Policy Recommendations for the Choice Neighborhoods Program

The "Choice Neighborhoods" program was proposed by the Obama Administration in the 2010 federal budget. It has been designed as a successor to the HOPE VI program and would create a program of competitive grants to rebuild public and assisted housing into mixed income communities with access to quality schools, transportation, and other vital community services.

Congress is currently debating the funding level for programs in the 2010 budget, including the Choice Neighborhoods initiative. Congress is also reviewing authorizing legislation for this and other newly proposed programs outlined in the President’s fiscal year 2010 budget request. One of the notable and new features of Choice Neighborhoods is its preference for funding housing redevelopment that is coordinated with local school improvements, so that children may simultaneously benefit from improved housing and schools.

Observation and common sense tells us there is a strong connection between school quality and neighborhood quality. While affordable housing is the core of Enterprise’s mission, Enterprise has long recognized that for families, schools are also a vital part of healthy communities.

This relationship between housing and schools has been researched and documented by Abt Associates in three reports issued by Enterprise in 2008. All of these research reports are attached. The purpose of the project was to develop practical guidance and policies to encourage community developers to incorporate improved schools into their neighborhood revitalization strategies, often through partnerships with educators. Enterprise and other community developers call this model “school-centered community revitalization.”

The Choice Neighborhoods initiative clearly shows the lessons of this policy research initiative. As Congress debates funding and authorizing Choice Neighborhoods, Enterprise believes that it is important to note that it is possible for housing developers to work with school systems so that housing revitalization strategies are reinforced by improvements in local schools. This is not merely a theoretical construct. There are several successful examples of school-centered community revitalization already working in communities across the nation and referenced in the attached reports.

Choice Neighborhoods offers the opportunity to turn school-centered community revitalization from isolated examples of strong local leadership to a new nation-wide model for comprehensive neighborhood redevelopment.

Enterprise believes that the following principles should govern any program to transform distressed communities of concentrated poverty into diverse, sustainable, mixed-income communities.

Holistic Principles:
- Create new partnerships at the federal government level to support Choice Neighborhoods. Federal interagency partnerships with coordinated funding streams are needed to create green, sustainable communities with access to jobs, transportation, services and schools. Vibrant neighborhoods have much more than just housing; they include schools, child-care centers, shopping and other essential services. Choice Neighborhoods funding should be structured to allow housing finance to leverage other investments from other sources, and federal funding streams need to be streamlined and coordinated. Ending the isolation of distressed communities of concentrated poverty requires changes that go beyond just rebuilding the housing.
HUD needs to work with the Department of Education so that investments in housing through Choice Neighborhoods are coordinated with investments in improved local public schools. For families, the location of their housing usually determines where their children go to school. Thus, housing choices impact the life prospects for children. The Administration has proposed Choice Neighborhoods to improve the housing in distressed neighborhoods of concentrated poverty and Promise Neighborhoods to improve education and human development in the same type of neighborhoods. Both of these programs would have a more powerful impact if they were coordinated.

HUD should work with the Department of Health and Human Services (HHS) to create partnerships that reflect the need for greater flexibility and enhanced funding levels for family support work related to Choice Neighborhoods redevelopment activities. The goal is to find a way to help residents move out of crisis and towards a long-term position of stability and growth.

HUD should work with the Department of Labor (DOL) to focus on funding workforce development strategies for the residents of neighborhoods undergoing transformation. DOL and HUD should consider funding alternatives to the Section 3 Program that focus on training for jobs unrelated to development. Under the current HOPE VI program, the focus on development-related jobs was a significant hurdle, as construction work may not be appropriate or consistent enough for many of the public housing residents.

HUD should partner with the Departments of Energy (DOE) to fund and encourage green building and healthy housing techniques and ensure that new housing meets the highest energy efficiency, water conservation and health standards.

HUD should work with the Department of Transportation (DOT) to ensure that residents of Choice Neighborhoods have access to a variety of transit options to connect them to employment in the regional economy. Transit-oriented development reduces carbon emissions and enhances resident quality of life by connecting residents with job centers and other essential services.

- **Fund projects with strong mayoral support.** Just as the silos between federal programs need to be broken down to create more holistic strategies for neighborhoods of concentrated poverty, local leadership to bring resources together is also necessary. Only with mayoral leadership can cities bring together the supports needed to create neighborhoods of choice and connection. Mayoral support is essential for Choice Neighborhoods to succeed and projects that lack mayoral support should not be funded.

- **Prioritize projects with a strong housing-education connection.** In addition to the federal coordination between Choice Neighborhoods and Promise Neighborhoods, there needs to be a robust local connection between the housing redevelopment plan and the local school system. Families with choices are unlikely to choose to live in a neighborhood without quality schools. Research has shown that the incorporation of improved schools into holistic community development projects is an effective strategy to improve the success of a neighborhood and the well-being of residents.\(^1\)

\(^1\) Jill Khadduri, Jennifer Turnham, and Heather Schwartz. *The Community Developers’ Guide to Improving Schools in Revitalizing Neighborhoods.*  
http://www.enterprisecommunity.org/resources/schools_and_communities/
• **Use strategic partnerships at the local level for service delivery.** Partnerships between housing developers and human service agencies are a better way to improve socioeconomic advancement opportunities for residents than relying on housing providers to be human service providers.

**Financing Principles:**

• **Develop a project-based rental contract based on area median income.** For Choice Neighborhoods developments that are replacing public housing, HUD should swap the ACC operating subsidy and capital grants model for a project-based contract tied to rents. Across the country, revitalization efforts are severely curtailed by the current model of funding housing authorities with operating subsidies instead of directly underwriting the rental subsidy needs of individual developments.

To address this problem, Choice Neighborhoods projects that replace public housing should be given the opportunity to opt out of the conventional operating subsidy model for public housing. These projects should be individually underwritten with long-term rental contracts similar to those used for FHA-insured housing. As proposed by the Obama Administration, Choice Neighborhoods funding can be used for distressed FHA developments as well as public housing. Thus, it seems logical to create a project-based rental subsidy model for Choice Neighborhoods that is not dependent on old housing program models that are not financially sustainable and can’t be leveraged with private capital.

When combined with Choice Neighborhoods capital grants, the new project-based rental subsidy model can be appropriately sized to service long term mortgage debt. For Choice Neighborhoods, it may make sense to set contract rents consistent with an area median income level that would be consistent with the tax credit units that will be coupled with public housing replacement units, thus offering a seamless underwriting of the rental income across both financing mechanisms.

Combining capital grants with project-based rental support builds upon the previous progress towards effective mixed finance models, merging efficient use of public subsidy with the proven benefits of private underwriting and market disciplines. Depending on a number of factors, projects can be underwritten with corresponding levels of capital and operating support, allowing for flexible solutions tailored to specific project or funding constraints (i.e. the more capital provided, the less mortgage debt required and lower rental subsidy levels).

• **Secure financial support from nongovernmental sources as well.** Funding from foundations, financial institutions, philanthropy, local governments, and/or other private sources ensures that government dollars are leveraged and strengthen the civic commitment to the transformed neighborhood. A private match should be a requirement to receive government funding.

• **Underwrite and fund each project individually.** HUD can strengthen site viability, sustainability and accountability by treating each public housing site or development as a stand-alone project in its underwriting and funding. In cases where a PHA is the lead applicant, HUD should develop flexible financing models that permit changing the operating subsidy model from a housing authority-based operating subsidy to a project-based rental subsidy. Rather than funding the PHA directly, HUD should fund the development directly and address PHA monitoring and asset management responsibilities and funding as direct
project costs. This structure provides greater accountability for each development and is essential to the ongoing success of the mixed-finance model.

- **Permit project or phase-specific underwriting.** By providing predevelopment support, HUD can adopt more stringent pre-award requirements for its larger capital grants or loans. Underwriting the actual financial need of projects after substantial planning and feasibility analysis is complete will ensure that grants are appropriately sized and used in a timely manner.

**Planning Principles:**

- **Include residents in the planning process and final development:** To ensure that residents have a true choice in their neighborhoods, PHAs and developers should gather input from residents at each stage of planning and development.

- **Commit to green building:** All Choice Neighborhoods developments should meet a national green building standard. Enterprise Green Communities research has found significant cost and health benefits for residents of green housing. On average, it costs $5 per square foot (or a 2 percent premium) to meet the basic Green Communities Criteria. However, the benefits are well worth the additional expenditures. Buildings meeting the basic Criteria cut water costs by 20 percent and energy costs by 25 to 30 percent. Low-income youth living in affordable, healthier homes designed to reduce childhood asthma experienced nearly twice as many symptom-free days; annual emergency room and urgent care visits fell by two-thirds, from 62 to 20 days.

- **Provide sufficient funding for predevelopment planning and community engagement grants.** The HUD Congressional Justification for Choice Neighborhoods states that up to ten percent of the appropriation will be used for planning grants, which will assist local partnerships to develop strong proposals for future grant competitions. Planning grants represent a prudent investment in the quality and long-term success of the development in advance of larger development capital and operating investments. Metrics should be included to ensure that these grants are spent effectively.

- **Include regional variation in housing markets in the program design.** Any national program needs to reflect the distinct conditions of each jurisdiction and its surrounding metropolitan area. High and low cost communities have different housing markets and needs that should be reflected in the design of the competitive criteria for Choice Neighborhoods.

- **Conduct rigorous research and evaluation.** Research and evaluation are critical components to measuring success and impact. All successful Choice Neighborhoods applications should include funding for evaluation by respected research firms or academic institutions. HUD should also conduct a program-wide evaluation.