnership"—attempt to change the partnerships with the public housing authorities? In other words, if it is tough for the especially smaller public housing authorities, should there be any type of change where we create new partners to work with public housing authorities? Is there something we can do to help the public housing authorities that would stay strictly within their domain?

Ms. ZUKOFF. I think we have been able to really grow as an agency as a result of HOPE VI—learning the process. It has been a partnership with state housing finance agencies. I think that we really just need to look for ways and avenues to train public housing folks to work with others. This is not a grant that was done strictly by the housing authority. We have many, many partners.

Chairman NEY. Okay, well then what is the advantage to continuing to use just public housing authorities?

Ms. ZUKOFF. It is the public housing resources—the dollars that we feel at this point they keep dwindling away, a little bit every year. Drug elimination—the operating fund gets cut, we get less money because there was a mistake at HUD last year. I mean, we are dealing with all of these efforts. This money needs to stay within the public housing authorization side of the bill. I feel very strongly about that. So while I agree that there are other avenues for other folks to be involved in this partnership, let's find some other pot of money to do that work with.

Chairman NEY. Thank you.

The question I have for Susan Popkin—you state that many former residents made significant improvements in their living conditions. Was this success made independently or did the housing authority help to do the bridge in this transition?

Ms. POPKIN. It is a result of where they have ended up moving. Whether they have moved to a section 8 unit or a new development, this is residents' perceptions. They perceive that they are living in better housing. They particularly perceive that their new

neighborhoods are much safer than where they started. That has had a clear impact on people's mental health and their overall outlook.

Chairman NEY. Would that be independent from the public housing authority?

Ms. POPKIN. This is where they were placed when they were relocated.

Chairman NEY. I want to thank you.

Our ranking member, Ms. Waters?

Ms. WATERS. Thank you very much.

Ms. Glover, I want to thank you for your very articulate and thoughtful testimony. I do not think that Mr. Husock heard you because he asked some questions that I think you had already addressed when you described that decent, safe housing and environments help to promote a lot of other good things—a lot of hope and a lot of possibilities. But since he did not appear to hear you, I would like to just phrase the question so that you can help me with a response to him.

Do you believe, first of all, that HOPE VI is but a social experiment that provides housing for single parents on land that could better be utilized for other purposes? And that it will be housing that will be maintained anyway because the housing that would have been torn down was not well maintained and everybody knows it is going to go back the same way, and that it will not be housing that will attract mixed-income residents anyway because they do not really want to stay there. If they do, it will only be friction between the two groups. And won't we be sending a bad message to two-parent households that we are doing all of these things for single parents, and what does that say about our values? And in the final analysis, this won't be managed well, and perhaps there is a better way to think about doing this. Maybe we should not be doing this at all.

Could you help him respond in some way?

Ms. GLOVER. I would be delighted. First of all, going back to actual experience. It is interesting, when we first got started one of the most frequently asked questions was, who is going to want to live next door to those people? So the key and the success is creating true market-rate housing with an affordable component seamlessly inside of it, so that the affordable component does not overwhelm the market rate nature and quality of the community. Temporary poverty does not mean a lack of values. It is really creating a community of opportunity. The mixed income communities have maintained on average a 95 percent occupancy across the market-rate units, the tax credit assisted units, and the public housing units, in all of the 11 communities and by the way, even during the downturn in the economy. The great thing about it is that all of the families take great pride in these communities. Everyone is thrilled with the elimination of the public housing stigma.

Too often, we punish the assisted families for bad outcomes. Bad policy creates bad and unacceptable results. So what I am saying to the critics of the Hope VI program is that you really have to be on the ground to see what is going on, because we have seen some extraordinarily positive results coming out of the program. I would urge this committee that no federal dollars should be spent expect-

ing positive outcomes and great expectations. The worst thing that you can do with any program is lower the expectations such that you expect no one to be successful. In our new mixed income coummunities the employment has increased by 400 percent. That is tangible. We have seen the incomes increase substantially and we are not talking about just running out the old crowd and bringing in a new crowd. We are talking about working with the families, but in a positive environment.

By the way, mixed-income communities is going back to some basics. I grew up in Jacksonville, Florida, and the communities were mixed-income communities at that point. I think it happened only in the late 1980s and 1990s that we started running to the suburbs to have houses line up with our perception of ourselves based on the incomes that we were earning. Mixed income communities have strengthened public schools, which are performing off the charts. We have had such tremendous results. I really urge this Committee to look at the testimony and also the supplement to the testimony which shows, by the way, that we have moved the real estate to an improved use by following market principles, and not creating a concentrated poverty situation which in fact devalued not only that piece of property, but the surrounding neighborhoods.

Ms. WATERS. I would like to ask Mr. Howard Husock, does that answer some of the questions that you raised with us? Does that help you at all?

Mr. HUSOCK. The question is going to be answered over time. Whether mixed-income developments are going to be sustainable as mixed-income developments, we do not know whether that is going to be proven over time. As for whether the impact on the surrounding areas—do we know that if a private commercial development had built it on that same site we would not have had similar positive effects on the surrounding areas? It is quite possible.

As far as the mixed-income question specifically, as I said, I have visited with developers of HOPE VI in Chicago who are concerned, doubtful that they will be able to attract higher income households to those new developments in the State Street corridor of Chicago. We do not know whether that is going to work out in the long run. And remember, if you go to somebody and you say, look, I am going to give you a new house. It is a better house than you could afford on the private market. It is a brand new development. It is kind of like, I am going to give you hamburger for 59 cents a pound. You are going to get a long line of people at first. Let's see how those developments stand up over time, and whether those households will remain. Sure, they will come for the good deal. Will they stay? Because communities maintain themselves over time.

Ms. WATERS. What would your alternative be for helping to revive safe, secure housing and environments for poor people? How would you do it?

Mr. HUSOCK. I think we need to take advantage of the existing stock of public housing, and to deploy it in a different way. This really diverges from the theme of this panel, so I don't know if you want me to go off that way.

Ms. WATERS. Yes, I am asking you. I want you to go off.

[Laughter.]

Mr. HUSOCK. We have a large number of public housing units already in this country. I think we ought to make use of that resource as a time-limited resource. In other words, as people move in, say this is temporary assistance to needy families, just as we do with public assistance.

Ms. WATERS. Say, give them a year or two, and then say you are out of here, you have to get out?

Mr. HUSOCK. I believe the public welfare law is a longer period of time than that. I was suggesting it might be longer than that.

Ms. WATERS. Oh, three years, four years, five years—something like that?

Mr. HUSOCK. Five years might be——

Ms. WATERS. Without regard to——

Mr. HUSOCK. Since you suggested it, five years seems like a good figure.

Ms. WATERS. What if the income has not changed?

Mr. HUSOCK. Well, as you know, before the Welfare Reform Act of 1996, there was great concern that it was going to lead to homelessness, based on the premise that if everything stays the same, conditions are going to be terrible. Why do we want to be that pessimistic?

Ms. WATERS. No, that is not what I asked. I asked what was your alternative for providing housing for poor people—safe housing, better environments? And if you believe that you provide it for a limited period of time, be it two years or three years or four years, my follow up question was, what if the income has not changed? What if five years after or three years after they are into the housing that may be subsidized or public housing, they work every day, they do the very best they can, but not only did the income not change, but they lost their health benefits and on and on and on. What would you do for that family?

Mr. HUSOCK. I think the emphasis ought to be on encouraging the path towards self-sufficiency during that interim. I do not really want to speculate about a pessimistic scenario in which people are not going to, and in which we will not trust people to improve their prospects.

Ms. WATERS. You don't want to talk about pessimism?

Mr. HUSOCK. I believe in their capacity to make life changes that will improve their prospects and I hope that that would be the outcome. I would be interested in knowing, for instance, in the Atlanta situation how many of the HOPE VI tenants have graduated from HOPE VI? How many of them said, well, this is a great apartment; I would like to stay here. Or how many have graduated and moved out? Is that a goal, to move them out? If not, why not?

Ms. WATERS. The chairman has been very, very generous in the amount of time he has given us, and I would love for this discussion to go on, but we cannot do that. Let me just wrap it up by saying that my family lived in public housing for many years. I know this subject very, very well—not from a theoretical Harvard point of view, but from a very personal point of view. I am a great defender of public housing and HOPE VI falls right in that category. So I am pleased that you are here today. I am not so sure what you came here to say. You raised some questions. I asked someone with great experience and knowledge to help you, but of

course you dismiss the information that she shared with you, and began to wonder about what would happen 20 or 30 years from now. But I am glad that you are here. It keeps me focused. Thank you very much.

Chairman NEY. I want to thank the gentlelady.

I just want to make a point of observation, because I think this is very interesting. I think that you can have low-income individuals who have just as good focus and family values and are very good people, and maybe you are living next to somebody of a middle income that does not have the same good values. However, I think you have to realize the fact that if somebody is in a middle-income community, they are going to tend to have better services, better opportunity. So I am not sure that some of the middle income can learn some family values from some of the low income, but I think it is just a fact of life that if you are in a middle-income community, that middle-income community is going to tend to have better services, more access. I just think that is just a way of life. That is a personal observation.

Mr. Scott?

Mr. SCOTT. Yes, thank you very much, Mr. Chairman.

I would like to ask a two-part question and stay on this for a moment. First of all, I just think it is very important, as Mr. Husock said—you raise some points that we have to refute. The purpose of this hearing is of course to get and glean information. The other part of it is particularly for those of us who are sponsoring legislation to save HOPE VI. So when you come with your statements that ask hypothetical questions, they have to be answered, they have to be responded to.

I want to take your points, for example, over time. Over time means that within an amount of time we will come to a conclusion. What we are asking for in this extension of HOPE VI is to get the time to make those conclusions. In Atlanta, for example, we have had enough money to deal with maybe 13 projects in one phase or another, but there are 33 on the drawing boards. Each one of these cases have proven your point on a point-by-point basis. Will they be well-maintained? In Atlanta, we have one of our projects in a place called Eastlake Meadows. Eastlake Meadows was the site two years ago of the United States PGA Golf Classic, which was won by Tiger Woods. Because of where it was, it attracted international attention and comments on television about how well the project was maintained; how well it looked; the attractiveness of it.

Centennial Place—right in Centennial Center, right in the heart of where we had the Olympics; right next door to the headquarters of the Coca-Cola Company, the most famous image in the world—mixed income, being successful. And then you get to the point of the single-headed households of females, who are single-family heads. A part of the major purpose of this program is to take that very targeted group and give them hope, to sustain them. The program is doing its duty and its good.

Your other point—best use of the land. Not only is it the best use of the land, but the land surrounding that area has increased in Atlanta to a value of over $2 billion in the worth of the land surrounding it, and has proven to be the most effective, valuable eco-

nomic generators in the Atlanta community, and in some measures in the state.

The point that I am trying to make here is that we have got to discount every point that you have made. Ms. Glover from Atlanta has done an excellent job of that. That is not to be in any way disrespectful to you. I believe that your comments were probably made and certainly in fair interest, your points certainly needed to be raised, because it gives us a change to refute them point by point and build the case for this program.

So I wanted to do that, because we could not let those points go unanswered as we move. As you can see, from my distinguished colleague Mr. Watt's questions, we are getting mixed signals from the Administration. To me, when we get mixed signals from the Administration, that gives us hope, because they are not fixed in their position on this issue. So we are scrapping here to save a program, and we need the help to do that.

In that regard, let me go to you, Ms. Glover, if I may. We have legislation that as you can see from this committee has great broad bipartisan support. We feel very confident we can get that bill. Hopefully we can get it passed, hopefully we can turn the Administration around in its desire. We do feel confident, but there are some very serious issues that need to be corrected. We could use, and will be using the Atlanta situation as a model. The two primary concerns it appears to me that we have got to correct to build the momentum to revitalize HOPE VI is in the area of timeliness, the slowness with the process of trying to get these projects up and running, and the accountability of the money. The other area is in the cost, particularly comparative cost.

What suggestions would you give us, one, that would help our legislation to be responsive to this, and how would we deal with these two areas specifically?

Ms. GLOVER. Thank you for the question. In terms of timeliness of expenditure, we have to put this in context. The mixed-income model was not developed until 1996 when the first financial closing for the revitalization of Techwood/Clare Howell was approved by HUD. The grant was originally authorized and funded in 1992, so there was no legal, regulatory or financial ability to do mixed-income development until 1996. If you took a measurement of how long it has taken to redevelop the properties since 1996, you really are not talking about a long time frame. What HUD unfortunately has done is they are applying modernization timetables to a development process. We are not just going out to bid for new roofs and new building envelope systems. We are talking about, and the young lady has her huge bound volume, we are in fact engaged in a community-building process. There are tax credit schedules every year. For example, in the State of Georgia they come out once a year with an offering of low-income housing tax credits. There are no set-asides for public housing development, but the policy certainly supports it, but there are also limits on how many tax credits get awarded to any one deal.

Because we are doing market-rate development, there also is the question of absorption of units into the marketplace. You never want to flood the marketplace with too many units, because indeed you will not have the market-rate families. So I think if we can

present to this committee a thoughtful analysis about the timeliness of obligation and expenditure, I think you will find that what is happening is that we are measuring it against the wrong benchmarks. Real estate development is fundamentally different than a modernization program I think if there are capacity issues, I think we need to be addressing those specifically, but we should not create the impression that there is a crisis here.

By the way, the pipeline issue—these dollars have already been committed to specific projects. So that is dealing with what is on the table, but it does not deal with all of the literally hundreds of projects that need funding to do a better job and to have a more positive impact on the families and the communities.

Chairman NEY. If I could, the time has expired. Let me get to Mr. Watt, and then if you want to come back.

Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman.

Let me just do several things. First of all, I think we would be remiss if we did not thank the chair for convening this hearing today. It has been an exceptionally good hearing. This panel in particular I think has shown us the wealth and breadth of opinions, problems, challenges and opportunities that are in front of us. I want to say to Ms. Frasier and Ms. Glover, despite the fact that I was out of the room when you testified, I was watching you in the back room. I just had to get something to eat, so I apologize to you. I thought both of your testimonies were outstanding. Ms. Frasier, you brought some very thoughtful things that a number of us have been exploring, of trying to figure out ways to make the HOPE VI program, if it does continue, a more effective program that does not end up displacing disproportionately or even displacing at all. I think there are communities in which a better job has been done on displacement and readiness and moving forward than other communities. We have seen that from this testimony.

This has just been a great panel, including Mr. Husock. I am not going to beat up on him, because I really think he raised some questions that need to be raised. They need to be raised in academia, where he sits, and he needs to keep raising these questions with the students, and we need to raise them here, but he needs to understand that these were the same questions that were raised 10 years ago at the inception of HOPE VI. We have been answering these questions over and over and over again throughout this process. His notion that they will be answered over time I think is a sound notion, because we are answering them over time.

Ms. Glover certainly has answered them in a comprehensive way in Atlanta. I hope that my friend Mr. Tracey will invite you to Charlotte to see the First Ward Place development so that you can see how the questions that you legitimately raised, that you ought to be raising in academia, have been anticipated and addressed in a real community. I was thinking about, one, you talked about these stresses that exist between low-income and higher-income people when you put them in the same community. We are answering that question, too. I remember, and Mr. Tracey probably can remember this, as soon as we got this wonderful community up and running, some of the upper-income residents wanted to close a sidewalk that ran through the community because the sidewalk

went through this revitalized community over to the next, what I hope will be the next HOPE VI revitalization community. They did not want those people. Those people, they say, are walking through our neighborhood.

So there was a stress between the higher-income people in that community and the lower-income people in that community who had to do a reality check with those folks. They set them down in a meeting. It was a classic meeting, and they said, well, you know, this was our community before you all ever got here, first of all. But second of all, those people that you are talking about are us. We just happen to be your neighbors now. They are not bad people; they just happen to live in a public housing complex over here, just like we did before this HOPE VI revitalization.

Now, that is a creative tension that took place in that community. So I am not minimizing even your testimony, Mr. Husock. This has been a great panel to demonstrate how vital this program has been and how it has been used. I just wanted to finally, because I know the red light is on, I want to quote from HUD's February, 2000 report, since this is educating Mr. Husock day, in which HUD in February of 2000 found that the HOPE VI program represents the most dramatic change in public housing in the last 60 years and is transforming the nation's most distressed public housing projects. The report found, one, that HOPE VI is achieving its goals of community building—not just putting some houses there—community building. Two, HOPE VI is showing impressive results in helping residents move from welfare to work. Three, HOPE VI is helping residents move into the economic mainstream. Four, HOPE VI is dramatically reducing crime and violence in public housing. Five, HOPE VI is reducing the isolation of public housing residents. And six, HOPE VI is leveraging significant investments in community improvements.

Those are some of the questions that you asked that we have been addressing over the last 10 years under HOPE VI. It was not because we ignored the question you asked, they are important questions. We have tried to address them, but this notion that we should take a breather—this ain't no breather that the president is talking about. This is a termination. It is an assassination of the program. It is not a breather. You will never resuscitate this program if you do not reauthorize it this time, because if it is ever terminated, it will not ever come back. So if you think this was about taking a breather, you obviously did not hear the first panel today. This is a termination of the program—a program which coincidentally was a Republican program that was based on assumptions to every question that you raised which we have been answering for the last 10, now 11 years, and getting good positive answers to.

So I will leave that alone. I want to thank Mr. Guzman for being here. I think HUD was right. Mainstreet ain't got much to do with the original purpose of HOPE VI, but I am a big supporter of Mr. Leach and I am on his bill. If that is the price we have got to pay to keep HOPE VI going, I am all for it.

And then, I want to thank Ms. Waters and Mr. Leach and all the other members who have made this a truly bipartisan effort because this should not be partisan. This should be about building America's communities and building the hope of America. One of

my colleagues said this is about keeping HOPE VI alive, not keeping hope alive—keep HOPE VI alive. So if we end this hearing today, we can just chant, "Keep HOPE VI alive, keep HOPE VI alive."

I yield back.

Chairman NEY. Thank you.

The gentlelady from California?

Ms. WATERS. Mr. Chairman, I just wanted to thank you, because I do not think the people out there realize that as the chair of this subcommittee, you did not have to hold this hearing, particularly when the Administration is sending you another kind of signal. So I am very pleased that you have held this meeting today and given all of these fine people an opportunity to come here and share with us their experiences, and to raise questions.

Mr. Watt is a little bit more generous in his praise than I tend to be, however, I am appreciative not about—not more generous in his praise about holding the hearing, but about some of the directions of some of our panelists. But I am very, very pleased that we have done this, despite the fact that the Administration has sent the signal of discontinuing the program.

I do believe there is hope for HOPE VI, and I do think that we need to do a little bit more research to help our position. For example, I really do want to know how much of that money is committed and in the pipeline, and whether or not money that is in the pipeline is being considered unspent as the case is being made for not reauthorizing this program. So I think following this hearing, we have the opportunity for our staffs to answer some of these questions through a little bit more work, and then we need to everything that we can to try and keep this program going.

Let me just say to Mr. Guzman that I have been talking with the chairman part of today about the need for rural housing, and I believe that we can have a great bipartisan effort with a real rural-urban renaissance, as I call it. I do think that many of the needs of the rural community have been unmet, un-thought about. There is a reason for that. Some of us come here knowing and understanding what our jobs are. We get called tax and spend liberals, whatever you want to call it, because we understand what the needs are and we have a lot of rural communities that are just not properly represented in terms of the poverty that those communities experience. I am hoping to develop a relationship with legislators who represent rural poverty who have not seen a need to really work and speak up on behalf of those communities. I think together we can do an awful lot.

Again, I want to thank the chairman because he has done a yeoman's job in helping to eliminate some of the issues related to HOPE VI. I am very pleased that you all came, and I thank you for your time and your effort.

Chairman NEY. I thank the gentlelady from California for her remarks.

The gentleman has a closing comment?

Mr. SCOTT. Yes, thank you very much.

I, too, would like to echo the words of compliments that were offered by my colleagues, especially for taking the time and coming up. It has been very, very helpful. This has been a very, very

worthwhile meeting, and it has opened my eyes up to the enormity of the problem we are facing and the challenge ahead. I think those of you here realize that we do have this challenge ahead. We have got to save this program. Hundreds of thousands of people all across this country are counting on us to save this very worthwhile program. It is my hope that as the president and the Administration turns a great deal of its attention to domestic issues and what is happening here in this country, that they will begin to really focus on this program as one of the cornerstones of what we have got to do in the future to make this country what we want it to be.

There is nothing greater that we can do than to provide people with housing, a home. This is a process that we start. It is very important that we keep the trend moving of mixed income. It is very important that we build upon the successes that we have had. Certainly, Ms. Glover, you have certainly as all of you have done, but as we point to you, Ms. Glover, and we look at the success, let us hope that the Administration will look at the success of what we have done in Atlanta and other cities—in Los Angeles and North Carolina, in Miami, Pittsburgh. There are cities all across this country with sterling success stories, and let the successes rule the day—not the one or two areas of failure. You are going to have those areas, but we have got to build this country on success, not on failures.

Let us give it time to work, and let us put the measurements and the internal controls in to fix the problem. If the timeliness and the costliness is a problem, we can look to Atlanta to see how they did it and other cities, and make sure that we have this in this program. I am just delighted to be a part of working with both my colleagues Mr. Watt and Mr. Leach on their bills. I appreciate them giving me the opportunity to work on it. It is a very, very high priority with me, in no small measure because I know the economic, social and cultural impact and the positive thrust it has done in my home state of Georgia. Just as surely as it has done that in Georgia, done the right way, it can be that kind of success all across the nation. It has been said before, but there is no better way of saying it, let us not throw the baby out with the bath water. And as I said before, let's not cut somebody's legs off at the knees, and then condemn them for being a cripple. Let us save this program and let us let it be the shining light that this country is looking for.

Thank you, Mr. Ney. I appreciate this opportunity, and thank you all for coming and sharing with us.

Chairman NEY. I thank the members for their indulgence today and their time, and I want to thank all the witnesses for being here today. The chair notes that some members have additional questions for the panel which they can submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place the response in the record.

Thank you.

[Whereupon, at 4:56 p.m., the subcommittee was adjourned.]

A P P E N D I X

April 29, 2003

Opening Statement
Chairman Michael Oxley

Subcommittee on Housing and Community Opportunity
Strengthening and Rejuvenating Our Nation's Communities and the HOPE VI Program
April 29, 2003

Today's hearing entitled "Strengthening and Rejuvenating Our Nation's Communities and the HOPE VI Program," will focus on a program which was designed to rehabilitate, demolish and reconstruct public housing for the most severely distressed communities.

On August 10, 1992, the National Commission on Severely Distressed Public Housing submitted a report to Congress finding that approximately 6 percent of the 1.4 million existing public housing apartments – 86,000 units – were severely distressed and recommended that they be removed from the housing stock. The HOPE VI program was established to provide assistance to public housing authorities through planning, implementation, and demolition grants. Goals of this program include changing the physical characteristics of public housing from high-rise tenements to attractive, marketable units that blend in with the surrounding neighborhood and help residents to attain self-sufficiency. These grants play a vital role in a community's redevelopment and revitalization by providing the funds necessary to rebuild deteriorating public housing complexes.

While the success of the HOPE VI program is impressive, there is general agreement that it is in need of reform and review. In fact, last year this Committee approved legislation that included several changes to the program designed to expand eligibility for small public housing authorities and make accountability and management improvements.

The Administration's FY 2004 budget does not include additional funding for HOPE VI. HUD maintains that the program has resulted in the demolition of only 55,000 units of the 140,000 public housing units that have been approved for demolition under HOPE VI. In addition, because progress is often slow under the HOPE VI program, billions of dollars in HOPE VI funds remain in the pipeline. Of the $4.5 billion awarded as of December 1, 2002, only $2.1 billion, or 47 percent of awarded funds, have actually been expended. Of the 156 revitalization grants awarded, only 15 projects had been completed as of December of last year.

Congressmen Leach and Watt were instrumental in the work this Committee did last year on HOPE VI, and I want to thank them for their continued efforts to make the HOPE VI program a more effective and efficient one. Both Congressmen Leach and Watt have again introduced HOPE VI legislation in this Congress and I look forward to working with them and the Chairman of the Housing Subcommittee on this legislation.

I thank the witnesses before us and look forward to today's testimony.

Statement of Michael Liu
Assistant Secretary for Public and Indian Housing
U.S. Department of Housing and Urban Development
before the U.S. House Financial Services Subcommittee
on Housing and Community Opportunity
April 29, 2003

Chairman Ney, Congresswoman Waters, thank you for this opportunity to testify before the Subcommittee on Housing and Community Opportunity regarding the HOPE VI program. Secretary Martinez and I appreciate the ongoing support of the Subcommittee in achieving the Department's critical missions.

It is important to recall the origins of HOPE VI to understand where we are today. In 1989, Congressional concern over the highly publicized and notorious conditions in some of the public housing developments in a number of the nation's largest cities led to the formation of the National Commission on Severely Distressed Public Housing. The Commission concluded that 86,000 of the nation's 1.4 million public housing units were severely distressed and in immediate need of revitalization or demolition. The Commission set forth a plan that highlighted deconcentrating poverty where possible, creating mixed-income communities, improving service delivery to public housing residents and addressing the urban blight surrounding public housing developments.

Acting on these findings, Congress created the Urban Revitalization Demonstration program, later named HOPE VI, to be administered by the U.S. Department of Housing and Urban Development (HUD), in 1992. This program was authorized through yearly appropriations acts until 1998, when Section 535 of the Quality Housing and Work Responsibility Act (QHWRA) rewrote Section 24 of the U.S. Housing Act of 1937 to establish a statutory authorization for the HOPE VI program through fiscal year 2002. In the FY 2003 appropriations bill, Congress reauthorized the program through FY 2004.

HUD has awarded $5 billion to revitalize 193 public housing developments. Using these funds, Housing Authorities will demolish 87,000, rehabilitate 10,300 and construct 82,000 units of public housing. HUD has also awarded $293 million in HOPE VI demolition-only grants to 90 housing authorities to fund the demolition of more than 44,000 severely distressed public housing units. Having been provided funds to accomplish its original goal, HOPE VI is at a critical point as it relates to the program's ability to handle current and future housing redevelopment needs. While the program has been successful in creating exemplary public housing communities in cities such as Seattle (WA), Milwaukee (WI) and Denver (CO), many program elements detract from its successes and call into question the program's ability to sustain the future level of redevelopment needed in the public housing program.

From 1993 to 1995, HOPE VI revitalization focused mainly on demolition, reducing density, and renovation and new construction of public housing units. During that same period,

Congress repealed the one-for-one replacement requirement. The program also sought to create mixed income communities by expanding the number of public housing residents who were working. In addition, the HOPE VI program supported the efforts of families who wished to relocate to non-impacted neighborhoods using the Housing Choice Voucher Program. These families have now been given the opportunity to remain, on a permanent basis, in these non-impacted neighborhoods.

In the past few years, new tools have emerged as alternative methods for revitalizing distressed public housing and addressing the backlog of capital needs. Bond financing, which has financed $500 million in capital improvements, and property-based initiatives, including the proposed loan guarantee and public housing reinvestment initiatives, have the potential to be applied to a wide range of PHAs, maximize public funds by leveraging private debt for capital improvements and place public housing developments on more sound footing in the long term. ***(Question 1)***

In terms of demolition and providing funds for revitalization, HOPE VI has accomplished its original goal to address the needs of the Nation's most distressed housing stock, as identified by the Commission. The program is now at the point where, if funded beyond fiscal year 2003, it will be moving beyond its original mandate. Moreover, it is evident to us that HOPE VI is not an efficient method for meeting the current and future capital needs of the public housing program. The average cost of building a unit under HOPE VI is $120,000, more than 33 percent greater than the average cost of building a similar unit using the HOME block grant program. Given overall budget constraints, it just doesn't make sense to us to continue funding for this program at the expense of more cost-effective programs to serve the same ends. ***(Question 1)***

While HOPE VI has met its funding and demolition benchmarks, the program has many weaknesses that have limited the program's accomplishments as a tool for public housing redevelopment. The planning and redevelopment process is much slower than expected. The vast majority of new or rehabilitated units are not complete, despite program deadlines, and more than half of the HUD funds allocated to HOPE VI are not expended. The program's ambitious redevelopment goals have led to large, complex grants, which challenge the administrative and management capacity of many PHAs and involve a large amount of community coordination. Finally, the grant award process involves a tremendous amount of time, requires significant HUD and PHA resources, and restricts many PHAs' access to redevelopment funds. ***(Question 1)***

The lack of preparedness or capacity by many PHAs to manage such a complex and multi-faceted redevelopment grant presents another challenge. HOPE VI requires grantees to develop plans, raise funds, gain commitments from community partners and select a developer for physical revitalization. These activities run concurrent with the establishment of a social service network and the relocation of resident families. Handling all of these tasks at the same time has proven challenging to some PHAs that lack experience in these areas or sufficient personnel resources. As a result, not only has the physical redevelopment process been prolonged, but also many residents have been dissatisfied with the level of services and relocation support provided by the PHA. ***(Question 5)***

Delays in HOPE VI redevelopment can be attributed to several programmatic flaws. The ambitious goal of revitalizing not just the public housing development but the surrounding community often requires land acquisition, special permits and zoning and community support—all potentially time consuming activities that lengthen the redevelopment process. Until recently, the application process allowed PHAs to apply at the conception stage of redevelopment planning. Awarding grants this early in the planning process has led to a longer than anticipated post-grant planning period and changes in the original grant design, which contribute to increased costs and, sometimes, community opposition. ***(Question 5)***

The Department has already implemented several measures to address these problems to the extent possible within the limits of the program's basic design. With regard to the competition, the FY 2002 Notice of Funding Availability evidenced a strong interest in funding projects that were ready to go. For example, applicants were required to demonstrate firm financing commitments from partners and site control. With regard to managing the existing portfolio of grants, HUD has streamlined the review process and made grantees more accountable for timely achievement of milestones. ***(Question 5)***

HOPE VI has an inherently long, drawn-out planning and redevelopment process that often frustrates many grantees, residents and community stakeholders. Only 15 of the 165 grants awarded through FY2001 have completed all planned units and only 18 grants are nearing completion (i.e., 80% or more construction completed). HUD has awarded funds for the rehabilitation or construction of more than 85,000 public and non-public housing units. Yet, only approximately 21,000 have been completed. Of the $4.5 billion awarded in HOPE VI Revitalization grants awarded through FY 2001, grantees have only obligated $2.54 billion and expended $2.12 billion. This $2.5 billion backlog of unobligated federal funds in the pipeline represents a large expense in opportunity cost. ***(Question 6)***

Recapturing funds from low-performing or slow-moving projects is a possibility. The Department attempted to recapture the Hollander Ridge grant funds from the City of Baltimore after the housing authority failed to produce an acceptable plan. Subsequent to HUD's notification that the funds would be recaptured, Congress passed legislation allowing the housing authority to retain the grant funds. HUD has also placed housing authorities in default for not proceeding with their plan. Most recently, HUD notified the Detroit Housing Authority it was in default of its Grant Agreement. The housing authority then provided a sound plan for how to proceed. The Department accepted its plan and the housing authority is now making progress. ***(Question 6)***

There are also fundamental problems in how the program was designed and structured. First, in an attempt to fund the worst-case needs, a competitive process creates a perverse incentive to PHAs. Those that have not properly maintained their housing stock receive a higher score. Second, by the very nature of a competition, with arbitrary deadlines for applicants, prospective applicants are inherently encouraged to rush to prepare and submit applications before they are ready to implement their redevelopment plans. Third, the HOPE VI grant application is a highly competitive and complex process that requires a significant contribution of housing authority personnel and financial resources. The application calls for a high level of resident and community involvement, which is needed to achieve a successful development plan.

On average, the applications take several months to prepare and require the PHA to contract with architects, financial planners and grant consultants, as well as identify community partners and leverage funding. However, this happens so early in the planning process, without any guarantee of funding, that many residents and community stakeholders are left disappointed and disenchanted when a grant is not awarded. Finally, the program, by design, has benefited many large PHAs, leaving most medium and small PHAs without access to this resource.

Although expensive and cumbersome to carry out, the HOPE VI program has produced successes in some cities. In determining which HOPE VI projects are successes, HUD considers several factors: timely completion of construction, effectiveness of local leadership in keeping the project on track, positive impacts on the surrounding community, mix of unit types and reasonable costs. The revitalization efforts in Columbus (OH), Charlotte (NC), Portsmouth (VA), Milwaukee (WI), Tucson (AZ), Nashville (TN), Louisville (KY) and Denver (CO) are among those that met most of these challenges. ***(Question 7)***

In summary, despite its accomplishments to date and prospectively, the Administration has come to the conclusion that no further funding should be provided for HOPE VI. Rather, limited resources should be directed at more cost-effective approaches to providing new low-income housing. Additional capital resources should be provided to viable public housing projects such as provided for in the Administration's proposed Public Housing Reinvestment Initiative (PHRI).

PHRI

The Committee has also asked me to discuss the relationship between the proposed Public Housing Reinvestment Initiative (PHRI) and HOPE VI. PHRI is intended to provide a financing tool for housing authorities to prevent developments from becoming severely distressed. It's another development tool to assist PHAs in addressing the backlog and accrual needs. ***(Question 2)***

PHRI would leverage private funds for public housing improvements. The budget also proposes $131 million for a partial loan guarantee that would support $1.7 billion in capital improvement loans to public housing agencies (PHAs). The partial loan guarantee authorized along with PHRI will enhance the program's attractiveness to private lenders. Further, PHRI will place public housing developments on a more sound financial footing over the long term, since it requires PHAs and HUD to focus on property-based planning and management. ***(Question 2)***

At current funding levels, PHAs are able to keep up with the capital improvement needs that accrue annually, but have considerably less resources available to deal with their backlog of capital improvement needs. However, if the PHRI were enacted, it would increase the amount of capital available to revitalize and sustain viable projects by $1.7 billion in mortgage financing just in its first year. Given overall constraints on appropriations, to make substantial and timely progress in shoring up the public housing stock, and improving living conditions for residents, enactment of the PHRI is essential. ***(Question 2)***

PHRI will introduce a market test into public housing investment decisions and give PHAs access to private capital when they adopt the same "asset management" principles that are used in private sector real estate finance and management. Rental housing across America is financed and managed on a property-by-property basis – except for public housing. In the current public housing system, PHAs receive grants from HUD that cover all of their properties combined, and they manage their properties accordingly. This system does not demand the same level of management and financial discipline that other owners of rental housing must exercise to be successful. While most PHAs are good managers, many others would benefit from the additional discipline and accountability required when properties must be financed and managed on an individual basis. ***(Question 2)***

PHRI is voluntary. PHAs that choose to participate would receive project-based vouchers from HUD to substitute for existing public housing operating and capital subsidies on a unit-for-unit basis. PHAs could then secure private financing to rehabilitate or replace their aging properties by pledging the revenues from each property to debt repayment. Private lenders already have experience underwriting and lending against rental properties with project-based voucher contracts. Consequently, PHRI should have greater lender acceptance than a program that continued to rely on fluctuating public housing subsidies. Further, the partial loan guarantee authorized as a part of PHRI should significantly enhance lender participation. ***(Question 2)***

Another important benefit of PHRI to PHAs and residents is the significant relief it offers from the complex rules governing the public housing program. Instead, the program generally would be governed by the more flexible and streamlined rules of the current project-based voucher program. ***(Question 2)***

The other topic of discussion here today is Representative Leach's Small Community Main Street Rejuvenation effort. While the Department believes this idea has merit and welcomes further discussion, it addresses a significantly different issue than the basis for the HOPE VI program. The Main Street program is not at all related to the public housing program. If this is the direction in which Congress wishes to move, that is further evidence that it is time to reevaluate the entire HOPE VI program and how Congress and the Department should make funds available for the revitalization of public housing. ***(Question 3)***

While none of the Department's public housing programs are designed to provide assistance solely to small communities for revitalization or redevelopment projects, the Office of Community Planning and Development does administer two programs that include provisions specifically for smaller communities. The State Community Development Block Grant (CDBG) program provides funds to each state for those communities that do not receive an allocation directly from HUD. These funds may be spent on any CDBG-eligible activity and are not solely geared toward redevelopment projects. The HOME program also provides a similar funding structure, but states may fund projects in communities of any size. ***(Question 4)***

In conclusion, the HOPE VI program has achieved its program goal of addressing the nation's most distressed housing, as identified by the National Commission on Severely Distressed Public Housing. While HOPE VI also has been successful at demolition, the program has been less successful at actual construction and redevelopment of these properties. The $3

billion awarded but not yet expended (including the recently awarded FY 2002 grants) evidences that HUD still must accomplish a significant amount of work in the program, without responsibility of additional grant awards. An additional $500 million will be awarded in FY 2003. Overall, the program's administrative and design weaknesses make HOPE VI a less efficient method of revitalizing public housing properties.

Looking forward, HUD must learn from the HOPE VI experience and reevaluate how to deploy its limited resources for public housing redevelopment. This will involve applying these resources to responsive, flexible and accessible redevelopment tools in an effort to address the multi-billion dollar backlog in public housing capital needs that cannot be addressed solely by Capital Fund appropriations.

HOPE VI, given its delays in implementation, high per-unit construction costs, unexpended federal dollars and complex application process may not be the most responsive and productive way to address the universe of capital needs in the public housing program. Therefore, HUD has not proposed a fiscal year 2004 appropriation for the HOPE VI program and instead will focus on aggressively managing the grants currently awarded.

Thank you again for this opportunity to testify, and I look forward to responding to any questions you may have.

Everywhere and Now Public Housing Residents Organizing Nationally Together (ENPHRONT)

Testimony by Joan Walker Frasier (on behalf of Ed Williams)
on
House Resolution H.R. 1614 – the HOPE VI Program Reauthorization and Small Community Mainstreet Rejuvenation and Housing Act of 2003

House Subcommittee on Housing and Community Opportunity

April 29, 2003

Goodafternoon: My name is Joan Walker Frasier and I'm testifying this afternoon on behalf of Ed Williams, President of the national organization of public housing residents, ENPHRONT. I'm a public housing resident in Atlantic City, New Jersey, an Executive Committee member of the Jeffries Tower Residents Organization and an ENPHRONT state delegate.

Before I address particular provisions of the bill, I want to first express ENPHRONT's strong position that there not be further reductions in the overall public housing appropriation account. Second, the HOPE VI program should be refunded and reauthorized. However, a reauthorized program can only be effective and serve its true purpose if comprehensive reforms are made to address issues related to replacement housing, resident participation, relocation and the overall impact of HOPE VI on families residing in distressed public housing. In lieu of a reformed and refunded HOPE VI, appropriators should be urged to shift to the public housing Capital Fund an amount equal to the FY 2003 HOPE VI appropriation. Further, it's important to understand that a reformed HOPE VI will only work if Congress adequately funds the public housing Capital and Operating Funds in order to prevent further deterioration of the public housing stock.

ENPHRONT, in conjunction with the Center for Community Change (CCC), recently completed a multi-city survey of residents' experiences under HOPE VI. The comments below aim to address residents' concerns about the program and their strong desire to see HOPE VI substantially reformed.

Align the HOPE VI Program with the original goals and recommendation set forth by the National Commission on Severely Distressed Public Housing (NCSDPH).

In reauthorizing HOPE VI, it is imperative that Congress align the program with the original goals and recommendations for a revitalization program set forth by the National Commission on Severely Distressed Public Housing (NCSDPH) in its 1992 Final Report. The Commission's Final Report, among other things, emphasized that developments were to be revitalized and preserved through rehabilitation and replacement housing. The

Commission did not place heavy emphasis on demolition as a necessary activity to treat distressed properties.

The Commission also expressed support for replacing distressed public housing units with hard units that would be deeply subsidized. Still further, the Commission recommended that equal and significant attention be given to both the human and physical conditions of distressed public housing properties.

HOPE VI, as we now know it, has strayed away from its original purpose. And if the program is to be reformed, it must be realigned with what residents, housing experts and others who served on the Commission envisioned it to be.

Definition of Severely Distressed

ENPHRONT believes that another important step in reforming HOPE VI is to define, concretely and consistently, the term "severely distressed." Research shows that the term has had at least a dozen definitions since 1989. The looseness and lack of consistency of the definition, along with the lack of reliable data on the condition of properties, has made it nearly impossible to identify with any certainty the number of properties in true distress.

The definition problem has also resulted in housing agencies participating in HOPE VI as a way of addressing other interests, such as major capital improvement needs or to compliment broader community development strategies. While these interests may be valid, the HOPE VI program was not meant to be a substitute for the public housing Capital Fund or a neighborhood revitalization program. And admittedly, this concern about non-distressed properties participating in HOPE VI is heightened considering the fact that participation in the HOPE VI program almost always results in a net loss of hard units that are affordable to extremely low-income families.

ENPHRONT believes that the broader problem here is a lack of resources. To address the problem, we reemphasize the importance of Congress adequately funding the public housing Capital and Operating Funds. In addition, we recommend that HUD be required to develop a clear definition of "severely distressed" that reflects the opinions of residents, advocates, Public Housing Agencies (PHAs) and housing experts. A revised definition, among other things, should factor into a property assessment whether the housing agency has taken all reasonable steps to maintain the property. The revised definition should also ensure that HOPE VI focuses solely on "severely distressed" properties. Finally, HUD should be required to create and maintain a list identifying properties that are severely distressed based on the new definition. This requirement should not preclude HUD from delivering to Congress a list of distressed properties (based on the current definition) due by June 15, 2003 and required by the FY 2002 VA/HUD appropriation enactment.

Replacement Housing

The loss of public housing units under HOPE VI is another major area of concern. ENPHRONT strongly believes that the program should not result in the net loss of hard units in the metropolitan housing market that are affordable and targeted to extremely low-income households. ENPHRONT's definition of affordable are units that receive operating support to reduce rents to 30% of median income and are subject to low-income use restrictions for a period of time close to or comparable to public housing use restrictions.

Numerous research findings indicate that the major housing problem in this country is one of affordability, particularly for those households at or below 30% of median income. ENPHRONT believes that if HOPE VI cannot be a vehicle for producing more hard units affordable to households in this income bracket, it certainly should not be an instrument for reducing the inventory of units affordable to these households. There are several ways to reform HOPE VI in order to address this and other concerns.

First, a reformed program should allow HOPE VI funds to be used in conjunction with project-based vouchers in order to facilitate the production of more hard replacement units. In addition, reforms should remove other barriers to combining HUD funds, including the bar on combining Project-based Vouchers and public housing Capital Fund subsidies.

Second, replacement units should be required to be constructed on the HOPE VI site or in other neighborhoods within the metropolitan area with services and amenities equal to or better than that of the redeveloped site.

Finally, homeownership units should be counted as replacement housing only if original residents of a property impacted by HOPE VI qualify for a mortgage to buy them.

Reoccupancy

ENPHRONT is also concerned about how few residents return to revitalized communities. We believe that residents living at an impacted property anytime in the one year period preceding submission of a HOPE VI application and who remain public housing residents or receive voucher assistance should have the right to live in units developed under HOPE VI. These units must be affordable and properly sized. In addition, a PHA's application and redevelopment plan must provide for sufficient units to meet this requirement.

If housing agencies are concerned about the behavior of particular residents and do not want them to return to a revitalized unit, under their lease agreements and eviction procedures, they have the means to deal with such matters. Enhanced screening and readmission policies should not be a tool used to select households deemed "worthy" of returning to the revitalized community (on-site or off-site). Because the purpose of

HOPE VI is to address the needs of distressed properties and families, all original households should automatically be deemed "worthy" of returning if they choose to.

PHAs, through high quality supportive service programs, can ensure that residents have all the support necessary (i.e., financial management training, etc.) in order to return to revitalized communities.

Still another way to facilitate more original families returning to revitalized communities is to require (as a threshold) that ACC units be reserved for families with incomes at or below 30% of median income for mixed-income/mixed-finance HOPE VI projects with substantial numbers of non-public housing units.

Not excluding the recommendations above, HR 1614 would be substantially improved by adding to the selection criteria an element that looks at the extent to which a plan evidences that all reasonable steps will be taken, including establishing reoccupancy criteria prior to relocation, to ensure that the maximum number of existing residents will be offered a priority for and are encouraged to reoccupy dwelling units in the revitalized community.

Resident Participation

Resident participation is another area where reform is needed. ENPHRONT believes that there must be early, meaningful, and on-going participation by residents of impacted properties in the HOPE VI application and implementation process. Such participation helps to increase support (and reduce conflict) for redevelopment projects. It also ensures that revitalized communities reflect the needs of the impacted families for whom HOPE VI was meant to serve. Existing HOPE VI requirements fail to ensure that residents are engaged in the HOPE VI process in any meaningful way. H.R. 1614 attempts to address this concern by requiring "ongoing" participation in the redevelopment process. However, other reforms are needed if resident participation is to be truly meaningful.

First, Section 2, subsection 3(D) of HR 1614 should be amended to add "the extent of early and sustained involvement" to the current language regarding "on-going" resident and community participation.

Second, HUD should be required to develop a regulation governing resident participation in the HOPE VI process. The process to develop this regulation should be subject to the notice and comment period required under federal rulemaking procedures. In addition, the regulation should incorporate and make mandatory elements of HUD's existing guidance document on "Resident and Community Involvement" in HOPE VI. These elements include language that suggests that PHAs involve residents in the HOPE VI planning process "a year or more before submission" of the application.

Third, housing agencies should be required to set aside in each grant award at least $50,000 to be provided to resident organizations to enable them to retain independent technical support. Agencies should be required to match this amount with $10,000 to

enable the resident organization, prior to submission of the application, to effectively engage in the planning process.

Fourth, even though current HOPE VI rules do not grant residents veto power over redevelopment plans, all impacted residents should be allowed to vote on an agency's final draft redevelopment plan in order to ensure broad resident participation in the redevelopment process and as a way of gauging resident support for the project.

Finally, a reformed HOPE VI program must ensure that households residing in public housing units have the right to establish a duly-elected public housing resident council for the revitalized property, particularly in the case of mixed-income/mixed-finance communities. PHAs should be required to recognize any public housing resident council formed in accordance with HUD resident participation rules (CFR 964).

Relocation

In the area of relocation, consistent with the HOPE VI requirement of an "improved living environment," PHAs should be required to go beyond Uniform Relocation Act (URA) requirements in order to reduce the physical and emotional strain of relocation. Specifically, relocation in stages, one-on-one counseling and high quality mobility and relocation services should be a threshold requirement.

Second, housing agencies should be required to track all original residents of affected properties. This tracking requirement should apply to all residents residing at the property one-year prior to the submission of the HOPE VI application, especially residents no longer receiving housing assistance and voucher tenants. Housing agencies should be required to track these residents for a minimum of two years.

Third, HUD should be required to strike from any future Notice of Funding Availability (NOFA) the provision that awards points to PHAs that relocate residents of an impacted property prior to submission of a HOPE VI application.

Finally, in addition to the above recommendations, HR 1614 can be improved by amending Section 2, subsection J to require that applications be evaluated based on the "extent to which the plan provides Community and Supportive Services to residents prior to relocation."

Supportive Services

Supportive services are a crucial part of restoring distressed public housing communities. True revitalization can only happen when both property and human needs are addressed with equal commitment. To this end, PHAs should be required to begin Community and Supportive Services activities prior to relocation. The reason is so that residents can begin benefiting from services well before the physical and emotional strains of relocation. Further, all impacted residents, regardless of where they are relocated to, should benefit from Community and Supportive Services programs.

In reforming HOPE VI, a minimum threshold should be set for the amount of resources (either from the HOPE VI grant or through leveraging) a PHA is required to invest in CSS activities. Ideally, the current cap of 15% of the HOPE VI grant should become the floor. Further, PHAs should be given an incentive to link residents with services already in the community and to leverage foundation funds and other non-federal monies.

Lastly, HUD should be required to link the HOPE VI program with grant programs operated by other Cabinet level departments so that more of HUD's funding can be used for costs related to replacement housing and relocation, while other agencies fund supportive service activities.

Public access to information/documents on the performance of local grants and the overall HOPE VI program.

HUD should be required to make available on-line information/documents on the performance of local grants and the overall HOPE VI program. These documents should include grant applications, grant agreements, revitalization and relocation plans as well as quarterly progress reports and national aggregate summary reports of quarterly progress report data.

ENPHRONT acknowledges the work of the Center for Community Change, National Housing Law Project, National Low Income Housing Coalition, Poverty and Race Research Action Council and Sherwood Research Associates as a basis for preparing this testimony.

Testimony of
Renee Glover, Chief Executive Officer, Atlanta Housing Authority
on behalf of the Council of Large Public Housing Authorities,
before the House Subcommittee for Housing and Community Opportunity

April 29, 2003

Good afternoon Chairman Ney, Ranking Member Waters and members of the Subcommittee.

On behalf of the Council of Large Public Housing Authorities (CLPHA) and the citizens of the great City of Atlanta, Georgia, who have greatly benefited from the investment made under the HOPE VI demonstration program, thank you for the opportunity to speak with you today. CLPHA members own and operate approximately 40% of all of the public housing assisted units and over 30% of all of the Housing Choice (Section 8) vouchers. Many of the HOPE VI grantees are CLPHA members.

We are delighted that this Subcommittee is considering authorizing HOPE VI-like legislation. Not only has the demonstration program been a catalyst for transforming distressed and disinvested neighborhoods in Atlanta, but it has also facilitated an environment where positive change in the lives of the residents has occurred.

I am here today to speak to you about my experience with the HOPE VI demonstration program in Atlanta. We have learned very compelling lessons—lessons which, in my opinion, provide an answer to the question, "how do we save large urban centers and, more importantly, restore the 'social contract' with the families and the thousands of children who are being left behind?"

Without exaggeration, the HOPE VI demonstration program is the most important urban revitalization effort that America has undertaken. In Atlanta it has: (1) brought communities and neighborhoods back to life; (2) helped to address broken neighborhood schools; (3) restored the social contract and (4) provided a bridge to mainstream America for families who have been institutionalized in warehouses of poverty, hopelessness and despair and who have consequently become marginalized by the rest of society. If executed properly and with a policy and outcome driven focus, the success we've experienced in Atlanta can be replicated in city after city.

Critics have said the HOPE VI Program has caused the loss of hard units. In Atlanta, this is completely false. A careful and thoughtful analysis will show that by attracting private resources to the development program, a larger number of affordable units have been preserved than otherwise could have been constructed with public housing dollars alone. In each mixed income community in Atlanta, the private resources supplement the public housing resources to fund the cost of the public housing assisted reserved units. No HOPE VI dollars are supplementing the cost of the non-public housing assisted units in mixed income communities. Any loss of the hard units is strictly a resource issue.

WE DID NOT GET HERE OVERNIGHT

Decades of shortsighted national housing policy, local mismanagement, and bureaucratic red tape have resulted in irreparable decay at nearly all of the Atlanta Housing Authority's family communities. In Atlanta, we have been engaged in an across-the-board transformation since March 12, 1996, the date HUD approved the first mixed-income, mixed-financed neighborhood revitalization project. Since then, we have razed more than 5,000 dilapidated apartments throughout the city and leveraged approximately $184 million of federal grants into roughly $2.5 billion of private investment, public improvements, and related economic activity. Still, many Atlanta communities have yet to undergo revitalization. These communities, too, contain a broken social environment and obsolete buildings that are literally crumbling.

To address the unresolved communities, Congress should authorize a mixed-income, mixed-finance community development program that makes use of reasonable market assumptions and a proven business model. By authorizing a program that builds on the concepts of the HOPE VI demonstration program, Congress would honor its

obligation to provide qualified low-income citizens access to decent, affordable rental housing, maximize private investment, and ease federal financial obligations.

Let me add one caveat, however. No federal dollars should be expended unless they can be shown to support positive outcomes. Congress should not authorize a program based on failed policies or programs. Bad public policy developed in Washington results in bad public outcomes in Atlanta and other cities. We have been using the HOPE VI demonstration program to attend to Atlanta's problems created by bad public policy – some of which was created in Atlanta and some of which was created here in Washington.

Bad public policy isn't an academic argument. It has real and lasting effects on the families who live in poor communities. I will never forget meeting with a committee of residents whose community we hoped to revitalize. When we showed them the architectural designs of what a new community would look like, one said to me, "I know you're not planning for me because that's too nice." All of her neighbors agreed. Consider that these are Americans whose living condition was so bad for so long that it was impossible for them believe they could achieve a better life. They had come to believe that they were being penalized because of their poverty. Surely that is the very definition of despair and hopelessness.

Warehousing the poor has made a legacy out of poverty, trapping great-grandmothers, grandmothers, mothers, children and children with children in a cycle where the only conceivable aspiration is to one day get a public housing apartment of your own.

MAKING CHANGE

In Atlanta, we developed a two-step process for making change happen:

Commitment 1: Candidly assess the situation and understand the problem.

What we found in 1994 and what we continue to find in all the communities that have not yet been redeveloped are circumstances such as what I described earlier. Despite our efforts to privatize the management, to strictly enforce the lease, and to improve the living conditions to their highest possible standard, our efforts are not enough to break the grip of the downward spiral of urban physical and social decay. Without comprehensive revitalization, these horrible conditions repeat themselves. In the large public housing family communities you'll find extreme, multi-generational poverty—average incomes of approximately $7,300 per year; exceedingly high rates of unemployment—only 15% of the able-bodied population working; captive elementary schools in public housing communities performing at severely substandard levels, typically at the lowest rungs on uniform test; high levels of illiteracy or functional illiteracy at graduation; high truancy rates; high crime rates; no new private investment for decades; and high levels of disinvestment in the surrounding neighborhoods.

Commitment 2: Maintain high expectations, propose an achievable solution to the problem, and stop implementing policies that yield bad outcomes.

In the fall of 1994 what we desicded to do in Atlanta was to stop warehousing poor families in concentrated poverty. The HOPE VI demonstration program allowed us to pursue this strategy. With the revitalization of Techwood/Clark Howell, Atlanta sought to create a healthy mixed-income community; to cease the concentration of poverty; to end the stigma of the public housing program; to leverage the HOPE VI grant funds; and to mainstream the families into the larger community.

COMMISSION FOR SEVERELY DISTRESSED PUBLIC HOUSING

More than a decade ago, Congress saw a need for developing new ideas to address the severe housing and social problems in Atlanta and other cities when it created the Commission for Severely Distressed Public Housing. The findings of that Commission called for experiments in American cities. Ultimately, through the Urban Revitalization Demonstration program (later to be known as HOPE VI), cities and communities were called on to create their own approaches. The challenge was to revitalize severely distressed public housing by encouraging local housing

agencies to turn distressed, high-density projects into livable communities. Initially, eligibility for funding was restricted to public housing authorities in the 40 largest metropolitan areas and other public housing authorities on HUD's troubled authority list. Atlanta was eligible under these criteria, and we embraced the opportunity afforded by the demonstration program to try something new.

Until the flexibility of the demonstration program, federal law barred Atlanta and other housing agencies from demolishing uninhabitable property without replacing it with a 'hard unit.' No matter how obsolete a structure was or how bad the sociology of the community, it was impractical to demolish the uninhabitable unit. Federal law also stipulated that any housing development receiving public housing subsidy could only be owned by a local housing agency. These public policy restrictions made it impossible to address the troubles plaguing Atlanta and other large urban cities.

While the demonstration program eased these restrictions, the legal, regulatory and financial model that enabled mixed-income community development had not been conceptualized under the original guidelines. The legal, regulatory and financial model for public/private ownership and leveraging public housing development dollars with private funds had to be developed. AHA and its private sector development partner, The Integral Partnership of Atlanta, worked with HUD during a 12-month period to create the legal, regulatory and financial model to develop the first mixed-income community in the nation, Centennial Place. The financial closing for the development of Phase I of Centennial Place in March 1996 gave birth to the nation's first master-planned, mixed-finance, mixed-income development with a public housing component. This model was promoted and endorsed by HUD and became the national model for development of mixed-income, mixed-finance communities under the HOPE VI Program.

DEFINING A MIXED-INCOME COMMUNITY

A mixed-income community in Atlanta is a market rate community owned by a public/private partnership, with an affordable component seamlessly inside of it. In most of Atlanta's mixed income communities, the public housing component is no greater than 40%. Market rate principles dictate the quality, management, and sustainability of the property. There are more private dollars in mixed-income developments than public dollars, and the private sector development partner controls the development and management of the property. The bankers and other investors have financial expectations and covenants that must be met, the standards must be held high. The long term success of mixed-income communities is driven by the same market factors that drive the success of every other real estate development: the competition to attract market rate renters and the need to meet debt service and achieve specified returns on investment require that the properties are managed and operated at a superlative and competitive level.

To date, with 11-mixed income communities having been developed in Atlanta, since 1996, there has been no inability to attract market rate renters. The average occupancy across all income segments that comprise the mixed-income communities is 95%, comparable to the high-end rental market in Atlanta.

This level of success takes time and effort. Unlike the existing HUD modernization or rehab programs, developing a mixed-income, mixed-finance community is identical to developing a traditional market-rate, multi-family residential development, save one point: a level of bureaucracy not borne by the private sector. Like private sector development, mixed-income, mixed-finance developments require private financing, equity loans, zoning changes, and all the other factors associated with private development. But they also involve the relocation of hundreds of families, razing dozens of buildings, and preparing the site. Moreover, although HOPE VI dollars are not used, the site's master plan typically includes securing funding and building infrastructure matters like public streets, storm and sewer ways, new or rehabbed schools, recreation facilities, retail development, and other related tasks. During this time, resident communication, HUD review, and other extra steps are managed. Needless to say, developing a mixed-income, mixed-finance community is not simply a matter of putting the work out to bid and then placing it under contract. Simply put, it takes time. And, finally, given the success of the development is contingent upon the huge influx of private investment, it must be responsive to the local real estate market and tax credit cycles.

ATLANTA'S CUMULATIVE SUCCESS

As of today, AHA is serving more families than in 1994 and in substantially better living conditions.

Since March 1996, the AHA (using HOPE VI grants and other public housing development dollars) has demolished distressed public housing units in nine communities. To date, in partnership with our private sector development partners, AHA has sponsored the development of 11-mixed income communities. Approximately $184 million of HOPE VI and other public housing development dollars has leveraged $2.5 billion of new investment in the City of Atlanta, with a combination of private investment, local government investment and related economic activity.

As a result of the revitalization program, our Housing Choice Voucher Program has grown from approximately 6,000 vouchers in 1996 to approximately 12,000 vouchers today. The success rate for families in the relocation program has been 95% and the AHA's utilization rate is 97%, with greater than 60% of the families living in lower poverty neighborhoods.

At least 75% of the families who have relocated to the Housing Choice program are living in better neighborhoods, with lower poverty rates and better amenities. The employment rate of families who relocated into the Housing Choice Program has improved by 300%.

Families who have returned to the mixed-income, mixed-finance communities are living in wonderful communities with substantially improved living conditions. Independent research shows that residents are four times more likely to be employed after returning than when they left.

PROPOSED NEXT STEPS

One-hundred percent of AHA's properties are managed by nationally recognized real estate management companies, and our agency is considered a High Performing agency by HUD. Despite our efforts, harsh physical and social conditions exist in the large public housing communities where mixed-income strategies have not been attempted or funded. Atlanta needs a successor to the current HOPE VI demonstration Program and I would submit other cities do as well.

Congress has invested almost $5 billion to see what innovation can accomplish, and, with ten years of work behind us, it is clear what works and what doesn't. Clearly, what demonstrably works ought to form the foundation of any new housing policy. What doesn't must be scrapped. Congress should cull Best Practices from Atlanta's experiences and those of other cities to authorize a program to address the severely distressed public housing that remains. The problem identified by the Commission for Severely Distressed Public Housing has not been solved. But it can be.

We know that the traditional approach to providing affordable housing resources is prohibitively expensive, both socially and financially. For decades following the inception of public housing, the federal government alone footed the costs of developing and maintaining what can only be called warehouses for the poor. At the same time, local governments had to carry the increased costs of public and social services needed to address the despair and dysfunction associated with "the projects." It is obvious that this approach is untenable. We as taxpayers can't afford it from a purely financial standpoint, but we as a nation can't afford it from a societal standpoint. Maintaining these "Residential Brownfields" is a losing proposition, and no city in the country – not one – can do it. Tax dollars should not perpetuate a housing condition that condemns, stereotypes, stigmatizes, and, for all practical purposes, damns the people it is supposed to help. And that's what we are doing if we maintain the status quo.

If we are going to use tax dollars to provide housing resources to eligible low-income individuals and families, then we should make a commitment not to spend dollars on programs that we know don't work; programs that foster and widen social and economic isolation. At a minimum, we should agree to do no further harm.

PROPOSED GUIDING PRINCIPLES

Building on the "Best Practices" formed, Congress should write, authorize and fund an effort that is driven at the local level by existing market conditions, housing and community needs, and local resource availability; e.g., low income housing tax credit cycles, private activity bond volume cap, and absorption of market rate units in the community.

Administrative oversight of this mixed-income, mixed-finance program cannot be overly prescriptive, however. Guiding principles should be used to measure outcomes and the reauthorization should be shaped by three guiding principles:

Principle Number 1 - We must deconcentrate poverty and eliminate the stigma associated with public housing. The objective is to create market rate communities owned by public/private partnerships which seamlessly include affordable components. True market driven mixed-income communities with a blend of rental and owner-occupied dwellings are needed to replace ghettos of concentrated poverty because concentrated poverty promotes chaos. It creates an environment conducive to criminal exploitation, and the deeper the poverty, the more vulnerable people become. Conversely, by deconcentrating poverty we have seen the emergence of the ability to participate in society; an increase in social and economic upward mobility (demonstrated by higher employment and lower TANF dependency). It helps return, or sometimes introduce, individuals to the mainstream of society.

Nonetheless, small communities, in Atlanta that means fewer than 100 units, can be managed and sustained if adequate operating and capital funding is provided. For instance, the AHA owns and operates 17 Senior Communities that are professional managed by private companies. With strategic capital investment, we can sustain these properties and continue to improve the quality of life for the residents. The Public Housing Reinvestment Strategy proposed by HUD may be a good source of raising capital for these smaller communities and in smaller urban or rural areas as well.

That notwithstanding, HUD's Initiative is not a viable substitute for HOPE VI like program at large communities. As proposed it does not, among other things, offer access to sufficient capital to make substantive physical change or to sufficiently eliminate the stigma associated with public housing projects and the negative impact that stigma has on private investment. It is not enough to take a band aid approach to buildings which have outlived their useful life, and, more importantly, these communities will retain the taint of public housing. That taint would likely, depending on local conditions, overshadow any proposed market rate component, dooming the marketability and long-term viability of those communities and of the proposed investment.

Principle Number 2: We must form public/private partnerships.

Financial and social stakeholders should play a partnering role in the neighborhood revitalization efforts.

The HOPE VI funds must come in as seed capital. The cost of relocation, demolition, environmental remediation, and a substantial contribution toward the hard cost of developing a public housing assisted unit and supportive service programs are critically important investment costs, but for which there are limited sources of funds or none altogether. No lender or private developer will provide resources for these costs because there is no monetary return to addressing the "residential Brownfields."

The dynamic between the public and private sectors must be changed. Substantive private involvement introduces a discipline the current public housing program does not have. The creation of the public/private partnership guarantees a built-in "accountability" feature because private sector involvement guarantees that the communities remain sustainable and desirable, and the introduction of private investment results in higher community performance standards and expectations. With this built-in accountability, HUD can focus on measuring outcomes and not managing process. As it stands now, current HUD procedures subject a development process to what appear to be the arbitrary application of modernization practices and timetables.

Private developers, private investors, and other key stakeholders must be incented to play a significant role in the neighborhood revitalization efforts. Market standards and principles must be utilized. HUD must resist the temptation to be too prescriptive. Partners must have a vested interest in the outcome and continued success of the revitalization, which is critical to a leveraging strategy. Participants who view themselves only as contractors may not

have the same alignment of interests. As partners, stakeholders can participate based on unique roles and strengths, minimizing duplication of efforts or funding constraints. One of the most attractive features of HOPE VI is the ability to use public funds as seed money to attract other necessary investment, and our ability to fill this role as a partner must be maintained. Public housing funds alone are not sufficient to create the wholesale transformations that are needed.

A review of the regulatory burden placed on public housing assisted units in mixed-income communities should be undertaken. A more reasoned approach to establishing timeframes would consider market absorption and the cyclical availability of financial resources that would need to be leveraged, including low-income housing tax credits, private activity bonds and other subsidies. For guidance, HUD can look to other economic development programs which have longer time horizons, even up to 10 years, for economic development and community building.

Principle Number 3: We must rebuild communities, not just housing. Community building requires better public schools, recreational facilities, and economic development.

Federal officials should consider ways to foster and provide cross-departmental or agency incentives for localities to work together, in a holistic manner, to build the opportunity for human development. Coordinating the distribution of funds for public infrastructure, transportation, and education and strategies that facilitate and attract future private investment in the surrounding neighborhood must be encouraged.

We must embrace a broad, shared understanding of a new local paradigm and a willingness to create based on enlightened community self-interest. The results here in Atlanta have been a tremendously improved sociology, better neighborhood schools, more neighborhood reinvestment, higher rates of employment among the assisted families, and reduced crime by more than 90%. In total, the change has resulted in a promising future instead of a certain failure.

To illustrate the point, one needs to consider Centennial Place Elementary school which sits on the former site of the nation's first public housing project, Techwood Homes (early HOPE VI recipient). The school serves downtown neighborhoods, including Centennial Place, a thriving, mixed-income community where residents work, pay rent, and abide by their rental agreement and the law. Unlike the concentrated poverty that once occupied the real estate, the neighborhood is socially and geographically integrated into the broader community and it's an environment that is safe. Performance at Centennial Place Elementary School has gone from the cellar through the roof – performing higher than national averages on standardized tests. Several other elementary schools in more recently revitalized communities have shown substantial improvements as well.

Centennial Place Elementary has several lessons for those of us helping to shape public policy. First and foremost, all children can learn if provided with an environment that is devoid of chaos and hopelessness. Failure should not be a given track for children living below the poverty line any more than it should be for a child living in an affluent setting. And finally, children develop and grow in a whole environment. Certainly where they learn matters, but where they live matters, too.

In closing, the HOPE VI mixed-income, mixed-finance concept is a strategic investment in America's future. This program should be reauthorized and funded at least at the levels of the past ten years and increased if the need is determined and the results justify the investment. Strategies should be encouraged that look at ways of creating tools for smaller cities and rural areas that have distressed public housing communities or that lack housing options. In closing, let's invest in America's families, children and neighborhoods; it is the way that we can continue to be a truly great nation.

RENÉE LEWIS GLOVER

Renée Lewis Glover joined the Atlanta Housing Authority (AHA) as CEO in September 1994. Since that time, AHA has gone from an agency on HUD's troubled list to one of the nation's leaders in community redevelopment. AHA pioneered the master-planned, mixed-finance, mixed-income revitalization model now used in cities across the country.

Under Glover's leadership, AHA has been successfully repositioned as an asset management organization, fulfilling its public mission using best practices from the private sector. It outsources property management functions to professional property management firms; it partners with private developers to revitalize Atlanta's most distressed neighborhoods; and it leverages public dollars with private investment to fund its revitalization initiatives. AHA is the sixth largest housing authority in the U.S., and it owns and operates approximately 9,500 multi-family apartments and administers approximately 12,000 Section-8 vouchers.

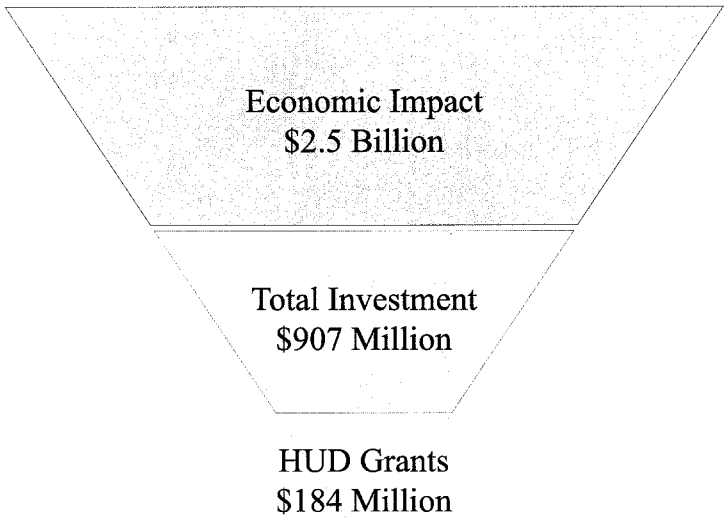
Glover was named Public Official of the Year 2002 by *Governing* magazine, and she has been recognized as one of the top ten women in government by the Center for American Women and Politics, the Ford Foundation and the Council for Excellence in Government. She served on the National Advisory Council of Fannie Mae and was appointed by Congress to the Millennial Housing Commission in 2000, charged with providing legislative recommendations to on national housing policy.

Prior to joining the AHA, Glover was a corporate finance attorney in Atlanta and New York City. She received her Juris Doctorate from Boston University, her Master's degree from Yale University, and her undergraduate degree from Fisk University.

Supplement to the Testimony of
Renee Glover, Chief Executive Officer, Atlanta Housing Authority
on behalf of the Council of Large Public Housing Authorities,
before the House Subcommittee for
Housing and Community Opportunity

April 29, 2003

LEVERAGING FEDERAL RESOURCES



Atlanta Housing Authority

BEFORE: Techwood Homes, Early 1990s

AFTER: Centennial Place, Today

Centennial Place is the nation's first master-planned, mixed-income community.

AHA

Atlanta Housing Authority

CENTENNIAL PLACE

Community Investment

AHA/HUD	$42,500,000
Private Debt/Equity	$94,100,000
City of Atlanta	$11,800,000
	$148,500,000*

* Total investment in master plan development only

Centennial Place is a successfully performing mixed-income community.

** Independant analysis conducted by Strata Real Estate Alliance, LLP*

	1990 Census	2000 Census	Percent Change
Median Houshold Income	$4,999	$12,359	**147%**
Ownership vs. Leasing	1%	4.7%	**273%**
Average Home Value	0	$275,000	**
Number of Housing Units Sold	0	7	**
Business Licenses	26	69	**165%**
Commercial Inventory			
Office (sq. feet)	1,888,400	2,451,995	**30%**
Condominiums (est. units)	12	398	**
Hotel (est. units)	0	888	**

** This market was essentially non-existent in 1990.

BEFORE: John Hope Homes, Early 1990s

AFTER: The Village at Castleberry Hill, Today

THE VILLAGE AT CASTLEBERRY HILL

Community Investment

AHA/HUD	$17,000,000
Private Debt/Equity	$47,000,000
City of Atlanta	$400,000
	$64,400,000*

* Total investment in master plan development only

There is compelling evidence that the redevelopment of John Hope Homes facilitated a change in the primary impact area that inspired both developers as well as individual investors to invest their dollars in rebuilding these neighborhoods.

** Independant analysis conducted by Strata Real Estate Alliance, LLP*

	1990 Census	2000 Census	Percent Change
Population Size	7,175	7,977	**11%**
Median Houshold Income	$6,811	$10,927	**60%**
Average Home Sales Value	$38,600	$208,327	**440%**
Number of Housing Units Sold	5	62	**
Business Licenses	19	44	**132%**
Commercial Inventory			
Retail (sq. feet)	105,700	119,700	**13%**
Multi-Family (est. units)	929	1,393	**50%**
Condominiums (est. units)	2	258	**
Miscellaneous Commercial (sq. feet)	59,500	61,500	**3%**
Restaurant/Fast Food (sq. feet)	2,100	52,100	**
Hotel (est. units)	0	100	**

** This market was essentially non-existent in 1990.

BEFORE: East Lake Meadows, Early 1990s

AFTER: The Villages of East Lake, Today

Atlanta Housing Authority

THE VILLAGES OF EAST LAKE

Community Investment

AHA/HUD	$28,700,000
Private Debt/Equity	$77,600,000
	$106,300,000*

* Total investment in master plan development only

The Villages of East Lake has made an enormous impact on the economic health of the community.

** Independant analysis conducted by Strata Real Estate Alliance, LLP*

	1990 Census	2000 Census	Percent Change
Median Houshold Income	$18,070	$31,149	**72%**
Ownership vs. Leasing	56%	58%	**-3%**
Average Home Sales Value	$49,795	$152,790	**307%**
Number of Housing Units Sold	43	368	**856%**
Business Licenses	19	148	**679%**
Commercial Inventory*			
Office (sq. feet)	138,500	150,000	**8%**
Retail (sq. feet)	518,700	587,700	**13%**
Multi-Family (est. units)	675	825	**22%**
Condominiums (est. units)	211	219	**4%**
Miscellaneous Commercial (sq. feet)	44,600	52,800	**18%**
Restaurant/Fast Food (sq. feet)	25,900	30,400	**17%**

BEFORE: John Eagan Homes, Early 1990s

AFTER: Magnolia Park, Today

Atlanta Housing Authority

MAGNOLIA PARK

Community Investment

AHA/HUD	$16,000,000
Private Debt/Equity	$19,800,000
City of Atlanta	$900,000
	$36,700,000*

* Total investment in master plan development only

Investment spurred by the joining of forces of local developers and organizations planned concurrently with the redevelopment of Magnolia Park has created a catalyst for the larger community.

** Independant analysis conducted by Strata Real Estate Alliance, LLP*

	1990 Census	2000 Census	Percent Change
Median Houshold Income	$9,550	$18,436	**93%**
Ownership vs. Leasing	22%	31%	**8%**
Average Home Sales Value	$49,257	$102,168	**107%**
Number of Housing Units Sold	23	111	**383%**
Business Licenses	52	93	**79%**
Commercial Inventory			
Retail (sq. feet)	91,800	214,800	**134%**
Condominiums (est. units)	30	52	**73%**
Miscellaneous Commercial (sq. feet)	0	800	**

** This market was essentially non-existent in 1990.

Subcommittee on Housing and Community Opportunity Hearing

Strengthening and Rejuvenating our Nation's Communities and the HOPE VI Program"

Tuesday, April 29, 2003, at 2:00 p.m. in room 2128 Rayburn House Office Building

RE: H.R. 1614, "Hope VI Program Reauthorization and Small Community Mainstreet Rejuvenation and Housing Act of 2003"

Written statement of:

Thomas D. Guzman, Director
Iowa Downtown Resource Center
Iowa Department of Economic Development
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Email: thom.guzman@ided.state.ia.us

Honorable Bob Ney, Chair:

Thank you for the opportunity to provide this written statement concerning H.R. 1614, HOPE VI Program Reauthorization and Small Community Mainstreet Rejuvenation and Housing Act of 2003. I have invested the last 18 years (15 in Iowa) of my professional career working with community citizens to address the economic, physical, social and political values of their city centers.

The Main Street® Iowa program is embarking on its 18th year of providing technical assistance and capacity building services to Iowa communities committed to improving the values noted above. It is a long-term incremental process, which takes a comprehensive approach in addressing the forces that negatively impact Iowa's downtowns. During the past 17 years, the Iowa Department of Economic Development has had the opportunity to work with 49 Iowa communities through the Main Street program. Through lots of hard work, dedication and commitment from hundreds of community leaders, Main Street® Iowa is recognized nationally as one of the most successful statewide Main Street® programs in the country. In fact, it is often referred to as THE model to emulate. Main Street® provides the structure and strategy, which allows participating Iowa communities to thrive, not just survive. Through their efforts, six Iowa communities have won the GREAT AMERICAN MAIN STREET AWARD: Dubuque, Bonaparte, Corning, Keokuk, Elkader and Cedar Falls. Only 40 communities nationally have won this prestigious award. In Iowa, Main Street® communities are expected to be regional demonstration models from which other towns can learn.

Iowa is a state of low population growth. Its three million people reside in 950 communities, none of which could be classified as large, urban centers. The state's largest metropolitan area, Des Moines has a population of approximately 415,000. Only nine communities in our great state have populations over 50,000. In fact, most counties and communities in Iowa have experienced population losses for decades. Our urban centers continue to grow, while the rural areas struggle to maintain or minimize population loss. Yet, despite such trends, the results of the population census in 2000 revealed that 74 percent of the communities participating in Main Street® Iowa experienced population gains, allowing these communities to thrive, not just survive!

The Main Street Approach® is a copyrighted and trademarked process of the National Trust for Historic Preservation. It is economic development within the context of historic preservation. It is successful because it sets high standards for communities to aspire to. Professional local staff, adequate operating budgets, public sector support, preservation ethic, volunteer leadership, vision and mission statements, community support, ongoing training, monthly performance reports and a strong public/private partnership are examples of these high standards. Communities that consistently meet these standards are recognized annually as Nationally Certified Main Street® Communities. About 75 percent of the Iowa Main Street® communities achieve this designation annually.

Additionally, each month, communities track their incremental economic impact. Over the past 17 years, through this tracking, Main Street® Iowa communities have recorded

the following economic impact statistics in their downtowns:

Net gain in business starts, expansions, relocations:	2,302
Net gain in full-time equivalent jobs:	6,470
Downtown buildings rehabbed or sold:	7,003
Total private sector investment into downtown buildings:	$362,871,234
Total volunteer hours:	889,139

Communities included in the above statistics have participated in the Main Street® program anywhere from 1 to 17 years, depending on the year they entered the program.

Another amazing statistic is the ratio of private sector investment in downtown buildings compared to the State of Iowa's investment in the operation of the state Main Street® program:

$131 to $1 for FY 2002
$ 51 to $1 since FY 1986

These statistics indicate there is a tremendous return to the state for its continued investment in this highly successful downtown development program. Most assuredly, not many state or federal programs have this excellent rate of return for every public dollar invested.

In Iowa, we built partnerships to develop tools to assist Main Street® communities in revitalizing their downtown districts. Together with the Federal Home Loan Bank and the Iowa Finance Authority, the Main Street Revitalization Loan Program was created offering low interest loans to rehabilitate upper floor housing, to renovate older commercial buildings and to erect new buildings on in-fill lots. This innovative program, the first of its kind in the country was launched right after September 11, 2001, a very difficult time in our country's history. Last month, we celebrated our first million-dollar milestone. Seven building owners in Main Street® communities have utilized this loan pool to renovate downtown buildings. Without this new program, most of these projects would not have occurred. All but one were in communities under 12,000 in population.

However, access to capital for downtown development projects like upper floor housing has been scarce at best. Most federal programs just didn't seem to fit the needs of Iowa's smaller communities, usually because they didn't fit the criteria for eligible projects or the project minimums were too large.

Since the early 1980's almost 2,000 communities all across the country have utilized the Main Street Approach® as a major tool in their economic development toolbox. Success has come to those who understand the long-term commitment and comprehensive strategy needed to address the economic, physical, social and political values of their city centers.

In spite of this success, challenges continue to be overwhelming nationally. Population losses in rural America translate into reduced human and financial resources locally to address the challenges of employment, housing, education, human services, declining downtown districts and state/federal regulations. Many federal programs have been developed over the years to address revitalization and rejuvenation. However, most of them are targeted to larger urban areas and offer little opportunity for utilization in rural America. Although need is great in urban America and our nation's resources need to be invested there, the needs of rural America are also great and should be addressed. We must invest in the revitalization and rejuvenation of our smaller communities. Especially in those communities who have made the commitment to invest in themselves. Main Street® communities have garnered the local human and financial capital to revitalize and rejuvenate their downtowns and communities. They have put in place the organizational capacity to efficiently utilize development tools. Making tools available for Main Street® communities under 30,000 is just smart business.

In June, 2000, we conducted an informal survey of our participating Main Street® Iowa communities in an attempt to identify opportunities for upper floor housing, in-fill construction and vacant buildings which could potentially be converted into loft housing. We were astounded by what we learned. Approximately 50 percent (15) of the participating communities responded to our survey. Using their survey results as basis, we identified the following opportunities within our Main Street® Iowa communities:

- There were over 400 upper floor housing units that are vacant and unused;
- There were dozens of vacant downtown buildings which could be converted to housing, creating hundreds more housing units;
- There were over 70 vacant lots that would be suitable for new in-fill construction blending commercial uses on the first floor with housing above.

This data came from predominately smaller Iowa communities under 30,000 in population. Development of these opportunities would have a tremendous impact on the economic health of each community.

H.R. 1614, the HOPE VI Program Reauthorization and Small Community Mainstreet Rejuvenation and Housing Act of 2003 is an excellent example of how we can look at existing legislation and fine tune it in order to also make it relevant and usable for America's smaller communities. By adding language to HOPE VI, which was developed to address the challenges surrounding severely distressed public housing projects in our country's large urban areas, it is possible to also offer programs suitable for communities with populations under 30,000 to develop affordable housing. Smaller communities nationwide also struggle with traditional low income housing issues and have a disproportionate number of low-income families. The reauthorization doesn't authorize new money for this partnership with Main Street®. It merely takes advantage of existing monies that would already be authorized for HOPE VI and includes criteria allowing America's smaller communities to participate in providing affordable housing solutions.

I am not an expert on HOPE VI because as it is currently authorized, there is virtually no opportunity for Iowa to use the program. I understand it has had tremendous impact in other states where large public housing projects exist. However, HOPE VI needs to be

reauthorized and needs to include language allowing states like Iowa to take advantage of this program. H.R. 1614, the HOPE VI Program Reauthorization and Small Community Mainstreet Rejuvenation and Housing Act of 2003 would allow Iowa and every other state the opportunity to better develop affordable housing for low-income families within their Main Street® commercial project areas in their smaller communities. I can already visualize renovated hotels and upper story apartments bringing economic vitality to these communities as a result of this reauthorization. This reauthorization has the potential to positively change the quality of life for many Americans who choose to live in smaller communities.

The signature of America is embedded in its smaller communities. Developing tools, which assist in making them stronger, more viable, livable communities, is good for every state in our nation. By doing so, we strengthen the economic, physical, political and social health of our country. And that is a very good thing.

Thank you for the opportunity to share some thoughts and experiences with you.

Testimony of Howard Husock

Director, Case Program, John F. Kennedy School of Government, Harvard University

Contributing Editor, City Journal

Subcommittee on Housing and Community Opportuntiy

Tuesday, April 29, 2003

Thank you Mr. Chairman.

I an testifying in favor of the Department of Housing and Urban Development's budget proposal for the HOPE VI program.

It's not easy to speak, in effect, in favor of a moratorium, or perhaps a phase-out, of an admittedly popular program. And there is no doubt that HOPE VI developments have replaced distressed housing and provided homes which are better than their residents could otherwise have afforded.

But beyond a superficial attractiveness, there are significant questions about HOPE VI which, especially at a time of budget constraint, must be taken quite seriously.

Question One. Are we confident that HOPE VI developments will be well-maintained? It's important to keep in mind that the developments which previously stood on their sites were also hailed, at one time, as a great step forward. This was true even of the public housing high-rises now so thoroughly discredited. It is far easier to cut ribbons on new

projects than to maintain those projects over time and, like other public housing before it. HOPE VI faces fundamental maintenance challenges: because, purposely, so many of its residents have low incomes and thus pay low rents, these developments will depend on a combination of market-rate rents and public subsidies. Neither is an assured income stream. Moreover, we must always wonder whether those managing subsidized housing have the capacity and competence to maintain it over time. The track record in this regard has not been reassuring. So it is that before we spend millions more on additional HOPE VI developments, it is far from inappropriate to see whether those built to date can be well maintained.

Question Two: Will middle-income tenants choose to live in HOPE VI developments? Just because a development has designated a number of units for middle-income tenants or owners is no assurance that such households will move in, especially in a period when declining rents and real estate prices make other options more affordable. I've already been told by a HOPE VI developer in Chicago that he is doubtful that he can attract the requisite number of middle-income tenants for a development in the city's State Street corridor. This is a crucial question for two reasons. Not only will the developments need income from market-rate residents to ensure proper maintenance but income-mix is a key part of the theory of HOPE VI; based in the belief that higher-income households will set good examples for those of lower income. If it proves to difficult to attract—or just as important, to retain—higher-income households, the developments could quickly become new versions of the housing they replaced.

Question 3: Can we be sure that the HOPE VI social experiment will work? We have proceeded on the supposition that the presence of middle-income households will provide positive role models for those of lower income. But we should keep in mind that this is a hypothesis, not a proven approach. Sociologists, after all, have long recognized that it is difficult for households of significantly divergent incomes to establish relationships.

We cannot rule out the possibility that there will be friction between these two income groups, as has happened when Section 8 rent voucher households have moved into higher-income neighborhoods, such as the south suburbs of Chicago. Nor can we rule out the possibility that under-supervised children in lower-income households—in which, overwhelmingly, there is only one parent present—may provide negative role models for children in middle-income households.

Question 4: Is new housing designated for those of very low-income in keeping with our larger goals for American family structure? By designating large numbers of HOPE VI units for households of very low income, we ensure that we will be reserving units for single-parent households. Such households dominate existing public and otherwise subsidized housing. HUD figures show that only 8 percent of public housing households have two parents and children as residents. HOPE VI is providing new units for single-parent households which, in contrast to our overall public assistance policy, will come with no time limit. We must ask whether we are providing—at costs which have topped $200,000 a unit, not including any implicit cost of land acquisition—better housing for single-parent families than that which lower-income two-parent families could afford—

and are thereby sending a message inconsistent with our broader efforts to encourage the social stability and effective child-rearing which two-parent families, in the aggregate, provide.

Question 5: Is HOPE VI making the best use of the land on which its developments have, or will, be built? In gauging the cost of HOPE VI developments, we should not confine ourselves to the cost of construction and administration. We must also keep in mind that even a well-built and well-maintained development may have what economists call opportunity costs. In plain English, it is quite possible that subsidized housing may not be the best economic use for some past or potential HOPE VI sites. In Boston, for instance, the HOPE VI development in the city's Mission Hill section occupies a site adjacent to some of the best hospital and medical education facilities in the world. It is quite possible that, were the land put up for public bid, that other private or non-profit use might well have been made of it—boosting the city's economy and providing jobs for rich and poor alike. Should we assume that, simply because public housing has occupied a particular site, that subsidized housing of some kind must always occupy that site? If we do so, we risk creating what I have termed a frozen city, one in which economic growth is much more difficult to attain. Keep in mind that public housing in New York City occupies acreage equivalent to 156 World Trade Center sites.

I would be less than candid were I not to concede that I am skeptical, indeed, about the wisdom of the HOPE VI program. Still, I hope that those committed to improving our cities and, especially, improving the prospects for the poor, will understand the

importance, and sincerity, of the questions I've tried to raise here today. The fact that, in my view, the answers to all are very much in doubt makes the proposal to pause, at this point, and take stock of the program, the right policy choice.

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April 30, 2003

Hon. Melvin L. Watt
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Washington, DC 20515-3312
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Representative Watt:

Thanks so much for taking my comments so seriously at yesterday's HOPE VI hearing. I well understand they are "politically incorrect" but was glad you found them to be helpful, at least in defining the issues.

I write because I neglected, in response to a question from Rep. Waters regarding my overall housing philosophy, to mention an important example of a public housing authority which has adopted an approach I believe can both serve the legitimate housing needs of the poor and encourage self-sufficiency. I refer to the housing authority in Charlotte. I attach an essay focused specifically on the Charlotte authority which appeared in City Journal.

As you know much better than I, the Charlotte authority has led the way in adopting a voluntary time limit as part of its efforts to encourage long-term economic independence. It occurs to me that a potential HOPE VI policy compromise might involve continued funding linked to a time limit for low-income tenants moving into the HOPE VI units. At the end of the time limit, tenants would be free to stay but would be asked to pay the market rent. Or the rent could be gradually increased, so as to ease the transition involved.

I hope you and other committee members find the Charlotte essay to be helpful. I'd welcome the chance to be of any help I can to the members of the committee on either side of the aisle.

Again, thanks for your cordial welcome yesterday.

Sincerely,

Howard Husock

CITY journal

Spring 2000 | Vol. 10, No. 2

How Charlotte Is Revolutionizing Public Housing

Howard Husock

Getting in synch with welfare reform, this housing authority now makes assistance temporary, not a way of life.

Four years on, the 1996 Welfare Reform Act has brought encouraging results that even most of its early supporters could scarcely have hoped for: welfare rolls cut in half and former welfare mothers moving into the workforce with the seeds of a new work ethic and fresh optimism about the future. Yet one thing threatens, if not to derail welfare reform, at least to slow its progress and blunt its full beneficial impact: the nation's vast public housing system, sheltering exactly the same people whom welfare reform targets—unwed mothers, whose fatherless families have proved incubators of social pathology. Though welfare reform is pushing many public housing residents into the workforce, public housing's perverse incentive structure will probably impel many of them to settle permanently for a first, low-wage job instead of embracing upward mobility wholeheartedly. And though scattering these families, as some housing reformers have urged, surely can't by itself change their values, it's also true that concentrating them in permanently subsidized communities, where illegitimacy remains the unquestioned norm and work isn't seen as leading anywhere, can only make it harder for them to succeed.

That's why what's happening in Charlotte, North Carolina, is so important. With little fanfare, Charlotte's public housing authority is providing a blueprint for transforming the nature of public housing or even, over the long term, phasing it out. The key to Charlotte's new approach is time limits. This simple idea promises to make public housing more like the new welfare system—short-term aid, provided on the assumption of the recipient's serious effort to improve her situation. "What we're saying over and over again to our residents," explains Charlotte Housing Authority chief executive officer Harrison Shannon Jr., "is 'in, up, and out.'" Charlotte, in other words—along with a tiny handful of the nation's 3,200 public housing authorities—is thus seeking to make public housing policy reinforce welfare reform's message of self-reliance, rather than weaken it.

A time limit for public housing, extending welfare reform's ethic of personal responsibility, represents an historic break with the fundamental misconception that inspired the construction of public housing from the start. Public housing grew out of the idea that the private housing market could never provide decent and sanitary housing for those of modest means. In this conception—articulated by Catherine Bauer in her influential 1936 *Modern Housing* and embraced by President Franklin D. Roosevelt in the National Housing Act of 1937—public housing authorities were to

run apartment buildings as permanent public utilities, with publicly financed construction keeping rents low.

It's hard to exaggerate how mistaken this idea was, even when Bauer and other advocates first formulated it. From the end of the Civil War up until 1937, private builders had erected a dizzying variety of housing for the striving poor as they improved their condition over time (see "We Don't Need Subsidized Housing," Winter 1997). Chicago witnessed the construction of 211,000 decent, inexpensive two-family homes during those years—21 percent of the city's total residences. Private builders fabricated no fewer than 300,000 affordable, livable row houses in Philadelphia during the five decades prior to 1930. To be sure, a temporary shortage of privately built housing after World War II meant that many blue-collar families briefly benefited from public housing. But dynamic postwar economic growth left Bauer's argument in tatters: two-income working families flocked to the economical, privately built subdivisions of the suburbs. Today, an astounding two-thirds of American households aren't renters at all—they own their own homes. It's hard to find evidence that the nation ever needed its public housing system.

As those working-class families headed for the suburbs in the fifties, public housing began its transformation into latter-day poorhouses. Federal legislation authored by the late Massachusetts Republican senator Edward Brooke accelerated and intensified the change. The 1968 Brooke Amendment, seeking to protect low-income earners from local housing authority rent hikes, mandated that public housing households pay no more than one-third of their income in rent—but it also required them to pay no less than that third. This law should claim a prize for unintended consequences. It drove from public housing the remaining working families, whose rents suddenly shot up now that they had to pay a third of their incomes to the housing authority. They could now do better in the private housing market. At the same time, the Brooke Amendment opened the door wide to single mothers on public assistance; they'd pay very little.

If always unnecessary, public housing now became truly pernicious. It became a crucial part of the welfare-support network that abetted young women in having illegitimate children. It told young women that if they had a baby out of wedlock, they could leave home and set up their own apartments on the public dime. In a 1989 HUD survey, the most frequent reason single mothers gave for moving into public housing was "to establish own housing." Public housing's complicity in fostering single-parent families is so troubling because of what we now know about illegitimacy. Having a child out of wedlock often sentences the mother to poverty: 68 percent of single-parent families are poor, and single parents head 90 percent of black families in poverty. Worse, the children in those families suffer dismayingly high levels of social pathology, from school dropout to criminality (see "The Real Welfare Problem Is Illegitimacy," Winter 1998).

Today, 40 percent of all low-income single-parent families—26 percent of all poor families in the country—reside in 507,000 of the nation's 1.3 million public housing apartments and more than 1 million of the 2.7 units of other publicly subsidized housing (mostly paid for with federal Section-8 housing vouchers). Single

mothers and their kids occupy 39 percent of all public housing apartments, the biggest demographic group in the system. Only the elderly, occupying 32 percent, come close. And since the elderly usually live together in buildings set aside just for them, low-income single-parent families dominate many housing projects.

Public housing is where the long-term welfare recipients wound up and stayed. In Charlotte's large projects, 40 percent of households have stayed five years or more; 20 percent have stayed ten years or more. Some dependent families have lived in Charlotte's system for three generations. It's little different elsewhere. The average stay of tenants in public housing nationally is 80 months; in New York, 99 months—just over eight years. And because 9 percent of tenants leave every year, those averages mask a sizable core of households that stay even longer.

Charlotte's time limits propose to change all this radically. The city's public housing authority currently enrolls more than 500 of its 1,800 non-elderly households in its "Transitional Family" program, an innovative initiative launched in the late 1980s that combines voluntary time limits with counseling, education, and financial management to encourage public housing residents to become self-sufficient. To get residents to agree to the time limits and take other real steps toward self-improvement, Charlotte offers a powerful incentive: newer, more desirable housing. The authority can get away with its system of incentives and disincentives because, as HUD rules have traditionally demanded, it still guarantees low-income residents public housing—but in its typically run-down, disorderly high-rise projects, not in its nicest buildings. Any large-scale public housing authority in the country could easily follow Charlotte's lead in navigating creatively around HUD requirements.

A resident who wants to move up from the shabby, conventional projects into the much nicer, relatively new Victoria Square and Claremont complexes must accept a voluntary five-year limit on her tenure in public housing and must already have shown her seriousness about self-improvement by starting to work on her high school equivalency certificate or signing up for community college or job training courses. To remain in the nicer housing or to hope to move on to something better, she must meet regularly with a social worker, who makes sure she's working toward obtaining both employment and an education. If she isn't, the program sends her back to the less desirable traditional housing.

An interesting innovation: but Charlotte's experiment gets even more creative than this. To push residents even closer toward self-sufficiency, Charlotte takes advantage of HUD's multibillion-dollar public housing rebuilding project, Hope VI, in ways that the federal agency "absolutely never intended," as one candid HUD official admits, but that nevertheless are not forbidden.

The federal program, on its own terms, is decidedly unpromising. It frees up money to raze older, dilapidated public housing projects—usually forbidding high-rises—and to replace them with townhouses mixed in among single-family homes and middle-income apartments. Hope VI makes the erroneous assumption,

which has typified the thinking of public housing advocates since the days of Catherine Bauer, that one's housing environment determines one's behavior. If only poor, dysfunctional families could live next door to striving, middle-income families, this assumption runs, the good example would rub off and inspire the poor to self-improvement. But this formulation gets things backward: it is far more likely that disordered families will drive good families to despair through their antisocial behavior than that good families will improve the behavior of the disordered. Good neighborhoods take root and blossom through the efforts of striving, upwardly mobile families who've sought to distinguish themselves, economically and spiritually, from those who don't share their upstanding values. Hope VI simply ignores this crucial insight.

Yet Charlotte has turned this dubious federal program to its own responsibility-building ends by using brand-new Hope VI apartments to reward residents who've taken big strides toward self-sufficiency. When Charlotte, using Hope VI funds, demolished its notorious Earle Village project just east of the city's downtown, it told long-time residents of the project that they would have no special entitlement to enter First Ward Place, the pleasant townhouse complex that was to replace Earle. Instead, to enter these new townhouses, not only would a resident have to have agreed to the five-year time limit, but she'd also have to have finished high school, shown that she'd held a job continuously for at least the past year, and agreed to work with a social worker to budget her funds with an eye to moving up and out. Again, failure to continue moving forward means a quick return to traditional public housing.

Charlotte rewards the most successful strivers with the best housing of all. The housing authority runs four air-conditioned apartment complexes in some of the city's choicest, most crime-free residential neighborhoods, in the vicinity of good schools—complexes built just with city funds and thus free from HUD regulations, including the Brooke Amendment's one-third-of-income rent rule. To qualify for these buildings, a participant must not only accept the five-year limit, have her high school diploma, and be working, but she must also agree to pay a flat-rate rent that will not go down even if she loses her job. In other words, she must give up the Brooke Amendment's safety net. If her income rises, the authority increases her rent but puts the extra money she's now paying into an escrowed savings account. When the participant "graduates," she can use the money to help pay rent in the private market or put a down payment on a house. Those who fail to graduate by the time their five years are up, though, go back to dreary traditional public housing.

Charlotte's innovative program has produced some striking successes that show how time-limiting public housing can strengthen welfare reform's message of self-sufficiency. Consider Greta Greer, who entered Charlotte's public housing system as a young welfare mother in 1993. In 1996, welfare reform pushed her into the workforce, where she landed a low-paying job as a day-care assistant. But public housing kept her horizons low. Why try to move up? After all, she had her apartment, and if she made more money, her rent would increase. She'd only get to keep 66 cents out of every additional dollar. So why bother?

Greer's example confirms an old social-science axiom about semi-dependency, familiar from the Seattle and Denver income maintenance experiments of the 1970s: permanent subsidies are demoralizing and limit the long-term earnings of low-income workers. The Seattle and Denver studies on the effect of a negative income tax found that every dollar of subsidy given to low-income workers reduced their earnings from work by 80 cents, compared with workers without the subsidy.

Charlotte's time-limit program replaced Greer's diminished expectations with an invigorating sense of possibility. Agreeing to time limits in 1998, she moved into a better apartment. With the program's help, she learned how to check her credit rating and started to clear up bad debts. The program also encouraged her to get computer training and helped her prepare a résumé. She managed to get a better job as a receptionist in a collection agency, making $10 per hour. Newly confident, Greer began to interview in 1999 with several banks; First Union, one of Charlotte's largest employers, hired her. Greer now makes $13 per hour as an IRA specialist in the bank's investment department, has started a 401K plan, and is set to move her family out of public housing for their own home in a few months, three years before her five-year limit is up.

Greer's seemingly successful exit from Charlotte's public housing is far from unique. More than 400 residents have used the Transitional Families program to move out over the last five years; 125 have bought their first houses thanks to the program. Would these residents eventually have left Charlotte public housing under the impetus of welfare reform alone, without the additional push from the time-limit program? Perhaps; but it is more likely, as Greer's early semi-dependency shows, that even in a welfare-reform environment, an unreformed public housing system will keep people from being all they can be.

Charlotte officials candidly acknowledge the need to separate families by attitude and achievement. "We don't want people who are trying to improve themselves to have neighbors from hell," says housing authority head Harrison Shannon. Charlotte's Transitional Families program supervisor, Janet Lynch, notes that rather than drawing inspiration from hardworking neighbors, the non-working often try to undermine them. Cynthia Jackson, a public housing graduate, confirms it. "People were saying to me all the time, 'What are you doing? You'll never make it,'" she recalls. Lynch finds most inspirational those transitional families just starting the process of moving up—women who, still surrounded by the welfare culture, have made a commitment to change. "They form tight cliques for protection," Lynch observes. "They start off as 15 strangers in a room and form a real bond; they swap babysitting, trade clothes, and form friendships I think will last." It's a heartening process to watch: the formerly dependent becoming a community of self-help and upward mobility.

Doubtless, Charlotte could do more. The authority could, for example, forthrightly address the deepest problem of many program participants—having kids out of wedlock. Authority social worker Alicia Carr, for one, contends that many residents "aren't ready for marriage; they need to learn how to become

independent and self-sufficient, first." But neither Carr nor the housing authority in general seems willing to ask whether these young women are ready for motherhood. Still, if one must choose between single mothers stuck in public housing and single mothers taking care of themselves and their families on their own, the choice is clear—all the more so if Charlotte's program helps discourage a new generation of single mothers by raising the aspirations of Greta Greer's children and the kids like them.

In Delaware, the state public housing authority has just taken Charlotte's principle to its logical—if radical—conclusion: it has just adopted a mandatory three-year time limit for all of its non-elderly residents. Granted, Delaware's agency is tiny: it provides only 1,200 units of public housing, sprinkled mostly across the rural chicken-processing belt of Sussex and Kent Counties. But Delaware may foreshadow the future: Charlotte, a big urban housing authority, is considering adopting mandatory time limits too. As Harrison Shannon stresses, in refreshingly non-bureaucratic language, he doesn't want public housing to be a "safe harbor" for those who "lack a work ethic."

HUD regulations don't allow most housing authorities even to consider mandatory time limits. But Delaware and Charlotte are numbered among 32 housing authorities—1 percent of the national total—included in an HUD demonstration program called Moving to Work. HUD adopted the program under pressure from the 1996 Republican Congress, some of whose members were calling for the agency's outright abolition. Moving to Work regulations don't mention mandatory time limits specifically, but they don't prevent authorities from imposing them.

Delaware's program is tough stuff. Its mandatory time limit is shorter than Charlotte's voluntary one: just three years. Delaware helps residents find jobs and forces them to save money to start building a post-public housing nest egg, as Charlotte does. But any missteps—not showing up for work, failing to keep kids in school, even being late with the rent—lead to strikes against the resident. These expansively defined strikes represent failures to stay on the path of bourgeois social values that Delaware seeks to encourage. As in the national pasttime, three strikes and you're out: the resident must either leave public housing or pay a higher, unsubsidized market rent to stay. There's no "traditional" public housing to fall back on.

Because Delaware's program departs so decisively from past practices, it has angered some residents, who condemn it as unfair and punitive. But for others, the strict rules and firm guidance, as with welfare reform, help inculcate greater personal responsibility and a more vigorous work ethic. Linda Stephenson, who heads the tenant association in her housing authority complex, sees the new rules as eminently reasonable. "If I went to stay with my brother, he is going to want to know, 'What are you doing to better your situation? What are you going to do so you don't need my help?'" she notes. "That's how I see Moving to Work."

Critics of Delaware's initiative worry about what will happen to tenants after the three-year time limit expires. How will they afford

market-level rents on the minimum wage? But the critics assume that the condition of the poor is static: that they will always be more or less dependent, incapable of taking charge of their own fates. After three years of training and support, critics assume, these public housing residents will still command only the minimum wage from employers. At least at present—with such a bustling national economy, and with welfare and housing reforms that aim to change the worldview of the poor and make them independent-minded—that assumption is suspect. Still, it is only prudent to acknowledge that, under such a no-nonsense regime, some residents ultimately will have to move back in with their parents or even seek a place in public shelters.

Over time, mandatory time limits could shrink the public housing system and ultimately end it as we know it. Delaware's time-limited tenants, for example, have the option, after their three years have expired, of remaining in their buildings and paying market-level rents. In the future, as apartments filled up with working families paying market rents, Delaware could sell off the now economically viable buildings to private buyers. Only a small core of emergency, time-limited housing would then remain. With housing time limits and welfare reform firmly in place, young women would be less tempted to become single mothers in the expectation of living on their own at public expense.

The value to cities of getting rid of public housing would be inestimable. Public housing projects haven't just incubated social pathology; they've also represented land held off the property tax rolls and reserved in perpetuity for a specific, low-value use. Freezing cities in this way is a sure way to sap their vitality: just look at how Harlem's thick concentration of public housing has kept the area from participating fully in the revitalization of Manhattan's Upper West Side. Putting public housing land back into circulation would help fuel economic growth.

Public housing has been a giant dead end. Charlotte and Delaware are showing the nation how it might extricate itself from a harmful system and set its demoralized inhabitants firmly on the road to the mainstream.

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How Charlotte Is Revolutionizing Public Housing

Howard Husock

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Getting in synch with welfare reform, this housing authority now makes assistance temporary, not a way of life.

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A time limit for public housing, extending welfare reform's ethic of personal responsibility, represents an historic break with the fundamental misconception that inspired the construction of public housing from the start. Public housing grew out of the idea that the private housing market could never provide decent and sanitary housing for those of modest means. In this conception—articulated by Catherine Bauer in her influential 1936 *Modern Housing* and embraced by President Franklin D. Roosevelt in the National Housing Act of 1937—public housing authorities were to

run apartment buildings as permanent public utilities, with publicly financed construction keeping rents low.

It's hard to exaggerate how mistaken this idea was, even when Bauer and other advocates first formulated it. From the end of the Civil War up until 1937, private builders had erected a dizzying variety of housing for the striving poor as they improved their condition over time (see "We Don't Need Subsidized Housing," Winter 1997). Chicago witnessed the construction of 211,000 decent, inexpensive two-family homes during those years—21 percent of the city's total residences. Private builders fabricated no fewer than 300,000 affordable, livable row houses in Philadelphia during the five decades prior to 1930. To be sure, a temporary shortage of privately built housing after World War II meant that many blue-collar families briefly benefited from public housing. But dynamic postwar economic growth left Bauer's argument in tatters: two-income working families flocked to the economical, privately built subdivisions of the suburbs. Today, an astounding two-thirds of American households aren't renters at all—they own their own homes. It's hard to find evidence that the nation ever needed its public housing system.

As those working-class families headed for the suburbs in the fifties, public housing began its transformation into latter-day poorhouses. Federal legislation authored by the late Massachusetts Republican senator Edward Brooke accelerated and intensified the change. The 1968 Brooke Amendment, seeking to protect low-income earners from local housing authority rent hikes, mandated that public housing households pay no more than one-third of their income in rent—but it also required them to pay no less than that third. This law should claim a prize for unintended consequences. It drove from public housing the remaining working families, whose rents suddenly shot up now that they had to pay a third of their incomes to the housing authority. They could now do better in the private housing market. At the same time, the Brooke Amendment opened the door wide to single mothers on public assistance; they'd pay very little.

If always unnecessary, public housing now became truly pernicious. It became a crucial part of the welfare-support network that abetted young women in having illegitimate children. It told young women that if they had a baby out of wedlock, they could leave home and set up their own apartments on the public dime. In a 1989 HUD survey, the most frequent reason single mothers gave for moving into public housing was "to establish own housing." Public housing's complicity in fostering single-parent families is so troubling because of what we now know about illegitimacy. Having a child out of wedlock often sentences the mother to poverty: 68 percent of single-parent families are poor, and single parents head 90 percent of black families in poverty. Worse, the children in those families suffer dismayingly high levels of social pathology, from school dropout to criminality (see "The Real Welfare Problem is Illegitimacy," Winter 1998).

Today, 40 percent of all low-income single-parent families—26 percent of all poor families in the country—reside in 507,000 of the nation's 1.3 million public housing apartments and more than 1 million of the 2.7 units of other publicly subsidized housing (mostly paid for with federal Section-8 housing vouchers). Single

mothers and their kids occupy 39 percent of all public housing apartments, the biggest demographic group in the system. Only the elderly, occupying 32 percent, come close. And since the elderly usually live together in buildings set aside just for them, low-income single-parent families dominate many housing projects.

Public housing is where the long-term welfare recipients wound up and stayed. In Charlotte's large projects, 40 percent of households have stayed five years or more; 20 percent have stayed ten years or more. Some dependent families have lived in Charlotte's system for three generations. It's little different elsewhere. The average stay of tenants in public housing nationally is 80 months; in New York, 99 months—just over eight years. And because 9 percent of tenants leave every year, those averages mask a sizable core of households that stay even longer.

Charlotte's time limits propose to change all this radically. The city's public housing authority currently enrolls more than 500 of its 1,800 non-elderly households in its "Transitional Family" program, an innovative initiative launched in the late 1980s that combines voluntary time limits with counseling, education, and financial management to encourage public housing residents to become self-sufficient. To get residents to agree to the time limits and take other real steps toward self-improvement, Charlotte offers a powerful incentive: newer, more desirable housing. The authority can get away with its system of incentives and disincentives because, as HUD rules have traditionally demanded, it still guarantees low-income residents public housing—but in its typically run-down, disorderly high-rise projects, not in its nicest buildings. Any large-scale public housing authority in the country could easily follow Charlotte's lead in navigating creatively around HUD requirements.

A resident who wants to move up from the shabby, conventional projects into the much nicer, relatively new Victoria Square and Claremont complexes must accept a voluntary five-year limit on her tenure in public housing and must already have shown her seriousness about self-improvement by starting to work on her high school equivalency certificate or signing up for community college or job training courses. To remain in the nicer housing or to hope to move on to something better, she must meet regularly with a social worker, who makes sure she's working toward obtaining both employment and an education. If she isn't, the program sends her back to the less desirable traditional housing.

An interesting innovation: but Charlotte's experiment gets even more creative than this. To push residents even closer toward self-sufficiency, Charlotte takes advantage of HUD's multibillion-dollar public housing rebuilding project, Hope VI, in ways that the federal agency "absolutely never intended," as one candid HUD official admits, but that nevertheless are not forbidden.

The federal program, on its own terms, is decidedly unpromising. It frees up money to raze older, dilapidated public housing projects—usually forbidding high-rises—and to replace them with townhouses mixed in among single-family homes and middle-income apartments. Hope VI makes the erroneous assumption,

which has typified the thinking of public housing advocates since the days of Catherine Bauer, that one's housing environment determines one's behavior. If only poor, dysfunctional families could live next door to striving, middle-income families, this assumption runs, the good example would rub off and inspire the poor to self-improvement. But this formulation gets things backward: it is far more likely that disordered families will drive good families to despair through their antisocial behavior than that good families will improve the behavior of the disordered. Good neighborhoods take root and blossom through the efforts of striving, upwardly mobile families who've sought to distinguish themselves, economically and spiritually, from those who don't share their upstanding values. Hope VI simply ignores this crucial insight.

Yet Charlotte has turned this dubious federal program to its own responsibility-building ends by using brand-new Hope VI apartments to reward residents who've taken big strides toward self-sufficiency. When Charlotte, using Hope VI funds, demolished its notorious Earle Village project just east of the city's downtown, it told long-time residents of the project that they would have no special entitlement to enter First Ward Place, the pleasant townhouse complex that was to replace Earle. Instead, to enter these new townhouses, not only would a resident have to have agreed to the five-year time limit, but she'd also have to have finished high school, shown that she'd held a job continuously for at least the past year, and agreed to work with a social worker to budget her funds with an eye to moving up and out. Again, failure to continue moving forward means a quick return to traditional public housing.

Charlotte rewards the most successful strivers with the best housing of all. The housing authority runs four air-conditioned apartment complexes in some of the city's choicest, most crime-free residential neighborhoods, in the vicinity of good schools—complexes built just with city funds and thus free from HUD regulations, including the Brooke Amendment's one-third-of-income rent rule. To qualify for these buildings, a participant must not only accept the five-year limit, have her high school diploma, and be working, but she must also agree to pay a flat-rate rent that will not go down even if she loses her job. In other words, she must give up the Brooke Amendment's safety net. If her income rises, the authority increases her rent but puts the extra money she's now paying into an escrowed savings account. When the participant "graduates," she can use the money to help pay rent in the private market or put a down payment on a house. Those who fail to graduate by the time their five years are up, though, go back to dreary traditional public housing.

Charlotte's innovative program has produced some striking successes that show how time-limiting public housing can strengthen welfare reform's message of self-sufficiency. Consider Greta Greer, who entered Charlotte's public housing system as a young welfare mother in 1993. In 1996, welfare reform pushed her into the workforce, where she landed a low-paying job as a day-care assistant. But public housing kept her horizons low. Why try to move up? After all, she had her apartment, and if she made more money, her rent would increase. She'd only get to keep 66 cents out of every additional dollar. So why bother?

Greer's example confirms an old social-science axiom about semi-dependency, familiar from the Seattle and Denver income maintenance experiments of the 1970s: permanent subsidies are demoralizing and limit the long-term earnings of low-income workers. The Seattle and Denver studies on the effect of a negative income tax found that every dollar of subsidy given to low-income workers reduced their earnings from work by 80 cents, compared with workers without the subsidy.

Charlotte's time-limit program replaced Greer's diminished expectations with an invigorating sense of possibility. Agreeing to time limits in 1998, she moved into a better apartment. With the program's help, she learned how to check her credit rating and started to clear up bad debts. The program also encouraged her to get computer training and helped her prepare a résumé. She managed to get a better job as a receptionist in a collection agency, making $10 per hour. Newly, confident, Greer began to interview in 1999 with several banks; First Union, one of Charlotte's largest employers, hired her. Greer now makes $13 per hour as an IRA specialist in the bank's investment department, has started a 401K plan, and is set to move her family out of public housing for their own home in a few months, three years before her five-year limit is up.

Greer's seemingly successful exit from Charlotte's public housing is far from unique. More than 400 residents have used the Transitional Families program to move out over the last five years; 125 have bought their first houses thanks to the program. Would these residents eventually have left Charlotte public housing under the impetus of welfare reform alone, without the additional push from the time-limit program? Perhaps; but it is more likely, as Greer's early semi-dependency shows, that even in a welfare-reform environment, an unreformed public housing system will keep people from being all they can be.

Charlotte officials candidly acknowledge the need to separate families by attitude and achievement. "We don't want people who are trying to improve themselves to have neighbors from hell," says housing authority head Harrison Shannon. Charlotte's Transitional Families program supervisor, Janet Lynch, notes that rather than drawing inspiration from hardworking neighbors, the non-working often try to undermine them. Cynthia Jackson, a public housing graduate, confirms it. "People were saying to me all the time, 'What are you doing? You'll never make it,'" she recalls. Lynch finds most inspirational those transitional families just starting the process of moving up—women who, still surrounded by the welfare culture, have made a commitment to change. "They form tight cliques for protection," Lynch observes. "They start off as 15 strangers in a room and form a real bond; they swap babysitting, trade clothes, and form friendships I think will last." It's a heartening process to watch: the formerly dependent becoming a community of self-help and upward mobility.

Doubtless, Charlotte could do more. The authority could, for example, forthrightly address the deepest problem of many program participants—having kids out of wedlock. Authority social worker Alicia Carr, for one, contends that many residents "aren't ready for marriage; they need to learn how to become

independent and self-sufficient, first." But neither Carr nor the housing authority in general seems willing to ask whether these young women are ready for motherhood. Still, if one must choose between single mothers stuck in public housing and single mothers taking care of themselves and their families on their own, the choice is clear—all the more so if Charlotte's program helps discourage a new generation of single mothers by raising the aspirations of Greta Greer's children and the kids like them.

In Delaware, the state public housing authority has just taken Charlotte's principle to its logical—if radical—conclusion: it has just adopted a mandatory three-year time limit for all of its non-elderly residents. Granted, Delaware's agency is tiny: it provides only 1,200 units of public housing, sprinkled mostly across the rural chicken-processing belt of Sussex and Kent Counties. But Delaware may foreshadow the future: Charlotte, a big urban housing authority, is considering adopting mandatory time limits too. As Harrison Shannon stresses, in refreshingly non-bureaucratic language, he doesn't want public housing to be a "safe harbor" for those who "lack a work ethic."

HUD regulations don't allow most housing authorities even to consider mandatory time limits. But Delaware and Charlotte are numbered among 32 housing authorities—1 percent of the national total—included in an HUD demonstration program called Moving to Work. HUD adopted the program under pressure from the 1996 Republican Congress, some of whose members were calling for the agency's outright abolition. Moving to Work regulations don't mention mandatory time limits specifically, but they don't prevent authorities from imposing them.

Delaware's program is tough stuff. Its mandatory time limit is shorter than Charlotte's voluntary one: just three years. Delaware helps residents find jobs and forces them to save money to start building a post-public housing nest egg, as Charlotte does. But any missteps—not showing up for work, failing to keep kids in school, even being late with the rent—lead to strikes against the resident. These expansively defined strikes represent failures to stay on the path of bourgeois social values that Delaware seeks to encourage. As in the national pasttime, three strikes and you're out: the resident must either leave public housing or pay a higher, unsubsidized market rent to stay. There's no "traditional" public housing to fall back on.

Because Delaware's program departs so decisively from past practices, it has angered some residents, who condemn it as unfair and punitive. But for others, the strict rules and firm guidance, as with welfare reform, help inculcate greater personal responsibility and a more vigorous work ethic. Linda Stephenson, who heads the tenant association in her housing authority complex, sees the new rules as eminently reasonable. "If I went to stay with my brother, he is going to want to know, 'What are you doing to better your situation? What are you going to do so you don't need my help?'" she notes. "That's how I see Moving to Work."

Critics of Delaware's initiative worry about what will happen to tenants after the three-year time limit expires. How will they afford

market-level rents on the minimum wage? But the critics assume that the condition of the poor is static: that they will always be more or less dependent, incapable of taking charge of their own fates. After three years of training and support, critics assume, these public housing residents will still command only the minimum wage from employers. At least at present—with such a bustling national economy, and with welfare and housing reforms that aim to change the worldview of the poor and make them independent-minded—that assumption is suspect. Still, it is only prudent to acknowledge that, under such a no-nonsense regime, some residents ultimately will have to move back in with their parents or even seek a place in public shelters.

Over time, mandatory time limits could shrink the public housing system and ultimately end it as we know it. Delaware's time-limited tenants, for example, have the option, after their three years have expired, of remaining in their buildings and paying market-level rents. In the future, as apartments filled up with working families paying market rents, Delaware could sell off the now economically viable buildings to private buyers. Only a small core of emergency, time-limited housing would then remain. With housing time limits and welfare reform firmly in place, young women would be less tempted to become single mothers in the expectation of living on their own at public expense.

The value to cities of getting rid of public housing would be inestimable. Public housing projects haven't just incubated social pathology; they've also represented land held off the property tax rolls and reserved in perpetuity for a specific, low-value use. Freezing cities in this way is a sure way to sap their vitality: just look at how Harlem's thick concentration of public housing has kept the area from participating fully in the revitalization of Manhattan's Upper West Side. Putting public housing land back into circulation would help fuel economic growth.

Public housing has been a giant dead end. Charlotte and Delaware are showing the nation how it might extricate itself from a harmful system and set its demoralized inhabitants firmly on the road to the mainstream.

NOAAH
National Organization of
African Americans in Housing

The Advocate for *All* People of Color

HOPE VI Program Reauthorization and Small Community Mainstreet Rejuvenation and Housing Act of 2003

Testimony of
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before
The Subcommittee on Housing and Community Opportunity
2128 Rayburn HOB
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2 p.m.

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Chairman Ney, ranking member Waters, members of the subcommittee, my name is Kevin Marchman, and I am the executive director of the National Organization of African Americans in Housing (NOAAH). I want to thank you for the opportunity to comment on HR 1641, the HOPE VI Program Reauthorization and Small Community Mainstreet Rejuvenation and Housing Act of 2003. This bill would reauthorize the HOPE VI program for revitalization of severely distressed public housing and provide financial assistance for "mainstreet" revitalization or redevelopment projects in smaller communities.

NOAAH is a champion and advocate of affordable housing programs, policies and opportunities for people of color, indeed all low-income and special needs citizens. NOAAH's membership is a unique combination of public housing agencies, including executive staff, housing professionals, consultants, contractors, industry trade groups, resident groups and other housing advocates.

As a former public housing resident, public housing executive director, housing authority board chairman and HUD assistant secretary, I am especially proud to be part of an organization that has the diversity and the experience to look at issues, programs and legislative initiatives from many perspectives. And although this hearing is specifically about NOAAH's views on the HOPE VI Program, I would like members to be aware that NOAAH's advocacy extends beyond the issues highlighted today and includes initiatives and programs targeting environmental and health issues, specifically lead, mold and pests; expanded homeownership for minorities; additional economic development and self-sufficiency programs for the low income; fair housing, especially increased penalties for predatory lending; and the aggressive disposition of the FHA portfolio. And while our members often find themselves on competing sides of the same issues, all are committed to expanding housing opportunities for African Americans and other disenfranchised minorities.

There are three points about the HOPE VI program I would like to make this afternoon; First, HUD has not had a more successful public housing and community revitalization program *ever* than the HOPE VI program. Second, HOPE VI is not only a major reform initiative, it is revolutionary. This unique and ambitious program is designed to integrate public housing developments into their surrounding neighborhoods. And, finally, while no panacea, this program has given nearly two-thirds of the residents of revitalized HOPE VI communities access to decent housing options in mixed-income communities that are safer and offer many more consumer options.

Although there is vigorous debate about the need for reauthorization of HOPE VI, there is general agreement about its impact on what was once considered the worst of the worst—those cesspools of poverty and crime that were in our largest urban inner cities. Between 1993 and 2001, HUD awarded 165 HOPE VI revitalization grants totaling nearly $5 billion, much of which is earmarked for services to residents. NOAAH is in the process of documenting a number of our member experiences for our best practices clearinghouse—Cabrini and Robert Taylor Homes in Chicago, Jeffries in Detroit, Hayes Homes in Newark, Pico Gardens and Aliso Village in Los Angeles, Lexington Gardens in Baltimore, Ellen Wilson here in Washington, DC, and Techwood and Clark Howell Homes in Atlanta. You will hear more about Atlanta's success shortly from NOAAH member Renee Glover.

A revolutionary effort—you bet! In 1994, I had the privilege of establishing the National Office for the HOPE VI Program. From the very beginning, we saw the HOPE VI program as one of innovation, experimentation and yes, the total transformation of the public housing system. The fact is, prior to the initiation of the HOPE VI program, the new construction and renovation of the nation's public housing stock was based on a system that itself was as outdated as the buildings it sought to fix or replace. The HOPE VI program by contrast was and is an individualized and customized approach to each development, each community, and each public housing agency. We negotiated with agencies to produce flexible project agreements to ensure that what was being proposed was actually going to fix what was wrong.

The HOPE VI program has always been more than a simple housing program. The program is designed to transform whole neighborhoods,

entire communities. It asks the housing authority and its residents to think differently. The program structure requires every stakeholder from the elected official, the affected families, community groups, church organizations, the media and others must be informed and part of the revitalization strategy. Indeed, even the application process for the grant mandates certified proof of meetings and efforts to include the community in every phase. Furthermore, given the detailed nature of the development process, HUD rightfully asks applicants to line up, leverage and explore every source of financing available. This and other pre-development preparation is necessary, so as to prevent the many mistakes too numerous to mention of the almost now forgotten urban renewal programs that preceded HOPE VI.

Of course, the HOPE VI program has its own serious issues—the delay in the utilization of appropriated funds is a major concern, to both detractors and proponents of the program. It should be recognized, however, that the program is comprised of a relatively complicated set of negotiations and financial events, with the sources of delay coming from all parties including the agencies, the developers, contractors, tax credit agencies and financial institutions; indeed, HUD itself and its web-based reporting system has caused some of the delay. But as those who work with the program have become more familiar with its intricacies, the pool of resources available to the new grantees continues to increase. And we must not forget that the less than $2 billion dollars that has been expended has leveraged four times that amount from other sources. Not too shabby!

It was not all that long ago that only the city fathers made the decisions about the financing and placement of public housing developments. There was very little, if any public debate or resident involvement. The HOPE VI program has changed that reality forever. Indeed, this mixed-use, mixed-financed nature and approach should be the primary vehicle for funding comprehensive physical and substantive change to the nation's public housing.

A brief final point before closing. It has been asserted that the HOPE VI program encourages "re-gentrification," and it is true that many former residents are faced with many barriers to returning to their redeveloped sites.

I have been in more meetings, more informational sessions, and more community forums on the Hope VI program than most. I realize that more has to be done by all involved to ensure that former residents do not end up returning to neighborhoods as distressed as those they left. It is clear some new directions are required in the program, and certainly there is a need for more targeted, supportive services (for the elderly and the physically and mentally ill, for example). Anytime you seek to change the location and nature of someone's home, it inspires concern, doubt and suspicion. Indeed, many programmatic changes in the HOPE VI program are informed by such concerns.

NOAAH strongly supports the reauthorization of the HOPE VI program and looks forward to working with you to make sure the progress we have made is not lost but strengthened by HR 1614.

As the housing advocate for all people of color, our members are assisting NOAAH staff with identifying, creating and developing programs to increase affordable housing stock in this nation. NOAAH's membership is constantly documenting best practices, designing initiatives using technology to improve the quality of life in identifying opportunities—public and private—for expanding the availability of affordable housing and improving the quality of life for the low and moderate income, and especially our special needs citizens.

Again, thank you for this opportunity to share NOAAH's perspective.

U.S. House of Representatives
Committee on Financial Services

Dr. Susan J. Popkin
The Urban Institute

Testimony of Susan Popkin, Urban Institute, prepared for the hearing on H.R. 1614 HOPE VI Reauthorization and Small Community Mainstreet Revitalization and Housing Act for the Committee on Financial Services, April 29, 2003.

The views are those of the author and do not necessary reflect those of the Urban Institute, its board of trustees, or its sponsors.

Popkin Testimony
Proposed H.R. 1614 HOPE VI Reauthorization and Small Community Mainstreet Revitalization and Housing Act

Mr. Chairman and Members of the Committee: Thank you for inviting me to testify at this hearing on the proposed reauthorization of the HOPE VI Program.

The goals of HOPE VI are ambitious, seeking to address the physical problems of distressed public housing, while also improving the overall well being of the residents and promoting self-sufficiency. HOPE VI targeted some of the most beleaguered housing in this country—dilapidated public housing developments that had failed to deliver on the promise of decent housing for the poor. The problems HOPE VI seeks to address are among the most complex and difficult to solve.

My remarks today are based on the findings from Urban Institute's research on the impact of HOPE VI on original residents (policy brief is attached). Our findings indicate that the effects of the program on original residents have been mixed, but on balance the story is generally positive. Where HOPE VI has been implemented effectively, most former residents have clearly benefited. In these cases, residents have moved to lower-poverty neighborhoods and reported real differences in housing quality, safety, and improvements in mental health and outlook. There are still concerns and evidence that some former residents are struggling in the private market, that relatively few have returned to the new developments, and a large number face barriers to making the transition out of dilapidated public housing and to self-sufficiency.

In my full testimony submitted today, I highlight three findings from our research:

- Many former residents moved and made significant improvements in their living conditions. These families are living in better housing in less poor neighborhoods than their original HOPE VI developments.

- But a substantial proportion of families are struggling to find—and keep—housing in the private market. Many face challenges in paying higher utility costs and dealing with individual landlords. In sites with tight rental markets or where demolition far outpaces the production of new units, many former residents have ended up in other distressed communities.

- A large number of households face serious challenges, including disability and mental health problems, which threaten their ability to make a successful transition to either new mixed-income housing developments or the private market.

These findings support the continuation of HOPE VI, but also highlight the need for relocation plans that:

- reflect local rental market realities;

- offer better relocation services that provide housing search assistance to encourage residents to consider moving to lower-poverty neighborhoods;

- address the needs of "hard-to-house" residents, such as the disabled, large families, households with members with criminal records, and those with complex personal problems;

- provide enhanced community and supportive services that offer residents both pre- and post-move services; and

- include tracking and monitoring of residents.

Adopting these guidelines has the potential to improve outcomes for the original residents of HOPE VI developments by offering the opportunity for public housing families to move to better housing in safer communities, environments that can better serve the needs of these low-income families and help them to improve their life circumstances.

Evolution of HOPE VI
To grasp the enormity of the task facing HOPE VI housing authorities, consider first the extent of the deterioration in the worst of the nation's public housing. By the 1990s, the worst public housing was widely regarded as a failure, housing tens of thousands of extremely low-income families in communities mired in the most destructive kind of poverty. Many developments were literally crumbling and marked by drug trafficking and violent crime. With poverty and unemployment came high rates of school dropout, illiteracy, and teen pregnancy.

The HOPE VI program was designed to move beyond bricks and mortar to address the social and economic needs of the residents in these developments and the health of the surrounding neighborhood. This extremely ambitious strategy targets the worst public housing in the nation with problems too ingrained to yield to standard rehabilitation efforts. The program's major objectives were:

- to improve the living environment for residents of severely distressed public housing by demolishing, rehabilitating, reconfiguring, or replacing obsolete projects in part or whole;
- to revitalize the sites of public housing projects and help improve the surrounding neighborhood;
- to provide housing in ways that avoid or decrease the concentration of very low-income families; and
- to build sustainable communities.

Between 1993 and 2001, HUD funded 165 HOPE VI revitalization grants, earmarking $4.5 billion for redevelopment and supportive services activities. In addition, HUD awarded housing authorities nationwide 35 planning grants totaling $14 million, and $293 million for demolition. Housing authorities that receive HOPE VI grants must develop supportive services to help both original and new residents attain self-sufficiency. HUD estimates that with these grants some 71,900 units of distressed public housing will be demolished (of which 50,000 were occupied) and about 42,000 will be replaced. These funds will also support construction of 15,000 homeownership units, "affordable units" for the working poor, and market-rate units.

This shift away from project-based assistance took place just as the rental market tightened in many cities and the shortage of affordable housing became acute. By 2002, a minimum-wage worker could not afford to rent a standard two-bedroom unit in any U.S. city. Under ideal circumstances, vouchers could help bridge this gap and offer low-

income people a real choice of housing and neighborhood. But, in tight rental markets, landlords in better neighborhoods often do not want to accept voucher holders and recipients could end up once more clustered in poor communities.

In 2000, Congress commissioned the Urban Institute to investigate the impact of HOPE VI on original residents. Together with its partner, Abt Associates, the Urban Institute conducted two multi-city studies. The *HOPE VI Panel Study* is tracking the living conditions and well being of residents from five developments who were surveyed as revitalization began in mid- to late 2001. The *HOPE VI Resident Tracking Study* provides a snapshot of the living conditions and well being of former residents of eight properties in early 2001—between two and seven years after the housing authority received a HOPE VI grant. Our findings from these studies are described below.

Better Housing, Safer Neighborhoods

Residents living in HOPE VI sites before they were redeveloped reported in the panel study that they faced terrible conditions—worse than those reported by other poor renters nationwide. About one-fifth of the respondents reported more than three housing problems (e.g., heating system not working, toilet not working, peeling paint, water leaks, cockroaches, rats, and mice), and another third reported two or three housing problems.

In the census tracts where these developments are located, poverty rates exceed 40 percent. Residents described these neighborhoods as extremely dangerous: about three-quarters said they that drug trafficking and criminal activity is serious in their projects and two-thirds reported living with shootings and violence.

Families that left these developments described better housing in safer neighborhoods. Voucher holders and unsubsidized households have generally moved to census tracts wit lower levels of poverty than their original public housing development. The lower poverty rates represent a real improvement for many original residents —overall, about 40 percent of the residents (excluding HOPE VI returnees) are in areas that have poverty rates of less than 20 percent. These new neighborhoods are safer too.

Families also reported significant improvements in their housing quality. Nearly two-thirds (63 percent) reported that their housing unit is in good or excellent condition, and most (85 percent) said that their new unit is in the same or better condition as their original public housing unit.

Health Barriers

Many HOPE VI families waiting for relocation have physical and mental health problems. These problems can create severe barriers to a successful housing transition. More than one-third of adult respondents reported having a chronic illness or health condition, such as high blood pressure, diabetes, or arthritis. Further, more than one-fifth of adults have been diagnosed with asthma. The situation for older adults is particularly severe, with just 10 percent reporting good or excellent health, compared with 39 percent for all adults over 65 nationally.

Mental health problems are widespread. Nearly one in three respondents (29 percent) reported poor mental health, almost 50 percent higher than the national average.

Further, nearly one in six adults had experienced a major depressive episode within the past 12 months.

HOPE VI children are also in worse health than other children their age. One in five children age 6 to 14 has asthma; the figure for younger children is one in four, more than three times the national average. Parental reports about children's behavior suggest that mental health is also an issue for these kids. About two-thirds of older children (age 6 to 14) have one or more reported behavior problems; about half have two or more.

Highlighting the impact of these barriers, fewer than half of the respondents were employed prior to relocation. These residents cited health problems and a lack of adequate child care as major barriers to employment, along with caring for sick family members, suffering from extreme fear and anxiety, and looking unsuccessfully for work.

Housing Instability in the Private Market

A substantial proportion of former residents are struggling to meet basic needs that were covered in public housing. Overall, 40 percent of the respondents that have been relocated to new neighborhoods reported problems paying rent and utilities, and about half are having difficulty affording enough food.

Former residents who now live in private market housing face the most serious challenges because they now face larger additional utility cost. Fifty-nine percent of voucher users say they have had difficulty paying rent or utilities in the past year, as do 52 percent of households that receive no housing assistance. Further, unsubsidized households are more likely than public housing residents or voucher users to report doubling up with other families (13 versus 4 percent) and moving multiple times since relocating.

Finally, in sites with tight rental markets or where demolition far outpaces the production of new units, residents may be more likely to end up in other distressed communities.

The Future of HOPE VI

These findings suggest the need for strong supportive services to help more families live in better housing and become more self-sufficient, as well as alternative approaches to ensure that all former residents are adequately housed. Housing authority relocation plans should reflect the following:

> ***Heavy Reliance on Vouchers Is Not Appropriate for All Rental Markets.*** Vouchers work well when rental markets are relatively loose. However, when markets are tight and the supply of affordable housing—particularly in good neighborhoods—limited, voucher holders may end up clustered in other distressed communities or unable to use their vouchers at all. Housing authority plans must reflect local reality; those in tight markets should be required to carefully specify how they will provide replacement housing for their current residents.

Vouchers Are Not the Solution for All Residents. Housing Choice vouchers offer residents choice, but place some at risk of frequent disruptive moves. In particular, former residents that have weak credit histories or complex family problems are at a disadvantage in the private market, where landlords' rules may be more restrictive than those in public housing. Housing authorities should help families make replacement housing choices that will work for their households and also ensure that there are effective case management and follow-up services for former residents with multiple risk factors.

Alternative Approaches for the "Hard to House." Residents that face multiple, complex problems may not be able to make a transition to either private or new, mixed-income housing. Public housing has served as the housing of last resort for America's poorest for the past two decades. A substantial proportion of those still living in distressed developments are literally one step away from becoming homeless—and may become so if relocated to the private market. Policymakers need to consider more comprehensive approaches, such as supportive or transitional housing, for these hard-to-house families. These services are costly, complicated, and require careful coordination but without these services HOPE VI is unlikely to realize its potential as a powerful force for improving the lives of low-income families.

Relocation and Supportive Services. Supportive and relocation services must be more comprehensive and include effective case management. Service packages that emphasize only employment will not meet the special needs of residents with physical and mental health problems, disabilities, or such complex problems as domestic violence, substance abuse, members with criminal records, and poor credit histories. Further, housing authorities must provide more intensive housing search assistance and encourage moves to lower poverty neighborhoods. Finally, to prevent former residents from becoming clustered in poor communities, housing authorities should work with landlords to dispel myths about both the voucher program and its participants. They should also offer clients information about a range of neighborhoods where they can look for housing.

Tracking and Monitoring Resident Outcomes. It is important for housing agencies to track resident's right to return and monitor outcomes over time. The availability of these data will allow HUD to make ongoing improvements to the HOPE VI program, offer the appropriate technical assistance to housing agencies, and evaluate the effectiveness of the program over the long term.

During this testimony I have described the conditions in public housing prior to HOPE VI, the goals the program hoped to achieve, describe findings in our research, and changes related to resident relocation that will improve the program. Taken together these make a strong case for the continuation of HOPE VI.

THE HOPE VI PROGRAM—WHAT ABOUT THE RESIDENTS?

While much has been written about the impact of welfare reform on the lives of former recipients, until now little has been known about the impact of the dramatic shift in public housing policy on the lives of residents.

DECEMBER 2002

SUSAN J. POPKIN

During the 1990s, the federal government dramatically changed its policy for housing the poor. Under the new approach, embodied in the $5 billion HOPE VI program begun in 1992, the Department of Housing and Urban Development moved away from providing project-based assistance for poor families and started promoting mixed-income housing and the use of housing subsidies to prevent the concentration of troubled, low-income households.

The philosophy behind the shift was similar to that driving the new approach to welfare reform a few years later. Both reforms sought to promote self-sufficiency among recipients—one by emphasizing jobs over welfare checks; the other by encouraging families to move to better, safer neighborhoods that might offer greater economic opportunities. In both cases, recipients were given supportive services to help them achieve self-sufficiency, and the two populations largely overlapped.

While much has been written about the impact of welfare reform on the lives of former recipients, until now little has been known about the impact of the dramatic shift in housing policy on the lives of those in the original dilapidated public housing developments.

In the decade since HOPE VI began, what has happened to residents of the troubled developments slated for demolition—among the most beleaguered housing in the nation? Have these people found and kept better housing in more mixed-income neighborhoods? Are the children who left the projects safer and healthier, the adults more self-sufficient? Did the services offered meet the challenges?

To answer these and other questions, the Urban Institute and its partner, Abt Associates, conducted the first systematic, multi-city studies of HOPE VI's impact on original residents. One study is tracking the living conditions and well-being of residents from five developments who were surveyed as revitalization began in mid- to late 2001. Another study provides a snapshot of the living conditions and well-being of former residents of eight properties in early 2001—between two and seven years after the housing authority received a HOPE VI grant. This brief presents the findings from those studies and discusses their policy implications.

SUMMARY OF FINDINGS

The studies paint a mixed picture, but on balance the story is generally positive. Many former residents now live in better housing in less poor neighborhoods. But evidence also indicates that a substantial proportion of families are struggling to find housing in the private market and that a large number face serious barriers to making the transition out of dilapidated public housing and to self-sufficiency. To ensure that residents do not end up at risk of returning to poor distressed neighborhoods, the findings from these studies suggest, the HOPE VI program will need to take some new directions and deliver more comprehensive services that, while costly, are key to realizing the program's full potential for improving the lives of low-income families.

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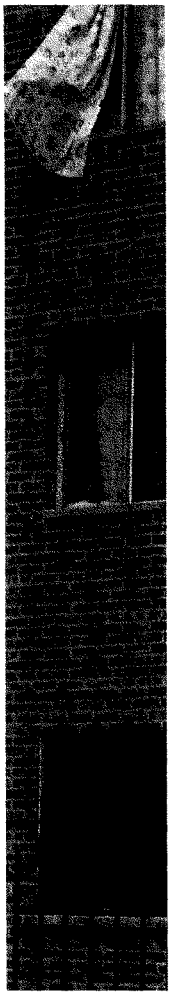

FROM HOUSING FAILURE TO HOPE VI

To grasp the enormity of the task facing HOPE VI housing authorities, consider first the extent of the deterioration in the worst of the nation's public housing.

By the 1990s, public housing was widely regarded as a failure, trapping tens of thousands of extremely low-income families in communities mired in the most destructive kind of poverty. Many developments were literally crumbling and plagued by drug trafficking and violent crime. Residents lived in constant fear. As a mother from the Ida Wells Homes in Chicago put it, "A lot of times, you be in the house, your kids outside, and you hear gunshots and you drop everything and you run to make sure it's not your child." With poverty and unemployment came high rates of school dropout, illiteracy, and teen pregnancy.

Created by Congress in 1992, the HOPE VI program was designed to move beyond bricks and mortar to address the social and economic needs of the residents in these developments and the health of their surrounding neighborhood. This extremely ambitious strategy targets the worst public housing in the nation's developments—among them, the Ida Wells Homes in Chicago—with problems too ingrained to yield to standard rehabilitation efforts.

The program's major objectives are:

- to improve the living environment for residents of severely distressed public housing by demolishing, rehabilitating, reconfiguring, or replacing obsolete projects in part or whole;
- to revitalize the sites of public housing projects and help improve the surrounding neighborhood;
- to provide housing in ways that avoid or decrease the concentration of very low-income families; and
- to build sustainable communities.

Between 1993 and 2001, HUD funded 165 HOPE VI revitalization grants, earmarking $4.5 billion for redevelopment and supportive services activities. In addition, HUD awarded housing authorities nationwide 35 planning grants totalling $14 million, and $293 million for demolition. Housing authorities that receive HOPE VI grants must develop supportive services to help both original and new residents attain self-sufficiency. HUD estimates that thanks to these grants some 71,900 units of distressed public housing will be demolished (of which about 50,000 were occupied) and about 42,000 housing units will be replaced. These funds will also support construction of 15,000 homeownership units, "affordable units" for the working poor, and market-rate units.

Residents living in these developments are given four basic options:

- pass the screening for the limited number of public housing units in the new development;
- use a housing choice (Section 8) voucher to move into the private market. (Under the federal voucher program, residents pay up to 40 percent of their income for rent and the voucher covers the rest);
- move to a different public housing unit, if one is available; or
- leave assisted housing altogether.

This shift away from project-based assistance took place just as the rental market tightened in many cities and the shortage of affordable housing became acute. By 2002, a minimum-wage worker could not afford to rent a standard two-bedroom unit in any U.S. city. Under ideal circumstances, vouchers could help bridge this gap and offer low-income people a real choice of housing and neighborhood. But, in tight rental markets, landlords in better neighborhoods often do not want to accept voucher holders and recipients could end up once more clustered in poor communities.

As with welfare reform, the HOPE VI program has the potential to improve former residents' lives, but it also can put vulnerable families at significant risk. Some could move to better apartments in less distressed neighborhoods, but others might find themselves struggling to find adequate, stable housing.

We found evidence for both scenarios.

BETTER HOUSING, SAFER NEIGHBORHOODS

Residents living in HOPE VI sites before they were redeveloped reported to us in our baseline study that they faced terrible conditions—worse than those reported by other poor renters nationwide. About one-third report two or three housing problems (e.g., peeling paint, water leaks) and one-fifth report more than three problems.

In the census tracts where these developments are located, poverty rates exceed 40 percent. Residents describe these neighborhoods as extremely dangerous: about three-quarters say that drug trafficking and criminal activity is serious in their projects and two-thirds report living with shootings and violence.

Families that left the projects describe better housing in safer neighborhoods. Nearly two-thirds (63 percent) report that their housing unit is in good or excellent condition, and most (85 percent) say that their new unit is in the same or better condition as their original public housing unit. Most who left HOPE VI developments say that their new neighborhoods are less poor. While these new neighborhoods are safer too, about 40 percent still report serious problems with gangs and drug trafficking.

ONE RESIDENT'S STRUGGLE

"I'm scared, I'm not going to leave my kids here by themselves"

Irene lives in Washington, D.C.'s East Capitol Dwellings with her five children. Irene's oldest son suffers from severe asthma, which flares up during the summer. Two of her other children also suffer from serious health problems. Despite their problems, Irene says her children excel in school.

Until recently, she was employed as a food service worker for a local hotel and university. She stopped working when she moved to East Capitol because the extremely dangerous area makes her afraid to leave her children home alone. Irene discovered a dead man's body in her complex the day she moved into her apartment. "When I first moved around here there was a man over there dead. They've found bodies over there dead. That's the reason why I don't let my kids go out. If they do go out, we go out of the neighborhood and we'll be back here before dark." Irene says the development is plagued with drug dealing and violent crime. She says young men hang around the development, argue, fight, and sell drugs at all hours of the day and night. "If I was working I wouldn't have [money] problems, but by me living here in this neighborhood, I'm scared. I'm not going to leave my kids here by themselves. So if we have to struggle a little bit to make it better for us, I don't mind doing it."

MULTIPLE, SERIOUS BARRIERS TO SELF-SUFFICIENCY

Not all residents will be this fortunate. Many HOPE VI families waiting to relocate have physical and mental health problems, histories of domestic violence or substance abuse, criminal records, or poor credit histories. These problems create severe barriers to a successful housing transition. More than one-third of adult respondents report having a chronic illness or health condition, such as high blood pressure, diabetes, or arthritis. Further, more than one-fifth of adults have asthma. The situation for older adults is particularly severe, with just 10 percent reporting good or excellent health, compared with 39 percent for all adults over 65 nationally.

Mental health problems are widespread. Nearly one in three respondents (29 percent) reports poor mental health, almost 50 percent higher than the national average. Further, nearly one in six adults has experienced a major depressive episode within the past 12 months.

HOPE VI children are also in worse health than other children their age. One in five children age 6 to 14 has asthma; the figure for younger children is one in four, more than three times the national average. Parental reports about children's behavior suggest that mental health is also an issue for these kids. About two-thirds of older children (age 6 to 14) have one or more reported behavior problems; about half have two or more.

Highlighting the impact of these barriers, fewer than half of the respondents were employed prior to relocation. These residents cited health problems and a lack of adequate child care as major barriers to employment, along with caring for sick family members, suffering from extreme fear and anxiety, and looking unsuccessfully for work.

HOUSING INSTABILITY IN THE PRIVATE MARKET

Even among those who have moved to new neighborhoods, a substantial proportion are struggling to meet basic needs that previously were covered in public housing. Overall, 40 percent of the respondents that have been relocated to new neighborhoods report problems paying rent and utilities, and about half are having difficulty affording enough food.

Former residents who now live in private market housing face the most serious challenges because they now must assume larger out-of-pocket costs. Fifty-nine percent of voucher users say they have had difficulty paying rent or utilities in the past year, as do 52 percent of households that receive no housing assistance. Further, unsubsidized households are more likely than public housing residents or voucher users to report doubling up with other families (13 versus 4 percent) and moving multiple times since relocating.

Finally, in sites with tight rental markets or where demolition far outpaces the production of new units, many former residents have ended up in other distressed communities.

THE FUTURE OF HOPE VI

These findings suggest the need for strong supportive services to help more families live in better housing and become more self-sufficient, as well as alternative approaches to ensure that all former residents are adequately housed.

Supportive Services. Supportive and relocation services must be more comprehensive and include effective case management. Service packages that emphasize only employment will not meet the special needs of residents with physical and mental health problems, disabilities, or such complex problems as domestic violence, substance abuse, members with criminal records, and poor credit histories. Further, housing authorities must pay special attention to older adults

HOPE VI PANEL STUDY: BASELINE REPORT

Susan J. Popkin, Diane K. Levy, Laura E. Harris, Jennifer Comey, Mary K. Cunningham, Larry F. Buron. Washington, D.C.: The Urban Institute.

Tracks the living conditions and well-being of residents from five developments where revitalization activities began in mid- to late 2001.

Study Sites

- Shore Park/Shore Terrace, Atlantic City, NJ
- Ida B. Wells Homes/Wells Extension/Madden Park Homes, Chicago, IL
- Few Gardens, Durham, NC
- Easter Hill, Richmond, CA
- East Capitol Dwellings, Washington, D.C.

Methods

- Baseline resident survey of sample of 887 heads of households across the five sites during summer 2001. Follow-up surveys at 24 and 48 months after baseline.
- In-depth interviews with 39 mother-child dyads with follow-up at 24 and 48 months after baseline.
- Analysis of administrative data and comparisons to other similar populations.

Funded by the U.S. Department of Housing and Urban Development, the John D. and Catherine T. MacArthur Foundation, the Annie E. Casey Foundation, the Rockefeller Foundation, the Fannie Mae Foundation, the Ford Foundation, and the Chicago Community Trust.

HOPE VI RESIDENT TRACKING STUDY

Larry F. Buron, Susan J. Popkin, Diane K. Levy, Laura E. Harris, Jill Khadduri. Washington, D.C.: The Urban Institute.

Provides a snapshot of the living conditions and well-being of former residents of eight properties as of the spring of 2001—between two and seven years after the housing authority was awarded a HOPE VI grant.

Study Sites

- Quigg-Newton Homes, Denver, CO
- John Jay Homes, Springfield, IL
- Archbishop Walsh Homes, Newark, NJ
- Hayes Valley, San Francisco, CA
- Edwin Corning Homes, Albany, NY
- Christopher Columbus Homes, Paterson, NJ
- Cotter and Lang Homes, Louisville, KY
- Connie Chambers Homes, Tucson, AZ

Methods

- Survey of 818 (approximately 100 per site) residents that lived in the study developments at the time of the HOPE VI award.
- In-depth interviews with 24 former residents.

Funded by the U.S. Department of Housing and Urban Development.

Both reports are available online at www.urban.org or through the Urban Institute Public Affairs Office, 202-261-5709 or paffairs@ui.urban.org.

during relocation, particularly custodial grandparents or those living in multi-generation households; many of them are frail, disabled, or socially dependent on other residents for their care.

Vouchers Are Not the Solution for All Residents. Housing choice vouchers offer residents choice, but place some at risk of frequent disruptive moves. In particular, former residents that have weak credit histories or complex family problems are at a disadvantage in the private market, where landlords' rules may be more restrictive than those in public housing.

Housing authorities should help families make a replacement housing choice that works best for their household and also ensure that there are effective case management and follow-up services for former residents with multiple risk factors. For example, families with large households are unlikely to find apartments in the private market large enough to meet their needs. These families should be counseled to explore the other available options. Credit counseling and budget management services should be offered to all residents that opt for vouchers. Finally, to prevent former residents from becoming clustered in poor communities, housing authorities should work with landlords to dispel myths about both the voucher program and its participants. They should also offer clients information about a range of neighborhoods where they can look for housing.

Alternative Approaches for the "Hard to House." Residents that face multiple, complex problems may not be able to make a transition to either private or new, mixed-income housing. Public housing has served as the housing of last resort for America's poorest for the past two decades. A substantial proportion of those still living in distressed developments are literally one step away from becoming homeless—and may become so if relocated to the private market. Policymakers need to consider more comprehensive approaches, such as supportive or transitional housing, for these hard-to-house families. These services are costly, complicated, and require careful coordination but without these services HOPE VI is unlikely to realize its potential as a powerful force for improving the lives of low-income families.

The views expressed are those of the author and do not necessarily reflect those of the Institute, its trustees, or its sponsors.

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The first systematic studies of the impact of HOPE VI on residents reveal mixed success.

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Statement of
Brian Tracey, Senior Vice President
Bank of America

Before the

U.S. House of Representatives
Subcommittee on Housing and Community Opportunity
of the Committee on Financial Services

April 29, 2003

Testimony of Brian Tracey
Before the
Subcommittee on Housing and Community Opportunity of the
House Committee on Financial Services
April 29, 2003

Good Afternoon.

Chairman Ney, Ranking Member Waters and members of the subcommittee, my name is Brian Tracey. I am senior vice president and Community Development Market Executive for Bank of America.

Thank you for this opportunity to testify on behalf of Bank of America and the National Association of Affordable Housing Lenders regarding the HOPE VI program.

Bank of America, headquartered in Charlotte, North Carolina, is the nation's first coast-to-coast bank and the third largest in the US by assets. Bank of America operates in 21 states and the District of Columbia and has offices located in 30 countries.

NAAHL is the association of America's leaders in moving private capital to those most in need. Members include the who's who of private sector lenders and investors in affordable housing and community development.

Community Development at Bank of America works to help build stronger and healthier neighborhoods throughout the country. Bank of America associates are developing real estate, providing financing and making equity investments, a variety of financial tools and programs in working with individuals, government, non-profit organizations and businesses.

One of those tools is the HOPE VI program. Community Development at Bank of America has been involved as a lender, investor, or developer in more than two dozen Hope VI projects in Charlotte, Nashville, Baltimore, Seattle, Chicago and Houston. Public grant funds, largely the HOPE VI resources, have been used to leverage private debt and equity capital, the latter commonly in the form of Low Income Housing Tax Credits, to transform existing public housing sites, revitalize the surrounding community, and, importantly, improve the lives of public housing residents.

The redeveloped sites commonly contain several types of property ranging from public housing through unsubsidized rental housing to homeownership opportunities.

Bank of America's first Hope VI project provides an overview of what we at Bank of America think of the program, and informs our opinions regarding the proposed changes to the HOPE VI program included in HR 1614.

Bank of America's first Hope VI project was First Ward Place in Charlotte, North Carolina. It was completed in 1998. First Ward Place involved the comprehensive redevelopment of an Uptown Charlotte neighborhood. More than 33 government agencies, community groups and private businesses participated in First Ward Place. This widespread involvement was unprecedented in Charlotte at that time.

The redevelopment transformed a crime-ridden and badly deteriorated public housing complex, the former Earle Village, into a mixed-income urban neighborhood containing public housing units, affordable and market-rate apartments, townhouses, and single-family homes. Today, First Ward Place includes mixed-income rental developments, including over 130 homes set aside for public housing residents, and market-rate for-sale homes.

First Ward Place now has important community services such as a childcare center and a community facility with computer classrooms and meeting rooms, previously non-existent in this community. Bank of America has opened what we call a Make-A-Difference Center – providing after-school programs, tutoring, adult education, and computer literacy classes, a private investment by Bank of America made possible in part by the dramatic improvements to the neighborhood from the HOPE VI redevelopment.

Funding and equity capital for First Ward Place came from a broad base of local support, including loans through Bank of America, a loan from the Charlotte Housing Authority, a loan from the Charlotte Mecklenburg Housing Partnership, an equity investment from Charlotte Housing Authority, and a tax credit equity investment from Bank of America. The City of Charlotte also committed to provide infrastructure improvements to widen and beautify the streets around First Ward Place.

Our goal, and the community's goal, for First Ward Place was to create a strong neighborhood of skilled, employable and economically independent residents, living in safe, comfortable homes, with room for people from all income-levels.

We know there are tremendous tangible benefits from investments in affordable housing, job training and childcare. We can look at a housing development and know that we have helped create decent, affordable housing for many. We can look at a newly built home and know that for the first time a family feels differently about themselves from owning a home. But we also know, inherently, that there are benefits in ways that can't be seen or measured. With better housing and more jobs, comes less crime, improved schools --- and greater hope and increased pride in themselves and their neighborhood.

Importantly, the transformation of First Ward Place, made possible by HOPE VI funding, has resulted in private capital flowing to areas adjacent to the community, creating a multiplier effect often overlooked in judging the success of HOPE VI developments.

Bank of America is very proud of the success of First Ward Place, as well as the many other HOPE VI projects where we have been involved as lender, investor, or developer and believes there is merit in continuing the program.

Now, I would like to offer some observations with regard to the proposed changes to HOPE VI, which is contained in HR 1614.

Based on our experience, the general principle of integrating public housing redevelopment and reinvestment programs with similar efforts in the larger adjacent neighborhood would appear to be good public policy.

The goal is to expand the scope and scale of resources available for neighborhood redevelopment. However, policy makers should be cognizant of changes that would meaningfully reduce the level of resources available for development and redevelopment of federally assisted housing.

The proposal to assist public housing authorities to take advantage of established private capital markets – moving certain public housing developments to project-based Section 8 – and make more effective use of other mainstream affordable housing and community development tools and techniques, has the potential to become a compelling new tool for sustainable preservation of affordable housing.

Bank of America would welcome the opportunity to expand and deepen its role in the redevelopment of public housing and severely disinvested communities. More and better tools are required. The implementation of any such proposal should build on existing established practice. Many lenders, including Bank of America, have significant experience in providing financing for properties with project-based Section 8 vouchers. This experience can provide models for the implementation of any new proposal.

As for existing programs, other HUD funds are available, including CDBG and HOME, designed to provide assistance to small communities for revitalization or redevelopment projects. However, while these are useful programs, they are often not significant enough to fund the dramatic changes called for in HOPE VI redevelopments, such as the demolition of high-rise public housing.

One criticism of the HOPE VI program is that progress is slow.

Some public housing authorities may initially lack the experience needed to undertake real estate development work with private partners, causing delays. But one benefit of the program is the public/private development partnership that should ultimately result in the housing authority gaining real estate development skills.

HOPE VI development work takes place within a public housing regulatory framework, with compliance, ownership, and capital structures more demanding than would be the case with alternative structures.

Many HOPE VI developments are complex by the nature of the real estate itself, and would be slow to progress regardless of the funding source.

Finally, let me comment on one other issue – managing change in a HOPE VI neighborhood. Importantly, neighborhood goals are identified early in the HOPE VI process with government and the community provided a great amount of influence over the outcomes of the redevelopment effort. While there may be some displacement of residents to public housing in other parts of a community as a result of a HOPE VI development, we view revitalization that leads to ethnically diverse communities with a range of incomes as a favorable outcome, as long as safe and decent housing is available for those displaced. Where HOPE VI programs are truly successful, and that has been our experience, a complete and radical change in the character and composition of the neighborhood has been avoided. There must be room for everyone.

In summation, Bank of America and the National Association of Affordable Housing Lenders believe that HOPE VI is a valuable and effective tool for revitalizing neighborhoods, while improving the lives of public housing residents. Private capital will play a role in improving public housing, but the extent of the affordable housing crisis for the poorest of the poor is such that government is still needed as a catalyst, helping to spark private investment. We believe that HOPE VI should be one such spark.

Thank you for the opportunity to participate in this hearing. I would be glad to answer any questions.

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Testimony of Lisa B. Zukoff, Executive Director

Housing Authority of the City of Wheeling, West Virginia
to the
Housing and Community Opportunities Subcommittee
House Committee on Financial Services
on behalf of the
National Association of Housing and Redevelopment Officials
April 29, 2003

Good afternoon, Mr. Chairman. I am Lisa Zukoff, executive director of the Housing Authority of the City of Wheeling. I am representing the National Association of Housing and Redevelopment Officials, which is the nation's oldest and largest membership organization in the United States devoted to affordable housing and community development. NAHRO represents 19,000 agencies and housing professionals, including 95 percent of all local housing agencies. The Wheeling Housing Authority, a NAHRO member for 62 years, is a mid-size agency that owns and manages 600 public housing units and 421 Housing Choice Vouchers.

Wheeling won one HOPE VI grant of $17.1 million in 1999 to revitalize Grandview Manor and Lincoln Homes, public housing developments totaling 328 units in the eastern and historic northern sections of Wheeling that include sites of a former hospital and a dye plant. We first applied for the grant in 1998 but we were not successful. For many of our colleagues, obtaining the grant has required three or four applications, so we consider ourselves fortunate.

The Wheeling Housing Authority's mission is a commitment to building stronger neighborhoods by providing quality housing options and professional services for eligible residents of Ohio County, in partnership with the greater community. Respect for the dignity of the residents we serve is the foundation of all we do.

I am here today to speak to you about the HOPE IV program, and specifically H.R. 1614, "HOPE VI Program Reauthorization and Small Communities Main Street Rejuvenation and Housing Act of 2003."

I urge you to reauthorize the HOPE VI program. HOPE VI has undeniably and positively changed the face of Wheeling's public housing and the way this agency does business, provided residents with housing choice and economic opportunity, and helped stimulate the depressed economy of Wheeling. Managing the grant motivated my agency to re-examine its priorities and organization, and we established a new department in relocation and expanded our supportive services program, which also benefits our general public housing and housing choice voucher

Kurt Creager, President; **Jim M. Inglis**, Senior Vice President; **Larry Cobb**, Vice President-International; **Larry A. Loyd**, Vice President Housing; **Terrence James Madigan**, SPHM, Vice President-Professional Development; **Marilyn Phillips**, SPHM, Vice President-Member Services; **Bill Pluta**, Vice President-Community Revitalization & Development; **Elizabeth B. Wilson**, Vice President-Commissioners; **Saul N. Ramirez, Jr.**, Executive Director

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programs. We are now poised to become the affordable housing developer in the city. We also offer assistance to other agencies in our area attempting to obtain HOPE VI grants.

Statutory Changes for HOPE VI Reauthorization
H.R. 1614 seeks important changes to the HOPE VI statute that respond to criticisms of the program in the areas of agency capacity, residents' housing choice, and sustaining or increasing the amount of housing affordable to those eligible for public housing. NAHRO believes that the statutory changes could be further enhanced.

NAHRO recommends the following additional changes to the HOPE VI statute:

- Smaller public housing agencies do not have equal access to the HOPE VI grant for several reasons, some of which are regulatory. In statute, a further amendment to that recommended in H.R. 1614 to section 24(e)(2) **"Selection Criteria," should require that awards are representative of agency size and geographic location, from year to year.**

  Because the current application system poses obstacles in complexity and cost for smaller public housing agencies, **NAHRO recommends an alternative process that takes into consideration the resources available to these agencies, both in-house and in the community.** For example, HUD previously offered a planning grant, for which the applicant identified the distressed site and the general approach to revitalizing it. Planning grant funds helped to pay for the considerable pre-development costs of submitting an actual HOPE VI application. Funds would need to be reserved in each year's appropriation to ensure agencies that successfully completed the planning grant process would be able to receive funds to implement the revitalization plan. Planning grant funds could be leveraged.

- **Broaden the criteria of the definition of severely distressed public housing,** which now is based on the condition of the dwellings. A community in distress is also lacking economic opportunity, transportation, supportive services, quality schools, civic and religious institutions, and public services. These factors should be considered when identifying a severely distressed public housing development.

- In order to serve all members of the public housing community, the statute should be amended to **identify as eligible subjects for the grant developments that mainly serve the elderly or disabled persons,** in addition to developments that serve families (section 24(j)(2)).

- With regard to the issue of sustaining or increasing the amount of housing affordable to people eligible for public housing, NAHRO believes that **the provision in the 1937 Housing Act which prohibits development of additional public housing units should not apply to HOPE VI** (section 9(g)(3) of the Act).

I would be remiss if I did not note here that increasing the supply of affordable housing will require an increase in resources. Presently, only the public housing program's operating and capital subsidies offer the deep subsidy required to make units affordable to those eligible for public housing. In public housing, the average annual family household income is $10,315. At

the statutory 30 percent of income for rent, that's $257 per month. This is inadequate to cover operating costs or debt service. Fully 45 percent of family incomes in all public housing are below 30 percent of the median income of the area in which they live. The HOPE VI grant, like the capital fund, can subsidize the capital cost of the units, but an ongoing operating subsidy is needed. HOPE VI and other family self-sufficiency programs seek to increase residents' incomes, which theoretically would increase rent revenues. For example, my agency has a very successful Self Sufficiency Program with 72 participants which enables our residents to increase their incomes, but the increased rent they would pay is transferred to an escrow account for future use in education or purchasing a home. Nationally, of all residents of public housing, about 42 percent stay five years or less. Residents move up and out of public housing, which means rent revenues do not significantly increase.

The Administration has reduced funding for and eliminated several housing and community development programs over the past five years (2000-2004). This is sending a negative signal to financiers, developers, tax credit syndicators, and other entities that now routinely partner with public housing agencies and local governments to provide housing and community improvements. Reductions in the public housing operating and capital funds signal to these partners that public housing development projects like HOPE VI are becoming too risky as the federal commitment to affordable housing appears to evaporate. Although we have seen no direc evidence of this aversion to risk in higher financing fees, for example, there is anecdotal evidence of increasing skepticism. The HOPE VI program depends on housing choice vouchers for relocation and replacement housing, but the proposal to block-grant the program to states has caused a negative reaction among these partners, who aren't sure that funds will be in place to support all vouchers in the future.

Along with a commitment to re-authorize the HOPE VI program must come a commitmen to adequately fund the capital, operating and housing choice voucher programs that support HOPE VI and the residents served by public housing.

Small Community Main Street Rejuvenation Program
H.R. 1614 section 3 introduces a new grant program for non-public housing grantees using public housing funds. NAHRO, which represents both public housing and community development interests, has considered the proposal thoughtfully, but must point out that the Federal Home Loan Bank, Economic Development Initiative, HOME and Community Development Block Grant programs provide funding for local affordable housing development and improvements to commercial areas. Small communities have access to these funds directly and through states, consortia, urban counties and other means. We cannot recommend using scarce public housing funds for non-public housing programs.

Continued Need for HOPE VI Grants
HUD receives many more applications for HOPE VI grants than it has funds:

FY1996 - 138 applications received, 44 funded.
FY1997 - 127 applications requesting over $2 billion received; 23 funded.
FY1998 - 101 applications requesting $1.9 billion received; 20 funded.

FY1999 - 80 applications requesting $1.78 billion received; 21 funded.
FY2000 - 74 applications requesting $1.8 billion received; 18 funded. HUD used $5,000 from the demolition grant fund to fully fund the 18th implementation grant.
FY2001 - 66 applications requesting $1.8 billion received; 16 funded, an indeterminate number of approved applications were not funded because of lack of funds.
FY2002 – 58 applications, 28 funded.

Between 1997 and 2001, about $10 billion was requested in 448 applications but only $2.8 billion (28% of requested) was awarded to 98 projects (22 percent of applications) potentially leaving more than 350 HOPE VI sites without resources.

Relocation and Resident Choice in Housing
There are four points to consider about the impact of HOPE VI revitalization on a community.

- First, no one wants to move, nor be required to move, so that their home can be torn down. This is a radical step and one that creates much anxiety in the community, but the alternative is unmitigated deterioration. HUD should be certain that the developments submitted for the HOPE VI program are truly severely distressed. NAHRO members have suggested examining the HUD Reform Act to determine whether HUD can view the proposed projects before making final grant awards. Housing agencies must be advocates for their residents throughout the revitalization process, as other partners in the program may respond to other motivating factors.

- Second, a key component of HOPE VI is de-concentration of poverty, which means that there will no longer be a community solely comprising low-income families. That condition is a major contributor to the failure of the original development. There will be a mix of incomes in the revitalized community.

- Third, not all residents of the original site will be able to return, nor will all of them necessarily want to return. For some, HOPE VI is a door to opportunity. For others, public housing is viewed as an entitlement. Still others welcome change to their community and seek to return to the location after a temporary relocation. Each HOPE VI grantee has met with one or more of these reactions. Some have handled it better than others.

  The Wheeling Housing Authority approach was to learn from other's experiences, then put in place the best system possible for relocation and supportive services. Our existing sites had a turn over rate of about 33 percent annually, and in Grandview Manor, many of the residents already were on the housing choice voucher waiting list. Others had no income, and were re-located to other public housing. We provided extensive housing counseling to ensure that regardless of a resident's final relocation site, they had been provided housing choice and an opportunity to improve their situation. Through comprehensive landlord outreach, we were able to enroll in our section 8 program many new landlords in non-impacted neighborhoods, which helped us de-concentrate Grandview Manor and Lincoln Homes.

- Fourth, the HOPE VI program requires leveraged financing, but does not provide sufficient public housing dollars to rebuild on or off-site the same number of units demolished. That may require a HOPE VI grant three times the amount of those awarded. Units affordable to families eligible for public housing require deep subsidy and can carry little or no debt service, as the rents are too low to support the operating costs of the units. Therefore, fewer units available to public housing-eligible families can be built in a HOPE program. An obvious solution to this is to increase resources for development of public housing-eligible units, whether it is a one-time capital subsidy or an ongoing operating subsidy, or both. In order for other existing programs to reach out to very low-income families, subsidies must be layered, which means fewer families can be served.

HOPE VI is about people and the buildings and environment in which they live. Our developments, Grandview Manor and Lincoln Homes, were built in 1940, and had outlived their useful lives. We worked very closely with the residents of these communities to ensure that they understood what having a HOPE VI grant meant. We visited other HOPE VI sites with them, invited them to ask questions and contribute to the revitalization plan. When it came time to relocate residents, our older residents cried as they left their homes of 20 and 30 years – and we cried with them. But with portable housing choice vouchers, families were finally able to move to communities where jobs are more plentiful than in Wheeling – places like Virginia, Orange County, Florida, and Columbus, Ohio. Elderly and disabled residents preferred to move into other public housing units. Others chose to stay in Wheeling, either permanently or temporarily relocated. Of 194 families in place at the start of our HOPE VI program, 35 were evicted, 67 chose housing choice vouchers, 47 chose other public housing, and 45 families moved out of the program, either into other subsidized housing or into the private market.

The HOPE VI grant pays for all relocation costs for the residents. We hired a contractor to perform relocation services. But we soon found that our staff could do this better and for lower cost, as we know our residents and our market area. We established an in-house relocation department. The coordinator is a public housing resident. We developed memorandums of agreement with 30 service agencies worth $1.2 million in in-kind services to provide support to residents and prepare them to move into the redeveloped site, or to find other opportunities in work, community and family life.

The eligibility criteria for those who will move into North Wheeling, which is managed by Wheeling Neighborhood Ventures, Incorporated, a non-profit subsidiary of the Wheeling Housing Authority, are stringent and include a credit check as well as criminal background checks and other requirements of public housing admission. In the credit check, we examine whether the family is able to pay basic expenses, such as rent and utilities. We published an admission and continued occupancy policy that describes the process for obtaining a unit in the redeveloped site. I note that our general public housing has similar criteria. For the HOPE VI site, we have a local preference for those who lived at the sites previously, or are working families, the elderly and disabled. We received 487 applications for our North Wheeling site. Of those, we denied 181. Problems include applicants who had violated the housing choice voucher program (3), had poor tenant histories (11), had a criminal history (7), had poor credit (153), or had some other issue (7). We manage a site-based waiting list, which now stands at 95 families.

Our first phase will be fully leased as of May 1, 2003, just three years from receipt of the funds. (We received the award notice in August 1999, obtained a signed grant agreement from HUD in January, 2000 and received our first access to pre-development funds in April 2000).

Can every family from the original site move into the redeveloped site? Probably not. One of the premises of HOPE VI is to reduce concentrated poverty. Not all households can move into the redeveloped site. Those who do prefer to live in the new community are provided with appropriate counseling to prepare them for the considerable change in environment. Many of the families prized the housing choice vouchers, and as I mentioned earlier, were able to relocate to other communities of opportunity. But "dislocation" in our community is a misnomer. Relocation is a better descriptor of proactively working with residents from the earliest planning meetings to identify housing needs and housing choices for the former residents of Grandview Manor and Lincoln Homes.

Progress in HOPE VI

Development capacity among housing agencies may have been a legitimate concern in the past, but current trends in the program do not support this. In 1994, it took an average of 1,425 days from the execution of the grant agreement for a housing agency to submit a mixed-finance proposal to HUD. That figure is reflective of the lack of experience among grantees and HUD in a complex program that had few guidelines and no model to follow. By 2000, that time was reduced to 154 days on average. In 1994, it took HUD 1,354 days to approve the mixed-finance proposal, again a reflection of the department's expertise. By 2000, that time was reduced to only 52 days on average. The proposals submitted by housing agencies are of a higher quality, and agencies now do much of the work in advance of the project deadline for submitting various components to HUD for approval – partly because the notice of funding availability demands readiness.

The federal government's commitment to eliminating severely distressed public housing has brought about new standards, techniques and opportunities in affordable housing development that has had a multiplier effect in the public housing community. The Wheeling Housing Authority, like dozens of other HOPE VI grantees, did not have the full expertise to implement a HOPE VI grant the day it was awarded. When HOPE VI was a new program, HUD itself learned as it moved to implement the program. But after 10 years of housing agencies, residents, developers, financiers, service agencies and HUD working together to build a considerable knowledge base, the learning curve for new grantees is greatly reduced. In the past three years, my staff and I have learned much from others' experiences in resident involvement, financing, relocation, tax credit closings, construction, and more. There are now a few training courses offered in HOPE VI redevelopment and housing finance, there is a listserve and a web site for the program, and there are strong, formal and informal networks among grantees and other stakeholders.

Housing agencies often are the main source for affordable housing development and management in their communities, especially smaller communities like mine. These agencies have the capacity to develop and manage housing using local and state-funded programs. Through my agency's experience with HOPE VI, we have become tax-credit certified and are

now in position to provide housing development and management services to our community. If we hadn't had the opportunity to learn through the HOPE VI program, we would not be in this position and our community would be worse off. Again, Wheeling is just one of many HOPE VI grantees that has acquired development skills that now benefit the broader community.

Our involvement does not stop at the Wheeling city line. We have reached out to our neighbors in Charleston and Huntington. The Charleston Housing Authority, which owns about 1200 public housing units, has a 300-unit development that qualifies as distressed. They agencies have applied multiple times for HOPE VI grants but did not yet receive funding. We have shared our application with them, invited them to an informational meeting with our developer, and otherwise provided assistance that hopefully will result in grants in 2003.

Administrative capacity is needed to implement and manage a HOPE VI program. For example, at the closing on the first phase at historic North Wheeling, we had 170 documents required for due diligence on the phase one tax credit financing. That did not include the HUD phase one closing – at that point, the documents filled four 5" binders. The program is recognized for its highly regulatory, complex nature. Many of the areas that concern us are regulatory, not statutory. However, **convincing HUD to adopt a simplified monitoring role** rather than the hands-on role it has undertaken may take an effort beyond the reach of regulation.

How long does it take to demolish and rebuild an entire community? Under other HUD programs, housing is rehabilitated, built new, or acquired. Commercial districts are renovated with new store fronts, lighting and street furniture. But only in the HOPE VI program is there a complete transformation of the distressed development that was, to what are now vibrant, healthy communities with a mix of housing choices, incomes, stores, new schools and other civic and social services. If we are willing to make a grant of $20 million for such a venture, leveraging an additional $50 million, then why aren't we willing to wait a few years for the investment to bear fruit? So far, it has. In just over three years, the Wheeling Housing Authority moved from novice grantee to sophisticated developer, completed the first phase of our project with 39 rental and 27 home ownership units in phase one, and started phase 2, with another 47 rental units and 21 single-family houses for purchase. These numbers are impressive—it represents the first new housing built in the inner city of Wheeling in 40 years.

Occupancy and Grant Close-Out

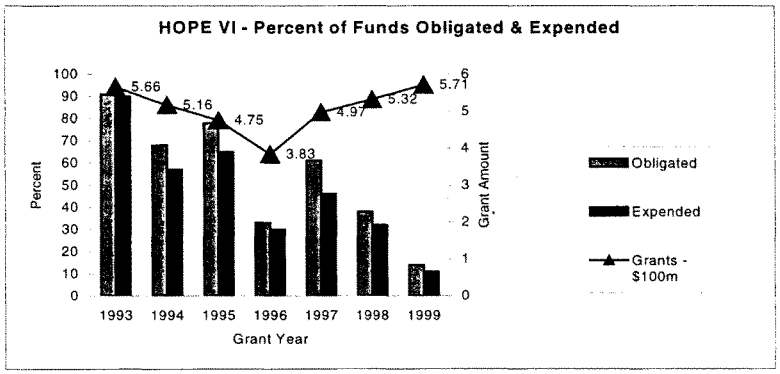
HUD recently said that there are only about a dozen grants closed out. Grant close-out is an administrative function that does not accurately reflect when people began living in the new housing. HOPE VI developments are built in phases. Occupancy of those units is a better indicator of the program's progress. As of June 30, 2002, public housing units in thirty-two sites (not phases) were fully re-occupied by families that had been relocated from the original site, and public housing units in 16 more sites were re-occupied between 91 percent and 52 percent. Grant years for the projects range between 1993 and 2000.

In the six-year period from 1993 to 1999, about 3,300 units were re-occupied by families that had been temporarily relocated. From 2000 through June 30 2002, over 4,000 public housing units were re-occupied in one-third the time. From an average rate of 550 units a year, progress

jumped to 1,600 units per year on average. For the same time periods, overall occupancy increased from an average of about 1,000 a year to 7,300 average per year. This is indicative of the increasing capacity of housing agencies, HUD and their partners to do the work of revitalization.

Obligation and Expenditure of Funds—"Pipeline" Issues

The HOPE VI program awarded $4.5 billion in grants from FY 1993 to FY 2001. As of June 30, 2002, 42 percent of all funds had been expended (grant years 1993-2001). All units for all grants are expected to be occupied or re-occupied by the last quarter of 2011. Given that the current date (2003) is about halfway between 1993 and 2011, it seems reasonable that half the HOPE VI funds have been expended at this time.



In this chart, the bars represent the percentage obligated and expended of total grant funds awarded for that year. The line shows the total grant amount for each year in 100 millions. Where the bars are closest to the line, obligation and expenditure are nearly completed. Grant years 1994 and 1996 appear to have problem grants. We don't know whether these cases have been resolved by HUD since this data was generated (June 2002). As the years move forward from 1997-1999, the distance from the line to the bar increases, illustrating the newness of the grants. Aside from the two years mentioned, the chart shows a steady progression of obligation and expenditure for the program.

HOPE VI funds appear to be moving faster than the private (leveraged) funds, which are only 21 percent expended through FY 2001 grants (data as of June 30, 2002). Of other public housing funds in the projects, 43 percent are expended. The faster expenditure rate for HOPE VI/public housing funds may be due to the fact that the projects are front-loaded with expenses paid for by the public housing agency such as relocation, financing fees, project management, demolition and site preparation. A more detailed review of the financials in the quarterly report would need to be conducted to verify this assumption.

Penalties for Slow Obligation and Expenditure
Withdrawal of funds for failure to perform is addressed in the 1937 Housing Act sec. 24, subsection "(i) Withdrawal of Funding --- If a grantee under this section does not proceed within a reasonable time frame, in the determination of the Secretary, the Secretary shall withdraw any grant amounts under this section that have not been obligated by the public housing agency. The Secretary shall redistribute any withdrawn amounts to one or more other entities capable of proceeding expeditiously in the same locality in carrying out the revitalization plan of the original grantee." To date, no grantee's funds have been withdrawn. HUD staff and consultants work closely with the grantees to ensure progress is made.

Leveraging Private Funds and the Process of Assembling and Application
We began planning one year in advance of the application, probably the minimum lead time necessary to prepare a reasonable application. Working with our residents and consultants, we developed a basic plan, conducted feasibility and market studies, garnered the support of local and state government officials, especially the state housing finance agency, conducted cost analyses, identified sources of funds for up-front costs such as tax credit financing fees ($35,000), and marketed our program extensively. Our city council passed a resolution providing $1.5 million in Community Development Block Grant funds to the project. We obtained the support of 30 service agencies and developed memorandums of agreement with them. We sought to tie in with existing programs, such as the Workforce Investment Board and union training programs, instead of duplicating their efforts.

Marketing the program is the key to obtaining leveraged financing sources. The greater part of my work entailed educating local lenders and other financing sources about the nature and goals of the HOPE VI program, and on the details of our plan. In leveraging, money gets money – once we had a few commitments, we were able to gather more.

And after all that, we did not obtain a grant in 1998. We re-tooled for the 1999 application process, and did win $17.1 million to implement our plan.

The HOPE VI application process has become increasingly demanding as the program ages, concerns and criticisms are gathered, and administrations change. The FY 2002 notice of funding availability represented the most stringent requirements to ensure that agency/development team capacity, financial commitments and resident participation were well-addressed. The NOFA was so restrictive that it would have precluded compliance, until HUD issued a correction on the low-income housing tax credit criteria. We believe that a policy of "screening out, not screening in" can result in exclusion of worthy grant applications and creates a process-oriented system that may fail to consider the merits of individual proposals.

The notice of funding availability changes each year, so previous applications cannot be directly re-used. It costs nearly $200,000 to assemble an application, which in reality is a nearly finished deal, with tax credits, relocation, financing and service commitments in place. Smaller communities like Wheeling, Charleston and Huntington have scarce resources. In some communities, it can be a stretch for the agency to find appropriate partners for the application,

and to fund the pre-development process. Re-instituting the use of planning grants may be an improvement for smaller housing agencies.

Loss of Affordable Units

The public housing development program was last funded in 1995. At the same time, the HOPE VI notice of funding availability (NOFA) included a requirement for demolition of severely distressed public housing and has continued to do so. Later, HUD added a "demolition-only" grant category, meaning demolition of severely distressed units without the funds for replacement housing, or a requirement to replace any units. Consider that severely distressed housing has a high vacancy rate, may be uninhabitable, and would cost far more to rehabilitate than to rebuild – by the definition of distress, the properties ought to be torn down.

But by the definitions of de-concentration and mixed-finance, mixed-income redevelopment, the same number of public housing units cannot be rebuilt on the site. A mixed-finance development is one that is built using funds from a variety of sources. These programs may have specific tenant eligibility requirements, use restrictions, and so forth. The varying eligible income levels create the mixed-income nature of the development. The HOPE VI program requires that the housing agency leverage the HOPE VI funds to obtain non-public housing financing. For example, a typical HOPE VI site may use HOPE VI, public housing operating subsidy, HOME and CDBG dollars, Federal Home Loan Bank loans, Low-Income Housing Tax Credits, bonds, private equity and conventional loans.

Limited resources for developing actual public housing units (sometimes called hard units to distinguish them from voucher units) also prevent housing agencies from building more public housing off-site. Most public housing families have an income considerably below 30 percent of area median income – the definition of extremely low-income. Units that are affordable to extremely low-income families require deep subsidy. At this time, only the public housing program provides capital and operating subsidy at the level needed to sustain units affordable to extremely low-income families. Capital and operating funds cannot be used to develop or support incremental (additional) units.

For replacement housing at North Wheeling, we used housing choice vouchers, and vouchers layered with tax credit units, in addition to planning for 177 hard units in the fully developed site. Through this mix, we have provided "one for one" replacement of all units, on or off-site, that were occupied at the time of relocation.

The success of the HOPE VI program is tied to public housing funding, including the Capital Fund, operating subsidy, and housing choice vouchers. Each of these programs plays a critical role in HOPE VI developments. The Capital Fund is used to augment public housing development and other costs, the operating subsidy supplies the deep subsidy needed to make public housing units viable in the mixed-finance development, and housing choice vouchers are a critical tool for replacement housing. If funding for these programs is cut or the programs drastically altered, investors in HOPE VI projects become risk-averse and are less likely to participate. Without their contribution, the program cannot move forward. It is critical that Congress and HUD provide adequate funding for the Capital Fund, operating subsidy and the

housing choice voucher program. Funding the HOPE VI program cannot be at the expense of these programs.

The lack of affordable housing in this country is an issue which is greater in scope than the HOPE VI program. One can debate whether the units demolished under HOPE VI were viable or not, and should count towards the inventory of affordable housing, or not, but the fact remains that there is an affordable housing crisis in America that affects renters, prospective home buyers and homeowners alike.

The Public Housing Reinvestment Initiative and an Alternative to HOPE VI
The HOPE VI program has three components that are critical to the program's success: the size of the grant, the focus on improving living conditions and opportunity for residents, and the mixed-finance, mixed-income redevelopment approach that de-concentrates poverty.

HOPE VI in 1993 offered grants of up to $50 million. In 2002, the cap dropped to $20 million. Nevertheless, it is sufficient to attract an average of $2.63 in non-public housing funds for every dollar of HOPE VI funds as of 2001, according to a November 2002 General Accounting Office report. By contrast, the median capital fund grant in 2002 was $179,587. The crafters of the Quality Housing and Work Responsibility Act of 1998 sought to enliven the capital fund by permitting it to be used for loan collateral and other financing purposes; however, HUD has not yet produced a rule to implement this program. Instead, agencies apply on an ad-hoc basis to HUD. About 20 agencies have closed deals under this provision.

In its 2003 budget proposal, HUD introduced the Public Housing Reinvestment Initiative (PHRI). This provision would permit housing agencies to convert moderately needy developments to project-based section 8 assistance, using the property and increased rents from the section 8 program for income and debt service. Congress did not accept the provision. HUD has resubmitted the proposal for FY2004. It now includes an 80 percent loan guarantee feature. NAHRO is generally supportive of the proposal as a tool that may work well in some public housing developments, but it is no substitute for HOPE VI. PHRI does not provide the large infusion of cash to attract investment in public housing, nor is it financially feasible to use this approach for severely distressed public housing. The cost of rehabilitating or replacing the units requires debt service beyond what PHRI can provide. The program does not include funds for supportive services to residents or the development of mixed-finance, mixed-income communities which in HOPE VI developments de-concentrates poverty and provides residents with housing options.

PHRI and the capital fund do not appear to be alternatives to the power of HOPE VI.

One alternative that has been discussed among the NAHRO membership is a revolving loan fund. This fund would make loans at zero to two percent interest, with a 30-year payback term. Housing agencies would have flexible use of the funds for a variety of affordable housing uses.

Conclusion
HUD Secretary Mel Martinez said at FY 2004 budget and appropriations hearing that the HOPE VI program has reached its goal of demolishing 100,000 units. But the goals of HOPE VI are much broader than this. By NAHRO's estimate, there are about 350 communities that have applied for funds over the years and not received funding – showing that there still is considerable need for the program.

HOPE VI has or is revitalizing over 190 communities over the past 10 years. What began as a demonstration program has blossomed into an economic engine that is changing the face of public housing and public housing agencies. Please consider re-authorizing the program at a level of $625 million.

Thank you very much for the opportunity to speak to the subcommittee today. My full written testimony is submitted for the record.

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