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“HOPE VI”

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Mr. Chairman and members of the Committee, my name is Orlando Cabrera and I am the Assistant Secretary for Public and Indian Housing at HUD. Thank you for the opportunity to discuss the HOPE VI program. Since the creation of this program in 1992, we have learned many things about public housing revitalization. I will share our progress in implementing HOPE VI over the last 15 years and address a number of issues that are often raised by members of Congress and housing advocates as possible changes to the program.

Demolition, Construction and Completed Developments

The HOPE VI program has proven to be a slow vehicle for revitalizing distressed public housing. Of the 237 HOPE VI Revitalization grants awarded by HUD, only 72 (30%) sites are complete (100% of total unit construction and rehabilitation completed), with another 30 nearing completion (80% or more of total unit construction and rehabilitation completed). While progress continues to be slow, the number of completed sites has increased by 176% since 2003 when only 26 sites were completed. Additionally, 183 (77%) sites have completed tenant relocation and 197 (83%) sites have achieved 100% of planned demolition.

As of the second quarter of FY 2006 (the most recent quarter that data is available), 78,115 public housing units have been demolished under HOPE VI Revitalization grants, with an additional 10,354 planned for demolition. Grantees plan to construct 103,637 public housing, low-income housing tax credit (LIHTC), and market rate units to replace demolished public housing units. In addition, 56,524 tenant based housing vouchers have or will be provided under the HOPE VI Revitalization and HOPE VI Demolition-only grant programs as replacement housing. When combining all housing types, including vouchers, 160,061 housing units will be provided as a replacement to the 88,469 units that have been or will be demolished under the HOPE VI Revitalization grant program, plus additional units demolished under the HOPE VI Demolition-only grant program. This is a net gain of 71,592 housing units, most of which target public housing eligible families.

The HOPE VI program has annual productivity goals in four areas: household relocation, units demolished, units completed (new construction and rehabilitation) and units occupied. In FY 2006, the Department exceeded its goals for each of these areas, with the exception of Units Demolished due to partial data. Grantees relocated 2,962 families (205% of the goal), demolished 2,305 units (89% of the goal), constructed 7,085 (109% of the goal) and occupied 8,081 completed units (128% of the goal). These figures are based on partial year data and the Department expects to exceed all annual productivity goals after the remaining data is collected for FY 2006.

The HOPE VI program office continues to emphasize timelines and accountability in the implementation of HOPE VI grants in order to achieve its goals. The Department stresses vigilant management and monitoring of grants by grant managers, PHA accountability across deadlines and program schedules, and risk assessments.

Relocation and Community and Supportive Services

Under the HOPE VI Revitalization grant, housing authorities are required to provide eligible residents with relocation benefits and community and supportive services. Since 1992, HOPE VI grantees have provided relocation services to 63,885 households, and offered community and supportive services to 87,235 adult residents and their children. In particular, over 62,000 residents have participated in employment preparation and placement programs, and over 11,600 have enrolled in homeownership counseling programs, including 2,559 residents who have purchased a home. In addition to these efforts, HOPE VI grantees are also required to track residents throughout the life of the grant and to provide them with information on reoccupancy of the HOPE VI site and services that are available to them.

In terms of relocation outcomes, studies by the Urban Institute over the last 10 years show that most relocated residents live in better, safer neighborhoods after relocation. These studies also found that very few families became homeless as part of this process. A 2007 Urban Institute study on relocation outcomes at five HOPE VI sites found that only 1% of 715 relocatees experienced homelessness over the duration of the grants.

Amount and Type of Financial Assistance Provided

As of June 9, 2007, HUD has awarded \$5.8 billion in HOPE VI Revitalization funds, and housing authorities have expended \$4.4 billion (76%) of these funds. This is an increase of 28% in the ratio of expended to appropriated funds from 2003, when only 48% of all appropriated funds were expended. The amount expended across all other funding sources as of March 31, 2006 is \$5.8 billion, including the following sources:

- \$906,622,231 in other public housing funds;
- \$539,073,672 in other federal funds;
- \$4,005,174,373 in non-federal funds (including equity from tax credits); and
- \$395,323,275 in HOPE VI Demolition-only funds.

The total amount of funds expended, including both HOPE VI funds and other sources, across all 237 HOPE VI grants is \$10.3 billion. Funds expended means the actual amount of funds expended as of June 9, 2007 for HOPE VI funds and the second quarter of FY 2006 for other sources. Therefore, these figures do not necessarily reflect all resources that are committed to the projects.

Programmatic Issues

Over the last several years, a number of programmatic changes for the HOPE VI program have been debated in Congress and among industry advocates. I would like to take this opportunity to comment on several of these issues, including elements in Senate Bill 829 to reauthorize the HOPE VI program.

HOPE VI and School Reform Efforts

The quality of schools in HOPE VI neighborhoods has long been considered an unaddressed collateral issue that undermines the outcomes for children living in HOPE VI developments. In addition, as the program emphasized mixed-income neighborhoods, including market rate tenants, poor neighborhood schools became a liability in attracting these tenants to the new development and surrounding neighborhood. Today, many believe that good schools in HOPE VI neighborhoods are central to the success of a revitalization effort because they are a critical variable in creating opportunities for low-income children, attracting market rate residents with children to the community and in supporting both the short and long-term outcomes for HOPE VI families. Following from these assertions, Senate Bill 829 stipulates that school reform efforts should be a required component of the HOPE VI Revitalization grant, and that housing authorities and HUD should implement this component in targeted neighborhoods.

HUD agrees that the quality of neighborhood schools can be an important factor in the success of a HOPE VI revitalization process and improved outcomes for HOPE VI children and families. However, it may not be possible for many housing authorities to develop school reform plans as part of the HOPE VI application process. Potential grantees may need planning grants to fund the development of these strategies, ensuring that they have adequate resources for developing these plans (which could take several years) and that they are ready to implement effective plans at the start of the HOPE VI revitalization process.

After the plan is established, the Department also recognizes the difficulty many housing authorities might have in implementing this vision as part of the HOPE VI revitalization process, given the challenges that some housing authorities have in staying on schedule under the current program. As such, timelines and closeout dates established by HUD would likely need to be flexible and open for extension. Another option would be disentangling the timelines for school reform (which may not include HOPE VI funds) and the HOPE VI revitalization process, setting each to an individual schedule and planned completion date.

On another level, HUD lacks the expertise to devise and administer a program to improve local schools. This falls under the mission of the Department of Education (DoED), which provides federal assistance for school reform for Title I schools. The committee should seek DoED's expertise on defining how best to address this issue.

Mandatory site visits as part of application process

Senate Bill 829 also stipulates that site visits should be a mandatory component in the review of HOPE VI funding applications. This would be a significant departure from the current competition process. Site visits as part of the competition process would clearly improve the quality and quantity of information available to HUD staff in making funding decisions, and may increase the readiness of housing authorities and revitalization plans. However, it would also add to the time from submission to approval, increase costs associated with the review process and reduce the amount of time HOPE VI grant managers have to work on their active projects.

The Department receives approximately 30 HOPE VI grant applications under current funding levels, and in the past received over 100 grant applications when funding levels were \$500 Million or more. The process for receiving, reviewing and awarding HOPE VI funds takes

up to three months at the current funding level. Adding mandatory site visits to this process would triple the amount of time required to select and award HOPE VI grants. Applicants would have to wait up to nine months for notification and award of funding.

Even if these activities were coordinated with local field offices, the time required to conduct site visits with over 30 applicants would slow the award process significantly. The staffing and travel costs associated with these visits would also be significant. Although HOPE VI receives set aside money for travel (it does not come out of the general HUD Salaries and Expense funds), there would still be increased costs that would reduce the amount available for grants.

In addition, the time commitment from HOPE VI grant managers for this process would be such that work on existing grants might be interrupted, delaying approvals and undermining the timely completion of projects. Given these realities, HUD would only be able to conduct site visits with a small sub-set of applicants scoring in the top tier in any grant cycle.

Performance benchmarks

The Department currently requires grantees to establish milestones and production checkpoints to track and monitor performance for development activities, relocation and community and supportive services. These performance measures are tracked by staff through a reporting system. HUD monitors housing authority progress in meeting their performance milestones and develops corrective action plans for those that miss these milestones. In cases where corrective actions are not taken, housing authorities have been subject to a range of punitive actions including suspension of funds, fines, default letters, and in extreme cases alternative administration of the HOPE VI program.

Although the Department now uses its own discretion in imposing a range of possible sanctions, Senate Bill 829 stipulates that the Secretary should be required to impose a range of sanctions for grantees that fail to meet their performance milestones. This reduces the amount of flexibility afforded the Secretary in situations where circumstances outside the control of a grantee precluded them from meeting grant milestones. The Department feels strongly that the Secretary should have discretion in deciding whether to levy sanctions in such situations, rather than creating statutory requirements that force the Department to impose a sanction regardless of the situation.

HOPE VI and the LIHTC Program

The Low-income Housing Tax Credit (LIHTC) Program represents a major resource to affordable housing developers. Between 1987 and 2004, the most recent date that data is available, nearly 25,500 tax credit projects were developed and placed in service, representing more than 1 million affordable housing units. These credits are an important development resource for low-income housing programs in the Department, particularly public housing and supportive housing for the elderly (Section 202).

Public housing authorities are eligible to apply for LIHTCs, and the program requirements for this funding source are consistent with the mission of these agencies. Housing authorities can use LIHTCs to both increase the supply of affordable housing in their community and to revitalize existing developments that are obsolescent or distressed. Moreover, when combined with public housing resources, such as capital funds, HOPE VI funds and rental subsidies, LIHTCs can be used by housing authorities to serve very low-income families at or below 30% of AMI.

Across these projects, LIHTCs are an especially important form of leverage for HOPE VI developments. Since the inception of the HOPE VI program, 127 housing authorities have received 237 HOPE VI Revitalization grants. HOPE VI proposals are rated on their leveraging, with LIHTCs providing one of the major sources.

By 2005, 649 rental phases of development were planned across HOPE VI developments. Most (76%) of these phases included LIHTCs. HOPE VI developments account for 64% of all LIHTC projects managed by housing authorities. It should be clear from these statistics that LIHTCs are a nearly indispensable resource for the HOPE VI program. In fact, the phase closing schedules for most HOPE VI projects are built around the allocation timetables for LIHTCs.

Some have argued that the Secretary should accept proposed LIHTC allocations as if they were already awarded during the HOPE VI application process. In other words applicants would not be required to have their LIHTC funding in place prior to grant award. This runs contrary to competition requirements instituted by the Department that increase grantee readiness and speed project completion.

Grantees with funding in place generally start construction sooner and have replacement units available earlier than grantees that lack solid funding commitments. Although the Secretary could rescind funding if LIHTC allocations that were claimed in the application are not received after grant award, the likelihood is low that Congress and the Department would reclaim these funds post-award. The Department would then be left with a low-performing, under funded grantee, that may take years to complete the first phases of construction.

One-for-One Replacement

Public housing advocates have long argued for one-for-one replacement requirements under the HOPE VI program, either on the footprint of the development or in adjacent neighborhoods. However, this would be unfeasible in many communities and would likely increase the cost and time to complete a HOPE VI development.

The footprint of the development is often not large enough to accommodate one-for-one replacement without reconcentrating poverty and undermining the mixed-income model. Moreover, available land and site control are significant barriers to in-fill development in surrounding or adjacent neighborhoods, which would cause delays and increase cost. In many cases, it would be impossible for a public housing authority to provide replacement housing in surrounding or adjacent neighborhoods because of these issues.

Others have added that a one-for-one replacement model should include requirements to complete the replacement units within a year of demolition. This timeline would be particularly unrealistic for many grantees, given the time it takes to construct a HOPE VI unit and the recommendations to build these units in areas proximate to the original development and not reconcentrate poverty.

It is difficult to quantify the total amount of additional funding that would be required in order to purchase land to accommodate a one-for-one replacement strategy that does not reconcentrate poverty. However, averages from the HOPE VI program can be extrapolated to provide an example of how a one-for-one replacement strategy could impact the amount of federal funding needed for construction as part of a public housing revitalization effort. A conservative estimate is that HOPE VI funding would have to increase by at least 33% to accommodate a one-for-one replacement model.

Across all HOPE VI program years and units (public housing, affordable, market rate and homeownership), the estimated average cost of completed units, including hard construction costs, demolition, planning/professional services and site improvements, is \$153,441. On average, HOPE VI funds paid for less than half of the development costs (\$63,114 per unit). The balance of the costs is covered by other federal, state, local and private sector funds in the form of debt and equity.

HOPE VI grantees plan to demolish 88,469 public housing units (88% of these units have already been demolished). They plan to replace this with 103,637 units across all housing types, including public housing, affordable, market rate and homeownership. Of the original 88,469 public housing units, grantees plan to build back 57,131 public housing rental or replacement homeownership units. This amounts to 65% of what was demolished. The total amount of HOPE VI funds awarded to support these activities is \$5.8 billion. An additional \$12 billion in other federal, state, local and private sector funds in the form of debt and equity are planned to cover the balance of the costs. The total amount budgeted across all sources is \$17.6 billion.

Under a one-for-one replacement model, all of the 88,469 public housing units demolished under the HOPE VI program would have to be rebuilt. This would require the construction of an additional 31,338 public housing units. Using the cost per unit average of \$153,441, this would require an additional \$4.8 billion across all sources. Assuming that HOPE VI funds would only pay for an average of \$63,114 per unit, constructing these units would require \$1.9 billion in new HOPE VI funding and \$2.9 billion in outside funding. This represents a 33% increase in HOPE VI funding. These calculations assume that no other housing types would be constructed. If one-for-one replacement is combined with a mixed-income model involving market rate units or other housing types, this would increase the number of units that are constructed, as well as the amount of additional funding from other sources (but not the HOPE VI contribution - which can only be used for the construction of public housing units).

Elimination of Demolition-only grants

Since 1996, the HOPE VI program has awarded 285 Demolition-only grants to 127 housing authorities for the demolition of severely distressed public housing units. The grants have provided housing authorities with resources to raze distressed developments and relocate impacted families. The result is a cleared site that more readily attracts federal or private resources for the revitalization of the property.

Some have argued that these grants should be eliminated. However, Demolition-only grants are an especially important resource for housing agencies that do not have a HOPE VI revitalization grant, but have access to other funding sources such as LIHTCs. Without funding for demolition, a housing authority's ability to use LIHTCs combined with its Public Housing Capital Funds becomes limited.

Green Community and LEED Compliance

Green Community and LEED requirements in residential and non-residential construction are important variables that impact both time and cost estimates for a development. HUD recognizes the importance of these requirements, but some have recommended that HOPE VI grantees comply with both mandatory and non-mandatory elements of the Green Community and LEED criteria. This would increase the cost per unit for constructing public housing under the HOPE VI program. HUD works closely with housing agencies to keep total development costs (TDC) for public housing units in-line with federal standards, and these requirements could put many developments over TDC thresholds.

Notices of Intent and Resident right of return

HUD requires housing agencies to involve residents in the grant application process, development efforts, relocation, and community and supportive services. Under additional requirements in the Uniform Relocation Act (URA), which all HOPE VI grantees are obligated to follow, a housing agency must issue a notice of intention to redevelop a site and the right of residents to relocation benefits, among other notices related to the development of the property.

Some have suggested that separate requirements, beyond the URA, be established in HUD regulations to require housing authorities to submit a "notice of intent" to apply for a HOPE VI grant to residents 12 months prior to submission of the HOPE VI application. However, this may be a needless addition to current requirements given existing regulations under the URA. Moreover, most housing agencies do not decide to apply for a HOPE VI grant more than 12 months prior to the application deadline. The "notice of intent" requirement would thus make these housing authorities ineligible for funding.

In terms of reoccupancy, HUD currently requires that all HOPE VI grantees provide original residents first right of return to the revitalized site. However, first right of return is only open to residents that remain in good standing with the housing authority. In many cases, residents are in bad standing with the agency because of criminal activity on the site, lease violations or other issues that undermine public safety and community stability. Across most HOPE VI developments, resident leaders are in support of these screening efforts and request

very strict return criteria to address these issues in the hope of establishing new standards for their community.

Some argue that screening and return criteria ought to be eliminated, and that all original residents, regardless of their standing with the housing authority should be allowed to return to the completed development. However, this would limit resident and housing authority efforts to screen tenants and define the standards of their community consistent with local concerns.

Number of distressed units remaining in the inventory

The number of units that require treatment under the HOPE VI program is open for debate. The totals often cited in Senate Bill 829 are estimates that were reported in an Urban Institute study released in 2004. In that study the authors estimated that there were between 46,900 and 81,900 units that might be “likely candidates for designation as severely distressed” based on adjusted Real Estate Assessment Center (REAC) scores. The authors further asserted, “that these indicators are not put forward as a true or complete definition of severely distressed public housing.” In other words, the authors did not say that there are between 46,900 and 81,900 distressed units, instead they stressed that these units were only candidates for possible designation.

While the total number of units that require immediate treatment is debated, the estimates provided by the Urban Institute and the existing capital backlog in the public housing inventory (\$18,000,000,000, with a \$2,000,000,000 annual accrual) support the claim that some number of public housing units are severely distressed. The Department recognizes the importance of addressing distressed units and the capital backlog within the public housing inventory. However, HOPE VI is not the only program or funding vehicle for addressing these problems. In most cases this need can also be met through other modernization programs operated by the department e.g., the Capital Fund Financing, Section 30, and Mixed-Finance development. The Department will continue to encourage housing authorities in need of this assistance to also submit project proposals to these programs.

Conclusion

Mr. Chairman and members of the Committee, the Department has made great strides in increasing HOPE VI production and the number of completed developments over the last five years. Despite these efforts, the program remains a slow vehicle for public housing revitalization with a high cost per unit

Mr. Chairman, the mission of the HOPE VI program, as originated in 1992, was to bring down 100,000 non-viable public housing units and replace them with less dense, well constructed mixed-income units. That mission has been completed, at least in terms of funding, in FY 2003. Since then, the Administration has proposed to terminate the program. Congress has decreased annual funding from \$500-600 million to roughly \$100 million per year. If the program were terminated tomorrow, HUD’s management of the program would continue over several years as the large unspent balances (\$1.4 billion as of June 9, 2007) would be slowly drawn down as these projects are built and finally completed.

I have addressed a number of proposed changes that have been suggested by housing advocates and Congress over the last several years. Many of these suggestions are unrealistic, or would further slow the construction of public housing units under the HOPE VI program, and undermine efforts to complete existing developments. Having said this, the Department is open to suggestions on how to redefine public housing revitalization in a manner that is both cost effective and efficient in terms of producing units.

Thank you and I look forward to your questions.