Statement of Michael Liu
Assistant Secretary for Public and Indian Housing
U.S. Department of Housing and Urban Development
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Chairman Ney, Congresswoman Waters, thank you for this opportunity to testify before the Subcommittee on Housing and Community Opportunity regarding the HOPE VI program. Secretary Martinez and I appreciate the ongoing support of the Subcommittee in achieving the Department's critical missions.

It is important to recall the origins of HOPE VI to understand where we are today. In 1989, Congressional concern over the highly publicized and notorious conditions in some of the public housing developments in a number of the nation's largest cities led to the formation of the National Commission on Severely Distressed Public Housing. The Commission concluded that 86,000 of the nation's 1.4 million public housing units were severely distressed and in immediate need of revitalization or demolition. The Commission set forth a plan that highlighted deconcentrating poverty where possible, creating mixed-income communities, improving service delivery to public housing residents and addressing the urban blight surrounding public housing developments.

Acting on these findings, Congress created the Urban Revitalization Demonstration program, later named HOPE VI, to be administered by the U.S. Department of Housing and Urban Development (HUD), in 1992. This program was authorized through yearly appropriations acts until 1998, when Section 535 of the Quality Housing and Work Responsibility Act (QHWRA) rewrote Section 24 of the U.S. Housing Act of 1937 to establish a statutory authorization for the HOPE VI program through fiscal year 2002. In the FY 2003 appropriations bill, Congress reauthorized the program through FY 2004.

HUD has awarded $5 billion to revitalize 193 public housing developments. Using these funds, Housing Authorities will demolish 87,000, rehabilitate 10,300 and construct 82,000 units of public housing. HUD has also awarded $293 million in HOPE VI demolition-only grants to 90 housing authorities to fund the demolition of more than 44,000 severely distressed public housing units. Having been provided funds to accomplish its original goal, HOPE VI is at a critical point as it relates to the program's ability to handle current and future housing redevelopment needs. While the program has been successful in creating exemplary public housing communities in cities such as Seattle (WA), Milwaukee (WI) and Denver (CO), many program elements detract from its successes and call into question the program's ability to sustain the future level of redevelopment needed in the public housing program.

From 1993 to 1995, HOPE VI revitalization focused mainly on demolition, reducing density, and renovation and new construction of public housing units. During that same period, Congress repealed the one-for-one replacement requirement. The program also sought to create mixed income communities by expanding the number of public housing residents who were working. In addition, the HOPE VI program supported the efforts of families who wished to relocate to non-impacted neighborhoods using the Housing Choice Voucher Program. These families have now been given the opportunity to remain, on a permanent basis, in these non-impacted neighborhoods.

In the past few years, new tools have emerged as alternative methods for revitalizing distressed public housing and addressing the backlog of capital needs. Bond financing, which has financed $500 million in capital improvements, and property-based initiatives, including the proposed loan guarantee and public housing reinvestment initiatives, have the potential to be applied to a wide range of PHAs, maximize public funds by leveraging private debt for capital improvements and place public housing developments on more sound footing in the long term. ***(Question 1)***

In terms of demolition and providing funds for revitalization, HOPE VI has accomplished its original goal to address the needs of the Nation's most distressed housing stock, as identified by the Commission. The program is now at the point where, if funded beyond fiscal year 2003, it will be moving beyond its original mandate. Moreover, it is evident to us that HOPE VI is not an efficient method for meeting the current and future capital needs of the public housing program. The average cost of building a unit under HOPE VI is $120,000, more than 33 percent greater than the average cost of building a similar unit using the HOME block grant program. Given overall budget constraints, it just doesn't make sense to us to continue funding for this program at the expense of more cost-effective programs to serve the same ends. ***(Question 1)***

While HOPE VI has met its funding and demolition benchmarks, the program has many weaknesses that have limited the program's accomplishments as a tool for public housing redevelopment. The planning and redevelopment process is much slower than expected. The vast majority of new or rehabilitated units are not complete, despite program deadlines, and more than half of the HUD funds allocated to HOPE VI are not expended. The program's ambitious redevelopment goals have led to large, complex grants, which challenge the administrative and management capacity of many PHAs and involve a large amount of community coordination. Finally, the grant award process involves a tremendous amount of time, requires significant HUD and PHA resources, and restricts many PHAs' access to redevelopment funds. ***(Question 1)***

The lack of preparedness or capacity by many PHAs to manage such a complex and multi-faceted redevelopment grant presents another challenge. HOPE VI requires grantees to develop plans, raise funds, gain commitments from community partners and select a developer for physical revitalization. These activities run concurrent with the establishment of a social service network and the relocation of resident families. Handling all of these tasks at the same time has proven challenging to some PHAs that lack experience in these areas or sufficient personnel resources. As a result, not only has the physical redevelopment process been prolonged, but also many residents have been dissatisfied with the level of services and relocation support provided by the PHA. ***(Question 5)***

Delays in HOPE VI redevelopment can be attributed to several programmatic flaws. The ambitious goal of revitalizing not just the public housing development but the surrounding community often requires land acquisition, special permits and zoning and community support—all potentially time consuming activities that lengthen the redevelopment process. Until recently, the application process allowed PHAs to apply at the conception stage of redevelopment planning. Awarding grants this early in the planning process has led to a longer than anticipated post-grant planning period and changes in the original grant design, which contribute to increased costs and, sometimes, community opposition. ***(Question 5)***

The Department has already implemented several measures to address these problems to the extent possible within the limits of the program's basic design. With regard to the competition, the FY 2002 Notice of Funding Availability evidenced a strong interest in funding projects that were ready to go. For example, applicants were required to demonstrate firm financing commitments from partners and site control. With regard to managing the existing portfolio of grants, HUD has streamlined the review process and made grantees more accountable for timely achievement of milestones. ***(Question 5)***

HOPE VI has an inherently long, drawn-out planning and redevelopment process that often frustrates many grantees, residents and community stakeholders. Only 15 of the 165 grants awarded through FY2001 have completed all planned units and only 18 grants are nearing completion (i.e., 80% or more construction completed). HUD has awarded funds for the rehabilitation or construction of more than 85,000 public and non-public housing units. Yet, only approximately 21,000 have been completed. Of the $4.5 billion awarded in HOPE VI Revitalization grants awarded through FY 2001, grantees have only obligated $2.54 billion and expended $2.12 billion. This $2.5 billion backlog of unobligated federal funds in the pipeline represents a large expense in opportunity cost. ***(Question 6)***

Recapturing funds from low-performing or slow-moving projects is a possibility. The Department attempted to recapture the Hollander Ridge grant funds from the City of Baltimore after the housing authority failed to produce an acceptable plan. Subsequent to HUD's notification that the funds would be recaptured, Congress passed legislation allowing the housing authority to retain the grant funds. HUD has also placed housing authorities in default for not proceeding with their plan. Most recently, HUD notified the Detroit Housing Authority it was in default of its Grant Agreement. The housing authority then provided a sound plan for how to proceed. The Department accepted its plan and the housing authority is now making progress. ***(Question 6)***

There are also fundamental problems in how the program was designed and structured. First, in an attempt to fund the worst-case needs, a competitive process creates a perverse incentive to PHAs. Those that have not properly maintained their housing stock receive a higher score. Second, by the very nature of a competition, with arbitrary deadlines for applicants, prospective applicants are inherently encouraged to rush to prepare and submit applications before they are ready to implement their redevelopment plans. Third, the HOPE VI grant application is a highly competitive and complex process that requires a significant contribution of housing authority personnel and financial resources. The application calls for a high level of resident and community involvement, which is needed to achieve a successful development plan.

On average, the applications take several months to prepare and require the PHA to contract with architects, financial planners and grant consultants, as well as identify community partners and leverage funding. However, this happens so early in the planning process, without any guarantee of funding, that many residents and community stakeholders are left disappointed and disenchanted when a grant is not awarded. Finally, the program, by design, has benefited many large PHAs, leaving most medium and small PHAs without access to this resource. Although expensive and cumbersome to carry out, the HOPE VI program has produced successes in some cities. In determining which HOPE VI projects are successes, HUD considers several factors: timely completion of construction, effectiveness of local leadership in keeping the project on track, positive impacts on the surrounding community, mix of unit types and reasonable costs. The revitalization efforts in Columbus (OH), Charlotte (NC), Portsmouth (VA), Milwaukee (WI), Tucson (AZ), Nashville (TN), Louisville (KY) and Denver (CO) are among those that met most of these challenges. ***(Question 7)***

In summary, despite its accomplishments to date and prospectively, the Administration has come to the conclusion that no further funding should be provided for HOPE VI. Rather, limited resources should be directed at more cost-effective approaches to providing new low-income housing. Additional capital resources should be provided to viable public housing projects such as provided for in the Administration's proposed Public Housing Reinvestment Initiative (PHRI).

PHRI

The Committee has also asked me to discuss the relationship between the proposed Public Housing Reinvestment Initiative (PHRI) and HOPE VI. PHRI is intended to provide a financing tool for housing authorities to prevent developments from becoming severely distressed. It's another development tool to assist PHAs in addressing the backlog and accrual needs. ***(Question 2)***

PHRI would leverage private funds for public housing improvements. The budget also proposes $131 million for a partial loan guarantee that would support $1.7 billion in capital improvement loans to public housing agencies (PHAs). The partial loan guarantee authorized along with PHRI will enhance the program's attractiveness to private lenders. Further, PHRI will place public housing developments on a more sound financial footing over the long term, since it requires PHAs and HUD to focus on property-based planning and management. ***(Question 2)***

At current funding levels, PHAs are able to keep up with the capital improvement needs that accrue annually, but have considerably less resources available to deal with their backlog of capital improvement needs. However, if the PHRI were enacted, it would increase the amount of capital available to revitalize and sustain viable projects by $1.7 billion in mortgage financing just in its first year. Given overall constraints on appropriations, to make substantial and timely progress in shoring up the public housing stock, and improving living conditions for residents, enactment of the PHRI is essential. ***(Question 2)***

PHRI will introduce a market test into public housing investment decisions and give PHAs access to private capital when they adopt the same "asset management" principles that are used in private sector real estate finance and management. Rental housing across America is financed and managed on a property-by-property basis – except for public housing. In the current public housing system, PHAs receive grants from HUD that cover all of their properties combined, and they manage their properties accordingly. This system does not demand the same level of management and financial discipline that other owners of rental housing must exercise to be successful. While most PHAs are good managers, many others would benefit from the additional discipline and accountability required when properties must be financed and managed on an individual basis. ***(Question 2)***

PHRI is voluntary. PHAs that choose to participate would receive project-based vouchers from HUD to substitute for existing public housing operating and capital subsidies on a unit-for-unit basis. PHAs could then secure private financing to rehabilitate or replace their aging properties by pledging the revenues from each property to debt repayment. Private lenders already have experience underwriting and lending against rental properties with project-based voucher contracts. Consequently, PHRI should have greater lender acceptance than a program that continued to rely on fluctuating public housing subsidies. Further, the partial loan guarantee authorized as a part of PHRI should significantly enhance lender participation. ***(Question 2)***

Another important benefit of PHRI to PHAs and residents is the significant relief it offers from the complex rules governing the public housing program. Instead, the program generally would be governed by the more flexible and streamlined rules of the current project-based voucher program. ***(Question 2)***

The other topic of discussion here today is Representative Leach's Small Community Main Street Rejuvenation effort. While the Department believes this idea has merit and welcomes further discussion, it addresses a significantly different issue than the basis for the HOPE VI program. The Main Street program is not at all related to the public housing program. If this is the direction in which Congress wishes to move, that is further evidence that it is time to reevaluate the entire HOPE VI program and how Congress and the Department should make funds available for the revitalization of public housing. ***(Question 3)***

While none of the Department's public housing programs are designed to provide assistance solely to small communities for revitalization or redevelopment projects, the Office of Community Planning and Development does administer two programs that include provisions specifically for smaller communities. The State Community Development Block Grant (CDBG) program provides funds to each state for those communities that do not receive an allocation directly from HUD. These funds may be spent on any CDBG-eligible activity and are not solely geared toward redevelopment projects. The HOME program also provides a similar funding structure, but states may fund projects in communities of any size. ***(Question 4)***

In conclusion, the HOPE VI program has achieved its program goal of addressing the nation's most distressed housing, as identified by the National Commission on Severely Distressed Public Housing. While HOPE VI also has been successful at demolition, the program has been less successful at actual construction and redevelopment of these properties. The $3 billion awarded but not yet expended (including the recently awarded FY 2002 grants) evidences that HUD still must accomplish a significant amount of work in the program, without responsibility of additional grant awards. An additional $500 million will be awarded in FY 2003. Overall, the program's administrative and design weaknesses make HOPE VI a less efficient method of revitalizing public housing properties.

Looking forward, HUD must learn from the HOPE VI experience and reevaluate how to deploy its limited resources for public housing redevelopment. This will involve applying these resources to responsive, flexible and accessible redevelopment tools in an effort to address the multi-billion dollar backlog in public housing capital needs that cannot be addressed solely by Capital Fund appropriations.

HOPE VI, given its delays in implementation, high per-unit construction costs, unexpended federal dollars and complex application process may not be the most responsive and productive way to address the universe of capital needs in the public housing program. Therefore, HUD has not proposed a fiscal year 2004 appropriation for the HOPE VI program and instead will focus on aggressively managing the grants currently awarded.Thank you again for this opportunity to testify, and I look forward to responding to any questions you may have.