



Policy Advisor's Recommendations On The District Of Columbia's New Communities Initiative

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1.0 EXECUTIVE SUMMARY

The New Communities Initiative was created in response to community concerns over the impact of concentrated poverty in District of Columbia neighborhoods characterized by distressed assisted housing, violent crime, and lack of critical programs and services for both youth and adults. The program was launched in 2005. Between 2005 and 2008, four neighborhoods were selected for participation, and a concept plan was developed for each (Northwest One, Barry Farm, Park Morton and Lincoln Heights). The program has been governed by four principles: Build First, One for One Replacement, Opportunity to Return/ Stay, and Mixed Income Housing.

The program design encompassed three elements: housing redevelopment; capital investments in neighborhood-serving facilities; and human capital programs.

Housing Redevelopment. The program has produced a total of 1,070 housing units (490 units online and 580 units currently under construction) by providing gap financing to ensure affordability for a range of incomes. Of these, 305 (29%) are affordable replacement units for extremely low-income households, 512 (48%) are additional affordable units for low-income households, and 253 (23%) are market-rate units. An additional 150 units are planned and in search of financing, for a total of 1,220 units provided or in progress.

Capital Investments. Capital investments have included schools, community centers, parks and other facility improvements that are designed to enhance the quality of neighborhood life. These investments will strengthen the ability of the District and its community service partners to deliver much-needed services to families and young people, make the neighborhoods more attractive, and ensure appropriate and convenient venues for health, wellness and recreation programs.

Human Capital Program. The Human Capital program is designed to help families achieve self-sufficiency. Through the District's partnerships with service providers, the program provides 450 households annually with comprehensive case management services and serves over 800 individuals with health and wellness and youth development programs.

1.1 Background on this Study

The New Communities Program is administered by the District's Office of the Deputy Mayor for Planning and Economic Development (DMPED), which contracted with a team of Quadel Consulting and Training LLC (Quadel), CSG Consultants, Inc., and The Communities Group to provide Real Estate Policy Advisor Services to review the NCI program and develop a set of recommendations for moving forward. The team conducted interviews of residents and housing advocates, reviewed each of the neighborhood plans, analyzed actual expenditures and development costs, and calculated the estimated level of investment required to complete the NCI plans. The team also looked at administrative and structural factors affecting the program's productivity.

The NCI program has been criticized for the pace of housing production and for the completion of fewer neighborhood facilities improvements than the neighborhood plans called for. This evaluation has focused on the reasons that initial community expectations have not been met and recommends program modifications to help address those issues. At the same time, the study calls for a more realistic financial plan and timeline.

1.2 Review of the Four Guiding Principles

Four principles guided the framework for the NCI program. The Build First Principle (which entails starting with new construction of replacement units off-site in advance of on-site redevelopment) is not cost or time effective, particularly when combined with the desire to ensure units serving a range of incomes. Build First is costly because it means having to plan, finance and build not just replacement units, but affordable units as well. The complexity of this method prolongs the development timeframe and diverts subsidy from directly supporting redevelopment of the subject HUD-assisted sites, or at least requires the total subsidy to be a substantially greater amount in order to produce both replacement and affordable units. We have recommended some modification in the program's approach to generating these units.

Mixed Income seeks to ensure that the neighborhood revitalization results in attractive housing opportunities for residents with a range of incomes. The program is on track in serving a mix of incomes except in the generation of market-rate housing. Experience has shown that the market will not support market-rate units in all the neighborhoods at this time. It will be necessary to spur redevelopment and create a critical mass before market-rate rents are actually sufficient to support housing with market-rate units. Our study found that the original budgets prepared assumed that market-rate rents would be achievable in all neighborhoods at implementation of the NCI plan; consequently, the NCI plans did not identify any funding gaps for the market-rate units. This overly optimistic assumption around market-rate rents created an equally overly optimistic financial picture with respect to the feasibility of market-rate units in initial phases of the redevelopment. Over time the revitalization investments of the City should pave the way for the market-rate segment of the market to emerge, but it is unlikely in the near term.

The Initiative remains committed to One-for-One Replacement and the Initiative is making progress in this regard. To date, 355 of the 1542 replacements for units currently slated for demolition have been constructed or are currently under construction or seeking financing.

Opportunity to Return/Stay is a principle intended to respect the residents desire to remain in the neighborhood. This goal will be further refined as the program enters the next stage of activity in redeveloping the public housing sites. The human capital component of the program has helped in successfully placing residents in new replacement units. The human capital partnerships with the resident councils, service providers, DC Housing Authority and property management have resulted in 80% of new replacement units (158) being occupied by returning residents (127).

Our evaluation looks at the "lessons learned" from implementing the program to this point and recommends ways to modify its approaches going forward while continuing to respect its guiding principles.

1.3 Neighborhood Plans

Our review of the 2006 and 2008 (Park Morton) plans found some critical issues that impact the success of the program today. The NCI plans were presented as ready for implementation when they were in fact very conceptual and lacking all the necessary ingredients in place, such as site control, partner agreements and due diligence. There was insufficient market and feasibility analysis and together all these factors undermined the timeline for implementation. The original plans identified a gap of \$566 million. The original NCI plans called for a total of 5,221 units to be built/ developed in order to replace 2,003 units in a mixed income setting. However, achievement of this goal demands a far greater infusion of funds than the NCI plans acknowledged. The Housing Production Trust Fund was identified as a tool to address part of the gap funding required and was sized at \$260 million, leaving \$306 million to be found from other unknown sources. Our preliminary estimate of the funding gap (net of tax credit equity and supportable debt) associated with the remaining 3,565 residential units across these four areas is roughly \$324 million. This does not take into account \$120 million in District funds already budgeted for the residential developments, which serves to reduce the gap to around \$204 million.

In recognition of the importance of the NCI program to the City in attaining its affordable housing production goals, it will be important for future allocations made to affordable housing generally to be shared with NCI specifically. This shared approach should apply both to allocations made to the Housing Production Trust Fund as well as to the Local Rent Subsidy Program (LRSP). LRSP would be used to off-set operating costs. This will help ensure that the NCI program has sufficient funds to meet the goals of the program.

The City has made significant capital investment in each of the neighborhoods, including 1,070 housing units that have either been built or are under construction and important community facilities. In addition to investment towards the physical redevelopment, the Human Capital program has effectively funded a rich range of service options through its annual budget.

1.4 Challenges and Recommendations

Despite the challenges, the NCI program has had some successes. Going forward it is important to have a more realistic timetable and expectation for production. Toward these ends our report includes the following recommendations summarized here. Each is discussed in greater detail in the body of this report.

1. CHALLENGE: Timelines

The timelines associated with the original plans were overly ambitious and the NCI plans were interpreted as ready for implementation when in reality they were only conceptual. The initial conceptual plans stopped short of detailing the resource gaps and contributed to the development of unrealistic expectations for how quickly the NCI plans could be implemented. The NCI plans also lacked detailed market analyses, which would have revealed issues related to the feasibility of market-rate units in some locations.

RECOMMENDATION: Develop New Timelines

Our study recommends developing a budget and schedule for each neighborhood to better illustrate short term and longer term needs. Currently, the picture is limited to the program as a whole, making it more difficult to spot gaps and respond to them. By specifying the financial requirements for each project, the timeline for completion becomes more clearly aligned with the ability to commit necessary resources.

2. CHALLENGE: Financing Gap

The original plans had an initial gap of \$566 million. The NCI plans assumed approximately \$260 million of gap financing from the Housing Production Trust Fund (HPTF), leaving a housing development gap of \$306 million. The consultants estimate the current housing development gap at \$324 million (there is \$120 million currently in the capital budget, leaving a gap of \$204 million).

RECOMMENDATION: Develop New Funding

Opportunities/Identify Ways to Reduce Costs
We recommend developing new funding opportunities and identifying ways to reduce costs. Potential strategies include:

- Increase funding commitment from the City Council
- Help to ensure sufficient funding by making future allocations to the Housing Production Trust Fund and the Local Rent Subsidy Program shared with NCI specifically
- Explore the feasibility of the Rental Assistance Demonstration (RAD), a new HUD program that transforms public housing units into opportunities for project-based Section 8 rent assistance in privately-owned developments
- Reduce the fees charged by the DC Housing Finance Agency (DCHFA) to reduce project costs, noting that DCHFA fees are significantly higher than other HFAs.
- Exempt affordable units from real estate property tax or further increase the funding commitment from City Council. If a tax exemption is pursued, consider potential creation of special NCI Zones: Similar to the concept of President Obama's "Promise Zones" initiative, the creation of zones for NCI neighborhoods could offer special financing and/or tax incentives to encourage affordable housing development.
- Partner with developers to "buy units" in other development projects
- Develop plan to leverage foundation involvement

3. CHALLENGE: Need to Develop All Units

The current program structure places the onus on NCI to develop and finance all units in a mixed income development, not just the replacement units, which significantly increases the subsidy needed.

RECOMMENDATION: Partner with Developers to Buy Units in Other Projects

In order to allow greater flexibility for how replacement units are generated, we recommend partnering with developers to buy units in other projects. To date all replacement units have been created through projects that were wholly financed through NCI. Going forward NCI could buy into other affordable housing developments throughout the city by providing additional gap financing to projects such as those in DHCD's pipeline.

4. CHALLENGE: Build First

Adhering to the Build First principle requires site control of multiple off-site locations. The acquisition of off-site parcels is also currently limited to the boundaries of the neighborhood as defined by the Initiative. These constraints cause the developments to be expensive and time-consuming, as Build First requires the off-site housing to be fully completed prior to demolition of the on-site housing.

RECOMMENDATION: Move Beyond Build First

In order to meet more efficient timeline demands, NCI will need to modify the Build First principle and develop on-site and off-site housing simultaneously rather than spending an inordinate amount of time, staffing resources, and financing until adequate off-site housing is fully developed. We recommend modifying the approach to the Build First principle by exploring the opportunity to buy into the projects of other developers, which already have approvals and financing. This would stretch the available dollars and hasten the generation of units. It would also avoid the delays associated with site control where that has been an issue.

5. CHALLENGE: Mixed Incomes

Although a mix of incomes is desired in each of the neighborhoods, market-rate units with self-supporting rents are not feasible at this time in every neighborhood.

RECOMMENDATION: Clarify Public Expectations

Inform public expectations and make clear that this outcome is a goal that will require a longer term than initially anticipated.

6. CHALLENGE: One for One Replacement

The principle has been interpreted by some stakeholders to mean that the existing mix (number of bedrooms per unit, primarily) will be replicated in the new developments. There is also an assumption that every replacement unit will be built within the footprint of the existing neighborhood, which limits the possibilities for new development as site control is a significant challenge.

RECOMMENDATIONS: Clarify Expectations

One for One Replacement does not mean that the unit mix of the demolished structures will be replicated in the new developments; it refers to the total number of replacement units produced. This definition needs to be clarified with stakeholders so expectations can be properly aligned. Alternately, a different term should be used. For example, instead of referring to these as "Replacement" units, they could be referred to as "Extremely Affordable" or "Deeply Subsidized" units.

Broaden Geographic Scope

Previously NCI has attempted to create all replacement housing within the existing neighborhood boundaries, which has limited development to the specific market within the footprint. Expanding the boundaries will allow greater flexibility in acquiring off-site housing and leveraging the economic impact of key developments in surrounding neighborhoods. It is often assumed that most residents desire to remain in the existing neighborhood; however, a recent survey of Barry Farm residents suggested that a number of residents may wish to relocate to other neighborhoods, at least temporarily. We are urging the NCI program to undertake resident surveys in order to determine how many residents actually wish to return to the redeveloped sites. Residents may have various other preferences for their relocation. Therefore, NCI should seek out new partnerships with developers to incorporate a scattered site strategy. With respect to relocation, we are urging the NCI program to undertake resident surveys in order to determine how many residents actually wish to return to the redeveloped sites. Residents may have various other preferences for their relocation.

7. CHALLENGE: Right to Return/Stay

While a guiding principle, there is not a guarantee that every resident will return. Through NCI residents have moved to new housing owned by private developers and managed by private property managers, instead of the DC Housing Authority. Consequently, the owner incorporates its own screening criteria for an applicant that goes beyond the reentry protocol established by the Resident Councils.

RECOMMENDATION: Early Establishment of Reentry Protocol

A consistent reentry protocol will have to be established with residents at all properties. This protocol can then be inserted into the solicitation process for developers to respond to and implement. This will be a basic protocol and will not fully address all screening issues. For example, some screening is determined by the financing program, which may be unknown until the predevelopment phase of the project.

8. CHALLENGE: Administrative Support

The administrative support structure for NCI needs to suit its role and responsibilities.

RECOMMENDATION: Clearly Define Roles

As the administrator of the New Communities funding awards to DCHA and private developers, DMPED must define clear and effective roles, with written MOUs for all parties so that DMPED can better administer its funds and DCHA and developers have defined responsibilities and performance schedules.

9. CHALLENGE: Closer Coordination with DCHA

Now that Barry Farm and Park Morton are moving into a more active phase with developers on board or being solicited, the need for coordinated planning and messaging to residents and the public becomes increasingly important.

RECOMMENDATION: A Facilitated Strategic Retreat

We recommend a facilitated strategic retreat for DMPED and DCHA to recognize and detail the new phase of their coordination going forward.

10. CHALLENGE: Institutional History

Leadership over the NCI program, the Deputy Mayor's office and the mayoralty has changed several times during the decade the program has operated and

staff turnover has occurred as well. This staff and leadership turnover has made it difficult to maintain the institutional history of the program.

RECOMMENDATION:

Loss of institutional memory and continuity take a toll on productivity, accountability, and working relationships both internal and external. We recommend putting more of the program history, policies and procedures in writing.

1.5 Conclusion

The New Communities Initiative has generated new housing units and neighborhood facilities, and has provided social support and youth development services to hundreds of residents in its four selected neighborhoods. Yet, the pace of transformation has disappointed many citizens and advocates. Our study concludes that several modifications to the program can and should be made now in order to energize the rate of achievement. With modifications to the program's overall framework, timeline, and financial planning, future phases of activity will produce results that bolster public confidence in and understanding of this complex and ambitious program effort. Further, the investments made by the City will bring returns to the City's tax base for many years to come by building the confidence of the private sector and spurring investment.

2.0 INTRODUCTION

The New Communities Initiative (NCI) was created in response to community concerns over the impact of concentrated poverty as evidenced in distressed housing, violent crime, and lack of critical programs and services for both youth and adults, including youth development, health and wellness, employment and economic development. The NCI program design encompassed three elements: housing redevelopment, capital investments in neighborhood-serving facilities, and human capital programs.

Four District of Columbia neighborhoods were selected to participate in the program: Northwest One, Barry Farm, Lincoln Heights/Richardson Dwellings, and Park Morton. These areas had several characteristics in common, including high crime, significant low-income population, distressed HUD-assisted housing (in three of the four neighborhoods, the HUD-assisted property is public housing) and dire need for capital investment and economic development.

Through extensive public participation, the effort took shape with the development of a conceptual neighborhood revitalization plan for each of the participating neighborhoods. The NCI plans for Northwest One, Barry Farm and Lincoln Heights/Richardson Dwellings were completed in 2006. Park Morton was created in 2008 and all four plans were adopted as Small Area Plans by the City.

The Plans identified a funding gap at the time of \$566 million. Housing Production Trust Fund (HPTF) bond proceeds were expected to generate as much as \$260 million in proceeds to address this gap, leaving \$306 million unfunded. The NCI plans did not include a concrete financing strategy to address obtaining the additional funds required to implement NCI. Capital Investments in facilities such as new schools, libraries, or community centers have occurred on sites that were already publicly owned and did not require land acquisition. The Human Capital programs have been financed by contracting with service providers from an annually approved budget. The NCI housing program has required the acquisition of sites for replacement housing and the financing and development of that housing in advance of the demolition of existing low income properties in order to offer relocation options and prevent wholesale displacement. To achieve this, the Office of the Deputy Mayor for Planning and Economic Development (DMPED) works with private sector developers who build the housing units employing subsidies provided by NCI through the HPTF in order to make the units affordable.

2.1 Background, Purpose and Scope of Study

A team headed by Quadel Consulting and Training LLC (Quadel) together with CSG Consultants, Incorporated, and The Communities Group was selected to provide Affordable Housing and Real Estate Policy Advisor Services to review the District of Columbia's New Communities Initiative (NCI) administered by the Office of the Deputy Mayor for Planning and Economic Development (DMPED). The scope of the study incorporated:

- Review of NCI policies and guiding principles
- Review of existing goals and strategies
- Review of existing physical plans and concepts within the redevelopment plans in the four target neighborhoods
- Review of the Human Capital plan
- Review of the NCI development and financing strategy and achievements to date
- Assessment of the program's challenges and opportunities
- Development of a set of recommendations for the program moving forward

The timing of this study is prompted by the fact that the program has been underway for nearly ten years and has been buffeted by a number of factors that have impacted its progress and added to the challenge of reaching its ambitious goals for neighborhood revitalization. In addition, NCI has been criticized in the press for the pace of achievement of its production goals. Over the past decade, the District's economy has experienced favorable impacts such as growing population and reinvestment in a number of areas of the City, but it was not immune to the slowdown effects of The Great Recession, and reinvestment has not been evident in all areas of the City. The redevelopment assumptions underlying the neighborhood small area plans, which date from 2006, require revisiting in light of a changing economic climate and the experience to date in implementing the program in four very different neighborhoods. Our study reflects the influence of some external factors as well as issues arising from the program's design.

The scope of this examination is at the overall program level. That said, the program principles and strategies have had varied impacts from neighborhood to neighborhood and where these are evident, we have noted their effects.

2.2 Method of Analysis

The team employed a number of methods and materials to conduct its research and analysis. These included detailed reviews of each of the neighborhood plans, tours of the subject neighborhoods, meetings and interviews with residents and housing advocates, analysis of funding estimates in the original Neighborhood Plans, analysis of actual expenditures and development costs, and calculation of the estimated level of investment required to complete the NCI plans. The team also looked at administrative and structural factors affecting the program's productivity.

3.0 PRINCIPLES, GOALS AND STRATEGIES

The NCI Plans have been governed by four guiding principles translated into policy. The four principles are primarily related to how the housing redevelopment program is implemented.

- *Build First* calls for new housing on publicly controlled lands to be built prior to the demolition of existing distressed housing to minimize displacement.
- *Mixed-Income Housing* seeks to ensure long term viability of the neighborhood by providing a range of housing options for all incomes.
- *One-for-One Replacement* of existing units seeks to ensure there is no net loss of existing deeply subsidized units in the neighborhood.
- *The Opportunity for Residents to Return/Stay* in their neighborhood.

These principles were intended to minimize some of the types of disruptions and hardships generated in previous redevelopment efforts not only in the District, but across the nation. Potential hardships include the net loss of units serving those with very low incomes, the displacement of residents from their familiar neighborhoods, and disruption of the community fabric. Those principles have been expressed in goals and strategies for implementation of the four revitalization initiatives.

The goals of the Initiative include development of mixed-income communities to de-concentrate poverty and transform each of the four neighborhoods into a community of choice with replacement units developed to minimize relocation and provide opportunities to remain in or return to the original site or move to its proximity. The NCI Plans intend to provide one-for-one replacement units for the deep subsidy units. Mixed Income has been interpreted to mean that overall development should strive to produce extremely low-income replacement housing units, affordable units, and market-rate units.

The implementation started with securing sites, developing new mixed-income properties, and integrating the replacement units with the other types. Concurrently, the City funded a number of capital investments designed to enhance venues for recreation, education, and community services programs. The Human Capital Program has also been active since 2007 to address the conditions of poverty characterizing the subject

neighborhoods. The Human Capital Program includes comprehensive case management for those families designated as residing in the units projected to be in the first phase of redevelopment. In addition, Human Capital contracts with a number of service providers offering programs that vary from neighborhood to neighborhood but primarily focus on health and wellness and youth development.

The following sections review the impact of each of the Principles on the implementation of New Communities in each of the four neighborhoods in the following order:

- Build First
- Mixed-Income
- One for One Replacement
- Opportunity to Return/Stay

3.1 Build First

The Build First principle calls for new housing to be built prior to the demolition of existing distressed housing in order to minimize displacement. We interpret Build First as being able to minimize double moves and keep people in the neighborhood. The "Build First off-site" portion of production is in order to be able to move people from the site(s) targeted for demolition to nearby off-site projects; which then allows for demolition and phasing of the development on-site. The following illustrates how each neighborhood has implemented this plan.

Northwest One. The original Northwest One plan included a total of 520 units which was largely made up of Temple Courts and Sursum Corda. Sursum Corda, a large cooperative project consisting of 190 units of housing has elected to chart its own redevelopment path, thus is no longer a part of the New Communities Initiative. Implementation of the Northwest One plan began with demolition of 250 units that included 211 units in Temple Courts and 39 units at the Golden Rule Center. To date, 507 units have been built or are currently under construction. This includes 137 replacement units, which represent 55% of the current replacement requirement to comply with the one for one replacement commitment for the 250 units that have been demolished. Residents of Temple Courts were provided with vouchers to facilitate their relocation. The Temple Courts vacant site is now ready for redevelopment to complete the on-site build-out. For some time, development on this site was forestalled by a use restriction on the Temple Courts property, which was resolved in November 2013. Although Sursum Corda is no longer a part of the New Communities plan, the owners desire redevelopment that would benefit the

overall community. Sursum Corda is likely to be assisted through the proposed Mid-City East Small Area Plan that, if approved, will permit higher density.

In Northwest One the number of extremely low-income units represents 27% of the units built to-date. The demolition and clearance of the Temple Courts site is a positive from the redevelopment standpoint presenting a ready-to-go site; however, because the residents were vouchered out, there is no project-based operating subsidy attached to this site that can be used for the new assisted development. The lack of project-based operating assistance does not apply to the three public housing sites in the other neighborhoods. They are still under Annual Contribution Contracts (ACC) and receiving public housing subsidies and, if converted to RAD, they would be eligible for project-based rental assistance.

Barry Farm / Park Chester / Wade Apartments. The original plan included three properties: Barry Farm, Park Chester and Wade Apartments. As reported to us by DMPED, similar to Sursum Corda in Northwest One, the Park Chester rental/cooperative property opted to go its own redevelopment route and is no longer part of the NCI Plan. The current Barry Farm redevelopment plan includes 444 public housing units, which includes a total of 432 units at Barry Farm and 12 units at the Wade Apartments. Thus far, 346 new units have been built or are under construction. The District and DCHA competed successfully for a Choice Neighborhoods Planning Grant and plan to pursue a \$30 million Choice Neighborhoods Initiative (CNI) Implementation Grant from the U.S. Department of Housing and Urban Development. Although both types of grants (the Choice Planning and the Choice Implementation) are awarded competitively, Implementation Grants are limited to a handful of grantees each year and are extremely competitive. Being awarded a planning grant does not ensure later success in winning an implementation grant. It would be beneficial for DCHA and DMPED program staff to conduct tours of neighborhoods that have been successful in receiving an Implementation Grant and meet with staff to learn from their experience.

The replacement units developed to date in Barry Farm represent 29% of the units built since the initiation of the New Communities effort: 100% of the units built thus far are affordable.

Lincoln Heights / Richardson Dwelling. The combined Lincoln Heights and Richardson Dwellings public housing properties have 630 units. To date, NCI has developed 134 affordable housing units in offsite developments, including 41 replacement units. The 41 replacement units developed represent 7% of the total target number of 630 units.

Park Morton. The Park Morton public housing property has 174 units which were included in the original redevelopment plan. To date, one 83 unit affordable housing off-site development has been built, with 27 replacement units. The 83 units developed are equivalent to 16% of the 523 unit target in the redevelopment plan. The Build First principle is not cost or time-effective. Development phases take 4-6 years, including procurement of a developer, proximate planning, obtaining site control and entitlements, assembly of a development team, predevelopment and construction. This process can even be longer where issues like site control have been a major issue and source of delay as in the case of Park Morton.

Conclusion. Build First, when combined with the goal of achieving a mix of incomes, is a very slow process, and it is very costly because it means having to plan, finance and build three units for every replacement unit. Based on projects completed to date, NCI is investing an average of \$81,000 in direct subsidy per affordable unit (including the replacement units) with \$37,000 in additional subsidy from other sources (DCHA). Although all affordable units developed are within the goals of the Housing Production Trust Fund (HPTF), this method of development prolongs the development timeframe for this specific Initiative, and diverts subsidy from directly supporting redevelopment of the subject HUD-assisted sites, or at least requires the total subsidy to be a substantially greater amount.

In order to meet more efficient timeline demands, NCI will need to modify the approach going forward by tapping into other entities' efforts, such as other HPTF projects, scattered sites undertaken by local non-profits and church groups, as well as the projects of other private, for-profit developers, which may or may not be located within the bounds of the NCI neighborhood. The successful development effort by the Bible Way Church with Mission First in Northwest One is an example of what such groups can do. The Bible Way Church owned land in Northwest One and partnered with the District to receive development funding in exchange for 78 replacement units in two developments.

3.2 Mixed Income

The mixed-income housing principle seeks to ensure the long-term viability of the neighborhood by providing a range of housing options for all incomes. Inherent in each neighborhood plan is the desire to foster a mix of incomes. While two of the NCI Plans reference market studies, there is no specific analysis of the market for market-rate units, with feasibility and absorption rates. As a consequence, the feasible range of incomes that could be attracted, at least initially, was not clear.

The Initiative has been largely on-track in serving a mix of incomes, except in the generation of market-rate housing. However, none of the newly developed projects with NCI funding has a concentration of replacement units/public housing assisted units. The overall replacement units represent 28% of the total new units built or under construction.

The original redevelopment plans assumed a unit mix of one-third replacement units, one-third affordable units and one-third market-rate units. The one-third unit mix approach referenced in the NCI Plans is intended to serve as a general guideline rather than a rigid formula. For the most part, the one-third being targeted to replacement units can be implemented in each case, since it is generally an upward limit as the goal is not to over-concentrate new developments with very low-income households. The units generally considered to be market-rate will be a product of market demand. In some areas, including Lincoln Heights, Barry Farm, and potentially Park Morton, actual market rents might not be higher than what is considered an affordable rent under the Low-Income Housing Tax Credit program and therefore, cannot support development of new units without additional subsidy. Thus, true market-rate units for such areas are not achievable in the initial phases of development. It will be necessary to spur redevelopment and create "critical mass" before local market rents are actually sufficient to support market-rate units. The lack of market-rate units completed or in progress is neither a surprise nor a program failure. However, it is important to note that the original budgets prepared did not identify any funding gaps for this reality, so this painted an overly optimistic financial picture from the start with respect to the feasibility of market-rate units. Going forward, NCI should clearly communicate that the desired mix of incomes is a long-term goal for each area. It does not necessarily represent the short-term result of NCI investment.

3.3 One for One Replacement

The Initiative remains committed to the One for One Replacement principle, and the individual area plans still call for replacing all assisted units "one for one." The Initiative is making progress in this regard, with 20% of the target replacement units being achieved to date (that is, 305 replacement units developed out of the 1542 slated for demolition in the current plans.) However, it should be understood that this principle does not intend that replacement units will mirror the demolished units by bedroom size.

One for One Replacement has not been fully understood and may require clarification. It was not intended to entail the construction of housing developments that exactly mirror the unit mix of the existing public housing nor can the mix of the new housing be built to fit the households in the current population. For one reason, it is generally not economical to build replacement four, five or six bedroom units in public housing redevelopment. This is because public housing units receive only operating subsidy to cover management and maintenance, and there is no funding available to support debt service. Soft funding and subsidy needed for a six-bedroom unit is nearly twice as much as for a two-bedroom unit, based on development costs. Soft funding, unlike hard financing, is repaid from cash flow versus hard debt service payments. The permitted six-bedroom Total Development Cost (TDC) limit in DC, based on HUD costs limits, is \$392,404 versus \$237,862 for a two-bedroom (semi-detached) unit. The two-bedroom limit for a walk-up unit is \$200,903. In practice, the cost of producing a six-bedroom unit may actually exceed what the TDC allows. In addition, family size and composition are fluid over time. In general, family sizes are tending smaller with one- and two-bedroom units in greatest demand on DCHA's waiting list. Altogether, such factors point to the need to use other approaches and to provide large units to families that require them. We suggest some alternatives in our recommendations.

The Initiative should consider the need to survey residents as to their replacement preferences with options including potential for a voucher (especially for large families); a single move to nearby off-site units; a single move onsite to on-site replacement housing; a single move to other public housing; homeownership for those who are assessed to be "near-ready;" and possibly on-site substantial rehab if feasible for a specific site. A survey was recently conducted along these lines at Barry Farm in connection with the redevelopment planning. The results showed that a significant number of households (84.5%) prefer to relocate from Barry Farm, at least temporarily, with a voucher and that almost 70% of households indicated a preference to return

to the redeveloped site. Given such survey results, it would be a mistake to assume that 100% of the households want to move to new developments in the same basic location. The suggested survey of residents should help to get to a deeper understanding of resident needs and wants. Survey information should be included in development of future phases of the NCI plans.

The objective of the current One for One Replacement principle is that replacement housing be created through "project development" (primarily new construction) that is located within the NCI geographic footprint of the four neighborhoods and folded into a mixed-income project. As noted, this is probably the least efficient and most costly approach to achieving replacement units. We recommend consideration of a broader array of options, based on resident surveys and local options available. Some additional options include buying into "other entities' projects" such as recent affordable developments; the pipeline of non-NCI projects supported by the Housing Production Trust Fund; and partnering with non-profits and smaller developments for in-fill and even smallscale rehabilitation (e.g., single family and two to six unit developments). Each of these approaches achieves 100% replacement units versus one for every two or three, as described in the example above.

Generally these types of efforts should be in close proximity to the NCI sites, but there may also be some households that would want to consider moves outside of their immediate area, so those opportunities should also be considered. Advantages of this approach are that it can be developed more quickly, since it can buy into other projects already planned. The Initiative would also only pay for the replacement units and not have to arrange financing for and develop all of the units being built. Finally, it also increases the options available for residents. Assuming HUD continues and expands the new Rental Assistance Demonstration (RAD) Program, this approach will become significantly more attractive to the development community. Under RAD, the subsidy formerly supporting public housing units can be transferred to units in other private developments in the form of project-based Section 8. Some developers may welcome this infusion of subsidy to support a portion of the units in their developments.

3.4 Opportunity to Return/ Stay

The Opportunity to Return/Stay in their neighborhood is another guiding principle of the Initiative. There was substantial criticism of HOPE VI in some communities where return criteria, namely full-time employment or status as a student for heads of households, imposed new restrictions, which de facto prevented a significant number of residents from returning. Both the newer RAD and Choice Neighborhood programs provide clearer direction as to how the right of return should be handled. For example, Choice Neighborhood says that "residents may return if the resident was lease compliant at the time of departure from the housing project subject to rehabilitation or demolition and continued to remain lease-compliant during the relocation period, and shall be provided a preference." The RAD program is even stronger and does not permit rescreening upon re-entry. Developments under NCI will primarily be owned by private entities that do not have either RAD or Choice underlying their projects.

This sometimes has been a policy area of confusion for NCI, and the partners need to work out an approach that is applied consistently going forward and is clearly communicated to stakeholders, developer partners, case managers, supportive service providers, and most especially, the residents. Early in the life of the program a set of protocols were developed in consultation with Resident Councils and where a reentry protocol was developed, it has been implemented. However, developers and property managers employ screening criteria that go beyond the protocols' scope. The screening criteria of private sector property managers may be unfamiliar to long-time residents of public housing and unexpected. Communicating these early and clearly can assist residents in making better choices and plans when it is time to relocate.