



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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on

**“The Choice Neighborhoods Initiative: A New Community Development Model”
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Chairman Menendez, Senator DeMint and members of the committee, thank you for this opportunity to discuss the Choice Neighborhoods program. As you know, with your leadership, Mr. Chairman, in less than two years, this program has already had great success helping communities tackle housing distress and leveraging private dollars. Indeed, the \$130 million of funding we have awarded to thirty-five communities through implementation and planning grants under this program has already leveraged a combined \$1.6 billion of other investments in those neighborhoods, over 12 times their total grant award.

Indeed, I am grateful for the leadership that you have shown, Chairman Menendez, in sponsoring legislation that will formally authorize Choice Neighborhoods. We are grateful as well to Chairwoman Waters for her leadership in advancing a similar effort in the House of Representatives. We want to work with Congress to authorize Choice Neighborhoods so that local leaders can count on the Federal government as a partner in their neighborhood revitalization efforts.

Today, I want to describe the need for authorizing Choice Neighborhoods, how it builds on the progress of the HOPE VI program and how it helps local leaders turn around distressed neighborhoods that are critical to helping regional economies rebound as our national economy is growing.

Background

Indeed, Mr. Chairman, in many ways we meet at an encouraging moment: when our economy is growing, jobs are being created and foreclosures are down. We’ve added private sector jobs for two straight years, for a total of over 3.9 million jobs. In the last year, 2.2 million private sector jobs were added – and we’ve added more jobs in the last 6 months than any six-month period in

nearly 6 years. Indeed, in many cities, the tide is turning – unemployment is dropping, vacancy rates are improving, and investment is going up – but certain neighborhoods remain stubbornly resistant to change.

Even still, as local leaders dig their communities out of the worst recession since the Great Depression, we recognize that the cost of poverty, particularly concentrated poverty, to our society and to our economic future is very high. Today, more than 10 million people live in neighborhoods of concentrated poverty – surrounded by disinvestment, failing schools, troubled housing, and, worst of all, virtually no path to opportunity for themselves or their children.

In fact, research shows that one of the most important factors in determining whether or not children will do better financially than their parents is whether or not they grow up in one of these high-poverty neighborhoods.¹ We can predict health, economic, and educational outcomes of children based on zip code. Further, a conservative estimate finds that allowing millions of children to grow up in poverty costs the United States more than \$500 billion per year, or more than 4 percent of GDP.²

In a globalized information economy, where a country's success is built on its human capital development, the conditions of our highest-poverty neighborhoods, among other factors, are preventing children from taking advantage of educational opportunities and building the skills they need. We must revitalize America's high-poverty neighborhoods in order to educate our way to economic success.

Connected Challenges: Distressed Housing and Neighborhoods

That's why this Administration has pursued Choice Neighborhoods, which builds on the HOPE VI public housing revitalization program pioneered by my predecessors at HUD, Secretaries Jack Kemp and Henry Cisneros.

With strong bipartisan support, HOPE VI has already created over 90,000 public housing units in healthy, mixed-income communities that were once troubled by distressed public housing – leveraging twice the Federal investment in additional private development capital and contributing to an increase of 75 percent or more in the average income of residents in such communities. This increase might partially result from higher-income residents moving into the area.

Why Choice Neighborhoods?– In 1994, 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.

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.

Choice Neighborhoods builds on HOPE VI by recognizing that the problem of high concentrations of distressed housing in a single neighborhood of concentrated poverty is not limited to public housing.

Indeed, many communities are struggling with the challenge of distressed housing in severely declining neighborhoods. The financial crisis intensified and expanded disinvestment in these neighborhoods, causing spillover effects in surrounding areas – an impact that is felt particularly strongly in neighborhoods with a large amount of distressed HUD-subsidized housing, whether public housing or assisted housing.

We have heard from Public Housing Authority executive directors, mayors, and other leaders across the country that they need a tool that is sufficiently catalytic to revitalize these neighborhoods, and get their cities headed in the right direction. Existing funding sources like CDBG, HOME, LIHTC, and the Rental Assistance Demonstration can address some symptoms, but are simply not catalytic or substantial enough to effectively restore high-need neighborhoods. Choice Neighborhoods is exactly the kind of tool that those local leaders are asking for, and it is currently helping change the trajectories of cities across the country.

Building upon HOPE VI by expanding beyond public housing to include other, almost indistinguishable HUD-assisted housing, Choice Neighborhoods transforms destabilizing, distressed housing into mixed-income and professionally managed housing. But Choice Neighborhoods also provides the flexibility that local leaders need to address their specific challenges, whether it's a need to improve neighborhood infrastructure, or ensure high-quality early learning opportunities are available for young children. Choice Neighborhoods attracts and leverages private investment, philanthropic funding, and other public investments, to strategically address these challenges. The first five Choice Neighborhoods Implementation Grantees have used their \$122 million of funding to leverage a combined \$1.6 billion, over 13 times their total grant award. And the 30 additional grantees who have received funding to spur their plans and preparations for Choice Neighborhoods revitalization have used their \$7.6 million of awarded funding to leverage \$13 million in other funds.

Additionally, in part because of rural set-asides, Choice Neighborhoods is restoring neighborhoods in smaller cities and towns, which are experiencing challenges similar to those in larger metropolitan areas. In towns in rural areas like Meridian, MS and Salisbury, NC and small cities like Opa-Locka, FL local leaders are using Choice Neighborhoods to form and implement their own solutions to regenerate opportunities and their economies.

In short, over the last two decades, HUD made significant strides in reducing the amount of severely distressed public housing through the HOPE VI program, which, once all funds are expended, will have replaced a total of over 100,000 public housing units that were formerly part of some of the most distressed housing stock. However, this work is not finished – in part because HOPE VI didn't address the most distressed HUD Assisted Housing, which Choice Neighborhoods tackles head on. In order to revitalize neighborhoods with large stocks of distressed HUD-assisted housing, and provide local leaders with the flexible, catalytic tool they need, we must build on the success we're already seeing through Choice Neighborhoods.

Grantee Spotlight: Salisbury, NC – Salisbury is a small town in a rural area of Eastern North Carolina. As a direct result of Choice Neighborhoods, the Housing Authority and City of Salisbury have partnered to create a Transformation Plan targeting the West End neighborhood and Civic Park Apartments, a 72-unit public housing complex within West End. Civic Park Apartments suffers from failing building structure, water infiltration and substandard electrical systems. The City considers West End its most distressed neighborhood, with a poverty rate of 28 percent, a neighborhood vacancy rate that is nearly five times the County average, and a low-performing middle school. Through their Planning Grant, the Housing Authority and the City will work with a nationally recognized planning firm, Stogner Architecture, to develop an actionable local plan for coordinated investment. They will conduct a locally-based needs assessment, continue to partner and build their capacity, and create plans for rehabilitating the neighborhood's public and assisted housing stock, developing an early childhood education center, and supporting existing neighborhood assets.

Catalyzing Recovery by Targeting Housing and Neighborhoods

Because of the interconnections between housing and the health and economies of neighborhoods, high-poverty neighborhoods with severely distressed HUD-assisted housing are strong candidates for return on Federal investment. Moreover, like other infrastructure, investments in housing last over the life-cycle of the improvements and generate long-term payoffs to neighborhoods and local economies.

Under HOPE VI, Choice Neighborhoods' predecessor, we saw that removing blighted public housing and replacing it with economically sustainable, mixed-income housing, not only replaced severely distressed housing, but also reduced poverty, crime, and unemployment; increased income and property values; and triggered investment, business growth, and local jobs.

A typical 700-unit redevelopment of distressed public housing boosts home values, and generates local revenues of \$6.5 million over a 20-year period.³ A recent study looking at four sites estimated that three out of the four investments directly increased the surrounding areas' home values by a total of \$14 million to \$107 million. Home values in the fourth site kept pace with the rapid increases in the local area.⁴

Increased home values not only highlight how targeted federal investments can improve the surrounding area, but also show the enormous potential that these investments have to unlock private sector demand for and investment in these neighborhoods.

Removing isolated, distressed properties and creating communities with connected, defensible spaces also contribute to decreased crime. Drops were especially large when this work was done in concert with police. For example, in Centennial Place in Atlanta, GA, the site of one project where fellow panelist Egbert Perry led so much great work, crime dropped by an astonishing 93 percent.⁵ These drops in crime have often been much larger than those in other comparable local neighborhoods, and can generate significant savings over the life-cycle of the housing.^{6, 7}

Grantee Spotlight: San Antonio, TX – The San Antonio Housing Authority, the local United Way, and their partners have secured both a Choice Neighborhoods Planning Grant and a Promise Neighborhoods Planning Grant for the Eastside area. The Eastside neighborhood is held back by several interconnected problems. The neighborhood vacancy rate is more than three times the County rate and almost half of the area’s residents live in poverty. In addition to distressed public housing, the neighborhood also struggles with very low performing schools, including the Sam Houston High School where more than half of all students drop out. The Housing Authority recognizes that, even if the housing is replaced, market rate renters will not move into the area without better schools. As a result of these aligned Federal investments, the Housing Authority, United Way, the City, a local university, and their partners are building on new city efforts and private industry growth and are crafting an integrated, data-driven plan that links educational improvements to mixed income housing and neighborhood revitalization.

Targeted investments in housing also create jobs through construction related work and multiplier effects. Federal investment, combined with the massive private sector leverage that these investments marshal, translate into substantial numbers of new jobs, further contributing to the re-growth of these local economies. Meanwhile, the continued return of private investment in homes, businesses, and other infrastructure propels this cycle of increased jobs and growth. At its core, Choice Neighborhoods is a job-generator: directly creating jobs through its investments, and indirectly creating the conditions for private capital – and work – to flow back into disinvested neighborhoods. We estimate that the Choice Neighborhoods grants awarded thus far and combined leveraging will create thousands of jobs.

Using a Proven Approach & Generating Local Solutions

Choice Neighborhoods builds on HOPE VI successes. With HOPE VI, communities used financing from multiple private and public sources to remove blighted public housing and replaced it with sustainable mixed-income developments that cost far less to operate than the original, ailing housing. This approach attracted new businesses and market-rate renters and opened up opportunities for families to live in affordable, decent housing in safer neighborhoods.

However, Choice Neighborhoods has significantly improved upon HOPE VI by requiring that the housing investment enable and align with a comprehensive locally-driven neighborhood plan. Local leaders, often including local elected officials and city staff, begin by assessing the needs in their neighborhood, then craft a plan that is responsive to those needs, and rooted in effective, evidence-based practices. Choice Neighborhoods provides them with the flexibility and resources to execute on those locally-driven plans.

Choice Neighborhoods was designed to ensure leaders could carry out their vision and respond to the specific challenges in their community. For example, under Choice Neighborhoods distressed housing stock is not just limited to public housing; often distressed public housing and other distressed HUD-assisted housing is located side by side. Now, both types of housing are eligible to be the focus of a grant, giving local leaders a tool to address whichever types of HUD-assisted housing present challenges in their communities.

Grantee Spotlight: Little Rock, AR – In Little Rock, AR, a struggling neighborhood just Southeast of the downtown area is being challenged by both a severely distressed 74-unit public housing development, Sunset Terrace, and a severely distressed 50-unit HUD-assisted, Project-Based Section 8 development, Elm Street. Both properties have deteriorating foundations and structures, have persistent electrical and plumbing problems, lack defensible spaces, and have other serious design flaws. The surrounding neighborhood is affected by high crime, poor schools, and has a vacancy rate that is over three times the county rate. To address these needs, the Little Rock Housing Authority has partnered with Volunteers of America National Services, the owner of the Project-Based Section 8 development, to engage City and civic leaders in turning around the neighborhood. They have secured a Choice Neighborhoods Planning Grant and are working with Quadel Consulting to create a plan that builds off of other recent development efforts, including the Department of Education’s Promise Neighborhood Program, Neighborhood Stabilization investments, and HUD’s Sustainable Communities Initiative.

Local leaders also need to be able to address the specific challenges in these neighborhoods when it is not just the housing that needs fixing. Data show that market rate rental and homeownership demand in a neighborhood is driven by the quality of the institutions and assets in that area, such as schools, grocery stores, parks, public safety, access to transportation, and proximity to jobs and businesses. Improvements to these assets create the conditions for neighborhood change.⁸

Choice Neighborhoods makes it easier to make this happen. Choice Neighborhoods provides a framework that recognizes the effective practice of pairing housing revitalization with a broad intervention in a target neighborhood. And critically, Choice Neighborhoods provides the flexibility needed to bring in the public and private partnerships that will catalyze these changes. The program allows local leaders to use up to 15 percent of the grant to focus on human development-related investments in early education, job training, health, and other areas. Choice Neighborhoods also allows 15 percent of funds to be used for critical neighborhood improvements, like providing gap financing for grocery stores, financial institutions, and other retail, and removing blight caused by vacant private housing. When communities can’t otherwise access sources of funds to address critical needs, these gap-filling funds represent “glue money” that garner new leverage and hold together key strategies.

Choice Neighborhoods also enhances local flexibility by enabling the best-poised leader to drive this process. Under HOPE VI, only housing authorities could apply for grants. This limitation sometimes left other key players out of the process, making it far too easy to miss opportunities to streamline local efforts and leverage the greatest return on an investment. Choice Neighborhoods now encourages the highest capacity and best situated applicant, whether a

mayor or other local officials, public housing authority, nonprofit, tribal entity, or private developers to directly apply for a grant.

Grantee Spotlight: San Francisco, CA – McCormack Baron Salazar, a private development company, and the San Francisco Housing Authority, along with partners like Lennar Homes (a publicly traded real estate development company), the City, School District, and Urban Strategies were awarded a Choice Neighborhoods Implementation Grant to execute their local vision for the Eastern Bayview neighborhood. Forty percent of Eastern Bayview residents live in poverty and the neighborhood suffers from high vacancies, poor schools, and inadequate access to job centers in downtown and Silicon Valley. The neighborhood also contains the Alice Griffith public housing site, a highly distressed collection of barracks style housing scattered over a 22-acre site. Through their Choice Neighborhoods grant, the team will build a total of 1,210 mixed-income units, replacing the 256 units of public housing and creating a new master-planned community with market-rate and workforce housing. The team has also identified a clear plan and goals to address their local needs. They are building upon the San Francisco Unified School District's progress to improve the quality of their schools and develop complementary educational opportunities. They have also set employment targets and are working with the Job Readiness Initiative and the local Citybuild program to provide job training and placement. Additionally, the team is bringing in needed everyday services and jobs by improving streetscapes to attract retail, removing blighted housing, and pursuing new commercial assets, fresh food stores, and a new bus rapid transit with direct connections to key commuter rail lines.

Demonstrating Capacity & Leveraging Investments

Choice Neighborhoods establishes a high bar for grantees. The program is a highly competitive grant program. In the first year alone, HUD received over 160 applications but awarded only 22 grants.

These grants require local leaders to demonstrate that they have a solid, high quality plan and the capacity needed to carry it out. Local leaders must use evidence-based practices and real-time results to inform their work. Additionally, many of the Choice Neighborhoods Implementation Grantees have been working with these communities for years and have strong partnerships with organizations that have successfully revitalized neighborhoods. For example, in New Orleans, the Housing Authority and City are working closely with McCormack Baron Salazar, a private development group that has been involved in turning-around neighborhoods across the country, as well as Urban Strategies, a nonprofit group that has successfully convened local partners and aligned their revitalization efforts.

Local leaders can't succeed in turning around disinvested neighborhoods without securing necessary partnerships and highly leveraging their investments. For this reason, Choice Neighborhoods reserves a substantial number of points in its competitive process for those applicants who have secured leverage far above their grant amount and who demonstrate that they are aligning their work with existing efforts, thereby streamlining resources and achieving greater efficiencies. This approach rewards leaders who are breaking through silos and working with public and private agencies, such as school districts and police, major market actors like

private real estate developers, and anchor institutions like universities and hospitals. As a result, the five Choice Neighborhoods Implementation Grantees have leveraged a combined \$1.6 billion, over 13 times their total grant award. This total includes new, refocused, and streamlined funds from private investors, cities, universities, foundations, and a range of local partners. Even Choice Neighborhoods Planning Grants that amount to only \$250,000 to \$300,000 for each neighborhood have pulled in substantial amount of leverage. During the past two years, Planning Grantees have leveraged over \$13 million in planning funds alone to add to the \$8 million they received in Choice Neighborhoods grants.

Grantee Spotlight: New Orleans, LA – In New Orleans, Choice Neighborhoods will spur the revitalization of the Iberville/Tremé neighborhood, where 52 percent of families live in poverty, with a plan centered on the transformation of distressed, highly-concentrated public housing into mixed-income housing that preserves the historic character of the neighborhood. The partnership, led by the City of New Orleans and its Housing Authority, will take advantage of the neighborhood’s adjacency to the French Quarter, bringing back the streetcar named Desire, and expanding the reach of New Orleans’ strong tourism economy to include the musical and cultural heart of Tremé. The project will replace 821 units of public housing in a new, mixed-income neighborhood, with over 2,400 total units being built. A new hospital, clinic, and biomedical research facility, tied to integrated job training, will create critical employment opportunities for neighborhood residents and expand access to needed health care. And through the Choice Neighborhoods partnership with the Recovery School District, Louisiana’s fastest-improving school district, children growing up in the neighborhood will have access to quality educational opportunities. All of this work is aligned by a \$30.5 million Choice Neighborhoods grant that leverages over \$1 billion in private, non-profit, and other investments into the community.

Aligning Federal Funding so Taxpayer Dollars Go Further

Choice Neighborhoods also offers a new way for local leaders to access Federal resources more efficiently. Because Choice Neighborhoods grants are place-based and driven by local solutions, HUD’s grants can now be used in concert with other Federal investments around places and local needs.

HUD has been aligning Choice Neighborhoods investments with those from the Department of Education, Justice, and Health and Human Services. Both Choice Neighborhoods and the Department of Education’s Promise Neighborhoods, a companion program focused on transforming educational opportunities, include preferences for applicants who are coordinating these programs. The programs have also used some of the same measures and definitions to eliminate the need for local leaders to deal with redundant reporting requirements and implementation barriers. Currently, five Choice Neighborhoods Planning Grant neighborhoods have Promise Neighborhood Planning Grants, including communities in San Antonio, Texas, Little Rock, Arkansas, and Tulsa, Oklahoma.

Additionally, the Department of Justice is aligning significant investments with Choice Neighborhood Grants. The Department of Justice has devoted \$2 million of their resources to support the public safety strategies of Choice Neighborhoods Implementation Grantees through the Public Safety Enhancement (PSE) Initiative. Choice Neighborhoods Grantees have recently

submitted applications for the PSE grants, which will fund local innovations and evidence-based solutions to decrease violence, gang activity, and illegal drug activity. The Department of Justice has also committed to aligning its upcoming \$15 billion Byrne Criminal Justice Innovation Program with Choice Neighborhoods.

The Department of Health and Human Services is also incentivizing alignment with Choice Neighborhoods. Applicants for community health center improvements are asked to describe how they are working with Choice Neighborhoods grantees if there is one in their area and receive points for those collaborations.

Finally, Choice Neighborhoods grantees are aligning substantial Federal investments at the local level. Some examples include resources from other Federal agencies such as: *Department of Transportation* – Seattle is leveraging \$32.3 million from the Seattle Department of Transportation; *Department of Health and Human Services* – New Orleans is leveraging \$962,000 from Head Start and \$500,000 from a Federally Qualified Health Center; and *Department of Labor* – Boston is leveraging \$348,600 of Workforce Investment Act funds. The Federal Partnership for Sustainable Communities has become a key driver in helping jurisdictions target their neighborhood revitalization efforts and align them with larger regional plans, providing even greater leverage out of our Choice Neighborhoods investments.

Through coordinating and co-locating these Federal resources, Federal funds stretch further and are more effective. For example, local leaders who improve schools with Promise Neighborhood grants will be better able to attract market rate renter families back to the area and prepare the future workforce. Likewise, we expect that students living in Choice Neighborhoods' safe, decent, affordable housing will be better able to concentrate on school and achieve higher test scores, consistent with previous findings of the impact of safe, decent, affordable housing on educational outcomes.⁹

Meeting Communities where they are

Choice Neighborhoods also meets communities where they are. That is why Choice Neighborhoods has dedicated a small, but significant portion of the overall allocation for Planning Grants. These Planning Grants ensure that those local leaders and communities who are not yet able to fully undertake a successful neighborhood revitalization can start down that path. By the end of their planning period these grantees will have developed a locally driven plan based on their needs and evidence-based practices, secured the necessary partnerships and leverage, and built their own capacity and the capacity of their partners and stakeholders so that they are ready to effectively implement the plan. Planning Grants also include competitive preferences for communities that could particularly benefit from these investments, such as rural communities and neighborhoods that are designated as Promise Neighborhoods.

What Local Leaders are Telling Us

We have heard from mayors, PHA Executive Directors, economic development directors, and other leaders across the country that they need Choice Neighborhoods to help unlock the potential of their most distressed neighborhoods. They need this tool for those neighborhoods to

recover, and for their cities to recover, tapping into the underlying economic strength of those neighborhoods. The intensity of the challenges faced in neighborhoods that have been mired in disinvestment for decades is so strong, it's only through a catalytic investment like Choice Neighborhoods that those cities can get them on the right track – and ensure that the kids growing up there can access the opportunity that every American deserves.

And so, Mr. Chairman, Choice Neighborhoods is about attacking interconnected challenges with comprehensive, proven tools. It's about understanding that local problems require locally driven solutions – and that the Federal government can serve as an effective partner in supporting these solutions. It's about making taxpayer dollars go as far as they can. But fundamentally, it's about making sure every American gets a fair shot – whoever they are, and wherever they live. That's what this program is all about – and it's why I so appreciate this opportunity today. Thank you and I would be happy to answer any questions.

¹ http://www.economicmobility.org/assets/pdfs/PEW_NEIGHBORHOODS.pdf

² Holzer HJ, Schazzenbach, DW, Duncan, G, and Ludwig, J (2007) The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor. National Poverty Center Working Paper Series # 07-04.

³ Turner, et al. (2007). Estimating the Public Costs and Benefits of HOPE VI Investments: Methodological Report. The Urban Institute.

⁴ Zielenbach and Voith. (2010). “[HOPE VI and Neighborhood Economic Development: The Importance of Local Market Dynamics](#)”. *Cityscape*. 12, No. 1: 99–131.

⁵ Turbov and Piper. (2005). *HOPE VI and Mixed-Finance Redevelopments: A Catalyst for Neighborhood Renewal*. Washington, DC: Brookings Institution. Vol 8.; *From Despair to Hope: Hope VI and the New Promise of Public Housing in America's Cities*. (2009).

⁶ Zielenbach and Voith. (2010).

⁷ Turner, et al.(2007).

⁸ Weissbourd, Bodini, and He. (2009). *Dynamic Neighborhoods: New Tools for Community and Economic Development*. Living Cities

⁹ See, e.g., MacArthur's “How Housing Matters” series at:

http://www.macfound.org/site/c.lkLXJ8MQKrH/b.6547839/k.163E/How_Housing_Matters_Recipients_by_Subject.htm#education