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HOPE VI: Background, Funding, and Issues

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HOPE VI: Background, Funding, and Issues

Summary

The Revitalization of Distressed Public Housing program, referred to as HOPE VI, was created in 1992. Funding for HOPE VI in FY2004 and FY2005 was sharply cut after the Administration requested no funding at all, and the 109th Congress will face the decision of whether to provide any additional appropriations.

Administered by the Department of Housing and Urban Development (HUD), the program is used to renovate or demolish existing public housing and replace it with mixed-income housing. The local public housing authorities (PHAs) who administer public housing can apply for one of three types of HOPE VI grants: planning, demolition-only, or revitalization grants. Planning grants, which are no longer awarded, could be used for technical assistance in preparing a property to go through a demolition or revitalization. Demolition-only grants can be used for the physical destruction of distressed public housing and the relocation of its residents. Revitalization grants, which constitute the central component of the program, can be used for demolition, rehabilitation, and new construction of public housing, as well as land acquisition, relocation of residents, and community and supportive services for residents.

Over the history of the program, 515 HOPE VI grants have been made to PHAs in 40 states, districts, and territories. HOPE VI revitalization grantees planned to demolish 82,979 units of public housing, rehabilitate 11,573 units of existing public housing, and build 83,152 units of new housing — only 51% of which would be subsidized, resulting in a net loss of public housing units. The HOPE VI program has helped transform a number of severely distressed neighborhoods, which has made the program very popular with many Members of Congress from both parties.

HOPE VI has come under increased scrutiny over the past several years. It has been criticized for displacing too many residents, eliminating too many units of existing public housing, and for the length of time it takes to complete a HOPE VI redevelopment. Critics argue that some form of alternative financing for the capital needs of public housing — increased appropriations for public housing or some sort of privatization of public housing — is preferable to the HOPE VI program. Others argue that HOPE VI has been successful in fulfilling its goal of eliminating the worst public housing sites, and that, rather than eliminate HOPE VI, minor changes may be needed.

The President's FY2004 and FY2005 budgets requested no new funding for the HOPE VI program. Congress reacted by providing \$150 million for HOPE VI in FY2004 (P.L 108-199) and \$144 million in FY2005 (P.L. 108-447) — up from the President's request, but significantly down from its FY2003 funding level of \$570 million — and reauthorizing the program through FY2006 (P.L. 108-186). The debate surrounding the future funding of the HOPE VI program is rooted in a series of both successes and problems in the program. This report outlines the program and its history, which sets the context for today's debate. It will be updated to reflect congressional action.

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Introduction

The HOPE VI program is a public housing reform program. Through HOPE VI, the Department of Housing and Urban Development (HUD) provides funds to rehabilitate or demolish public housing and replace it with housing that serves both the poor as well as the middle class. In order to understand HOPE VI and its issues, it is important to first understand a brief history of the larger public housing program. (For the current status of HOPE VI appropriations and authorization, see discussion of Recent Developments beginning on page 18.)

History of Public Housing. The Low-Rent Public Housing program was created as a part of the U.S. Housing Act of 1937 (P.L. 93-383). The Depression-era program was intended to stimulate construction activity, clear slums, and provide low-rent housing to poor families. As designed under the Act, public housing is built and operated by local, quasi-governmental, public housing authorities (PHAs). Tenants who live in public housing typically pay 30% of their adjusted gross incomes toward rent, although they can opt for a market-based flat rent and PHAs can choose to institute minimum rents of up to $50 per month. PHAs are able to keep public housing rents low because local governments provide property tax reductions and the federal government provides both capital and operating subsidies to supplement the low rents paid by tenants.

From its inception, public housing has faced a number of barriers to success. Many communities were resistant to accepting public housing. This opposition, paired with strict federal rules about how much could be spent to build a unit of public housing, led to the construction of public housing developments in undesirable areas, such as near railroad tracks, highways, and industrial zones. The housing that was constructed was often high-density, high-rise structures. This form of development has often been characterized as "the projects." In addition to location and construction problems, many projects faced management problems. While many public housing projects were run by effective and efficient PHAs, others had inexperienced PHAs, or in some cases, negligent PHAs, who were unable or unwilling to deal with problems as they arose.

Furthermore, PHA budgets were often insufficient to maintain the properties. It was thought at the time the program was created that most tenants would be working adults whose incomes would increase until their economic situation improved enough that they could move out of public housing. This was the case in the early years of the program. However, policies that adopted rent levels based on incomes rather than operating costs and gave priority to the elderly and disabled, paired with changing demographics and a growth in single-mother-headed households, resulted in a population of public housing residents that was very different than originally envisioned. Today, about half of public housing residents are elderly or disabled and about half are non-elderly non-disabled single-adult headed households, the majority with children. Of those non-elderly, non-disabled households, only about half have income from work, while the other half either receive some form of cash assistance, such as welfare, or report no income. Today's public housing serves the very poor, who are only required to pay a percentage of their income toward rent. Since the rent that PHAs receive from tenants is so low, public housing is dependent on congressional appropriations, and the budget has not always kept up with need. Many units of public housing fell into disrepair, and some units had to be left vacant because they were no longer habitable. Public housing, over time, became known for terrible living conditions. Research has shown that communities with high concentrations of poverty often fall victim to myriad social ills.[1] The often dense, high-rise structures of public housing became riddled with crime, drugs, and violence.

Public housing was the primary government housing program for the poor until the late 1970s. However, out of growing concern about the problems with public housing, and other government-subsidized housing construction programs, President Nixon declared a moratorium on federal housing construction programs in 1973. In 1974, Congress authorized the Section 8 program, which provided subsidies to allow low- income families to live in private market housing. It was hoped that through partnerships with the private sector, the Section 8 program could avoid the problems faced by public housing. The Section 8 program also introduced tenant-based assistance, which subsidized tenants rather than units, giving tenants the freedom to move. Tenant-based assistance has grown in popularity, partially out of the hope that it can prevent concentrations of poverty in neighborhoods. Over time, Section 8 overtook public housing as the government's largest housing program for the poor; today, almost twice as many households are served by Section 8 than are housed in public housing.[2]

Basis for HOPE VI. Although new construction of public housing had ended by the early 1970s, over a million units of public housing were still occupied, and many were still plagued by problems. In order to determine how to deal with the existing stock of public housing, Congress created the National Commission on Severely Distressed Public Housing (P.L. 101-235) in 1989. The Commission was mandated to identify those public housing projects that were in a severe state of distress; assess the most promising strategies for improvement; and develop a national action plan.

In 1992, the Commission issued its findings and recommendations on the state of the Nation's public housing. The Commission labeled 6% of the public housing stock as severely distressed, at the time, equal to 86,000 units. It also reported finding:

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[1] See William Julius Wilson, *The Truly Disadvantaged: The Inner City, the Underclass and Public Policy* (Chicago: University of Chicago Press, 1987).

[2] For more information on Section 8, see CRS Report RL32284, *An Overview of the Section 8 Housing Program.*

- residents afraid to move about in their own homes and communities because of the high incidence of crime;
- high unemployment and limited opportunities for the meaningful employment of residents;
- programs designed to address the conditions with too few resources, provided too late;
- programs designed to assist residents of public housing that provide disincentives to self-sufficiency; and
- families living in physical conditions that have deteriorated to a degree that renders the housing dangerous to the health and safety of residents.

The national action plan presented by the Commission included proposals for change in five major categories:

- **Addressing the needs of residents**: recommendations included increasing funding for social services, increasing coordination among federal agencies that provide social services, and promoting economic development opportunities for residents.
- **Addressing the physical conditions**: recommendations included increasing funding for capital improvements, providing national leadership to PHAs in planning and design, establishing a model process to eliminate the causes of severe distress, and increasing coordination among government programs that support the rehabilitation of severely distressed housing.
- **Addressing management needs**: recommendations included providing funding for security, further tying PHA funding to performance, and promoting income-mixing in public housing.
- **Other strategies**: recommendations included encouraging PHAs to pursue private and non-profit management opportunities, increasing and improving available data on public housing, creating a new office on severely distressed public housing at HUD, and encouraging Congress to authorize a new partnership program between PHAs, non-profits, the private sector, and residents to attract additional resources to public housing.

History of HOPE VI

HOPE VI began as a demonstration program, created in reaction to the findings of the National Commission on Severely Distressed Public Housing. The Commission's National Action Plan was presented in August 1992; in October 1992 the final version of the FY1993 HUD appropriations bill (P.L. 102-389) passed the Congress, including $300 million for an *Urban Revitalization Demonstration* program. Under the demonstration, the Secretary of HUD was to choose 15 cities, based on need, to receive up to $50 million each to revitalize distressed public housing. Each city was required to spend 80% of its funds toward the capital costs of major reconstruction, rehabilitation and other physical improvements, the capital costs of replacement units and/or Section 8 certificates, management improvements for the reconstructed project, and for planning and technical assistance purposes. The remaining 20% was to be used for community and supportive services. PHAs were required to match 15% of all funds provided.

From 1993 until 1998, the Urban Revitalization Demonstration, now commonly referred to as HOPE VI, continued to receive funding through annual appropriations bills; however the program remained unauthorized. The law governing the program was contained within annual appropriations bills and the requirements for eligibility and funding changed from year to year. HUD administered the law not through regulation, but in the directions they issued along with each annual Notice of Funding Availability (NOFA), to which communities would apply for HOPE VI funding. Changes to the program, in addition to those mandated by annual appropriations laws, were included in these NOFAs.

The FY1999 HUD appropriations bill (P.L. 105-276) included a major public housing reform initiative — The Quality Housing and Work Opportunity Reconciliation Act (QHWRA) — which finally authorized the HOPE VI program. QHWRA codified four purposes for the program:

- improving the living environment for public housing residents of severely distressed public housing projects through the demolition, rehabilitation, reconfiguration, or replacement of obsolete public housing projects (or portions thereof);
- revitalizing sites (including remaining public housing dwelling units) on which such public housing projects are located and contributing to the improvement of the surrounding neighborhood;
- providing housing that will avoid or decrease the concentration of very low-income families; and
- building sustainable communities.[3]

In the law, severely distressed public housing was defined as public housing that:

- requires major redesign, reconstruction or redevelopment, or partial or total demolition;
- is a significant contributing factor to the physical decline of and disinvestment by public and private entities in the surrounding neighborhood;
- is occupied predominantly by families that are very low-income families with children, unemployed, and dependent on various forms of public assistance; or has high rates of vandalism and criminal activity (including drug-related criminal activity) in comparison to other housing in the area; and
- cannot be revitalized through assistance under other programs because of cost constraints and inadequacy of available amounts.[4]

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[3] See 42 U.S.C. § 1437v(a), available at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2000_uscode&docid=42USC1437v.pdf.

[4] This list summarizes the definition given in 42 U.S.C. § 1437v(j)(2), available at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2000_uscode&docid=42US

QHWRA authorized funding for HOPE VI through the end of FY2002 and included a sunset clause which stated that no assistance could be provided to the program after September 30, 2002. The FY2003 HUD appropriations bill (P.L. 108-7) extended authorization for the HOPE VI program through the end of FY2004. Recently, P.L. 108-186 reauthorized HOPE VI, with some changes, through FY2006.

The Program

The purpose of the HOPE VI program is to revitalize severely distressed public housing developments and transform them into safe, liveable environments. As described by HUD, this includes:

- changing the physical characteristics of public housing from high-rise tenements to attractive, marketable units that blend in with the surrounding neighborhoods;
- lessening concentrations of poverty by reducing density and promoting mixed-income communities;
- encouraging partnerships with other agencies and local governments for support and resources; achieving high-quality management in public housing and enforcing strict eviction rules; and
- helping residents to attain self-sufficiency by providing services and educational opportunities, and by encouraging economic development in the area surrounding public housing.

HUD seeks to meet the goals of the HOPE VI program by providing grants to PHAs for revitalization, or if this is not economically feasible, for demolition of distressed public housing. HOPE VI funds have been used to provide three types of grants: revitalization, demolition-only, and planning. However, planning grants have not been provided since 1995. The most recent HOPE VI reauthorization law (P.L. 108-186) created a fourth type of HOPE VI grant, designed to promote "main street" revitalization in small communities, which will be discussed later in this report.

The Application and Awards Process. Each year, HUD publishes a NOFA in the *Federal Register* inviting PHAs to apply for HOPE VI Revitalization and Demolition-Only grants. The NOFA includes application procedures and requirements, which change somewhat every year. PHAs submit applications requesting a specified amount of money to be used to implement a plan that they have detailed to HUD.

Revitalization grants. PHAs who wish to receive a revitalization grant must apply by the deadline published in the NOFA. Once the deadline has passed, HUD screens the applications to ensure that they meet threshold requirements. If they do not, then they are disqualified. For example, in order to meet the threshold requirements in 2004, applicants had to prove, among other factors, that they had

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[4] (...continued)
C1437v.pdf.

secured site control and zoning approval for the proposed site, had issued an Request for Qualifications (RFQ) to secure a developer, and that they had prepared a plan in advance for relocating residents impacted by the revitalization.

Once HUD screens the applications, the agency scores them on a variety of factors. For example, according to the 2004 NOFA, applications received scores in categories including capacity to undertake development, need, the amount of outside resources brought in (leveraging), the amount of homeownership housing created, the amount of prior HOPE VI units that had been completed by the applicant, and community and supportive services. HUD then ranks the scored applications and funds them, in order, until the HOPE VI funds are exhausted. In the past, HUD had not established a maximum grant level. However, since 1996, when HUD began allowing PHAs to use HOPE VI dollars to leverage outside resources, the average grant amount per project has dropped significantly and caps have been adopted. For example, 2004 revitalization grants were capped at $20 million each.

Demolition-only grants. Demolition-only grants are awarded on a first-come, first-served basis. Once the NOFA is published, eligible PHAs can apply. In order to be eligible, a PHA must prove it is in one of four priority groups[5] that involve the mandatory or voluntary demolition of public housing or prior approval for a revitalization grant. HUD screens applications as they arrive to ensure that they are in a priority group and that they meet minimum requirements. For example, in 2003, minimum requirements included a cap of 2,500 units to be demolished per applicant, a plan to relocate residents, and proof that the units are in severe distress. Once HUD is assured that applications meet minimum requirements, HUD funds them on a first-come, first-served basis, by priority group, until the HOPE VI funds are exhausted.

Once grantees are selected, they are notified and are required to sign a grant agreement with HUD. The grant agreement includes time-lines for progress. For example, under the terms of the 2004 NOFA, HOPE VI revitalization grantees are expected to complete their developments within 54 months. However, as the NOFAs change every year, different cohorts of grantees have had different time-lines for spending their funds. PHAs must agree to meet all requirements of the program, including match requirements. For example, PHAs must match 5%[6] of their HOPE VI grant award with other resources and must match, dollar-for-dollar, any amount over 5% of the grant amount that is used for community and supportive services for residents. If a PHA is not successfully meeting its deadlines or requirements, HUD has the authority to penalize the PHA either by appointing some form of receiver or by rescinding grant funds.

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[5] The priority groups are, in order of priority: (1) approved for a 202 conversion, (2) applied for a 202 conversion, (3) approved for a Section 18 demolition, or (4) approved for a HOPE VI revitalization grant. Section 202 Mandatory Conversion is the conversion of public housing developments to Section 8. If it costs less to give the residents a Section 8 voucher, rather than maintain the low rent public housing building, the building is shut down and the residents are given Section 8 vouchers. The demolition and disposition of public housing is authorized under Section 18 of the Housing Act of 1937 (the Act), as amended. PHAs can apply to demolish public housing, even outside of the HOPE VI program.

HOPE VI Funding and Grants. Funding for the HOPE VI program increased in the beginning, but remained relatively steady over many years. However, there was a major decrease in funding in FY2004 that was continued in FY2005. **Table 1** presents HOPE VI appropriations from 1993 to 2004.

Table 1. HOPE VI Appropriations, 1993-2005
(dollars in millions)

Fiscal year	Public law	Appropriations
1993	P.L. 102-389	$300
1994	P.L. 103-124	778
1995	P.L. 103-327	500
1996	P.L. 104-134	480
1997	P.L. 104-204	550
1998	P.L. 105-65	550
1999	P.L. 105-276	625
2000	P.L. 106-569	575
2001	P.L. 106-377	575
2002	P.L. 107-73	574
2003	P.L. 108-7	570
2004	P.L. 108-199	150
2005	P.L. 108-447	144
Total		**$6,371**

Source: Congressional Research Service (CRS) analysis of HUD data.

Note: Appropriations figures do not reflect across-the-board or other rescissions.

This funding has been used to provide over 515 grants. **Table 2** shows the amount and number of grants awarded, by type, from 1993 to 2003.

Table 2. HOPE VI Awards, 1993-2003
(dollars in millions)

	Planning grants		Implementation/ revitalization grants		Demolition grants		Total	
FY	$	#	$	#	$	#	$	#
1993	1	2	299	6	0	0	300	8
1994	3	6	753	20	0	0	755	26
1995	11	27	486	13	0	0	497	40
1996	0	0	404	20	70	22	473	42
1997	0	0	497	23	1	4	498	27
1998	0	0	532	28	57	49	589	77
1999	0	0	571	21	41	32	612	53
2000	0	0	514	18	59	26	564	44
2001	0	0	492	16	75	44	567	60
2002	0	0	494	28	42	41	537	69
2003	0	0	433	24	46	45	479	69
Total	**$15**	**35**	**$5,475**	**217**	**$391**	**263**	**$5,881**	**515**

Source: Congressional Research Service (CRS) analysis of HUD data.

Thirty-five planning grants were made to PHAs between 1993 and 1995. These grants were used to pay for studies of the area to be revitalized; to develop a plan for revitalization; for economic development; and for technical support. HUD believed that these grants were needed by some PHAs when the revitalization program was new, but after 1995, HUD believed that there were enough examples of PHAs that had begun the revitalizing process, so no additional planning grants were funded.

Demolition-only grants began in 1996 and were consistent with HUD's 1996 goal of demolishing 100,000 units by the year 2003. HUD has awarded 263 demolition-only grants since 1996. These grants are made to PHAs when it is not economically feasible to redesign or reconstruct the existing units of a project. The grants are used to demolish the existing units and to relocate the affected tenants in replacement housing, which could include providing them with tenant-based vouchers. While many families are rehoused through tenant-based assistance, additional unit replacements are also essential to the program. In many cities concerned with the availability of affordable housing, hard unit replacement is a vital component in obtaining community consensus to demolish buildings that may still be occupied. Often, demolition-only grants are used as precursors to future HOPE VI revitalization grant initiatives.

The bulk of funding provided for the HOPE VI program has been awarded through revitalization grants,[7] which is the most well-known component of the program. HUD has awarded 217 revitalization grants since the inception of the HOPE VI program. The grants can be used for the development of new public housing, rehabilitation of existing public housing, demolition and/or disposition[8] of existing public housing, the creation of homeownership replacement units, the acquisition of new property, the relocation of displaced residents, community and supportive services for residents, and administrative fees and costs. Up to 20% of the grant may be used for community and supportive services programs.

Over the history of the HOPE VI program, almost $5.5 billion worth of revitalization grants have been awarded to PHAs in 40 states and territories. **Table 3** shows the breakdown of revitalization grants and awards by state.

Table 3. HOPE VI Revitalization Grants by State, FY1993-2003
(dollars in millions)

State	Total Grants	Total Awards
Alabama	5	$99.7
Arizona	3	62.3
California	12	327.1
Colorado	3	72.2
Connecticut	5	131.4
Delaware	1	161.2
District of Columbia	6	16.8
Florida	13	255.6
Georgia	10	260.0
Hawaii	0	0.0
Illinois	12	347.6
Indiana	4	79.0
Kansas	0	0.0
Kentucky	5	107.7
Louisiana	4	96.0
Maryland	9	139.1
Massachusetts	6	209.8
Michigan	4	127.6

[7] Early in the HOPE VI program, revitalization grants were called implementation grants.

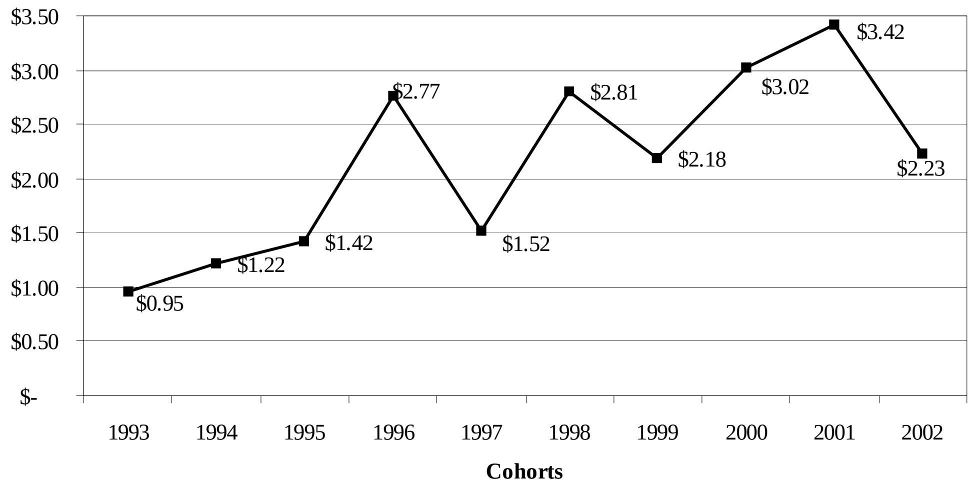
[8] The term “disposition” means the sale or transfer of public housing by the PHA.

State	Total Grants	Total Awards
Minnesota	2	34.2
Mississippi	7	172.4
Missouri	2	52.3
Montana	1	0.9
Nevada	0	0.0
New Jersey	13	306.1
New York	6	365.4
North Carolina	12	177.5
Ohio	10	283.6
Oklahoma	1	28.6
Oregon	1	35.0
Pennsylvania	15	310.7
Puerto Rico	1	20.0
Rhode Island	1	50.0
South Carolina	6	122.6
Tennessee	9	247.9
Texas	9	291.5
Virgin Islands	0	129.3
Virginia	6	0.0
Washington	6	205.1
West Virginia	1	129.7
Wisconsin	5	17.1

Source: Congressional Research Service (CRS) analysis of HUD data.

Leveraging. One of the key components of the HOPE VI program is the leveraging of outside resources. Beginning in 1996, revitalization grantees were encouraged to seek outside sources of funding to undertake their redevelopment, in addition to their match requirement. Since that time, grantees have partnered with private non-profit and for-profit organizations and local and state governmental entities who have contributed both expertise and resources to HOPE VI projects. In aggregate, PHAs have budgeted $2.13 in leveraged (meaning non-HOPE VI) funds for each HOPE VI revitalization grant dollar awarded. **Figure 1** demonstrates the generally increasing trend in the amount of funds leveraged by HOPE VI grantees.

Figure 1. HOPE VI Leveraging by Cohorts of Grantees
(dollars in millions)



Source: CRS analysis of HOPE VI expenditure data from the U.S. Department of Housing and Urban Development, using the same methodology as used in U.S. General Accounting Office, GAO-03-91, *Hope VI Leveraging Has Increased, but HUD Has Not Met Annual Reporting Requirement,* Nov. 2002, available at [http://www.gao.gov/new.items/d0391.pdf].

Note: Numbers represent amount of leveraged resources budgeted to be used relative to the number of HOPE VI dollars budgeted to be spent. Numbers do not reflect actual expenditures. Data are current as of June 30, 2004.

Despite general satisfaction with the amount of non-HOPE VI funds grantees are bringing into projects, concern has been raised about the source of these funds. A study conducted by General Accounting Office (now the Government Accountability Office) found that, from 1993 to 2003, 79% of all leveraged funds came from federal sources, such as the HOME block grant, the Community Development Block Grant (CDBG) and the Low-Income Housing Tax Credit (LIHTC). Only 12% came from private sources.[9] This has led to the criticism that HOPE VI redevelopments are spurring little private investment and are more expensive for the federal government than they appear. Concerns about the cost of HOPE VI developments will be discussed later in this report.

Successes

HOPE VI has been credited with a number of successes. In terms of addressing severely distressed public housing, the program has largely met its original goal: to eliminate the worst severely distressed public housing. Grantees have been provided sufficient funding to demolish well over 100,000 units of public housing.[10] The

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[9] U.S. General Accounting Office, *Hope VI Leveraging Has Increased, but HUD Has Not Met Annual Reporting Requirement*, GAO-03-91, Nov. 2002, available at http://www.gao.gov/new.items/d0391.pdf

[10] According to HUD program summary data, revitalization grantees plan to demolish

(continued...)

homes that are built in place of the demolished units are typically lower-density, safer, and more attractive. The new designs also generally connect the public housing developments with their surrounding communities, both functionally and aesthetically.

Success in the HOPE VI program can also be measured by the amount of revitalization it has sparked in the surrounding community. Although this kind of change is hard to measure, studies have shown that HOPE VI has had some success. A study of eight HOPE VI sites undertaken by the Housing Research Foundation (HRF) found that, in communities surrounding a recent HOPE VI revitalization project:

- Per capita incomes were up an average of 71% (compared to only 14.5% for the cities as a whole).
- Neighborhood unemployment rates had fallen by an average of 8.4%.
- Only 11% of neighborhood households were receiving public assistance, down from an average of 39% in 1989.
- 69% of households qualified as low-income, down from 81% in 1989.
- Increases in commercial and residential lending rates increased at a faster rate than overall city increases.
- Overall and violent crime declined by an average of 46% and 68% respectively, compared to a decline of only 25% and 38% in the overall city.

The author concluded that "Although there are many non-HOPE VI factors contributing to change in these communities, the nature of HOPE VI development has helped determine the extent and pace of that change."[11]

HOPE VI has also encouraged PHAs to build relationships with outside partners, including non-profits and the business community. These partnerships bring new resources into communities undergoing revitalization. Examples include the creation of community centers, charter schools, and new commercial activity in redeveloped HOPE VI sites and the provision of capital to help public housing residents start small businesses and social services to help public housing residents further their educations or overcome personal barriers.

PHAs have also gained new knowledge about private capital markets as a result of HOPE VI. This new knowledge has allowed a number of PHAs, outside of the HOPE VI program, to participate in mixed-finance deals and secure private loans.

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[10] (...continued)
82,979 units of public housing and demolition-only grantees plan to demolish 57,593 units of public housing, for a total of 134,572 units of public housing to be demolished.

[11] Sean Zielenbach, *The Economic Impact of HOPE VI on Neighborhoods* (Washington, D.C.: Housing Research Foundation, 2002), available at http://www.housingresearch.org/hrf/hrfhome.nsf/e9c24279c3bd4d1085256a0300779c07/dc611c350fe86e7085256cd800698e98/$FILE/ATTSO6UM/ImpactAnalysisFinal.pdf.

The conference report accompanying the FY2004 appropriations bill (H.Rept. 108-401) noted that 92 PHAs had used $313 million in public housing funds to leverage over $1 billion in private sector financing to address the capital needs of public housing. These extra funds supplement federal funds and rents to modernize public housing. It is hoped that, with the use of outside funding, PHAs can begin to address the large backlog of modernization needs in existing public housing and prevent further disrepair.

HOPE VI has also often brought positive press to areas of towns that were plagued by negative perceptions. Many news stories have been written about community transformations, thanks to HOPE VI.[12] Arguably, HOPE VI might help to change the public's generally negative perceptions of public housing.

Concerns

Despite the HOPE VI program's successes, there are several program issues facing Congress. They include: the slow expenditure of HOPE VI funds, the impact of HOPE VI on the original public housing residents, the cost-effectiveness of the program, and the loss of assisted housing stock.

Expenditure. One of the biggest criticisms of the HOPE VI program is the slow expenditure of HOPE VI funds. A Bush Administration official testified before Congress that as of December 31, 2002, revitalization grantees had expended only 42% of their HOPE VI funds.[13] CRS analysis of more recent data provided by HUD indicates that as of the third quarter of FY2004 (June 30, 2004), 58% of revitalization grant funds had been expended. A 2003 GAO report found that the majority of revitalization grantees missed at least one of the deadlines established in their grant agreements.[14]

A number of reasons have been cited for PHAs' slow expenditure of HOPE VI funds. One is the changing nature of the program. In the beginning, grantees were chosen based almost solely on need. Often, the PHAs with the most need had the weakest management capacity. As a result, the poorest-performing PHAs were awarded large grants. It is not surprising that they had difficulty in implementing

[12] For example, see Joanne Huist Smith, "Daytonview Gets Update; Area Has New Look, Feel, Soon to Have New Residents," *Dayton Daily News*, Dec. 25, 2003, p. Z7-1;Vicki Cheng, "Hope in Durham," *The Raleigh News & Observer,* Dec. 8, 2003, p. B1; and David Austin, "Optimism Marks New Columbia Groundbreaking," *The Oregonian,* Dec. 2, 2003, p. C01.

[13] Testimony of Assistant Secretary for Public and Indian Housing Michael Liu, in U.S. Congress, House Financial Services Committee, Subcommittee on Housing and Community Opportunity, *Strengthening and Rejuvenating Our Nation's Communities and the HOPE VI Program*, hearings, 108th Cong., 1st sess., Apr. 29, 2003, H. Hrg. 108-23 (Washington: GPO, 2003).

[14] U.S. General Accounting Office, *HUD's Oversight of HOPE VI Sites Need to Be More Consistent*, GAO-03-555, May 2003, available at http://www.gao.gov/new.items/d03555.pdf/

their redevelopment plans. This was especially true in 1996, when Congress earmarked a set of agencies to receive grants outside of any competitive process.[15]

HUD has worked to address several of these problems. Over time, the process for selecting grantees has become more competitive, and HUD now uses a number of criteria to judge applicants' capacity for undertaking these complicated development projects. For example, the 2002 and 2003 revitalization NOFAs included rating factors that rewarded applicant and developer capacity and deducted points from applicants with previous HOPE VI grants that were behind in development.

In trying to understand slow expenditures and whether the efforts undertaken by HUD have been effective, it can be misleading to look at gross expenditures. The statistic cited above — that only 58% of all awarded revitalization funds had been spent by the third quarter of FY2004 — masks great variation in actual expenditures. Since grantees were selected under different criteria at different points in time, it is useful to think of them in cohorts by the year they were selected for a grant. **Table 4** shows expenditures as of the third quarter of FY2004 for agencies grouped in such cohorts. As would be expected, earlier revitalization grantees have spent much more than 58% of their funds, while more recent grantees have spent much less than 58% of their funds.

Table 4. Expenditure Rates by Year Revitalization Grant Awarded

Award year	Percent expended as of 6/30/2004
1993	95%
1994	72%
1995	79%
1996	58%
1997	82%
1998	70%
1999	49%
2000	36%
2001	24%
2002	8%

Source: Congressional Research Service (CRS) analysis of HUD data.

[15] The 1996 grantees are known to have had problems in undertaking their HOPE VI redevelopments. Their problems are especially visible in expenditure data displayed in **Figure 2** later in this report. A GAO assessment of 1996 grantees cited several additional factors that have led to delays in HOPE VI projects: PHAs often lack staff with expertise in development and finance, which hinders their ability to undertake complicated mixed-finance deals without acquiring additional staff or consultants; certain types of development, including on-site construction and new construction, are more difficult than others, which may not have been accounted for in original plans; a lack of community and resident support can hinder HOPE VI development plans, and may lead to lengthy litigation; and the HUD approval process can move slowly, perhaps because of staffing limitations.

Table 4 helps to explain the low *average* expenditure rate, but it does not illustrate whether funds are being expended at an acceptable level or whether the changes adopted by HUD and Congress to improve the expenditure rate have worked. One way to try to answer the second question is to compare grantee expenditure rates at comparable periods in the life of the grants. **Figure 2** compares the expenditure rates of revitalization grantees, grouped by year the grant was awarded, at the end of the second, third and fourth years after they received their grants. If changes in the program had been effective, one would expect to see an increase in the rate of expenditure with each subsequent round of grantees. The trendlines imposed over the data slope upwards, indicating an increasing rate of expenditure. According to **Figure 2**, recent grantees do seem to be spending their funds at a faster rate than did earlier grantees — suggesting that HUD policy changes may have had an impact.

Figure 2. Rate of Expenditure by Cohorts of HOPE VI Revitalization Grantees at 2, 3, and 4 Years into Their Grants

Source: CRS analysis of HOPE VI data provided by HUD.

Note: Data are lagged one year and simple trendlines are superimposed in the form of dashed lines. 1996 grantees appear to be outliers and do not follow the trend. For a discussion of the unique situation of the 1996 grantees, see pages 13-14 and footnote 15.

Residents. The majority of HOPE VI revitalization plans require at least the temporary displacement of residents. Grantees can relocate residents, either temporarily or permanently to other public housing sites or by providing them with vouchers to be used in the private market. According to CRS analysis of HUD data, as of June 2004, 56,221 households had been relocated by HOPE VI revitalization grantees. Of that 56,221, 48% had been moved to public housing, 32% had been given Section 8 vouchers, 6% had been evicted, and 13% had made other arrangements or left the program. Of the 56,221 that were relocated, 19% were able eventually to move to finished revitalized units.

While the intention of many grantees is to return as many displaced residents as possible to redeveloped sites, often fewer residents return than planned. GAO found that 1993-1998 grantees estimated that 61% of original residents would return to redeveloped sites in 1999; by 2003, their estimate of resident returns had dropped to 44%. Some families choose not to return, opting instead to stay where they were relocated and avoid the hassle of another move. According to June 20, 2004 HUD data, grantees now estimate that 46% of original residents will return to redeveloped sites.

Given that many residents who are displaced from HOPE VI sites do not return when the revitalization is complete, low-income housing advocates have raised questions about what has happened to these displaced residents. Since HUD has not always required PHAs to track residents during the revitalization process, some PHAs have lost track of residents after their initial relocation. To learn more about what has happened to displaced residents, the Urban Institute conducted a study that looked at the living conditions of former residents of eight HOPE VI sites, several years after their initial relocation. Their study had mixed findings. Eighty percent reported that their new unit was in the same or better condition than their original unit. Most noted that they felt safer in their new neighborhoods and that their new neighborhoods were less poor. However, more than half of displaced residents who did not move into public housing (because they took a voucher or left assisted housing) reported trouble paying rent or utilities.[16]

Low-income housing advocates have voiced concern that too many residents have been displaced as a result of HOPE VI, a program that was originally intended to improve their lives. They argue that HUD should put a greater priority on the needs of public housing residents when selecting HOPE VI grantees. Advocates contend that more money and effort should be devoted to supportive services and that more units of public housing should be built through HOPE VI. They also argue that PHAs should be responsible for providing sufficient support to displaced residents, especially residents that leave public housing, to ensure that they successfully make the transition.

Cost-Effectiveness. Over the history of federal housing programs, priorities have shifted from providing publicly constructed and owned housing for low-income families to providing subsidies, either to the private market to build low-cost, private housing, or to residents for use in the private market. One of the main reasons for this shift was the finding that it was more expensive to build and maintain publicly owned housing than it was to provide subsidies to the private market.[17] As a result, no new public housing has been built since the early 1970s — except through the HOPE VI program. Grantees can use HOPE VI funds, in conjunction with other

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[16] Susan J. Popkin, *The HOPE VI Program — What About the Residents?* (Washington: Urban Institute Press, Dec. 2002).

[17] Mark Shroder and Arthur Reiger, "Vouchers versus Production Revisited," *Journal of Housing Research,* vol. 11, no. 1, 2000, pp. 91-107.

public and private funds, to build replacement units of public housing. Given what is known about the past cost-effectiveness of the construction of public housing, questions can be raised as to whether this is an effective use of limited government dollars. HUD testified before Congress in 2003 that it is not an efficient method. According to the Assistant Secretary for Public and Indian Housing, the division that oversees the HOPE VI program:

> Moreover, it is evident to us that HOPE VI is not an efficient method for meeting the current and future capital needs of the public housing program. The average cost of building a unit under HOPE VI is $120,000, more than 33% greater than the average cost of building a similar unit using the HOME block grant program.[18] Given overall budget constraints, it just doesn't make sense for us to continue funding for this program at the expense of more cost effective programs to serve the same ends.[19]

Some critics have advocated converting public housing to vouchers and allowing residents to move and PHAs to sell remaining units or entire buildings at the market rate. They believe that the federal government should not own or construct housing because it is inefficient.

Loss of Public Housing Stock. The loss of the nation's stock of publicly assisted housing, affordable to low-income families, has been of concern for a number of years. The congressionally mandated, bipartisan Millennial Housing Commission found "a critical shortage of affordable apartments for extremely low-income households."[20] As noted earlier, most HOPE VI developments do not replace every unit of public housing demolished, and most include a number of market rate units that are too expensive for public housing residents to afford. The long-standing requirement that each unit of public housing destroyed be replaced with a new unit of public housing — called "one-for-one replacement" — was suspended in 1994 and fully repealed in 1996. HUD ended the one-for-one replacement requirement out of fear that it promoted concentrations of poverty, did not appeal to investors, and because the low rents paid by public housing residents would not allow projects to remain financially viable.

As of June 2004, revitalization grantees had planned to demolish 82,979 units of public housing and rebuild or renovate 94,725 units of new housing, only 48,325 of which would be subsidized housing units. As of that same time, construction of 36% of all planned units had been completed and construction of 48% of all planned

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[18] The HUD HOME program provides formula grants to States and localities that communities use — often in partnership with local nonprofit groups — to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.

[19] Testimony of Assistant Secretary for Public and Indian Housing Michael Liu, in U.S. Congress, House Financial Services Committee, Subcommittee on Housing and Community Opportunity, *Strengthening and Rejuvenating Our Nation's Communities and the HOPE VI Program*, hearings, 108th Cong., 1st sess., Apr. 29, 2003, H. Hrg. 108-23 (Washington: GPO, 2003).

[20] Report of the Bipartisan Millennial Housing Commission, *Meeting Our Nation's Challenges* (Washington: GPO, 2002), p. 17.

subsidized units had been completed. Revitalization grants alone have depleted the number of subsidized housing units by over 35,000 units as of the third quarter of FY2004, not counting the units demolished by demolition-only grantees. Low-income housing advocates fear that HOPE VI is eroding the nation's stock of affordable housing, and many have argued that HUD should reinstate the one-for-one replacement requirement. They argue that, in many communities, there is simply a shortage of lower-cost housing and that the federal government has some responsibility to help increase, or at least maintain, the supply.

Recent Developments

Funding for HOPE VI. In both FY2004 and FY2005, the Administration requested no new funding for the HOPE VI program. Citing the slow expenditure of funds, concerns about cost-effectiveness, and that the program had effectively reached its goal of demolishing 100,000 units of distressed public housing, the Administration stated it was time to rethink whether HOPE VI is still necessary or effective. The Administration argued that even without new funding, the program would not end any time soon, since so many projects are still in the pipeline, but that by not funding the program for a year, HUD would have time to throughly evaluate the program and consider alternatives.

Congress in both years rejected the Administration's plan to zero-out the program. The FY2004 Consolidated Appropriations Act (P.L. 108-199) provided $150 million for HOPE VI, significantly less than the $570 million provided in FY2003. In budget hearings, many Members of Congress from both parties expressed their satisfaction with the HOPE VI program, citing successful revitalizations in their own communities. The FY2005 Consolidated Appropriations Act (P.L. 108-447) also funded the HOPE VI program, providing $144 million. Members of Congress showed similar levels of support for HOPE VI in FY2005. For example, the Chairman of the Senate Appropriations Committee, VA-HUD Subcommittee stated at a hearing on April 1, 2004 that

> [He] continue[s] to be troubled by the Department's decision to eliminate all funding for the Public Housing HOPE VI program.... It largely has worked well and deserves to be funded or replaced with a program that is better equipped to address the remaining stock of distressed public housing.[21]

HOPE VI Reauthorization. The HOPE VI program was originally authorized through the end of FY2002. The 108th Congress initially extended the program through the end of FY2004 (P.L. 108-7), but more recently Congress has extended the HOPE VI program through the end of FY2006, as a part of a larger bill designed to make changes to a number of housing programs, including HOPE VI. P.L. 108-186, the American Dream Downpayment Act, was signed into law on December 16, 2003. Changes to the HOPE VI program included in the law are listed below:

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[21] Federal Documents Clearing House Transcript, Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies FY2005 Appropriations, Apr. 1, 2004.

- **Changes to selection criteria.** The new factors HUD must consider when selecting applicants for HOPE VI grants are designed to increase access to HOPE VI grants for smaller PHAs, increase mandatory resident participation in the process, minimize the permanent displacement of public housing residents, increase the number of assisted units created (if demand is sufficient), and encourage the prioritization of existing residents for new units.
- **Broadened definition of severe distress.** The definition of severely distressed public housing will now include projects that are in severe social distress, meaning they lack access to transportation, supportive services, economic opportunity, schools, civic and religious institutions, and public services.
- **GAO study.** The law requires GAO to study severely distressed public housing that serves primarily the elderly and disabled to ascertain whether HOPE VI grants are an appropriate tool for meeting the needs of the residents of these developments.
- **New Main Street Revitalization Grants.** This new category of HOPE VI grant will be significantly different than the revitalization and demolition-only grants currently available. Main Street grants will be awarded to units of local government (rather than PHAs) in small communities (population under 50,000) that are not currently served by a PHA, or are served by a small PHA. Currently, the majority of HOPE VI grants go to large cities, arguably where the most blighted public housing is found. Main Street grants will be capped at $1 million each and can be used to develop affordable housing that is located in a community area that is undergoing a historic main street revitalization. The grants will be funded through a 5% set-aside in the HOPE VI annual appropriation.