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 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.

4.0 AREA DEVELOPMENT PHYSICAL PLANS

The scope of this study included a review of existing physical plans and concepts within the redevelopment plans in the four target neighborhoods. The team reviewed area plans including Lincoln Heights/Richardson Dwellings; Barry Farm; Park Morton; and Northwest One. The area plans contain many sustainable neighborhood design similarities, including:

- New urbanism design – houses facing streets; outdoor spaces such as front porches; terraces and balconies that promote community interface; and rear yards clearly defined to improve neighborhood security;
- Higher housing densities to increase the number of people on the sidewalks and create an economic mass to attract retail services;
- Interconnected street patterns with sidewalks to promote walking, reduce vehicular use, and improve community health;
- Increased nearby retail, especially access to grocery stores; and Increased open and recreation spaces.

However, there are substantial differences between sites that contribute to some of the challenges faced during implementation. The analyses of the four plans on the following pages describes the differences between the sites and the implementation difficulties.

4.1 Lincoln Heights/Richardson Dwellings

The Lincoln Heights/Richardson Dwellings community has a mix of simple and difficult implementation issues. It is a large undertaking that proposes developing a total of 1,610 units, plus 30,000 square feet of retail, and 58,000 square feet of clinic and office space. Three of every five proposed units will be developed on property owned by DCHA (the existing Lincoln Heights and Richardson Dwellings sites.) Two of five of the proposed units plus the retail and office space are dependent on the acquisition of property not owned by DCHA or the District and the relocation of some households and businesses. This is an expensive and time-consuming process.

Topographic challenge at first phase

Exhibit 1: Lincoln Heights/Richardson Dwellings Redevelopment and Replacement Units

Recommended Scenario	Total Units	Replacement Units	Other Development
Lincoln Heights DCHA Site	574	191	
Richardson Dwellings DCHA Site	329	110	
Town Center	566	189	30,000 SF Retail; 58,000 SF Clinic/Office
Offsite Public or Private Development	0	140	
Total	1,469	630	
Offsite Public or Private Development	140		
Total	1,609		

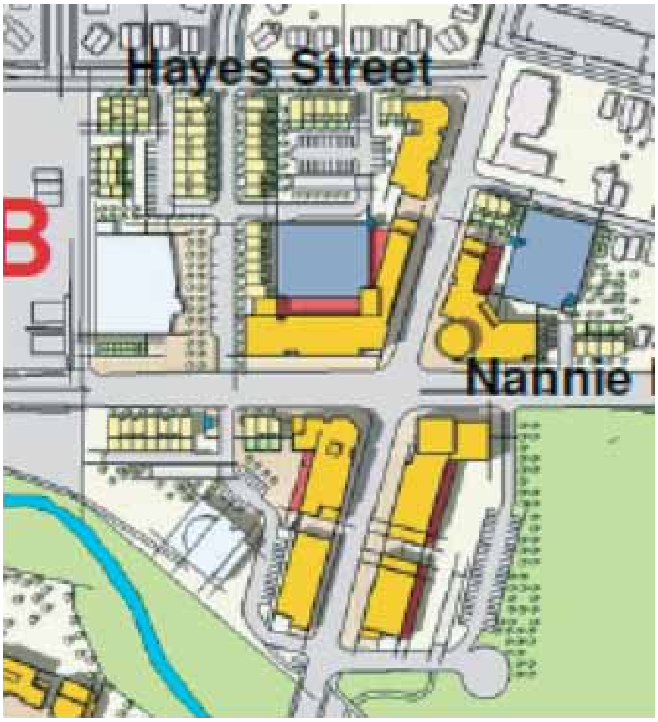
The Lincoln Heights site has a significant topographic change, which limits the placement of streets and units in a phased redevelopment. As a result the existing street pattern remains with the addition of two new streets. The vacant and boarded units are the likely place to start with the first phase of units. But the rebuilding process will be challenged by the topography.

The Richardson plan proposes a new street pattern, which makes it difficult to define a first phase that does not disrupt street and utility access to households living in units awaiting redevelopment.

The Town Center plan is entirely dependent on significant private property acquisition. Seven and one-half years have passed since the Town Center plan was developed, and construction has yet to begin at Town Center. Instead, the following four residential developments have been completed: 4800 Nannie Helen Burroughs NE (with 70 units), 4427 Hayes Street NE (with 27 units), C Street (with 9 units) and The Eden (with 29 affordable home ownership units.) In addition, one development (5201 Hayes Street NE with 150 units) is currently securing the required financing. Exhibit 2 provides a bird's eye view of the intersection of Nannie Helen Burroughs Avenue NE and Hayes Street comparing existing conditions to the concept area plan.

Likely Lincoln first phase consisting of 40 vacant boarded units

Exhibit 2: Views of Hayes Street and Nannie Helen Burroughs Avenue



The Lincoln Richardson Town Center plan also includes development of new retail services at the Town Center site, along with modernizing Merritt Middle and Burrville Elementary Schools. The total development cost to implement the Lincoln Richardson Town Center plan was estimated in 2006 at $576 million. Surprisingly, the development cost does not specifically include land acquisition. Also, as described previously, the financing does not appear to anticipate subsidy needs for market-rate development.

Current estimates of the 1,609 units planned for the residential component of this area indicate total development of about $576 million. The original plan projected a total gap of $203 million, and current calculations estimate a gap for the remainder of this project to be $139 million.


Bus stop shelter at Lincoln


Bus stop shelter at Lincoln


Richardson Dwellings Townhomes


Typical Lincoln courtyard design

Exhibit 3: Lincoln Heights, Richardson Dwelling and Town Center Area Plan

In addition to the units shown here, there are another 140 units planned, which brings the total development plan for Lincoln Heights to 1,609 units.

4.2 Barry Farm

Wade Apartments

Eaton Road Apartments Barry Farm lacks circulation due to road closings

The Barry Farm Area Plan is a large-scale and complex development. The Barry Farm plan, as originally written and shown in Exhibit 4, proposed 1,391 new mixed income units on-site and at several locations off-site. The Barry Farm plan is currently being updated through the submission of a zoning application for a first stage Planned Unit Development (PUD).

The PUD proposes approximately 1,324 to 1,879 residential units and approximately 58,730 square feet of new commercial space on the Sumner Road corridor along with potential mixed-use development on Firth Sterling. The PUD development includes Barry Farm and Wade Apartments owned by DCHA, and seven vacant lots on Wade Road owned by the District.

Exhibit 4: Barry Farm/ Park Chester/ Wade Road Housing Program Planned Units

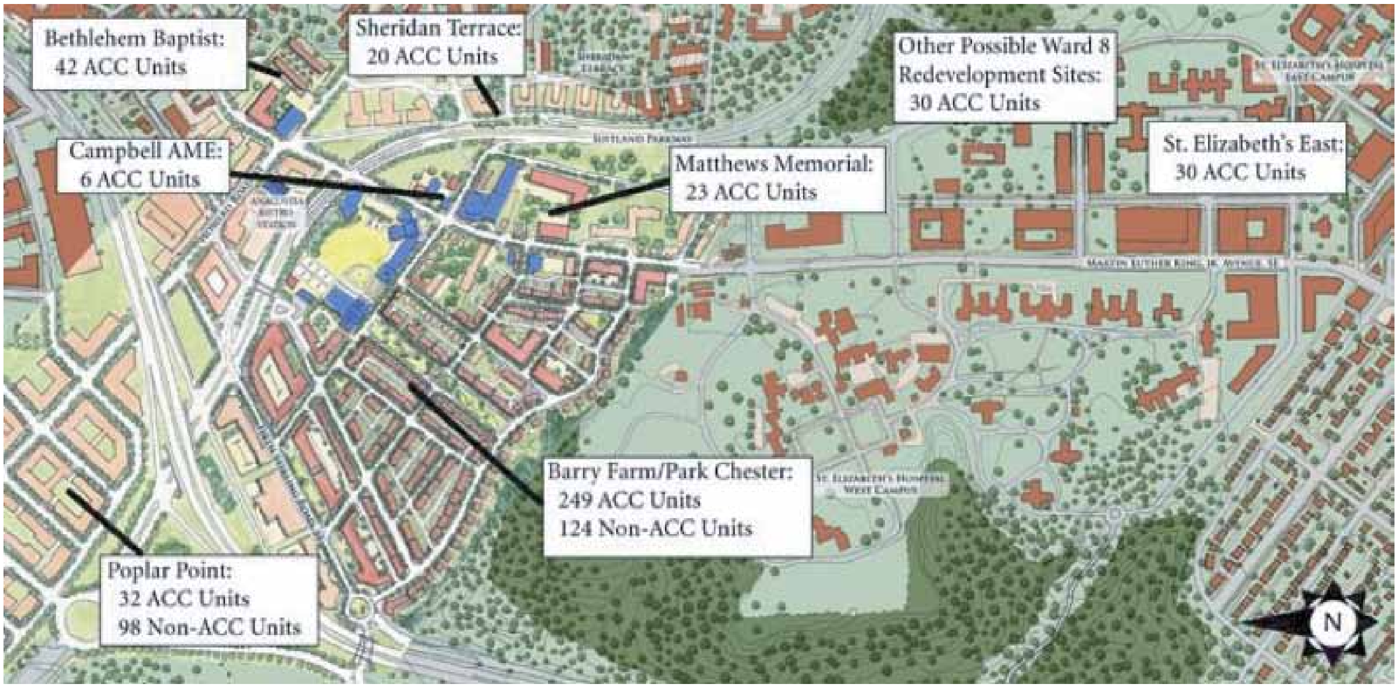
	Replacement ACC	Replacement Other	Workforce	Market	Total
On-Site Apartments					
One Bedroom	50	56	142	143	391
Two Bedroom	41	38	83	83	245
Three Bedroom	44				44
Subtotal	135	94	225	226	680
Low-Rise					
2 Over 2			71	71	142
Townhouse	114	30	72	72	288
Subtotal	114	30	143	143	430
Total On-Site	249	124	368	369	1,110
Off-Site					
B. Baptist	42				42
M. Memorial	23				23
Campbell AME	6				6
S. Terrace	20				20
Other	30				30
Poplar Point	32	98			130
St. Eliz. East	30				30
Total Off-Site	183	98			281
Total	**432**	**222**	**368**	**369**	**1,391**

The Area Plan includes building a new Excel Academy Charter School to replace Birney Elementary School, which has been completed. The Barry Farm plan also includes a new recreation center which is currently under construction with a completion date of spring 2015.

The Barry Farm Area Plan also includes, but is not dependent upon, substantial public transportation investment for highway improvements to I-295 interchanges and a light rail transit project connecting the Anacostia Metro Station to National Harbor along the I-295 right-of-way. However, pedestrian access to Metro, which is critical, and transportation improvement projects, have been delayed.

Where Barry Farm meets Park Chester

Exhibit 5: Barry Farm/Park Chester Replacement Unit Location Diagram



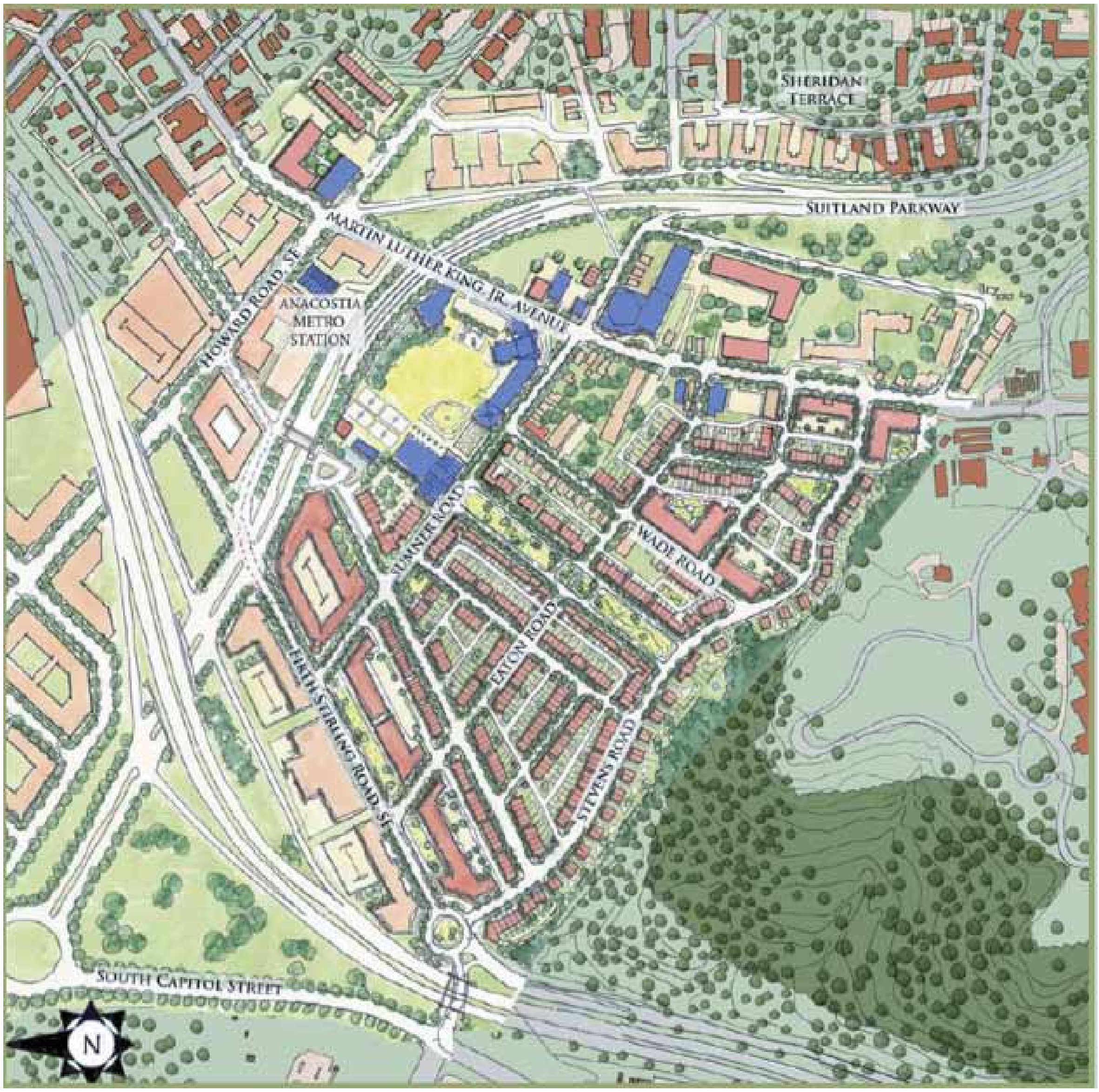
The total development cost to implement the Barry Farm plan in 2006 was estimated at $507.5 million.

Cost estimates for the 1,181 residential units currently planned for Barry Farm indicate roughly $324 million in total residential development costs, including about $195 million for the 835 units not yet completed or under construction. After accounting for likely funding from tax credit equity and supportable debt, an estimated funding gap of $94 million remains. Note that this gap could be reduced if the project is awarded Choice Neighborhoods Implementation funds.

Excel Academy under expansion

Park Chester Apartments

Exhibit 6: Barry Farm Area Plan



Barry Farm townhomes

4.3 Park Morton

The Park Morton plan proposes 523 mixed-income units on-site and on scattered sites located throughout the neighborhood, as shown in Exhibit 10. Total rental units on site are 386 in two-story duplexes and four-story apartment buildings. There are 91 proposed for-sale duplex units and flats on site.

Nine of ten proposed units are located on-site on property owned by DCHA. At 3606 Georgia Avenue, 83 units have been completed as the first phase of implementation. The District and DCHA have recently issued a solicitation for proposals from developers for this site.

There is no through traffic

Exhibit 7: Park Morton Planned Residential Development Summary

For Sale		Percentage	Park Morton Residents	Percentage	Market/ Work-Force Units
2- Story Duplex	21	10%	2	90%	19
Duplex-Flats	41	0%	0	100%	41
Bldg C- 4 Story	29	18%	5	82%	24
Subtotals	91		7		84
On-Site park Morton Homeownership Units	7	8%			
Market for Sale Units	84	92%			
Rental		**Percentage**	**Replacement**	**Percentage**	**Market/ Work-Force Units**
2-Story Duplex	8	100%	8	0%	0
Duplex- flats	17	100%	17	0%	0
Bldg C- 4 story	11	100%	11	0%	0
Bldg B- 4 story	40	33%	13	67%	27
Building A Park Road	168	33%	56	67%	112
Building D- U Shape	142	33%	47	67%	95
Subtotals	**386**		**153**		**233**
On-Site Rental Replacement Units	153	40%			
Market Rental Units	233	60%			
Plan Totals					
On-Site Replacement Units	153				31%
On-Site Homeownership for PM Families	7				1%
Off-Site Replacement Units	46				4%
Market/Workforce Units	317				64%
Total	523				100%

There are several other projects nearby that can help catalyze the redevelopment. New housing, retail and a charter school will increase the attractiveness of living in the area. The catalytic projects include:

- Park Place: 160 new condos and 10,000 SF of retail at the Petworth Metro.
- Lamont Street Lofts: 38 units located on Georgia Ave across from Park Morton.
- Georgia Commons, new multifamily rental on Georgia Ave with 20,000 SF of retail.
- E. L. Haynes Charter School on Georgia Ave serving 468 Pre-K to 8 students.

The total development cost was originally estimated at $170.9 million or $326,800 per unit (the relatively high cost is due to the underground parking component that was included in the physical plan following the planning process). As a result, the gap between sources and uses was estimated at $54.4 million or $104,015 per unit. Current estimates of the 523 units planned for Park Morton indicate total residential development of about $122 million, including about $103 million for the 440 units not yet completed or under construction. After accounting for likely funding from tax credit equity and supportable debt, an estimated funding gap of $45 million remains for the 440 residential units at Park Morton.

There are few private residential properties on the edges of the site

Corner of Warder and Park

Exhibit 8: Park Morton Area Plan

Surrounding single-family properties

Limited street parking available

Limited on-site parking available

4.4 Northwest One

The Northwest One plan proposed a total of 1,698 units that included Sursum Corda Cooperative which has elected to undergo its own redevelopment plan. The breakdown of these planned units is seen in Exhibit 9.

Exhibit 9: Vision Plan Summary

New NW1 Community: Total Units and Distribution				
Unit Type	**Deeply Subsidized**	**Affordable**	**Market Rate**	**Total**
1-2 BR High Density	320	440	437	1,197
2-6 BR Low Density	200	151	150	501
Total	520	591	587	1,698

The sites outlined in red on the following plan in Exhibit 10: Properties in Northwest One denote privately owned land, which required agreement in the case of Sursum Corda Cooperative. With the exception of Sursum Corda, which has opted out of the Northwest One plan, the District has acquired all of the land needed to fulfill the Northwest One plan. Implementation began with community amenities and three housing sites.

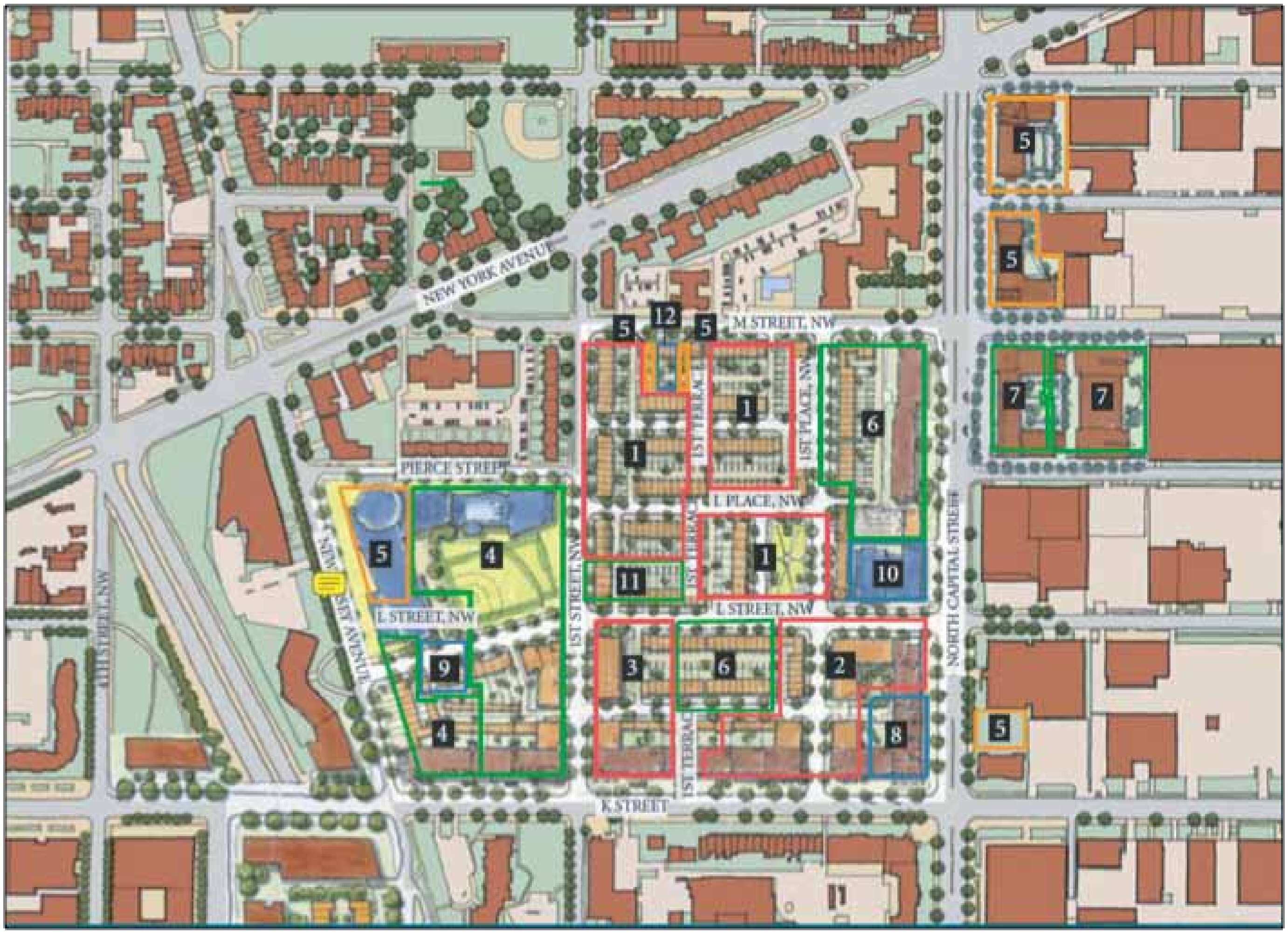
- 2 M Street NW: 314 mixed income rental units are under construction, and nearing completion.
- 1058 First Street (SeVerna I): 60 units are completed on First Street between K and L.
- SeVerna on K: 133 units under construction, including 32 market-rate units.

The Northwest One area is currently expected to include 1,472 units, of which 965 units remain to be financed and constructed. Cost estimates for these units are expected to total roughly $343 million. After accounting for likely funding from tax credit equity and supportable debt, an estimated funding gap of $46 million remains for the Northwest One area.

2 M Street under construction

Sursum Corda Cooperative

Exhibit 10: Properties in Northwest One



PROPERTIES

1. SURSUM CORDA COOPERATIVE
   Sursum Corda Cooperative
2. TEMPLE COURTS
   Temple Court Associates, LP
   (Bush Construction Company)
3. GOLDEN RULE
   Golden Rule Center
   (Bible Way Church)
4. TERRELL/WALKER JONES SCHOOLS
   District of Columbia Schools
5. NCRC/RLARC
6. SIBLEY PLAZA
   45 K STREET
   DCHA
7. NORTH CAPITAL STREET, NW
   DHCD
8. GONZAGA COLLEGE
   President & Dir. of Gonzaga College
9. SOUTHERN BAPTIST CHURCH
   Southern Baptist Church
10. MOUNT AIRY BAPTIST CHURCH
    Mount Airy Baptist Church
11. SURSUM CORDA COOPERATIVE PARK
    District of Columbia/United States of America
12. 76 M STREET
    76 M Street Inc.

Privately Owned — HUD Insured "at risk" Property

District of Columbia

NCRC/RLARC

Privately Owned — non-HUD Insured Property

Exhibit 11: Northwest One Area Plan

Existing high rise housing North Capital and M Street

Much of the NCRC/RLARC is used as private parking lots

Private renovation: New Jersey Ave at New York Ave

5.0 ISSUES WITH ORIGINAL PLANS

Many stakeholders interpreted the NCI Plans as ready for implementation when they were in fact very preliminary concept plans without all the necessary ingredients firmed up, such as site control, partner agreements, due diligence (e.g., Temple Courts deed restrictions); zoning, market and feasibility analysis. Listed below are the key issues inherent in the neighborhood plans which have impacted implementation.

Financial Gaps. The NCI plans showed major funding gaps inherent in the NCI plans from the outset. The original plans had an initial funding gap of $566 million. The Housing Production Trust Fund (HPTF) was sized at $260 million that left $306 million to be "found" from other unknown sources. The original plan calls for 5,221 units to be built /developed in order to replace 2,003 units in a mixed income setting. This would be more feasible in a city where tax credits are not as scarce.

Develop All Units. The NCI Plan structure of having the project develop ALL of the units (replacement, affordable and market) results in greater pressure on the gap financing. If the HPTF monies allocated to NCI are relied upon to subsidize all the affordable units versus just the replacement units, the greater the gap will become.

Developing affordable units is truly within the goals of the HPTF, but if two-thirds or more of the funds are used for this purpose (affordable, non-replacement units) that results in using more District subsidy than would be needed under other possible development approaches where the NCI would be used more for "replacement units" than for "replacement and affordable units" such as through collaborations with other developers of affordable housing—where those developers are separately obtaining subsidy to support their affordable housing units. This could accelerate achievement of the goals of New Communities, which has the thrust of replacing deep subsidy units so that the core HUD-assisted sites can be redeveloped, and more quickly than if the NCI program needs to develop ALL of the units: replacement, affordable and market-rate. Together these impacts result in a more protracted process and a larger funding gap.

Stakeholders interpreted the NCI Plans as ready for implementation when they were in fact very preliminary concept plans without all the necessary ingredients firmed up.

Site Control. In some cases, site control was not adequate from the outset. For example, the Lincoln Heights plan calls for 566 units to be developed at Town Center, which is more than one-third of all the units projected. Yet, it would require acquisition/assembly of the site from numerous parcels and owners.

Timeline. Each of the issues discussed above has contributed to extending the timeline for achievement of the revitalization goals well beyond the expectations expressed in neighborhood plans that left stakeholders with the impression that the necessary resources for implementation were in place when that was not the case. Going forward, with a more realistic picture of the financial requirements and the use of modified approaches to developing the housing units, a more reliable timeline can emerge.

In short, the New Communities program has followed the neighborhood plans, but since a number of the conceptual elements in the four plans have proved challenging in the implementation, modification of the NCI plans will be required as development continues.

6.0 ACHIEVEMENTS TO DATE

To date, the NCI program has achieved success in many areas - notably in housing, capital investment and human capital. The following section highlights some of the achievements in each area.

6.1 Housing

Exhibit 12 below summarizes housing progress to date. As can be seen in the exhibit, twelve projects have been completed or are under construction to date, with 1,070 units across all income ranges, and 29% of these being deep-subsidy replacement units, 48% being affordable units with shallower subsidy (tax credit rents), and 24% being market-rate. [Greater than 100% due to rounding.] An additional 150 units are planned and in search of financing, for a total of 1,220 unit completed or in development.

The Initiative has rolled out more slowly than originally contemplated, for a variety of reasons. First, as noted, the NCI plans did not have a feasible implementation timeline. Further, there was a major recession not long after the project was launched (2008-09), which among other effects, shut down much of the development sector, and impacted demand for market-rate units. Second, the recovery from the recession was not instantaneous, and required ramp up time. Third, not every neighborhood fits the profile of gentrification that the program is designed to soften by ensuring that development serves a mix of incomes.

Exhibit 12: New Communities Initiative: 2006 to Present

Projects Completed	Area	Ward	Total Units	Replacement	Affordable	Market	Status
Matthews Memorial	Barry Farms	8	99	35	64		Built
Sheridan Station, Phase I	Barry Farms	8	114	25	89		Built
C Street	Lincoln/Richardson	7	9	9	0		Built
4427 Hayes	Lincoln/Richardson	7	26	0	26		Built
Eden (Ownership)	Lincoln/Richardson	7	29	0	29		Built
The Nannie Helen at 4800	Lincoln/Richardson	7	70	23	47		Built
SeVerna on K, Phase I	Northwest 1	6	60	30	30		Built
The Avenue	Park Morton	1	83	27	56		Built
Projects Completed Total			490	149	341		
Projects in Development	**Area**	**Ward**	**Total Units**	**Replacement**	**Affordable**	**Market**	**Status**
5201 Hayes	Lincoln/Richardson	7	150	50	100	0	In Financing
Temple Courts	Northwest 1	6					Acquisition
Gonzaga Site	Northwest 1	6					Acquisition
Recreation Center	Barry Farms	8					Under Construction
Sheridan Station, Phase III	Barry Farms	8	133	40	93		Under Construction
SeVerna on K, Phase II	Northwest 1	6	133	48	53	32	Under Construction
2 M	Northwest 1	6	314	59	34	221	Under Construction
Projects in Development Total			730	197	280	253	
Projects in Completed or in Development Total			1220	346	621	253	

The original NCI plans are ambitious in their scope in general and are notable for at least two major challenges: an unrealistic timeline and soft gap financing (such as TIF, New Market Tax credits, LIHTC, philanthropic grants). Given the expansive scope and these challenges, along with the Great Recession, it is worth commenting that the achievement is substantial. We compare the Initiative to the simultaneous launch of four HOPE VIlike area revitalization plans, without benefit of full site control (which is a requirement for HOPE VI and Choice Neighborhoods).

The four NCI Plans recognized that in order to be transformative, housing revitalization could not stand alone, but must be supported by Capital Investments in community facilities and by supportive services investments in the populations living in the neighborhoods.

The four NCI Plans recognized that in order to be transformative, housing revitalization could not stand alone, but must be supported by Capital Investments in community facilities and by supportive services investments in the populations living in the neighborhoods.

Capital Investments and Human Capital programs have been met with fewer obstacles to implementation than have the housing goals, which require actions by DCHA and/or private developers working with DMPED in complex partnerships and are subject to market trends. Hence, as capital funding has become available, the NCI neighborhoods have seen progress in development of community centers, parks and recreation facilities without the delays caused by land acquisition. These investments have not been immune to funding shortfalls. As discussed below, the Capital Investment portion of the NCI Plans pointed to a significant funding gap for these investments similar to the housing gap. DMPED has moved forward in implementing Human Capital by leveraging existing programs and working with established providers rather than creating its own duplicative service delivery structure. These approaches have been a means of delivering efficiently on planned facilities and human services.

6.2 Capital Investment – Neighborhood Facilities

Each of the New Communities has benefited from investments in public facilities and schools. The original New Communities Plans called for significant expenditures, but funding all of these amounted to a to a significant gap. Nonetheless, those facilities which have been completed constitute an impactful commitment to the quality of these neighborhoods.

- In Northwest One the community has seen the construction of the Walker Jones Education Campus, which incorporates a K-8 elementary school, library and recreation center;
- In Barry Farm, the Excel Academy Public Charter School opened in 2008 and construction is underway on a new recreation center;
- In Park Morton, the playground has been renovated and basketball courts have been improved;
- Lincoln Heights has the construction of the new H.D. Woodson High School and new playgrounds completed at Marvin Gaye Park. The proposed new swimming pool at Kelly Miller Recreation Center has not occurred;
- The NCI plan also called for improvements to Merritt Middle School and Burrville Elementary. Merritt is being converted from a school to a facility for the Metropolitan Police Department.

6.3 Human Capital

The initial impetus for New Communities was concern over crime plaguing these four neighborhoods - crime - as a symptom of concentrated poverty. As a consequence, Human Capital did not emerge with a direct focus on crime reduction strategies, but instead has featured programs that counter poverty's consequences - health and wellness, adult education and employment, and youth development and recreation. Human Capital is administered by DMPED staff that oversees the procurement of social service providers through grant agreements. As shown in the table below, the District's investment in Human Capital has been both significant and consistent.

Exhibit 13: District spending on Human Capital Program

Human Capital	
	Total
2007	$3,219,507
2008	1,630,358
2009	1,463,437
2010	2,946,200
2011	1,975,025
2012	1,225,246
2013	1,969,000
2014	2,085,000

Program Design. The Human Capital program operates at two service tiers. At the top tier, the more intense interaction with families that is entailed in comprehensive case management targets a portion of the families residing in the redevelopment sites who have sought participation. The households targeted for case management are those residing in the portion of the property designated as phase one in the original neighborhood plan. However, others living elsewhere in the site have not been turned away. The comprehensive case management services tend to focus on heads of households and serves approximately 450 residents annually. The second tier, which tends to focus on youth development and wellness, is open to any resident of the property. Approximately 800 residents have participated in these programs.

Three of the neighborhoods (Barry Farm, Park Morton and Lincoln Heights) have a public housing project at their center. New Communities then finds its efforts running somewhat parallel to resident services programs operated by the Housing Authority, although the Housing Authority does not offer comprehensive case management and cuts in HUD funds over recent years have diminished resident services capacity. In order to be best supportive of New Communities, Human Capital must emphasize self-sufficiency gains and readiness to move. Readiness to move involves having the skills to succeed in a non-public housing unit, which demands disciplines that public housing may not have: commitment to paying rent on time, strict adherence to lease requirements and rental rules, timely payment of utility bills, cost conscious energy conservation, and care of credit worthiness. A large success of the Human Capital program is the recognition that preparation with the families must start well before the typical 90 day period when property managers begin leasing up. Issues such as poor credit, for example, take time to repair. Owners cannot hold units vacant waiting for families, without suffering financial losses. For this reason, the degree to which Human Capital in its case management focuses on "readiness," helps to ensure that available units will be leased by relocating residents as quickly as possible.

Program Performance. As shown below in Exhibit 14, through the efforts of the Human Capital program staff working with DCHA and property managers, 80% of the replacement units have been filled by returning residents. This helps to achieve a major NCI program objective.

Exhibit 14: Replacement Units and Returning Residents in the Human Capital Program

Human Capital		
Completed Projects	Replacement Units	Returning Residents
Matthews Memorial	35	35
Sheridan Station Phase II	25	19
Severna Phase I	30	30
Marley Ridge	9	9
4427 Hayes	9	1
The Nannie Helen at 4800	23	22
The Avenue	27	11
Total	**158**	**127**

This success has been secured despite changing circumstances and development delays by staff adaptation without requiring a modification of the NCI Plans.

Going forward services to residents will need to support a new phase of relocation and redevelopment. Close coordination with the Housing Authority will be even more critical.

The delay in moving forward with redevelopment of the public housing has meant that development and Human Capital have been operating along parallel but different tracks. If the next phase of development refocuses from off-site to on-site and demolition/redevelopment moves forward on these sites, there will be a need for more intense planning and coordination between DMPED's Human Capital staff, the Housing Authority and developers. That planning and coordination needs to start with the developer's earliest planning steps and continue through relocation and leasing of the newly generated units. The number of residents involved in some change of housing will increase significantly.

Program Evaluation. Human Capital staff has sought to employ a tracking database to monitor and measure the effectiveness of their program investments and the performance of the organizations working with residents. The capabilities of the system have been upgraded from time to time to refine and enhance data on outcomes. Reporting by the organizations funded by Human Capital allows an up-to-date picture of grantees performance. Documenting self-sufficiency successes is particularly challenging. Going forward Human Capital staff might benefit from the experience of successful HUD Self-Sufficiency Programs such as that in Chicago which used its Housing Choice Voucher Self Sufficiency Program to produce over 300 first-time homeowners. For an example of a successful tenant services program in this region, the nonprofit AHC, Inc. is an interesting model that emphasizes youth development and school performance.

Program Requirements. Developer proposals are asked to address Human Capital as an obligation they will assume when the building achieves occupancy. The developer agreement was to have a Human Capital Plan addendum, but there is no structure or policy for how monitoring or enforcement of the requirement should occur. The requirement has been followed, in a manner that staff approves of, by the owner of the Nannie Helen development in Lincoln Heights. As new negotiations ensue, this issue must be clarified and DMPED must determine if it will be a requirement and if so how it will be monitored and enforced.

Communication with Residents. DMPED has taken an important step in providing a new website that was developed with resident and stakeholder input http://dcnewcommunities.org/ to support its public information effort. Not all residents have crossed the digital divide, however, "Frequently Asked Questions" (FAQ's) are used to ensure accurate information is provided to residents throughout the process. Staff also meets monthly in Barry Farm and Lincoln Heights and quarterly in Northwest One. Such efforts support transparency and build trust.

7.0 ADDITIONAL RECOMMENDATIONS

Based upon our evaluation of the NCI program its achievements to-date and its challenges, the following steps are recommended in order to strengthen and guide program operations going forward.

Specific Budgets. New Communities is both an overall program and a redevelopment project of four neighborhoods. It has not been budgeted for in that way with separately supported projects, each with its own budget, timeline, funding, subsidy and specific implementing agency that owns the existing major site, obtains HUD or FHA approval to develop it, and is responsible for all the actions needed for development. As a result, responsibility for implementation in three of the areas (all but Northwest One) falls between DMPED and DCHA, with neither agency responsible or enabled to take all the actions needed to develop that area or ensure that funds are fully adequate. In addition, delays in any one area (inevitable in any complex redevelopment initiative) are taken as indicative of New Communities as a whole, so that maintaining support and expectations for the program as a whole and consistency across areas makes it harder to systematically implement each individual area – in turn resulting in greater pressures and concerns about the program as whole.

Our study recommends developing a specific individual budget and schedule for each neighborhood that includes more detailed estimates of development costs, available funding sources and the resulting funding gap. This approach will allow the District to better understand the specific funding needs for each neighborhood and budget accordingly. This would help assure that the sources and uses for each neighborhood work, which is much more difficult to know or keep track of currently. Because the aggregate remaining debt capacity is significantly lower than the aggregate funding need, it is important to distinguish and link the remaining debt capacity for each neighborhood with the total funds needed to implement the program in that neighborhood. When the four neighborhood redevelopment plans are viewed separately, it becomes possible to better determine the gaps in funding that need to be dealt with.

While it is critical to understand the scope of the financial demands of fully implementing the Initiative, it is also important to recognize how NCI investments contribute to growing the long term tax base and fiscal strength of the District. Implementing the balance of the NCI development program is expected to create over 800,000 square feet of commercial space, including 680,000 square feet of office space and nearly 140,000 square feet of retail space. In addition, an estimated 2,200 market-rate units are planned. As new commercial space and market-rate residential units are completed and occupied, the District will benefit from property tax, income tax, and sales tax revenues generated by the new development. As a part of our study, we prepared a very preliminary estimate of the incremental tax revenues that may be generated by the NCI development program upon build-out. This is incorporated as APPENDIX C to this report. As shown, assuming affordable units benefit from a tax exemption, we estimate potential tax revenue of $480 million over a 30-year period. If affordable units do pay property taxes, these revenues could increase by nearly $80 million.

Administrative Support. The administrative support structure for NCI needs to suit its role and responsibilities. DMPED is effective in establishing a vision, seeking resources, and setting and administering requirements for developers and funding recipients. DMPED would also facilitate supportive resources (City and other); monitor and track progress and funding; oversee provision of Human Capital; and hold parties accountable. It does not directly serve as a "Master Developer" but does effectively procure development services. 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. A similar model would be HUD's grant agreements under HOPE VI, which require grantees meeting specified milestones for the release of funds.

DCHA Involvement. Next steps for Barry Farm, Park Morton, and Lincoln Heights rest with DCHA, which must initiate with HUD any demolition and disposition activity, and together with DMPED issue RFP's and engage master developers. DCHA's priorities and the likely timing of such actions in each of these neighborhoods impacts DMPED's ability to budget for it properly.

It will be difficult to manage public expectations without a clearer understanding of what is intended to happen and when. Neighborhood residents' desired increases in a neighborhood serving commercial and retail investment will be better supported by sharing projected milestones or general timeframes for public housing redevelopment. With those available, the private sector can better plan its moves and the neighborhoods can more easily attract much needed private sector interest. This need for a clearer picture should be served by the selection of developers for the parcels in Northwest One, Park Morton and Lincoln Heights.

Strategic Session with DCHA and DMPED Teams. As the program moves forward, NCI would benefit from a formal recognition that it is maturing and moving into a new phase of onsite activity. A facilitated retreat or strategy session involving the key staff from the DCHA team and the DMPED team would be a beneficial step. It should focus on clarifying respective roles, priorities, strategy, coordination, timeframes and communication. Outcomes should be guided by lessons learned in implementing the program thus far.

Strategic Session with City Agencies. It would be wise to include a session with other City agencies as well including Transportation, Parks and Recreation, Public Schools, and others whose priorities impact the potential for bringing the NCI Plans to fruition and whose schedules should be considered in planning. While DMPED has the ability to track the initiatives of sister agencies, DCHA may find it less routinely achievable and might welcome such a session periodically.

New Funding Sources. New resources available through RAD or other avenues should be seriously explored to make the program more financially viable. Other sources could include:

- Savings from purchasing units in the developments of others;
- DCHA exploring the activation of Faircloth units to apply ACC to units outside DCHA's own portfolio. (The term Faircloth refers to legislation which caps the number of public housing units an authority has at the number it had in 1999, but many
- authorities have fewer utilized units than their cap would allow.);
- DCHA employing its inventory of large multibedroom units that are offline for renovation by using NCI funds to rehabilitate them so they can be a relocation option;
- DMPED adopting a policy to exempt affordable housing units in NCI-financed developments from real estate property taxes (though this results in less revenue to the District; alternately, the District could commit an additional $18 million in funding to compensate for cost of property taxes);
- DMPED being accorded a reduction in fees imposed by DCHFA;
- DMPED making more vigorous outreach to the community of housing nonprofit developers to involve them;
- If philanthropic sources are to be tapped to supplement NCI expenditures, grants-seeking which is being undertaken by the Director of New Communities must continue.

These steps, together with an overall framework that budgets for each neighborhood, just as NCI planned for each neighborhood, will better highlight issues, delays, and accomplishments and facilitate timely problem resolution. Financial gaps will be more evident and more likely to be addressed.

APPENDIX A

Unit Breakdown by Neighborhood

	Northwest 1				Barry Farm			
	Original	Afford.	Market	Total	Original	Afford.	Market	Total
Original Plan	520	591	587	1,698	654	368	369	1,391
Adjustment	(226)			(226)	(210)			(210)
Subtotal: Original	294	591	587	1,472	444	368	369	1,181
Provided	30	30		60	60	153		213
In Progress	107	87	253	447	40	93		133
Subtotal: Provided and In Progress	137	117	253	507	100	246	-	346
Remaining	157	474	334	965	344	122	369	835

	Lincoln Heights				Park Morton			
	Original	Afford.	Market	Total	Original	Afford.	Market	Total
Original Plan	630	490	489	1,609	174	191	158	523
Adjustment				-				-
Subtotal: Original	630	490	489	1,609	174	191	158	523
Provided	41	93		134	27	56		83
In Progress	50	100		150	-	-	-	-
Subtotal: Provided and In Progress	91	193	-	284	27	56	-	83
Remaining	539	297	489	1,325	147	135	158	440

	NCI - All Areas			
	Original	Afford.	Market	Total
Original Plan	1,978	1,640	1,603	5,221
Adjustment	(436)	-	-	(436)
Subtotal: Original	1,542	1,640	1,603	4,785
Provided	158	332	-	490
In Progress	197	280	253	730
Subtotal: Provided and In Progress	355	612	253	1,220
Remaining	1,187	1,028	1,350	3,565

APPENDIX B

NCI Funding Gap

NCI - All Areas	Subsidized	Affordable	Market	Total
Original Plan	1,978	1,640	1,603	5,221
Adjustment	(436)	-	-	(436)
Subtotal: Original	1542	1,640	1,603	4785
Provided	158	332	-	490
In Progress (with funding)	197	280	253	730
Subtotal: Provided / In Progress	355	612	253	1220
Remaining	**1,187**	**1,028**	**1,350**	**3,565**
Total Residential Dev Cost				
Planned Units (Original)	461,269,600	382,448,000	373,819,600	1,217,537,200
Planned Units (Current)	359,594,400	382,448,000	373,819,600	1,115,862,000
Remaining	276,808,400	239,729,600	314,820,000	831,358,000
Sources for Remaining Units				
LIHTC	110,771,742	95,933,741	-	206,705,483
Conventional Debt	-	89,820,938	166,661,245	256,482,183
RAD Debt	44,350,583	-	-	44,350,583
HPTF Bond Proceeds	-	-	-	-
Other	-	-	-	-
Total	**155,122,325**	**185,754,680**	**166,661,245**	**507,538,250**
Funding Gap ($Millions)	**121,686,075**	**53,974,920**	**148,158,755**	**323,819,750**

APPENDIX C

Preliminary Estimate of Incremental Tax Revenues

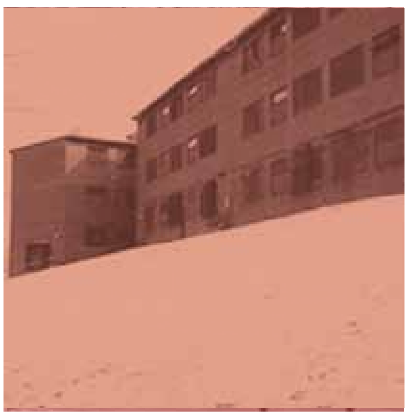
Development Type	Units	TOTAL	Value Per Unit	Est. Total Assessed Value	Tax Rate	Taxes Generated
Total Taxable Development	gsf	2,947,674				
Taxes Generated		12,431,937		$1,107,672,250		$12,431,937
Units Not Generating Property Taxes		1,572	n/a	n/a	n/a	$0
Extremely affordable		1,202	n/a	n/a	n/a	$0
Other Affordable		$0		$0		$0
AS-IS VALUE / TAXES						
Subtotal: Incremental Property Taxes		**$12,431,937**		$1,107,672,250		**$12,431,937**
Present Value, 30 years, at 4%		$214,973,462				**$214,973,462**
INCOME TAX						
Subtotal: Incremental Income Taxes		**$13,375,207**	n/a	n/a	n/a	$13,375,207
Present Value, 30 years, at 4%		$231,284,529				**$231,284,529**
SALES TAX						
Subtotal: Incremental Income Taxes		138,199	$250	$34,549,750	*5.75%*	**$1,986,611**
Present Value, 30 years, at 4%		$34,352,537				**$34,352,537**
TOTAL INCREMENTAL TAXES GENERATED		$27,793,755				**$27,793,755**
PRESENT VALUE OF TAXES GENERATED		$480,610,528				**$480,610,528**









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