

**TESTIMONY OF SECRETARY SHAUN DONOVAN
HEARING ON CHOICE NEIGHBORHOODS LEGISLATION
BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE
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Thank you, Chairman Frank, Chairwoman Waters, Ranking Members Bachus and Capito and Members of the Committee for this opportunity to discuss our proposed Choice Neighborhoods legislation, and the HOPE VI program – the history and promise of which we seek to build upon today.

A Celebration of HOPE VI

Choice Neighborhoods is built on a foundation of 17 successful years of HOPE VI. Choice Neighborhoods celebrates the successes of HOPE VI, enshrining the lessons we've learned from the most innovative and successful HOPE VI developments into a program that gives communities in distress more tools to tackle their interconnected needs.

Choice Neighborhoods expands HOPE VI's redevelopment toolkit to allow for redevelopment of private and federally assisted properties alongside public housing. This means that the disinvested private or assisted housing that frustrated cities and housing authorities and fostered crime and blight can now be included in comprehensive neighborhood revitalization efforts.

The best HOPE VI developments have integrated supports for their residents, ensuring high quality educational opportunities for children, and addressing the health and job readiness needs of adults. Choice Neighborhoods makes it easier for local communities to focus on these fundamental needs, allowing greater funding flexibility to knit support services into the revitalized community, improve community assets, and ensure high quality educational opportunities for young children.

We also learned from our best HOPE VI developments that it was possible – and vital – to replace the entirety of units being redeveloped, either in the neighborhood or elsewhere in the community, and provide the opportunity for residents to return to the redeveloped housing. And that's why Choice Neighborhoods includes a strengthened policy of one-for-one replacement, and protects the ability of residents to return to their homes.

Finally, just like the best of HOPE VI, Choice Neighborhoods is targeted at the neighborhoods with the greatest need for Federal investment – neighborhoods of concentrated poverty.

The Fight against Concentrated Poverty

Neighborhoods of concentrated poverty are typically marked by high crime and unemployment rates, health disparities, struggling schools and faltering civic institutions. These neighborhoods have serious negative consequences for the well-being of adults and children. Using a study that tracked 5,000 families since 1968, the Pew Economic Mobility Project found that no other factor, including parents' education, employment, or marital status, was as important as neighborhood poverty in explaining why African-American children were so much more likely

to have lower incomes than their parents as adults. This intensification of negative impacts of poverty makes living in distressed inner-city public and assisted housing developments a significant barrier for poor families, hampering the already difficult task of breaking generational cycles of poverty. Many of these communities – in inner cities, distressed older suburbs, and some rural towns – are economically isolated, racially segregated, and battling gangs and the violent drug trade. What’s more, the schools in these neighborhoods are some of the most persistently underperforming in our nation. This isolation limits opportunity and constrains choices for residents who feel as if they are under siege every day, and is one reason we can predict life expectancy by zip code. Mr. Chairman, I know we agree that no child’s chances in life should be determined by the zip code they grow up in.

Failure to address these pockets of concentrated poverty compounds harm to low-income families, exacerbates disparities in our society, and prevents children in those neighborhoods from fulfilling their potential. Every day we fail to solve this problem, we lose more jobs, more new entrepreneurs, more children that could otherwise be entering college or starting a career and making our economy more competitive. Economists call this an opportunity cost – sacrificing the opportunity for young people to achieve success. I think most of us in this room today would call it appalling.

The Foundation of HOPE VI

HOPE VI has become one of our country’s most powerful weapons to fight concentrated poverty and rebuild distressed public housing. HOPE VI has made the federal government a partner to local housing authorities and communities, emphasizing mixed-income communities, leveraging financing, and incorporating supportive services. The \$6 billion we have invested in HOPE VI has leveraged twice that amount in additional development capital – \$12.3 billion. This is a strong return for the taxpayer, but has also ensured the investment of many parties in the success of the program. HOPE VI has also provided flexibility to local agencies to mix rental and homeownership units on the same site or in the surrounding neighborhood. All of these are lessons that we have built into Choice Neighborhoods.

Congress allowed significant flexibility in the HOPE VI authorizing legislation for the program to evolve over time. And from the beginning, public housing authorities that used these funds to rebuild distressed housing in neighborhoods of concentrated poverty have pursued social interventions to complement their capital investments – incorporating community centers and on-site facilities for service providers, childcare centers and retail services for the neighborhood, and case management and housing counseling for residents. Over time, HOPE VI has evolved from focusing on output – the number of units built or rehabilitated – to also including an emphasis on best practices, encouraging participants to invest in the most meaningful neighborhood impacts.

This reminds us that HOPE VI hasn’t just been about tearing down buildings; it has also been about tearing down ossified social policies. Choice Neighborhoods builds on this model by providing grantees with more flexibility to integrate these investments, and by incentivizing strong local partnerships to implement them.

At its best, HOPE VI has helped change the world outside the project gates. Many neighborhoods surrounding HOPE VI sites have improved dramatically, experiencing reduced poverty, crime, and unemployment; increased income and property values; and more investment, business growth, and jobs. Through HOPE VI, a standard of practice has developed, showing that including residents in planning is not only the right thing to do, but also speeds implementation. HOPE VI has emphasized that relocation of families must be carefully planned and thoughtfully implemented – reminding us that a voucher isn't always the only tool needed to help families navigate the private housing market. As such, we've also learned how to provide effective support services, both on-site for residents in the development, and off-site, for residents who relocate with vouchers. We have built each of these lessons into Choice Neighborhoods.

Choice Neighborhoods: Building on HOPE VI

Let there be no doubt, then – HOPE VI has changed the face of public housing across the country. That's why, Mr. Chairman, Choice Neighborhoods allows communities to use these same tools to tackle distress beyond public housing.

The sad truth is, even some of our best HOPE VI projects are islands of hope adrift in a vast sea of need. For example, fifteen years ago, the media spotlight briefly focused on the nightmarish conditions in one Washington DC neighborhood's large, distressed housing developments – Frederick Douglass, Stanton Dwellings, Parkside Terrace and Wheeler Terrace. To quote a report commissioned by Secretary Cisneros, Washington Highlands presented a “worst-case situation” for HUD. As the report stated, “two separate and distinct HUD program areas...[were] alleged to be contributing to the deterioration” of the neighborhood – public housing and Project-based Section 8.

Thanks to HOPE VI, local and national non-profits, the DC government and private developers had ready access to a program to develop the public housing properties – and had secured other financing to build a new community center, elementary school, public library, and a parks and recreation facility. But the challenge didn't end there, because the two other housing developments in Washington Highlands didn't qualify for HOPE VI funding, simply because they were subsidized by different programs at HUD.

Mr. Chairman, the media didn't make the distinction. The residents didn't make the distinction. Gangs and drug dealers certainly didn't make the distinction. And thankfully, the community leaders who were fighting to turn the neighborhood around didn't make the distinction either. The only one to make the distinction was HUD. Thankfully, those community leaders forged ahead through a needlessly difficult process, navigating with public and private partners to secure funding to redevelop these projects.

Back in 1994, HUD had “no ready mechanism” to deal with the problem of high concentrations of distressed public and assisted housing in a single neighborhood of concentrated poverty. Today, we do – it's called Choice Neighborhoods.

Choice Neighborhoods allows the HOPE VI tools housing authorities use to remake public housing to be available for assisted and other blighted housing – housing that HOPE VI wasn't allowed to touch in Washington Highlands.

We saw in HOPE VI that the foundation for success in neighborhood transformation is the rigorous development of a thorough neighborhood plan at the local level, and the capacity and will of local partners to manage to that plan. The partnerships formed to execute these transformation plans draw in expertise, attract private investment and spur cross-fertilizing initiatives. Building on HOPE VI, Choice Neighborhoods expands the field of community leaders who can lead these efforts, allowing non-profit housing developers, cities, and others to partner with housing authorities and assisted housing owners.

These partnerships will enhance the legacy of HOPE VI in providing essential support services for residents. HOPE VI taught us that absent a more comprehensive approach, housing interventions are often insufficient to improve the lives of poor families. That is why Choice Neighborhoods will provide funding flexibility for health and other service coordination, job supports, and work incentives for adults. These approaches aren't just better in the long run for the residents, but when done right they create significant savings for state and federal investments in Medicaid, unemployment insurance, and the criminal justice system, exemplifying that the "technology" of combining housing and supportive services has progressed rapidly – particularly for our most vulnerable populations.

Choice Neighborhoods also builds in two new tools to help local partnerships address critical elements of neighborhood transformation – ensuring high quality educational opportunities for children, and building on, and improving, the community assets central to the sustainability of the neighborhood.

The best HOPE VI developments held to these principles, to ensure long-term viability and access to opportunity. Charlotte's First Ward Place includes a highly-rated early childhood education center, and is within walking distance of jobs, important services, and public transportation. Boston's Mission Main has close ties not only to schools, but some of the best hospitals and universities in the country.

In the Murphy Park development in Chairwoman Waters' hometown of St. Louis, the developer not only raised an additional \$5 million from private and philanthropic interests to modernize the troubled neighborhood school, Jefferson Elementary – he also worked closely with residents and the school board to hire a new principal, with a new curriculum and a new focus on technology, the arts and after school programs. In the years following Murphy Park's completion, unemployment surrounding the development fell by 35 percent, according to a Brookings study. The median household income rose more than four times as fast as the city as a whole. And Jefferson Elementary came to serve 75 percent of the neighborhood's children and children from surrounding communities.

For children in these developments – indeed, for all children – the early presence of sustained and high quality interventions in the educational arena, beginning with high quality early childhood education and continuing from there, are substantial contributors to their likelihood of

graduating from high school and entering college. In 2009, only months into the Obama Administration, we took the first step of adding an early childhood education component to HOPE VI, because too many children in these developments show up for kindergarten already behind, and many never catch up. In Choice Neighborhoods, we catalyze communities to go further – asking local communities to build partnerships that ensure high quality educational opportunities for resident children, and providing funding flexibility to partner with local educators and increase access to a continuum of support services that improve educational outcomes. In this way, Choice Neighborhood dollars can be the glue that connects a local commitment to effective schools to the children with the greatest need.

Choice Neighborhoods also builds in new flexibility for communities to improve the key assets that expand opportunity for their residents. To ensure that residents can access opportunity, a portion of Choice Neighborhoods funding can be used to improve resident access to services such as public transportation, fresh food, and health centers, as well as to construct critical community improvements.

Of course, while a rigorously-developed plan and local commitment is necessary for neighborhood revitalization to be successful, we do recognize that different communities are at different levels of preparedness. That's why Choice Neighborhoods has also dedicated a portion of the overall allocation for planning grants. These planning grants ensure that those communities who aren't yet able to fully undertake a successful neighborhood revitalization can start down that path, with the federal government catalyzing their progress and incentivizing local support. I am committed to ensuring residents are never penalized because they live in communities that are not yet able to build and execute a strong transformation plan.

Choice Neighborhoods Legislation

Through work in both authorizing and appropriations committees, Congress provided \$65 million in Fiscal Year 2010 for HUD to take the first steps toward this Choice Neighborhoods model. And I want to thank you for that important step forward. Since beginning to work on this new initiative more than a year ago, HUD staff has met extensively with Congressional representatives on both sides of the aisle and in both houses, across the administration, and with other key stakeholders to ensure that the program design is effective, sensitive to residents' needs, and properly aligned with other investments.

On an interagency basis, we are working through the White House Neighborhood Revitalization Working Group to align Choice Neighborhoods' focus on neighborhoods of concentrated poverty with other related efforts across the Administration. This includes aligning the focus of Choice Neighborhoods on high quality educational opportunities with investments in evidence-based strategies supported by the Department of Education, including Promise Neighborhoods, to ensure there are effective schools and other quality learning opportunities at the center of each neighborhood. Example after example in communities across the nation has shown us that the correlation between successful housing and good schools is not just theory – it's practice. And it's time to bring that practice to scale in neighborhoods across the country.

In addition, HUD is in the planning stages of alignment with the Department of Justice's Byrne Criminal Justice Innovation program, which supports communities in reducing crime through collaborative, community-based and evidence-based approaches that also strengthen neighborhood revitalization efforts. The Department of Health and Human Services is also in the process of identifying the key community-based programs to align with these neighborhood revitalization efforts.

After HUD publicly released our initial draft of the Choice Neighborhoods legislation, we held a series of community workshops to hear from Members of Congress and from stakeholders across the country. The proposed authorizing legislation we discuss today incorporates the feedback from those sessions. While our intent is for Choice Neighborhoods to give communities sufficient flexibility to coordinate necessary elements of neighborhood revitalization, stakeholders encouraged clear standards about what should and should not be funded.

For example, our proposed legislation has set a reasonable limit to the amount of money going to vital community improvements or social services and explicitly states that funding can't be used for school construction. Choice Neighborhoods dollars must serve as the catalyst for other capital or construction investments, and with common-sense boundaries on how funds can be used, they will be.

We learned from HOPE VI that in some tight housing markets, desperately needed affordable homes were lost through demolition. That is why our proposed Choice Neighborhoods legislation includes a strengthened one-for-one replacement requirement, in which demolished or disposed-of units must be replaced by hard units. Vouchers may serve as replacement units only in limited cases, where there is an adequate supply of affordable rental housing in areas of low poverty.

We learned in HOPE VI that some households have been unfairly screened out of new developments – sometimes by procedures that treated families as little more than the sum of their FICO scores. At some developments, well-intended policies precluded residents from returning to the new mixed-income communities. Early on, and particularly as HOPE VI grantees rebuilt fewer units than they'd started with, HUD began requesting the tracking of original residents to ensure they secured an opportunity to return, although that wasn't easy or always practical. That's why with this legislation, we have built this lesson from HOPE VI into the design of Choice Neighborhoods, which protects the right of lease-compliant residents to return to the redeveloped housing.

Some have asked who would be able to apply for Choice Neighborhoods. An early, and rough, estimate indicates that based on neighborhood poverty and distressed housing, over 325,000 units of HUD public and assisted housing be eligible for Choice Neighborhoods – over three-quarters of which is public housing. And by requesting the program be authorized at \$250 million – more than double the funding we had for HOPE VI in FY 2009, when this funding was available to public housing alone – Public Housing Authorities are well positioned to seize opportunities for Choice Neighborhoods. Further, over 30 percent of public and assisted housing developments in neighborhoods of high concentrations of poverty are located in neighborhoods with both a troubled public housing development and a troubled Project Based Section 8

development. And in the candidate neighborhoods HUD has preliminarily identified, there are over three times as many public housing units as project-based Section 8 units.

I would note, however, that Choice Neighborhoods isn't the answer for every disinvested public housing or assisted housing community – but rather one tool in a continuum of options we are providing communities seeking change. For some communities, a recapitalization with tax credits or new financing may be a better answer. And for public housing and assisted housing communities that don't require the comprehensive investment of Choice Neighborhoods, HUD's FY2011 budget proposes the Transformation of Rental Assistance (TRA), to move HUD's rental housing programs into the 21st century housing market mainstream, leveraging other public and private capital to improve the quality of housing.

Combined with HUD's Sustainable Communities Initiative, which includes \$140 million in Planning and Challenge grants to bring transportation and housing planning together at the local level to reduce costs and connect housing to jobs, we believe Choice Neighborhoods has the potential to revitalize and transform communities across the country.

Implementation of the Choice Neighborhoods Program

HUD seeks authorizing legislation for Choice Neighborhoods. The authorizing legislation that you are reviewing will also serve as the guide for the Fiscal Year 2010 competition. Program funds will be targeted at those neighborhoods that meet three important criteria: severely distressed public or assisted housing; concentration of poverty; and potential for long-term viability.

- “Severely distressed housing” is public or assisted housing that requires major rehabilitation or demolition, and is vacant or a contributing factor to the decline of the neighborhood.
- “Concentration of poverty” does not rely on a bright-line formula based solely on percentages of families in poverty. Criteria will take into account high crime, neighborhood blight and abandonment, and the lack of high quality educational opportunities – all factors that combine to limit opportunity for children and families.
- “Long-term viability” exists in a neighborhood that will build on or bring key neighborhood assets to support the economic and environmental health of the community, including educational institutions, medical centers, central business districts, major employers, effective transportation, or adjacency to low-poverty neighborhoods.

For Fiscal Year 2010, HUD is currently preparing two Notices of Funding Availability (NOFAs), one for HOPE VI and one for Choice Neighborhoods. The HOPE VI NOFA will be published this spring, and we expect to make awards of funds in the fall. The process will be essentially identical to the way HOPE VI funding allocations have been made in recent years. Because there is more work to do in this first year, the NOFA process for Choice Neighborhoods will take longer. We expect to select applicants over the course of two rounds. We intend to announce an initial competition in the summer. From this pool of applicants, we will select a

group of finalists. The finalists will then be given an opportunity to put together a more complete application and a small number of applicants, perhaps two or three, will be selected for funding in early 2011.

This dual-round process will accomplish two key goals. First, it will minimize the number of applicants who have to make significant financial investments to develop a plan which relies on federal funding they do not then receive. Second, it will help HUD determine how best to allocate planning grant applications, giving us a fuller understanding of the challenges applicant communities are facing.

The Geography of Opportunity

Mr. Chairman, I believe that when you choose a home, you don't "just" choose a home. You also choose transportation to work, schools for your children, and public safety. You choose a community – and the choices available in that community.

Just as HUD's Office of Sustainable Housing and Communities is helping regions tackle high-level sustainability challenges, we must support America's most distressed neighborhoods to tackle the stark challenges they face – housing decay, concentrated poverty, crime and disinvestment, lack of educational opportunity, lack of public transportation, and lack of economic opportunity.

Because if a century of housing policy has taught us anything, it's that if there isn't equal access to safe, affordable housing in neighborhoods of choice, there isn't equal opportunity.

And if seventeen years of HOPE VI has taught us anything, it's that building communities in a more integrated and inclusive way isn't separate from advancing social and economic justice and the promise of America – it's absolutely essential to it.

It's inseparable from the idea that, in America, our children's hopes and our dreams should never be limited by where they live.

Ensuring they never are is the goal of Choice Neighborhoods – indeed, of all the work we do together. And with that, I would love to take your questions.