w CHOICES FOR RESIDENTS

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OPPORTUNITY and EMPOWERMENT

- Perestroika for Troubled Public Housing
- RESTORE for Troubled Multifamily Housing
- Homeownership Vouchers
- Moving to Opportunity for Fair Housing
- Safe Havens for the Homeless

merica must inaugurate a new era of boundless and equal economic opportunity for all people—an era of new incentives for risk taking and entrepreneurial growth based on the classic American formula for escaping poverty. The President's Opportunity and Empowerment agenda builds on the principles of competition and marketplace incentives which strengthen the link between effort and reward. Homeownership and the development of assets are essential components of this agenda.

In 1862 President Lincoln opened up millions of acres of government land through the Homestead Act, creating one of the most successful antipoverty measures in American history. In the same spirit of homesteading, President Bush wants to give public housing residents the right to own their own homes. By introducing private property ownership and tenant empowerment into the enclaves of urban welfarism, we can begin to create prosperity and flood the inner cities with capital and new job opportunities so we can wage and win a new war on poverty.

Jack Kemp
Secretary of Housing and
Urban Development

Opportunity and Empowerment Act

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Choice is the principle that underlies the Administration's 1992 legislative reforms for the Department of Housing and Urban Development. Choice is, in essence, a dimension of freedom. A person who makes sound choices can assert leadership, assume personal responsibility for decisions, and contribute to the family, Nation and economy. Only choice can provide genuine dignity and self esteem.

Yet the public housing and welfare systems have not always been based on choice. Their centralized command and control mechanisms sometimes provide inferior service to their constituents and favor day-to-day survival assistance rather than opportunities for self sufficiency and independence. On occasion, unscrupulous third parties profit from assistance designated for the poor. These monopolistic controls weaken economic progress and thwart individual enterprise.

The absence of choice traps many low-income Americans in indecent and unsafe housing with little hope of changing the status quo. Some of the worst housing is government-run and -assisted housing. Despite a half century of public investment measured in the hundreds of billions of dollars, the housing communities that needy people should be able to look to for security and peace of mind have sometimes become dark places of despair and hopelessness.

Reform, restructuring, radical change: the Administration's new housing program, the Opportunity and Empowerment Act of 1992, calls for restructuring the housing system for low-income Americans in a number of fundamental ways:

> Where troubled public housing suffers from high vacancy rates, huge overhead, and large modernization backlogs, the Administration's Perestroika initiative will empower residents with the opportunity to hire and fire their managers and the right to transfer their development to a new nonprofit owner.

- Where public housing is substantially vacant and distressed, Perestroika will unleash the power of community-based housing groups and resident entities to help replace vacant housing with decent shelter for the poor and the homeless.

- Where millions of dollars in housing funds have bailed out failed developers—often more than once—with little benefit to residents, the RESTORE program will foreclose on ineffective owners and assist owners who, in good faith, want to improve housing conditions by increasing resident equity and advancing resident management.

- Where housing assistance for the poor has been restricted to month-to-month rental apartments, the Homeownership Voucher option will enable residents to realize the American dream by turning their vouchers and certificates into equity for homeownership.

- Where low-income families are living in areas of concentrated poverty far from jobs and government services, the Moving to Opportunity reforms will give them a chance to move to neighborhoods with better housing, education, and jobs.

- Where homeless Americans afflicted with mental illness are exposed to street violence and hazardous conditions, the combination of Safe Havens with Shelter Plus Care will provide a comprehensive homeless strategy to attack the problem by tying supportive services to decent housing.

These reforms extend the principles of the Administration's 1990 HOPE program in new directions, deploying the tools of empowerment, choice, competition, and private property throughout many HUD programs. The Opportunity and Empowerment Act of 1992 offers reforms that can turn troubling housing problems into opportunities to empower and uplift the poor.

In Fiscal Year 1993, $100 million is requested for modernization set-asides for Choice in Management and Choice in Ownership, and $192 million is requested for Take the Boards Off. Up to 5 percent of the funds in each program can be used for technical assistance. Under the Take the Boards Off component, 2,500 vouchers will be authorized as replacement housing.

Perestroika is a radical restructuring of a system of public housing that has permitted 100,000 units of housing to lie vacant in a time of increasing shelter needs and has allowed the quality of housing to deteriorate while failing to utilize large amounts of appropriated modernization funds.

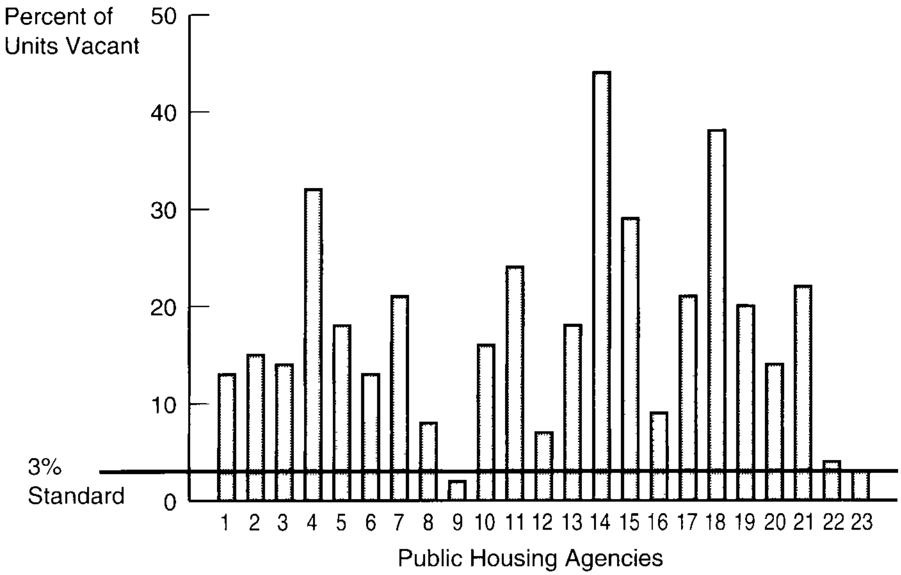
The principle underlying Perestroika is *choice.* Because public housing has too often failed its residents, Perestroika seeks to give the residents of housing run by troubled public housing agencies the right to choose either alternative management or ownership of the property.

Offering residents a greater range of options for the control, modernization, and operation of these communities will increase management incentives, improve efficiency, and promote resident empowerment.

Perestroika is limited to the most distressed public housing agencies (PHAs)—those that have been on the "troubled" list for more than 3 years and own and operate more than 250 units of public housing—where market-based competition is most critically needed.

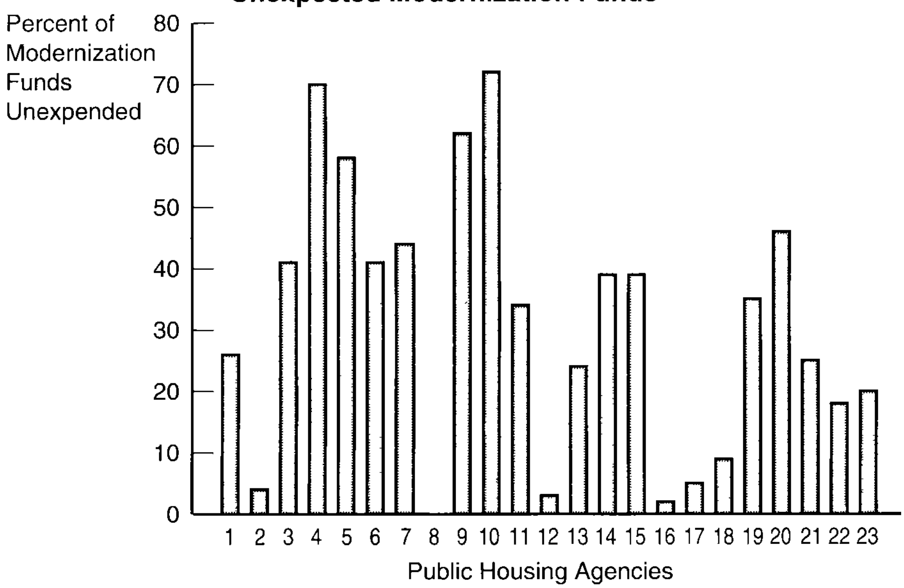
Boston
New Haven
Camden, NJ
Newark
Philadelphia
Chester, PA
Washington, DC
Atlanta
Puerto Rico
Virgin Islands
Jacksonville
Birmingham, AL
Chicago
Detroit
Cuyahoga (Cleveland)
Indianapolis
Lucas Co. (Toledo)
East St. Louis, IL
Springfield, IL
New Orleans
Kansas City, MO
San Francisco
City of Los Angeles

Troubled Public Housing
Vacancy Rates*



* 1989-1991 average

Troubled Public Housing
Unexpected Modernization Funds*



* Funds awarded between 1986-1988, program requires PHAs to expend modernization funds within 3 years

There are currently 23 large, troubled PHAs, which represent less than 1 percent of the nationwide total of 3,115 PHAs but include 20 percent of *all* public housing units and 34 percent of the units in large PHAs.

Almost 14 percent of the units in these troubled PHAs stand vacant, while more than 40 percent of the modernization funds the PHAs received for the period 1986-88 are still unspent.

Perestroika has three components:

Choice in Management,
Choice in Ownership, and
Take the Boards Off.

Choice in Management guarantees public housing residents the "right to choose" the management of their development from among resident management corporations (RMCs), nonprofit organizations, and other public and private groups.

An applicant for alternative management must be the duly elected resident council of the public housing that is proposed for transfer. Entire developments or buildings within developments can be transferred. Transfer of management requires a positive vote of at least 51 percent of the affected residents.

HUD will sign a contract with the new manager that establishes the manager's rights and obligations in return for receiving operating subsidies and the annual modernization funding that the PHA would have received for this development under the Comprehensive Grant program. These funds will go directly to the manager.

HUD will also sign a contract with the new manager for modernization funds to be awarded competitively from the set-aside, if applicable. The income targeting, eligibility, and rent requirements of the current public housing system will be retained.

New managers will be eligible to apply for special public housing funding programs, such as Public Housing Drug Elimination grants.

Residents will retain the right to "hire or fire" the management company, based on its performance. They will also retain their rights to home-ownership under the HOPE 1 program.

Choice in Ownership guarantees public housing residents the "right to transfer" ownership of their development to other public bodies, RMCs, and nonprofit groups.

An applicant for alternative ownership must be the duly elected resident council of the public housing that is proposed for transfer. Entire developments or buildings within developments can be transferred. Transfer of ownership requires a positive vote of at least 67 percent of the affected residents.

Residents may select as the owner any nonprofit organization, RMC, or public agency that can demonstrate the capacity to own and operate rental housing.

HUD will sign a contract with the new owner that establishes the owner's rights and obligations in return for receiving the operating subsidies and the annual modernization funding that the PHA would have received for the development under the Comprehensive Grant program. The PHA's regular operating subsidy and comprehensive grant will be adjusted accordingly.

HUD will also sign a contract with the new owner for modernization funds to be awarded competitively from the set-aside, if applicable. The income targeting, eligibility, and rent requirements of the current public housing system will be retained.

New owners will be eligible to apply for special public housing funding programs, such as Public Housing Drug Elimination grants.

Residents under alternative management will retain their rights to home-ownership under the HOPE 1 program. HUD may approve a Family Self-Sufficiency program for an owner with the demonstrated capacity to administer one.

Take the Boards Off guarantees RMCs, nonprofit organizations, and State and local governments the "right to take over" substantially vacant public housing developments.

The two categories of eligible purchasers are:

> Priority purchasers (private nonprofits, including RMCs and resident councils, representing former residents of the development or current residents of any public housing) who will return the buildings to use as viable assisted housing; and
>
> Nonpriority purchasers (units of State or local government, which may apply to purchase on behalf of a nonprofit organization that will actually own the building or to purchase it for themselves), which will provide affordable rental or homeownership opportunities for lower income families and individuals, including the homeless.

The modernization set-aside funds will be used to return the buildings to a livable condition. These funds, which will be awarded through a national competition, can be used for all of the activities currently eligible under the Comprehensive Grant program, subject to the same cost caps.

If the building is purchased by an entity on behalf of public housing residents, the purchaser will be required to follow current rent and income rules and will receive ongoing operating and modernization subsidies, as in "Choice in Ownership."

If the building is purchased by a nonpriority purchaser to remain as rental housing, it must serve families with incomes at or below 60 percent of the area's median income, as well as existing residents. Special low-income targeting rules also apply to buildings that will be converted to home-ownership. Nonpriority purchasers must provide $1 of matching funds for every $3 of Take the Boards Off funding.

If the building is bought by a nonpriority purchaser and will be used as affordable housing rather than assisted housing, the PHA will receive vouchers equivalent to the total number of units sold.

No displacement will be permitted, and protection will be given to existing residents from the date the application is submitted. Transitional subsidies will be provided to nonpriority purchasers over a 3-year period, after which time the PHA must provide vouchers to these residents to ensure continued affordability.

HUD's FY 1993 budget requests a funding level of $312 million for RESTORE rental assistance and RESTORE loans.

RESTORE is an Administration initiative designed to improve the housing conditions, financial health, and affordability of FHA-insured assisted housing, especially an estimated 1,800 distressed multifamily properties that have serious physical or financial problems.

The RESTORE program has four principal objectives:

Reducing unsafe and unhealthy project conditions for as many households as possible and improving incentives for owners to provide good housing;

Maximizing resident involvement in project management and allowing residents to benefit directly from potential profits when properties are sold;

- Expanding housing choices for low-income families in assisted housing, including opportunities for homeownership and resident management; and
- Reducing unnecessary claims to the FHA insurance fund and the resultant losses.

For the first time, HUD will discriminate systematically between "worthy" and "unworthy" owners and will redirect its assistance away from properties and toward low-income residents. Properties will no longer be automatically propped up—not having to compete for residents—whether or not they are well managed and well maintained.

Residents can expect to see more benefit from, and control over, the money the Federal Government invests in low-income housing. Recipients of new rental assistance will not be tied down by permanent, project-based assistance regardless of their dissatisfaction with the quality of the housing. If management is not providing decent housing, residents will be able to take their subsidies with them to other affordable housing in the area.

The RESTORE program will provide financial assistance necessary to address the problems of distressed federally assisted, HUD-held, or HUD-owned properties. This assistance will include rental assistance to stabilize projects and empower residents, as well as loans to meet immediate repair needs, address shortfalls in operating funds or replacement reserves, and make long-term capital improvements.

RESTORE has three components:

- RESTORE Rental assistance,
- RESTORE Loans, and
- Property Disposition Assistance.

RESTORE loans and rental assistance will be awarded competitively to HUD-subsidized and -insured projects. Recipients of *any* RESTORE funds must develop and implement management plans that give residents maximum opportunity to become more involved in property management, including formation of resident management corporations.

RESTORE Rental Assistance

RESTORE Rental Assistance will be provided in the form of vouchers. The centerpiece of the program is a quasi-resident-based form of assistance, the "project stabilization voucher."

Such vouchers, administered by the local PHA, can be provided to current residents who would otherwise have very high rent burdens or to families on the PHA waiting list who agree to move into the property's vacant units for a minimum of 2 years.

After 2 years, the voucher becomes completely portable, thus preserving the resident's freedom of choice and providing an incentive for the property manager to improve and sustain the quality of the housing.

Units already under Section 8 loan management will continue to receive these project-based subsidies. However, because RESTORE stresses improved management, the contracts for these units will not be automatically renewable; renewal will depend on the quality of manager/owner performance in providing housing that meets all applicable housing quality standards.

Restore Loans address the physical condition of FHA-insured and -assisted multifamily properties that are physically or financially troubled. Properties may receive amortizing low-interest, capital improvement loans if the residents can afford the additional debt service and the property can be supported without additional project-based assistance. Otherwise, the funds will be in the form of a low-interest loan repayable at the time of sale. Owners will be required to share a portion of the property's appreciation with the residents.

When the property is sold or the mortgage terminated, the net proceeds after payment of all debt and related expenses will be divided between the owner and the families living in the property at that time.

Property Disposition Assistance provides flexibility in disposing of subsidized properties on the basis of local housing market conditions.

This flexibility will allow the use of resident-based subsidies instead of 15-year, project-based subsidies. In addition, the Department is requesting changes that will make it easier for low-income residents to buy the properties as they are sold in the property disposition process.

In tight markets, RESTORE would give HUD authority to provide project stabilization vouchers in conjunction with property disposition and would, where necessary, provide capital improvement loans with the condition that low- and moderate-income affordability be continued.

The additional 82,699 vouchers proposed in HUD's FY-1993 budget (a 74-percent increase over the number appropriated by Congress for 1992), may be available for homeownership.

Expansion of homeownership and affordable housing opportunities is a priority of the Bush Administration. The Homeownership Voucher (HVO) furthers this objective by allowing voucher recipients who would be first-time homebuyers to become homeowners.

At present, housing vouchers and Section 8 certificates can be used to support homeownership in cooperatives. The HVO initiative will extend their applicability to all other forms of homeownership.

This change in the voucher/certificate program will make homeownership an option for the 1.2 million households that hold vouchers and certificates. HVOs might be especially attractive to large families whose needs may not be met by the rental stock, as well as to families in rural communities where adequate rental housing is not always available.

Homeownership Vouchers increase a family's ability to pay for housing as well as the stability of its income. This increase in total income and stability, in addition to the program's emphasis on self-sufficiency, make voucher recipients attractive candidates for mortgage loans.

HVOs will allow low-income families to benefit from the appreciation of their homes which, under current law, accrues to the landlord.

Homeownership Vouchers will greatly expand the housing choices available to low-income families. An estimated 11 percent of the Nation's owner-occupied housing stock is affordable with voucher assistance, assuming 30 percent of income is spent for PITI and utilities. Approximately 10 percent of center-city housing stock, 8 percent of suburban stock and 16 percent of non-metro stock will be affordable. The suburbs account for such a large portion of the total amount of standard-quality, owner-occupied housing that 42 percent of the total affordable stock is in the suburbs. More than half of the voucher-affordable homes are single-family, detached housing.

HVO will allow families to use the voucher subsidy for homeownership costs, including mortgage repayment, utilities, and maintenance and repair. The homeownership option is available to certificate families as well.

Eligibility criteria for voucher assistance will be the same as those under current law. The homeownership option can be exercised by either new or existing voucher recipients who will be first-time homebuyers.

All participating families (except those that are employed and have attained a certain income level) will be required to enroll in a Family Self-Sufficiency program modeled in virtually all respects after the current Family Self-Sufficiency (FSS) voucher program. Participants will also be required to participate in a homeownership counseling program.

Families receiving Homeownership Vouchers will be required to reach certain self-sufficiency milestones—including earning income with at least 6 months' continuous employment—*before* qualifying for the HVO. As in the current FSS program, families will contract with the PHA, setting forth their milestones to self-sufficiency for the next 5 years. All Family Self-Sufficiency program participants will be eligible for an escrow account and will be able to use up to 50 percent of the account for a downpayment.

The voucher subsidy will be calculated the same way, whether it is used to help pay rental costs or homeownership costs. Likewise, the income of homeowners and that of renters will be calculated by the same method, taking into account only their income and not the equity value of the house.

HVO families will be required to obtain their own mortgage financing. A portion of the voucher payment will be allocated to the lender to cover the monthly mortgage payment. Voucher recipients exercising the homeownership option will be eligible for FHA-insured financing under the rules of the Section 203(b) program.

The HVO can be applied to homes sold under the FHA Property Disposition program or other programs used for the disposal of property held or owned by the Federal Government. In addition, up to 20 percent of the downpayment can come from State, local, or nonprofit programs for downpayment assistance.

Upon sale of the home, the voucher recipient will generally be able to retain most of the increase in owner equity. However, there is a provision for recapture of some of the profits that a homeowner may receive upon resale, to reflect the fact that the homeowner was building equity through use of a subsidy.

Moving to Opportunity will authorize a set-aside of 1,500 vouchers and $1.5 million in housing counseling funds for a demonstration designed to help low-income families move away from areas with high concentrations of poverty.

Moving to Opportunity expands the Administration's empowerment strategy for fighting poverty and promoting fair housing. Like the voucher and certificate programs that are at the heart of the Administration's assisted housing program, Moving to Opportunity will provide choices among housing units and neighborhoods, and assistance will be portable across jurisdictional lines.

A study of the 15-year Gautreaux Demonstration in Chicago suggests that when very-low-income families move to areas without high concentrations of poverty, they become more economically independent through enhanced employment and their children perform better in school and have broader opportunities for post-secondary education.

Research findings on the demonstration appear to show for the first time that living outside an area of poverty, *in and of itself,* has positive effects for high-risk families.

This improvement was effected with little counseling after the move and with *no* employment or educational counseling.

As in the Gautreaux demonstration, nonprofit organizations operating on a metropolitan-wide basis in large urban areas will provide housing search assistance and counseling to families that expressed an interest in moving out of areas with high concentrations of poverty and into more prosperous areas.

The nonprofit group will examine the credit histories and housekeeping skills of families applying for this program, provide transportation and other search assistance, and help persuade a landlord in a higher income area to rent to the family under the voucher program. The PHA for the jurisdiction in which the family selected the unit will take over administration of the housing assistance contract with the owner, and the nonprofit will continue to provide adjustment assistance to the family.

The voucher "start-up" administrative fee will be split between the nonprofit and the PHA, and the PHA will earn the ongoing fee. HUD will provide the nonprofit with an additional amount per family—to be matched by local funds—from a set-aside of the appropriation for housing counseling.

Participants in Moving to Opportunity will be identified from current voucher/certificate waiting lists on the basis of residence in a census tract with a high poverty concentration. Participation in the program is voluntary.

While Moving to Opportunity might be combined with employment and training services under certain circumstances, the basic focus of the program is on housing.

Safe Havens for the Homeless

The Administration is proposing an appropriation of $50 million in FY-1993 to initiate a new program to provide very-low-cost housing for mentally ill homeless persons who are unwilling or unable to participate in a transitional housing program.

Purpose

A large portion of the homeless are in need of service-supported housing. The Administration requests $266 million for Shelter Plus Care in FY-1993, a more than 140-percent increase over the amount appropriated by Congress in 1992.

Yet many homeless who are mentally ill may be unwilling or unable to make a commitment to existing treatment programs, including programs such as Shelter Plus Care. Mental health experts report that homeless persons with severe mental illness often refuse to acknowledge that they are ill and are especially suspicious of the mental health system. Because lack of a stable living environment compounds the problem, they move frequently among emergency shelters, jails, hospitals, and the street.

There is a clear gap in the joint efforts of Congress and the Administration to end homelessness, which Safe Havens is intended to correct. On one hand, emergency programs provide short-duration shelter, often in barracks-style environments, and are not designed to provide the long-term services needed by certain segments of the homeless population. On the other hand, programs such as Transitional Housing and Shelter Plus Care that provide comprehensive, long-term supportive services designed to help the homeless achieve greater self-sufficiency do not accept those who cannot commit to the goals of the program.

Safe Havens fills this gap by providing a stable living environment as an alternative to the hopelessness and high cost of the current pattern of transience. Once stabilized, the homeless mentally ill can be offered an opportunity to participate in the more service-intensive environment provided by programs such as Shelter Plus Care.

A Safe Haven will be the size of a small homeless shelter, serving no more than 25 persons. It will provide safe and sanitary private or semiprivate lodging for homeless persons who, because of severe mental illness, are unwilling or unable to make the commitment needed for successful treatment.

Unlike an emergency shelter, residents will not be required to leave after a given time period, nor will they be required to vacate the premises during the day.

The program will provide financial assistance on a competitive basis to States, local governments, and nonprofit organizations. Eligible program activities will include operating costs and leasing of facilities. Buildings for Safe Havens may also be obtained through donations.

Regulations establishing a Federal cost cap per Safe Haven facility will be issued by HUD, and the amount will be matched with an equal amount of State or local funds. Recipients of the funding will be required to pay for one full-time mental health counselor for each Safe Haven.

Perestroika for Troubled Public Housing [1]			
Choice in Management/Ownership	100 [2]	100 [2]	200
Take the Boards Off	192	192	384
Subtotal, Perestroika	292	292	584
RESTORE for Troubled Multifamily Housing			
RESTORE Rental Assistance	312	312	624
RESTORE Loans	100	100	200
Subtotal RESTORE	412	412	824
Homeownership Vouchers	**	**	**
Moving to Opportunity for Fair Housing	40 [3]	40 [3]	80
Safe Havens for the Homeless	50	50	100
Total Federal Funding Resources	**794**	**794**	**1,588**

[1]These amounts are proposed as set-asides from the public housing modernization program.

[2]Represents direct loans; this amount of loan activity requires $50 million in budget authority to cover credit subsidy costs.

[3]Includes $1.5 million of Housing Counseling assistance.

**No additional Section 8 costs for 82,699 incremental vouchers requested in FY 1993. Approximately 1.2 million existing certificates and vouchers are eligible for this program.