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THE ADMINISTRATION'S PROPOSAL TO REVITALIZE SEVERELY DISTRESSED PUBLIC AND ASSISTED HOUSING: THE CHOICE NEIGHBORHOODS INITIATIVE

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

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THE ADMINISTRATION'S PROPOSAL TO REVITALIZE SEVERELY DISTRESSED PUBLIC AND ASSISTED HOUSING: THE CHOICE NEIGHBORHOODS INITIATIVE

Wednesday, March 17, 2010

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Watt, Moore of Kansas, Hinojosa, Clay, Baca, Scott, Green, Klein, Perlmutter, Donnelly, Carson, Adler; Bachus, Miller of California, Capito, Neugebauer, Marchant, Jenkins, and Paulsen.

The CHAIRMAN. The hearing will come to order. We are here today on a very important initiative of the Obama Administration. The HOPE VI Program has been one that has frankly been protected on a bipartisan basis by Congress. The previous Administration tried to de-fund it. On both sides of the aisle here, there was strong support for keeping it going, but there is a recognition that there is room for significant improvement. I appreciate the fact that the Secretary has indicated in a statement that he is not going to be doing away with HOPE VI and that in fact more will go in the continuing HOPE VI issue as we work on this.

The committee is glad to work with the Secretary. I would note with regard to the current fiscal year, obviously we did just get the legislation. We have had some indications here of what was coming. I should say I don't think given particularly the pace of things in the Senate that we're going to be able to get a whole new bill done by the end of the year, but I do intend for this committee in particular to have some significant input into this. And if this is ultimately going to be done in the Appropriations Committee, we will be insistent that the appropriators pay significant attention here. I would hope that we would have a markup here in the committee and be able to have our impact on the appropriators.

With regard to the substance, I welcome the attention to public housing. We ought to be very clear that there are examples of public housing that should never have been built, that unfortunately are sometimes blamed on the victims, the people who live there. Nobody asked to live in 1,000-unit tower with no services in an isolated part of town. And it's important that we humanize those both for the people who live there and for the impact this has on the

city and the surrounding neighborhoods. So we look towards cooperation.

There were a couple of important points to myself and to the gentlewoman from California, the chairwoman of the Housing Subcommittee. One is that we do not want this to result in a net reduction in units available to lower-income people. I will go back to the previous years where I think one of the problems that we faced was a disrespect for rental housing and the view that the only acceptable way to provide housing for low-income people was to get them to be homeowners, leading to a significant overemphasis on that and to many people being put into homeownership who shouldn't have been there, who couldn't have afforded it, who weren't able to manage it. And appropriate attention to rental units is very important.

So one of the issues we have here is the matter of replacement. Now I understand those in the housing authority feel, well, what are we going to replace it with? It is my hope that we will have things with which they can replace it, including, and I want to make it very clear as I just did to the Secretary privately, in my mind, funding the Low Income Housing Trust Fund is essential to our being able to do other things. That is the central piece. I can't support destruction of existing units without a fund that will provide replacement of those units, and that is not now possible with the resources we have made available. So funding the housing trust fund, beginning now and going forward, is very important.

Secondly, and I have this concern which I have also expressed to the Secretary, I understand that when you provide housing for people, you also want to provide them with a decent living environment, a good education, public safety, recreational space, and transportation, but not out of a HUD budget that's already too limited. We have a HUD budget that is constrained. I agree with the comprehensive approach. I disagree strongly with the notion that these other services ought to be funded out of HUD. For example, transportation. Yes, adequate transportation is important. It can also be expensive. We have a transportation trust fund, and I—as well as others on this committee—will have some serious concerns about the funding coming from the HUD budget for programs that ought to be funded out of other budgets.

Now fortuitously, the Appropriations Subcommittee that's relevant here has both HUD and the Department of Transportation under it, and I intend to work closely with our colleague there, who has been very cooperative with us, so that if we're going to be talking about funding here, the funding has to come from more than one source. Obviously, there are some incidental overlaps that are unavoidable.

But I don't see, in anything the Administration has sent me, requests that the Departments of Transportation, Health and Human Services, or Education provide some of their funds for housing. It seems to be a one-way street here. I understand there's a need for some cooperation, but I will be very, very skeptical of efforts to deplete HUD funding, which is already, in my judgment, inadequate, not because of the Administration's fault, but because of budgetary realities for other purposes.

The gentleman from Alabama is recognized for 5 minutes.

Mr. BACHUS. Thank you, Mr. Chairman. Secretary Donovan, I welcome you to the committee to again testify about the Administration's Choice Neighborhoods Initiative. I also appreciate your willingness to work with both sides of the aisle. On more than one occasion, you have proposed constructive changes to HUD programs. Having said that, I do have some concerns about HUD's programs, and I want to express those. Many of my concerns date back obviously before your tenure as Secretary.

But first of all, let me talk about the Choice Neighborhoods Initiative. It is a newly constructed government funding grant program, and it's designed to replace the existing HOPE VI Program. Like HOPE VI, Choice Neighborhoods' stated goal is to transform neighborhoods of extreme poverty into sustainable mixed-income neighborhoods. And I believe that Choice Neighborhoods, at least in my opinion, is an improvement over HOPE VI, and I want to acknowledge that. At the same time, it does continue a program, HOPE VI, that some say has reached its stated purpose. So before we continue a program, and I acknowledge that this proposal is an improvement in my mind, we need to consider whether we just extend it at all, particularly in light of an unsustainable Federal budget deficit and a multi-trillion-dollar national debt.

One particular concern about HUD in general is that it has not done enough to stretch taxpayers' current housing investments and must address significant questions surrounding the accuracy of HUD's budget offset projections. Just last week, the CBO found that FHA and Ginnie Mae receipts would be $4.4 billion less than the Administration's $6.9 billion projection. As you know, HUD is claiming that the $6.9 billion was to offset the $48.5 billion HUD budget, reducing the HUD budget to $41.5 billion. Before we consider additional spending projects of any kind, HUD, along with other Executive Branch agencies, should be required to justify current programs and their budget allocations. The FY2011 budget requests an additional $250 million for Choice Neighborhoods on top of the $65 million Congress provided in HUD's FY2010 budget. Yet, the Choice Neighborhoods Initiative has yet to be authorized.

Mr. Chairman, during the presidential campaign of 2008, President Obama committed to performing a top-down review of every government agency and program. HUD for some time has been notorious for slow spend-out rates in many of its programs and large unspent balances sitting in HUD accounts. How can we be assured that this new government program will be any more effective than HOPE VI when there are already millions of dollars sitting in an account waiting for some action or decision? Before we do create a new government-run program, even if it's better than the one it hopes to replace, a better course of action might be to perform the top-down review that the President promised in order to identify the types of reforms necessary to ensure HUD programs are administered in a cost-effective, efficient way.

In closing, Secretary Donovan, thank you again for being here to testify on Choice Neighborhoods and for sharing your views. And I do think this proposal is a constructive proposal, but I think that the Administration should address funding issues, specifically the shortfall created by the lower-than-expected FHA and Ginnie Mae receipts. I yield back the balance of my time.

The CHAIRMAN. If the gentleman would yield me 30 seconds for an agreement with him. He talked about this not having been authorized. In fact, I think on behalf of both sides, I fought very hard against an effort by some of the appropriators, with the Administration's support at first, but they responded well, to fund this without the authorization. And ultimately, some money was put in at the insistence of the Senate, but less than expected, and our House colleagues respected it, and it is my intention that at the very least, we will have a markup in this committee before anything goes further. So I just wanted to express my—

Mr. BACHUS. Right. And then that would address some of my concerns.

The CHAIRMAN. Yes. And, you know, I think frankly, if we work something out that probably would represent the House position, if the Senate committee wants to yield itself to the appropriators.

Mr. BACHUS. Right.

The CHAIRMAN. We're not in charge of them.

Mr. BACHUS. Thank you.

The CHAIRMAN. The gentleman from Indiana wanted a minute.

Mr. DONNELLY. Thank you, Mr. Chairman. I just want to thank the Secretary for coming here today and for your housing efforts that you have made on our behalf and to thank you for your interest and assistance in the manufactured housing markets I represent, that help provide affordable housing, and your assistance has been greatly appreciated. Thank you very much for being here today.

The CHAIRMAN. The gentlewoman from West Virginia is recognized for 3 minutes.

Mrs. CAPITO. Thank you, Mr. Chairman. I would like to thank the chairman for holding this hearing, and I would like to welcome Secretary Donovan back to the committee. Mr. Secretary, I'm certainly intrigued by many of the provisions included in the Choice Neighborhoods proposal, and I look forward to hearing your testimony today and learning more about it.

The Choice Neighborhoods Initiative would replace the HOPE VI Program with a grant-funded program to revitalize neighborhoods characterized by extreme poverty into sustainable mixed-income neighborhoods. This program is designed to address the direct housing needs of the neighborhood and make available services to improve employment, educational opportunities, and public transportation, among other services.

Given our current budget and deficit issue, it is imperative that we begin to take a fresh look at how best to resolve the capital needs of our aging affordable housing stock. I like the idea of expanding the pool of players that can participate to those in the private, nonprofit, and government sector. This proposal has the ability to help us address some of our preservation issues, and I look forward to learning more about this program and working with you and the chairman.

While I know we're here today to discuss the Choice Neighborhoods proposal, I couldn't pass up the opportunity to raise the issues on the future of FHA. As you know, last week I introduced H.R. 4811, the FHA Safety and Soundness and Taxpayer Protec-

tion Act of 2010, which included the majority of the proposals that you have requested.

First, does the Administration plan to have legislation introduced on their behalf? And second, when the Secretary presented the 2011 budget for HUD, $6.9 billion was estimated for receipts from Ginnie Mae and FHA, and recently, as you know, the CBO presented their own estimates, which were much lower than the $6.9 billion predicted by HUD. The $4.4 billion gap between CBO's numbers and those of HUD—and I raised these with the Commissioner last week—raise serious concern about the ability of HUD to begin new initiatives like Choice Neighborhoods.

Lastly, the HOPE VI Program has traditionally benefitted large urban centers like New York, Chicago, and Los Angeles, although I think we did have a HOPE VI project in Wheeling, West Virginia. And since the creation of the program, my home State has received the one grant for the Wheeling Housing Authority. If the Choice Neighborhoods Initiative is truly an improvement over HOPE VI, then it should work towards ending the disparity of public housing revitalization between the urban and rural communities. The affordable housing challenges faced in rural America are different from those in urban communities. However, they are no less important and by no means no less difficult.

I look forward to further discussions with Secretary Donovan on this issue and welcome the witnesses here today. Thank you.

The CHAIRMAN. The gentleman from Texas is recognized for 1 minute, and then I think we'll be ready to hear from the witnesses.

Mr. GREEN. Thank you, Mr. Chairman, and I thank you, Mr. Secretary, for your appearance today. A brief comment about a program that we have bipartisan support for. As you know, Congressman Miller and I have been working on sell assisted downpayment. And I just want to thank you for continuing to work with us. We have not arrived at a final decision, but we're still working on the project. I also want to let you know that while I am eager to hear what you have to say on the Choice Neighborhoods Initiative, I have another hearing that they asked me to attend, so I'll be in and out. I do look forward to reading your testimony as well as reviewing the transcript. Thank you very much, and I yield back the balance of my time.

The CHAIRMAN. Well, if the gentleman would yield. He is unfailingly courteous, and I understand him saying this, but I will tell him it is my experience that no Cabinet official has ever minded a Member not asking him a question.

[laughter]

The CHAIRMAN. Mr. Secretary?

STATEMENT OF THE HONORABLE SHAUN DONOVAN, SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary DONOVAN. Thank you, Chairman Frank, Ranking Members Bachus and Capito, and members of the committee, and I also want to say thank you to Chairwoman Waters for all of her leadership on housing issues and her work on this particular proposal as well and feedback. I welcome this opportunity to discuss our new proposed Choice Neighborhoods legislation and the HOPE

VI Program, the history and promise of which we seek to build on today.

Mr. Chairman, the HOPE VI Program has become one of our country's most powerful weapons to fight concentrated poverty and rebuild distressed housing. As you know, these problems are deeply interconnected. Neighborhoods of concentrated poverty are typically marked by high crime and unemployment rates, health disparities, struggling schools, and faltering civic institutions, making distressed public and assisted housing developments in these neighborhoods a significant barrier to access to opportunity for poor families.

HOPE VI made the Federal Government a partner to local housing authorities and communities, emphasizing mixed-income communities, leveraged financing, and incorporating supportive services. At its best, HOPE VI changed the world outside the development gates: reducing neighborhood poverty, crime, and unemployment; increasing income and property values; and spurring investment, business growth, and jobs. Indeed, over time, HOPE VI transformed from a housing program into a process of learning from best practices, encouraging all the participants and stakeholders in a neighborhood to invest in the most catalytic and meaningful neighborhood impacts. It is that foundation, Mr. Chairman, that we seek to build upon today with Choice Neighborhoods.

Choice Neighborhoods builds on HOPE VI's successes. It enshrines the lessons that we have learned, and it gives communities more tools to tackle their interconnected needs. By expanding the HOPE VI tool kit to allow for the redevelopment of private and federally assisted properties alongside public housing, Choice Neighborhoods will bring disinvested properties that had no tool for redevelopment under the HOPE VI umbrella.

Let me explain why it's needed. Fifteen years ago, the media spotlight briefly focused on the nightmarish conditions in one Washington, D.C., neighborhood's large distressed housing developments: Frederick Douglass; Stanton Dwellings; Parkside Terrace; and Wheeler Terrace. Washington Highlands presented a worst-case scenario for HUD, because two separate and distinct HUD programs were contributing to deterioration of the neighborhood. Thanks to HOPE VI, the community could redevelop the public housing properties, and it secured other financing to build a new community center and an elementary school. But the two other housing developments in Washington Highlands were out of reach, simply because they were subsidized by different programs at HUD.

Mr. Chairman, the media didn't make the distinction between public housing and project-based Section 8. The residents didn't make the distinction. Gangs and drug dealers certainly didn't make the distinction. And thankfully, the community leaders who were fighting to turn their neighborhood around didn't make the distinction either. The only one to make the distinction was HUD.

Back in 1994, an internal reported noted that HUD had, "no ready mechanism to deal with the problem of high concentrations of distressed public and assisted housing in a single neighborhood of concentrated poverty." Today, we do. It's called Choice Neighborhoods. Choice Neighborhoods allows the HOPE VI tools housing au-

thorities use to remake public housing to be available for assisted and other blighted housing, housing that HOPE VI wasn't allowed to touch in Washington Highlands.

HOPE VI taught us that absent a more comprehensive approach, housing interventions are often insufficient to improve the lives of poor families. That's why Choice Neighborhoods will provide funding flexibility for health and other service coordination, job supports and work incentives for adults, and to connect resident children to quality educational opportunities.

Take, for example, the Murphy Park development in Chairwoman Waters' hometown of St. Louis, in which the developer not only raised an additional $5 million from private and philanthropic interests to modernize the troubled school, Jefferson Elementary, it also worked closely with residents and the school board to hire a new principal with a new curriculum and a new focus on technology and after-school programs.

In the years following Murphy Park's completion, unemployment surrounding the development fell by 35 percent. Median household income rose more than 4 times as fast as the City as a whole. And Jefferson Elementary became one of the most in-demand schools in the community. In Choice Neighborhoods, we challenge communities to take this approach to scale. Of course, different communities are at different levels of preparedness for this kind of undertaking. That's why Choice Neighborhoods also dedicates a portion of the overall allocation for planning grants. These grants ensure communities that aren't yet fully able to undertake a successful neighborhood revitalization can start down that path. Residents should never be penalized simply because they live in communities that are not yet able to build and execute a strong transformational plan.

We have learned other lessons as well. We learned from HOPE VI that even though it was possible to replace the entirety of units being redeveloped either in the neighborhood or elsewhere in the community, in some tight housing markets, desperately needed affordable homes were lost through demolition. That is why our proposed Choice Neighborhoods legislation includes a strengthened one-for-one replacement requirement in which demolished or disposed-of units must be replaced by hard units. Vouchers may serve as replacement units only in very limited cases where there is an adequate supply of affordable rental housing in areas of low poverty.

We learned in HOPE VI that some households have been unfairly screened out of new developments, treated as little more than the sum of their FICO scores, precluded from returning to the new mixed-income communities. That's why with this legislation we will protect the right of least compliant residents to return to the redeveloped housing, while also ensuring that those who choose to move with a voucher benefit as well.

HOPE VI has changed the face of public housing in America, and we have heard from communities across the country that they need those same successful tools to remake the other federally assisted housing that prevents their neighborhoods from turning the corner. Of the over 325,000 units of HUD public and assisted housing by early estimates that might be eligible for Choice Neighborhoods,

more than three-quarters are public housing, but all need the tools that Choice Neighborhoods provides.

I believe that when you choose a home, you don't just choose a home. You also choose transportation to work, schools for your children, and public safety. You choose a community and the choices available in that community. I'm committed to helping America's most distressed neighborhoods tackle their toughest challenges, from crime and disinvestment to the lack of educational and economic opportunity, to housing decay, be it public housing, Section 8 or other kinds of distressed housings. Because if a century of housing policy has taught us anything, it's that if there isn't equal access to safe, affordable housing in neighborhoods of choice, there isn't equal opportunity.

And if 17 years of HOPE VI has taught us anything, it's that building communities in a more integrated and inclusive way isn't separate from advancing social and economic justice and the promise of America; it's absolutely essential to it. It's inseparable from the idea that in America, our children's hopes and our dreams should never be limited by where they live. Ensuring they never are is the goal of Choice Neighborhoods, indeed of all the work we do together.

And with that, I would love to take any questions you may have.

[The prepared statement of Secretary Donovan can be found on page 59 of the appendix.]

The CHAIRMAN. Mr. Secretary, thank you, and we appreciate the chance to meet with you. The one-for-one replacement is very important. It doesn't obviously have to be on-site, although I must say, given the resistance to new sites, a certain amount of that will happen. But the one-for-one replacement is very important. The Federal Government should not at this point be in the business of diminishing the stock of affordable rental housing. And of course, we look forward to working with you, and you have been very helpful.

In a related matter, this is largely public housing, we have a separate piece of legislation dealing with the preservation of assisted housing built with private, publicly-subsidized funds, and that also is an area where we will try to preserve units. And the third piece of that is, as I said, new construction, and in particular the Low Income Housing Trust Fund, which I think will be essential to making the one-for-one replacement work. It's inappropriate for us to impose on housing authorities a requirement that they produce housing and not provide the funding.

I also want to welcome the way this is done procedurally, because as you say here, reading the written statement, your intention would be, if everything worked well, that you would continue the HOPE VI process, so we don't stop the HOPE VI process, correct? And then assuming we can work this out, you would look to funding two or three applicants under the new program in early 2011. So for Fiscal Year 2010, which begins in October, this would be starting on a smaller basis. I think that's in part responsive to what the ranking member said, and I appreciate that.

It will be my intention, and I have spoken to the chair of the subcommittee, who is of course very involved in this, and mentioned it to the ranking member of the full committee, to have a markup

in this committee. The chances of getting something through by the end of the year, I'm not sure what they are, and they're not in our control. But I do think at least a committee markup would be important.

So then let me get to the specifics. One of the concerns I had was that how we implement the one-for-one is important, and I appreciate we're getting I think some good common ground here. We're not insisting on one-for-one on-site, obviously, and hard units, not just vouchers because they take away from what we have. Secondly, although project-based vouchers, vouchers that are helpful in construction obviously meet that definition. And I should say, incidentally, as you know, I welcome your decision to simplify the various forms of vouchers, etc. I think that is way too complicated and allows people to game the system.

There was a concern that some of the housing projects that should get some help might be too much in need of help to get helped, and the fact you're continuing HOPE VI, and we will be working on other things I know you have talked about, our agreement to do other things, well, I will say the House did in the bill. We passed on infrastructure, as you know, made some money available for repair and operation, repair and maintenance of public housing. We want to do that.

So the last point, though, the one that may be somewhat contentious, is the funding. And I agree that these things need to be done together. I disagree that we should be allowing any substantial part of these funds from the HUD budget to be used for non-housing factors. There are very important issues. But again, this is going to help some housing projects and not others. And I do think that people who live in a dilapidated housing project somewhere else that doesn't meet the criteria for this or isn't selected for a variety of reasons shouldn't see money potentially available to fixing up their building going for transportation or other improvements elsewhere.

So for this to work, it seems to me there needs to be a combined effort. So the question is, is there an interagency group here? Are you meeting with other Cabinet officials? I would hope that the Secretary of Education, the Secretary of Health and Human Services, and the Secretary of Transportation, at the least, would be involved and that there would be an agreement that there would be a joint funding request. Is that in the works?

Secretary DONOVAN. We have been working very closely with a set of other agencies, the Department of Education, the Department of Transportation, and the Department of Justice to ensure that there are other funding sources that we can access and that they're coordinated. And we're working through the details on how NOFA processes might be connected through this, including with Promise Neighborhoods, which is an initiative at the Department of Education, to invest in the most underperforming schools.

Let me just say generally, I agree strongly with you not only that we need to coordinate at the Federal level, but that we will be requiring significant investment at the local level for those other types of purposes. I do want to be clear, though, that there are two points where I think it's important, and HOPE VI has shown this very successfully, that making sure that the way that the housing

investments are structured supports, whether it's opportunities for job creation in the neighborhood, things like the way we set our rent policies and others that encourage work and self-sufficiency, there are a range of things connected to social services and supports that are very important, and that has been true of HOPE VI. There has been significant flexibility to support those.

The CHAIRMAN. There's no debate about that. The question is, are other funds being used for other programs?

Secretary DONOVAN. The other point I would make is that we do, when we are comprehensively remaking a community, a public housing community in HOPE VI, we do support the outside space, the redevelopment of the outside space within that development. That includes small parks or other types of things that are part of that redevelopment. It's important that continue. And that there be connections and opportunities for other spaces. For example, we have made a number of changes to the bill due to feedback from you and other members of the committee, to try to place specific limits, but we want to avoid the kind of siloed separation that would, for example, stop us, and I have seen examples of this in my work prior to coming to HUD, where a local government wants to put a school building or a school within the building that contains the housing as well. And overly strict rules stop us from even being able to contribute to the walls or the columns that support the building. So we need to make sure—

The CHAIRMAN. That's not, however, what we're worried about.

Secretary DONOVAN. —that the coordination—

The CHAIRMAN. I understand, but—

Secretary DONOVAN. —works effectively so we don't put unneeded barriers in the way.

The CHAIRMAN. I'm going to give myself 10 more seconds, and then I'm going to leave, but there's nothing stopping the Education Department from contributing as well. So I am worried that this is too one-sided as it comes forward, and that was what the Senate seemed to me to be doing. We agree in concept, but there has to be a wash on the money.

The gentlewoman—

Secretary DONOVAN. And we have proposed some limits in response to your comments. We would be happy to talk to you further about the specifics around those—

The CHAIRMAN. Yes, and we'll be happy to write some of them, too. The gentlewoman from West Virginia.

Mrs. CAPITO. Thank you, Mr. Chairman. Mr. Secretary, if I could ask you about one of the things I mentioned in my opening statement, and that is the dichotomy between urban and rural areas, and how you think this new Choice Neighborhoods Initiative would address rural areas and needs. I know there has to be a certain amount of density, but if you could just talk a little bit about that.

Secretary DONOVAN. Absolutely. And I think this is a very important point in a couple of different areas. First of all, we have, and I personally have seen the incredible despair that exists in some rural communities in assisted housing. To be specific, some of the very first HUD developments I worked on early in my career were in communities like Idabel, Oklahoma, or Bunkie, Louisiana, where HUD assisted properties were the single most important source of

issues in that neighborhood that needed to be overcome, and yet there has been no tool available to those properties.

Many of those properties, I would add, are supported not just by HUD, by also by the Department of Agriculture through a range of their programs as well. And because there has been no comprehensive redevelopment tool, that has stood in the way of benefits coming to rural areas where often assisted housing is the most significant source of affordable housing in those communities rather than public housing. So I do think the expansion that we're proposing here has a real benefit to rural communities.

A second thing I would say is we want to make sure that the way that we define neighborhood in this proposal is not so constrained that it wouldn't apply in rural areas. And we have tried to do that in the legislation. For example, sometimes HUD has defined a census tract or a very narrow definition of neighborhood that doesn't make sense for rural communities, and we want to work with the committee. We have tried to leave enough flexibility to make sure that we're defining neighborhoods in a way that rural communities would be eligible and would be benefitted, whether it's a community in West Virginia, the Colonias in Texas, or in other States, those are very important definitions that will allow the community, this bill to work well in rural communities.

The last thing I would say is that one of the very important things we proposed and that we will begin to do with the $65 million in 2010 is to provide planning grants for communities. We have some rural communities that today are not in a position to win HOPE VI grants, and I think one of the reasons why some rural communities have been excluded is because they have not been able to pull together the resources to plan effectively and to win the competition. Having planning grants would give those communities a real benefit in terms of being able to support their planning efforts, to then come in and be able to compete and win in Choice Neighborhoods. So that's an important element of how we're targeting rural communities as well.

Mrs. CAPITO. And I think that makes a lot of sense. The other aspect of this, and you touched on it with the chairman, is the job creation aspect. If you're going to create Choice Neighborhoods, if there are no jobs to sustain the folks who are living there and to maintain a certain lifestyle or eventually move out of those neighborhoods, it's doomed to failure. I think that's sort of what you alluded to in your opening statement.

So I think that's going to be a real challenge. In the rural areas, that's obviously more of a challenge just because of the lack of diversity in the economy. But I think it's something that probably will be considered.

Let me ask you, the other thing—one of the things, the PHAs are the only ones available for HOPE VI, but in this particular legislation or idea you open it up to include government entities, nonprofits, and for-profits. How do you think allowing competitors in that will improve this program?

Secretary DONOVAN. Well, to be very clear, currently, housing authorities have formed very strong partnerships with for-profits and nonprofits in HOPE VI. And so I don't want to imply that there haven't been a range of other partners involved. Specifically be-

cause assisted housing is owned by either nonprofit or for-profit owners, there will be cases if assisted housing is the main focus of a redevelopment plan, that you might have a nonprofit or a for-profit that would be the lead applicant in this case rather than being part of a team with a housing authority. So it was important for us to provide some more flexibility in terms of who the lead applicant could be compared to HOPE VI.

But I do want to come back and emphasize, based on our estimates, we believe that an overwhelming share, a very large share of Choice Neighborhoods grants would go still to PHAs because roughly three-quarters of the most distressed housing by an initial review that we have done is a public housing, and the 25 percent that's assisted housing, much of it is in neighborhood, about 30 percent, where you have both troubled public housing and assisted housing. So our expectation is in the large majority of cases, we would still have PHAs as the lead applicants for this.

Mrs. CAPITO. All right. Thank you.

Ms. WATERS. [presiding] Thank you very much. I'm going to recognize myself for 5 minutes.

Welcome, Mr. Secretary.

Secretary DONOVAN. It is good to be with you again.

Ms. WATERS. We're delighted to see you. You have been talking about this Choice Neighborhoods Initiative ad nauseam, and so it is time for all of the members to have a thorough understanding of what Choice Neighborhoods is and how it works. I have talked with you extensively about it, and I think that Chairman Frank started with a line of questioning that speaks to our concerns and our need to understand it even better, of course.

We understand, and you're absolutely correct, many of us appreciated some of the HOPE VI projects, not all of them, and we're worried about one-for-one replacement, as you know, and we're worried about continuing resources for public housing. Many of them have not received much in the way of capital investments to upgrade them or to maintain them properly. And we also are concerned, as he started to talk about, whether or not you have, or are developing, the kinds of relationships even with these demonstration projects with Transportation, with Education, and with other entities who will come with their own resources, working with you to develop these Choice Neighborhoods.

So that's kind of three questions in one. Could you respond to that?

Secretary DONOVAN. Sure. Let me first of all say that I am enormously committed, as you are, and as the President is, to ensuring the preservation of our public housing. That's why we included $4 billion with you in the Recovery Act for capital for public housing, and I strongly believe that we need to do more, and we are doing more to ensure the preservation of public housing more broadly.

That's one of the reasons we felt strongly the need to strengthen the one-for-one replacement, and we have already begun to respond to some input from you and your staff, as well as other members of the committee, of ensuring we get that language right, ensuring that if the replacement housing can't be built on-site, that it is within a close distance to the site, and so we have made some changes in the language based on that.

I also want to be very clear that we are proposing a replacement of the units as extremely low-income units, that they have to have, whether it's as public housing or, I think as you have done in your own HOPE VI reauthorization bill, project-based vouchers, which have the same income criteria and are available and make units affordable to the very lowest-income families. That's a critical part of the one-for-one replacement as well. And I want to echo the chairman's comments that ensuring there are resources for building extremely low-income units through the National Housing Trust Fund is also a critical piece. That's why we proposed it in our budget. That's why we continue to push to ensure that there is funding available for the trust fund.

The last thing I would say on one-for-one is we have tried to define a very narrow group of cases where there could be vouchers as replacement housing only in communities, and we believe they will be a very small percentage, only in communities where there has been significant success in using vouchers in neighborhoods that are neighborhood of opportunity. And so I think that's very important as well. All of this, I think, enshrines some of the lessons that you have been very vocal about in places where HOPE VI has not provided adequate replacement housing within those communities.

With that, let me also say, and echo some of the comments I made earlier with Chairman Frank, we have been working very closely with other agencies, particularly the Departments of Transportation, Education, and Justice around aligning funding streams, and we will have expectations that in the applications there are other resources brought from the local level on the transportation front and in other areas that will support the housing investments. And we have tried to put some reasonable limits on any funding that could be allocated for whatever crossover happens between the housing and transportation or other pieces, but look forward to having any further conversations about input you may have on how we structure those limits in the bill.

Ms. WATERS. I want to thank you, Mr. Secretary. My time is up, and I'm going to ask Mr. Neugebauer to take his 5 minutes.

Mr. NEUGEBAUER. Thank you, Madam Chairwoman. Mr. Secretary, this Choice Neighborhoods Initiative is modeled after HOPE VI, but would actually broaden HOPE VI, I think you testified, by offering competitive grants to revitalize really distressed neighborhoods, not limited necessarily to public housing.

So how is this different, and what does this do, for example, for programs like CDBG and tax credit housing and other HUD programs? How is this going to be different?

Secretary DONOVAN. I would distinguish it from tax credits or some of the other capital funding that might be available, for example, through the National Housing Trust Fund, as first of all larger-scale investments that also have somewhat more flexibility in their uses than say a tax credit would or any other traditional capital funding program that's available for these communities. And that flexibility I talked about earlier, the connection to job creation and services to other kinds of amenities in the community that might be, for example, open space, etc. So it has somewhat more flexibility there.

I would distinguish it from CDBG or some of our other programs, again, first of all, in that it's a highly-targeted, larger-scale investment. It's available competitively. And that it has a more targeted use relative to CDBG, for example, to the capital construction and rebuilding of communities. CDBG has not been used widely for those kind of uses. It tends to go towards infrastructure, towards housing maintenance or other kinds of uses that are much more flexible. So it sits, in terms of its flexibility, I would say it sits somewhere between traditional capital programs and something, and it's much broader like CDBG, but by being targeted, larger scale and competitive, it allows for a much more extensive neighborhood transformation than CDBG would.

Mr. NEUGEBAUER. Mr. Secretary, as you're aware, we're projecting with the President's budget to have a deficit of somewhere in the neighborhood of $1.5 to $1.7 trillion, and that means that for every dollar we spend, we're going to borrow 40 cents. And I guess the question is, one, is this the time to be expanding programs when we don't have the money? And two, Mr. Secretary, have you looked through HUD to see if you think this is a greater priority than some of the other programs, have you looked within your own budget to see if you can find the resources for this program?

Secretary DONOVAN. We had some very difficult choices that we did make in our budget proposal this year, and we have prioritized this over other investments or funding that we could make. And there's a list of other programs that we have had to take some painful cuts on for this budget year. And so, yes, my answer is we have prioritized this over other investments that we could make.

The other point that I would make, and I have seen this very directly from my own work at the local level, is that these kind of investments in the long run lead to a whole range of benefits and in fact lower costs for communities. The impacts on crime, on property values, and a range of other areas in communities of concentrated poverty that we're focused on here have enormous human costs but also financial costs on those communities.

We did extensive rebuilding, for example, in neighborhoods like the South Bronx where we were able to show that capital investments in the most distressed housing actually paid for themselves by increases in values in surrounding properties. And so I believe that this is not just about making difficult choices within the HUD budget, which we have done, but also how catalytic are these investments in terms of producing long-term savings and new revenues in those communities by the investments. And I believe that's why this Choice Neighborhoods Initiative is a good investment of taxpayer dollars.

Mr. NEUGEBAUER. I want to shift gears.

Ms. WATERS. Thank you. Mr. Watt, for 5 minutes.

Mr. WATT. Thank you, Madam Chairwoman. Mr. Secretary, you're going to have to forgive me if I express reservations publicly that I have expressed to you privately about this whole concept.

You may not recall, but early in your tenure you were still like a deer in the headlights, so a lot of things were coming at you, but I expressed some reservations about this whole concept at that time. And I want to try to express them to you publicly again, be-

cause I don't see the input that I gave you at that time reflected in the language of the proposed bill that you have sent over.

I walked into the middle of HOPE VI in 1993 when I was first elected, and we have had a number of HOPE VI projects in my congressional district, the first one of which transformed a whole section of Charlotte in a very positive way, but at the expense of people who were dislocated, and so I want to reemphasize my strong commitment to one-for-one replacement. I'm glad that you all are addressing that. But what I see has happened over the years is at that time, the maximum HOPE VI grant was either $55 or $60 million. It then went to $40 million. It then went to $30 million. It then went to $20 million, and I think now it's at $15 million, the maximum you could get under HOPE VI, and all the while that we were shrinking the pot of money to do this HOPE VI revitalization, we were expanding the scope of what we wanted the HOPE VI revitalization to do, and this seems to me to be yet another expansion.

First, I want to second the emotions that have been expressed by the Chair. Unless there's some money coming for all of these innovative things out of somebody else's budget, I don't know how you're going to do this. Second, it is clear to me that what works in some communities is not going to work in some southern communities because just looking at the language that you have proposed on page 6 of the bill, one of the things you say is, "partnering with local educators and engaging"—these are eligible activities—"partnering with local educators and engaging in local community planning to help increase access to place-based programs that combine a continuum of effective community services, including comprehensive education reform." We can spend a bunch of money on comprehensive education reform, and if you do it place-based, it will be the most segregated education that we have in the south.

When you talk about community-based education in my community, it is a nonstarter, because that means segregated housing, because the housing patterns will always be segregated. You can't get White people to move to one side of the community, I don't care what you do, I don't care how you revitalize that community, they are not coming, right? And unless you have some kind of education system in place, this is not going to work. It might work in Baltimore. I told Senator Mikulski that. Fine. It might work in Los Angeles, but in Charlotte, North Carolina, you're not going to make education a significant part of this because all you're doing is furthering the arguments of those who would like to have community schools, which means in my community, segregated schools going back to the 1960's. And so we have to figure out a way to address this. And this language doesn't address it. So, you know—

Ms. WATERS. Mr. Watt, do you want the Secretary to respond to that?

Mr. WATT. Okay. Yes.

Ms. WATERS. Your time is up. Let's let him respond to that.

Secretary DONOVAN. Congressman, thank you for a very important question, and I'm glad you raised it because I want to clarify. The language that you are reading from is an eligible use, and we have taken into account some of the concerns that I heard from you earlier on.

We obviously need to spend a little more time talking through what is intended there, because in our view, what is important is not that it has to be place-based, that if in communities you are talking about, that a better strategy is to ensure access to educational opportunities that may not be place-based, not only is that allowable, but we would encourage that.

We want to make sure that there is a comprehensive thinking about these issues for that neighborhood, but it does not mean that it has to be a community-based school or a physical rebuilding on that development site. I want to be very clear about that. What we were intending was eligible rather than required.

Ms. WATERS. Thank you, Mr. Secretary.

Mr. Marchant?

Mr. MARCHANT. Thank you, Madam Chairwoman.

Mr. Secretary, in the area I live in, Dallas, the greater metropolitan Dallas area, for the last 20 years, our Federal judges have basically ordered that all of our public housing basically be taken to the ground, and all of the residents given Section 8 vouchers and dispersed into the community. So would you envision—how would this kind of a program to allow an existing public housing project to rebuild instead follow this court order?

Secretary DONOVAN. Based on what I know about the legal decision that you are talking about, I don't believe that it would be inconsistent with this. I don't believe that the requirement is that every single unit be demolished and that everything be replaced by vouchers. I do think it requires locational mobility options for residents who are different. I would be happy to follow up with you more specifically on that.

But I don't believe, to speak more broadly, that we need to, or we should choose, between ensuring real choice of existing communities being rebuilt in ways that they can be sustainable and long term and providing mobility options for residents. And in fact, should residents choose that mobility is a better option for them, we want to make sure that they are supported in making those decisions with mobility counseling and other tools that have proven to be effective in the Dallas case. But I don't think that means we can't or we shouldn't focus on rebuilding the neighborhoods themselves in ways that they can be sustainable long term.

I look forward to following up on the specifics with you.

Mr. MARCHANT. Something else I would request that you follow up with me on, on Sunday morning, I opened the newspaper, the Dallas Morning News, and the front-page article was about an apartment complex that had received over $1 million of stimulus money through HUD, and this same apartment complex was embroiled in a—and still is in a lawsuit with the City of Dallas where the City of Dallas had basically deemed the apartments to be unlivable.

And at the same time the City of Dallas is pursuing the owner to try to get the owner to bring the apartments up to a livable standard—and the average rent in these apartments is $25 to $50 a month, so it is largely subsidized—at the same time that was happening, HUD was writing checks to this same developer—his name is Campos, and there was a two page article in the Dallas Morning News last Sunday about it—without any regard at all to

working with the City of Dallas to make sure those funds were put into upgrading the livability of the project. In fact, those funds went into paying the bills, the electric bills, and just the general maintenance of the project.

So my concern is that there be a close coordination between the regional HUD offices and the developers and those that own these properties so that there is not this kind of tension that exists between HUD and the cities, and that this money is really going to improve the livability of these units.

Secretary DONOVAN. I couldn't agree more about the need to ensure the decent, safe housing that those residents deserve.

Just to be very clear, the money that you are talking about is part of a project-based Section 8 contract that goes to support the rent payments of the residents. So this is not money that provides any redevelopment or profit to the owner, these are Section 8 payments to the residents of that development to allow them to pay their rent. We are working very closely with the city at this point.

It is always a difficult decision—it is a decision I have made a number of times in my career—to withdraw funding completely from a project-based Section 8 contract, which means that every one of those residents would be forced to move. And so we are working to try to avoid evictions of residents, while at the same time ensuring that the owner lives up to his or her responsibilities, and that is a difficult tension at times.

But rest assured that we are very focused on this development and we will do everything that we can to ensure that the owner lives up to his responsibilities in terms of running that development safely.

Mr. MARCHANT. Thank you, Mr. Secretary.

Ms. WATERS. Thank you very much.

Mr. Secretary, you referred to my former hometown of St. Louis, Missouri, and I want you to know that my cousin does not like you referring to me and St. Louis, because that is where he is.

Mr. Clay?

Mr. CLAY. Thank you so much, Madam Chairwoman.

Mr. Secretary, you mentioned Murphy Park in the district that I represent, and I don't know if the Chair was born there. I was born there too, so that is my hometown too.

Secretary DONOVAN. I was hoping you would show up. It is one of the reasons I wanted to make sure we mentioned Murphy Park, because it has been such a success.

Mr. CLAY. I know that you will be in St. Louis next month, so I want to invite you to go and look at a new development that is planned that is on the board to develop over 1,500 acres in the urban core in an area that once housed Pruitt-Igoe. Pruitt-Igoe, you know, was imploded in 1973, and there has been no major investment in this portion of my district in over 50 years, so I would love to have you come out while you are there for a conference and we can talk further about it.

Secretary DONOVAN. I have already been briefed on the plan, met with many of the people working on it, and I have to say I have been very impressed by the work that they are doing.

Mr. CLAY. I am too, and I am very supportive.

Let me ask about your Choice Neighborhoods proposal. St. Louis has embraced charter schools. The parents and the students have kind of migrated towards charters. And I was just wondering, under Choice Neighborhoods, will HUD embrace charters also, and could they be included as a part of the Choice Neighborhoods Initiative?

Secretary DONOVAN. Two points I would make on that, and this goes back to the conversation I was having with Congressman Watt. We want to be very clear that we are not prescribing to local communities, whether it is a rural community or other types of communities, where the answer may be very different depending on the place. In communities where charter schools are the right answer, we would look forward to coordinating very closely with them.

The amount of funding we would provide—I think in no case would we be able to completely build a charter school with this funding, but we would look forward to coordinating and ensuring, for example, that within the same structure with the housing if a charter school was going to be built, that we were able to support the construction of that building in other ways that we might link together with charter school development. We would certainly look forward to that.

Mr. CLAY. Okay, thank you for that.

Share with the committee your vision of urban gardens located within urban food deserts. What do you envision as far as how the Choice Neighborhoods program could assist that in communities?

Secretary DONOVAN. As you well know, in so many of the communities that Choice Neighborhoods would be focused on, the lack of access to fresh food is a major problem. High rates of obesity, asthma, diabetes, other—particularly among young people is a very disturbing trend. It is the reason why the First Lady has been so focused on this issue more broadly. We have been working very closely with her office on this issue of food deserts, and particularly access to fresh food in these communities.

I could certainly envision—and again, we look forward to locally-based plans that work for those communities. But I could certainly imagine, and have worked on this directly in my own work prior to coming to HUD, where community gardens could be incorporated, whether it is on the roof of a development, within the open space in a development. That is something we would certainly want to encourage, and it is one of the reasons why felt it was important to have some flexibility in terms of the funding available through—

Mr. CLAY. I don't mean to cut you off, but do you know that there is also a job creation component of it and economic activity that goes along with this?

Secretary DONOVAN. Absolutely. In fact, in St. Louis, there is a big focus in the redevelopment plan that you talked about on food as a main driver of the economy and of jobs, so that is another example.

Mr. CLAY. Really quickly, give us an example of community assets central to the sustainability of the neighborhood. What do you mean by that in your—

Secretary DONOVAN. I think there have been great examples in HOPE VI. For example, in Charlotte, in Boston where there may

be a university or a community college that is located nearby, there may be relatively good access through transportation or transit to the central business district and there have been strong connections made with employers nearby, that is what we mean by assets. How do you ensure that this isn't just about the bricks and mortar, but that we are ensuring opportunity for the residents.

Mr. CLAY. Thank you Mr. Secretary. I look forward to you coming to St. Louis.

Secretary DONOVAN. I look forward to it as well.

Ms. WATERS. Mr. Moore?

Mr. MOORE OF KANSAS. Thank you, Madam Chairwoman.

Mr. Secretary, I don't know if you have had a chance to review Ms. Eldridge's testimony, who will be testifying on the second panel, but I thought she made some good points in reminding us to keep seniors in mind as we consider this proposal.

For example, on page 6 of her testimony, she says, "Neighborhoods where there are concentrations of seniors should be specifically identified as eligible neighborhoods. Neighborhoods where seniors are living, often without health or supportive services, are more likely to overwhelm the emergency response teams and hospitals as they cycle in and out of hospital emergency rooms and are every bit as distressed as neighborhoods with poor schools or high crime rates."

Do you have any response or any thoughts about her statement, and how can we ensure we are keeping seniors in mind as this committee considers the neighborhoods proposal?

Secretary DONOVAN. I think this is another great example of why having some flexibility around services and the physical redevelopment of the property is so important, and let me give you an example why. One of the most powerful tools that we have had in assisted housing and in public housing is providing service coordinators where a senior, particularly as they become increasingly frail, needs assistance in link up to—whether it is medical assistance, even things as simple as finding a way to get to a local supermarket to ensure they get their food, or a meals program that might be able to be brought to the development itself.

And so the provision that we have for flexibility around service funding in this bill and that has really been an example in HOPE VI, I think, is very critical on the seniors front.

Mr. MOORE OF KANSAS. Thank you, sir, and I think we have to go vote now. At least, I have to. Thank you. Thank you, Madam Chairwoman.

Ms. WATERS. Thank you very much.

Mr. Secretary, we have to go and take a couple of votes. I know that Mr. Perlmutter and Mr. Hinojosa had questions they would like to ask. I am going to ask them to do it in writing or to call you directly and talk with you about their concerns. Mr. Hinojosa, we are going to have to let the Secretary go while we take these votes.

Thank you very much for coming today. We appreciate it.

Secretary DONOVAN. It is great to be with you.

Ms. WATERS. This committee is in recess. We will come back and take the second panel.

[recess]

Ms. WATERS. The committee will come to order, please. I am going to ask our second panel to come forward.

Today, for our second panel, we have: the Honorable Orlando Cabrera, former Assistant Secretary for Public and Indian Housing, U.S. Department of Housing and Urban Development, and CEO of National Community Renaissance; Ms. Sheila Crowley, president and CEO, National Low Income Housing Coalition; Mr. Edward Goetz, director, Center for Urban and Regional Affairs, University of Minnesota; Ms. Nancy Rockett Eldridge, executive director, Cathedral Square Corporation, on behalf of the American Association of Homes and Services for the Aging; Ms. Jill Khadduri, principal associate, Abt Associates; Mr. Saul Ramirez, executive director, National Association of Housing and Redevelopment Officials; and Ms. Kristin Siglin, vice president and senior policy advisor, Enterprise Community Partners.

Without objection, your written statements will be made a part of the record.

Thank you. We will begin with the Honorable Orlando Cabrera.

STATEMENT OF THE HONORABLE ORLANDO CABRERA, FORMER ASSISTANT SECRETARY FOR PUBLIC AND INDIAN HOUSING, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, AND CEO, NATIONAL COMMUNITY RENAISSANCE

Mr. CABRERA. Thank you, Madam Chairwoman, and members of the committee. My name is Orlando J. Cabrera, notwithstanding the sign. And it is really a funny story. In 1984, the Wall Street Journal made my name Orlando Cabrera, and to this day I receive junk mail to that effect.

I am chief executive officer of National Community Renaissance, and I am the former Secretary for Public and Indian Housing at HUD. Thank you for inviting me to testify before the committee regarding the Administration's proposal to revitalize severely distressed public and assisted housing, and more specifically the Choice Neighborhoods Initiative.

From a policy perspective, the Choice Neighborhoods Initiative is a worthy evolutionary step forward for the HOPE VI Program, provided it focuses on addressing and overcoming HOPE VI's significant shortcomings, and further focuses on encouraging local decision-making input over Federal concerns. Choice Neighborhoods is an initiative that allows the full spectrum of housing providers—nonprofits, for profits, local governments, and community development corporations—in addition to public housing authorities to improve public housing.

With the exception of HOPE VI units, many public housing units are now over 70 years old, and not any newer than 30 years old. HOPE VI was designed to address the rehabilitation of public housing units, but has struggled to be consistently efficient.

HOPE VI has succeeded best when allocated to public housing authorities that are located in States where the workable Low Income Housing Tax Credit and private activity bond allocation systems, and with support of local governments. HOPE VI objectives have been challenged when they are located in local jurisdictions with a limited capacity and burdened by policy expectations that

delay the building or rehabilitation of units. Choice Neighborhoods should focus on encouraging the allocation of resources to competitors that demonstrate that they can build what they represented they would build within the timeframe that they committed.

The similarities between HOPE VI and Choice Neighborhoods are set forth in my written statement, and given time constraints, I thought it worthwhile to focus on the differences between the programs. The most important differences between HOPE VI and Choice Neighborhoods are the community-based focus of the grants, the expansion of the nature of the potential competitor beyond public housing authorities, and the added focus on assisted housing.

The expansion into the realm of addressing communities and not just development is a goal that some on this committee have long sought from the HOPE VI Program. It is an important difference that will help communities and not just developments. Doubtlessly, it will be worrisome to some stakeholders that Choice Neighborhoods proposes to be open to competitors in addition to public housing authorities.

It should not be. Allowing competitors to rehabilitate assisted housing units will better preserve affordable units over time for our Nation's communities and will allow for greater innovation within the program itself, provided that the focus is readiness to proceed and efficacy of process. Adding a competitive layer to Choice Neighborhoods has the potential of making the program still more efficient and better assures that the program addresses the utilization shortcomings of HOPE VI.

Choice Neighborhoods would be improved by incorporating the idea that readiness to proceed—shovel readiness—is central to the initiative. Choice Neighborhood's allocations should primarily help the construction of developments by encouraging the thoughtfully quick and focused over the unfocused and unready, and by encouraging accountability.

Invariably, every effort such as Choice Neighborhoods seeks to accomplish large, laudable objectives, and winds up serving the country less well if it loses focus on that which is important. Expanding coordination to other agencies on a Federal layer implies an added level of review, and that kind of cross-agency involvement will likely add time to the development timeline, which adds risk to both the program and the development. From a development perspective, not to speak of what one can safely presume are many State and local perspectives, short of an existing successful model, adding such a layer of cross-agency coordination gives one considerable pause.

In closing, I would offer that this Congress would achieve a great deal by simply focusing on facilitating the largely private sector financing of the construction and preservation of affordable units in an economical and efficient way using the Choice Neighborhoods initiative, which for the taxpayer would be a significant achievement in and of itself. Certainly, the Choice Neighborhoods Initiative improves the HOPE VI Program's step in that direction.

Again, thank you for inviting me to testify regarding Choice Neighborhoods. As always, I will happily answer any questions you may have.

[The prepared statement of Mr. Cabrera can be found on page 48 of the appendix.]

Ms. WATERS. Thank you.

Ms. Sheila Crowley?

STATEMENT OF SHEILA CROWLEY, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Ms. CROWLEY. Good morning, Chairwoman Waters. Thank you very much for the opportunity to testify today on the Administration's proposed Choice Neighborhoods Initiative.

The Choice Neighborhoods Initiative is offered by the Obama Administration as the next generation of intervention with severely distressed public and assisted housing as described as building on the success of HOPE VI. As you know very well, the National Low Income Housing Coalition and others have been highly critical of HOPE VI, and thus we approach this proposal with some skepticism.

HOPE VI is widely praised for its transformation of many distressed public housing projects and the creation of well-designed homes and attractive communities, but it also caused massive displacement. The disruption of a citizen's home that occurs when a move is not freely chosen is one of the most serious actions a government can take.

In the history of the United States, it is poor people and people of color who have disproportionately been subjected to forced relocation. Involuntary relocation, even with the best of intentions, must be approached with extreme caution, and the first principle should always be to do no harm.

As of September 30, 2008, 72,265 public housing families have been displaced by HOPE VI. Some of them were able to move to better homes and better communities. Others moved to homes and neighborhoods that were no better than or even worse than the ones that they vacated, and what happened to their many residents remains unknown today. As of September 30, 2008, only 17,382 displaced families had returned to revitalized HOPE VI communities, a return rate of just 24 percent.

The residents whose circumstances did not improve and may even be worse tend to be those with the most serious and complex problems, including old age, physical and mental illness, and educational and employment deficiencies. Even those moved to better neighborhoods still struggled to earn enough to be able to sustain their new homes.

HOPE VI also reduced the number of homes that the lowest-income people can afford, contributing to the serious shortage of such homes in our country. For every 100 extremely low-income renter households today, there are just 37 rental homes that are affordable and available to them. These households pay precariously high portions of their income for their homes; 71 percent of extremely low-income renter households spend over half of their income for their housing.

Under your leadership, Ms. Waters, the House passed H.R. 3524, the HOPE VI Improvement and Reauthorization Act of 2008. This bill provided far-reaching reforms to HOPE VI, including mandating evidence of severe distress, one-for-one replacement, resi-

dent right to return, resident involvement in services, and relocation services. In considering the proposed Choice Neighborhoods legislation, we urge the committee to make it as strong on these core issues as you did in H.R. 3524.

The principal difference between Choice Neighborhoods and HOPE VI is that Choice Neighborhoods is not restricted to public housing redevelopment and can encompass other federally assisted housing and unassisted housing in the target neighborhood. Given the requirement that the potential Choice Neighborhoods be in proximity to high-functioning institutions and services, these are neighborhoods that are likely to be on the cusp of gentrification, which Choice Neighborhoods investment could fuel unless safeguards are included to preserve the homes and the affordability of the lowest-income unassisted households who are in these neighborhoods.

The draft Choice Neighborhoods legislation asserts that one-for-one replacement of public and assisted housing is required, but with a very large loophole. Half of the hard units could be demolished and not replaced. Instead, residents would be given community tenant-based vouchers if the community met certain criteria. We think that if a community indeed has excess housing stock, then grant funds should be used to maximize the energy efficiency and long-term sustainability of these homes, and use project-based vouchers in order to assure affordability to the lowest-income households.

Choice Neighborhoods can provide a range of services to residents to advance their social, physical, and economic well-being. This is particularly important for the most vulnerable residents who have the potential to be displaced. Therefore, high quality, intensive case management services are required and these really should be a requirement of the grantee, not have it be dependent upon their ability to perhaps leverage scarce service resources that are already in the community. Therefore, grant funds that could be spent on services should not be limited to 15 percent. The amount going to services in each grant should be based on real cost based on the real needs of the residents who will be affected.

Merits of Choice Neighborhoods notwithstanding—

Thank you very much.

[The prepared statement of Ms. Crowley can be found on page 52 of the appendix.]

Ms. WATERS. Thank you.

Next, we will hear from Edward Goetz.

STATEMENT OF EDWARD G. GOETZ, DIRECTOR, CENTER FOR URBAN AND REGIONAL AFFAIRS, UNIVERSITY OF MINNESOTA

Mr. GOETZ. Thank you very much, Madam Chairwoman, and members of the committee.

Choice Neighborhoods is based on the considerable success of HOPE VI in transforming neighborhoods. These successes, however, have come at some expense to the very low-income families who have been living in public housing, and at some cost to the Nation's long-term ability to address the housing needs of the poor. Any attempt to expand HOPE VI to other forms of federally assisted housing should incorporate not only elements that will rep-

licate the impressive neighborhood changes generated by HOPE VI, but also features that preserve assisted housing and protect the families currently living in those communities.

Some of the lessons of HOPE VI have been incorporated into Choice Neighborhoods. Most of these, however, are related to the factors that make successful transformations of neighborhoods more likely. In other respects, the proposal discounts many of the lessons from HOPE VI, especially those lessons related to the experience of low-income families. Let me list a few that in my opinion are not adequately reflected in the Choice Neighborhoods proposal.

First, not all families living in housing targeted by HOPE VI wished to move. When asked, more than half of residents typically responded that they would have preferred to remain in the public housing communities. For many residents, the favored solution to the conditions they lived in was to improve the community, not tear it down and force their own displacement. This is likely to be true for residents of communities targeted by Choice Neighborhoods, yet there is nothing in the program that speaks to minimizing displacement and demolition, nor of shaping the redevelopment plan according to the wishes and interests of residents.

Second, displaced families tend not to relocate to other neighborhoods of choice, as optimistically envisioned by HOPE VI and the drafters of this bill. Instead, they typically relocate to other racially segregated neighborhoods with poverty rates above the average for the city and well above the average for their metropolitan areas.

Third, only a small portion of original residents ever make it back to the redevelopment site. So few return, in fact, that it makes little sense to think of the redevelopment itself as one of the benefits for original residents. And though this proposal guarantees the return of all lease compliant who want to return, there is a potential conflict between that and the mixed-income objectives of the program, which almost inevitably result in a reduction in assisted units on site.

Fourth, the HOPE VI Program was authorized after a national commission documented the extent of severely distressed public housing in the United States. The commission recommended a program of rehabilitation and modernization. HOPE VI as implemented, however, went well beyond the commission's vision in two ways: first, it very quickly morphed into a program of demolition and redevelopment instead of rehab and modernization; and second, it reached far beyond the number of units originally estimated to be severely distressed. The Program ignored examples of successful transformative public housing rehabilitation, and in too many cases demolished projects that were regarded by their tenants as well-functioning communities.

Fifth, the potential for Choice Neighborhoods to repeat this pattern in which functioning communities are unnecessarily eliminated in favor of a demolition approach that is calculated to produce the greatest amount of neighborhood change is, I believe, great. This is especially so since there has been no effort parallel to that undertaken by the national commission to document the number of distressed units of assisted housing that require the redevelopment model called for in this proposal. Therefore, Choice Neighborhoods risks repeating the HOPE VI mistake of reducing

the stock of federally assisted low-cost housing. This, despite the fact that the need for such housing remains acute. The standards for establishing when vouchers are appropriate as a replacement are not particularly high in this proposal.

Sixth, it is time to reassess the assumption that being displaced from their federally assisted housing is somehow good for very low-income families. There have been no self-sufficiency, employment, or income benefits to the families displaced by public housing transformation. In fact, there is some evidence that displacement and the move to voucher housing disrupts employment and induces greater levels of economic insecurity.

Families displaced by HOPE VI suffer disruptions in their support of social ties that they use to make ends meet, and the little evidence that exists on the operation of mixed-income communities indicates that the main advantage of life in such a community from the standpoint of a very low-income family is the improved property management that generally accompanies the presence of middle income families. All of these point to an emphasis on phased redevelopment, the construction of replacement housing before demolition occurs, provisions that are not currently in the proposed bill.

In short, the program seems to be an attempt to replicate the positive neighborhood impacts of HOPE VI without incorporating meaningful provisions to protect or enhance the well-being of the very low-income families affected.

Thank you.

[The prepared statement of Mr. Goetz can be found on page 75 of the appendix.]

Ms. WATERS. Thank you very much, Mr. Goetz.

Ms. Nancy Rockett Eldridge?

STATEMENT OF NANCY ROCKETT ELDRIDGE, EXECUTIVE DIRECTOR, CATHEDRAL SQUARE CORPORATION, ON BEHALF OF THE AMERICAN ASSOCIATION OF HOMES AND SERVICES FOR THE AGING (AAHSA)

Ms. ELDRIDGE. Good morning, Chairwoman Waters, and members of the committee. My name is Nancy Rockett Eldridge, and I'm the director of Vermont's Cathedral Square Corporation. Although I come from a very rural State, I remember vividly my years as a Vista volunteer in the Los Angeles area serving very low-income individuals. That was a long time ago, but I won't forget the needs of urban residents.

I'm very pleased to be here today representing the American Association of Homes and Services for the Aging. AAHSA serves about 2 million people every single day, and includes about 5,700 member organizations that provide adult daycare, senior affordable housing, assisted living, nursing homes, and continuing care retirement communities. We are not experts on HOPE VI because HOPE VI was not available to many of the senior affordable housing programs.

I am here today to talk about Choice Neighborhoods and how we hope it will respond to the fastest growing sector of all of our neighbors, the elderly. For the past decade, Cathedral Square has been testing every single type of housing model you can imagine

to try to ensure that seniors can remain in our housing. We have tried HUD assisted living, we have tried co-location with adult day programs, housing-based wellness clinics, mixed-financing tax credit, and HUD 202 deals, and we have concluded that none of these individual models offers a comprehensive solution because none of these approaches on their own ensure that seniors can remain in our affordable housing as their mental health and healthcare needs grow significantly.

Since Choice Neighborhoods is intended to be a 20-year solution, we believe it should implement strategies that anticipate a neighborhood's demographic changes over that 20-year period, that anticipate the technologies that could transform communities for both youth and the elderly, and prepare for the budget environment that is likely to shape public education for children, health care for seniors, and the tax base for municipalities.

Medicaid and Medicare money must be a part of Choice Neighborhoods—20 years from now, the elderly population is expected to double. We believe that the unmet healthcare needs of residents in senior housing is the biggest threat to the preservation of public and assisted housing. The level of unmet need is very troubling today. The need is invisible, and it is a cause of many unintended consequences with serious budget ramifications at the State and national level.

We believe that the only way the needs of seniors will be met is through service networks developed at the neighborhood level, networks that are fully integrated with the neighborhood's employment strategies and education reforms. We call our approach SASH, Seniors Aging Safely at Home. AAHSA believes that Choice Neighborhoods should and could provide opportunities to advance aging in place strategies like SASH, but this does require that we change the way services are delivered, and that we move away from funding silos and look at how HUD resources matched with Medicaid and Medicare dollars can bend the cost curve in health care and long-term care spending while extending the value of HUD dollars invested in housing preservation.

In many of our communities, as Representative Moore highlighted, there are concentrations of seniors whose demand for city and health services is an indicator of economic distress in much the say way as crime, joblessness, and poor education can be indicators of distress. Demand on emergency services is growing in direct proportion to aging in place. Care coordination at home can reduce that burden on cities, and multi-family housing can be the hub for providing that coordination throughout a neighborhood.

In closing, as proposed, CNI fails to recognize the significant needs of the elderly, a shortcoming of HOPE VI that we should not repeat. We offer several recommendations. Please remember seniors in the Choice Neighborhoods program, remember rural areas, make sure housing is always one of the key partners in applications for CNI, and please don't lose ground on the existence of available public and assisted housing.

Thank you very much.

[The prepared statement of Ms. Eldridge can be found on page 67 of the appendix.]

Ms. WATERS. Thank you very much.

Dr. Jill Khadduri?

STATEMENT OF JILL KHADDURI, PRINCIPAL ASSOCIATE, ABT ASSOCIATES INC.

Ms. KHADDURI. Thank you, Chairwoman Waters, and members of the committee, for giving me the opportunity to testify on the Obama Administration's Choice Neighborhood's proposal.

As a principal associate at Abt Associates, a national policy research firm, I have studied places that have made school improvements a key part of neighborhood change, including Atlanta, St. Louis, St. Paul, Philadelphia, and Baltimore. These studies have been sponsored by the Ford Foundation, HUD, and most recently, by Enterprise Community Partners.

The Choice Neighborhood's proposal has many strengths. First, its vision for neighborhood change recognizes that good housing without access to quality education and jobs will not break the cycle of poverty. Second, it insists that the neighborhoods selected for intensive Federal investment either already have assets, such as proximity to jobs and access to transportation, or demonstrate a serious commitment to building those assets. Third, it insists on effective relocation assistance for people who must move during the redevelopment process, and on a right to return for lease compliant tenants.

The committee should consider the Choice Neighborhoods proposal in the context of another Obama Administration proposal, the transformation of rental assistance or TRA. Over time, the TRA could bring public housing out of isolation and break down concentrated poverty in a much broader set of locations than those that may be funded by Choice Neighborhoods.

The Focus of the Choice Neighborhoods proposal on educational opportunity correctly recognizes that a major contributor to the cycle of poverty is the poor quality of the schools available to children who live in high poverty neighborhoods. However, the legislative proposal distributed last week could be improved in several ways. The Choice Neighborhoods proposal should insist on the creation of high quality schools, whether traditional public schools or charter schools, within the neighborhood where the housing is to be revitalized, not inside or outside of the neighborhood, as the legislative proposal now states.

Mr. Watt, I have thought about your eloquent remarks on this point. What worries me about the outside the neighborhood option is that open enrollment programs and magnet schools may not present a real opportunity for parents who live in the neighborhood to get their kids into high-quality schools. Even if they are able to enroll their kids in schools outside the neighborhood that are good quality schools, the pressures of work, the pressures of parenting may be such that low-income families simply can't choose those options. They really need neighborhood schools. And the emphasis should be on early childhood and K through 6. For some reason, that emphasis was dropped in the most recent version of the proposal.

The selection criteria for Choice Neighborhoods grants should favor applications from strong collaboratives that include institutions with a long-term stake in the neighborhood and end with po-

litical clout, for example, community-based foundations, universities, hospitals, and locally-based corporations. This collaboration is needed to bring resources to the school, to support the school's principal, and to make sure that the school improvement is sustained through changes of leadership at the school or district level. Having a meeting or two with the school system and demonstrating input from a broad range of stakeholders simply won't do it.

The Choice Neighborhoods legislation should recognize that schools will need resources beyond the standard allocation of public school operating funds, for teacher training, for curriculum improvement, for programming beyond the basic curriculum, and for early childhood programs. The selection criteria in the current proposal has some leveraging language, but the emphasis is on housing resources. I would like to see requirements for leveraging State funds for school capital improvement and on other Federal resources, such as race to the top funds and the $4 billion made available for the recovery act for turning around low performing schools.

The Choice Neighborhoods legislation should provide for an explicit role for education experts in the grantee selection process, probably a formal role for the U.S. Department of Education, and school quality should also be a key criterion in the definition of acceptable locations for replacement housing outside of the Choice Neighborhood.

And finally, a comment that comes from my background as a researcher, the annual report requirement in the legislation asks HUD to report prematurely on the impact of grants on target neighborhoods. Instead, HUD should be required to document how grantees have demonstrated the neighborhood's potential for long-term viability and the activities that will build on that potential.

Thank you once again, Madam Chairwoman. I have provided the committee with a more detailed version of this statement, and ask that you include it in the hearing record.

[The prepared statement of Ms. Khadduri can be found on page 88 of the appendix.]

Ms. WATERS. Thank you very much.

Mr. Ramirez?

STATEMENT OF SAUL N. RAMIREZ, JR., EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS (NAHRO)

Mr. RAMIREZ. Thank you very much, Madam Chairwoman, and distinguished members of the committee.

I represent the National Association of Housing Redevelopment Officials, with over 25 individual housing authority community development departments and redevelopment agencies throughout the country. We serve and manage approximately 1.1 million units of public housing and over 2 million tenant-based Section 8 vouchers and other assisted housing, and serve over 6 million citizens throughout our great Nation.

We bring some general words of support for the Choice Neighborhoods Initiative that the Administration has proposed, but also some notes of concern. We applaud the Department's commitment to develop a comprehensive approach to achieving the trans-

formation of neighborhoods with extreme poverty into sustainable mixed-income communities. While ambitious in some respects, NAHRO does believe that this is a laudable policy and one that aligns closely with our mission to create affordable housing and quality communities.

Our support of broad-based objectives of this proposed initiative notwithstanding, we do have several overarching concerns. First, we have serious concerns about the absence of secured funding for public housing agencies as provided under the current HOPE VI Program. We note that the most recent CNI legislative proposal does not reserve a single dollar in funding for proposed projects that include public housing as the lead applicant, nor does it explicitly require that public housing authorities be involved in the development of applications for funding, despite HUD's own acknowledgment that three-quarters of the distressed properties that would be impacted by this program are public housing.

Second, having served as the Deputy Secretary for the Department for several years, I can tell you firsthand that where a program resides matters, and this particular program has yet to have that clarity within its proposal. It would be preferable that this program be administered where the most would be served, and we believe that would be the Public Housing Office, but yet that has not been there. The confusion created with this additional uncertainty over where the program will reside will create the inability to adequately target the resources towards addressing the needs of those severely distressed public housing inventories that everyone has talked about.

Third, the significantly broadened scope of the proposed program in terms of eligible applicants and expected outcomes is likely to support only a handful of grant awards given the recommended Fiscal Year 2011 appropriation request of $250 million. As proposed, grantees would be involved in undertakings that are certainly resource intensive and include a great deal of promotion of economic self-sufficiency of residents and the creation of jobs around mass transit, education, and other programs, and as such, other Federal agencies have not stepped up with their own resources to make this truly a comprehensive neighborhood initiative that would change in a way that could have some dramatic impacts.

Programmatic complexities, in combination with the limited availability of funding, does not bode well for completing the remaining work of HOPE VI, a program more narrowly targeted to revitalizing severely distressed public housing. Absent assurances that our other Federal agencies would immediately contribute significant financial resources to this new approach, we think it is premature at this time to fully endorse this initiative.

With these thoughts in mind, we strongly recommend that funding for the Choice Neighborhoods Initiative at the currently proposed levels for Fiscal Year 2011 not occur unless or until authorizing legislation is considered and acted upon by Congress and signed into law. These steps should be taken with ongoing input from relevant stakeholders.

We also believe Congress should wait for the $65 million that it has already set aside for the demonstration of Choice Neighbor-

hoods under the Fiscal Year 2010 budget to be awarded and implemented, and by doing so, allow Congress and the Department to effectively assess the new data and information about program outcomes that are expected, and would arguably be in a better position to chart a responsible course forward with respect to dealing with severely distressed properties.

We also feel that because of the inadequate vetting that has occurred, the most prudent approach at this time would be to: one, issue the NOFA and undertake the appropriate demonstration program that has been proposed; two, publish and execute the 2010 HOPE VI NOFA and move expeditiously with a proven program; and three, provide continued funding for the current HOPE VI Program in Fiscal Year 2011 as we continue to ultimately include the review of this proposal.

And with that, I conclude my testimony, and thank you Madam Chairwoman.

[The prepared statement of Mr. Ramirez can be found on page 95 of the appendix.]

Ms. WATERS. Thank you very much.

Ms. Kristin Siglin?

STATEMENT OF KRISTIN SIGLIN, VICE PRESIDENT AND SENIOR POLICY ADVISOR, ENTERPRISE COMMUNITY PARTNERS

Ms. SIGLIN. Thank you very much, Chairwoman Waters. Thank you for this opportunity to testify about the Administration's Choice Neighborhoods Initiative.

Ms. WATERS. Could you bring the microphone a little bit closer to you, please?

Ms. SIGLIN. There we go. Better?

Ms. WATERS. Yes.

Ms. SIGLIN. Enterprise is a national nonprofit. For more than 25 years, Enterprise has invested over $10 billion to create more than 270,000 affordable homes and strengthen hundreds of communities across the country. We commend you for holding this hearing on the Choice Neighborhoods Initiative and encourage you to pass the legislation to authorize the Administration's proposal, with some changes and improvements.

The feature of Choice Neighborhoods that is most critical for us is the explicit linkage between revitalized affordable housing and improvements to the schools that the children who live in the housing will attend. Enterprise has 15 years of experience working in a holistic way in a very low-income neighborhood in west Baltimore called Sandtown. Our work in Sandtown gives us some useful experience to comment on the proposed Choice Neighborhoods Initiative, which envisions a similar linking of affordable housing development to school improvement—

[Interruption to proceedings.]

Ms. SIGLIN. Sorry about that.

Okay, then maybe I should stop reading.

Enterprise had 15 years of experience working in a holistic way in west Baltimore, and we linked improvements to the affordable housing in the neighborhood with improvements to two local elementary schools, and my written statement goes into more details on what we did. We then followed this program work on the ground

in Baltimore up with a research initiative in which we hired Abt Associates to write reports on and look into whether other community developers had the same experience that we had, that the community development work was strengthened by giving families a reason to live in the neighborhood, because they were happy with the school that their children attended. And we ended up calling it the model school-centered community revitalization.

Thus, we were quite pleased to see the Choice Neighborhoods come forth as a means of fostering more comprehensive community revitalization projects in distressed neighborhoods across the Nation. It builds on the HOPE VI Program, as other witnesses have noted, but it differs from it in a couple ways. There is a broader universe of projects eligible for renovation. It has an explicit link to school improvement strategies—that is also new. And finally, the ambitions for the program are more broad than HOPE VI is. It is not just to revitalize the distressed housing, but to transform neighborhoods of extreme poverty into mixed-income neighborhoods of long-term viability.

There are four ways we would like to see the legislation improved. The first was discussed somewhat on the first panel with the HUD Secretary, that it seems important that other Cabinet Departments come forward with resources for this work so that HUD's scarce money that is needed for affordable housing doesn't get bled into other activities.

So there are two ways that we would like to see the Department of Education participate. One is that education experts should be reviewing the applications for Choice Neighborhoods to make sure that the school reform components are credible. The second thing is that—I was heartened to hear the Secretary talk about his work with the Department of Education because the notice of funding availability for Choice Neighborhoods should also include funding for school improvement, and the Department of Education should come forward with that money.

A second point I would like to make where the legislation could be improved is that the selection criteria need to be more specific, that you really want partnerships with a longstanding interest in the neighborhood to win these grants. You don't want people who just have one or two meetings with local officials. You really want to look for these projects to be driven by people with a longstanding interest in the neighborhood. A third point, I think, is that the green building standard in the legislation should be stronger. We suggest that you use Enterprise's Green Communities Criteria.

And then last, the draft legislation allows for the funding to be used for an evaluation, but doesn't require HUD to do an evaluation of this program, and we think that would be an important improvement as well.

Thank you very much.

[The prepared statement of Ms. Siglin can be found on page 112 of the appendix.]

Ms. WATERS. Thank you very much. I appreciate the testimony from all of the panelists today, and I am going to recognize myself for 5 minutes.

I have to tell you—and I'm sorry that the Secretary could not be present to hear this panel—the more I hear about your concerns, the less I like Choice Neighborhoods.

I guess I'm going to go to Mr. Goetz because I found your testimony extremely compelling. You made several references to the possible problems of the Choice Neighborhoods proposal. I am worried about public housing. Without trying to assign motives to the Administration or anybody else, does this look like a plan to get rid of public housing to you, Mr. Goetz?

Mr. GOETZ. Without ascribing motives, it will—the HOPE VI Program, which is the track record we have to look at, has resulted in a significant diminishment of public housing in the United States. Public housing demolition has also been pursued outside the confines of HOPE VI. And I am concerned that the expansion of the HOPE VI model to non-public housing forms of federally assisted housing will have that same kind of impact in terms of reducing the stock of federally assisted housing.

Ms. WATERS. Ms. Crowley, I think you and perhaps Mr. Goetz also referred to where these residents who lived in public housing who were displaced or relocated in HOPE VI projects, where they ended up. And I think what I heard here today was that they didn't necessarily end up in better neighborhoods, they seemed to have gravitated to poor neighborhoods, and that the housing they ended up with was not as good as where they came from, or there were no resources there. Would you reiterate your thinking about what happens to displaced residents from public housing—or relocated?

Ms. CROWLEY. One of the things that is important to know is that we really don't have a lot of—we don't have complete documentation about what happened to most people who were displaced by HOPE VI. And so what we have is some research that has been done in particular sites, and that research is varying in quality and has different kinds of results. But I guess the one that is looked at most often is the panel study done by the Urban Institute.

And by the people who were able to move with vouchers and move to new communities, there has generally been some gain in terms of living in safer communities and higher quality housing, but no serious gains in terms of improvement of their economic well-being, and in fact, there is evidence that they had a much harder time sustaining those homes because their expenses were higher.

The thing that is very compelling to look at is that there is a very large contingent of people who were in the HOPE VI project studied by the Urban Institute panel study who were what they call "hard to house." It is not a term I like. I think anybody knows how to be housed. But their circumstances made them hard to conform to the expectations of the new program.

Those were the people who were the poorest, the ones with multiple problems, large families, the people who had grandparents taking care of children, things like that. So that was a sizable group of people, and it ranged from 30 to 70 percent of that population. That population is no better off now as a result of HOPE VI than they were, and they may in fact be worse off.

And then there is a whole group of people that we have no idea what happened to them.

Ms. WATERS. I want to get this in before my time is up. We have had some members of this committee talk about Section 8 housing vouchers that have been given in communities where they are not wanted. We have had even an attempt to legislate to stop the proliferation of Section 8 housing in certain communities. And it appears that on the one hand, with Choice Neighborhoods, they are talking about Section 8 vouchers to provide housing for those who may have lived in public housing, or to expand opportunities in privately owned housing, yet we know there are many neighborhoods who not only fight against Section 8 tenants being in their neighborhood, but they will rise up against some effort to expand the opportunity for these residents to come into their neighborhoods, and fight proposals like these.

Who would like to tell me that you have some answer to where to develop Section 8 housing in other neighborhoods, 25, 30 miles out and more from the neighborhoods that they have come from, and if it is possible, how do they maintain their community contacts that they had before? In poor neighborhoods, people rely on each other. They exchange babysitting, they borrow money from each other, they help go see about kids in school for each other. How is this done if they are moved out to other neighborhoods, and some where they are not really wanted, and they don't have those kinds of relationships? Mr. Goetz?

Mr. GOETZ. Well actually, in Minneapolis, pursuant to a *Hollman* v. *Cisneros* consent decree, there was a partnership of suburban HRAs and PHAs and foundation forces that got together and actually did build several hundred units of subsidized housing in the suburbs. It took many years, but it got done.

The problem was that almost none of the displaced families from the Minneapolis projects that were torn down ever occupied those units. That is, they were marketed to those families, and after a few months of not being able to move families out to those units, then each of the suburbs was allowed to use its waiting list to fill the units. So it was a long, arduous task. The units got built over many years, but it did not serve the dispersal or de-concentration purposes of the lawsuit and the consent decree.

Ms. WATERS. Thank you very much.

We have been joined by Mr. Miller. I would like to recognize you for 5 minutes.

Mr. MILLER OF CALIFORNIA. Thank you, Madam Chairwoman.

Ms. WATERS. Thank you.

Mr. MILLER OF CALIFORNIA. You and I both have enjoyed a relationship dealing with Section 8 and HOPE VI, and I'm kind of enjoying the difference in the discussion on the panel.

In my district, you would not think there was a need for Section 8 housing and affordable housing, but there is. In fact, I just attended a grand opening a few weeks ago, Maxine, in a city. When you drove by the facility—and it was just an extension of a facility they have—you would never know it was affordable housing. You would never know the people living there were on vouchers. They have a community center—in fact, this group has one in every facility they have. They have swimming pools, open space. Cities are

behind it. These are affluent cities that you would not expect to see public housing in. But this is a nonprofit.

And when I looked at the rents that they are charging these people, I scratched my head wondering how they did it. But there are people in there on Section 8 vouchers in a community you would not think would have affordable housing, and I think that is something that is new. I have seen a lot of public housing facilities that are horrible. You drive by them, and you can look and say, "That is public housing." Why would we relegate people to that? And I support Section 8 and HOPE VI as you do, but I think we need to be creative in this marketplace and say what are the private sector and the nonprofits doing out there that government is not doing?

When I drive by this facility—and I have several in my district, and Congressman Driehaus has some in his, and I have looked at some of his and some other districts, Joe Baca has some in his—in communities where I looked at, the regular rental units were inferior to the nonprofit's units who were taking Section 8 vouchers. And I look at what little assistance they have received, and I think the bang for the buck we are getting for what little they received from the Federal Government is absolutely amazing. And when I know that these units are relegated to low-income people, those mainly on Section 8 and government assistance, because that was the mission they have, and it is—

Mr. Cabrera, it is nice to see you wearing a different hat today, you are no longer with HUD.

Mr. CABRERA. I know. No, it has been a while.

Mr. MILLER OF CALIFORNIA. It has, and I know that you have long argued for one-to-one replacement requiring either the footprint of the development or the adjacent neighborhoods to continue to supply public housing, and is this a feasible approach for a CNI development, and what allowing housing stock of nonprofit housing developers to meet that goal in certain criteria? What would you think about that?

Mr. CABRERA. What I have argued for is one-to-one replacement of affordable housing, and the reason is because of financing. If we are talking about—and I think that is what is being contemplated now, which is terrific. But one of the benefits of Choice Neighborhoods, I believe, is it looks outside the footprint of the legal description of the public housing development.

So my thinking on Choice Neighborhoods is that it is something I believe this committee has contemplated before in discussion during one of my hearings, and I think it is actually a beneficial thing. It is not a perfect thing. In housing, we are relegated to understanding there is nothing we can do to conceivably be perfect. So that is why when you look at Choice Neighborhoods and compare it to HOPE VI, a huge benefit is that it goes beyond the footprint of just public housing.

Mr. MILLER OF CALIFORNIA. In your previous life when you worked for HUD, you and I discussed HOPE VI. You always were a strong supporter of HOPE VI. Why do you support this concept more than you did HOPE VI originally?

Mr. CABRERA. It's not that I don't support HOPE VI now. I do.

Mr. MILLER OF CALIFORNIA. No, I didn't say—but you support this new approach.

Mr. CABRERA. I appreciate that, Congressman, I'm sorry. What I mean to say is HOPE VI is something I believe is good for public housing authorities and important for public housing authorities. I think the Choice Neighborhoods Initiative is good because it expands the field of housing modality that needs improvement. So we have assisted housing all over this country that has or needs help as well. They tend to be around public housing units. You can't just improve a public housing development and then expect the rest of the community around it to get better. Getting or having the ability to do it in a more subtle and nuanced way is more important.

I think that the added idea of—through our Hope for Housing Foundation, which is something we are really proud of, we spend an awful lot of time with supportive services for people. This is what we do as our business model. We pay for it, we raise money for it, and it works well.

And I think one of the things Choice Neighborhoods is saying, and I think a lot of the panelists are agreeing with, is that is an important thing to do. What is also important is to make sure that the pot comes from something other than housing. Housing is hard enough. If you start to diminish the housing pot, knowing what it takes to develop units, you will have a struggling development at best. So there has to be some care given to that.

Mr. MILLER OF CALIFORNIA. Madam Chairwoman, Ms. Waters, I would—my time is up, but I know what a supporter you are of the concept of public housing, the people who need that type of assistance in an interim period. I would really like you to come to perhaps Joe Baca's district, or my district, or David Driehaus's district, and I would like you to see what the nonprofits have done for public housing in our communities.

And I think you are going to find—I think you will be absolutely shocked and happy. When you drive by these facilities, you would never think that people living on Section 8 vouchers live there because they are that nice. The city councils love them, they work with them, the communities accept it. It is not any issue that is ever argued about at city council meetings about the neighborhoods becoming rougher, its being rundown.

And I would like you to see what benefit there is in I think a new concept that we are seeing in this country that relies very little on government and more on the private sector. I think you would be greatly surprised. But I would like you to do that if you could, and I yield back the balance of my time.

Ms. WATERS. Thank you very much. And without objection, I am going to proceed with two more rounds, just the two of you. I'm sure everybody here wants to ask a lot of questions. And so I would like to recognize myself for another 5 minutes, and take the first half of that to kind of respond a little bit to your invitation.

Let me just say, Mr. Miller, I am not so concerned about whether or not there is public housing that looks better in one community perhaps than another community. This is what I'm—

Mr. MILLER OF CALIFORNIA. I didn't mean to imply that. I meant the quality of life.

Ms. WATERS. I'm sure there is Section 8 housing that has been done very well. But what I'm concerned about in dealing with all the members is this. Well, first of all, I'm concerned that even with

HOPE VI—and I like some of HOPE VI—that there was displacement. I look at Atlanta, for example. There was displacement. And I keep asking, "Where are these people going? Where do they end up?" And I'm getting more and more information about where they end up.

It is one thing to have HOPE VI or public housing where you can get rid of a lot of the potential problems or design it in ways that you think you will not have problems, reduce the number of units, and have what looks like market rate and mixed use, but where are those people going, where do they end up? I am concerned about that.

Number two, I'm concerned about services. For example, we do have people who move out or get assistance in getting housing miles away from where they came from, and what happens is all over the United States, they don't call their Representatives. They call in to the Congressional Black Caucus or the Latino Caucus. They call our office a lot. They call in from Georgia, they call us from Florida because, for some reason, many of their Representatives are not in tune to the needs of poor people. Some of these are poor pockets, and they relate more to the other parts of the district.

I'm concerned about the lack of being connected to services and relationships and all of that. So I want to carry this out a little bit further—

Mr. MILLER OF CALIFORNIA. Can I respond with my time? Those are excellent—I will even take you to Little Rock, Arkansas, where I was born in Arkansas, and I can show you the same thing there. I can show you in my district individuals who came from low-income communities that they considered rougher, more violent to areas in my district where they can find jobs, and they found the communities safe, services available to them, and living in a community that they didn't think they would be able to live in on Section 8 vouchers. That is—

Ms. WATERS. That is great, but what do you say to Mr. McCarthy, for example, who raised this issue of Section 8? I know Lancaster very well, and I know the mayor of Lancaster, and I know what they are saying. Not only is there questionable treatment of Section 8 tenants in that area—also we have Mr. Driehaus who raised that same question about—he says, "You are sending too many Section 8s in this economic meltdown that we have. We have investors who are buying property simply to put Section 8 people into them."

What do we say to them when we deal with this question of what happens and what we are doing with displaced and relocation? That is one of the political issues that I'm focused on. What do you say to them? "Come to my district and"—

Mr. MILLER OF CALIFORNIA. Can I respond? I would love to respond. I would like you to call the mayor of Rialto, call the mayor of San Dimas, call the mayor of Yorba Linda, and ask them what they think of Section 8 individuals coming to their communities. They are perfectly happy with it because they—

Ms. WATERS. But they are not voting here. We have Mr. Driehaus and Mr. McCarthy who are sitting here considering what we are considering and saying to their caucus—to your caucus,

"You have to help me. I can't go home if this continues in my district." And 9 times out of—

Mr. MILLER OF CALIFORNIA. Who said that?

Ms. WATERS. Were you here in the debate?

Mr. MILLER OF CALIFORNIA. I was listening on TV. But I can't speak for one person's district. I can speak for three individual's districts right now.

Ms. WATERS. Yes, but what I'm saying is I appreciate that, and I do know Mr. Baca's district quite well. I don't know your district quite as well. But what I'm saying—I'm trying to bring the political reality of the question of whether or not displaced and relocated public housing tenants are wanted and whether or not they have access to the services, and whether or not your caucus will support the idea.

Mr. MILLER OF CALIFORNIA. I can—I will use my time, because we only have 5 minutes apiece.

I think if many of these communities saw what the nonprofit sector is doing in public housing and what they are providing for so-called—the stigma of people on Section 8, I think they would have a completely different attitude than they have today. But many of these communities have not seen what the private sector can do in providing housing to people who need it.

And I think if more people took the time—and the reason I invited you—I would be happy to invite Mr. McCarthy out to our area and show him—to Mr. Baca's district, to Mr. Driehaus's district, and mine—and show him what the nonprofits are doing and the quality homes and lifestyle they are providing for people and how those people are integrating in the community and having the services they need and the requirements they expect in their life, and they are living on their own being able to get a job in a community that sometimes pays better wages and stuff, sometimes—not necessarily—has better schools. But they are in an area they feel that they are well accepted.

I have seen no outcry at all from—and my office is right next to—probably 4 miles away from one of the facilities. I have zero complaints. I have no complaints from the city. In fact, the city council and the mayor have said quite the opposite. They are just happy to have them in the community because they are fulfilling a need the community has.

And so I think the debate we are talking about today is healthy, and I think if we educated more of our colleagues on what is really occurring out there, specifically in the private sector on public housing, they would be shocked, and I think more supportive.

I thank you for yielding me the time and—you guys, we don't care about you. We are having a nice conversation up here. Maxine and I, we might differ on a few things, but we have a goal of trying to do what we can for those people who need a helping hand at a given point in their life. And we even disagree on the length of it, but we do agree on a portion there that we could have commonality, and I yield back and thank the chairwoman.

Ms. WATERS. Thank you very much. And I'm appreciative of your comments and your observations, and of course I think all of us would like to see people have better opportunities, and I'm going to look forward to you to provide some leadership, and acquaint

your colleagues with—take them to your district, do a tour, and come back and let me know what happens. Thank you so very much.

I thank you for remaining with us. Because we do not have a lot of members here, I get an opportunity to kind of close this out with the last 5 minutes of questions, without objections.

Let me say to Enterprise, as a nonprofit, do you believe that you could take what appears to be the description of a community in this Choice Neighborhoods proposal—and I'm not so sure that I know what makes up an eligible community or neighborhood—it is just not clear to me what the criteria is to be eligible for a Choice Neighborhood, but I'm going to assume that all of you know. I don't know. And we will continue to try to get the definition of that and the supporting documentation for that.

But given what you know—what you think it is or what you know about it, are you saying that the government should allow you, or even a for-profit, to go into a whole community and make some determinations about what is to be preserved, what is to be re-developed, to bring in the supportive services on education, on transportation, to choose these neighborhoods? How does Enterprise see itself taking on this responsibility, and the government basically funding it and putting it in your hands?

Ms. SIGLIN. I think that one of the pieces of the legislation that is most important for you to work on is figuring out this question of which communities are the best places to do this, because what is interesting about Choice Neighborhoods is that it is trying to use a real estate transaction to improve the affordable housing to leverage a broader program of community transformation.

Enterprise wouldn't promise you that we would do this in places all over the country, because you have to have—HUD, when they choose Choice Neighborhoods, you have to select—you want local partnerships where there has been a deep, longstanding process of community engagement, so stakeholders have been working together on a neighborhood. There are only a few places around the country where our program goes that deep. So when you are working on the legislation, one of the suggestions in my testimony is to work on that section with the selection criteria.

And all of—work for Enterprise looking at school-centered community revitalization projects, the ones that had the kind of outcomes you want, where people weren't displaced, where the residents had better housing and better schools, those were the results of stakeholders with deep roots in the neighborhood. So that would be a part of the bill I would particularly pay attention to.

Ms. WATERS. Thank you very much. I was particularly taken this morning with the Secretary's testimony on HOPE VI, how successful it was, how well it did, how it had support, and on and on and on. And I was thinking as I was going through some of the testimony and listening, if HOPE VI was so good, why don't we just improve that?

Why don't we just take the problems that we saw with HOPE VI and correct them? Why don't we make sure that there is not this kind of displacement? Why don't we make sure that we are supplying the resources in the community since nobody is telling me where the money is going to come from for all of these additional

resources, etc. And if HOPE VI was that good, why don't we just improve on HOPE VI?

Does anyone want to respond to that? Yes, sir.

Mr. RAMIREZ. We think that the HOPE VI model has flaws that are being addressed, and one of them was that when it was launched, it was launched to deal with some of the really most distressed public housing in our Nation as the catalyst for this program, with very little forethought as to what are the impacts that HOPE VI will have on the residents themselves. There has been a great deal of clarity around discussions that you have led that have brought us closer to better understanding how to deal with those dynamics.

The reality of HOPE VI, though, is that for the last 8 years, the investment into HOPE VI has diminished by six or seven-fold of what used to go into HOPE VI, and it was never really given the kind of push to be able to expand it. But a lot of the improvements that the panel has spoken about and that have been highlighted by several members of this committee are actually public housing developments.

And with all due respect to former Assistant Secretary Cabrera, the reality is that the biggest property footprint in the most distressed areas, but HUD's own admission, are public housing properties. And why it is being removed and not considered in any way except to say go ahead and compete for these dollars with all these other entities without being a key player at the table in transforming your own property at the same time is really a question that needs to be answered.

And so we kind of feel like, from our perspective, that the Department is out there celebrating the honoree and euthanizing them at the same time with this initiative is being proposed. If HOPE VI really is a step to a bigger transformation, then we should be taking what has been successful within HOPE VI, which is transforming the largest footprint of property in a development, a public asset that needs investment—because we all know that even Abt several years back said that there was already a $20 billion backlog in improvements for this $125 or $130 billion asset that we have in public housing as a nation. A study is being conducted again by Abt that is going to probably raise that number.

And yet there is no money going into HOPE VI in the proposed 2011 budget. The Capital Fund dollars have been reduced, and yes there was some money that went into public housing, but it was long overdue to a long laundry list of needs that were there. And so I think that the policy perspective that the Secretary brings around Choice Neighborhoods is the right one, but it is missing the target in as much that it has removed probably the most critical piece from being the central piece around that effort.

Ms. WATERS. Mr. Goetz, you talked about a study, and I think you said it identified the distressed public housing units, and that you think that this study was then used to talk about more demolition than improvement, and that even as we look at this Choice Neighborhoods proposal, that a distinction is not being made between distressed public housing and public housing that could be invested in with capital improvements, etc.

Is that what you said about—first, about the study, and that perhaps it is not being used correctly? Maybe it is being used to move forward with a new initiative that does not necessarily take into consideration saving some of this public housing.

Mr. GOETZ. Yes, I was referring to the National Commission on Severely Distressed Public Housing and their report in the early 1990's, which identified an estimated 86,000 unites of severely distressed public housing. And given, of course, that was an estimate—perhaps they were off a little bit—but of course HOPE VI has gone well beyond twice that amount in terms of the units that it has demolished and re-developed.

And I think the notion of distressed public housing was then developed by HUD. There were some standards created for what constituted severely distressed housing, and my point was simply I don't see a replication of that, a careful replication of that for other forms of federally assisted housing. And in the absence of that, it is not clear which units would be eligible for the kind of Choice Neighborhoods redevelopment.

And my other point was that very early on in the implementation of HOPE VI, it became a demolition program, and that became the one solution to a whole range of problems that public housing developments were having around the country, and it strikes me that in many cases, that approach was inappropriate.

Ms. WATERS. Thank you very much.

Ms. Khadduri, I think you testified about education—some education research, and basically spoke to the role that having strong schools and all associated with that could help to make an initiative like this work. Do you feel that you know what Choice Neighborhoods is, what kinds of neighborhoods are going to be selected, and how this is all going to work, and where the resources are going to come from in order to make Choice Neighborhoods work in the way that it has been alluded to? Do you think you understand that? Have you—can you get your arms around this?

Ms. KHADDURI. I think I begin to understand what it is. I certainly look forward to reading the NOFA that HUD puts out for how they are going to use the funds that have already been made available to Choice Neighborhoods, because I think that there really is a lot to be looked at in the details. Some of the things that Kris Siglin talked about, what kind of partnerships with strong commitments to the neighborhood are going to be required, some of the things that I talked about, about the leveraging requirements, and are the resources that are going to be needed for the investments other than in housing really going to come forward? And just how carefully and thoughtfully the selection process is going to occur.

I see the principles here, and some of the principles I like a lot, like building on the assets that a neighborhood already has, like making this holistic community development that doesn't just redevelop housing, that is not just about bricks and mortar. But I think this is very hard to do. Turning around a neighborhood is extremely difficult, re-developing the housing is difficult for reasons that have been talked about. Creating good schools in historically disadvantaged neighborhoods—

Ms. WATERS. I know how tough it is—if I may just intervene. I know how tough it is. I mean I understand how tough it is. What I'm really asking at this point is how much does each of you know about what is being proposed. When I say, "Can you get your arms around it," I'm still trying to understand the selection criteria. I don't want to have to learn later on after a process has begun that it didn't have this in it, that didn't make good sense, what were they talking about when they talked about the stakeholders already being organized and working, does that eliminate certain kinds of neighborhoods?

These questions haven't been answered, and I thought maybe some of you had looked at this and you understood it a little bit better than I do at this point. I appreciate your concerns and I appreciate your identification of what is needed, but I want to understand—

Mr. Cabrera, what do you know about the definition of a Choice Neighborhood? How will that selection be made? What is the criteria, and what is meant by neighborhoods that have stakeholders with deep roots working in ways to transform the neighborhood already, and where are these resources? How do you get L.A. unified, for example, that is broke?

With all these dollars in deficit, school districts are talking about going to 4-day school districts. They're laying off teachers. Where are these resources coming from? Is this pie in the sky? Is this an intellectual kind of discussion that does not have any real basis in fact and reality based on what some of us know about communities? Do you know something we don't know?

Mr. CABRERA. No, I don't think I know something that others don't know. I think that it's not pie in the sky. It's extremely real. I think a good beginning point is to remember that neither HOPE VI or Choice Neighborhoods will finance by itself a single unit of housing. They always have to be used with something else, some other tool. Tax credits that come from the private sector in terms of funding, bonds, the same thing, something else has to come in to make something possible.

The second thing is when HUD uses the term assisted housing, Madam Chairwoman, that has a technical term within HUD. There are some things that won't be assisted housing, so current tax credit units, current units that were billed to private activity bonds by themselves are unlikely to be deemed assisted housing, whereas things like Section 202, which serves the elderly, will be. Section 11—811, excuse me—which serves people with special needs will be. 221(d)(3), 221(d)(4). These are defined terms institutionally within HUD. I think the question is valid. I understand, but I think in my head, knowing the institution by virtue of Saul and I did for some time, that has a pretty defined parameter. As to the community, I think that one of the efforts here is not trying to take—not trying to make one place a panacea and not help the rest of the community. I think that's the intent of Choice Neighborhoods.

Ms. WATERS. Ms. Crowley, if I may, I'm thinking about a particular community that's built along one of the main corridors in the greater Los Angeles area that leads to the airport. We have improved transportation with the green line or whatever it is that

goes from north to south. It's centered right near several public housings projects in the greater Los Angeles area. You have stakeholders who have, you know, many of them have sacrificed many of their years trying to make the neighborhood stronger and better, but there's a lot of dilapidated housing in the area where we have one, two, three, four big public housing projects, Nickerson Gardens, Jordan Downs, Imperial Courts, and Donzack Village. They're all right there. We have some good features, like I said, the transportation corridor. We have a health center that's there, United Health, United Health Center, etc., but there's a lot of dilapidated housing around this area.

So what do you do Enterprise, well before I go to Enterprise, I want to know do you go to get eminent domain, to tear down this housing and to improve the housing? Ms. Crowley first. What's your thought about all of this?

Ms. CROWLEY. I'm interested in your question about have we put our arms around this, and which I think we'll get to the example that you just showed. When this proposal first came out, we had a very in-depth analysis of it led by our vice president for policy, Linda Couch. Many, many of our members came together and have studied this. There were numerous meetings and conference calls. We sent a lengthy letter to the Secretary with all of our concerns about the initial proposal, and then the most recent proposal just came out. Some of those concerns have been addressed in it, but most of them have not been. So we find it very vague. We think that there's a lack of specificity in the proposal that would provide the kinds of protections and answers that we sought for a very long time in HOPE VI. And in fact, what I frequently said to the folks at HUD, is please start with Ms. Waters' HOPE VI reauthorization bill, because that was hard fought to get to something that a wide variety of people could agree to. And so I don't think we're there yet at all. I do think that there is merit to the notion of saying that this is a—there's a public housing project that we want to redevelop or there's a project base Section 8 assisted housing that needs to be redeveloped, and what is it that we can do in order to make sure that we're doing that in a holistic way by looking at the broader community.

But the nuts and bolts of how you do that, how it is that you go to, you know, you look at a dilapidated house that is owned by somebody who has abandoned it and has not shown up for years, is the city going to—

Ms. WATERS. I'm talking about dilapidated housing that people live in.

Ms. CROWLEY. Or that people live in, and that is that maybe the homes that they own are is the proposal going to help them upgrade their homes, or is the idea to get rid of them and to move those folks out? We don't have answers to that.

Ms. WATERS. It's a mixed bag, Ms. Crowley. We have people who own dilapidated housing who have not had the money to upgrade the house. We have not had the programs to really assist them in doing that. We have absentee landlords. But again, I'm describing a neighborhood that's a mix of the good and the bad.

Ms. CROWLEY. Right.

Ms. WATERS. We have this tremendously valuable public housing that's the major footprints in the neighborhood. We have a transportation corridor that leads—goes east and west to the airport, and we have the north-south development of trains, etc. We have a lot of dilapidated housing. Is this a Choice Neighborhoods potential? What would you do with this, Ms. Siglin?

Ms. SIGLIN. If it was owner-occupied housing that was dilapidated, if it was—Choice Neighborhoods funding, as I read the proposal, can be used on public or assisted housing, but the local government would have to use a funding like CDBG to improve owner-occupied housing. I don't think that would be Choice Neighborhoods. You know, you're right to be asking these questions about, to be comfortable voting for something, you should really know how it works. So a question I would encourage you to ask the HUD Secretary is, you know, this is—I share the worry about HUD's scarce resources getting bled into other activities. I mean, absolutely, our experience has been that these initiatives work better when you can work more holistically, more comprehensively, but if you want to use Choice Neighborhoods to really deal with the problems in distressed neighborhoods, you have to get the Department of Education and HHS to come forward. So it was helpful you hear the Secretary talk this morning about a joint NOFA, and it would be useful to see the details on how that would work.

Ms. CROWLEY. Ms. Waters, could I just—this is a point of, I think it's important—

Ms. WATERS. I yield to myself as much time as I need and will continue with the questions for another few minutes. Yes, go ahead.

Ms. CROWLEY. Thank you. Our reading is that the Choice Neighborhoods money could be spent on housing other than public or assisted housing.

Ms. WATERS. That's exactly what my staff just whispered in my ear.

Ms. CROWLEY. And in fact, it's unclear whether or not—if you read the way the statute is written, you could actually, we think, go into a neighborhood that didn't have public or assisted housing in it and start from scratch. So obviously, we just need a lot of work to get to understand this better.

Ms. WATERS. All right. And I'm sorry, I had to cut you off, Mr. Cabrera.

Mr. CABRERA. I just want to say—

Ms. WATERS. As you were explaining—

Mr. CABRERA. Jordan Downs would probably qualify for this. You asked the question earlier, would Jordan Downs qualify for Choice Neighborhoods? Yes, I think it would.

Ms. WATERS. What would you do with the dilapidated housing around Jordan Downs?

Mr. CABRERA. I think that HOPE VI is a harder mix for something like that than Choice Neighborhoods is. Choice Neighborhoods would help more than HOPE VI. You have a broader set of tools to deal with that neighborhood than you would with HOPE VI.

Ms. WATERS. Jordan Downs is not a HOPE VI project.

Mr. CABRERA. No. Jordan Downs is a public housing development, and so therefore would qualify under either HOPE VI or Choice Neighborhoods.

Ms. WATERS. And so if this was a Choice Neighborhoods selection, the privately owned housing around it could be the beneficiaries of Choice Neighborhoods funding to—

Mr. CABRERA. Theoretically in a Choice Neighborhoods, yes.

Ms. WATERS. —to buy those houses up, to relocate those people, to fix up their housing for what?

Mr. CABRERA. This is legislation that right now is proviso language in a budget. I think that's one of the things that people are struggling with. But conceptually, the way that I'm reading it, and it's just one person's opinion, sure, you can probably utilize these funds, if you were to be the winning competitor, to expand the footprint beyond the property description of Jordan Downs, yes.

Ms. WATERS. And would a private or a nonprofit be given eminent domain authority in this proposal?

Mr. CABRERA. I don't know that a for-profit or nonprofit could ever be given eminent domain authority in any place in the country, notwithstanding Revco. I do think that in the case of Los Angeles, knowing Los Angeles, I doubt that would ever happen. I think that would have to be resident in whatever the State said it's residential. It's either HACLA or Los Angeles County development or the housing department, whomever it might be. But, you know, just thinking about Jordan Downs, you have already had two charettes. There are several more slated. I think that's the kind of discussion that happens very much at a local level. It's hard to solve beyond a local level, because those are intensely local concerns with whomever the developer might wind up being. It's going to be HACLA and at least one, possibly others, and that's where that conversation happens.

Ms. WATERS. Thank you very much, and let me just say that it was mentioned that public housing in the coordination of additional resources to make this concept work, you could use like CDBG, and some of just won't allow that to happen because CDBG is the last standing funding into poor communities for many of the programs that work for seniors and other kinds of efforts. And it's not that much any more. So I guess my bottom line concern is still the big question, what is Choice Neighborhoods? How does it really work? What's the criteria for choosing a Choice Neighborhood? How is that decision made? And I'm still trying to get my arms around it.

With that, Mr. Ramirez, I'm going wrap up with you.

Mr. RAMIREZ. I would just say that we have a great opportunity to answer all those questions and the demonstration money that has already been appropriated in 2010. There is a NOFA that will be coming out sometime during the course of this year. There will be plenty of opportunity to also bring to Congress a clearer understanding of what it means. I feel that at this particular moment in time, the biggest decision I know you're wrestling with is that there are scarce resources, and other programs have suffered. The Ross program has been proposed for elimination. No Hope VI, capital funds are down for public housing, and there are others. And so as you deliberate through this process, we firmly believe that the Choice Neighborhoods Initiative does have great potential to

transform even a bigger part of neighborhood. We just need to give it time to mature, and we have given the department the resources to bring something back that can be better evaluated and acted upon.

Ms. WATERS. So basically, you believe that the $65 million that has been agreed upon the Appropriations Committee should again forward as such and we learn from that what is the potential for a broader effort?

Mr. RAMIREZ. We believe that by the Secretary's own admission, it's going to take a tremendous amount of investment in any neighborhood that goes under this program because of its comprehensive nature. It does open up a glide path for the Department with the existing $65 million that has been set aside for this program to either start with planning grants, to bring other agencies to the table with the resources that they need to come with at the same time, and produce a NOFA that brings the kind of results that would point to a more comprehensive and coordinated investment within the neighborhood. Absent that, we believe that there are dollars that are currently being invested that could be better invested in the sense that a more sensitive look at what the impacts are to residents be inserted into them, but that already are transforming, again by HUD's own admission, three-quarters of these neighborhoods that they're talking about in this initiative, which are public housing neighborhood.

Ms. WATERS. Thank you very much. With that, we're going to wrap this up. The only way that I'll extend it for another minute or so is if there's a thought that you simply cannot hold, any one of you, that you must share publicly at this moment. Yes, ma'am?

Ms. ELDRIDGE. I just want to say that I hope Choice Neighborhoods prevents the displacement of seniors from any neighborhood that Choice Neighborhoods is in, and the only way to do that is to leverage Medicaid and Medicare dollars in the effort to upgrade the neighborhood. That is the only way. Thank you.

Ms. WATERS. Thank you all very much. You have been very helpful in helping me to focus on some of the issues related to this initiative. And I will note that some of the members who participated today may have additional questions for this panel, which they may wish to submit in writing. So without objection, the hearing record will remain open for 30 days for members to submit written questions for these witnesses and to place their responses in the record. And with that, this panel is dismissed—oh, we do have something to submit before we adjourn. Without objection, the written statement of Dr. Deirdre Oakley, Assistant Professor, Georgia State University, will be made a part of the record.

With that, this hearing is adjourned. Thank you very much.

[Whereupon, at 1:20 p.m., the hearing was adjourned.]

A P P E N D I X

March 17, 2010

Written Statement of The Honorable Orlando J. Cabrera, President and Chief Executive Officer of National Community Renaissance and former Assistant Secretary for the Office of Public and Indian Housing at the United States Department of Housing and Urban Development

Good afternoon Mr. Chairman, Ranking Member Bachus, and members of the Committee. My name is Orlando J. Cabrera and I am President and Chief Executive Officer of National Community Renaissance, a national developer of affordable housing, and former Assistant Secretary for Public and Indian Housing at the Department of Housing and Urban Development. Thank you for inviting me to testify before the Committee regarding the Administration's Proposal to Revitalize Severely Distressed Public and Assisted Housing and, more specifically, the Choice Neighborhoods Initiative.

From a policy perspective, the Choice Neighborhoods Initiative is a worthy evolutionary step forward for the HOPE VI program provided it focuses on addressing and overcoming HOPE VI's significant shortcomings and further focuses on encouraging local decision-making and input over federal concerns.

The idea of Choice Neighborhoods is an undeniable improvement if executed correctly. Choice Neighborhoods is an initiative that allows the full spectrum of housing providers, non profits, for profits, local governments and community development corporations in addition to public housing authorities, all of who own housing that houses low income Americans, to compete for Choice Neighborhoods allocation in order to rehabilitate and preserve units. The greater competition should lead to better outcome from a housing policy perspective.

With the exception of HOPE VI units, many public housing units are now over 70 years old and not any newer than 30 years old. HOPE VI was designed to address the rehabilitation of public housing units, but has struggled to be consistently efficient. HOPE VI has succeeded best when allocated to public housing authorities that are located in states with workable low income housing tax credit allocation systems and with supportive local governments. HOPE VI objectives have been challenged when they are located in local jurisdictions with limited capacity and burdened by policy expectations that delay the building or rehabilitation of units.

Choice Neighborhoods should focus on encouraging the allocation of resources to competitors that demonstrate that they can build what they represented they would build within the time frame that they committed.

Similarities to HOPE VI

Choice Neighborhoods has much in common with HOPE VI. Both HOPE VI and Choice Neighborhoods rely on competition for access to awards. HUD's proposal focuses on leveraging which is a fancy way of saying that the winning development

will use a minimum federal investment and draw in a maximum non-federal investment in a mixed finance setting. Both of those commonalities are great.

Like HOPE VI, Choice Neighborhoods focuses on de-concentrating poverty. Also, a Choice Neighborhoods allocation is an added layer of financing allocation to the multi-layered financing packages that ultimately constitute the financing of an affordable housing development. Finally, Choice Neighborhoods, like HOPE VI, will support new construction, demolition, and rehabilitation. Additionally, because it focuses on challenged communities, it draws on a broader aspiration than simply addressing distressed public housing.

The Differences between the Programs

The most important difference between HOPE VI and Choice Neighborhoods is the community-based focus of the grants, the expansion of the nature of the potential competitor beyond public housing authorities, and the added focus on assisted housing. Choice Neighborhoods also differs from HOPE VI because it serves a broader housing modality and broader range of housing providers – a goal that some on this committee have long sought that the HOPE VI program would aspire to achieve. That important difference will help communities and not just developments.

Doubtlessly, it will be troublesome to some stakeholders that Choice Neighborhoods proposes to be open to competitors in addition to public housing authorities. It should not be. Allowing competitors to rehabilitate assisted housing units will better preserve affordable units over time for our Nation's communities and will allow for greater innovation within the program itself provided that the focus is readiness to proceed and efficacy of process.

It may appear that public housing authorities will be worse off if Choice Neighborhoods is passed because HOPE VI solely permitted public housing authorities to compete for HOPE VI allocations. One of HOPE VI's greatest shortcomings was the fact that just under 30% of allocated HOPE VI funds from 1993 through 2003 had not been expended as of 2005. HUD improved that shortcoming significantly between 2005 and 2008. Adding a competitive layer to Choice Neighborhoods has the potential of making the program still more efficient and better assures that the program addresses the utilization shortcomings of HOPE VI.

Choice Neighborhoods would be improved by incorporating the idea that readiness to proceed is central to the initiative. Choice Neighborhoods allocations should help the construction of developments by encouraging the thoughtfully quick and focused over the unfocused and unready and by encouraging accountability at the risk of losing the money – an outcome not easily achieved in HOPE VI transactions.

Invariably, every effort such as Choice Neighborhoods seeks to accomplish large laudable objectives and winds up serving the country less well if it loses focus on that which is important: constructing or rehabilitating the Nation's aging public and assisted housing units in an efficient and financially sustainable way. A focus on funding the construction, rehabilitation, and demolition of units makes eminent sense. However, potentially adding policy and, presumably, review connections to other non-housing programs – and asking HUD or, more worrisomely, others outside the team building the housing to evaluate the substantive value of such added elements – will result in adding time to the development timeline. Adding that complexity risks the same negative outcome that plagued many HOPE VI-funded developments: a lag in the use of allocated funds and an increase in the time between conception of a development and people living in units that serve a community well.

Secondly, it is a challenge to imagine how one would incorporate coordination with federal transportation, education, environmental, labor, and health elements and still have an efficient and agile competitive allocation system. If a cross-agency coordination system with a proven and effective track record in connection with affordable housing development were already in place, then adding such elements might be more understandable. But from a development perspective – not to speak of what one can safely presume are many state and local perspectives – short of an existing successful model, such a layer of cross-agency coordination gives one considerable pause.

The Choice Neighborhoods Initiative recognizes that assisted housing needs help too. Units constructed under any assisted housing program, for example, HUD's Mod Rehab and Section 236 programs, are nearing technical and actual obsolescence and will need the opportunity to compete for Choice Neighborhood allocations in order to be preserved. Choice Neighborhood appropriately recognizes that assisted housing is aging and needs help too.

The nation's public housing and assisted housing stock needs a program that will more vigorously induce the private sector to finance the transformation of units over time and thereby relieve the pressure on federal appropriations to do the job. Public housing is easier to transform when it is not solely dependent on Section 9 appropriation for capital improvements. Public housing has a capital needs backlog that, given the current and likely future fiscal climate, cannot be adequately addressed without providing a tool that will attract private capital into the cause of rehabilitation in a way that the HOPE VI program has not.

Public housing in particular, in addition to being a modality of affordable housing, represents a financing device that has long discouraged participation from the private sector. Operating funding and capital funding have been under enormous stress for a long time and based on this budget, will continue to be into the foreseeable future. Creating units using a tool, like Choice Neighborhoods, that will be served by a transformed mode of funding that allows such subsidy to be used to

pay for debt service is the key to creating a workable way to rehabilitate, preserve, and finance the construction of units with a comparatively minimal amount of taxpayer funding.

One last thought. the Choice Neighborhoods Initiative includes a focus on supportive services to some degree. One of National Community Renaissance's strengths is its focus on services for its residents, from the very young to the elderly. Our focus on providing services often is the driving force behind the creation of communities. Our services are offered with a purpose; we measure how well those services help those they are intended to assist. The Choice Neighborhoods Initiative includes a supportive services component in its utilization menu. I would suggest that if supportive services are provided, metrics should accompany the an service plan simply because those metrics will tell you what residents want which should always be the central concern.

Conclusion

Public housing and assisted housing units will be serving the Nation for decades to come. In order for us to best serve low income Americans over time, I suggest that our focus should always be on narrow and well defined objectives. Above all, do what needs doing in order to get the job of constructing, preserving and rehabilitating quality public and assisted housing units done well, efficiently, and thoughtfully. That said, I would also ask that Congress resist the urge to do too much. Invariably good ideas become laden by good intentions and serve the Nation less well than they otherwise would if those ideas were kept focused. Lastly, I would offer that this Congress would achieve a great accomplishment by simply focusing on facilitating the largely private sector financing of the construction and preservation of affordable units in an economical and efficient way – which for the taxpayer would be a significant achievement in and of itself. Certainly, the Choice Neighborhoods Initiative improves the HOPE VI program's step in that direction.

Again, thank you for inviting me to testify regarding Choice Neighborhoods. As always, I will happily answer any questions you may have.

Testimony of Sheila Crowley, MSW, Ph.D.
President of the National Low Income Housing Coalition
presented to the
Financial Services Committee
United States House of Representatives
March 17, 2010

Chairman Frank, Ranking Member Bachus, and Members of the Committee, thank you for the opportunity to testify today on the Administration's proposed Choice Neighborhoods Initiative (CNI).

I am Sheila Crowley, President of the National Low Income Housing Coalition. Our members include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations, residents of public and assisted housing and their organizations, and concerned citizens.

The National Low Income Housing Coalition (NLIHC) is dedicated solely to achieving socially just public policy that assures people with the lowest incomes in the United States have affordable and decent homes. NLIHC does not represent any sector of the housing industry. Rather, NLIHC works only on behalf of and with low income people who need safe, decent, and affordable homes, especially those with the most serious housing problems, including people without homes. NLIHC is funded entirely with private contributions.

The Choice Neighborhoods Initiative is HUD's contribution to the Obama Administration's efforts to find "place-based" solutions to pressing social problems, in which the combined resources of multiple federal agencies are brought to bear on discrete geographies. These are places in need of fundamental transformation to end entrenched poverty and accompanying social and material distress. In particular, CNI is intended to transform neighborhoods with distressed housing, including, but not limited to, federal public or assisted housing.

The Choice Neighborhoods Initiative is offered by the Obama Administration as the next generation of attention to severely distressed public and assisted housing and is described as "building on the success of HOPE VI," the redevelopment program for severely distressed public housing that began in 1993. As the committee knows well, the National Low Income Housing Coalition and others have been highly critical of HOPE VI as it has been implemented in both the Clinton and Bush Administration.[1] It should come as no surprise then that we

[1] Crowley, S. (2009). "Hope VI: What went wrong," In H. G. Cisneros and L. Engdahl (Eds.), *From Despair to HOPE: Hope VI and the New Promise of Public Housing in America's Cities*. Washington, DC: Brookings, pp.229-248; Moses, G. (2007, June 22). Testimony before the Housing and Community Opportunity Subcommittee of the U.S. House of Representatives Financial Services Committee on behalf of the National Low Income Housing Coalition: Elsesser, C. F. (2007, June 20). Testimony before U. S. Senate Banking, Housing, and Urban Affairs Committee, Subcommittee on Housing, Transportation, and Community Development on behalf of the National Low Income Housing Coalition; Center for Community Change. (2003). *A hope unseen: Voices from the other side of Hope VI.* Washington, DC: Author; National Housing Law Project. (2002). *False hope: A critical assessment of the Hope VI public housing redevelopment program.* Oakland, CA: Author.

approach a proposal that is rooted in HOPE VI with some skepticism.

What I will offer in my testimony is:

- a review of our critique of HOPE VI and efforts at its reform,
- how we understand CNI is alike and different from HOPE VI, with suggestions on ways to strengthen the most recent publicly released iteration of CNI that would help gain our support, and
- comments on how CNI fits into the larger context of the national shortage of homes that are affordable for people with the lowest incomes.

HOPE VI

HOPE VI is widely praised as responsible for the transformation of many public housing developments in varying stages of distress and the creation of well-designed homes in attractive communities. These successes come at a steep price, however. This brief critique of HOPE VI falls into two areas: displacement and the affordable housing shortage.

Displacement. As of September 30, 2008, 72,265 public housing families had been displaced by HOPE VI. Some of them were able to move to better homes in better communities with the use of Housing Choice Vouchers, others moved to homes and neighborhoods that were no better or even worse than the ones they vacated (with vouchers or to other public housing developments), and what happened to some residents remains unknown. Of the 72,265 families displaced by HOPE VI, as of September 30, 2008, only 17,382 had returned to the revitalized HOPE VI communities, a return rate of 24%.[2]

The residents whose housing and neighborhoods did not improve tended to be those with the most serious and complex problems including old age, physical and mental illnesses, low educational and employment success, or multigenerational families. Many residents who did move to less poor neighborhoods still struggled to earn enough to sustain their new homes.[3]

In all cases, displacement was involuntary. The disruption of a home that occurs when a move is not freely chosen by the people who must move is one of the most serious actions a government can take. In the history of United States, poor people and people of color have disproportionately been subjected to forced relocation. HOPE VI is one more chapter in this sad history. Forced relocation, even with good intent, must be approached with extreme caution. The first principle should always be to do no harm.

Affordable Housing Shortage. The second major criticism of HOPE VI has been that it has contributed to the severe shortage of rental homes that the lowest income people in the United States can afford. In the U.S. today, there are 9.2 million extremely low income (ELI) renter households (incomes of 0-30% of their area median) and only 6.1 million rental homes they can afford (i.e. pay no more than 30% of their income for their housing). For every 100 extremely low income household in the U.S, there are just 37 rental homes that are affordable

[2] Kingsley, T.G. (2009).). "Appendix A." In H. G. Cisneros and L. Engdahl (Eds.), *From Despair to HOPE: Hope VI and the New Promise of Public Housing in America's Cities*. Washington, DC: Brookings, pp. 299-306.
[3] Popkin, S. J. & Cunningham, M.K. (2009). "Has HOPE VI transformed residents' lives?" In H. G. Cisneros and L. Engdahl (Eds.), *From Despair to HOPE: Hope VI and the New Promise of Public Housing in America's Cities*. Washington, DC: Brookings, pp. 191-203.

and available to them.[4] As a result, these households pay precariously high portions of their income for the homes, leaving little left for other necessities. Nearly three quarters (71%) of ELI renter households spent over half of their incomes for housing in 2007 and the average ELI renter spent 83% of household income on housing.[5] The shortage of affordable rental homes for extremely low income households is the principle cause of homelessness in the U.S.

As a result of HOPE VI, there are many fewer public housing units that the lowest income people could afford. Prior to 1995, federal statute required "one-for-one replacement" of any public housing that was demolished. Congress repealed "one-for-one replacement" in 1995 and never provided enough funds for HOPE VI projects to replace the number of public housing units that were lost. HOPE VI proponents will point to data that shows a near equal number of replacement units at many HOPE VI sites. However, in these mixed income communities, only a portion of the new units are affordable to the extremely low income people and/or the people who lived in the public housing before.

HOPE VI reform. Congress has been grappling with reform of HOPE VI for several years, even as the annual funding for HOPE VI shrunk from a high of $755 million in FY94[6] to $135 million in FY10. The program was supposed to sunset in 2002, but was reauthorized until 2006 with some protections for tenants. Since then, it has been reauthorized each year in annual appropriations.

Under the leadership of Housing and Community Opportunity Subcommittee Chairwoman Maxine Waters (D-CA), the House crafted and passed H.R 3524, the HOPE VI Improvement and Reauthorization Act of 2008, on January 17, 2008 by a vote of 271-130. This bill provided far-reaching reforms long sought by NLIHC and other advocates, including mandatory evidence of severe distress, one-for-one replacement, resident right to return, resident involvement and services, and relocation services. Unfortunately, the Senate bill (S. 829) introduced in the 110th Congress did not offer the same reforms and was never taken up by the Banking, Housing, and Urban Affairs Committee. In considering the proposed CNI legislation, we urge the committee to make it as strong or stronger on these core issues as you did in H.R. 3524.

CNI vs. HOPE VI

Eligibility. The first and principle difference between CNI and HOPE VI is that CNI is not restricted to public housing redevelopment nor are eligible grantees limited to public housing agencies. In CNI, eligible properties also include other federally assisted housing and privately owned, unassisted housing. (CNI documents supplied by HUD are inconsistent on whether or not a neighborhood would be eligible if all the housing was privately-owned and unassisted.) Eligible grantees include the full range of potential partners from local governments, community development corporations, assisted-property owners, and private, non-profit and for profit entities, in addition to public housing agencies. Public housing agencies and advocates are

[4] Pelletiere, D. (2009). *Preliminary assessment of American Community Survey data shows housing affordability gap worsened for lowest income households from 2007 to 2008.* Washington, DC: National Low Income Housing Coalition.
[5] National Low Income Housing Coalition tabulations of 2007 American Community Survey.
[6] U.S. Department of Housing and Urban Development, "HOPE VI Program Authority and Funding History," updated March 2007, p. 1.

understandably concerned that the program will draw dollars away from the public housing that is still in need of redevelopment.[7]

The premise is that a distressed neighborhood may include housing in need of redevelopment with any number of different forms of ownership. The draft legislation provides some criteria of what a distressed neighborhood would look like –high poverty rate, high crime rate, high rates of vacant, abandoned, or substandard housing, poorly performing schools – but also would require that a neighborhood have the potential to be turned around, assessed primarily by its proximity to high functioning community institutions and services.

Given the requirement that potential "choice neighborhoods" be near these institutions and services, it is highly likely that these neighborhoods are on the cusp of gentrification. CNI investment could fuel gentrification unless necessary precautions are taken. In addition to preserving existing public and assisted housing in the neighborhood, the program should also include safeguards to preserve the homes (and their affordability) of the lowest income unassisted households in these neighborhoods, helping to assure that all existing residents benefit from any redevelopment.

To insure against the net loss of affordable homes and to protect the housing options of unassisted extremely low income households currently living in these neighborhoods, CNI grantees should be required to develop and adhere to a long term Affordability Plan. Such a plan would include an initial assessment of housing affordable to extremely low and very low income households (both assisted and unassisted) in the neighborhood. The Affordability Plan should show how the grantee would assure that the number of deeply affordable units will be maintained and expanded over the next 30 years. Grantees must identify resources and partners that would help accomplish the Affordability Plan. HUD should have the resources and authority to monitor and enforce these plans.

To further assure long term affordability of the existing homes in a neighborhood, eligible grantees should be limited to partnerships that have as their central focus the preservation and expansion of affordable housing for the lowest income households. A threshold criterion for a successful applicant should be a history of mission-driven commitment to the neighborhood in question. Finally, to preserve public resources and further assure long term affordability, the grant agreement should maintain public ownership of existing publicly held land.

Right to return. Another feature of CNI as currently proposed that differentiates it from HOPE VI is a right to return for displaced residents who want to return IF they were "lease-compliant" at the time of relocation and remain "lease-compliant" during the relocation period. We applaud HUD for proposing this important policy, but are concerned about the lack of a definition of "lease-compliant." We recommend instead that any tenant whose right of occupancy had not been validly terminated at the point of relocation or during the relocation period should have the right to return. We also urge the CNI legislation explicitly prohibit original residents from being rescreened for eligibility.

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[7]Cavanaugh, G. (forthcoming). "The national commission on severely distressed public housing – a revisit worth making." *Journal of Housing.*

It appears that the CNI proposal would remove the existing requirement that before project-based Section 8 tenants are required to relocate, their replacement housing is already built, as set forth in the annual HUD appropriations bill. Indeed, construction of replacement homes before any are demolished should be standard practice whenever feasible to minimize the disruption of forced relocation. Certainly, any redevelopment should acknowledge the school calendar and minimize moves during the school year.

One-for-one. The draft CNI legislation also asserts that one-for-one replacement of public and assisted housing is required, a fundamental difference with HOPE VI as currently in statute. However, the CNI proposal contains a very large loophole. A complete reading of the bill reveals it is possible that half of the hard units of housing could be demolished and not replaced. The proposal allows half of the units to be replaced with tenant-based vouchers if: 80% of vouchers issued in the local housing market in the last two years have been leased up in 120 days or less; existing vouchers are widely dispersed (with no definition of "widely dispersed"); and there is a "relatively high" vacancy rate of homes affordable at the current voucher payment standard (again no definition of "relatively high").

The argument is that some communities may have such excess housing stock that it is not cost effective to build new housing. But a tenant-based voucher does not a replacement unit make. If there is excess housing stock, grant funds should be used to maximize the energy efficiency and long term sustainability of existing homes and to attach project-based vouchers to them to assure affordability for the lowest income households in the wider community. We support the proposed provision to allow 100% of the replacement units to be subsidized by project-based vouchers. At the same time, we would object to any effort to allow the mobility function of project-based vouchers to be waived and suggest that the legislation expressly prohibit the HUD Secretary from doing so.

The CNI proposal appears to remove the existing requirement of one-for-one replacement of project-based Section 8 units upon the transfer of the contract, as set forth in the annual HUD appropriations bill and as included in the housing preservation bill that Chairman Frank will introduce shortly this week. This requirement should be maintained in the CNI proposal and expanded to cover other federally assisted housing.

Even if CNI is authorized, the amount of funding that will be made available for it in the foreseeable future is so limited that there is no valid argument for granting the flexibility to use such a high percentage of tenant-based vouchers. HUD should use this as an opportunity to reward one-for-one replacement as a measure of excellence in a given application, whether through redeveloped hard units or through project-based vouchers.

Deconcentration of poverty. Both CNI and HOPE VI reference the ill effects of the concentration of poverty and seek to reduce the number of poor people who live near one another, as a means of offering them greater opportunity. One way this is manifested in the housing redevelopment debate is where the replacement housing should be built, either on site where the previous development stood or at some other site in the community or region with greater access to services and opportunities.

The latest version of the Administration's proposal adds language that more clearly expresses support for building some of the redeveloped public or assisted housing on the original

site or in the targeted neighborhood. Without such a requirement for redevelopment on site, the promise of a right-to-return is an empty one.

One the other hand, housing choice is maximized if affected residents who want to move to a new neighborhood are provided with decent housing, the best possible relocation assistance and mobility counseling. The proposed bill requires such assistance, but could be more specific about what services are mandatory and what services are simply eligible for funding.

Resident participation. Both CNI and HOPE VI assert a high value on residents having an active role in the planning and implementation of the transformation of their communities. The proposed CNI bill has inclusive local planning as one of 17 criteria that HUD will use to select CNI grantees. Experience with HOPE VI shows that authentic resident participation requires considerable investment of time and skill by the grantee or others. Moreover, if done poorly, it is more disempowering than no participation at all.[8]

The CNI legislation should include more specificity on how CNI grantees will engage residents of public and assisted housing and residents of the broader neighborhood, based on best practices for resident participation. In addition, the provision that allows up to 10% of the appropriated funds to be used for planning grants should expressly allow some of those funds to be used for resident and community education and participation efforts. Such funds could go to organizations that are independent from the grantee to encourage more authentic participation.

Housing plus services. Another similarity between CNI and HOPE VI is the emphasis on providing a range of services to residents to advance their social, physical, and economic well-being. This is particularly important for residents who are elderly, disabled, in poor health, have limited education or employability, and other vulnerabilities. High quality, intensive casework services are fundamental to achieving successful outcomes.

While most of the grant funds should be used for housing redevelopment purposes, each grant should include sufficient funds to conduct the best possible assessment of the needs and strengths of every resident who will affected by the neighborhood intervention and to carry out a service plan based on that assessment. While some of those services may be accessed through existing providers and resources in the community, the well-being of any person should not depend on the ability of the grantee to leverage scarce service dollars. Limiting the funds that can be spent on services to 15% may be too restrictive. The amount going to services in each grant should be based on real costs.

CNI applicants should also be required to comply with HUD's Section 3 program to provide economic and employment opportunities to low and very low income individuals. In addition, HUD should make clear that failure to comply will result in reduction or removal of CNI funding.

What is affordability? The CNI proposal is unduly vague in its presentation of how housing affordability is defined and gives the HUD Secretary broad latitude to establish the affordability restrictions on newly developed housing, thereby allowing housing that is unaffordable to ELI and VLI households to be developed with CNI resources. While existing

[8] Crowley, S. (2009).

laws would apply to units that continue to be public or assisted housing, there are no such requirements for the privately owned housing that would be purchased and redeveloped with CNI funds. Strict income targeting and rent setting based on resident income should be required of each grantee. CNI grantees should be expressly required to honor the Brooke rule and to assure deep income targeting of units proportional to the need in the community. While there is a need for discretion and flexibility in any national program, the CNI proposal needs more structure to ensure the best use of scarce federal funds.

CNI in the Broader Context

The merits of the CNI proposal notwithstanding, it is a new HUD program that will have little or no impact on the millions of extremely low income people for whom housing affordability and stability are still out of reach. The number of neighborhoods that can be transformed is very small (five at the most?) at the level of funding that the Administration is proposing. It seems like some variation of this kind of redevelopment scheme is proposed every few years. (And they usually end up with less than promised results.) Yet, the affordable housing crisis for the poorest people in our country continues unabated.

The Obama Administration and Congress should tackle the macro problem of the shortage of homes that are affordable to the neediest of our citizens. We urge that an agreement be reached soon on how to provide the initial capitalization of the National Housing Trust Fund. This should be followed quickly by agreement on long term revenue sources to allow the program to go the scale needed to actually change the supply side of the supply and demand equation for housing that the lowest income people can afford. Revenue sources need to be sufficient to reach the goal of 1.5 million new homes over ten years.

Further, Congress should significantly increase the number of housing vouchers that are authorized each year. The 150,000 new vouchers in H.R. 3045, the Section 8 Voucher Reform Act, is a good start. We think the size of the voucher program needs to be doubled to impact the way the market will respond to the huge pent up demand for good housing that extremely low income families can afford.

Distressed neighborhoods can be transformed if the people who live there have real housing choices in the marketplace.

Thank you for the opportunity to testify today.

TESTIMONY OF SECRETARY SHAUN DONOVAN
HEARING ON CHOICE NEIGHBORHOODS LEGISLATION
BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE
WEDNESDAY, MARCH 17, 2010

Thank you, Chairman Frank, Chairwoman Waters, Ranking Members Bachus and Capito and Members of the Committee for this opportunity to discuss our proposed Choice Neighborhoods legislation, and the HOPE VI program – the history and promise of which we seek to build upon today.

A Celebration of HOPE VI

Choice Neighborhoods is built on a foundation of 17 successful years of HOPE VI. Choice Neighborhoods celebrates the successes of HOPE VI, enshrining the lessons we've learned from the most innovative and successful HOPE VI developments into a program that gives communities in distress more tools to tackle their interconnected needs.

Choice Neighborhoods expands HOPE VI's redevelopment toolkit to allow for redevelopment of private and federally assisted properties alongside public housing. This means that the disinvested private or assisted housing that frustrated cities and housing authorities and fostered crime and blight can now be included in comprehensive neighborhood revitalization efforts.

The best HOPE VI developments have integrated supports for their residents, ensuring high quality educational opportunities for children, and addressing the health and job readiness needs of adults. Choice Neighborhoods makes it easier for local communities to focus on these fundamental needs, allowing greater funding flexibility to knit support services into the revitalized community, improve community assets, and ensure high quality educational opportunities for young children.

We also learned from our best HOPE VI developments that it was possible – and vital – to replace the entirety of units being redeveloped, either in the neighborhood or elsewhere in the community, and provide the opportunity for residents to return to the redeveloped housing. And that's why Choice Neighborhoods includes a strengthened policy of one-for-one replacement, and protects the ability of residents to return to their homes.

Finally, just like the best of HOPE VI, Choice Neighborhoods is targeted at the neighborhoods with the greatest need for Federal investment – neighborhoods of concentrated poverty.

The Fight against Concentrated Poverty

Neighborhoods of concentrated poverty are typically marked by high crime and unemployment rates, health disparities, struggling schools and faltering civic institutions. These neighborhoods have serious negative consequences for the well-being of adults and children. Using a study that tracked 5,000 families since 1968, the Pew Economic Mobility Project found that no other factor, including parents' education, employment, or marital status, was as important as neighborhood poverty in explaining why African-American children were so much more likely

to have lower incomes than their parents as adults. This intensification of negative impacts of poverty makes living in distressed inner-city public and assisted housing developments a significant barrier for poor families, hampering the already difficult task of breaking generational cycles of poverty. Many of these communities – in inner cities, distressed older suburbs, and some rural towns – are economically isolated, racially segregated, and battling gangs and the violent drug trade. What's more, the schools in these neighborhoods are some of the most persistently underperforming in our nation. This isolation limits opportunity and constrains choices for residents who feel as if they are under siege every day, and is one reason we can predict life expectancy by zip code. Mr. Chairman, I know we agree that no child's chances in life should be determined by the zip code they grow up in.

Failure to address these pockets of concentrated poverty compounds harm to low-income families, exacerbates disparities in our society, and prevents children in those neighborhoods from fulfilling their potential. Every day we fail to solve this problem, we lose more jobs, more new entrepreneurs, more children that could otherwise be entering college or starting a career and making our economy more competitive. Economists call this an opportunity cost – sacrificing the opportunity for young people to achieve success. I think most of us in this room today would call it appalling.

The Foundation of HOPE VI

HOPE VI has become one of our country's most powerful weapons to fight concentrated poverty and rebuild distressed public housing. HOPE VI has made the federal government a partner to local housing authorities and communities, emphasizing mixed-income communities, leveraging financing, and incorporating supportive services. The $6 billion we have invested in HOPE VI has leveraged twice that amount in additional development capital – $12.3 billion. This is a strong return for the taxpayer, but has also ensured the investment of many parties in the success of the program. HOPE VI has also provided flexibility to local agencies to mix rental and homeownership units on the same site or in the surrounding neighborhood. All of these are lessons that we have built into Choice Neighborhoods.

Congress allowed significant flexibility in the HOPE VI authorizing legislation for the program to evolve over time. And from the beginning, public housing authorities that used these funds to rebuild distressed housing in neighborhoods of concentrated poverty have pursued social interventions to complement their capital investments – incorporating community centers and on-site facilities for service providers, childcare centers and retail services for the neighborhood, and case management and housing counseling for residents. Over time, HOPE VI has evolved from focusing on output – the number of units built or rehabilitated – to also including an emphasis on best practices, encouraging participants to invest in the most meaningful neighborhood impacts.

This reminds us that HOPE VI hasn't just been about tearing down buildings; it has also been about tearing down ossified social policies. Choice Neighborhoods builds on this model by providing grantees with more flexibility to integrate these investments, and by incentivizing strong local partnerships to implement them.

At its best, HOPE VI has helped change the world outside the project gates. Many neighborhoods surrounding HOPE VI sites have improved dramatically, experiencing reduced poverty, crime, and unemployment; increased income and property values; and more investment, business growth, and jobs. Through HOPE VI, a standard of practice has developed, showing that including residents in planning is not only the right thing to do, but also speeds implementation. HOPE VI has emphasized that relocation of families must be carefully planned and thoughtfully implemented – reminding us that a voucher isn't always the only tool needed to help families navigate the private housing market. As such, we've also learned how to provide effective support services, both on-site for residents in the development, and off-site, for residents who relocate with vouchers. We have built each of these lessons into Choice Neighborhoods.

Choice Neighborhoods: Building on HOPE VI

Let there be no doubt, then – HOPE VI has changed the face of public housing across the country. That's why, Mr. Chairman, Choice Neighborhoods allows communities to use these same tools to tackle distress beyond public housing.

The sad truth is, even some of our best HOPE VI projects are islands of hope adrift in a vast sea of need. For example, fifteen years ago, the media spotlight briefly focused on the nightmarish conditions in one Washington DC neighborhood's large, distressed housing developments – Frederick Douglass, Stanton Dwellings, Parkside Terrace and Wheeler Terrace. To quote a report commissioned by Secretary Cisneros, Washington Highlands presented a "worst-case situation" for HUD. As the report stated, "two separate and distinct HUD program areas…[were] alleged to be contributing to the deterioration" of the neighborhood – public housing and Project-based Section 8.

Thanks to HOPE VI, local and national non-profits, the DC government and private developers had ready access to a program to develop the public housing properties – and had secured other financing to build a new community center, elementary school, public library, and a parks and recreation facility. But the challenge didn't end there, because the two other housing developments in Washington Highlands didn't qualify for HOPE VI funding, simply because they were subsidized by different programs at HUD.

Mr. Chairman, the media didn't make the distinction. The residents didn't make the distinction. Gangs and drug dealers certainly didn't make the distinction. And thankfully, the community leaders who were fighting to turn the neighborhood around didn't make the distinction either. The only one to make the distinction was HUD. Thankfully, those community leaders forged ahead through a needlessly difficult process, navigating with public and private partners to secure funding to redevelop these projects.

Back in 1994, HUD had "no ready mechanism" to deal with the problem of high concentrations of distressed public and assisted housing in a single neighborhood of concentrated poverty. Today, we do – it's called Choice Neighborhoods.

Choice Neighborhoods allows the HOPE VI tools housing authorities use to remake public housing to be available for assisted and other blighted housing – housing that HOPE VI wasn't allowed to touch in Washington Highlands.

We saw in HOPE VI that the foundation for success in neighborhood transformation is the rigorous development of a thorough neighborhood plan at the local level, and the capacity and will of local partners to manage to that plan. The partnerships formed to execute these transformation plans draw in expertise, attract private investment and spur cross-fertilizing initiatives. Building on HOPE VI, Choice Neighborhoods expands the field of community leaders who can lead these efforts, allowing non-profit housing developers, cities, and others to partner with housing authorities and assisted housing owners.

These partnerships will enhance the legacy of HOPE VI in providing essential support services for residents. HOPE VI taught us that absent a more comprehensive approach, housing interventions are often insufficient to improve the lives of poor families. That is why Choice Neighborhoods will provide funding flexibility for health and other service coordination, job supports, and work incentives for adults. These approaches aren't just better in the long run for the residents, but when done right they create significant savings for state and federal investments in Medicaid, unemployment insurance, and the criminal justice system, exemplifying that the "technology" of combining housing and supportive services has progressed rapidly – particularly for our most vulnerable populations.

Choice Neighborhoods also builds in two new tools to help local partnerships address critical elements of neighborhood transformation – ensuring high quality educational opportunities for children, and building on, and improving, the community assets central to the sustainability of the neighborhood.

The best HOPE VI developments held to these principles, to ensure long-term viability and access to opportunity. Charlotte's First Ward Place includes a highly-rated early childhood education center, and is within walking distance of jobs, important services, and public transportation. Boston's Mission Main has close ties not only to schools, but some of the best hospitals and universities in the country.

In the Murphy Park development in Chairwoman Waters' hometown of St. Louis, the developer not only raised an additional $5 million from private and philanthropic interests to modernize the troubled neighborhood school, Jefferson Elementary – he also worked closely with residents and the school board to hire a new principal, with a new curriculum and a new focus on technology, the arts and after school programs. In the years following Murphy Park's completion, unemployment surrounding the development fell by 35 percent, according to a Brookings study. The median household income rose more than four times as fast as the city as a whole. And Jefferson Elementary came to serve 75 percent of the neighborhood's children and children from surrounding communities.

For children in these developments – indeed, for all children – the early presence of sustained and high quality interventions in the educational arena, beginning with high quality early childhood education and continuing from there, are substantial contributors to their likelihood of

graduating from high school and entering college. In 2009, only months into the Obama Administration, we took the first step of adding an early childhood education component to HOPE VI, because too many children in these developments show up for kindergarten already behind, and many never catch up. In Choice Neighborhoods, we catalyze communities to go further – asking local communities to build partnerships that ensure high quality educational opportunities for resident children, and providing funding flexibility to partner with local educators and increase access to a continuum of support services that improve educational outcomes. In this way, Choice Neighborhood dollars can be the glue that connects a local commitment to effective schools to the children with the greatest need.

Choice Neighborhoods also builds in new flexibility for communities to improve the key assets that expand opportunity for their residents. To ensure that residents can access opportunity, a portion of Choice Neighborhoods funding can be used to improve resident access to services such as public transportation, fresh food, and health centers, as well as to construct critical community improvements.

Of course, while a rigorously-developed plan and local commitment is necessary for neighborhood revitalization to be successful, we do recognize that different communities are at different levels of preparedness. That's why Choice Neighborhoods has also dedicated a portion of the overall allocation for planning grants. These planning grants ensure that those communities who aren't yet able to fully undertake a successful neighborhood revitalization can start down that path, with the federal government catalyzing their progress and incentivizing local support. I am committed to ensuring residents are never penalized because they live in communities that are not yet able to build and execute a strong transformation plan.

Choice Neighborhoods Legislation

Through work in both authorizing and appropriations committees, Congress provided $65 million in Fiscal Year 2010 for HUD to take the first steps toward this Choice Neighborhoods model. And I want to thank you for that important step forward. Since beginning to work on this new initiative more than a year ago, HUD staff has met extensively with Congressional representatives on both sides of the aisle and in both houses, across the administration, and with other key stakeholders to ensure that the program design is effective, sensitive to residents' needs, and properly aligned with other investments.

On an interagency basis, we are working through the White House Neighborhood Revitalization Working Group to align Choice Neighborhoods' focus on neighborhoods of concentrated poverty with other related efforts across the Administration. This includes aligning the focus of Choice Neighborhoods on high quality educational opportunities with investments in evidence-based strategies supported by the Department of Education, including Promise Neighborhoods, to ensure there are effective schools and other quality learning opportunities at the center of each neighborhood. Example after example in communities across the nation has shown us that the correlation between successful housing and good schools is not just theory – it's practice. And it's time to bring that practice to scale in neighborhoods across the country.

In addition, HUD is in the planning stages of alignment with the Department of Justice's Byrne Criminal Justice Innovation program, which supports communities in reducing crime through collaborative, community-based and evidence-based approaches that also strengthen neighborhood revitalization efforts. The Department of Health and Human Services is also in the process of identifying the key community-based programs to align with these neighborhood revitalization efforts.

After HUD publicly released our initial draft of the Choice Neighborhoods legislation, we held a series of community workshops to hear from Members of Congress and from stakeholders across the country. The proposed authorizing legislation we discuss today incorporates the feedback from those sessions. While our intent is for Choice Neighborhoods to give communities sufficient flexibility to coordinate necessary elements of neighborhood revitalization, stakeholders encouraged clear standards about what should and should not be funded.

For example, our proposed legislation has set a reasonable limit to the amount of money going to vital community improvements or social services and explicitly states that funding can't be used for school construction. Choice Neighborhoods dollars must serve as the catalyst for other capital or construction investments, and with common-sense boundaries on how funds can be used, they will be.

We learned from HOPE VI that in some tight housing markets, desperately needed affordable homes were lost through demolition. That is why our proposed Choice Neighborhoods legislation includes a strengthened one-for-one replacement requirement, in which demolished or disposed-of units must be replaced by hard units. Vouchers may serve as replacement units only in limited cases, where there is an adequate supply of affordable rental housing in areas of low poverty.

We learned in HOPE VI that some households have been unfairly screened out of new developments – sometimes by procedures that treated families as little more than the sum of their FICO scores. At some developments, well-intended policies precluded residents from returning to the new mixed-income communities. Early on, and particularly as HOPE VI grantees rebuilt fewer units then they'd started with, HUD began requesting the tracking of original residents to ensure they secured an opportunity to return, although that wasn't easy or always practical. That's why with this legislation, we have built this lesson from HOPE VI into the design of Choice Neighborhoods, which protects the right of lease-compliant residents to return to the redeveloped housing.

Some have asked who would be able to apply for Choice Neighborhoods. An early, and rough, estimate indicates that based on neighborhood poverty and distressed housing, over 325,000 units of HUD public and assisted housing be eligible for Choice Neighborhoods – over three-quarters of which is public housing. And by requesting the program be authorized at $250 million – more than double the funding we had for HOPE VI in FY 2009, when this funding was available to public housing alone – Public Housing Authorities are well positioned to seize opportunities for Choice Neighborhoods. Further, over 30 percent of public and assisted housing developments in neighborhoods of high concentrations of poverty are located in neighborhoods with both a troubled public housing development and a troubled Project Based Section 8

development. And in the candidate neighborhoods HUD has preliminarily identified, there are over three times as many public housing units as project-based Section 8 units.

I would note, however, that Choice Neighborhoods isn't the answer for every disinvested public housing or assisted housing community – but rather one tool in a continuum of options we are providing communities seeking change. For some communities, a recapitalization with tax credits or new financing may be a better answer. And for public housing and assisted housing communities that don't require the comprehensive investment of Choice Neighborhoods, HUD's FY2011 budget proposes the Transformation of Rental Assistance (TRA), to move HUD's rental housing programs into the 21st century housing market mainstream, leveraging other public and private capital to improve the quality of housing.

Combined with HUD's Sustainable Communities Initiative, which includes $140 million in Planning and Challenge grants to bring transportation and housing planning together at the local level to reduce costs and connect housing to jobs, we believe Choice Neighborhoods has the potential to revitalize and transform communities across the country.

Implementation of the Choice Neighborhoods Program

HUD seeks authorizing legislation for Choice Neighborhoods. The authorizing legislation that you are reviewing will also serve as the guide for the Fiscal Year 2010 competition. Program funds will be targeted at those neighborhoods that meet three important criteria: severely distressed public or assisted housing; concentration of poverty; and potential for long-term viability.

- "Severely distressed housing" is public or assisted housing that requires major rehabilitation or demolition, and is vacant or a contributing factor to the decline of the neighborhood.

- "Concentration of poverty" does not rely on a bright-line formula based solely on percentages of families in poverty. Criteria will take into account high crime, neighborhood blight and abandonment, and the lack of high quality educational opportunities – all factors that combine to limit opportunity for children and families.

- "Long-term viability" exists in a neighborhood that will build on or bring key neighborhood assets to support the economic and environmental health of the community, including educational institutions, medical centers, central business districts, major employers, effective transportation, or adjacency to low-poverty neighborhoods.

For Fiscal Year 2010, HUD is currently preparing two Notices of Funding Availability (NOFAs), one for HOPE VI and one for Choice Neighborhoods. The HOPE VI NOFA will be published this spring, and we expect to make awards of funds in the fall. The process will be essentially identical to the way HOPE VI funding allocations have been made in recent years. Because there is more work to do in this first year, the NOFA process for Choice Neighborhoods will take longer. We expect to select applicants over the course of two rounds. We intend to announce an initial competition in the summer. From this pool of applicants, we will select a

group of finalists. The finalists will then be given an opportunity to put together a more complete application and a small number of applicants, perhaps two or three, will be selected for funding in early 2011.

This dual-round process will accomplish two key goals. First, it will minimize the number of applicants who have to make significant financial investments to develop a plan which relies on federal funding they do not then receive. Second, it will help HUD determine how best to allocate planning grant applications, giving us a fuller understanding of the challenges applicant communities are facing.

The Geography of Opportunity

Mr. Chairman, I believe that when you choose a home, you don't "just" choose a home. You also choose transportation to work, schools for your children, and public safety. You choose a community – and the choices available in that community.

Just as HUD's Office of Sustainable Housing and Communities is helping regions tackle high-level sustainability challenges, we must support America's most distressed neighborhoods to tackle the stark challenges they face – housing decay, concentrated poverty, crime and disinvestment, lack of educational opportunity, lack of public transportation, and lack of economic opportunity.

Because if a century of housing policy has taught us anything, it's that if there isn't equal access to safe, affordable housing in neighborhoods of choice, there isn't equal opportunity.

And if seventeen years of HOPE VI has taught us anything, it's that building communities in a more integrated and inclusive way isn't separate from advancing social and economic justice and the promise of America – it's absolutely essential to it.

It's inseparable from the idea that, in America, our children's hopes and our dreams should never be limited by where they live.

Ensuring they never are is the goal of Choice Neighborhoods – indeed, of all the work we do together. And with that, I would love to take your questions.

Statement of Ms. Nancy R. Eldridge, Executive Director
Cathedral Square Corporation

Testifying on behalf of the
American Association of Homes and Services for the Aging

"The Administration's Proposal to Revitalize Severely Distressed Public and Assisted Housing: The Choice Neighborhoods Initiative"

Wednesday, March 17, 2010

Good morning Chairman Frank, Ranking Member Bachus, and members of the Committee. My name is Nancy Eldridge and I am pleased to be here to today, representing the American Association of Homes and Services for the Aging. The members of the American Association of Homes and Services for the Aging (www.aahsa.org) serve as many as two million people every day through mission-driven, not-for-profit organizations dedicated to providing the services people need, when they need them, in the place they call home. Our 5,700 members offer the continuum of aging services: adult day services, home health, community services, senior housing, assisted living residences, continuing care retirement communities, and nursing homes. More than a third of our membership is housing members; it is the fastest growing segment of our membership; and most of them are assisted housing providers. AAHSA's commitment is to create the future of aging services through quality people can trust.

Cathedral Square currently provides affordable housing for over 1,000 seniors. The housing communities we have developed across the State of Vermont include affordable assisted living; shared housing; multigenerational communities; limited equity coops; housing with wellness clinics and Adult Day programs on site; and barrier free accessible housing for all ages, incomes and abilities. We can not keep pace with the need: we have a waiting list of over 600 seniors.

AAHSA members are not only faced with the challenge of keeping pace with the need for new affordable housing for seniors, we are also facing a new challenge – preserving our existing

affordable housing. This new challenge is driven by the fact that the health care and long term care needs of our residents are changing dramatically. When we first observed this trend in the late 1990s we thought affordable assisted living was the answer. We were one of the first 202 providers to receive funding under HUD's Assisted Living Conversion Program. This has provided an affordable option to the lucky few who were able to move there; however, the limitations of Medicaid funding and regulations have led us to conclude that assisted living is not a comprehensive solution to preserving affordable senior housing. Because most seniors do not want to leave their homes, and because alternatives to remaining at home (such as nursing homes) cannot keep pace with the future demand, we are seeking a solution that assumes that seniors will remain in our affordable housing, regardless of the severity of their health or mental health needs.

We believe the needs of seniors will be met through service networks developed at the neighborhood level, networks that can provide a source of employment for younger residents and a source of community service for students. This approach is founded on the idea that successful communities are not possible when we create silos where housing programs are unrelated to supportive services, or the elderly are separated from families. AAHSA is working with member organizations in a number of states to develop Housing with Services models that could be layered onto any neighborhood. Vermont's model – Seniors Aging Safely At Home (SASH) – places housing providers at the center of health care reform. Housing providers will be integrated into our state's electronic health information system connecting housing providers to primary care physicians, community health centers, Visiting Nurse Associations, community hospitals and community mental health agencies. This approach creates the opportunity for housing to serve as a neighborhood HUB for care coordination to seniors who live in the neighborhood, and may have a Section 8 voucher, but do not live in a congregate setting. Perhaps more importantly, the SASH model creates a sustainable funding source through Medicare and Medicaid by reimbursing for quality outcomes vs. volume of services. SASH is a population based approach to meeting the needs of seniors by utilizing the assets of the community. We believe that this

model or similar models could be implemented in many neighborhoods or communities that will be the focus of CNI whether or not a senior housing property is an applicant for CNI funding.

During this hearing, you have asked us to provide our impressions of the Choice Neighborhoods Initiative, to address how the proposal could be improved, how the proposal can provide services to seniors and any other observations about its importance to the revitalization of assisted housing. Let me start by saying that AAHSA believes that Choice Neighborhoods should and could provide

opportunities to advance aging in place strategies that are so critical to the health and success of neighborhoods and to seniors.

We applaud the proposed new Choice Neighborhoods program and the Choice Neighborhoods Initiative Act of 2010 (CNI). It is a logical and welcome successor to the HOPE VI program, builds upon its strengths and addresses some of its flaws. Although AAHSA members have not been involved in HOPE VI, we have observed that in some HOPE VI projects, the housing and services needs of seniors have been addressed.

In CNI, for the first time as sponsors of assisted housing, we will have an opportunity to participate in broad revitalization efforts in our neighborhoods and communities instead of just tackling the preservation of our properties one by one. We believe that the Choice Neighborhoods initiative offers a unique opportunity to address deteriorating neighborhoods of extreme poverty and dilapidated housing where many seniors reside today, creating neighborhoods that will be sustainable and viable for the long term; however, the proposal and the legislation as drafted fail to address the senior population and the services they require to live independent lives in dignity and age in place.

The senior population, those over 65, is expected to double by the year 2030, from 35 million to 70 million. Fifty percent of today's seniors are over 75. Those over 85 –now 3.5 million-- are

expected to double by 2020 and double again by 2040. Half of the seniors over 85 are disabled or frail and that number is projected to double by 2030. More than one third of senior households have incomes at or below $17,500. Indeed, Harvard's report, *State of the Nation's Housing 2002*, found 8.4 million of the nation's 21 million elderly households have incomes of less than $10,500 a year. Among the lowest income elderly households (6.5million), 38% pay more than 50% of their annual income for rent.

The proposed program and legislation seem to assume that only families with children reside in neighborhoods of extreme poverty. However in many of the older, poorer neighborhoods that are concentrated in many of our cities, there are concentrations of seniors in addition to the families with children that are the focus of the Choice Neighborhoods Initiative. In rural communities as well, there is a growing senior population. By the year 2030, nearly all of the top ten "oldest states" will be rural with the exception of the number one ranked state, Florida. The top ten in

addition to Florida include Maine, Wyoming, New Mexico, Montana, North Dakota, West Virginia, Vermont, Delaware, and South Dakota.

Many of those elders now reside in public and assisted housing and in the neighborhoods surrounding the housing that is intended as the focus of CNI. Seniors rely disproportionately on federally subsidized housing and public housing. Today, more than 1.6 million households, located in every Congressional District in the country, are subsidized with project-based Section 8 assistance, including Section 202 properties built from 1974 through 1994. Two-thirds of these households include persons who are elderly or disabled. Many of these seniors reside in the old 236 and 221(d)(3) properties so desperately in need of revitalization. In the single family housing surrounding these multifamily properties, many of the residents have tenant based vouchers. Of the 2.1 million voucher holders, nearly 50% are either elderly or persons with disabilities. Nearly one third of public housing residents are seniors, living not only in housing designed for seniors, but in public housing communities where they have lived their entire lives.

We encourage the Department to recognize that seniors have a unique set of needs and issues when it comes to housing. Our national goal of maintaining diverse, fully integrated, supportive communities where seniors can age-in-place requires an intentional effort. Transforming neighborhoods of extreme poverty into mixed-income neighborhoods of long-term viability must pay close attention to seniors in the community and the service providers necessary to serve them whether or not the CNI applicant is a senior housing provider.

The CNI offers the perfect opportunity to recognize and succeed in that intentional effort. Multifamily housing can be the focal point. The economies of scale created by affordable, multi-unit residential settings provides an efficient platform for the delivery of home and community based services to help residents meet their needs as they age. As I mentioned earlier, the potential also exists for these congregate properties to become a hub for service delivery, extending their reach to seniors in the surrounding neighborhoods. In rural communities, a senior housing site can be the hub for service delivery for the entire community or county. Many proactive housing providers already have cobbled together various public and private resources to help support their aging residents.

The CNI offers a new framework to provide a sustainable system for offering affordable housing with services and encouraging housing providers, service providers, states and local communities to implement these strategies. A CNI that addresses the supportive services needs of seniors offers an opportunity as well for training and job creation for residents in the community. We would respectively recommend that Congresswoman Velasquez' bill, HR 4224, Together We Care Act, be integrated into the Choice Neighborhoods Initiatives Act. That legislation provides for training and employment of home health aides and caregivers for seniors from among the residents of public and assisted housing.

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Fundamental to this new framework is collaboration among multiple federal entities and state and local entities to coordinate programs and resources to build a coherent, comprehensive strategy that can amplify the impact of their individual efforts which is at the heart of the CNI. A large number of federal programs across several federal agencies are targeted at seniors. The CNI proposal acknowledges that communities are comprehensive and multi-faceted. Over the last several years the Centers for Medicare and Medicaid Services (CMS) and the Administration on Aging (AoA), have worked hard to encourage reduced dependence on institutional care for seniors and persons with disabilities. The "New Freedom Initiative," "Money Follows the Person" and "Aging and Disability Resource Centers" are examples of opportunities that have emerged to help seniors remain in their communities.

The need for program coordination is widely acknowledged. Any new effort would benefit significantly by capitalizing on the coordination that has begun within these agencies. As well state and local programs including the State Units on Aging, the Area Agencies on Aging, local aging programs offices, home health agencies, care managers, meals programs, housekeeping and chore services, visiting nurses and other providers already work together to offer services to seniors but in a disparate and scattered way typically home by home. The CNI offers an opportunity to focus and coordinate those services in a central location – the multifamily housing site that could be at the center of a CNI application.

We offer the following recommendations as amendments to the proposed legislation to ensure that the elderly who reside in neighborhoods of extreme poverty are included and served by the revitalization efforts of Choice Neighborhoods. These recommendations assume that seniors reside in these neighborhoods not that senior housing will necessarily be the primary applicant.

Eligible Neighborhoods. Neighborhoods where there are concentrations of seniors should be specifically identified as eligible neighborhoods. Neighborhoods where seniors are living often without health and supportive services are more likely to overwhelm the emergency response teams and hospitals as they cycle in and out of hospital emergency rooms and are every bit as distressed as neighborhoods with poor schools or high crime rates. Although we recognize that

there are limited funds available, we also would hope that CNI be available in rural communities or smaller towns, not just limited to major urban areas.

Eligible Applicants. We agree with the applicant list included in the proposed legislation – public housing authorities, local governments, community development corporations, and for profit and not for profits owners and sponsors of assisted housing. However, we would encourage the Congress to require that any application for assistance from a housing owner, public housing, non profit, (including the CDC), and for profit be submitted by a partnership of that housing owner and the local government. The partnership should be established from the start, so that the local government is involved from the beginning and expects to provide the city services and supports that will be necessary to implement a successful transformational plan.

Authorized Activities. As it is likely that seniors will be a significant portion of most CNI neighborhoods, developing viable health and supportive services programs in partnership with the local aging services providers should be required. The activities should promote aging in place. Funding endowments, escrows or revolving funds for supportive services are critical if the transformation activities are to serve seniors.

Transformation Plan and Selection. Any transformation plan should include demographic projections and local planning with input from senior housing providers, local Area Agencies on Aging and Aging and Disability Resource Centers, and should be required to demonstrate that the transformation plan includes the provision of appropriate supportive services to promote senior independence and aging-in-place.

Replacement housing. Revitalizing senior housing typically will not involve demolition or replacement of housing. Most senior housing needs to be rehabilitated to provide accessibility or enhancements so that seniors can age in place – new bathrooms, new kitchens, changes in flooring

and lighting to accommodate the changes in seniors' mobility and sight as they age, and emerging technologies that allow seniors with memory disorders or multiple chronic conditions to remain safely in their home. The only "demolition" is the reconfiguration and combination of efficiency units to create one bedroom units that will better serve seniors. There should be exceptions to the one for one replacement rules included in the draft legislation so that these kinds of renovations can be accomplished. If market demand is still strong, then the revitalization plans should require replacement of hard units in another location in the neighborhood. While tenant based assistance as replacement housing can be suitable for families displaced by revitalization, they are less so for seniors. Where senior housing settings are not part of the transformation plan, the CNI should take special care where seniors are displaced to identify new project based housing opportunities, or to require the right to return to the neighborhood and the new housing.

Conclusion

Thank you for the opportunity to provide our thoughts about how the Choice Neighborhoods Initiative meets the needs of the elderly. The need for a comprehensive approach to economically distressed neighborhoods and communities is undeniable. We believe that Choice Neighborhoods offers that opportunity but that as proposed it is not comprehensive enough. It fails to recognize that so many of the distressed neighborhoods and communities that are the focus of CNI have significant elderly populations whose service needs seemingly are left out. While we are not recommending that senior properties be the focus of CNI or that a portion of the funding be directed to neighborhoods of senior concentration, we do believe that CNI should address the needs of the many seniors who currently reside in deteriorating neighborhoods of extreme poverty and dilapidated housing . Only in that way will CNI create neighborhoods and communities that will be sustainable and viable for the long term.

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TESTIMONY TO UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON FINANCIAL SERVICES

HEARING ON "THE ADMINISTRATION'S PROPOSAL TO REVITALIZE SEVERELY DISTRESSED PUBLIC AND ASSISTED HOUSING: THE CHOICE NEIGHBORHOODS INITIATIVE"

MARCH 17, 2010

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Chairman Frank, Ranking Member Bachus, and distinguished members of the committee, thank you for the opportunity to provide this testimony on the Administration's proposed "Choice Neighborhoods Initiative." Over the past 10 years I have studied the HOPE VI program and other forms of public housing transformation at both the national and local level. I have conducted a study of the *Hollman v. Cisneros* consent decree that resulted in the demolition of over 900 units of public housing and the redevelopment of a 73-acre site in Minneapolis. I have also evaluated the Harbor View

HOPE VI redevelopment in Duluth, MN which entailed the demolition of 200 units of public housing and the redevelopment of that site. I have created a database of more than 300 HOPE VI projects through 2007 that combines project information with census data in order to track neighborhood changes taking place in the communities surrounding the redevelopment sites. I am also working with a data base of all public housing demolitions since 1995 and have combined that with resident demographic data to examine the impact of public housing demolition on minority residents of public housing.

The Choice Neighborhoods Initiative Act (CNIA) of 2010 is an expansion of the HOPE VI program of public housing revitalization. This Bill proposes to expand HOPE VI, which currently applies only to public housing, to a much wider range of assisted housing operated by local governments, community development corporations and other non-profit agencies, and private sector owners. CNIA is based on the successes of the HOPE VI program in transforming public housing developments into attractive and vibrant mixed-income communities that have drawn middle income families and private sector investment to neighborhoods that have long lacked that type of investment. These successes, however, have come at some expense to the very low income families that had been living in the public housing communities demolished to clear the way for this transformation, and at some cost to the nation's long-term ability to address the housing needs of the poor. Any attempt to expand the HOPE VI model should incorporate not only elements that attempt to replicate the impressive neighborhood changes generated by HOPE VI, but also features that preserve assisted housing and protect the families currently living in those neighborhoods.

The lessons of HOPE VI

The HOPE VI program is now more than 16 years old, and policy makers have a relatively rich track record from which to draw. Furthermore, there is a significant body of research on the record of HOPE VI projects in cities across the country. Studies have examined the neighborhood impacts of public housing transformation and the effects of displacement and relocation on the original residents of the projects redeveloped.

Some of the lessons learned over the 16 years that HOPE VI has been in operation have been incorporated into the CNIA proposal. The program itself is based on one of the main lessons of HOPE VI – that the transformation of older, poorly managed and maintained assisted housing projects into new, mixed-income communities can trigger the return of the middle class and private investment to older, inner-city neighborhoods. The HOPE VI experience further suggests that successful transformation is more likely when other, non-housing related changes and improvements accompany the housing redevelopment. This prominently includes upgrading schools, public safety, and commercial retail opportunities. In addition, the program experience shows that successful transformation is more likely when the neighborhood benefits from amenities such as geographic proximity to downtowns and to major cultural or educational institutions. In fact, several HOPE VI projects located near downtown districts have spawned significant private sector investment and dramatic neighborhood turnarounds. From very early on in the evolution of HOPE VI, HUD emphasized the importance of targeting neighborhoods with the greatest potential for spillover investment, resulting in

many HOPE VI projects that have triggered patterns of gentrification that have radically redefined the communities.

The CNIA proposal incorporates these lessons by calling for redevelopment plans that a) incorporate critical community improvements that go beyond upgrading the housing stock, b) leverage funds from other public sector programs or the private sector, and c) link with local educational partners to enhance the quality of local schools. Perhaps most importantly, CNIA targets neighborhoods with demonstrated "long-term viability" that includes "adjacency to low poverty neighborhoods" and proximity to major cultural amenities (see section 5(c)). In these respects, the CNIA proposal seems to directly apply what has been learned through HOPE VI. In other respects, however, the CNIA proposal ignores lessons from the HOPE VI experience, especially as they relate to the experiences of the low-income families directly. It is to these that I now turn.

Summary of lessons from HOPE VI and other public housing transformations not integrated into CNIA

1. Not all families living in the housing targeted by HOPE VI wished to move. In the cases in which residents were asked by researchers, typically more than half responded that they would have preferred to remain in their public housing communities. For many residents, the favored solution to the conditions in which they lived was to improve the community, not tear it down and force their own relocation. This is likely to be true for residents of the communities targeted by CNIA, yet there is nothing in the program that speaks to minimizing

displacement and demolition, nor, in a broader sense, of shaping redevelopment plans according to the wishes and interests of the residents.

2. Displaced families tended not to relocate to "other neighborhoods of choice" as optimistically envisioned by the HOPE VI program or by the drafters of CNIA. Instead, they typically relocated nearby, in the same or other racially segregated neighborhoods with poverty rates above the average for the city and well above the average for the metropolitan area. Even when residents moved to neighborhoods that seem to be less distressed than their original community, there is evidence that this did not produce consistent life-improvements. Residents, it seems, judge neighborhood quality in ways that do not correlate strongly with the census-based measures used by program administrators and researchers to guide or judge relocation efforts.

3. Only a small percentage of original residents ever make it back to the redeveloped site. So few return, in fact, that it makes little sense to list the redevelopment itself as one of the benefits for original residents. The length of time between initial displacement and completion of the redevelopment limits the rate of return, as do new screening criteria applied by the private sector property managers employed at most of the redevelopment sites. CNIA makes reference to this phenomenon in section 8(a) by calling for transformation plans that "demonstrate that each tenant who wishes to return to the on-site or off-site replacement housing may return." Yet, the Act provides no clues as to how this requirement is to be reconciled with the mixed-income objectives of the program that will in most cases lead to a significant reduction in assisted units.

4. The HOPE VI program was authorized after a National Commission on Severely Distressed Public Housing (NCSDPH) studied and documented the extent of severely distressed public housing in the U.S. The Commission recommended a program of rehabilitation and modernization of this housing stock. The HOPE VI program, however, went far beyond the Commission's vision in both the extent of the redevelopment pursued (becoming a program of widespread demolition instead of rehabilitation and modernization) and in the number of units affected (demolishing far more than the 86,000 severely distressed public housing units originally estimated by the Commission). This is one of the most important lessons of HOPE VI; that without controls over the scope of the program, it expanded quickly to activities that were more invasive and disruptive than necessary and to properties that did not require such interventions. In fact, examples of successful, transformative public housing rehabilitation exist, but have been ignored or discounted in the implementation of HOPE VI. Some HOPE VI developments that have been demolished and redeveloped were regarded by their tenants as well-functioning communities that could have been preserved with a more thoughtful and moderate plan of rehabilitation, and did not exhibit the extreme dysfunction and distress initially targeted by the NCSDPH. The potential for CNIA to lead to a repetition of this pattern in which functioning communities are unnecessarily eliminated in favor of a demolition approach calculated to produce the greatest amount of neighborhood change is, I believe, great. To my knowledge there has been no effort parallel to that undertaken by

NCSDPH to document the number of distressed units of assisted housing that require the redevelopment model called for in this proposal.

5. The little evidence that exists on the operation of mixed-income communities indicates that people in mixed-income communities tend not to interact across class lines. The main advantage of life in a mixed-income community from the standpoint of very low income families is the improved property management that typically accompanies the presence of middle income residents.
6. The most consistent and strongest benefits reported by families displaced from the HOPE VI program are in the area of increased sense of safety and increased perception of social order in their new neighborhoods. This (and improved property management) could be produced by improving existing neighborhoods rather than through demolition and redevelopment.
7. Other hoped-for benefits of HOPE VI have not reliably been produced. These include better educational experiences and performance for the children of HOPE VI families, and physical and mental health improvements.
8. There has been no self-sufficiency, employment or income benefit to families displaced by public housing transformation. In fact, there is some evidence that displacement and moving to housing subsidized with Housing Choice Vouchers disrupts employment and induces greater levels of economic insecurity among many low-income families.
9. Families displaced by HOPE VI suffer disruptions in the social support networks they rely upon to make ends meet. Researchers have made a distinction between the supportive social capital that low-income residents use to "get by" on a daily

basis, and the leveraging social capital (such as contacts that lead to employment or to greater economic self-sufficiency) they use to "get ahead,". The HOPE VI research shows that forced displacement tends to disrupt supportive ties while doing little to enhance leveraging ties.

10. HOPE VI redevelopment and demolition projects have resulted in a significant reduction in the number of public housing units in operation nationally. The conversion of tens of thousands of public housing units into tenant-based voucher subsidies has put significant pressure on the affordable housing stock in many cities and has significantly reduced the nation's stock of assisted housing at a time when need continues to grow.

The record of disruption for displaced families, and the combination of modest, inconsistent, and in some cases non-existent individual-level "benefits" from public housing transformation suggests that the HOPE VI model of demolition and displacement should be modified or abandoned. Yet, the CNIA as drafted incorporates only extremely modest concessions to the disappointing record of HOPE VI. In short, CNIA seems to be an attempt to replicate the positive neighborhood effects of the HOPE VI program without incorporating meaningful provisions to protect or enhance the well-being of families displaced during the redevelopment process.

CNIA also repeats the mistake of reducing the stock of low-cost housing that is the hallmark of HOPE VI. This, despite the fact that need for affordable housing among very low-income families remains acute. The National Low Income Housing Coalition estimates a national shortage of 2.8 million affordable units. This shortage has been

exacerbated by the tens of thousands of public housing units demolished through HOPE VI that have not been replaced. The CNIA proposal will result in a program that would accelerate the loss of assisted housing.

Recommendations

I offer the following recommendations to modify the existing CNIA draft bill:

1. The CNIA as drafted allows for up to 50% of demolished units to be permanently lost (replaced only through vouchers). The preservation of publicly assisted, low-cost units should be made a priority in this program.
2. Section 8(b) describing one for one replacement of units lost should be amended to limit the number and percentage of units that may be replaced by tenant-based vouchers.
3. Section 8(b)(6) as currently written regards an 80% lease up rate for vouchers as evidence that there is an adequate supply of affordable rental housing in the area. Such a finding allows the use of tenant-based vouchers as replacement housing. The logic of this provision is perverse; it suggests that even if up to one in five families cannot successfully lease up a unit with a tenant-based voucher in four months of trying, it is permissible to further reduce the supply of low-cost units. This provision should be struck from the bill and the standards for demonstrating a surplus of affordable housing in an area made more rigorous.
4. The transformation plan should require the preservation of affordability nearby and set out concrete steps to be taken to accomplish this goal. This could be accomplished by requiring that a portion of the grants awarded be set aside for

subsidies to preserve affordable housing in the neighborhood, including project- and tenant-based subsidies for neighboring properties and residents not currently receiving them.

5. The selection criteria for the projects should prominently include the degree to which affordable housing is preserved on site and in the surrounding neighborhood.
6. The program should include specific guidelines for acceptable income-mixes to maximize affordability within the redevelopment. This is especially important for smaller projects. In smaller projects located in gentrifying neighborhoods the project itself may represent a large percentage of the total affordable housing in the neighborhood. Unlike large public housing developments that can be home to hundreds of units and thousands of people, the assisted projects operated by for-profit and non-profit owners are likely to be much smaller and to therefore make up a much smaller proportion of all units within a neighborhood. In those cases, the emphasis should be on preserving affordability rather than creating an income mix within the project. Congress should consider a sliding scale of income mix in which greater mix is required of larger projects (500 units or more) and greater preservation of affordability is required in smaller projects (e.g., projects with fewer than 100 units).
7. The Act should be written to encourage the sequencing or phasing of revitalization, whether rehabilitation or demolition/redevelopment, to keep people on site or to move them directly into replacement housing. Phased redevelopment

and the construction of replacement units before demolition can minimize the disruption to existing tenants.

8. The Act as written includes a provision in section 8(a) allowing each lease-compliant tenant who wishes to return to the on-site replacement housing to do so. At the same time, however, the program as currently written is aimed at converting affordable housing developments into mixed-income developments, a process that almost invariably reduces the number of affordable units on site. There is a potential conflict between these two objectives, and the Act provides no guideline as to which will be sacrificed for the other in cases where they do diverge. Given my previous arguments about the lack of affordable housing and the need to minimize disruptions for residents, this conflict should be resolved in favor of guaranteeing the return of all families who so desire.
9. Expand the limit on social services beyond 15% of the grant amount. Displacement has been shown to disrupt the social support networks of very low income families relocated from public housing, and it has not enhanced employment or economic self-sufficiency. Thus, in addition to minimizing displacement, the program should provide more social services to minimize the disruptions of displacement and to enhance the prospects for residents to benefit from relocation where relocation is unavoidable.
10. Given the consistent and sizable disproportionate impact on African-American families that the demolition of public housing has produced, the annual report required in section 13 should include a summary of the demographics of displaced households, including but not limited to an analysis of the possible disparate

impact on people of color. Disparate impact would be defined by a comparison of the demographic profile of residents in units redeveloped by CNIA and residents of comparable developments within the city not redeveloped.

An alternative approach to CNIA

Better than a modification of the current draft bill, the Committee should give consideration to an alternative approach to the issue of distressed assisted-housing projects. The evidence from HOPE VI shows that the benefits from relocation are experienced mainly by families who desire to move out in the first place. For families who did not wish to move, the relocation produces little to no benefits, and significant disruption. Thus, families living in existing assisted housing who desire to move out and convert their subsidies to vouchers should be encouraged and allowed to do so. Congress could issue a number of "conversion vouchers" to accommodate these families. The vacancies produced by allowing the mobility of families who wish to move can then be utilized to accomplish a phased rehabilitation/redevelopment of the project in which the families who wish to remain can be kept on site and then moved directly into new units as they are completed.

As for the desirability of mixed-income developments, there is no reason why the creation of these projects should be tied to the transformation of existing affordable projects (and in turn to the overall reduction in the size of the assisted housing stock). Given the sizable deficit in affordable units across the country, the continued need for low-cost subsidized housing, and the fact that the administration feels that mixed–income developments are an effective way of building such housing, a program of new

construction or expansion of the stock should be pursued. If the Administration or Congress believes that mixed-income communities can provide affordable housing opportunities and do so in a way that does not produce unintended negative neighborhood-level outcomes, then we as a nation should embark on a program of expansion of assisted housing according to this model. Mixed-income developments should be supported by legislation that allows them to happen without tying them to demolition, displacement, and a reduction in the stock of assisted housing.

Testimony of Jill Khadduri
Principal Associate
Abt Associates Inc.
For the Committee on Financial Services
U.S. House of Representatives

March 17, 2010

My name is Jill Khadduri. I am a Principal Associate at Abt Associates, a national policy research firm. For several years I have been looking at the relationship between neighborhood revitalization and school quality. I have studied places that have made school improvement a key part of neighborhood change, including Atlanta, St. Louis, St. Paul, Philadelphia, and Baltimore. These studies have been sponsored by the Ford Foundation, HUD, and--most recently--by Enterprise Community Partners.

Thank you, Mr. Chairman and members of the Committee, for giving me the opportunity to testify on the Obama Administration's Choice Neighborhoods proposal. This proposal has many strengths.

The first strength is the breadth of its vision for neighborhood change, which goes way beyond the redevelopment of particular multifamily housing projects or the building of some new housing units. Instead, the draft of the Choice Neighborhoods legislation envisions neighborhood improvement across multiple sectors, recognizing that good housing without access to quality education and jobs will not break the cycle of poverty. This is a new paradigm for community development and takes the next step beyond the HOPE VI program. HOPE VI projects usually did not go beyond the redevelopment of public housing projects, although in some places new mixed income communities created by HOPE VI investments became part of more comprehensive neighborhood change.

Another strength of the Choice Neighborhoods proposal is its focus on neighborhoods with a high potential for becoming strong, healthy communities with long-term viability. Without an insistence that the neighborhoods selected for intensive federal investment either have assets such as proximity to jobs and access to transportation--or serious commitments to building those assets--the investment will be wasted or, worse, add to the isolation of families in poverty from the economic mainstream.

The proposal appropriately insists that any plan for transformation of a neighborhood include effective relocation assistance for people who must move during the redevelopment process. The HOPE VI experience is that most families relocated using vouchers are more satisfied with their housing and neighborhoods than they had been living in distressed public housing. The relocation studies conducted by Sue Popkin of the Urban Institute along with my Abt Associates colleague Larry Buron demonstrate that fact for Chicago, DC, Atlantic City, Durham NC, and Richmond CA. But a lesson learned from HOPE VI is that the help that relocating families received was uneven, and in many places the relocation missed an opportunity to make this another avenue to de-concentrate poverty by helping families move to neighborhoods with high educational and other opportunities.

The Choice Neighborhoods proposal includes a right to return to redeveloped housing for lease compliant tenants who had to relocate during the redevelopment process. This is especially important because of the focus on neighborhoods with high potential. Without a right to return, these neighborhoods could over time lose their income diversity and fail to benefit poor families and their children.

Part of the breadth of vision for neighborhood change is the proposal's focus on school quality. The role of school improvement in Choice Neighborhoods is what I've been asked to talk about today.

But before turning to the specifics of the proposal that relate to schools and school improvement, I would like to suggest that the committee consider the Choice Neighborhoods proposal in the context of another Obama Administration proposal, the Transformation of Rental Assistance or TRA. The TRA will give public housing authorities the opportunity to change the subsidy mechanism for the housing they own to project-based vouchers, leveraging the subsidy to bring in needed capital resources and giving families greater choice in where they live. Over time all of public housing would operate closer to the mainstream rental market. The TRA could bring public housing out of isolation and break down concentrated poverty in a much broader set of locations than those that may be funded by Choice Neighborhoods, including places that start with less extreme poverty in the neighborhood surrounding the public housing project.

The focus of the Choice Neighborhoods proposal on educational opportunity recognizes that a major contributor to the cycle of poverty is the poor quality of the schools available to children who live in high-poverty neighborhoods. However, the legislative proposal for Choice Neighborhoods that was distributed last week could be improved in several ways.

First, the selection criteria that will control the award of Choice Neighborhoods grants include the extent to which the plan for transforming a neighborhood "demonstrates that the residents of revitalized developments will have access to high quality educational opportunities, including early learning and effective K-12 public schools, in or outside of the neighborhood." The "outside of the neighborhood" option worries me. For children in the early childhood and kindergarten through 6th grade age range, access to magnet schools or a district-wide open-enrollment policy is not the same thing as having a high quality school in or adjacent to the neighborhood. Depending on how the admissions process for magnets or out-of-catchment-area schools works, families may or may not have a real opportunity to enroll. Furthermore, parents struggling with the demands of work and child-rearing may not

be able to get their children to schools away from the neighborhood, even if they could be enrolled.

The Choice Neighborhoods proposal should insist on the creation of high-quality schools, whether traditional public schools or public charters, within the neighborhood where the housing is to be revitalized. And the emphasis should be on the school years most relevant to the quality of a neighborhood, early childhood and K-6. That emphasis was in the September 2009 draft of the Choice Neighborhoods legislation and for some reason has been dropped in the latest draft.

Second, the Choice Neighborhoods proposal does not recognize how difficult it is to bring about cross-sectoral change, especially change that includes the creation of high quality elementary schools in neighborhoods where schools have failed. The research that my colleagues and I did on places that have made school improvement part of a neighborhood revitalization strategy found that the creation of high quality neighborhood schools--whether through building on a school improvement already underway or through creating a new school--requires a collaboration that includes stakeholders external to both the housing redeveloper and the school system. I would like to see selection criteria that favor applications based on strong collaboratives that include institutions with a long-term stake in the neighborhood, such as community-based foundations, universities, hospitals, or locally-based corporations--and whose members have enough political clout to make school improvement happen. This collaboration is needed to bring resources to the school, to support the school's principal, and to make sure that the school improvement is sustained through changes of leadership at the school or in the school system.

The Choice Neighborhoods legislative proposal is broad and brief in its characterization of eligible grantees, simply saying that PHAs, CDCs, assisted housing owners, and "other for-profit and non-profit entities" may receive grants. Selection criteria include the extent to which the transformation plan demonstrates inclusive local planning, with input from a wide variety of stakeholders, including

public schools and early learning programs. This is not enough. Having a meeting or two with the school system and demonstrating "input" from a broad range of stakeholders will not bring about the creation and nurturing of a high-quality school in an historically distressed neighborhood. The characterization of eligible grantees and the selection criteria should insist on a formal collaboration with neighborhood stakeholders beyond housing developers and evidence that the collaboration will be sustained over time.

The Choice Neighborhoods proposal also does not recognize sufficiently the resources required to bring about cross-sectoral neighborhood change.
The research that my colleagues and I did on places that have been successful in making a good elementary school a fundamental part of neighborhood change found that resources beyond the standard allocation of public school operating funds to an elementary school are needed--for teacher training, for curriculum improvement, for programming beyond the basic curriculum, and for support for early childhood programs that feed into the elementary school. The selection criteria in the current Choice Neighborhoods proposal include demonstration of the ability to leverage funds, but the language emphasizes other housing resources, including other HUD programs and land donations. I would like to see stronger language on leveraging requirements, including leveraging of state funds for school capital improvements and leveraging and building on other federal resources available for school improvement such as Race to the Top funds, the $4 billion made available by the Recovery Act for turning around low-performing schools (under the Title I School Improvement grant program), as well as the nascent Promise Neighborhoods program.

Because of the importance of correctly assessing the school improvement dimension of transformation plans and leveraging other federal resources, I suggest that the Choice Neighborhoods legislation provide for an explicit role for educational experts in the grantee selection process--perhaps even a formal role for the US Department of Education.

School quality should also be a key criterion in the definition of acceptable locations for replacement affordable housing in locations outside the Choice Neighborhood. In effect the Administration's proposal requires one-for-one replacement with hard units. Vouchers may only be used as replacement housing if the success rate for families and individuals using vouchers in the community is at least 80 percent. No community has an 80 percent overall success rate for vouchers, because many people taken from waiting lists for a PHA's voucher program don't end up using their voucher for reasons that have nothing to do with the housing market. So in effect the proposal has a requirement for 100 percent hard unit replacement.

The requirement for replacement with hard units brings a danger that the replacement housing will become yet another vehicle for concentrating poor families. The legislative proposal states that replacement housing may not be located in areas of minority concentration or extreme poverty and that it must offer educational and other opportunities comparable to those in the original neighborhood. Once again, this is not good enough. The standards should provide a more detailed definition of an acceptable neighborhood for replacement housing, including whether the location of the replacement housing offers access to high quality schools.

Finally, I offer a comment that comes from my background as a researcher. The Annual Report requirement in the draft legislation asks HUD to report each year on "the impact of grants made under this Act on the original residents, the target neighborhoods, and the larger communities within which they are located." Measuring such impacts cannot be done in the early years of a major effect to change a neighborhood. Instead, HUD should be required to document how grantees have demonstrated the neighborhood's potential for long-term viability such as through objective market analysis and mapping of community assets and how the activities that will be funded and leveraged by the Choice Neighborhood grant will build on that potential. In the enacted law, Congress should also require a true evaluation, with collection of baseline and follow-up data that measures change in the Choice Neighborhood and comparison neighborhoods. The evaluation should also have a

strong component that examines the process of institutional change required for successful neighborhood revitalization, since this is so important for shifting the paradigm of community revitalization.

Statement of

Saul N. Ramirez, Jr.
Chief Executive Officer
National Association of Housing and Redevelopment Officials

Before the Committee on Financial Services

United States House of Representatives

March 17, 2010

"The Administration's Proposal to Revitalize Severely Distressed Public and Assisted Housing: The Choice Neighborhoods Initiative"

Chairman Frank, Ranking Member Bachus, Chairwoman Waters, and Ranking Member Capito, I would like to thank you for the opportunity to testify on behalf of the National Association of Housing and Redevelopment Officials (NAHRO) during today's important hearing on the administration's proposed Choice Neighborhoods Initiative. My name is Saul Ramirez, and I am the Chief Executive Officer of NAHRO.

A 501(c)(3) membership association, NAHRO represents over 3,200 housing authorities, community development departments, and redevelopment agencies, as well as over 20,000 individual associates working in the housing and community development industry. NAHRO's members administer HUD programs such as Public Housing, Section 8, CDBG, and the HOME Program. For more than 75 years, our extensive and diverse membership has allowed us to serve as the leading housing and community development advocate for the provision of adequate and affordable housing and strong, viable communities for all Americans--particularly those with low and moderate incomes.

NAHRO members own or administer approximately 1.1 million units of public housing (approximately 87 percent of the total inventory), 1.77 million units of tenant-based Section 8 housing, and 383,000 units of other assisted housing. Not surprisingly, therefore, NAHRO and its members have a keen interest in the administration's proposal for revitalizing severely distressed public and assisted housing.

I would like to begin by saying that NAHRO applauds the Department's commitment to devising a comprehensive approach to achieving the transformation of neighborhoods of extreme poverty into sustainable, mixed-income neighborhoods. While ambitious in some respects, NAHRO does believe that this is a laudable policy goal, one that aligns closely with NAHRO's mission to create affordable housing and quality communities that enhance the quality of life for all Americans.

Our support for the broad policy objectives of the proposed initiative notwithstanding, NAHRO has serious overarching concerns with respect to the program as described in the Department's draft legislative proposal. First, NAHRO has serious reservations regarding the absence of a guarantee of continued funding to support public housing agencies' efforts to complete the important work of the HOPE VI program in a timely manner. While the administration has described the proposal as a "celebration of HOPE VI," we note with great concern that the most recent legislative proposal issued

by the Department does not reserve a single dollar in funding for proposed projects that include PHAs as the lead applicant, nor does the proposal explicitly require that PHAs be involved in the development of applications for funding.

Having served as the Deputy Secretary of the Department for several years, I know from firsthand experience that where a program resides within HUD matters. NAHRO therefore remains concerned that the Department has yet to publicly signal whether the Choice Neighborhoods Initiative will be administered by the Office of Public and Indian Housing, as is the case with the existing HOPE VI program. If HUD is unable to state with certainty that a program intended to build upon the successes of HOPE VI will be run out of the same office that now administers HOPE VI, then it is perhaps easier to understand why our industry continues to have real concerns over whether the proposed program will target adequate resources toward addressing the needs of the severely distressed public housing inventory.

It should also be noted that the significantly broadened scope of the proposed program, both in terms of eligible applicants and expected outcomes, means that the administration's recommended FY 2011 appropriation of $250 million is unlikely to support more than a handful of grant awards for FY 2011. Choice Neighborhoods Initiative would involve grantees in undertakings that are certain to be extraordinarily resource-intensive, with projects incorporating activities such as promoting the economic self-sufficiency of "residents…of the surrounding neighborhood," improving the quality of educational opportunities, creating jobs and job opportunities accessible by mass transit, and achieving a long list of "critical community improvements," including the development or improvement of transit, retail, community financial institutions, and public services and the construction or rehabilitation of parks and community gardens.

This potential programmatic complexity, in combination with the limited availability of funding, does not auger well, in our opinion, for completing in a timely fashion the important work of the HOPE VI program, which of course is a more narrowly targeted program focused on the revitalization of severely distressed public housing units. Absent assurances that other federal agencies will immediately contribute significant financial resources to Choice Neighborhoods projects, it would be premature for NAHRO to support the proposal at this time even if our objections concerning the lack of dedicated resources for PHAs were addressed.

NAHRO strongly recommends that appropriators not provide funding for the Choice Neighborhoods Initiative as currently proposed unless and until authorizing legislation is first carefully considered by the appropriate authorizing committees, acted upon by the Congress, and signed into law. This process should involve extensive, ongoing input from relevant stakeholders.

Whereas significant questions remain regarding Choice Neighborhoods, HOPE VI is a proven, successful program; indeed, it has been called a "program in its prime" by some Members of Congress. NAHRO would therefore suggest that before considering authorizing legislation for the Choice Neighborhoods Initiative, the Congress should wait for the Choice Neighborhoods demonstration, for which $65 million was provided for FY 2010, to move forward. By waiting for HUD to first undertake the demonstration, both Congress and the Department will have access to new data and information about program outcomes and as a result will be in a better position to chart a responsible course forward for federal policy around the revitalization of severely distressed public housing.

Today's hearing represents a good first step in the direction of a responsible and thorough analysis of the administration's proposal, and we applaud the Committee for taking action early in what will very likely be a relatively short legislative year. That said, we are already more than five months into the new federal fiscal year. Because an adequate vetting of the administration's proposal by both houses of Congress is likely to take several months, and because HUD has not yet issued a Notice of Funding Availability for the FY 2010 Choice Neighborhoods demonstration, NAHRO believes the most responsible course of action at this juncture would be for appropriators to provide continued funding for the existing HOPE VI program for FY 2011 as you continue your thoughtful and necessary review of the administration's proposal.

The remainder of NAHRO's written testimony explains our concerns regarding the administration's proposal in greater detail. To supplement our statement today, we have attached for your review a copy of our December 2009 letter to the Department on the Choice Neighborhoods Initiative. Please note that this letter was written in response to an earlier draft of the legislation. A more recent copy of the legislation made available to us does not however include or address many of the comments made in that letter.

Choice Neighborhoods Should Include Dedicated Funding for PHAs

The work of the HOPE VI program is unfinished. A significant number of severely distressed public housing units remain in the inventory. Moreover, the list of distressed public housing has grown longer as a result of the historical under-investment in the inventory's capital needs. With the nation's public housing inventory facing a modernization backlog likely in excess of $30 billion, NAHRO does not believe this is the appropriate time to end a dedicated source of funding intended to reposition severely distressed public housing units, no matter how thoughtful and progressive the proposed Choice Neighborhoods Initiative might be.

Given that the administration has described the Choice Neighborhoods Initiative as "a celebration of HOPE VI," NAHRO is concerned that the most recent legislative proposal issued by the Department does not reserve a single dollar in funding for proposed transformation plans that include PHAs as the lead applicant, nor does it explicitly require that PHAs be involved in the development of those same transformation plans. Additionally, although the Department has asserted that approximately three out of every four units eligible to be transformed through the proposed program are public housing units, the legislative language does not specifically require applicants representing jurisdictions in which severely distressed public housing units remain to include such units in their transformation plans.

Rather than simply providing a preference for transformation plans that place "an emphasis on collaboration between the local government, early learning programs and public schools, or a public housing agency, or all three," HUD should require as a condition for funding eligibility the active participation of the local PHA in the development of a transformation plan whenever a targeted neighborhood is located within the local PHA's area of jurisdiction. Furthermore, any program intended as a successor to HOPE VI should be structured in such a way as to guarantee that a significant number of severely distressed public housing units are addressed each year. If these related provisions are not included in statute, it is at least theoretically possible that there could be years in which not a single PHA receives direct funding through the program and not a single severely distressed public housing unit is addressed.

Eligible Neighborhoods

On several occasions leading up to this hearing, HUD officials have offered certain data related to the public housing inventory and neighborhood characteristics as evidence that the proposed program will continue to address distressed public housing units, as does the existing HOPE VI program. For example, HUD has previously indicated that approximately 40 percent of all public housing units are located in neighborhoods with poverty rates greater than 40 percent. HUD officials have also stated that around one-third of neighborhoods with poverty rates above 40 percent have both public and assisted housing units, but that three times as many of these units are public housing units as are other types of assisted units. Given that the Choice Neighborhoods Initiative funding would be limited to neighborhoods with a "concentration of extreme poverty," NAHRO is concerned that a significant percentage of the distressed public housing inventory may be located in neighborhoods that are ineligible for assistance under the proposed program.

NAHRO is also concerned that the administration's legislative proposal would severely limit the ability of PHAs located in rural areas to participate in the new program. The HOPE VI program has been one of the few viable funding sources available for revitalizing severely distressed public housing located in rural communities. PHAs in rural communities are limited in their ability to secure financial resources through other programs or funding sources that focus primarily on urban areas. The neighborhood eligibility requirements expressed in the current legislative proposal, particularly the requirement that eligible neighborhoods demonstrate "a potential for long-term viability through characteristics such as proximity to educational institutions, medical centers, central business districts, major employers, and effective transportation alternatives" may place certain rural communities (such as many communities in West Virginia, for example) and the PHAs that serve them at a competitive disadvantage. We believe the Department should absolutely ensure that rural communities and the PHAs that serve them have a meaningful opportunity to access Choice Neighborhoods funding.

Definitions of Severely Distressed Units and Distressed Neighborhoods

HUD has invited stakeholders to provide feedback on the proposed program's definitions for severely distressed developments and distressed neighborhoods. Setting aside the issue of neighborhood

eligibility, NAHRO is pleased to see that all public housing development types would seem to be eligible under the proposed program, including disabled and elderly public housing developments in addition to family developments. The proposed program's emphasis on social and community distress in addition to the condition of housing units is also encouraging given the program's objectives. NAHRO would note, however, that census tracts do not always align well with neighborhoods' geographic boundaries, and so additional or alternative boundaries should be considered for this purpose of the new program.

Project- and Tenant-Based Vouchers

HUD Authority to Require Project-Based Voucher Assistance for Replacement Units: The legislative proposal authorizes the Secretary to require the use of project-based voucher (PBV) assistance to meet the replacement requirement. For a number of reasons, NAHRO believes careful consideration should be given to the potential consequences of this provision. First, the legislative proposal now before us does not stipulate the conditions or parameters under which HUD's authority to require PBV would be exercised. As drafted, the Department could conceivably preclude grantees from replacing severely distressed public housing units with newly constructed public housing units. This would not only be unrealistic and problematic in certain areas, it would also represent a dramatic departure from the types of public housing replacement units built under HOPE VI. Additionally, PHAs that use public housing for replacement units should otherwise be exempt from the provision of the 1937 Housing Act that prohibits the construction of additional units (the "Faircloth Amendment").

Currently, PBV assistance is limited to no more than 25 units or 25 percent of the dwelling units in a "project" under the program's income targeting requirements (i.e., 75 percent of admitted households must be extremely-low-income). The term "project" is defined to mean a single building, multiple contiguous buildings, or multiple buildings on contiguous parcels of land (24 CFR 983.56). The above limitations do not apply in the case of "single family properties" (i.e., buildings with no more than four dwelling units), or for dwelling units that are specifically made available for households comprising elderly families, disabled families, and families receiving comprehensive supportive services for special needs populations, such as individuals who were formerly homeless.

The legislative proposal states, "Where project-based voucher units are developed as replacement housing, subparagraph (D) of section 8(o)(13) relating to percentage limitation and income-mixing requirement for project-based voucher assistance shall not apply." Conceivably, this provision within the draft could enable a project to include 100 percent extremely-low-income assisted households, compared with the existing 25 percent (or 25 unit) limitation of PBV-assisted units under the program's income targeting requirements. Taken in conjunction with the one-year exit voucher provision (as discussed below) that would seem to be allowed under the proposed program, HUD's ability to waive the requirements to deconcentrate poverty and expand housing and economic opportunities as well as site and neighborhood conditions under the PBV program could undermine the set of inherent market-based checks and balances that has worked to preserve the long-term viability of PBV units.

Under the existing PBV program, tenants have the right to move after one year of occupancy using the next available tenant-based voucher from a PHA, thus leapfrogging other eligible applicant households on the PHA's waiting list. Meanwhile, the PBV contract stays with the unit, creating the potential for "churning." A PHAs' general obligation under the PBV program is to deconcentrate poverty and expand housing and economic opportunities while complying with the site and neighborhood standards requirements that apply generally to the program. However, under the Choice Neighborhoods Initiative as proposed, the Secretary would be authorized "to waive or modify other provisions of Section 8 (o)(13) to promote the purposes of this program." NAHRO believes that waiving or modifying site and neighborhood standards under the proposed Choice Neighborhoods Initiative would be a profound change that could produce unintended negative outcomes in interaction with the one-year exit voucher requirement.

HUD should carefully examine the potential impact the PBV program's one-year exit voucher requirement might have (particularly in combination with other waived or modified statutory requirements) on the ability of Choice Neighborhoods grantees to preserve properties in various HUD-assisted inventories (including Sec. 236, Sec. 202, and Sec. 811 properties). NAHRO is concerned that the specter of churning as a result of the exit voucher requirement is likely to undermine the ability of PHAs to partner with nonprofits and other entities involved in the preservation of such properties. Specifically, the one-year exit voucher mechanism could contribute to a situation in which tenants churn through properties as a means of reaching the top of otherwise-lengthy waiting lists for Section 8 tenant-

based housing assistance, thus destabilizing property operations and compromising predictable rent streams. This dynamic could also compromise debt and equity financing, driving up the costs associated with securing long-term affordable housing financing required for the kind of projects envisioned under the proposed program.

Conditions Under Which 50 Percent of Replacement Units are Tenant-Based Vouchers: Under the proposal, a grantee may replace up to half of the public housing or other assisted dwelling units that are demolished or disposed of under the transformation plan with tenant-based vouchers in housing markets where there is an adequate supply of affordable rental housing in areas of low poverty. The draft legislative proposal includes three specific conditions to meet this threshold, discussed below.

First, requiring a minimum of 80 percent of vouchers issued over the last 24 months to comparable families to have been successfully leased within 120 days of issuance is a reasonable definition of local "success rates." However, the legislative proposal states that if a sufficient number of comparable families have not received vouchers, HUD must design an alternative measure. Additionally, the draft legislative proposal does not include a specific definition of deconcentration. HUD has a long-established and well-defined operational definition that would seem to be relevant to the proposal's requirement that "existing voucher holders [be] widely dispersed geographically among the available private rental housing stock, including in areas of low poverty." The existing definition is under the deconcentration bonus indicator [Sec. 985.3(h)] of the Section Eight Management Assessment Program (SEMAP) and could be used to formulate a statutory definition.

Ostensibly, the third criteria--a market analysis demonstrating that there is a relatively high vacancy rate within the market area with rent and utility costs not exceeding the applicable payment standard--is reasonable. However, Housing Assistance Payment (HAP) funding shortfalls from FY 2004 through FY 2006, and again in FY 2009, resulted in many PHAs not receiving sufficient renewal funding to set their applicable voucher payment standards commensurate with the marketplace or serve the greatest number of families within affordable income to rent burdens. As such, not all PHAs' current or future applicable voucher payment standards will reflect a reasonable threshold below which HUD can define vacancy rates for this purpose. With future improvements to the formulation of Fair Market Rent (FMR) values,

further consideration should be given to establishing this threshold at the higher of 100 percent of the FMR or the applicable voucher payment standard.

The Need for Support from Other Federal Agencies

The Department's legislative proposal would authorize $250 million for the Choice Neighborhoods Initiative for FY 2011. After accounting for a 5 percent set-aside for technical assistance and program evaluation efforts, a 10 percent set-aside for planning grants, and a 1 percent transfer to the proposed Transformation Initiative Fund, $210 million would remain available for program activities. Although this amount of funding would exceed the FY 2010 funding level for HOPE VI, NAHRO notes that the HOPE VI program has received as much as $600 million in previous fiscal years. NAHRO, together with the Public Housing Authority Directors Association (PHADA) and the Council of Large Public Housing Agencies (CLPHA) , has recommended $800 million in funding for the proven HOPE VI program for FY 2011.

Given the scope of the proposed program, and with just $210 million available, it is unclear how many transformation plans the Department would be able to fund. This lack of clarity is a concern, given that the Choice Neighborhoods Initiative would involve grantees in undertakings that are certain to be extraordinarily resource-intensive. These undertakings could include, for example, activities such as promoting the economic self-sufficiency of "residents…of the surrounding neighborhood," improving the quality of educational opportunities, creating jobs and job opportunities accessible by mass transit, and achieving a long list of "critical community improvements," including the development or improvement of transit, retail, community financial institutions, and public services and the construction or rehabilitation of parks and community gardens. Clearly this is an ambitious proposal. Absent collaboration with and financial contributions from other federal agencies (including but not limited to the Departments of Transportation and Education), NAHRO is concerned that HUD resources alone will prove insufficient.

Conclusion

Once again NAHRO thanks you for the opportunity to testify today. We expect to share additional comments and offer suggestions for changes if the administration's proposal advances. We urge the Committee to remain committed to a thorough review of this proposal that involves the appropriate level of stakeholder input. We also reiterate our belief that additional funding for the Choice Neighborhoods Initiative should not be provided until such time as the FY 2010 demonstration has produced evaluable results and authorizing legislation has advanced through Congress. NAHRO believes that proceeding in this manner would be the most responsible course of action, and we remain committed to working with Congress and the Department in order to determine the best path forward for completing the important work of the HOPE VI program while developing new tools aimed at the comprehensive transformation of neighborhoods.

National Association of Housing and Redevelopment Officials
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VIA ELECTRONIC MAIL

December 4, 2009

U.S. Department of Housing and Urban Development
451 7th Street SW
Washington, DC 20410

To Whom It May Concern:

On behalf of our more than 23,000 individual and agency members, the National Association of Housing and Redevelopment Officials (NAHRO) appreciates the opportunity to submit comments concerning the Department's proposed Choice Neighborhoods Initiative Act of 2009. NAHRO applauds the Department's commitment to devising a more comprehensive approach to achieving the transformation of neighborhoods of extreme poverty into sustainable, mixed-income neighborhoods. This is an ambitious and laudable policy goal, and one that aligns closely with NAHRO's mission to create affordable housing and safe, viable communities that enhance the quality of life for all Americans, especially those of low and moderate income.

Our support for the broad policy objectives of the proposed initiative notwithstanding, NAHRO has serious concerns about the program as described in the recently released draft legislation. Most important, from our perspective, is the absence from the draft legislative language of certain provisions guaranteeing continued funding to support public housing agencies' efforts to complete the important work of the HOPE VI program in a timely manner. This concern is amplified by uncertainty over whether the Choice Neighborhoods Initiative would be administered by the Office of Public and Indian Housing, as is the existing HOPE VI program.

NAHRO would also note that the significantly broadened scope of the proposed program, both in terms of eligible applicants and expected outcomes, means that an annual appropriation of $250 million is unlikely to support more than a handful of projects each year absent substantial funding from other sources. Without any assurances that other federal agencies will immediately contribute significant financial resources to Choice Neighborhoods projects, it would be premature for us to support the proposal at this point in time even if our serious objections concerning the lack of dedicated resources for PHAs were addressed.

NAHRO strongly recommends that the Choice Neighborhoods Initiative as proposed not move forward unless and until it is first carefully considered and acted upon by the appropriate authorizing committees of Congress, with the benefit of extensive input from relevant stakeholders. As we are already nearly two months into the new federal fiscal year, and because

Akinola Popoola, PHM, President; **Betsey Martens,** Senior Vice President; **David Allen Brown,** PHM, SHM, Vice President-Member Services; **Larry Hopkins,** Vice President-Community Revitalization & Development; **Clifton C. Martin,** CMPO, SPHM, PHM, Vice President-Professional Development; **Elizabeth C. Morris,** Vice President-International; **Dianne Quast,** PHM, Vice President-Housing; **J. William Quirk,** Vice President-Commissioners; **Saul N. Ramirez, Jr.,** Chief Executive Officer

e-mail: nahro@nahro.org web site: www.nahro.org

an adequate vetting of the administration's proposal by the Congress is likely to take several months, NAHRO believes the most responsible course of action at this juncture would be to provide continued funding for the existing HOPE VI program for FY 2010.

Choice Neighborhoods Should Include Dedicated Funding for PHAs

The work of the HOPE VI program is unfinished, as a significant number of severely distressed public housing units remain in the inventory. Moreover, the list of distressed public housing has grown longer as a result of the historical under-investment in the inventory's capital needs. With the nation's public housing inventory facing a modernization backlog likely in excess of $30 billion, NAHRO does not believe this is the appropriate time to end a dedicated source of funding intended to reposition severely distressed public housing units.

Given that the administration has described the Choice Neighborhoods Initiative as "a celebration of HOPE VI," NAHRO is concerned that the legislative proposal issued by the Department does not reserve a single dollar in funding for proposed transformation plans that include PHAs as the lead applicant, nor does it explicitly require that PHAs be involved in the development of transformation plans. Additionally, although the Department has assured stakeholders that approximately three out of every four units eligible to be transformed through the proposed program are public housing units, the legislative language does not specifically require applicants representing jurisdictions in which severely distressed public housing units remain to include such units in their transformation plans.

Rather than simply providing a preference for transformation plans that place "an emphasis on collaboration with the local government or a public housing agency, or both," HUD should require as a condition for funding eligibility the active participation of the local PHA in the development of a transformation plan whenever a targeted neighborhood is located within the local PHA's area of jurisdiction. Furthermore, any program intended as a successor to HOPE VI should be structured in such a way as to guarantee that a significant number of severely distressed public housing units are addressed each year. If these related provisions are not included in statute, it is at least theoretically possible that there could be years in which not a single PHA receives direct funding through the program and not a single severely distressed public housing unit is addressed.

Eligible Neighborhoods

During the November 10 meeting and on previous occasions, HUD officials have offered certain data related to the public housing inventory and neighborhood characteristics as evidence that the proposed program will continue to address distressed public housing units, as does HOPE VI. For example, HUD has previously indicated that approximately 40 percent of all public housing units are located in neighborhoods with poverty rates greater than 40 percent. HUD officials also stated on November 10 that around one third of neighborhoods with poverty levels above 40 percent have both public and assisted housing units, but that three times as many of these units are public housing units as are other types of assisted units. Given that the Choice Neighborhoods Initiative funding would be limited to neighborhoods with a "concentration of

extreme poverty," NAHRO is concerned that a significant percentage of the distressed inventory may be located in neighborhoods that are ineligible for assistance under the proposed program.

NAHRO is also concerned that the draft legislative proposal would severely limit the ability of PHAs located in rural areas to participate in the new program. The HOPE VI program has been one of the few viable funding sources available for revitalizing severely distressed public housing located in rural communities. PHAs in rural communities are limited in their ability to secure financial resources through other programs or funding sources that focus primarily on urban areas. The neighborhood eligibility requirements expressed in the draft legislative proposal, particularly the requirement that neighborhoods be in proximity to "educational institutions, medical centers, central business districts, major employers, [and] effective transportation" would seem to place rural communities and the PHAs that serve them at a competitive disadvantage. The Department should consider modifying the draft legislative proposal to ensure that rural communities and agencies have a meaningful opportunity to access Choice Neighborhoods funding.

Definitions of Severely Distressed Units and Distressed Neighborhoods

HUD has invited stakeholders to provide feedback on the proposed program's definitions for severely distressed developments and distressed neighborhoods. Setting aside the issue of neighborhood eligibility, NAHRO is pleased to see that all public housing development types would seem to be eligible under the proposed program, including disabled and elderly public housing developments in addition to family developments. The proposed program's emphasis on social and community distress in addition to the condition of housing units is also encouraging given the program's objectives. NAHRO would note, however, that census tracts do not always align well with neighborhoods' geographic boundaries, and so additional or alternative boundaries should be considered for this purposes of the new program.

Project- and Tenant-Based Vouchers

HUD Authority to Require Project-Based Voucher Assistance for Replacement Units: The draft legislative proposal authorizes the Secretary to require the use of project-based voucher (PBV) assistance to meet the replacement requirement. For a number of reasons, NAHRO believes careful consideration should be given to the potential consequences of this provision. First, the draft legislative proposal does not stipulate the conditions or parameters under which HUD's authority would be exercised. As drafted, therefore, the proposed program could conceivably preclude grantees from replacing severely distressed public housing units with newly constructed public housing units. This would represent a dramatic departure from the types of public housing replacement units built under HOPE VI. Additionally, PHAs that use public housing for replacement units should be exempt from the provision of the 1937 Housing Act that prohibits the construction of additional units (the "Faircloth Amendment").

Currently, PBV assistance is limited to no more than 25 units or 25 percent of the dwelling units in a "project" under the program's income targeting requirements (i.e. 75 percent of admitted households must be extremely-low-income). The term ``project" is defined to mean a single building, multiple contiguous buildings, or multiple buildings on contiguous parcels of land (24

CFR 983.56). The above limitations do not apply in the case of "single family properties" (i.e., buildings with no more than four dwelling units), or for dwelling units that are specifically made available for households comprising elderly families, disabled families, and families receiving comprehensive supportive services for special needs populations, such as individuals who were formerly homeless.

The draft legislative proposal states, "Where project-based voucher units are developed as replacement housing, subparagraph (D) of section 8(o)(13) relating to percentage limitation and income-mixing requirement for project-based voucher assistance) shall not apply." Conceivably, this could enable a project to include 100 percent extremely-low income assisted households, compared with the existing 25 percent (or 25 unit) limitation of PBV-assisted units under the program's income targeting requirements (i.e., 75 percent of admitted households must be extremely-low-income). Taken in conjunction with the one-year exit voucher (as discussed below) that would seem to be allowed under the proposed program, HUD's ability to waive the requirements to deconcentrate poverty and expand housing and economic opportunities as well as site and neighborhood conditions under the PBV program could undermine the set of inherent market-based checks and balances that has worked to preserve the long-term viability of PBV units.

Under the existing Project-Based Voucher (PBV) program, tenants have the right to move after one year of occupancy using the next available tenant-based voucher from a PHA, thus leapfrogging other eligible applicant households on the PHA's waiting list. Meanwhile, the PBV contract stays with the unit, creating the potential for what is known as "churning." PHAs' general obligation under the PBV program is to deconcentrate poverty and expand housing and economic opportunities while complying with the site and neighborhood standards requirements that apply generally to the program. However, under the Choice Neighborhoods Initiative as proposed, the Secretary would be authorized "to waive or modify other provisions of Section 8 (o)(13) to promote the purposes of this program." In a December 2008 memo entitled "A Proposal to Permit Conversion of Public Housing to Project-based Vouchers," the Center on Budget and Policy Priorities (CBPP) proposed a PBV conversion program for public housing units under which PHAs would be exempt from site and neighborhood standards. Waiving or modifying site and neighborhood standards under the proposed Choice Neighborhoods Initiative would be a profound change that could produce unintended negative outcomes in interaction with the one-year exit voucher requirement

HUD should carefully examine the potential impact the PBV program's one-year exit voucher requirement might have (particularly in combination with other waived or modified statutory requirements) on the ability of Choice Neighborhoods grantees to preserve properties in various HUD-assisted inventories (including Sec. 236, Sec. 202, and Sec. 811 properties), as well as LIHTC properties reaching the end of their required affordability periods. NAHRO is concerned that the specter of churning as a result of the exit voucher requirement is likely to undermine the ability of PHAs to partner with nonprofits and other entities involved in the preservation of such properties. Specifically, the one-year exit voucher mechanism could contribute to a situation in which tenants churn through properties as a means of reaching the top of otherwise-lengthy waiting lists for Section 8 tenant-based housing assistance, thus destabilizing property operations and compromising predictable rent streams. This dynamic could also compromise debt and

equity financing, driving up the costs associated with securing long-term affordable housing financing required for the kind of projects envisioned under the proposed program.

Incremental Vouchers Needed: Absent authorized funding for incremental Housing Choice Vouchers, the draft legislative proposal would seem to leave open the possibility that PHAs could be required to use their existing allocation of vouchers for project- or tenant-based voucher replacement units. NAHRO does not believe that this is HUD's intention, but it is critically important that the final legislation provide for incremental vouchers. Similarly, the provision of the draft legislation which allows HUD to waive or modify provisions of the PBV program could conceivably be used to preclude individual PHAs in compliance with their Annual Contributions Contract from receiving or administering incremental vouchers for replacement units. To this end, NAHRO believes that the CNI proposal should make explicit the relevant statutory provisions within the HCV and PBV programs which are not subject to HUD's waiver authority.

Conditions Under Which 50 Percent of Replacement Units are Tenant-Based Vouchers: Under the proposal, a grantee may replace up to half of the public housing or other assisted dwelling units that are demolished or disposed of under the transformation plan with tenant-based vouchers in housing markets where there is an adequate supply of affordable rental housing in areas of low poverty. The draft legislative proposal includes three specific conditions to meet this threshold, discussed below.

First, requiring a minimum of 80 percent of vouchers issued over the last 24 months to comparable families to have been successfully leased within 120 days of issuance is a reasonable definition of local "success rates." However, the draft legislative proposal states that if a sufficient number of comparable families have not received vouchers, HUD must design an alternative measure. Affordable housing in areas of lower poverty could be based on a series of assumptions rather than on PHAs' "real-world" experience with actual low-income voucher-assisted households,

The draft legislative proposal does not include a specific definition of deconcentration. HUD has a long-established and well-defined operational definition that would seem to be relevant to the proposal's requirement that "existing voucher holders [be] widely dispersed geographically among the available private rental housing stock, including in areas of low poverty." The existing definition is under the deconcentration bonus indicator [Sec. 985.3(h)] of the Section Eight Management Assessment Program (SEMAP) and could be used to formulate a statutory definition.

Ostensibly, the third criteria -- a market analysis demonstrating that there is a relatively high vacancy rate within the market area with rent and utility costs not exceeding the applicable payment standard -- is reasonable. However, Housing Assistance Payment (HAP) funding shortfalls in FY 2004 – FY 2006 and in FY 2009 resulted in many PHAs not receiving sufficient renewal funding to set their applicable voucher payment standards commensurate with the marketplace or serve the greatest number of families within affordable income to rent burdens. As such, not all PHAs' current or future applicable voucher payment standards will reflect a reasonable threshold below which HUD can define vacancy rates for this purpose. With future improvements to the formulation of Fair Market Rent (FMR) values, further consideration

should be given to establishing this threshold at the higher of 100 percent of the FMR or the applicable voucher payment standard.

Neighborhood Transformations Will Require Support from Other Federal Agencies

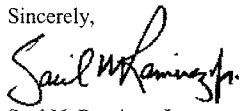
The Department's legislative proposal would authorize $250 million for the Choice Neighborhoods Initiative for FY 2010. After accounting for a 5 percent set-aside for technical assistance and program evaluation efforts, a 10 percent set-aside for planning grants, and a 1 percent transfer to the proposed Transformation Initiative Fund, $210 million would remain available for program activities. Although this amount of funding would exceed the FY 2009 funding level for HOPE VI, NAHRO notes that the HOPE VI program has received as much as $600 million in previous fiscal years.

Given the scope of the proposed program, and with just $210 million available, it is currently unclear how many transformation plans the Department would be able to fund. This lack of clarity is a concern, given that the Choice Neighborhoods Initiative would involve grantees in undertakings that are certain to be extraordinarily resource-intensive. These undertakings could include, for example, activities such as promoting the economic self-sufficiency of "residents...of the surrounding neighborhood," improving the quality of educational opportunities, creating jobs and job opportunities accessible by mass transit, and achieving a long list of "critical community improvements," including the development or improvement of transit, retail, community financial institutions, and public services and the construction or rehabilitation of parks and community gardens.

Clearly this is an ambitious proposal. Absent collaboration with and financial contributions from other federal agencies (including but not limited to the Departments of Transportation and Education), NAHRO is concerned that HUD resources alone will prove insufficient. We would also note that due to the current status of the Office of Management and Budget "passback," HUD is unable at this time to provide information on what contributions, if any, from other agencies will be proposed as part of the administration's FY 2011 budget. This complicates our ability to evaluate the proposed program's chances for success and confirms our belief that the most responsible course of action at this time is to provide continued funding for the HOPE VI program.

Once again, NAHRO thanks you for the opportunity to submit comments in response to the draft proposal. We expect to share additional comments and suggested changes at the appropriate time. NAHRO is committed to working with the Department and the appropriate authorizing committees in order to determine the best path forward for applying the lessons of the HOPE VI program to the comprehensive transformation of neighborhoods.

Sincerely,



Saul N. Ramirez, Jr.
CEO

Testimony of Kristin Siglin
Vice President and Senior Policy Advisor
Enterprise Community Partners
For the Committee on Financial Services
U. S. House of Representatives

March 17, 2010

Chairman Frank, Ranking Member Bachus, Chairwoman Waters, Ranking Member Capito and members of the Committee, thank you for this opportunity to testify about the Administration's Choice Neighborhoods Initiative.

Enterprise is a national nonprofit organization. We create opportunity for low- and moderate-income people through fit, affordable housing in diverse, thriving communities. Enterprise provides financing and expertise to community-based organizations for affordable housing development and other community revitalization activities throughout the U.S. For more than 25 years, Enterprise has invested over $10 billion to create more than 270,000 affordable homes and strengthen hundreds of communities across the country.

We commend you for holding this hearing on the Choice Neighborhoods Initiative and we encourage you to pass legislation to authorize the Administration's proposal. Enterprise applauds Secretary Donovan's leadership and vision on Choice Neighborhoods, and in support of his efforts will suggest some improvements and refinements we'd like to see in the draft legislation.

The feature of Choice Neighborhoods that is most critical for us is the explicit linkage between revitalized affordable housing and improvements to the schools that the children who live in the housing will attend. While affordable housing is the core of Enterprise's mission, Enterprise has long recognized that for families, schools are also a vital part of healthy communities. Observation and common sense tells us there is a strong connection between school quality and neighborhood quality. Good schools can attract families to a neighborhood and boost property

values, while poorly performing schools can exacerbate the cycle of disinvestment and population loss.

Background on Enterprise's work in Sandtown-Winchester:

Enterprise has had fifteen years of experience working in a holistic way in a very low-income neighborhood in West Baltimore called Sandtown-Winchester. Our work in Sandtown gives us some useful experience to comment on the proposed Choice Neighborhoods, which envisions a similar linking of affordable housing development to school improvement and a broader program of neighborhood revitalization. Like many things at Enterprise, the story of Enterprise's school-centered community revitalization work starts with our founder, visionary real estate developer Jim Rouse.

Jim Rouse believed that the affordable housing that Enterprise financed was a platform to help lift families up and out of poverty, but that families also needed health care, job training, education and public safety to improve their lives. Jim Rouse thought that all of these interventions would be more effective if they were done simultaneously so they would reinforce each other. In 1991, Enterprise, collaborating with then Baltimore Mayor Kurt Schmoke, began working in a very low-income 72 square block area in West Baltimore to improve affordable housing, job training, public safety and health care. At a series of planning sessions with neighborhood residents, over and over again, the parents in the neighborhood asked for better schools for their children to attend.

Enterprise's Baltimore Education Initiative, which began in 1995 and continues today, was Enterprise's response to the Sandtown residents. It aims to address the needs of children in the neighborhood from infancy through middle school. Enterprise worked out an agreement with the Baltimore City Public Schools to work with and support two elementary schools (later converted to PK-8th grade.) Enterprise worked with education experts and brought in a research-tested teacher training method and new curricula, as well as a well-regarded early childhood program called HIPPY, Home Instruction for Parents of Preschool Youngsters. Enterprise worked with a local construction firm, Struever Brothers Eccles and Rouse, which donated labor and materials to

renovate the physical space at the schools. Enterprise brought in after-school programs, mentors, and social services for the students. Enterprise also renovated or built over 1000 units of homeownership or rental housing in the neighborhood as well.

We are still working with the schools in Sandtown. Last year, 100% of the fifth graders at Pinderhughes, one of the two schools, were advanced or proficient in reading and 94.7% of the fifth graders were advanced or proficient in math. Those are not typical test scores for inner city Baltimore schools. The HIPPY program is still employing neighborhood residents to teach parents how to stimulate and nurture their infants and toddlers. We're still working with the principal of the schools to train the teachers in the curricula.

None of this work has been easy and Enterprise has suffered reverses and setbacks along the way. The neighborhood is still low-income and economic development has been an enormous challenge. The amount of private sector disinvestment and job loss that occurred in Baltimore at the same time as our holistic community revitalization was a huge challenge for the Sandtown project. Nonetheless, when we look at the lessons learned, we believe that this project in one of the toughest neighborhoods in Baltimore taught us that linking affordable housing development with improved schools for the residents' children has lasting benefits for the neighborhood. The affordable housing we developed in the 1990s still looks well-kept twenty years later. And the children who grow up in the housing we financed have better life opportunities because they attend well-functioning schools.

Enterprise's research on school-centered community revitalization:

Enterprise followed up our work in Sandtown by asking ourselves, "Has anyone else done this work? What were the results? What have we learned?" We hired the distinguished research firm of Abt Associates to study the common sense relationship between housing and schools and write three reports for us. I am pleased to see that you invited my colleague from Abt, Dr. Jill Khadduri to talk about this research.

Enterprise™

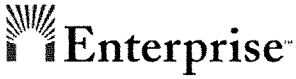
The purpose of the project was to develop practical guidance and policies to encourage community developers to incorporate improved schools into their neighborhood revitalization strategies, often through partnerships with educators. We discovered that there were other community developers who had done what Enterprise had done and had combined the improvement of at least one elementary school in the neighborhood with housing, health, and economic development strategies that help children succeed in school. We called this model "school-centered community revitalization." This is a simple concept that takes skill and capacity to put into practice: what we recommend is that the best practices in neighborhood improvement should be coordinated with best practices in individual school improvement in order to be most effective.

The research Abt Associates performed for Enterprise identified the key elements of school improvement:

- Principal and teacher quality;
- Curriculum; and
- Early childhood education.

These "best practices" in school improvement can be reinforced and bolstered by a simultaneous strategy to revitalize the neighborhood with affordable housing and community improvements.

Linking the best practices in school improvement with the best practices in community development works. Community foundations, anchor institutions like universities, for-profit developers, and community-based organizations have broken down the traditional divisions between school reform and community development to coordinate their efforts to revitalize neighborhoods. We looked at school-centered community revitalization projects in St. Louis, Atlanta, St. Paul, Philadelphia, Baltimore and Chicago. I encourage you to review these reports, which are available for the Committee or on the web at http://www.enterprisecommunity.org/resources/schools_and_communities/.



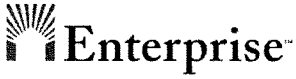
Enterprise's comments on HUD's Choice Neighborhoods Initiative

In general, Enterprise supports the Choice Neighborhoods Initiative as a means of fostering more comprehensive community revitalization projects in distressed communities across the nation. It gives strong local government leaders another tool to carry out holistic strategies to turn neighborhoods of concentrated poverty into diverse, thriving, mixed-income communities. Choice Neighborhoods builds on the lessons of the HOPE VI program, but differs from HOPE VI in the broader universe of projects eligible for renovation. It also differs from HOPE VI in the explicit link to local school improvement strategies. Finally, Choice Neighborhoods is more ambitious than HOPE VI in its program objectives, which are not just to revitalize distressed housing but also to "transform neighborhoods of extreme poverty into mixed-income neighborhoods of long-term viability." Enterprise has long supported federal funding and incentives to end the isolation and despair of neighborhoods of concentrated poverty. We want to see Choice Neighborhoods succeed, thus we encourage you to authorize the program with the following improvements:

I. Holistic principles:

A challenging issue to consider with Choice Neighborhoods is how to use HUD funding for a specific real estate transaction – the renovation of a distressed public or assisted housing project – to drive a much broader program of neighborhood change. The legislation proposed by HUD deals with this challenge by using HUD funding for housing redevelopment and a modest amount of community improvement as an incentive for localities to bring other funding such as transportation, job training or school construction as part of the Choice Neighborhoods application process. Federal funding for housing is used as a "carrot" to give localities an incentive to use other federal funding in the neighborhood so that the redeveloped housing is part of a diverse, sustainable, mixed-income community. This makes sense to encourage local officials to think comprehensively and is an appropriate selection criterion to use to select Choice Neighborhoods.

This question of the amount of federal support available for comprehensive strategies has an impact on whether this program can work in extremely distressed and isolated neighborhoods. The reason that the HUD proposal calls for these funds to be used in neighborhoods with



"potential for long term viability" is that Choice Neighborhoods is trying to use an investment in housing to drive a broader program of neighborhood change. If you want Choice Neighborhoods to be the investment vehicle for truly distressed neighborhoods, you should work with your colleagues on other committees to craft a more comprehensive federal response that includes funding for social service supports, workforce development, transportation, education, etc. to complement housing development funding. The problems of isolated communities with economic challenges cannot be solved with affordable housing alone.

Federal officials must think holistically too. If Choice Neighborhoods requires a comprehensive, holistic approach at the local level, federal agencies, too, should work across program silos to make resources available so distressed communities can address their problems in a thoughtful and comprehensive way. Often federal funding flows in "silos" that prevent local leaders from addressing the range of needs in a particular place. This problem has been recognized for years. Job training funding flows through a different delivery system than education funding, housing funding, transportation, or social service funding. Each type of funding has its own program requirements and monitoring and reporting requirements. There are reasons for all of the program requirements so this is not something that can be solved quickly or easily.

The Administration has recognized this issue and is working on more effective place-based policies. The 2011 Budget proposals reflect this new emphasis. For example, under Secretary Donovan's leadership, HUD has been working with the Department of Transportation on coordinating housing and transportation policy. Choice Neighborhoods should also be reinforced with interagency efforts at the federal level. Choice Neighborhoods asks localities to think about the needs of distressed communities in a comprehensive and thoughtful way and to meet a range of needs that go beyond housing. One way to help localities think holistically is to make federal funding streams easier to use together.

The logic of Choice Neighborhoods especially calls for HUD to work with the Department of Education. As I noted earlier, Enterprise's work in Baltimore and the research we commissioned suggests that housing redevelopment and school improvement are mutually reinforcing. Better

schools lure families to neighborhoods; stable, affordable housing complements education reform. There are two specific ways that HUD and the Department of Education should work together on Choice Neighborhoods. The first is that the local education improvement plans required by the bill should be reviewed by the Department of Education as part of the Choice Neighborhoods competition. Department of Education review should help weed out Choice Neighborhoods applications that do not have a meaningful school improvement component.

The second way that HUD and the Department of Education should work together is to make education funding for school improvement available in tandem with Choice Neighborhoods funding in a combined Notice of Funding Availability. The legislation forbids Choice Neighborhoods funding from going for school construction or renovation because that is not an appropriate use of HUD funding. HUD could work with the Department Education to issue a Notice of Funding Availability -- a Super NoFA -- that includes funding for school improvement as well as the Choice Neighborhoods funding available for housing redevelopment. There are, of course, many other federal departments whose funds would complement Choice Neighborhoods funding as well:

- Department of Health and Human Services (HHS) for support services
- Department of Labor (DOL) for workforce development
- Department of Transportation (DOT) to ensure that residents of Choice Neighborhoods have access to a variety of transit options.

It may be overly ambitious for HUD to try to work with all of those departments at the same time to coordinate their funding with Choice Neighborhoods. The Department of Education funds are most important in creating "neighborhoods of choice" and HUD should begin there.

II. Local leadership and support:

The selection criteria should be strengthened to reward long standing local partnerships to improve communities. It is not enough to have a few meetings with the school system. The selection criteria need to favor durable partnerships that have a track record of success. Comprehensive

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neighborhood revitalization takes time and commitment. HUD needs to select projects with local leadership with both capacity and a lasting commitment to the neighborhood. The selection criteria also need to favor projects that have strong local support from the mayor, the city council, the school system, and an extensive process of community engagement. Another way to evaluate the amount of local "buy-in" is to look at funding from foundations, local governments, and other sources ensures that demonstrate civic commitment to the transformed neighborhood. The selection criteria should favor applications that are able to leverage the Choice Neighborhoods with other funding. All of these ideas are implicit in the HUD proposed legislation, but they should be made clearer and more explicit.

III. Green building standard:

All Choice Neighborhoods developments should meet a national green building standard, such as the Enterprise Green Communities Criteria. The draft legislation requires only that the buildings be energy efficient. The Enterprise Green Communities Criteria is the only green building standard developed especially for affordable housing. Enterprise Green Communities research has found significant cost and health benefits for residents of green housing. On average, it costs $4500 per unit up front to meet the basic Green Communities Criteria for new construction, and the energy and water savings over ten years total $4800. Low-income youth living in healthier affordable homes designed to reduce childhood asthma experienced nearly twice as many symptom-free days; annual emergency room and urgent care visits fell by two-thirds.

IV. Program evaluation:

The draft legislation allows some of the funds to be set aside for evaluation but does not require an evaluation. Research and evaluation are critical components to measuring success and impact. The legislation should specify that HUD hire a respected outside evaluation firm or academic institution to conduct a rigorous program-wide evaluation that looks at impacts on the residents and impacts on the community.

Conclusion:

As Congress debates funding and authorizing Choice Neighborhoods, please think about the real examples in our reports of housing authorities, nonprofits, for-profit developers, and anchor institutions that worked with school systems so that housing revitalization strategies were reinforced by improvements in local schools. This is not merely a theoretical construct. There are several successful examples of school-centered community revitalization already working in communities across the nation and I urge you to spread school-centered community revitalization model.

Thank you for your time.

TESTIMONY TO UNITED STATE HOUSING OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
HEARING ON
"THE ADMINISTRATION'S PROPOSAL TO REVITALIZE SEVERELY DISTRESSED PUBLIC AND ASSISTED HOUSING: THE CHOICE NEIGHBORHOODS INITIATIVE"

MARCH 17, 2010

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Madam Chair and members of the committee, thank you for the opportunity to submit written testimony concerning the proposed Choice Neighborhoods Initiative legislation. My colleagues, Drs Reid and Ruel and I are currently conducting a longitudinal study of public housing relocation in Atlanta, GA. As you and members of the committee may know, in early 2007 the Atlanta Housing Authority (AHA) announced plans to eliminate the city's remaining traditional project-based public housing stock as well as two senior high-rises. Since then almost 10,000 public housing residents have relocated. Seventy percent qualified for a Housing Choice Voucher subsidy to private rental market housing. While many of the seniors have had the opportunity to move into one of the HOPE VI senior redevelopments, none of the families have had similar opportunities with the non-senior HOPE VI redevelopments. Because these efforts fall under the demolition and disposition of public housing authorized under Section 18 of the 1937 Housing Act, there are no immediate plans for replacement housing. However, in recent public hearings AHA officials indicated that the Authority would be applying for Choice Neighborhoods grants once the legislation is approved.

We interviewed almost 400 public residents across four family communities and two senior high-rises, all of which had been earmarked for demolition, in summer 2008 and we are currently conducting post-move six-month follow-up interviews. We plan to continue following these residents for at least another two years. We are particularly interested in how relocation impacts their lives: Do they end up in better, safer neighborhoods and have improved, more stable living conditions? Do they have improved access to employment? Do their children end up in better schools? Do they face any stigma in their destination neighborhoods? Do they maintain existing social support networks or do they build new ones over time? Is the built environment of the destination neighborhoods an improvement over public housing? And more generally, how is resident health and overall well-being affected by relocation?

These questions are particularly relevant to informing the pending Choice Neighborhoods legislation for a number of reasons, three of which we highlight here. First, like HOPE VI redevelopment and similar public housing transformation efforts the underlying policy assumption is that in order to build healthy, sustainable neighborhoods over time, poverty must be deconcentrated. This means that over half of the public housing residents must be relocated for good. Accomplishing this has depended almost universally on relocation to subsidized private rental housing with the assistance of a voucher. Therefore in order for Choice Neighborhoods to build and improved upon HOPE VI it is crucial that the challenges of voucher relocation be adequately addressed. Second, not only is Atlanta the first city to eliminate all of its

project-based public housing, it is also the first to eliminate (rather than renovate) senior public housing. Other cities are watching very closely how the situation in Atlanta plays out and if deemed successful may follow suit through Choice Neighborhoods implementation. Lastly, the income mix of Atlanta's nationally-recognized, award-winning HOPE VI developments is skewed towards worker-force and market-rate housing. Therefore, the majority of the 'affordable' units in these redevelopments are well beyond the financial means of former public housing residents. In fact, only 17 percent of those residents relocated during the 1990s were able to return to the redevelopments. One result has been gentrification of the neighborhoods surrounding several of HOPE VI redevelopments. While this has achieved some of the objectives that the Choice Neighborhoods Initiative is focused on in terms of sustainability, it has also narrowed the income mix as the areas become increasingly unaffordable to working and lower middle class residents, as well as independently-owned small businesses.

Based on our analysis of the draft Choice Neighborhoods Initiative legislation, in what follows we highlight a number of sections in the proposed bill that we believe present potential challenges to successful implementation. We also provide some concrete recommendations.

Sections 2 and 4 – Purpose and Eligible Entities

Choice Neighborhoods builds upon the HOPE VI program by incorporating a broader approach to community development and transforming high poverty neighborhoods – including those with public housing – into sustainable communities. In order to achieve this, the bill calls for a more coordinated effort involving city and housing officials as well as community organizations, local businesses and other service institutions. Therefore eligible Choice Neighborhood grant applicants include local governments, public housing authorities, community development corporations, assisted housing owners, and for-profits and non-profit entities. Yet the HOPE VI program has been dominated by local governments, housing authorities and for-profit developers. In some cases, such as Atlanta, their dominance impeded the opportunity for non-profit and community development corporations to become active partners in the redevelopment process. At the same time, local governments, public housing authorities, and for-profit developers are the most likely entities to apply for Choice Neighborhood grants because of their vast land and real estate holdings. But the broader approach proposed by Choice Neighborhoods can not be achieved if these stakeholders do not engage in an inclusive redevelopment process. Community organizations are essential for the success of this initiative. These are the organizations that know the neighborhood and the needs

of the people in the neighborhood the best. Thus, building in a component to the legislation that requires local governments, housing authorities and for-profit developers to actively seek out community partners and involve them in more than just an advisory capacity would better address the sustainable community objectives of Choice Neighborhoods. We are thinking along the lines of the Continuum of Care Model for Stewart B. McKinley Homeless Assistance Funding.

Section 5 – Eligible Neighborhoods

In order to qualify for a Choice Neighborhood grant targeted neighborhoods must meet the following three characteristics: a concentration of extreme poverty, a concentration of severely distress housing, and a potential for long-term viability once key problems are addressed. The bill defines "concentration of extreme poverty" as a high neighborhood percentage without providing a specific percentage threshold. But poverty researchers define concentration of poverty as 40 percent or more of residents in a neighborhood living at or below the federally-established poverty line. "Neighborhood" is most frequently defined as a Census tract or block group. Without giving a specific percentage threshold there is heightened potential that localities will not target the highest poverty areas for Choice Neighborhoods Initiatives. This is potentially compounded by the fact that the lower poverty neighborhoods (i.e. approximately 20 percent) are more likely to have long-term viability assets. We suggest adding the specific language concerning poverty thresholds used in the Empowerment Zone/Enterprise Community legislation.

The emphasis of Choice Neighborhoods is to target high poverty, severely distressed areas that have the potential for long-term viability. The bill states that indicators of long-term viability may include proximity to educational institutions, medical centers, central business districts, major employers, effective transportation, and adjacency to low poverty neighborhoods. Yet such indicators are far less likely to be present in the most severely distressed neighborhoods, particularly in the lower density southern and western cities. This again poses a potential risk that the neighborhoods targeted for Choice Neighborhoods Initiatives will be those that are moderately distressed rather than severely distressed. In addition, cities across the country have high levels of residential segregation along class and race lines. Adjacent

neighborhoods are typically less poor but still disadvantaged and racially segregated. Therefore they do not constitute low poverty areas.

In addition, HOPE VI redevelopment initiatives over the last decade have frequently focused on demolition of public housing for redevelopment in locations near central business districts where most of the services described in the Choice Neighborhoods legislation are located. Thus, there is the potential for Choice Neighborhoods grantees to focus on 'future' potential sustainability, which may be based solely on land speculation going 25 to 50 years out. But land speculation in and of itself is not a reliable measure of long-term viability. For example, in Atlanta the current round of public housing demolitions focuses on the family and senior developments that are located in the vicinity of the proposed Beltline and three of the family complexes are not located in central areas. The Beltline is an ambitious economic development initiative combining green space, trails, transit, and new development along 22 miles of historic rail segments that encircle the urban core. However, the project has had a myriad of financial problems and it is not clear at this point whether the project will actually be implemented. In addition, even if implemented, the benefits will not be realized for at least 25 years. We recommend that language be added to the bill that more specifically defines the criteria for long-term viability.

Sections 6, 7, 8 – Required and Eligible Program Activities.

Relocation. While the Choice Neighborhoods Initiative has a much needed broader approach to neighborhood transformation than the HOPE VI program it does not address some of the challenges displaced residents have faced moving to private rental market housing with a voucher subsidy. Research, including ours, has consistently found that residents relocated with vouchers end up in other poor, racially segregated neighborhoods. Such neighborhoods may be less poor, typically safer, and with better quality housing stock, but these areas are still too disadvantaged to lead to improved socioeconomic status over time. In addition, similar to several other studies coming out of Chicago and Minneapolis, our research has found evidence of geographic clustering of residents relocated with vouchers. This raises the real possibility that such efforts to deconcentrate poverty result in its reconcentration elsewhere. In its present form the Choice Neighborhood legislation does not address these issues. We understand that issues concerning voucher housing location may be more fully addressed in forthcoming Section 8 legislation. However, because (like HOPE VI) Choice Neighborhoods will rely on voucher

subsidies for relocating residents displaced by revitalization, we believe that it is important that this bill acknowledge and more directly address the documented challenges of voucher housing location.

One reason for the spatial clustering of voucher holders is the spatial constraints of this type of housing which tends to be located in less affluent areas. Under the program requirements in the present version of the Choice Neighborhoods bill there is a stipulation stating that private rental market properties can have no more than 20 percent of the units in a given building set aside for voucher holders. This is a change from the previous 50 percent. Ideally this would lead to greater geographic dispersion of voucher subsidized housing. But in reality without additional incentives for private market landlords to take voucher tenants it is possible that relocating residents may have increasing difficulty finding a place to rent. In addition, issues of NIMBY-ism and exclusionary zoning could be obstacles to dispersion and 'leasing up'.

Beyond the geographic patterns of voucher housing, which are the most challenging to address, there are several components that could be added to the Choice Neighborhoods legislation which might mitigate some of the spatial clustering and lead to relocation to better neighborhoods. For one thing relocation services and supports have generally proven inadequate under HOPE VI. This resulted in a lawsuit in Chicago. If residents received the comprehensive relocation counseling and support that they needed, perhaps the destination outcomes would be more consistent in terms of broader neighborhood and quality of life improvements over public housing. Such counseling and services must acknowledge residents' existing social support networks and issues of place attachment. However, without better oversight from HUD and more specific program requirements this will not happen. For example, during the recent relocations in Atlanta most of the relocation counselors were laid off well before relocation was complete. This left the remaining counselors with enormous case loads and many residents ended up receiving little if any assistance.

Another challenge for voucher-relocated residents which could be dealt by Choice Neighborhoods legislation very concretely is the issue of high utility costs. This has not been addressed adequately by the HOPE VI initiative. Residents relocated with vouchers routinely experience utility costs that are well beyond their means. In northern cities like Chicago the issue tends to be high electric or gas bills during the winter months. In Atlanta the issue has been high water and sewage bills throughout the year. One outcome of these increased monthly expenses is that there is no way for residents to save any income to help them improve their economic and educational standing over time. Although there are currently allowances for utilities they

typically do not cover enough, leaving residents with little if any disposable income by month's end. In addition, failure to keep current on utility bills is grounds for eviction. We recommend that the Choice Neighborhoods Initiative requires and enforces utility allowances that are adequately adjusted to the actual costs and to household incomes.

Lastly, the initiative should discourage the demolition of public housing senior high-rises and subsequent displacement of the senior residents. Most cities are renovating rather than eliminating this housing. In Atlanta the two senior high-rises earmarked for demolition are not in high poverty areas – they are in fact in gentrifying areas close to all the services and amenities the seniors depend upon. Relocation for the seniors has proven especially difficult and stressful and many feel isolated in their new locations. As one 90 year-old lady in our study who was relocated far away from her social support networks and needed services put it "This is the nicest apartment I've ever lived in and I can't wait to get out. I just want to go back to Palmer House."

Redevelopment. The draft bill states that grantees must conduct activities that demonstrate that each resident who wishes to return to the revitalized housing can return and will be provided preference. However, HOPE VI initiatives have typically placed the responsibility of staying in the system (i.e. waiting lists etc. updated annually) throughout the redevelopment process on the residents themselves. If redevelopment takes more than five years many residents 'give up'. This has frequently been interpreted in policy circles as residents being happy in their relocated homes without any substantiation that this is indeed the case. Choice Neighborhoods grantees should be required to have a comprehensive, proactive plan to keep relocated residents who express interest in returning to the redevelopments in the loop throughout the redevelopment process.

Likewise the draft bill states that grantees must track residents relocated during the redevelopment process. However, tracking relocated residents under the HOPE VI initiative has been insufficient. For one thing staying in contact with the residents requires systematic fieldwork accompanied by regular outreach. Residents tend to rely on minute phones which are unreliable and result in frequent telephone number changes. Residents also move quite frequently even with a voucher and it is unclear whether housing authority MIS systems keep pace with these moves. In addition, residents who get evicted from voucher housing or those who leave on their own are no longer tracked even though they still may qualify for a unit in the redeveloped housing, depending on the rules. Thus, Choice Neighborhoods grantees should be required to have a detailed plan for maintaining contact with all relocated residents throughout the redevelopment process. Tracking should be a line budget item.

The draft bill also calls for resident involvement in the planning implementation of redevelopment. A fully inclusive process would greatly enhance grantee's ability to track and stay in touch with the residents throughout the redevelopment process. But under HOPE VI resident involvement has typically been relegated to a minor advisory role. In some sites it has been non-existent. In fact, the AHA actively discouraged such involvement. Most recently, to meet the HUD resident involvement requirements for the Section 18 demolition application, the housing authority distributed self-addressed stamped postcards requesting that the public housing residents fill in their name and address and indicate whether they support the demolition initiative and wish to receive a voucher. The AHA then reported to HUD that 96 percent of the residents participated in the planning process and wished to move with a voucher. The Choice Neighborhoods Initiative should require grantees to have a comprehensive plan to ensure full involvement of residents in redevelopment planning and implementation. Such plans should receive full oversight on the part of HUD as well.

The Choice Neighborhoods' one-for-one replacement requirement is essential and will prevent further erosion of the Nation's housing stock affordable to very low income families and individuals. This is a major and needed improvement over the HOPE VI program. However, the draft bill states that off-site housing can be as far as 25 miles away from the original site. This could prove problematic for residents dependent on public transportation, particularly in low density cities with insufficient public transportation systems. For example, in Atlanta the public transit system is very sparse and constantly under the threat of budget cuts. Yet over 80 percent of the former public housing residents are dependent on this system. We have found that proximity to public transit plays an important role in where residents choose to relocate. Therefore it is likely that this will play an equally important role in whether or not residents choose to return to off-site redevelopments. We recommend that further language be included in the Choice Neighborhoods legislation requiring off-site housing to be in close proximity to public transportation.

Grantee Reporting. In its current form the Choice Neighborhoods legislation authorizes 5 percent of the annual funding amount to be earmarked for program evaluation and technical assistance. The similar HOPE VI evaluation component has proven inadequate and has therefore yielded only partial data on pre- and post-relocation outcomes. This is primarily because there has been very little oversight on the part of HUD. In order to provide an accurate assessment of the Choice Neighborhoods Initiative an independent, program-wide, methodologically rigorous evaluation should be incorporated into the legislation. This should include both outcome and

process evaluation components, requiring a mix of sound qualitative and quantitative methodologies. Both HUD Secretary Donavan and HUD Assistant Secretary of Policy Development Bostic have publicly acknowledged the crucial need for more independent, evidence-based research of HUD programs. While such evaluations can be very expensive, one way to keep costs down is to tap into the existing independent academic research focused on public housing transformation initiatives currently going on in cities across the country.

A related issue is that a centralized database maintained by HUD on Choice Neighborhoods Initiatives is essential. Grantees should be required to report micro-level data on an annual basis just like public housing authorities are required to do for all types of government-assisted housing (except HOPE VI). Such a database should include information on relocation. Because there was never such a requirement under the HOPE VI initiative it has been difficult to assess the full extent of programmatic challenges and successes.

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