

PLEASE EMBARGO TIL SEPT 23, 2:00



WHAT'S AT STAKE?

Housing for Low-Income People in Durham Durham's Plans 2010-2020

Housing Education and Advocacy Results Team

September 23, 2010

Acknowledgements

The author of this report, Lanier Blum, gratefully acknowledge the contributions, advice and support of leaders in Durham's experienced, high-performing low-income housing development organizations, including:

Builders of Hope

DHIC

Durham Community Land Trustees

Habitat for Humanity of Durham

Housing for New Hope

Preservation Durham / Preservation NC

R / D Construction Company

Self-Help

Triangle Residential Options for Substance Abusers

I also appreciate advice from the City of Durham, Durham Affordable Housing Coalition, Durham Housing Authority, Housing Education and Advocacy Results Team, UDI, Autrice Campbell-Long, Chuck Clifford, Reyn Fehrman, Chantelle Fisher-Borne, Darryl Hickman, Jim O'Reilly, Jack Preiss, and Peter Skillern.

And, with thanks to the City's community development managers, especially Mike Barros, Keith Chadwell, and Larry Jarvis...

Any errors are attributable only to the author.

Lanier Blum
September 23, 2010



A Message from the Author

This report is offered to Durham leaders and residents report as we consider a set of five immediate decisions that will shape the next two decades of our city's production of housing that is affordable for low-income people.

I hope this information and perspective will broaden the scope of people who feel equipped to participate in upcoming deliberations. I have made every effort to present accurate information. My own perspectives are reflected. I am not writing as a representative of my employer or any of the organizations I support.

My perspectives are getting a little history on them. In 1974 I joined a broad based Durham group of activists to redirect Durham's community and infrastructure investments. As a hard-working, low-income tenant, living in a neighborhood then on the decline, I joined the Morehead Hill Neighborhood Association and the brand new Peoples Alliance. We joined forces with other similar organizations to do whatever we could to make sure that Durham did not repeat the mistakes of "urban removal" in Hayti.

This coalition joined in with the voices and strategies of the residents of Crest Street, to help support their interests. Crest Street had been designated by the NCDOT and City Council to be the next historic African-American neighborhood to be demolished for construction of NC 147. The Crest Street Community and its allies ultimately prevailed in a then unprecedented Civil Rights legal requirement for Department of Transportation to take their interests into account and provide funding for a negotiated combination of conservation and relocation.

This coalition continued working together. We supported Durham's three bonds for affordable housing in one decade (1986-1996). We worked on political campaigns and served as elected officials to broaden representation of Durham's diversity, and to promote community guided development.

While Durham has made enormous progress in community development, we have only begun to repair what the City destroyed when it demolished Hayti. Fifty years of erratic development initiatives in Hayti have reaped both failures and successes. Since 1958, the City has acquired the land now called Rolling Hills for redevelopment three times. Durham preserved St Joseph's Church as the Hayti Heritage Center, built (and demolished) public housing, constructed Heritage Square and part of a now mostly demolished subdivision, improved a community park, and assisted business development

along Fayetteville Street. The County restored the Stanford Warren Library, improved neighborhood school buildings and relocated Hillside High School. In the 1980's the City demolished, built and rehabilitated dozens of homes in Southside.

Still, today in Hayti, there is a vacant City-owned block, about 100 (?) acres (euphemistically) dubbed "Rolling Hills." According to the Census (2000), the adjacent Southside neighborhood is the home of about 393 households. 464 adults, on average more than one in every household, have a disability. The disabilities of 156 residents are so profound they cannot leave their homes. If we didn't know anything else about this neighborhood – its history, its location, its housing conditions, its crime victims, its children's school achievement, its poverty – that fact alone says that Southside is a paramount priority for human services, supportive housing, affordable rental housing development and community development. And these other factors also justify revitalization work at Rolling Hills and in all of Hayti.

During the last three decades, Durham residents have voted their solid support for downtown and community development. There seems to be near consensus that we want to continue to our commitment to revitalizing Hayti and our other two ongoing revitalization areas, with public investments whose strategies, timing, and purposes that will be successful and sustainable.

I hope this report will be a tool for a stronger, better informed, more collaborative and more successful approach to revitalization, relying on strategies that we have seen work well in Durham.



The basic mark of a decent society is
that everyone has somewhere safe to sleep at night.”

Editorial in *The Herald Sun*
June 14, 2010

INTRODUCTION

On May 3, 2010, Durham’s City Council and Mayor voted to commit \$9,374,000 of the next decade’s city and federal funds to replace public works facilities and build an apartment complex on about 6 acres of a City-owned site at the corner of Lakewood Avenue and Roxboro Road.

The \$9.37 million commitment was meant to launch the construction phase of a larger proposed project. During the next ten to twenty years the City proposed to provide \$26 million, or about half of the estimated project cost of \$53.1 million, to build new community facilities and 248 apartments on about half of a 125-acre site called Rolling Hills. With other funds, the City proposed to help Self-Help and its partners build and sell 41 new homes in the adjacent Southside neighborhood.

The City had already invested about \$6.85 million to acquire the 125 acres and prepare a revitalization plan. The May 3 proposal was to contribute about 6 acres of the prepared land with its new infrastructure to a proposed apartment developer, along with 45% the construction costs. The developer would then apply for other government funds to build a complex of 132 apartments.

The May 3 commitment of funds appeared on the City Council’s public agenda three days before the meeting, and it was made with no public hearing. Yet its implications, described as a “paradigm shift” in Durham’s approach to community development, and an “extraordinary” contribution, were described as far reaching.¹ The City’s memo indicated that to fund this project would mean, except for a \$225,000 annual allocation (that could assist annual construction of up to 6 dwellings), the City would postpone -

¹ Attached to this report is a memo from City staff presenting this decision and its “paradigm shifting” implications. Proposed developer McCormack Baron Salazar’s application to North Carolina Finance Agency describes the amount of the City’s contribution as “extraordinary.” Discussion of the “Paradigm shift” concept appears in the second section of this introduction.

for ten years or more - all currently identified funding for housing production in the City's other two revitalization areas, and for all new supportive housing. Moreover the City would cut all the grants it currently makes from federal funds to nonprofit agencies that provide services for the poor. The Mayor and City Council approved this commitment. At the same time they asked the City Manager to show them by August how all Durham's housing plans could be financed. Five months later this analysis has not been publicly begun.

As presented, then, the "paradigm shift" was not one decision but at least six, rolled into one.

Today the deadline that was the impetus for the City Council's rushed consideration no longer applies. So Durham again has time to understand and consider these six questions. Boiled down to their essence, six major decisions before Durham are:

1. Locations – Should Durham commit all the City's currently identified funds for housing production, (except \$225,000 or about 6 dwelling / year) in Rolling Hills and Southside, OR continue investing strategically in all three revitalization areas?
2. Partners – Should Durham continue to develop housing with local and regional nonprofit partners and Durham Housing Authority, OR invest 89% of its next decade's identified funds for housing development in two apartment complexes that will be developed and owned by a for-profit national firm headquartered in St Louis, with leadership and a mission that are not focused for the long haul on Durham's neighborhoods, or serving Durham's poor families.
3. Bang for the buck - The City's share of the cost to produce a comparable new affordable dwelling as proposed by the Rolling Hills developer is about double that of housing produced by local developers. The total cost of each Rolling Hills apartment is estimated at \$235,500, requiring at least 76% from local, state and and US taxpayers. Can Durham afford to finance this 2010 Rolling Hills plan in these economic times? Is it wise to proceed with a development that has not been able to attract any private investment, even from the developer for its own plans and application?
4. Places AND People – Should Durham's revitalization plan for a vibrant Rolling Hills and Southside district focus ONLY on building 248 new apartments and 41 new homes? Given its housing and community development needs, can the City afford to spend \$8.45 million - (35% of its currently identified housing funds for the whole decade) to build apartments that will not be affordable to low-income people? OR should our City ALSO help people who live (or were / will be displaced) in Southside?² And others who are also living in unsafe and uncomfortable conditions? The "paradigm shift" would allocate no funds for services for the Southside "human capital" building, the services needed by

² \$22,000 is set aside to help people displaced as the City and its partners continue to acquire Southside properties.

people who live in poverty, teens at risk, unemployed, disabled. It would reserve no funds to improve housing conditions of Southside neighborhood renters - although 87% of residents rent, and no funds for current low-income owners to improve their homes.

5. Process - Should the plans, strategies, priorities and decisions about the next decade's housing production meaningfully consult and be consistent with its own adopted plans and budgets, and the recommendations and revitalization plans of citizen's organizations?³ Or do we need to act sooner? Will the outcomes for Durham be better if these decisions are informed only by last minute memos, and 3-minute pleas? Should they be made before - or after - the Council and the public, and indeed the City's own staff members clearly understand the impacts? Should they take into account what the City's decisions will mean for the next two decades' production, plans and budgets and potential job losses?
6. YES WE CAN! Durham's Consolidated Plan and its Revitalization Plans for three target areas present an ambitious community development agenda for the next two decades. The total cost of affordable housing production in all three target areas is estimated at \$41.6 million. And here is some good news.

Durham CAN afford to redevelop Rolling Hills, transform conditions for current residents of Southside, continue working in the other two revitalization areas, and maintain its current rate of affordable housing production. We can do all this if we maintain the same rate of investment for affordable housing that we have made during the past five years.⁴

However this \$41.6 million would not cover some of Durham's additional compelling community development priorities.

Will the City and its partners weigh all these issues and encourage community wide participation in developing budgets and financing strategies that reflect and then successfully build our plans and priorities?

This report is to discuss these questions. It will focus on how Durham's currently identified funds for Housing production could be used, and asks about compelling additional compelling needs Durham might plan and invest to address during the decade ahead.

³ Stakeholder organizations impacted by these plans include, for example, the Southside neighborhood association, neighborhood organizations and residents in Durham's other two target areas, the City Citizens Advisory Committee, Capital Improvement Program Advisory Committee, Triangle United Way, Board of County Commissioners, Durham Housing Authority Board, staff and tenants, successful local revitalization firms, nonprofit and building industry partners and investors. None of them have endorsed the "paradigm shift."

⁴ More at the end of Section 4.

What is this “paradigm shift?”

The City administration characterized the scope and scale of this decision as a “paradigm shift”. That means a change in the basic philosophy or framework of our community’s approach to community development. What is so fundamentally different and new? (Why) Do we need to take a new approach?

There are two ways to consider this question. First we can look at the goals and outcomes of community development.

Then we can look at what it means in terms of Durham’s investment priorities.

Two Approaches to Community Development

Community development practitioners tend to target - and balance - their visions and strategies somewhere across a spectrum we can call “Place First” on one end, and “People First” on the other. Like many issues, the successes seem to arise when pieces of both approaches are applied judiciously after considering the specifics of each case.

The assumption that underlies Durham’s proposed “paradigm shift” is that the process of neighborhood revitalization starts by moving poor people out and demolishing whole blocks of blighted structures. (Or finding a site where that already happened.) Then, a lead developer designs a whole new neighborhood to house a mix of mostly higher-income residents. In some communities, new developments provide enough decent homes for all of the displaced residents; in others, no one is quite sure where they moved. The lead developer finds financing, much of it from government, and builds the whole new planned neighborhood. The developer owns the land and buildings for rental homes now, so when the government agency obligations are repaid, the property values and rents can increase. New homes are sold to buyers, also with the primary goal of increasing values, sometimes with a time-limited or secondary goal of keeping some of the owner-occupied homes affordable to lower income buyers.

The overarching goal of revitalization is that the new development will create a “tipping point” so that surrounding or remaining property will now attract new development that is not publicly funded, and not affordable to low-income residents. This could be considered a “place-first” strategy. Its main goals are to increase the value of surrounding property and produce an attractive, vibrant community that houses some lower income people (but not necessarily as many or as poor as those who were displaced).

Community developers at the other end of the spectrum of approaches advocate that neighborhood revitalization begins by improving the living conditions of the people living in blighted structures. This can take place without requiring them to move away from the neighborhood they may have chosen because they can be near jobs, services, family

or heritage. At the same time, one property at a time, vacant and substandard building are replaced or made ready to reuse. Some people call this theory the "missing tooth". When you replace the missing or rotten tooth, the block's unmarred smile attracts new investment, one house at a time, and values begin to rise. Locally based and guided nonprofit developers develop and own some of the land and/or new homes so they will remain affordable to low-income tenants and be managed by standards accountable to those tenants and surrounding neighbors. The smaller scale makes it a more manageable job to maintain and promote a neighborly and safe community. Although the redevelopment is not as rapid, the costs are lower, so the outcome over time is more, and more affordable homes. There is more local and more diverse ownership.

Most of the time communities need a mix of these approaches. A very expensive site, or a mixed-use "anchor" development, for example, calls for a lead developer, and may call for the relatively small number of displaced residents to be suitably re-housed, hopefully nearby if they choose. Durham has a great success story for this "place-first" model is Golden Belt.

An existing mixed-income neighborhood with energetic and committed residents is better served by the more "organic" and "sustainable" people-first strategy. This approach – in the collaborative neighborhoods of Burch Avenue, Lyon Park, West End and Morehead Hill has generated more than \$12 million in added residential property values during the past six years, while adding supportive housing, affordable housing for families and seniors, and new homes for sale.

The advocates of the "paradigm shift" in Durham propose a dominantly "Place-First" approach to developing Rolling Hills. This is a good fit because the site already vacant and it is well located to attract profit-seeking investments when the real estate market emerges from today's economic crisis.⁵

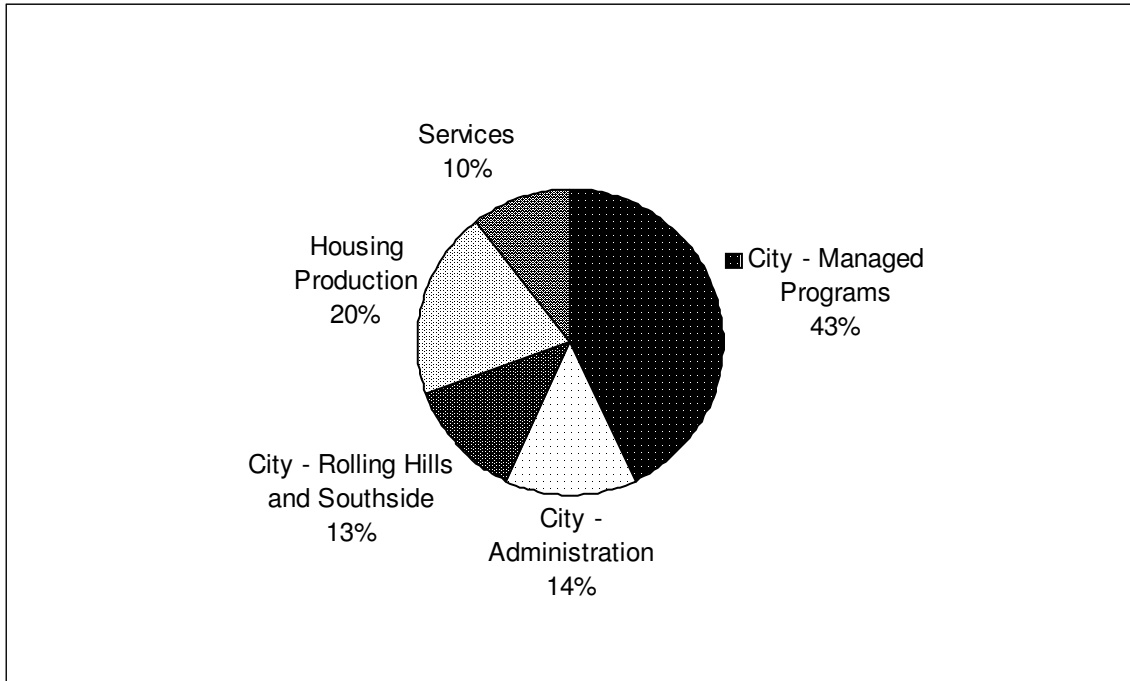
However a "People-First" strategy would be a better fit in Southside, to develop suitable housing for very low income people displaced from the worn out structures, and approach this existing community one household and one block at a time, working collaboratively and with local nonprofit builders.

Moreover Durham and neighbors will lose what they have already invested if we stop short on the revitalization programs already underway, but by no means completed, in Northeast Central Durham and Southwest Central Durham. The paradigm shift proposal seemed aimed at cannibalizing the next decade's progress in these two long-term revitalization areas by shifting nearly all the currently identified funds for housing production to the two proposed apartment complexes at Rolling Hills.

Durham's Investment Priorities

Today, the City of Durham receives grants that total about \$3.9 million each year from the US Department of Housing and Urban Development. The purpose of these "block" or "entitlement" grants is to provide housing and services that benefit low-income people

and neighborhoods. In 2010 the City allocated about 20% of these grants for housing production. If grant levels and the City's allocation priorities remain the same for the next decade, Durham will invest \$7.8 million of these grants in housing production. The federal government requires that the City allocate about \$225,000 annually to nonprofit community-based builders



The “paradigm shift” proposed to invest all that and more in the two apartment complexes at Rolling Hills, and 41 new homes in Southside for sale to low-income buyers. The Community Development Department also recommended shifted to Rolling Hills, in addition, all the City's projected funds from repayments of past bonds for ten years, plus most of the federal and local funds projected for the following ten years.⁶ Of the 248 apartments proposed in Rolling Hills, 65% will be affordable to low income people. This decision means that no projected funds from those relatively predictable sources will remain available for any other neighborhood or affordable housing production for the next decade. Only \$225,000 a year would be available for all of locally-directed programs that provide homes, shelter and services for Durham's homeless and poorly housed people.⁷

⁶ The City has also invested \$6.1 million to re-acquire and clear the land at Rolling Hills, after earlier City-managed redevelopment initiatives failed. All but \$65,000 of these funds came from City Housing bonds for affordable housing, thus the City will presumably have to repay them. Also, the voters approved the bond funding to be used for affordable housing but 35% of the first two developments on the Rolling Hills site will not be affordable to low income people. The City so far has proposed no funds for development on the rest of the site but aims for it to be developed by the private sector, presumably then, not for affordable housing.

⁷ These are funds are federally required to be allocated to community-based nonprofit developers; a City memo suggests using them for supportive housing, perhaps also in Southside or Rolling Hills; that decision has not been made.

The “paradigm shift” calls for a two-decade shift of funding away from other low-income Durham neighborhoods, affordable housing production and replacement, services for Durham’s poor, and earlier adopted plans to end homelessness. Acknowledging this dramatic change, the City Council unanimously directed the City Manager to, by August, “study and evaluate delivery and funding alternatives to perform the housing support and related services functions currently funded through the City’s Community Development Block Grants and HOME entitlements, and to present the results of this study and evaluation along with a recommendation ...for Council consideration.”

The Council’s directive to the City Manager only covers a portion of the impact because affordable housing production requires local funds as well as federal funds, and because housing production and replacement is needed as well as support and services. Durham’s housing providers assume that the Council’s intent is to also understand Durham’s needs for low-income housing production, replacement and maintenance, and well as services and support, and to maintain or expand *local*, as well as federal, investments for all the same purposes. We assume, however, that the Council’s intent is to cover the complete scope of activity.

A Decade’s Budget for Affordable Housing – What’s at Stake for Durham Families and Neighborhoods?

This report is offered to help Durham neighbors, leaders, stakeholders and decision-makers consider how to finance the construction and replacement of Durham’s stock of permanent housing that is affordable to low-income people. It focuses on funding needed for “bricks and mortar” – to construct and replace affordable housing.⁸

Section 1 summarizes the scale and diversity of housing needs in Durham.

Section 2 provides a brief history of Hayti and its “redevelopment”

Section 3 describes the scale and costs of producing the stock of safe, decent affordable housing to meet the needs of low-income people in Durham – housing *plus* services, homes for rent, and homes for sale.

It compares Durham’s current rate of housing production with funds allocated during the past five years, the rate and cost of production in the City’s plans for the next five years, and the cost and production anticipated in the City’s ten-year budget proposal for Rolling Hills and Southside.

⁸ This report does not address operating funding for housing–related services and emergency shelter, or the production of emergency shelters. Most of these programs also rely for a significant part of their sustainable operations on the same City CDBG, HOME, and Housing Bond sources the City committed instead to the RH / SS project. The Durham Affordable Housing Coalition, Ten Year Plan to End Homelessness staff, and Continuum of Care Committee are preparing a companion analysis about operating funds for services and shelters.

It should also be noted that the City proposes no changes to its current reservation about about 35% of federal housing and community development funds for City administration and program delivery. City programs do not produce housing.

Section 4 discusses what we can learn from Durham's experience in neighborhood revitalization and suggests Durham employ that experience in a new approach to "Principled revitalization."

Section 5 discusses the process and tools for Durham's planning and multi-year budgeting to finance the expansion and replacement of Durham's affordable housing assets.



I. HOUSING NEEDS IN DURHAM

Housing Affordability Measures for Rents and Incomes – How Does Durham Measure Up?

Each year the US Department of Housing and Urban Development (HUD) provides measurements that are widely used to assess housing affordability in localities.¹ These terms are used frequently in this report. First we define them, and then show how Durham measures up.

“Fair Market Rent” is the amount of rent an unsubsidized Durham landlord needs to charge a tenant to provide basic, no-frills, but safe, decent, well managed housing. “Market” in this report means “unsubsidized.” “Standard: in this report means a dwelling that meets HUD and City housing standards of safety, comfort, space, and condition, but has no frills. For example the home has heat and windows with screens, but it may not have air conditioning or energy efficiency.

“Area Median Income” (AMI) is a measure of local household incomes with adjustments for household size.² All HUD funds for housing are targeted to households with incomes lower than 80% of area median income. This focus of this report is the same group of households.³

¹ Unless noted, all housing needs data in this report come from the [Durham 2010-2015 Consolidated Plan](#) for the use of HUD funds or other data also provided by HUD and the Census in special reports called the [Comprehensive Housing Affordability Strategy](#) or “CHAS.”

² The “median” income is the income level at which half of households have more and half have less. The HUD “AMI” measures are based on Durham’s estimated median income, but then adjusted – but not estimated – to increase as household size increases.

³ This report assumes that very low-income people do not have access to substantial assets. This is not always true, especially in a community with many students and recent graduates who have access to family resources, but it is overwhelmingly the case statistically.

Table A. Annual Median Income Estimates for Households with 30%, 50%, and 80% of Durham’s “Area median Income” 2010

Household Size	30% of AMI “Extremely Low”	50% of AMI “Very low”	80% of AMI “Low Income”
1	14,250	23,750	38,000
2	16,300	27,150	43,400
3	18,350	30,550	48,850
4 ⁴	20,350	33,900	54,250
8	26,900	44,750	71,650

Analyses of housing needs assume that a household can afford to pay about 30% of their income for rent. Applying that assumption, housing producers can assess the gap between how much a household can afford to pay for housing and how much it costs to provide a home that meets their needs.

To cover the costs of production, maintenance, and management of a standard dwelling, Durham landlords need to charge the rents shown in column, 2 in Table B. below. Column 3 shows the amount of income a household requires in order to pay that rent (if the household pays no more than 30% of its income for rent). Columns 4 through 7 show how much rent households at four lower income levels can “afford.” This will help us get an idea of how much assistance is needed for each level of income.

Table B. Monthly Income Required for Standard Basic Housing in Durham

1. Household Size	2. Fair Market Rent	3. Minimum Income Needed to Pay Market Rent	Housing Payment a Household Can “Afford” if Their Income Is At Least...			
			30% of AMI	50% of AMI	60% of AMI	80% of AMI
1	\$538 (efficiency)	\$1,793	356	594	713	950
2	\$738 (1 bedroom)	\$2,460	408	679	814	1,085
3	\$827 (2 bedrooms)	\$2,757	459	764	916	1,221
4	\$1,081 (3 bedrooms)	\$3,603	509	848	1,017	1,356
8	1,165 (4 bedrooms)	\$3,883	673	1,119	1,343	1,791

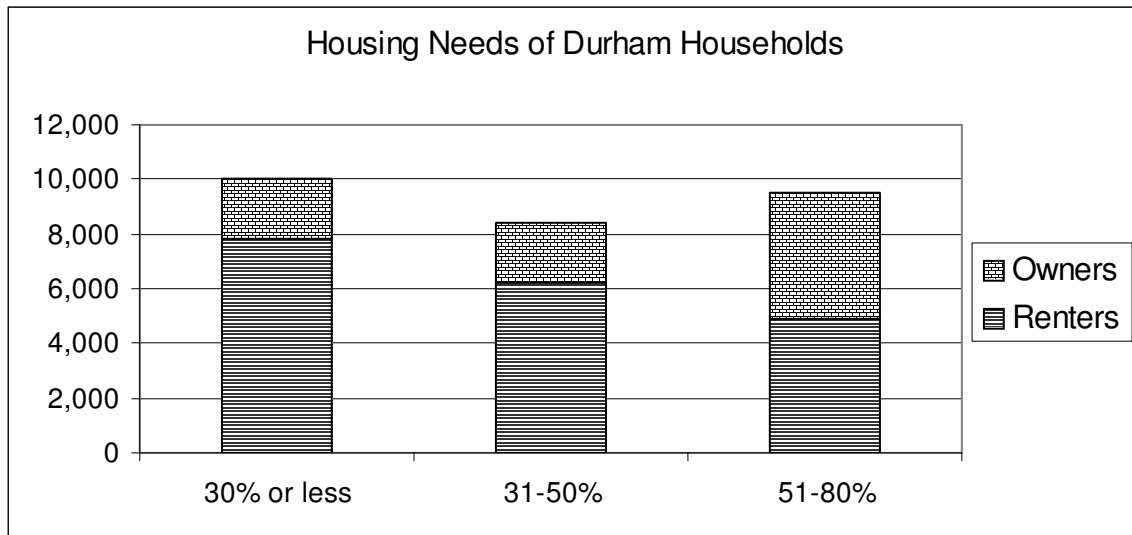
⁴ 89% of Durham households with housing needs are composed of 4 or fewer members.

In Summary, Table B. shows that households who have less than 50% of area median income cannot afford to rent a market rate home except if they have a monthly income of at least \$1,793 and can fit in, and locate, an efficiency apartment). However households with as much as 60% of AMI can afford to rent a standard home in the Durham market.

How Many Durham Households Cannot Afford Standard, Market Rate Housing and Do Not Already Live in Assisted or Subsidized Homes?

The chart and table below show the number of Durham households at three income levels who have unmet housing needs - they live in inadequate or overcrowded homes, or pay more than they can afford, or both.

C. Durham Households with Housing Needs⁵



Household Income as % Durham AMI	Renters ⁶	Home Owners	Total
30% or less	7,835	2,180	10,015
31-50%	6,225	2,200	8,425
51-80%	4,900	4,600	9,500
TOTAL	18,960	8,980	27,940

⁵ These measures come from the HUD CHAS estimates for 2010. CHAS (Comprehensive Housing Affordability Strategy) data come from special tabulations of U.S. Census American Community Survey data that HUD provides so local agencies can evaluate the numbers of households with housing needs, with HUD-defined incomes, and household types of particular interest to planners and policy-makers.

What Does this Mean for Durham's Affordable Housing Production?

HELPING RENTERS⁷

More than 8,000 Durham households⁸ with incomes lower than 30% of area median (under \$20,000 / year) cannot afford market rents. Housing programs can either help the tenant pay rent (like Housing Choice vouchers) or they can help the landlord by assisting with the cost of production and replacement, and/or management of their properties.⁹

Some 6,225 or more households with incomes lower than 50% of AMI need less, but still require some assistance to afford market rents.

About 5,000 or half of, renter households with 51-80% of AMI can "afford" fair market rents, but still they pay more than a third of their income or live in substandard conditions. They apparently cannot find standard suitable housing in a location they are comfortable with at that price. City housing programs can help this group directly by adding more suitable, well-located rental homes. This group would also be a prime target of an effective "inclusionary" housing program.¹⁰ In addition, a small proportion of renters in this income range,¹¹ may be able to buy a small, older or assisted home. The City can assist them with programs that make purchasing a home accessible.

HOMEOWNERS

Approximately 72%, or 4,400, Durham households own a home but have incomes lower than 50 percent of median (about \$25,000), and they cannot afford their payments and/or to repair their homes. Many of these homeowners could afford to buy a home when they had a job, but now they are retired or unemployed. Some are "working poor" people who bought a home that needed work, or bought a low-priced home some years ago but do not have enough income now to repair it. Households with incomes this low also cannot afford to rent a standard home at fair market rates. Sometimes

^{7 7} About 19,300 students enrolled at Duke and North Carolina Central Universities live off campus, most as renters. Many live in apartment complexes targeting students; many share rooms and houses, and many receive substantial unearned income, so they can often pay more than most other renters can afford. Thus, near campus, property owners can get much higher rents by housing students than other tenants. Figures on campus housing and enrollment come from Duke and NCCU websites, July 2010.

⁸ CHAS estimates did not determine whether 21% of extremely low-income households had housing needs, so its estimates have a wide margin of error.

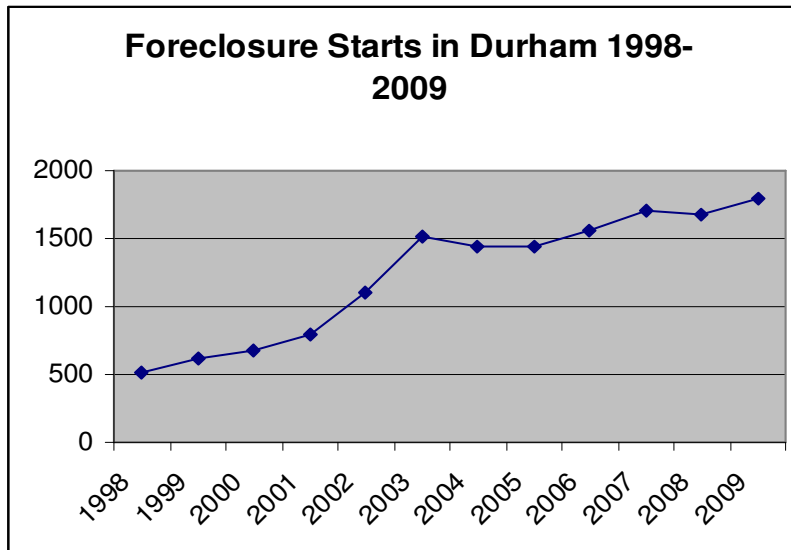
⁹ Historically, the City provided only a small amount of emergency rental assistance, relying almost exclusively on financing production.

¹⁰ "Inclusionary" housing programs vary widely in design, implementation and impact, but they are all designed to result in all large new housing developments including some homes affordable to this segment of the market.

¹¹ To buy a home requires that mortgage applicants have been able to pay rents on time, and have few debts, a good credit record, and adequate savings.

helping them repair a basically sound home is the best solution if then they can afford to stay there. If the housing condition is too deteriorated, they may need to move, and then will need an affordable rental.

An estimated 63%, or more than 4,600, Durham homeowners with incomes of 50-80% of AMI pay more than 30% of their income for housing payments or own homes that are inadequate or overcrowded. An indicator of the growing impact of the gap between housing costs and owner capacity is foreclosure starts.¹² Durham has the 5th highest foreclosure rank in North Carolina, and there is not sign yet of this trend leveling off.¹³



Households with this level of income could “afford” to rent a standard home, but they may not want to move. Sometimes their homes are now worth less than the associated debts, either because they borrowed more than the house was worth, cashed out their equity, or the house condition deteriorated. If the City can help these households move and the supply of rental housing is adequate, they could then rent without further assistance. Or if the house condition is not too deteriorated, home repairs might enable them to stay without further assistance. Helping some of these owners refinancing the mortgage at today’s low rates might also be a one-time solution.

Now that we have summarized housing needs in Durham let’s turn to City programs designed to respond.

¹² The Charlotte area is hit harder, because of the collapse in the region’s dominant industry – financial services. Coastal resort areas also have higher or comparable rates.

¹³ NC Administrative Office of the Courts, at www.ncforeclosurehelp.org. This is a report of foreclosures starts as a percent of owner-occupied homes. It needs more nuanced analysis in that many of the homes foreclosed (everywhere) are investor owned and tenant occupied. It is bad news then for both tenants and home owners.

Planning for Affordable Housing in Durham – What is the Process?

Durham has five planning programs for housing production, each with a different responsible agency and citizen participation / advisory structure.

First, The Ten Year Plan to End Homelessness, published in 2006 is a broad-based vision for both services and housing. It was by a coalition of agencies, through a process that invited a broad range of community leaders to envision Durham as a city where everyone has a safe, decent, sustainable home. To produce adequate housing, it set goals for multiple agencies and programs, including Durham County and the United Way. Accomplishments and indicators were to be measured and assessed by a multi-agency Results Based Accountability tracking initiative housed in Triangle United Way. It does not include a budget and is has not yet been strategically incorporated in City/County and DHA plans that are associated with specific streams of funding.

The Plan to End Homelessness is closely linked to and meant to provide a strategic scope for the annual Continuum of Care process, a planning and grant application document that programs several types of HUD funds for housing that specifically aims to shelter people who are homeless, transitioning out of shelters or institutions, or to preventive services to assist people at high risk of losing their homes. Durham Affordable Housing Coalition is charged with preparing the annual grant application for the HUD Continuum of Care programs.

Third, the HUD-mandated five year Consolidated Plan is prepared by City staff, with input from a City and County-named, HUD-mandated Citizens Advisory Committee. Its purpose is to guide and disclose priorities and expected outcomes of spending City-administered HUD funds including Community Development and HOME block grants, and Neighborhood Stabilization program grants. Its implementation is tracked by annual budgets and reports.

Fourth, Durham Housing Authority's Five Year Plan lists housing development projects the Authority plans to use its annual funding to produce, and /or to accomplish as project-based grants are awarded.

No implementation of these plans can take place until and unless the City Council approves annual budgets to pay its share for them. For a wide range of City-financed facilities that require multi-year financing, each year the City of Durham updates and adopts a five-year **Capital Improvements Program, or "CIP"**.¹⁴ This budgeting plan enables everyone to see how much needs to be spent and reserved each year to complete projects and programs that require multi-year spending and repayment commitments. Then each year, the City Council adopts the annual budget for both its operations and for capital improvements.

At this time Durham has no multi-year Capital Improvement Program for future housing development, even though the Rolling Hills decision requires nearly all the currently-budgeted or reasonably anticipated sources of federal and past housing bond funds for

¹⁴ In the Housing Production section, the 2010-2015 CIP reports on the \$6.12 million budget for re-acquisition of land at Rolling Hills, \$10.54 million for Eastway (Barnes) Avenue

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affordable housing production for at least 10 years, as well as all CDBG funds for 20 years.

One main purpose of this report is to encourage the City to include all its housing projects and commitments both in the CIP and in authorizations for new borrowing, such as bond issues.



II. WHY IS DURHAM COMMITTED TO REVITALIZING ROLLING HILLS AND SOUTHSIDE?

The area that today we call Rolling Hills and the adjacent Southside neighborhood were once part of a business and residential community called Hayti. They are located just south of the Durham Ball Park, across Highway 147 and Lakewood Avenue, from the American Tobacco Trail to Fayetteville Street and the historic landmark Saint Joseph's Church, now Hayti Heritage Center. Southside is a nearly century old neighborhood, and Rolling Hills is a mostly vacant tract of land, cleared by the City in 1958.

The redevelopment of Hayti has been a goal of the City for more than 50 years.

Initial approaches to redevelopment by no means focused on the welfare of the low-income people who lived there, and moreover undermined the businesses and institutions built to serve and nurture patrons in the heart of Durham's entire African-American community.

Today's efforts rest on the back of five decades of broken commitments and false hopes. It is the consensus of today's City leaders that we cannot fail this time.

A brief history of Hayti in its prime, and the unsuccessful redevelopment programs of the past follows. But first, it is important to lay out some of the reasons why the redevelopment of Hayti is an overriding priority for Durham today.

1. Historic Hayti - A Symbol, an Icon, a Vision

Historically, from the late 1800s through World War II, Hayti was an icon in the entire south for the notable success of professionals, entrepreneurs, entertainers, community leaders and laborers whose roots were planted in the abolition of slavery. The thriving heart of segregated Durham's black community, founding site of many of its most enduring institutions and enterprises, was demolished by local public officials with federal funds. They had a variety of motivations, some charitable, some far less admirable, but regardless of that, Durham's 1960 "redevelopment" stopped with demolition. For the next two decades the City abandoned the immediate and long term interests of the people who once lived in 4,057 homes, worked in 502 businesses and considered 200 acres in Hayti the center of their commercial, cultural, religious, educational, medical and civic life. Hayti redevelopment is a dream deferred. Durham is poised today to do what we can to redress generations of broken promises and visions.

2. Finish What We Started

Durham has invested tens of millions of dollars on 200 acres, to acquire it at least three times, and clear it, and much more to build a highway. Having just acquired that land again with \$6 million during the past 4 years, the next step is this time to build a lasting, sustainable, community-driven downtown neighborhood with lasting benefits for all the people who live or recently lived in Southside.

3. Strategic Location

Rolling Hills and Southside are located in walking distance from downtown Durham where hundreds of millions of public and private dollars have built some of the region's most attractive - and some of Durham's most expensive - real estate, as well as public/private amenities. The time has come for a sustainable redevelopment that not only rebuilds real estate and creates new homes, enterprises and public amenities, but improves the homes and life opportunities of Southside residents.

4. Leadership

At this juncture in its history, Durham is blessed with a remarkable and highly capable group of community leaders and organizations who share a consensus that affordable housing, neighborhood improvements, and downtown public and private development are high priorities. During the past five years, Durham's nonprofit developers have produced unprecedented number of homes for low-income people, and this is in no small part a tribute to the solid support of a united City Council. These new and improved homes could not have been built had it not been for the strong performance of experienced and devoted officials in City Hall who have consistently delivered welcome levels of expertise and skilled management to an increasingly complex set of challenges.

The redevelopment of Hayti is a daunting challenge. But Durham, and the City of Durham has the spirit, expertise, experience and community capital to pull it off. We can do it in a way that benefits the whole community, and this time, also the people of Southside, and others whose very low incomes have heretofore prevented them from enjoying the fruits of these City priorities:

1. "Every citizen in Durham has access to adequate, safe and affordable housing."
2. "Durham citizens enjoy sustainable, thriving neighborhoods with efficient and well-maintained infrastructure."
3. Durham citizens enjoy an efficient and accountable city government."

5. The Missing Ingredient – A Sustainable Comprehensive Funding Strategy

Now is an exceedingly difficult time to find resources for any real estate development. In downtown Durham, throughout the region and the nation, many projects are postponed or scaled down. The City has tried several avenues for attracting private and charitable funding for Rolling Hill, so far without success. Durham's strategy to finance Rolling Hills confronts a number of issues and challenges. Before the City and its developer reapply for tax credit financing for the first apartment complex in Rolling Hills next January, our community will grapple with these fundamental decisions.

How can we phase and scale the development of Rolling Hills and the transformative replacement of dilapidated housing in Southside in a way that:

- ⬆ Does not abruptly abandon housing production and mortgage financing in Northeast Central Durham and Southwest Central Durham?
- ⬆ Provides a predictable stream of multi-year financing for producing and replacing low-income housing, as well as for services to assist people who are homeless or living in poor conditions?
- ⬆ Continues to finance current levels of affordable housing production – for first-time home buyers, low income renters, and people who need housing *plus* services?
- ⬆ Incorporates, builds on the strengths, and builds up the assets of Durham’s nonprofit, locally-guided and widely supported housing developers, and maximize opportunities for locally ownership of the improved property.
- ⬆ Is accountable and transparent - incorporating and reconciling the well-informed citizen participation and expert staff review process, and the multi-year and comprehensive perspective of the Consolidated Plan and the Capital Improvement Program.
- ⬆ Includes funds to assist the number of very low income renters who were or are living in Southside before redevelopment acquisition began.
- ⬆ Enables more rental housing to be located outside neighborhoods with concentrated poverty
- ⬆ Maintains and replaces Durham’s current affordable housing, both for rent and for sale, with a particular focus on housing on Durham Housing Authority developments, to make sure very low-income families are re-housed in better conditions.
- ⬆ Respects and responds to the residents of Southside and other neighborhoods surrounding Rolling Hills.

This report arises from the following concerns about the City’s May 3, 2010 funding strategy for Rolling Hills.

It committed the land and \$9.3 million to build 142 apartments on the Rolling Hills site. (This commitment was conditioned on the selected develop’ successful application for other funds, which, then in August, failed.) It also proposed a second rental development in Rolling Hills and 42 new homes for sale in Southside. It laid out a vision and hope that these three ingredients – new public infrastructure, new housing in Rolling Hills for residents with a mix of incomes, and new homes for sale in Southside – all to be built in about a five year period, will transform property values. This would attract massive investments from the private sector in surrounding businesses and on the acres of remaining City- and nonprofit-owned land, and on their own property, to build a vibrant downtown neighborhood.

To finance this proposal, the City would borrow funds now that Durham would have to pay back using the stream of anticipated income from all the next ten years of federal HOME and CDBG grants, and from local housing bonds that were invested until now for affordable housing production. (The only exception is the \$225,000 year that is federally required to support community –based nonprofit development \$225,000 would not

even maintain the City's share of one nonprofit organization's current rate of supportive housing production.)

To repay these loans will also require all of a second decade of CDBG funds, now used for services for Durham's poor.

The remaining federal Community Development funds would be programmed to pay for City administration of housing and community development programs, but none for the housing production, services and programs now provided by local nonprofit organizations.

Although the Rolling Hills land was purchased with funds the City borrowed for affordable housing, and the payback would require all the federal entitlement funds the City has used heretofore for low-income housing production and services. Yet 37% of the \$22,565,000 estimated City's expenditures in Rolling Hills, at a city cost of \$91,000 per home, would be for housing that is not affordable to low-income households.

A Brief History of the Historic Hayti Community and Redevelopment

This section is a lightly edited excerpt from: an article by Grayson Currin, "Sweet Hayti", in the September 05, 2007 *Independent*; a funding application prepared in 2009 by McCormack Baron Salazar, and the history text, *Durham County*, by Jean Bradley Anderson, *Duke University Press*, 1990.

In 1869, Evian and Mollie Markum purchased land and established the school and church that in 1891, was rebuilt in brick and named St. Joseph's A.M.E. It became a centerpiece for Hayti, the heart of segregated Durham's African-American community. Employees of downtown Durham factories and businesses lived there, surrounded by NC Central University. During the next 70 years, Hayti became a thriving, prosperous, largely independent community. N.C. Mutual Life Insurance Company, founded in Hayti in 1898, grew into what Durham historian Mena Webb calls "the largest black-owned business in the world." It was full of restaurants, banks, a library, churches, services, schools, and home to a renowned lineage of blues musicians: By 1939, North Carolina's official state guide boasted of Hayti's "12,000 Negroes [who] live and operate their own business firms." Hayti was a freedmen's success story.

In 1911, when Booker T. Washington visited Hayti, he found "a city of Negro enterprises" whose citizens were "shining examples of what a colored man may become" (58). Hayti was home to North Carolina Mutual Insurance Company, Lincoln Hospital, and after 1910, North Carolina College for Negroes, later North Carolina Central University. For African-Americans travelling through the Jim Crow South, Hayti was a eagerly anticipated destination. Louis Armstrong and Cab Calloway performed there. Hayti also had a home-grown music scene in the Piedmont Blues, nurtured by native sons like Blind Boy Fuller and Bull City Red. And its block after block of more than 3,000 homes were owned by black owner occupants and investors.

Urban renewal – now accurately referred to as “urban removal,” destroyed this thriving neighborhood.

What happened? During the 1920s and then the decade of the Depression, Hayti’s leaders advocated tirelessly for public services and black representation on juries, decision making boards, and the City staff. The WPA brought long-sought improvements like Whitted School, Hillside Park and pool, and a 12th grade at Hillside High so students could graduate. But it was not until 1944 that Durham hired the first black police officer.

After struggling through the Depression, Hayti businesses began to prosper again during World War II. But, according sections of Hayti, especially its rental homes were outdated and dilapidated. In 1949, The City established Durham Housing Authority and in 1953 and 1954, built Few Gardens and part of McDougald Terrace.

Meanwhile, downtown, controversy arose about whether to participate in federal urban renewal and public housing programs. Finally in 1958, the City established the Durham Redevelopment Commission, charged with identifying the city's slums and deciding their fate.

The Redevelopment Commission chose Hayti as its first target and developed a comprehensive plan for the complete redevelopment of 200 acres in the heart of the community. Noted leaders of both races campaigned for a \$8.6 million bond issue to acquire Hayti, and completely redevelop it. To buttress its case, the Commission attached a packet of three month's worth of editorials from the *Durham Morning Herald* pledging support for urban renewal. Mayor E.J. Evans wrote a letter avowing his approval for the plan, referring to the city's poorer neighborhoods as if they were worthless crops lying fallow in a field: "An area that becomes blighted needs more municipal services, but contributes less in taxes to pay for them. We in Durham are anxious to get started ... to change the direction of that financial spiral."

Durham voters narrowly approved the bonds, and the Redevelopment Commission went right to work.

In 1962, the City of Durham demolished much of Hayti and several other predominately black Durham districts. 1,255 homes and 63 businesses on 200 acres were gone. A once-strong community was eviscerated. With \$41.6 million in federal funds Durham razed Hayti institutions like the Biltmore Hotel, Regal Theatre and the Service Printing Company. But after demolition redevelopment funds were not targeted to rebuild locally owned homes and businesses, Durham left Hayti a wasteland of overgrown weeds for 28 years. The Housing Authority did build about 650 apartments to help house some of the poverty stricken relocated Hayti residents. But most of the remaining funds were used for even more demolition and to build roads and parking lots in today's "downtown." As Durham historian Jean Bradley Anderson wrote, "year after year went by, with many streets torn up and impassable. Merchants complained..." Meanwhile, new shopping centers – Lakewood, Forest Hills, Wellons Village, Northgate attracted shoppers. Finally after 14 years, the City had its new amenities – parking decks, the downtown loop and one way streets, and it was "ready for investors to come along and

rebuild it but it waited in vain. Standing isolated were the banks, the new City Hall and the Judicial building.

So the City decided to attract employees of the growing Research Triangle Park. Renewal funds also helped pay for the Durham Expressway, N.C. 147. To build it, required displacing and demolishing another 4,057 homes and 502 businesses. When built, the expressway would slough off the corner of Hayti north of St. Joseph's, separating it from the struggling downtown of today. In 1976—while a study indicated one in five Durham families still lived in substandard housing—the city hustled to finish its renewal projects. Durham historian Jean Bradley Anderson has written that urban renewal dealt Hayti its death blow. "Citizens whose homes and businesses were demolished for the renovation were promised compensation as well as new buildings. Today, in the place of homes and shops, runs the Durham Expressway."¹

"It was my understanding that the concept of redevelopment was to clear decayed areas that were blighted and to put something back on the tax books," Mayor Wade Cavin said in a 1976 *Durham Morning Herald* interview. "The program has not put new structures back on the land; it's just standing vacant."

In the 1980s Lincoln medical center located in the heart of this community closed. Whitted School was vacated.

The building that housed St. Joseph's, however, with renovation assistance from the City in the 1970s, has endured. In 1988, Durham voters approved a \$2.5 million bond to fund construction that turned St. Joseph's shell into the Hayti Heritage Center. Today, it is the home of St. Joseph's Historic Foundation, a nonprofit organization devoted to promoting the community's past and future. In 1996, when the City of Durham could meet only about half of the center's \$5 million financial goal to begin St. Joseph's chapel renovations, the Foundation's director helped find the other half through private donations, and building on the history of Hayti's music, put the Bull Durham's Blues Festival on the map of the nation. In 2001, nearly \$5 million worth of renovations in St. Joseph's congregation hall—filled with 19th-century pews, a rich glow of stained-glass windows, and high-quality sound and lighting systems—were completed

But as a whole, Hayti still hasn't recovered.

Near the once-bustling thoroughfare of East Pettigrew Street, just north of St. Joseph's steeple, small houses, diners and an abandoned housing project now stand, the area shunted from its other half by the busy expressway that cuts through the quiet just 50 yards to the south. Surrounding the Heritage Center and a newly renovated library, some businesses, also developed with City participation, thrive. But the city-developed shopping center next to the expressway struggles with vacancy. In spite of 1980's City

¹ Some Durham leaders and neighborhood activists had learned something from the experience of Hayti. In 1974, the Crest Street community, also in the path of the expressway, was also originally slated for demolition, but a coalition of new leaders and neighbors interrupted those plans and won a historic Civil Rights legal battle. Part of Crest Street has been rebuilt in its original location and the relocation of other residents took place with their active engagement in selecting choices that improved their housing conditions and that they would be able to afford.

investments in housing on one edge of Southside, and a new DHA development for seniors on its north border, that neighborhood's residents suffer a dangerously poor quality life in one of Durham's most concentrated areas of poverty and dilapidated housing.

Finally in the mid 1980,s the City decided to rebuild Hayti. First the City contracted with a new non-profit organization to redevelop a 19.23-acre tract with 250 townhouses and patio homes to be marketed to workers in the nearby Research Triangle Park and other professionals. Named "Rolling Hills", only 12 patio homes and 30 townhouses were completed before the development became insolvent and the City of Durham foreclosed on the property.

Then again, in the late 1990's the City engaged another developer to complete the project by building single-family detached homes. Only 9 homes were completed and sold before the City foreclosed again, in 2003, taking ownership of two partially completed homes and 33 vacant lots.

At the time of the 2003 foreclosure, unable to sell homes units surrounded by dilapidated conditions, many of the original buyers abandoned them. They were subsequently acquired by investor-owners through foreclosure sales.

In 2007, the City decided now for the third time to acquire the Rolling Hills site for redevelopment. They selected a new development firm with a proven and successful track record in the redevelopment of challenged central city neighborhoods, McCormack Baron Salazar (MBS) based in St. Louis, MO. Durham City Council authorized the expenditure of \$5,871,734 from past local housing bond funds to acquire 51 privately-owned properties in Rolling Hills and relocate displaced homeowners and tenants. The City has nearly completed all these acquisitions.

Today, the City aims to redevelop about half of the Rolling Hills site it now owns, and a small section of the adjacent Southside neighborhood.

Meanwhile, next door in Southside, a nonprofit developer, Self-Help, began acquiring vacant or dilapidated residential properties. Self Help' ownership of this land is intended to achieve three objectives - to ensure that sufficient critical mass is assembled to undertake a scale of neighborhood redevelopment that will be transformative in outcome; to insure that Southside residents would have an effective voice in priorities and other redevelopment decisions; and third, to acquire and eliminate properties which harbor the area's gang and drug activity. To date, Self Help has acquired about 90 properties. The City has agreed to finance the clearance and then construction of 41 homes for sale on some of Self-Help's land.



III. HOUSING PRODUCTION PROGRAMS IN DURHAM

The diversity of Durham’s housing needs calls for a continuum of approaches to production. This section describes programs targeted to three groups – people who need home-based services, low-income renters, and low-income home buyers. It describes Durham current level of production of each type of housing, the levels proposed in the Consolidated Plan, and the number funded through a “paradigm shift” proposal for funding.

For the next ten or more years, the “paradigm shift” would direct all the funds used in the past for housing production (and for all services delivered by nonprofit organizations) to a dramatically fewer number of affordable homes for rent in Rolling Hills and 41 homes for sale in Southside. The City would continue to use federal block grants to fund the services it provides, and it would allocate a federally required \$255,000 “set-aside” to fund the activities of certain nonprofit housing developers. \$225,000 would be enough to produce about 6-8 new affordable homes for sale or rent each year.¹

A. HOUSING PLUS SERVICES

Introduction

Many Durham residents, often with extremely low incomes and earning potential, need long term or permanent homes that are designed, located and managed to offer home-based services. In Southside, for example, on average one member of every household has a disability, many are unemployed. The housing is designed to accommodate their needs for both shelter and services, ranging from time-limited housing for people leaving temporary shelters, treatment programs or institutions and getting on back their feet after a crisis, to permanent homes for people with long term disabilities or in recovery, and frail elderly people. Sometimes participation in services and programs is required, sometimes not. Durham needs a strategically coordinated continuum of housing options.

In this section we focus on housing that accommodates tenants’ needs for home-based services as a primary consideration, and that is the resident’s long-term primary

¹ Since no one knows what type of housing or programs the \$225,000 might be used for, in this section we will assume it will add 20 dwellings of each type of housing during the decade ahead.

residence, not a temporary shelter. For these residents, poverty is not the only reason they need assistance with housing, and they do also want and need some integrated services. They can live in this home for at least two years, or they may have a regular annually renewable lease.²

Durham's "housing PLUS services" stock includes, for example, housing for people with multiple disabilities, chronic illness like sickle cell disease, addiction, military service related trauma or dislocation, or mental illness, developmental delays, and a wide variety of other circumstances that often result in homelessness. These residences offer people who have often experienced terrible times the opportunity to rebuild their lives and interdependently maximize their capabilities in a safe, convenient, comfortable, stable, affordable home.

Studies find that public investment in emergency/crisis shelters and "housing PLUS services" repays taxpayers many times over through savings in medical care, emergency response, emergency housing, energy assistance, foster care, education, law enforcement, the justice system, incarceration, social services and improved quality of neighborhood and community life for everyone.³

Durham is fortunate to have a solid group of partner agencies that have built and plan to build more housing PLUS services for people with extremely low incomes. These include CASA, Durham Community Land Trustees, Housing for New Hope, TROSA, and Volunteers of America. The City and Durham Housing Authority also own land that can be used for this purpose.

Plans for the Next Ten Years

Durham's Ten Year Plan to End Homelessness⁴ set a goal of building permanent homes with supportive services for 15 people each year. Durham's 2010-2015 Consolidated Plan estimates that Durham still has a current shortage of at least 150 suitable safe homes for homeless individuals who need home-based services. This number is expected to grow. The Consolidated Plan also states that producing supportive housing is one of Durham's two top priorities, and set a smaller goal of adding 50 supportive homes in the next five years.

But during the past five years, four of the organizations listed above used almost \$2,957,000 City and HUD funds as "cornerstone"⁵ funding, and together they added 120

² The term, "Housing *Plus* Services," comes from the National Low-income Housing Coalition typology of housing models at <https://www2398/ssldomain/nlihc/doc/typology.pdf>.

³ Malcolm Gladwell, "Million Dollar Murray", *New Yorker*, 2-13-06. Locally, the Durham Center has documented dramatic reductions in emergency room visits and hospital admissions when clients received the services they need in the community.

⁴ See Section I for a brief description of Durham plans and planning process for production of affordable housing.

⁵ This report uses the term "cornerstone" for the City's initial commitments of equity that enable partners to attract the rest of the cost from other sources. The funding from other sources is not available without the City's "cornerstone" share.

new homes with services -- 24 on average each year! This new housing has a roughly estimated value today of over \$9 million.

The "paradigm shift" budget would dramatically reduce the City's production of Housing *Plus Services*, from our current production of 240 homes in ten years to a proposed 36 apartments. The 16 apartments at Rolling Hills would be located not in small buildings with nonprofit management but in two larger family-oriented complexes. (16 is the minimum number of apartments with supportive services required by the NC Housing Finance Agency.)⁶

Instead of harnessing the proven capacity of all Durham's effective, efficient, locally directed nonprofit producers of supportive housing, and the added resources they can attract for 15 times more production, the "paradigm shift" would finance one large developer to build apartments that would not be owned or run by nonprofit organizations whose permanent mission it is to serve this vulnerable population.⁷

DURHAM'S PRODUCTION OF HOUSING *PLUS SERVICES*⁸

	Number Dwellings / Year	City Cost per Dwelling	10-Year Production Estimate
Homes Funded, 2005-2009	24	\$25,000	240
Plan to End Homelessness	15		150
2010-2015 Consolidated Plan	10		100
Paradigm Shift	3 or 4	\$79,500	36

Housing for New Hope's newest apartments at Williams Square can serve as a prototype example of the current costs and sources of funds for building supportive housing in Durham. Williams Square houses 24 people and cost about \$2.1 million. About one third of the funds came from each source: the City of Durham, a HUD "Continuum of Care" grant, and the North Carolina Housing Finance Agency.⁹ In this example, the City's share of the cost to build each new dwelling for homeless people who need supportive services was only \$30,000. These three partners - Housing for New Hope, NCHFA and

⁶ The other 20 homes would be built by local nonprofit community based organizations receiving 1/3 of the \$225,000 required to be used for nonprofit production.

⁷ This section also assumes that during the decade, 1/3 of the annual federal "set-aside" of \$225,000 will enable local nonprofit developers to build 20 dwellings with home-based services.

⁸ "Paradigm shift" production numbers include Rolling Hills plus as many as two dwellings / year that could be built by a Community-Based Housing Developer (CHDO) with the required federal set-aside.

⁹ This model works given current HUD and NCHFA funding, and some projects this size can be built with less City funds. But DAHC expects the HUD Continuum of Care share to decrease to only a third of its current amount after next year, so again at that time, the City share would need to increase its investment. Volunteers of America Corp, TROSA and CASA have used primarily non-City funds, but City funds are still sometimes the only way these deals can work.

HUD - all have the current capacity to continue producing this much-needed housing, but they can ONLY do it with the City's cornerstone financial participation.

Because the City only provides about one third of the required funds in this prototype, and assuming that other sources continue to be available to Durham developers, a City decision to build 204 fewer supportive homes during the next ten years, means walking away from about \$58,000 per foregone dwelling, for a total of about \$11.8 million in currently available state and federal funds to meet the housing needs of Durham's most vulnerable homeless people.

Durham needs to plan at least 5-10 years ahead to have a solid pipeline of projects that are ready to immediately capture every possible source of financing. For example, in 2010, applications are due for as much as \$500,000 to build permanent supportive housing for very low-income people with disabilities, one of Durham's top goals. The program requires that applicants can commit a site and the remaining funds to develop it. If Durham is in a position to compete for these funds it will be because the City allocated funds to partner developers several years ago for this purpose and the partners have acquired suitable sites and used the cornerstone commitment to attract the necessary non-City funds.

B. DECENT STABLE HOUSING FOR EXTREMELY LOW INCOME WORKERS, SENIORS, AND OTHERS

Why are there so many substandard dwellings in Durham? Durham has always relied heavily on "slum lords" to house people who cannot afford market rents. Unless there is public financing, these families can only afford uncomfortable, unhealthy, overcrowded, unstable, unattractive, and unsafe structures and neighborhoods.

Complain, patch, relocate, and cite violations as we might, the fact remains that unless the City provides housing assistance, this part of the population and the property owners who house them have no choice. It is a simple fact of dollars and cents: without subsidy, even nonprofit and charitably motivated landlords who charge less than Fair Market Rent simply cannot provide housing in good condition.

However Durham is fortunate to have an effective network of remarkably capable, experienced, efficient, locally-directed, proven nonprofit developers and owners of affordable housing. They have a solid history of attracting charitable, private, state and federal funds and commitments to build rental housing for the poor. These include both charitable organizations like Builders of Hope, DHIC, Durham Community Land Trustees, Housing for New Hope, Self-Help, TROSA, and UDI, and small, public-spirited businesses like Woodland Associates and R-D Construction. Developments built by these organizations have delivered locally owned and well-managed housing at a reasonable cost per dwelling.

So where does Durham stand on providing safe, energy-efficient, standard rental housing for the poor during the next ten years?¹⁰

¹⁰ In 2006, Durham's Ten Year Plan to End Homelessness counted 237 homeless individuals and 38 homeless families who do not require home-based services. It called for the production of homes for the 38 homeless families, and HUD-HOME funded rental assistance for half of the

Since 2005, the City's rental housing programs have focused on production. City-administered "cornerstone"¹¹ financing of \$2.4 million attracted many times its share of project costs to build or redevelop at least 280 rental homes in West End, Tuscaloosa-Lakewood, and Eastway neighborhoods and at the Stewart / Mutual complex. Of these, at least 69 are affordable to tenants with incomes lower than 30% of median, and all 280 are affordable to tenants with incomes lower than 60% of median.

Partners have demonstrated notable success using City funds to attract funding from other sources. The estimated value of these 280 homes is at least \$25.22 million.¹² So for every one City dollar invested in affordable housing, nonprofit and tax credit financed builders attracted from other sources and invested the community more than ten.

Durham's 2010-2015 Consolidated Plan begins with a housing needs assessment. It states that more than 14,000 households have incomes too low to afford standard market rate rental housing. But the Plan sets a goal for the next five years of 125-150 rental dwellings - that is less than half the rental housing production Durham partners produced in the past five years. (Furthermore, the 2010-2015 Plan does not specify a how many of the 125-150 new dwellings would be priced to be affordable for the 7,835 households with extremely low incomes and housing problems.) The Consolidated Plan proposes to build these homes in all three target neighborhoods.

However the "paradigm shift" would undermine even the Consolidated Plan's reduced production goal. It would site all new production at Rolling Hills. More specifically, the "paradigm shift" strategy would commit ten-plus years of Durham's currently projected housing development funding to provide:

- 248 homes for rent in Rolling Hills, and none in any other location. Ninety (36%) of the homes would not be affordable to low-income people. More than a decade of production would yield fewer than 141 affordable homes for rent at Rolling Hills.

This is about half the 2010-2015 plan goal, and 27% of today's production of affordable rental homes.

- Only 28 of the 248 apartments at Rolling Hills would be "affordable" to tenants with incomes 30% of AMI or less, a total city-wide decade yield of fewer than 3 homes annually for Durham's poorest residents. Of these 16 would be reserved for people who were homeless and need supportive services.

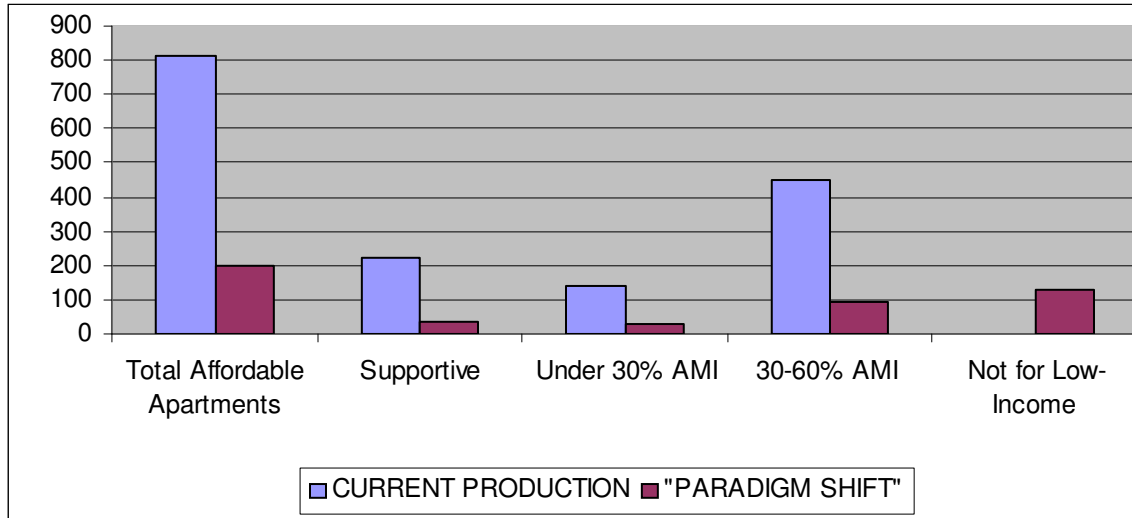
homeless individuals who do not need supportive services. Inexplicably, this plan assumed that during the next ten years fully half of Durham's homeless population will not need housing assistance because they will somehow find jobs paying a living wage. Meanwhile, the population of Durham is growing, the poverty rate is not declining, and the Plan does not even envision any new employment programs.

¹¹ This report uses the term "cornerstone" for the City's initial commitments of equity that enable partners to attract the rest of the cost from other sources. The funding from other sources is not available without the City's "cornerstone" share.

¹² The city's cost per apartment ranged widely depending on other sources in the project.

- Up to \$225,000 / year is required by HUD to be reserved, or “set-aside” for production by community-based nonprofit housing developers. With 1/3 of these funds for ten years, nonprofit developers could build as many as 20 affordable homes for rent.

**CITY OF DURHAM 2011-2020 FUNDING OPTIONS:
A DECADE’S PRODUCTION OF AFFORDABLE HOMES FOR RENT**



The budget for the “paradigm shift” apartments indicates an average cost to the City (alone) of almost \$94,000 per home at Rolling Hills, more than twice the cost of the locally directed, charitably administered prototype, located on lots with public facilities in existing neighborhoods.¹³

**CITY OF DURHAM 2011-2020 FUNDING OPTIONS:
CITY’S SHARE OF COST / DWELLING**

Local Nonprofits – Current Average Annual Production	\$16,000
2010 Consolidated Plan Goal	\$40,500 ¹⁴
“Paradigm Shift” Proposal	\$93,900

¹³ The City’s share of the Rolling Hills budget is \$23.3 million. The City proposes to build 248 affordable rental homes and 41 homes for sale. The City’s cost of homes for sale in Southside is about \$65,000, and the City’s cost per rental home at Rolling Hills is about \$94,000. This is partly due to far higher cost of land and proposed infrastructure at Rolling Hills. The total cost per apartment is estimated by the City at \$210,900; with 76% of that cost financed or granted by the public sector. In these times, is that the best use of Durham – and state and federal - tax revenues and credits?

¹⁴ Estimate based on Maplewood Square, constructed in 2009. These are one and two bedroom apartments, so larger apartments might cost more. However, Maplewood’s budget included expensive neighborhood infrastructure, including area storm water management, site work, street closing, and a new park. It was built on land the City considered surplus.

If the City drastically cut local nonprofit developers' production of affordable rental housing, could Durham rely on Durham Housing Authority to make up the difference? What are their production plans, and how will the City's plans for 2010-2020, affect them?

DURHAM HOUSING AUTHORITY

Durham Housing Authority is by far the largest provider of affordable housing in Durham. Its governing Board of Commissioners is appointed by the Durham City Council.

DHA houses up to 1,851 resident households in its own properties, and administers 2,684 housing choice rental vouchers. Housing choice vouchers enable low-income renters to live in any standard dwellings that rent for up to the Fair Market rate.¹⁵ Nearly all DHA property residents have incomes below 30% of area median, and many housing choice voucher holders are also among Durham's lowest-income households.

Both programs have long waiting lists. For housing choice vouchers, the list is almost always closed because it is more than two years long. In July 2010, 1,487 households are waiting for a vacancy in DHA properties.

Durham Housing Authority's Board of Commissioners and Chief Executive Officer are working to establish stronger funding, planning, and development partnerships with the City. Collaboration could enable both organizations to far more powerfully achieve shared goals for production and replacement of affordable housing for low-income Durham residents throughout the City.

Funding for Replacement of Demolished, Sold and Aging DHA Housing

According to DHA's draft Five-Year and Annual Plan (2010-2015) and a recent presentation by its chief executive, nearly 70% of its currently occupied but aging properties need replacement.¹⁶ Therefore, during the next five years and longer, all the HUD Public Housing funds DHA is entitled to, or has planned to apply for without City participation, must be used for replacement.¹⁷

Anticipating so much replacement, DHA also faces the looming challenge of housing current residents who will be displaced during (and perhaps even after) renovations.¹⁸ Ideally, DHA might make new apartments or rent vouchers available *before* phased

¹⁵ The renter households pay one third of their monthly income, and DHA pays the rest.

¹⁶ The Durham Herald quotes the CEO as stating that 70% of DHA homes need replacement. 8-23-10

¹⁷ These include "Replacement Factor" funds to gradually rebuild 440 homes in Few Gardens and Fayetteville Street, and \$2.9 million in annual "Capital" funds that are needed to maintain currently occupied homes with an estimated capital improvement backlog of about \$48 million. Replacement funds also require a funding match.

¹⁸ It is important to clarify that the author does not attribute this statement to leaders of DHA. DHA's published plan does not present estimates, funding sources, policies or priorities for replacement of housing, the mix of incomes of new tenants, or accommodations for today's tenants.

demolition and relocation begin, as the developers of Durham's Stewart and Mutual apartments just did. But this strategy would confront a number of daunting constraints. To enable DHA to prevent displacement of today's DHA residents and to house at least the same total number of families and individuals with the same incomes - both permanently and during construction -- as can be housed today would require active and high-cost participation of the City and other partners.

Before DHA makes detailed plans, and until funds are awarded for the complete replacement of DHA developments, we will not know many total homes they can replace, or how many new or renovated homes will be affordable to residents with incomes under 30% of median.¹⁹

What we do know, though, is that DHA needs the City as a partner and source of financing.

For example, in 2000, HUD awarded a \$35 million "HOPE VI" grant to DHA to demolish 240 fifty-year-old apartments at Few Gardens, and build a new mixed-income housing development. The apartments were demolished in 2002. Now DHA has vacant land that would be suitable for about 45 dwellings on Goley Street, but DHA's plans for its development require City assistance. DHA also needs City participation as a partner to finish building homes for sale on cleared land in the Hope VI area.

Then, in some decades, when DHA has accomplished the replacement of its existing older homes, and the build-out of its "HOPE VI" land and homes, Durham and DHA could finally be in a position to expand its critically important housing stock for our community's growing population.

Funding for Expansion of DHA Housing for People with Extremely Low Incomes

Working in partnership with DHA enables City contributions to be used as the "cornerstone" to attract other funds, some of which only DHA is eligible to apply for. Relatively modest City investments in the replacement or expansion of DHA-owned properties can draw millions of dollars through tax credit awards and other non-city sources. For example, the City's investment of \$260,000, combined with DHA land and the competitive edge conferred by DHA's "HOPE VI" funding, enabled a developer to finance and build 83 attractive town homes at Franklin Square, completed in 2009. All are rented to households with incomes lower than 60% of AMI, and at least 20 have extremely low incomes. The cost to the City was about \$3,100 per home.

¹⁹ To the extent that major replacement financing comes from HOPE VI or Low-Income Tax Credits, the number of homes remaining affordable to extremely low income families will be significantly reduced because these sources require higher rents and a mix of incomes up to 60% of median. Using a nonprofit developer can make these dollars go further. Also tax credit financed housing and land may not belong to DHA, but instead the developer, and unless a nonprofit or public agency owns or acquires the property after 30 years it may not longer be affordable to low income people after that.

DHA applications to HUD for large new redevelopment projects²⁰ require substantial City participation to be competitive.

For example, in 2000, significant City financial commitments for surrounding redevelopment helped DHA compete successfully for the \$35 million grant from HUD to transform the aging Few Gardens into the new Eastway / Edgemont/ Golden Belt neighborhood. This new neighborhood is located conveniently at the eastern edge of downtown Durham. That HUD grant provided equity and competitive preference that attracted more than \$100 million from private investors and state and federal programs for more residential development. DHA's developer built 226 very attractive homes for families and seniors. The development includes new streets, sidewalks, and public works. It includes enough prepared land to build another 50 homes for sale as funding becomes available. The City, in collaboration, built 46 homes nearby, and cleared and or purchased more land for more homes.

Here's the bottom line:

Without City participation for the next ten years, Durham Housing Authority will not likely be able to house as many very low-income people as they do today. Current tenants will continue to live in apartments that DHA says need replacement. And unless the City provides cornerstone funding to DHA / DVI, they will not be able to capture and maximize available sources of funds to replace and expand Durham's affordable housing stock.

C. EXPANDING HOME OWNERSHIP IN DURHAM NEIGHBORHOODS

Durham Programs to Expand Home Ownership

One of the City's top three Consolidated Plan priorities is expanding the stock of homes in low-income neighborhoods for sale to low-income buyers. Meanwhile as we have seen in Section One, Durham also has nearly 9,000 low-income home owners whose homes are in substandard condition and /or who have higher monthly payments than they can sustainably afford to pay, and a high and rising rate of foreclosures.

The City's employs two strategies to expand the stock of new affordable housing – funding development of new homes in target neighborhoods, and helping first-time low-income homebuyers finance their purchases.

In the past four years, the City invested on average about \$2.76 million annually to expand homeownership opportunities.²¹ The results of this investment include:

²⁰ Such as HOPE VI and Choice Neighborhood Initiative

²¹ These figures do not include in either past or future funding or production from 2010 grants the City administers for HUD's "Neighborhood Stabilization Program." The City has used these funds to support local nonprofit developers' production of ten apartments with services, and to acquire land for future infill construction in SWCD, NECD and Southside.

- Average annual production of 12 new energy-efficient, high quality homes for sale to low-income buyers,²²
- Repair, rehab and weatherization of low-income homeowners' homes,
- \$20,000 low-interest loans for first-time low-income homebuyers, and homeowners whose homes were rehabilitated, and
- Counseling and workshops for first-time low-income buyers and owners who could not pay their debts.

The target group for home purchase subsidies is steadily employed people with incomes between 50 and 80% of median.²³ About 10,000 (13% of) Durham renters have that level of income, but most are not qualified to buy even a subsidized home because their existing debts are too high, or their savings too low. Also, as we saw earlier, many renters are students or other people who do not want to own a home now, or to live in a home they could afford to buy.

Households with incomes over 50% of median can afford market rents in Durham. So the main reason to subsidize home purchases is not always basic housing needs, but also:

- to offer low-income workers a mechanism for building assets, at the same time they maintain a home.
- as part of a neighborhood revitalization strategy, to attract new neighbors who have more choices and more resources, who can afford new detached homes.²⁴
- in the hope that new owners, with financial stake in the neighborhood's welfare, will actively work for continued improvements in the community's quality of life.

Subsidy is required to produce a new home for sale in high-poverty neighborhoods because the cost to produce a high quality home is higher than surrounding property values support. The gap between the cost of the house and the price a prospective owner-occupant will pay (or that their lender will finance) for a house in that location defines the amount of the required production subsidy.

Even if the cost of a subsidized home is lower than the cost, a low-income buyer, especially if there is only one earner, and/or if there are other debts, cannot afford the monthly payments. Therefore the City and state offer second and third subordinated mortgages at below-market rates. Buyers can combine this assistance with their bank loans to yield a lower payment.

²² These figures come from the annual reports (CAPER) on the City Department of Community Development website.

²³ To afford even a substantially subsidized new detached single-family 3-bedroom, 2-bathroom home of lasting construction quality requires that a household have at least 50% of median income.

²⁴ Detached homes can fit on small scattered lots which are frequently the target of redevelopment in existing in-town neighborhoods, but it is expensive to manage detached homes as rentals.

In summary, both assistance for builders -- and for buyers -- is necessary to make home ownership affordable and an asset for low-income people.

Once low-income people do own homes, they often continue to need help. For many reasons, 2/3 of Durham low-income home owners pay more than 30% of their income for housing payments or own homes that are inadequate or overcrowded. Many more cannot afford to maintain their homes, so they do not increase in value. Too often, like renters, low-income owners remain at risk of losing their homes if they do not have a cushion of savings for unexpected economic setbacks or major home repairs. Thus, like rental housing, low-income homebuyers often continue to need housing assistance.

Homes built with HUD funds must remain affordable for between 5 and 15 years. Given the substantial public investments in many of these homes and neighborhoods, an even longer term of affordability increases the bang for the buck. However when the first owner needs to sell the home, it is only possible if below-market rate financing and or down payment assistance is again available to the next buyer. Sometimes the house also needs upgrades or repairs that neither the low-income buyer, nor the seller, can afford. Like its investment in any other facility, the City budget then needs to help maintain the homes it helps produce for low-income buyers.

Production of Homes for Sale to Low-Income Buyers

Durham the past five years, the City provided nonprofit partner developers a total of \$2.35 million to acquire land and build affordable housing for sale, or, on average, \$470,000 annually. These funds supported the construction of 61 homes for sale.²⁵ The City invested on average about \$38,500 / home.

Also, during the past decade, the City completed 46 homes on Barnes Avenue in the Eastway neighborhood, most of them made affordable to low-income buyers. The City's cost, reportedly about \$10 million, covered public facilities and extra, land as well as the homes, with an average cost per home of \$217,000. Homes were of course sold for between \$92,000 and \$120,000.

In Durham, six nonprofit developers build or thoroughly renovate homes for low-income buyers, each offering a unique and complimentary approach. All the producers require city assistance to produce each home, and also to finance low-income buyers.

The goals of the 2010-2015 Consolidated Plan seek to increase home ownership in three target neighborhoods – Southside, Southwest Central Durham, and Northeast Central Durham by building or completely renovating 80 homes during the next five years.²⁶ And Durham's nonprofit builders are standing by with capacity to do their parts.

²⁵ In addition the City provided Self-Help \$500,000 to acquire land in Southside and Habitat \$288,000 for a 31-home subdivision. The estimated cost per home above is adjusted to remove these costs and homes because most of the cost for these homes was or will be spent outside the five year period. These figures come from an unpublished City memo.

²⁶ Page 6-13.

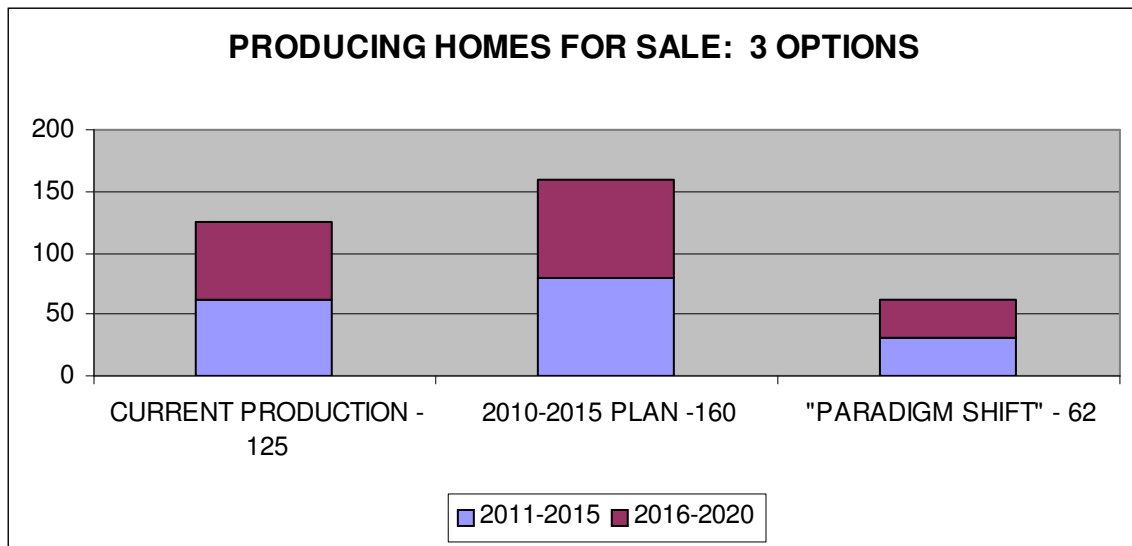
The “paradigm shift” proposal proposes funding for 41 homes in ten years, all of them in Southside. Southside homes are projected to need about \$64 - 65,000 per home to bridge the gap between production costs and this location’s sales values. After ten years, the proposal is silent as to whether the City’s HOME grants could again be used for housing production in Southside or in other target neighborhoods. One third of the \$225,000 federal “Set-aside” might provide another 20 homes in the three target neighborhoods.

The table below summarizes the description above

CITY OF DURHAM FUNDING FOR PRODUCTION OF AFFORDABLE HOMES FOR SALE

	Number Dwellings / Year	City Cost per Dwelling
Homes Funded, 2005-2009²⁷	12-13	\$38,600
2010-2015 Consolidated Plan Goal	16	
Paradigm Shift	6	\$64,000

The following chart illustrates three possible ten-year outcomes of the budget choices Durham will make this year.



In the first column, if Durham continues to invest about the same amount to build new homes for sale to low-income people as we have for the past five years, nonprofit developers could produce 125 new homes in 3 target areas in ten years. The second column shows the production goals of the 2010-2015 Consolidated Plan. The third column shows the City’s “paradigm shift” proposal -- to build a total of 42 new homes, all of them in the Southside neighborhood, and as many as 20 in one of the target neighborhoods.

²⁷ This does not include the houses built by the City in Eastway

Reducing the number of affordable homes for sale to only half of current production will certainly mean that, in spite of their award-winning performance, local developers will have to either find work in other places or reduce their operations and staff. It undermines the work and past and future contributions of their many individual and institutional volunteers and supporters. It diminishes their capacity to attract non-City support for not only housing production but their other programs in Durham. It fails to maximize the resources these organizations have already acquired, in reliance on continued production.

For example, with borrowed funds, Self-Help has acquired about 50 properties in Lyon Park, West End and Southside that the City has budgeted no funds to develop for the next decade. Is the City's plan to leave them indefinitely vacant or boarded up? That will not convey much vitality to build the confidence of new investors or home buyers or improve surroundings and values of current owners and residents. It will require the City's development partner to spend funds on maintaining and paying interest on vacant lots and structures instead of adding new homes.

A decision that requires local nonprofit developers to cut their staff and production means Durham people will lose jobs. These company's expenditures not only for construction, but for all operations will be reduced. The combined annual operating budgets of just nine of Durham's affordable housing producers exceed \$2.4 million; they employ 38 people.

And ironically, the City's retreat from today's investment strategy threatens and reduces today's momentum in revitalization of Lyon Park, West End, Burch Avenue, Eastway, Albright, Golden Belt and East Durham. In all these neighborhoods, nonprofit builders have acquired land, and they rely on the City for continued development finance. Value added by nonprofit construction on infill lots in Southwest Central Durham alone since 2004 is roughly \$12.1 million.

But perhaps the most disturbing impact of the City abandoning its work and millions of dollars of investments in today's target neighborhoods, would be that low-income buyers -- who have invested all their savings and hopes in new homes there -- will not see the improvements in future years they believed would continue. They may lose some of the value in their homes. This will do nothing to encourage new buyers to invest in Southside. If they learn that they too one day risk the City's abrupt withdrawal from a comprehensive and long term community development program, their investments will be on shifting ground.

D. THE BOTTOM LINE

The number of people who need affordable housing in Durham is growing. A substantial proportion of the city's stock of affordable housing needs replacement. Durham leaders agree that even though we will need to spend more to maintain our current stock, and more to maintain our current capacity

for expansion, it is also time to add Southside as new target area, and to start redeveloping the vacant land at Rolling Hills.

What will it cost to maintain Durham’s current level of affordable housing production during the next ten years, and locate part of that production in Southside and Rolling Hills?

The table below shows the City’s future cost estimates for the affordable homes proposed to be built in Rolling Hills and Southside, taking into account that the City has already paid for the Rolling Hills land.

Affordable Housing in Rolling Hills and Southside

	Number Dwellings	City Investment / Dwelling \$	Ten Year Total \$
Housing Plus Services	16	69,300	1,108,800
Other Affordable Rental Housing	142	69,300	9,840,600
New Homes for Sale	41	65,000	2,665,000
Total			13,614,400

This next table shows the additional housing to be built, maintaining Durham’s current level of production. These homes could be located in other target neighborhoods and locations most suitable for supportive housing.

Estimated Costs to Maintain Affordable Housing Production 2011-2020

	Current Production	Rolling Hills and Southside	Housing in Any Target area	City Cost / Dwelling	Ten Year Total
Housing Plus Services	240	16	224	30,000	6,720,000
Other Affordable Rental Housing	560	142	418	42,000	17,556,000
New Homes for Sale	130	41	89	42,000	3,738,000
Total					28,014,000

Maintaining affordable housing production for the next ten years, but at the higher costs for the portion proposed in Rolling Hills and Southside, is estimated to require about \$41,628,000. To put this in context, during the past five years, Durham invested \$15,333,000, or, on average over \$3 million yearly, to produce housing, acquire the land at Rolling Hills, and pay the proposed developer.

CITY OF DURHAM HOUSING SPENDING 2005-2010²⁸

Land at Rolling Hills	\$6,100,000
Rolling Hills developer	745,000
Housing production	7,700,000
Land in Southside neighborhood	500,000
Habitat subdivision infrastructure	<u>288,000</u>
Total	\$15,333,000

This same rate of annual investment would enable us to build all the affordable housing planned in all three target areas, without reducing City programs or services provided by nonprofit agencies, with more than \$8 million for other community development needs, especially those listed on the next page.

The City last five years of investment in production was in addition to paying for City Community Development and Neighborhood Improvement services and programs, an array of services for Durham's poor provided by local nonprofit organizations, and emergency shelter. It is also in addition to the financing the City provided for low-income home buyers.

How does this amount fit into to other major City investments?

The City's 2011 Capital Improvements Program includes improvements for Durham that total over \$949,000,000.

This fall, voters will consider obligating Durham to borrow and repay \$20 million more to pave roads -- the third pavement bond in five years. However Durham has not proposed bond funding for housing since 1996.

Durham plans for housing and community development must also consider some closely related issues. Other urgent housing needs are **not** addressed by these strategies and investments. Thus, unless the City makes a larger local investment in housing and community development, most of the priorities below would be postponed for at least ten years:

- To build the proposed additional 90 apartments at Rolling Hills that are not affordable to low-income residents at an estimated cost of \$8.45 million.²⁹

²⁸ This chart may not include all Durham's 2005-2010 housing production investments from past housing bonds, but shows what was included in the Capital Improvement Program. For example, did not find dates of the bond-funded investments in 165 Stewart Mutual apartments (\$1.97 million) that were completed during the past 5 years.

- The City's current proposals for Southside would build only new homes for sale in that neighborhood, which will not likely house the renters who live there now. Most Southside residents will also not be able to afford or qualify for the rental housing in Rolling Hills. No human services are funded, although more than half of the 393 households there have incomes below 30% of area median, and there is an average of more than one disabled person per household.³⁰ There are no funds to improve existing housing there, and no funds for the adaptive re-use of the landmark building that was Whitted School
- The investments listed in this section also leave unfunded the City's share of funds required to begin replacing the aging Durham Housing Authority stock, unless some of the funds for rental development are allocated to that instead of neighborhoods currently targeted for revitalization.
- In spite of Durham's rapidly increasing numbers of homes entering foreclosure, there are no strategies or investments targeting their financing, declining value, or major home repair problems. This pattern of involuntary disinvestment wreaks havoc -- not only for the occupants of the homes -- but also their neighbors.

Neighborhood revitalization requires public participation - not just in housing and public facilities, but also in landmark preservation and redevelopment of underutilized or blighted nonresidential uses. Hayti Heritage Center, Lyon Park Center, Golden Belt and the Holton Career and Resource Center are outstanding recent examples. All three revitalization areas have many needs and opportunities for commercial, mixed-use and community redevelopment projects, with no funds identified during the next ten years in the Capital Improvement program or Community Development plans and budgets.³¹

For example, the first City-led effort to build a new shopping district at Heritage Square underperforms. However the developers of Golden Belt have acquired it and estimate that a public-private investment of \$10 million could revitalize that project, the center piece of any strategy for Rolling Hills, the entire Hayti community, and "Downtown South".

²⁹ This cost includes infrastructure and land. The City has already paid for the land (\$305,000 / acre), but it is included since otherwise the City could sell it or use it for another public purpose.

³⁰ Census 2000, Block Group 12.01

³¹ Nevertheless, on Sept 20, the City made another \$4.2 million commitment to a proposed downtown hotel. The source of funds would be sales and property taxes, and higher downtown parking deck income

Durham the past 15 years, Durham City and County have not made housing and neighborhood revitalization as high a priority as to, for example, establish a Housing Trust Fund, like Charlotte's. We have delayed major local housing replacement needs while we addressed other priorities. As a result, today Durham faces enormous challenges in the decade ahead. However Durham has proved over and over, and especially with our current leadership, that we can accomplish our highest priorities and rebuild the heart of our city.

E. NEXT STEPS

In May, the Mayor and City Council asked the City Manager to provide an analysis of sources that can finance Durham's community development priorities. That remains the next step in City planning. Once these proposals are ready, all our community's stakeholders and decision makers will be able to engage in informed consideration of our priorities, strategies, and resources.

Incorporating the contributions of all Durham's community development experts, partners, stakeholders, and neighborhoods could make this decade's results in revitalization of all three target areas successful, sustainable, cost-effective and a legacy for our whole community to benefit from and take pride in.



IV. PRINCIPLES FOR NEIGHBORHOOD REVITALIZATION IN DURHAM

Durham has invested many tens millions of dollars in ambitious comprehensive neighborhood revitalization strategies, including:

Lyon Park, West End, Burch Avenue and Morehead Hill
Hayti - Rolling Hills - 1980s
East Durham / Edgemont / Eastway / Albright / Golden Belt

In these targeted locations, surrounding downtown, the City instigated a comprehensive array of public improvements, facilities and services, removal of blighted conditions, housing replacement, and community-building. The twin goals of these investments are to improve the quality of life for residents, and to set the stage for viable for-profit ventures. Strategically housing families with a “mix of incomes” has aimed to build housing for people with low incomes that is so attractive, well located, and well managed that higher income people with many options will choose to invest and live in or near the development.

The past three decades of three neighborhood revitalizations exemplify both benefits and the challenges of this strategy. Certainly the investments have generated tremendous improvements.¹ The outcomes and progress of all three experiences demonstrate important lessons for today’s decisions. Let’s consider them, and then turn them into principles to guide Durham’s housing and revitalization initiatives.

Here are five principles, followed by a discussion of experience that undergirds each one.

PRINCIPLE 1. Housing and People First.

Unless we provide affordable, standard, well-managed housing for very low-income renters, revitalization projects only move blight from one street to another.

Revitalization benefits not only a target area, but the City as a whole, if it starts by producing standard homes with access to jobs and services for

¹ In large parts of these neighborhoods, whether the City’s strategies will yet result in a viable market for unsubsidized private ventures remains speculative.

displaced, remaining, and surrounding neighborhood residents. Thus, affordable housing that meets the needs of current residents is the cornerstone of every neighborhood and downtown revitalization strategy. When the goal is to expand and shape the choices of wealthy investors, Durham will first invest in affordable housing that is so attractive, well located, and well managed that developers, landlords, entrepreneurs, and homebuyers will choose to invest nearby.

PRINCIPLE 2. First, do no harm. Then alleviate suffering.

Successful examples exist. In Durham, revitalization of a neighborhood and replacement of public housing will never again displace very low income people from the best housing and location they could afford, without making their lives and homes better.

PRINCIPLE 3. Take care of what we have.

Durham will not build new facilities and seize new opportunities at the cost of taking care of the assets we as a community have inherited. Before we buy something new we will budget sufficient resources to keep what we have in good condition.

PRINCIPLE 4. Follow through.

Durham revitalization efforts must not stop short, leaving surrounding neighbors poorly housed, troubled social conditions, vacant lots, or blighted buildings. Otherwise, substandard housing and troubled people on the sidewalks are easily recognized, highly visible deterrents to investment in a world and time when investors have plenty of options. Attracting the market happens only after surrounding conditions are so attractive that people want to live there.

PRINCIPLE 5. Partners, partners. Partners!

Partnerships – founded on the rocks of accountability, responsiveness, inclusiveness, respect, and vision - are the hallmarks of planning and neighborhood revitalization in Durham

This commitment is reflected in:

- ↑ planning through a process that includes all Durham stakeholders, reaching out proactively to low-income and other vulnerable populations, and that explicitly reflects contributions and recommendations of neighbors, volunteers, investors, colleagues, and stakeholders who have participated in planning.
- ↑ a multi-year budget that is consistent with participatory plans, that creates predictability for stakeholders and investors, that evolves from

a clear and publicized process for setting priorities, and clarifies for everyone the long term commitments of today's decisions.

PRINCIPLE 1. Housing and People First

To revitalize a community and create a new market for investors with choices, we have seen that demolition of exhausted structures is a sometimes necessary but never sufficient tool.

But to build or thoroughly renovate homes that can attract new buyers is expensive. In Southside, for example, Self-Help estimates that a subsidy of \$64, - \$65,000 per home will be required to bridge the gap between the cost of production and the market price for a house in this location. To make the homes affordable in all three target neighborhoods, low-income buyers will continue need as much as \$40,000 in low or zero interest financing from the City and NCHFA. Then they will need this financing to be available again when they are ready to sell their homes.

And it is even more of a challenge to replace substandard structures with an equal or greater number of homes that are affordable to people with incomes who once lived there, or people with comparable incomes. But a sustainable revitalization needs to provide for not just any mix, but a mix of incomes that reflects Durham's population.

For example, in the West End neighborhood, Maplewood Square and Carroll Court² were developed in part to provide affordable housing for some of the seniors who moved from nearby substandard dwellings that were to be replaced by homes built for sale to higher income households. The City and charitable cost per tax-credit financed apartment was \$40,500.³ All 36 apartments are affordable to extremely or very low-income people. The ownership and management are structured to enable local directed nonprofit organizations to manage these apartments according to the high standards they are known for and the neighbors have come to expect. The small size of these developments and their community-based management both bode well for rental housing that will remain an asset both to its tenants and the surrounding neighborhood for its entire useful life. These developments provide vastly improved quality of life compared to the structures they replaced, and they are affordable to people who once lived in unstable, unsafe dwellings and often paid more rent.

So, three steps are required for a housing strategy to be the cornerstone for a successful revitalization. First, preserve or construct homes that attract buyers. Second, produce and replace homes for people who cannot afford to buy. The third step is Principle 2.

² Maplewood Square, 32 new apartments for seniors at 1520 Chapel Hill Road. Carroll Court, a thoroughly renovated quadriplex for seniors at the corner of Carroll and Jackson Streets.

³ This cost included not only the 32 attractive, energy efficient, convenient apartments but also new storm water management facilities to serve the whole upstream section of a neighborhood long plagued by drainage problems, and a new City playground for hundreds of children who had not had one they could safely walk to.

PRINCIPLE 2. "First Do No Harm." Then Alleviate Suffering.⁴

It is hard to imagine that Durham's leaders would intentionally make the lives of our poorest and most vulnerable neighbors even harder, and their homes more crowded, less convenient, or more unstable. But for the most part Durham has not implanted accountable and comprehensive programs to replace housing for all the very low income people who once lived in the revitalization target areas, or for people with comparable incomes. City and DHA 2010-2020 plans and many recent acquisition strategies fall painfully short of the mark.

What is housing that meets Durham needs? What would be the "mix of incomes" in Durham that would navigate a balance - so that the demolition and clearance of substandard dwellings does not result in relocating the poorest neighbors without insuring that their housing and quality of life are improved?

First, in Section One, we saw that about 19,000 Durham households with incomes below 80% of median income have housing problems – overcrowding, poor condition and/or could not afford rent.⁵ In Table A. below, we see what proportion of these households fall into each income level. We know that all HUD funds for housing are to benefit low-income households. So below, we estimate Durham's target for subsidized rental housing.

To address documented housing needs of the Durham renters we need to build in proportion to residents' incomes as shown in the third column of Table D., below.

D. Targeting Housing Needs of Low-Income Durham Renters

Income Level	% of All Renters with Housing Problems	Target % of Assisted Dwellings
Less than 30% AMI	25%	41%
30-50% AMI	17%	33%
50-80% AMI	23%	26%
Above 80% AMI	35%	-

⁴ The City of Medicine can take some cues from Hippocrates.

⁵ HUD's 2010 CHAS estimate are the basis of this analysis and they are the best measures we have but they include large numbers of households for whom housing problems are not known. So, these estimates are probably better indicators of proportion than number of households.

PRINCIPLE 3. Take care of what we have.

To take care of low-income housing has two components. We have to sustain it and we have to replace it.

For low-income housing to remain an asset for tenants, owners, and neighbors requires two essential ingredients: (1) competent, accountable management, and (2) operating sustainability. When the City invests in rental developments, it pays to consider these at the outset, to make sure the financing allows for future operations to break even, and to structure ownership of the developments or other reliable mechanisms that will invite continued public and neighborhood guidance in case of trouble. We need sustainability plans for the financing of each property – rental or for sale – that the city finances. When will the resource need to be replaced – as affordable housing - and how?

To preserve and maintain our current stock of housing, the City must also budget and locate sources of funds for the replacement of major systems and refinancing of subsidized debt. Otherwise, as has happened already, developments with significant public investment can deteriorate or even fail. Then the public's investment is lost, the affordable housing benefits are lost. Instead of an asset, the neighborhood has a lasting problem.

Durham Housing Authority's current need to replace 70% of its apartments is an example of what can happen if the City does not plan and budget for this predictable expense. DHA has federal funding to at least maintain its aging property but nonprofit organizations and tax credit financed developments cannot rely on any such stream of subsidy.⁶

For example, nearly all tax-credit financed developments will need subsidized refinancing and the City is a needed resource.⁷ Investors get all the advantages of their investments in affordable rental housing in ten years. So the financing for these developments is structured to enable the private investor to exit in year 15. They either sell the development or arrange for all their investment to be repaid by then. In most cases, the NCHFA requires that the development remain affordable for 30 years. To make that possible most development will need refinancing and continued public subsidy when they are 15-30 years old. Then at age 30, they will likely need another round of replacements and refinancing to maintain their good condition and affordability.

Durham's long range budget for housing needs to set aside funds to maintain and replace each affordable dwelling we have and build today. Why build more if we cannot also take care of what we have?

⁶ What are the DHA and City agreements with TCB and MBS regarding the ownership and affordability of TC developments after the investors' exits?

⁷ For both owner-occupied and affordable rental housing, by far the largest source of federal and state subsidies come through tax incentives to private investors instead of direct appropriations. There are 4 TC developments in SWCD, all the Eastway development are done through TC, and the 137 Stewart (formerly Mutual) Heights apartments, as well as Sherwood in East Durham, and all but 13 of the homes in Rolling Hills are financed with TC.

PRINCIPLE 4. Follow through – Finish what we have started.

We have seen the very high cost and still unfinished aims of the City's past demolitions and revitalization initiatives in Rolling Hills and Northeast Central Durham. We have also considered the continued need to sustain the more economical and gradual but impact-rich grassroots infill approach in Southwest Central Durham neighborhoods. We see the continued needs to alleviate suffering in Southside and some of the impoverished neighborhoods near Eastway. And we see the urgent needs for Durham Housing Authority replacement. We have also seen that during the past three decades in Southside and Walltown, the production of basic well-managed, sustainable, affordable rental housing for the target neighborhoods' poorest residents has been for the most part sidelined or postponed. Even in Eastway, there are fewer homes for the very poor now than there were in the substandard Few Gardens.

So, as we continue revitalizations in SWCD and NECD, and Rolling Hills / Southside, let's reflect on Durham's recent experience. In Eastway, for example, over \$150 million in federal, state, city, charitable funds as well as private investments have been spent for redevelopment.

Based on goals and a strategy similar to today's Rolling Hills project, the City purchased and cleared land in a 90 block area around the Few Gardens HOPE VI site. On some of that land, the City built 46 homes and a new street, Eastway Avenue, to establish a new owner-occupied "anchor" block. These homes and new street cost about twice as much as the homes could be sold for,⁸ but the goal was to create a "tipping point" that would attract private investment around the new neighborhoods.

Also during the past 30 years, Durham Public Schools built a beautiful new elementary school and playground there, and the City and DHA invested and attracted a total of more than \$100 million in Edgemont, Durham Hosiery Mill, Golden Belt, Eastway, Goose Creek rehabilitation, and, more recently, for housing development on scattered site and plans for Main Street and Angier Avenue business districts and other adaptive historic developments. The City targeted and enhanced crime-fighting efforts, planning, and other services, and replaced streets, sidewalks, and public works. The City and others just opened the Holton Career and Resource Center, another landmark, to provide services for the whole neighborhood.

These public investments in housing, streets, parks, schools and landmark community buildings attracted the \$27 million adaptive reuse of Golden Belt, the historic factory complex in the heart of the Northeast Central Durham neighborhood. The factory was donated to Durham Housing Authority in 1996, and they renovated and used part of it for a business incubator but could not support its costs. So, in 2006 DHA sold 6 building and 7 acres to Scientific Properties, a Durham community development enterprise. They

⁸ The City spent \$10 million to build 47 homes around the corner on Barnes Avenue, about \$217,000 each. They were sold or are for sale, with up to \$46,000 of subsidized mortgage financing, for \$91-121,000. Not all the homes were sold to low-income people and the owner occupancy restrictions are for only 5 years. Unless the City is ready to enforce affordability restrictions and assist the second generation of buyers with another round of generous second mortgage financing, these home could be sold to investors within less than a decade.

used \$5 million in their equity to attract funds from a variety of state, city and federal sources, as well as private lenders, and created a beautiful “LEED gold” campus of apartments, offices, and space for arts, events and retail firms. They also acquired and worked with nonprofit and market builders to renovate or replace and sell homes in the surrounding neighborhood. Although this part of the development did not break even, it has created a spirited neighborhood of mixed-income homeowners who actively support continuing revitalization.

Meanwhile, DHA and its partners completed construction of the rental housing.⁹ And UDI transformed a neighborhood and near Little Five Points.

But a substantial amount DHA, City, and privately owned land remains vacant today.¹⁰ It by no means attracts market rate investment. The need for its development is a top concern of surrounding neighbors and certainly affects property values there. Would it not be a poor use of public assets and a disservice to the whole neighborhood if the City and DHA do not finish this development before the City shifts its funds and priorities elsewhere for two decades?

DHA and City plans call for construction of single family homes for sale on their remaining land. DHA has enough vacant land for 50 more homes. The City had allocated \$450,000 to a developer selected to build and sell the first ten, but additional subsidy is still needed to cover the projected gap between cost to build and a realistic sales price in this location. Meanwhile, the City proposes nonprofit construction of new homes for sale on nine lots it owns in the Revitalization area, hoping a local nonprofit organization can do this without any City assistance to bridge the gap between cost of production and sales prices. Presumably, this is because the City has already invested the necessary funds for acquisition, clearing, relocation of tenants, and construction of streets, sidewalks, and public works. The bottom line is that during the decade ahead, to complete the construction and sale of homes on DHA and City land in Eastway will continue require substantial City participation.

Where do we stand today in terms of the end goal of revitalization?

In spite of this large-scale, targeted, and multi-faceted public redevelopment, the Albright and East Durham neighborhoods surrounding Eastway remain deeply distressed. Housing improvements, high performance education, and human services programs have failed to reach or effectively assist many of the neighboring residents.

No one knows what happened to many of the impoverished people who were displaced from either Few Gardens or surrounding housing. The number of homes demolished still

⁹ It is now owned not by DHA, however, but by a development corporation. NCHFA requires that it remain affordable to the current income mix for 30 years, but to do this will require new financing after 15. The City’s participation is necessary to keep this – and almost all tax-credit-financed housing affordable after the first 15 years of service.

¹⁰ Some of the DHA-owned vacant land, is not suitable for development, however there are no City funds allocated for developing or maintaining it as an asset to the surrounding neighborhood.

exceeds the number built. Only a very small portion of the redeveloped homes would have been affordable, and even more rarely did tenant qualifications allow for many of these neighbors (even if they had been recruited and applied) to move there. "Who has benefited and who hasn't?" remains a relevant question for the neighbors surrounding this project, as well as those anonymous former neighbors who were displaced.

Yet, in just the past few years, however, as hoped, these neighborhoods have begun to attract transformative and continuing interest from local entrepreneurs, preservation minded investors, homebuyers and local nonprofit organizations. For the City to now prematurely abandon continued support for initiatives in these neighborhoods will undermine - if not doom - the fledgling, local grassroots initiatives, expansion of Golden Belt and others like it, and investments underway.

Let's build on what we started, and follow through until all the planned housing is completed. Let's provide at least as much housing for very low income people as was demolished. Let's continue working in all Durham's target neighborhoods at a sustainable pace until they can, as planned, attract and sustain unsubsidized development.

5. Partners, partners. Partners.

Durham has suffered its share of failed attempts at public-private redevelopment, but today this community is fortunate to be the home and focus of a remarkable constellation of strong performers in every sector and function of affordable housing production and community revitalization.

With carefully considered strategic and expert leadership from the City, we have tremendous potential to build on the transformative successes of the past decade.

Not many cities can rely on such a high-performing stable of partners and as much support across the spectrum of community views in favor of downtown neighborhood revitalization.

In every step ahead, incorporating the strengths of this local industry can make our outcomes more cost effective, more responsive to Durham peoples' needs, and more sustainable, while maximizing local jobs and benefits.

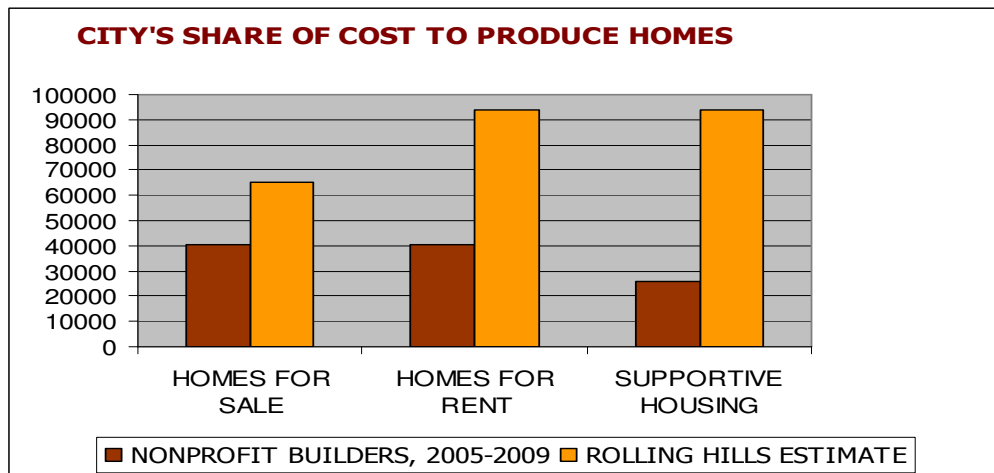
Every major City revitalization initiative, before being funded by the City Council, should be consistent with its adopted plans, and these plans should be consistent with recommendations of planning advisory committees whose members are representatives of citizens whose jobs, quality of life, investments, and neighborhoods will benefit or sometimes, harmed.

Consider, for example, the following comparison of the costs of apartments proposed by the a single, independent, profit-motivated, out of state Rolling Hills developer, with a range of affordable housing types produced by local developers. Imagine combining the financial, design, production and management resources of, for example a Scientific Properties like mixed-use landmark retail for profit developer, combination of nonprofit ,

performance tested, successful housing developers who have worked together in Northeast Central and Southwest Central Durham. Consider the implications for not only the City's costs, but:

- ↑ human capital contributions in target area planning, employment,
- ↑ equity and staff time brought to the table
- ↑ technical and professional capacity and performance
- ↑ ability to attract capital from sources in addition to the City
- ↑ responsiveness to community stakeholders, beneficiaries, taxpayers, neighborhoods, employees, and

for decades to come, impact and transformation, ownership, and local asset building for the Hayti area and Durham as a whole.



Then, imagine bringing into the collaboration for Southside representatives of service providers from law enforcement and transitions after incarceration to supportive housing to substance abuse treatment to senior services, to health services, to schools, and job training, and child care, housing repairs, recreation, financial counseling, etc and doing a human services plan with Southside residents. Would that be as effective a use of City resources as hiring a consultant from another state to tell us our problems based on outdated numbers, without consulting neighbors or engaging service providers, and giving us a well written pitch with no budget and no local structure for collaboration?

And let's consider the process of revitalization decision making – its accountability, transparency and respect for all stakeholders and beneficiaries.

In May, the "paradigm shift" was announced in public only 3 working days before the vote. It was:

- Not consistent with the 2010 Consolidated Plan for HUD funds that was recommended by that plan's Citizen Advisory Committee
- Not endorsed by the Southside Neighborhood planning committee
- Opposed by startled local leaders and volunteers
- Misunderstood even by key City staff

Not included in the City's Capital Improvement Program or in its annual budget

The City's consideration of the shift in funding, priorities, and strategic approach was not well understood or clearly presented to the many people of Durham who would have been immediately affected. Even City experts seem confused and unable to respond to question from the City Council and the public. The Council asked for more information with an August due date. Nearly six months later, there has still been no public response or plan for that analysis, and yet we could miss a number of deadlines for funding by not being prepared.

Durham's city-wide revitalization strategy should not be constrained or defined by a funding application for one apartment complex. It should explicitly and proactively and clearly engage the informed participation and perspectives of, for example:

- Associations in target neighborhoods, especially Southside residents
- Target neighborhood Partners Against Crime committees
- Citizens Advisory Committee (for HUD entitlement fund planning and accountability)
- City of Durham Capital Improvement advisory boards
- City and County Departments and Public Schools whose programs need to be part of the comprehensive strategy
- RBA committees on services, seniors, environment and health
- Supporters, board members, staff and beneficiaries of housing program and production organizations
- Durham Housing Authority Board and staff members, Tenant committees of DHA communities set as high priority for replacement
- Campaign for Decent Housing
- Durham Congregations in Action
- City of Durham Departments of Community Development, Neighborhood Improvement Services, and Planning
- Durham County Board of Commissioners
- Private sector community development and housing industry leaders
- Preservation Durham
- Triangle United Way
- Triangle Community Foundation
- Universities' experts, services and programs

In the past few years local planners have even worked as volunteers to help neighbors produce revitalization plans for Southwest Central and Northeast Central Durham and contributed them to the City. Along with City staff and infusions of local expertise, contributions and processes like these can be the backbone for community embraced strategies for City investment that takes advantage of the power and synergy of partnerships.



V. PLANNING AND BUDGETING FOR AFFORDABLE HOUSING PRODUCTION

On August 27, 2010, the Board of Governors of the University of North Carolina announced a new President. Interviewed that morning, Mr. Tom Ross predicted that his first act as UNC system President would be the same thing he did the day he was hired at Davidson.

“The first thing I’ll do is pick up the budget and try to learn it and understand it, because I think the budget is the heart and soul of teaching you about an organization. Because where the money goes is where the priorities are and where the activities are...”¹

What is the Capital Improvement Program?

One of a city’s main jobs is to provide and replace public facilities that will benefit future as well as present residents. To plan for these major investments and schedule debts that take years to repay, the City of Durham prepares and adopts a six-year financing strategy called the Capital Improvement Program (CIP). Then, each year, Durham adopts two annual budgets – one for operating current programs, and to implement the next year of one year of (CIP). The CIP is a policy statement with estimates of both outstanding obligations for the period, and the estimated costs and proposed sources of revenue for each new project the City plans to undertake.

Just as the benefits of public facilities will last into the future, so will the necessity of paying for them. The City has to borrow funds, and sometimes combine them with current or anticipated infusions of funds from other sources to undertake projects that will have future benefits. Then the City has to set fees, taxes, and other revenues sufficient to make the payments due in the years ahead.

Just like any borrower, a city’s capacity for debt is limited. And, just like individuals, cities get “credit scores” that predict how likely they are to repay the debts. Due to decades of careful budget management, the City of Durham has a very high “AAA” score. This qualifies Durham to borrow at the lowest available interest rates.

¹ Mr. Tom Ross, interviewed by David Dewitt on WUNC-FM Radio.

Ideally, cities' annual operating budgets include maintenance of existing facilities. Then they need borrow only to replace aged-out facilities, and to expand facilities to meet the needs of a growing community. But sometimes if maintenance has been deferred, and the costs exceed residents' appetite for a large tax increase, the city proposes to catch up by borrowing the funds. For example, in 2010, the City is asking voters to approve borrowing \$20 million to repair streets.

A glance at the CIP shows that in the past five years, Durham borrowed many millions to improve parks, rebuild roads, build parking lots and expand water, wastewater and storm water utilities. The current 2011-2016 CIP lays out a plan for investing \$949,147,000. It will require the City to raise enough property taxes to repay general obligation debts of about \$141.7 million, and other secured debts of about \$42 million.²

What's in the CIP for Producing Affordable Housing?

The introduction to the CIP confirms three of the City Council's eight overarching goals for the City:

1. **"Every citizen in Durham has access to adequate, safe and affordable housing."**
2. "Durham citizens enjoy sustainable, **thriving neighborhoods** with efficient and well-maintained infrastructure."
3. Durham citizens enjoy an efficient and **accountable** city government."

In 1986, 1990, and 1996, the Durham voters authorized issuing bonds to borrow funds for housing. The CIP indicates that the City is holding \$1.4 million from borrowers' repayments of loans made with these funds. The repayments are to be used only for affordable housing. It does not indicate, however, what "pending projects" these funds might be used for.

The 2010-2011 budget for financing the first year of the Capital Improvement Program³ authorizes the City to finish selling the 46, \$10.54 million, Eastway homes. It also provides for the City to finish purchasing land for Rolling Hills, totaling \$6.12 million. The source of this acquisition is repayments of bond funds the voters approved for affordable housing.

However no investments in *future* housing production appear in either the 2011-2016 CIP or the 2010-2011 capital budget ordinance, both adopted in June 2010.⁴

² The City has identified no sources of funds for \$71 million. Other sources of funds include anticipated revenues from facility operations (Eg DPAC, parking lots), utility charges (eg water bills), revenues from future operations of facilities, annual budgets "General fund", impact fees, state and federal grants, and other sources.

³ <http://www.durhamnc.gov/departments/bms/11-16cip.cfm>

⁴ The 2010-11 ordinance authorizes about \$50 million in spending for other capital needs. The Durham Housing Authority is not included in the City's budgets.

There are no funds programmed for affordable housing production in Northeast Central Durham, Southwest Central Durham, or Southside, the City's three long-standing target areas identified for continued investment in the June 2010-2015 Consolidated Plan.

There is no mention of the City's vote less than a month earlier to commit the next ten and more years of HOME and CDBG funds, and a large amount of other city funding for its Phase I development in Rolling Hills o expenditures that would have required more than 20 years of debt repayments.

There is no commitment to fund the housing needs outlined in the Ten Year plan to End Homelessness.

There is no mention of 2009-2010 Neighborhood Stabilization grant revenues or plans for using them.

There is no mention of the proposed uses of future Community Development Block Grants, HOME grants, or Emergency Shelter grants, although anticipated state and federal funds are programmed for many other types of city projects in the CIP.

Furthermore, no housing projects appear in the CIP list of projects the City needs but has postponed.

There are no provisions for replacing and refinancing the City's current stock of affordable housing.

Does it Matter if Affordable Housing is Included in the CIP?

The CIP is designed to be a planning tool as well as a statement of policy.

As a planning tool, it sets out a schedule, estimates of costs revenue sources, and location of prioritized public improvements. It also provides local elected officials, city staff, and the public information to set priorities, taking all the city's many needs into account in a structured, comprehensive, informed process. Certainly every publicly financed project deserves this approach.

Here are some ways the CIP process would specifically benefit planning for housing development.

1. An inclusive process of participatory decision making. Partners, partners, and more partners. In a recent review of Durham's Ten Year Plan to End Homelessness, consultants from the American Institute of Certified Public Accountants stated, "provider buy-in and engagement is critical to plan success." Durham has also recruited and received engagement and buy-in from stakeholders, investors, charitable contributors and development partners. But the plans they advised are not consistent with the CIP or the financial commitments made by the City Council's vote ion May 3, 2010.

Both the CIP and the Consolidated Plan incorporate structured processes of participation by citizen committees with City staff support. Community leaders volunteer many hours of their time to help the City Council make decisions that reflect thorough analysis from a variety of points of view.

2. A process that incorporates accountability and reliable information.

In 2010 the City Council adopted plans for housing production – the CIP and the Consolidated Plan - that do not reconcile with each other and that substantially diverge from the spending commitments made the same month. These 10-20-year spending commitments were made with only 4 days of public notice, without consulting or reconciling the plans that do incorporate citizen advisors.

Housing and redevelopment finance is complex. When dealing with so many partners, the details matter. They can even make the difference between success and failure. Durham's Finance and Budget Management professionals have delivered decades of strong, even award-winning, performance. They provide reports that are accurate and reconciled, and they know how to present the future financial impacts of today's incremental decisions.

If ALL multi-year commitments for large projects with long-term benefits and payback requirements are part of Durham's CIP, the process for these decisions will be more accountable, transparent, and participatory. Perhaps, even, more efficient, reliable, successful and sustainable.

3. Housing and revitalization strategies take decades and require dozens of partners, investors, and strategies, and tens of millions of dollars. When the City Council is faced with such complex, large and important decisions, we need to give them a comprehensive presentation of all the projects and choices on the table.

The decisions need to start with current plans, programs and investments, because project and neighborhood partners – from each individual first-time homeowner, to the federal government - are relying on past commitments. If there is going to be a dramatic change, the transition needs to be reasoned, taking into account both intended and unintended consequences.

For example, the City has invested for decades in production and financing to make it possible for low-income people to buy high quality homes in revitalizing neighborhoods. Each of these first-time buyers has invested – and risked - all their savings and a substantial portion of their budgets. If, before surrounding conditions are stable enough to attract private investment, the City changes the target location of its funds for production, services, and infrastructure, these new homebuyers may be forced to sell their homes at a loss. This undermines the City's goal of helping them use homeownership to build an asset and neighborhood property values, and it can be disastrous for the sellers who are often already under duress.

Furthermore, Durham-assisted homebuyers invested in homes with deed restrictions that require that the homes remain affordable to new low-income owner occupants. This is nearly impossible to do unless the new home buyers also have access to as much as \$45,000 of below market debts that enable them to buy homes with small down payments. The City needs to include in its long-range financing plans commitments to continue providing second mortgages at least for the homes it has financed in the past. Otherwise, homes Durham helped pay to build and attracted low-income people to buy, will only provide affordable and adequate housing for a median period of 7 years.⁵

Another example – in just the past ten years 226 of the low-income rental homes built with City assistance in Durham were also financed by Low-Income Housing Tax Credits. This financing requires that the City provide funds to make the development feasible, usually set up as a very favorable loan to the project. After 15 years, the project's owners must acquire the project from the investors. Often this will require that the City extend the term and sometimes increase the amount of its loan. Then after 30 years, City financing will be needed again to keep the development affordable to its low-income tenants. This is another example of how the long term projections for the entire useful life of the structure needs to be incorporated in City financing plans.

As the City and DHA rely ever more heavily on tax credits to finance rental housing it is critical to plan and budget at least two decades ahead. Instead of housing owned by locally guided nonprofit organizations and DHA, the new land and apartments are often owned by other developers and tax credit investors. Affordability restrictions expire after 30 years, and must be refinanced to remain affordable after only 15. The City nearly always needs to be an active player, ready to refinance. Otherwise, the City's initial, often very substantial, investments will no longer serve the public purpose, and the low-income tenants will have to find somewhere else to live.⁶

4. A statement of policy that incorporates clear communication and reflects a reasoned selection of priorities

In the spring of 2010, the City's chosen developer requested a City contribution of \$16.5 million for two phases of redevelopment of a portion of Rolling Hills. The Department of Community Development stated that, "At the present time, the City does not have the capacity to support any additional general fund supported debt, and therefore the only known funding sources are the HUD entitlement programs and a limited amount of derivative funding from the 1996 housing bond."⁷ Based on that assumption the City Council voted to commit ten future years of HUD entitlement funds and a large amount

⁵ Census 2000 median tenure of Durham homeowners.

⁶ Several of these developments in Durham are nearly 15 years old now.

⁷ Memo dated April 16 from the Director of the Department of Community Development to the City Manager.

of City funds to that project, leaving only \$225,000 / year for housing production. None of any of these funds are mentioned in the CIP.

One month later, the City Council voted unanimously to put a \$20-million bond issue for deferred street maintenance on the November ballot. According to the City Finance Department, if approved, debt service on the bonds could require a hike in next year's property-tax rate.

Since 2004, the City has been working on this generation of plans for Rolling Hills and has spent more than \$6 million buying back the land. Yet this development is not listed in the CIP, even as a long term priority. Meanwhile, the City has debt capacity for long-deferred street maintenance, but not for any other purpose? Or was Rolling Hills not that important? The setting of priorities is not transparent or clear to the public, as it would be if the list of desires were considered comprehensively, side by side in a standard budgeting process.

Leaving housing investments out of the CIP leads also to their omission from the City's priorities for funding. For example, just as the 2010 proposal for new bond debt leaves out housing, the most recent 2005 bond also did not include any funds for housing.⁸ Yet as we have seen, multi-year planning and financing are required for production of low-income housing. And just as replacement of parks and streets require the City to borrow money, so do our housing and neighborhood redevelopment plans.

Each year, the City's nonprofit partners who build and sell or manage affordable housing plead for a predictable set-aside stream of City and Block grant funding as are Block Grants, so these organizations can invest in the land as it becomes available for purchase, in project planning that takes years before ground breaks, and secure financing, however fleeting the opportunity, to supplement and expand the reach of the City's resources.

Durham needs to plan ahead at least 5-10 years to have a solid pipeline of projects that are ready to jump on every possible source of financing. For example, in 2010 applications are due to as much as \$500,000 to build permanent supportive housing for very low-income people with disabilities, one of Durham's top two housing goals. The program requires that applicants can commit a site and the remaining funds to develop it.

⁸ This decision was also in part due to the fact that now departed City administrators were not able to account for the uses of funds from the earlier bonds. From this interested taxpayer's perspective, the City's planning and accounting for housing still remains inconsistent and confusing, but it has improved dramatically since then.