



Statement of  
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Chief Executive Officer  
National Association of Housing and Redevelopment Officials  
Before the Committee on Financial Services  
United States House of Representatives

March 17, 2010

“The Administration’s Proposal to Revitalize Severely Distressed Public and Assisted Housing: The Choice Neighborhoods Initiative”

Chairman Frank, Ranking Member Bachus, Chairwoman Waters, and Ranking Member Capito, I would like to thank you for the opportunity to testify on behalf of the National Association of Housing and Redevelopment Officials (NAHRO) during today's important hearing on the administration's proposed Choice Neighborhoods Initiative. My name is Saul Ramirez, and I am the Chief Executive Officer of NAHRO.

A 501(c)(3) membership association, NAHRO represents over 3,200 housing authorities, community development departments, and redevelopment agencies, as well as over 20,000 individual associates working in the housing and community development industry. NAHRO's members administer HUD programs such as Public Housing, Section 8, CDBG, and the HOME Program. For more than 75 years, our extensive and diverse membership has allowed us to serve as the leading housing and community development advocate for the provision of adequate and affordable housing and strong, viable communities for all Americans--particularly those with low and moderate incomes.

NAHRO members own or administer approximately 1.1 million units of public housing (approximately 87 percent of the total inventory), 1.77 million units of tenant-based Section 8 housing, and 383,000 units of other assisted housing. Not surprisingly, therefore, NAHRO and its members have a keen interest in the administration's proposal for revitalizing severely distressed public and assisted housing.

I would like to begin by saying that NAHRO applauds the Department's commitment to devising a comprehensive approach to achieving the transformation of neighborhoods of extreme poverty into sustainable, mixed-income neighborhoods. While ambitious in some respects, NAHRO does believe that this is a laudable policy goal, one that aligns closely with NAHRO's mission to create affordable housing and quality communities that enhance the quality of life for all Americans.

Our support for the broad policy objectives of the proposed initiative notwithstanding, NAHRO has serious overarching concerns with respect to the program as described in the Department's draft legislative proposal. First, NAHRO has serious reservations regarding the absence of a guarantee of continued funding to support public housing agencies' efforts to complete the important work of the HOPE VI program in a timely manner. While the administration has described the proposal as a "celebration of HOPE VI," we note with great concern that the most recent legislative proposal issued

by the Department does not reserve a single dollar in funding for proposed projects that include PHAs as the lead applicant, nor does the proposal explicitly require that PHAs be involved in the development of applications for funding.

Having served as the Deputy Secretary of the Department for several years, I know from firsthand experience that where a program resides within HUD matters. NAHRO therefore remains concerned that the Department has yet to publicly signal whether the Choice Neighborhoods Initiative will be administered by the Office of Public and Indian Housing, as is the case with the existing HOPE VI program. If HUD is unable to state with certainty that a program intended to build upon the successes of HOPE VI will be run out of the same office that now administers HOPE VI, then it is perhaps easier to understand why our industry continues to have real concerns over whether the proposed program will target adequate resources toward addressing the needs of the severely distressed public housing inventory.

It should also be noted that the significantly broadened scope of the proposed program, both in terms of eligible applicants and expected outcomes, means that the administration's recommended FY 2011 appropriation of \$250 million is unlikely to support more than a handful of grant awards for FY 2011. Choice Neighborhoods Initiative would involve grantees in undertakings that are certain to be extraordinarily resource-intensive, with projects incorporating activities such as promoting the economic self-sufficiency of "residents...of the surrounding neighborhood," improving the quality of educational opportunities, creating jobs and job opportunities accessible by mass transit, and achieving a long list of "critical community improvements," including the development or improvement of transit, retail, community financial institutions, and public services and the construction or rehabilitation of parks and community gardens.

This potential programmatic complexity, in combination with the limited availability of funding, does not auger well, in our opinion, for completing in a timely fashion the important work of the HOPE VI program, which of course is a more narrowly targeted program focused on the revitalization of severely distressed public housing units. Absent assurances that other federal agencies will immediately contribute significant financial resources to Choice Neighborhoods projects, it would be premature for NAHRO to support the proposal at this time even if our objections concerning the lack of dedicated resources for PHAs were addressed.

NAHRO strongly recommends that appropriators not provide funding for the Choice Neighborhoods Initiative as currently proposed unless and until authorizing legislation is first carefully considered by the appropriate authorizing committees, acted upon by the Congress, and signed into law. This process should involve extensive, ongoing input from relevant stakeholders.

Whereas significant questions remain regarding Choice Neighborhoods, HOPE VI is a proven, successful program; indeed, it has been called a “program in its prime” by some Members of Congress. NAHRO would therefore suggest that before considering authorizing legislation for the Choice Neighborhoods Initiative, the Congress should wait for the Choice Neighborhoods demonstration, for which \$65 million was provided for FY 2010, to move forward. By waiting for HUD to first undertake the demonstration, both Congress and the Department will have access to new data and information about program outcomes and as a result will be in a better position to chart a responsible course forward for federal policy around the revitalization of severely distressed public housing.

Today’s hearing represents a good first step in the direction of a responsible and thorough analysis of the administration’s proposal, and we applaud the Committee for taking action early in what will very likely be a relatively short legislative year. That said, we are already more than five months into the new federal fiscal year. Because an adequate vetting of the administration’s proposal by both houses of Congress is likely to take several months, and because HUD has not yet issued a Notice of Funding Availability for the FY 2010 Choice Neighborhoods demonstration, NAHRO believes the most responsible course of action at this juncture would be for appropriators to provide continued funding for the existing HOPE VI program for FY 2011 as you continue your thoughtful and necessary review of the administration’s proposal.

The remainder of NAHRO’s written testimony explains our concerns regarding the administration’s proposal in greater detail. To supplement our statement today, we have attached for your review a copy of our December 2009 letter to the Department on the Choice Neighborhoods Initiative. Please note that this letter was written in response to an earlier draft of the legislation. A more recent copy of the legislation made available to us does not however include or address many of the comments made in that letter.

## Choice Neighborhoods Should Include Dedicated Funding for PHAs

The work of the HOPE VI program is unfinished. A significant number of severely distressed public housing units remain in the inventory. Moreover, the list of distressed public housing has grown longer as a result of the historical under-investment in the inventory's capital needs. With the nation's public housing inventory facing a modernization backlog likely in excess of \$30 billion, NAHRO does not believe this is the appropriate time to end a dedicated source of funding intended to reposition severely distressed public housing units, no matter how thoughtful and progressive the proposed Choice Neighborhoods Initiative might be.

Given that the administration has described the Choice Neighborhoods Initiative as "a celebration of HOPE VI," NAHRO is concerned that the most recent legislative proposal issued by the Department does not reserve a single dollar in funding for proposed transformation plans that include PHAs as the lead applicant, nor does it explicitly require that PHAs be involved in the development of those same transformation plans. Additionally, although the Department has asserted that approximately three out of every four units eligible to be transformed through the proposed program are public housing units, the legislative language does not specifically require applicants representing jurisdictions in which severely distressed public housing units remain to include such units in their transformation plans.

Rather than simply providing a preference for transformation plans that place "an emphasis on collaboration between the local government, early learning programs and public schools, or a public housing agency, or all three," HUD should require as a condition for funding eligibility the active participation of the local PHA in the development of a transformation plan whenever a targeted neighborhood is located within the local PHA's area of jurisdiction. Furthermore, any program intended as a successor to HOPE VI should be structured in such a way as to guarantee that a significant number of severely distressed public housing units are addressed each year. If these related provisions are not included in statute, it is at least theoretically possible that there could be years in which not a single PHA receives direct funding through the program and not a single severely distressed public housing unit is addressed.

## Eligible Neighborhoods

On several occasions leading up to this hearing, HUD officials have offered certain data related to the public housing inventory and neighborhood characteristics as evidence that the proposed program will continue to address distressed public housing units, as does the existing HOPE VI program. For example, HUD has previously indicated that approximately 40 percent of all public housing units are located in neighborhoods with poverty rates greater than 40 percent. HUD officials have also stated that around one-third of neighborhoods with poverty rates above 40 percent have both public and assisted housing units, but that three times as many of these units are public housing units as are other types of assisted units. Given that the Choice Neighborhoods Initiative funding would be limited to neighborhoods with a “concentration of extreme poverty,” NAHRO is concerned that a significant percentage of the distressed public housing inventory may be located in neighborhoods that are ineligible for assistance under the proposed program.

NAHRO is also concerned that the administration’s legislative proposal would severely limit the ability of PHAs located in rural areas to participate in the new program. The HOPE VI program has been one of the few viable funding sources available for revitalizing severely distressed public housing located in rural communities. PHAs in rural communities are limited in their ability to secure financial resources through other programs or funding sources that focus primarily on urban areas. The neighborhood eligibility requirements expressed in the current legislative proposal, particularly the requirement that eligible neighborhoods demonstrate “a potential for long-term viability through characteristics such as proximity to educational institutions, medical centers, central business districts, major employers, and effective transportation alternatives” may place certain rural communities (such as many communities in West Virginia, for example) and the PHAs that serve them at a competitive disadvantage. We believe the Department should absolutely ensure that rural communities and the PHAs that serve them have a meaningful opportunity to access Choice Neighborhoods funding.

## Definitions of Severely Distressed Units and Distressed Neighborhoods

HUD has invited stakeholders to provide feedback on the proposed program’s definitions for severely distressed developments and distressed neighborhoods. Setting aside the issue of neighborhood

eligibility, NAHRO is pleased to see that all public housing development types would seem to be eligible under the proposed program, including disabled and elderly public housing developments in addition to family developments. The proposed program's emphasis on social and community distress in addition to the condition of housing units is also encouraging given the program's objectives. NAHRO would note, however, that census tracts do not always align well with neighborhoods' geographic boundaries, and so additional or alternative boundaries should be considered for this purpose of the new program.

### Project- and Tenant-Based Vouchers

*HUD Authority to Require Project-Based Voucher Assistance for Replacement Units:* The legislative proposal authorizes the Secretary to require the use of project-based voucher (PBV) assistance to meet the replacement requirement. For a number of reasons, NAHRO believes careful consideration should be given to the potential consequences of this provision. First, the legislative proposal now before us does not stipulate the conditions or parameters under which HUD's authority to require PBV would be exercised. As drafted, the Department could conceivably preclude grantees from replacing severely distressed public housing units with newly constructed public housing units. This would not only be unrealistic and problematic in certain areas, it would also represent a dramatic departure from the types of public housing replacement units built under HOPE VI. Additionally, PHAs that use public housing for replacement units should otherwise be exempt from the provision of the 1937 Housing Act that prohibits the construction of additional units (the "Faircloth Amendment").

Currently, PBV assistance is limited to no more than 25 units or 25 percent of the dwelling units in a "project" under the program's income targeting requirements (i.e., 75 percent of admitted households must be extremely-low-income). The term "project" is defined to mean a single building, multiple contiguous buildings, or multiple buildings on contiguous parcels of land (24 CFR 983.56). The above limitations do not apply in the case of "single family properties" (i.e., buildings with no more than four dwelling units), or for dwelling units that are specifically made available for households comprising elderly families, disabled families, and families receiving comprehensive supportive services for special needs populations, such as individuals who were formerly homeless.

The legislative proposal states, “Where project-based voucher units are developed as replacement housing, subparagraph (D) of section 8(o)(13) relating to percentage limitation and income-mixing requirement for project-based voucher assistance shall not apply.” Conceivably, this provision within the draft could enable a project to include 100 percent extremely-low-income assisted households, compared with the existing 25 percent (or 25 unit) limitation of PBV-assisted units under the program’s income targeting requirements. Taken in conjunction with the one-year exit voucher provision (as discussed below) that would seem to be allowed under the proposed program, HUD’s ability to waive the requirements to deconcentrate poverty and expand housing and economic opportunities as well as site and neighborhood conditions under the PBV program could undermine the set of inherent market-based checks and balances that has worked to preserve the long-term viability of PBV units.

Under the existing PBV program, tenants have the right to move after one year of occupancy using the next available tenant-based voucher from a PHA, thus leapfrogging other eligible applicant households on the PHA’s waiting list. Meanwhile, the PBV contract stays with the unit, creating the potential for “churning.” A PHAs’ general obligation under the PBV program is to deconcentrate poverty and expand housing and economic opportunities while complying with the site and neighborhood standards requirements that apply generally to the program. However, under the Choice Neighborhoods Initiative as proposed, the Secretary would be authorized “to waive or modify other provisions of Section 8 (o)(13) to promote the purposes of this program.” NAHRO believes that waiving or modifying site and neighborhood standards under the proposed Choice Neighborhoods Initiative would be a profound change that could produce unintended negative outcomes in interaction with the one-year exit voucher requirement.

HUD should carefully examine the potential impact the PBV program’s one-year exit voucher requirement might have (particularly in combination with other waived or modified statutory requirements) on the ability of Choice Neighborhoods grantees to preserve properties in various HUD-assisted inventories (including Sec. 236, Sec. 202, and Sec. 811 properties). NAHRO is concerned that the specter of churning as a result of the exit voucher requirement is likely to undermine the ability of PHAs to partner with nonprofits and other entities involved in the preservation of such properties. Specifically, the one-year exit voucher mechanism could contribute to a situation in which tenants churn through properties as a means of reaching the top of otherwise-lengthy waiting lists for Section 8 tenant-



based housing assistance, thus destabilizing property operations and compromising predictable rent streams. This dynamic could also compromise debt and equity financing, driving up the costs associated with securing long-term affordable housing financing required for the kind of projects envisioned under the proposed program.

*Conditions Under Which 50 Percent of Replacement Units are Tenant-Based Vouchers:* Under the proposal, a grantee may replace up to half of the public housing or other assisted dwelling units that are demolished or disposed of under the transformation plan with tenant-based vouchers in housing markets where there is an adequate supply of affordable rental housing in areas of low poverty. The draft legislative proposal includes three specific conditions to meet this threshold, discussed below.

First, requiring a minimum of 80 percent of vouchers issued over the last 24 months to comparable families to have been successfully leased within 120 days of issuance is a reasonable definition of local “success rates.” However, the legislative proposal states that if a sufficient number of comparable families have not received vouchers, HUD must design an alternative measure. Additionally, the draft legislative proposal does not include a specific definition of deconcentration. HUD has a long-established and well-defined operational definition that would seem to be relevant to the proposal’s requirement that “existing voucher holders [be] widely dispersed geographically among the available private rental housing stock, including in areas of low poverty.” The existing definition is under the deconcentration bonus indicator [Sec. 985.3(h)] of the Section Eight Management Assessment Program (SEMAP) and could be used to formulate a statutory definition.

Ostensibly, the third criteria--a market analysis demonstrating that there is a relatively high vacancy rate within the market area with rent and utility costs not exceeding the applicable payment standard--is reasonable. However, Housing Assistance Payment (HAP) funding shortfalls from FY 2004 through FY 2006, and again in FY 2009, resulted in many PHAs not receiving sufficient renewal funding to set their applicable voucher payment standards commensurate with the marketplace or serve the greatest number of families within affordable income to rent burdens. As such, not all PHAs’ current or future applicable voucher payment standards will reflect a reasonable threshold below which HUD can define vacancy rates for this purpose. With future improvements to the formulation of Fair Market Rent (FMR) values,

further consideration should be given to establishing this threshold at the higher of 100 percent of the FMR or the applicable voucher payment standard.

### The Need for Support from Other Federal Agencies

The Department's legislative proposal would authorize \$250 million for the Choice Neighborhoods Initiative for FY 2011. After accounting for a 5 percent set-aside for technical assistance and program evaluation efforts, a 10 percent set-aside for planning grants, and a 1 percent transfer to the proposed Transformation Initiative Fund, \$210 million would remain available for program activities. Although this amount of funding would exceed the FY 2010 funding level for HOPE VI, NAHRO notes that the HOPE VI program has received as much as \$600 million in previous fiscal years. NAHRO, together with the Public Housing Authority Directors Association (PHADA) and the Council of Large Public Housing Agencies (CLPHA), has recommended \$800 million in funding for the proven HOPE VI program for FY 2011.

Given the scope of the proposed program, and with just \$210 million available, it is unclear how many transformation plans the Department would be able to fund. This lack of clarity is a concern, given that the Choice Neighborhoods Initiative would involve grantees in undertakings that are certain to be extraordinarily resource-intensive. These undertakings could include, for example, activities such as promoting the economic self-sufficiency of "residents...of the surrounding neighborhood," improving the quality of educational opportunities, creating jobs and job opportunities accessible by mass transit, and achieving a long list of "critical community improvements," including the development or improvement of transit, retail, community financial institutions, and public services and the construction or rehabilitation of parks and community gardens. Clearly this is an ambitious proposal. Absent collaboration with and financial contributions from other federal agencies (including but not limited to the Departments of Transportation and Education), NAHRO is concerned that HUD resources alone will prove insufficient.

## Conclusion

Once again NAHRO thanks you for the opportunity to testify today. We expect to share additional comments and offer suggestions for changes if the administration's proposal advances. We urge the Committee to remain committed to a thorough review of this proposal that involves the appropriate level of stakeholder input. We also reiterate our belief that additional funding for the Choice Neighborhoods Initiative should not be provided until such time as the FY 2010 demonstration has produced evaluable results and authorizing legislation has advanced through Congress. NAHRO believes that proceeding in this manner would be the most responsible course of action, and we remain committed to working with Congress and the Department in order to determine the best path forward for completing the important work of the HOPE VI program while developing new tools aimed at the comprehensive transformation of neighborhoods.



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**VIA ELECTRONIC MAIL**

December 4, 2009

U.S. Department of Housing and Urban Development  
451 7th Street SW  
Washington, DC 20410

To Whom It May Concern:

On behalf of our more than 23,000 individual and agency members, the National Association of Housing and Redevelopment Officials (NAHRO) appreciates the opportunity to submit comments concerning the Department's proposed Choice Neighborhoods Initiative Act of 2009. NAHRO applauds the Department's commitment to devising a more comprehensive approach to achieving the transformation of neighborhoods of extreme poverty into sustainable, mixed-income neighborhoods. This is an ambitious and laudable policy goal, and one that aligns closely with NAHRO's mission to create affordable housing and safe, viable communities that enhance the quality of life for all Americans, especially those of low and moderate income.

Our support for the broad policy objectives of the proposed initiative notwithstanding, NAHRO has serious concerns about the program as described in the recently released draft legislation. Most important, from our perspective, is the absence from the draft legislative language of certain provisions guaranteeing continued funding to support public housing agencies' efforts to complete the important work of the HOPE VI program in a timely manner. This concern is amplified by uncertainty over whether the Choice Neighborhoods Initiative would be administered by the Office of Public and Indian Housing, as is the existing HOPE VI program.

NAHRO would also note that the significantly broadened scope of the proposed program, both in terms of eligible applicants and expected outcomes, means that an annual appropriation of \$250 million is unlikely to support more than a handful of projects each year absent substantial funding from other sources. Without any assurances that other federal agencies will immediately contribute significant financial resources to Choice Neighborhoods projects, it would be premature for us to support the proposal at this point in time even if our serious objections concerning the lack of dedicated resources for PHAs were addressed.

NAHRO strongly recommends that the Choice Neighborhoods Initiative as proposed not move forward unless and until it is first carefully considered and acted upon by the appropriate authorizing committees of Congress, with the benefit of extensive input from relevant stakeholders. As we are already nearly two months into the new federal fiscal year, and because

**Akinola Popoola**, PHM, President; **Betsey Martens**, Senior Vice President; **David Allen Brown**, PHM, SHM, Vice President-Member Services; **Larry Hopkins**, Vice President-Community Revitalization & Development; **Clifton C. Martin**, CMPO, SPHM, PHM, Vice President-Professional Development; **Elizabeth C. Morris**, Vice President-International; **Dianne Quast**, PHM, Vice President-Housing; **J. William Quirk**, Vice President-Commissioners; **Saul N. Ramirez, Jr.**, Chief Executive Officer

an adequate vetting of the administration's proposal by the Congress is likely to take several months, NAHRO believes the most responsible course of action at this juncture would be to provide continued funding for the existing HOPE VI program for FY 2010.

### Choice Neighborhoods Should Include Dedicated Funding for PHAs

The work of the HOPE VI program is unfinished, as a significant number of severely distressed public housing units remain in the inventory. Moreover, the list of distressed public housing has grown longer as a result of the historical under-investment in the inventory's capital needs. With the nation's public housing inventory facing a modernization backlog likely in excess of \$30 billion, NAHRO does not believe this is the appropriate time to end a dedicated source of funding intended to reposition severely distressed public housing units.

Given that the administration has described the Choice Neighborhoods Initiative as "a celebration of HOPE VI," NAHRO is concerned that the legislative proposal issued by the Department does not reserve a single dollar in funding for proposed transformation plans that include PHAs as the lead applicant, nor does it explicitly require that PHAs be involved in the development of transformation plans. Additionally, although the Department has assured stakeholders that approximately three out of every four units eligible to be transformed through the proposed program are public housing units, the legislative language does not specifically require applicants representing jurisdictions in which severely distressed public housing units remain to include such units in their transformation plans.

Rather than simply providing a preference for transformation plans that place "an emphasis on collaboration with the local government or a public housing agency, or both," HUD should require as a condition for funding eligibility the active participation of the local PHA in the development of a transformation plan whenever a targeted neighborhood is located within the local PHA's area of jurisdiction. Furthermore, any program intended as a successor to HOPE VI should be structured in such a way as to guarantee that a significant number of severely distressed public housing units are addressed each year. If these related provisions are not included in statute, it is at least theoretically possible that there could be years in which not a single PHA receives direct funding through the program and not a single severely distressed public housing unit is addressed.

### Eligible Neighborhoods

During the November 10 meeting and on previous occasions, HUD officials have offered certain data related to the public housing inventory and neighborhood characteristics as evidence that the proposed program will continue to address distressed public housing units, as does HOPE VI. For example, HUD has previously indicated that approximately 40 percent of all public housing units are located in neighborhoods with poverty rates greater than 40 percent. HUD officials also stated on November 10 that around one third of neighborhoods with poverty levels above 40 percent have both public and assisted housing units, but that three times as many of these units are public housing units as are other types of assisted units. Given that the Choice Neighborhoods Initiative funding would be limited to neighborhoods with a "concentration of

extreme poverty,” NAHRO is concerned that a significant percentage of the distressed inventory may be located in neighborhoods that are ineligible for assistance under the proposed program.

NAHRO is also concerned that the draft legislative proposal would severely limit the ability of PHAs located in rural areas to participate in the new program. The HOPE VI program has been one of the few viable funding sources available for revitalizing severely distressed public housing located in rural communities. PHAs in rural communities are limited in their ability to secure financial resources through other programs or funding sources that focus primarily on urban areas. The neighborhood eligibility requirements expressed in the draft legislative proposal, particularly the requirement that neighborhoods be in proximity to “educational institutions, medical centers, central business districts, major employers, [and] effective transportation” would seem to place rural communities and the PHAs that serve them at a competitive disadvantage. The Department should consider modifying the draft legislative proposal to ensure that rural communities and agencies have a meaningful opportunity to access Choice Neighborhoods funding.

#### Definitions of Severely Distressed Units and Distressed Neighborhoods

HUD has invited stakeholders to provide feedback on the proposed program’s definitions for severely distressed developments and distressed neighborhoods. Setting aside the issue of neighborhood eligibility, NAHRO is pleased to see that all public housing development types would seem to be eligible under the proposed program, including disabled and elderly public housing developments in addition to family developments. The proposed program’s emphasis on social and community distress in addition to the condition of housing units is also encouraging given the program’s objectives. NAHRO would note, however, that census tracts do not always align well with neighborhoods’ geographic boundaries, and so additional or alternative boundaries should be considered for this purposes of the new program.

#### Project- and Tenant-Based Vouchers

*HUD Authority to Require Project-Based Voucher Assistance for Replacement Units:* The draft legislative proposal authorizes the Secretary to require the use of project-based voucher (PBV) assistance to meet the replacement requirement. For a number of reasons, NAHRO believes careful consideration should be given to the potential consequences of this provision. First, the draft legislative proposal does not stipulate the conditions or parameters under which HUD’s authority would be exercised. As drafted, therefore, the proposed program could conceivably preclude grantees from replacing severely distressed public housing units with newly constructed public housing units. This would represent a dramatic departure from the types of public housing replacement units built under HOPE VI. Additionally, PHAs that use public housing for replacement units should be exempt from the provision of the 1937 Housing Act that prohibits the construction of additional units (the “Faircloth Amendment”).

Currently, PBV assistance is limited to no more than 25 units or 25 percent of the dwelling units in a “project” under the program’s income targeting requirements (i.e. 75 percent of admitted households must be extremely-low-income). The term “project” is defined to mean a single building, multiple contiguous buildings, or multiple buildings on contiguous parcels of land (24

CFR 983.56). The above limitations do not apply in the case of “single family properties” (i.e., buildings with no more than four dwelling units), or for dwelling units that are specifically made available for households comprising elderly families, disabled families, and families receiving comprehensive supportive services for special needs populations, such as individuals who were formerly homeless.

The draft legislative proposal states, “Where project-based voucher units are developed as replacement housing, subparagraph (D) of section 8(o)(13) relating to percentage limitation and income-mixing requirement for project-based voucher assistance) shall not apply.” Conceivably, this could enable a project to include 100 percent extremely-low income assisted households, compared with the existing 25 percent (or 25 unit) limitation of PBV-assisted units under the program’s income targeting requirements (i.e., 75 percent of admitted households must be extremely-low-income). Taken in conjunction with the one-year exit voucher (as discussed below) that would seem to be allowed under the proposed program, HUD’s ability to waive the requirements to deconcentrate poverty and expand housing and economic opportunities as well as site and neighborhood conditions under the PBV program could undermine the set of inherent market-based checks and balances that has worked to preserve the long-term viability of PBV units.

Under the existing Project-Based Voucher (PBV) program, tenants have the right to move after one year of occupancy using the next available tenant-based voucher from a PHA, thus leapfrogging other eligible applicant households on the PHA’s waiting list. Meanwhile, the PBV contract stays with the unit, creating the potential for what is known as “churning.” PHAs’ general obligation under the PBV program is to deconcentrate poverty and expand housing and economic opportunities while complying with the site and neighborhood standards requirements that apply generally to the program. However, under the Choice Neighborhoods Initiative as proposed, the Secretary would be authorized “to waive or modify other provisions of Section 8 (o)(13) to promote the purposes of this program.” In a December 2008 memo entitled “A Proposal to Permit Conversion of Public Housing to Project-based Vouchers,” the Center on Budget and Policy Priorities (CBPP) proposed a PBV conversion program for public housing units under which PHAs would be exempt from site and neighborhood standards. Waiving or modifying site and neighborhood standards under the proposed Choice Neighborhoods Initiative would be a profound change that could produce unintended negative outcomes in interaction with the one-year exit voucher requirement

HUD should carefully examine the potential impact the PBV program’s one-year exit voucher requirement might have (particularly in combination with other waived or modified statutory requirements) on the ability of Choice Neighborhoods grantees to preserve properties in various HUD-assisted inventories (including Sec. 236, Sec. 202, and Sec. 811 properties), as well as LIHTC properties reaching the end of their required affordability periods. NAHRO is concerned that the specter of churning as a result of the exit voucher requirement is likely to undermine the ability of PHAs to partner with nonprofits and other entities involved in the preservation of such properties. Specifically, the one-year exit voucher mechanism could contribute to a situation in which tenants churn through properties as a means of reaching the top of otherwise-lengthy waiting lists for Section 8 tenant-based housing assistance, thus destabilizing property operations and compromising predictable rent streams. This dynamic could also compromise debt and

equity financing, driving up the costs associated with securing long-term affordable housing financing required for the kind of projects envisioned under the proposed program.

*Incremental Vouchers Needed:* Absent authorized funding for incremental Housing Choice Vouchers, the draft legislative proposal would seem to leave open the possibility that PHAs could be required to use their existing allocation of vouchers for project- or tenant-based voucher replacement units. NAHRO does not believe that this is HUD's intention, but it is critically important that the final legislation provide for incremental vouchers. Similarly, the provision of the draft legislation which allows HUD to waive or modify provisions of the PBV program could conceivably be used to preclude individual PHAs in compliance with their Annual Contributions Contract from receiving or administering incremental vouchers for replacement units. To this end, NAHRO believes that the CNI proposal should make explicit the relevant statutory provisions within the HCV and PBV programs which are not subject to HUD's waiver authority.

*Conditions Under Which 50 Percent of Replacement Units are Tenant-Based Vouchers:* Under the proposal, a grantee may replace up to half of the public housing or other assisted dwelling units that are demolished or disposed of under the transformation plan with tenant-based vouchers in housing markets where there is an adequate supply of affordable rental housing in areas of low poverty. The draft legislative proposal includes three specific conditions to meet this threshold, discussed below.

First, requiring a minimum of 80 percent of vouchers issued over the last 24 months to comparable families to have been successfully leased within 120 days of issuance is a reasonable definition of local "success rates." However, the draft legislative proposal states that if a sufficient number of comparable families have not received vouchers, HUD must design an alternative measure. Affordable housing in areas of lower poverty could be based on a series of assumptions rather than on PHAs' "real-world" experience with actual low-income voucher-assisted households,

The draft legislative proposal does not include a specific definition of deconcentration. HUD has a long-established and well-defined operational definition that would seem to be relevant to the proposal's requirement that "existing voucher holders [be] widely dispersed geographically among the available private rental housing stock, including in areas of low poverty." The existing definition is under the deconcentration bonus indicator [Sec. 985.3(h)] of the Section Eight Management Assessment Program (SEMAP) and could be used to formulate a statutory definition.

Ostensibly, the third criteria -- a market analysis demonstrating that there is a relatively high vacancy rate within the market area with rent and utility costs not exceeding the applicable payment standard -- is reasonable. However, Housing Assistance Payment (HAP) funding shortfalls in FY 2004 – FY 2006 and in FY 2009 resulted in many PHAs not receiving sufficient renewal funding to set their applicable voucher payment standards commensurate with the marketplace or serve the greatest number of families within affordable income to rent burdens. As such, not all PHAs' current or future applicable voucher payment standards will reflect a reasonable threshold below which HUD can define vacancy rates for this purpose. With future improvements to the formulation of Fair Market Rent (FMR) values, further consideration



should be given to establishing this threshold at the higher of 100 percent of the FMR or the applicable voucher payment standard.

### Neighborhood Transformations Will Require Support from Other Federal Agencies

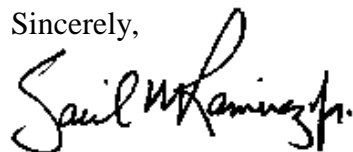
The Department's legislative proposal would authorize \$250 million for the Choice Neighborhoods Initiative for FY 2010. After accounting for a 5 percent set-aside for technical assistance and program evaluation efforts, a 10 percent set-aside for planning grants, and a 1 percent transfer to the proposed Transformation Initiative Fund, \$210 million would remain available for program activities. Although this amount of funding would exceed the FY 2009 funding level for HOPE VI, NAHRO notes that the HOPE VI program has received as much as \$600 million in previous fiscal years.

Given the scope of the proposed program, and with just \$210 million available, it is currently unclear how many transformation plans the Department would be able to fund. This lack of clarity is a concern, given that the Choice Neighborhoods Initiative would involve grantees in undertakings that are certain to be extraordinarily resource-intensive. These undertakings could include, for example, activities such as promoting the economic self-sufficiency of "residents...of the surrounding neighborhood," improving the quality of educational opportunities, creating jobs and job opportunities accessible by mass transit, and achieving a long list of "critical community improvements," including the development or improvement of transit, retail, community financial institutions, and public services and the construction or rehabilitation of parks and community gardens.

Clearly this is an ambitious proposal. Absent collaboration with and financial contributions from other federal agencies (including but not limited to the Departments of Transportation and Education), NAHRO is concerned that HUD resources alone will prove insufficient. We would also note that due to the current status of the Office of Management and Budget "passback," HUD is unable at this time to provide information on what contributions, if any, from other agencies will be proposed as part of the administration's FY 2011 budget. This complicates our ability to evaluate the proposed program's chances for success and confirms our belief that the most responsible course of action at this time is to provide continued funding for the HOPE VI program.

Once again, NAHRO thanks you for the opportunity to submit comments in response to the draft proposal. We expect to share additional comments and suggested changes at the appropriate time. NAHRO is committed to working with the Department and the appropriate authorizing committees in order to determine the best path forward for applying the lessons of the HOPE VI program to the comprehensive transformation of neighborhoods.

Sincerely,



Saul N. Ramirez, Jr.  
CEO