

# **PROJECT RELIEF: ALLEVIATING FEDERAL SEVERELY DISTRESSED PUBLIC HOUSING**

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## **Preface**

This report was prepared as part of the Capstone Policy Seminar experience at the Pepperdine School of Public Policy. The Seminar, one of the integral parts of the preparation for students receiving the Master of Public Policy degree, provides students with the opportunity to explore a public policy program in depth and to prepare a set of specific recommendations to policy makers to solve the problem. These reports are prepared by a team of 6-8 students over the course of only twelve weeks, providing for an intensive and challenging experience.

The results of the team's analysis is then presented to a panel of experts in a public workshop setting where the student panelists are given the opportunity to interact directly with the policy professionals, not only presenting their findings but engaging in an exchange of ideas and views regarding the specifics of those recommendations. The policy expert panel for this report included Frank W. Cornell, III, president of FWC Realty Services Corporation, Charles Hayes, former CEO of SRO Housing Corporation, and Dr. Charles Van Eaton of the Pepperdine School of Public Policy.

The School of Public Policy would like to thank our students for their hard work and commitment in preparing this policy analysis. We are proud of your achievement.

## **Abstract**

Many Americans wake up everyday in publicly sponsored severely distressed housing units which are not safe and do not meet their basic needs. The conditions of these structures continue to worsen at a rapid rate. In 1989, the United States Congress identified the problem of its aging public housing units and began to address what it would do to alleviate the situation. They sought to find a solution that addresses the needs of the individuals who live in these severely distressed public housing units. America is a nation that has accomplished some of the most spectacular feats of mankind, such as, flying in the air, walking on the moon, and many other things humans thought to be impossible. The question then presents itself, why can the United States Government not adequately provide decent housing to all its citizens who request their assistance? It is time for change at the Federal level as to how we deal with severely distressed public housing. Many of the ideas the policy makers have already created have extremely altruistic intentions, however the failures of these intentions are helping to prolong the problem of effectively providing adequate public housing. It is time for Congress to incorporate a new strategy that intertwines existing policies and new policies to effectively combat this disease that plagues too many Americans.

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## Providing Relief for Residents of Severely Distressed Public Housing

A panel studying housing with high levels of deterioration brought the “uninhabitable living conditions” to light. The panel “documented ... broken elevators that force arthritic or asthmatic residents to climb flights of stairs; trash piling up in broken incinerators; infestations of cockroaches, mice, and rats; and broken plumbing and other major building systems.”<sup>1</sup>

Disconcerting health and safety problems are some of the issues faced by residents of housing units that have fallen into severe disrepair.

In 1989, The National Commission on Severely Distressed Housing defined “severely distressed” public housing (SDPH), as housing which required immediate attention of the federal government. The severely distressed public housing units would further be identified where the physical state of the buildings caused, intensified or reinforced “uninhabitable living conditions, increasing levels of poverty, inadequate and fragmented services reaching only a portion of the residents, institutional abandonment, and location in neighborhoods often as blighted as the sites themselves.”<sup>2</sup> According to the definition of severely distressed public housing, it is not enough that residents suffer through this type of illness-inducing neglect; their surrounding communities must be as “as blighted,” as crime-ridden, as dilapidated “as the sites themselves.”<sup>3</sup>

Despite extensive intervention and federal expenditures, the number of public housing communities that could be classified as severely distressed is still widespread and likely to grow as housing developments age. The Department of Housing and Urban Development’s 2003 report to Congress noted that “distressed public housing continues to be an issue.”<sup>4</sup> At best, the number of communities affected by severely distressed public housing is a large but moving

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<sup>1</sup> Popkin, et al. “HOPE VI Panel Study: Baseline Report,” (Washington D.C.: The Urban Institute, 2002), Section 3-2, 3

<sup>2</sup> Stegman, Michael A., “The Fall and Rise of Public Housing,” pg. 68 (Summer 2002)  
<http://www.cato.org/pubs/regulation/regv25n2/v25n2-11.pdf>.

<sup>3</sup> Stegman, Michael A., “The Fall and Rise of Public Housing,” pg. 68 (Summer 2002)  
<http://www.cato.org/pubs/regulation/regv25n2/v25n2-11.pdf>.

<sup>4</sup> Office of Public and Indian Housing. *HOPE VI Report on Need for Revitalization, Lessons Learned and Reauthorization*. Fiscal Year 2003 Required Appropriations Report. (Washington D.C.: Department of Housing and Urban Development, 2003), 1.

target. While efforts are underway to revitalize specific communities, others continue to live in squalor and the quality of more and more public housing projects decline into a dilapidated state.

While society may not be able to resolve the social, economic and physical issues that necessitate the existence of housing support, the problems imposed upon people and communities by severely distressed public housing units can and must be addressed. The issues are severe, intractable and widespread. The problems are also, by definition, public. The government owns the buildings with the open elevator shafts. The government manages the rat-infested “vertical ghettos” with sewage issues due to poorly maintained plumbing.<sup>5</sup> The government is the public; the public is you and me. Landlords have responsibilities to their tenants, and we have a responsibility to take care of those that live in the most deplorable conditions in this nation.

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<sup>5</sup> Taylor, Tess. “Farewell to the High-Rise: The last days of Chicago’s Robert Taylor Homes”. *Metropolis Magazine*. January 2002. [http://www.metropolismag.com/html/content\\_0102/ob/ob02.html](http://www.metropolismag.com/html/content_0102/ob/ob02.html).

## **Background**

### ***A Brief History of Federal Housing Policy***

Since the late 1930s, the federal government has provided public housing for the working poor and those persons and families who fit within the low-income bracket. However, over time, due to various reasons, these federally provided dwellings deteriorated to decrepit conditions. The idea of public housing has its roots in the Wagner-Steagles Housing Act of 1937. This act, also known as the U.S. Housing Act of 1937, “required that the construction of public housing units be matched by the removal of an equal number of substandard dwellings from the local housing supply.”<sup>6</sup> This meant that federal housing would increase the quality of housing without increasing the quantity. The federal government, in keeping with the rulings of the courts, would provide the money for housing, but the initiative for the housing and the ownership and operation of the housing would be the responsibility of a local entity known as a public housing authority (PHA), appointed by local elected officials.<sup>7</sup>

Since its inception, the public housing debate has been a very hot topic. The conversation was interrupted when the United States’ national security was at stake during World War II, a time in which foreign policy understandably trumped domestic policy. Ironically, it was also the war that redirected congressional attention to the housing debate. Many of the soldiers that returned home from war became beneficiaries to the GI Bill that had been newly signed into legislation by President Franklin Roosevelt. One stipulation of the legislation allowed for the use of housing vouchers toward purchasing a home. Subsequent presidents, including Lyndon Johnson, continued to publicly push for making it accessible for many families to achieve the American dream of homeownership.

### **Public Housing from 1965 to 2004**

President Lyndon Johnson dreamed of creating a *Great Society*, a society in which the federal government would take upon the onerous task of aiding and supporting its citizenry in providing for their basic needs. Johnson’s administration, followed by subsequent presidential administrations, passed various legislations such as the Civil Rights Act of 1964, and the Voting Rights Act of 1965, among many others in hope of allowing disenfranchised communities to

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<sup>6</sup> United States Housing Act of 1937, (Texas Low Income Housing Information Service, 1998) <http://www.texashousing.org/txlihis/phdebate/past5.html>.

<sup>7</sup> *Ibid.*

participate in the American Dream. Besides racial minorities, another community believed to be disenfranchised and thus in need of federal aid was that of the working poor. In 1965, as part of his Great Society initiative, President Lyndon Johnson made the Department of Housing and Urban Development (HUD) a cabinet level office. The mission of HUD “is to increase homeownership, support community development and increase access to affordable housing free from discrimination.”<sup>8</sup>

### **The National Commission on Severely Distressed Public Housing**

By 1989, the National Commission on Severely Distressed Public Housing was named and charged with the task of recommending a National Action Plan to eradicate severely distressed public housing by the 2000.<sup>9</sup> This National Action Plan became known as the Public Housing Reform Act and it defined “severely distressed housing” as units that require reconstruction, redesign or redevelopment. These units are a significant factor in the physical decline of the neighborhood; they are inhabited by low-income families; and they have a high rate of vandalism and crime.<sup>10</sup>

Across the entire nation, almost every city has one or more communities that fit the definition of severely distressed housing. Because these housing units are federally owned, Congress deemed it the responsibility of the federal government to ameliorate the squalor conditions in which American citizens were (and still are) living in.

### **Recommendations by the Commission**

Thus, the Commission recommended that the revitalization of public housing occur on three fronts: physical improvements, management improvements and social and community services to address resident needs.<sup>11</sup> Physical improvements are undertaken by developers, private contractors paid to ‘develop’ a community. Development occurs on various fronts, but for the purpose of our specific analysis, we are referring only to the development of housing units and the communities surrounding them. Management improvements occur by changing the way the

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<sup>8</sup> U.S. Department of Housing and Urban Development Mission, <http://www.hud.gov/library/bookshelf18/hudmission.cfm>.

<sup>9</sup> Popkin, Susan, et al. “An Historical and Baseline Assessment of HOPE VI: Vol. 1 Cross-site Report” (Abt Associates, July 1996) pg. 12. [http://www.huduser.org/publications/pdf/hopevi\\_vol1.pdf](http://www.huduser.org/publications/pdf/hopevi_vol1.pdf).

<sup>10</sup> HOPE VI Guidance, “Glossary of HOPE VI Terms”. November 2001, 13. <http://www.hud.gov/offices/pih/programs/ph/hope6/pubs/glossary.pdf>.

<sup>11</sup> U.S. Department of Housing and Urban Development, HOPE VI—Public and Indian Housing, “What Is HOPE VI?” <http://www.hud.gov/offices/pih/programs/ph/hope6/index.cfm>.

PHA's operate or monitoring them to ensure that they are held accountable for their actions or inactions. In order to address the needs of the residents, they were given access to educational and recreational services, as well as a greater stake in the deliberative process regarding the direction of their homes and communities.

The National Commission on Severely Distressed Public Housing also recommended that Congress authorize a new partnership with all the stakeholders, including but not limited to HUD, PHA's, the private sector, and residents to attract additional resources to the improvement of severely distressed public housing.<sup>12</sup> Each stakeholder is interested in the housing conversation for various reasons. HUD is ultimately responsible for the federal government's allocation, selection and purpose for large public housing subsidies. HUD has the ability to reduce the influence and interaction of the federal government and thus give more responsibility to the local authorities.

Due to their proximity to the people in public housing and thus direct experience with addressing all dimensions of the problem, PHA's are in an ideal position. Thus, they leverage a lot of power. PHA's have a degree of autonomy in the decision-making process and are likely to fight against any attempts to diminish their influence. Under the umbrella of the private sector, the developers, individually and collectively, are a force to be reckoned with. Besides being profit-driven, they are also interested in building modern, efficient, and quality public housing. They are obliged to cooperate with local authorities in regards to following building codes and zoning laws. Offering incentives to developers will further motivate them in creating and improving low-income housing. In addition to HUD, PHA's, and developers, the local city or county government, the loans/mortgage and banking associations, and the residents and potential residents of public housing communities are very important stakeholders.

### ***How it works...***

#### **The Importance of Local Government**

The local city or county government is the liaison between the developers and the people they govern—the residents. The local government is responsible for the welfare of its citizenry. Besides bearing the burden of ensuring the safety of the people in its community via police and fire departments, the local government provides access to infrastructure, utilities, emergency

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<sup>12</sup> Popkin, Susan, et al. "An Historical and Baseline Assessment of HOPE VI: Vol. 1 Cross-site Report" Abt Associates: July 1996, 16. [http://www.huduser.org/publications/pdf/hopevi\\_voll.pdf](http://www.huduser.org/publications/pdf/hopevi_voll.pdf).

services and (affordable) housing. The city or county government sets, collects, and appropriates tax revenue from housing districts. In order to increase its tax base, it is in its best interest to have quality housing that will attract business entrepreneurship to settle within its community. Just as the local government provides the link between the developers and the people, the loans/mortgage and banking associations bridges the financial gap between developers, potential renters or homeowners and the government.

The better educated the residents are about the financial opportunities available to them in terms of housing, the more likely they will opt to live within quality communities. The banks are important not only because they give people access to a better quality of life, but also because they accept government-backed mortgage loans. Arguably, the residents and potential residents of public housing communities are the most important yet least empowered stakeholder. They are in need of affordable, quality housing. Their low economic status often accounts for their high absence on the political radar. However, once they are empowered, they are a formidable stakeholder. All of the stakeholders were instrumental in the Commission's discussion regarding the federal government's role and responsibility in the housing debate. As a result of the recommendations proposed by the National Commission on Severely Distressed Public Housing, the HOPE VI program was established.

### **HOPE VI Program- the Governments' answer to Severely Distressed Public Housing**

The HOPE VI program awards grant money to PHA's for demolition, revitalization, and planning of distressed public housing. Any of the PHA's in the United States and its territories, minus Indian Housing Authorities and those PHA's who offer the Housing Choice Vouchers (Section 8) program, are eligible for the HOPE VI grants. The program offers money in two specific areas: demolition grants and revitalization grants. The demolition grants fund the destruction of severely distressed public housing, relocation of residents who are displaced due to the demolition, and support services for the relocation of those residents. The revitalization grants fund the capital costs of major rehabilitation, new construction and other physical improvements of the public housing units. The revitalization grants also fund the revitalization of severely distressed public housing units, acquisition of sites for off-site construction and community and supportive service programs for public housing residents who may be displaced or relocated because of the revitalization efforts. The program encourages PHA's to seek partnerships with

the private sector and non-profit organizations to create mixed-finance and mixed income affordable housing.<sup>13</sup>

In 1992, Congress began appropriating funds into the HOPE VI program.<sup>14</sup> The Department of Housing and Urban Development (HUD) was charged with implementing and dispersing those funds. From 1992-1999, the HOPE VI program was funded solely by congressional appropriation. Since its birth, the HOPE VI program has awarded 446 grants worth \$5.4 billion to local PHA's for the development of more suitable public housing. Between the years of 1992-2003, there have been 377 HOPE VI revitalization and demolition grants awarded.<sup>15</sup> Approximately \$5 billion has been awarded by Congress to fund the program.<sup>16</sup>

HOPE VI has certainly been active in attempting to deal with the growing problem of severely distressed public housing. However, the weaknesses and problems with HOPE VI lead to the necessity for a new conclusion and a new approach. Despite the amount of money given to HOPE VI programs, severely distressed public housing is still an issue that needs to be addressed adequately, effectively, and quickly.<sup>17</sup>

The first identifiable weakness with HOPE VI is its definition of severely distressed public housing. In the Executive Summary of a report prepared by the National Housing Law Project and others entitled "False Hope: A Critical Assessment of the HOPE VI Public Housing Redevelopment Project" the "loose" definition of HOPE VI was criticized: "It is nearly impossible to determine whether HOPE IV is making meaningful progress towards solving the problem of severely distressed public housing because it is not clear which developments are severely distressed."<sup>18</sup> Lacking a clear definition leads to several detrimental consequences such as not knowing the exact number of severely distressed public housing units and taking drastic

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<sup>13</sup> U.S. Department of Housing and Urban Development, HOPE VI—Public and Indian Housing, "About HOPE VI: Overview" <http://www.hud.gov/offices/pih/programs/ph/hope6/about/>.

<sup>14</sup> The legislation concerning the appropriations of funds for HOPE VI began in 1992, but went through 1993.

<sup>15</sup> U.S. Department of Housing and Urban Development. Budget Proposal, FY 2004. [www.hud.gov/about/budget/fy04/](http://www.hud.gov/about/budget/fy04/).

<sup>16</sup> Department of Housing and Urban Development. Federal Register, Vol.68, No. 203, October 21, 2003. P. 60178. <http://www.hud.gov/offices/pih/programs/ph/hope6/grants/fy03/03hope6nofa.pdf>

<sup>17</sup> Office of Public and Indian Housing. *Fiscal Year 2003 Appropriations Required Report*, HOPE VI Quarterly Report. March 31, 2004.

<sup>18</sup> National Housing Law Project et al. *Executive Summary*, "False Hope: A Critical Assessment of the HOPE VI Public Housing Redevelopment Project". June 2002. <http://www.nhlp.org/html/pubhsg/FalseHOPEExecSumm.pdf>.

measures than are perhaps necessary with those that are labeled severely distressed and dealt with under the current HOPE VI program.<sup>19</sup>

HUD itself has reiterated these ideas as well and, as a result, recommended the pausing of HOPE VI until the definition is more clearly defined to assure that the revitalization of units is only done where necessary. In the HOPE VI Quarterly Report done March 31, 2003 the Office of Public and Indian Housing stated the following: “The Department has met this mandate and recommends pausing the HOPE VI revitalization program until distressed public housing can be more accurately identified and assessed within the existing public housing inventory. While the department recognizes that distressed public housing continues to be an issue, the current method for identifying distress is problematic and may lead to the demolition of public housing developments that do not need full scale revitalizations, resulting in the misapplication of scarce housing resources.”<sup>20</sup>

HUD additionally recommended that during the “pause” they would explore the possibilities for a revitalization program that more “appropriately addresses the kind of distress that remains in the public housing inventory. This program would draw on lessons learned over the last 10 years and be designed to address current challenges within the public housing inventory, while building on new opportunities to transform the delivery and quality of subsidized housing.”<sup>21</sup> The lessons learned over the last 10 years include the difficulty of federal management and oversight of local public housing authorities—leading to difficulty in accountability and wasted money—and the inability for HOPE VI to address all of the severely distressed housing units because of financial constraints. In other words, the breadth of the problem of severely distressed public housing is too great, and is ever growing.

Accountability of the management of local public housing authorities is often a problem. The HOPE VI program accepts applications from the local housing authorities; HUD then evaluates them and awards funding to the local housing authorities. Unfortunately, often the management of the housing authorities is not sufficient and the funds are not properly distributed or used. This fact was noted by Gregory A. Byrne, Kevin Day, and James Stockard in “Taking Stock of Public Housing” published in September 2003 with the following statement: “Too frequently, the quality

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<sup>19</sup> *Ibid.*

<sup>20</sup> Office of Public and Indian Housing. *Fiscal Year 2003 Appropriations Required Report*, HOPE VI Quarterly Report (March 31, 2004).

<sup>21</sup> *Ibid.*

of public housing management is poor. Although not universal—there are housing authorities that are effective, and even outstanding, performers—the problem is large enough and deep enough to be systemic, in both its condition and its causes. The management challenge is particularly acute among larger agencies, resulting from a confluence of factors. Public housing authorities (PHA’s) have, unfortunately, responded to local political environments and to federal program arrangements by developing defensive organizational structures that are out of sync with private practice and ill-suited to delivering effective property management services.”<sup>22</sup> The problem of inadequate management becomes even larger when one considers that oversight by HUD is often inadequate. This too was noted by Byrne, Day, and Stockard: “HUD oversight is mostly ineffective. At times, it can also be meddlesome and contradictory. The emphasis is on rule compliance and organization, not property performance.”<sup>23</sup>

Additionally, many communities apply for HOPE VI grants and never receive them. Of course, as stated above, it is necessary to have a clear definition of severely distressed and assure that only those who fit within the category are offered assistance. However, public housing units that do fit within this category have been denied grants.<sup>24</sup> In 2001 the Charlotte Housing Authority applied for an additional HOPE VI grant and was denied. However, as noted on their website, “[D]espite not being selected, the Charlotte Housing Authority’s application was in the top 25% with a score of 78 points. Of 66 applications submitted from Housing Authority’s across the country, only 16 were funded with the lowest successful applicant receiving a score of 89 points.”<sup>25</sup> HOPE VI cannot address the breadth of the problem because of the financial commitments of each grant.

The weaknesses associated with HOPE VI led HUD to recommend a pause in the program and a re-evaluation of what is the most effective way to address the problem of severely distressed public housing. The problems noted above lead one to the same conclusion and the criteria included in this report reflect the lessons learned in the last decade of HOPE VI.

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<sup>22</sup> Gregory A. Byrne, Kevin Day, & James Stockard. *Taking Stock of Public Housing*, “Public Housing Operating Cost Study.” (September 16, 2003)

<sup>23</sup> Gregory A. Byrne, Kevin Day, & James Stockard. *Taking Stock of Public Housing*, “Public Housing Operating Cost Study.” (September 16, 2003)

<sup>24</sup> Piedmont Courts HOPE VI Application—Questions and Answers. <http://www.cha-nc.org/pcqa.htm>.

<sup>25</sup> *Ibid.*

## **Criteria for Success**

How best can we aid the escape of severely distressed public housing residents while ensuring they are able to have roofs over their heads? With problems as urgent as health and safety, how can we be sure we leave no child, no American, in harm's way? Any strategy proposed must be scalable to any city nationwide, provide the fastest possible means to resolving the issue at hand, and be sustainable in the long-term. As well as the fact that residents must have the mobility that facilitates economic flexibility, the power and knowledge to address issues they see within their homes and communities, and educational and psychological support in preparation for and throughout transitions.

### ***Assessing the Efficacy of Programs in Improving Quality of Life***

With 67 years of public housing policy to draw upon, the programs selected to address the nations' most severely distressed public housing communities must have a record of success in improving the quality of life experienced by residents. Three strategies stand out as particularly efficacious: empowerment of residents, the facilitation of geographic mobility and the introduction of residents into mixed-income neighborhoods.

Striking improvements have been made to severely distressed housing units, communities and neighborhoods with the empowerment of residents and communities to address the issues they see as they develop. For example, when Tulane University assumed management of the severely distressed housing of the Housing Authority of New Orleans, one of its first steps was to act upon resident requests for repairs and assistance in removing problematic tenants.<sup>26</sup> When residents experience change as a result of their investments in their housing and their communities, it encourages an even greater sense of responsibility and capability in residents. It connects public housing residents with other members of the community. Geographic mobility is particularly critical to improving the quality of life experienced by those in the most severely distressed public housing.

### ***Leaving No One without Hope: Assessing Program Scalability***

Given the moving number of public housing developments fitting the official definition of "severely distressed" and the health and safety risks posed for its residents, public housing

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<sup>26</sup> Wassmer, Robert W. *Readings in Urban Economics: Issues and Public Policy*. (Sacramento, CA: Blackwell Publishers, 2000),

programs designed to address the deterioration of these units and communities must be scalable. Scalability includes portability to a variety of local environments in different regions, with varying economic and housing conditions and different local cultures. It also includes the ability to expand with relative speed. No matter how perfect a solution might address a handful of public housing communities, it is unacceptable if it necessitates leaving any community in dire straits for years and years on end.

### ***Accountability***

Local PHA's attained varying levels of success with their HOPE VI programs. Some of this variance might be explained by the tremendous differences in the strategies and tactics used to address housing issues in each locality. However, each strategy approved showed strong promise for success—if implemented as designed. Implementation has not been consistently addressed among all grants in the capacity that was desired. Case studies reveal diverse reasons behind the failure to implement program proposals, rested mainly in the appropriate reallocation of the funds once they reached the PHA.

The local PHA's have enjoyed a wide range of autonomy concerning the implementations of their program. The PHA's know and understand what is best for each local community. The lack of defined accountability measures leads to the problem of implementation not occurring or taking too long.

The lack of accountability in HOPE VI damages the ability for HUD to act as a clearinghouse for successful public housing practices. HUD demands receipt of little or no information about the final implementation or results of the strategies and tactics used. In effect, providing greater accountability and more defined responsibility for the results of each program would likely have: 1) encouraged and speeded implementation, and 2) provided HUD with ready information regarding successful and failed policy ideas and strategies.

Regardless of whether a program vision emanates from HUD, a state or a locality, a process for reporting progress and results back to HUD must be clearly defined. In addition, those responsible for the use of federal funds must be responsible to residents, HUD and the tax payers funding the programs.

### ***Political and Judicial Feasibility***

Nothing affects the potential for passage and funding of any legislation as much as it's potential to accomplish its objectives consistently. Political feasibility is strongly correlated with the

effectiveness of the use of funds and the equity of the process. At this time, congressional leaders, and the judiciary in particular, are likely to accept public housing programs which address only the needs of the few residents and communities that are in the most distressed and the most impoverished income levels.

As with any program requiring federal appropriation or reallocation of funds, the programs evaluated had to demonstrate efficient use of funds and resources. Options that allowed for the redistribution of funds and resources were weighted above those that required additional funding. Consideration was given to the efficiency as revealed by the distribution of funds. For example, program costs were factored in the number of communities addressed by the requested funds and the breakdown of funding by resident to determine the overall and comparative efficiency of the proposed solutions.

Equity in the disbursement of information and public housing benefits received considerable attention in the evaluation of program options. Judicial review of past programs provides insight into areas where inequities are likely to emerge. However, these inequities are likely to occur in any federal programs and are not specific to federal housing, per se. The findings guided our evaluation of each program and encouraged thorough assessment of the likely unintended consequences and potential pitfalls of each of our options.

### ***Sustainability***

Program sustainability directly addresses the great issues at the center of the public housing debate. Continual change in the processes and procedures with which public housing residents and applicants must comply, creates barriers to effective communication with and service to this audience. This works to increase the likelihood of inequities developing, as well as the likelihood of judicial review of the program which inhibits implementation. In order to maintain long-term sustainability of a program, the program must include: 1) easing the ability of moving out of public housing, 2) the empowerment of residents and local community groups in management of public housing units and programs, and 3) enhancement of the quality of life of residents through each stage of this process.

The long-term welfare of people receiving housing assistance, inspiration and support for taking the path out of public housing to financial and community stability is imperative to the stability and sustainability of a public housing program. A plethora of successful means for facilitating this ease of movement have been developed and tested over the years. Option success in meeting this criteria should be evaluated in three categories: 1) the percentage of residents able to leave

public housing, 2) the average duration of time between resident enrollment in sufficiency programs and their emancipation from public housing assistance, and 3) the percentage of a given public housing population that could be effectively served by the program option.

Empowering residents accomplishes a variety of goals in one fell swoop. It instills a sense of responsibility and capability in residents. It connects public housing residents with other members of the community and the opportunities that kind of networking presents.

Empowerment provides employment options for residents, again enabling residents to alter their lot through work. And, it instills an ethic of service in participants and the surrounding community. Options were evaluated according to how many of these potential results they had proven an ability to achieve.

One of the main reasons for revitalizing or demolishing severely distressed public housing is to improve the quality of life for its residents and the surrounding neighborhoods. Quality of life goes beyond the basics of access to clean water, shelter, and food. It includes living in a clean and safe community and being able to use public centers, libraries, and parks in one's own community. When people take pride in their home and community, they are more likely to protect their possessions and surroundings. Residents who value their homes, recreational centers, parks, and libraries will not allow others to devalue their assets. Safer, cleaner, and aesthetically-pleasing communities will not only increase the tax base and house quality schools, but will also encourage economic development. Businesses will see it in their best interest to financially invest in a community in which the residents have socially invested. An economically sound and safe community will leverage the residents with political clout that they can use to ensure that their neighborhoods stay the way in which they have positively developed. Quality of life is immensely improved by allowing low-income families to live in mixed-income communities because it leads to less social isolation and thus the reduction of the concentration of impoverished communities.

There are two categories of concerns when evaluating the plethora of potential public housing programs. The first set of criteria involves the feasibility of translating a public housing vision into action. This also means working to correct the physical problems of the structures themselves. The second is a design to identify those solutions that would best address the great public housing issues facing residents, their neighbors, administrators and the society, in general.

## **Approaches**

There are a myriad of approaches that should be vetted in solving the vast, complicated, and constantly growing problem of severely distressed public housing. In order to analyze the many approaches below it is crucial to consider the previously stated criteria, as well as the history of public housing and the depth and seriousness of the problem. Each option considered by this group was rigorously assessed in relation to its ability to meet these criteria for success.

### ***Approach 1: Provide Federal Funding for Revitalization or Demolition Projects***

The evolution of the HOPE VI program has provided ample evidence regarding the factors critical to program success, which include clear lines of accountability, broad scalability and program sustainability. Thus, it is more than appropriate to consider whether with these criteria in mind the HOPE VI program can be altered in order to adequately satisfy the criteria, particularly before we begin to discuss more significant changes to the current approach being implemented for the problem of severely distressed public housing.

The basic concept of HOPE VI has already been discussed. Moving forward with the existing program is not an option; however, altering the program to address its key flaws and continuing to move forward within the program structure should be considered. According to the HUD budget proposal for fiscal year 2004 HOPE VI reached its goal of demolishing over 115,000 units and revitalizing 60,000 more.<sup>27</sup> While HOPE VI may have reached its goal, the problem of severely distressed public housing still exists and it is necessary to consider the lessons learned in considering the next steps in addressing the issue. Here it is important to consider the program's overall strengths and weaknesses and the alternations needed to ensure the program meets the criteria established for effectively relieving the distress of severely distressed housing and their residents. This is from lessons learned throughout the past decade. As we look toward the future and for a permanent and comprehensive solution to the problem, changing HOPE VI is an appropriate and necessary approach.

In order to keep HOPE VI, stricter auditing must be implemented. There must be federal control over how funds are spent, which will provide for sustainability and a greater level of

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<sup>27</sup> The Department of Housing and Urban Development. Budget Proposal, FY 2004. [www.hud.gov/about/budget/fy04/](http://www.hud.gov/about/budget/fy04/).

accountability. The application process must be changed so that the process is less complicated and does not dissuade communities in need from applying for the grant. Many HOPE VI communities reveal that when the program is implemented properly, success stories are possible. HOPE VI projects often result in the value of the property being increased. To the extent that the derelict obsolete structures are replaced with new buildings, the value of the land and buildings has increased. Additionally, in HOPE VI projects that include homeownership as a product, the municipality receives a new source of tax revenue whereas as, public housing is typically not taxed (in most cities, the housing authority pays a PILOT or a *payment in lieu of taxes* which is considerably lower than taxes paid at the market rate). Residents who buy the new homes will not receive a PILOT (they are not eligible)—they will have to pay taxes at the market rate.<sup>28</sup> Thus, in some regards it appears that it is not necessary that HOPE VI be completely done away with, because when implemented correctly, there are many beneficiaries to attest to its need and the blessings that it has created. Instead of getting rid of the program altogether, the bureaucratic process should be changed to ensure better efficiency and less wasted federal money.

To properly assess the success of HOPE VI programs in particular communities, a before/after comparison should be made, which requires studying neighborhoods before and after HOPE VI implementation, to determine effects of the program on the community. In addition, the effect that the transition period between demolition and rebuilding has had on the immediate and adjacent neighborhoods should be analyzed. Finally, we must determine whether in anticipation of HOPE VI funding there have been any neighborhood effects motivated by the announcement.

The capacity of public housing to leverage private investment was also considered. In order for private investors to agree upon ‘setting up shop’ in a community prevalent with public housing units, they first had to be sure that there was a profit margin with their business venture, and second, that minimal risks would occur. Minimal risks equates to low crime and vandalism. The scale of public housing revitalization also had to be closely analyzed. A significant amount of revitalization could not be approved if only a little money had been appropriated. Thus, the process by which one neighborhood is approved over another neighborhood for a demolition or revitalization grant has to be fair.

The strengths of this approach are made even clearer through a closer look at the Baltimore success story because it highlights the possibility of great success with the former program.

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<sup>28</sup> See Addendum 5 in the Appendix.

Additionally, closely evaluating the success in Baltimore reveals changes that could be implemented across the board to provide a model for continued and constant success in other communities.

Five major factors affect a development's chances of positive neighborhood effects:

- 1) How far a development extends into its surrounds
- 2) The presence and involvement of institutional players
- 3) Resident and community involvement in HOPE VI planning and implementation
- 4) Location
- 5) Supportive services<sup>29</sup>

The strengths of HOPE VI are clear in that it emphasizes local control; this is necessary the general notion is that the local housing authority best knows what is appropriate for a given location. However, local control funded by federal grants also has weaknesses which are impossible to ignore. It is difficult to know if, given the amount of local control that is appropriate and necessary, strict enough auditing and accountability can occur. Local control for this program is crucial since it is difficult for the federal government to know the needs of any specific community or the residents involved. However, the problems created by it are difficult to provide solutions for in revitalizing the program. Additionally, approximately 5 billion dollars have been appropriated to HOPE VI since 1992.<sup>30</sup> The financial commitment of the continuation of this program is significant. This financial commitment becomes even more of a weakness in light of the breadth and severity of the problem. Despite its previous success and the potential for greater success if altered, HOPE VI has yet to comprehensively deal with the problem of severely distressed public housing. Given the breadth of the problem an approach that can quickly and effectively deal with a large number of units that are labeled severely distressed is required.

The many other approaches that can and should be considered in discussing the most effective solution to this problem can be broken down into two categories: 1) What should be done with the building itself, and 2) How should we take care of the residents of these buildings? These two

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<sup>29</sup> "Neighborhood Effects of HOPE VI: Evidence from Baltimore," Executive Summary: John Hopkins University Institute for Policy Studies, [www.jhu.edu/~ips/publications/papers/ab28.html](http://www.jhu.edu/~ips/publications/papers/ab28.html).

<sup>30</sup> The Department of Housing and Urban Development. Budget Proposal, FY 2004. [www.hud.gov/about/budget/fy04/](http://www.hud.gov/about/budget/fy04/).

categories reflect an understanding that the great thing at the center of this problem is the people who are currently being forced to live in these buildings. In helping these residents we must first address what should be done to the building itself but, after considering that, it is crucial to consider the welfare of the residents and how we can best help them.

## **Addressing the Problem of the Building Itself**

When discussing the many approaches for the status of the building itself, one must consider that both the ownership and management of the building is crucial. Currently, the federal government is responsible for the severely distressed public housing units being dealt with by this report. However, the management of the buildings is not always the federal government; in fact, often it is the local housing authorities that manage these buildings, although in the end the federal government is responsible for these units. As a result, there are a plethora of approaches which can be taken in regards to both the ownership and management of the buildings.

The following are the approaches for the building itself. The first alternative is for the federal government to retain ownership. The second two alternatives are premised around the federal government selling these buildings to either local authorities, state authorities, or the private sector. Before addressing each approach individually it is necessary to address a few basic understandings with these two approaches. Several steps must be implemented in order for these two approaches to take place effectively. First, severely distressed public housing units must be identified and a date must be set in which no leases will be renewed. This allows individuals to have adequate time to find alternative housing and ensures that the building will be vacant at a definite time in the near future. The building will then be auctioned to one of the stakeholders depending on what approach is accepted. Once new housing units are built on the vacant lot, or the revitalized housing units are finished, former residents of that location are notified and given first choice at the new housing. Purchase/lease of the housing is again made possible, for these formerly displaced persons by government guaranteed loans or vouchers. If the new housing does not fill up with displaced persons using government guaranteed loans or rental vouchers, the housing is open to the public as it normally would be. This approach does not include the building of public housing. As far as developers are concerned, there is no interaction with government or mandate to build any type of housing. As far as banks are concerned, there is a motive to give loans to formerly displaced residents because these loans are guaranteed to not go into default. The final approach for the building is a public housing cooperative, which seems to be a mid-point between homeownership and traditional public housing

### ***Approach 2: Local Government***

The second approach in addressing the problem of the status of the building itself is local government as owner and manager of the building. As mentioned above it is difficult for the federal government to have the requisite amount of control over the local public housing

authorities or the management of the buildings. Additionally, only local authorities truly know the needs of an individual community and its residents. The federal government cannot possibly know the many economic and social needs of a given community. This is certainly one of the strengths of this approach. Allowing local governments, or alternatively state governments, to retain ownership of these buildings, instead of the federal government, will assure that the needs of the individual communities are met and a plan of action can be created in light of those needs. With this approach the local government can then decide the best approach in dealing with the building itself, depending on the status of the building and whatever is most economically feasible. This will also relieve the federal government of the responsibility for every one of these units both financially and politically.

The weaknesses of this approach must be noted as well. First, it is questionable whether the local public housing authority or the state will be willing or able to financially take on this responsibility. In some cities where severely distressed public housing exists, the local authorities will, of course, have to be both willing and able. However, it seems unlikely that this will be the case in regards to every severely distressed public housing unit. Furthermore, some public housing authorities have been unable to appropriately use the federal funding given them through HOPE VI. How can we now expect them to be more successful as owner, manager, and financial provider of these units?

### ***Approach 3: Privatization***

Privatizing public housing units may be the option that pleases the most stakeholders. The now vacant public housing unit is sold to the private sector. Deed restrictions will be used in order to keep property as housing. Deed restriction clauses in housing contracts ensure that the land remains for the sole purpose of housing rather than becoming commercialized. It may become houses, apartments, condominiums, row homes, etc. This approach allows for increased market control.

Privatization curtails rent-seeking behavior for defunct public housing management who perpetually suppress the quality of their housing through bad management and neglect. Once the units are privatized, the problems of neglect and distress can be immediately addressed. The units will also be less bound by a complicated bureaucratic process or clogged by impractical construction guidelines and mandatory union labor participation. Once the local developers assume control over the properties, they will have an incentive to manage the units more efficiently. Essentially, allowing the market to regulate these properties will introduce more

efficiency into the process and will give control to those who have a legitimate stake in the venture.

Where privatization is strength, it can also be perceived as a weakness. Having the market regulate the profit motive might reduce the cost of maintenance, but in the end, it might raise the prices of the units overall, especially if there is a limitation on the amount of units being rebuilt on the footprint. This profit motive works contrary to the idea that the prices can and should be controlled by the government, and might seem unfair to those who have been in the system for a while. Also, privatizing these properties will relinquish the tight control that many special interest groups have hereto for held on these properties as they are run by the federal government.

#### ***Approach 4: Cooperatives***

Public housing cooperatives seem to be a mid-point between homeownership and traditional public housing. R. Allen Hays describes the cooperative model as one in which public housing residents purchase and then manage public residential buildings and grounds. The model was tested in Denver; Nashville; Paterson, New Jersey and Saint Thomas, Virgin Islands in the early to mid-1980s.<sup>31</sup> While it is not known whether the buildings in question were classified as severely distressed, the strengths and weaknesses of the model as revealed in the lessons learned are the best data we have to evaluate the applicability of the model for the issue at hand.

Cooperatives improve the lives of public housing residents and their neighborhoods in tangible ways. According to Ruth Landman, cooperative communities experience drops in crime, increase in foliage and the improved condition of the buildings—in short, an improved quality of life.<sup>32</sup> The federal government has already invested millions of dollars that they will never recover in any modest purchase of these distressed units. It should be noted that these buildings are sunk costs, and the government would be wise to sell them for a market price of \$1 to anyone who might be interested in co-opting the property. This will eliminate any need for credit checks or financing solutions for the impoverished resident, aside from potential costs associated with renovations of the units. In the cooperative model, the residents are directly accountable for the success of their venture. Residents are empowered (in some cases with Section 8 vouchers, in others with private loans) to improve the conditions of their residences and the surrounding

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<sup>31</sup> See Maple Green, Denver and Nashville case study addendums.

<sup>32</sup> Landman, Ruth H. *Creating Community in the City: Cooperatives and Community Gardens in Washington, D.C.* Westport, CT: Bergin & Garvey, 1993. 133.

property and neighborhood, improving residents' quality of life and have a higher perception of control over their environment.

Cooperatives also have draw-backs. Hays notes that, residents of successful cooperatives have an average income of more than \$14,000, which compares to an average of just over \$6,000 in the general public housing population.<sup>33</sup> The discrepancies in income alone indicate potential scalability issues. Sustainability of deteriorating buildings now managed by the residents themselves may also be an issue. Hays notes that four years after the cooperatives began “[O]nly 320 units had been transferred.” The reasons for this poor performance were a lack of sustained commitment by the sponsoring PHA’s, difficulty in finding tenants who had both the means and the desire to buy their units, and problems with relocating tenants who did not want to participate.”<sup>34</sup> Once these residents buy into the cooperatives, their mobility is also reduced and they are obligated to maintain their investment in the long run. While residents may own a portion of the cooperative, they are unable to seize the rewards of homeownership upon exit for at least five years.<sup>35</sup> This not only keeps them within low-income neighborhoods, it prevents them from following job opportunities. Additionally, high standards for applicants, extensive renovations before the transfer, involuntary transfer or relocation of tenants, difficulty financing, and difficulty generating interest for the cooperatives are also weaknesses that must be addressed.<sup>36</sup> These draw-backs are fairly substantial.

While housing cooperatives do show promise in positively impacting public housing communities, the gains which are made do not last long, and the numbers of higher-income residents needed to take ownership of cooperatives limit the model’s scalability. In addition, residents face a lack of mobility and continued income segregation when participating in a cooperative. Use of the cooperative model would require significant preparation of residents and communities for participation in the model, continued PHA efforts to identify and motivate

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<sup>33</sup> Hays, R. Allen, ed. *Ownership, Control, and the Future of Housing Policy*. Westport, CT: Greenwood Press, 1993. 147.

<sup>34</sup> Hays, R. Allen, ed. *Ownership, Control, and the Future of Housing Policy*. Westport, CT: Greenwood Press, 1993. 140.

<sup>35</sup> Hays, R. Allen, ed. *Ownership, Control, and the Future of Housing Policy*. Westport, CT: Greenwood Press, 1993. 147.

<sup>36</sup> Rohe, William. “Converting Public Housing to Cooperatives: The Experience of Three Developments.” UNC-Chapel Hill, Housing Policy Debate, Vol. 6, Issue 2. Fannie Mae, 1995. 439. [http://www.fanniemae.foundation.org/programs/hpd/pdf/hpd\\_0602\\_rohe.pdf](http://www.fanniemae.foundation.org/programs/hpd/pdf/hpd_0602_rohe.pdf).

potential participants and assisting those hoping to “cash out” of the cooperatives in attaining yet greater self-sufficiency.

## Approaches for the Residents

There are two general approaches to meeting the needs of the residents of severely distressed housing units: creating opportunities for home ownership and supporting their housing needs through the distribution of vouchers. These two approaches are examined in detail below.

### *Approach 5: Homeownership*

One approach entails ending the HOPE VI program and redirecting the remaining appropriated funds towards voucher and homeownership programs. There are three goals to this plan. First, the plan must meet aggressive goals for increasing homeownership and ending chronic homelessness. Second, it must strengthen housing assistance and community development programs. Lastly, the program must continue the effort to improve HUD's performance and provide better stewardships of fund.<sup>37</sup>

Homeownership rates among minority households are at forty-nine percent.<sup>38</sup> The new budget proposal would allow more federal funds to be used in new financing options and funding for buyer education, down-payment assistance and self-help programs. The Bush administration has set the goal of increasing minority homeownership by 5.5 million by 2010.<sup>39</sup> The strategy requires both public and private funding to meet the stated goal. The proposed plan could be brought to fruition by offering financing options and assistance with down-payment and closing costs, simplifying the buying process and increasing competition. Additionally, the goals of the strategy can be met through educating homeowners, increasing the supply of affordable housing, and providing a single-family with a tax credit.

The Public Housing Reinvestment Initiative, if implemented, would give public housing authorities a new ability to leverage private capital. Instead of funding public housing capital repairs through the current obsolete formula, in 2004 approximately ten percent of public housing units are expected to voluntarily change to a new funding system that relies on mortgage refinancing.<sup>40</sup> Borrowing would be underwritten against individual projects and rely on the financial viability of individual properties. This approach focuses on asset management and

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<sup>37</sup> U.S. Department of Housing and Urban Development. President's Budget Proposal for HUD, FY 2005. <http://www.whitehouse.gov/omb/budget/fy2005/hud.html>.

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*

<sup>40</sup> *Ibid.*

would strengthen the financial discipline of local PHA's. It also provides public housing residents with choice and mobility. Following mortgage-based refinancing, funding for recapitalized units would be consolidated into portable, project-based vouchers.<sup>41</sup> In this option, voucher assisted households would be empowered with the choice to move out of public housing after at least one year of occupancy.

For example, the city of New Orleans, in conjunction with Tulane University, implemented a local homeownership program. Thirty residents from HOPE VI communities were given the opportunity to buy a home in New Orleans.<sup>42</sup> While this number seems small, in this instance homeownership worked for HOPE VI residents.

Clearly, homeownership is not a complete solution for these residents. There are obvious weaknesses with this approach. Many residents do not have the capital for the down-payment and many do not have the credit necessary to secure a loan. Also, homeownership will decrease mobility and for many residents tying themselves to one location or city is not possible from a financial perspective. The President's proposal to increase homeownership is certainly an approach that should be considered for the residents who are displaced while the building itself appropriately deal with. However, given the many financial constraints on these residents it is not a complete solution. The average income for residents in severely distressed public housing is \$6,570.<sup>43</sup> Given the average income for residents, the number of residents who will apply for this approach or those who will be accepted will be extremely low.

Another issue is that of equity; "the low—and moderate—income families targeted with this initiative are more likely to buy older houses that are more expensive to maintain and are located in struggling neighborhoods where price appreciation can be elusive."<sup>44</sup> This is an issue of equity due to the fact that the lowest bracket of low-income families cannot afford to buy a home. Some will not qualify because of income and will be left out of this homeownership equation.

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<sup>41</sup> U.S. Department of Housing and Urban Development. President's Budget Proposal for HUD, FY 2005. <http://www.whitehouse.gov/omb/budget/fy2005/hud.html>.

<sup>42</sup> Cates-McIver, Linedda. "University Administrator Improves Public Housing in New Orleans." January 20, 2004. <http://www.black-collegian.com/news/special-reports/publichouse2000-2nd.shtml>.

<sup>43</sup> Hays, R. Allen, ed. *Ownership, Control, and the Future of Housing Policy*. Westport, CT: Greenwood Press, 1993. 147.

<sup>44</sup> "Apartment Organizations Respond to Latest Federal Homeownership Proposals; Questions 'Homeownership at Any Cost' Policy", PR Newswire, Jan. 30, 2004.

The final issue is that of mass housing—does everyone really want or need homes? “America may be a nation of homeowners, but 33 percent of our citizens are renters and 40 percent report that they prefer to rent, even though they could afford to buy.”<sup>45</sup> We are now a technology based, mobile and independent society; Americans now enjoy living in revived downtown areas, with restaurants, shops and cultural attractions. As mentioned before, this proposal is ideal, “but our homeownership programs should be structured to ‘First, do no harm.’”<sup>46</sup>

### ***Approach 6: Vouchers***

The federal housing voucher program provides rent payments for 1.7 million low-income families and individuals.<sup>47</sup> If HOPE VI were to end there would be an opportunity to go in a different direction to deal with the quandary of severely distressed public housing units. Although there are clearly a myriad of options to address the issue of dealing with these properties and their inherent or relational programs, it is necessary to find one that would provide temporary relief to the residents of these housing “projects.” In addition to providing a solution to the decrepit buildings themselves and the neighborhoods which are currently being affected by their presence, this option would move people affected by severely distressed public housing units toward self-sufficiency and a better quality of life, as well as to hold all parties accountable.

Residents in public housing buildings that are deemed “severely distressed” will be offered vouchers in order to assist them in finding housing on the private market. “Tenant-based vouchers increase affordable housing choices for very low-income families. We assume that families with a tenant-based voucher choose to lease safe, decent, and affordable privately-owned rental housing.”<sup>48</sup> Therefore, this process will also begin the revitalization of the neighborhoods surrounding these dilapidated buildings. As more buildings are deemed severely distressed, public housing of this type will become less common and the voucher system will be phased out in hopes of meeting the criterion of eventual self-sufficiency. The vouchers will also provide residents with the opportunity to move into different geographical areas, which will facilitate and

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<sup>45</sup> “Apartment Organizations Respond to Latest Federal Homeownership Proposals; Questions ‘Homeownership at Any Cost’ Policy.” PR Newswire, January 30, 2004.

<sup>46</sup> *Ibid.*

<sup>47</sup> Turner, Margery Austin. “Strengths and Weaknesses of the Housing Voucher Program.” June 17, 2003. <http://www.urban.org/urlprint.cfm?ID=8450>.

<sup>48</sup> U.S. Department of Housing and Urban Development. Home and Community, *Tenant Based Vouchers FAQ*. <http://www.hud.gov/offices/pih/programs/hcv/tenant.cfm>.

encourage mixed income housing. As a result, voucher recipients will live in healthy neighborhoods that provide social, educational, and economic opportunities.<sup>49</sup>

The PHA's will have a large role in operating the voucher program that will be greatly expanded by this course of action. This will include determining who is eligible for the vouchers, helping those individuals secure private housing where possible, distributing the vouchers on a monthly basis, and assisting private property owners where necessary. In short, local PHA's will be implementing a program established for those who are given federal assistance for housing. Yet, in the areas where the public housing building is deemed to be severely distressed their role will change to reflect the new type of assistance being offered.

The voucher system will be an expanded version of housing choice vouchers currently being used. As a result, if one's rent is more than 30% of one's income he or she is eligible for a subsidy in order to provide assistance in acquiring adequate housing on the private market. All applications will require a thorough check of employment history, personal history, and financial history. If the family finds a unit that meets the housing quality standards, the rent is reasonable, and the unit meets other program requirements, the PHA draws up a contract with the property owner. This contract authorizes the PHA to make subsidy payments on behalf of the family. If the family moves out of the unit, the contract with the owner ends and the family can move with continued assistance to another unit.<sup>50</sup>

The rent covered by the voucher will fluctuate according to the income level of the family. "The PHA pays the owner the difference between 30 percent of adjusted family income and a PHA determined payment standard or the gross rent for the unit, whichever is lower. The family may choose a unit with a higher rent than the payment standard and pay the owner the difference."<sup>51</sup> Although, many voucher recipients are less likely to be paying the unaffordable housing cost

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<sup>49</sup> Turner, Margery Austin. "Strengths and Weaknesses of the Housing Voucher Program." June 17, 2003. <http://www.urban.org/urlprint.cfm?ID=8450>.

<sup>50</sup> U.S. Department of Housing and Urban Development. Home and Community, *Tenant Based Vouchers FAQ*. <http://www.hud.gov/offices/pih/programs/hcv/tenant.cfm>.

<sup>51</sup> U.S. Department of Housing and Urban Development. Home and Community, *Tenant Based Vouchers FAQ*. <http://www.hud.gov/offices/pih/programs/hcv/tenant.cfm>.

burdens and more likely to be living in quality housing.<sup>52</sup> The voucher program relies on existing housing stock, and therefore is less costly than programs that build new projects for occupancy.<sup>53</sup>

Finally, the proposal that is emphasizing increased homeownership is also proposing block grants for the states with vouchers. The new budget proposal would convert funding for housing vouchers into a block grant, giving states the flexibility to apply the funds as they see fit. Greater flexibility would allow states to increase the benefits of housing assistance.<sup>54</sup>

The idea of the block grants and flexibility is intended to allow the states to increase their benefits for assisting low-income families. An increase in benefits is good, yet allowing the states to have more freedom on the distribution of funds is questionable. Taking a look back at the HOPE VI program shows a notable and significant problem: within the HOPE VI program there were no or few checks on the local PHA's.<sup>55</sup> It could be said that there is an extremely high number of public housing and local PHA's which need to be reviewed, but can we be certain that this lax behavior wouldn't be passed on with future funding? This plan does not address how and if the states will even have to partake in monthly or quarterly reports, which will lead us back to the problem with HOPE VI. How can we be sure that the funds will be spent in a responsible and helpful manner?

This proposal intends to give states' the responsibility of running a workable program for low-income families to assist them in homeownership. It can be said that "locally administered programs are more effective at providing services [for low-income families] than either state or federal programs."<sup>56</sup> This is an agreeable statement, yet critics of block grants place doubt on this proposal, wondering whether this removes the federal government from being questioned when there is a problem with the program. Should and can the states act alone when there are problems? Can the states act in a feasible manner as to avoid problems similar to HOPE VI?

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<sup>52</sup> Turner, Margery Austin. "Strengths and Weakness of the Housing Voucher Program." June 17, 2003. <http://www.urban.org/urlprint.cfm?ID=8450>.

<sup>53</sup> *Ibid.*

<sup>54</sup> U.S. Department of Housing and Urban Development. Home and Community, *Tenant Based Vouchers FAQ*. <http://www.hud.gov/offices/pih/programs/hcv/tenant.cfm>.

<sup>55</sup> "A HOPE Unseen: Voices from the Other Side of HOPE VI." Center for Community Change for Enphront. 2003. <http://www.communitychange.org/housing/HOPEVI/hopeunseen.htm>.

<sup>56</sup> "Event Summary: Block Grants: Past, Present, and Prospects." Brookings Institution. October 15, 2003. <http://www.brooks.edu/comm>.

Additionally, other obstacles must be taken into consideration when expanding the voucher system. The first such obstacle is the cost of implementing such a comprehensive subsidy system. However, the obstacles are not limited to cost. If this were the case, the high cost of HOPE VI over the last decade may make this obstacle a non-issue. Other obstacles include a potential housing shortage on the private market if public housing is phased out, pushing some current residents out of higher income housing, getting people off the subsidies and on their own in the future. The expansion of the voucher program is one of the options that could be recommended, however there are flaws to recommending the expansion of this program.<sup>57</sup>

One of the biggest problems with the housing voucher program is that “federal spending for affordable housing is woefully inadequate.”<sup>58</sup> About one in three eligible families get assistance.<sup>59</sup> Even though vouchers work quite well for some, 6.1 million low-income renters still face severe housing hardship – paying more than half of their monthly income for housing or living in seriously run-down or overcrowded housing.<sup>60</sup>

While vouchers have been effective in allowing residents to choose where they live, it is not effective in providing mobility and choice among minority recipients.<sup>61</sup> According to Margery Austin Turner, 25.2 percent of African-American recipients and 27.9 percent of Hispanic recipients live in high-poverty neighborhoods compared to 8 percent of white recipients. White voucher recipients have broader access to housing in metropolitan neighborhoods than African-Americans and Hispanics, who are more likely to live in low-poverty and racially mixed neighborhoods.<sup>62</sup>

After considering the various approaches to this problem, we have decided to combine different approaches that will, in combination, efficiently and effectively address the problem of what to do

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<sup>57</sup> Popkin, Susan J., Diane Levy, Laura Harris, Jennifer Comey, Mary K. Cunningham, Larry Buron. *HOPE VI Panel Study: Baseline Report*. Urban Institute. September 1, 2002. Submitted to: the Annie E. Casey Foundation, The John D. and Catherine T. MacArthur Foundation, The Rockefeller Foundation and U.S. Department of Housing and Urban Development and Urban Development UI No. 07032. <http://www.urban.org/urlprint.cfm?ID=8046>.

<sup>58</sup> Turner, Margery Austin. “Strengths and Weakness of the Housing Voucher Program.” June 17, 2003. <http://www.urban.org/urlprint.cfm?ID=8450>.

<sup>59</sup> *Ibid.*

<sup>60</sup> *Ibid.*

<sup>61</sup> Turner, Margery Austin. “Strengths and Weakness of the Housing Voucher Program.” June 17, 2003. <http://www.urban.org/urlprint.cfm?ID=8450>.

<sup>62</sup> *Ibid.*

with severely distressed public housing. We recommend that the dilapidated buildings be sold to the private sector—individuals or developers. The new owner will have the option in deciding what type of residential unit is created. The persons who are temporarily displaced due to the buildings reconstruction will be given assistance to move elsewhere. Upon the completion of the building, residents who qualify will receive either government-backed loans to be used toward purchasing a home or a voucher that can be used to rent public housing for a period of no longer than five years. Thus, the severely distressed public housing units have been demolished and/or revitalized and the residents are enjoying a higher quality of life and are on the way toward self-sufficiency.

## **Recommendation**

To adequately address the state of federally controlled dilapidated housing, we propose a three-step recommendation. Essentially, we propose a triage approach to address the needs of severely distressed public housing as to prioritize our most pressing concerns first, followed by lower priority needs. Although the focus of any recommendation intending to address the problem of severely distressed public housing is the status of the building itself, it is apparent that a complete recommendation would include not only the future status of the building and its ownership but also the future of the residents who are presently residing in the building.

We have decided to combine viable portions of each approach, and with the combination will efficiently and effectively address the problem of what to do with severely distressed public housing. The targeted units must meet the current federal definition of “severely distressed public housing units.” Once we have delineated those structures needing the most help first, we will begin the process of moving the residents out. The empty buildings will then be auctioned to the private sector that may opt to either demolish or revitalize the housing units. Residents will be given ample notice about when their lease will end. This will allow residents to prepare themselves and consider the options available to them upon the termination of the lease.

These displaced residents will then be able to apply for a two-tier system of government assistance aimed to facilitate their move from the public housing unit in a priority structure set up to accommodate first, our goal of self-sufficiency and second, our goal of improving quality of life. This two-tier system consists of government-backed loan assistance for the potential of homeownership at the first tier, and a voucher system at the second tier. The tier which an individual or family participates in will be determined by their financial status and credit history as well as other factors including, but not limited to, personal history and the preference of the individual or family. This system would be based on current criteria for federally backed loans for low-income individuals.

Of this approach, we want to encourage homeownership, without forcing a highly volatile economic group into a situation where they are more than likely to default on their loans. We will focus more on vouchers for those who cannot qualify for homeownership, even with the most lenient standards and aid, as a safety net for those in high income neighborhoods, or with outside private rental housing.

### ***Eliminate and Sell the Worst Buildings***

Following the determination of which communities are in the direst need of help according to the system outlined above, the proposed recommendation first deals with the residents of the buildings and then addresses the now vacant public housing unit(s). Given the current situation with severely distressed public housing, the federal government is the barrier to improvement, not the solution. Therefore, our fundamental recommendation is that the buildings be auctioned off in order to fund the programs outlined for the previous residents and in order to assure that in the future the federal government is not the owner of public housing that it seems incapable of maintaining at a sufficient level. As a result, the housing units will be sold by their owner, the federal government, by way of an auction, to any bidder such as the local PHA's, a private developer, or other level of government. The purchaser of the property then has several options according to what is most financially beneficial in light of the current state of the building. The property can be demolished and the purchaser can replace it with any number of housing possibilities including, but not limited to, row homes, single-family houses, apartments, or any mixture therein. However, where the condition of the building does not warrant its demolition the purchaser can choose to redevelop the property through improvements so that it no longer has condemned status. There will also be an option for the single buyer to place a bid on buildings which are not forced to condemnation but which may be sectioned off and sold as individual units in the building. Finally, in order to guarantee enough interest in the property despite its current condition, as well as the possibility that the surrounding community is not economically thriving, tax breaks will be offered to the purchaser as an incentive.

Two restrictions will be placed on the property with the hope of curing some of the unintended consequences that this recommendation may bring about such as a housing shortage for low-income individuals or families. First, there will be a deed restriction requiring that the property remain as a residential use rather than a commercial or industrial use. Second, the new owner must agree in the contract of sale that formerly displaced residents will have the first option to purchase and/or rent the new housing located on the property. Additionally, at least 30% of the housing will be designated as low-income in order to assure that prior residents not only have the option of returning but it is financially feasible. This will address any potential housing shortages and assure that not only is housing available but the former residents are not priced-out because of improvements made to the buildings. Displaced residents who select this option to move into the newly developed property will again be able to participate in the two-tier loan and voucher system to purchase or rent this housing at market rates. The other 70% of displaced residents

from the sold off units will use rental vouchers for the private housing market. Any remaining housing will be sold to the public as the owner sees appropriate.

The second phase of this recommendation deals with the now vacant public housing unit(s). As with the former residents, more than one option exists for the housing units. The housing units will be sold by their owner, the federal government, by way of an auction, to any bidder such as the local PHA, a private developer, or other level of government. Any purchaser of the property must redevelop the property either by demolition or by improvements to the point where the property no longer has condemned status. There will also be an option for the single buyer to place a bid in buildings which are not forced to condemnation but which may be sectioned off and sold as individual units in the building.

## **Triage Communities; Support Standardized Implementation**

The exact numbers of severely distressed housing units and communities are to a large extent unknown. In order to assess the exact number of communities, the first step to be established is an effective and precise definition of severely distressed housing. Also unknown are the details of each severely distressed housing projects plight, such as its level of preparedness for change and the support structure available within its local community. While a number of HOPE VI communities, such as Baltimore, provided matching funds for their HOPE VI projects, other communities were without the leadership and resources to even apply for the federal funding that could improve unacceptable public housing conditions. For these reasons, a way to identify communities within the severely distressed category that are unable or unwilling to improve must be established. Three strategies will be used to identify such communities: 1) Reviewing rejected HOPE VI proposals, 2) Accepting applications from communities, and 3) Active review and selection of communities across the nation. Once communities are identified, a triage approach will be used, identifying those communities in greatest need of assistance for immediate relief programs and preparing the communities less prepared for change or in less dire straights for the introduction of the programs highlighted in the recommendation.

### ***Identifying the Scope of Severely Distressed Housing***

Submitting a proposal, regardless of whether or not the proposal satisfies the criteria established by HOPE VI, demonstrates a perception of need and an interest in improving housing conditions. It also indicates a local perception that local monetary and non-monetary resources exist in the immediate community that could be harnessed to support a comprehensive approach to improving the lot of severely distressed housing residents.

In addition to looking at past proposals, an online process for the submission of proposals for program participation will be created. Easing the understanding and ease of community participation will give HUD greater information about the actual and perceived understanding of the housing issue in a particular locality.

In addition to accepting program applications, a review of housing older than 15 years old should occur. This assessment should provide a clearer understanding of both the scope of the problem and the status of the communities affected. Once distressed sites are identified, they will be evaluated to determine their priority in the implementation of the recommended programs.

### ***Identifying Severely Distressed Housing in Need***

To successfully scale the recommendation to the broadest number of communities possible and to reduce the potential for unpredictable and unintended consequences, it will be necessary to ensure that communities are adequately prepared for the programs. This determination will measure the level of distress and the difficulty of implementation due to local circumstances and place each community within a strategy tier.

All communities classified as severely distressed in the assessment will be in dire straits. However, within this category, the urgency of the distress can be differentiated. For example, those housing units that present health-related concerns to residents and/or their neighboring communities are in greater distress than those that are simply in severe disrepair. In a similar fashion, housing that presents safety issues are more distressed. Other considerations include the crime and unemployment rates of the community and surrounding area.

The caring capacity of the surrounding community also plays an important role in the success of these programs. The existence and strength of local community groups, both public and private, committed to supporting improvements is critical. Likewise, voucher programs rely upon the availability of adequate privately owned housing options. Communities must have adequate infrastructure to accommodate the influx of new residents without disadvantaging the working poor.

The assessments of preparedness will be used to divide communities into three categories, which will determine the timeline and process for implementation of the recommendation in that locality. Ensuring preparation creates greater efficacy in the program by establishing the conditions needed for success prior to program implementation.

### ***Prioritizing Communities According to Need and Preparedness***

Severely distressed housing projects will be placed within two broad categories. Those with the highest level of commitment and preparedness from the local community will be addressed first. Concurrent with these implementations, preparation programs will begin within the communities surrounding the remainder of those classified as severely distressed.

Communities that will be considered highly-prepared for the shift to voucher and homeownership programs typically have the following characteristics. First, local funding is available. In addition to the obvious advantages additional capital provides, the availability of funds for this purpose indicates a level of commitment and dedication on behalf of the broader community for

addressing the problem. Also, within the community surrounding the severely distressed public housing, there must be private, public or non-profit groups dedicated and able to help with educating, counseling and mentoring residents in an ongoing basis. Community builders will succeed where there is a strong mentoring program. Additionally, the communities must have enough private housing available, or the intent to build more private housing prior to the implementation of the program. Resident make-up will also be considered. Areas with a high percentage of residents earning greater than the median public housing income, and thus accustomed to paying higher rents, will be prioritized. Within communities highly prepared for the establishment of homeownership and voucher programs, the urgency of the distress experienced by residents of severely distressed housing will determine prioritization.

While communities with high levels of preparation are implementing versions of the voucher and homeownership programs described below, other distressed communities will be prepared for the shift to rent-subsidizing vouchers. These communities will be assisted in increasing the availability of private housing stock. Also, administrative and resident experts from the well-prepared communities will be recruited to train and inspire communities that follow in their paths. Efforts to prepare these communities for recommended programs will focus upon the following:

- Giving developers incentives to create additional private housing and associated infrastructure if needed
- Establishment of education, mentoring and counseling programs to prepare residents for homeownership and/or private housing rental
- Creation of cooperative relationships, processes and systems between the PHA's and private housing suppliers willing to accept Section 8 vouchers
- Ensuring and inspiring utilization of community contractors when possible
- Training local administrators on the placement of public housing residents in private housing

Community after community, mentors attain the greatest success when they can inspire residents and communities with their own successful experiences in overcoming the challenges associated with leaving public housing or otherwise improving a public housing community. This ability to transfer hope is often as important as the ability to convey information. In order for the residents to become empowered, they must be educated about their options regarding renting and homeownership as well as have a keen awareness of how financial systems operate. Our proposal will expand upon the existing educational programs for homeownership. Once communities have reached an appropriate level of preparedness and funds are freed by the removal of the highly

prepared programs from an active to a maintenance phase, these communities will, like the more prepared communities, begin implementation of the programs defined below.

### ***Implementing a Standardized Homeownership and Voucher Program***

Just as needs and preparedness of communities receiving federal assistance determine the timing and amount of support provided, within each individual severely distressed housing project, the preparedness level and need of residents must be determined. Although homeownership is the ideal, it is unrealistic for most residents because they do not have the capital for the down-payment or the requisite credit history. Despite these valid concerns, for some residents displaced from severely distressed housing units, homeownership is a possibility and given that in many ways it is the ideal, it should be promoted. Likewise, of the majority of residents who will receive vouchers as ongoing public housing support, they will also have varying levels of preparedness for relocation to mixed-income neighborhoods, and the transition to a private-market relationship with their landlords.

### **Assisting Displaced Residents with Housing Vouchers**

Housing vouchers is the primary program for displaced residents. This voucher program, which is limited to 5 years per recipient, gives a voucher, which may be used to pay loans for those who do not qualify for the government-backed loan program or rent only to participating banks or property owners. Property owners have the opportunity to accept or deny these vouchers, as they are private and not government housing entities. The unintended consequence of this program is a black market for vouchers similar to that which exists for food stamps. This consequence will be avoided by a direct voucher program. Furthermore, two types of vouchers will be offered depending on the situation of the applicant. A conversion voucher, a voucher that assists applicants with relocation or replacement housing needs that result from demolition, disposition, or mandatory conversion of public housing units will be offered as well as homeownership vouchers. The latter being a voucher used for the purchase of a home for those individuals displaced by the condemnation of public housing under this program.

### **Assisting Displaced Residents with Housing**

Homeownership is the epitome of self sufficiency. As such, it is a goal to place as many residents into a loan guarantee system, a system by which participants take out a government backed loan for acquiring, by lease or ownership, housing. This program pays the loan in full if the family or individual defaults on the loan thus giving banks an incentive to make the loan available to them. However, the unintended consequence of individuals or families purposely defaulting on the

loans is avoided by a system of strong accountability. Any credit program that the individual currently is participating in would be affected and a default would significantly reduce further opportunities to participate in such programs in the future. Furthermore, if the default occurred on a loan which facilitated the participant's move out of condemned public housing, that participant's privilege of having first choice at the new housing built will be restricted. The government-backed loan program is designed in the spirit of the Montgomery GI Bill passed by Congress on January 10, 1944.<sup>63</sup> This original version of the GI Bill provided for over 2 million new home loans to returning WWII veterans. It is in the spirit of this housing provision of the GI Bill that a similar system be introduced to assist members of severely distressed public housing today.

The home loan program is designed to allow persons who otherwise do not have the financial ability to secure a home loan the ability to achieve one. The federal government acts as default collateral for the loan thus assuring approval. If the applicant should default, the federal government takes over payments to assure that the bank will not suffer the financial loss; until the property could be sold or auctioned off again. In this way, the program is a subsidy that will only have to be paid when the applicant defaults, that is, there is not an actual exchange of money involved with every case and the program lasts only for the duration of the unpaid loan. Furthermore, the program removes financial risk from the standpoint of the bank, ensuring the loan is approved.

The process of this program involves several safeguards. First, a thorough background check on the applicant is carried out. This background check involves not only financial history such as bankruptcies, job history, and other outstanding financial obligations such as alimony payments or credit debt, but also analyzes applicants for criminal past and education. This score would be more generous than the private sector might be, without capitulating too much to the high-risk applicants. While a general score would be generated from this analysis, certain aspects such as a criminal record involving a felony or excessive bankruptcy claims would raise a red flag to further be evaluated by local authorities who might consider an instant rejection on the application. Any other outstanding credit issues would be mitigated through proper credit counseling.

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<sup>63</sup> <http://www.timelines.ws/20thcent/1944.HTML>.

The program also involves education and support for the successful applicant. A mandatory entrance and exit counseling exam explaining the terms of the loan would have to be completed by all successful applicants. In addition, once in the process of paying back the loan, participants will have access to mentor groups made up of individuals who are also participating in the program as well, as the eventual participants who have successfully completed the program.

For the government, safeguards against abuse of the system are also put into place. A limit on the amount of loan, which the government will back, will be put in place determined by the median house price of the region in which the applicant desires to live. No loan exceeding the median house value will be accepted. This ensures that starter homes are purchased rather than mansions. Furthermore, once an applicant has defaulted in the program, there is no possibility of re-applying for the program. However, the voucher system may still be a viable option for the defaulted individual depending on the severity of the default and other factors such as the reason for default. For example, if the individual defaulted due to health problems. A default on this program will also have real implications for the individual's credit report.

Should a default occur, the government does simply not pay off the bank loan and become the new owner of the property; rather, the government takes up the payments until the house is resold. Properties, which fall into this category, will become highly advertised to new applicants in the program to help ensure that the government is involved with the payments for as little time as possible. Properties, which fall into this category, will also be advertised heavily towards new applicants in the program so that such highly desirable affordable homes are not absorbed by the free market and possibly transformed into high priced homes. However, should participants in the program wish to improve the property and then resell it after the loan is paid, this system of responsible financial activity is encouraged.

### **Additional Benefits of Promoting Homeownership**

As noted above, homeownership is only a valid solution for a limited number of residents in severely distressed housing. However, general promotion of homeownership for those in higher income brackets and various other situations will help to assist residents who have been displaced. This can occur in two ways. First, residents in public housing not labeled as severely distressed will qualify for the homeownership program. This will free up vacancies in existing public housing structures that are not severely distressed, giving some displaced residents the option to move into public housing units in better repair. Secondly, some people will qualify for the homeownership program that currently live in lower rent districts, thereby freeing up more housing that will potentially accept vouchers from displaced residents. Thus, promoting

homeownership both for displaced residents from severely distressed public housing units and in general will help to alleviate the problem created by the redevelopment of these units.

### **Obtain Mandate and Funds**

In order to have a program that can benefit those living in these severely distressed public housing units and fix the units itself, it is imperative that the program be appealing to members of Congress. We have limited the time on the use of vouchers and we have instituted a way for the people living in these severely distressed public housing units to make the move toward homeownership.

In addition to passing this program, a redistribution of funds will be necessary. The 574 million dollars allocated for the HOPE VI program should be reassigned to the sufficiency program. This funding is necessary to assist with the relocation of residents prior to the sale of their current dwellings and training to prepare communities for the move to sufficiency programs. This reallocation is expected to result in a more effective use of funds, assisting a higher percentage of residents and higher percentage of units than the HOPE VI program. In addition, while current residents will be assisted and inspired to self-sufficiency, new applicants for housing assistance are expected. For this reason, ongoing funding will be needed once all communities are transitioned to sufficiency programs.

## **Conclusion**

For many years the severely distressed public housing stock in the United States has been neglected and its inhabitants disenfranchised. From the analysis, the Federal Government has attempted to resolve this issue through a multi-faceted approach which involves revitalization, demolition, and subsidization. The outcomes of these approaches have far too often resulted in an exasperation of the main issue, which affects all Americans: the well being of their fellow citizens. For too long a significant portion of individuals have inhabited these dilapidated structures have bared the brunt of the Federal Governments' inability to effectively provide adequate housing for this particular segment of the U.S. population. The time for action is now and the means for proper action are clearly established in the recommendation of this analysis. Americans are contributing to the solution through their financial resources; now is the time to let this nation embrace those resources and effectively utilize them to implement this plan.

## Case Study Addenda

### ***Addendum 1: Denver and Nashville Cooperatives: Sustainable Success?***

Cooperatives generally consist of resident purchase and collaborative management of a building formerly used as public housing. Both Nashville and Denver tested cooperative programs, with varying strategies and varying levels of success, revealing the scalability strengths and weaknesses of the model. R. Allen Hayes, who compared and contrasted the two programs, noted that both the Denver and Nashville programs had average household incomes over \$14,000 per year. He goes on to cite NAHRO statistics placing the average public housing income at \$6,539. The people entering these successful cooperatives were not only exception in their income levels; they also had higher rates of marriage and employment.<sup>64</sup> This resident profile demonstrates scalability issues with cooperatives. While, cooperatives do give public housing residents a sense of greater self-sufficiency and control, they also maintain concentrations of low-income individuals. This concentration is traditionally a contributor to the creation of crime centers. While the short term results seem positive, sustainability may also be an issue.

### ***Addendum 2: Tampa Housing Authority: Inspiring Homeownership and Self-Employment***

Tampa's Program is a program designed to move public housing residents into the private housing market as home owners has been tested in Tampa, Florida. Taylor Flag and Robert B. Hawkins, describe the nuts and bolts of the collaboration between the Tampa Housing Authority and a Tampa Community Redevelopment Agency in their 1996 account of a community transformation *Owning the Dream: Triumph and Hope in the Projects*.<sup>65</sup>

Tampa was creative in identifying easy entry home ownership opportunities. Restored burned or condemned homes and homes in foreclosure presented solid investments for public housing residents prepared to claim their independence, note Flag and Taylor.<sup>66</sup> The requirements for a public housing resident hoping to join the Tampa program were much more rigorous than those of the coop programs elsewhere. According to Flag and Hawkins, participants had to earn

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<sup>64</sup> R. Allen Hays, ed., *Ownership, Control, and the Future of Housing Policy*, (Westport, CT: Greenwood Press, 1993), 147.

<sup>65</sup> Flagg Taylor, and Robert B. Hawkins, *Owning the Dream: Triumph and Hope in the Projects* (San Francisco: Institute For Self-Governance, 1996), 99.

<sup>66</sup> Flagg Taylor, and Robert B. Hawkins, *Owning the Dream: Triumph and Hope in the Projects* (San Francisco: Institute For Self-Governance, 1996), 99.

between eleven and twelve hundred dollars and their rents had to exceed \$200 per month.<sup>67</sup> In other words, a participant's rent could not exceed more than 18.2 percent of her or his income. This is just over half the 30 percent ratio usually defined for public housing support. In addition to assuring adequate income, the program sought residents that demonstrated stability. Flagg and Hawkins note that two years of steady employment, good credit and consistent, timely rental payments were also required.<sup>68</sup> Tampa identified those with the greatest possibility of success for participation. It then helped these reliable and hard-working residents to acquire healthy, safe housing of their own.

Tampa also provided opportunities for residents to develop contract relationships with the housing authority – opening self-employment opportunities and a path to the stability and income levels required by the homeownership program.<sup>69</sup> The Tampa homeownership program presents many of the success factors defined on page X. Local feet on the street are needed for the identification of housing suitable for program participant purchase, and communities must have strong community support infrastructure to succeed with this type of model. The need for high resident standards and community support to ensure success of the program may lessen its immediate scalability. The political feasibility of homeownership programs, at this time, is high, and the program seems equitable in its processes and anticipated consequences.

While hard data might often be preferred in quantifying results, it is also worthwhile to consider the depth of the impact made on each individual who is able to claim responsibility for her or his own success. Flagg and Hawkins quote Sheila King, a former Tampa public housing resident and current public contractor, "It's up to the individual to take advantage of information that is made available to us," says King, "You gotta find that dedication--once I found it, I was hitting home runs."<sup>70</sup>

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<sup>67</sup> *Ibid.*

<sup>68</sup> *Ibid.*

<sup>69</sup> *Ibid.*

<sup>70</sup> *Ibid.*

### ***Addendum 3: Heritage Crossing***

July 2003 marked the celebratory completion of Heritage Crossing, one of the largest HOPE VI revitalization projects in West Baltimore. Heritage Crossing is the byproduct of a seven year of planning and construction joint venture between Enterprise Homes Incorporation, a Baltimore affordable housing developer, and A & R Development Corp., a Baltimore urban residential developer.<sup>71</sup> Locally, the Housing Authority of Baltimore City (HABC), Baltimore City Department of Housing and Community Development, Bank of America, Chase Manhattan Bank, Fannie Mae and Legg Mason Wood Walker Inc. all were listed as primary financiers of the Heritage project. The U.S. Department of Housing & Urban Development (HUD) and the Maryland Department of Housing and Community Development (HCD) also contributed funds.<sup>72</sup>

A once dilapidated project community, then known as George B. Murphy Homes, Heritage Crossing is now a 260-home development “adorned with trees, sidewalks, a community center, park and individual yards.”<sup>73</sup> The three bedroom single-family homes are for rent and sale, with pricing starting at \$70,000.<sup>74</sup> The 75 low-income rental units and the 185 moderate and market-rate town-homes are geared toward first-time homebuyers with incomes over 60% of the Baltimore area median income.<sup>75</sup> According to the John Hopkins University Institute for Policy Studies, “the effects of the transition from Murphy Homes to Heritage Crossing under the HOPE VI program appear to be almost solely limited to the 68% drop in population between 1990 and 2000 in the census tract encompassing the public housing development.”<sup>76</sup> The Heritage Crossing is isolated, physically and psychologically, from the surrounding neighborhoods. Thus, public perception and image appear to have improved, through the spurt of economic investment in the form of home loans and building permits.<sup>77</sup>

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<sup>71</sup> “Officials Laud New West Baltimore Housing Development,” Baltimore Business Journal, July 15, 2003, <http://baltimore.bizjournals.com/baltimore/stories/2003/07/14/daily18.html>.

<sup>72</sup> *Ibid.*

<sup>73</sup> “Baltimore Heritage Crossing Neighborhood Celebrates Completion”. [www.enterprisefoundation.org/heritageCrossing.asp](http://www.enterprisefoundation.org/heritageCrossing.asp).

<sup>74</sup> *Ibid.*

<sup>75</sup> *Ibid.*

<sup>76</sup> “Neighborhood Effects of HOPE VI: Evidence from Baltimore,” Executive Summary: John Hopkins University Institute for Policy Studies, [www.jhu.edu/~ips/publications/papers/ab28.html](http://www.jhu.edu/~ips/publications/papers/ab28.html).

<sup>77</sup> *Ibid.*

#### ***Addendum 4: Flag House Courts***

In 1998, the Housing Authority of Baltimore City (HABC) was given a federal HOPE VI grant to redevelop the Flag House Courts public housing site. Flag House Courts, bordered by the distressed Jonestown neighborhood to the North, and Little Italy, and economically strong neighborhood, to the South, had 487 public housing units demolished, in order to construct a revitalized community, consisting of a combination of townhouses and apartments, and a new community center. The revitalized community features 337 new residential units of which 130 are solely for public housing families, 52 for low-income families, and 155 are at market rate, valued between \$160,000 and \$220,000.<sup>78</sup>

The Flag House Courts development is located in the Jonestown neighborhood of Baltimore City; it is bordered by Albemarle Street to the West, Baltimore Street to the North, Central Avenue to the East, and Pratt Street to the South. Phase 1, which consists of 93 public housing units and 31 tax-credit units, is scheduled for completion by June 2004 and Phase II, consisting of 37 public housing units and 21 tax-credit units, is due to be complete by December 2004.<sup>79</sup> The transition from the old to the new development has been associated with a significant reduction in the poor, Black population in the Flag House Courts and Jonestown neighborhoods.<sup>80</sup> Most crime fell in all neighboring communities, but the fear and perception of crime appear to have heightened shortly before demolition, as criminals used the nearly vacant high-rises as hiding places, bases of operation, and shelter. In addition, there was almost no increased economic activity in Jonestown or Little Italy that could be attributed to the announcement of the Flag House Courts HOPE VI grant.

According to the John Hopkins University Institute of Policy Studies, “Although the marked improvement in the physical conditions of the public housing developments has not extended to adjacent neighborhoods, these nearby neighborhoods experienced increases in property values and economic activity, and an improved image, and these benefits were plausibly related to the HOPE VI intervention.”<sup>81</sup> The displaced residents of the former Flag House Courts have first priority in purchasing one of the 10 affordable units. HABC residents displaced by demolition

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<sup>78</sup> “Flag House Courts HOPE VI Site Profile,” [www.housingresearch.org](http://www.housingresearch.org).

<sup>79</sup> *Ibid.*

<sup>80</sup> “Neighborhood Effects of HOPE VI: Evidence from Baltimore,” Executive Summary: John Hopkins University Institute for Policy Studies, [www.jhu.edu/~ips/publications/papers/ab28.html](http://www.jhu.edu/~ips/publications/papers/ab28.html).

<sup>81</sup> *Ibid.*

and/or disposition shall have second priority. Any other public housing residents shall have third priority once the first and second priorities have been exhausted. If the units are not sold after 6 months from completion, they may be offered to Section 8 residents who previously resided in public housing. The units will not be available for purchase to the general public. Flag House Courts represents the last of Baltimore's original four massive high-rise family public housing developments. The other three have been demolished and rebuilt using previous HOPE VI grants.

***Addendum 5: Project Economic Statement***

**For the Planning Commission**

**CURRENT  
PLANNING**

Project Name: Flag House Courts HOPE VI Revitalization Project

Project Address: 900 E. Pratt Street (Bounded by Pratt Street on the South, Baltimore Street on the North, Albermarle Street to the East, and Central Avenue on the East)

Project Summary:

Land Use: Housing

- Multifamily (Public Housing, Low/Mod Income)
  - Gross Square Footage: 220,645 sf
  - 182 Units (130 Public Housing, 52 Tax Credit)
  
- Market Rate Housing
  - Gross Square Footage: 308,533 sf
  - 155 Units (145 Market Rate, 10 Affordable)
  
- Community Center
  - Gross Square Footage: 38,000
  
- Community Retail (900 thru 1100 E. Lombard Street)
  - Gross Square Footage:
    - 15,000 sf Store Front Retail
    - 25,000 sf Pad Site (Central Ave & Lombard)

Jobs

<u>Potential Construction Jobs (Total):</u>	<u>1,154</u>
Developer Controlled Contracts	
Phase I Rental (18 month Construction Period)	
General Contractor	294
Site work Contractor	25
Phase II Rental (12 month Construction Period)	
General Contractor	294
Site work Contractor	25
Homebuilder Controlled Contracts (3 Year Construction Period)	
Builder	305
Site work	25
City Controlled Contracts	
Public Infrastructure	
Phase 1 A (12 mo. construction period)	37
Phase 1B (12 mo. construction period)	73
Phase 2A (10 mo. construction period)	21
Phase 2B (12 mo. construction period)	55
Potential Permanent Jobs:	<u>135</u>
Retail:	80
Call Center (Community Center):	40
Leasing Center (Community Center):	15

Job Types

Retail:	Service, Management
Call Center:	Telemarketing Reps, Management
Leasing Center:	Clerical, Management, Maintenance

## Taxes

### Current

Public Housing:	Part of HABC's Aggregate Annual PILOT (Not segregated by individual complexes)
Other Residential:	\$5,503.29
Commercial:	\$14,596.86
Community Center:	None (former Mayor and City Council Bldg.)

### Potential

Public Housing:	Part of HABC's Aggregate PILOT
Tax Credit Rentals:	\$111,472.06
Homeownership:	\$690,095.20
Community Center:	\$104,760 (Partially Covered by PILOT – once PILOT is calculated amount will be reduced)
Retail:	\$130,513.50
Other - Retail Sales:	Undetermined at time of study. Users of retail space must be identified. Study is underway.

## Investment

Total Project Costs:	\$87,130,230
Private Financing:	\$37,049,435 (Total)
Related Capital Company (Syndicator):	\$6,255,000 (Private, Tax Credit Equity – Phase I Rental)
Phase II Equity Investor (Undetermined):	\$3,460,072
Balt. Community Development Financing Corp.	\$450,000 (Phase II Rental)
Mortgage Lenders:	\$20,873,756 (Homeowner Debt, Commercial Debt)
Market Equity (Homeowner Down payments)	\$6,010,607

<b>Public Financing</b>	<b><u>\$50,080,795</u></b>
Housing Authority of Baltimore City (HOPE VI)	\$21,500,000
Housing Authority of Balt City (Program Income)	\$ 2,876,454
Baltimore City (CIP)	\$13,500,000
Maryland DHCD	\$10,400,000
Empowerment Zone Funds	\$ 50,000
Other (Undetermined)	\$ 1,754,341

MBE & WBE Participation

Project goal is 30% of all construction and professional service contracts. Developer controls \$22,274,715 in construction and professional services contracts. The developer's MBE/WBE goal is 30% or \$6,682,415. To date, the developer has let \$15,815,548 in construction and professional service contracts. Of the gross amount let to date, the developer or its general contractors have secured 44% or \$6,954,032 in MBE/WBE minority contracts.

Special Zones

State Enterprise Zone: None  
Empowerment Zone: East

Homeownership: \$50,000 (Affordable Homeownership Down payment Assistance)  
Job Creation: Wage Tax Credit (Undetermined)

Residential Projects:

Public Housing Rentals (130 units): \$349/mo.  
Tax Credit Rentals (52 Units): 1BR - \$540.00  
2BR - \$620.00

Homeownership:

Affordable Town homes (10 units)	
Deeply Subsidized (3 units)	\$135,000
Low/Mod (7 units)	\$135,000
Market Rate Town homes (97 units)	
16' Wide (45 units)	\$210,000
20' Wide (52 units)	\$250,000
Market Rate Condominiums (40 units)	
1 <sup>st</sup> Floor Unit	\$150,000
2 <sup>nd</sup> Floor Unit	\$220,000
Market Rate Live/Work Units (9 units)	\$280,000

Date: March 27, 2003