

Building on Lessons Learned:
Too High Hopes Without HOPE VI?

by
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Abstract

By providing substantial grants to public housing authorities to demolish and rebuild distressed public housing and provide services to public housing residents, the HOPE VI program has helped transform these developments and their surrounding communities since 1992. HOPE VI has not only brought public and private investment to distressed neighborhoods but also has played an important role in increasing development capacity for housing authorities and HUD. In spite of the successful completion of many projects in the last decade, arguments have been made that HOPE VI is not only too expensive and too slow but is no longer needed. Housing advocates have also argued that there are programmatic flaws that must be reformed. The Bush Administration has sought to cut HOPE VI from the federal budget for the last four fiscal years. Congress has reinstated it each year, albeit at lower and lower funding levels, but the future of HOPE VI is uncertain at best. As the only funding program specifically designed to meet the needs of distressed public housing and its very low-income residents, HOPE VI is not easily replaced.

Despite the challenges, many housing authorities and their partners are attempting to assemble funding for desperately needed public housing redevelopment projects. Interviews with housing authorities, developers, and consultants provide an understanding of the strategies that housing authorities are using to make these “post-HOPE VI” projects work. Housing authorities and their public and private partners have crafted innovations intended to replicate HOPE VI results, but without HOPE VI funds, these projects will only be possible through the piecemeal assembly of public and private funds and are likely to lack the holistic approach and broader vision enabled by HOPE VI. Without seed capital and without the flexibility to be creative, public housing authorities will have a limited ability to build on their entrepreneurial skills, partner with the private sector, and meet the needs of their residents and capital assets. Killing one of the few innovative government programs to emerge in the last decade is a waste and does not bode well for the future of very low-income families—a “HOPE VII” program is needed to build on the public learning achieved during HOPE VI and these early post-HOPE VI efforts.

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Table of Contents

Abstract.....	2
Acknowledgments.....	5
Nomenclature.....	6
Introduction.....	9
1. What is HOPE VI?	11
1.1. History of HOPE VI.....	11
1.2. HOPE VI Funding History.....	12
1.3. Goals & Policies of HOPE VI.....	14
1.4. HOPE VI Project Financing.....	16
2. To HOPE or Not to HOPE.....	19
2.1. Why is HOPE VI at risk?.....	19
2.2. Support for HOPE VI.....	21
3. A Post-HOPE VI World.....	24
3.1. Efforts to Replicate HOPE VI.....	24
3.2. Post-HOPE VI Project Financing.....	25
3.2.1. Direct Subsidy to PHAs from HUD.....	26
3.2.2. Direct Subsidy from Non-HUD Sources.....	29
3.2.3. Leveraging Public Funds.....	34
3.2.4. Leveraging Land/Market.....	37
3.3. Without HOPE VI: No Silver Bullet.....	41
4. Challenges Facing Post-HOPE VI Projects.....	43
4.1. Challenges of Pursuing HOPE VI Goals.....	43
4.2. Financing Challenges.....	46
4.2.1. Relocation.....	46
4.2.2. Services.....	46
4.2.3. Demolition/Infrastructure.....	47
4.2.4. Homeownership.....	48
4.3. Market Conditions.....	48
4.4. Importance of State/Local Support.....	49

4.5. Policy Issues.....	49
4.5.1. HUD Capacity and Flexibility.....	49
4.5.2. Mixed-Income Approach.....	50
4.5.3. Availability of Tax Credits.....	52
4.5.4. Reliability of Federal Funds.....	52
5. Using Public Learning from the HOPE VI Approach.....	55
5.1 What was learned from HOPE VI?.....	56
5.1.1. Lesson 1: The ambitious approach of HOPE VI is worthwhile.....	56
5.1.2. Lesson 2: Resident concerns need more attention.....	57
5.1.3. Lesson 3: Housing authorities can learn to be innovative.....	57
5.1.4. Lesson 4: Public-private partnerships can work.....	59
5.1.5. Lesson 5: Public money can be leveraged.....	60
5.1.6. Lesson 6: HOPE VI was key “seed money” that is hard to replace.....	61
5.2. HOPE VII: Build on Lessons Learned.....	62
5.2.1. Maintain the holistic approach of HOPE VI.....	63
5.2.2. Target a wider range of public housing needs.....	64
5.2.3. Increase PHA flexibility.....	65
5.2.4. Offer seed capital.....	67
Conclusion: The Demise of HOPE VI: Throwing the Baby Out with the Bathwater?.....	70
Appendix A: Interviews.....	72
Appendix B: Examples of Post-HOPE VI Projects.....	73
Works Consulted	74

List of Tables

Table 3.1: Funding Sources Used in Post-HOPE VI Projects.....	26
Table 4.1: Post-HOPE VI Project Examples.....	45

List of Figures

Figure 1.1: HOPE VI Funding History.....	13
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Nomenclature

All definitions sourced from HUD's Glossary of HOPE VI Terms dated November 2001 unless noted otherwise.

AHP: Federal Home Loan Bank's Affordable Housing Program.

asset management: The process of overseeing, monitoring, and ensuring that the public housing units in a mixed-finance development are being operated and maintained in accordance with all applicable federal regulations (Abt Associates, 1998, p. E-2).

CDBG: Community Development Block Grant funds.

CFFP: Capital Fund Financing Program.

CLPHA: Council of Large Public Housing Authorities.

FHLB: Federal Home Loan Bank.

“hard” funds: Funding that must be repaid with interest (author's definition).

“hard” unit: A physical unit dedicated to public housing, as opposed to a public housing voucher “soft” unit (author's definition).

HOME: HOME Investment Partnerships Program.

HUD: U.S. Department of Housing and Urban Development.

leveraging: The process of using funds that have been lent or granted to a project to attract additional financing, thereby distributing risk, attracting other funds to the project, and bringing other stakeholders into the process (Abt Associates, 1998, p. E-7).

LIHTC: Low-Income Housing Tax Credit program.

mixed-finance development: A method of public housing development that involves a

combination of public and private financing sources, and may include the ownership of public housing units by a PHA, a PHA affiliate, or an entity other than the PHA in which the PHA may or may not have an ownership interest. Mixed-finance development of public housing units is administered in accordance with regulations at 24 CFR 941 subpart F. Such units may be developed with public housing Capital Funds in combination with other financing sources, public or private. Alternatively, units may be developed without public housing Capital Funds but still be considered public housing in a mixed-finance project and receive operating subsidy from the PHA under the ACC, if approved by HUD.

mixed-income development: A mixed-finance housing development that includes a combination of public housing and non-public housing units.

MROP: Major Reconstruction of Obsolete Projects.

NAHRO: National Association of Housing and Redevelopment Officials.

NCSDPH: National Commission on Severely Distressed Public Housing.

MTW: Moving-to-Work demonstration program.

NOFA: Notice of Funding Ability.

PHA: Public Housing Authority.

PHADA: Public Housing Authorities Directors Association

“post-HOPE VI” project: Public housing redevelopment projects that are an effort by public housing authorities to recreate HOPE VI projects without HOPE VI funding (author’s definition).

“project-basing” Section 8: Project-based vouchers are a component of a public housing agencies (PHAs) housing choice voucher program. A PHA can attach, or “project-base,” up to 20 percent of its voucher assistance to specific housing units if the owner agrees to either rehabilitate or construct the units, or the owner agrees to set-aside a portion of the units in an existing development. Rehabilitated units must require at least \$1,000 of rehabilitation per unit to be subsidized, and all units must meet HUD housing quality standards (HUD, WWW Document).

QHWRA: Quality Housing and Work Responsibility Act.

RHF: Replacement Housing Factor Funding.

severely distressed public housing: Section (j)(2) of the Public Housing Reform Act defines severely distressed public housing as a public housing project (or building in a project) that: (A) (i) requires major redesign, reconstruction or redevelopment, or partial or total demolition, to correct serious deficiencies in the original design (including inappropriately high population density), deferred maintenance, physical deterioration or obsolescence of major systems and other deficiencies in the physical plant of the project; (ii) is a significant contributing factor to the physical decline of and disinvestment by public and private entities in the surrounding neighborhood; (iii) (I) is occupied predominantly by families who are very low-income families with children, are unemployed, and dependent on various forms of public assistance; or (II) has high rates of vandalism and criminal activity (including drug-related criminal activity) in comparison to other housing in the area; (iv) cannot be revitalized through assistance under other programs, such as the program for capital and operating assistance for public housing under this Act, or the programs under sections 9 and 14 of the United States Housing Act of 1937 (as in effect before the effective date under section 503(a) of the Quality Housing and Work Responsibility Act of 1998), because of cost constraints and inadequacy of available amounts; and (v) in the case of individual buildings, is, in the Secretary's determination, sufficiently separable from the remainder of the project of which the building is part to make use of the building feasible for purposes of this section; or (B) that was a project described in subparagraph (A) that has been legally vacated or demolished, but for which the Secretary has not yet provided replacement housing assistance (other than tenant-based assistance).

“soft” funds: Funding that does not have to be repaid, i.e. loans that do not need to be repaid or grants (author's definition).

“soft” unit: A privately-owned unit made affordable to public-housing eligible households through the voucher program (author's definition).

TIF: Tax Increment Financing.

URD: Urban Revitalization Demonstration Grant Program. Also known as HOPE VI.

Introduction

Historically, public housing has not enjoyed widespread support in the United States. It has been marginalized even from its origins in the Housing Act of 1937, but it has been particularly stigmatized since the 1970s and the infamous demolition of the Pruitt-Igoe Houses in St. Louis. Various federal and local policies have converged to turn public housing from a system that temporarily housed families as they worked their way up the economic ladder into a system that predominantly houses permanently low-income families and the “hard-to-house.” The well-intentioned Brooke Amendment in 1969 limited the amount of rent households could be required to pay, but operating subsidy increases could not keep pace with the increasing poverty of public housing families. This created circumstances under which housing authorities were unable to maintain many of their properties at an appropriate level. Increasing frustration with deteriorating conditions led to the creation of the National Commission on Severely Distressed Public Housing in 1989. Out of their work came the HOPE VI redevelopment program in 1992.

More than any other program, HOPE VI has brought positive attention and substantial resources to the public housing stock and surrounding neighborhoods. HOPE VI developments like Boston’s Orchard Gardens, Louisville’s Park DuValle, and Atlanta’s Centennial Place have pursued the multiple goals of HOPE VI by building high-quality replacement public housing units, deconcentrating poverty by mixing households of different incomes, providing supportive services to families and individuals, and revitalizing neighborhoods across the country. Some have criticized the cost and lengthy timeframe of HOPE VI projects, and others have taken issue with treatment of existing public housing residents, but many have seen net benefits from a HOPE VI investment in their community.

In spite of the completion of many successful mixed-income public housing redevelopments since the start of the U.S. Department of Housing and Urban Development’s (HUD) HOPE VI program in 1993, the future of the program is uncertain. The Bush administration first proposed to eliminate the program in FY2004 and has continued to propose its elimination, though Congress has managed to reinstate it each time with smaller appropriations. If this continues and the program is eventually eliminated, local housing authorities will lose the major source of funding for the revitalization of large-scale public housing and their surrounding communities. Given the amount of innovation and public learning achieved through the HOPE VI process as well as the substantial non-federal investment leveraged, the results from investing in HOPE VI seem to have far outweighed the dollar cost of the program. To end one of the most bold and

innovative government programs—particularly though not only in the history of public housing—does not bode well for the future of distressed communities and very low-income families in this country.

However, interviews show that communities remain interested in revitalizing their neighborhoods and improving living conditions for residents of public housing. Because of the competitive nature of the HOPE VI application process, many innovative housing authorities have already begun to look at the possibilities for financing the redevelopment of their portfolios without the substantial grant funds provided by HOPE VI. With their annual funding eroding and HOPE VI funding in jeopardy, others have begun to think strategically about their future needs. These efforts will become even more common in the current environment of shrinking federal resources.

Interviewees included representatives from housing authorities, developers, consultants, local and state governments, and lenders. Most public housing authorities (PHAs) and governments represented in these interviewees were located in larger urban areas with HOPE VI and mixed-finance development experience, ranging from Chicago with eight HOPE VI projects to only Fort Worth with none. However, consultants and lenders were able to provide a broader perspective of the wide range of experience and capacity that the 3,300 PHAs around the country possess. Whether for-profit or not-for-profit, most of the developers interviewed have an established interest in affordable housing or community development, and all had worked on HOPE VI projects.

These interviews have provided insight into the lessons learned from the HOPE VI experience as well as current endeavors by the public housing community to continue redeveloping in this vein. Chapter One gives background on the HOPE VI program—its origins, funding history, goals, and financing structures. Chapter Two explains the current arguments for and against ending HOPE VI. Chapter Three describes the financing sources being utilized in post-HOPE VI efforts today, and Chapter Four continues with a discussion of the challenges encountered in these efforts—challenges in addressing HOPE VI goals, financing challenges, challenges in implementation, and policy challenges. Chapter Five concludes with a summary of lessons learned from HOPE VI and post-HOPE VI efforts and a recommended approach for a future HOPE VII program that builds on those crucial lessons.

Chapter One

What is HOPE VI?

The HOPE VI (Housing Opportunities for People Everywhere) program was created in 1992 as a pilot demonstration program by Congress, stemming out of a report by the National Commission on Severely Distressed Public Housing. Resulting from the recognition that the country's traditional approach to public housing was not meeting the needs of many citizens, this report detailed deteriorating conditions in public housing developments across the country and offered a plan to meet residents' needs, address the challenges of the physical developments, and reform public housing management policies. Through 2005, \$6.17 billion has been awarded in 562 HOPE VI planning, demolition, Main Street, and revitalization grants. \$5.76 billion of that total was awarded to 235 revitalization projects. So far, fifty-four projects have reached 100 percent completion.

More flexible than most federal housing programs, HOPE VI funds can be used to pay for the capital costs of rehabilitation, new construction, other physical improvements, demolition, acquisition, and community and supportive services for public housing residents.

1.1 History of HOPE VI

Created in 1989 through Public Law 101-235, the National Commission on Severely Distressed Public Housing (NCSDPH) included one congressperson, six public housing authority or city agency representatives, two private developers, three mayors or former mayors, three public housing residents, and one quasi-public agency representative. Over the course of eighteen months, the Commission developed a final report of recommendations for Congress through site visits, interviews, case studies, and public hearings. Some mixed-income, mixed-finance, public-private precedents upon which the Commission drew were Crawford Square in Pittsburgh (developed by the City of Pittsburgh and McCormack Baron Salazar), Harbor Point in Boston and King's Lynne in Lynn, Massachusetts (developed by Corcoran Mullins Jennison, residents, and the Boston/Lynn Housing Authorities), and Centennial Place in Atlanta (developed by The Integral Group and the Atlanta Housing Authority).

The Commission's Final Report in 1992 included a National Action Plan to "eradicate severely distressed public housing by the year 2000," finding that 86,000 units of public housing were "severely distressed." A detailed definition of "severely distressed public housing" was included

that took into account social factors, crime, management, and physical factors and the degree to which each factor was a problem (NCSDPH, 1992).

While “severely distressed public housing” comprised only six percent of the public housing stock at the time, these units housed thousands of residents who were in desperate physical, emotional, social, and economic distress. The Commission warned that without substantial effort, a significant number of additional units would become distressed in the coming years. The report estimated that capital improvement needs would cost approximately \$5.6 billion in 1992 with an additional thirty-four percent needed for related costs and contingency, totaling \$7.5 billion in 1992 dollars. A broad-reaching plan that included specific recommendations, the National Action Plan included strategies to address the needs of residents, the physical conditions of the buildings, and management needs. The Commission suggested that these recommendations might be implemented through a modified Major Reconstruction of Obsolete Projects (MROP) program or through a totally new program funded by Congress.

Congress chose to create a completely new program, the Urban Revitalization Demonstration Program (URD), which came to be known as HOPE VI, through the VA and HUD Independent Agencies Appropriations Act of 1993 (Public Law 102-389).¹ Approved October 6, 1992, HOPE VI operated through congressional appropriation from FY1993 to FY1999 and was then authorized as Section 24 of the U.S. Housing Act of 1937 through the Quality Housing and Work Responsibility Act (QHWRA) in 1998 and re-authorized with the American Dream Downpayment Act of 2003.

1.2 HOPE VI Funding History

The National Commission on Severely Distressed Public Housing originally recommended in its plan that a program be funded at the level of \$7.5 billion over a period of ten years, averaging \$750 million per year. While HOPE VI was actually funded at an average of \$550 million per year through FY2003, funding has fallen dramatically over the last three years.

¹ HOPE VI followed a number of other housing programs entitled HOPE I through HOPE V—three homeownership programs, a demonstration program for the frail elderly, and a youth job training program that built housing (Wexler, 2001).

HOPE VI Funding History

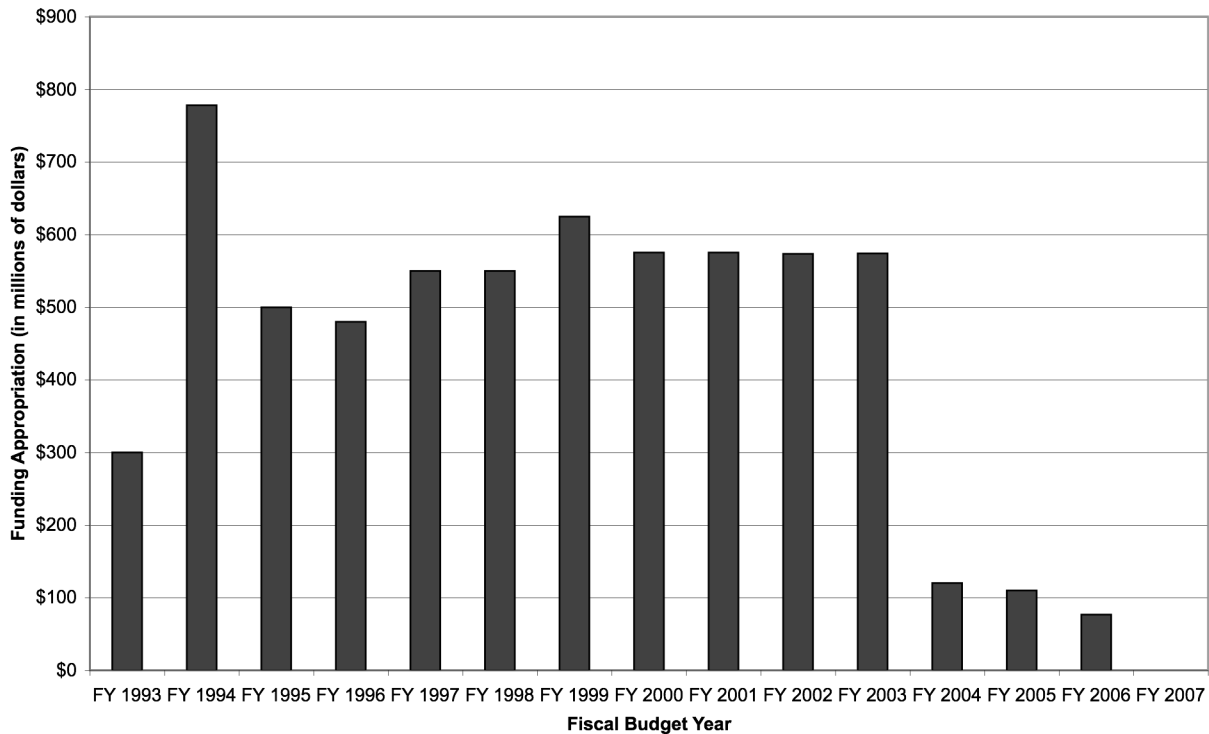


Figure 1.1: HOPE VI Funding History

Source: U.S. Department of Housing and Urban Development

In FY2004, FY2005, FY2006, and FY2007, the Bush administration proposed to zero out funding for HOPE VI and in FY2007 even went so far as to propose rescinding funds granted the previous year. At the time of this writing, it is unclear whether Congress will re-insert funding for HOPE VI in FY2007.²

Grants through the HOPE VI program have been made through planning, demolition, and revitalization grants, though planning grants were discontinued early in the program. Originally up to \$50 million could be granted to a single city (and then to a single application), though in the 1997 Notice of Funding Ability (NOFA)³, the maximum was reduced to \$35 million per application and in the 2002 NOFA, it was further reduced to \$20 million per application. Grants

² As of July 28, 2006, the House has passed a budget that includes \$30 million for HOPE VI, and the Senate Appropriations Committee has approved a budget for submission to the full Senate that includes \$100 million for HOPE VI.

³ Federal Notices of Funding Ability (NOFAs) are published annually, announcing grant fund availability and details related to their requirements and application processes.

were originally limited to competition among the forty most populous cities and “troubled” PHAs, though it was opened up to all PHAs with distressed public housing in FY1996. Through the 2005 funding round, \$5,757,839,850 had been granted in 235 revitalization grants to 122 PHAs in thirty-four states, the District of Columbia, and Puerto Rico (HUD, WWW Document).

1.3 Goals & Policies of HOPE VI

The term “HOPE VI” has come to mean more than just a source of funding, perhaps in part because of its dual emphasis on revitalizing a place and serving the people. According to Section 24 of the U.S. Housing Act of 1937 as amended in 1999, HOPE VI funds are to be used for the purposes of:

1. Improving the living environment for public housing residents of severely distressed public housing projects through the demolition, rehabilitation, reconfiguration, or replacement of obsolete public housing projects (or portions thereof);
2. Revitalizing sites (including remaining public housing dwelling units) on which such public housing projects are located and contributing to the improvement of the surrounding neighborhood;
3. Providing housing that will avoid or decrease the concentration of very low-income families; and
4. Building sustainable communities (U.S. Housing Act of 1937, 1999).

However, perhaps more than many other housing programs, goals and policies of HOPE VI have evolved over the years through policymaking—both legislation and HUD’s annual NOFAs—and practice. HOPE VI was originally structured as “a big mod program” (Piper, Chicago Housing Authority, interview) that was intended to empower residents and rehabilitate severely distressed public housing sites, but it eventually moved towards comprehensive redevelopment, including demolition and new construction, and “broader goals of economic integration and poverty deconcentration, ‘new urbanism,’ and inner-city revitalization” (Popkin et al., 2004, p. 14). Though complicated to evaluate because of these evolving priorities and moving targets, a number of policies have come to be associated with the goals of HOPE VI, most notably:

Policies related to “Improving the Living Environment”

- **Demolition** and replacement of distressed public housing with new construction onsite, particularly high-rise developments that housed families. HOPE VI policy encouraged

demolition of sites in 1995, required demolition of at least one building in 1996, and removed the requirement to demolish in 1997. The early emphasis on wholesale replacement of public housing has outlived the explicit requirement. Though HOPE VI originally included a one-for-one replacement requirement, that was repealed in 1995 as it limited project feasibility.

- The **reduction of density** and the construction of **New Urbanist** developments that blend in with their neighborhoods

Policies related to “Revitalizing Sites”

- **Neighborhood revitalization** beyond the borders of a given site

Policies related to “Decreasing Concentration of Very Low-Income Families”

- Development of **mixed-income** communities and the opportunity for low-income families to move to higher-income areas in order to “decrease the concentration of very low-income families.” The Commission’s National Action Plan Recommendation 3-3 suggested “allow[ing] for a greater mix of incomes,” acknowledging that in the past, public housing’s goal was to serve residents with the greatest need, but that income mixing would have a favorable impact on funding needed (NCSDPH, 1992). Mixed-income development has since become recognized as “good policy” for both social and practical reasons.

Policies related to “Building Sustainable Communities”

- Emphasis on the provision and funding of **relocation and supportive services** to **increase resident self-sufficiency**
- Meaningful **resident involvement and participation** in the redevelopment process
- **Building partnerships** among the residents and public, private, and nonprofit sectors in order to **leverage funding**. One of the Commission’s original objectives was to “have Congress authorize a new partnership program between PHAs, nonprofit organizations, the private sector, and residents to attract additional resources and involvement in treating severely distressed public housing” (NCSDPH, 1992, p. 31). Official authorization of **mixed-finance** structuring in 1996 was made possible since PHAs no longer had to own the project to use public housing funding. A revolutionary shift in policy or the “single most important development tool available to public housing authorities,” (Abt Associates, 1998, p. 1-1) this change made tax credit partnerships possible since PHAs cannot use tax credits as a government entity. The change enabled public housing funds to be mixed with private funds and other public funds in a

variety of ownership structures, making viable HOPE VI projects and other developments for public housing-eligible households that are “integrated physically, socially, and economically with the greater community” (Abt Associates, 1998, p. 1-5).

- **Reforms to public housing management.** The National Commission’s original plan included reforms to public housing management as a major category for improvement, and the Quality Housing and Work Responsibility Act of 1998 (QHWRA) continued to change public housing authorities’ responsibilities and abilities. Among other changes, QHWRA gave PHAs the ability to pledge future capital funds (Capital Fund Financing Program) and authorized HOPE VI through 2002.

Given the complex set of goals to be pursued, it is not surprising that HOPE VI has generated much debate. Some would dispute that HOPE VI as implemented has addressed both the needs of distressed sites and the needs of low-income people. The elimination of the one-for-one replacement requirement in 1995 has been criticized by some for reducing affordable housing opportunities and lauded by others for making redevelopment projects feasible. Admittedly, different stakeholders have had different goals for utilizing HOPE VI and redeveloping public housing. However, HOPE VI seems to acknowledge that revitalization requires more than a physical redevelopment of sites. From the beginning, the Commission’s report explicitly recognized that “traditional approaches to revitalizing seriously distressed public housing have too often emphasized the physical condition of the developments without addressing the human condition of the residents” (NCSDPH, 1992, p. 3).

Though the HOPE VI program has likely come to mean something different to each stakeholder involved, HOPE VI represents an innovative effort by the government to merge the resources of the public sector and private developers into partnerships that could tackle the multiple goals of providing decent housing to very low-income residents, building mixed-income communities, and improving the neighborhood. HOPE VI provided these public-private partnerships with the ability and flexibility to leverage federal funding in new ways, allowing large-scale redevelopment to take place.

1.4 HOPE VI Project Financing

One of the keys to HOPE VI implementation was the assembly of financing, which even within the HOPE VI program was complex. In 2003, the Housing Research Foundation surveyed all

housing authorities with HOPE VI projects on the financing of these projects. Twenty-eight housing authorities responded to the survey.

The survey found that each HOPE VI development typically utilized eight sources of funding. On average, the HOPE VI grant itself represented 38.5% of total project costs. Direct subsidies (including HOPE VI) typically represented 53% of total project costs, and low-income housing tax credit equity usually comprised 27% of the total development budget.⁴

According to the survey, 56% of projects used a commercial bank mortgage, and 38% of projects used the Federal Home Loan Bank's Affordable Housing Program (AHP). Twenty-seven percent of HOPE VI projects utilized state-allocated tax-exempt bonds, and 87% used the low-income housing tax credit program. Of that, three-fifths used the 9% tax credit, and 37% used the 4% tax credit⁵ (Zielenbach, 2003).

The results of this survey indicate that HOPE VI on its own has been no silver bullet. While public housing in the past may have been financed using a single, direct grant to a PHA (or to a developer in a "turnkey" project), the HOPE VI grant has been in this case only a key piece of the puzzle. While HOPE VI's ability to cover 38.5% of the total project cost with a grant has likely been essential to the projects, these projects still require the compilation of seven additional sources on average. Additional sources add significant layers of complexity as well as longer timelines for coordination and higher financing costs. However, projects are arguably better off out of necessity when multiple sources of funding need to be assured of the quality of the project. Low-income housing tax credits were clearly essential to the success of these projects, as they were used on 87% of HOPE VI projects surveyed. Use of the tax credits also indicates that the requirements of private entities were satisfied, theoretically further ensuring the worthiness of a given project.

Unlike prior efforts to finance public housing, HOPE VI project financing has linked the private sector with public housing through commercial bank mortgages, low-income tax credits, and

⁴ The low-income housing tax credit (LIHTC) program is a federal program created by the Tax Reform Act of 1986 that offers private investors dollar-for-dollar credits against their federal taxes in return for investing in affordable housing development. It is the most important financing tool used for affordable housing production today. See Section 3.2.2 for more details.

⁵ Federal tax credits are offered at two rates: 9% and 4%. The percentage refers to the approximate percentage of eligible basis, or depreciable costs, which the investor may credit against its assessed taxes per year (for ten years). The 9% tax credit can only be used for new construction, while the 4% tax credit may be used for acquisition and rehabilitation.

public-private partnerships. These financing arrangements have ensured market discipline and captured developer experience and financial resources that had not previously been applied to public housing. While HOPE VI funds alone have not been the solution, they have been key in marshalling an array of resources that have enabled redevelopment to take place.

Chapter Two

To HOPE or Not to HOPE

While many see that HOPE VI has been a clear success, there are many who argue from the left as well as the right—that HOPE VI should not be continued. The debates are primarily over the program’s costs, the implementation timeframe, and the human costs due to insufficient attention to the needs of existing residents, though some would argue it is simply a matter of the federal government trying to divest from public housing.

2.1 Why is HOPE VI at risk?

According to Expectmore.gov, the federal government’s system for tracking program performance, HOPE VI is “NOT PERFORMING: Ineffective” (Expectmore.gov). The system cites higher costs, an “inherently long, drawn-out planning and redevelopment process,” and the program’s supposed accomplishment of the “stated mission of demolishing 100,000 severely distressed public housing units” (Expectmore.gov). HUD and the Bush Administration responded by reducing awards to “reduce cost,” reducing allowable timelines, and attempting to terminate the program.

Studies have shown that HOPE VI is more expensive on a per unit basis than other housing programs, though authors have noted there may be reasons to fund new production programs and reach particular audiences that housing vouchers might not reach⁶ (DiPasquale, Fricke and Garcia-Diaz, 2003; GAO, 2001). In spite of the numerous reasons for the higher cost and longer timeframe needed—relocation of existing residents is complex, and HOPE VI sites are frequently located in distressed urban areas that require environmental remediation, additional time for land assembly, and more complex approvals processes—HUD has repeatedly cited exorbitant costs and backlogs in delivery as reasons for ending HOPE VI. In addition, HUD says that “HOPE VI has served its purpose” (Martinez, 2003). According to former HUD Secretary Mel Martinez, as of 2003, 115,000 units had been funded for demolition and 60,000 units had been funded for production, thereby meeting the 100,000-unit demolition goal of HOPE VI (in spite of the numerous other goals of HOPE VI that may have yet to be completed).

⁶ Housing Choice Vouchers, or Section 8 vouchers, enable low-income households to lease or buy in the private housing market. Vouchers pay the difference between the gross rent (or payment standard) and 30 percent of the household income.

There are also those who believe that housing is not a right, and that public housing serves as a disincentive to hard work for those who live in it (Husock, 1997). These opponents not only believe that HOPE VI is too expensive and inefficient, but also believe that the federal government should not choose to remain in the business of building or managing public housing at all.

However, HOPE VI has opponents not only on the political right but also on the left, as there has been an overall net loss of “hard” public housing units. While many of those units were uninhabitable and vacant before redevelopment, housing advocates deplore the demise of the one-for-one replacement requirement that is leading to a shrinking supply of deeply affordable housing. Some claim that it is the “new urban renewal,” labeling developments in areas with market potential as “distressed” and replacing the poor residents who live there with higher-income households (National Housing Law Project et al., 2003). Citing little resident participation in the redevelopment process, insufficient relocation benefits, and low return rates for residents, many are displeased with how HOPE VI has served existing public housing residents (Center for Community Change, 2003). Often, residents were not tracked when they were temporarily relocated and were then “lost” and could not be offered a unit in the new developments.⁷ Results of a study citing an overall 19 percent rate of return at eight sample sites (Buron et al., 2002) do not correspond to study results showing that at baseline, over 70 percent of residents want to return (Popkin et al., 2002). Critics have also pointed to the general lack of data about HOPE VI projects and processes, and some have questioned the focus of resources on replacing public housing rather than on increasing the overall supply of affordable housing nationally. HOPE VI has also been accused of having an “unclear purpose” (National Housing Law Project et al., 2002) and of having too many goals and ambitions (von Hoffman, 1996).

These opponents, however, typically argue that HOPE VI should be reformed rather than discontinued. The National Low Income Housing Coalition and the National Housing Law Project (2006) argue, “While the program has serious flaws that must be remedied, it is also the only federal funding source available to PHAs desiring to substantially revitalize aging, substandard developments” (NLIHC, WWW Document). The Center for Community Change also supports the continuation of HOPE VI but only with substantial reforms to policies on replacement housing, the definition of “severely distressed,” reoccupancy, resident participation, relocation, and supportive services. The Center for Community Change (2003) states that it

⁷ HUD began to require resident tracking in 2000.

believes “that the HOPE VI program has the potential to be an effective vehicle for preserving and improving public housing properties and families” (p. 15). In spite of their serious concerns with HOPE VI as implemented, the housing advocacy critics still argue that there is a continuing need to provide attention and resources to public housing.

2.2 Support for HOPE VI

In spite of the arguments to end HOPE VI, it is clear that housing authorities around the country are looking at ways to continue HOPE VI-like development. Housing authorities view their HOPE VI projects as successes they would like to reproduce across the rest of their portfolios. They not only hope to replicate the site and neighborhood revitalization but also plan to utilize the process, the partnerships, and the financing tools they used under HOPE VI. PHAs with HOPE VI grants have replaced their most physically debilitated housing developments with new, attractive developments that are better designed and constructed (Popkin et al., 2004). Private management companies are holding public housing developments to higher standards than ever before (Corcoran, developer, interview).

There is tremendous support from localities and states for HOPE VI projects as well. Cities have been pleased with the effects public housing revitalization has had on the broader neighborhoods. Infrastructure and community facilities have been updated, improved, or constructed in previously under-equipped neighborhoods (Popkin et al., 2004). Communities once stigmatized by distressed public housing have been able to reach their market potential, with property values increasing and HOPE VI developments triggering private investment in the surrounding area (Turbov and Piper, 2005). Surrounding neighborhoods have often improved on measures of income, poverty, elementary school test scores, residential and commercial loan rates, and crime (Zielenbach, 2003; GAO, 2003). According to studies of particular developments, residents reportedly feel safer and crime rates are reportedly lower in the revitalized communities (Holin et al., 2001). Further, HOPE VI has “captivated the private developer market” in a way that perhaps no other public housing program has, initiating and building public-private partnerships that have generated multiple layers of benefits (Allison, consultant, interview). While private developers have constructed public housing in “turnkey” construction projects in the past, HOPE VI was the first program to attract and integrate the private sector into public housing development, ownership, and management (Baron, developer, interview).

Accusations that public housing residents have not fared well with HOPE VI have unfortunately been confirmed in some cases. Media reports and academic studies have brought attention to these concerns, so PHAs and their developer partners have had ample opportunity to learn from their early mistakes. Based on the continuing efforts of PHAs interviewed, it seems many PHAs are paying more scrupulous attention to resident engagement, relocation, resident tracking, services, and reoccupancy rates, as a political necessity at the very least. With reference to the FY2006 reauthorization bill, the Council of Large Public Housing Authorities (2006) notes,

“We have learned valuable lessons in how to make the program work for all stakeholders: residents, PHAs, private partners, local governments. We have learned just how vital it is to provide key supportive services...This reauthorization bill builds on those lessons, placing a renewed emphasis on relocation activities...” (CLPHA, WWW Document).

Residents and advocates have gained expertise in participating in these processes and HUD has issued guidance that dictates more intensive resident involvement and has required resident tracking. While many advocates believe that one-for-one replacement of “hard” public housing units is essential to maintaining the affordable housing stock, others argue that housing vouchers can offer flexible opportunities to some residents who may prefer the option to move away from a public housing site (Clancy and Quigley, 2001).

With regard to the higher per-unit cost of HOPE VI, supporters argue that it costs even more to do nothing about distressed public housing than to fund HOPE VI (Turner et al., 2005). A pool of public housing properties remains in need of attention—while over 100,000 units may have been demolished since 1992, others have since deteriorated. Using 2004 property scores from HUD’s Real Estate Assessment Center (REAC) database, it was estimated that there were 47,000 to 80,000 units that might be categorized as “severely distressed” (Turner et al, 2005). While the holistic approach of HOPE VI may cost more to implement than a single stand-alone public housing redevelopment, it has been argued that HOPE VI can be a “platform for wholesale neighborhood revitalization by integrating housing with schools, jobs, amenities, and business and social services” (Turbov and Piper, 2005, p. 2).

Lastly, HOPE VI has provided opportunities for housing authorities, developers, residents, and HUD to learn a new way of developing and managing public housing. The Urban Land Institute (2002) has applauded the “entrepreneurial spirit that exists among some public housing agencies” and the “impetus for public housing agencies to be creative, entrepreneurial real

estate developers and agents for revitalizing communities” (p. 2). Though mixed-income and mixed-finance redevelopment of public housing now exists irrespective of HOPE VI because of changes in laws and regulations, HOPE VI has also been responsible for popularizing mixed-income policy, public-private partnerships, and mixed-finance tools, including the use of tax credits on public housing deals. As a result, even public housing authorities who did not receive HOPE VI grants have become interested in replicating the process and the results. Industry coalitions like the Public Housing Authorities Directors Association (PHADA), the Council of Large Public Housing Authorities (CLPHA), and the National Association of Housing and Redevelopment Officials (NAHRO) all support the reauthorization of HOPE VI in spite of concerns about the net loss of affordable housing and its limited availability to the vast majority of their constituencies. Fewer than 250 out of 3,300 PHAs have received HOPE VI funds, but far more than those 250 have benefited from the increased attention and tools now at their disposal through HOPE VI.

While the HOPE VI program has been extremely controversial, it has made significant contributions to the revitalization of communities and to the education of public housing authorities. A substantial need for strategies and funding to address distressed public housing still exists; as a result, current efforts to “replicate HOPE VI” appear to be underway.

Chapter Three

A Post-HOPE VI World

More than a decade of learning how to complete HOPE VI development has provided a base for public housing stakeholders to take redevelopment to a new level, so even without HOPE VI, developers and authorities are working to pull the pieces together. However, with funding and future federal support uncertain, what will public housing redevelopment look like? Can practitioners and those on the ground continue to make these projects work? How are these post-HOPE VI projects being financed?

3.1 Efforts to Replicate HOPE VI

Interviews with housing authorities and consultants have confirmed that there is interest in continuing to redevelop public housing properties even without HOPE VI funds. Gayle Epp, of Abt Associates, said that she is frequently hired by PHAs to do two plans—one with HOPE VI and one without. Housing authorities were already thinking about what they might do if they didn't win funding, but now they are beginning to think about this as a long-term challenge for their entire portfolios as well as on a project-by-project basis. They are thinking more “outside the box” about how to address their future maintenance, rehabilitation, and replacement needs as the stock depreciates and they can no longer rely on federal funding.

This indicates that HOPE VI has helped PHAs think more creatively; it has shown many housing authorities a new way of viewing, financing, and managing their properties. HOPE VI was also implemented at a time when the entire public housing system was being re-vamped. For instance, housing authorities are moving toward a project-based accounting system under which properties will now need to be able to “stand on their own.” These shifts in perspective have prompted many housing authorities to think about the future of their non-HOPE VI properties, and they are using the HOPE VI program as a model for future redevelopment projects and processes.

For example, out of necessity—consent decrees and HUD mandate—the Chicago Housing Authority, has been “transformed” from one of the most troubled housing authorities in the country to one of the nation’s most forward-thinking. After a five-year takeover by HUD, the Chicago Housing Authority was enabled by Moving-to-Work demonstration status to implement

large structural changes to their operations and organization.⁸ This organizational overhaul may have even put them in a better position to think about redevelopment from a portfolio-wide view. Those working in Chicago have pointed out that they have the benefit of their entire Capital Fund at their disposal and can avoid borrowing funds until later in the process, thereby avoiding the accumulation of interest.⁹ After winning seven HOPE VI awards, the Atlanta Housing Authority also has plans to redevelop the rest of their portfolio into mixed-income communities.

While not undergoing the same dramatic changes as the Chicago Housing Authority, the Fort Worth Housing Authority and others also have the intention of redeveloping or repositioning their entire portfolios over time. The HOPE VI program has contributed to creating and encouraging the entrepreneurial perspective that many housing authorities are learning, so in some sense, “HOPE VI” redevelopment is no longer just about individual projects but a whole way of thinking about public housing portfolios.

3.2 Post-HOPE VI Project Financing

PHAs, developers, and consultants reported that many housing authorities have completed or are trying to piece together HOPE VI-like projects in the absence of HOPE VI. By “HOPE VI-like project” most interviewees generally assumed that meant a “large-scale, mixed-income, mixed-finance public housing redevelopment.” Not every project discussed included all aspects of that definition, but the omissions and inclusions have been indicative of the limits of redevelopment without HOPE VI funds.

According to these interviews, “post-HOPE VI” projects largely have financing structures that are very similar to HOPE VI projects and other “typical” affordable housing developments—they combine low-income housing tax credits, tax-exempt bonds, HUD or local housing authority funds, and other local or state subsidies. A variety of other funding sources or structures have also been used, some of which innovatively take advantage of the predicted increase in land value due to the redevelopment itself.

⁸ The Moving-to-Work demonstration program was authorized in 1996 to offer up to thirty public housing authorities increased flexibility to design and test strategies to increase resident self-sufficiency, reduce cost, and increase housing opportunities.

⁹ Public Housing Authority portfolios’ capital needs are funded annually through a formula-based Capital Fund allocation system. See Section 3.2.1 for more details.

Possible financing sources for post-HOPE VI projects can be categorized into three primary groups: direct subsidy to PHAs from HUD, direct subsidy from other sources, leveraging public funds, and leveraging land/market. The following section details what it means to use each of these sources.

Direct Subsidy to PHAs from HUD	Direct Subsidy from Non-HUD Sources	Leveraging Public Funds	Leveraging Land/Market
<ul style="list-style-type: none"> • Capital Fund • Operating Fund • Section 8 Vouchers • Replacement Housing Factor Funds 	<ul style="list-style-type: none"> • Low-Income Housing Tax Credits • Federal Home Loan Bank AHP • State Funds • Local Funds • Foundations 	<ul style="list-style-type: none"> • Capital Fund Financing Program • Leveraging Section 8 • Tax-Exempt Bonds • Section 318 	<ul style="list-style-type: none"> • Tax Increment Financing • Cross-Subsidy • Increased Density • Developer Contribution • Surplus Land Proceeds

Table 3.1: Funding Sources Used in Post-HOPE VI Projects

3.2.1 Direct Subsidy to PHAs from HUD

Public housing has traditionally been funded by direct subsidy from the federal government. These funds are crucial to the ongoing maintenance and care of projects as well as redevelopment and replacement efforts. Unfortunately, each one of these federally-controlled funding sources is at risk of being cut or reduced.

- Capital Fund

The first resource to which public housing authorities turn when contemplating redevelopment of their properties is their existing Capital Fund from HUD, which was established in 1998 through QHWRA. All PHAs receive annual capital grants, the sizes of which are determined by data on existing building and unit characteristics that are entered in the Public and Indian Housing Information Center (PIC). Unfortunately, housing authorities claim the formula calculation consistently underfunds their needs (Piper, Chicago Housing Authority, interview) and provides “barely more than the amount necessary for PHAs to stay even” (Solomon, 2005 Sept/Oct, p. 36). Further, a study by Abt Associates in 2000 determined that there was a \$24.6 billion backlog in existing modernization needs for the nation’s housing portfolio (Finkel et al., 2000). With a \$2 billion additional need per year based on ongoing accrual needs, public housing is already limited in meeting its capital needs.

While many authorities are using their Capital Fund for new construction as well as modernization, there are limitations on the use of the Capital Fund. The Capital Fund can be used for development, financing, modernization, or management improvements, but unlike HOPE VI funds, the Capital Fund cannot be used for supportive services or affordable homeownership. Additionally, the Capital Fund is intended to meet the capital needs of the entire PHA's inventory, so to allocate all or a significant portion of it to one larger redevelopment project is to risk redeveloping at the rest of the portfolio's expense.

Some authorities like the Atlanta Housing Authority have chosen to loan their funds (Capital Fund, Replacement Housing Factor, HOPE VI, etc.) to the project instead of granting them outright.¹⁰ Eventually they will be able to set up a revolving fund for future projects once cash flow from the project accumulates to pay the PHA back.

- Operating Fund

Public housing authorities also receive annual operating funds from HUD. The calculation of operating subsidy for PHA-owned rental housing in a given year is based on the previous allowable expense level minus the amount of rental income, with a long list of adjustment factors including utility expenses. While theoretically intended to cover the difference between operating expenses and income, the amount funded by HUD is typically insufficient.

As of 1998, small non-troubled PHAs can use their operating funds interchangeably with their capital funds, so they can theoretically use them for redevelopment purposes. Authorities with Moving-to-Work status also have that flexibility. While in theory this flexibility is useful, operating funds do not necessarily—and in fact usually do not—cover the cost of operating a unit, so most PHAs have not used their operating funds in conjunction with capital funds for development purposes.

- “Section 8” or Housing Choice Vouchers

Section 8 vouchers have proved to be crucial in the rebuilding of public housing units. Like “hard” public housing units, Section 8 vouchers help house households with very low-incomes by covering the difference between 30 percent of the household's income and a HUD- or PHA-determined rent standard. While a PHA/developer can often cobble

¹⁰ Replacement Housing Factor (RHF) funds are a subset of the Capital Fund given to PHAs when units are demolished and not replaced under another program. RHF funds can only be used on replacement public housing rental units.

together capital (primarily through tax credits) and local money (such as AHP soft loans through the Federal Home Loan Bank) for a project, one of the underlying challenges to financing redevelopment is that public housing tenants only pay thirty percent of their income in rent. Typically the project still needs HUD or the PHA to provide long-term operating subsidy through a public housing contract or Section 8.

Though they have been used as both project-based subsidy and tenant-based subsidy in past incarnations, Section 8 Housing Choice Vouchers today are intended to be associated with a household, not a housing unit. These households can then move to privately-owned rental housing. However, PHAs have the ability to attach up to 20% of their Section 8 vouchers to particular units, which is called “project-basing” Section 8.¹¹ Therefore, not only can PHAs offer them to existing residents for relocation purposes, but also they can be used as operating subsidy for a particular new or redeveloped property.

As a result, Section 8 vouchers have been a crucial resource not only for low-income residents but also for the public housing authorities that administer them. Vouchers are flexible in use and can assist with relocation associated with redevelopment and/or can be used to provide operating subsidy to a particular project or portion of a project. Unfortunately, Congress and HUD have limited the availability of new vouchers to tenant-relocation purposes, and the program is annually put at risk of being cut.

- Replacement Housing Factor Funds

Replacement Housing Factor (RHF) funds have also played a key role in public housing redevelopment. RHF funding is a subset of the Capital Fund that allows PHAs to continue receiving Capital Fund allocations for units that have been sold or demolished and not replaced under another funding program, as long as the funds are used for replacement public housing rental units. For example, if a 100-unit project is demolished and 30 public housing units are to be rebuilt, there is a five-year period during which the PHA will receive RHF funds for the 70 units not directly replaced. It has particularly helped those PHAs with large portfolios of obsolete units that will not be wholly replaced. The Boston Housing Authority is using RHF funds generated from unreplaced units at the Mission Main and Orchard Gardens HOPE VI projects as one of the important funding sources for its Franklin Hill public housing redevelopment.

¹¹ Moving-to-Work agencies have more flexibility to project-base Section 8 units.

Though RHF is a significant source of grant funds unencumbered by the need to repay it or pay interest on it, PHAs cannot receive the funds until they have submitted a detailed proposal to HUD on the proposed project, including funding and number of units, and they do not know with certainty the amount of RHF funds they will receive in any given year. The Boston Housing Authority has created an elaborate spreadsheet calculating the amount of RHF funds to which they believe they are entitled, based on prior RHF distributions, but HUD has yet to confirm the exact amount that the Boston Housing Authority will receive.

3.2.2 Direct Subsidy from Non-HUD Sources

PHAs now go beyond HUD to seek funds from their state and local jurisdictions (including HUD funds controlled by local entities) and foundations. Direct subsidy is crucial as it is usually “soft” and does not have to be repaid, though in some cases the funder—typically a government entity or foundation—may charge a nominal interest rate and defer payment. In spite of the increasing political pressure to look beyond “free handouts,” soft funds can play a key role in making projects feasible.

- Low-Income Housing Tax Credits

It has become evident that the Low-Income Housing Tax Credit (LIHTC) program is essential to any post-HOPE VI public housing redevelopment efforts. Many studies have documented the importance of the tax credit program to the development of affordable housing in general; virtually every public housing redevelopment project relies on the capital raised through 9% tax credits or 4% tax credits and the issuance of tax-exempt bonds. As noted earlier, nearly 87% of HOPE VI projects surveyed in 2003 utilized tax credits (Zielenbach, 2003)—projects not utilizing HOPE VI will be even more dependent on the tax credit program.

\$7.5 billion in tax credits have been allocated to affordable housing projects between 1987 and 2005. 9% tax credits are apportioned to the states on a per capita basis—for 2006, each state received \$1.90 per person. Each state has different policies for prioritizing projects, but typically the tax credits are allocated by a state housing finance agency on a competitive basis. Projects win the 9% tax credits, and their sponsors then form limited partnerships with equity investors who use the tax credits and tax losses over a period of ten years in exchange for upfront equity payments. Over that period,

the 9% tax credit theoretically funds 90% of eligible basis (depreciable costs), and the non-competitive 4% tax credit theoretically funds 40% of eligible basis. For each dollar of tax credit that an investor can deduct from their taxes due, they may invest \$0.80 to \$0.97 in the project, based on supply and demand in the tax credit market. Due to the paper losses that also benefit the investor, there have even been instances where investors paid over a dollar for a dollar in tax credits.

While tax credit equity comes from a private investor and is therefore frequently called a “private” source, the investor receives a credit against their taxes that is essentially foregone income by the federal government. However, the tax credit program has been very popular across the board since its creation through the Tax Reform Act of 1986—perhaps because it is a form of “off-budget financing” that is not as easily targeted by budget cuts, or perhaps because it integrates private and public sector interests and has broad bipartisan support.

However, low-income housing tax credits are limited, so the application process is very competitive. In most states, tax credits are oversubscribed at a 2:1 or 3:1 ratio. Many in the public housing community are finding that the availability of tax credits effectively limits the amount of redevelopment that they can undertake. Tax credits are clearly a critical and tested resource that could be used to an even greater extent if there were more available.

- Federal Home Loan Bank Affordable Housing Program (AHP)
The Federal Home Loan Bank sponsors the competitive Affordable Housing Program (AHP), which can grant or loan funds to affordable housing projects. Federal Home Loan Member Banks partner with local banks, lowering loan interest rates or financing downpayments or closing costs (FHLB, WWW Document). Unfortunately the amounts of these grants or loans are often not as substantial in size as other funding sources, but it is “soft” subsidy that need not be repaid. It can often serve as important gap funding, as it did with a \$1 million grant out of the \$108 million in development costs for the North Beach Place HOPE VI in San Francisco.
- State Funds
The cooperation and support of states is also crucial to many of these post-HOPE VI (as well as HOPE VI) projects. So far, they appear to have been supportive of HOPE VI projects and would be likely to support post-HOPE VI efforts. States have a number of

programs and funds available, sometimes through housing trust funds and sometimes through their own competitive grant/loan programs. Illinois has a Low Income Housing Trust Fund that has contributed funds to the Chicago Housing Authority's redevelopment projects. The Massachusetts Affordable Housing Trust Fund has also designated a set-aside for public housing redevelopment in the past.

Beyond their own direct subsidy programs, the states control the allocation of state tax credits, federal tax credits, and tax-exempt bond authority. Though a federal source of funds, tax credits are distributed by state-governed allocation policies, so state coordination and support is key. Set-asides for or priority given to HOPE VI or public housing redevelopment or the use of Section 8 certificates have helped HOPE VI and post-HOPE VI projects in this typically competitive process. Georgia has even been accused of giving the Atlanta Housing Authority's projects an "unfair advantage" in their process. Projects in qualified census tracts (QCTs)—and many public housing developments are located in them—also get a "boost" to their eligible basis and are able to access a larger number of credits than they might otherwise be able to receive.

- Local Funds

Cities are essential partners in post-HOPE VI projects. They have generally been supportive, especially when the larger-scale neighborhood stands to gain from the development, as it often does. Many neighborhoods have become or remained distressed because of the public housing development, so cities know they need to deal with the public housing if they hope to revitalize an area. For example, the City of Atlanta explicitly hopes to attract middle-class families to the inner city and has been a key partner to the housing authority.

Local entities often have some federal sources of funds that can help make "post-HOPE VI projects" work. Cities usually have Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) funds that originate with HUD. Formula-allocated block grants that are awarded to local governments and states for revitalization projects, CDBG funds are particularly useful since jurisdictions can borrow against their future entitlement grants, using the Section 108 program. However, CDBG cannot be used for new construction. Additionally, CDBG funds are the most flexible kind of money cities control, so for political reasons cities are often reluctant to give significant amounts to any single project. Also distributed to local governments and states, HOME funds are specifically designated for housing—new construction, rehabilitation, acquisition,

assistance to homebuyers, and tenant-based rental assistance. The use of HOME funds on a public housing redevelopment project can be complex, as they cannot be used to modernize existing public housing units, and additional HUD approvals and subsidy layering reviews may be required. Further, HOME funds have recently been directed towards minority homeownership and chronic homelessness/supportive housing projects and away from long-term rental housing efforts.

Cities also have a number of the “regular” affordable housing techniques available to them to collect funds for public housing development, such as density bonus and inclusionary housing trust funds. Both typically generate funds or affordable housing through private development that opts or is required to develop affordable units or pay funds into a trust fund in exchange for approvals or higher density. Chicago has created a donation tax credit program for individuals as well as businesses enabled by the state housing finance agency. Under this program, the Chicago Housing Authority has been able to sell land to a not-for-profit sponsor for one dollar. The difference between the \$1 sales price and the appraised value is then eligible for the \$0.50 tax credit (per \$1.00 donation) that can be sold to generate funds for the land’s redevelopment.

Local governments can also use their general obligation bonding authority to contribute to the necessary infrastructure. Because these redevelopment projects often break up superblocks into more traditional urban residential blocks, very large infrastructure costs are common. Cities also have tax increment financing (TIF) tools at their disposal, which are frequently used to fund infrastructure improvements.¹²

Tracy Sanchez, Senior Program Director at the city of Chicago’s Department of Housing, emphasized the necessity of finding funds wherever possible. Beyond enumerating the long list of programs offered by the city, she suggested examples such as getting the new public housing exempted from property taxation so that the PHA doesn’t have to capitalize that long term operating expense. While Chicago is an exceptional example of the city and housing authority working toward a common goal, many cities are prioritizing public housing redevelopment projects when providing funding opportunities. In Norfolk, VA, the city has recognized that a 600-unit distressed public housing development likely stands in the way of growth in an area with the potential to become a “hot” location; the

¹² See Section 3.2.4 for more details on tax increment financing.

city and housing authority are working together to plan for the future of the existing residents and the physical neighborhood (Epp, consultant, interview).

- Foundations

Some PHAs are looking to foundations to close the funding gap with soft funds. Foundations have stepped in not only with grants and program-related investments (PRIs)¹³ but also with loan guarantees that have given private investors and lenders the confidence to invest in what they see as risky public housing redevelopment efforts. The MacArthur Foundation has a strong partnership with the Chicago Housing Authority and their Plan for Transformation. It has guaranteed a \$15 million loan from private lenders that is to be repaid with tax-increment financing (TIF) generated by the new development, and it has funded numerous efforts to improve relocation and social services for residents (MacArthur Foundation, 2005). The Annie E. Casey Foundation guaranteed a TIF for land acquisition and supplemented public funds in East Baltimore in order to make sure that supportive services, substantial relocation support, and connections to jobs were provided to the public housing residents (R. Wilson, developer, interview). Richard Baron of McCormack Baron Salazar has succeeded at gathering significant funds from the local private sector and foundations for many of his firm's projects.

However, while foundations may be able to provide grants or interest-free loans to developments, the amounts are not typically large enough to contribute substantially to development costs. Foundations can be particularly useful during predevelopment or when piloting new programs, but in most situations, foundations are more focused on resident services rather than on hard development. However, this can be quite useful since without HOPE VI funds, there may be little funding that either can or is designated to be used for resident services.

Projects attempting to use the HOPE VI approach without HOPE VI funds may currently be able to argue that they are testing new ground. The John Stewart Company in San Francisco is doing just that, talking to foundations about a possible program-related investment (PRI) at Hunters View to cover pre-development costs. The Ford Foundation has preliminarily awarded them a \$2 million PRI. While PRIs are typically larger than

¹³ Program-related investments (PRIs) are investments, rather than grants, made by foundations. Foundations benefit from the possibility of repayment; recipients benefit from lower interest rates.

foundation grants, they are repayable loans, not grants, so they do not provide the same “soft” subsidy that HOPE VI has been able to provide.

Direct subsidy is an essential source of funding, as it reduces the amount of debt that needs to be serviced and the amount of interest that must be paid by the project. However, there are a limited number of sources willing to provide this type of funding beyond the public sector and foundations.

3.2.3 Leveraging Public Funds

Post-HOPE VI projects are not only using public funds in the form of direct subsidy. They are also using those funds to leverage additional private dollars, by pledging future funds as repayment and security. In an effort to encourage public-private partnerships as well as complete more projects within the same amount of total subsidy, HOPE VI projects have been encouraged to utilize leveraging—in every year since 1998¹⁴, HUD’s Notices of Funding Availability (NOFAs) favored projects that were able to borrow or obtain higher levels of private funding.¹⁵ Without HOPE VI, the leveraging of public funds is an even more essential tool in order to accumulate sufficient upfront capital for construction.

- Capital Fund Financing Program (CFFP)

Many innovative housing authorities are borrowing against future installments of their Capital Fund. Under the Quality Housing and Work Responsibility Act (QHWRA), which was enacted in 1996, PHAs are permitted to pledge up to one-third of their annual Capital Fund grants over twenty years to support debt service (at a 3:1 debt service coverage ratio). Known as the Capital Fund Financing Program (CFFP), this tool gives PHAs more flexibility in how they use their funds. CFFP can be used with a bank loan or a bond model. In either case, future capital funds are pledged as security. The bond model provides for the possibility of a lower interest rate, but costs and fees for bond issuance are significant.

The DC Housing Authority was the first to utilize CFFP by getting a short-term, full-recourse loan from Bank of America and Fannie Mae in 2000 in order to modernize a

¹⁴ The 1995 NOFA also encouraged leveraging.

¹⁵ The GAO defines “leveraged funds” as non-public housing funds. HUD has defined them as non-HOPE VI funds. Note that by either of these definitions, many of the sources described in the previous section would count for “leveraging” points in an application.

number of their developments. Other large authorities followed with a number of bond deals—the Chicago Housing Authority and the Philadelphia Housing Authority among them, though their ability to utilize CFFP has been exceptional given the large size of their portfolios. The Chicago Housing Authority was the first PHA to close issuance of private activity bonds, using its future Capital Fund grants as security for the \$291 million transaction. However, they did have to negotiate with HUD to commit to maintaining their capital grants at the same level for a number of years into the future (Stegman, 2002). The Philadelphia Housing Authority redeveloped Tasker Homes with tax credits and four series of bonds (two government purpose and two private activity). A number of smaller housing authorities have pooled their resources and put together bond deals using CFFP, but the amount of work and the cost to coordinate these deals was extraordinary.

In response to this, Fannie Mae created a product in 2004 entitled “Modernization Express,” to be used with the CFFP by smaller housing authorities who don’t necessarily have the capacity to issue bonds (Neely, Fannie Mae, interview). Structured to meet rating agencies’ AA underwriting criteria, Modernization Express has helped to make CFFP more straightforward and accessible to the public housing community. Now numerous public housing authorities around the country are using CFFP, though not necessarily at the scale of the Philadelphia, Chicago, and Washington, DC deals. As of June 2006, 137 housing authorities have participated in CFFP, some in pools and some individually (HUD News Release, 2006). The Oakland Housing Authority is planning to issue a smaller bond, enough to close a gap on one current project in predevelopment and possibly one or two small projects. The Boston Housing Authority is contemplating issuing a bond as well but is not yet clear as to the amount of the bond. Nevertheless, the Boston Housing Authority, like other large housing authorities, has a significant backlog of capital needs that must be addressed. Issuing this bond is an important tool to assist it in addressing at least some of this backlog.

While there has been some success with the CFFP tool and HUD points to it as a “replacement for HOPE VI”, this is not “new” money. It is simply restructured to accelerate the PHA’s ability to get at future funds. Even if a housing authority can use this to cobble together enough upfront capital to redevelop one property, it may do so at the expense of the rest of the portfolio’s future capital needs. In spite of this risk, most of the housing authorities that are actively redeveloping their portfolios are using this

technique, though it is typically used for rehabilitation and modernization rather than new construction and other more ambitious projects.

- Leveraging Section 8

Unlike public housing units or annual contribution contracts allocated through HOPE VI, Section 8 units, or Housing Choice Vouchers, can be leveraged. In other words, public housing authorities can borrow against the anticipated future operating subsidy associated with Section 8 certificates. When “project-basing Section 8,” PHAs ask HUD for permission to convert tenant-based Section 8 vouchers into project-based vouchers, which are then “attached” to a particular project. However, PHAs are not allowed to do this at their own discretion, so it adds a layer of unpredictability, and most are limited to project-basing 20 percent of their Section 8 portfolios.¹⁶ PHAs like the Atlanta Housing Authority have had some success with “project-basing” Section 8 vouchers and borrowing against them for construction funding.

While the Section 8 program is key, it is also constantly under threat of elimination. As mentioned earlier, Congress continues to try to freeze the Section 8 program, allowing only incremental increases for tenant-protection vouchers needed for relocation. Therefore it is becoming harder to underwrite projects that rely on Section 8. Some PHAs are seeing only 10-year conventional loans rather than the typical 40-year loans for affordable housing, so they are settling for shorter-term commitments and less-attractive interest rates.

- Tax-Exempt Bonds

As mentioned earlier, states have the ability to allocate tax-exempt bond authority, which is limited by a state bond cap. Often used in conjunction with the 4% tax credits, tax-exempt bonds are an important financing source for “regular” affordable housing development and are also used for many public housing redevelopment projects. Local or state agencies issue these bonds on behalf of a project to private investors. As the interest is not subject to federal income tax, a lower interest rate can then be passed on to the project. Unfortunately bond issuances require high transaction costs, and in most states, tax-exempt bonds are allocated competitively, so it can be difficult to get access to this source.

¹⁶ Moving-to-Work agencies have the flexibility to project-base more of their portfolio.

- Section 318

Though not yet commonly used, under Section 318 of the FY2006 HUD Appropriations Bill, there is now the ability to transfer project-based assistance from a distressed or obsolete development to a “viable” property (Clancy, 2006). However, there are no associated capital sources to fund any redevelopment that might be necessary. If PHAs can gain control of privately-owned distressed developments with project-based assistance, they may be able to combine that source of operating subsidy with other capital funds under their control to redevelop one of their own developments.

PHAs’ increased ability to access private funds for public housing uses has been one of the major successes of HOPE VI. Public money and financing structures enabled by the government have been vital in attracting private lenders and investors to this market. HOPE VI—through its visibility and ambitions—has been particularly successful at attracting private sector attention.

3.2.4 Leveraging Land/Market

The most creative financing sources or structures that PHAs are beginning to use capture the increased land value of the redeveloped public housing. Unfortunately, they are also somewhat risky, since they rely on the redevelopment to change the housing market in the neighborhood. Developers may not welcome sharing these returns if they believe they are taking on the majority of the risk.

- Tax Increment Financing

Tax increment financing (TIF) has been used in many locations to fund infrastructure or off-site work in large-scale redevelopments. Enabled by legislation in every state (including the District of Columbia) except for Arizona, tax increment financing is frequently used to fund infrastructure related to public housing redevelopment, as the City of Atlanta has done. California cities and Chicago are also frequent users of the TIF tool in redevelopment areas. Local jurisdictions designate areas as TIF districts, within which future tax dollars may be set aside to pay for the cost of improvements. A TIF essentially freezes the amount of tax revenue that the city collects for its general fund at a certain level and dedicates anything above that toward debt payments for development improvements within the district. It can be particularly effective in locations where a development is creating a tax base where there previously was none.

- Cross-Subsidy

With mixed-income development, there may be opportunities to cross-subsidize, or utilize revenue from market-rate units to subsidize the development or operation of low-income units. This is possible in rental projects, where cash flow from the market-rate units acts as an operating subsidy to affordable units over time, and ownership projects, where a cut of sales or developer fee from market rate units may be plowed back into affordable units in the project. Nevertheless, this is very dependent on the strength of the housing market in a given location. As consultants for Duvernay + Brooks have noted, most rental markets where public housing is located are not good enough to cross-subsidize, and where they may be, the developer is still likely to argue that there is a significant risk in relying on that income. Tracy Sanchez from the City of Chicago pointed out that most unrestricted units in their properties are only renting at tax credit level rents (affordable to households under 60% of area median income). However, Atlanta has realized some cash flow from its market rate rental units, and public housing authorities in Massachusetts use this method frequently.

Ideally, the housing authority can capture unrestricted rents on the market-rate rental units as they increase and dedicate them to the project. Market rate rents in these projects are often underwritten at tax credit rents because of the risk. This reduces the amount that can be borrowed upfront and increases the gap. While there may be a bigger upside later, the developer/PHA cannot rely on the cross-subsidy to fund operating expenses for the long term. There have been a few occasions where market-rate sales proceeds were used to subsidize affordable sales prices, though that does not allow the PHA to take advantage of the effects of neighborhood revitalization. In one offsite replacement project that was located in a hot market area, the Department of Housing contributed gap funds for rental public housing to be included among the condos.¹⁷ The Department received a cut of the proceeds from the sales.

- Increased Density

In some locations, where public housing was originally barracks-style defense worker housing rather than high-rise towers, increased density combined with cross-subsidy may be possible. This may allow for a higher rate of public housing replacement as well as significant new market-rate development on the site that can help cross-subsidize the

¹⁷ The rental public housing units were pooled as one “condominium” with the PHA or affiliate as a single owner.

public housing units. The King County Housing Authority in Washington state may be able to do this on one of their sites, where densities are fairly low and there is “not the same intense level of urban poverty [as in some of the more infamous public sites] and there is more to work with in terms of market value” (Watson, King County Housing Authority, interview). The San Francisco Housing Authority is also considering this in the Bayview Hunters Point neighborhood.

In Needham, Massachusetts, the public housing authority plans to replace a development of twenty single-family homes with twenty duplexes (forty units). This site capacity will allow the Needham Housing Authority to replace the public housing one-for-one and add an affordable and/or market rate component to help fund the redevelopment and provide more housing options. However, site capacity opportunities like this are rare, particularly at the types of developments that are most in need of large-scale, HOPE VI-like interventions.

- Developer Contribution

In most development projects, the developer has some equity at risk. Many nonprofit developers take a deferred development fee in order to reduce a funding gap, so their payment comes out of later cash flow rather than at the time of closing. Enterprise Homes has also had some success with setting aside some fee or rent stream to lower the rent on some low-income units (R. Wilson, developer, interview). By committing to deposit future cash flow to an operating escrow account for a couple of senior developments, Enterprise has been able to add a handful of units affordable to households with incomes below 30% of area median income. However, this can only work in some markets, and either the developer must be either mission-driven/politically inclined or the market must be strong enough in order for the developer to sacrifice that income.

- Surplus Land Proceeds

Some PHAs are selling some of their excess land and using the proceeds to fund redevelopment at other sites. While this is not a sustainable strategy, and many PHAs are fundamentally opposed to this approach, there may be particular opportunities that make sense. The Fort Worth Housing Authority took advantage of an economic opportunity to sell one of their developments to the headquarters of Radio Shack for \$20 million. That \$20 million is going towards one-for-one replacement of those units on a

combination of new construction and acquisition projects.¹⁸ These will all become mixed-income communities in a variety of locations in Fort Worth, including high-income areas. Mike Wilson confirmed that the Atlanta Housing Authority is also evaluating their portfolio strategically. In some cases, properties might be better sold to a private developer. The PHA would use the proceeds to reposition another community or rebuild elsewhere (M. Wilson, Atlanta Housing Authority, interview). They also may consider landbanking some sites, by demolishing and holding them until the right time to redevelop.

BRIDGE Housing Corporation is also looking at a deal in which a PHA might consolidate its public housing units in one portion of a site and sell another portion of the site to generate funds to redevelop the public housing. This is a financial possibility in a high-cost area where land is increasingly valuable, but it is not ideal within the post-HOPE VI model if deconcentration of poverty continues to be an important goal.

The Community Builders is taking this opportunistic view of property to the next step and is acquiring property in areas likely to improve (Clancy, 2006). The Community Builders is taking this approach in one particular city, and others are pursuing this strategy in New York.

PHAs and their developer partners are thinking creatively about ways to capture the future value of their investments in order to facilitate project feasibility. They are considering a wide variety of entrepreneurial strategies to utilize the future value of the property to obtain more funds upfront. Unfortunately, these tools are often risky, and the results are indeterminate. Future property values are difficult to predict, and though evidence shows HOPE VI projects have had largely positive effects on their surrounding neighborhoods and housing/commercial markets, the extent of property value appreciation is uncertain. However, housing authorities, with the help of their developer partners, have evidently learned from their HOPE VI forays into the private real estate market and are attempting to translate this knowledge into opportunities for their public housing assets.

¹⁸ When HUD approved the disposition of Ripley Arnold, it was made clear that Fort Worth would not be permitted to use any other HUD funds for the replacement projects.

3.3 Without HOPE VI: No Silver Bullet

Many housing authorities are managing to cobble together funding for “post-HOPE VI” projects—but the number of sources (and paperwork, bureaucracy, and complexity) per project is going up. As Tracy Sanchez from the City of Chicago described the assembly of funds for redevelopment projects—funding sources include “everything including the kitchen sink.” Innovative housing authorities and their partners are restructuring and rearranging their capital and operating funds, applying to as many affordable housing funding programs as possible, and with some small success, capitalizing on the increase in property value resulting from revitalization through cross-subsidy or TIF programs. However, there is no single way of solving “how to do ‘HOPE VI’ without HOPE VI funds.”

It is notable that HOPE VI has not been a silver bullet either. Projects that have had the luxury of a HOPE VI grant have also been difficult to assemble, and HOPE VI projects have not been without their own significant problems. But without HOPE VI or another “soft” funding source, projects will be even more difficult. Development budgets are getting tighter and feasible opportunities to redevelop, particularly in weak market areas where many pipeline redevelopment projects are likely located, are becoming more limited.

What is also clear from interviews with those close to the HOPE VI development process is that housing authorities and their partners have learned from their direct experience with the HOPE VI development process. Further, those that didn’t win HOPE VI funding are being guided by a HUD with capacity and expertise gained from implementing HOPE VI.¹⁹

It is important to recognize that the tools that housing authorities are accessing—whether through competitive applications for popular affordable housing development funding sources, whether through innovative restructuring of their existing sources, or by taking on risk and using the private market—are not tools that PHAs would have been using pre-HOPE VI. At that time, PHAs relied much more simply on their HUD subsidies. PHAs have gained vision and capacity through public housing reform and the evolution of HOPE VI, and the current incentive...necessity.

¹⁹ Another resource is the Local Initiatives Support Corporation’s (LISC) Housing Authority Resource Center (HARC). HARC builds development capacity within housing authorities and connects them with community developers who may be appropriate partners.

Lenders and consultants who work with a variety of PHAs indicated a current of anxiety that has been driving some PHAs' entrepreneurial aspirations. "When they've been going on six straight years of cuts [by Congress], the public housing authorities feel they need to find alternative revenue sources," said Eileen Neely at Fannie Mae. PHAs are getting into the business of redevelopment because they don't want the "financial drain of low-performing sites that will cause trouble down the line"; they are looking for "ways to generate income and supplant the loss of funds from HUD," and developing market-rate units as part of mixed-income housing is one way of doing that (Epp, consultant, interview). A lender to Massachusetts housing authorities confirmed the impression that housing authorities are becoming more innovative out of an organizational need for sustainable rental income as well as a local need to provide more affordable housing (Farrell, lender, interview).

In spite of these promising signs, PHAs' creativity is limited. However entrepreneurial the PHAs may be, they are inherently constrained by the incomes of the households they serve, and they will require some "seed money" to attract other resources. Testimony from PHAs at the House Committee on Government Reform's Subcommittee on Federalism and the Census's public housing hearings in 2006 make it clear that PHAs' requests for more reliable and more substantial funding are not simply a demand for "easy money." Minutes from a 2001 focus meeting on public housing for the Millennium Housing Commission and a 2005 NAHRO Public Housing Symposium session on redevelopment also confirm an innovative spirit common to PHAs. PHAs are enjoying their new entrepreneurial roles but need some help to allow them to leverage opportunities as best as possible. A lack of HOPE VI on top of consistent underfunding limits PHAs' abilities to implement their creative ideas in conjunction with private partners.

Chapter Four

Challenges Facing Post-HOPE VI Projects

It appears that many of the goals of HOPE VI are being considered for replication in post-HOPE VI projects. Housing authorities with HOPE VI projects have learned from their experiences and have been shaped by these processes. HOPE VI projects have been difficult to assemble and implement because of their ambitious plans; post-HOPE VI projects face even more challenges as housing authorities and their partners endeavor to replicate the successes of HOPE VI without the funds associated with the HOPE VI ambitions. One developer speculated that without HOPE VI, redevelopment efforts will “look the same, just less affordable” (R. Wilson, developer, interview). However, these post-HOPE VI projects are facing a number of challenges in (a) addressing HOPE VI goals, (b) locating adequate financing, (c) dealing with the market and state/local support, and (d) resolving a number of policy challenges that exist.

4.1 Challenges of Pursuing HOPE VI Goals

Most post-HOPE VI projects appear to be missing some crucial element of the goals of HOPE VI. Some claim that they are “meeting their local needs” through tailoring these post-HOPE VI projects, but it seems that a lack of HOPE VI funds has also contributed to their inability to address all HOPE VI goals. Some PHAs are focusing on their most severely distressed developments, others are using a more broad approach to address their entire portfolios. Most projects or approaches are unable to incorporate mixed-income, new construction, and resident services every time. As a result, much of the holistic approach of HOPE VI may be lost in spite of the assiduous efforts of these housing authorities. A few examples of current housing authority efforts illustrate how these post-HOPE VI strategies are often missing a crucial element of HOPE VI, and those that do have comprehensive ambitions are not yet financially feasible.

- Significant Modernization

At Springwood Apartments the King County Housing Authority is considering a major modernization project but cannot afford to do wholesale redevelopment. Tax credit equity, tax-exempt bonds, RHF funds, and Section 8 would fund the significant renovation required. While the project would utilize a complex mixed-finance structure, it would likely not be able to incorporate many of the HOPE VI goals for which the housing authority aimed at its Greenbridge HOPE VI project. The redeveloped property will not

be mixed-use or mixed-income, because it is not located in a viable location, and it would be too expensive to create the amenities necessary to make market-rate component viable.

- Comprehensive Physical Redevelopment

With three HOPE VI projects completed, the Boston Housing Authority is planning a redevelopment of the Franklin Hill public housing development in Dorchester. Though it will include demolition of 366 public housing units and new construction of 301 replacement public housing rental units and up to fifty for-sale units available to households at 80% and 100% of area median income, Franklin Hill will not include any market-rate units. Deborah Morse at the Boston Housing Authority acknowledged the potential risks associated with the rebuilding of a 100% low-income community on the site, but given the tight housing market in Boston and the desperate need for affordable housing units, she feels that this decision is the correct one. All residents living in the development prior to demolition have the right to return without additional lease requirements as long as they are in compliance with their lease. Unfortunately, limited funding will not allow for supportive services beyond a monthly newsletter and relocation services.

- Post-HOPE VI

In San Francisco's predominantly African-American Bayview Hunters Point neighborhood, a 267-unit public housing development called Hunters View has been rejected for HOPE VI funding three times. In 2003, the San Francisco Housing Authority released an open-ended Request for Qualifications (RFQ) for eighteen of their sites, including Hunters View. About a dozen developers responded to the RFQ on a variety of sites, but no steps were initially taken to follow through. The San Francisco Housing Authority began negotiating with the John Stewart Company in 2004 to do a "HOPE SF" project, as the authority's executive director called it, at Hunters View. Located on 20 acres of land on the hills overlooking San Francisco Bay, there is capacity at the site to support increased density, and San Francisco has a very strong housing market, though the Bayview Hunters Point area is one of the last "ungentrified" neighborhoods in the city. With no Section 8 available, no HOPE VI funds, increasing construction costs, and an aging infrastructure and roads that will require wholesale reconfiguration, the John Stewart Company and the San Francisco Housing Authority have a large funding gap to fill. In addition, the housing authority has committed to replacing the public housing units one-for-one, wants to increase affordable housing, and hopes to generate income that

will help support the rest of the portfolio. The developer is currently taking a rigorous look at all the financing options available, including soliciting foundations for grants and PRIs to fund predevelopment.

HOPE VI Goal/Policy	Post-HOPE VI Project Examples		
	King County Housing Authority: Springwood Apartments	Boston Housing Authority: Franklin Hill	San Francisco Housing Authority: Hunters View
1. Improving the Living Environment			
Demolition	No	Yes	Yes
Site density reduction	No (same)	Slight	No (increase)
New Urbanist design	No	Yes	Yes
2. Revitalizing sites			
Neighborhood revitalization	No	Not the primary goal	Yes
3. Deconcentrating Poverty			
Mixed-income (incl. market rate)	No	No	Yes
4. Building Sustainable Communities			
Supportive services	?	No	Yes
Resident involvement	?	Yes	Yes
Building partnerships	No	Yes	Yes
Leveraged funding	Yes	Yes	Yes
Mixed-finance	Yes	Yes	Yes
Reforms to PH mgmt	No	Yes	?
Feasibility Status	Preliminary feasibility	Preliminary feasibility	Not yet feasible

Table 4.1: Post HOPE VI Project Examples

HOPE VI projects are providing models for leveraged financing, partnerships with developers and local officials, and the broad vision of neighborhood revitalization that can result from major physical improvements to a site. It is evident that PHAs are looking to their HOPE VI projects as models for future redevelopment but are having limited success replicating all the pieces. One housing authority representative explained, “HOPE VI projects without HOPE VI aren’t really HOPE VI projects because you don’t have the ‘extra’ HOPE VI money for CSS [community and supportive services], relocation and demolition/remediation” (Galka, Oakland Housing Authority, email). If it does not win HOPE VI funding under the current NOFA, the project she is considering will not have a budget for supportive services, won’t replace the public housing units one-for-one, and will have a large financing gap that tax credits alone won’t solve.

4.2 Financing Challenges

One of the most important aspects of HOPE VI is the “soft” nature of HOPE VI funding. As HOPE VI funds are granted rather than loaned to projects, PHAs do not need to repay them or pay interest. The HOPE VI funds also come with more flexibility than many other housing development funds. HOPE VI funds can be used not only for capital costs related to new construction, significant rehabilitation, and other physical improvements but also can be used for relocation, supportive services, demolition, and acquisition. HOPE VI funds, unlike other public housing funds, can be used on homeownership projects. HOPE VI funds can also help with needs that occur before the construction period, unlike some sources of funding that only become available at the time of the construction closing or permanent loan closing.

4.2.1 Relocation

Relocation is one of the most challenging aspects facing post-HOPE VI projects as well as HOPE VI projects. Many early HOPE VI projects did not pay sufficient attention to the relocation process. In some cases, residents were not effectively tracked during the redevelopment process so were not given the opportunity to return to the new development. In other cases, residents were not given sufficient guidance on how to negotiate the private rental market, and vouchers proved ineffective in some tight housing markets.

The public housing community has learned lessons from its early errors, and it now has the expertise to implement relocation services in a more conscientious manner. However, post-HOPE VI projects face the additional challenge of lacking funds specifically designated or allowed to be used for relocation. HOPE VI funding is one of few federal housing programs not limited to capital expenses. Without it, PHAs have much more limited resources to apply towards an increasingly sensitive issue.

4.2.2 Services

Community and resident services also face a funding challenge when HOPE VI is not involved. Gayle Epp at Abt Associates said that she is not seeing the same attention to and resources for supportive services without HOPE VI. In spite of the acknowledged importance of effective resident services and the current emphasis on resident “self-sufficiency,” there simply aren’t many funding opportunities. Replacement Housing Factor funds and Capital Fund Financing

Program funds are not permitted to be used on supportive services, nor are they available in sufficient quantity to pay for them even if they could. The Boston Housing Authority had significant resident services plans at their three HOPE VI projects; at Franklin Hill, where they are attempting large-scale redevelopment without HOPE VI, they simply cannot afford to do so.

While in theory redevelopment may afford the PHA the future ability to raise additional income through development fees, cash flow, profit from sales of ownership units, and reduced maintenance costs for new units, PHAs cannot necessarily allot funds upfront for significant services when their budgets are so tight (Heeger, consultant, interview). Foundations may be the most likely source of funds for services. In addition, many public housing authorities have established working relationships with social service providers and may be able to find alternative ways of financing those services. Abt Associates studied whether housing authorities with HOPE VI had sustainability plans for their services, since HOPE VI funds are simply an upfront grant, not an ongoing subsidy for services over time (Parkes and Wood, 2001). While the results of that study are encouraging—PHAs are looking at strategies to obtain future funding for services, including endowments, special events, grant-writing, rental income and fees, service handoffs, space-for-service swaps, in-kind services, partnerships, MTW flexibility, tax credit set-asides—post-HOPE VI projects that lack the start-up funds for services are less likely to reach that point.

4.2.3 Demolition/Infrastructure

Demolition and infrastructure are also a particular challenge for post-HOPE VI projects for reasons of scale and timing. As one of the aims of HOPE VI is to demolish obsolete and severely distressed public housing, HOPE VI funds were specifically permitted to be used for demolition. In HOPE VI and HOPE VI-like projects, the costs of demolition and infrastructure are enormous, particularly when campuses of high-rises are being transformed into small-scale neighborhoods (Sanchez, city of Chicago, interview). Streets, utilities, stormwater drains, and streetscape work have significant costs and do not generate income. In addition, demolition and infrastructure usually has to be built and funded before construction of the housing begins. The timing of many funding sources is often not compatible with the timing of demolition and infrastructure construction. Housing authorities will often look to cities to fund infrastructure using TIFs or their governmental bonding ability. At Tasker Homes in Philadelphia, the housing authority is ultimately planning to get reimbursed for \$13 million in infrastructure costs it funded upfront.

4.2.4 Homeownership

A homeownership component is also more difficult to integrate into a post-HOPE VI project than into a HOPE VI project. Many HOPE VI projects include both rental phases and for-sale phases. The construction of homeownership units is a permitted use of HOPE VI funds and an effort to accommodate the needs of a mix of households. Unfortunately, according to some, it is now rare to see homeownership on a non-HOPE VI deal (Epp, consultant, interview). Capital Fund money is effectively barred from being used on for-sale units since it cannot be used on homeownership units unless the unit is a rental unit first, and Replacement Housing Factor funds are restricted to public housing rental units. A few PHAs have used Section 8 for homeownership units through the Homeownership Voucher Assistance program, but Section 8 does not provide enough subsidy in most markets to make the project viable. As mentioned earlier, it is also difficult, or at least risky, to include homeownership if looking to cross-subsidy to make it work. Some projects have been able to do this, but pricing and timing have been essential to making the market-rate ownership units feasible enough to fund affordable ownership units as well.

The reality of financing unfortunately becomes the focus of many housing authority efforts, since without it, nothing else can move forward. However, there are many other challenges to attempting to continue in the tradition of HOPE VI. Challenges like market conditions and gaining the support of state and local government are present with HOPE VI projects as well but are further aggravated without the extra push that HOPE VI offers.

4.3 Market Conditions

Market conditions, as in all real estate development projects, determine the course of a public housing redevelopment project. For mixed-income projects where cross-subsidy is being contemplated, the market conditions are particularly key. HOPE VI funds have made some public housing redevelopment projects in weak market areas feasible. Without HOPE VI funds, projects in strong market areas may be able to use mixed-income cross-subsidy and some increased density to make a project financially feasible. However, public housing redevelopment projects in weak market areas without HOPE VI are constrained in their ability to make the mixed-income aspect of HOPE VI viable. Unfortunately, many of the next round of

candidates for redevelopment are likely located in weaker market areas than those chosen for HOPE VI.²⁰

4.4 Importance of State/Local Support

HOPE VI has required a tremendous amount of cooperation among local officials, public housing authorities, and other stakeholders. In fact, in many cases, HOPE VI has been the catalyst that created partnerships that continue to contribute to communities even after construction completion. Without HOPE VI, state and local backing are even more important, since housing authorities need even more support from localities if their post-HOPE VI projects are to work financially or politically. Redevelopment is often a contentious process, so political support and assistance during the approvals process are essential. The financial resources available to local jurisdictions—TIFs, general obligation bonding ability, CDBG and HOME funds—are also that much more crucial to the success of a post-HOPE VI project in the absence of HOPE VI funding (Piper, Chicago Housing Authority, interview).

4.5 Policy Issues

In addition to the financial challenges of post-HOPE VI efforts, the challenges of local market conditions, and the increased importance of state and local support, there are a number of policy challenges related to HOPE VI goals that need to be addressed if the federal government hopes that PHAs will continue to carry out HOPE VI goals.

4.5.1 HUD Capacity & Flexibility

HUD flexibility or lack thereof has long been a challenge to public housing authorities' efforts. In 1992, the National Commission on Severely Distressed Public Housing found that "HUD micromanages PHAs to the extent that there is little flexibility in the public housing program" (NCSDPH, 1992, p. 22). Though HUD staff has gained redevelopment capacity in the fourteen years since that report and there has been a political move towards deregulation, the level of federal regulation still appears to be an influential factor in the redevelopment process. PHAs particularly continue to complain about inflexibility and micromanagement with regard to the use of funds, the layering of funds, and the ability to meet the needs of local markets.

²⁰ Projects that were awarded HOPE VI funds were likely chosen for their ability to meet the definition of "severely distressed public housing" and their location in a housing market that would realistically improve with HOPE VI investment (i.e. the "best" locations have likely already benefited from "creaming").

HUD's increased capacity that resulted from the HOPE VI process is a new asset. Housing authorities have reported that when HUD has been flexible or allowed exceptions to rules and regulations, difficult projects have been able to advance. However, HUD's inflexibility has also been a barrier to many redevelopment projects, stretching out timelines and prohibiting innovative and untested approaches. Housing authorities therefore cannot reliably look to HUD as an ally in their innovative efforts to replicate HOPE VI without HOPE VI funds. Consultants at Duvernay + Brooks also noted that PHAs are moving away from working with HUD on these post-HOPE VI projects, due in part to the difficulties of working with HUD as well as the lack of additional funding availability from HUD.

The importance of flexibility was also noted by many interviewees in the context of the Moving-to-Work (MTW) demonstration program, which offered a limited number of PHAs increased flexibility to design and test new public housing strategies related to resident self-sufficiency, cost efficiency, and increased housing choice. To many, PHAs with MTW status seemed better able to negotiate the territory of public housing redevelopment. Though they acknowledged that the larger sizes and increased capacity of MTW PHAs may play a role, some PHA representatives felt that the flexibility enabled by MTW status was key to their ability to make these projects happen. For example, MTW authorities are permitted to use their operating and capital funds interchangeably and are able to use Section 8 tenant vouchers more flexibly. MTW agencies that merged their funding assistance "viewed their ability to use funds for development as one of the key benefits of merged assistance" (Abravanel et al., 2004, p. 9).

4.5.2 Mixed-Income Approach

HOPE VI's goal to deconcentrate poverty has been implemented using both strategies—through the addition of market-rate or tax credit level units onsite and through the dispersion of public housing residents into higher-income areas.²¹ Mixed-income approaches to public housing are now recognized as "good public policy" by many in the housing field (Epp, consultant, interview). Even if mixed-income is no longer explicitly required of projects, PHAs are likely to continue pursuing this goal for both social and financial reasons. Consultants at Duvernay + Brooks

²¹ In theory, Housing Choice Vouchers allow public housing residents to leave high-poverty neighborhoods with high concentrations of minorities. While that has been true in some cases, some studies have indicated that public housing residents displaced by HOPE VI have not necessarily moved to low-poverty areas, and those that have may still be in predominantly minority neighborhoods (Burton et al., 2002; Popkin et al., 2004).

confirmed that they are typically seeing mixed-income projects at a lower density with fewer public housing units in post-HOPE VI projects as well as HOPE VI projects (Heeger, consultant, interview). Overall, the emphasis on mixed-income means that affordability is decreasing and the number of public housing units is shrinking.

PHAs are building these mixed-income communities to meet both social aims and financial goals. Many interviewees echoed Mike Wilson's statement that the housing authority "believes the concentration of public housing is not a good idea anymore, particularly for families with children" (M. Wilson, Atlanta Housing Authority, interview). The Atlanta Housing Authority has a firm policy that they will not develop projects that are 100 percent public housing. As a result, in a typical redevelopment project of 500 units, the public housing component is typically reduced to 200-250 units, and the remaining residents are relocated using Section 8 vouchers. Other authorities like the Boston Housing Authority have seen mixed-income primarily as a possibility to increase a development's rental income (Morse, Boston Housing Authority, interview). Where mixed-income is not a focus, there is usually either a commitment to one-for-one replacement or there is no market for units for higher-income households.

While originally operating under a one-for-one replacement requirement, HOPE VI projects were exempted in 1995 from that obligation, as it effectively barred redevelopment in many situations. The exemption allowed many projects to go forward. However, many housing advocates and residents have protested the lack of commitment to one-for-one replacement as unfair to existing residents and a net loss to the nation's stock of housing affordable to very low-income households. Consequently, some housing authorities have obligated themselves to one-for-one replacement either for political reasons or because a strong housing market makes public housing even more essential to preserve. After its first three HOPE VI projects, the San Francisco Housing Authority instituted a one-for-one replacement policy under pressure from frustrated residents and local advocates as well as a strong housing market. The Boston Housing Authority views its existing public housing residents as its constituency—neighborhood revitalization is a "nice byproduct" but not a goal of their redevelopment work—and has a strong community of housing advocates keeping an eye on everything they do (Morse, Boston Housing Authority, interview). They are committed to maintaining the supply of public housing in Boston.

Public housing authorities that are committed to the development of mixed-income communities and one-for-one replacement are often hamstrung by this policy conflict. Some authorities, particularly those in states where public housing was originally built at lower densities, are gifted with site capacities that allow room for one-for-one replacement as well as the addition of

market-rate units. Others are not so lucky. The Fort Worth Housing Authority, a PHA committed to both goals, is replacing 268 public housing units from the now-demolished Ripley Arnold at four different sites around Fort Worth. Their board has dictated that public housing units should comprise less than 20 percent of a site; this implies that the housing authority will need to build or acquire 1,340 units to make this possible. Market absorption of the market-rate and even tax credit units will take time, slowing replacement of the public housing units. Similarly, King County's approach to redevelopment in Washington state given its commitment to one-for-one replacement and deconcentration obliges them to deconcentrate at the original site and move some "hard" units of public housing to other locations.

While the federal government's policy clearly prescribes deconcentration and the development of mixed-income communities, political realities and strong local housing markets in many parts of the country may make it difficult to implement if it comes at the cost of deeply affordable units. This conflict may affect redevelopment timelines and project feasibility in a significant way.

4.5.3 Availability of Tax credits

Many developers and public housing authorities stated that the limited availability of tax credits was frequently a barrier to redeveloping public housing. Inarguably the most important financing source for all types of affordable housing development, 9% tax credits are allocated through a competitive process that funds only one in every two or three applications. Projects frequently have to apply in multiple rounds before receiving an allocation, extending project timelines. Further, the limitation on the number of applications per owner entity per round often limits a PHA's capacity to redevelop multiple projects simultaneously. While 4% tax credits are unlimited, they are paired with tax-exempt bonds that are competitively allocated by the state. With limited resources for affordable housing in general, public housing redevelopment is only one of many contenders for tax credit equity.

4.5.4 Reliability of Federal Funds

Unfortunately, HOPE VI is not the only federal funding program at risk. Future federal funding in all dimensions—competitive and formula-based, new construction and rehab, upfront and ongoing—appears to be in question, but long-term rental housing opportunities are particularly vulnerable. Capital Funds and Operating Funds are already funded at levels below the needs of public housing authorities, and future support is uncertain. Congress has threatened to cut or restructure Section 8 for a number of years, allowing only for incremental increases necessary

for tenant-protection vouchers. HOME funds have been redirected toward minority homeownership and supportive housing for the chronically homeless, and it was recently proposed to shift the CDBG program and others to the Department of Commerce.

Uncertainty of future federal commitment not only makes reliance on federal funds questionable for PHAs themselves. Private sector partners are also seeking reassurance or insurance that their reliance on future federal funding will not go awry. For instance, tax credit investors, nervous that public housing subsidies will disappear, typically require three years of operating subsidy projected for all units set aside as a reserve. For large projects, this can mean capitalizing a reserve in the millions of dollars and can determine the feasibility of a project. While there are means to address this—convincing the investors to waive the reserve requirement, getting a PHA commitment to provide vouchers if operating subsidy were to disappear, calculating a smaller subsidy amount using average monthly turnover to more aggressively estimate how long it would take to convert the public housing to market rents through natural turnover—this is a challenge that adds yet another layer of complexity to a project (Piper, Chicago Housing Authority, interview).

Currently, private developers still appear to be interested in partnering with public housing authorities on redevelopment projects. However, without HOPE VI to make projects more viable, they may begin to look elsewhere for other opportunities. Some community-minded private developers are continuing to look for mixed-income redevelopment opportunities but may not focus on public housing deals if HOPE VI is not there to make them viable. Enterprise Homes is beginning to hone in on FHA foreclosed properties as mixed-income redevelopment opportunities. McCormack Baron Salazar is working on some mixed-finance redevelopment projects right now—none of which are public housing development on public housing sites save one—but none yet are in the ground. The one exception will use tax-exempt bonds, tax credits, and the operating subsidy from the older buildings to replace an elderly public housing development with new elderly public housing. As mentioned earlier, other housing authorities like the San Francisco Housing Authority, the Boston Housing Authority, and the Sarasota Housing Authority are looking at post-HOPE VI projects, but many have yet to be determined to be financially feasible. If sufficient returns look uncertain, there is a strong risk that fewer developers will get involved with public housing redevelopment projects.

The challenges facing post-HOPE VI projects are complex and potentially surmountable on a project-by-project basis, given sufficient staff dedication and capacity, local political will, and a viable market. However, the long-term outlook for post-HOPE VI projects without some federal

infusion of energy and resources is not rosy. Given the difficulties that housing authorities are encountering as they try to assemble sufficient resources to accomplish multiple goals, it appears that the large-scale ambitions of HOPE VI may not be possible in the same way without large-scale investment.

Chapter Five

Using Public Learning from the HOPE VI Approach

The HOPE VI program has had its critics from both ends of the political spectrum, and many of the issues they have raised have been legitimate problems. At many of the early sites, relocation was poorly implemented—too many existing residents were “lost” during construction, lived in worse conditions at other public housing developments, were unable to find housing with Section 8 vouchers in the private market, and did not return to the redeveloped sites at the expected rate. Public participation processes were not always as open as required. Some residents believe that their homes were not “severely distressed” but were merely located in markets ripe for gentrification.

However, while HOPE VI has had its share of challenges in implementation, it has been an innovative program with successes in a variety of communities. HOPE VI has revitalized disinvested communities and generated private investment in neighborhoods surrounding distressed public housing. It has provided many existing residents with opportunities to live in attractive, improved living environments onsite or to move to other neighborhoods previously out of reach using Section 8 vouchers.

In addition, there has been an enormous amount of “public learning” from HOPE VI. HOPE VI has transformed many larger housing authorities into entrepreneurial organizations with capacity and vision (Corradino and Tran, 2005; Urban Land Institute, 2002). It has fostered and developed relationships between the public sector and private organizations, creating opportunities for the sharing of resources and expertise that have gone beyond specific projects (Urban Land Institute, 2002). Housing authorities have become more connected to city officials and city policies as well as the private market (Popkin et al., 2004; Wexler, 2001). It has inspired innovations in financing that are applicable beyond projects using HOPE VI (Popkin et al., 2004). And HUD has now developed some capacity to guide and advise small and mid-sized housing authorities through mixed-finance redevelopment (Neely, Fannie Mae, interview).

Without funding made available through HOPE VI, it seems clear that PHAs attempting to carry out some or all of the goals of HOPE VI are constrained. PHAs are continuing to fight to make these projects financially viable, accumulating funds through both standard and creative financing tools. The projects that are possible without HOPE VI are often missing aspects that made HOPE VI projects innovative and transformative—some are merely modernization efforts,

others are not mixed-income, most cannot afford to provide significant supportive services to existing residents. Some of these decisions are driven by the actual needs of the locality or the particular development—more often they are driven by financial reality. On the bright side, however, public housing authorities are demonstrating their ability to think “outside the box” and build on the tools they gained through the HOPE VI experience.

5.1 What was learned from HOPE VI?

Given the extraordinary lengths to which housing authorities are going to replicate HOPE VI, HOPE VI’s overall approach appears to have been worthwhile even if the implementation was not perfect. Public housing authorities and HUD have learned a tremendous amount from the process of making HOPE VI work. Their attempts to replicate the process and results without HOPE VI also are instructive. Some of the lessons learned include:

- The ambitious HOPE VI approach is worthwhile
- Resident concerns need more attention
- Housing authorities can learn to be innovative
- Public/private partnerships can work
- Public funds can be leveraged
- But HOPE VI is key “seed money” that is hard to replace

5.1.1 Lesson 1: The ambitious HOPE VI approach is worthwhile

HOPE VI goals were ambitious and complex, so it is not surprising that many think it attempted to do too much. However, the holistic approach and big ambitions were key to its successes in many neighborhoods. Pat Clancy, president of The Community Builders, claims that “bold visions of neighborhood revitalization” are necessary to creating the kind of dramatic change of which HOPE VI is capable (Clancy and Quigley, 2002). To a large degree, the ambitious goal of integrating public housing back into city neighborhoods has been largely successful. The lower-density, New Urbanist neighborhoods built in place of campuses of high-rises or barracks-style buildings have been almost universally acclaimed. Mixed-income development has been widely accepted as “good policy” by most, even if it is not always feasible. Partnerships with other public entities and the private sector have transformed public housing authorities’ approach to redevelopment, not only through mixed-finance development but also through seeing public housing redevelopment as both a neighborhood opportunity and a real estate opportunity. The recognition that creating change is complex, lengthy, and difficult is important,

but it should not mean that “bold visions” are not worthwhile pursuits that can improve the lives of both existing public housing residents and their neighbors.

5.1.2 Lesson 2: Resident concerns need more attention

The most legitimate and serious concerns with HOPE VI have been primarily related to poor implementation and insufficient consideration of resident concerns. Numerous studies have documented the need for closer attention to issues like resident participation processes, relocation support, reoccupancy opportunities, and other services for residents. If, after all, HOPE VI is intended to address resident needs as well as revitalize distressed sites, significant thought and resources ought to be dedicated to ensuring that their needs, both social and physical, are met.

5.1.3 Lesson 3: Housing authorities can learn to be innovative

The last decade has brought substantial changes to housing authorities and the way that they are run. A Fannie Mae lender commented on the “higher quality, higher level of interest, and higher level of expertise” among PHAs that has changed dramatically over the last few years (Neely, Fannie Mae, interview). Though HOPE VI is merely one manifestation of a larger movement of public housing reform, it has transformed many housing authorities’ approach to developing and managing public housing. Further, it can also be argued that HOPE VI has brought public housing into the limelight more than any other program or legislative act ever has or perhaps ever will. Not only housing authorities but also politicians, practitioners and the public have learned about HOPE VI’s goals of neighborhood revitalization and mixed-income, livable communities. HOPE VI and mixed-finance development have attracted the private sector into the public housing redevelopment process, and the focus on private orientation has also shifted public housing management towards employing the private sector’s asset-based or project-based accounting and budgeting practices.

Housing authorities have also begun to be more strategic about their portfolios. Many PHAs are going beyond looking at one project at a time to thinking more broadly about addressing the needs of their portfolios using the HOPE VI approach. Two well-known examples are the Chicago Housing Authority and the Atlanta Housing Authority, two formerly troubled PHAs that took advantage of HOPE VI opportunities that served as models for the remainder of their inventories as well as other housing authorities around the country.

- Chicago Housing Authority

As mentioned earlier, the Chicago Housing Authority has a grand plan for redeveloping its portfolio. After five years of being run by HUD, the Chicago Housing Authority was returned to city control in 1999 and gained the flexibility of a Moving-to-Work demonstration agency. The Chicago Housing Authority's "Plan for Transformation" includes plans to build or rehabilitate 25,000 units before 2009, build self-sufficiency among residents, and reform its own administration. All family properties will be redeveloped into mixed-income housing or rehabilitated, and a number of new mixed-income housing developments will include public housing units.

- Atlanta Housing Authority

The Atlanta Housing Authority currently has thirty-three different traditional public housing developments in its portfolio. According to Mike Wilson, the Director of Development, the PHA's goal is to reposition or redevelop all of them from 100% public housing developments into mixed-income developments. With redevelopment of the entire inventory ahead, the PHA would not be able to realistically win HOPE VI funding for all of them even if funding continued to be available.

In particular, housing authorities that had HOPE VI projects have gained tremendous capacity as developers. As a result they are taking on more risk as developers and lenders to projects (Heeger, consultant, email). Now, without the promise of HOPE VI and under threat of continued budget cuts, they are—out of necessity—becoming even more entrepreneurial than ever. The earlier sections that detail their efforts are a good indicator of their resourcefulness and dedication. In anticipation of the day when they receive even less support from HUD, many PHAs are looking for income wherever they can find it—developer fees, cash flow on market-rate and tax credit units, long term lease income, management fees, etc. (Farrell, lender, interview; Heeger, consultant, email). They are looking at their projects with problems—projects that will likely not stand up to asset-based management—and are investigating ways to reposition them so that they will no longer be a drain on the portfolio (Epp, consultant, interview). In essence, they are truly attempting to “go beyond being a recipient of HUD grants to being a supplier of affordable housing” (Neely, Fannie Mae, interview).

While laudable that housing authorities have gotten smarter, gained expertise, and become more entrepreneurial and innovative under constrained circumstances, this is not an argument to continue underfunding them. PHAs need some “soft” funding in order to leverage those funds in the private market and implement creative ideas. Without it, their efforts will be

severely curtailed, and they may lose focus on the public housing residents in a struggle to remain solvent.

Further, HUD has gained capacity from the HOPE VI process. While only a handful of housing authorities were able to take advantage of HOPE VI grants, the process has given HUD expertise in real estate finance and the world outside of the federal government. Without HOPE VI, HUD would likely not be in a position now to encourage and provide guidance to housing authorities interested in mixed-finance development (Neely, Fannie Mae, interview).

Whether HUD can translate its learning from the HOPE VI process into usable capacity with smaller or more troubled housing authorities remains to be seen. This will depend on HUD's staff capacity to spend time with PHAs on their projects as well as HUD's willingness to give the latitude necessary for PHAs to make redevelopments work in their local markets and political contexts. The Sarasota Housing Authority in Florida is planning to redevelop four of its public housing developments in a comprehensive HOPE VI-like fashion. A troubled housing authority, it was recently taken over by HUD. However, it recently released an RFQ soliciting a developer partner and received ten responses, of which five were invited to submit plans. HUD now has capacity to guide public housing authorities through complex redevelopment processes—hopefully it and the developer partner will be able to do so successfully in Sarasota.

5.1.4 Lesson 4: Public-private partnerships can work

One of the most lasting legacies to result from the HOPE VI program is the building of partnerships among public and private sector entities involved in public housing redevelopment (Abt Associates, 2003). Housing authorities and city officials now have better coordinated strategies for neighborhoods. While privatization is by no means a cure-all for government ills, it is also undeniable that private developers and managers have taught their PHA partners something about real estate during the HOPE VI era. These relationships have persisted and will hopefully continue to bear fruit as housing authorities pursue future redevelopment opportunities. As the president of the Public Housing Authorities Directors Association (PHADA) testified before a House subcommittee, “The use of mixed financing packages, the participation of private developers as contractors or partners, and the participation of the banking industry in financing HOPE VI projects has helped many agencies establish broader business relationships with private sector organizations” (Gutzmann, 2006, p. 7).

One complex aspect about HOPE VI—and in many ways one of its strengths—is how it brought together many interests under the same umbrella. While HOPE VI assembled a variety of resources and knowledge that were able to create momentum behind these complex projects, the real question is what will happen when the HOPE VI money disappears. Without the HOPE VI funds as “seed money” and the HOPE VI parameters as a structure for negotiations among stakeholders, will post-HOPE VI projects lose sight of some of the public goals of HOPE VI? A Harvard Law Review article argues that under HOPE VI, the alignment of public and private interests along private sector principles removes the very accountability that privatization is supposed to provide (Harvard Law Review, 2003). In other words, if PHAs are so indoctrinated with the goals of private sector real estate that they forget their public mission, there will be no one left to tend the proverbial public housing “store.” The public housing community has learned a great deal from the private sector, and these projects and partnerships benefit from the combination of public and private resources—public funding, private funds, land, political will, expertise, etc. However, without the HOPE VI aims structuring the partnerships’ efforts, PHAs need to counterbalance private interests and negotiate with their private partners to ensure that the public-spirited goals of HOPE VI remain central to their future ventures.

Despite concerns about how privatization may affect partnerships between the public and private sector in the future, the building of long-term partnerships is undoubtedly a positive thing for communities. Even if it comes with complexities, the presence of numerous stakeholders bodes well for the communities where these bonds have been forged.

5.1.5 Lesson 5: Public money can be leveraged

HOPE VI has “pioneered a major shift in the way public housing is financed” through its development of the mixed-finance model (Popkin et al., 2004, p. 24). Leveraging was one of the National Commission on Severely Distressed Public Housing’s original recommendations, and it has significantly increased over time. Previously, capital needs were subsidized almost wholly out of federal grant funds. According to a U.S. General Accounting Office (GAO) report in 1998, HOPE VI funds still comprised over 50 percent of costs at 51 out of 81 HOPE VI sites. In 1998, \$0.58 was leveraged for every HOPE VI dollar—by 2002, \$2.63 was leveraged for every HOPE VI dollar (GAO, 2002). In 2002, the GAO also reported that 79% of HOPE VI costs were funded by the federal government (including tax credits), 12% of costs were financed by private sources, and 9% came from local governments.

HOPE VI developments have shown and post-HOPE VI developments continue to show how public money can be utilized effectively to attract other funds from the private sector and other sources. Efforts in the post-HOPE VI world, in particular, demonstrate the creativity and resourcefulness of housing authorities and their developer partners.

5.1.6 Lesson 6: HOPE VI was key “seed money” that is hard to replace

In spite of all the positive lessons learned by housing authorities, developers, and HUD over the course of the HOPE VI program, it is evident that it is simply going to be difficult to replicate HOPE VI projects without this “critical seed capital” that does not have to be paid back (Roberts, 2006). Without it, project budgets are tighter, units are less deeply affordable, and redevelopment is less frequently possible. Public housing redevelopment projects will no longer be capable of addressing the human as well as physical needs that exist. As Ron Wilson of Enterprise Homes said, “HOPE VI was a resource that really helped low-income families in distressed neighborhoods...now you’re only going to be able to [focus on] one or the other.”

As current resources barely keep up with existing stock, there is still a need for a funding source or vehicle devoted to development or redevelopment (Epp, interview; Piper, interview). While some might argue that it would be acceptable if the equivalent funds taken from HOPE VI were to go into any housing program accessible to public housing projects, it seems that may be an argument made either out of desperation or from a non-public housing-focused perspective. It is true that the main problem is that the federal government has been systematically underfunding or withdrawing funds across the board, but it also seems that the structuring and targeting of funds to HOPE VI goals and policies has been transformative. It would be wasteful not to build on the lessons learned from the experience. `

One of the major problems with ending HOPE VI is that it is currently the single funding program for development—soft or hard—targeted to public housing. Valerie Piper pointed out that nothing is currently targeted to long-term rental development for poor households. Old development or modernization funds for public housing have been discontinued or rolled into the current funding system.²² Current funding programs like HOME give priority to minority homeownership efforts and supportive housing projects. Tax credits are typically targeted

²² Modernization funds through the formula-based Capital Grants Program (CGP) and the competitive Comprehensive Improvement Assistance Program (CIAP) for smaller PHAs were rolled into the current Capital Fund. Major Reconstruction of Obsolete Projects (MROP) and Public Housing Development funds were also consolidated into the Capital Fund.

higher than the very low-income. Terminating HOPE VI, the only source of funding dedicated to public housing redevelopment, without replacing it with another funding source therefore threatens any and all redevelopment efforts of public housing authorities.

HOPE VI also has been able to play an unusual role as “first money in” according to Sunia Zaterman at the Council of Large Public Housing Authorities (Roberts, 2006). It has attracted additional funding from local and private funding sources to projects. Without HOPE VI and without HOPE VI reform, there is the risk that developers will lose interest in partnering with PHAs (Urban Land Institute, 2002). Private developers are driven by opportunity, and it’s possible that they may begin to look elsewhere if their initial post-HOPE VI efforts are too difficult or unprofitable.

Interviewees expressed a view that the reality is without HOPE VI, fewer units will be redeveloped, it will take a longer time to replace units, and less redevelopment will take place in general. HOPE VI’s goals are ambitious, and it’s unlikely that the post-HOPE VI efforts—however heroic—will be comprehensive enough to reach those goals.

5.2 HOPE VII: Build on Lessons Learned

While some interviewees predict that HOPE VI may outlive the Bush administration because of its bipartisan support, others are more pessimistic. Ron Wilson at Enterprise Homes pointed out that the successful Urban Development Action Grant (UDAG) program under the Carter administration never returned after the Reagan administration killed it. Others used the word “starved” to describe the HOPE VI program at its current funding level.

It was clear from these interviews that proactive housing authorities and their partners want HOPE VI to be continued. Many lauded the “goal of replacing the isolated concentration of poverty that characterizes most public housing sites with stable, mixed-income communities integrated into their neighborhoods & cities” (Heeger, consultant, interview) and found it to be a “good, holistic way of looking at problems. [It’s] not just a real estate thing” (M. Wilson, Atlanta Housing Authority, interview).

Ending HOPE VI without a replacement program means that housing authorities and others interested in public housing will not be able to build on the lessons learned during HOPE VI in the most effective way possible. They will be so focused on making projects financially viable

that they will be unable to give sufficient attention to the important aims and lessons learned from HOPE VI.

Reforming and continuing HOPE VI or creating a “HOPE VII” may be an opportunity to apply the lessons of HOPE VI not only to those distressed developments not reached by HOPE VI but also to the rest of housing authority’s portfolios. Based on interviews with stakeholders, the following recommendations to create a “HOPE VII” program provide the essential steps needed to build on the knowledge and capacity gained over the last fourteen years to make future public housing redevelopment as effective as possible.

Building on lessons learned from HOPE VI and current post-HOPE VI efforts, a HOPE VII program would:

- Maintain the holistic approach of HOPE VI and its goals
- Target a new set of needs (“distressed” public housing and smaller PHAs) as well as continue addressing remaining “severely distressed” properties
- Increase PHA flexibility to allow them to build on their new expertise
- Provide seed capital to be leveraged

5.2.1 Maintain the holistic approach of HOPE VI

The holistic approach to public housing redevelopment and neighborhood revitalization should be continued. While this is inevitably a difficult task, the goals of HOPE VI are worthwhile and valuable. Limiting a future program to simpler, more attainable goals will not address the more complex issues associated with distressed public housing, nor will it build on the lessons that PHAs and HUD have learned over the course of their experiences with HOPE VI. Stakeholders have learned a great deal about how to make mixed-income housing work, how to design safer, more attractive, more livable places that are integrated with their neighborhoods, how to build on the public housing site opportunity to improve the larger neighborhood, and how to maintain these communities over the long-term. To focus on one aspect or another alone is to lose sight of the larger picture and to lose some of what makes HOPE VI effective. The “bold visions” of HOPE VI are necessary in order for effective partnerships to be built and a strong momentum for change to be created in many of these neighborhoods.

5.2.2 Target a wider range of public housing needs

Unfortunately, in spite of arguments that HOPE VI has “solved the public housing problem,” there is still work to do. While many have spoken about distressed public housing as a solvable issue, and the current administration claims “HOPE VI has accomplished its goals,” public housing has long-term needs that are not being addressed through current funding streams. As a capital asset, public housing is continually depreciating, and there is a significant amount of the stock that has deteriorated since the 1992 National Commission’s final report. The stock will continue to deteriorate unless it is maintained and rehabilitated in the appropriate fashion. Sufficient ongoing funding is needed to preserve public housing’s value as a real estate asset. In addition, since HOPE VI likely redeveloped many of the developments in “better locations,” future redevelopment may face even more significant challenges in the weaker market areas.²³

In addition to the remaining need to address severely distressed public housing that requires HOPE VI-like investment, policymakers need to look beyond “severely distressed” public housing to simply “distressed” public housing to see if there are significant redevelopment needs that might be addressed with modernization and some reconfiguration rather than substantial demolition and rebuilding. A HOPE VII program should offer opportunities to be used on modernization efforts as well as wholesale replacement projects.

In addition, there were many smaller housing authorities that never had the capacity or opportunity to win HOPE VI funding or assemble a mixed-finance development. Another next step for HOPE VII is to assess the needs of these smaller PHAs and help them grow and innovate. Like the bond pools that formed to take advantage of the Capital Fund Financing Program, smaller PHAs and HUD could examine the opportunities that might be created if they pooled their resources.

In sum, there is still significant demand for investment in public housing redevelopment. While HOPE VI addressed many needs in the nation’s supply, there still are:

- Severely distressed public housing developments that were not awarded HOPE VI funds
- Public housing developments that have become severely distressed since the initial count in 1992

²³ Some resident advocates have argued that HOPE VI has demolished projects that did not meet the “severely distressed” definition—instead those projects were selected because they were in markets ripe for gentrification and neighborhood transformation (National Housing Law Project, 2003).

- Public housing developments that have significant needs just short of the definition of “severely distressed”
- Continuing capital needs that are consistently underfunded
- Smaller PHAs/PHAs with less capacity that need significant investment in their portfolios

5.2.3 Increase PHA flexibility

One of the greatest challenges that PHAs face as they strive to develop post-HOPE VI projects in an innovative and entrepreneurial fashion is the lack of flexibility offered by the federal government. Housing authorities cannot count on HUD as an ally in these post-HOPE VI efforts. If the federal government truly is looking to deregulate and withdraw both responsibility and funding from local PHAs, it should offer PHAs the flexibility to make changes and meet their local needs in a manner more like the private sector.

For example, HUD needs to offer more flexibility to combine different subsidy sources. While the desire to limit the amount of federal subsidy that is given to one project is understandable, some regulations seem somewhat arbitrary and limiting. For example, HOPE VI and HOME can be combined on a single project, but capital funds (a common replacement for HOPE VI) cannot be combined with HOME.

Many PHAs also desire the flexibility to deal with particular situations and market conditions that exist in their local area. HOPE VI funds allow somewhat more flexibility than other programs in application and offer opportunities for different solutions in a variety of types of markets. Public housing authorities are significantly constrained in their abilities by government regulation; if they are to fully and effectively utilize private sector tools, they must be given the additional leeway required to navigate their way in the private market.

- Enable increased leveraging

Due to the current government paradigm that promotes the private sector and a market-oriented perspective, public housing authorities have been increasingly encouraged to learn from the private sector and partner with the private sector. “Leveraged financing” has been encouraged by Congress and HOPE VI NOFAs consistently since 1998, in an effort to “impose market discipline” on public housing and reduce the amount of subsidy given to each project.

However, PHAs and their partners have a limited ability to leverage public funds, in part because of federal regulations. Many are seeking new ways to borrow additional private dollars against their public subsidy. Policymakers need to reevaluate HUD's policies to determine whether they are most effectively structured or whether they currently prohibit innovative leveraging possibilities.

Increased leveraging should be enabled by:

- Allowing public housing units to carry debt. Though QHWRRA permitted public housing to be mortgaged, HUD has not yet issued regulations for this.
- Replacing public housing units with long-term project-based Section 8 and allowing the Capital Fund to be used with project-based Section 8
- Making longer-term commitments to Section 8 vouchers, whether project-based (to allow for better loan terms) or tenant-based (to ensure long-term security for tenants)
- Make tax credits more valuable or make more of them available. Some members of the affordable housing industry are advocating for a 12% tax credit. As the tax credit system has a broad base of support, this might be a politically viable option.

One other possible tool is the Public Housing Reinvestment Initiative (PHRI) that the Bush administration proposed in 2004. Under the PHRI, public housing authorities would be able to trade capital and operating funds for vouchers, against which they could borrow and use the underlying property as a pledge and get a smaller debt service coverage ratio (Solomon, 2005). This met the administration's goals of "getting out of the business" of owning public housing and requiring the institution of property-based accounting but would have provided a real tool that public housing authorities could use to finance redevelopment. That same year, the Senate proposed a loan guarantee that would reduce interest costs for public housing authorities. However, neither proposal was passed.

Approaches like these that allow more flexible use of funding and leveraging options would allow PHAs and their partners more opportunities without significantly increasing the amount of subsidy required of the federal government.

- Expect more realistic timeframes

The Bush administration claims that a primary reason for discontinuing HOPE VI is the “backlog in delivery” and the long timelines for project completion. Nearly everyone in community development agrees that HOPE VI projects have been held to an unrealistic timeframe from the very beginning. Ambitious multiple phase projects that hope to transform distressed public housing and revitalize long-neglected neighborhoods don’t work with the 54 month timeframe allowed by HUD. Relocation of existing residents and the arranging of complex financing structures take longer than anyone expected. The Housing Research Foundation found that HOPE VI projects typically took 74 months to complete—20 months over the 54-month limit (Zielenbach, 2003). Unfortunately, post-HOPE VI projects will likely take longer given the additional constraints on resources if HOPE VI or another program is not offered.

If a HOPE VII program is created, the learning from HOPE VI project development should mitigate this to some extent. Housing authorities and their developer partners now have more expertise. Relationships have already been built between the private and public sectors. HUD has learned from the HOPE VI experience and now has increased capacity to advise housing authorities that may not have won HOPE VI funds before. There needs to be an opportunity to take advantage of this increased capacity, but it will require more realistic expectations of timeframe.

Increased flexibility is key not only for PHAs to be able to make their projects work financially but also for them to build on their newfound creativity and entrepreneurial spirit. While they have grown and become resourceful in a constrained environment, they will only thrive if there is enough room for them to expand their visions and take on new challenges and opportunities.

5.2.4 Offer seed capital

In order to build on the successful public-private partnership model tested through HOPE VI, public housing authorities need to have a funding source or asset to contribute to the partnership. Without some source of funding to leverage, it won’t matter how creative or dedicated the PHA is. Their abilities will be extremely limited and their partnering opportunities will shrink.

- Provide “soft” redevelopment funds beyond the Capital Fund

A federal funding program that provides grant funding to public housing authorities on a competitive basis is crucial to building on the experience of HOPE VI. Though some have called the HOPE VI application process an “expensive beauty contest,” stakeholders see the benefit of a competitive process. What most view as a crucial need is a “soft” source beyond the Capital Fund, which is already underfunded. “Soft” funds available through a HOPE VI-like program or through an affordable housing block grant program would fund many of the above-mentioned uses that are difficult to fund (relocation, supportive services, demolition, infrastructure).

Without HOPE VI, public housing authorities are more vigorously pursuing all the “regular” affordable housing funding opportunities like tax credits, tax-exempt bonds, HOME, CDBG, etc. Policymakers need to consider whether they want a separate pot of funds for public housing redevelopment or whether public housing should compete against other affordable housing development projects. While competition for housing funds arguably may improve the quality of those projects that are funded, it seems that public housing has sufficient capital needs for a separate competitive funding stream for public housing development or redevelopment.

- Provide planning grants

Many practitioners have called for the reinstatement of HOPE VI planning grants, which were only available in the first three years of the HOPE VI program. Interviewees think that planning grants would enable public housing authorities to assemble projects that are (a) more inclusive and allow more resident and community participation, (b) better planned and coordinated with local and regional planning processes and plans, and (c) better prepared to submit thoughtful and complete proposals in a competitive process for implementation funding (Epp, consultant, interview; Piper, Chicago Housing Authority, interview; Clancy, 2006). Now that housing authorities, developers, and consultants have more experience and capacity to create redevelopment plans, planning grants would be even more effective than they were in the early years.

Without the above recommendations for “HOPE VII,” PHAs will be unable to keep up with the needs of their portfolios or to pursue innovative redevelopment opportunities. Public housing will deteriorate yet again, private partners will leave the table, and the lessons learned under HOPE VI will have been for naught. While HOPE VI may have met the needs of many of the country’s most distressed developments, and while post-HOPE VI efforts may comprise a

valiant effort to build on HOPE VI learning and continue improvement of public housing—the sources available to PHAs are limited in reach. Bonding capacity through the CFFP can only leverage a certain amount of funds; tax credits are competitive, are already oversubscribed, and are not dedicated to public housing construction or improvement; and RHF funds are limited by the number of units demolished and not replaced. Further, capital funds and operating funds are already underfunded and unreliable.

Despite creativity and resourcefulness currently exhibited in PHAs' extraordinary efforts, without renewed commitment, flexibility, and resources from the federal government, PHAs will not be able to keep up with the needs of their aging portfolios or assist low-income residents toward self-sufficiency. If the federal government is interested in allowing PHAs to transform public housing developments and their surrounding neighborhoods, it must make a commitment to (a) continue the goals of HOPE VI, (b) meet new needs as well as old, (c) give public housing authorities the flexibility to use private-sector tools, leverage their assets, and meet their local needs and market conditions, and (d) provide soft funds that can be leveraged in the private market. PHAs have learned how to be innovative from the HOPE VI program and their partnerships with developers, but without support from the federal government, private developers and partners will lose interest, and PHAs will have no ability to maximize the use and effectiveness of these tools.

Conclusion

The Demise of HOPE VI: Throwing the Baby Out with the Bathwater?

Over the course of the last decade, as a result of HOPE VI and related public housing reforms, public housing authorities have become more innovative and more entrepreneurial. Public-private partnerships have successfully brought resources and expertise to development projects. Early mistakes regarding resident concerns have brought increased attention to resident relocation and reoccupancy issues. Federal money has successfully leveraged private and local funds in the revitalization of distressed neighborhoods. However, it is also clear that HOPE VI has played a key role; as “soft” “seed money” that often covered difficult-to-fund expenses like relocation and supportive services, HOPE VI will be difficult to replace.

Early indications from efforts to replicate HOPE VI projects through alternative means show that without HOPE VI, fewer neighborhoods will be redeveloped, affordability will not be as deep, and public housing units will be lost. Projects will be more difficult to assemble and will not have the luxury of addressing multi-layered issues holistically. Developers will look elsewhere for simpler, more profitable opportunities. If the federal government hopes for public housing authorities and their partners to continue their redevelopment work and to build on the lessons learned over the last fourteen years, there must be resources for them to leverage.

In an environment of shrinking federal support, the HOPE VI program represented the best of innovative government—it used federal funds as “seed capital” to attract private resources and public attention that could make these large-scale projects possible. Though it hasn’t been perfect, HOPE VI symbolizes what far-reaching results can be accomplished when sufficient attention and resources from both the public and private sector are brought together on important projects. To divest from HOPE VI efforts in the name of government efficiency is to ignore what can be possible with creativity, local commitment, and some critical federal investment.

If HOPE VI—an innovative program that has attracted bipartisan support, deeply involved the private sector, and required PHAs to locate non-federal investment to supplement federal contributions—is not supported by the federal government, what will happen to those programs that are not as glamorous but just as crucial to the wellbeing of our country’s residents? Currently the federal government is trying to eliminate not only HOPE VI but also all of the other

programs that build, maintain, and improve public housing. As capital assets, public housing developments have value that should not be overlooked. As capital assets that depreciate over time, public housing developments also have ongoing maintenance and capital replacement needs that are already being overlooked. A lack of continuing attention and critical investment in public housing was originally responsible for creating the deteriorating and distressed situation that required the intervention of the National Commission on Severely Distressed Public Housing over fifteen years ago. A one-time solution is simply not realistic. While HOPE VI has been critical in turning around many distressed projects, HOPE VI or a replacement program alone is not enough to meet the ongoing needs of the nation's public housing portfolio over time. Sustained commitment to maintaining the value of these properties is needed.

However, HOPE VI provides a model for future investment and attention, perhaps not only for public housing but also for other arenas of government investment. If, by simply providing some limited funding, the federal government can create seeds of opportunity that proactive local public agencies and innovative private partners can leverage to marshal resources from a variety of stakeholders, it seems that it would be a shortsighted and wasteful decision not to invest in a program that can provide so much public learning.

Appendix A
Interviews

Name	Organization	Role
Emily Allison	Duvernay + Brooks	consultant
Richard Baron	McCormack Baron Salazar	for-profit developer
Frederick Blackwell	SF Mayor's Office of Community Devt	city agency
Miles Byrne	Corcoran Jennison Companies	for-profit developer
Margaret Campbell	The John Stewart Company	for-profit developer
Joseph Corcoran	Corcoran Jennison Companies	for-profit developer
Eric Enderlin	NYC Dept. of Housing Preservation & Devt	city agency
Gayle Epp	Abt Associates	consultant
Rita Farrell	Massachusetts Housing Partnership	quasi-state agency
Gregg Fortner	San Francisco Housing Authority	housing authority
Bridget Galka	Oakland Housing Authority	housing authority
Jack Gardner	The John Stewart Company	for-profit developer
Ramon Guajardo	Fort Worth Housing Authority	housing authority
Brian Heeger	Duvernay + Brooks	consultant
Kim McKay	Related Companies of California	for-profit developer
Paul McPartland	Mass. Dept. of Housing & Community Devt	state agency
Deborah Morse	Boston Housing Authority	housing authority
Eileen Neely	Fannie Mae	govt sponsored enterprise
Valerie Piper	formerly with Chicago Housing Authority	housing authority
Jane Roessner	A Decent Place to Live (book)	author
Tracy Sanchez	Chicago Department of Housing	city agency
Dan Watson	King County Housing Authority	housing authority
Mike Wilson	Atlanta Housing Authority	housing authority
Ron Wilson	Enterprise Homes	for-profit developer
Jesse Wu	BRIDGE Housing Corporation	nonprofit developer

Appendix B

Examples of Post-HOPE VI Projects

Project Name	Housing Authority Sponsor	Status
various	Atlanta Housing Authority	Varies
Franklin Hill	Boston Housing Authority	In predevelopment
various	Chicago Housing Authority	Varies
Ripley Arnold	Fort Worth Housing Authority	Some units replaced
Springwood Apts	King County Housing Authority	In predevelopment
Dana Strand	Los Angeles Housing Authority	Under construction
Tassafaronga	Oakland Housing Authority	HOPE VI application
Janie Poe	Sarasota Housing Authority	Not yet viable
Hunters View	San Francisco Housing Authority	Not yet viable

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