

Testimony of
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The Housing Affordability for America Act of 2002

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Subcommittee on Housing and Community Opportunity

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Introduction

Good afternoon, Madam Chairwoman and members of the Subcommittee. My name is Hans Dekker and I am the Executive Vice President of the Baton Rouge Area Foundation. The Baton Rouge Area Foundation is the largest community foundation in Louisiana with over \$200 million in assets. Last year we granted over \$50 million dollars to our area's non-profits. Part of my responsibilities at the Foundation is to direct the Foundation's investment in neighborhood and community revitalization. While I am not a public housing expert, I have worked for the last eight years with the Foundation and prior to that as a program director for the Local Initiatives Support Corporation to revitalize Baton Rouge's most distressed neighborhoods and have seen first hand the need for the significant investments of capital that HOPE VI represents.

Housing Needs

East Baton Rouge parish (county) and many medium-size cities across the nation have real housing needs and as prevalent distressed housing as large cities. Here are some sad facts about housing and neighborhood conditions in East Baton Rouge Parish:

- Over half the census tracts in East Baton Rouge Parish are classified as low and moderate income;
- Almost all of our inner-city census tracts have a declining population;
- The median household income in the five census tracts that make up the immediate neighborhood around the sites targeted in our HOPE VI applications is between \$4,900 and \$11,000.
- The average net income for residents of the subject units of the East Baton Rouge HOPE VI application is \$3,431; twenty-five percent of the land in the immediate neighborhood is vacant and/or abandoned.

This poverty and abandonment translates directly into high levels of crime and disease concentrated in our most distressed neighborhoods¹:

- For the year 2000, Baton Rouge was ranked 6th in the nation for crime rate;
- The level of violent crimes in Baton Rouge in the year 2000 was twice the national average; and,
- Baton Rouge has the 12th highest AIDS case rate per capita in the nation among major metropolitan areas.

¹ Federal Bureau of Investigation and Centers for Disease Control statistics

Our neighborhood, civic and elected leadership have been working together for years to revitalize our distressed neighborhoods. However, HOPE VI represents the only significant, large source of funding for revitalization. As such, a HOPE VI award could be crucial to our success or failure.

The reforms to the HOPE VI program proposed in HR 3995 are needed and timely. Particularly, I hope Congress will adopt the proposed reforms that would change the program to factor in the size of a proposed project relative to its community and to encourage 'representativeness with regard to agency size and geographic location.' I plan today in testimony to illustrate why these and other changes are needed. I will also highlight areas where the spirit of the changes will need to be followed through in the Department of Housing and Urban Development's (HUD) implementation of the program.

Baton Rouge HOPE VI Experience

The East Baton Rouge Public Housing Authority has applied for a HOPE VI grant in each of the last three years. They have never received a grant award. *These applications were not afterthoughts; they represented a significant commitment of housing authority and community resources.* Each year the housing authority has devoted a significant commitment of its unrestricted resources to its applications. Furthermore, each year they have organized significant community involvement in their application. Last year as a result of the housing authority's application efforts the Baton Rouge community committed over \$61 million to match the anticipated HOPE VI grant. These repeated applications have created expectations among the residents of the complexes and neighborhoods that were targeted as well as the civic and governmental leadership in Baton Rouge. Needless to say any applicant would be disappointed if its grant application was not approved. *However, Baton Rouge believes that there are inherent biases against small and medium sized cities and their housing authorities in the current HOPE VI program that have made our past attempts largely futile. Furthermore to apply again without a more level playing field would only continue to create false expectations among our neediest citizens and neighborhoods.*

Although HOPE VI is changing the face of America's public housing, it could be even more effective when unleashed in smaller communities where proportionate numbers of communities and families are in need. One of the key goals of the HOPE VI program is to reduce our nation's stock of distressed public housing units. In fact, in each of the three HUD reviews of East Baton Rouge HOPE VI applications, they were awarded the maximum points for the distressed nature of the units for which they were applying. However, because of a bias in the allocation of funds towards larger public housing sites and by extension large cities, the distressed nature of sites is overwhelmed in the scoring process by the size of the complexes/units.

NOFA Allocation Bias

The 2001 HOPE VI awards exemplify the bias to large cities or public housing sites. Of the \$540 million HOPE VI budget, \$225 million was set aside for projects (i.e., one site, not one agency) with 300 or more units. These applicants were able to effectively compete in two categories, the set aside, and the remaining \$265 million if they were not funded. A smaller applicant like East Baton Rouge with 171 units total between two sites could only compete for the second pool of funds. Furthermore, the competition for this pool is now more competitive because agencies that were not funded from the set-aside are automatically included in the second pool of funds.

The bias manifested itself in the 2001 awards. Only three sites with less than 300 units were funded. The three sites with less than 300 units—Bridgeton, NJ, Hagerstown, MD, and Macon, GA—took just over \$57 million or 11 percent of the HOPE VI revitalization money. Large housing authorities made out well, taking the balance of the funds remaining in this second allocation². Six of the 16 grants went to some of the largest cities in the country – Atlanta, Chicago (2), Boston, Philadelphia and Washington, DC. Eleven out of sixteen grants were to areas with a city center population greater than 300,000. These are Atlanta, Philadelphia, Washington, D.C., St. Louis, Phoenix, Boston, Chicago, Seattle, Tampa and Portland. This accounts for 75 percent of the total funds awarded. Furthermore, four of the major city centers are multiple HOPE VI grant recipients. Atlanta has received a total of four grants, Chicago has received eight, Washington, D.C., has received five and Seattle has received four.

Additionally, housing authorities such as the Housing Authority of St. Louis and the Chicago Housing Authority have troubled histories, both recently appearing on HUD's Troubled Housing Authority List. The Troubled Housing Authority designation is reserved for those housing authorities which have demonstrated an inability to maintain properties, manage resources and manage finances. Yet they continue to receive HOPE VI awards.

The bias against small and medium-sized cities has also been a part of the program throughout its history. According to figures compiled by the National Association of Housing and Redevelopment Officials:

“Of the \$4 billion already invested through FY2000 in HOPE VI, nearly half (47 percent) has been awarded to 13 large housing authorities. But small public housing communities are experiencing deterioration as population and jobs shift, crime worsens, and the economic downturn squeezes local resources.”

HUD designated Troubled Housing Authorities have also received HOPE VI grants throughout the program. For example, the Housing Authority of New

² Data and Analysis from the Housing Research Foundation, Inc.

Orleans, another troubled housing authority, has received two HOPE VI awards while other communities with much better administration and track records have not received any HOPE VI awards. The support for these Troubled Housing Authorities was the initial goal of the HOPE VI program. It has had predictable results with many of the troubled housing authorities being unable to execute their HOPE VI grants successfully.

While it is understandable that resources be devoted to fortify even troubled large housing authorities, I would urge the committee not to overlook the demonstrated needs of smaller housing authorities and consider broad reforms that directly address the selection biases and the allocation disparity they bring about.

Criteria Bias

Specific criteria in the HOPE VI program are also biased against smaller cities. For example, the “Leveraging Resources” factor – the amount of HOPE VI funds requested as compared to other funds committed in the grant application -- is biased against agencies in small and medium sized cities. All applicants heavily rely on many of the same sources for a significant portion of their leveraging, such as federal funds (HOME, CDBG) that come through the city or a housing authority’s own HUD-allocated funds e.g. the capital fund program. But the leverage ratio scoring is based on an actual dollar amount committed and not on a percentage of the allocation of federal funds. By definition, larger cities with larger allocations of federal community development dollars have an ability to provide more absolute dollars. If HOPE VI valued the percentage committed by a local community of its total community development allocations, it would better reflect the level of leverage commitment from the city than the current system. The sources of funds are often from unified sources and can be compared applicant to applicant.

The criteria in the application for community and supportive services (a separate scoring category) count leverage in a similar way and further manifests the bias against small and medium size cities. Again, I hope Congress will consider this bias as it looks toward enacting broad-based reforms.

Unrealistic Leverage Projections Lead to Unequal Distribution

Much of the leverage projections used in grant applications is made up of the sale of yet to be awarded Low Income Housing Tax Credits (LIHTC). In Tennessee for instance, where Nashville has received two HOPE VI awards; Knoxville one; Memphis one (and trying for a second); and Chattanooga one, the LIHTCs to build out their projected deals would consume the entire state allocation for the next six to eight years. Given the extremely competitive demands on tax credits in states it is likely not realistic nor is it good policy to commit that amount of LIHTCs to a State’s HOPE VI awards. Yet these commitments are counted as leverage. Other States with multiple HOPE VI's projects are in similar straits. These projections allow states to remain competitive for HOPE VI awards when other States have received either significantly fewer or no awards.

The Capacity Conundrum

One of the areas for which East Baton Rouge's most recent application lost points is the lack of experience and capacity of our housing authority to implement the HOPE VI program. The HOPE VI program in the past has made it a policy decision to provide awards to some of the most troubled public housing authorities in the nation. Our housing authority is not classified as troubled and has acquired high quality assistance in the preparation of its applications by hiring a developer with a verifiable and successful HOPE VI track record. It planned to acquire high quality assistance in the implementation of grant. It has successfully managed large scale – for its size – HUD modernization grants and has obligated funds in a timely and effective manner as required. *Given the predictable difficulties some of the troubled agencies have had in effectively using their HOPE VI awards, would not a HOPE VI investment in well-run housing authorities – who can acquire top flight assistance -- be a smarter way to provide quality housing and neighborhood revitalization?*

Site Design

The impact of site design and lessening the concentration of poverty are criteria that are often difficult for the smaller agency to meet. The large housing authorities have literally 100's of units at one site - e.g. New Orleans or the Portsmouth, Virginia project, where the HOPE VI program demolished 668 units on 40 acres. Large sites offer enough land to redevelop in a cohesive, "New Urbanist" site style that the HUD reviewers favor. In smaller cities and housing authorities, it is difficult to find land where we can show a similar design impact. Typically, with smaller site applications there is not a larger and contiguous footprint that allows the larger site, larger cities to score higher. Furthermore, additional land is more costly to acquire and develop, than if you have a large public housing site available. However, a scattered site approach can have a very strong impact on a neighborhood as a whole, while equally benefiting the public housing residents.

Consistency in Review and Scoring

As mentioned above the Housing Authority of East Baton Rouge Parish has submitted applications for HOPE VI for the last three years. For the last two years, we have basically had the same team preparing our applications for the same proposed project. The subsequent applications strove to improve on the deficiencies from the prior year submission. Despite this consistency our applications have received substantially different scores year to year in the same categories. If the criteria do not change (as stated in the NOFA and the application) from year to year the housing authority ought to be allowed to come in only to update and improve the areas where it was deficient. For example, in Baton Rouge we lost different points each year on the capacity criteria, even though our answer in 2001 was an amplification of 2000. There were other examples in our applications where HUD made policy decisions at the review table, that changed from year-to-year rather than notifying the applicant how

various criteria would be interpreted. Furthermore the reviewers are not allowed to ask questions to clarify the issues that are simply not understood in the application.

Ability to redress misinterpretations/mistakes in scoring

In previous years, HUD downgraded the East Baton Rouge Housing Authority scores and said that the wrong development cost guidelines were used. This was later proved to be an incorrect statement on their part. However, the points stood as tabulated by the HUD reviewer. It would be appropriate to offer housing authorities an opportunity to address misinterpretations and misconceptions.

Conclusion

The proposed reforms in H.R. 3995 are needed to begin to address allocation disparities in HOPE VI funding. But I would encourage the committee to consider that the problems I have highlighted will not be fully addressed without broader reforms that specifically ensure fairness to small- and medium-sized communities both in the application selection, procedures, and criteria itself and in HUD's commitment that communities of all sizes will be fairly represented in funding assistance.

While poverty is prevalent in all the cities that receive HOPE VI, the current biases are a detriment to some of the most impoverished parts of the country. The South, for instance, typically has the highest poverty rates in the nation, but has smaller numbers of large cities and higher levels of poverty in small-medium sized communities than other parts of the country. Ironically, in some of these small-medium sized communities a better opportunity exists to redevelop a whole neighborhood with a higher overall positive impact on the community -- the smaller size of the community the greater the impact of the projects to the community as a whole. Smaller community size with a relatively high impact HOPE VI project can also work to the benefit of broader goals of reducing poverty and racial segregation. Providing greater opportunities to integrate the entire HOPE VI project within the broad community. In other words, a good HOPE VI project in a small-medium size city is not so apt to get lost within the much larger geographic areas of large cities. It will likely to be more a part of the overall community rather than isolated in an enclave of poverty. And, with that, a greater opportunity for HOPE VI project to yield further redevelopment results as its effect spills over more directly into the adjoining neighborhoods and community as a whole.